

**ANZ BANK NEW ZEALAND LIMITED
INTERIM FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED 31 DECEMBER 2018



INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 DECEMBER 2018

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GLOSSARY OF TERMS

In these Interim Financial Statements unless the context otherwise requires:

Bank means ANZ Bank New Zealand Limited.

Banking Group, We or Our means the Bank and all its controlled entities.

Immediate Parent Company means ANZ Holdings (New Zealand) Limited.

Ultimate Parent Bank means Australia and New Zealand Banking Group Limited.

Overseas Banking Group means the worldwide operations of Australia and New Zealand Banking Group Limited including its controlled entities.

New Zealand business means all business, operations, or undertakings conducted in or from New Zealand identified and treated as if it were conducted by a company formed and registered in New Zealand.

NZ Branch means the New Zealand business of the Ultimate Parent Bank.

ANZ New Zealand means the New Zealand business of the Overseas Banking Group.

OnePath means OnePath Life (NZ) Limited.

UDC means UDC Finance Limited.

Registered Office is Ground Floor, ANZ Centre, 23-29 Albert Street, Auckland, New Zealand, which is also the Banking Group's address for service.

RBNZ means the Reserve Bank of New Zealand.

APRA means the Australian Prudential Regulation Authority.

INCOME STATEMENT

For the three months ended 31 December	Note	2018 NZ\$m	2017 NZ\$m
Interest income		1,656	1,593
Interest expense		(832)	(808)
Net interest income		824	785
Other operating income	2	109	210
Net funds management and insurance income		92	111
Share of associates' profit		-	1
Operating income		1,025	1,107
Operating expenses		(385)	(386)
Profit before credit impairment and income tax		640	721
Credit impairment charge	5	(13)	(12)
Profit before income tax		627	709
Income tax expense		(160)	(199)
Profit for the period		467	510

STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 December	2018 NZ\$m	2017 NZ\$m
Profit for the period	467	510
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Reserve movements:		
Unrealised gains recognised directly in equity	4	2
Realised losses transferred to the income statement	1	2
Income tax attributable to the above items	(1)	(1)
Other comprehensive income after tax	4	3
Total comprehensive income for the period	471	513

INTERIM FINANCIAL STATEMENTS

BALANCE SHEET

As at	Note	31 Dec 18 NZ\$m	30 Sep 18 NZ\$m
Assets			
Cash and cash equivalents		3,537	2,200
Settlement balances owed to the Banking Group		391	656
Collateral paid		2,190	1,919
Trading securities		8,935	8,024
Derivative financial instruments		8,540	8,086
Investment securities		6,705	6,502
Net loans and advances	4	128,157	126,466
Assets held for sale	12	-	897
Investments in associates		6	6
Goodwill and other intangible assets		3,284	3,289
Premises and equipment		323	325
Other assets		699	642
Total assets		162,767	159,012
Liabilities			
Settlement balances owed by the Banking Group		1,735	2,161
Collateral received		530	845
Deposits and other borrowings	7	112,501	108,008
Derivative financial instruments		9,061	8,095
Current tax liabilities		34	161
Deferred tax liabilities		16	21
Liabilities held for sale	12	-	334
Payables and other liabilities		956	947
Provisions	8	313	196
Debt issuances	9	24,094	25,135
Total liabilities		149,240	145,903
Net assets		13,527	13,109
Equity			
Share capital		11,888	11,888
Reserves		37	33
Retained earnings		1,602	1,188
Total equity		13,527	13,109

