Bank of New Zealand

Disclosure Statement

For the six months ended 31 March 2019

No. 91

Disclosure Statement

For the six months ended 31 March 2019

This Disclosure Statement has been issued by Bank of New Zealand for the six months ended 31 March 2019 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.

Contents

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 was incorporated on 29 July 1861. The Banking Group provides a broad range of banking and financial products and services to retail, business, agribusiness, corporate and institutional clients.

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. Refer to note 7 for further information. Further details about the above guarantee can be obtained by referring to the Bank's Disclosure Statement for the year ended 30 September 2018 which is available at www.bnz.co.nz.

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 1, 800 Bourke Street, Docklands, Victoria 3008, 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 (such as National Australia Bank Limited) and its related entities (such as the Bank). Any provision of financial support to the Bank by National Australia Bank Limited would need to comply with the pertinent requirements of APS 222.

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 One Capital. Exposures subject to this 5% limit include all committed, non-intraday, non-equity exposures, including derivatives and off-balance sheet exposures. As at 31 March 2019, National Australia Bank Limited's non-equity exposures to the Bank are below 5% of National Australia Bank Limited's Level One Tier One 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 One 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.

The financial services and banking industry in New Zealand is currently operating in an environment of heightened regulatory scrutiny. Recommendations from reviews and inquiries, and regulatory and legislative changes, may result in significant reforms to the financial services and banking industry, which may impact the Bank. The Bank is focussed on delivering good customer outcomes and co-operating with the relevant regulators to ensure any matters are addressed.

In May 2018, the Financial Markets Authority ("FMA") and the Reserve Bank of New Zealand ("RBNZ") initiated a review of conduct and culture in the New Zealand banking industry, with a number of industry-wide recommendations included in a report published on 5 November 2018. Some further specific findings were provided to individual New Zealand banks (including the Bank) in November 2018. The Bank provided its response to the FMA and the RBNZ on 29 March 2019 and anticipates formal feedback by the end of June 2019. The Bank has a comprehensive programme of work underway to address the findings of the conduct and culture review. The FMA and the RBNZ have also undertaken a review of life insurance providers in New Zealand, releasing their thematic report in January 2019, and insurer specific reports in February 2019 with responses due 30 June 2019. The outcome of these reviews may lead to increased political or regulatory scrutiny of the financial services and banking industry in New Zealand, which could adversely impact the Bank's reputation, operations, financial performance and financial position.

Since 2015, the Bank has been reviewing its compliance with the Consumer Credit and Consumer Finance Act 2003 ("CCCFA"), with a particular focus on disclosure requirements, and has remediated some customers. As part of this process, in late 2018, the Bank provided information to the Commerce Commission in relation to issues identified regarding the level and timing of disclosure made to certain credit and loan product customers, and the remediation of these customers. In May 2019, the Commerce Commission informed the Bank that it had commenced an investigation into the Bank's compliance with particular disclosure requirements under the CCCFA. The Bank intends to fully comply with the Commerce Commission's request for the Bank to supply additional information to support its investigation. The potential outcome of the investigation remains uncertain.

Bank of New Zealand Corporate Information

Directorate
Phillip Wayne Chronican resigned as a Director of the Bank, effective 28 February 2019.

Gary Andrew Lennon was appointed as a Non-Executive Director of the Bank, effective 1 May 2019.

Responsible Persons
Mr. Douglas Alexander McKay, ONZM, Non-Executive Director, Chairman, and Ms. Angela Mentis, 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:

Mai Chen
Prudence Mary Flacks
Bruce Ronald Hassall
Louis Arthur Hawke
Kevin John Kenrick
Gary Andrew Lennon

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.

Income Statement

For the six months ended 31 March 2019

		Consolidated		
		Unaudited 6 Months	Audited 12 Months	Unaudited 6 Months
Dollars in Millions	Note	**31/3/19**	30/9/18	31/3/18
Interest income		**2,115**	4,055	2,011
Interest expense		**1,081**	2,109	1,053
Net interest income		**1,034**	1,946	958
Gains less losses on financial instruments	2	**24**	191	97
Other operating income	3	**244**	419	215
Total operating income		**1,302**	2,556	1,270
Operating expenses		**492**	1,045	542
Total operating profit before credit impairment charge and income tax expense		**810**	1,511	728
Credit impairment charge	8	**46**	82	48
Total operating profit before income tax expense		**764**	1,429	680
Income tax expense on operating profit		**214**	400	190
Net profit attributable to shareholder of Bank of New Zealand		**550**	1,029	490

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

Statement of Comprehensive Income

For the six months ended 31 March 2019

	Consolidated		
	Unaudited 6 Months	Audited 12 Months	Unaudited 6 Months
Dollars in Millions	**31/3/19**	30/9/18	31/3/18
Net profit attributable to shareholder of Bank of New Zealand	**550**	1,029	490
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	**10**	60	4
Tax on items transferred directly to/(from) equity	**(3)**	(17)	(1)
	7	43	3
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	**43**	-	(10)
Tax on cash flow hedge reserve	**(12)**	(14)	(11)
	31	(14)	(21)
Total other comprehensive income/(expense)	**38**	29	(18)
Total comprehensive income attributable to shareholder of Bank of New Zealand	**588**	1,058	472

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

Statement of Changes in Equity

For the six months ended 31 March 2019

	Consolidated				
	Unaudited 6 Months 31/3/19				
Dollars in Millions	Ordinary Capital	Retained Profits	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Total Share-holders' Equity
Balance at beginning of period	3,456	3,885	3	35	7,379
Comprehensive income/(expense)					
Net profit attributable to shareholder of Bank of New Zealand	-	550	-	-	550
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	10	-	-	10
Reserve movement through other comprehensive income	-	-	-	43	43
Tax effect on items directly recognised in equity	-	(3)	-	(12)	(15)
Total comprehensive income/(expense)	-	557	-	31	588
Proceeds from shares issued[1]	600	-	-	-	600
Dividends paid on ordinary shares[1]	-	(945)	-	-	(945)
Balance at end of period	4,056	3,497	3	66	7,622
	Audited 12 Months 30/9/18				
Balance at beginning of year	2,351	4,538	3	49	6,941
Comprehensive income/(expense)					
Net profit attributable to shareholder of Bank of New Zealand	-	1,029	-	-	1,029
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	60	-	-	60
Tax effect on items directly recognised in equity	-	(17)	-	(14)	(31)
Total comprehensive income/(expense)	-	1,072	-	(14)	1,058
Proceeds from shares issued[2]	1,105	-	-	-	1,105
Dividends paid on ordinary shares[2]	-	(1,725)	-	-	(1,725)
Balance at end of year	3,456	3,885	3	35	7,379
	Unaudited 6 Months 31/3/18				
Balance at beginning of period	2,351	4,538	3	49	6,941
Comprehensive income/(expense)					
Net profit attributable to shareholder of Bank of New Zealand	-	490	-	-	490
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	4	-	-	4
Reserve movement through other comprehensive income	-	-	-	(10)	(10)
Tax effect on items directly recognised in equity	-	(1)	-	(11)	(12)
Total comprehensive income/(expense)	-	493	-	(21)	472
Proceeds from shares issued[2]	1,105	-	-	-	1,105
Dividends paid on ordinary shares[2]	-	(1,405)	-	-	(1,405)
Balance at end of period	3,456	3,626	3	28	7,113

[1] On 7 December 2018, the Bank paid dividends of $945 million on its ordinary shares and issued 600 million ordinary shares.

[2] On 8 December 2017, the Bank paid dividends of $1,405 million on its ordinary shares and issued 1,105 million ordinary shares.

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

Balance Sheet

As at 31 March 2019

		Consolidated		
		Unaudited	Audited	Unaudited
Dollars in Millions	Note	31/3/19	30/9/18	31/3/18
Assets				
Cash and liquid assets	4	**1,495**	2,489	2,653
Due from central banks and other institutions	5	**1,167**	743	1,763
Trading securities	6	**7,479**	6,842	6,241
Derivative financial instruments		**4,242**	4,336	3,910
Loans and advances to customers	7	**85,681**	83,051	80,216
Amounts due from related entities	13	**1,717**	1,253	1,124
Other assets		**1,228**	557	486
Deferred tax		**186**	196	201
Property, plant and equipment		**181**	172	162
Goodwill and other intangible assets		**382**	352	309
Total assets		**103,758**	99,991	97,065
Liabilities				
Due to central banks and other institutions	10	**1,921**	1,944	2,481
Trading liabilities		**65**	181	527
Derivative financial instruments		**3,503**	3,053	2,745
Deposits and other borrowings	11	**66,390**	63,437	62,983
Bonds and notes		**19,369**	19,760	18,221
Current tax liabilities		**41**	150	28
Amounts due to related entities	13	**806**	913	622
Other liabilities		**2,094**	1,228	750
Subordinated debt	12	**1,947**	1,946	1,595
Total liabilities		**96,136**	92,612	89,952
Net assets		**7,622**	7,379	7,113
Shareholder's equity				
Contributed equity – ordinary shares	14	**4,056**	3,456	3,456
Reserves		**69**	38	31
Retained profits		**3,497**	3,885	3,626
Total shareholder's equity		**7,622**	7,379	7,113
Interest earning and discount bearing assets		**95,999**	92,586	90,333
Interest and discount bearing liabilities		**84,420**	82,280	80,814

