Bank of New Zealand

Disclosure Statement

For the six months ended 31 March 2022

No. 97

Disclosure Statement

For the six months ended 31 March 2022

This Disclosure Statement has been issued by Bank of New Zealand for the six months ended 31 March 2022 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 is a company domiciled in New Zealand. It was incorporated in New Zealand on 29 July 1861. The Banking Group provides a broad range of banking and financial products and services to retail, business, private, corporate and institutional customers.

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 16, Sap Tower, 151 Queen 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 *Loans and advances to customers* 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 2021 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 28, 395 Bourke Street, Docklands, Victoria 3000, Australia.

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

Legally Enforceable Restrictions that may Materially Inhibit National Australia Bank Limited's Legal Ability to Provide Material Financial Support to Bank of New Zealand
National Australia Bank Limited does not guarantee the obligations of Bank of New Zealand.

The Australian Prudential Regulation Authority ("APRA") Prudential Standard APS 222 *Associations with Related Entities* ("APS 222") restricts associations between an authorised deposit-taking institution ("ADI") (such as National Australia Bank Limited) and its related entities (such as the Bank). The revised APS 222 standard came into effect on 1 January 2022. While National Australia Bank Limited may provide support to the Bank, any support provided must be explicit (not implicit), contained in a legal document and fixed as to time and amount. Any dealings with the Bank (unless prior National Australia Bank Limited Board approval is obtained) must be on terms and conditions that would be entered into with an unrelated entity.

Any provision of financial support to the Bank by National Australia Bank Limited must comply with the requirements of APS 222, including the following:

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

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.

Bank of New Zealand Corporate Information

Directorate

Mai Chen retired as a Director of the Bank, effective 21 April 2022.

Warwick Ean Hunt was appointed as an Independent Non-Executive Director of the Bank, effective 1 November 2022.

Responsible Persons

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

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

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 2022

		Banking Group		
		Unaudited 6 Months	Audited 12 Months	Unaudited 6 Months
Dollars in Millions	Note	31/3/22	30/9/21	31/3/21
Interest income				
Effective interest income		1,583	2,891	1,461
Fair value through profit or loss		41	77	44
Interest expense		460	787	432
Net interest income		1,164	2,181	1,073
Gains less losses on financial instruments	2	143	277	135
Other operating income	3	191	401	191
Total operating income		1,498	2,859	1,399
Operating expenses		489	1,060	500
Total operating profit before credit impairment charge and income tax expense		1,009	1,799	899
Credit impairment charge/(write-back)	8	21	(37)	(17)
Total operating profit before income tax expense		988	1,836	916
Income tax expense on operating profit		279	514	256
Net profit attributable to the shareholder of the Bank		709	1,322	660

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 2022

	Banking Group		
	Unaudited 6 Months	Audited 12 Months	Unaudited 6 Months
Dollars in Millions	31/3/22	30/9/21	31/3/21
Net profit attributable to the shareholder of the Bank	709	1,322	660
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Actuarial gain on defined benefit plan	-	1	-
Movement in asset revaluation reserve	-	(1)	(1)
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	67	(16)	(23)
Tax on items recognised in equity	(19)	5	6
	48	(11)	(18)
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	187	(119)	(103)
Movement in cost of hedging reserve	33	(2)	3
Tax on items recognised in equity	(62)	34	28
	158	(87)	(72)
Total other comprehensive income/(expense)	206	(98)	(90)
Total comprehensive income attributable to the shareholder of the Bank	915	1,224	570