CASH FLOW STATEMENT

For the three months ended 31 December	Note	2018 NZ\$m	2017 NZ\$m
Profit after income tax		467	510
Adjustments to reconcile to net cash provided by/(used in) operating activities:			
Depreciation and amortisation		20	21
Net derivatives/foreign exchange adjustment		249	843
Proceeds from divestments net of intangibles disposed of, classified as investing activities		(589)	-
Other non-cash movements		(15)	10
<i>Net (increase)/decrease in operating assets:</i>			
Collateral paid		(271)	(319)
Trading securities		(911)	(1,962)
Net loans and advances		(1,691)	(915)
Other assets		1,004	46
<i>Net increase in operating liabilities:</i>			
Deposits and other borrowings		4,493	3,660
Settlement balances owed by the Banking Group		(426)	69
Collateral received		(315)	(230)
Other liabilities		(393)	196
Total adjustments		1,155	1,419
Net cash flows provided by operating activities¹		1,622	1,929
Cash flows from investing activities			
Investment securities:			
Purchases		(865)	(790)
Proceeds from sale or maturity		653	870
Proceeds from divestments	12	690	-
Other assets		(13)	(14)
Net cash flows provided by investing activities		465	66
Cash flows from financing activities			
Debt issuances ²			
Issue proceeds		60	375
Redemptions		(810)	(1,512)
Net cash flows used in financing activities		(750)	(1,137)
Net increase in cash and cash equivalents		1,337	858
Cash and cash equivalents at beginning of year		2,200	2,439
Cash and cash equivalents at end of year		3,537	3,297

¹ Net cash provided by operating activities includes income taxes paid of NZ\$287 million (2018: NZ\$169 million).

² Movement in debt issuances (Note 9 Debt Issuances) also includes a NZ\$457 million decrease (2017: NZ\$299 million increase) from the effect of foreign exchange rates, an NZ\$183 million increase (2017: NZ\$74 million decrease) from changes in fair value hedging instruments and a NZ\$17 million decrease (2017: NZ\$9 million increase) of other changes.

INTERIM FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital NZ\$m	Investment securities revaluation reserve NZ\$m	Cash flow hedging reserve NZ\$m	Retained earnings NZ\$m	Total equity NZ\$m
As at 1 October 2017		8,888	5	43	3,845	12,781
Profit or loss		-	-	-	510	510
Unrealised gains / (losses) recognised directly in equity		-	15	(13)	-	2
Realised losses transferred to the income statement		-	-	2	-	2
Income tax credit / (expense) on items recognised directly in equity		-	(4)	3	-	(1)
Total comprehensive income for the period		-	11	(8)	510	513
As at 31 December 2017		8,888	16	35	4,355	13,294
As at 1 October 2018		11,888	11	22	1,188	13,109
NZ IFRS 9 transition adjustment	1	-	-	-	(53)	(53)
As at 1 October 2018 (adjusted)		11,888	11	22	1,135	13,056
Profit or loss		-	-	-	467	467
Unrealised gains / (losses) recognised directly in equity		-	(6)	10	-	4
Realised losses transferred to the income statement		-	-	1	-	1
Income tax credit / (expense) on items recognised directly in equity		-	2	(3)	-	(1)
Total comprehensive income for the period		-	(4)	8	467	471
As at 31 December 2018		11,888	7	30	1,602	13,527

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim financial statements for the Banking Group were issued on 18 February 2019 and should be read in conjunction with the Banking Group's financial statements for the year ended 30 September 2018.

These financial statements comply with:

- New Zealand Generally Accepted Accounting Practice, as defined in the Financial Reporting Act 2013;
- NZ IAS 34 *Interim Financial Reporting* and other applicable Financial Reporting Standards, as appropriate for publicly accountable for-profit entities; and
- IAS 34 *Interim Financial Reporting*.

There is no requirement for the Bank's directors to approve these financial statements.

Use of estimates, assumptions and judgements

The preparation of these interim financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of accounting policies. Discussion of the critical accounting estimates and judgements, which include complex or subjective decisions or assessments are provided in the previous full year financial statements. Such estimates and judgements are reviewed on an ongoing basis.

Basis of measurement

These financial statements have been prepared on a going concern basis in accordance with historical cost concepts except that the following assets and liabilities are stated at their fair value:

- derivative financial instruments;
- investment securities;
- financial instruments held for trading; and
- financial instruments designated at fair value through profit and loss.

Changes in accounting policies

The accounting policies adopted by the Banking Group are consistent with those adopted and disclosed in the previous full year financial statements, except as disclosed below.

