Bank of New Zealand

Disclosure Statement

For the year ended 30 September 2021

No. 96

Disclosure Statement

For the year ended 30 September 2021

This Disclosure Statement has been issued by Bank of New Zealand for the year ended 30 September 2021 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the “Order”).

In this Disclosure Statement, unless the context otherwise requires:

a) “Banking Group” means Bank of New Zealand’s financial reporting group, which consists of Bank of New Zealand, all of its wholly owned entities and other entities consolidated for financial reporting purposes; and

b) Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.

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Bank of New Zealand Corporate Information

Address for Service

The name of the Registered Bank is Bank of New Zealand (referred to either by its full name or as the "Bank"). The Bank's address for service is Level 4, 80 Queen Street, Auckland 1010, New Zealand.

Nature of Business

The Bank is a company domiciled in New Zealand. It was incorporated in New Zealand on 29 July 1861. The Banking Group provides a broad range of banking and financial products and services to retail, business, private, corporate and institutional customers.

Voting Securities and Power to Appoint Directors

National Australia Group (NZ) Limited ("NAGNZ"), National Australia Bank Limited and National Equities Limited are the only holders of a direct or indirect qualifying interest in the 5,075,997,499 voting securities of the Bank. NAGNZ is the registered and beneficial holder of 5,075,997,499 voting securities and therefore holds 100% of the direct interest in the voting securities. Neither National Australia Bank Limited (the ultimate parent company) nor National Equities Limited (the immediate parent company of NAGNZ) is the registered or the beneficial holder of any of the voting securities of the Bank, but each has a relevant interest in all such securities by virtue of NAGNZ being related to them in terms of section 237(d) and 12(2) of the Financial Markets Conduct Act 2013 ("FMCA") due to the fact that National Equities Limited owns 100% of the voting securities in NAGNZ and National Australia Bank Limited owns 100% of the voting securities in National Equities Limited.

The ultimate parent company has the power under the Bank's constitution to appoint any person as Director of the Bank or to remove any person from the office of Director, from time to time, by giving written notice to the Bank. Any appointment of a Director is subject to the Reserve Bank of New Zealand ("RBNZ") confirming it has no objection to that appointment.

Guarantees

Covered Bond Guarantee

Certain debt securities ("Covered Bonds") issued by the Bank, or its wholly owned controlled entity, BNZ International Funding Limited, acting through its London Branch ("BNZ-IF"), are guaranteed by CBG Trustee Company Limited, as trustee of the BNZ Covered Bond Trust (the "Covered Bond Guarantor"). The Covered Bond Guarantor has guaranteed the payment of all interest and principal under the Covered Bonds pursuant to a guarantee which is secured over a pool of assets. The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland 1010, New Zealand.

The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to any senior unsecured obligations payable in New Zealand dollars. The Covered Bonds have been assigned a long term credit rating of Aaa and AAA from Moody's Investors Service Pty Limited and Fitch Australia Pty Limited, respectively.

There are no material conditions applicable to the guarantee other than non-performance. There are no material legislative or regulatory restrictions in New Zealand which subordinate any claims under the guarantee of any creditors of the Bank on the assets of the Covered Bond Guarantor, to other claims on the Covered Bond Guarantor, in a winding up of the Covered Bond Guarantor.

Refer to note 27 for further information.

Other material obligations of the Bank are not guaranteed.

Ultimate Parent Bank

Ultimate Parent Bank and Address for Service

The ultimate parent bank, and ultimate holding company, of Bank of New Zealand is National Australia Bank Limited. National Australia Bank Limited's address for service is Level 28, 395 Bourke Street, Docklands, Victoria 3000, Australia.

References in this document to "NAB" are references to National Australia Bank Limited's financial reporting group, which consists of National Australia Bank Limited, all of its wholly owned entities and other entities consolidated for financial reporting purposes.

Legally Enforceable Restrictions that may Materially Inhibit National Australia Bank Limited's Legal Ability to Provide Material Financial Support to Bank of New Zealand

National Australia Bank Limited does not guarantee the obligations of Bank of New Zealand.

The Australian Prudential Regulation Authority ("APRA") Prudential Standard APS 222 ("APS 222") restricts associations between an authorised deposit-taking institution ("ADI") (such as National Australia Bank Limited) and its related entities (such as the Bank). A revised APS 222 standard will come into effect from 1 January 2022. Any provision of financial support to the Bank by National Australia Bank Limited would need to comply with the requirements of APS 222, including the following:

1. National Australia Bank Limited should not undertake any third-party dealings with the purpose of supporting the business of the Bank. National Australia Bank Limited must not provide support unless there are formal legal arrangements in place providing for such support.
2. National Australia Bank Limited must not hold unlimited exposures to the Bank.
3. National Australia Bank Limited must not agree to cross-default provisions whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default of National Australia Bank Limited on its obligations.
4. In determining limits on acceptable levels of exposure to the Bank, the Board of Directors of National Australia Bank Limited should have regard to the level of exposures which would be approved for unrelated entities of equivalent credit status, and the impact on National Australia Bank Limited's stand-alone capital and liquidity positions in the event of a failure of any related entity to which National Australia Bank Limited is exposed.
5. Currently, National Australia Bank Limited's exposure to individual related entities that are overseas based ADIs, such as the Bank, cannot exceed 50% of National Australia Bank Limited's total stand-alone capital base, and its aggregate exposure to all related ADIs cannot exceed 150% of that total capital base. Exposures in excess of these limits require the prior approval of APRA. Under the revised APS 222, with effect from 1 January 2022, National Australia Bank Limited's exposure to the Bank cannot exceed 25% of National Australia Bank Limited's stand-alone Tier 1 capital base, and its aggregate exposure to all related ADIs cannot exceed 75% of that Tier 1 capital base.

Bank of New Zealand Corporate Information

Ultimate Parent Bank *continued*

Legally Enforceable Restrictions that may Materially Inhibit National Australia Bank Limited's Legal Ability to Provide Material Financial Support to Bank of New Zealand *continued*

APRA has confirmed that during ordinary times, National Australia Bank Limited's non-equity exposures to the Bank must be below 5% of National Australia Bank Limited's Level One Tier 1 capital. Exposures subject to this 5% limit include all committed, non-intraday, non-equity exposures, including derivatives and off-balance sheet exposures. As at 30 September 2021, National Australia Bank Limited's non-equity exposures to the Bank are below 5% of National Australia Bank Limited's Level One Tier 1 capital.

APRA has also confirmed the terms on which National Australia Bank Limited may provide contingent funding support to a New Zealand banking subsidiary (including the Bank) during times of financial stress. APRA has confirmed that, at this time, only Covered Bonds meet its criteria for contingent funding arrangements. Such contingent funding support is proposed to be captured within an aggregate exposure limit (including debt, equity and any exposures held through a branch) of 50% of National Australia Bank Limited's Level One Tier 1 capital.

Pending Proceedings or Arbitration

The Bank's Directors are of the opinion that there are no pending proceedings or arbitrations concerning any member of the Banking Group, whether in New Zealand or elsewhere, that may have a material adverse effect on the Registered Bank or the Banking Group.

Other Matters

The Bank's Directors are of the opinion that there are no other matters relating to the business or affairs of the Registered Bank or the Banking Group which would, if disclosed in this Disclosure Statement, materially affect the decision of a person to subscribe for debt securities of which the Registered Bank or any member of the Banking Group is the issuer.

Directorate and Auditor

Communications addressed to the Directors and responsible persons, or any of them, may be sent to Level 4, 80 Queen Street, Auckland 1010, New Zealand.

Directors

Barbara Joan Chapman, CNZM appointed as an Independent Non-Executive Director of the Bank, effective 1 October 2021.

Prudence Mary Flacks resigned as a Director of the Bank, effective 30 October 2020.

Daniel James Huggins appointed as an Executive Director of the Bank, effective 1 October 2021.

Angela Mentis resigned as an Executive Director of the Bank, effective 1 October 2021.

Directors' Details

The name, occupation, technical or professional qualifications, country of residence, and other directorships of each Director of the Bank as at the date of this Disclosure Statement are as follows:

Non-Executive Director, Chair

Douglas Alexander McKay, ONZM
Primary Occupation: Company Director
B.A. (Auckland), A.M.P. (Harvard Business School), CMInstD
New Zealand

Other Directorships:
Fletcher Building Industries Limited, Fletcher Building Limited, Genesis Energy Limited, IAG New Zealand Limited, IAG (NZ) Holdings Limited, National Australia Bank Limited, Wymac Consulting Limited.

Executive Director

Daniel James Huggins
Primary Occupation: Managing Director and Chief Executive Officer
Other Occupation: Company Director
BCom.(Hons.), MEM, MBA
New Zealand

Other Directorships:
Nil

Bank of New Zealand Corporate Information

Directorate and Auditor *continued*

Independent Non-Executive Directors

Barbara Joan Chapman, CNZM
Primary Occupation: Company Director
BCom., CMInstD
New Zealand

Other Directorships:
Fletcher Building Limited, Fletcher Building Industries Limited, Chair of Genesis Energy Limited, Chair of NZME Limited, Deputy-Chair of The New Zealand Initiative Limited.

Mai Chen
Primary Occupation: Barrister and Solicitor
Other Occupation: Company Director
LL.B (Hons.) (Otago), LL.M (Harvard), FNZIM, CMInstD
New Zealand

Other Directorships:
Chair of ASIANZ CEO Limited, Chen & Palmer Office Services Limited, Chen Palmer Limited, Chen Palmer New Zealand Public Law Specialists Limited, Chen Palmer NZPLS Limited, Chen Palmer NZ Public Law Specialists Limited, CP New Zealand Public Law Specialists Limited, CPP Limited, New Zealand Public Law Specialists Limited, NZPLS Limited, Public Law Toolbox Limited, Socrates NZ Limited, Chair of Superdiverse Women Limited, Chair of Superdiversity Centre for Law and Policy and Business Limited.

Bruce Ronald Hassall
Primary Occupation: Company Director
B.Com., FCA
New Zealand

Other Directorships:
Chair of Fletcher Building Industries Limited, Chair of Fletcher Building Limited, Fonterra Co-operative Group Limited, Marivan Holdings Limited, Chair of Prolife Foods Limited, Chair of The Farmers' Trading Company Limited.

Louis Arthur Hawke
Primary Occupation: Company Director
BEc (Hons.), MBA
Australia

Other Directorships:
Chair of BNZ Insurance Services Limited, Chair of BNZ Life Insurance Limited, Hawke Business Associates Pty Limited, Hawke Family Pty Limited.

Kevin John Kenrick
Primary Occupation: Chief Executive Officer of Television New Zealand Limited
Other Occupation: Company Director
BMS
New Zealand

Other Directorships:
Freeview Television Limited, NZOOM Limited, TVNZ International Limited, TVNZ Investments Limited.

Linley Ann Wood
Primary Occupation: Company Director
BA., LL.B., MBA
New Zealand

Other Directorships:
Kings School Auckland Limited, McSmith Properties Limited and The Sleeping Giant (Fiji) Limited.

Non-Executive Director

Gary Andrew Lennon
Primary Occupation: NAB Group Chief Financial Officer
BEc (Hons.), Sydney, FCA.
Australia

Other Directorships:
Jmega Pty Limited, National Equities Limited.

Diversity

As at 30 September 2021, the proportions of female Directors on the Board and female members as the Bank's Officers were 38% and 40%, respectively (30 September 2020: 44% and 30%).

For the purpose of this disclosure, the BNZ Executive Team has been treated as Officers.

The Bank has a Diversity & Inclusion Council to lead the BNZ diversity agenda, set strategic priorities and oversee performance related to diversity.

Bank of New Zealand Corporate Information

Directorate and Auditor *continued*

New Zealand Regional Audit Committee

Members of the New Zealand Regional Audit Committee as at the date of this Disclosure Statement were as follows:

Bruce Ronald Hassall (Chair)	Independent Non-Executive Director
Mai Chen	Independent Non-Executive Director
Louis Arthur Hawke	Independent Non-Executive Director

Responsible Persons

Mr. Douglas Alexander McKay, ONZM, Non-Executive Director, Chair, and Mr. Daniel James Huggins, Executive Director, have been authorised in writing to sign this Disclosure Statement in accordance with section 82 of the Reserve Bank of New Zealand Act 1989, on behalf of the other Directors, being:

Barbara Joan Chapman
Mai Chen
Bruce Ronald Hassall
Louis Arthur Hawke
Kevin John Kenrick
Gary Andrew Lennon
Linley Ann Wood

Policy for Avoiding and Dealing with Conflicts of Interests

The policy and current practice of the Board of Directors of the Bank for avoiding or dealing with conflicts of interest which may arise from the personal, professional or business interests of the Directors, or any of them, are that, where a Director's judgement could potentially be impaired because a conflict of interest exists between the Director's business and personal affairs and the business affairs of the Bank, then that Director must declare that the conflict of interest exists and subject to certain exceptions set out in the constitution, will not vote on the matter nor be present while the matter is being considered in the meeting.

The Companies Act 1993 requires each Director to cause to be entered in the interests register and disclose to the Board of the Bank:

- the nature and monetary value of the Director's interest in a transaction or proposed transaction if its monetary value is able to be quantified; or
- the nature and extent of the Director's interest in a transaction or proposed transaction if its monetary value is not able to be quantified.

Directors' Benefits

There is no transaction which any Director or immediate relative or close business associate of any Director has with the Bank or any member of the Banking Group which either has been entered into on terms other than those which would, in the ordinary course of business of the Bank or any member of the Banking Group, be given to any other person of like circumstances or means, or could otherwise be reasonably likely to influence materially the exercise of that Director's duties.

Information pertaining to loans to and other transactions with Directors is disclosed in note 24 of this Disclosure Statement.

Auditor

The auditor whose report is referred to in this Disclosure Statement is Ernst & Young. Ernst & Young's address for service is Level 9, EY Building, 2 Takutai Square, Britomart, Auckland 1010, New Zealand.

Financial Statements

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Historical Summary of Financial Statements

Dollars in Millions	Banking Group 30/9/21	30/9/20	30/9/19	30/9/18	30/9/17
Income statement					
Interest income					
Effective interest income	2,891	3,440	3,904	3,716	3,408
Fair value through profit or loss	77	179	291	339	435
Interest expense	787	1,537	2,134	2,109	2,049
Net interest income	2,181	2,082	2,061	1,946	1,794
Gains less losses on financial instruments	277	88	129	191	118
Other operating income[1]	401	350	442	419	403
Total operating income	2,859	2,520	2,632	2,556	2,315
Operating expenses[1]	1,060	1,158	1,111	1,045	932
Total operating profit before credit impairment charge and income tax expense	1,799	1,362	1,521	1,511	1,383
Credit impairment charge/(write-back)	(37)	300	114	82	83
Total operating profit before income tax expense	1,836	1,062	1,407	1,429	1,300
Income tax expense on operating profit	514	300	385	400	363
Net profit attributable to the shareholder of the Bank	1,322	762	1,022	1,029	937
Dividends					
Dividends paid on ordinary shares	-	-	545	620	700
Dividends reinvested as ordinary shares	-	-	600	1,105	-
Total dividends paid on ordinary shares	-	-	1,145	1,725	700
Perpetual preference dividend	-	-	-	-	3
Significant balance sheet items					
Total assets	119,122	112,310	109,112	99,991	95,315
Total liabilities	109,241	103,653	101,179	92,612	88,374
Ordinary shareholder's equity	9,881	8,657	7,933	7,379	6,941
Asset quality					
Individually impaired assets - at amortised cost	199	558	648	248	222
Individually impaired assets - at fair value through profit or loss	32	42	5	17	28
Credit impairment charge/(write-back) to income statement - at amortised cost	(37)	300	114	82	83
Credit risk adjustments on financial assets charged to income statement - at fair value through profit or loss (including derivatives)	(30)	30	3	(14)	(18)

[1] Comparative balances have been restated for 30 September 2020 and 30 September 2019 to align with the presentation of Net investment management income used in the current period. Refer to note 1 for further information.

The information presented in the above table has been extracted from audited financial statements of the Banking Group that have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS").

Basel III regulatory capital ratios

The table below shows the capital adequacy ratios based on the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B") expressed as a percentage of total risk-weighted exposures.

	Banking Group Unaudited 30/9/21	Unaudited 30/9/20	Unaudited 30/9/19	Unaudited 30/9/18	Unaudited 30/9/17
Common Equity Tier 1 capital ratio	13.8%	11.9%	11.0%	10.6%	10.4%
Tier 1 capital ratio	15.1%	13.2%	12.3%	12.0%	11.8%
Total qualifying capital ratio	16.9%	14.9%	13.9%	13.6%	13.0%
Buffer ratio	8.9%	6.9%	5.9%	5.6%	5.0%

Income Statement

For the year ended 30 September 2021

Dollars in Millions	Note	Banking Group 30/9/21	Banking Group 30/9/20
Interest income	2		
Effective interest income		**2,891**	3,440
Fair value through profit or loss		**77**	179
Interest expense	2	**787**	1,537
Net interest income		**2,181**	2,082
Gains less losses on financial instruments	3	**277**	88
Other operating income	4	**401**	350
Total operating income		**2,859**	2,520
Operating expenses	5	**1,060**	1,158
Total operating profit before credit impairment charge and income tax expense		**1,799**	1,362
Credit impairment charge/(write-back)	11	**(37)**	300
Total operating profit before income tax expense		**1,836**	1,062
Income tax expense on operating profit	6	**514**	300
Net profit attributable to the shareholder of the Bank		**1,322**	762

The accounting policies and other notes form part of, and should be read in conjunction with, these financial statements.

Statement of Comprehensive Income

For the year ended 30 September 2021

Dollars in Millions	Note	Banking Group 30/9/21	Banking Group 30/9/20
Net profit attributable to the shareholder of the Bank		**1,322**	762
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Actuarial gain on defined benefit plan		**1**	1
Movement in asset revaluation reserve		**(1)**	-
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	25	**(16)**	(67)
Tax on items recognised in equity		**5**	19
Revaluation of equity instruments held at fair value through other comprehensive income ("FVOCI")		**-**	1
		(11)	(46)
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	13	**(119)**	23
Movement in cost of hedging reserve		**(2)**	(12)
Tax on items recognised in equity		**34**	(3)
		(87)	8
Total other comprehensive income/(expense)		**(98)**	(38)
Total comprehensive income attributable to the shareholder of the Bank		**1,224**	724

The accounting policies and other notes form part of, and should be read in conjunction with, these financial statements.

Statement of Changes in Equity

For the year ended 30 September 2021

Dollars in Millions	Ordinary Capital	Retained Profits	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Cost of Hedging Reserve	FVOCI Reserve	Total Share-holder's Equity
			Banking Group (30/9/21)				
Balance at beginning of year	4,056	4,493	3	113	(9)	1	8,657
Comprehensive income/(expense)							
Net profit attributable to the shareholder of the Bank	-	1,322	-	-	-	-	1,322
Actuarial gain on defined benefit plan	-	1	-	-	-	-	1
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	(16)	-	-	-	-	(16)
Reserve movement through other comprehensive income	-	-	(1)	(119)	(2)	-	(122)
Tax effect on items directly recognised in equity	-	5	-	33	1	-	39
Total comprehensive income/(expense)	-	1,312	(1)	(86)	(1)	-	1,224
Balance at end of year	4,056	5,805	2	27	(10)	1	9,881
			Banking Group (30/9/20)				
Balance at beginning of year	4,056	3,778	3	96	-	-	7,933
Comprehensive income/(expense)							
Net profit attributable to the shareholder of the Bank	-	762	-	-	-	-	762
Actuarial gain on defined benefit plan	-	1	-	-	-	-	1
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	(67)	-	-	-	-	(67)
Reserve movement through other comprehensive income	-	-	-	23	(12)	1	12
Tax effect on items directly recognised in equity	-	19	-	(6)	3	-	16
Total comprehensive income/(expense)	-	715	-	17	(9)	1	724
Balance at end of year	4,056	4,493	3	113	(9)	1	8,657

The accounting policies and other notes form part of, and should be read in conjunction with, these financial statements.

Balance Sheet

As at 30 September 2021

Dollars in Millions	Note	Banking Group 30/9/21	Banking Group 30/9/20
Assets			
Cash and liquid assets	7	**9,722**	3,933
Due from central banks and other institutions	8	**809**	782
Trading securities	9	**7,348**	10,814
Derivative financial instruments	13	**4,404**	6,140
Loans and advances to customers	10	**94,721**	88,149
Amounts due from related entities	24	**179**	1,053
Other assets	15	**897**	492
Deferred tax	14	**283**	295
Property, plant and equipment		**466**	423
Goodwill and other intangible assets	16	**293**	229
Total assets		**119,122**	112,310
Liabilities			
Due to central banks and other institutions	17	**5,388**	2,820
Trading liabilities		**537**	54
Derivative financial instruments	13	**3,189**	4,711
Deposits and other borrowings	18	**78,108**	71,841
Bonds and notes	19	**17,518**	19,512
Current tax liabilities		**156**	39
Amounts due to related entities	24	**1,306**	1,903
Other liabilities	20	**1,089**	824
Subordinated debt	22	**1,950**	1,949
Total liabilities		**109,241**	103,653
Net assets		**9,881**	8,657
Shareholder's equity			
Contributed equity – ordinary shares		**4,056**	4,056
Reserves		**20**	108
Retained profits		**5,805**	4,493
Total shareholder's equity		**9,881**	8,657
Interest earning and discount bearing assets		**110,990**	103,063
Interest and discount bearing liabilities		**92,593**	89,212

The accounting policies and other notes form part of, and should be read in conjunction with, these financial statements.

Cash Flow Statement

For the year ended 30 September 2021

		Banking Group	
Dollars in Millions	Note	30/9/21	30/9/20
Cash flows from operating activities			
Cash was provided from:			
Interest income		2,978	3,644
Net trading income		125	-
Other income		367	381
Cash was applied to:			
Interest expense		(886)	(1,714)
Personnel expenses		(575)	(624)
Net trading income		-	(49)
Other operating expenses		(306)	(314)
Taxes and subvention payments		(347)	(422)
Net cash flows from operating activities before changes in operating assets and liabilities		1,356	902
Changes in operating assets and liabilities arising from cash flow movements			
Net movement in due from central banks and other institutions		489	580
Net movement in loans and advances to customers		(6,709)	(453)
Net movement in other assets		(415)	214
Net movement in trading securities and trading liabilities		3,793	(3,567)
Net movement in deposits and other borrowings		6,272	3,881
Net movement in due to central banks and other institutions		(24)	222
Net movement in other liabilities		287	(458)
Net change in operating assets and liabilities		3,693	419
Net cash flows from operating activities	36	5,049	1,321
Cash flows from investing activities			
Cash was applied to:			
Acquisition of intangible assets		(103)	(119)
Purchase of property, plant and equipment		(31)	(27)
Net cash flows from investing activities		(134)	(146)
Cash flows from financing activities			
Net movement in bonds and notes		(809)	(1,622)
Net movement in derivative financial instruments		(893)	102
Net movement in related entity funding		(181)	2
Net movement in subordinated debt	22	1	(1)
Payment of lease liabilities		(48)	(47)
Net movement in RBNZ funding facilities		2,622	42
Net cash flows from financing activities		692	(1,524)
Net movement in cash and cash equivalents		5,607	(349)
Cash and cash equivalents at beginning of year		1,597	1,946
Cash and cash equivalents at end of year		7,204	1,597
Cash and cash equivalents at end of year comprised:			
Cash and liquid assets	7	9,722	3,933
Due to central banks and other institutions classified as cash and cash equivalents	17	(1,673)	(1,949)
Amounts due from related entities classified as cash and cash equivalents	24	172	1,045
Amounts due to related entities classified as cash and cash equivalents	24	(1,017)	(1,432)
Total cash and cash equivalents		7,204	1,597

The accounting policies and other notes form part of, and should be read in conjunction with, these financial statements.

Notes to and Forming Part of the Financial Statements

For the year ended 30 September 2021

Note 1 Principal Accounting Policies

In these financial statements Bank of New Zealand is referred to as the "Bank". The "Banking Group" means Bank of New Zealand, all of its wholly owned entities listed in note 33 and entities consolidated for financial reporting purposes listed in note 31.

The financial statements are general purpose financial reports prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended).

Basis for preparation

The financial statements have been prepared under the historical cost convention, modified by the application of fair value measurements required or allowed by relevant accounting standards. Accounting policies have been consistently applied to all periods presented, unless otherwise stated, throughout the Banking Group.

Assumptions and estimates

The preparation of the financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. It also requires management to exercise judgement in the process of applying accounting policies.

Assumptions made as at each reporting date (e.g. the calculation of the provision for credit impairment and fair value measurements), are based on best estimates at that date. Although the Banking Group has internal control systems in place to ensure reliable estimates, actual amounts may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the reporting period in which the estimates are revised and in any future periods affected.

The Banking Group has considered the impact of COVID-19 and related market volatility in preparing these financial statements. This has not resulted in any changes from the prior year to the methodologies applied in the measurement of items within the financial statements but is reflected in the application of further judgement and the incorporation of estimates and assumptions specific to the impact of COVID-19.

The Banking Group's risk and capital management framework continues to be applied and the Banking Group continues to monitor the impact of COVID-19 on the Banking Group's risk and capital profile. Non-financial risks emerging from global movement restrictions, lockdowns, and remote working by staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of the Banking Group's risk management framework.

Further information on specific judgements and assumptions made and estimates applied, are contained within the notes to the financial statements.

Reclassification of financial information

Certain comparative balances have been reclassified to align with the presentation used in the current financial year. These reclassifications have no impact on the overall financial performance or financial position for the comparative year.

Statement of compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS").

Changes in accounting policies and disclosures

Interest Rate Benchmark ("IBOR") Reform

In March 2021 the Financial Conduct Authority ("FCA") and ICE Benchmark Administrator announced the cessation dates for all 35 LIBOR tenors. They confirmed the:

- Discontinuation of all GBP, JPY, EUR, CHF LIBOR tenors and USD LIBOR 1 week and 2-month tenors, with the last publication date being 31 December 2021.
- Discontinuation of remaining USD LIBOR tenors (overnight, 1, 3, 6 and 12 month), with the last publication on 30 June 2023.

The Banking Group continues to take active steps to meet jurisdictional regulatory guidance and national working group timelines to cease referencing LIBOR in new transactions and actively transition legacy contracts to Alternative Reference Rates ("ARR") prior to the respective LIBOR cessation dates.

The Banking Group has been working on and enacted a comprehensive set of mitigants to eliminate or manage risks arising from transition to ensure a low probability of occurrence and impact to the Banking Group and its customers. Interest Rate Benchmark Reform, including the transition from LIBOR to ARRs, has not resulted in changes to the Banking Group's Risk Management Strategy for hedge accounting as at 30 September 2021.

Financial instruments yet to transition to an alternative benchmark rate are as follows:

	Banking Group	
Dollars in Millions	USD Libor 30/9/21	JPY Libor 30/9/21
Non-derivative financial instruments (NZD carrying amount)	-	-
Derivatives (NZD carrying amount)	299	6

The following significant assumptions and judgements were made in compiling the above disclosure table:

- The disclosure only includes financial instrument contracts where contractual cash flows reference an IBOR subject to cessation (for example this does not include NZD BKBM). The disclosure also excludes fixed rate financial instruments with no variability in contractual cash flows.
- The disclosure includes financial instrument contracts where fallback language is updated and awaiting benchmark cessation before transition to ARRs occurs.
- The balances disclosed are the net exposure to each of the IBOR subject to cessation (USD derivative asset less USD derivative liability, for example).
- A cross currency swap referencing two benchmarks subject to cessation (USD/JPY for example) has its NZD equivalent carrying amount disclosed twice (in both the USD and JPY column).

Notes to and Forming Part of the Financial Statements

Note 1 Principal Accounting Policies *continued*

- A cross currency swap referencing only one benchmark subject to cessation (USD/NZD for example) has its NZD equivalent carrying amount disclosed once (in the USD column).
- Financial instruments that mature before cessation date are excluded from the above disclosure.

The Banking Group has early adopted the new standard *Interest Rate Benchmark Reform* issued by the New Zealand Accounting Standards Board in November 2019 and mandatorily effective for the Banking Group from 1 October 2021. The standard amends NZ IFRS 7 *Financial Instruments: Disclosures*, NZ IFRS 9 *Financial Instruments*, NZ IFRS 4 *Insurance Contracts* and NZ IFRS 16 *Leases* to address various accounting issues arising from the cessation of Inter-Bank Offered Rates and the transition to ARRs. The standard provides relief from some accounting requirements, including hedge accounting and the modification of financial assets and liabilities, to facilitate the transition to ARRs.

In accordance with the transitional provisions, the amendments have been applied retrospectively to impacted assets and liabilities for the financial year commencing 1 October 2020. No assets or liabilities were restated as a result of the transition. Additional information about the impact of the Interest Rate Benchmark Reform on the Banking Group's hedge accounting is presented in note 13.

IFRIC agenda decision on Software as a Service arrangements

In April 2021 the IFRS Interpretations Committee ("IFRIC") issued its final agenda decision on *Configuration or Customisation Costs in a Cloud Computing Arrangement*. The decision provides additional guidance on the treatment of costs for configuring or customising a supplier's application software in a Software as a Service (SaaS) arrangement and requires entities to assess whether any configuration or customisation costs incurred result in the recognition of an intangible asset. If these costs are incurred in an arrangement where the Banking Group controls the underlying software, they can be capitalised as part of an intangible asset. If no intangible asset can be recognised because the software provider controls the underlying software, then these costs are expensed as the services are received. The adoption of this agenda decision did not have a material effect on the Banking Group's financial statements.

Net investment management income presentation

During the year ended 30 September 2021 the Banking Group updated the presentation of expenses related to its investment management services. 'Investment management expenses', which are expenses that are direct and incremental to earning income from the provision of investment management services, are presented together with 'Investment management income'. The 'Net investment management income' is now presented within 'Other operating income' in the Income Statement. Previously expenses related to investment management services were included within 'Operating expenses' in the Income Statement.

The Banking Group considers that presenting 'Investment management income' and 'Investment management expenses' together in 'Other operating income' better reflects the results of the Banking Group's investment management activities.

The change has been applied retrospectively and impacted the prior period financial statements of the Banking Group as follows:

- A decrease of $19 million in 'Other operating income' and 'Operating expenses' for the year ended 30 September 2020.

There were no other amendments to accounting standards or interpretations adopted during the period, nor changes to policies, that have a material impact on the Banking Group.

Currency of presentation

All amounts are expressed in New Zealand dollars, which is the Bank's functional and presentation currency, unless otherwise stated.

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when recognised in other comprehensive income as qualifying cash flow hedges. Non-monetary items are translated using the exchange rate at the date of the initial recognition of the asset or liability.

Rounding of amounts

All amounts have been rounded to the nearest million dollars except where indicated.

Principles of consolidation

For the purpose of consolidation, the Bank controls another entity (including a structured entity) if the Bank is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. An assessment of control is performed on an ongoing basis. Entities are consolidated from the date on which control is obtained by the Bank. Entities are deconsolidated from the date that control ceases.

Inter-company balances and transactions, including income, expenses and dividends, are eliminated in full.

Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Banking Group recognises the difference between the transaction price and the fair value in profit or loss on initial recognition (i.e. on day one).