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 2022

Dollars in Millions	Ordinary Capital	Retained Profits	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Cost of Hedging Reserve	FVOCI Reserve	Total Share-holder's Equity
	Banking Group						
	Unaudited 6 Months 31/3/22						
Balance at beginning of period	4,056	5,805	2	27	(10)	1	9,881
Comprehensive income/(expense)							
Net profit attributable to the shareholder of the Bank	-	709	-	-	-	-	709
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	67	-	-	-	-	67
Reserve movement through other comprehensive income	-	-	-	187	33	-	220
Tax effect on items directly recognised in equity	-	(19)	-	(53)	(9)	-	(81)
Total comprehensive income/(expense)	-	757	-	134	24	-	915
Dividends paid on ordinary shares	-	(325)	-	-	-	-	(325)
Balance at end of period	4,056	6,237	2	161	14	1	10,471
	Audited 12 Months 30/9/21						
Balance at beginning of year	4,056	4,493	3	113	(9)	1	8,657
Comprehensive income/(expense)							
Net profit attributable to the shareholder of the Bank	-	1,322	-	-	-	-	1,322
Actuarial gain on defined benefit plan	-	1	-	-	-	-	1
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	(16)	-	-	-	-	(16)
Reserve movement through other comprehensive income	-	-	(1)	(119)	(2)	-	(122)
Tax effect on items directly recognised in equity	-	5	-	33	1	-	39
Total comprehensive income/(expense)	-	1,312	(1)	(86)	(1)	-	1,224
Balance at end of year	4,056	5,805	2	27	(10)	1	9,881
	Unaudited 6 Months 31/3/21						
Balance at beginning of period	4,056	4,493	3	113	(9)	1	8,657
Comprehensive income/(expense)							
Net profit attributable to the shareholder of the Bank	-	660	-	-	-	-	660
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	(23)	-	-	-	-	(23)
Reserve movement through other comprehensive income	-	-	(1)	(103)	3	-	(101)
Tax effect on items directly recognised in equity	-	6	-	29	(1)	-	34
Total comprehensive income/(expense)	-	643	(1)	(74)	2	-	570
Balance at end of period	4,056	5,136	2	39	(7)	1	9,227

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 2022

Dollars in Millions	Note	Banking Group Unaudited 31/3/22	Audited 30/9/21	Unaudited 31/3/21
Assets				
Cash and liquid assets	4	**12,170**	9,722	7,291
Due from central banks and other institutions	5	**927**	809	1,028
Trading securities	6	**7,103**	7,348	7,780
Derivative financial instruments		**3,823**	4,404	5,804
Loans and advances to customers	7	**97,804**	94,721	90,700
Amounts due from related entities	13	**662**	179	105
Other assets		**493**	897	628
Deferred tax		**274**	283	297
Property, plant and equipment		**465**	466	425
Goodwill and other intangible assets		**338**	293	255
Total assets		**124,059**	119,122	114,313
Liabilities				
Due to central banks and other institutions	10	**5,658**	5,388	4,612
Trading liabilities		**591**	537	224
Derivative financial instruments		**3,926**	3,189	4,278
Deposits and other borrowings	11	**80,435**	78,108	73,699
Bonds and notes		**18,864**	17,518	18,103
Current tax liabilities		**176**	156	9
Amounts due to related entities	13	**1,053**	1,306	1,304
Other liabilities		**935**	1,089	908
Subordinated debt	12	**1,950**	1,950	1,949
Total liabilities		**113,588**	109,241	105,086
Net assets		**10,471**	9,881	9,227
Shareholder's equity				
Contributed equity – ordinary shares		**4,056**	4,056	4,056
Reserves		**178**	20	35
Retained profits		**6,237**	5,805	5,136
Total shareholder's equity		**10,471**	9,881	9,227
Interest earning and discount bearing assets		**116,770**	110,990	105,161
Interest and discount bearing liabilities		**95,243**	92,593	88,716

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 2022

		Banking Group		
		Unaudited 6 Months	Audited 12 Months	Unaudited 6 Months
Dollars in Millions	Note	31/3/22	30/9/21	31/3/21
Cash flows from operating activities				
Cash was provided from:				
Interest income		1,602	2,978	1,512
Other cash inflows from operating activities		736	492	192
Cash was applied to:				
Interest expense		(440)	(886)	(491)
Other cash outflows to operating activities		(827)	(1,228)	(750)
Net cash flows from operating activities before changes in operating assets and liabilities		1,071	1,356	463
Net change in operating assets and liabilities		(570)	3,693	2,335
Net cash flows from operating activities		501	5,049	2,798
Net cash flows from investing activities		(84)	(134)	(54)
Net cash flows from financing activities		2,517	692	621
Net movement in cash and cash equivalents		2,934	5,607	3,365
Cash and cash equivalents at beginning of period		7,204	1,597	1,597
Cash and cash equivalents at end of period		10,138	7,204	4,962
Cash and cash equivalents at end of period comprised:				
Cash and liquid assets	4	12,170	9,722	7,291
Due to central banks and other institutions classified as cash and cash equivalents	10	(1,304)	(1,673)	(1,641)
Amounts due from related entities classified as cash and cash equivalents	13	296	172	84
Amounts due to related entities classified as cash and cash equivalents	13	(1,024)	(1,017)	(772)
Total cash and cash equivalents		10,138	7,204	4,962

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

Notes to and Forming Part of the Interim Financial Statements

For the six months ended 31 March 2022

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 IAS 34 *Interim Financial Reporting*, NZ IAS 34 *Interim Financial Reporting* and the Order, and should be read in conjunction with the Disclosure Statement for the year ended 30 September 2021.