The following new standards relevant to the Banking Group have been adopted from 1 October 2018 and have been applied in the preparation of these financial statements:

NZ IFRS 9 Financial Instruments (NZ IFRS 9)

NZ IFRS 9 was effective for the Banking Group from 1 October 2018. NZ IFRS 9 stipulates new requirements for the impairment of financial assets, classification and measurement of financial assets and financial liabilities and general hedge accounting. Details of the key requirements and estimated impacts on the Banking Group are outlined below.

Impairment

NZ IFRS 9 replaced the incurred loss impairment model under NZ IAS 39: *Financial Instruments: Recognition and Measurement* (NZ IAS 39) with an expected credit loss (ECL) model incorporating forward looking information. The ECL model has been applied to all financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, certain loan commitments and financial guarantees. Under the ECL model, the following three-stage approach is applied to measuring ECL based on credit migration between the stages since origination:

- Stage 1: At the origination of a financial asset, a provision equivalent to 12 months ECL is recognised.
- Stage 2: Where there has been a significant increase in credit risk since origination, a provision equivalent to lifetime ECL is recognised.
- Stage 3: Similar to the previous NZ IAS 39 requirements for individual impairment provisions, lifetime ECL is recognised for loans where there is objective evidence of impairment.

Expected credit losses are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Classification and measurement

There are three measurement classifications under NZ IFRS 9: Amortised cost, Fair Value through Profit or Loss and Fair Value through Other Comprehensive Income. Financial assets are classified into these measurement classifications taking into account the business model within which they are managed, and their contractual cash flow characteristics.

The classification and measurement requirements for financial liabilities under NZ IFRS 9 are largely consistent with NZ IAS 39 with the exception that for financial liabilities designated as measured at fair value, gains or losses relating to changes in the entity's own credit risk are included in other comprehensive income. This part of the standard was early adopted by the Banking Group on 1 October 2013.

Transition to NZ IFRS 9

Other than as noted above under classification and measurement of financial liabilities, NZ IFRS 9 has a date of initial application for the Banking Group of 1 October 2018. The classification and measurement, and impairment requirements, are applied retrospectively by adjusting opening retained earnings at 1 October 2018. The Banking Group has not restated comparatives.

NOTES TO THE FINANCIAL STATEMENTS

Impact

Impairment

The application of NZ IFRS 9 as at 1 October 2018 resulted in higher aggregate impairment provisions of approximately NZ\$72 million, with an associated decrease in deferred tax liabilities of approximately NZ\$19 million. The net impact on total equity is a reduction of approximately NZ\$53 million. These remain subject to change until the Banking Group finalises its financial statements for the year ending 30 September 2019.

Classification and measurement of financial assets

There have been no changes in classification and measurement as a result of the application of the business model and contractual cash flow characteristics tests.

NZ IFRS 15 Revenue from Contracts with Customers (NZ IFRS 15)

NZ IFRS 15 was effective for the Banking Group from 1 October 2018 and replaces existing guidance on the recognition of revenue from contracts with customers. The standard requires identification of distinct performance obligations within a contract, and allocation of the transaction price of the contract to those performance obligations. Revenue is then recognised as each performance obligation is satisfied. The standard also provides guidance on whether an entity is acting as a principal or an agent which impacts the presentation of revenue on a gross or net basis.

The Banking Group has assessed all revenue streams existing at the date of transition to the new standard and determined that the impact of NZIFRS 15 is immaterial given the majority of the Banking Group revenues are outside the scope of the standard. The Banking Group has adopted IFRS 15 retrospectively including restatement of prior period comparatives.

Presentation currency and rounding

The amounts contained in the financial statements are presented in millions of New Zealand dollars, unless otherwise stated.

Comparatives

Certain amounts in the comparative information have been reclassified to ensure consistency with the current period's presentation.

Principles of consolidation

The financial statements consolidate the financial statements of the Bank and its subsidiaries.