Where a financial asset or liability is subsequently measured at fair value, the best evidence of fair value is an independently quoted market price in an active market. Where such prices are unavailable, then depending on the circumstances, alternative evidence may be used, including the price of recent transactions, prices for similar instruments or prices obtained utilising component parts (which when aggregated form the price of the whole instrument).

Note 1 Principal Accounting Policies *continued*

Where no active market exists for a particular asset or liability, the Banking Group uses standard market valuation techniques to arrive at the estimated fair value, utilising observable market sourced inputs wherever possible. Depending on the circumstances, the same alternative evidence (as described above) may be used in the valuation techniques. The valuation techniques address factors such as interest rates, liquidity and credit risk.

Where a financial instrument is designated as measured at fair value through profit or loss and its fair value is determined using a valuation technique, the movement in fair value attributable to changes in interest rates is calculated based on observable market interest rates. The movement in fair value of a financial asset attributable to changes in credit risk is established through a statistical-based calculation to estimate expected losses attributable to adverse movements in credit risk. The movement in fair value of a financial liability attributable to changes in the Bank's own credit risk is calculated by determining the changes in credit spreads above observable market interest rates.

Fair value asset or liability prices defined above generally represent the present value of all future cash flows including those relating to interest, dividends or other cash flows as appropriate.

Financial assets

Financial assets comprise items such as Cash and liquid assets, Due from central banks and other institutions, Trading securities, Derivative financial instruments, Loans and advances to customers and Amounts due from related entities.

Financial assets are classified as measured at fair value through profit or loss, at amortised cost or, in case of investments in equity instruments, at fair value through other comprehensive income. The classification depends on the Banking Group's business model for managing financial assets and the contractual terms of the financial assets' cash flows.

i) Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss include instruments held for trading, and instruments designated as measured at fair value through profit or loss.

Financial assets held for trading

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative (not in a qualifying hedge relationship). The Banking Group holds certain public and other debt securities as held for trading.

Financial assets designated as measured at fair value through profit or loss

Upon initial recognition, financial assets may be designated as measured at fair value through profit or loss if such designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring items on a different basis. This may be the case where derivative financial instruments have been transacted to hedge financial assets which would otherwise be measured at amortised cost.

Financial assets measured at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value with gains and losses recognised in the income statement as they arise.

ii) Financial assets measured at amortised cost

A financial asset is measured at amortised cost only if:

- it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

Financial assets measured at amortised cost are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less an allowance for expected credit losses.

iii) Investments in equity instruments measured at fair value through other comprehensive income

An investment in an equity instrument is measured at fair value through other comprehensive income if it is not held for trading and the Banking Group made the election to designate the instrument as measured at fair value through other comprehensive income.

Investments in equity instruments measured at fair value through other comprehensive income are initially recognised at fair value plus directly attributable transaction costs. Subsequently, they are measured at fair value with gains and losses recognised in other comprehensive income, except for dividends which are recognised in the income statement. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity directly to retained profits.

Refer to note 25 for further detail on classification and measurement of the Banking Group's financial assets.

Financial liabilities

Financial liabilities comprise items such as Due to central banks and other institutions, Deposits and other borrowings, Trading liabilities, Derivative financial instruments, Bonds and notes, Amounts due to related entities and Subordinated debt.

Financial liabilities may be held at fair value through profit or loss or at amortised cost.

i) Financial liabilities held at fair value through profit or loss

Financial liabilities held at fair value through profit or loss comprise instruments held for trading and instruments designated as measured at fair value through profit or loss.

Financial liabilities held for trading

A financial liability is classified as held for trading if it is incurred principally for the purpose of selling in the near term, it forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short term profit taking, or it is a derivative (not in a qualifying hedge relationship). The Banking Group has classified short sales of securities as Trading liabilities.

Note 1 Principal Accounting Policies *continued*

Financial liabilities designated as measured at fair value through profit or loss
Upon initial recognition, financial liabilities may be designated as measured at fair value through profit or loss if:

- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring items on a different basis; this may be the case where derivative financial instruments have been transacted to hedge financial liabilities which would otherwise be measured at amortised cost; or
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with the documented risk management or investment strategy; or
- they contain one or more embedded derivatives, except if the embedded derivative does not modify significantly the associated cash flows or it is clear with little or no analysis that separation is prohibited.

Financial liabilities held at fair value through profit or loss are initially recognised at fair value with transaction costs recognised immediately in the income statement. Subsequently, they are measured at fair value and any gains and losses are recognised in the income statement as they arise.

Where a financial liability is designated as measured at fair value through profit or loss the movement in fair value attributable to changes in the Banking Group's own credit risk is recognised in other comprehensive income.

The carrying amount disclosed is considered to approximate the contractual amount due on maturity on the financial liabilities designated as measured at fair value through profit or loss with the exception of Bonds and notes.

ii) Financial liabilities held at amortised cost
All Other financial liabilities, Due to central banks and other institutions, Amounts due to related entities, Subordinated debt and certain amounts within Bonds and notes and Deposits and other borrowings are measured at amortised cost.

Financial liabilities held at amortised cost are initially recognised at fair value minus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Refer to note 25 for further detail on classification and measurement of the Banking Group's financial liabilities.

Derecognition of financial instruments
The Banking Group derecognises a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Banking Group is recognised as a separate asset or liability.

A financial liability is derecognised from the balance sheet when the Banking Group has discharged its obligation or the contract is cancelled or expired.

Goods and services tax
Revenues, expenses and assets are recognised net of the amount of value added tax such as goods and services tax, except where the tax incurred is not recoverable from Inland Revenue Department. In these circumstances, the tax is recognised as part of the expense or the acquisition of the asset.

Receivables and payables are stated at an amount with tax included. The net amount of tax recoverable from, or payable to, Inland Revenue Department is included within either other assets or other liabilities.

Cash flows are included in the cash flow statement on a net basis. The tax component of cash flows for all activities is classified within operating activities.

Reserves
Asset revaluation reserve
The asset revaluation reserve records revaluation adjustments on land and buildings. When an asset is sold or disposed of the related balance in the reserve is transferred directly to retained profits.

Cash flow hedge reserve
The cash flow hedge reserve records the effective portion of fair value changes of derivatives designated as cash flow hedging instruments.

Cost of hedging reserve
The cost of hedging reserve records changes in fair value of hedging instruments due to currency basis where the Banking Group excluded currency basis from the designation of a derivative as hedging instrument.

FVTOCI reserve
The fair value through other comprehensive income (FVTOCI) reserve records changes in fair value of investments in equity instruments that are measured at fair value through other comprehensive income. The cumulative amount recognised in the reserve is transferred directly to retained profits when the related asset is derecognised.

Income Statement Notes

Note 2 Interest

Accounting policy

Net interest income is reflected in the income statement using the effective interest method.

The effective interest method is a method of calculating amortisation using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that exactly discounts the estimated stream of future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability.

When calculating the effective interest rate, the cash flows are estimated considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) excluding future credit losses.

The calculation of the effective interest rate includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Where it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments) are used.

	Banking Group	
Dollars in Millions	**30/9/21**	30/9/20
Interest income		
Cash and liquid assets	**21**	27
Due from central banks and other institutions	**5**	21
Trading securities	**44**	94
Loans and advances to customers	**2,879**	3,456
Related entities	**19**	21
Total interest income	**2,968**	3,619
Interest expense		
Due to central banks and other institutions	**6**	9
Deposits and other borrowings	**427**	1,064
Bonds and notes	**257**	348
Related entities	**3**	6
Subordinated debt to related entities	**74**	74
Subordinated notes to external investors	**14**	31
Other	**6**	5
Total interest expense	**787**	1,537
Total interest expense was incurred on financial liabilities:		
Not at fair value through profit or loss	**550**	1,125
At fair value through profit or loss	**237**	412
	787	1,537

Note 3 Gains Less Losses on Financial Instruments

Accounting policy

Gains less losses on financial instruments recognised in the income statement comprises fair value gains and losses from three distinct activities:

- trading financial instruments;
- instruments designated in hedge accounting relationships; and
- financial instruments designated as measured at fair value through profit or loss.

Trading financial instruments include trading derivatives and trading securities. In general, gains less losses on trading derivatives recognises the full change in fair value of the derivatives inclusive of interest income and expense. However, in cases where the trading derivative is economically hedging an asset or liability designated as measured at fair value through profit or loss, the interest income and expense attributable to the derivative is recognised within net interest income and not part of the fair value movement of the trading derivative. Interest income and expenses on trading securities are reported within net interest income.

Gains less losses on assets, liabilities and derivatives designated in hedge accounting relationships recognises fair value movements on both the hedged item and hedging derivative in a fair value hedge accounting relationship, and hedge ineffectiveness for both fair value and cash flow hedge accounting relationships. Interest income and expenses on both hedging instruments and hedged item are recognised in net interest income.

Gains less losses on financial assets and liabilities designated at fair value through profit or loss recognises fair value movements excluding interest, which is reported within net interest income. Changes in the fair value of financial liabilities designated at fair value through profit or loss attributable to the Banking Group's own credit risk are recognised in other comprehensive income.

Gains less losses on financial instruments includes gains and losses on the derecognition of financial instruments held at amortised cost.

	Banking Group	
Dollars in Millions	**30/9/21**	30/9/20
Trading gains less losses on financial instruments	**205**	185
Net gain/(loss) attributable to assets, liabilities and derivatives designated in hedge relationships	**(1)**	(6)
Net gain/(loss) in the fair value of derivatives used for hedging purposes not designated in hedge relationships	**21**	(21)
Net gain/(loss) in the fair value of financial assets designated at fair value through profit or loss and related derivatives (refer to table below)[1]	**14**	(23)
Net gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss and related derivatives (refer to table below)[1]	**37**	(45)
Other gains less losses on financial instruments	**1**	(2)
Total gains less losses on financial instruments	**277**	88
Net gain/(loss) in the fair value of financial assets designated at fair value through profit or loss and related derivatives includes:		
Credit risk adjustments on financial assets designated at fair value through profit or loss	**13**	(21)
Gain/(loss) in the fair value of financial assets designated at fair value through profit or loss	**(17)**	(16)
Net gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss and related derivatives includes:		
Gain/(loss) attributable to derivatives used for hedging of financial liabilities designated at fair value through profit or loss	**(285)**	49
Gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss	**322**	(94)

[1] All foreign currency gains/(losses) are excluded from this category. Due to the Banking Group's practice of managing all foreign exchange risk centrally, all foreign currency gains/(losses) are included within 'Trading gains less losses on financial instruments' above.

Note 4 Other Operating Income

Accounting policy

Fees and commissions

Unless included in the effective interest rate, fees and commissions are recognised on an accruals basis when the service has been provided or on completion of the underlying transaction. Fees charged for providing ongoing services (for example, maintaining and administering existing facilities) are recognised as income over the period the service is provided.

Funds management and other fiduciary activities

Fees and commissions earned through the marketing of funds management products and other fiduciary activities are included in the income statement as they are earned.

Net Investment management income

Investment management income is recognised on an accruals basis as the services are provided and is presented net of direct and incremental investment management expenses incurred in the provision of these services.

	Banking Group	
Dollars in Millions	30/9/21	30/9/20
Other operating income		
Money transfer fees	106	88
Fees earned on financial assets and liabilities at fair value through profit or loss	24	36
Fees earned on financial assets and liabilities at amortised cost	157	148
Fees earned on trust and other fiduciary activities	7	10
Net investment management income[1]	15	12
Other income, other fees and commissions income[1]	92	56
Total other operating income	401	350
Net investment management income includes:		
Investment management income	35	31
Investment management expenses	(20)	(19)

[1] Comparative balances have been restated for 30 September 2020 to align with the presentation used in the current period. Refer to note 1 for further information.

Note 5 Operating Expenses

Accounting policy

Operating expenses are recognised as the underlying service is rendered or over the period in which an asset is consumed or once a liability is incurred.

Amounts received by the Banking Group as a reimbursement for costs incurred are recognised as a reduction of the related expense.

Employee entitlements

Employee entitlements to long service leave are measured as the present value of expected future payments using an actuarial valuation method based on legal and contractual entitlements and assessments having regard to staff departures, leave utilisation and future salary levels. Expected future payments are discounted using relevant market yields at the reporting date.

Wages and salaries, annual leave and other employee entitlements expected to be paid or settled within 12 months of providing the service are measured at their nominal amounts using remuneration rates that the Banking Group expects to pay when the liabilities are settled.

All other employee entitlements that are not expected to be paid or settled within 12 months of the reporting date are measured at the present value of net future cash flows.

	Banking Group	
Dollars in Millions	**30/9/21**	30/9/20
Amortisation and depreciation		
Amortisation of intangible assets[1]	**39**	183
Depreciation on property, plant and equipment	**95**	100
Total amortisation and depreciation	**134**	283
Personnel expenses		
Share based payments	**1**	4
Defined contribution pension expense	**16**	18
Salaries and other staff expenses	**595**	552
Total personnel expenses	**612**	574
Other		
Loss on disposal of property, plant and equipment	**4**	-
Rental expense	**11**	19
Related entity expenses	**47**	44
Other expenses[2]	**252**	238
Total other operating expenses	**314**	301
Total operating expenses	**1,060**	1,158

[1] 30 September 2020 comparatives include $151 million of accelerated amortisation as a result of changes in software capitalisation policy.

[2] Comparative balance has been restated to align to the presentation in the current period. Refer to Note 1 for further information.

	Banking Group	
Dollars in Thousands	**30/9/21**	30/9/20
Fees paid to auditors		
Audit and review of financial statements[3]	**2,331**	2,134
Other assurance and agreed upon procedures[4]	**213**	274
Assurance procedures relating to the Business Finance Guarantee Scheme	**65**	-

[3] Includes audits for funds and securitisation vehicles managed by the Banking Group.

[4] Fees paid to auditors were for other assurance services provided in relation to funding activities, other assurance procedures and agreed upon procedures related to funds managed by the Banking Group.

Note 6 Income Tax

Accounting policy

Income tax expense is the income tax charge or benefit incurred on the current reporting period's profit or loss and is the aggregate of the movements in deferred tax taken through the income statement and the amount of income tax payable or recoverable in respect of taxable profit or loss for the period at the applicable tax rate.

Income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income and not in the income statement.

	Banking Group	
Dollars in Millions	30/9/21	30/9/20
Income tax expense/ (benefit) on operating profit charged to income statement		
Current tax	462	401
Deferred tax	52	(101)
Total income tax expense/ (benefit) on operating profit charged to income statement	514	300
Reconciliation of income tax expense on operating profit shown in the income statement with prima facie tax payable on the pre-tax accounting profit		
Total operating profit before income tax expense	1,836	1,062
Prima facie income tax at 28%	514	297
Add/(deduct): Tax effect of amounts which are non-deductible or non-assessable:		
Prior year adjustment	(1)	-
Other accounting movements	1	3
Total income tax expense on operating profit	514	300
Effective tax rate	28.0%	28.2%
Income tax expense/ (benefit) charged to other comprehensive income		
Current tax	1	(19)
Deferred tax	(40)	3
Total income tax expense/ (benefit) charged to other comprehensive income	(39)	(16)

Imputation Credit Account

The amount of imputation credits available to the Banking Group as at 30 September 2021 was $2,280 million (30 September 2020: $1,930 million, restated).

Asset Notes

Note 7 Cash and Liquid Assets

Accounting policy

Cash and liquid assets consists of cash, transaction balances with central banks and other institutions and reverse repurchase agreements.

Reverse repurchase agreements

Securities purchased under agreements to resell are recorded as Cash and liquid assets and Amounts due from related entities. The difference between the purchase and the resale prices is treated as interest and accrued over the life of the agreements using the effective interest method.

Where the Banking Group has accepted collateral arising from secured placements and reverse repurchase agreements, the Banking Group is obliged to return equivalent securities. Securities repledged by the Banking Group are strictly for the purposes of providing collateral for the counterparty. These transactions are conducted under terms that are usual for customary standard lending, and securities borrowing and lending activities.

Securities lent to counterparties are also disclosed in the financial statements.

	Banking Group	
Dollars in Millions	30/9/21	30/9/20
Coins, notes and cash at bank	162	182
Transaction balances with central banks	8,799	2,182
Transaction balances with other institutions	165	570
Securities purchased under agreements to resell with central banks	12	-
Securities purchased under agreements to resell with other institutions	584	999
Total cash and liquid assets	9,722	3,933

The Banking Group has accepted collateral with a fair value of $737 million as at 30 September 2021 arising from reverse repurchase agreements included in cash and liquid assets and amounts due from related entities (refer to note 24), which it is permitted to sell or repledge (30 September 2020: $2,048 million).

Government securities with a fair value of $96 million were repledged as at 30 September 2021 (30 September 2020: $324 million). The Bank's obligation to repurchase government securities is classified under due to central banks and other institutions (refer to note 17).

Note 8 Due from Central Banks and Other Institutions

Included in due from central banks and other institutions as at 30 September 2021 was $505 million of collateral posted with counterparties to meet standard derivative trading obligations (30 September 2020: $628 million).

Note 9 Trading Securities

	Banking Group	
Dollars in Millions	30/9/21	30/9/20
Government bonds, notes and securities	4,673	6,167
Semi-government bonds, notes and securities	1,336	2,949
Corporate and other institutions bonds, notes and securities	1,339	1,698
Total trading securities	7,348	10,814

Included in trading securities as at 30 September 2021 were $ 508 million encumbered through repurchase agreements (30 September 2020: $1,360 million). These trading securities have not been derecognised by the Bank as the Bank retains substantially all the risks and rewards of ownership. Counterparties have the right to sell or repledge these encumbered securities. The Bank's obligation to repurchase trading securities is classified under due to central banks and other institutions (refer to note 17) and amounts due to related entities (refer to note 24).

Note 10 Loans and Advances to Customers

Accounting policy

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Banking Group provides money or services directly to a customer and has no intention of trading the loan.

Loans and advances are either measured at fair value through profit or loss or at amortised cost using the effective interest method, net of any provision for credit impairment. Under the effective interest method, fee income and costs directly related to the origination of the loan are deferred over the expected life of the assets or, where appropriate, a shorter period. When calculating the effective interest rate, the Banking Group estimates cash flows considering all contractual terms of the financial instrument and excluding future credit losses.

	Banking Group	
Dollars in Millions	**30/9/21**	30/9/20
Overdrafts	**1,948**	2,136
Credit card outstandings	**746**	900
Housing loans	**52,728**	45,850
Other term lending	**39,402**	38,809
Other lending	**605**	1,154
Total gross loans and advances to customers	**95,429**	88,849
Deduct:		
Provision for credit impairment and credit risk adjustments on financial assets (refer to note 11)	**778**	910
Deferred and other unearned future income and expenses	**(99)**	(68)
Fair value hedge adjustments on housing loans	**29**	(142)
Total deductions	**708**	700
Total net loans and advances to customers	**94,721**	88,149

Included in loans and advances to customers as at 30 September 2021 was $30 million of collateral posted with counterparties to meet standard derivative trading obligations (30 September 2020: $631 million).
As at 30 September 2021, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of $17,744 million that have been transferred to consolidated structured entities but not derecognised in their entirety (30 September 2020: $13,547 million). Details on transactions with the BNZ RMBS Trust Series 2008-1 (the "RMBS Trust") and the BNZ Covered Bond Trust (the "Covered Bond Trust") are provided in notes 27, 31 and 35.

Note 11 Allowance for Expected Credit Losses

Accounting policy

The Banking Group applies a three-stage approach to measuring expected credit losses ("ECL") for the following categories of financial assets:

- debt instruments measured at amortised cost
- loan commitments
- financial guarantee contracts

Exposures are assessed on a collective basis in each stage unless there is sufficient evidence that one or more events associated with an exposure could have a detrimental impact on estimated future cash flows. Where such evidence exists, the exposure is assessed on an individual basis. For the purposes of a collective evaluation of impairment, financial assets are grouped based on shared credit risk characteristics, considering instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

ECLs are either measured over 12 months or the expected lifetime of the exposure, depending on credit deterioration since origination, according to the following three stage approach:

- 12-month ECL ("Stage 1") – "Performing": For exposures where there has not been a significant increase in credit risk ("SICR") since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.
- Lifetime ECL–not credit impaired ("Stage 2") – "Underperforming": For exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised reflecting the remaining lifetime of the financial asset.
- Lifetime ECL–credit impaired ("Stage 3") – "Non-performing": Financial assets are assessed collectively or individually as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised but interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

If credit risk were to improve in a subsequent period such that the exposure is no longer considered underperforming, the exposure returns to Stage 1 classification and a 12-month ECL is applied. The Banking Group considers reasonable and supportable information that is relevant and available without undue cost or effort, for this purpose. This includes quantitative and qualitative information and forward looking analysis.

Assessment of significant increase in credit risk

The Banking Group has an internally developed credit rating master-scale, derived from historical default data drawn from a number of sources, to assess the potential default risk in lending, or providing other financial services products to counterparties or customers. For loans and advances, the Banking Group has a single common master-scale across all Retail and Non-Retail counterparties for probability of default. The probability of default master-scale can be broadly mapped to external rating agencies and has performing (pre-default) and non-performing (post-default) grades.

- For Retail facilities the number of days past due are used to determine a significant increase in credit risk.

Note 11 Allowance for Expected Credit Losses *continued*

Accounting policy

- For Non-Retail facilities, internally derived credit ratings, as described above, represent a key determinant of credit risk. The Banking Group assigns each customer a credit rating at initial recognition based on available information. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date, relative to the credit rating at the date of initial recognition.
- In addition, the Banking Group considers that a significant increase in credit risk occurs when a facility is more than 30 days past due.
- No material modification gains or losses have been recognised in respect of loans on deferral.

Definition of Default

Default occurs when a loan obligation is 90 days or more past due, or when it is considered unlikely that the credit obligation to the Banking Group will be paid in full without remedial action, such as realisation of security. When there is no realistic probability of recovery, loans are written off against the related impairment allowance on completion of the Banking Group's internal processes and when all reasonably expected recoveries have been collected. In subsequent periods, any recoveries of amounts previously written off are credited to credit impairment charge in the income statement.

Calculation of expected credit losses

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- Financial assets that are not credit impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Banking Group in accordance with the contract and the cash flows that the Banking Group expects to receive.
- Financial assets that are credit impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Banking Group if the commitment is drawn down and the cash flows that the Banking Group expects to receive.
- Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Non-Retail

For Non-Retail facilities, overall credit default risk is represented by the Customer Rating Score ("CRS"), as it incorporates a measure of probability of default.

ECLs are calculated using three main parameters being a probability of default ("PD"), a loss given default ("LGD") and an exposure at default ("EAD"). These parameters are generally derived from internally developed statistical models combined with historical, current and forward looking information, including macro-economic data.

- For accounting purposes, the 12 months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.
- LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money.
- EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility.
- The 12-months ECL is equal to the discounted sum over the next 12-months of monthly PD multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of monthly PD over the full remaining life multiplied by LGD and EAD.

Retail

Collective provisions for Retail Secured and Unsecured loans are assessed under NZ IFRS 9 using the Roll Rate methodology at BNZ.
This methodology is based on historical rates of delinquency (this is a proxy value for PD x LGD) and the amount of loss resulting.

Incorporation of forward looking information

- The Banking Group uses internal subject matter experts from Risk, Economics and Business Divisions to consider a range of relevant forward looking data, including macro-economic forecasts and assumptions, for the determination of unbiased general economic adjustments and any idiosyncratic or targeted portfolio / industry adjustments, in order to support the calculation of ECLs.
- Forward looking adjustments for both general macro-economic adjustments and more targeted portfolio / industry adjustments, reflect reasonable and supportable forecasts of potential future conditions that are not captured within the base ECL calculations.
- Macro-economic factors taken into consideration include, but are not limited to, unemployment, interest rates, gross domestic product, inflation, commercial and residential property prices, and require an evaluation of both the current and forecast direction of the macro-economic cycle.
- Incorporating forward looking information, including macro-economic forecasts, increases the degree of judgement required to assess how changes in these data points will affect ECLs. The methodologies and assumptions, including any forecasts of future economic conditions, are reviewed regularly.

Key judgements and estimates

- A collective assessment of impairment takes into account data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.) and concentrations of risk and economic data (including levels of unemployment, real estate price indices, country risk and the performance of different individual groups).
- Judgement is required by management in the estimation of the amount and timing of future cash flows when determining an impairment loss for loans and advances. In estimating these cash flows, the Banking Group makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment allowance.
- Forward looking macro-economic information and assumptions relating to COVID-19 have been considered in these scenarios, recognising that uncertainty still exists in relation to the duration of COVID-19 related restrictions and the anticipated impact of government stimulus and regulatory actions.

Movement in Allowance for Expected Credit Loss

The total provision for credit impairment reduced by $119 million compared to the balance at 30 September 2020 due to individually assessed provisions reducing by $96 million. The reduction in collectively assessed of $23 million reflected a general improvement in underlying asset quality, a reduction in the downside weighting for forward looking adjustments, the addition of an upside weighting, partially offset by idiosyncratic, portfolio specific forward looking provisions.

Note 11 Allowance for Expected Credit Losses *continued*

The following tables for the year ended 30 September 2021 are prescribed by Orders in Council, are broken down between Residential mortgage lending, Other retail and Corporate and provide a reconciliation from the opening balance to the closing balance of provision for credit impairment and show the movement in opening balance where financial assets have transferred between provision stages during the year.

	Banking Group (30/9/21)				
	Collectively assessed allowance			Individually assessed allowance	
Dollars in Millions	Stage 1	Stage 2	Stage 3	Stage 3	Total
Movement in Allowance for ECL					
Residential mortgage lending					
Balance at beginning of year	5	33	53	3	94
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	4	(2)	(2)	-	-
Transferred to collective provision lifetime ECL not credit impaired	-	2	(2)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(1)	1	-	-
Transferred to specific provision lifetime ECL credit impaired	-	-	-	-	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	(8)	12	-	(2)	2
Amounts written off	-	-	-	(1)	(1)
Recovery of amounts written off	-	-	-	-	-
Balance at end of year - Residential mortgage lending	1	44	50	-	95
Other retail exposures					
Balance at beginning of year	8	48	15	7	78
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	8	(7)	(1)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(1)	2	(1)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(2)	2	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(1)	(6)	7	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	(8)	(22)	6	4	(20)
Amounts written off	-	-	-	(25)	(25)
Recovery of amounts written off	-	-	-	12	12
Balance at end of year - Other retail exposures	7	18	15	5	45
Corporate exposures					
Balance at beginning of year	44	417	39	205	705
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	76	(73)	(3)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(10)	20	(10)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(5)	5	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(3)	(3)	6	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	(71)	89	(8)	(29)	(19)
Amounts written off	-	-	-	(66)	(66)
Recovery of amounts written off	-	-	-	-	-
Discount unwind[2]	-	-	-	(2)	(2)
Balance at end of year - Corporate exposures	39	445	20	114	618
Total					
Balance at beginning of year	57	498	107	215	877
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	88	(82)	(6)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(11)	24	(13)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(8)	8	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(4)	(9)	13	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	(87)	79	(2)	(27)	(37)
Amounts written off	-	-	-	(92)	(92)
Recovery of amounts written off	-	-	-	12	12
Discount unwind[2]	-	-	-	(2)	(2)
Total provision for credit impairment balance at end of year	47	507	85	119	758

[1] Classified as credit impairment charge in the income statement.

[2] The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to its present value using the original effective interest rate for the asset. This discount unwinds through interest income over the period the asset is held.

Note 11 Allowance for Expected Credit Losses *continued*

	Banking Group (30/09/20)				
	Collectively assessed allowance			Individually assessed allowance	
Dollars in Millions	Stage 1	Stage 2	Stage 3	Stage 3	Total
Movement in Allowance for ECL					
Residential mortgage lending					
Balance at beginning of year	1	53	7	2	63
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	4	(3)	(1)	-	-
Transferred to collective provision lifetime ECL not credit impaired	-	1	(1)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(1)	1	-	-
Transferred to specific provision lifetime ECL credit impaired	-	-	-	-	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	-	(17)	47	3	33
Amounts written off	-	-	-	(2)	(2)
Recovery of amounts written off	-	-	-	-	-
Balance at end of year - Residential mortgage lending	5	33	53	3	94
Other retail exposures					
Balance at beginning of year	17	22	16	5	60
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	8	(6)	(2)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(2)	3	(1)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(2)	2	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(3)	(8)	11	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	(15)	34	8	17	44
Amounts written off	-	-	-	(36)	(36)
Recovery of amounts written off	-	-	-	10	10
Balance at end of year - Other retail exposures	8	48	15	7	78
Corporate exposures					
Balance at beginning of year	53	294	26	149	522
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	59	(58)	(1)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(11)	13	(2)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(7)	7	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(14)	(1)	15	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	(57)	189	10	81	223
Amounts written off	-	-	-	(40)	(40)
Recovery of amounts written off	-	-	-	2	2
Discount unwind[2]	-	-	-	(2)	(2)
Balance at end of year - Corporate exposures	44	417	39	205	705
Total					
Balance at beginning of year	71	369	49	156	645
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	71	(67)	(4)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(13)	17	(4)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(10)	10	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(17)	(9)	26	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	(72)	206	65	101	300
Amounts written off	-	-	-	(78)	(78)
Recovery of amounts written off	-	-	-	12	12
Discount unwind[2]	-	-	-	(2)	(2)
Total provision for credit impairment balance at end of year	57	498	107	215	877

[1] Classified as credit impairment charge in the income statement.

[2] The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to its present value using the original effective interest rate for the asset. This discount unwinds through interest income over the period the asset is held.

Note 11 Allowance for Expected Credit Losses *continued*

The following tables summarise the changes in gross carrying amounts to explain changes in the Banking Group's provision for credit impairment for the year.