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 2021.

Other information

The amounts of Net interest income and Gains less losses on financial instruments for the six months ended 31 March 2022 presented in this Disclosure Statement, including the interim financial statements included herein, differ from the respective amounts included in the Bank's half year results announcement published on 5 May 2022. The revised amounts appropriately reflect the Bank's accounting treatment for interest accrued on hedging derivatives and have had no impact on the Banking Group's net profit for the period.

Other developments - Interest Rate Benchmark ("IBOR") Reform

Following discontinuation of all EUR and CHF LIBOR tenors, and USD LIBOR 1 week, 2-month tenors in December 2021, with only a 'synthetic' GBP and JPY LIBOR temporarily available for use in some legacy contracts, the ICE Benchmark Administrator is due to cease publication of the remaining USD LIBOR tenors (overnight, 1, 3, 6 and 12 month) on 1 July 2023.

The Banking Group does not hold financial instruments referencing GBP, JPY, or CHF, nor contracts requiring reference to the 'synthetic' GBP or JPY. The Banking Group ceased referencing USD LIBOR in new transactions, except where required to support customer business consistent with regulatory guidance for such activity and continues to take active steps to transition remaining USD LIBOR legacy contracts to Alternative Reference Rates ("ARR") prior to July 2023. As at 31 March 2022, the Banking Group had no material exposure from financial instruments which have not yet been restructured to transition to an alternative ARR.

The Banking Group has been working on and enacted a comprehensive set of mitigants to eliminate or manage risks arising from this transition and limit any negative impact to the Banking Group and its customers. IBOR reform, including the transition from LIBOR to ARRs, has not resulted in changes to the Banking Group's risk management strategy for hedge accounting as at 31 March 2022.

Critical accounting assumptions and estimates

The preparation of these interim financial statements requires the use of critical accounting estimates, judgements and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. The Banking Group estimates the amount expected to be paid to tax authorities based on its understanding and interpretation of relevant tax laws which may require the exercise of judgement. There have been no significant changes to the accounting estimates, judgements and assumptions used in preparing the interim financial statements compared to those applied in the preparation of the Disclosure Statement for the year ended 30 September 2021.

Income Statement Notes

Note 2 Gains Less Losses on Financial Instruments

	Banking Group		
Dollars in Millions	**Unaudited 6 Months 31/3/22**	Audited 12 Months 30/9/21	Unaudited 6 Months 31/3/21
Trading gains less losses on financial instruments	**82**	205	97
Net gain/(loss) attributable to assets, liabilities and derivatives designated in hedge relationships	**12**	(1)	7
Net gain/(loss) in the fair value of derivatives used for hedging purposes not designated in hedge relationships	**2**	21	5
Net gain/(loss) in the fair value of financial assets designated at fair value through profit or loss and related derivatives[1, 2]	**(7)**	14	2
Net gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss and related derivatives (refer to table below)[2]	**53**	37	22
Other gains less losses on financial instruments	**1**	1	2
Total gains less losses on financial instruments	**143**	277	135
Net gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss and related derivatives includes:			
Gain/(loss) attributable to derivatives used for hedging of financial liabilities designated at fair value through profit or loss	**(299)**	(285)	(158)
Gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss	**352**	322	180

[1] Included in Net gain/(loss) in the fair value of financial assets designated at fair value through profit or loss and related derivatives is a loss of $1 million in the fair value of financial assets designated at fair value though profit or loss (30 September 2021: $17 million; 31 March 2021: $15 million).
[2] All foreign currency gains/(losses) are excluded from this category. Due to the Banking Group's practice of managing all foreign exchange risk centrally, all foreign currency gains/(losses) are included within 'Trading gains less losses on financial instruments' above.