2. OTHER OPERATING INCOME

	Note	2018 NZ\$m	2017 NZ\$m
For the three months ended 31 December			
i) Fee and commission income		96	105
ii) Net foreign exchange earnings and other financial instruments income		(51)	78
iii) Other income			
Loss on sale of mortgages to NZ Branch		-	(1)
Insurance proceeds		-	20
Sale of OnePath	12	58	-
Other		6	8
Other income		64	27
Other operating income		109	210

3. SEGMENT REPORTING

The Banking Group is organised into three major business segments for segment reporting purposes - Retail, Commercial and Institutional. Centralised back office and corporate functions support these segments. These segments are consistent with internal reporting provided to the chief operating decision maker, being the Bank's Chief Executive Officer.

Retail

Retail provides a full range of banking and wealth management services to consumer, private banking and small business banking customers. We deliver our services via our internet and app-based digital solutions and network of branches, mortgage specialists, relationship managers and contact centres.

Commercial

Commercial provides a full range of banking services including traditional relationship banking and sophisticated financial solutions through dedicated managers focusing on privately owned medium to large enterprises and the agricultural business segment.

Institutional

The Institutional division services global institutional and corporate customers across three product sets: Transaction Banking, Loans & Specialised Finance and Markets.

- Transaction Banking provides working capital and liquidity solutions including documentary trade, supply chain financing as well as cash management solutions, deposits, payments and clearing.
- Loans & Specialised Finance provides loan products, loan syndication, specialised loan structuring and execution, project and export finance, debt structuring and acquisition finance and corporate advisory.
- Markets provide risk management services on foreign exchange, interest rates, credit, commodities, debt capital markets in addition to managing the Banking Group's interest rate exposure and liquidity position.

Other

Other includes treasury and back office support functions, none of which constitutes a separately reportable segment.

Operating segment analysis

	Retail		Commercial		Institutional		Other		Total	
	2018 NZ\$m	2017 NZ\$m	2018 NZ\$m	2017 NZ\$m	2018 NZ\$m	2017 NZ\$m	2018 NZ\$m	2017 NZ\$m	2018 NZ\$m	2017 NZ\$m
For the three months ended 31 December										
Net interest income	460	441	252	241	85	82	27	21	824	785
Fee and commission income	73	76	5	5	18	24	-	-	96	105
Net foreign exchange earnings and other financial instruments income	2	3	-	-	17	68	(70)	7	(51)	78
Other income	-	-	-	-	1	3	63	24	64	27
Net funds management and insurance income	85	96	-	-	-	-	7	15	92	111
Share of associates' profits	-	1	-	-	-	-	-	-	-	1
Operating income	620	617	257	246	121	177	27	67	1,025	1,107
Profit after income tax	244	247	141	133	53	92	29	38	467	510

Other segment

The Other segment profit after income tax comprises:

	2018 NZ\$m	2017 NZ\$m
For the three months ended 31 December		
Central functions ¹	4	15
Technology and Group Centre ²	69	5
Economic hedges	(49)	6
Revaluation of insurance policies from changes in interest rates	5	12
Total	29	38

¹ Central functions' other income for the three months ended 31 December 2017 includes the \$20 million insurance proceeds (Note 2 Other Operating Income) that were received from a member of the Overseas Banking Group.

² Technology and Group Centre's other income for the three months ended 31 December 2018 includes the \$58 million gain on sale of OnePath (Note 2 Other Operating Income).

NOTES TO THE FINANCIAL STATEMENTS

4. NET LOANS AND ADVANCES

	Note	31 Dec 18 NZ\$m	30 Sep 18 NZ\$m
Overdrafts		828	905
Credit cards		1,682	1,644
Term loans - housing		79,800	78,395
Term loans - non-housing		44,449	44,169
Finance lease and hire purchase receivables		1,817	1,791
Subtotal		128,576	126,904
Unearned income		(248)	(239)
Capitalised brokerage/mortgage origination fees		314	313
Gross loans and advances		128,642	126,978
Provision for credit impairment	5	(485)	(512)
Net loans and advances		128,157	126,466

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of NZ\$1,896 million as at 31 December 2018 (30 September 2018: NZ\$2,210 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