	Banking Group (30/9/21)				
	Collectively assessed			Individually assessed	
Dollars in Millions	Stage 1	Stage 2	Stage 3	Stage 3	Total
Movement in gross loans and advances to customers					
Residential mortgage lending					
Gross carrying amount at beginning of year	45,039	567	236	8	45,850
Transfers					
Transferred to collectively assessed 12-months ECL	434	(371)	(61)	(2)	-
Transferred to collectively assessed lifetime ECL not credit impaired	(583)	601	(18)	-	-
Transferred to collectively assessed lifetime ECL credit impaired	(164)	(38)	202	-	-
Transferred to individually assessed lifetime ECL credit impaired	-	-	(6)	6	-
Net further lending/(repayment)	(2,101)	(19)	(5)	1	(2,124)
Additions	18,293	-	-	-	18,293
Deletions	(9,002)	(169)	(108)	(11)	(9,290)
Amounts written off	-	-	-	(1)	(1)
Total gross carrying amount at end of year	51,916	571	240	1	52,728
Allowance for ECL	1	44	50	-	95
Total net carrying amount at end of year	51,915	527	190	1	52,633
Other retail exposures					
Gross carrying amount at beginning of year	2,258	176	26	8	2,468
Transfers					
Transferred to collectively assessed 12-months ECL	98	(95)	(3)	-	-
Transferred to collectively assessed lifetime ECL not credit impaired	(196)	198	(2)	-	-
Transferred to collectively assessed lifetime ECL credit impaired	(16)	(13)	29	-	-
Transferred to individually assessed lifetime ECL credit impaired	(5)	(2)	(4)	11	-
Net further lending/(repayment)	(217)	(66)	(2)	24	(261)
Additions	580	-	-	-	580
Deletions	(508)	(41)	(25)	(9)	(583)
Amounts written off	-	-	-	(25)	(25)
Total gross carrying amount at end of year	1,994	157	19	9	2,179
Allowance for ECL	7	18	15	5	45
Total net carrying amount at end of year	1,987	139	4	4	2,134
Corporate exposures					
Gross carrying amount at beginning of year	19,455	18,855	234	542	39,086
Transfers					
Transferred to collectively assessed 12-months ECL	3,949	(3,943)	(6)	-	-
Transferred to collectively assessed lifetime ECL not credit impaired	(13,894)	14,007	(84)	(29)	-
Transferred to collectively assessed lifetime ECL credit impaired	(79)	(65)	160	(16)	-
Transferred to individually assessed lifetime ECL credit impaired	(35)	(19)	(18)	72	-
Net further lending/(repayment)	(2,494)	597	(10)	(38)	(1,945)
Additions	13,970	-	-	-	13,970
Deletions	(6,116)	(4,927)	(144)	(276)	(11,463)
Amounts written off	-	-	-	(66)	(66)
Total gross carrying amount at end of year	14,756	24,505	132	189	39,582
Allowance for ECL	39	445	20	114	618
Total net carrying amount at end of year	14,717	24,060	112	75	38,964
Total					
Gross carrying amount at beginning of year	66,752	19,598	496	558	87,404
Transfers					
Transferred to collectively assessed 12-months ECL	4,481	(4,409)	(70)	(2)	-
Transferred to collectively assessed lifetime ECL not credit impaired	(14,673)	14,806	(104)	(29)	-
Transferred to collectively assessed lifetime ECL credit impaired	(259)	(116)	391	(16)	-
Transferred to individually assessed lifetime ECL credit impaired	(40)	(21)	(28)	89	-
Net further lending/(repayment)	(4,812)	512	(17)	(13)	(4,330)
Additions	32,843	-	-	-	32,843
Deletions	(15,626)	(5,137)	(277)	(296)	(21,336)
Amounts written off	-	-	-	(92)	(92)
Total gross carrying amount at end of year	68,666	25,233	391	199	94,489
Allowance for ECL	47	507	85	119	758
Total net carrying amount at end of year	68,619	24,726	306	80	93,731

Note 11 Allowance for Expected Credit Losses *continued*

	Banking Group (30/9/20)				
	Collectively assessed allowance			Individually assessed allowance	
Dollars in Millions	Stage 1	Stage 2	Stage 3	Stage 3	Total
Movement in gross loans and advances to customers					
Residential mortgage lending					
Balance at beginning of year	41,778	890	200	15	42,883
Transfers					
Transferred to collectively assessed 12-months ECL	674	(610)	(63)	(1)	-
Transferred to collectively assessed lifetime ECL not credit impaired	(506)	519	(11)	(2)	-
Transferred to collectively assessed lifetime ECL credit impaired	(137)	(61)	200	(2)	-
Transferred to individually assessed lifetime ECL credit impaired	(2)	(5)	(3)	10	-
Net further lending/(repayment)	(1,854)	(14)	(6)	-	(1,874)
Additions	11,445	-	-	-	11,445
Deletions	(6,359)	(152)	(81)	(10)	(6,602)
Amounts written off	-	-	-	(2)	(2)
Total gross carrying amount at end of year	45,039	567	236	8	45,850
Provision for credit impairment	5	33	53	3	94
Total net carrying amount at end of year	45,034	534	183	5	45,756
Other retail exposures					
Balance at beginning of year	2,671	202	23	7	2,903
Transfers					
Transferred to collectively assessed 12-months ECL	83	(81)	(2)	-	-
Transferred to collectively assessed lifetime ECL not credit impaired	(196)	198	(2)	-	-
Transferred to collectively assessed lifetime ECL credit impaired	(29)	(20)	49	-	-
Transferred to individually assessed lifetime ECL credit impaired	(6)	(5)	(2)	13	-
Net further lending/(repayment)	(267)	(47)	(5)	34	(285)
Additions	781	-	-	-	781
Deletions	(779)	(71)	(35)	(10)	(895)
Amounts written off	-	-	-	(36)	(36)
Total gross carrying amount at end of year	2,258	176	26	8	2,468
Provision for credit impairment	8	48	15	7	78
Total net carrying amount at end of year	2,250	128	11	1	2,390
Corporate exposures					
Balance at beginning of year	23,049	16,683	291	626	40,649
Transfers					
Transferred to collectively assessed 12-months ECL	4,333	(4,329)	(4)	-	-
Transferred to collectively assessed lifetime ECL not credit impaired	(10,797)	10,836	(32)	(7)	-
Transferred to collectively assessed lifetime ECL credit impaired	(93)	(100)	207	(14)	-
Transferred to individually assessed lifetime ECL credit impaired	(168)	(120)	(65)	353	-
Net further lending/(repayment)	(1,849)	325	(5)	(82)	(1,611)
Additions	10,264	-	-	-	10,264
Deletions	(5,284)	(4,440)	(158)	(294)	(10,176)
Amounts written off	-	-	-	(40)	(40)
Total gross carrying amount at end of year	19,455	18,855	234	542	39,086
Provision for credit impairment	44	417	39	205	705
Total net carrying amount at end of year	19,411	18,438	195	337	38,381
Total					
Balance at beginning of year	67,498	17,775	514	648	86,435
Transfers					
Transferred to collectively assessed 12-months ECL	5,090	(5,020)	(69)	(1)	-
Transferred to collectively assessed lifetime ECL not credit impaired	(11,499)	11,553	(45)	(9)	-
Transferred to collectively assessed lifetime ECL credit impaired	(259)	(181)	456	(16)	-
Transferred to individually assessed lifetime ECL credit impaired	(176)	(130)	(70)	376	-
Net further lending/(repayment)	(3,970)	264	(16)	(48)	(3,770)
Additions	22,490	-	-	-	22,490
Deletions	(12,422)	(4,663)	(274)	(314)	(17,673)
Amounts written off	-	-	-	(78)	(78)
Total gross carrying amount at end of year	66,752	19,598	496	558	87,404
Provision for credit impairment	57	498	107	215	877
Total net carrying amount at end of year	66,695	19,100	389	343	86,527

Note 11 Allowance for Expected Credit Losses *continued*

Impact of changes in gross carrying amount on ECL

Further information specific to each of the Banking Group's portfolios is included below.

Residential Mortgages

Residential Mortgage Lending gross carrying amount increased by $6,878 million in the 2021 financial year, with associated ECL increasing by $1 million. The movement in ECL included decreases in the modelled collective provision of $7 million, decreases in the Economic Adjustment of $51 million, offset by a cycle neutral provision adjustment, reflecting factors not accounted for in the modelled outcomes. The decrease in modelled ECL was due to extremely low net write-off losses for 2021.

Corporate exposures

Corporate gross carrying amount increased by $496 million in the 2021 financial year, with associated ECL decreasing by $87 million. The movement in ECL includes a reduction in individually assessed allowance which was predominantly driven by write-offs and work-outs for a small number of larger exposures in the New Zealand dairy and business lending portfolios. The Collective Provision remained materially unchanged from prior year but was characterized by general Improvements in the underlying portfolio credit quality, a reduction in Economic Adjustment of $18 million, offset by countercyclical forward looking adjustments including impacts of supply chain challenges as a result of COVID-19.

ECL scenario analysis

The following table shows the key macro-economic variables used in the upside, base case and downside scenario as at 30 September 2021.

	Upside (%)			Base case (%)			Downside (%)		
September year on year growth rate	FY 2022	FY 2023	FY 2024	FY 2022	FY 2023	FY 2024	FY 2022	FY 2023	FY 2024
Macro-economic indicators									
Gross domestic product change year on year	3.4	2.1	3.0	3.1	1.5	2.6	(3.4)	(3.5)	1.6
Unemployment	3.2	3.7	3.7	3.3	3.9	4.1	8.1	9.4	10.1
House price change year on year	7.5	4.0	3.8	3.5	2.0	2.8	(18.0)	(15.0)	4.3

Upside scenario: Key aspects include, no lockdowns or other restrictions, vaccination roll-out at a rapid pace, increased labour supply rapidly easing global production bottlenecks, stronger property prices and a better nominal GDP outcome.

Base case scenario: The base case scenario is our view of the most likely future macro-economic conditions. Includes move to living with "COVID-19 environment" and reopening of borders in early 2022. A key insight is how close to full capacity the economy was running prior to the latest lockdown as evidenced by only a marginal difference between base and upside economic indicators.

Downside scenario: The downside scenario is the BNZ 2021 Internal Capital Adequacy Assessment Process (ICAAP) Stress Test scenario and reflects severe but plausible macro-economic conditions.

The probability weighted ECL is a blended outcome taking into consideration the respective scenarios applied across each of the Banking Group's major loan portfolios. The below table shows the probability weighting of scenarios.

	Upside		Base Case		Downside	
	FY 2021	FY2020	FY 2021	FY2020	FY 2021	FY2020
Macro-economic scenario weightings	%	%	%	%	%	%
Retail	2.5	0	60	70	37.5	30
Non-Retail	2.5	0	60	60	37.5	40

Gross carrying amounts written off during the year still subject to enforcement activity

As at 30 September 2021, the contractual amount outstanding on loans and advances to customers written off during the year and that are still subject to enforcement activity was $23 million for the Banking Group (30 September 2020: $28 million).

Note 11 Allowance for Expected Credit Losses *continued*

Credit risk adjustment on financial assets designated at fair value through profit or loss

The changes in value of financial assets designated at fair value through profit or loss that are attributable to changes in credit risk have been calculated using a statistical-based calculation that estimates expected losses attributable to adverse movement in credit risks.

Credit risk adjustments on financial assets designated at fair value through profit or loss are analysed in the following table.

	Banking Group (30/9/21)			
Dollars in Millions	Residential Mortgage Lending	Other Retail Exposures	Corporate Exposures	Total
Credit risk adjustment on individual financial assets				
Loans and advances to customers				
Balance at beginning of year	-	-	22	22
Charge/(credit) to income statement	-	-	(7)	(7)
Balance at end of year	-	-	15	15
Credit risk adjustment on groups of financial assets				
Loans and advances to customers				
Balance at beginning of year	-	-	11	11
Charge/(credit) to income statement	-	-	(6)	(6)
Balance at end of year	-	-	5	5
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	-	20	20
Trading derivative financial instruments				
Balance at beginning of year	-	-	28	28
Charge/(credit) to income statement	-	-	(17)	(17)
Balance at end of year	-	-	11	11
Total credit risk adjustments on trading derivative financial instruments	-	-	11	11
	Banking Group (30/9/20)			
Credit risk adjustment on individual financial assets				
Loans and advances to customers				
Balance at beginning of year	-	-	1	1
Charge/(credit) to income statement	-	-	21	21
Balance at end of year	-	-	22	22
Credit risk adjustment on groups of financial assets				
Loans and advances to customers				
Balance at beginning of year	-	-	11	11
Charge/(credit) to income statement	-	-	-	-
Balance at end of year	-	-	11	11
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	-	33	33
Trading derivative financial instruments				
Balance at beginning of year	-	-	19	19
Charge/(credit) to income statement	-	-	9	9
Balance at end of year	-	-	28	28
Total credit risk adjustments on trading derivative financial instruments	-	-	28	28

Note 12 Asset Quality

Accounting policy

The Banking Group has disclosed certain components of its loan portfolio as impaired assets according to the classifications below:

- **Credit impaired assets** are defined in note 11 under credit risk - credit quality of financial assets.
- **Individually impaired assets** means impaired assets where an individually assessed allowance has been recorded.

The following categories are also disclosed but are not considered to be impaired assets:

- **Other assets under administration** are those loans that are not impaired or past due, but where the customer is in receivership, liquidation, bankruptcy, statutory management, a no asset procedure, voluntary administration or any other form of administration in New Zealand, or is in an equivalent form of voluntary or involuntary administration in an overseas jurisdiction.
- **Past due assets not individually impaired** are those loans for which payments of principal or interest are contractually past due but adequate security is held.

The Banking Group provides for credit impairment as disclosed in note 11. Accordingly, when management determines that a loan is not expected to be recovered in full, the principal amount and accrued interest on the obligation are written down to estimated net realisable value.

		Banking Group (30/9/21)			
Dollars in Millions	Note	Residential Mortgage Lending	Other Retail Exposures	Corporate Exposures	Total
Individually impaired assets - at fair value through profit or loss					
Balance at beginning of year		-	-	42	42
Additions		-	-	13	13
Deletions		-	-	(23)	(23)
Balance at end of year		-	-	32	32
Credit risk adjustments on individual financial assets designated at fair value through profit or loss	11	-	-	15	15
Individually impaired assets - at amortised cost					
Gross carrying amount at end of period		1	9	189	199
Allowance for ECL - Stage 3 - individual	11	-	5	114	119
Total impaired assets at end of year		1	9	221	231
Individually impaired assets - undrawn lending commitments					
At amortised cost		-	1	4	5
At fair value through profit or loss		-	-	-	-
Other assets under administration		5	-	1	6
		Banking Group (30/9/20)			
Individually impaired assets - at fair value through profit or loss					
Balance at beginning of year		-	-	5	5
Additions		-	-	42	42
Deletions		-	-	(5)	(5)
Balance at end of year		-	-	42	42
Credit risk adjustments on individual financial assets designated at fair value through profit or loss	11	-	-	22	22
Individually impaired assets - at amortised cost					
Gross carrying amount at end of period		8	8	542	558
Allowance for ECL - Stage 3 - individual	11	3	7	205	215
Total impaired assets at end of year		8	8	584	600
Individually impaired assets - undrawn lending commitments					
At amortised cost		-	-	8	8
At fair value through profit or loss		-	-	-	-
Other assets under administration		7	1	4	12

Note 12 Asset Quality *continued*

	Banking Group (30/9/21)			
Dollars in Millions	Residential Mortgage Lending	Other Retail Exposures	Corporate Exposures	Total
Past due assets not individually impaired				
Loans and advances to customers				
1 - 7 days past due	79	37	136	252
8 - 29 days past due	52	19	29	100
1 - 29 days past due	131	56	165	352
30 - 59 days past due	34	9	14	57
60 - 89 days past due	25	5	5	35
90+ days past due	48	14	84	146
Total past due assets not individually impaired	238	84	268	590

	Banking Group (30/9/20)			
Past due assets not individually impaired				
Loans and advances to customers				
1 - 7 days past due	76	43	95	214
8 - 29 days past due	40	18	30	88
1 - 29 days past due	116	61	125	302
30 - 59 days past due	38	12	22	72
60 - 89 days past due	21	7	5	33
90+ days past due	61	18	96	175
Total past due assets not individually impaired	236	98	248	582

Note 13 Derivative Financial Instruments

Accounting Policy

Derivative financial instruments are contracts whose value is dependent on an underlying price, index or other variable, such as interest rates, foreign exchange rates and commodity prices.

All derivatives are recognised in the balance sheet at fair value on trade date and are classified as trading except where they are designated in a qualifying hedge relationship. The carrying value of a derivative is remeasured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive, and liabilities when the fair value is negative. The fair value of derivative financial instruments is obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate.

The method of recognising the fair value gain or loss on a derivative depends on whether the derivative is a hedging instrument in a qualifying hedge relationship and, if so, the nature of the risk being hedged.

Derivatives used for risk management purposes which, for various reasons, do not meet the qualifying criteria for hedge accounting, are included in trading derivatives.

The Banking Group applies NZ IFRS 9 to account for designated hedge relationships, other than portfolio fair value hedges. The Banking Group continues to account for designated portfolio fair value hedge relationships under NZ IAS 39 as dynamic portfolio risk management is out of scope under NZ IFRS 9.

The Banking Group utilises the following types of hedge relationship in managing its exposure to risk. At inception of all hedge relationships the Banking Group documents the relationship between the hedging instrument and hedged item, the risk being hedged, the Banking Group's risk management objective and strategy and how effectiveness will be measured throughout the hedge relationship. The Banking Group measures hedge effectiveness on a prospective basis at inception, as well as retrospectively over the term of the hedge relationship.

	Cash flow hedge	Fair value hedge
Objective	To hedge changes to cash flows arising from interest rate and foreign currency risk.	To hedge fair value changes arising from interest rate and foreign currency risk.
Methods for testing hedge ineffectiveness	Principally regression analysis. For portfolio hedges, capacity analysis to ensure interest cash flows arising from the portfolio of hedged items are in excess of the hedging instruments.	Regression analysis and the cumulative dollar offset method.
Potential sources of ineffectiveness	Mainly mismatches in terms of the hedged item and the hedging instrument. For example: frequency and timing of interest rate resets.	Mainly mismatches in terms of the hedged item and the hedging instrument as well as prepayment risk.
Recognition of effective hedge portion	Fair value changes of the hedging instrument associated with the hedged risk are recognised in the cash flow hedge reserve in equity and transferred to the income statement and recognised in net interest income when the hedged item affects profit or loss.	Fair value changes of the hedging instrument and those arising from the hedged risk on the hedged item are recognised in the income statement.
Recognition of ineffective hedge portion	Recognised in the income statement as ineffectiveness arises.	Recognised in the income statement as ineffectiveness arises.
Hedging instrument expires, is sold, or when hedging criteria are no longer met	Transferred to the income statement as/when the hedged item affects the income statement. If the hedged item is no longer expected to occur the effective portion accumulated in equity is transferred to the income statement immediately.	Cumulative hedge adjustment to the hedged item is amortised to the income statement on an effective yield basis. If the hedged item no longer exists (e.g. due to prepayment), the cumulative hedged adjustment is recognised in the income statement immediately.

Derivative financial instruments

	Banking Group (30/9/21)		Banking Group (30/9/20)	
Dollars in Millions	**Fair Value Assets**	**Fair Value Liabilities**	Fair Value Assets	Fair Value Liabilities
Trading derivatives (including economic hedges)	**4,286**	**3,115**	6,031	4,701
Hedging derivatives	**118**	**74**	109	10
Total derivative financial instruments	**4,404**	**3,189**	6,140	4,711

Notes to and Forming Part of the Financial Statements

Note 13 Derivative Financial Instruments *continued*

Trading derivatives

The Banking Group maintains trading positions in a variety of derivative financial instruments primarily to satisfy the needs of its customers through foreign exchange, interest rate related services and other market related contracts. In addition, the Banking Group takes positions on its own account within a prescribed limit framework, to manage its exposure to market and credit risks relating to trading activities. It satisfies customer needs and maintains access to market liquidity by quoting bid and offer prices on those instruments and trading with other market makers. All trading derivative positions are revalued on a daily basis to reflect market movements and any revaluation profit or loss is recognised immediately in the income statement.

The fair values of trading derivative assets and liabilities are outlined in the table below.

	Banking Group (30/9/21)		Banking Group (30/9/20)	
Dollars in Millions	**Fair Value Assets**	**Fair Value Liabilities**	Fair Value Assets	Fair Value Liabilities
Foreign exchange rate-related contracts				
Spot and forward contracts	**1,134**	**1,105**	738	913
Cross currency swaps	**639**	**581**	790	889
Options	**38**	**38**	48	48
	1,811	**1,724**	1,576	1,850
Interest rate-related contracts				
Swaps	**2,395**	**1,311**	4,433	2,830
Options	**-**	**1**	-	-
	2,395	**1,312**	4,433	2,830
Other market-related contracts				
Commodity derivatives	**78**	**77**	20	19
Credit derivatives	**2**	**2**	2	2
	80	**79**	22	21
Total trading derivatives (including economic hedges)	**4,286**	**3,115**	6,031	4,701

Hedging derivatives

The Banking Group's hedging strategy is to manage its exposure to interest rate risk on a net variable basis in New Zealand dollars. This requires the Banking Group to enter into interest rate swaps where the exposure is to a fixed interest rate. Alternatively, cash flow hedges of interest rate risk are used to arrive at a net variable rate position. In some instances, foreign currency exposures are swapped to New Zealand dollars using cross-currency interest rate swaps.

Not all exposures are automatically managed under the above strategy. Where a risk is within acceptable limits the Banking Group may decide not to apply hedge accounting to that risk. Instead, the Banking Group will manage its exposure under broader risk management processes.

The notional amount and fair value of hedging instruments are outlined in the table below by the type of hedge relationship in which they are designated. The calculation of the notional amount reflects the gross volume of transactions outstanding at the reporting period end and is not indicative of either the market risk or credit risk. The Banking Group may designate separate derivatives to hedge different risk components of one hedged item. In such scenario the notional amount of hedging derivatives will, in sum, exceed the notional amount of the hedged item. In the case of cross-currency swaps the Banking Group may designate a single instrument to hedge both interest rate risk in a fair value hedge and currency risk in a cash flow hedge.

			Banking Group (30/9/21)		Banking Group (30/9/20)	
Dollars in Millions	Hedging instrument	Risk	**Notional Amount**	**Fair Value Amount**	Notional Amount	Fair Value Amount
Derivative assets						
Cash flow hedges	Interest rate swaps	Interest	**12,054**	**49**	7,578	69
Cash flow hedges	Cross-currency swaps	Currency	**3,758**	**60**	981	10
Cash flow hedges	Futures	Interest	**1,960**	**-**	681	-
Fair value hedges	Interest rate swaps	Interest	**3,049**	**-**	1,138	-
Fair value and cash flow hedges	Cross-currency swaps	Interest and currency	**448**	**9**	468	30
			21,269	**118**	10,846	109
Derivative liabilities						
Cash flow hedges	Interest rate swaps	Interest	**7,646**	**-**	5,362	-
Cash flow hedges	Cross-currency swaps	Currency	**1,954**	**74**	678	10
Cash flow hedges	Futures	Interest	**-**	**-**	500	-
Fair value hedges	Interest rate swaps	Interest	**8,533**	**-**	15,090	-
			18,133	**74**	21,630	10

Note 13 Derivative Financial Instruments *continued*

Hedging derivatives

The following table shows the maturity profile of hedging instruments based on their notional amounts.

	Banking Group (30/9/21)				Banking Group (30/9/20)			
Dollars in Millions	0 to 12 Months	1 to 5 Years	Over 5 Years	Total	0 to 12 Months	1 to 5 Years	Over 5 Years	Total
Interest rate swaps	11,607	18,237	1,438	31,282	11,914	17,131	123	29,168
Futures	1,960	-	-	1,960	1,181	-	-	1,181
Cross-currency swaps	-	2,856	3,304	6,160	-	1,258	895	2,153
Total notional amount	13,567	21,093	4,742	39,402	13,095	18,389	1,018	32,502

The balance of the cash flow hedge reserve, amounts recognised in the reserve, and amounts transferred out of the reserve are shown in the following table.

	Banking Group	
Dollars in Millions	30/9/21	30/9/20
Balance at beginning of year	113	96
Transferred to the income statement	(37)	(44)
Net gains from change in fair value	(82)	67
Net movement before tax	(119)	23
Tax on net movement in cash flow hedge reserve	33	(6)
Balance at end of year	27	113

There were no transactions for which cash flow hedge accounting had to be ceased as a result of the highly probable cash flows no longer being expected to occur (30 September 2020: nil). There are no balances recognised in the cash flow hedge reserve for which hedge accounting is no longer applied (30 September 2020: nil).

A loss of $2 million was recognised in gains less losses on financial instruments at fair value in the income statement related to hedge ineffectiveness from cash flow hedge relationships (30 September 2020: $1 million gain).

Hedged items

The carrying amount of hedged items in fair value hedge relationships and the accumulated amount of fair value hedge adjustments included in the carrying amount are as follows:

	Banking Group			
	Carrying Amount	Carrying Amount	Fair value hedge adjustments	Fair value hedge adjustments
Dollars in Millions	30/9/21	30/9/20	30/9/21	30/9/20
Assets				
Loans and advances to customers (housing loans)	7,941	15,232	(29)	142
Liabilities				
Bonds and Notes	4,062	1,687	1	64

Fair value hedge relationships resulted in the following changes in value used as the basis for recognising hedge ineffectiveness during the period.

	Banking Group	
Dollars in Millions	30/9/21	30/9/20
Gains/(losses) on hedging instruments	108	65
Gains/(losses) on hedged items attributable to the hedged risk	(107)	(72)
Hedge ineffectiveness recognised in gains less losses on financial instruments in the income statement	1	(7)

Impact of IBOR reform on hedge accounting

The Banking Group's hedge accounting relationships are exposed to the USD Libor interest rate benchmark, which is subject to cessation. In addition to interest rate risk, the Banking Group is also exposed to foreign exchange risk and potentially in the future, additional basis risk as market conventions develop and evolve. The nominal amount of hedging instruments affected by the interest rate benchmark reform is outlined below. The transition of these instruments to a new reference rate is not expected to have a material impact.

	Banking Group
Dollars in Millions	USD Libor 30/9/21
Hedging instruments (NZD notional)	
Fair value hedges	2,179
Cash flow hedges	5,712
Fair value hedge and cashflow hedge	448

Note 14 Deferred Tax

Accounting policy

Deferred tax assets are the amounts of income tax recoverable in future periods including unused tax losses and unused tax credits carried forward. Deferred tax liabilities are the amounts of income tax payable in future periods. Deferred tax assets and liabilities arise when there is a temporary difference between the tax bases (amount attributable to the asset or liability for tax purposes) of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax assets and liabilities are determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- for a deferred income tax liability arising from the initial recognition of goodwill;
- where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in wholly owned entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in wholly owned entities, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amounts of deferred income tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities are realised simultaneously.

	Banking Group	
Dollars in Millions	**30/9/21**	30/9/20
Deferred tax assets		
Balance at beginning of year	**295**	197
Tax (expense)/benefit recognised in income statement	**(52)**	101
Tax credit recognised in other comprehensive income/(expense)	**40**	(3)
Balance at end of year	**283**	295
Deferred tax assets were attributable to the following items:		
Employee entitlements	**8**	9
Credit risk adjustments on financial assets designated at fair value through profit or loss	**9**	17
Provision for credit impairment on credit exposures	**212**	246
Depreciation and amortisation	**34**	43
Operating expense provisions	**14**	10
Prepaid pension assets	**(2)**	(2)
Cash flow hedge reserve	**-**	(43)
Cost of hedging reserve	**-**	3
NZ IFRS 16 leases	**(2)**	(5)
Other	**10**	17
Total deferred tax assets	**283**	295

The recognition of the deferred tax assets relies on management's judgements about the probability and sufficiency of future taxable profits and future reversals of existing taxable temporary differences.

Note 15 Other Assets

	Banking Group	
Dollars in Millions	**30/9/21**	30/9/20
Accrued interest receivable	**102**	112
Prepaid pension assets	**9**	8
Securities sold – not yet settled	**574**	115
Other assets[1]	**212**	257
Total other assets	**897**	492

[1] Other assets includes receivables relating to prepayments and settlements clearing.

Note 16 Goodwill and Other Intangible Assets

Accounting policy

Goodwill

Goodwill arises on the acquisition of an entity and represents the excess of the consideration paid over the fair value of the identifiable net assets acquired.

Software costs

External and internal costs that are incurred to acquire or develop software are capitalised and recognised as an intangible asset. Capitalised software costs and other intangible assets are amortised on a systematic basis once deployed, using the straight-line method over their expected useful lives which are between three and seven years. Certain software assets are deployed on a progressive basis, in which case the amortisation is recognised in a manner that is reflective of the expected benefits profile from the asset's use.

Impairment of intangible assets

Assets with an indefinite useful life, including goodwill, are not subject to amortisation and are tested on an annual basis for impairment, and additionally whenever an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell or its value in use. For assets that do not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit ("CGU") to which that asset belongs. Goodwill impairment is assessed at the group of CGUs that represents the lowest level within the Banking Group at which goodwill is maintained for internal management purposes.

Key judgements and estimates

The determination of appropriate cash flows, growth rates and discount rates for the calculation of value in use is subjective and requires a significant degree of judgement.

	Banking Group	
Dollars in Millions	**30/9/21**	30/9/20
Goodwill	**15**	15
Internally generated software	**265**	200
Acquired software	**13**	14
Total goodwill and other intangible assets	**293**	229
At cost	**1,094**	992
Deduct: Accumulated amortisation/impairment losses	**(801)**	(763)
Total goodwill and other intangible assets	**293**	229

Liability Notes

Note 17 Due to Central Banks and Other Institutions

Accounting policy

Due to central banks and other institutions consists of transaction balances with central banks and other institutions, deposits from central banks and other institutions and repurchase agreements.

Repurchase agreements

Securities sold under agreements to repurchase are classified in the trading portfolios and accounted for accordingly. The Bank's obligation to repurchase is classified under Due to central banks and other institutions and Amounts due to related entities. The difference between the sale and repurchase prices represents interest expense and is recognised in the income statement over the term of the repurchase agreements.

	Banking Group	
Dollars in Millions	**30/9/21**	30/9/20
Transaction balances with other institutions[1]	**1,126**	1,283
Deposits from central banks	**110**	166
Deposits from other institutions[2]	**942**	664
Securities sold under agreements to repurchase from central banks[3]	**2,664**	142
Securities sold under agreements to repurchase from other institutions[1]	**546**	565
Total due to central banks and other institutions	**5,388**	2,820

[1] Classified as cash and cash equivalents in the cash flow statement.

[2] Included in deposits from other institutions as at 30 September 2021 was $1 million classified as cash and cash equivalents in the cash flow statement (30 September 2020: $1 million).

[3] Included in securities sold under agreements to repurchase from central banks was nil (30 September 2020: $100 million) classified as cash and cash equivalents in the cash flow statement, $1,664 million (30 September 2020: $42 million) relating to Term Lending Facility and $1,000 million (30 September 2020: nil) relating to Funding for Lending Programme.

Included in due to central banks and other institutions as at 30 September 2021 was $457 million of collateral posted by counterparties to meet standard derivative trading obligations (30 September 2020: $652 million).

Deposits from central banks and deposits from other institutions are unsecured and rank equally with the Banking Group's other unsecured liabilities. In the unlikely event that the Bank was put into liquidation or ceased to trade, the claims of secured creditors and those creditors set out in Schedule 7 of the Companies Act 1993 would rank ahead of the claims of unsecured creditors.

Note 18 Deposits and Other Borrowings

Dollars in Millions	Banking Group 30/9/21	30/9/20
Deposits not bearing interest	**12,077**	8,703
On-demand and short term deposits bearing interest	**34,781**	28,957
Term deposits	**24,386**	29,920
Total customer deposits	**71,244**	67,580
Certificates of deposit	**2,435**	924
Commercial paper	**4,429**	3,337
Total deposits and other borrowings	**78,108**	71,841

Included in deposits and other borrowings as at 30 September 2021 was $113 million of collateral posted by counterparties to meet standard derivative trading obligations (30 September 2020: $2 million).

Deposits and other borrowings are unsecured and rank equally with the Banking Group's other unsecured liabilities. In the unlikely event that the Bank was put into liquidation or ceased to trade, the claims of secured creditors and those creditors set out in Schedule 7 of the Companies Act 1993 would rank ahead of the claims of unsecured creditors.