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

Condensed Cash Flow Statement

For the six months ended 31 March 2019

		Consolidated		
		Unaudited 6 Months	Audited 12 Months	Unaudited 6 Months
Dollars in Millions	Note	**31/3/19**	30/9/18	31/3/18
Cash flows from operating activities				
Cash was provided from:				
Interest income		**2,112**	4,043	1,997
Other cash inflows provided from operating activities		**244**	727	277
Cash was applied to:				
Interest expense		**(1,076)**	(2,133)	(1,079)
Other cash outflows applied to operating activities		**(873)**	(1,237)	(716)
Net cash flows from operating activities before changes in operating assets and liabilities		**407**	1,400	479
Net change in operating assets and liabilities		**(546)**	276	2,526
Net cash flows from operating activities		**(139)**	1,676	3,005
Net cash flows from investing activities		**(101)**	(201)	(90)
Net cash flows from financing activities		**(437)**	(999)	(2,737)
Net movement in cash and cash equivalents		**(677)**	476	178
Cash and cash equivalents at beginning of period		**1,909**	1,433	1,433
Cash and cash equivalents at end of period		**1,232**	1,909	1,611
Cash and cash equivalents at end of period comprised:				
Cash and liquid assets	4	**1,495**	2,489	2,653
Due to central banks and other institutions classified as cash and cash equivalents	10	**(1,329)**	(1,209)	(1,597)
Amounts due from related entities classified as cash and cash equivalents	13	**1,687**	1,239	1,103
Amounts due to related entities classified as cash and cash equivalents	13	**(621)**	(610)	(548)
Total cash and cash equivalents		**1,232**	1,909	1,611

Reconciliation of net profit attributable to shareholder of Bank of New Zealand to net cash flows from operating activities			
Net profit attributable to shareholder of Bank of New Zealand	**550**	1,029	490
Add back non-cash items in net profit	**(143)**	371	(11)
Deduct operating cash flows not included in net profit:			
Net change in operating assets and liabilities	**(546)**	276	2,526
Net cash flows from operating activities	**(139)**	1,676	3,005

	Consolidated				
	Unaudited 6 months 31/3/19				
Dollars in Millions	Bonds and Notes	Subordinated Debt	Amounts due to Related Entities[1]	Amounts due from Related Entities[1]	Total
Reconciliation of net debt					
Balance at beginning of period	**19,760**	**1,946**	**303**	**(14)**	**21,995**
Net cash flows	**(32)**	**-**	**(118)**	**(16)**	**(166)**
Non-cash changes	**(359)**	**1**	**-**	**-**	**(358)**
Balance at end of period	**19,369**	**1,947**	**185**	**(30)**	**21,471**
	Audited 12 months 30/9/18				
Balance at beginning of year	20,157	1,824	103	(116)	21,968
Net cash flows	(1,397)	120	200	102	(975)
Non-cash changes	1,000	2	-	-	1,002
Balance at end of year	19,760	1,946	303	(14)	21,995
	Unaudited 6 months 31/3/18				
Balance at beginning of period	20,157	1,824	103	(116)	21,968
Net cash flows	(2,139)	(230)	(29)	95	(2,303)
Non-cash changes	203	1	-	-	204
Balance at end of period	18,221	1,595	74	(21)	19,869

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

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 six months ended 31 March 2019

Note 1 Principal Accounting Policies

These interim financial statements are general purpose financial reports prepared in accordance with New Zealand Generally Accepted Accounting Practice as appropriate for profit oriented entities, the requirements of International Accounting Standard 34: Interim Financial Reporting, New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting and the Order, and should be read in conjunction with the Disclosure Statement for the year ended 30 September 2018.

Reclassification of financial information

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

Changes in accounting policies and disclosure

Accounting policies used in the preparation of these interim financial statements are consistent with the accounting policies used in the preparation of the Disclosure Statement for the year ended 30 September 2018, except for the adoption of New Zealand Equivalent to International Financial Reporting Standards ("NZ IFRS") 15 Revenue from Contracts with Customers ("NZ IFRS 15"). NZ IFRS 15 establishes a single principles-based five step model for recognising revenue and introduces the concept of recognising revenue when an obligation to a customer is satisfied. Adoption of this standard has not resulted in any significant impact on the Banking Group's reported results, financial position or disclosures.

Income Statement Notes

	Consolidated		
	Unaudited 6 Months	Audited 12 Months	Unaudited 6 Months
Dollars in Millions	31/3/19	30/9/18	31/3/18
Note 2 Gains Less Losses on Financial Instruments			
Trading gains less losses on financial instruments	89	165	64
Net gain/(loss) attributable to assets, liabilities and derivatives designated in hedge relationships	5	16	14
Net gain/(loss) attributable to other derivatives used for hedging purposes that no longer qualify for hedge accounting	(2)	(14)	(13)
Net gain/(loss) in the fair value of derivatives used for hedging purposes designated at fair value through profit or loss	3	-	-
Net gain/(loss) in the fair value of financial assets (refer to table below)	(1)	-	3
Net gain/(loss) in the fair value of financial liabilities (refer to table below) [1]	(70)	24	29
Total gains less losses on financial instruments	24	191	97
Net gain/(loss) in the fair value of financial assets include:			
Credit risk adjustments on financial assets designated at fair value through profit or loss	4	11	10
Gain/(loss) in the fair value of financial assets designated at fair value through profit or loss	(5)	(39)	(23)
Net gain/(loss) in the fair value of financial liabilities include:			
Net gain/(loss) attributable to other derivatives used for hedging purposes where hedge accounting is not applied	211	(172)	(119)
Gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss	(281)	196	148

[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.

	Consolidated		
	Unaudited 6 Months	Audited 12 Months	Unaudited 6 Months
Dollars in Millions	31/3/19	30/9/18	31/3/18
Note 3 Other Operating Income			
Money transfer fees	56	106	60
Fees earned on financial assets and liabilities at fair value through profit or loss	23	41	24
Fees earned on financial assets and liabilities at amortised cost	68	128	61
Fees earned on trust and other fiduciary activities	7	15	7
Other income, other fees and commissions income[1]	90	129	63
Total other operating income	244	419	215

[1] On 11 January 2019 the Banking Group sold its 25% shareholding in Paymark Limited to Ingenico Group and recognised a gain on sale of $35 million.

Notes to and Forming Part of the Financial Statements

Asset Notes

Dollars in Millions	Consolidated Unaudited 31/3/19	Audited 30/9/18	Unaudited 31/3/18
Note 4 Cash and Liquid Assets			
Coins, notes and cash at bank	**162**	163	201
Transaction balances with central banks	**376**	1,461	1,682
Transaction balances with other institutions	**749**	269	220
Securities purchased under agreements to resell with other institutions	**208**	596	550
Total cash and liquid assets	**1,495**	2,489	2,653

The Banking Group has accepted collateral with a fair value of $1,898 million as at 31 March 2019 arising from reverse repurchase agreements included in cash and liquid assets and amounts due from related entities (refer to note 13), which it is permitted to sell or repledge (30 September 2018: $1,774 million; 31 March 2018: $1,613 million).

Government securities with a fair value of $362 million were repledged as at 31 March 2019 (30 September 2018: $361 million; 31 March 2018: $305 million). Securities were repledged for periods of less than three months. The Bank's obligation to repurchase government securities is classified under due to central banks and other institutions (refer to note 10).

Note 5 Due from Central Banks and Other Institutions

Included in due from central banks and other institutions as at 31 March 2019 was $758 million of collateral posted with counterparties to meet standard derivative trading obligations (30 September 2018: $423 million; 31 March 2018: $523 million).

Dollars in Millions	Consolidated Unaudited 31/3/19	Audited 30/9/18	Unaudited 31/3/18
Note 6 Trading Securities			
Government bonds, notes and securities	**3,260**	2,817	3,030
Semi-government bonds, notes and securities	**2,261**	2,037	1,080
Corporate and other institutions bonds, notes and securities	**1,958**	1,988	2,131
Total trading securities	**7,479**	6,842	6,241

Included in trading securities as at 31 March 2019 were $280 million encumbered through repurchase agreements (30 September 2018: $190 million; 31 March 2018: $99 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 10) and amounts due to related entities (refer to note 13).

Dollars in Millions	Consolidated Unaudited 31/3/19	Audited 30/9/18	Unaudited 31/3/18
Note 7 Loans and Advances to Customers			
Overdrafts	**2,700**	2,562	2,444
Credit card outstandings	**1,163**	1,159	1,180
Housing loans	**41,199**	39,727	38,186
Other term lending	**40,162**	39,302	38,320
Other lending	**932**	787	588
Total gross loans and advances to customers	**86,156**	83,537	80,718
Deduct:			
Provision for credit impairment and credit risk adjustments on financial assets (refer to note 8)	**618**	603	605
Deferred and other unearned future income and expenses	**(62)**	(74)	(70)
Fair value hedge adjustments	**(81)**	(43)	(33)
Total deductions	**475**	486	502
Total net loans and advances to customers	**85,681**	83,051	80,216

Included in loans and advances to customers as at 31 March 2019 was $240 million of collateral posted with counterparties to meet standard derivative trading obligations (30 September 2018: $58 million; 31 March 2018: $13 million).

The BNZ RMBS Trust Series 2008-1 (the "RMBS Trust") provides an internal residential mortgage-backed securities ("RMBS") programme to issue securities as collateral for borrowing from the RBNZ. As at 31 March 2019, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of $4,468 million held by the RMBS Trust (30 September 2018: $4,471 million; 31 March 2018: $4,461 million). 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. These housing loans and other assets (including cash) of the RMBS Trust secure debt instruments issued to the Bank as detailed in the Liquidity portfolio management section in note 21. The Banking Group had not entered into any repurchase agreements for RMBS with the RBNZ as at 31 March 2019 (30 September 2018: nil; 31 March 2018: nil). The RBNZ had not accepted any RMBS as collateral from the Banking Group as at 31 March 2019 (30 September 2018: nil; 31 March 2018: nil) and, as a result, the securities issued by the RMBS Trust remain unencumbered.