5. PROVISION FOR CREDIT IMPAIRMENT

PROVISION FOR CREDIT IMPAIRMENT - BALANCE SHEET

	Net loans and advances		Off-balance sheet credit related commitments ¹		Total	
	31 Dec 18 NZ\$m	30 Sep 18 NZ\$m	31 Dec 18 NZ\$m	30 Sep 18 NZ\$m	31 Dec 18 NZ\$m	30 Sep 18 NZ\$m
Provision for credit impairment						
Individual provision ²	115	130	-	-	115	130
Collective provision ³	370	311	81	71	451	382
Total provision for credit impairment	485	441	81	71	566	512

¹ Collective provision relating to off-balance sheet credit related commitments is included in provisions from 1 October 2018.

² Individual provision comprises Stage 3 ECL assessed individually from 1 October 2018.

³ Collective provision comprises Stage 1, 2 and 3 ECL assessed collectively from 1 October 2018.

	Net loans and advances NZ\$m	Off-balance sheet credit related commitments NZ\$m	Total NZ\$m
Collective provision reconciliation			
As at 30 September 2018		311	382
NZ IFRS 9 transition adjustment		60	72
As at 1 October 2018		371	454
Collective credit impairment release	(1)	(2)	(3)
As at 31 December 2018	370	81	451

CREDIT IMPAIRMENT CHARGE - INCOME STATEMENT

	2018 NZ\$m	2017 NZ\$m
Credit impairment charge for the three months ended 31 December		
New and increased provisions	32	40
Write-backs	(10)	(12)
Recoveries of amounts previously written-off	(6)	(6)
Individual credit impairment charge	16	22
Collective credit impairment release	(3)	(10)
Total credit impairment charge	13	12

6. IMPAIRED AND PAST DUE LOANS

	31 Dec 18 NZ\$m	30 Sep 18 NZ\$m
Loans that are at least 90 days past due but not impaired	270	205
Impaired loans	295	321

7. DEPOSITS AND OTHER BORROWINGS

	31 Dec 18 NZ\$m	30 Sep 18 NZ\$m
Term deposits	52,383	51,298
On demand and short term deposits	42,655	41,602
Deposits not bearing interest	11,137	10,224
UDC secured investments	923	931
Total customer deposits	107,098	104,055
Certificates of deposit	1,598	910
Securities sold under repurchase agreements	521	517
Commercial paper	3,254	2,486
Deposits from Immediate Parent Company and NZ Branch	30	40
Deposits and other borrowings	112,501	108,008

8. PROVISIONS

	Note	31 Dec 18 NZ\$m	30 Sep 18 NZ\$m
Employee entitlements		124	120
Collective provision on undrawn commitments	5	81	-
Other ¹		108	76
Provisions		313	196

¹ Other provisions include accruals for customer remediation, make-good of leased premises and restructuring (including OnePath separation).

9. DEBT ISSUANCES

	31 Dec 18 NZ\$m	30 Sep 18 NZ\$m
Senior debt	18,676	18,767
Covered bonds	2,979	3,929
Total unsubordinated debt	21,655	22,696
Subordinated debt (Additional Tier 1 capital)	2,439	2,439
Total debt issued	24,094	25,135

Covered bonds are guaranteed by ANZ NZ Covered Bond Trust Limited (the Covered Bond Guarantor), solely in its capacity as trustee of ANZ NZ Covered Bond Trust (the Covered Bond Trust). The Covered Bond Trust is a member of the Banking Group, whereas the Covered Bond Guarantor is not a member of the Banking Group.

Substantially all of the assets of the Covered Bond Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by the Covered Bond Guarantor as trustee of the Covered Bond Trust of issuances of covered bonds by the Bank, or its wholly owned subsidiary ANZ New Zealand (Int'l) Limited, from time to time. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied.