Note 19 Bonds and Notes

Dollars in Millions	Banking Group 30/9/21	30/9/20
Domestic Covered Bonds	**314**	314
Offshore Covered Bonds	**4,025**	4,119
Domestic medium term notes	**2,811**	2,236
Offshore medium term notes	**10,368**	12,843
Total bonds and notes	**17,518**	19,512

As at 30 September 2021, the contractual amount to be paid at maturity of the Bonds and notes is $17,158 million (30 September 2020: $18,776 million).

Dollars in Millions	Banking Group 30/9/21	30/9/20
Bonds and notes by currency:		
US Dollar	**5,861**	7,301
New Zealand Dollar	**3,124**	2,550
Australian Dollar	**153**	165
Hong Kong Dollar	**170**	354
Euro	**7,275**	7,557
Japanese Yen	**-**	245
Swiss Franc	**935**	1,340
Total bonds and notes by currency	**17,518**	19,512

Note 20 Other Liabilities

Dollars in Millions	Banking Group 30/9/21	30/9/20
Accrued interest payable	**99**	191
Payables and accrued expenses	**147**	91
Securities purchased – not yet settled	**300**	44
Employee entitlements	**98**	66
Lease liabilities	**315**	248
Compliance, remediation and product quality assurance	**20**	66
Reorganisation and structural changes	**1**	17
Other liabilities[1]	**109**	101
Total other liabilities	**1,089**	824

[1] Other liabilities includes payables relating to settlements clearing and a Holidays Act related provision.

As at 30 September 2021, $96 million (30 September 2020: $89 million) of certain unsecured liabilities as set out in Schedule 7 of the Companies Act 1993 rank in priority to general creditors' claims in a winding up of the Bank.

Note 21 Leases

Accounting policy

At the inception of a contract, the Banking Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At inception or on reassessment of a contract that contains a lease component, the Banking Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices. For the leases of land and buildings where the Banking Group is the lessee, the Banking Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Banking Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease incentives received.

The right-of-use asset is subsequently measured under the cost model and depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is reviewed for impairment and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that have not been paid at the commencement date, discounted using an incremental borrowing rate which reflects the rate that the Banking Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a lease modification that is not accounted for as a separate lease, there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Banking Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Banking Group changes its assessment of whether it will exercise a purchase, extension or termination option. The Banking Group does not include extension options in the measurement of its lease liability until such time that it is reasonably certain that the options will be exercised.

The Banking Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. The Banking Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

When the Banking Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Banking Group makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. Where this is the case, the lease is a finance lease. All other leases are classified as operating leases.

	Banking Group	
Dollars in Millions	**30/9/21**	30/9/20
Effect of leases on the Balance Sheet		
Right-of-use assets		
Property, plant and equipment		
Buildings	**317**	261
Technology and other	**5**	4
Total right-of-use assets	**322**	265
Additions to right-of-use assets during the period	**111**	68
Lease Liabilities		
Other liabilities	**315**	248
Total lease liabilities	**315**	248

	Banking Group	
Dollars in Millions	**30/9/21**	30/9/20
Effect of leases on the Income Statement		
Depreciation		
Buildings	**53**	52
Technology and other	**2**	3
Total depreciation on right-of-use assets	**55**	55
Interest	**6**	5
Total interest expense on lease liability	**6**	5
Short-term lease expense	**4**	5
Total short-term lease expense	**4**	5

Note 21 Leases *continued*

Future cash flow effect of leases

The table below is a maturity analysis of future lease payments in respect of existing lease arrangements on an undiscounted basis.

	Banking Group	
Dollars in Millions	30/9/21	30/9/20
Due within one year	48	49
Due after one year but no later than five years	151	152
Due after five years	152	79
Total non-cancellable lease commitments	351	280

The Banking Group has committed to a number of future lease contracts in relation to new buildings across New Zealand. As these new leases become effective the Banking Group will recognise additional right-of-use assets and lease liabilities of approximately $244 million over the next five years (year ended 30 September 2020: $204 million).

Note 22 Subordinated Debt

	Banking Group	
Dollars in Millions	30/9/21	30/9/20
Subordinated notes due to related entity		
National Australia Bank Limited	1,050	500
Total subordinated notes due to related entity	1,050	500
Perpetual notes due to related entity		
National Australia Bank Limited	900	900
Total perpetual notes due to related entity	900	900
Subordinated notes due to external investors		
Subordinated notes due to external investors	-	549
Total subordinated notes due to external investors	-	549
Total subordinated debt	1,950	1,949

2028 Subordinated Notes due to related entity - treated as Tier 2 capital

On 8 May 2018, the Bank issued $500 million of subordinated unsecured notes ("2028-Subordinated Notes") to National Australia Bank Limited. The 2028-Subordinated Notes are treated as Tier 2 capital under the Bank's regulatory capital requirements. The 2028-Subordinated Notes will mature on 8 May 2028. The 2028-Subordinated Notes do not confer any right to vote in general meetings of the Bank or National Australia Bank Limited.

Redemption

Subject to certain conditions, including the approval of the RBNZ, the Bank has the option to redeem all or some of the 2028-Subordinated Notes for their face value together with accrued interest (if any) on any interest payment date on or after 8 May 2023. In addition, subject to certain conditions, including the approval of the RBNZ, the Bank may redeem at any time all (but not some only) of the 2028-Subordinated Notes if a regulatory or tax event occurs.

Interest

The interest rate for the 2028-Subordinated Notes is reset every six months based on the prevailing six-month bank bill rate plus a margin of 1.95% per annum for the term of the 2028-Subordinated Notes. Interest is payable semi-annually in arrears subject to the Bank being solvent (by satisfying the solvency test in section 4 of the Companies Act 1993) on the relevant payment date and remaining solvent immediately after making the payment. If the Bank does not pay an amount on the 2028-Subordinated Notes because it has not satisfied the solvency test, the Bank must pay that amount on the first date on which it is able to make the payment and satisfy the solvency test.

Interest will accrue daily (at the interest rate then applicable to the 2028-Subordinated Notes) on any interest that is not paid when scheduled as a result of the Bank not satisfying the solvency test on the relevant payment date. If some or all of the 2028-Subordinated Notes are converted or written off, any rights to receive interest on those 2028-Subordinated Notes (including any accrued but unpaid interest) are also terminated and written off.

Conversion

If a non-viability trigger event ("NVTE") occurs, some or all of the 2028-Subordinated Notes will automatically and immediately be converted into ordinary shares in the Bank ("BNZ Shares") or written off.

Under the terms and conditions of the 2028-Subordinated Notes, an NVTE will occur if: (i) the RBNZ gives the Bank a direction under the RBNZ Act requiring the Bank to exercise its right of conversion or write off of its Tier 2 capital instruments; (ii) the Bank is made, subject to statutory management under the RBNZ Act and the New Zealand statutory manager announces his or her decision, to convert or write off the Bank's Tier 2 capital instruments.

Ranking of 2028 Subordinated Notes

In a liquidation of the Bank (if the 2028-Subordinated Notes have not been converted or written off), the claims of holders of 2028-Subordinated Notes will rank: (1) ahead of claims of holders of BNZ Shares and other subordinated securities that rank below the 2028-Subordinated Notes (such as the Perpetual Notes due to related entity); (2) equally with claims of other holders of 2028-Subordinated Notes, the holders of the 2031-Subordinated Notes and holders of other subordinated securities that rank equally with the 2028-Subordinated Notes; and (3) behind all other claims (such as those of the Bank's secured creditors, depositors and holders of unsecured unsubordinated bonds issued by the Bank from time to time). If the 2028-Subordinated Notes are converted into BNZ Shares, holders will rank equally with existing shareholders of the Bank.

Note 22 Subordinated Debt *continued*

2031 Subordinated Notes due to related entity - treated as Tier 2 capital

On 25 June 2021, the Bank issued $550 million of subordinated unsecured notes ("2031-Subordinated Notes") to National Australia Bank Limited. The 2031-Subordinated Notes are treated as Tier 2 capital under the Bank's regulatory capital requirements. The 2031-Subordinated Notes will mature on 25 June 2031. The 2031-Subordinated Notes do not confer any right to vote in general meetings of the Bank or National Australia Bank Limited.

Redemption

Subject to certain conditions, including the approval of the RBNZ, the Bank has the option to redeem all or some of the 2031-Subordinated Notes for their face value together with accrued interest (if any) on any interest payment date on or after 25 June 2026. In addition, subject to certain conditions, including the approval of the RBNZ, the Bank may redeem at any time all (but not some only) of the 2031-Subordinated Notes if a regulatory or tax event occurs.

Interest

The interest rate for the 2031-Subordinated Notes is reset every three months based on the prevailing three-month bank bill rate plus a margin of 1.36% per annum for the term of the 2031-Subordinated Notes. Interest is payable quarterly in arrears subject to the Bank being solvent (by satisfying the solvency test in section 4 of the Companies Act 1993) on the relevant payment date and remaining solvent immediately after making the payment. If the Bank does not pay an amount on the 2031-Subordinated Notes because it has not satisfied the solvency test, the Bank must pay that amount on the first date on which it is able to make the payment and satisfy the solvency test.

Interest will accrue daily (at the interest rate then applicable to the 2031-Subordinated Notes) on any interest that is not paid when scheduled as a result of the Bank not satisfying the solvency test on the relevant payment date.

Ranking of 2031 Subordinated Notes

In a liquidation of the Bank, the claims of holders of 2031-Subordinated Notes will rank: (1) ahead of claims of holders of BNZ Shares and other subordinated securities that rank below the 2031-Subordinated Notes (such as the Perpetual Notes due to related entity); (2) equally with claims of other holders of 2031-Subordinated Notes, the holders of the 2028- Subordinated Notes and holders of other subordinated securities that rank equally with the 2031-Subordinated Notes; and (3) behind all other claims (such as those of the Bank's secured creditors, depositors and holders of unsecured unsubordinated bonds issued by the Bank from time to time).

Perpetual Notes due to related entity - treated as Additional Tier 1 capital

On 20 October 2016, the Bank issued $900 million of mandatorily convertible subordinated perpetual unsecured notes ("Perpetual Notes") to National Australia Bank Limited. The Perpetual Notes are treated as Additional Tier 1 capital under the Bank's regulatory capital requirements. The Perpetual Notes have no fixed maturity date and will remain on issue indefinitely if not repaid, converted or written off. The Perpetual Notes do not confer any right to vote in general meetings of the Bank or National Australia Bank Limited.

Interest

The interest rate for the Perpetual Notes was fixed at 6.7539% per annum until 20 October 2021 ("Optional Exchange Date"). The interest rate is now a floating interest rate equal to the three month bank bill rate plus a margin of 4.410% per annum. Interest payments were non-cumulative and payable annually in arrears until the Optional Exchange Date.

Following the Optional Exchange Date, the interest payments are payable quarterly in arrears. Interest payments are subject to the Bank's discretion and certain conditions being satisfied (including RBNZ requirements). If interest is not paid, the Bank may not (except in limited circumstances) pay any dividends on BNZ Shares or undertake a share buy-back or other capital reduction until interest is next paid. Unpaid interest is cancelled and does not accumulate.

Conversion

On 20 October 2023, subject to certain mandatory conversion conditions, all of the Perpetual Notes will be converted into BNZ Shares. If the mandatory conversion conditions are not met, the mandatory conversion will be deferred for a specific period (provided that conversion is not required to take place as a result of a common equity trigger event ("CETE") or a NVTE).

The number of BNZ Shares issued on a conversion is determined by reference to the net assets of the Bank in the Bank's most recently published Disclosure Statement and such other information as the Bank considers appropriate.

On the Optional Exchange Date, or on any date if a regulatory or tax event occurs, the Bank may convert or redeem some or all of the Perpetual Notes. Any such conversion or redemption is subject to certain conditions, including in the case of redemption the approval of the RBNZ.

If a CETE or an NVTE occurs, the Bank must convert some or all of the Perpetual Notes into BNZ Shares. Under the terms and conditions of the Perpetual Notes, a CETE will occur if the Banking Group's Common Equity Tier 1 capital ratio is equal to or less than 5.125% and an NVTE will occur if the RBNZ directs the Bank to convert or write off the Perpetual Notes or the Bank is made subject to statutory management and the statutory manager decides the Bank must convert or write off the Perpetual Notes.

Ranking of Perpetual Notes

In a liquidation of the Bank (if the Perpetual Notes have not been converted or written off), the claims of holders of Perpetual Notes will rank: (1) ahead of claims of holders of BNZ Shares and other subordinated securities that rank below the Perpetual Notes; (2) equally with claims of other holders of Perpetual Notes and holders of other subordinated securities that rank equally with the Perpetual Notes; and (3) behind all other claims on the Bank (such as those of the Bank's secured creditors, depositors and holders of the Subordinated Notes and Listed Subordinated Notes, and other unsecured unsubordinated bonds issued by the Bank from time to time). If the Perpetual Notes are converted into BNZ Shares, holders will rank equally with existing shareholders of the Bank.

Subordinated Notes due to external investors - treated as Tier 2 capital. On 17 December 2015, the Bank issued $550 million of subordinated unsecured notes ("Listed Subordinated Notes") which were scheduled to mature on 17 December 2025. On 17 June 2021, the Bank exercised its option to fully redeem the Listed Subordinated Notes prior to the scheduled maturity date of 17 December 2025. The Listed Subordinated Notes were treated as Tier 2 capital under the Bank's and National Australia Bank Limited's regulatory capital requirements.

Shareholder's Equity Note

Note 23 Contributed Equity

	Banking Group	
Number of shares in Millions	30/9/21	30/9/20
Issued and fully paid ordinary shares		
Balance at beginning of year	5,076	5,076
Balance at end of year	5,076	5,076

The issued and fully paid ordinary share capital is included in Tier 1 capital of the Banking Group and the Registered Bank (refer to note 34).

Ordinary shares

The ordinary shares do not have a par value. All ordinary shares have equal voting rights and share equally in dividends and any distribution of the surplus assets of the Bank in the event of liquidation.

There were no dividends on ordinary shares for the year ended 30 September 2021 (year ended 30 September 2020: nil).

Other Notes

Note 24 Related Entity Transactions

The Bank is a wholly owned controlled entity of NAGNZ. The ultimate parent bank of Bank of New Zealand is National Australia Bank Limited. During the year ended 30 September 2021, there were dealings between the Bank and its related entities (including NAB) as well as other related parties (including key management personnel, their close family members and their controlled entities). Details of these transactions are outlined below.

Dealings with NAB included on-balance sheet activities such as funding and accepting deposits and other activities such as foreign exchange transactions.

	Banking Group	
Dollars in Millions	30/9/21	30/9/20
Total balances with related entities		
Amounts due from ultimate parent	150	1,037
Amounts due from controlled entities of ultimate parent	29	16
Total amounts due from related entities[1]	179	1,053
Derivative financial assets with related entities	1,713	2,296
Amounts due to ultimate parent	366	1,497
Amounts due to controlled entities of ultimate parent	940	406
Total amounts due to related entities[2]	1,306	1,903
Derivative financial liabilities with related entities	1,352	1,989
Subordinated debt due to related entities (refer to note 22)	1,950	1,400

[1] Included in amounts due from related entities as at 30 September 2021 was $172 million classified as cash and cash equivalents in the cash flow statement (30 September 2020: $1,045 million).

[2] Included in amounts due to related entities as at 30 September 2021 was $1,017 million classified as cash and cash equivalents in the cash flow statement (30 September 2020: $1,432 million).

No provisions have been recognised in respect of loans provided to related entities (year ended 30 September 2020: nil). There were no debts with any of the above parties written off or forgiven during the year ended 30 September 2021 (year ended 30 September 2020: nil).

Included within the amounts due from and due to related entities were the following balances:

	Banking Group	
Dollars in Millions	30/9/21	30/9/20
Amounts due from related entities		
Securities purchased under agreements to resell to ultimate parent	145	1,030
Amounts due to related entities		
Deposit from controlled entity of ultimate parent	893	342
Collateral deposit posted by ultimate parent to meet standard derivative trading obligations	212	381
Securities sold under agreements to repurchase from ultimate parent	60	999

Transactions with related entities

The Banking Group provides banking and other administrative services to members of NAB operating in New Zealand at arm's length and on normal terms and conditions.

During the financial year, there have been dealings between the Bank and its controlled entities, and the Banking Group and its related entities. The Bank provides a range of services to related entities including the provision of banking facilities. These transactions are normally subject to normal commercial terms and conditions. The Bank provides some accounting administration and banking services to controlled entities for which fees may not be charged.

Dividends paid to the shareholder are disclosed in the Statement of Changes in Equity and in note 23.

For the year ended 30 September 2021, dividends were paid by National Wealth Management New Zealand Holdings Limited, a controlled entity of the Bank's ultimate parent, therefore $12 million of imputation credits were utilised from the group imputation credit account (year ended 30 September 2020: $13 million, restated).

BNZ Investment Services Limited ("BNZISL"), a wholly owned controlled entity of the Bank, is the manager and issuer of the BNZ KiwiSaver Scheme ("KiwiSaver"), the Private Wealth Series ("PWS"), the YouWealth Scheme ("YWS"), the BNZ Wholesale Funds ("BWF") and the BNZ Term PIE (collectively the "Investment Schemes"). The banking arrangements for these Investment Schemes are provided by the Bank. Investments by the Investment Schemes currently include, among other things, bank deposits with the Bank. As at 30 September 2021, KiwiSaver, PWS, YWS and BWF collectively held $39 million in transactional bank accounts with the Bank (30 September 2020: $39 million). Refer to note 31 for further information.

The RMBS Trust provides an internal residential mortgage-backed securities programme to issue securities as collateral for borrowing from the RBNZ. The Covered Bond Trust holds certain Bank of New Zealand housing loans and its trustee guarantees covered bonds issued by the Bank and BNZ-IF. Refer to note 27 for further information.

The Bank guarantees the obligations of BNZ-IF in respect of securities issued by BNZ-IF to investors.

Note 24 Related Entity Transactions *continued*

Dollars in Millions	Banking Group 30/9/21	Banking Group 30/9/20
Interest income on amounts due from related entities		
Ultimate parent	19	21
Total interest income on amounts due from related entities	19	21
Interest expense on amounts due to related entities		
Ultimate parent	75	77
Controlled entities of ultimate parent	2	3
Total interest expense on amounts due to related entities	77	80
Other operating income		
Net unrealised gain/(loss) on derivative contracts with ultimate parent	54	(90)
Commissions received from controlled entities of ultimate parent for sale of insurance	18	21
Operating expenses		
Intercompany recharges paid to ultimate parent	32	32
Other service charges paid to ultimate parent	15	12
Other transactions		
Payment for the use of tax losses to controlled entities of ultimate parent	6	8

Key management personnel

Key management personnel are defined as being Directors and the executive team of the Bank. The information relating to key management personnel disclosed below includes transactions with those individuals, their close family members and their controlled entities.

Loans and deposits with non-executive key management personnel of the Bank are made in the ordinary course of business on commercial terms and conditions. Loans and deposits with executive key management personnel of the Bank are made either:

- on commercial terms and conditions; or
- on terms and conditions which apply to other employees of the Bank.

All other transactions with key management personnel, their related entities and other related parties are conducted in the ordinary course of business on commercial terms and conditions.

All loans made to key management personnel have been made in accordance with the Bank's lending policies. No provisions have been recognised in respect of loans provided to key management personnel. There were no debts written off or forgiven during the year ended 30 September 2021 (year ended 30 September 2020: nil).

Dollars in Millions	Banking Group 30/9/21	Banking Group 30/9/20
Transactions with key management personnel		
Short term employee benefits	12	12
Share-based payments	1	1
Total key management personnel benefits	13	13
Loans to key management personnel	7	5
Deposits from key management personnel	7	12
Interest income on amounts due from key management personnel[1]	-	-
Interest expense on amounts due to key management personnel[1]	-	-

[1] Interest income and expense amounts are shown as nil in the table above as a result of rounding to the nearest million.

The Banking Group engages in equity settled share-based payment transactions via its ultimate parent, National Australia Bank Limited, in respect of services received from its employees. The value of the services received is measured by reference to the grant date fair value of the shares or performance rights. The cost relating to the shares or performance rights granted is recognised in the income statement over the period in which the services are received, which is the vesting period. The Banking Group reimburses National Australia Bank Limited for the cost of shares or performance rights granted to its employees.

The following table shows performance rights and shares granted to the Banking Group employees:

	Banking Group			
	Number 30/9/21	Weighted average grant date fair value 30/9/21	Number 30/9/20	Weighted average grant date fair value 30/9/20
Performance rights granted during the year	86,714	A$11.50	52,261	A$10.07
Fully paid ordinary shares granted during the year	-	-	74,364	A$20.60

The number of performance rights outstanding as at 30 September 2021 was 207,176 (30 September 2020: 246,954).
For performance rights that do not have any market-based performance hurdles attached, the weighted average grant date fair value is adjusted for expected dividends over the vesting period.

Note 25 Classification of Financial Instruments and Fair Value Measurement

Categories of financial assets and financial liabilities

For the purposes of this note, carrying amount refers to amounts reflected in the balance sheet.

	Banking Group (30/9/21)			Banking Group (30/9/20)		
Dollars in Millions	**Fair Value Through Profit or Loss**	**At Amortised Cost**	**Total Carrying Amount**	Fair Value Through Profit or Loss	At Amortised Cost	Total Carrying Amount
Financial assets						
Cash and liquid assets	**-**	**9,722**	**9,722**	-	3,933	3,933
Due from central banks and other institutions	**-**	**809**	**809**	-	782	782
Trading securities	**7,348**	**-**	**7,348**	10,814	-	10,814
Derivative financial instruments	**4,404**	**-**	**4,404**	6,140	-	6,140
Loans and advances to customers	**920**	**93,801**	**94,721**	1,412	86,737	88,149
Amounts due from related entities	**-**	**179**	**179**	-	1,053	1,053
Other financial assets	**-**	**703**	**703**	-	255	255
Total financial assets	**12,672**	**105,214**	**117,886**	18,366	92,760	111,126
Financial liabilities						
Due to central banks and other institutions	**-**	**5,388**	**5,388**	-	2,820	2,820
Trading liabilities	**537**	**-**	**537**	54	-	54
Derivative financial instruments	**3,189**	**-**	**3,189**	4,711	-	4,711
Deposits and other borrowings	**6,864**	**71,244**	**78,108**	4,868	66,973	71,841
Bonds and notes	**13,457**	**4,061**	**17,518**	17,825	1,687	19,512
Amounts due to related entities	**-**	**1,306**	**1,306**	-	1,903	1,903
Other financial liabilities	**-**	**812**	**812**	-	543	543
Subordinated debt	**-**	**1,950**	**1,950**	-	1,949	1,949
Total financial liabilities	**24,047**	**84,761**	**108,808**	27,458	75,875	103,333

Movements in fair value of financial liabilities designated at fair value through profit or loss on initial recognition attributable to changes in credit risk

	Banking Group	
Dollars in Millions	**30/9/21**	30/9/20
Bonds and notes		
Balance at beginning of year	**105**	38
Movement during the year	**16**	67
Balance at end of year	**121**	105

The movement in fair value attributable to changes in the credit risk of financial liabilities designated at fair value through profit or loss is determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk.

Hierarchy for fair value measurements

The tables on page 45 present a three-level fair value hierarchy of the Banking Group's financial instruments.

The three levels in the hierarchy are based on the valuation methods and assumptions used in determining the fair values of financial assets and financial liabilities. The levels are as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Management uses its judgement in selecting an appropriate valuation technique for financial instruments which are not quoted in an active market.

The Banking Group considers transfers between levels of the fair value hierarchy, if any, to have occurred at the beginning of the respective reporting period. There were no transfers between any of the levels for the year ended 30 September 2021 (year ended 30 September 2020: nil).

Note 25 Classification of Financial Instruments and Fair Value Measurement *continued*

Financial assets and liabilities at fair value

Dollars in Millions	Fair Value Total	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
	Banking Group (30/9/21)			
Financial assets				
Trading securities	7,348	4,361	2,987	-
Derivative financial instruments	4,404	-	4,404	-
Loans and advances to customers	920	-	920	-
Financial liabilities				
Trading liabilities	537	460	77	-
Derivative financial instruments	3,189	-	3,189	-
Deposits and other borrowings	6,864	-	6,864	-
Bonds and notes	13,457	-	13,457	-
	Banking Group (30/9/20)			
Financial assets				
Trading securities	10,814	6,167	4,647	-
Derivative financial instruments	6,140	-	6,140	-
Loans and advances to customers	1,412	-	1,412	-
Financial liabilities				
Trading liabilities	54	31	23	-
Derivative financial instruments	4,711	-	4,711	-
Deposits and other borrowings	4,868	-	4,868	-
Bonds and notes	17,825	-	17,825	-

Financial assets and liabilities at amortised cost[1]

Dollars in Millions	Carrying Amount	Fair Value Total	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
	Banking Group (30/9/21)				
Financial assets					
Loans and advances to customers	93,801	93,482	-	1,948	91,534
Financial liabilities					
Deposits and other borrowings	71,244	71,228	-	71,228	-
Bonds and notes	4,061	4,097	-	4,097	-
Subordinated debt	1,950	2,004	-	2,004	-
	Banking Group (30/9/20)				
Financial assets					
Loans and advances to customers	86,737	86,808	-	2,136	84,672
Financial liabilities					
Deposits and other borrowings	66,973	67,051	-	67,051	-
Bonds and notes	1,687	1,689	-	1,689	-
Subordinated debt	1,949	1,995	555	1,440	-

[1] Fair values for financial assets and liabilities at amortised cost, where the carrying amount is not considered a close approximation of fair value.

Note 25 Classification of Financial Instruments and Fair Value Measurement *continued*

The fair value estimates are based on the following methodologies and assumptions:

Due from central banks and other institutions and Due to central banks and other institutions

These assets and liabilities are primarily short term in nature or are receivable or payable on demand. In such cases the carrying amounts approximate their fair value or have been determined using discounted cash flow models based on observable market prices as appropriate.

Trading securities and Trading liabilities

Trading securities include treasury bills, bank bills and bonds, promissory notes, and government and other securities. Trading liabilities include short sales of securities. Where quoted market prices are not available, the Banking Group obtains the fair value by means of discounted cash flows and other valuation techniques based on observable market prices. These techniques have accounted for factors such as interest rates, credit risk and liquidity.

Derivative financial instruments

The fair values of trading and hedging derivatives, including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from observable market prices as at the reporting date, discounted cash flow models or option pricing models as appropriate.

Loans and advances to customers

The carrying amount of loans and advances is net of provision for credit impairment, credit risk adjustments, unearned and deferred income. Floating rate loans to customers generally reprice within six months, therefore, their fair value is assumed to equate to their carrying amount. For fixed rate loans, the fair value is estimated by discounting the expected future cash flows based on the maturity of the loans and advances, using current market interest rates. The fair value of loans and advances reflects the movement in observable market interest rates since origination but does not include any adjustments for deferred income.

Deposits and other borrowings

With respect to customer deposits, the carrying amounts of non-interest-bearing, call and variable rate deposits and fixed rate deposits repricing within six months approximate their fair value. For other fixed rate term deposits, the fair value is estimated by discounting the cash flows based on the maturity of the deposit, using current market interest rates.

With respect to certificates of deposit and commercial paper, these liabilities are primarily short term in nature. The carrying amounts have been determined using discounted cash flow models based on observable market prices.

Bonds and notes

The fair value of bonds and notes is calculated based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments. This is based on observable market prices as at the reporting date where available, otherwise alternative observable market source data is used. The fair value includes a calculation of the Banking Group’s own credit risk based on observable market data.

Subordinated debt

For Subordinated Notes and Perpetual Notes, the fair value is estimated by discounting the expected future cash flows based on the maturity of the notes, using current market interest rates of similar types of notes. The fair value of listed Subordinated Notes is based on quoted closing market prices as at the reporting date.

Other financial assets/liabilities

These include securities sold/purchased but not yet settled and accrued interest. Securities sold/purchased but not yet settled and the fair value of accrued interest is approximately equal to the carrying amounts on the balance sheet due to their short term nature.

Note 26 Offsetting Financial Assets and Financial Liabilities

Accounting policy

Under NZ IAS 32 Financial Instruments: Presentation, financial assets and financial liabilities shall be offset in the balance sheet only when two requirements are met: there is a legally enforceable right to offset the recognised amounts and an intention to either settle on a net basis or realise the asset and settle the liability simultaneously.

The table below illustrates the amounts of financial instruments that have been offset on the balance sheet and also those amounts that are subject to enforceable master netting arrangements or similar agreements (i.e. offsetting agreements and any related financial collateral). The table excludes financial instruments not subject to offset and that are only subject to collateral arrangements.

The 'Net amounts' presented in the table are not intended to represent the Banking Group's actual exposure to credit risk, as the Banking Group utilises a wide range of strategies to mitigate credit risk in addition to netting and collateral arrangements. The 'Carrying amount' is comprised of the sum of the 'Net amounts reported in balance sheet' and 'Amounts not subject to enforceable netting arrangements' included in the table below.

	Banking Group (30/9/21)								
	Amounts Subject to Enforceable Netting Arrangements								
	Effect of Offsetting on Balance Sheet			Related Amounts not Offset					
Dollars in Millions	Gross Amounts	Amount Offset	Net Amounts Reported in Balance Sheet	Financial Instru-ments	Non-Cash Collateral[1]	Cash Collateral[1]	Net Amount	Amounts not Subject to Enforceable Netting Arrange-ments	Carrying Amount
Financial assets									
Derivative financial instruments	9,821	5,830	3,991	2,389	-	647	955	413	4,404
Collateral paid[2]	887	352	535	-	-	146	389	-	535
Reverse repurchase agreements[3]	741	-	741	-	741	-	-	-	741
Loans and advances	644	608	36	-	-	-	36	94,685	94,721
Financial liabilities									
Derivative financial instruments	8,907	5,940	2,967	2,389	-	146	432	222	3,189
Collateral received[4]	1,024	242	782	-	-	647	135	-	782
Repurchase agreements[5]	3,270	-	3,270	-	3,270	-	-	-	3,270
Deposits and other borrowings	1,279	608	671	-	-	-	671	77,437	78,108
	Banking Group (30/9/20)								
Financial assets									
Derivative financial instruments	16,999	11,570	5,429	3,221	-	790	1,418	711	6,140
Collateral paid[2]	2,126	867	1,259	-	-	772	487	-	1,259
Reverse repurchase agreements[3]	2,029	-	2,029	-	2,029	-	-	-	2,029
Loans and advances	602	562	40	-	-	-	40	88,109	88,149
Financial liabilities									
Derivative financial instruments	16,428	11,950	4,478	3,221	-	772	485	233	4,711
Collateral received[4]	1,522	487	1,035	-	-	790	245	-	1,035
Repurchase agreements[5]	1,706	-	1,706	-	1,706	-	-	-	1,706
Deposits and other borrowings	1,210	562	648	-	-	-	648	71,193	71,841

[1] Collateral amounts (cash and non-cash financial collateral) included are reflected at their fair value; however, this amount is limited to the net balance sheet exposure in order to not include any overcollateralisation.

[2] Collateral paid to meet standard derivative trading obligations is reported in the balance sheet within Due from central banks and other institutions of $505 million (30 September 2020: $628 million) and Loans and advances to customers of $30 million (30 September 2020: $631 million) respectively, refer to notes 8 and 10 for further information.

[3] Reverse repurchase agreements are reported in the balance sheet within Cash and liquid assets of $596 million (30 September 2020: $999 million) and Amounts due from related entities of $145 million (30 September 2020: $1,030 million) respectively, refer to notes 7 and 24 for further information.