Note 3 Other Operating Income

	Banking Group		
Dollars in Millions	**Unaudited 6 Months 31/3/22**	Audited 12 Months 30/9/21	Unaudited 6 Months 31/3/21
Other operating income			
Money transfer fees	**46**	106	58
Fees earned on financial assets and liabilities at fair value through profit or loss	**7**	24	16
Fees earned on financial assets and liabilities at amortised cost	**94**	157	79
Fees earned on trust and other fiduciary activities	**4**	7	3
Net investment management income	**8**	15	7
Other income, other fees and commissions income	**32**	92	28
Total other operating income	**191**	401	191
Net investment management income includes:			
Investment management income	**16**	35	17
Investment management expenses	**(8)**	(20)	(10)

Notes to and Forming Part of the Interim Financial Statements

Asset Notes

Note 4 Cash and Liquid Assets

	Banking Group		
	Unaudited	Audited	Unaudited
Dollars in Millions	31/3/22	30/9/21	31/3/21
Coins, notes and cash at bank	192	162	210
Transaction balances with central banks	10,918	8,799	5,796
Transaction balances with other institutions	422	165	335
Securities purchased under agreements to resell with central banks	-	12	69
Securities purchased under agreements to resell with other institutions	638	584	881
Total cash and liquid assets	12,170	9,722	7,291

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

The Banking Group has accepted collateral with a fair value of $885 million as at 31 March 2022 arising from reverse repurchase agreements included in Cash and liquid assets and amounts due from related entities in Note 13 *Related entity transactions*, which it is permitted to sell or repledge (30 September 2021: $737 million; 31 March 2021: $1,003 million).

Government securities with a fair value of $2 million were repledged as at 31 March 2022 (30 September 2021: $96 million; 31 March 2021: $68 million). The Bank's obligation to repurchase government securities is classified under Note 10 *Due to central banks and other institutions*.

Note 5 Due from Central Banks and Other Institutions

Included in Due from central banks and other institutions as at 31 March 2022 was $643 million of collateral posted with counterparties to meet standard derivative trading obligations (30 September 2021: $505 million; 31 March 2021: $825 million).

Note 6 Trading Securities

	Banking Group		
	Unaudited	Audited	Unaudited
Dollars in Millions	31/3/22	30/9/21	31/3/21
Government bonds, notes and securities	3,880	4,673	4,960
Semi-government bonds, notes and securities	1,615	1,336	1,209
Corporate and other institutions bonds, notes and securities	1,608	1,339	1,611
Total trading securities	7,103	7,348	7,780

Included in Trading securities as at 31 March 2022 were $519 million encumbered through repurchase agreements (30 September 2021: $508 million; 31 March 2021: $530 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 Note 10 *Due to central banks and other institutions* and amounts due to related entities in Note 13 *Related entity transactions*.

Note 7 Loans and Advances to Customers

	Banking Group		
	Unaudited	Audited	Unaudited
Dollars in Millions	31/3/22	30/9/21	31/3/21
Overdrafts	2,025	1,948	2,042
Credit card outstandings	793	746	876
Housing loans	54,503	52,728	49,493
Other term lending	40,470	39,402	38,407
Other lending	749	605	594
Total gross loans and advances to customers	98,540	95,429	91,412
Deduct:			
Provision for credit impairment and credit risk adjustments on financial assets (refer to Note 8)	782	778	853
Deferred and other unearned future income and expenses	(93)	(99)	(92)
Fair value hedge adjustments on housing loans	47	29	(49)
Total deductions	736	708	712
Total net loans and advances to customers	97,804	94,721	90,700

Included in Loans and advances to customers as at 31 March 2022 was $40 million of collateral posted with counterparties to meet standard derivative trading obligations (30 September 2021: $30 million; 31 March 2021: $65 million).

As at 31 March 2022, included within the Banking Group's Loans and advances to customers were housing loans with a carrying amount of $17,791 million that have been transferred to consolidated structured entities but not derecognised in their entirety (30 September 2021: $17,744 million; 31 March 2021: $17,125 million).

The Banking Group had issued debt securities with a face value of $4,069 million that were guaranteed by the BNZ Covered Bond Trust as at 31 March 2022 (30 September 2021: $4,262 million; 31 March 2021: $4,072 million). The underlying collateral that supports the guarantee provided by the BNZ Covered Bond Trust comprised housing loans, collections receivable and cash with a carrying amount of $5,280 million as at 31 March 2022 (30 September 2021: $5,274 million; 31 March 2021: $4,741 million).

Note 8 Allowance for Expected Credit Losses

Expected Credit Losses ("ECL") are derived from unbiased and probability-weighted estimates of expected loss. The measurement of ECL and assessment of significant increase in credit risk ("SICR"), considers information about current conditions, past events, as well as reasonable and supportable forecasts of future economic conditions.

The Banking Group's ECL measurement is derived from a probability weighted average of three distinct scenarios (base case, upside and downside) in addition to forward looking adjustments for emerging risk at an industry, geography or segment level. The probability of each scenario is determined by considering relevant macro-economic outlooks and their likely impact on the Banking Group's credit portfolios.