NOTES TO THE FINANCIAL STATEMENTS

10. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities carried at fair value on the balance sheet

The Banking Group categorises financial assets and financial liabilities carried at fair value into a fair value hierarchy as required by NZ IFRS 13 *Fair Value Measurement* based on the observability of inputs used to measure fair value:

- Level 1 – valuations based on quoted prices (unadjusted) in active markets for identical financial instruments;
- Level 2 – valuations using inputs other than quoted prices included within Level 1 that are observable for a similar financial asset or liability, either directly or indirectly; and
- Level 3 – valuations using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below summarises the attribution of financial instruments carried at fair value to the fair value hierarchy:

	Fair value measurements							
	Quoted market price (Level 1)		Using observable inputs (Level 2)		Using unobservable inputs (Level 3)		Total	
	31 Dec 18 NZ\$m	30 Sep 18 NZ\$m	31 Dec 18 NZ\$m	30 Sep 18 NZ\$m	31 Dec 18 NZ\$m	30 Sep 18 NZ\$m	31 Dec 18 NZ\$m	30 Sep 18 NZ\$m
Assets								
Trading securities	7,032	6,795	1,903	1,229	-	-	8,935	8,024
Derivative financial instruments	5	7	8,532	8,076	3	3	8,540	8,086
Investment securities	6,654	6,457	50	44	1	1	6,705	6,502
Investments backing insurance contract liabilities ¹	-	-	-	127	-	-	-	127
Total	13,691	13,259	10,485	9,476	4	4	24,180	22,739
Liabilities								
Deposits and other borrowings	-	-	3,254	2,486	-	-	3,254	2,486
Derivative financial instruments	11	10	9,049	8,084	1	1	9,061	8,095
Other financial liabilities	94	110	-	-	-	-	94	110
Total	105	120	12,303	10,570	1	1	12,409	10,691

¹ Including items reclassified as held for sale.

Financial assets and financial liabilities not measured at fair value

Below is a comparison of the carrying amounts as reported on the balance sheet and fair values of financial asset and financial liability categories other than those categories where the carrying amount is at fair value or considered a reasonable approximation of fair value.

The fair values below have been calculated using discounted cash flow techniques where contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market rates or market borrowing rates of debt with similar maturities or a yield curve appropriate for the remaining term to maturity.

	Carrying amount		Fair value	
	31 Dec 18 NZ\$m	30 Sep 18 NZ\$m	31 Dec 18 NZ\$m	30 Sep 18 NZ\$m
Financial assets				
Net loans and advances ¹	128,157	126,466	128,536	126,745
Total	128,157	126,466	128,536	126,745
Financial liabilities				
Deposits and other borrowings ²	109,247	105,522	109,322	105,592
Debt issuances ¹	24,094	25,135	24,221	25,462
Total	133,341	130,657	133,543	131,054

¹ Fair value hedging is applied to certain financial instruments within these categories. The resulting fair value adjustments mean that the carrying value differs from the amortised cost.

² Excludes commercial paper (Note 7 Deposits and Other Borrowings) designated at fair value through profit or loss.

11. CREDIT RELATED COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES

	31 Dec 18	30 Sep 18
	NZ\$m	NZ\$m
Credit related commitments and contingencies		
Contract amount of:		
Undrawn facilities	27,040	27,245
Guarantees and letters of credit	1,367	1,531
Performance related contingencies	1,424	1,329
Total	29,831	30,105

The Banking Group guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties, including its Ultimate Parent Bank. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers, therefore these transactions are subjected to the same credit origination, portfolio management and collateral requirements for customers applying for loans. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

Other contingent liabilities

There are outstanding court proceedings, claims and possible claims for and against the Banking Group. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice the interests of the Banking Group.

In recent years there has been an increase in the number of matters on which the Banking Group engages with its regulators. Globally there have been significant increases in the nature and scale of regulatory investigations and reviews, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators and customer claims. The Banking Group also instigates engagement with its regulators. The nature of these investigations and reviews can be wide-ranging and, for example, may include a range of matters including responsible lending practices, product suitability, wealth advice and adequacy of product disclosure documentation. The Banking Group has received various notices and requests for information from its regulators as part of both industry-wide and Banking Group specific reviews, and has also made disclosures to its regulators at its own instigation. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

NOTES TO THE FINANCIAL STATEMENTS

12. SALE OF CONTROLLED ENTITY

OnePath

On 30 November 2018, the Banking Group sold OnePath to Cigna Corporation. The Banking Group recognised a net gain of \$58 million from this transaction, which is included in other operating income. This net gain may change as the sale price and transaction costs are finalised in the first half of the 2019 financial year.