[4] Collateral received to meet standard derivative trading obligations is reported in the balance sheet within Due to central banks and other institutions of $457 million (30 September 2020: $652 million), Deposits and other borrowings of $113 million (30 September 2020: $2 million) and Related entity transactions of $212 million (30 September 2020: $381 million) respectively, refer to notes 17, 18 and 24 for further information.

[5] Repurchase agreements are reported in the balance sheet within Due to central banks and other institutions of $3,210 million (30 September 2020: $707 million) and Amounts due to related entities of $60 million (30 September 2020: $999 million) respectively, refer to notes 17 and 24 for further information.

Derivative financial instruments

Derivative financial instrument contracts are typically subject to International Swaps and Derivatives Association ("ISDA") master netting agreements, as well as relevant Credit Support Annexes ("CSA") around collateral arrangements attached to those ISDA agreements, or derivative exchange or clearing counterparty agreements if contracts are settled via an exchange or clearing house.

Derivative amounts will only be offset on the balance sheet where the Banking Group has a legally enforceable right of offset in all circumstances and there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

Financial instruments refer to amounts that are subject to relevant close out netting arrangements under a relevant ISDA agreement. Cash collateral and Non-cash collateral include amounts of cash and non-cash collateral respectively, which are either obtained or pledged, to cover the net exposure between the counterparty in the event of default or insolvency.

Note 26 Offsetting Financial Assets and Financial Liabilities *continued*

Reverse repurchase and repurchase agreements

Reverse repurchase and repurchase agreements will typically be subject to Global Master Repurchase Agreements ("GMRAs") or similar agreements whereby all outstanding transactions with the same counterparty can be offset and closed out upon a default or insolvency event.

When, under the relevant agreement, the Banking Group has a legal right to offset both for payments and default netting, the Banking Group will offset amounts with that counterparty in the balance sheet.

Where the Banking Group has a right of offset on default or insolvency only, the related financial instrument amounts represents highly liquid securities either obtained or pledged, which can be realised in the event of a default or insolvency by one of the counterparties. The value of such securities obtained or pledged must at least equate to the value of the exposure to the counterparty, therefore, the net exposure is considered to be nil.

Loans and advances, deposits and other borrowings

The amounts offset for loans and advances and deposits and other borrowings represent amounts subject to set-off agreements. The net amounts reported on balance sheet are included within overdrafts in note 10 and deposits not bearing interest and on-demand and short term deposits bearing interest in note 18. The amounts not subject to enforceable netting arrangement represent all other loans and advances and deposits and other borrowings of the Banking Group.

Note 27 Transfers of Financial Assets

A financial asset is considered to be transferred when the Bank transfers the contractual rights to receive the cash flows of the asset, or retains the contractual rights to receive the cash flows with a contractual obligation to pay the cash flows to another party.

Transfers of financial assets that have not been derecognised in their entirety

The RMBS Trust provides an internal residential mortgage-backed securities ("RMBS") programme. Securities issued by the RMBS Trust are initially held by the Bank and are eligible to be sold to the RBNZ under agreements to repurchase for liquidity purposes. The Bank has transferred housing loans to the RMBS Trust which secure these securities. These housing loans have not been derecognised by the Bank for financial reporting purposes as the Bank retains substantially all of the risks and rewards of ownership. As these housing loans have been legally transferred, the Bank does not retain the legal rights of ownership, but retains a security interest in these assets. These housing loans, collections receivable and cash of the RMBS Trust secure these securities issued to the Bank as detailed in the Liquidity portfolio management section in note 35.

The BNZ Covered Bond Trust holds certain Bank of New Zealand housing loans and its trustee guarantees the payment of all interest and principal under the Covered Bonds issued by the Bank and BNZ-IF. The assets of the BNZ Covered Bond Trust are not available to the Bank unless and until all prior ranking creditors of the BNZ Covered Bond Trust have been satisfied. The housing loans held by the BNZ Covered Bond Trust have not been derecognised by the Bank for financial reporting purposes as the Bank retains substantially all of the risks and rewards of ownership. As these housing loans have been legally transferred, the Bank does not retain the legal rights of ownership, but retains a security interest in these assets which is secondary to the guarantee provided by the trustee.

Government bonds and securities transferred under the agreements to repurchase have not been derecognised from the balance sheet as the Bank retains substantially all the risks and rewards of ownership. The fair value of these agreements is approximately equal to the carrying amount on the balance sheet due to their short term nature.

The Bank's obligation under agreements to repurchase are classified under Due to central banks and other institutions. Further detail on securities sold under agreements to repurchase are provided in notes 7, 9 and 17.

The table below presents the carrying amount of the transferred assets and the associated liabilities.

	Banking Group			
	Carrying Amount of Assets	Carrying Amount of Assets	**Carrying Amount of Associated Liabilities**	Carrying Amount of Associated Liabilities
Dollars in Millions	**30/9/21**	30/9/20	**30/9/21**	30/9/20
Housing loans held by RMBS Trust	**12,646**	8,964	**2,664**	42
Housing loans held by Covered Bond Trust	**5,098**	4,583	**4,339**	4,433
Government bonds and securities	**508**	1,360	**508**	1,348
	18,252	14,907	**7,511**	5,823

The Banking Group had issued debt securities with a face value of $4,262 million that were guaranteed by the Covered Bond Trust as at 30 September 2021 (30 September 2020: $4,292 million). The underlying collateral that supports the guarantee provided by the Covered Bond Trust comprised housing loans, collections receivable and cash with a carrying amount of $5,274 million as at 30 September 2021 (30 September 2020: $4,734 million).

Further details on the transactions with the RMBS Trust and the Covered Bond Trust are provided in notes 31 and 35.

Note 28 Segment Analysis

Operating segments

An operating segment is a component of an entity engaging in business activities and whose operating results are regularly reviewed by the entity's chief operating decision maker. For each operating segment identified by the Banking Group, financial information is regularly reported to the Bank's Executive Team for the purposes of performance evaluation and resource allocation.

The Banking Group's business is organised into two major reportable and operating segments: Partnership Banking; and Corporate and Institutional Banking. Partnership Banking provides financial products and services to retail, business and private customers. Corporate and Institutional Banking provides financial products and services to corporate and institutional customers.

Revenues and expenses directly associated with each operating segment are included in determining their result. Transactions between operating segments are based on agreed recharges between segments. Segment revenue represents revenue directly attributable to a segment and a portion of the Banking Group's revenue that can be allocated to a segment on a reasonable basis. Segment revenue includes Net interest income and Other operating income, and includes transfer pricing adjustments to reflect inter-segment funding arrangements.

Segment profit represents operating profit before unrealised fair value gains or losses on financial instruments, fair value credit risk adjustment and income or expenses which are one-off in nature and are not part of the Banking Group's core business operations.

Included within the 'Other' category in the following table are business activities that are not separately reportable segments; other balances excluded for management reporting purposes, but included in the consolidated financial statements of the Banking Group for statutory financial reporting purposes; elimination entries on consolidation of the results and of the Banking Group's controlled entities in the preparation of the consolidated financial statements of the Banking Group; and results of an entity included for management reporting purposes, but excluded from the consolidated financial statements of the Banking Group for statutory financial reporting purposes.

The Banking Group primarily conducts business in New Zealand and has limited exposure to risks associated with different economic environments or political conditions in other countries. On this basis, no geographical segment information is provided.

	Banking Group (30/9/21)				
Dollars in Millions	Partnership Banking[3]	Corporate and Institutional Banking[3]	Total Reportable Segments	Other	Total Banking Group
Net interest income	**1,706**	**438**	**2,144**	**37**	**2,181**
Other income[1]	**220**	**242**	**462**	**216**	**678**
Total operating income[2]	**1,926**	**680**	**2,606**	**253**	**2,859**
Operating expenses	**820**	**158**	**978**	**82**	**1,060**
Total operating profit before credit impairment charge and income tax expense	**1,106**	**522**	**1,628**	**171**	**1,799**
Credit impairment charge/(write-back)	**(78)**	**(24)**	**(102)**	**65**	**(37)**
Total operating profit before income tax expense	**1,184**	**546**	**1,730**	**106**	**1,836**
Income tax expense on operating profit	**332**	**153**	**485**	**29**	**514**
Net profit attributable to the shareholder of the Bank	**852**	**393**	**1,245**	**77**	**1,322**
Lending assets	**71,964**	**22,677**	**94,641**	**80**	**94,721**
Deposit liabilities	**56,585**	**11,159**	**67,744**	**3,500**	**71,244**
	Banking Group (30/9/20)[3]				
Net interest income	1,568	406	1,974	108	2,082
Other income[1]	223	246	469	(31)	438
Total operating income[2]	1,791	652	2,443	77	2,520
Operating expenses	791	151	942	216	1,158
Total operating profit before credit impairment charge and income tax expense	1,000	501	1,501	(139)	1,362
Credit impairment charge/(write-back)	55	93	148	152	300
Total operating profit before income tax expense	945	408	1,353	(291)	1,062
Income tax expense on operating profit	264	115	379	(79)	300
Net profit attributable to the shareholder of the Bank	681	293	974	(212)	762
Lending assets	66,084	21,239	87,323	826	88,149
Deposit liabilities	53,821	10,221	64,042	3,538	67,580

[1] Other income includes Gains less losses on financial instruments (refer to note 3) and Other operating income (refer to note 4).
[2] For the year ended 30 September 2021, there were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Banking Group's revenues (30 September 2020: nil).
[3] Comparative balances have been reclassified to align with the segment definitions as at 30 September 2021.

Note 29 Contingent Liabilities and Other Commitments

Accounting policy

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Where some loss is probable and can be reliably measured, provisions have been made. Contingent liabilities are not recognised in the balance sheet, but are disclosed unless the likelihood of payment is remote.

The Banking Group provides guarantees in its normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Banking Group to guarantee the performance or financial obligations of a customer to a third party.

In accordance with NZ IFRS 9 Financial Instruments, the financial guarantee contract is initially recorded at fair value which is equal to the premium received, unless there is evidence to the contrary.

Subsequently, the Banking Group records and measures the financial guarantee contract at the higher of:

- the amount initially recognised less, when appropriate, amortisation of the fee that is recognised over the life of the guarantee; and
- where it is likely the Banking Group will incur a loss as a result of issuing the contract, a liability is recognised for the estimated amount of the loss payable.

Contingent liabilities and credit related commitments at face value arising in respect of the Banking Group's operations were:

Dollars in Millions	Banking Group 30/9/21	Banking Group 30/9/20
Contingent liabilities		
Bank guarantees	**60**	74
Standby letters of credit	**279**	254
Documentary letters of credit	**153**	166
Performance related contingencies	**1,068**	1,022
Total contingent liabilities	**1,560**	1,516
Credit related commitments		
Revocable commitments to extend credit	**9,735**	9,164
Irrevocable commitments to extend credit	**12,662**	12,599
Total credit related commitments	**22,397**	21,763
Total contingent liabilities and credit related commitments	**23,957**	23,279

Contingent liabilities

The Banking Group’s maximum exposure to credit risk for contingent exposures is the notional amount which represents the amount that the Banking Group would have to pay if the contingent liability is called upon. The full notional amount of contingent liabilities and credit related commitments have been disclosed as "on-demand" as they could be payable on demand. The Banking Group expects that not all of the contingent liabilities or commitments will be drawn before their contractual expiry.

The Banking Group uses the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risk as it does for on-balance sheet loan assets.

The Bank has recourse arrangements with customers and others in respect of almost all of the contingent liabilities.

Guarantees

The Banking Group has four principal types of guarantees:

- Bank guarantees - a guarantee that is an agreement by which the Bank agrees to pay an amount of money on demand on behalf of a customer to a third party during the life of the guarantee;
- Standby letters of credit - an obligation of the Bank on behalf of a customer to make payment to a third party in the event that the customer fails to meet an outstanding financial obligation;
- Documentary letters of credit - a guarantee that is established to indemnify exporters and importers in their trade transactions where the Bank agrees to make certain trade payments on behalf of a specified customer under specific conditions; and
- Performance related contingencies - a guarantee given by the Bank that undertakes to pay a sum of money to a third party where the customer fails to carry out certain terms and conditions of a contract.

The credit risk involved in issuing letters of credit and financial guarantees is essentially the same as that involved in extending loan facilities to customers. Apart from the normal documentation for a facility of this type, the customer must also provide the Banking Group with a written indemnity, undertaking that, in the event the Banking Group is called upon to pay, the Banking Group will be fully reimbursed by the customer.

Fees in relation to guarantees are collected over the life of the contract.

Clearing and settlement obligations

The Banking Group is a member of various central clearing houses, most notably the London Clearing House (“LCH”) SwapClear platform, which enables the Banking Group to centrally clear derivative instruments. As a member of LCH, the Banking Group is required to make a default fund contribution. In the event of a default of another clearing member, the Banking Group could be required to commit additional funds to the default fund contribution.

Note 29 Contingent Liabilities and Other Commitments *continued*

Other contingent liabilities

From time to time, the Banking Group is exposed to contingent risks and liabilities arising from conduct of its business, including:

- actual and potential disputes, claims and legal proceedings;
- investigations into past conduct, including actual and potential regulatory breaches, carried out by regulatory authorities;
- internal investigations and reviews into past conduct, including actual and potential regulatory breaches, carried out by or on behalf of the Banking Group; and
- contracts that involve giving contingent commitments such as warranties, indemnities or guarantees.

The Banking Group has received information requests from its regulators as part of both industry and bank-specific reviews being undertaken, and the Banking Group has also initiated contact with its regulators on compliance-related matters. The scope of reviews, inquiries and investigations can be wide-ranging and can result in enforcement proceedings, fines and other financial penalties, as well as customer remediation programmes.

There are contingent liabilities in respect of all such matters. Such matters are often highly complex and uncertain. Where appropriate, provisions have been made. The aggregate potential liability of the Banking Group in relation to these matters cannot be accurately assessed.

Further information on some specific contingent liabilities that may impact the Banking Group is set out below.

The Banking Group has been progressing a programme of work to strengthen its Anti-Money Laundering ("AML") and Countering Financing of Terrorism ("CFT") programme. The work involves significant investment in systems and personnel to ensure an effective control environment and an uplift in compliance capability. In addition to a general uplift in capability, the programme of work aims to remediate specific compliance issues and weaknesses. The Banking Group continues to keep the RBNZ informed of significant AML or CFT compliance issues and its progress in resolving these issues, and will continue to cooperate with, and respond to queries from, the RBNZ. As this work progresses, further compliance issues may be identified and reported to the RBNZ or equivalent foreign regulators, and additional strengthening may be required. The potential outcome (including enforcement proceedings) and total costs associated with specific issues identified to date, and for any issues that may be identified in the future, remain uncertain.

Credit related commitments

For commitments to extend credit, the maximum credit exposure to the Banking Group is the full amount of the commitment. Irrevocable commitments to extend credit are agreements to lend to a customer which can be drawn down at any time before the commitments expire as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiry dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments are expected to expire without being drawn down, the total commitment amounts do not necessarily represent future cash requirements.

Revocable commitments to extend credit represent those facilities which can be cancelled at any time at the Bank's discretion without the risk of incurring significant penalty or expense. These facilities are generally on-demand.

For information on the Banking Group's risk management policies, refer to note 35.

Guarantees to wholly owned controlled entities

The Bank guarantees the obligations of BNZ-IF in respect of securities issued by BNZ-IF to investors.

Note 30 Credit Exposures to Connected Persons and Non-bank Connected Persons

Credit exposures to connected persons have been derived in accordance with the Bank's Conditions of Registration and RBNZ's Connected Exposures Policy ("BS8"). The amounts are net of specific provision for credit impairment and exclude advances of a capital nature.

The RBNZ defines Connected Persons to be other members of NAB and Directors of the Bank. Controlled entities of the Bank are not connected persons.

Credit exposures to connected persons have been calculated on a partial bilateral net basis. The gross amount and amount netted off under a bilateral netting agreement are included in the table below. There is a limit of 125% of the Banking Group's Tier 1 capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure.

	Banking Group (30/9/21)	
	Dollars in Millions	% of Tier One Capital As At
As at end of year		
Credit exposure to connected persons (on gross basis, before netting)	4,440	43.3%
Credit exposure to connected persons (amount netted)	1,352	13.2%
Credit exposure to connected persons (on partial bilateral net basis)	3,088	30.1%
Credit exposure to non-bank connected persons	-	-
Peak for the year ended		
Credit exposure to connected persons (on gross basis, before netting)	4,994	48.7%
Credit exposure to connected persons (amount netted)	1,435	14.0%
Credit exposure to connected persons (on partial bilateral net basis)	3,559	34.7%
Credit exposure to non-bank connected persons	-	-

As at 30 September 2021, the Banking Group's rating-contingent limit to connected person was 60% of the Banking Group's Tier 1 capital. This limit has not changed during the year. Within the overall rating-contingent limit, there is a sublimit of 15% of Tier 1 capital that applies to aggregate credit exposures to non-bank connected persons.

The rating-contingent limit on credit exposures to connected persons as set out in the Bank's Conditions of Registration has been complied with at all times during the year ended 30 September 2021. The peak for the year ended credit exposure to connected persons and non-bank connected persons are calculated by determining the maximum end-of-day aggregated amount of actual credit exposure over Banking Group's Tier 1 Capital as at 30 September 2021.

Where a bank is funding a large loan it is common practice to share the risk of a customer default with other connected banks. These arrangements are called risk lay-off arrangements. As at 30 September 2021, the Banking Group had no contingent credit exposures arising from risk lay-off arrangements with connected persons. There were no credit exposures to connected persons that were credit-impaired, and no provision for credit impairment on individual financial assets for connected person credit exposures as at 30 September 2021.

Note 31 Structured Entities, Securitisation, Funds Management, Fiduciary Activities and Insurance

Funds management

The Bank markets and distributes funds management products to a range of customers which are managed and issued by its wholly owned subsidiary BNZISL. Refer to note 24 for further information. The Bank provides banking services for funds management products administered by BNZISL. All arrangements are conducted on arms' length commercial terms. The Bank also provides services to a number of customers, including advice on, administration of, and management of investment portfolios.

The outstanding value of assets related to fund management activities is set out in the table below.

Dollars in Millions	30/9/21	30/9/20
Portfolios managed on behalf of customers[1]	**6,690**	5,640
BNZ Term PIE	**873**	1,372

[1] Comparative balances have been restated to exclude assets managed by customers directly.

The assets for portfolios managed on behalf of customers do not represent deposits or other liabilities of the Bank or any other member of NAB, are not owned by the Banking Group and are therefore not included as part of the Banking Group's assets on the balance sheet. Investments made in the Investment Schemes are subject to investment risk, including possible delays in repayment and loss of income and principal invested. None of the Bank, or any other member of NAB, the Supervisor (The New Zealand Guardian Trust Company Limited), any Director of any of them, the New Zealand Government or any other person guarantees (either fully or in part) the performance or returns of the Investment Schemes or the repayment of capital. BNZ Term PIE, a controlled entity of the Bank, invests solely in debt securities issued by the Banking Group and on consolidation its assets are eliminated against liabilities recorded by the Bank. Unitholders' interests are included as part of the Banking Group's liabilities.

During the year ended 30 September 2021, the Bank held deposits on behalf of customers of JBWere (NZ) Pty Limited and JBWere (NZ) Nominees Limited. JBWere (NZ) Pty Limited and JBWere (NZ) Nominees Limited, as controlled entities of the ultimate parent, are related parties of the Banking Group, but are not a part of the Banking Group.

Insurance business

The Banking Group does not conduct any Insurance Business, as defined by condition 3 of the Bank's Conditions of Registration set out on page 87.

Marketing and distribution of insurance products

The Banking Group is involved in marketing insurance products for the following entities: BNZ Life Insurance Limited, Union Medical Benefits Society Limited, AMP Services (NZ) Limited, IAG New Zealand Limited, Cigna Life Insurance New Zealand Limited, Partners Life Limited and Asteron Life Limited. In addition, the Banking Group refers some commercial non life insurance product queries and some trade credit queries to AON New Zealand.

All of these entities are unrelated to the Banking Group, with the exception of BNZ Life Insurance Limited, a controlled entity of National Australia Bank Limited. BNZ Life Insurance Limited is an Affiliated Insurance Entity as defined in BS2B.

Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities generally have restricted activities and a narrow and well defined objective which are both created through contractual arrangements.

Depending on the Banking Group's power over the relevant activities of the structured entity and its exposure to and ability to influence its own returns, it may or may not consolidate the entity.

The Banking Group's involvement in structured entities is subject to internal credit, compliance and legal approval processes to ensure that any difficulties arising from the structured entities do not impact adversely on the Banking Group, beyond that which is normal for arm's length commercial relationships.

Consolidated structured entities

The Banking Group has interests in the following structured entities which are consolidated for financial reporting purposes:

Name	Country of Domicile	Principal Activities
BNZ RMBS Trust Series 2008-1	New Zealand	Securitisation entity
BNZ Covered Bond Trust	New Zealand	Securitisation entity
BNZ Term PIE	New Zealand	Portfolio investment entity

RMBS Trust and Covered Bond Trust

The RMBS Trust provides an internal residential mortgage-backed securities programme to issue securities as collateral for borrowing from the RBNZ. The Covered Bond Trust holds certain Bank of New Zealand housing loans and its trustee guarantees the payment of all interest and principal under the covered bonds issued by the Bank and BNZ-IF.

Further details on the transactions with the RMBS Trust and the Covered Bond Trust are provided in note 27.

Term PIE Investment Entity

The Banking Group's interest in BNZ Term PIE, a consolidated investment entity, is noted in the funds management section above.

Note 31 Structured Entities, Securitisation, Funds Management, Fiduciary Activities and Insurance *continued*

Unconsolidated structured entities

Unconsolidated structured entities refer to all structured entities that are not controlled by the Banking Group. The Banking Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities.

The Banking Group engages with third party (client) securitisations by providing funding, liquidity support and derivatives.

Interests in unconsolidated structured entities include, but are not limited to, debt investments, guarantees, liquidity arrangements, and commitments that expose the Banking Group to the risks of the unconsolidated structured entity. Interests do not include plain vanilla derivatives (e.g. interest rate swaps and currency swaps).

The table below shows the carrying amount and maximum exposure to loss and credit quality of the Banking Group's interests in unconsolidated securitisation entities as at 30 September 2021.

	Banking Group (30/9/21)				Banking Group (30/9/20)			
Dollars in Millions	**Senior Investment Grade**	**Investment Grade**	**Sub-Investment Grade**	**Total**	Senior Investment Grade	Investment Grade	Sub-Investment Grade	Total
Carrying amount of loans and advances	**1,382**	**17**	**5**	**1,404**	1,039	9	1	1,049
Commitments and guarantees	**679**	**9**	**4**	**692**	762	11	5	778
Total maximum exposure to credit loss	**2,061**	**26**	**9**	**2,096**	1,801	20	6	1,827

The total assets of unconsolidated structured entities are not considered meaningful for the purpose of understanding the Banking Group's financial risks associated with these entities and so have not been presented. Unless specified otherwise, the Banking Group's maximum exposure to loss is the total of its on-balance sheet positions and its off-balance sheet arrangements, being loan commitments, financial guarantees, and liquidity support. Exposure to loss is managed as part of the Banking Group-wide risk management framework. Refer to note 35 for further information.

Income earned from interests in unconsolidated structured entities primarily resulted from interest income, fees and commission income.

Risk management

The Banking Group has in place policies and procedures to ensure that the activities identified above are conducted in an appropriate manner. Should adverse investment or liquidity conditions arise it is considered that the Banking Group's policies and procedures, combined with those of BNZ Life Insurance Limited and BNZ Insurance Services Limited, will minimise the possibility that those conditions will adversely impact the Banking Group. The policies and procedures referred to include comprehensive and prominent disclosure of information regarding products, formal and regular review of operations and policies by internal auditors and management, appropriate contractual agreements and compliance with contractual obligations and regulatory requirements.

The Banking Group's risk review and risk management systems are equally applicable to the marketing and distribution of products issued by the third party entities identified in the marketing and distribution of insurance products and funds management sections of this note.

In addition, the following measures are also taken to manage any risk to the Banking Group of marketing and distributing insurance products:

- disclaimers on policies, application forms and other collateral relating to insurance products expressly state that the policy is not an obligation of the Bank and that the Bank does not guarantee the obligations of the insurer;
- the risks under policies issued by BNZ Life Insurance Limited are reinsured appropriately; and
- the introduction of new policies and changes to existing policies marketed or distributed by the Banking Group are subject to the Banking Group's standard risk management policies and procedures.

The Bank does not guarantee the capital, income or return of any of the products referred to above.

Transactions with Banking Group entities

Financial services provided by any member of the Banking Group to entities which are involved in trust, custodial, funds management and other fiduciary activities and securitisation arrangements, and to affiliated insurance entities which conduct marketing and distribution of insurance products, or on whose behalf the marketing and distribution of insurance products are conducted, have been provided on arm's length terms and conditions and at fair value. Assets purchased from any such entities by any member of the Banking Group have been purchased on arm's length terms and conditions and at fair value.

Peak aggregate funding provided to entities

The Bank does not provide any funding to individual unit trusts which the Banking Group distributes on behalf of third parties.

During the year ended 30 September 2021, the Banking Group did not provide any funding to individual affiliated insurance entities and unconsolidated entities involved in securitisation activities, where the Banking Group is involved in the origination of securitised assets and the marketing of securitisation schemes.

Note 32 Concentrations of Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties

The Banking Group's disclosure of concentrations of credit exposures to individual counterparties and groups of closely related counterparties is based on actual credit exposures and excludes credit exposures to connected persons, the central government or central bank of any country with a long term credit rating of A- or A3 or above, or its equivalent, and excludes supranationals or quasi-sovereign agencies with a long term credit rating of A- or A3 or above, or its equivalent. Peak credit exposures to individual counterparties are calculated using the Banking Group's end of period Common Equity Tier 1 capital.

	Banking Group (30/9/21) Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties Long Term Credit Rating	
Number of bank counterparties	Peak End-of-Day A-or A3 or above or its equivalent	Balance Sheet Date A-or A3 or above or its equivalent
Percentage of Common Equity Tier 1 capital		
10-14%	2	-
15 -19%	1	-
20 -24%	-	-
Number of non-bank counterparties		
Percentage of Common Equity Tier 1 capital		
10-14%	1	-
15 -19%	-	-
20 -24%	-	-

The above table has been compiled using gross exposures. No account is taken of collateral, security and/or netting agreements that do not qualify for offset in accordance with NZ IAS 32 Financial Instruments: Presentation which the Banking Group may hold in respect of the various counterparty exposures.

The Banking Group had no bank counterparties, supranationals or quasi-sovereign agencies with a long term credit rating below A- or A3, to whom their aggregate credit exposure, as at 30 September 2021, and peak end-of-day aggregate credit exposure, for the six months ended 30 September 2021, equalled or exceeded 10% of the Banking Group's Common Equity Tier 1 capital.

The Banking Group had no non-bank counterparties with a long term credit rating below A- or A3, to whom their aggregate credit exposure, as at 30 September 2021, and peak end-of-day aggregate credit exposure, for the six months ended 30 September 2021, equalled or exceeded 10% of the Banking Group's Common Equity Tier 1 Capital.

Note 33 Investments in Wholly Owned Entities

Wholly owned entities of the Bank as at 30 September 2021 were:

Name	Country of Incorporation	Principal Activities
BNZ Equity Investments No.2 Limited	New Zealand	Investment company
BNZ Facilities Management Limited	New Zealand	Facilities management
BNZ International Funding Limited	New Zealand	Funding company
BNZ Investments Limited	New Zealand	Investment company
BNZ Property Investments Limited	New Zealand	Property company
BNZ Branch Properties Limited	New Zealand	Property company
BNZ Investment Services Limited	New Zealand	Investment administration and management

All wholly owned entities listed above have the same reporting date as the Bank.

Note 34 Capital Adequacy

The RBNZ minimum regulatory capital requirements for banks have been established under the RBNZ Capital Adequacy Framework (Internal Models Based Approach) ("BS2B") and Capital Adequacy Framework (Standardised Approach) ("BS2A") based on the international framework developed by the Bank for International Settlements, Committee on Banking Supervision, commonly known as Basel III. These requirements outline how minimum regulatory capital is to be calculated and provide methods for measuring risks incurred by the banks in New Zealand.

The Basel III framework's objective is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profile of banks. Basel III consists of three pillars – Pillar One covers the capital requirements for banks for credit, operational, and market risks. Pillar Two covers all other material risks that are not already included in Pillar One. Pillar Three relates to market disclosure.

RBNZ Capital Adequacy Framework

The Banking Group has calculated its implied Risk-Weighted Exposure and minimum regulatory capital requirements based on BS2B for the majority of credit risk portfolios.

Under BS2B, accredited banks use their own models for estimating risk and minimum capital requirements. Under the Internal Ratings Based Approach for credit risk, the level of risk associated with customers' exposures is determined by way of the primary components of Probability of Default, Loss Given Default and Exposure at Default. These components and associated processes are subject to regular review. For exposures in the Specialised Lending asset category (including Project Finance, Object Finance, Commodity Finance and Income Producing Real Estate) the Banking Group uses supervisory slotting estimates provided by the RBNZ.

The exceptions to the Internal Ratings Based Approach for credit risk are portfolios of relatively low materiality which are subject to the standardised treatment as set out in BS2A.

Capital for market risk has been calculated in accordance with the approach specified in BS2B.

Capital requirement for operational risk has the same meaning as in Part 9 of BS2A, subject to a minimum value of $600 million.

Capital management policies

The Banking Group's primary objectives in relation to the management of capital adequacy are to comply with the requirements set out by the RBNZ, the Banking Group's primary prudential supervisor, to provide a sufficient capital base to cover risks faced by the Bank and to maintain a credit rating to support future business development.

Total regulatory capital is defined as the sum of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital. Tier 1 capital is defined as the sum of Common Equity Tier 1 capital and Additional Tier 1 capital. The Banking Group's Common Equity Tier 1 capital includes paid up ordinary shares and retained profits less certain deductions, Additional Tier 1 capital includes perpetual notes and Tier 2 capital includes revaluation reserves and subordinated debt.

The Banking Group is required under its Conditions of Registration to maintain a minimum ratio of total eligible or qualifying capital to total risk-weighted assets of 8%, of which a minimum of 4.5% must be held in Common Equity Tier 1 capital and a minimum of 6% must be held in Tier 1 capital. The Banking Group must maintain a minimum Common Equity Tier 1 buffer ratio of 2.5% above these minimum ratios or it will face restrictions on the distribution of earnings and be required to prepare a capital plan that restores the Banking Group's buffer ratio and have that capital plan approved by the RBNZ.