The BNZ Covered Bond Trust (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. The assets of the Covered Bond Trust are not available to the Bank unless and until all prior ranking creditors of the Covered Bond Trust have been satisfied. As at 31 March 2019, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of $4,686 million held by the Covered Bond Trust (30 September 2018: $5,051 million; 31 March 2018: $3,523 million). 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. The Banking Group had issued debt securities with a face value of $4,023 million that were guaranteed by the Covered Bond Trust as at 31 March 2019 (30 September 2018: $4,565 million; 31 March 2018: $3,168 million). The underlying collateral that supports the guarantee provided by the Covered Bond Trust comprised housing loans and other assets (including cash) with a carrying amount of $4,728 million as at 31 March 2019 (30 September 2018: $5,088 million; 31 March 2018: $3,552 million).

Note 8 Provision for Credit Impairment

The tables on pages 10 and 11 reflect provision for credit impairment on financial assets held at amortised cost. The table on page 12 shows credit risk adjustments on financial assets designated at fair value through profit of loss.

Dollars in Millions	Consolidated Residential Mortgage Lending Unaudited 31/3/19	Other Retail Exposures Unaudited 31/3/19	Corporate Exposures Unaudited 31/3/19	Total Unaudited 31/3/19
Loans and advances to customers				
Collective provision for credit impairment measured on a 12-months expected credit loss ("ECL")	1	15	51	67
Provision for credit impairment measured on a lifetime ECL				
Collective provision lifetime ECL not credit impaired	53	24	296	373
Collective provision lifetime ECL credit impaired	7	15	37	59
Specific provision lifetime ECL credit impaired	3	7	96	106
Total provision for credit impairment measured on a lifetime ECL	63	46	429	538
Total provision for credit impairment	64	61	480	605

Note 8 Provision for Credit Impairment *continued*

The following table provides a reconciliation from the opening balance to the closing balance of provision for credit impairment and shows the movement in opening balance where financial assets have transferred between provision stages during the period.

	Consolidated				
Dollars in Millions	Collective Provision 12-months ECL Unaudited 31/3/19	Collective Provision Lifetime ECL Not Credit Impaired Unaudited 31/3/19	Collective Provision Lifetime ECL Credit Impaired Unaudited 31/3/19	Specific Provision Lifetime ECL Credit Impaired Unaudited 31/3/19	Total Unaudited 31/3/19
Movement in provision for credit impairment					
Residential mortgage lending					
Balance at beginning of period	1	50	4	3	58
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	1	(1)	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	-	1	(1)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	-	-	-	-
Transferred to specific provision lifetime ECL credit impaired	-	-	-	-	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	(1)	3	4	2	8
Amounts written off	-	-	-	(2)	(2)
Recovery of amounts written off	-	-	-	-	-
Balance at end of period - Residential mortgage lending	1	53	7	3	64
Other retail exposures					
Balance at beginning of period	14	13	12	5	44
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	4	(4)	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	(1)	3	(2)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(2)	2	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(1)	(7)	8	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	(2)	15	10	8	31
Amounts written off	-	-	-	(19)	(19)
Recovery of amounts written off	-	-	-	5	5
Balance at end of period - Other retail exposures	15	24	15	7	61
Corporate exposures					
Balance at beginning of period	51	303	35	95	484
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	39	(38)	(1)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(7)	13	(6)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(2)	2	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(1)	(2)	3	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	(32)	21	9	9	7
Amounts written off	-	-	-	(12)	(12)
Recovery of amounts written off	-	-	-	3	3
Discount unwind[2]	-	-	-	(2)	(2)
Balance at end of period - Corporate exposures	51	296	37	96	480
Total					
Balance at beginning of period	66	366	51	103	586
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	44	(43)	(1)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(8)	17	(9)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(4)	4	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(2)	(9)	11	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	(35)	39	23	19	46
Amounts written off	-	-	-	(33)	(33)
Recovery of amounts written off	-	-	-	8	8
Discount unwind[2]	-	-	-	(2)	(2)
Total provision for credit impairment balance at end of period	67	373	59	106	605

[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 8 Provision for Credit Impairment *continued*

Impact of changes in gross carrying amount on ECL

The following explains how significant changes in the gross carrying amount of financial assets during the period have contributed to the changes in the provision for credit impairment. Provision for credit impairment reflects ECL measured using the three-stage approach under NZ IFRS 9 Financial Instruments.

Overall, the net increase in the total provision for credit impairment of $19 million was mainly driven by increases in collective provisioning and specific provisioning for credit impaired assets, partially offset by write-offs during the year. The increase was mainly attributed to an increase in the other retail segment of $17 million.

- Collective provision 12-months ECL (Stage 1) increased by $1 million due to $14 billion of loans and advances that were newly originated and transferred from Stage 2 or Stage 3 due to credit improvement. This was partially offset by the $11 billion of loans and advances that were repaid, experienced movements in underlying account balances during the period and transferred to Stage 2 or Stage 3 due to deterioration in credit quality.
- Collective provision lifetime ECL not credit impaired (Stage 2) increased by $7 million, mainly due to $5,983 million of loans and advances that were newly originated and transferred from Stage 1 or Stage 3. This was partially offset by $5,783 million of loans and advances that were repaid and transferred to Stage 1 or Stage 3.
- Collective provision lifetime ECL credit impaired (Stage 3) increased by $8 million, mainly due to $307 million of loans and advances that were transferred from Stage 1 or Stage 2 due to deterioration in credit quality. This was partially offset by $231 million of loans and advances that were repaid and transferred to Stage 1 or Stage 2 due to improvement in credit quality.
- Specific provision lifetime ECL credit impaired (Stage 3) increased by $3 million due to $57 million increase in individually impaired loans and advances. The increase was mainly due to $126 million of loans and advances that experienced change in the underlying account balances or were transferred from previously being assessed collectively. This was partially offset by $69 million of loans and advances that were repaid or written off during the period.

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.

	Consolidated			
Dollars in Millions	Residential Mortgage Lending Unaudited 31/3/19	Other Retail Exposures Unaudited 31/3/19	Corporate Exposures Unaudited 31/3/19	Total Unaudited 31/3/19
Credit risk adjustment on individual financial assets				
Loans and advances to customers				
Balance at beginning of period	-	-	2	2
Charge/(credit) to income statement	-	-	(2)	(2)
Amounts written off	-	-	-	-
Balance at end of period	-	-	-	-
Credit risk adjustment on groups of financial assets				
Loans and advances to customers				
Balance at beginning of period	-	-	15	15
Charge/(credit) to income statement	-	-	(2)	(2)
Balance at end of period	-	-	13	13
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	-	13	13
Trading derivative financial instruments				
Balance at beginning of period	-	-	11	11
Charge/(credit) to income statement	-	-	8	8
Balance at end of period	-	-	19	19
Total credit risk adjustments on trading derivative financial instruments	-	-	19	19

Note 9 Asset Quality

The Banking Group provides for credit impairment as disclosed in note 8. 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.

	Consolidated			
	Residential Mortgage Lending Unaudited	Other Retail Exposures Unaudited	Corporate Exposures Unaudited	Total Unaudited
Dollars in Millions	31/3/19	31/3/19	31/3/19	31/3/19
Movements in pre-allowance balances				
Individually impaired assets - at amortised cost				
Balance at beginning of period	13	8	227	248
Amounts written off	(2)	(19)	(12)	(33)
Additions	15	24	87	126
Deletions	(8)	(4)	(24)	(36)
Balance at end of period	18	9	278	305
Specific provision for credit impairment	3	7	96	106
Individually impaired assets - at fair value through profit or loss				
Balance at beginning of period	-	-	17	17
Amounts written off	-	-	-	-
Additions	-	-	-	-
Deletions	-	-	(10)	(10)
Balance at end of period	-	-	7	7
Credit risk adjustments on individual financial assets designated at fair value through profit or loss	-	-	-	-
Total impaired assets at end of period	18	9	285	312
Individually impaired assets - undrawn lending commitments				
At amortised cost	-	1	4	5
At fair value through profit or loss	-	-	-	-
Other assets under administration	6	1	1	8

	Consolidated			
	Residential Mortgage Lending Unaudited	Other Retail Exposures Unaudited	Corporate Exposures Unaudited	Total Unaudited
Dollars in Millions	31/3/19	31/3/19	31/3/19	31/3/19
Past due assets not impaired				
Loans and advances to customers				
1 - 7 days past due	144	61	271	476
8 - 29 days past due	103	39	35	177
1 - 29 days past due	247	100	306	653
30 - 59 days past due	68	17	50	135
60 - 89 days past due	35	9	9	53
90+ days past due	43	20	67	130
Total past due assets not impaired	393	146	432	971

Notes to and Forming Part of the Financial Statements

Liability Notes

Dollars in Millions	Consolidated Unaudited 31/3/19	Audited 30/9/18	Unaudited 31/3/18
Note 10 Due to Central Banks and Other Institutions			
Transaction balances with other institutions[1]	**1,079**	896	1,370
Deposits from central banks	**138**	204	91
Deposits from other institutions[2]	**459**	549	810
Securities sold under agreements to repurchase from other institutions[1]	**245**	295	210
Total due to central banks and other institutions	**1,921**	1,944	2,481

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

[2] Included in deposits from other institutions as at 31 March 2019 was $5 million classified as cash and cash equivalents in the cash flow statement (30 September 2018: $18 million; 31 March 2018: $17 million).