Assets and liabilities sold

	30 Nov 18 NZ\$m
Investments backing insurance contract liabilities	101
Other assets, net of amounts payable to the Bank	6
Life insurance contract assets	675
Goodwill and other intangible assets	101
Total assets	883
Deposits and other borrowings (deposits with the Bank)	(50)
Current tax liabilities	18
Deferred tax liabilities	178
Payables and other liabilities	146
Provisions	2
Total liabilities	294
Net assets sold	589

13. SUBSEQUENT EVENTS

On 8 February 2019, the Bank's Board resolved to pay a preference dividend of NZ\$5.5 million on or before 6 March 2019 and to pay an ordinary dividend of NZ\$400 million on or before 29 March 2019.

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BANK FINANCIAL STRENGTH DASHBOARD

Background

This section does not form part of the Interim Financial Statements. It contains information in respect of the Banking Group included on the Bank Financial Strength Dashboard (Dashboard) published on RBNZ's website. There is no requirement for the Directors to review or approve this information. Amounts below may differ slightly from those published by the RBNZ due to rounding differences. The tables include reconciliations to amounts included in the Interim Financial Statements where there are classification differences between the financial statements and the Dashboard.

D2. CAPITAL ADEQUACY

Capital ratios

As at 31 December 2018

Total capital ratio	15.2%
Common equity tier 1 (CET1) capital ratio	11.8%
Tier 1 capital ratio	15.2%
Buffer ratio	7.2%
Total capital ratio regulatory minimum	8.0%

Capital

As at 31 December 2018

	NZ\$m
CET1 capital	13,227
CET1 deductions	(3,588)
Net CET1 capital	9,639
Total additional tier 1 instruments	2,778
Total tier 1 capital	12,417
Total capital	12,417

D1. CREDIT RATINGS

As at 31 December 2018

	Credit rating
S&P Global	AA-
Fitch	AA-
Moody's	A1

Risk weighted assets

As at 31 December 2018

	NZ\$m
Sovereign / quasi-sovereign	128
Public sector entities	351
Registered banks	1,801
Corporates	36,476
Retail / Residential mortgages	17,029
Problem loans	712
Equity holdings	28
Credit risk supervisory adjustment	2,340
All other assets	11,885
Credit risk	70,750
Market risk	4,842
Operational risk	6,027
Total risk weighted assets	81,619

D3. ASSET QUALITY

As at 31 December 2018	Housing NZ\$m	Consumer NZ\$m	Business NZ\$m	Agriculture NZ\$m	All other NZ\$m	Total NZ\$m
Total loans	77,354	3,569	29,073	17,422	1,262	128,680
Impaired loans	30	12	59	148	46	295
Loans 90 days past due but not impaired	179	24	54	13	-	270
Total non-performing loans	209	36	113	161	46	565
<i>Non-performing loans ratio (%)</i>	0.27%	1.01%	0.39%	0.92%	3.65%	0.44%
Individual provisions	8	7	32	32	36	115
Collective provisions	53	67	183	62	5	370
<i>On-balance sheet residential mortgage exposures with LVRs that:</i>						
Exceeds 80% and not 90%						3.6%
Exceeds 90%						1.6%

A reconciliation of the amounts in this table to the financial statements is included in the Other Information on page 18.