Key judgements and estimates

- In determining ECL, management judgement is applied, using objective, reasonable and supportable information about current and forecast economic conditions and granular probability of default and loss given default assumptions.
- Macro-economic variables used in these scenarios, include (but are not limited to) cash rates, unemployment rates, gross domestic product growth rates, inflation, residential and commercial property price indices and require an evaluation of both the current and forecast direction of the macro-economic cycle.
- When determining whether the risk of default has increased significantly since initial recognition, both quantitative and qualitative information is considered, including expert credit assessment, forward looking information and analysis based on the Banking Group's historical loss experience.

Movement in allowance for expected credit losses

The total allowance for credit impairment as at 31 March 2022 reduced by $2 million compared to the balance as at 30 September 2021 due to a reduction of $22 million in individually assessed provisions, partially offset by an increase in collectively assessed provisions by $20 million. The increase in the collectively assessed provisions reflect a refresh of the modelled inputs, and an increase in the downside weighting for forward looking adjustments. Gross impaired assets to Gross loans and advances decreased, and individually assessed provisions reduced mainly due to lower impaired loans in the corporate and dairy portfolios.

Note 8 Allowance for Expected Credit Losses *continued*

The following table for the six months ended 31 March 2022 is prescribed by Orders in Council and is broken down between Residential mortgage lending, Other retail exposures and Corporate exposures. The table provides a reconciliation from the opening balance to the closing balance of allowance for expected credit losses and shows the movement in opening balance where financial assets have transferred between ECL stages and subsequent remeasurement of the allowance for ECL during the period.

	Banking Group				
	Unaudited (31/3/22)				
	Collectively assessed allowance			Individually assessed allowance	
Dollars in Millions	Stage 1	Stage 2	Stage 3	Stage 3	Total
Movement in Allowance for ECL					
Residential mortgage lending					
Balance at beginning of period	1	44	50	-	95
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	-	-	-	-	-
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]	(2)	2	(3)	-	(3)
Amounts written off	-	-	-	-	-
Recovery of amounts written off	-	-	-	-	-
Balance at end of period - Residential mortgage lending	-	45	47	-	92
Other retail exposures					
Balance at beginning of period	7	18	15	5	45
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	3	(2)	(1)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(1)	2	(1)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(1)	1	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(1)	(3)	4	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	(2)	4	2	-	4
Amounts written off	-	-	-	(10)	(10)
Recovery of amounts written off	-	-	-	5	5
Balance at end of period - Other retail exposures	7	20	13	4	44
Corporate exposures					
Balance at beginning of period	39	445	20	114	618
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	13	(13)	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	(4)	5	(1)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(1)	1	-	-
Transferred to specific provision lifetime ECL credit impaired	-	-	-	-	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	(8)	19	12	(3)	20
Amounts written off	-	-	-	(17)	(17)
Recovery of amounts written off	-	-	-	-	-
Discount unwind[2]	-	-	-	(1)	(1)
Balance at end of period - Corporate exposures	40	455	32	93	620
Total					
Balance at beginning of period	47	507	85	119	758
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	17	(16)	(1)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(5)	7	(2)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(2)	2	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(1)	(3)	4	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	(12)	25	11	(3)	21
Amounts written off	-	-	-	(27)	(27)
Recovery of amounts written off	-	-	-	5	5
Discount unwind[2]	-	-	-	(1)	(1)
Total provision for credit impairment balance at end of period	47	520	92	97	756

[1] Classified as credit impairment charge/(write-back) 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 Allowance for Expected Credit Losses *continued*

The following table summarises the changes in the gross carrying amounts of loans and advances to customers to explain changes in the Banking Group's provision for credit impairment for the period.