Included in due to central banks and other institutions as at 31 March 2019 was $339 million of collateral posted by counterparties to meet standard derivative trading obligations (30 September 2018: $480 million; 31 March 2018: $636 million).

Dollars in Millions	Consolidated Unaudited 31/3/19	Audited 30/9/18	Unaudited 31/3/18
Note 11 Deposits and Other Borrowings			
Deposits not bearing interest	**6,011**	5,781	5,503
On-demand and short term deposits bearing interest	**21,142**	20,139	20,106
Term deposits	**34,325**	33,856	33,677
Total customer deposits	**61,478**	59,776	59,286
Certificates of deposit	**1,623**	1,794	1,958
Commercial paper	**3,289**	1,867	1,739
Total deposits and other borrowings	**66,390**	63,437	62,983

Included in deposits and other borrowings as at 31 March 2019 was $3 million of collateral posted by counterparties to meet standard derivative trading obligations (30 September 2018: $2 million; 31 March 2018: $15 million).

	Consolidated		
	Unaudited	Audited	Unaudited
Dollars in Millions	31/3/19	30/9/18	31/3/18
Note 12 Subordinated Debt			
Subordinated loans due to related entities	-	-	150
Subordinated notes due to related entity	**500**	500	-
Perpetual notes due to related entity	**900**	900	900
Subordinated notes due to external investors	**547**	546	545
Total subordinated debt	**1,947**	1,946	1,595

Subordinated Loans due to related entities
Subordinated loans due to a related entity of $150 million were repaid on 8 May 2018.

Subordinated Notes due to related entity - treated as Tier Two capital
On 8 May 2018, the Bank issued $500 million of subordinated unsecured notes ("Subordinated Notes") to National Australia Bank Limited. The Subordinated Notes are treated as Tier Two capital under the Bank's regulatory capital requirements. The Subordinated Notes will mature on 8 May 2028. The 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, the Bank has the option to redeem all or some of the Subordinated Notes for their face value together with accrued interest (if any) on any interest payment date on or after 8 May 2023. At any time, the Bank may repay all (but not some only) of the Subordinated Notes if a regulatory or tax event occurs.

Interest
The interest rate for the 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 Subordinated Notes. Interest is payable semi-annually in arrear 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 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 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 Subordinated Notes are converted or written off, any rights to receive interest on those 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 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 Subordinated Notes, an NVTE will occur if: (i) the RBNZ gives the Bank a direction under the Reserve Bank of New Zealand Act 1989 ("RBNZ Act") requiring the Bank to exercise its right of conversion or write off of its Tier Two 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 Two capital instruments.

Ranking of Subordinated Notes
In a liquidation of the Bank (if the Subordinated Notes have not been converted or written off), the claims of holders of Subordinated Notes will rank: (1) ahead of claims of holders of BNZ Shares and other subordinated securities that rank below the Subordinated Notes (such as the Perpetual Notes); (2) equally with claims of other holders of Subordinated Notes, the holders of the Listed Subordinated Notes and holders of other subordinated securities that rank equally with the 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 Subordinated Notes are converted into BNZ Shares, holders will rank equally with existing shareholders of the Bank.

Perpetual Notes due to related entity - treated as Additional Tier One 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 One 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.

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

Following the Optional Exchange Date, the interest payments are payable quarterly in arrear. 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.

Note 12 Subordinated Debt *continued*

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, subject to certain conditions, convert or repay some or all of the Perpetual Notes.

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 One 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 Two capital

On 17 December 2015, the Bank issued $550 million of subordinated unsecured notes ("Listed Subordinated Notes"). The Listed Subordinated Notes are treated as Tier Two capital under the Bank's and National Australia Bank Limited's regulatory capital requirements. The Listed Subordinated Notes will mature on 17 December 2025. The Listed 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, the Bank has the option to redeem all or some of the Listed Subordinated Notes for their face value together with accrued interest (if any) on any interest payment date on or after 17 December 2020 ("Optional Redemption Date"). At any time, the Bank may repay all (but not some only) of the Listed Subordinated Notes if a regulatory or tax event occurs.

Interest

The interest rate for the Listed Subordinated Notes is fixed at 5.314% per annum for five years, and will be reset if the Listed Subordinated Notes are not redeemed on the Optional Redemption Date. Should the Listed Subordinated Notes not be redeemed, the interest rate from the Optional Redemption Date onwards will be fixed at the five year swap rate plus a margin of 2.250% per annum. Interest is payable quarterly in arrear 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 Listed 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 Listed 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 Listed Subordinated Notes are converted or written off, any rights to receive interest on those Listed Subordinated Notes (including any accrued but unpaid interest) are also terminated and written off.

Conversion

If an NVTE occurs, some or all of the Listed Subordinated Notes will automatically and immediately be converted into National Australia Bank Limited ordinary shares ("NAB Shares") or written off.

Under the terms and conditions of the Listed 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 Two 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 Two capital instruments; or (iii) APRA has provided a written determination to National Australia Bank Limited that without the conversion or write off of a class of capital instruments of National Australia Bank Limited which includes the Listed Subordinated Notes, or a public sector injection of capital into, or equivalent capital support with respect to, National Australia Bank Limited, APRA considers that National Australia Bank Limited would become non-viable.

In connection with the Listed Subordinated Notes, a Coordination Agreement dated 11 November 2015 between the Bank, National Australia Group (NZ) Limited ("NAGNZ"), National Equities Limited and National Australia Bank Limited sets out intragroup transactions that are intended to occur on conversion of the Listed Subordinated Notes. Under this agreement, the Bank is required to issue a variable number of BNZ Shares to NAGNZ for an amount equivalent to the Listed Subordinated Notes converted into NAB Shares.

Ranking of Listed Subordinated Notes

In a liquidation of the Bank (if the Listed Subordinated Notes have not been converted or written off), the claims of holders of Listed Subordinated Notes will rank: (1) ahead of claims of holders of BNZ Shares and other subordinated securities that rank below the Listed Subordinated Notes (such as the Perpetual Notes); (2) equally with claims of other holders of Listed Subordinated Notes, the holders of the Subordinated Notes and holders of other subordinated securities that rank equally with the Listed 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 Listed Subordinated Notes are converted into NAB Shares, holders will rank equally with existing shareholders of National Australia Bank Limited.

Other Notes

Dollars in Millions	Consolidated Unaudited 31/3/19	Audited 30/9/18	Unaudited 31/3/18
Note 13 Related Entity Transactions			
Total balances with related entities			
Amounts due from related entities[1]	**1,717**	1,253	1,124
Derivative financial assets with related entities	**1,613**	1,496	1,246
Amounts due to related entities[2]	**806**	913	622
Derivative financial liabilities with related entities	**1,482**	1,210	1,181
Subordinated debt due to related entities (refer to note 12)	**1,400**	1,400	1,050

[1] Included in amounts due from related entities as at 31 March 2019 was $1,687 million classified as cash and cash equivalent in the cash flow statement (30 September 2018: $1,239 million; 31 March 2018: $1,103 million).

[2] Included in amounts due to related entities as at 31 March 2019 was $621 million classified as cash and cash equivalent in the cash flow statement (30 September 2018: $610 million; 31 March 2018: $548 million).

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

Dollars in Millions	Consolidated Unaudited 31/3/19	Audited 30/9/18	Unaudited 31/3/18
Amounts due from related entities			
Securities purchased under agreements to resell to ultimate parent	**1,664**	1,199	1,063
Amounts due to related entities			
Collateral deposit posted by ultimate parent to meet standard derivative trading obligations	**128**	206	22
Securities sold under agreements to repurchase from ultimate parent	**389**	255	195

Other transactions with related entities

Dividends paid to the shareholder are disclosed in the statement of changes in equity.

Note 14 Contributed Equity

On 7 December 2018, the Bank issued 600 million ordinary shares to NAGNZ at a subscription price of $1.00 per share. This resulted in the number of the Bank's ordinary shares increasing from 4,475,997,499 to 5,075,997,499 and the Bank's ordinary share capital increasing by $600 million.

Note 15 Fair Value of Financial Assets and Financial Liabilities

Fair value is 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 under current market conditions. For the purposes of this note, carrying amount refers to amounts reflected in the balance sheet. The methodologies and assumptions used in the fair value estimates are described in the Fair Value Measurement part of this note.

Hierarchy for fair value measurements

The tables on pages 18 and 19 present a three-level fair value hierarchy of the Banking Group's financial assets and financial liabilities which are measured at fair value or amortised cost. The fair value of the financial assets and financial liabilities are considered to approximate the carrying value disclosed in the balance sheet with the exception of loans and advances to customers, deposits and other borrowings and subordinated debt. Financial assets and financial liabilities are measured at amortised cost where the carrying value does not equal fair value.

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). The Banking Group did not have any financial assets or financial liabilities measured at fair value that met the criteria of Level 3 classification.

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 in the six months ended 31 March 2019 (year ended 30 September 2018: nil; six months ended 31 March 2018: nil).