In June 2021 the RBNZ published final Banking Prudential Requirements on regulatory capital, which took effect from 1 October 2021. The key capital requirements for BNZ include:

- an increase in the Tier 1 capital requirement to 16% of risk-weighted assets ("RWA") (including a prudential capital buffer of 9% of RWA), of which up to 2.5% can be in the form of Additional Tier 1 ("AT1") capital, and an increase in the total capital requirement to 18% of RWA, of which up to 2% can be in the form of Tier 2 capital;
- phased implementation of the increase in capital buffers from 1 July 2022 with a transition period of six years before banks are required to fully comply with the new rules;
- changes to the qualification requirements for AT1 and Tier 2 capital instruments. Phased derecognition of existing, non-qualifying AT1 and Tier 2 capital instruments over a transitional period starting from 1 January 2022;
- an increase to RWA for internal ratings based ("IRB") banks, such as BNZ, with an increase in the IRB scalar from 1.06 to 1.2, effective from 1 October 2022; and
- from 1 January 2022, IRB banks will be required to report IRB and RBNZ standardised capital calculations and implement an output floor on IRB exposure at 85% of what would be calculated under the RBNZ standardised approach.

The Banking Group has an Internal Capital Adequacy Assessment Process ("ICAAP") in place which complies with the requirements set out in the RBNZ's "Guidelines on a Bank's Internal Capital Adequacy Assessment Process" ("BS12") as specified under the Bank's Conditions of Registration. The Banking Group's ICAAP outlines the approach to maintaining capital adequacy, risk appetite and stress testing. The ICAAP considers all material risks consistent with the Banking Group's risk appetite and outlines the capital requirements.

Capital requirements, as detailed in the Banking Group's ICAAP document, are managed by the Bank's Risk Return Management Committee ("RRMC") and Asset, Liability and Capital Committee under delegated authority from the Board of Directors.

For more information on the capital structure of the Banking Group, refer to page 64.

The tables on the following pages detail the capital calculation, capital ratios and capital requirements as at 30 September 2021. During the reporting period the Banking Group complied with all RBNZ's capital requirements as set out in the Bank's Conditions of Registration.

Note 34 Capital Adequacy *continued*

Regulatory capital

The following table shows the qualifying capital for the Banking Group.

Dollars in Millions	Banking Group Unaudited 30/9/21
Qualifying capital	
Common Equity Tier 1 capital	
Contributed equity - ordinary shares	4,056
Retained profits	5,805
Accumulated other comprehensive income and other disclosed reserves	18
Deductions from Common Equity Tier 1 capital:	
Goodwill and other intangible assets	293
Cash flow hedge reserve	27
Credit value adjustment on liabilities designated at fair value through profit or loss	(87)
Prepaid pension assets (net of deferred tax)	6
Deferred tax asset	283
Total expected loss less total eligible allowances for impairment	-
Credit enhancements	2
Total Common Equity Tier 1 capital	9,355
Additional Tier 1 capital	
Perpetual Notes	900
Total Additional Tier 1 capital	900
Total Tier 1 capital	10,255
Tier 2 capital	
Revaluation reserves	2
Subordinated Notes	1,050
Total eligible impairment allowance in excess of expected loss	187
Total Tier 2 capital	1,239
Total Tier 1 and Tier 2 qualifying capital	11,494

Banking Group Basel III regulatory capital ratios

The table below shows the capital adequacy ratios for the Banking Group based on BS2B, expressed as a percentage of total risk-weighted exposures.

	Banking Group		
	Regulatory Minima	Unaudited 30/9/21	Unaudited 30/9/20
Common Equity Tier 1 capital ratio	4.5%	13.8%	11.9%
Tier 1 capital ratio	6.0%	15.1%	13.2%
Total qualifying capital ratio	8.0%	16.9%	14.9%
Buffer ratio	2.5%	8.9%	6.9%

Registered Bank Basel III regulatory capital ratios

The table below shows the capital adequacy ratios for the Registered Bank based on BS2B, expressed as a percentage of total risk-weighted exposures.

	The Registered Bank	
	Unaudited 30/9/21	Unaudited 30/9/20
Common Equity Tier 1 capital ratio	13.7%	11.8%
Tier 1 capital ratio	15.1%	13.1%
Total qualifying capital ratio	16.9%	14.9%

For the purpose of calculating capital adequacy ratios for the Registered Bank under BS2B, subsidiaries are consolidated within the Registered Bank if they are either funded exclusively and wholly owned by the Registered Bank, or there is a full, unconditional and irrevocable cross guarantee between the subsidiaries and the Registered Bank.

Note 34 Capital Adequacy *continued*

Total regulatory capital requirements

Dollars in Millions	Banking Group Unaudited (30/9/21) Total Exposure at Default after Credit Risk Mitigation	Risk-Weighted Exposure or Implied Risk-Weighted Exposure	Total Capital Requirement[1]
Credit risk			
Exposures subject to the internal ratings based approach[1]	125,712	44,100	3,528
Specialised lending subject to the slotting approach[1]	8,106	7,348	588
Exposures subject to the standardised approach[1]	2,181	998	80
Equity exposures[1]	1	4	-
Credit Value Adjustment subject to BS2B ("CVA")	N/A	1,007	81
Agribusiness supervisory adjustment[2]	N/A	2,829	226
Total credit risk	136,000	56,286	4,503
Operational risk	N/A	8,588	687
Market risk	N/A	3,089	247
Total	136,000	67,963	5,437

[1] In calculating the total capital requirement, a scalar of 1.06 has been applied to the risk-weighted assets, as required by the RBNZ in accordance with the Bank's Conditions of Registration.

[2] The agribusiness supervisory adjustment increases the risk weight of the Banking Group's rural lending portfolio to a minimum specified by the RBNZ.

Advanced Internal Ratings Based approach to credit risk management

The Banking Group's quantitative credit risk measurement is based on the Internal Ratings Based ("IRB") approach (IRB for Retail Credit portfolios and Advanced IRB for Non-retail Credit portfolios) and uses a series of models to calculate loss estimates for the credit portfolio. This includes consideration of:

- probability of default ("PD") which estimates the probability that a customer will default over the next 12 months;
- exposure at time of default ("EAD") which estimates the amount of outstanding principal, fees and interest owed at the time of default; and
- loss given default ("LGD") which estimates the expected loss in the event of default. It is the percentage of exposure which will be lost after all recovery efforts, including legal expenses, time value of money and recovery expenses.

The above three elements (PD, EAD, and LGD) are important inputs in determining the risk-weighted exposure calculations for both on and off-balance sheet exposures, including undrawn portions of credit facilities, committed and contingent exposures. These ratings are also an important input into the credit approval, risk management, internal capital allocation and corporate governance functions of the Banking Group.

Methodologies used to calculate credit risk estimates (PD, EAD and LGD) are in accordance with BS2B and the Bank's Conditions of Registration. For credit risk estimates on some portfolios, the RBNZ has set prescribed risk estimates required to be used when calculating risk-weighted assets and capital under BS2B. The RBNZ prescribed risk estimates will continue to be used until the Banking Group develops its own internal models for these portfolios.

Controls surrounding credit risk rating systems

The credit risk rating systems cover all methods, processes, controls, data collection and technology that support the assessment of credit risk, the assignment of internal credit risk ratings and the quantification of associated default and loss estimates.

The credit risk rating systems and risk estimate processes are governed by the Banking Group's RRMC and are an integral part of reporting to senior management. Management and staff of the credit risk function regularly assess the performance of the rating systems, monitor progress on changes being made to systems and identify any areas for improvement. These systems are subject to rigorous internal review and approval and regular independent review. The annual validation of models is undertaken by specialists who are responsible for overseeing the design, implementation and performance of all rating models across the Banking Group.

The risk-weighted asset amounts presented in the following tables include a scalar of 1.06 as required by the RBNZ in accordance with the Bank's Conditions of Registration, which is not in the risk weight percentages shown.

Note 34 Capital Adequacy *continued*

Credit risk subject to the Internal Ratings Based ("IRB") approach

The following tables analyse credit risk exposures by asset class split into PD bandings. The lower the PD banding the less the probability of default over the next 12 months.

	Banking Group					
	Unaudited (30/9/21)					
Dollars in Millions	Weighted Average PD (%)	Exposure at Default[2]	Exposure-Weighted LGD used for the Capital Calculation (%)	Exposure-Weighted Risk Weight (%)	Risk-Weighted Assets	Minimum Capital Requirement
Corporate						
Exposure-weighted PD grade >0 ≤ 0.1%	0.04	5,738	42	13	784	63
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.31	19,422	35	38	7,855	628
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.93	16,363	33	59	10,283	823
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.55	5,947	33	79	4,954	396
Exposure-weighted PD grade >5.0 ≤ 99.99%	10.30	1,132	39	147	1,770	142
Default PD grade = 100%	100.00	332	46	196	690	55
Total corporate exposures	1.66	48,934	35	51	26,336	2,107
Sovereign						
Exposure-weighted PD grade >0 ≤ 0.1%	0.01	18,149	4	0	94	7
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.25	30	45	34	11	1
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.98	1	45	88	1	-
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.40	-	45	101	-	-
Exposure-weighted PD grade >5.0 ≤ 99.99%	5.72	-	45	139	-	-
Default PD grade = 100%	-	-	-	-	-	-
Total sovereign exposures	0.01	18,180	4	1	106	8
Bank						
Exposure-weighted PD grade >0 ≤ 0.1%	0.04	3,805	17	7	269	22
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.17	324	41	34	116	9
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.68	14	60	81	13	1
Exposure-weighted PD grade >1.5 ≤ 5.0%	1.91	-	60	124	-	-
Exposure-weighted PD grade >5.0 ≤ 99.99%	8.16	3	60	213	7	1
Default PD grade = 100%	-	-	-	-	-	-
Total bank exposures	0.06	4,146	19	9	405	33
Residential mortgage						
Exposure-weighted PD grade >0 ≤ 0.1%	-	-	-	-	-	-
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.40	1,844	18	13	259	21
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.88	51,993	20	25	13,626	1,090
Exposure-weighted PD grade >1.5 ≤ 5.0%	4.92	2,101	19	65	1,458	117
Exposure-weighted PD grade >5.0 ≤ 99.99%	-	-	-	-	-	-
Default PD grade = 100%	100.00	228	20	231	557	44
Total residential mortgage exposures	1.42	56,166	20	27	15,900	1,272
Other retail[1]						
Exposure-weighted PD grade >0 ≤ 0.1%	0.05	734	86	12	94	7
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.25	456	85	38	185	15
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.91	247	84	80	210	17
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.77	144	83	111	170	14
Exposure-weighted PD grade >5.0 ≤ 99.99%	12.75	83	77	136	120	10
Default PD grade = 100%	100.00	10	79	295	32	2
Total other retail exposures	1.70	1,674	85	46	811	65

[1] Other retail includes credit cards, current accounts and personal overdrafts.

[2] Exposure at default is pre-credit risk mitigation.

Note 34 Capital Adequacy *continued*

Credit risk subject to the Internal Ratings Based ("IRB") approach

	Banking Group					
	Unaudited (30/9/21)					
Dollars in Millions	Weighted Average PD (%)	Exposure at Default[2]	Exposure-Weighted LGD used for the Capital Calculation (%)	Exposure-Weighted Risk Weight (%)	Risk-Weighted Assets	Minimum Capital Requirement
Retail small to medium enterprises						
Exposure-weighted PD grade >0 ≤ 0.1%	0.07	167	39	7	13	1
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.29	746	30	15	122	10
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.94	501	32	31	165	13
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.58	354	34	45	169	13
Exposure-weighted PD grade >5.0 ≤ 99.99%	10.83	31	39	66	21	2
Default PD grade = 100%	100.00	25	46	197	52	4
Total retail SME exposures	2.42	1,824	32	28	542	43
Total[1]						
Exposure-weighted PD grade >0 ≤ 0.1%	0.02	28,593	16	4	1,254	100
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.31	22,822	34	35	8,548	684
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.89	69,119	23	33	24,298	1,944
Exposure-weighted PD grade >1.5 ≤ 5.0%	3.14	8,546	30	75	6,751	540
Exposure-weighted PD grade >5.0 ≤ 99.99%	10.47	1,249	41	145	1,918	155
Default PD grade = 100%	100.00	595	36	211	1,331	105
Total exposures	1.29	130,924	24	32	44,100	3,528

[1] The CVA and the Agribusiness supervisory adjustment have not been included in the above exposures.
[2] Exposure at default is pre-credit risk mitigation

The following table analyses the value and exposure at default of on-balance sheet exposures, off-balance sheet exposures and market related contracts under the IRB approach by asset class.

	Banking Group			
	Unaudited (30/9/21)			
Dollars in Millions	Total Exposure	Exposure at Default[2]	Risk-Weighted Assets	Minimum Capital Requirement
On-balance sheet exposures				
Corporate	34,331	34,331	19,291	1,543
Sovereign	17,079	17,079	53	4
Bank	2,278	2,278	230	18
Residential mortgage	52,729	52,729	15,013	1,201
Other retail	837	837	550	44
Retail small to medium enterprises	1,352	1,352	420	33
Total on-balance sheet exposures	108,606	108,606	35,557	2,843
Off-balance sheet exposures				
Corporate	13,463	12,126	6,196	496
Sovereign	211	729	29	2
Bank	746	727	44	4
Residential mortgage	3,910	3,437	887	71
Other retail	2,662	837	261	21
Retail small to medium enterprises	527	472	122	10
Total off-balance sheet exposures	21,519	18,328	7,539	604
Market related contracts[1]				
Corporate	322,848	2,477	849	68
Sovereign	23,783	372	24	2
Bank	76,620	1,141	131	11
Total market related contracts	423,251	3,990	1,004	81

[1] Total exposure for market related contracts represents gross notional amounts.
[2] Exposure at default is pre-credit risk mitigation.

Note 34 Capital Adequacy *continued*

Credit risk subject to the Internal Ratings Based ("IRB") approach

Dollars in Millions	Banking Group Unaudited (30/9/21) Exposure at Default[2]	Risk-Weighted Assets	Minimum Capital Requirement
Summary[1]			
Corporate	48,934	26,336	2,107
Sovereign	18,180	106	8
Bank	4,146	405	33
Residential mortgage	56,166	15,900	1,272
Other retail	1,674	811	65
Retail small to medium enterprises	1,824	542	43
Total credit risk exposures subject to the IRB approach	130,924	44,100	3,528

[1] The CVA and the Agribusiness supervisory adjustment have not been included in the above exposures.
[2] Exposure at default is pre-credit risk mitigation.

Specialised lending subject to the slotting approach

The tables below show specialised lending exposures for which the supervisory slotting approach has been used and includes Project Finance, Object Finance, Commodity Finance and Income Producing Real Estate exposures.

Dollars in Millions	Banking Group Unaudited (30/9/21) Total Exposure at Default after Credit Risk Mitigation	Risk Weight (%)	Risk-Weighted Assets	Minimum Pillar One Capital Requirement
On-balance sheet exposures subject to the slotting approach				
Strong	2,306	70	1,711	137
Good	4,023	90	3,827	306
Satisfactory	721	115	879	70
Weak	21	250	55	4
Default	49	-	-	-
Total on-balance sheet exposures subject to the slotting approach	7,120	86	6,472	517

The categories of specialised lending above are associated with the risk weight shown. These categories broadly correspond to external credit assessments from S&P Global Ratings Australia Pty Limited rating scale: BBB- or better (Strong); BB+ or BB (Good); BB- or B+ (Satisfactory); B to C- (Weak).

Dollars in Millions	Banking Group Unaudited (30/9/21) Total Exposure	Exposure at Default	Average Risk Weight (%)	Risk-Weighted Assets	Minimum Pillar One Capital Requirement
Off-balance sheet exposures subject to the slotting approach					
Off-balance sheet exposures	29	15	83	13	1
Undrawn commitments	1,782	947	84	844	68
Market related contracts	672	24	76	19	2
Total off-balance sheet exposures subject to the slotting approach	2,483	986	84	876	71
Total exposures subject to the slotting approach		8,106	86	7,348	588

Note 34 Capital Adequacy *continued*

Credit risk exposures subject to the standardised approach

The tables below show credit risk exposures in respect of the Banking Group, for which the standardised approach has been used

	Banking Group			
	Unaudited (30/9/21)			
Dollars in Millions	Total Exposure at Default after Credit Risk Mitigation	Average Risk Weight (%)	Risk-Weighted Assets	Minimum Pillar One Capital Requirement
On-balance sheet exposures subject to the standardised approach				
Corporate	73	99	77	6
Residential mortgage	17	68	13	1
Past due assets	-	143	-	-
Other assets[1]	1,472	48	749	60
Total on-balance sheet exposures subject to the standardised approach	1,562	51	839	67

[1] Other assets relate to all other assets (including interest receivables, account receivables, intangibles and cash accounts) that are not included in the other categories in the table.

	Banking Group					
	Unaudited (30/9/21)					
Dollars in Millions	Total Exposure or Principal Amount	Average Credit Conversion Factor (%)	Credit Equivalent Amount	Average Risk Weight (%)	Risk-Weighted Assets	Minimum Pillar One Capital Requirement
Off-balance sheet exposures subject to the standardised approach						
Total off-balance sheet exposures subject to the standardised approach	201	21	43	96	43	4
Market related contracts subject to the standardised approach						
Foreign exchange contracts[2]	1	N/A	-	100	-	-
Interest rate contracts[2]	835,537	N/A	576	19	116	9
Other	6	N/A	-	1	-	-
Total market related contracts subject to the standardised approach	835,544	N/A	576	19	116	9
Total exposures subject to the standardised approach		N/A	2,181	43	998	80

[2] The total exposure or principal amount reflects the gross notional value of contracts.

Equity exposures

The table below shows the capital required to be held as a result of equities held.

	Banking Group			
	Unaudited (30/9/21)			
Dollars in Millions	Exposure at Default	Risk Weight (%)	Risk-Weighted Exposures	Minimum Pillar One Capital Requirement
Equity holdings (not deducted from capital) that are publicly traded	-	300	-	-
All other equity holdings (not deducted from capital)	1	400	4	-
Total equity exposures	1	400	4	-

Credit risk mitigation

The Banking Group assesses the integrity and ability of counterparties to meet their contractual financial obligations for repayment. Collateral security in the form of property or a security interest in personal property is generally taken for business credit except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance (e.g. housing loans) is generally secured against real estate while short term revolving consumer credit is generally unsecured.

The table below shows the total value of exposures covered by eligible financial collateral for portfolios subject to the standardised approach and total value of exposures covered by credit derivatives and guarantees for all portfolios.

	Banking Group
Dollars in Millions	Corporate (Including Specialised Lending) Unaudited 30/9/21
For portfolios subject to the standardised approach:	
Total value of exposures covered by eligible financial collateral	1
For all portfolios:	
Total value of exposures covered by credit derivatives or guarantees	-

Note 34 Capital Adequacy *continued*

Residential mortgages by loan-to-valuation ("LVR") ratio

The table below sets out residential mortgages (including loans to businesses) wholly or partly secured by mortgages over residential properties as used to calculate the Banking Group's Pillar One capital requirement.

The LVRs are calculated as the greater of the customer's current loan limit or balance, divided by the Banking Group's valuation of the security at the last credit event for the customer. Where no LVR is available, the exposure is included in the over 90% category.

	Banking Group		
	Unaudited (30/9/21)		
Dollars in Millions	On-balance Sheet Exposures at Default	Off-balance Sheet Exposures at Default[1]	Total Exposures at Default
LVR Range			
0-59%	23,063	1,465	24,528
60-69%	11,880	703	12,583
70-79%	14,172	802	14,974
80-89%	2,346	33	2,379
Over 90%	1,268	434	1,702
Total exposures at default secured by residential mortgages	52,729	3,437	56,166

[1] Off-balance sheet items include unutilised limits and loans approved, but not yet drawn.

Reconciliation of exposures secured by residential mortgages to housing loans in note 10 Loans and advances to customers

	Banking Group
Dollars in Millions	On-balance Sheet Exposures at Default Unaudited 30/9/21
Loans and advances to customers - housing loans	52,728
Add: Partial write offs excluded under the IRB approach	1
Total housing loan exposures secured by residential mortgages	52,729

Operational risk

	Banking Group	
	Unaudited (30/9/21)	
Dollars in Millions	Implied Risk-Weighted Exposure	Total Operational Risk Capital Requirement
Operational risk	8,588	687

The Banking Group calculated operational risk capital using the standardised approach set out in BS2A, subject to a minimum value of $600 million.

Market risk

The table below shows market risk end of period and peak end-of-day capital charges.

	Banking Group			
	Unaudited (30/9/21)			
	Implied Risk-Weighted Exposure		Aggregate Capital Charge	
Dollars in Millions	End of Period	Peak End-of-Day	End of Period	Peak End-of-Day
Interest rate risk	3,058	3,178	245	254
Foreign exchange risk	30	95	2	8
Equity risk	1	1	-	-
Total market risk	3,089	3,274	247	262

The aggregate market risk exposure above is derived in accordance with BS2B and the Bank's Conditions of Registration.

For each category of market risk, the Banking Group's end of period aggregate capital charge is the charge as at the end of period reported. The peak end-of-day aggregate capital charge is the maximum over the half year accounting period at the close of each business day.

Equity risk subject to a market risk capital charge as shown above relates to equities owned by the Bank.

Note 34 Capital Adequacy *continued*

Capital for other material risks

The Banking Group actively manages and measures all material risks affecting its operations. These risks go beyond the traditional banking risks of credit, operational and market risk. The measurement and management of all material risks is determined under the Banking Group's ICAAP and includes consideration of all other material risks, additional to those included in determining the minimum regulatory capital requirements under BS2B. Other material risks assessed by the Banking Group include balance sheet and liquidity risk, regulatory risk, conduct risk, compliance risk, sustainability risk and strategic risk.

As at 30 September 2021, the Banking Group had an internal capital allocation for strategic risk of $105 million (30 September 2020: $109 million).

Capital structure

Contributed equity - Ordinary shares

These shares do not have a par value; each share entitles the shareholder to one vote at any meeting of shareholders. All shares rank equally in dividends and proceeds available to ordinary shareholders in a winding up.

On 31 March 2021, the RBNZ eased its prohibition on payment of dividends on ordinary shares by NZ-incorporated registered banks. The RBNZ has implemented a new restriction allowing banks to pay dividends up to a maximum of 50 per cent of prior financial year earnings and has outlined its expectations that NZ banks will exercise prudence in determining dividends. This restriction will remain in place until 1 July 2022, subject to economic conditions at that time.

Subordinated debt

Refer to note 22 for further information on perpetual notes, subordinated notes and listed subordinated notes.

Reserves

Accumulated other comprehensive income and other disclosed reserves in Tier 1 Capital includes the cost of hedging reserve of $(10) million which captures changes in fair value of hedging instruments due to currency basis and the FVOCI reserve of $1 million which captures changes in the fair value of investments in equity instruments that are measured at fair value through other comprehensive income.

The asset revaluation reserve of $2 million included in Tier 2 Capital relates to increments and any subsequent decrements arising from the revaluation of property, plant and equipment.

National Australia Bank Limited capital adequacy

The table below shows the capital adequacy ratios based on APRA capital adequacy standards, expressed as a percentage of total risk-weighted assets.

	Ultimate Parent Banking Group		Ultimate Parent Bank	
	Unaudited 30/9/21	Unaudited 30/9/20	Unaudited 30/9/21	Unaudited 30/9/20
Common Equity Tier 1 Capital ratio	**13.00%**	11.47%	**12.78%**	11.50%
Tier 1 Capital ratio	**14.64%**	13.20%	**14.58%**	13.38%
Total Capital ratio	**18.91%**	16.62%	**19.20%**	17.01%

The ultimate parent banking group data is the Level 2 capital ratio (as published in the National Australia Bank Limited Pillar 3 report) and represents the consolidation of NAB and its subsidiary entities, other than the non-consolidated subsidiaries as outlined in the Pillar 3 report.

The ultimate parent bank of the Banking Group is National Australia Bank Limited which reports under the Advanced Internal Ratings-based approach for credit risk (other than for several regulatory prescribed portfolios and some other small portfolios where the standardised approach to credit risk is applied), and the AMA for operational risk. The ultimate parent bank capital ratios are effectively represented by the Level 1 capital ratios, which comprises National Australia Bank Limited and its subsidiary entities approved by APRA as part of the Extended Licensed Entity.

Under prudential regulations, NAB is required to hold capital above the prudential capital ratio ("PCR") and capital conservation buffer as determined by APRA for both the Level 1 and Level 2 Groups. The PCR is prescribed on a bilateral basis, and is not publicly disclosed. National Australia Bank Limited met the minimum capital adequacy requirements set by APRA as at 30 September 2021.

National Australia Bank Limited is required to publicly disclose risk management and capital adequacy information as at the reporting date, as specified in APRA's Prudential Standard APS 330: Public Disclosure (“APS 330”). Updates are provided on a quarterly basis in accordance with the APS 330 reporting requirements.

National Australia Bank Limited’s Annual Financial Report and Pillar 3 report, incorporating the requirements of APS 330, can be accessed at www.nab.com.au.

Note 35 Risk Management

Risk Management

Risk exists in all aspects of the Banking Group and the environment in which it operates. Risk is managed through the Banking Group's risk management framework. Forming part of the Banking Group's risk management strategy, this starts with the BNZ Board approved Strategy, Risk Appetite and Financial Plans. Risk appetite is translated and cascaded to the businesses qualitatively (through risk policies, standards and operating procedures) and quantitatively (through the Banking Group's risk limits, settings and decision authorities).

Compliance with the risk management framework is non-negotiable. Risk management accountabilities are allocated for risk ownership and functionally independent oversight and assurance using the Three Lines of Accountability Model as follows:

- first line: Management (who own and manage the risks and controls within their business in line with risk appetite);
- second line: Risk (who establish frameworks and provide insight, oversight and set appetite); and
- third line: Internal Audit (who provide independent assurance).

BNZ is primarily regulated by the RBNZ and the Banking Group is subject to the prudential reporting requirements of APRA as part of the NAB Group.

The key risks faced by the Banking Group include:

- credit risk;
- operational risk;
- compliance risk;
- conduct risk;
- strategic risk;
- market risk - trading;
- market risk – non-trading/banking positions;
- liquidity risk; and
- sustainability risk.

Further details regarding the nature and extent of key risks faced by the Banking Group, and how these risks are managed, are outlined as part of this note. Regulatory and strategic risks are managed and overseen as part of the Banking Group's broader corporate governance structure and risk management framework as follows:

Board governance

The Banking Group's corporate governance structure provides guidance for effective decision making in all areas of the Banking Group through:

- strategic and operational planning;
- risk management and compliance;
- financial management and external reporting; and
- succession planning and culture.

The BNZ Board determines the most appropriate corporate governance practices for the Banking Group and is supported by a number of committees. The Board Risk and Compliance Committee ("BRC") supports the framework for risk management across the Banking Group.

Executive governance

At an executive level, risk is overseen by the Chief Executive Officer ("CEO") through the Risk Return Management Committee ("RRMC"), which leads management in respect of risk matters relating to culture, integrated governance processes, risk strategy and performance.

Internal audit function

The internal audit function is the responsibility of the General Manager Internal Audit who reports to the New Zealand Regional Audit Committee ("NZRAC"), the Managing Director and CEO of BNZ, the Chief Financial Officer of BNZ and to the Executive General Manager, NAB Group Audit. Audits are conducted using a risk-based approach to assess key business risks and internal control systems.

NZRAC assists the BNZ Board to fulfil its statutory and fiduciary responsibilities relating to accounting and financial controls, reporting systems and processes of the Banking Group and to oversee the internal audit function.

External auditor and credit rating agencies

As part of their work in issuing an auditor's independent review report on the Banking Group's six month Disclosure Statement or an auditor's independent audit report on the Banking Group's year end Disclosure Statement, the Banking Group's external auditor, Ernst & Young, may review parts of the Banking Group's risk management framework that impact significant aspects of the financial systems, to the extent necessary to form their independent review or audit opinion.

Credit rating agencies also conduct periodic reviews of the Banking Group's risk management approach and risk profile.

Note 35 Risk Management *continued*

Credit risk

Credit risk is the risk that a customer will fail to meet its obligations to the Banking Group in accordance with agreed terms. Credit risk arises from both the Banking Group’s lending activities and markets and trading activities.

Bank lending activities account for most of the Banking Group’s credit risk, however other sources of credit risk also exist throughout the Banking Group. These activities include the banking book, the trading book, and other financial instruments and loans, as well as in the extension of commitments and guarantees and the settlement of transactions.

The Banking Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to existing or potential counterparties or customers, groups of related counterparties or groups of related customers, and to geographical and industry segments. Such risks are monitored on an ongoing basis and are subject to an annual or more frequent review.

Administration of the Banking Group’s credit policies and procedures is the responsibility of the Risk division of the Banking Group. All loans are subject to a customer rating which estimates the probability of default derived from historical default data. There are monitoring procedures and systems in place to control exposures to individual customers, geographical and industry segments to ensure diversification and asset quality are maintained. Exposure to any one customer is further restricted by sub-limits covering on and off-balance sheet exposures, and daily settlement risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored on a daily basis. Individual lending authorities are allocated according to demonstrated skills, accreditation and experience. Consequences are in place for any breaches of these authorities.

Exposure to credit risk is managed through regular analysis of the ability of existing or potential counterparties, customers, groups of related counterparties or groups of related customers to meet interest and capital repayment obligations and by changing limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Banking Group continuously monitors its credit risk to counterparties through the examination of key risk indicators such as irregular or delinquent accounts and early warning signals. In addition, the Strategic Business Services unit has specific responsibility for the management of accounts classified as categorised assets. These processes enable credit impairments to be identified at the earliest possible time. Credit impairment provisions are raised based on an expected credit loss model in line with the requirements of NZ IFRS 9. Recoverable amounts for impaired assets take into account the current market value of collateral held and the realisability of securities.

Certain borrowers are currently unable to meet their contractual payment obligations because of the effects of the COVID-19 pandemic and the Banking Group currently expects that an increased number and amount of the Banking Group’s loans will experience ratings downgrades, credit deterioration and defaults in many industries.

In general, the Group does not take possession of collateral it holds as security or call on other credit enhancements that would result in recognition of an asset on the balance sheet. The following section discloses the Bank’s policies and procedures for collateral taken to mitigate credit risk.

Cash and liquid assets

Cash and liquid assets consist of cash, transaction balances with central banks and other institutions and reverse repurchase agreements. Reverse repurchase agreements are collateralised with high quality liquid securities which are permitted to be sold or re-pledged. The fair values of this collateral is disclosed in note 7.

Due from central banks and other institutions

The balance of due from central banks and other institutions comprises primarily of collateral to meet standard derivative trading obligations. Balances held with central supervisory banks and other interest bearing assets that are due from other banks are managed based on the counterparty's creditworthiness. The Banking Group will utilise master netting arrangements where possible to reduce its exposure to credit risk.

Trading securities

The Banking Group may utilise credit derivatives, guarantees provided by central banks or other forms of credit enhancements or collateral in order to minimise the Banking Group's exposure to credit risk.

Derivative financial instruments

The Banking Group uses documentation including ISDA Master Agreements to document derivative activities. Under the ISDA Master Agreements, if a counterparty defaults, all contracts with that counterparty are terminated. They are then settled on a net basis at market rates current at the time of settlement. The Banking Group also executes Credit Support Annexures in conjunction with ISDA Master Agreements.

Credit risk from over-the-counter derivatives is mitigated where possible through netting arrangements whereby derivative assets and liabilities with the same counterparty can be offset in certain circumstances. Derivatives that are cleared through a central clearing counterparty or an exchange have less credit risk than over-the-counter derivatives and are subject to relevant netting and collateral agreements.