D4. PROFITABILITY / PERFORMANCE

	Classification differences		Dashboard NZ\$m
	Financial statements NZ\$m	Funds management income and other commissions NZ\$m	
3 months to 31 December 2018			
Interest income	1,656	-	1,656
Interest expense	832	-	832
Net interest income	824	-	824
Gains/losses on trading and hedging	(51)	-	(51)
Fee and commission income	96	67	163
All other income	156	(67)	89
Operating expenses	385	-	385
Impaired asset expense	13	-	13
Profit before tax	627	-	627
Tax expense	160	-	160
Profit after tax	467	-	467
Return on assets (%)			1.1%
Return on equity (%)			13.9%
Net interest margin (%)			2.2%

D5. FINANCIAL POSITION

	Classification differences			Dashboard NZ\$m
	Financial statements NZ\$m	Other bank deposits and other assets NZ\$m	Securities purchased under agreements to re-sell NZ\$m	
As at 31 December 2018				
Cash and bank deposits ¹	5,727	(80)	(986)	4,661
Debt securities held ²	15,640	-	-	15,640
Net loans and advances	128,157	-	-	128,157
Derivatives in an asset position	8,540	-	-	8,540
All other assets	4,703	80	986	5,769
Total assets	162,767	-	-	162,767
Deposits	107,098	-	-	107,098
Debt securities issued ³	28,946	-	-	28,946
Other borrowings ⁴	1,081	1,231	-	2,312
Derivatives in a liability position	9,061	-	-	9,061
All other liabilities	3,054	(1,231)	-	1,823
Total liabilities	149,240	-	-	149,240
Equity	13,527	-	-	13,527

¹ Comprises cash and cash equivalents and collateral paid

² Comprises trading securities, investments backing insurance contract liabilities and investment securities

³ Comprises debt issuances plus certificates of deposit and commercial paper from deposits and other borrowings

⁴ Comprises collateral received and the remaining items of deposits and other borrowings

D6. LIQUIDITY

3 months to 31 December 2018

Quarterly average core funding ratio	88.3%
Quarterly average 1-month mismatch ratio	4.8%
Quarterly average 1-week mismatch ratio	5.0%

D7. LARGE EXPOSURES

As at 31 December 2018

Top 5 credit exposures to non-bank counterparties (ie corporates) as a ratio of CET1 capital	49.0%
Credit exposures to non-bank counterparties (ie corporates) that are greater than 10% of CET1 capital	2
Top 5 credit exposures to banks as a ratio of CET1 capital	57.2%
Credit exposures to banks that are greater than 10% of CET1 capital	3

OTHER INFORMATION

Reconciliation of total loans by purpose and sector

The financial statements and Dashboard include amounts for total loans which are based on different definitions. The table below reconciles the various amounts. This information does not form part of the Interim Financial Statements.

Housing loans and residential mortgage definitions

Housing loans comprise loans for owner occupier property use and residential investor property use. Owner occupiers are borrowers who own or are in the process of buying or building the house or flat they will live in as their principal place of residence. An owner can occupy more than one property e.g. a family home and a holiday home. Only households can have owner occupier property use loans. Investors are entities or persons borrowing for the purpose of building or purchasing residential property to rent. This includes 'Mum and dad' investor loans and any person(s) that have a separate residential investor property use loan which is not for their normal business purpose.

Residential mortgage exposures used in the loan-to-valuation ratio analysis are based on the definition of residential mortgage loans as defined in the Banking Supervision Handbook document *Capital Adequacy Framework (internal models based approach)* (BS2B). This metric is based on a collateral definition and may include some other lending that is not defined as Housing lending in the asset quality section of the Dashboard. See the Banking Supervision Handbook for a more detailed definition.

As at 31 December 2018	Note	Housing NZ\$m	Consumer NZ\$m	Business NZ\$m	Agriculture NZ\$m	All other NZ\$m	Total NZ\$m
Total loans per Balance Sheet	4	79,800	n/a	n/a	n/a	48,776	128,576
Fair value hedge adjustment		(4)	-	-	-	-	(4)
Business loans secured by residential property		(2,442)	-	-	321	2,121	-
Unearned income on finance leases		-	-	-	-	(204)	(204)
Deposit components of overdraft product		-	-	-	-	312	312
Consumer, business and agriculture lending		-	3,569	28,711	17,422	(49,702)	-
Loans by purpose (RBNZ series S31)		77,354	3,569	28,711	17,743	1,303	128,680
Business loans secured by residential property		-	-	362	(321)	(41)	-
Total loans per Dashboard	D3	77,354	3,569	29,073	17,422	1,262	128,680

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