Note 15 Fair Value of Financial Assets and Financial Liabilities *continued*

Hierarchy for fair value measurements continued

Financial assets and liabilities at fair value

	Consolidated			
	Unaudited (31/3/19)			
Dollars in Millions	Fair Value Total	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Financial assets				
Due from central banks and other institutions	308	-	308	-
Trading securities	7,479	3,260	4,219	-
Derivative financial instruments	4,242	-	4,242	-
Loans and advances to customers	2,361	-	2,361	-
Financial liabilities				
Due to central banks and other institutions	214	-	214	-
Trading liabilities	65	65	-	-
Derivative financial instruments	3,503	-	3,503	-
Deposits and other borrowings	5,545	-	5,545	-
Bonds and notes	19,369	-	19,369	-
	Audited (30/9/18)			
Financial assets				
Due from central banks and other institutions	40	-	40	-
Trading securities	6,842	2,817	4,025	-
Derivative financial instruments	4,336	-	4,336	-
Loans and advances to customers	2,824	-	2,824	-
Financial liabilities				
Due to central banks and other institutions	273	-	273	-
Trading liabilities	181	181	-	-
Derivative financial instruments	3,053	-	3,053	-
Deposits and other borrowings	4,964	-	4,964	-
Bonds and notes	19,760	-	19,760	-
	Unaudited (31/3/18)			
Financial assets				
Due from central banks and other institutions	1,024	-	1,024	-
Trading securities	6,241	3,030	3,211	-
Derivative financial instruments	3,910	-	3,910	-
Loans and advances to customers	3,505	-	3,505	-
Financial liabilities				
Due to central banks and other institutions	265	-	265	-
Trading liabilities	527	527	-	-
Derivative financial instruments	2,745	-	2,745	-
Deposits and other borrowings	4,844	-	4,844	-
Bonds and notes	18,221	-	18,221	-

Note 15 Fair Value of Financial Assets and Financial Liabilities *continued*

Hierarchy for fair value measurements continued

Financial assets and liabilities at amortised cost[1]

	Consolidated				
	Unaudited (31/3/19)				
Dollars in Millions	Carrying Value	Fair Value Total	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Financial assets					
Loans and advances to customers	83,320	83,373	-	2,700	80,673
Financial liabilities					
Deposits and other borrowings	60,845	61,061	-	61,061	-
Subordinated debt	1,947	2,014	567	1,447	-
	Audited (30/9/18)				
Financial assets					
Loans and advances to customers	80,227	80,236	-	2,562	77,674
Financial liabilities					
Deposits and other borrowings	58,473	58,672	-	58,672	-
Subordinated debt	1,946	2,012	568	1,444	-
	Unaudited (31/3/18)				
Financial assets					
Loans and advances to customers	76,711	76,706	-	2,444	74,262
Financial liabilities					
Deposits and other borrowings	58,139	58,321	-	58,321	-
Subordinated debt	1,445	1,485	569	916	-

[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 15 Fair Value of Financial Assets and Financial Liabilities *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 value 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 value. 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 of similar types of loans and advances or interest rate swap 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 fair value of non-interest-bearing, call and variable rate deposits and fixed rate deposits repricing within six months is approximated as the carrying value as at the reporting date. 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

Bonds and notes are recorded at fair value 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

Subordinated Loans reprice every 90 days, therefore, their fair value is considered to approximate their carrying value. 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 16 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 New Zealand Executive Team for the purposes of performance evaluation and resource allocation.

As at 31 March 2019, the Banking Group's business was organised into two major operating and reportable segments: Consumer and Wealth, and BNZ Partners. Consumer and Wealth provided transactional banking, savings and investment products and services, private banking, along with home loans, credit cards and personal loans to retail customers and, for management reporting purposes, included insurance activities carried out by a controlled entity of National Australia Bank Limited that is not part of the Banking Group. BNZ Partners provided financial products and services to business, agribusiness, corporate and institutional customers. Subsequent to 31 March 2019, the Banking Group is organised into three major operating and reportable segments: Private, Wealth & Insurance, Corporate & Institutional Banking and BNZ Partnership Banking.

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' categories in the following table are business activities that do not constitute a separately reportable segment; 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; 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; and other balances excluded for management reporting purposes, but included in the consolidated financial statements of the Banking Group for statutory financial reporting purposes.

	Consolidated				
	Unaudited 6 Months 31/3/19				
Dollars in Millions	Consumer and Wealth	BNZ Partners	Total Reportable Segments	Other	Total Banking Group
Net interest income	**301**	**654**	**955**	**79**	**1,034**
Other income[1]	**107**	**183**	**290**	**(22)**	**268**
Total operating income	**408**	**837**	**1,245**	**57**	**1,302**
Operating profit before income tax expense	**161**	**558**	**719**	**45**	**764**
Income tax expense	**45**	**156**	**201**	**13**	**214**
Net profit attributable to shareholder of Bank of New Zealand	**116**	**402**	**518**	**32**	**550**
	Audited 12 Months 30/9/18				
Net interest income	558	1,274	1,832	114	1,946
Other income[1]	218	344	562	48	610
Total operating income	776	1,618	2,394	162	2,556
Operating profit before income tax expense	312	1,066	1,378	51	1,429
Income tax expense	88	300	388	12	400
Net profit attributable to shareholder of Bank of New Zealand	224	766	990	39	1,029
	Unaudited 6 Months 31/3/18[2]				
Net interest income	273	632	905	53	958
Other income[1]	112	172	284	28	312
Total operating income	385	804	1,189	81	1,270
Operating profit before income tax expense	153	535	688	(8)	680
Income tax expense	44	149	193	(3)	190
Net profit attributable to shareholder of Bank of New Zealand	109	386	495	(5)	490

[1] Other income includes Gains less losses on financial instruments (refer to note 2) and Other operating income (refer to note 3).

[2] Comparative balances have been reclassified to align with the segment definitions as at 31 March 2019.

Note 17 Contingent Liabilities and Other Commitments

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, provisions have been made. The notional amount represents the maximum potential amount that could be lost if a counterparty fails to meet its financial obligations. Contingent liabilities are not recognised in the balance sheet, but are disclosed unless the likelihood of payment is remote.

The Labour Inspectorate of the Ministry of Business, Innovation and Employment ("MBIE") is currently undertaking a programme of compliance audits of a number of New Zealand organisations in respect of the New Zealand Holidays Act 2003 (the "Holidays Act"). BNZ requested early participation in this programme in May 2016 and received the Labour Inspectorate's report, which set out its findings regarding BNZ's compliance with the Holidays Act, in January 2017. The findings indicated that BNZ has not complied with certain requirements of the Holidays Act, including in respect of annual and public holiday payments to certain employees. BNZ has worked with MBIE to review its compliance with the Holidays Act and is in the process of completing remediation as agreed with MBIE. In addition, the legislative interpretation of the definition of "discretionary payments" under the Holidays Act is not yet certain and, once it has been definitively determined, any potential implications for BNZ will need to be considered.

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

	Consolidated		
Dollars in Millions	**Unaudited 31/3/19**	Audited 30/9/18	Unaudited 31/3/18
Contingent liabilities			
Bank guarantees	**73**	72	81
Standby letters of credit	**285**	301	274
Documentary letters of credit	**68**	120	161
Performance related contingencies	**677**	630	650
Total contingent liabilities	**1,103**	1,123	1,166
Credit related commitments			
Revocable commitments to extend credit	**9,927**	9,604	8,916
Irrevocable commitments to extend credit	**11,717**	12,008	11,897
Total credit related commitments	**21,644**	21,612	20,813
Total contingent liabilities and credit related commitments	**22,747**	22,735	21,979

Note 18 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 One capital.

	Consolidated Unaudited (31/3/19) 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 One capital		
10-14%	3	1
15 -19%	3	-
20 -24%	1	-
Number of non-bank counterparties		
Percentage of Common Equity Tier One capital		
10-14%	2	2
15 -19%	1	1
20 -24%	-	-

Note 18 Concentrations of Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties *continued*

Where the Banking Group is funding large loans, it is common practice to share the risk of a customer default with other connected banks or enter into other risk lay-off arrangements. The above table has been compiled using gross exposures before risk lay-offs. 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 31 March 2019, and peak end-of-day aggregate credit exposure, for the six months ended 31 March 2019, equalled or exceeded 10% of the Banking Group's Common Equity Tier One 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 31 March 2019, and peak end-of-day aggregate credit exposure, for the six months ended 31 March 2019, equalled or exceeded 10% of the Banking Group's Common Equity Tier One Capital.

Note 19 Insurance Business

The Banking Group does not conduct any Insurance Business, as defined in the Bank's Conditions of Registration. The Bank's Conditions of Registration can be obtained by referring to the Bank's Disclosure Statement for the year ended 30 September 2018.

Note 20 Capital Adequacy

The RBNZ minimum regulatory capital requirements for banks have been established under 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 (Internal Models Based Approach) ("BS2B")

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

Under BS2B, 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 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 One capital, Additional Tier One capital and Tier Two capital. Tier One capital is defined as the sum of Common Equity Tier One capital and Additional Tier One capital. The Banking Group's Common Equity Tier One capital includes paid up ordinary shares and retained profits less certain deductions, Additional Tier One capital includes perpetual non-cumulative preference shares and perpetual notes and Tier Two 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 One capital and a minimum of 6% must be held in Tier One capital. The Banking Group must maintain a minimum Common Equity Tier One 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.

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 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 31.