Gross loans and advances to customers

The majority of Gross loans and advances to customers comprise general lending and line of credit products. The distinction in classification is reflective of the type of lending product. These lending and line of credit products will generally have a significant level of collateralisation depending on the nature of the product.

Credit card outstandings are mostly unsecured. However, where the borrower has provided collateral for other lending, the collateral can also be available to secure any credit card debt.

Housing loans are secured by mortgages over residential properties. LVR thresholds range up to, or exceed 100% in limited circumstances, including remediation of damaged properties that are held by the Banking Group as security. Further details on LVR are provided in note 34.

Overdrafts and Other term lending to non-retail customers are mostly secured by acceptable collateral (highly rated investment grade institutional clients may borrow on an unsecured basis). Collateral generally comprises commercial or agricultural properties, business assets, inventories, and in some cases personal assets of the borrower (e.g. residential properties). The Banking Group manages its exposure to these products by completing a credit evaluation to assess the customer's character, industry, business model and capacity to meet their commitments. Collateral provides a secondary source of repayment in the event that a customer cannot meet its contractual repayment obligations.

Note 35 Risk Management *continued*

Amounts due from related entities

Depending on the nature of the transaction entered into, collateral may be taken to secure such exposures.

Concentrations of credit exposure

The table below presents the maximum exposure to credit risk of financial assets before taking into account any collateral held or other credit enhancements. Except for derivative financial instruments, the majority of the overseas credit exposures are raised for New Zealand based assets funded in New Zealand dollars for offshore customers.

	Banking Group	
Dollars in Millions	**30/9/21**	30/9/20
Maximum exposure to credit risk		
Cash and liquid assets	**9,560**	3,751
Due from central banks and other institutions	**809**	782
Trading securities	**7,348**	10,814
Derivative financial instruments	**4,404**	6,140
Gross loans and advances to customers	**95,429**	88,849
Amounts due from related entities	**179**	1,053
Total on-balance sheet credit exposures	**117,729**	111,389
Off-balance sheet credit exposures	**14,222**	14,115
Total maximum exposure to credit risk	**131,951**	125,504

The Banking Group's concentrations of credit exposure are reported by industry sector and geographical location in the table below. The concentrations of credit exposure by industry sector is based on Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes. The concentrations of credit exposure by geographical location are based on the geographical location of the counterparty's tax residency.

	Banking Group			Banking Group		
	On-balance sheet	**Off-balance sheet[1]**	**Total exposure**	On-balance sheet	Off-balance sheet[1]	Total exposure
Dollars in Millions	**30/9/21**	**30/9/21**	**30/9/21**	30/9/20	30/9/20	30/9/20
Concentration by industry						
Agriculture	**13,839**	**963**	**14,802**	14,056	906	14,962
Forestry and fishing	**974**	**260**	**1,234**	980	233	1,213
Mining	**363**	**195**	**558**	403	213	616
Manufacturing	**3,405**	**1,449**	**4,854**	3,315	1,840	5,155
Electricity, gas and water	**817**	**687**	**1,504**	1,221	669	1,890
Construction	**1,126**	**676**	**1,802**	1,056	741	1,797
Wholesale and retail trade	**3,591**	**1,415**	**5,006**	3,242	1,437	4,679
Accommodation, restaurants, culture and recreation	**1,479**	**409**	**1,888**	1,516	424	1,940
Transport and storage	**1,983**	**832**	**2,815**	2,077	947	3,024
Communications	**387**	**163**	**550**	397	299	696
Financial, investment and insurance	**15,294**	**1,628**	**16,922**	10,450	1,522	11,972
Property, business and personal services	**10,655**	**1,961**	**12,616**	10,763	1,765	12,528
Government, education, health and community services	**8,341**	**1,472**	**9,813**	11,650	1,196	12,846
Real estate - mortgage	**52,728**	**2,095**	**54,823**	45,850	1,900	47,750
Personal lending	**855**	**17**	**872**	1,064	23	1,087
Related entities[2]	**1,892**	**-**	**1,892**	3,349	-	3,349
Total credit exposures by industry	**117,729**	**14,222**	**131,951**	111,389	14,115	125,504
Concentration by geography						
New Zealand	**113,467**	**14,028**	**127,495**	104,328	13,850	118,178
Overseas	**4,262**	**194**	**4,456**	7,061	265	7,326
Total credit exposures by geography	**117,729**	**14,222**	**131,951**	111,389	14,115	125,504

[1] Off-balance sheet credit exposures include contingent liabilities and irrevocable commitments to extend credit.

[2] Related entities include amounts due from related entities and derivative financial assets with related entities.

Note 35 Risk Management *continued*

Credit risk exposures by risk grade

The table below shows significant exposures to credit risk to which the expected credit loss model is applied, for recognised and unrecognised financial assets at amortised cost, based on the following risk grades:

- Senior investment grade: broadly corresponds with Standard & Poor's ratings of AAA to A- (internal rating 1 to 5);
- Investment grade: broadly corresponds with Standard & Poor's ratings of BBB+ to BBB- (internal rating 6 to 11);
- Sub-investment grade: broadly corresponds with Standard & Poor's ratings of BB+ (internal rating 12 to 23); and
- Default: broadly corresponds with Standard & Poor's rating of D (internal rating 98 to 99).

Notional stage allocations (Stage 1, Stage 2 and Stage 3) for gross credit risk exposures incorporate the impact of forward looking stress applied in the expected credit loss model. Refer Accounting Policy section of Note 11 Allowance for Expected Credit Losses for further information.

	Banking Group (30/9/21) Loans and advances and loan commitments for which the loss allowance is measured at:			
Dollars in Millions	12-months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Total
Credit risk exposure by risk grade				
Senior investment grade	**33,393**	**1,770**	**-**	**35,163**
Investment grade	**32,046**	**9,577**	**-**	**41,623**
Sub-investment grade	**17,758**	**23,273**	**-**	**41,031**
Default	**-**	**-**	**629**	**629**
Total credit risk exposure by risk grade	**83,197**	**34,620**	**629**	**118,446**
	Banking Group (30/9/20)			
Credit risk exposure by risk grade				
Senior investment grade	33,048	58	-	33,106
Investment grade	31,275	4,165	-	35,440
Sub-investment grade	21,129	19,849	-	40,978
Default	-	-	1,159	1,159
Total credit risk exposure by risk grade	85,452	24,072	1,159	110,683

Derivatives

The Banking Group maintains appropriate control limits on net open derivative positions (the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to risk is limited to the current fair value of instruments that are favourable to the Banking Group (assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. The requirement for collateral or other security for these instruments is assessed based on the creditworthiness of the counterparty.

Undrawn credit commitments

Undrawn credit commitments represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Banking Group is potentially exposed to credit risk for undrawn credit commitments for an amount equal to the total amount undrawn. However, the level of credit risk is mitigated through most commitments to extend credit being contingent upon customers maintaining specific credit standards. The Banking Group monitors the term to maturity of all credit commitments, drawn and undrawn, because longer term commitments generally have a greater degree of credit risk than shorter term commitments.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. This includes legal risk, but excludes strategic risk.

There are inherent risks within the Banking Group's operations due to the range of customers, products and services that the Banking Group provides, the multiple markets and channels these products and services are delivered through, and the reliability and resilience of BNZ's technology, which may be impacted by the complex technology environment, failure to keep technology systems up-to-date, an inability to restore or recover systems and data in acceptable timeframes, or a physical or cyber attack.

Operational risk can also arise from external events such as biological hazards, climate change, natural disasters, cyber attacks or acts of terrorism.

The Banking Group has adopted the NAB Group's Operational Risk Management Framework, which sets out the principles for managing operational risks across the Banking Group. The Banking Group takes a proactive risk-based approach to the identification, assessment, management, reporting, assurance, review and challenge of risks and controls reflecting the Banking Group's risk appetite, strategic objectives and values. This ensures that end-to-end risks and obligations are understood and managed, and that the control environment is fit for purpose. Timely and accurate information on risks, issues and events is provided to enable prompt reporting and sustainable remedial action.

Effective operational risk management within the Banking Group is based upon a three lines of accountability model. The Banking Group's business units are the first line of accountability and are accountable for the management of their risks. Review and challenge is provided by the Banking Group's Risk division (second line of accountability) who report to the Banking Group's Chief Risk Officer. Assurance is provided by the internal audit function (third line of accountability).

The primary roles of the Banking Group's Risk division in relation to operational risk are risk appetite setting, policy making; advisory and support, including monitoring, review and challenge. The team also provides subject matter expertise and additional assistance to business units and identifies systemic trends across the business.

Note 35 Risk Management *continued*

For the year ended 30 September 2021, the Banking Group calculated operational risk capital using the standardised approach as required by BS2A.

The operational risk calculations are performed on an aggregate bank-wide basis, and the resultant capital is allocated across major business lines.

Compliance risk

Compliance risk is the risk of failing to understand and comply with relevant laws, regulations, licence conditions, supervisory requirements, self-regulatory industry codes of conduct and voluntary initiatives as well as the internal policies, standards, procedures and frameworks that support sustainable compliance.

The Banking Group has adopted the NAB Group's Compliance Framework (Compliance Obligation Management Policy) (as appropriate for the Banking Group) which sets out the principles for managing compliance risk across the Banking Group.

The Banking Group has a fundamental duty to obey the law when delivering banking and financial services, and is committed to the fair treatment of customers, and maintaining open, constructive and transparent relationships with the Banking Group's regulators. The Banking Group therefore strives to maintain effective practices for compliance risk management to ensure compliance obligations are met. Timely identification, investigation, escalation, reporting and remediation of any instances of non-compliance is emphasised by the Banking Group.

Conduct risk

Conduct risk is the risk that a behaviour, or action by either the Banking Group, or those acting on behalf of the Banking Group, does not lead to the appropriate outcome for the Banking Group's colleagues, customers, communities and other stakeholders.

Conduct risk is inherent in the Banking Group's business activities and arises from negligent, inappropriate, unlawful or unethical judgements, behaviours or actions made during the execution of the Banking Group's business activities.

Conduct Risk is managed by leveraging policies, frameworks, processes and tools used for other material risk types, such as operational risk, compliance risk and through the Banking Group's Enterprise Conduct Risk Framework. Governance and oversight of conduct risk and the conduct strategy resides with the Customer and Conduct Committee, a sub-committee of the Banking Group's RRMC.

Strategy in using financial instruments

By their nature, the Banking Group's activities involve the use of financial instruments. The core activity of the Banking Group is to accept deposits from customers at both fixed and floating rates for various periods, and seek to earn interest margins by investing these funds. The Banking Group also deals in a range of other financial products including derivatives and foreign exchange contracts where the Bank has deemed it has the expertise in the relevant market and infrastructure to support management processes.

Executing this strategy may result in market risk for the Banking Group, which is the risk of financial loss from unfavourable movements in market variables such as interest or foreign exchange rates. The Banking Group may use financial instruments to mitigate this market risk or selectively position for favourable movements in these market variables. The Board places limits on the level of market risk exposure that can be taken from these activities while a comprehensive governance structure is in place to ensure compliance with the Banking Group's risk appetite. This includes independent risk oversight teams which provide oversight over the Banking Group's market risk exposures and escalate any limit breaches.

The Banking Group's activities are divided into traded market risk and non-traded market risk. The differences between the two, including the measures used to control the level of market risk exposure, are documented further in this note.

Market risk - traded

Traded market risk is the risk of loss to the trading book from unfavourable movements in market variables such as interest rates or foreign exchange rates. Financial instruments designated as traded market risk include those which:

- are held for short term resale;
- are taken on by the Banking Group with the intention of benefitting in the short term from actual and/or expected differences between their buying and selling prices, or from other price or interest rate variations;
- arose from broking, market making and providing traded product solutions to clients; and
- are hedging a derivative valuation adjustment.

The trading activities of the Banking Group are carried out by BNZ Markets.

The types of market risk arising from these activities include interest rate, foreign exchange, commodity, credit spread and volatility risk.

Independent oversight of the Banking Group's traded market risk, including compliance with limits, is undertaken by the Market risk team, which reports through to the Chief Risk Officer. Governance is provided by the Banking Group's Market Risk Committee, which is a subcommittee of the Banking Group's RRMC.

All trading activities are subject to the disciplines prescribed in the NAB Group Traded Market Risk Policy which is approved by the NAB Board, and approved by the BNZ Board for adoption by the Banking Group (as appropriate).

Objectives and limitations of the Value at Risk ("VaR") methodology

VaR is an estimate of potential loss resulting from shifts in market variables such as interest rates, foreign exchange rates, traded credit spreads, option volatility and commodity prices. The estimate is calculated on an entire trading portfolio basis, which includes all financial instruments and derivatives.

VaR is calculated using the historical simulation method. This method involves multiple revaluations of the trading books using two years of historical pricing shifts. The pricing data is updated daily so as to have the most recent two-year history of prices. The results are ranked and the loss at the 99th percentile confidence level identified. The calculation and rate shifts used assume a one day holding period for all positions. This means the model estimates there is a 99% chance that the loss will not exceed the VaR estimate on any given day.

The use of a VaR methodology has limitations, which include:

- the historical data used to calculate VaR is not always an appropriate proxy for current market conditions. If market volatility or correlation conditions change significantly, losses may occur more frequently and to a greater magnitude than the VaR measure suggests;

Note 35 Risk Management *continued*

- the VaR methodology assumes that positions are held for one day and may underestimate losses on positions that cannot be hedged or reversed inside that timeframe;
- VaR is calculated on positions at the close of each trading day, and does not measure risk on positions taken and closed before the end of each trading session; and
- VaR does not describe the directional bias or size of the positions generating the risk.

VaR estimates are checked against profit/loss via backtesting for reasonableness and to assess the continued relevance of the model assumptions.

The following table shows the Banking Group VaR for the trading portfolio, including both physical and derivative positions:

	Banking Group							
	As At		Average Value During Year		Minimum Value During Year		Maximum Value During Year	
Dollars in Millions	30/9/21	30/9/20	30/9/21	30/9/20	30/9/21	30/9/20	30/9/21	30/9/20
VaR at a 99% confidence level								
Foreign exchange risk	0.27	1.85	0.80	1.25	0.07	0.02	2.01	3.31
Interest rate risk	1.84	4.06	2.95	2.33	1.31	0.70	6.06	6.37
Volatility risk	0.04	-	0.05	0.01	-	-	0.09	0.03
Credit spread risk	0.35	0.47	0.55	0.37	0.26	0.18	1.09	0.77
Diversification benefit	(0.01)	(1.67)	(1.00)	(1.15)	N/A	N/A	N/A	N/A
Total VaR for physical and derivative positions	2.49	4.71	3.35	2.81	1.76	1.12	6.39	6.22

VaR is measured individually for foreign exchange risk, interest rate risk, volatility, commodities and credit spread risk.

Due to the limitations of the measure, VaR is supplemented with stress testing which is reported daily and also by other measures such as foreign exchange limits, basis point sensitivity limits, stop loss limits, and profit/loss referral levels.

Foreign exchange risk

Foreign exchange and translation risk arise from the impact of currency movements on the value of the Banking Group's cash flows, profits and losses, and assets and liabilities due to participation in global financial markets and international operations.

Foreign exchange limits are in place to control the level of foreign currency exposure run by the Banking Group. This exposure is measured by calculating the net present value position of the products the Banking Group deals in which are denominated in a non-New Zealand dollar currency. This includes foreign currency loans and deposits, foreign currency cash balances and the trading of foreign currency denominated products, such as spot and forward contracts, currency options, foreign currency interest rate derivatives and foreign currency securities.

An analysis of the net open position by currency is shown in the following table. The net open position in each currency represents the net of the non-derivative assets and liabilities in that currency aggregated with the net expected cash flows from derivative financial instrument purchases and sales from foreign exchange transactions in that currency including foreign currency options and futures and the principal on currency swaps. The amounts are stated in New Zealand dollar equivalents translated using the spot exchange rates as at the reporting date.

Net open position

	Banking Group	
Dollars in Millions	30/9/21	30/9/20
US dollar	16	(3)
Australian dollar	11	(9)
Japanese yen	-	6
Pound sterling	2	1
Euro	-	(1)
Hong Kong dollar	-	(3)
Other	(1)	3

Market risk – non-traded/banking positions

Non-traded market risk includes all market risks which are not designated as traded market risk. Non-traded market risk largely consists of structural interest rate risk in the balance sheet arising from loans and deposits.

Non-traded market risk also includes funding and liquidity risk.

Non-traded market risk policies are approved by the National Australia Bank Limited Board of Directors ("NAB Board"), with the NAB Group Liquidity Policy and the NAB Group Capital Policy approved by the BNZ Board for adoption by the Banking Group (as appropriate).

Note 35 Risk Management *continued*

Interest rate risk

Interest rate risk is the risk of the Banking Group's market operations and trading activities being exposed to changes in the value of securities and derivatives as a result of changes in interest rates.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, mortgage prepayment speeds and credit spreads. The Banking Group has exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Exposure to interest rate risk arises in respect of the following activities: borrowing from and lending to customers; borrowing to fund the Banking Group in both domestic and international wholesale debt markets; transacting in money market instruments such as government stock, bank bills, and commercial paper; foreign exchange instruments such as foreign exchange contracts; and derivative financial instruments such as swaps, options and futures.

Interest rate risk for non-traded market risk is measured, managed and monitored using VaR and Earnings at Risk ("EaR") limits, complemented by cash flow analysis, basis point sensitivity and stress testing limits.

Similar to the methodology applied for traded market risk, VaR is calculated using the historic simulation method. Due to the generally longer holding period for non-traded products, the parameters applied differ. The key parameters for measuring non-traded market risk are as follows:

- 99% confidence level;
- three-month holding period;
- six years of historical data;
- rate changes are absolute rather than proportional;
- investment term for capital is two years; and
- investment term for core "Non-Interest Bearing" liabilities (the sum of low and non-interest rate bearing liabilities) is five years.

EaR is the potential accrual income loss over the next 12 months (the forecast period). VaR exposures are measured and reported weekly while EaR exposures are measured and reported monthly.

The table below shows the aggregate VaR figures for non-traded market risk:

	Banking Group	
Dollars in Millions	**30/9/21**	30/9/20
VaR for physical and derivative positions at a 99% confidence level		
New Zealand		
As at end of year	**37**	52
Average value during year ended	**45**	33
Minimum value during year ended	**26**	22
Maximum value during year ended	**66**	52

The table below shows the aggregate EaR figures for non-traded market risk:

	Banking Group	
Dollars in Millions	**30/9/21**	30/9/20
EaR for physical and derivative positions at a 99% confidence level		
New Zealand		
As at end of year	**12**	14
Average value during year ended	**16**	9
Minimum value during year ended	**8**	4
Maximum value during year ended	**25**	14

Note 35 Risk Management *continued*

Interest rate repricing schedule

The following tables represent a breakdown of the balance sheet by repricing dates or contractual maturity, whichever is the earlier. As interest rates and yield curves change over time, the Banking Group may be exposed to a loss in earnings due to the characteristics of the assets and their corresponding liability funding. These mismatches are actively managed as part of the overall interest rate risk management process. In managing the structural interest rate risk, the primary objectives are to limit the extent to which net interest income could be impacted from an adverse movement in interest rates and to maximise shareholder's earnings.

	Banking Group (30/9/21)						
Dollars in Millions	Total	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-Interest Bearing
Assets							
Cash and liquid assets	9,722	9,501	-	-	-	-	221
Due from central banks and other institutions	809	778	31	-	-	-	-
Trading securities	7,348	1,880	1,625	1,029	33	2,781	-
Derivative financial instruments	4,404	-	-	-	-	-	4,404
Gross loans and advances to customers	95,429	48,354	7,426	17,180	9,927	10,278	2,264
Deductions from loans and advances to customers	(708)	-	-	-	-	-	(708)
Amounts due from related entities	179	167	-	-	-	-	12
All other assets	1,939	-	-	-	-	-	1,939
Total assets	119,122	60,680	9,082	18,209	9,960	13,059	8,132
Liabilities							
Due to central banks and other institutions	5,388	3,632	2	36	56	1,660	2
Trading liabilities	537	-	-	27	47	463	-
Derivative financial instruments	3,189	-	-	-	-	-	3,189
Deposits and other borrowings	78,108	48,561	9,830	5,936	1,113	590	12,078
Bonds and notes	17,518	515	736	1,667	3,251	11,349	-
Amounts due to related entities	1,306	1,172	-	-	-	-	134
Subordinated debt	1,950	1,950	-	-	-	-	-
All other liabilities	1,245	-	-	-	-	-	1,245
Total liabilities	109,241	55,830	10,568	7,666	4,467	14,062	16,648
Shareholder's equity							
Total shareholder's equity	9,881	-	-	-	-	-	9,881
Total liabilities and shareholder's equity	119,122	55,830	10,568	7,666	4,467	14,062	26,529
On-balance sheet sensitivity gap	-	4,850	(1,486)	10,543	5,493	(1,003)	(18,397)
Derivative financial instruments							
Net hedging derivative notionals	-	(1,563)	3,470	(8,216)	559	5,750	-
Interest sensitivity gap - net	-	3,287	1,984	2,327	6,052	4,747	(18,397)

Note 35 Risk Management *continued*

Dollars in Millions	Banking Group (30/9/20) Total	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-Interest Bearing
Assets							
Cash and liquid assets	3,933	3,587	-	-	-	-	346
Due from central banks and other institutions	782	769	13	-	-	-	-
Trading securities	10,814	2,826	1,059	839	954	5,136	-
Derivative financial instruments	6,140	-	-	-	-	-	6,140
Gross loans and advances to customers	88,849	48,662	4,970	15,572	14,111	3,527	2,007
Deductions from loans and advances to customers	(700)	-	-	-	-	-	(700)
Amounts due from related entities	1,053	1,038	-	-	-	-	15
All other assets	1,439	-	-	-	-	-	1,439
Total assets	112,310	56,882	6,042	16,411	15,065	8,663	9,247
Liabilities							
Due to central banks and other institutions	2,820	2,703	9	25	26	57	-
Trading liabilities	54	-	-	-	-	54	-
Derivative financial instruments	4,711	-	-	-	-	-	4,711
Deposits and other borrowings	71,841	44,168	9,666	5,839	2,498	967	8,703
Bonds and notes	19,512	928	1,488	2,300	2,505	12,291	-
Amounts due to related entities	1,903	1,739	-	-	-	-	164
Subordinated debt	1,949	1,049	-	-	900	-	-
All other liabilities	863	-	-	-	-	-	863
Total liabilities	103,653	50,587	11,163	8,164	5,929	13,369	14,441
Shareholder's equity							
Total shareholder's equity	8,657	-	-	-	-	-	8,657
Total liabilities and shareholder's equity	112,310	50,587	11,163	8,164	5,929	13,369	23,098
On-balance sheet sensitivity gap	-	6,295	(5,121)	8,247	9,136	(4,706)	(13,851)
Derivative financial instruments							
Net hedging derivative notionals	-	(7,699)	6,642	(4,438)	(3,839)	9,334	-
Interest sensitivity gap - net	-	(1,404)	1,521	3,809	5,297	4,628	(13,851)

Equity risk

Equity risk results from exposures to changes in the price of individual equities, equity baskets and equity indices. Management reviews the Banking Group's exposure to any equity risk on a monthly basis.

Liquidity risk

Liquidity risk is the risk that the Banking Group is unable to meet its financial obligations as they fall due. These obligations include the repayment of deposits on demand or at their contractual maturity, the repayment of wholesale borrowings and loan capital as they mature, the payment of interest on borrowings and the payment of operational expenses and taxes. The liquidity associated with financial markets can be reduced substantially as a result of external economic or market events, market size or the actions of individual participants.

Maintaining adequate liquidity to meet current and future payment obligations at a reasonable cost is a core objective of the Banking Group. The Banking Group must also comply with APRA prudential and regulatory liquidity obligations as part of the NAB Group.

The following are types of liquidity risks:

- Intra-Day: Ability of the Banking Group to meet its intra-day collateral requirements in relation to its clearing and settlement obligations;
- Operational: Ability of the Banking Group to meet its refinancing requirements for a predefined period, e.g. up to 30 days; and
- Structural: Liquidity risk profile of the balance sheet to accommodate the Banking Group's strategic plan and risk appetite.

The Banking Group manages liquidity risk through a combination of positive cash flow management, the maintenance of portfolios containing high quality liquid assets and maintenance of a prudent funding strategy. The Banking Group undertakes a conservative approach by imposing internal limits that are in addition to regulatory requirements, including engaging in regulatory and internal thematic liquidity stress tests.

Independent oversight of the Banking Group's non-traded market risk, including compliance with limits, is undertaken by the Balance Sheet and Liquidity risk team, which reports through to the Chief Risk Officer. Governance is provided by the Banking Group's Asset, Liability and Capital Committee ("ALCCO"), which is a subcommittee of the Banking Group's RRMC.

The BNZ Board has the ultimate responsibility to monitor and review the adequacy of the Banking Group's liquidity compliance and management framework, with the guidance of the Banking Group's BRC. To aid in the fulfilment of its guidance responsibilities, the BRC receives recommendations from the RRMC and regular reports on the Banking Group's liquidity management activity, risk limits and sensitivity metrics. ALCCO is responsible for approval and providing overview of the execution of the liquidity strategy and escalation of issues to RRMC.

The Banking Group is subject to RBNZ's liquidity requirements (as set out in the RBNZ's Liquidity Policy (BS13/BS13A) ("BS13")). Consistent with the requirements of BS13, liquidity risk is measured and managed in the Banking Group on a cash flow mismatch and also core funding basis to ensure that the

Note 35 Risk Management *continued*

Banking Group exceeds RBNZ's specified minimum standards for these metrics. The Banking Group is required to monitor both 'one week' and 'one month' mismatches. Cash flow mismatch limits have been established to limit the Banking Group's exposure in these time buckets. The Banking Group maintains an Internal Liquidity Adequacy Assessment framework that meets the requirements set out in BS13.

The Banking Group also complies with APRA's prudential liquidity standard APS 210 "Liquidity" ("APS 210") as a member of NAB. In accordance with the requirements of APS 210, the Banking Group also measures and manages its funding and liquidity risk based on the Liquidity Coverage Ratio ("LCR"), and Net Stable Funding ratio ("NSFR") methodologies.

LCR is a Basel III requirement, which requires a bank to hold sufficient high quality liquid assets to cover its total net cash outflows over a 30 day period. NSFR was introduced on 1 January 2018 and requires a bank to maintain a stable funding position to support the composition of its assets and off-balance sheet activities.

The ability to realise assets quickly is an important source of liquidity for the Banking Group. The Banking Group holds sizeable balances of high quality liquid assets such as cash and securities that are acceptable under repurchase agreements with the RBNZ to meet these needs.

A three-level contingency funding plan has been established for the management of an escalated liquidity event where the Banking Group experiences either restricted access to wholesale funding, or a large increase in the withdrawal of funds. The plan identifies triggers at each level, details the actions required, allocates the key tasks to individuals, provides timeframes and defines a management committee to oversee the action plan.

Maturity profile

The tables on pages 74 and 75 present the Banking Group's cash flows by remaining contractual maturities as at the reporting date.

The gross cash flows disclosed hereafter are the contractual undiscounted cash flows and include both principal and associated future interest payments and therefore will not agree to the carrying values on the balance sheet. Actual cash flows can differ significantly from contractual cash flows as a result of future actions of the Banking Group and its counterparties. Off-balance sheet exposures are excluded from the tables below as contractual cash flows, if any, are contingent in nature. Irrevocable commitments to extend credit can be drawn down at any time before the commitments expire. Details of off-balance sheet exposures are included in note 29. Other assets and other liabilities only include balances which have contractual future cash flows.

	Banking Group (30/9/21)					
Dollars in Millions	On Demand	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years	Total Inflow/ (Outflow)
Assets						
Cash and liquid assets	9,126	596	-	-	-	9,722
Due from central banks and other institutions	-	778	31	-	-	809
Trading securities	-	1,803	2,749	1,599	1,515	7,666
Loans and advances to customers	4,726	17,680	12,995	29,456	52,959	117,816
Amounts due from related entities	27	152	-	-	-	179
Other assets	-	795	-	-	-	795
Total	13,879	21,804	15,775	31,055	54,474	136,987
Liabilities						
Due to central banks and other institutions	(1,127)	(1,955)	(1,232)	(1,082)	-	(5,396)
Trading liabilities	-	(4)	(38)	(400)	(153)	(595)
Deposits and other borrowings	(46,652)	(14,024)	(15,894)	(1,755)	-	(78,325)
Bonds and notes	-	(339)	(2,813)	(12,584)	(2,055)	(17,791)
Amounts due to related entities	(956)	(350)	-	-	-	(1,306)
Other liabilities	-	(511)	(36)	(150)	(152)	(849)
Subordinated debt	-	(6)	(20)	(1,107)	(1,125)	(2,258)
Total	(48,735)	(17,189)	(20,033)	(17,078)	(3,485)	(106,520)
Derivative financial liabilities[1]						
Derivative financial liabilities inflow	-	34,374	13,035	21,363	5,698	74,470
Derivative financial liabilities (outflow)	-	(35,978)	(14,978)	(25,821)	(7,033)	(83,810)

[1] Derivative financial liabilities include hedging and trading derivative cash flows.

Note 35 Risk Management *continued*

Dollars in Millions	Banking Group (30/9/20) On Demand	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years	Total Inflow/ (Outflow)
Assets						
Cash and liquid assets	2,934	999	-	-	-	3,933
Due from central banks and other institutions	-	770	13	-	-	783
Trading securities	-	2,627	2,085	4,456	1,698	10,866
Loans and advances to customers	5,318	18,585	12,778	27,166	48,872	112,719
Amounts due from related entities	15	1,038	-	-	-	1,053
Other assets	-	402	-	-	-	402
Total	8,267	24,421	14,876	31,622	50,570	129,756
Liabilities						
Due to central banks and other institutions	(1,284)	(1,420)	(34)	(85)	-	(2,823)
Trading liabilities	-	-	(1)	(8)	(51)	(60)
Deposits and other borrowings	(37,528)	(15,392)	(15,715)	(3,575)	-	(72,210)
Bonds and notes	-	(274)	(4,445)	(14,244)	(659)	(19,622)
Amounts due to related entities	(433)	(1,471)	-	-	-	(1,904)
Other liabilities	-	(195)	(36)	(152)	(79)	(462)
Subordinated debt	-	(9)	(35)	(1,238)	(1,090)	(2,372)
Total	(39,245)	(18,761)	(20,266)	(19,302)	(1,879)	(99,453)
Derivative financial liabilities[1]						
Derivative financial liabilities inflow	-	33,014	13,598	23,226	4,947	74,785
Derivative financial liabilities (outflow)	-	(35,004)	(17,037)	(32,463)	(7,034)	(91,538)

[1] Derivative financial liabilities include hedging and trading derivative cash flows.

Liquidity portfolio management

The table below shows net financial assets held by the Banking Group for the purpose of managing liquidity risk.

Dollars in Millions	Banking Group **30/9/21**	30/9/20
Cash and balances immediately convertible to cash	**9,126**	2,944
Securities purchased under agreements to resell	**135**	323
Government bonds, notes and securities	**4,213**	6,131
Semi-government bonds, notes and securities	**1,259**	2,931
Corporate and other institutions bonds, notes and securities	**1,339**	1,698
Total liquidity portfolio	**16,072**	14,027

1 As at 30 September 2021 there were no amounts due from other institutions included within Cash and balances immediately convertible to cash (30 September 2020: $10 million).