	Banking Group				
	Unaudited (31/3/22)				
	Collectively assessed allowance			Individually assessed allowance	
Dollars in Millions	Stage 1	Stage 2	Stage 3	Stage 3	Total
Movement in gross loans and advances to customers					
Residential mortgage lending					
Gross carrying amount at beginning of period	51,916	571	240	1	52,728
Transfers					
Transferred to collectively assessed 12-months ECL	403	(370)	(33)	-	-
Transferred to collectively assessed lifetime ECL not credit impaired	(521)	537	(16)	-	-
Transferred to collectively assessed lifetime ECL credit impaired	(82)	(31)	113	-	-
Transferred to individually assessed lifetime ECL credit impaired	-	-	(1)	1	-
Net further lending/(repayment)	(1,263)	(12)	(3)	1	(1,277)
Additions	7,305	-	-	-	7,305
Deletions	(4,144)	(70)	(38)	(1)	(4,253)
Amounts written off	-	-	-	-	-
Total gross carrying amount at end of period	53,614	625	262	2	54,503
Allowance for ECL	-	45	47	-	92
Total net carrying amount at end of period	53,614	580	215	2	54,411
Other retail exposures					
Gross carrying amount at beginning of period	1,994	157	19	9	2,179
Transfers					
Transferred to collectively assessed 12-months ECL	77	(75)	(2)	-	-
Transferred to collectively assessed lifetime ECL not credit impaired	(142)	144	(1)	(1)	-
Transferred to collectively assessed lifetime ECL credit impaired	(9)	(7)	16	-	-
Transferred to individually assessed lifetime ECL credit impaired	(1)	(1)	(2)	4	-
Net further lending/(repayment)	(8)	(41)	-	9	(40)
Additions	307	-	-	-	307
Deletions	(229)	(24)	(11)	(4)	(268)
Amounts written off	-	-	-	(10)	(10)
Total gross carrying amount at end of period	1,989	153	19	7	2,168
Allowance for ECL	7	20	13	4	44
Total net carrying amount at end of period	1,982	133	6	3	2,124
Corporate exposures					
Gross carrying amount at beginning of period	14,756	24,505	132	189	39,582
Transfers					
Transferred to collectively assessed 12-months ECL	3,749	(3,746)	(3)	-	-
Transferred to collectively assessed lifetime ECL not credit impaired	(5,369)	5,389	(14)	(6)	-
Transferred to collectively assessed lifetime ECL credit impaired	(135)	(41)	182	(6)	-
Transferred to individually assessed lifetime ECL credit impaired	(6)	-	-	6	-
Net further lending/(repayment)	(77)	264	(4)	19	202
Additions	6,423	-	-	-	6,423
Deletions	(2,496)	(2,382)	(30)	(38)	(4,946)
Amounts written off	-	-	-	(17)	(17)
Total gross carrying amount at end of period	16,845	23,989	263	147	41,244
Allowance for ECL	40	455	32	93	620
Total net carrying amount at end of period	16,805	23,534	231	54	40,624
Total					
Gross carrying amount at beginning of period	68,666	25,233	391	199	94,489
Transfers					
Transferred to collectively assessed 12-months ECL	4,229	(4,191)	(38)	-	-
Transferred to collectively assessed lifetime ECL not credit impaired	(6,032)	6,070	(31)	(7)	-
Transferred to collectively assessed lifetime ECL credit impaired	(226)	(79)	311	(6)	-
Transferred to individually assessed lifetime ECL credit impaired	(7)	(1)	(3)	11	-
Net further lending/(repayment)	(1,348)	211	(7)	29	(1,115)
Additions	14,035	-	-	-	14,035
Deletions	(6,869)	(2,476)	(79)	(43)	(9,467)
Amounts written off	-	-	-	(27)	(27)
Total gross carrying amount at end of period	72,448	24,767	544	156	97,915
Allowance for ECL	47	520	92	97	756
Total net carrying amount at end of period	72,401	24,247	452	59	97,159

Notes to and Forming Part of the Interim Financial Statements

Note 8 Allowance for Expected Credit Losses *continued*

Impact of changes in gross carrying amount on ECL

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

Residential mortgage lending

Residential mortgage lending gross carrying amount increased by $1,775 million in the six months ended 31 March 2022, with associated ECL decreasing by $3 million. The movement in ECL included decreases in the modelled collective provision of $1 million and decreases in the Economic Adjustment of $2 million. The cycle neutral provision adjustment, reflecting factors not accounted for in the modelled outcomes, remained unchanged from 30 September 2021. The decrease in modelled ECL was due to continued extremely low net write-off losses for the six months ended 31 March 2022.

Corporate exposures

Corporate gross carrying amount increased by $1,662 million in the six months ended 31 March 2022, with associated ECL increasing by $2 million. The movement in ECL includes a reduction in individually assessed allowance of $21 million which was predominantly driven by write-offs and work-outs for a small number of larger exposures in the New Zealand dairy and business lending portfolios. The collectively assessed allowance increased by $23 million from 30 September 2021, reflecting a refresh of the modelled inputs for loans and advances, and includes an increase in Economic Adjustment of $7 million. Countercyclical forward looking adjustments including continued impacts of supply chain challenges as a result of COVID-19, were unchanged for the period.