The tables on the following pages detail the capital calculation, capital ratios and capital requirements as at 31 March 2019. 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 20 Capital Adequacy *continued*

Regulatory capital

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

Dollars in Millions	Consolidated Unaudited 31/3/19
Qualifying capital	
Common Equity Tier One capital	
Contributed equity - ordinary shares	4,056
Retained profits	3,497
Accumulated other comprehensive income and other disclosed reserves	66
Deductions from Common Equity Tier One capital:	
Goodwill and other intangible assets	382
Cash flow hedge reserve	66
Credit value adjustment on liabilities designated at fair value through profit or loss	(34)
Prepaid pension assets (net of deferred tax)	3
Deferred tax asset	186
Total expected loss less total eligible allowances for impairment	27
Total Common Equity Tier One capital	6,989
Additional Tier One capital	
Subordinated debt due to related entities	900
Total Additional Tier One capital	900
Total Tier One capital	7,889
Tier Two capital	
Revaluation reserves	3
Subordinated debt due to related entities	500
Subordinated debt due to external investors	550
Total eligible impairment allowance in excess of expected loss	5
Total Tier Two capital	1,058
Total Tier One and Tier Two qualifying capital	8,947

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.

	Consolidated			
	Regulatory Minima	Unaudited 31/3/19	Unaudited 30/9/18	Unaudited 31/3/18
Common Equity Tier One capital ratio	4.50%	10.60%	10.56%	10.75%
Tier One capital ratio	6.00%	11.96%	11.95%	12.22%
Total qualifying capital ratio	8.00%	13.57%	13.59%	13.12%
Buffer ratio	2.50%	5.57%	5.59%	5.12%

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 31/3/19	Unaudited[1] 30/9/18	Unaudited[1] 31/3/18
Common Equity Tier One capital ratio	10.53%	10.49%	10.63%
Tier One capital ratio	11.90%	11.89%	12.09%
Total qualifying capital ratio	13.50%	13.52%	12.99%

[1] Comparatives in the table above have been restated to include BNZ subsidiary data which was incorrectly excluded in the prior period calculation.

For the purpose of calculating capital adequacy ratios for the Registered Bank under BS2B, subsidiaries which are both funded exclusively and wholly owned by the Registered Bank are consolidated within the Registered Bank.

Note 20 Capital Adequacy *continued*

Total regulatory capital requirements

	Consolidated		
Dollars in Millions	Total Exposure at Default Unaudited 31/3/19	Risk-Weighted Exposure or Implied Risk-Weighted Exposure Unaudited 31/3/19	Total Capital Requirement[1] Unaudited 31/3/19
Credit risk			
Exposures subject to the internal ratings based approach	108,627	46,309	3,705
Equity exposures	3	13	1
Specialised lending subject to the slotting approach	8,700	8,182	655
Exposures subject to the standardised approach	2,414	999	80
Credit value adjustment subject to BS2B	N/A	1,333	107
Agribusiness supervisory adjustment[2]	N/A	1,192	95
Total credit risk	119,744	58,028	4,643
Operational risk	N/A	4,375	350
Market risk	N/A	3,544	283
Total	119,744	65,947	5,276

[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 Risk Return Management Committee 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.

Note 20 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.

	Consolidated					
Dollars in Millions	Weighted Average PD (%) Unaudited 31/3/19	Exposure at Default Unaudited 31/3/19	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 31/3/19	Exposure-Weighted Risk Weight (%) Unaudited 31/3/19	Risk-Weighted Assets Unaudited 31/3/19	Minimum Capital Requirement Unaudited 31/3/19
Corporate						
Exposure-weighted PD grade >0 ≤ 0.1%	0.04	6,348	31	12	761	61
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.30	17,480	34	40	6,961	557
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.95	14,762	34	66	9,713	777
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.44	8,553	36	92	7,905	633
Exposure-weighted PD grade >5.0 ≤ 99.99%	9.92	1,654	39	157	2,592	207
Default PD grade = 100%	100.00	470	44	285	1,340	107
Total corporate exposures	2.11	49,267	34	59	29,272	2,342
Sovereign						
Exposure-weighted PD grade >0 ≤ 0.1%	0.03	4,356	5	1	61	5
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.38	24	45	79	19	2
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.63	8	45	81	6	1
Exposure-weighted PD grade >1.5 ≤ 5.0%	1.95	-	45	109	-	-
Exposure-weighted PD grade >5.0 ≤ 99.99%	5.72	-	45	147	-	-
Default PD grade = 100%	-	-	-	-	-	-
Total sovereign exposures	0.03	4,388	5	2	86	8
Bank						
Exposure-weighted PD grade >0 ≤ 0.1%	0.04	5,596	50	21	1,176	94
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.17	487	47	46	223	18
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.78	13	60	92	12	1
Exposure-weighted PD grade >1.5 ≤ 5.0%	4.35	3	60	176	5	-
Exposure-weighted PD grade >5.0 ≤ 99.99%	6.07	-	60	200	1	-
Default PD grade = 100%	-	-	-	-	-	-
Total bank exposures	0.05	6,099	49	23	1,417	113
Residential mortgage						
Exposure-weighted PD grade >0 ≤ 0.1%	0.03	-	38	6	-	-
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.40	1,610	18	15	234	19
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.91	40,605	20	27	11,149	892
Exposure-weighted PD grade >1.5 ≤ 5.0%	4.92	2,058	19	71	1,469	117
Exposure-weighted PD grade >5.0 ≤ 99.99%	-	-	-	-	-	-
Default PD grade = 100%	100.00	212	22	240	510	41
Total residential mortgage exposures	1.55	44,485	20	30	13,362	1,069
Other retail[1]						
Exposure-weighted PD grade >0 ≤ 0.1%	0.05	752	86	13	98	8
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.25	603	85	41	247	20
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.95	421	84	87	367	29
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.89	352	84	122	428	34
Exposure-weighted PD grade >5.0 ≤ 99.99%	13.04	139	81	153	213	17
Default PD grade = 100%	100.00	14	80	285	39	3
Total other retail exposures	2.11	2,281	85	61	1,392	111

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

Note 20 Capital Adequacy *continued*

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

	Consolidated					
Dollars in Millions	Weighted Average PD (%) Unaudited 31/3/19	Exposure at Default Unaudited 31/3/19	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 31/3/19	Exposure-Weighted Risk Weight (%) Unaudited 31/3/19	Risk-Weighted Assets Unaudited 31/3/19	Minimum Capital Requirement Unaudited 31/3/19
Retail small to medium enterprises						
Exposure-weighted PD grade >0 ≤ 0.1%	0.07	147	36	7	11	1
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.30	693	30	16	114	9
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.92	597	32	33	195	16
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.66	523	35	50	261	21
Exposure-weighted PD grade >5.0 ≤ 99.99%	11.74	117	60	109	128	10
Default PD grade = 100%	100.00	30	47	240	71	5
Total retail SME exposures	3.08	2,107	34	37	780	62
Total[1]						
Exposure-weighted PD grade >0 ≤ 0.1%	0.04	17,199	33	12	2,107	169
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.31	20,897	35	37	7,798	625
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.92	56,406	24	38	21,442	1,716
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.91	11,489	34	88	10,068	805
Exposure-weighted PD grade >5.0 ≤ 99.99%	10.25	1,910	44	154	2,934	234
Default PD grade = 100%	100.00	726	38	270	1,960	156
Total exposures	1.70	108,627	29	43	46,309	3,705

[1] The BS2B credit value adjustment has not been included in the above exposures.

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.

	Consolidated			
Dollars in Millions	Total Exposure Unaudited 31/3/19	Exposure at Default Unaudited 31/3/19	Risk-Weighted Assets Unaudited 31/3/19	Minimum Capital Requirement Unaudited 31/3/19
On-balance sheet exposures				
Corporate	36,264	36,264	22,324	1,786
Sovereign	4,063	4,063	57	5
Bank	3,965	3,965	884	71
Residential mortgage	41,199	41,199	12,430	994
Other retail	1,319	1,319	1,017	81
Retail small to medium enterprises	1,603	1,603	640	51
Total on-balance sheet exposures	88,413	88,413	37,352	2,988
Off-balance sheet exposures				
Corporate	12,846	11,390	6,092	487
Sovereign	163	128	20	2
Bank	763	746	86	7
Residential mortgage	3,743	3,286	932	75
Other retail	2,776	962	375	30
Retail small to medium enterprises	547	504	140	11
Total off-balance sheet exposures	20,838	17,016	7,645	612
Market related contracts				
Corporate	250,855	1,613	856	69
Sovereign	15,898	197	9	1
Bank	198,742	1,388	447	35
Total market related contracts	465,495	3,198	1,312	105

Note 20 Capital Adequacy *continued*

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

	Consolidated			
Dollars in Millions	Total Exposure Unaudited 31/3/19	Exposure at Default Unaudited 31/3/19	Risk-Weighted Assets Unaudited 31/3/19	Minimum Capital Requirement Unaudited 31/3/19
Summary[1]				
Corporate	299,965	49,267	29,272	2,342
Sovereign	20,124	4,388	86	8
Bank	203,470	6,099	1,417	113
Residential mortgage	44,942	44,485	13,362	1,069
Other retail	4,095	2,281	1,392	111
Retail small to medium enterprises	2,150	2,107	780	62
Total credit risk exposures subject to the IRB approach	574,746	108,627	46,309	3,705

[1] The BS2B credit value adjustment has not been included in the above exposures.

Equity exposures

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

	Consolidated			
Dollars in Millions	Exposure at Default Unaudited 31/3/19	Risk Weight (%) Unaudited 31/3/19	Risk-Weighted Exposures Unaudited 31/3/19	Minimum Pillar One Capital Requirement Unaudited 31/3/19
Equity holdings (not deducted from capital) that are publicly traded	-	300	-	-
All other equity holdings (not deducted from capital)	3	400	13	1
Total equity exposures	3	400	13	1

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.