As at 30 September 2021, the Banking Group also held RMBS of $13,000 million (30 September 2020: $9,000 million) of which $12,240 (30 September 2020: $8,400 million) is available to be sold to the RBNZ under agreements to repurchase. The amount of $12,240 million is subject to a 19% reduction in value in accordance with RBNZ's Operating Rules and Guidelines. These RMBS are secured by housing loans and other assets.

For liquidity purposes, from May 2021 there is a 5% limit on the Banking Group's total assets (previously 4%) giving a net balance of $5,966 million (30 September 2020: $4,650 million).

Additional RBNZ facilities

As part of the COVID-19 support measures, on 20 March 2020 the RBNZ announced that it would provide term funding through a Term Auction Facility ("TAF") to give banks the ability to access term funding using repurchase agreements with qualifying collateral for a term of up to twelve months. On 10 March 2021, the RBNZ announced the removal of the TAF. The Banking Group had no outstanding repurchase agreements with the RBNZ as at 30 September 2021 (30 September 2020: $100 million).

On 26 May 2020, the RBNZ made available a Term Lending Facility ("TLF") to offer loans for a fixed term of three years at the rate of the Official Cash Rate ("OCR"). On 20 August 2020, the RBNZ announced it would extend the availability of the TLF to 31 January 2021 and extend the term to five years. On 16 December 2020, the RBNZ announced the extension of the availability of the TLF to 28 July 2021. It is now closed for additional drawdowns. As at 30 September 2021, Banking Group had repurchase agreements with the RBNZ with a value of $1,664 million (30 September 2020: $42 million).

On 11 November 2020, the RBNZ also announced details of its Funding for Lending Programme ("FLP") aimed at lowering the cost of borrowing for New Zealand businesses and households. The FLP allows eligible participants to access three-year floating interest rate funding at the prevailing OCR within eighteen months for an initial allocation of 4% of eligible loans, with a further six months for an additional allocation of 2% of eligible loans, using qualifying collateral. As at 30 September 2021, Banking Group had repurchase agreements with the RBNZ with a value of $1,000 million (30 September 2020: nil).

The underlying collateral accepted by the RBNZ in relation to the TLF and FLP facilities as at 30 September 2021 are RMBS to the value of $3,184 million (30 September 2020: $50 million).

Note 35 Risk Management *continued*

Regulatory liquidity ratios

The table below shows the three-month average of the respective daily ratio values in accordance with the RBNZ's Liquidity Policy (BS13/BS13A) ("BS13") and the Bank's Conditions of Registration relating to liquidity-risk management.

The one-week mismatch ratio is a measure of the Bank's one-week mismatch amount over its total funding, where the one-week mismatch amount represents the Bank's portfolio of primary liquid assets plus expected cash inflows minus expected cash outflows during a one-week period of stress. The Bank is required to maintain this ratio above a minimum level of zero percent on a daily basis. The one-week mismatch ratio = 100 x (one-week mismatch dollar amount / total funding).

The one-month mismatch ratio is a measure of the Bank's one-month mismatch amount over its total funding, where the one-month mismatch amount represents the Bank's stock of primary and secondary liquid assets plus expected cash inflows minus expected cash outflows during a one-month period of stress. The Bank must maintain this ratio above a minimum level of zero percent on a daily basis. The one-month mismatch ratio = 100 x (one-month mismatch dollar amount / total funding).

The one-year core funding ratio measures the extent to which loans and advances are funded by funding that is considered stable. The one-year core funding ratio = 100 x (one-year core funding dollar amount / BS13 total loans and advances) and must currently remain above 50 percent on a daily basis.

	Banking Group	
	Unaudited For the 3 months ended 30/9/21	Unaudited For the 3 months ended 30/6/21
One-week mismatch ratio	**6.5%**	5.2%
One-month mismatch ratio	**6.8%**	5.6%
One-year core funding ratio	**88.5%**	87.2%

Note 35 Risk Management *continued*

Concentrations of funding

The Banking Group's concentrations of funding is reported by industry sector and geographical location in the following table. The concentrations of funding by industry sector is based on ANZSIC codes. The concentrations of funding by geographical location is based on the principal market location of the funding programmes.

		Banking Group	
Dollars in Millions	Note	30/9/21	30/9/20
Concentration by industry			
Customer deposits			
Agriculture, forestry and fishing		3,273	2,964
Mining		379	224
Manufacturing		2,240	2,086
Electricity, gas and water		101	86
Construction		1,458	1,303
Wholesale and retail trade		2,458	2,532
Accommodation, restaurants, culture and recreation		1,484	1,432
Transport and storage		898	1,013
Communications		329	324
Financial, investment and insurance		7,985	7,623
Property, business and personal services		13,326	12,055
Government, education, health and community services		3,737	3,003
Personal deposits		33,576	32,935
Total customer deposits by industry		71,244	67,580
Concentration by geography			
Wholesale funding			
New Zealand		14,203	10,147
Overseas[1]		18,823	20,298
Total wholesale funding by geography		33,026	30,445
Total funding		104,270	98,025
Total funding comprised:			
Customer deposits	18	71,244	67,580
Wholesale funding			
Due to central banks and other institutions		5,388	2,820
Other borrowings	18	6,864	4,261
Bonds and notes		17,518	19,512
Amounts due to related entities		1,306	1,903
Subordinated debt		1,950	1,949
Total wholesale funding		33,026	30,445
Total funding		104,270	98,025

[1] This represents the wholesale active funding programmes of BNZ-IF and the Bank from offshore markets.

Sustainability risk

Sustainability risk is the risk that events or conditions (which includes Environmental, Social or Governance issues) arise that could negatively impact the sustainability, resilience, risk and return profile, value or reputation of BNZ or its customers and suppliers.

In relation to climate change risk, extreme weather, increasing weather volatility, and longer-term changes in climatic conditions, as well as other environmental impacts such as biodiversity loss and ecosystem degradation, may affect property and asset values or cause customer losses. The impact of these extreme weather events can be widespread, extending beyond primary producers to customers of BNZ who are suppliers to the agricultural sector, and to those who reside in, and operate businesses within, impacted communities.

Climate-related transition risks are also increasing as economies, governments and companies seek to transition to low-carbon alternatives and adapt to climate change. Customer segments may be adversely impacted as the economy transitions to renewable and low-emissions technology.

Physical and transition risk impacts may increase current levels of customer defaults and increase the credit risk facing the Bank, and adversely impact financial performance and position.

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 introduces mandatory climate-related reporting by publicly listed companies, large insurers, investment managers, banks and non-bank deposit takers. It will require BNZ, as a "climate reporting entity", to annually prepare and make public climate disclosures on the effects of climate change to its business, in accordance with a climate-related disclosure framework, to be issued by the External Reporting Board.

Sustainability risk is managed by implementing policies, frameworks, processes and tools used for other material risk types, such as operational risk. Governance and oversight of sustainability risk resides with the RRMC.

Note 36 Notes to the Cash Flow Statement

Dollars in Millions	Banking Group 30/9/21	Banking Group 30/9/20
Reconciliation of net profit attributable to the shareholder of Bank of New Zealand to net cash flows from operating activities		
Net profit attributable to the shareholder of Bank of New Zealand	1,322	762
Decrease/(increase) in accrued interest receivable	10	25
Depreciation and amortisation expense	134	283
Credit impairment charge/(write-back)	(37)	300
(Decrease)/increase in provision for tax	167	(122)
Unrealised gains less losses on financial instruments	(152)	(136)
(Decrease)/increase in accrued interest payable	(99)	(176)
(Decrease)/increase in other liabilities	(41)	(83)
(Gain)/loss on disposal of property, plant and equipment	4	-
Gain on equity investments	-	2
Add back items classified as financing activities included in net profit:		
Payment of lease liabilities	48	47
Deduct operating cash flows not included in net profit:		
Net change in operating assets and liabilities	3,693	419
Net cash flows from operating activities	5,049	1,321

Dollars in Millions	Bonds and Notes	Subordinated Debt	RBNZ Facilities	Amounts due to Related Entities[1]	Amounts due from Related Entities[1]	Total
			Banking Group (30/9/21)			
Reconciliation of net debt						
Balance at beginning of year	19,512	1,949	42	471	(8)	21,966
Net cash flows	(809)	1	2,622	(182)	1	1,633
Non-cash changes						
Foreign exchange adjustments	(809)	-	-	-	-	(809)
Fair value adjustments	(304)	-	-	-	-	(304)
Hedge adjustments	(63)	-	-	-	-	(63)
Other non-cash movements	(9)	-	-	-	-	(9)
Balance at end of year	17,518	1,950	2,664	289	(7)	22,414
			Banking Group (30/9/20)			
Balance at beginning of year	21,121	1,948	-	473	(11)	23,531
Net cash flows	(1,622)	(1)	42	(1)	3	(1,579)
Non-cash changes						
Foreign exchange adjustments	(187)	-	-	-	-	(187)
Fair value adjustments	145	-	-	-	-	145
Hedge adjustments	64	-	-	-	-	64
Other non-cash movements	(9)	2	-	(1)	-	(8)
Balance at end of year	19,512	1,949	42	471	(8)	21,966

[1] Balances at beginning and end of year exclude amounts classified as cash and cash equivalents in the cash flow statement.

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Independent auditor's report to the Shareholder of Bank of New Zealand

Report on the audit of the consolidated financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

Opinion

We have audited the consolidated financial statements required by Clause 24 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information required by Schedules 4, 7, 13 to 15 and 17 of the Order of Bank of New Zealand (the "Bank") and the entities it controlled at 30 September 2021 or from time to time during the year (collectively the "Banking Group") as included on pages 8 to 78 of the Disclosure Statement. The consolidated financial statements and supplementary information comprise:

- the balance sheet of the Banking Group as at 30 September 2021;
- the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended of the Banking Group;
- the notes to the consolidated financial statements of the Banking Group including a summary of significant accounting policies; and
- the supplementary information required by Schedules 4, 7, 13 to 15 and 17 of the Order.

In our opinion, the consolidated financial statements on pages 8 to 78 (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 13 to 15 and 17 of the Order and included within notes 12, 30, 31, 32 and 35) give a true and fair view of the consolidated financial position of the Banking Group as at 30 September 2021 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

In our opinion, the supplementary information disclosed in accordance with Schedules 4, 7, 13 to 15 and 17 of the Order and included within notes 12, 30, 31, 32 and 35 has been prepared, in all material respects, in accordance with the guidelines issued under section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration, is in accordance with the books and records of the Banking Group, and fairly states, in all material respects, the matters to which it relates in accordance with those schedules.

This report is made solely to the Bank's shareholder. Our audit has been undertaken so that we might state to the Bank's shareholder those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholder for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)* section of our report.

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Ernst & Young provides interim review, other assurance and agreed upon procedure services to the Banking Group. Partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. We have no other relationship with, or interest in, the Banking Group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Allowance for Expected Credit Losses

Why significant

As described in Notes 11 *Allowance for Expected Credit Losses* and 35 *Risk management*, the allowance for expected credit losses is determined in accordance with New Zealand Equivalent to International Financial Reporting Standard 9 *Financial Instruments* (NZ IFRS 9).

This was a key audit matter due to the value of the allowance for expected credit losses and the degree of judgment and estimation uncertainty associated with the calculations.

Key areas of judgment included:

- the application of the impairment requirements under NZ IFRS 9 within the Banking Group's expected credit loss methodology;
- the identification of exposures with a significant deterioration in credit quality;
- assumptions used in the expected credit loss model (for exposures assessed on an individual or collective basis); and
- the incorporation of forward-looking information to reflect future expected external factors, including judgments related to the ongoing impact of COVID-19, in the multiple economic scenarios and the probability weighting determined for each of these scenarios.

How our audit addressed the key audit matter

We assessed the alignment of the Banking Group's expected credit loss model and its underlying methodology with the requirements of NZ IFRS 9, with consideration of ongoing COVID-19 impacts and related industry responses.

We assessed the following for exposures evaluated on a collective basis:

- significant modelling and macroeconomic assumptions, including the reasonableness of forward-looking information and scenarios;
- the basis for and data used to determine the allowance for expected credit losses; and
- sensitivity of allowance for expected credit losses to changes in modelling assumptions.

We involved our actuarial specialists to test the mathematical accuracy of the model and to consider key assumptions.

We examined a sample of exposures assessed on an individual basis by:

- assessing the appropriateness and timeliness of internal credit quality assessments based on the borrowers' particular circumstances; and
- evaluating the associated allowances for expected credit losses by assessing the key inputs into the calculation, with particular focus on the impact of COVID-19 on high-risk industries, work out strategies, collateral values, and the value and timing of expected recoveries.

Building a better working world

Why significant	How our audit addressed the key audit matter
	In conjunction with our IT specialists, we assessed the effectiveness of relevant controls relating to the: ‣ capture of data, including loan origination and transactional data, ongoing internal credit quality assessments, storage of data in data warehouses, and interfaces with the models; and ‣ expected credit loss models, including functionality, model governance and validation and ongoing monitoring. We considered the adequacy and appropriateness of the disclosures related to expected credit losses within the consolidated financial statements.

Information Technology (IT) systems and controls over financial reporting

Why significant	How our audit addressed the key audit matter
A significant part of the Banking Group's financial reporting process is primarily reliant on IT systems with automated processes and controls relating to the capture, storage and extraction of information. A fundamental component of controls related to these IT systems is ensuring that risks relating to inappropriate user access management, unauthorised program changes and IT operating protocols are addressed.	We focused on those IT systems and controls that are significant to the Banking Group's financial reporting process. We involved our IT specialists, as audit procedures over IT systems and controls require specific expertise. We assessed the design and tested the operating effectiveness of the Banking Group's IT controls, including those related to user access, change management and data integrity. Where we identified design and/or operating deficiencies in the IT control environment, our procedures included the following: ‣ extending our testing to validate the integrity and reliability of the associated systems, data and reporting as it relates to financial reporting. ‣ where automated procedures were supported by systems with identified deficiencies, extending our procedures to test alternative controls and performing additional testing of the resulting data and financial statement balances.

Information other than the consolidated financial statements, supplementary information and auditor's report

The directors of the Bank are responsible for the Disclosure Statement, which includes information other than the consolidated financial statements, the supplementary information required by Schedules 4, 7, 13 to 15 and 17 of the Order and our auditor's report.

Our opinion on the consolidated financial statements and supplementary information does not cover the other information and we do not express any form of assurance conclusion thereon except as otherwise stated.

In connection with our audit of the consolidated financial statements and supplementary information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or supplementary information or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Building a better working world

Directors’ responsibilities for the consolidated financial statements and supplementary information (excluding supplementary information relating to capital adequacy and regulatory liquidity requirements)

The directors are responsible, on behalf of the Bank, for the preparation of the consolidated financial statements that give a true & fair view in accordance with Clause 24 of the Order, New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the supplementary information in the Disclosure Statement which complies with Clause 24 and Schedules 2, 4, 7, 13 to 15 and 17 of the Order.

In preparing the consolidated financial statements and, where relevant, the supplementary information the directors are responsible for assessing the Banking Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Banking Group or cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the consolidated financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole and the supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 34 and 35) disclosed in accordance with Clause 24 and Schedules 4, 7, 13 to 15 and 17 of the Order are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of the auditor’s responsibilities for the audit of the financial statements is located at the External Reporting Board’s website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/. This description forms part of our auditor’s report.

Report on other legal and regulatory requirements (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

We also report in accordance with the requirements of Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the consolidated financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 34 and 35) for the year ended 30 September 2021:

(i) we have obtained all the information and explanations we have required; and

(ii) in our opinion, proper accounting records have been kept by the Banking Group as far as appears from an examination of those records.

Report on the review of supplementary information relating to capital adequacy and regulatory liquidity requirements

Conclusion

We have reviewed the supplementary information relating to capital adequacy and regulatory liquidity requirements required by Schedule 11 of the Order as disclosed in notes 34 and 35 of the consolidated financial statements of the Banking Group for the year ended 30 September 2021.

Based on our review nothing has come to our attention that causes us to believe that the accompanying supplementary information relating to capital adequacy (disclosed in note 34) and regulatory liquidity requirements (being the regulatory liquidity ratios disclosed in note 35) are not prepared, in all material respects, in accordance with Schedule 11 of the Order.

This report is made solely to the Bank's shareholder. Our review has been undertaken so that we might state to the Bank's shareholder those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholder for our review work, for this report, or for our findings.

Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410"). Our responsibilities under this standard are further described in the *Auditor's responsibilities for the review of the supplementary information relating to capital adequacy and regulatory liquidity requirements* section of this report.

Directors' responsibility for the supplementary information relating to capital adequacy and regulatory liquidity requirements

The directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 11 of the Order. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of the supplementary information relating to capital adequacy and regulatory liquidity requirements that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the supplementary information relating to capital adequacy and regulatory liquidity requirements

Our responsibility in relation to the supplementary information relating to capital adequacy disclosed in note 34 and regulatory liquidity requirements (being the regulatory liquidity ratios disclosed in note 35) that is required to be disclosed in accordance with Schedule 11 of the Order is to express a conclusion based on our review.

NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the supplementary information relating to capital adequacy disclosed in Note 34 and regulatory liquidity requirements (being the regulatory liquidity ratios disclosed in Note 35), is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

A review of the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 34 and 35 in accordance with NZ SRE 2410 is a limited assurance engagement. We perform procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 34 and 35.

The engagement partner on the engagement resulting in this independent auditor's report is Emma Winsloe.

Ernst & Young

Chartered Accountants
Auckland
17 November 2021

Credit Ratings

As at the date on which this Disclosure Statement is signed, the Bank has the following credit ratings applicable to its long term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

Rating Agency	Current Credit Rating	Qualification
S&P Global Ratings Australia Pty Limited	AA-	Outlook Stable
Moody's Investors Service Pty Limited	A1	Outlook Stable
Fitch Australia Pty Limited	A+	Outlook Stable

During the two-year period ended immediately before the signing date:

- there was no change to the Bank's Moody's Investors Service Pty Limited ("Moody's Investors Service") issuer credit rating;
- on 12 April 2021, Fitch Australia Pty Limited ("Fitch Ratings") revised the Bank's credit rating outlook from "outlook negative" to "outlook stable". On 7 April 2020, Fitch Ratings revised the Bank's credit rating from "AA-" to "A+"; and
- on 7 June 2021, Standard & Poor's revised the Bank's credit rating outlook from "outlook negative" to "outlook stable". On 8 April 2020, Standard & Poor's revised the Bank's credit rating outlook from "outlook stable" to "outlook negative".

The following is a summary of the descriptions of the major rating categories for rating agencies for the rating of long term obligations.

Standard & Poor's	Moody's Investors Service	Fitch Ratings	Description of Grade
AAA	Aaa	AAA	Ability to repay principal and interest is extremely strong. This is the highest investment category.
AA	Aa	AA	Very strong ability to repay principal and interest.
A	A	A	Strong ability to repay principal and interest although somewhat susceptible to adverse changes in financial conditions.
BBB	Baa	BBB	Adequate ability to repay principal and interest. More vulnerable to adverse changes.
BB	Ba	BB	Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.
B	B	B	Greater vulnerability and therefore greater likelihood of default.
CCC	Caa	CCC	Likelihood of default considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.
CC to C	Ca to C	CC to C	Highest risk of default.
D	-	RD & D	Obligations currently in default.

Credit ratings by Standard & Poor's and Fitch Ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories. Moody's Investors Service apply numeric modifiers 1, 2 and 3 to show relative standing within the major rating categories with 1 indicating the higher end of that category and 3 indicating the lower end.

Conditions of Registration

The conditions of registration imposed on Bank of New Zealand by the Reserve Bank of New Zealand pursuant to section 74 of the Reserve Bank of New Zealand Act 1989 which were applicable as at the balance date of this Disclosure Statement are as follows:

Conditions of registration that apply on and after 30 June 2021 - Bank of New Zealand

The registration of Bank of New Zealand (the “bank”) as a registered bank is subject to the following conditions:

1. That—
   (a) the Total capital ratio of the banking group is not less than 8%;
   (b) the Tier 1 capital ratio of the banking group is not less than 6%;
   (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;
   (d) the Total capital of the banking group is not less than $30 million;
   (e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and
   (f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

   For the purposes of this condition of registration,—

   the scalar referred to in the Reserve Bank of New Zealand document “Capital Adequacy Framework (Internal Models Based Approach)” (BS2B) dated November 2015 is 1.06;

   “Tier 1 capital ratio”, and “Common Equity Tier 1 capital ratio” have the same meaning as in Part 3 of the Reserve Bank of New Zealand document “Capital Adequacy Framework (Internal Models Based Approach)” (BS2B) dated November 2015, except that in the formulae for calculating the ratios, the term ‘total capital requirement for operational risk” has the same meaning as in Part 9 of the Reserve Bank of New Zealand document “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated November 2015, subject to a minimum value of $600m;

   an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

   a Tier 2 capital instrument is an instrument that meets the requirements of subsection 2.16(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 or subsection B3.2(2)(a) or (c) of the Reserve Bank of New Zealand document “BPR110: Capital Definitions”;

   “Total capital” has the same meaning as in Part 2 of the Reserve Bank of New Zealand document “Capital Adequacy Framework (Internal Models Based Approach)” (BS2B) dated November 2015 except that the amount of Tier 2 capital included in the calculation of total capital must include the value of any Tier 2 capital instrument meeting the definition given in this condition of registration;

   “Total capital ratio” has the same meaning as in Part 3 of the Reserve Bank of New Zealand document “Capital Adequacy Framework (Internal Models Based Approach)” (BS2B) dated November 2015 except that in the formula calculating “total capital ratio”, the value of “total capital” is as defined in this condition of registration, and the term “total capital requirement for operational risk” has the same meaning as in Part 9 of the Reserve Bank of New Zealand document “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated November 2015, subject to a minimum value of $600m;

   the Reserve Bank of New Zealand document “BPR001: Glossary” provides definitions for the defined terms highlighted in the Reserve Bank of New Zealand document “BPR110: Capital Definitions”.

1A. That—
   (a) the bank has an internal capital adequacy assessment process (“ICAAP”) that accords with the requirements set out in the document “Guidelines on a bank’s internal capital adequacy assessment process (‘ICAAP’)” (BS12) dated December 2007;
   (b) under its ICAAP the bank identifies and measures its “other material risks” defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document “Capital Adequacy Framework (Internal Models Based Approach)” (BS2B) dated November 2015; and
   (c) the bank determines an internal capital allocation for each identified and measured “other material risk”.

1B. That the bank complies with the minimum requirements set out in the following sections of the Reserve Bank of New Zealand document “Capital Adequacy Framework (Internal Models Based Approach)” (BS2B) dated November 2015:
   (a) the model approval requirements in section 1.3A;
   (b) the compendium requirements in section 1.3B;
   (c) the minimum requirements for the IRB approach in sections 4.217 to 4.324 (that is, Subpart 4C of BS2B); and
   (d) the minimum qualitative requirements for using the Advanced Measurement Approach (“AMA”) for operational risk set out in sections 8.4(a) and sections 8.5 to 8.14.

1C. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:
   (a) according to the following table, limit the aggregate distributions of the bank’s earnings to the percentage limit on distributions that corresponds to the banking group’s buffer ratio:

Banking group's buffer ratio	Percentage limit to distributions of the bank's earnings
0% - 0.625%	0%
>0.625 - 1.25%	20%
>1.25 - 1.875%	40%
>1.875 - 2.5%	50%

(b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and

(c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration,—

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015, except that in the formula for calculating the buffer ratio, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015, subject to a minimum value of $600m;

the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is 1.06.

1D. That, if the buffer ratio of the banking group is more than 2.5%, the bank must limit aggregate distribution, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to no more than 50% of the bank's earnings.

For the purposes of this condition of registration,—

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015, except that in the formula for calculating the buffer ratio, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015, subject to a minimum value of $600m;

the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is 1.06;

the bank must not make any individual dividend payment contributing to aggregate distributions for a financial year until it has completed its interim financial accounts for the first six months of its financial year or its annual financial accounts for its full financial year, and must not make any such dividend payment less than six months after any previous such dividend payment.

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

(a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

(b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the banking group's insurance business—

(a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

(b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,—

"insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance:

"insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit rating of the bank[1]	Connected exposure limit (% of the banking group's Tier 1 capital)
AA / Aa2 and above	75
AA- / Aa3	70
A+ / A1	60
A / A2	40
A- /A3	30
BBB+ /Baa1 and below	15

[1] This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's.)

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the banking group's Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected exposures policy" (BS8) dated November 2015.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the bank complies with the following corporate governance requirements:
   (a) the board of the bank must have at least five directors;
   (b) the majority of the board members must be non-executive directors;
   (c) at least half of the board members must be independent directors;
   (d) an alternate director,—
      (i) for a non-executive director must be non-executive; and
      (ii) for an independent director must be independent;
   (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
   (f) the chairperson of the board of the bank must be independent; and
   (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
   (b) the committee must have at least three members;
   (c) every member of the committee must be a non-executive director of the bank;
   (d) the majority of the members of the committee must be independent; and
   (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

10. That a substantial proportion of the bank's business is conducted in and from New Zealand.

11. That the bank will not, without first obtaining the written approval of the Reserve Bank, revoke the constitution of BNZ International Funding Limited or alter the constitution of BNZ International Funding Limited if such alteration would delete or amend or negate the effect of clause 2.2 of the constitution.

12. That:
   (a) the business and affairs of the bank are managed by, or under the direction or supervision of, the board of the bank;
   (b) the employment contract of the chief executive officer of the bank or person in an equivalent position (together "CEO") is with the bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the bank; and
   (c) all staff employed by the bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and be accountable (directly or indirectly) to the CEO of the bank.

13. That the bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the bank that are carried on by a person other than the bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the bank or of a service provider to the bank, the following outcomes:
   (a) that the bank's clearing and settlement obligations due on a day can be met on that day;
   (b) that the bank's financial risk positions on a day can be identified on that day;
   (c) that the bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
   (d) that the bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

   This condition ceases to apply in respect of an existing outsourcing arrangement on the earlier of either 1 October 2023 or when the existing outsourcing arrangement becomes compliant with condition 22, from which point in time condition 22 will apply to that outsourcing arrangement.

   For the purposes of this condition of registration:
   (a) the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006; and
   (b) the term "existing outsourcing arrangement" is defined in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated April 2020.

14. That the banking group complies with the following quantitative requirements for liquidity-risk management:
    (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
    (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
    (c) the one-year core funding ratio of the banking group is not less than 50 per cent at the end of each business day.

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated May 2021 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated May 2021.

15. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:
    (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
    (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
    (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
    (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

16. That no more than 10% of total assets may be beneficially owned by a SPV.

    For the purposes of this condition,—

    "total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets:

    "SPV" means a person—
    (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
    (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
    (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

    "covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

17. That—
    (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
    (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
        (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

    For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

18. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—
    (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—
        (i) all liabilities are frozen in full; and
        (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
    (b) apply a de minimis to relevant customer liability accounts;
    (c) apply a partial freeze to the customer liability account balances;
    (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
    (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
    (f) reinstate customers' access to some or all of their residual frozen funds.

    For the purposes of this condition of registration, "de minimis", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

19. That the bank has an Implementation Plan that—
    (a) is up-to-date; and
    (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS17) dated September 2013.

For the purposes of this condition of registration, “Implementation Plan” has the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated September 2013.

20. That the bank has a compendium of liabilities that—
    (a) at the product-class level lists all liabilities, indicating which are—
        (i) pre-positioned for Open Bank Resolution; and
        (ii) not pre-positioned for Open Bank Resolution;
    (b) is agreed to by the Reserve Bank; and
    (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

    For the purposes of this condition of registration, “compendium of liabilities” and “pre-positioned and non pre-positioned liabilities” have the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated September 2013.

21. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank’s Implementation Plan.

    For the purposes of this condition of registration, “Implementation Plan” has the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated September 2013.

22. That the bank must comply with the Reserve Bank of New Zealand document “Outsourcing Policy” (BS11) dated April 2020.

23. That, for a loan-to-valuation measurement period ending on or before 30 June 2021, the total of the bank’s qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

24. That, for a loan-to-valuation measurement period ending on or after 31 July 2021, the total of the bank’s qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

25. That, for a loan-to-valuation measurement period, the total of the bank’s qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

26. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank’s agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,—

“banking group” means Bank of New Zealand (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

“generally accepted accounting practice” has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 23 to 26,—

“loan-to-valuation ratio”, “non property-investment residential mortgage loan”, “property-investment residential mortgage loan”, “qualifying new mortgage lending amount in respect of property-investment residential mortgage loans”, “qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans”, and “residential mortgage loan” have the same meaning as in the Reserve Bank of New Zealand document entitled “Framework for Restrictions on High-LVR Residential Mortgage Lending” (BS19) dated January 2019:

“loan-to-valuation measurement period” means—

(a) the three calendar month period ending on the last day of May 2021; and
(b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of June 2021.

Changes in Conditions of Registration

Between 30 September 2020 and 30 September 2021, the RBNZ made the following changes to the Bank’s Conditions of Registration.

On 30 November 2020, the Bank’s Conditions of Registration were updated to reflect (i) a revised calculation approach for the Bank’s operational risk capital to be based on the standardised approach under BS2A (including a minimum value of $600m), and ii) the continued requirement for the Bank to meet the qualitative requirements of the Advanced Measurement Approach under BS2B in relation to operational risk.

On 1 March 2021, the Bank’s Conditions of Registration were updated to reintroduce residential mortgage lending restrictions at high loan-to-valuation ratios.

From 29 April 2021, the Bank’s Conditions of Registration were amended to restrict the timing of dividend distributions and the amount of dividend distributions relative to buffer ratios. From 1 May 2021, the amended Conditions of Registration also included updates to the Liquidity Policy (BS13 and BS13A).

On 30 June 2021, the Bank’s Conditions of Registration were updated to reflect new RBNZ processes for issuing capital Tier 2 instruments.

Conditions of Registration

From 1 January 2021, the Bank's breach reporting obligations were changed to require the Bank to publicly disclose where they have been non-compliant with their Conditions of Registration in a material respect in their Disclosure Statements.

Non-compliance with Conditions of Registration

In the Bank's disclosure statement for the year ended 30 September 2020, the Bank noted that the investigation phase of its comprehensive review of the data and systems used to calculate its regulatory capital had concluded and the Bank was continuing with remediation activities with the RBNZ being provided regular updates on progress. This remediation activity remains ongoing and the Bank intends to provide a final update on completion of the programme.

Directors' Statement

The Directors of Bank of New Zealand state that each Director of the Bank believes, after due enquiry, that:

1. as at the date on which this Disclosure Statement is signed:
    (a) the Disclosure Statement contains all the information that is required by the Order; and
    (b) the Disclosure Statement is not false or misleading; and
2. during the year ended 30 September 2021:
    (a) the Bank has complied with its Conditions of Registration applicable during that period, except as disclosed on page 91 of this Disclosure Statement;
    (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
    (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 17th November 2021 and signed by Mr. McKay and Mr. Huggins as Directors and as responsible persons on behalf of all the other Directors.

D A McKay
Chair

D J Huggins
Managing Director and Chief Executive Officer