ECL scenario analysis

The Banking Group's forecasts assume the following key macro-economic variables used in the upside, base case and downside scenario as at 31 March 2022.

		Upside (%)			Base Case (%)			Downside (%)	
		Unaudited			Unaudited			Unaudited	
	FY 2022	FY 2023	FY 2024	FY 2022	FY 2023	FY 2024	FY 2022	FY 2023	FY 2024
Macro-economic indicators[1]									
Gross domestic product change year on year	6.8	1.8	3.4	6.6	1.2	2.9	(3.4)	(3.5)	1.6
Unemployment	3.0	3.3	3.7	3.0	3.4	3.8	8.1	9.4	10.1
House price change year on year	1.6	(5.2)	3.1	1.2	(5.9)	2.8	(18.0)	(15.0)	4.3

[1] Macro-economic indicators represent annual change from September to September.

	Upside (%)		Base case (%)		Downside (%)	
	HY 2022	FY 2021	HY 2022	FY 2021	HY 2022	FY 2021
Macro-economic scenario weightings						
Retail	2.5	2.5	52.5	60	45	37.5
Non-Retail	2.5	2.5	52.5	60	45	37.5

Sensitivity Analysis

The following table shows the reported total provisions for ECL based on the probability weighting of scenarios, with the sensitivity range reflecting the ECL impacts assuming a 100% weighting is applied to the upside scenario, base case scenario or the downside scenario (with all other assumptions held constant).

	Banking Group		
	Unaudited	Unaudited	Unaudited
Dollars in Millions	31/3/22	30/9/21	31/3/21
Reported probability weighted ECL	756	758	822
100% upside ECL	601	609	N/A
100% base case ECL	601	650	457
100% downside ECL	943	940	1,217

Note 8 Allowance for Expected Credit Losses *continued*

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

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

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

	Banking Group			
	Unaudited (31/3/22)			
Dollars in Millions	Residential Mortgage Lending	Other Retail Exposures	Corporate Exposures	Total
Credit risk adjustment on individual financial assets				
Loans and advances to customers				
Balance at beginning of period	-	-	15	15
Charge/(credit) to income statement	-	-	4	4
Balance at end of period	-	-	19	19
Credit risk adjustment on groups of financial assets				
Loans and advances to customers				
Balance at beginning of period	-	-	5	5
Charge/(credit) to income statement	-	-	2	2
Balance at end of period	-	-	7	7
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	-	26	26
Trading derivative financial instruments				
Balance at beginning of period	-	-	11	11
Charge/(credit) to income statement	-	-	(1)	(1)
Balance at end of period	-	-	10	10
Total credit risk adjustments on trading derivative financial instruments	-	-	10	10

Note 9 Asset Quality

The Banking Group provides for credit impairment as disclosed in Note 8 *Allowance for expected credit losses*. 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 the estimated net realisable value.

		Banking Group			
		Unaudited (31/3/22)			
Dollars in Millions	Note	Residential Mortgage Lending	Other Retail Exposures	Corporate Exposures	Total
Individually impaired assets - at fair value through profit or loss					
Balance at beginning of period		-	-	32	32
Additions		-	-	-	-
Deletions		-	-	-	-
Balance at end of period		-	-	32	32
Credit risk adjustments on individual financial assets designated at fair value through profit or loss	8	-	-	19	19
Individually impaired assets - at amortised cost					
Gross carrying amount at end of period		2	7	147	156
Individually assessed allowance for ECL - Stage 3	8	-	4	93	97
Total individually impaired assets at end of period		2	7	179	188
Individually impaired assets - undrawn lending commitments					
At amortised cost		-	-	3	3
At fair value through profit or loss		-	-	-	-
Other assets under administration		2	1	-	3

	Banking Group			
	Unaudited (31/3/22)			
Dollars in Millions	Residential Mortgage Lending	Other Retail Exposures	Corporate Exposures	Total
Past due assets not individually impaired				
Loans and advances to customers				
1 - 7 days past due	86	35	133	254
8 - 29 days past due	83	18	45	146
1 - 29 days past due	169	53	178	400
30 - 59 days past due	48	6	20	74
60 - 89 days past due	19	4	12	35
90+ days past due	49	13	79	141
Total past due assets not individually impaired	285	76	289	650