	Consolidated			
Dollars in Millions	Total Exposure at Default after Credit Risk Mitigation Unaudited 31/3/19	Risk Weight (%) Unaudited 31/3/19	Risk-Weighted Assets Unaudited 31/3/19	Minimum Pillar One Capital Requirement Unaudited 31/3/19
On-balance sheet exposures subject to the slotting approach				
Strong	1,717	70	1,274	102
Good	4,877	90	4,649	372
Satisfactory	875	115	1,063	85
Weak	54	250	144	12
Default	69	-	-	-
Total on-balance sheet exposures subject to the slotting approach	7,592	89	7,130	571

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).

The calculated risk-weighted assets reflected above include the required scalar of 1.06, specified in the Bank's Conditions of Registration, which is not reflected in the risk weight shown.

Note 20 Capital Adequacy *continued*

Specialised lending subject to the slotting approach *continued*

Dollars in Millions	Consolidated Total Exposure Unaudited 31/3/19	Exposure at Default Unaudited 31/3/19	Average Risk Weight (%) Unaudited 31/3/19	Risk-Weighted Assets Unaudited 31/3/19	Minimum Pillar One Capital Requirement Unaudited 31/3/19
Off-balance sheet exposures subject to the slotting approach					
Off-balance sheet exposures	30	15	94	14	1
Undrawn commitments	1,829	1,024	96	983	79
Market related contracts	1,595	69	80	55	4
Total off-balance sheet exposures subject to the slotting approach	3,454	1,108	95	1,052	84
Total exposures subject to the slotting approach		8,700	94	8,182	655

Credit risk exposures subject to the standardised approach

The tables below show credit risk exposures, for which the standardised approach has been used.

Dollars in Millions	Consolidated Total Exposure at Default after Credit Risk Mitigation Unaudited 31/3/19	Average Risk Weight (%) Unaudited 31/3/19	Risk-Weighted Assets Unaudited 31/3/19	Minimum Pillar One Capital Requirement Unaudited 31/3/19
On-balance sheet exposures subject to the standardised approach				
Corporate	201	105	211	17
Residential mortgage	69	90	62	5
Past due assets	1	159	2	-
Other assets[1]	1,294	40	522	42
Total on-balance sheet exposures subject to the standardised approach	1,565	51	797	64

[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.

Dollars in Millions	Consolidated Total Exposure or Principal Amount Unaudited 31/3/19	Average Credit Conversion Factor (%) Unaudited 31/3/19	Credit Equivalent Amount Unaudited 31/3/19	Average Risk Weight (%) Unaudited 31/3/19	Risk-Weighted Assets Unaudited 31/3/19	Minimum Pillar One Capital Requirement Unaudited 31/3/19
Off-balance sheet exposures subject to the standardised approach						
Total off-balance sheet exposures subject to the standardised approach	92	38	35	99	35	3
Market related contracts subject to the standardised approach						
Foreign exchange contracts	5	N/A	-	106	-	-
Interest rate contracts[2]	614,405	N/A	813	21	167	13
Other	21	N/A	1	4	-	-
Total market related contracts subject to the standardised approach	614,431	N/A	814	21	167	13
Total exposures subject to the standardised approach		N/A	2,414	41	999	80

[2] The total exposure or principal amount reflects the gross notional value of contracts transacted through a qualifying central counterparty.

Note 20 Capital Adequacy *continued*

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.

	Consolidated
	Corporate (Including Specialised Lending) Unaudited
Dollars in Millions	31/3/19
For portfolios subject to the standardised approach:	
Total value of exposures covered by eligible financial or IRB collateral	2
For all portfolios:	
Total value of exposures covered by credit derivatives or guarantees	-

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

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.

	Consolidated		
	On-balance Sheet Exposures at Default Unaudited	Off-balance Sheet Exposures at Default[1] Unaudited	Total Exposures at Default Unaudited
Dollars in Millions	31/3/19	31/3/19	31/3/19
LVR Range			
0-59%	17,259	1,264	18,523
60-69%	9,225	563	9,788
70-79%	11,793	931	12,724
80-89%	1,733	25	1,758
Over 90%	1,189	503	1,692
Total exposures at default secured by residential mortgages	41,199	3,286	44,485

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

Operational risk

	Consolidated	
	Implied Risk-Weighted Exposure Unaudited	Total Operational Risk Capital Requirement Unaudited
Dollars in Millions	31/3/19	31/3/19
Operational risk	4,375	350

The operational risk capital requirement above has been calculated under the Advanced Measurement Approach (“AMA”) which the Banking Group uses for determining its regulatory capital for operational risk together with any required regulatory adjustments. The AMA is in accordance with BS2B.

Note 20 Capital Adequacy *continued*

Market risk

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

	Consolidated			
	Unaudited (31/3/19)			
	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	3,496	5,080	280	407
Foreign exchange risk	45	131	3	10
Equity risk	3	12	-	1
Total market risk	3,544	5,223	283	418

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.

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 and strategic risk.

As at 31 March 2019, the Banking Group had an internal capital allocation for strategic risk of $109 million (30 September 2018: $109 million; 31 March 2018: $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.

Subordinated debt

Refer to note 12 for further information.

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 31/3/19	Unaudited 30/9/18	Unaudited 31/3/18	**Unaudited 31/3/19**	Unaudited 30/9/18	Unaudited 31/3/18
Common Equity Tier One Capital ratio	**10.40%**	10.20%	10.21%	**10.64%**	10.43%	10.54%
Tier One Capital ratio	**12.45%**	12.38%	12.40%	**12.86%**	12.78%	12.92%
Total Capital ratio	**14.00%**	14.12%	14.43%	**14.50%**	14.65%	15.05%

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 all its subsidiary entities, other than the non-consolidated subsidiaries as outlined in the Pillar 3 report. The Level 2 Group operates in multiple regulatory jurisdictions and applies a combination of Basel Advanced and Standardised approaches depending on the prescribed prudential requirements and national discretion applied within those jurisdictions. Further information on the Basel capital framework methodologies applied across the ultimate parent banking group is outlined in the Pillar 3 report.

The ultimate parent bank of the Banking Group is National Australia Bank Limited which reports under the Advanced approach for credit risk (other than for defined assets that are immaterial in terms of risk-weighted assets or are not required to be treated as IRB under the Basel capital framework), 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 31 March 2019.

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 Pillar 3 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 21 Risk Management

Risk management disclosure

There have been no material changes to the Banking Group's policies for managing risk, or material exposures to new categories of risk since 30 September 2018.

Concentrations of credit exposure

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

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.

		Consolidated	
	On-balance sheet Unaudited	Off-balance sheet[1] Unaudited	Total exposure Unaudited
Dollars in Millions	31/3/19	31/3/19	31/3/19
Concentration by industry			
Agriculture	14,712	1,015	15,727
Forestry and fishing	1,040	245	1,285
Mining	333	145	478
Manufacturing	3,821	1,399	5,220
Electricity, gas and water	1,010	815	1,825
Construction	1,347	613	1,960
Wholesale and retail trade	3,634	1,366	5,000
Accommodation, restaurants, culture and recreation	1,435	377	1,812
Transport and storage	2,220	616	2,836
Communications	240	230	470
Financial, investment and insurance	7,896	1,164	9,060
Property, business and personal services	10,937	1,818	12,755
Government, education, health and community services	7,502	1,233	8,735
Real estate - mortgage	41,199	1,759	42,958
Personal lending	1,438	25	1,463
Related entities[2]	3,330	-	3,330
Total credit exposures by industry	102,094	12,820	114,914
Concentration by geography			
New Zealand	94,757	12,682	107,439
Overseas	7,337	138	7,475
Total credit exposures by geography	102,094	12,820	114,914

[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.

	Consolidated
Dollars in Millions	31/3/19
Maximum exposure to credit risk	
Cash and liquid assets	1,333
Due from central banks and other institutions	1,167
Trading securities	7,479
Derivative financial instruments	4,242
Gross loans and advances to customers	86,156
Amounts due from related entities	1,717
Total on-balance sheet credit exposures	102,094
Off-balance sheet credit exposures	12,820
Total maximum exposure to credit risk	114,914

Note 21 Risk Management *continued*

Interest rate repricing schedule

The following table represents 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.

	Consolidated (31/3/19)						
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	1,495	1,333	-	-	-	-	162
Due from central banks and other institutions	1,167	1,153	14	-	-	-	-
Trading securities	7,479	2,317	965	430	629	3,138	-
Derivative financial instruments	4,242	-	-	-	-	-	4,242
Gross loans and advances to customers	86,156	50,253	5,379	11,254	13,194	4,261	1,815
Deductions from loans and advances to customers	(475)	-	-	-	-	-	(475)
Amounts due from related entities	1,717	1,679	-	-	-	-	38
All other assets	1,977	-	-	-	-	-	1,977
Total assets	103,758	56,735	6,358	11,684	13,823	7,399	7,759
Liabilities							
Due to central banks and other institutions	1,921	1,843	21	11	44	-	2
Trading liabilities	65	-	-	-	-	65	-
Derivative financial instruments	3,503	-	-	-	-	-	3,503
Deposits and other borrowings	66,390	39,724	9,251	8,902	1,328	1,174	6,011
Bonds and notes	19,369	3,843	413	737	2,037	12,339	-
Amounts due to related entities	806	737	4	-	-	-	65
Subordinated debt	1,947	500	-	-	547	900	-
All other liabilities	2,135	-	-	-	-	-	2,135
Total liabilities	96,136	46,647	9,689	9,650	3,956	14,478	11,716
Shareholder's equity							
Total shareholder's equity	7,622	-	-	-	-	-	7,622
Total liabilities and shareholder's equity	103,758	46,647	9,689	9,650	3,956	14,478	19,338
On-balance sheet sensitivity gap	-	10,088	(3,331)	2,034	9,867	(7,079)	(11,579)
Derivative financial instruments							
Net hedging derivative notionals	-	(8,269)	3,421	(192)	(5,208)	10,248	-
Interest sensitivity gap - net	-	1,819	90	1,842	4,659	3,169	(11,579)

Note 21 Risk Management *continued*

Maturity profile

The table below shows cash flows by remaining contractual maturities of the Banking Group's financial liabilities and derivative financial liabilities 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. Other assets and other liabilities only include balances which have contractual future cash flows.

	Consolidated					
	Unaudited 31/3/19					
Dollars in Millions	On Demand	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years	Total Inflow/ (Outflow)
Liabilities						
Due to central banks and other institutions	1,084	822	32	46	-	1,984
Trading liabilities	-	-	1	6	69	76
Deposits and other borrowings	26,767	17,477	20,201	2,662	-	67,107
Bonds and notes	-	888	3,400	13,066	2,925	20,279
Amounts due to related entities	232	544	31	-	-	807
Other liabilities	-	1,892	41	-	-	1,933
Subordinated debt	-	12	71	2,275	-	2,358
Total	28,083	21,635	23,777	18,055	2,994	94,544
Derivative financial liabilities[1]						
Derivative financial liabilities (inflow)	-	(28,647)	(14,453)	(23,362)	(7,511)	(73,973)
Derivative financial liabilities outflow	-	29,722	16,660	29,636	8,825	84,843

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

Liquidity portfolio management

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

	Consolidated
	Unaudited
Dollars in Millions	31/3/19
Cash and balances immediately convertible to cash[1]	1,525
Net securities purchased under agreements to resell	1,173
Government bonds, notes and securities	3,260
Semi-government bonds, notes and securities	2,261
Corporate and other institution bonds, notes and securities	1,958
Total liquidity portfolio	10,177

[1] Included within Cash and balances immediately convertible to cash is $238 million due from other institutions.

As at 31 March 2019, the Banking Group also held unencumbered RMBS of $4,491 million of which $4,300 million are available to be sold to the RBNZ under agreements to repurchase for liquidity purposes, which are subject to a 19% reduction in value (net $3,483 million). These RMBS are secured by housing loans and other assets. Refer to note 7 for further information. The Banking Group had not entered into any repurchase agreements for RMBS with the RBNZ as at 31 March 2019.

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 75 percent on a daily basis.

Note 21 Risk Management *continued*
Regulatory liquidity ratios *continued*

	Consolidated	
	Unaudited For the 3 months ended	Unaudited For the 3 months ended
	31/3/19	31/12/18
One-week mismatch ratio	**4.0%**	4.0%
One-month mismatch ratio	**4.6%**	5.0%
One-year core funding ratio	**85.2%**	85.3%

Concentrations of funding
The Banking Group's concentrations of funding is reported by geographical location and industry sector in the following table. The concentrations of funding by geographical location is based on the geographical location of the office in which the funds are recognised. The concentrations of funding by industry sector is based on ANZSIC codes.

		Consolidated
		Unaudited
Dollars in Millions	Note	31/3/19
Concentration by industry		
Customer deposits		
Agriculture, forestry and fishing		2,783
Mining		184
Manufacturing		1,740
Electricity, gas and water		107
Construction		1,052
Wholesale and retail trade		1,712
Accommodation, restaurants, culture and recreation		1,269
Transport and storage		1,141
Communications		258
Financial, investment and insurance		7,811
Property, business and personal services		10,967
Government, education, health and community services		2,876
Personal deposits		29,578
Total customer deposits by industry		61,478
Concentration by geography		
Wholesale funding		
New Zealand		9,826
Overseas[1]		19,129
Total wholesale funding by geography		28,955
Total funding		90,433
Total funding comprised:		
Customer deposits	11	61,478
Wholesale funding		
Due to central banks and other institutions		1,921
Other borrowings	11	4,912
Bonds and notes		19,369
Amounts due to related entities		806
Subordinated debt		1,947
Total wholesale funding		28,955
Total funding		90,433

[1] This represents the funding activities of BNZ-IF.

Auditor’s Independent Review Report

Independent Review Report to the Shareholder of Bank of New Zealand

We have reviewed the Disclosure Statement of Bank of New Zealand (the “Bank”) and the entities it controlled at 31 March 2019 or from time to time during the period (the “Banking Group”) on pages 4 to 35 for the six month period ended 31 March 2019 which includes the interim financial statements required by Clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the “Order”) and the supplementary information required by Schedules 5, 7, 11, 13, 16 and 18 of the Order. The interim financial statements comprise the balance sheet as at 31 March 2019, the income statement, statement of comprehensive income, statement of changes in equity and condensed cash flow statement for the six months then ended, and the notes to the interim financial statements that include the statement of accounting policies and selected explanatory information for the Banking Group.

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 an independent 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.

Directors’ responsibilities

The Directors of the Bank (the “Directors”) are responsible, on behalf of the Bank, for the preparation and fair presentation of the Disclosure Statement, which includes interim financial statements prepared in accordance with Clause 25 of the Order and for such internal control as the Directors determine is necessary to enable the preparation of the Disclosure Statement that is free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible, on behalf of the Bank, for including supplementary information in the Disclosure Statement which complies with Schedules 3, 5, 7, 11, 13, 16 and 18 of the Order.

Reviewer’s responsibilities

Our responsibility is to express a conclusion on the interim financial statements and the supplementary information, disclosed in accordance with Clause 25 and Schedules 5, 7, 11, 13, 16 and 18 of the Order, presented by the Directors based on our review.

Our responsibility in relation to the interim financial statements (excluding the supplementary information disclosed in Notes 8, 9, 18, 19, 20, 21, and the ‘Interest earning and discount bearing assets’ and ‘Interest and discount bearing liabilities’ disclosed on page 6 (“supplementary information”)) is to express a conclusion as to whether, on the basis of procedures performed by us, anything has come to our attention that would cause us to believe that the interim financial statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*.

Our responsibility in relation to the supplementary information (excluding information relating to capital adequacy in Note 20 and the regulatory liquidity ratios disclosed in Note 21) prescribed by Schedules 5, 7, 13, 16 and 18 of the Order is to express a conclusion as to whether, on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state, in all material respects, the matters to which it relates in accordance with those Schedules.

Our responsibility in relation to supplementary information relating to capital adequacy disclosed in Note 20 and regulatory liquidity requirements (being the regulatory liquidity ratios disclosed in Note 21) that is required to be disclosed under Schedule 11 of the Order is to express a conclusion as to whether, on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410: *Review of Financial Statements Performed by the Independent Auditor of the Entity* (“NZ SRE 2410”). As the auditor of the Bank, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Auditor’s Independent Review Report

Basis of statement

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily 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). Accordingly we do not express an audit opinion on any element of this Disclosure Statement.

In addition to this review and the audit of the annual Disclosure Statement of the Bank and Banking Group, we have provided other assurance services to the Bank and Banking Group. In addition, partners and employees of our firm may deal with the Bank and Banking Group on normal terms within the ordinary course of trading activities of the business of the Bank and Banking Group. These matters have not impaired our independence as auditors of the Bank and Banking Group. We have no other relationship with, or interest in, the Bank or Banking Group.

Statement of review findings

Based on our review nothing has come to our attention that causes us to believe that:

- the interim financial statements on pages 4 to 35 (excluding the supplementary information) have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*;
- the supplementary information (excluding information relating to capital adequacy disclosed in Note 20 and the regulatory liquidity ratios disclosed in Note 21) prescribed by Schedules 5, 7, 13, 16 and 18 of the Order, does not fairly state, in all material respects, the matters to which it relates in accordance with those Schedules; and
- the supplementary information relating to capital adequacy (disclosed in Note 20) and regulatory liquidity requirements (being the regulatory liquidity ratios disclosed in Note 21) that is required to be disclosed under Schedule 11 of the Order, is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

Ernst + Young

Chartered Accountants
23 May 2019
Auckland

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 Negative
Moody's Investors Service Pty Limited	A1	Outlook Stable
Fitch Australia Pty Limited	AA-	Outlook Negative

Conditions of Registration

Changes in Conditions of Registration
From 1 October 2018, the Bank's Conditions of Registration were updated to reflect minor changes to the RBNZ document "Liquidity Policy Annex" (BS13A) dated 1 October 2018.

From 1 January 2019, the Bank's Conditions of Registration were updated to:

- State the definition of "Total capital" referred to in the Conditions of Registration.
- Amend the capital adequacy Conditions of Registration 1 and 1B, to reduce the scope for the Bank being in breach of either condition when it makes an error in applying the capital ratio calculation methodology.
- Amend the Conditions of Registration relating to residential mortgage lending to property investors and non-property investors to ease loan-to-value ratio restrictions from the quarter ended 31 March 2019 so that:
    - up to 20 percent (increased from 15 percent) of new residential mortgage loans to owner occupiers can have deposits of less than 20 percent.
    - up to 5 percent of new residential mortgage loans to property investors can have deposits of less than 30 percent (lowered from 35 percent).
- Refer to a revised version of "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19), to make a minor amendment to the construction loan exemption related to Kiwibuild.

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 the 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 six months ended 31 March 2019:
   - (a) the Bank has complied with its Conditions of Registration applicable during that period;
   - (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 23rd May 2019 and signed by Mr. McKay and Ms. Mentis as Directors and as responsible persons on behalf of all the other Directors.

D A McKay
Chairman

A Mentis
Managing Director and Chief Executive Officer