Liability Notes

Note 10 Due to Central Banks and Other Institutions

	Banking Group		
	Unaudited	Audited	Unaudited
Dollars in Millions	31/3/22	30/9/21	31/3/21
Transaction balances with other institutions[1]	**1,032**	1,126	1,061
Deposits from central banks	**120**	110	99
Deposits from other institutions[2]	**966**	942	844
Securities sold under agreements to repurchase from central banks[3]	**3,269**	2,664	2,029
Securities sold under agreements to repurchase from other institutions[1]	**271**	546	579
Total due to central banks and other institutions	**5,658**	5,388	4,612

[1]Classified as cash and cash equivalents in the cash flow statement.
[2] Included in deposits from other institutions as at 31 March 2022 was $1 million classified as cash and cash equivalents in the cash flow statement (30 September 2021: $1 million; 31 March 2021: $1 million).
[3] Included in securities sold under agreements to repurchase from central banks was nil (30 September 2021: nil; 31 March 2021: nil) classified as cash and cash equivalents in the cash flow statement, $1,519 million (30 September 2021: $1,664 million; 31 March 2021: $1,029 million) relating to Term Lending Facility and $1,750 million (30 September 2021: $1,000 million; 31 March 2021: $1,000 million) relating to Funding for Lending Programme.

Included in Due to central banks and other institutions as at 31 March 2022 was $506 million of collateral posted by counterparties to meet standard derivative trading obligations (30 September 2021: $457 million; 31 March 2021: $727 million).

Note 11 Deposits and Other Borrowings

	Banking Group		
	Unaudited	Audited	Unaudited
Dollars in Millions	31/3/22	30/9/21	31/3/21
Deposits not bearing interest	**13,247**	12,077	11,049
On-demand and short term deposits bearing interest	**35,553**	34,781	32,804
Term deposits	**25,260**	24,386	25,165
Total customer deposits	**74,060**	71,244	69,018
Certificates of deposit	**2,464**	2,435	659
Commercial paper	**3,911**	4,429	4,022
Total deposits and other borrowings	**80,435**	78,108	73,699

Included in Deposits and other borrowings as at 31 March 2022 was $535 million of collateral posted by counterparties to meet standard derivative trading obligations (30 September 2021: $113 million; 31 March 2021: $15 million).

Note 12 Subordinated Debt

	Banking Group		
	Unaudited	Audited	Unaudited
Dollars in Millions	31/3/22	30/9/21	31/3/21
Subordinated Notes due to related entity	1,050	1,050	500
Perpetual Notes due to related entity	900	900	900
Subordinated Notes due to external investors	-	-	549
Total subordinated debt	1,950	1,950	1,949

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

On 8 May 2018, the Bank issued $500 million of subordinated unsecured notes ("2028-Subordinated Notes") to National Australia Bank Limited. The 2028-Subordinated Notes are treated as Tier 2 capital under the Bank's regulatory capital requirements and is subject to a transitional phase-out from 1 January 2022, for further information refer to Note 19 *Capital Adequacy*. The 2028-Subordinated Notes will mature on 8 May 2028. The 2028-Subordinated Notes do not confer any right to vote in general meetings of the Bank or National Australia Bank Limited.

Redemption

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

Interest

The interest rate for the 2028-Subordinated Notes is reset every six months based on the prevailing six-month bank bill rate plus a margin of 1.95% per annum for the term of the 2028-Subordinated Notes. Interest is payable semi-annually in 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 2028-Subordinated Notes because it has not satisfied the solvency test, the Bank must pay that amount on the first date on which it is able to make the payment and satisfy the solvency test.

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

Conversion

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

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

Ranking of 2028 Subordinated Notes

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

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

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

Redemption

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

Interest

The interest rate for the 2031-Subordinated Notes is reset every three months based on the prevailing three-month bank bill rate plus a margin of 1.36% per annum for the term of the 2031-Subordinated Notes. Interest is payable quarterly in 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 2031-Subordinated Notes because it has not satisfied the solvency test, the Bank must pay that amount on the first date on which it is able to make the payment and satisfy the solvency test.

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

Ranking of 2031 Subordinated Notes

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

Note 12 Subordinated Debt *continued*

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

On 20 October 2016, the Bank issued $900 million of mandatorily convertible subordinated perpetual unsecured notes ("Perpetual Notes") to National Australia Bank Limited. The Perpetual Notes are treated as Additional Tier 1 capital under the Bank's regulatory capital requirements and is subject to a transitional phase out from 1 January 2022, for further information refer to Note 19 *Capital Adequacy*. The Perpetual Notes have no fixed maturity date and will remain on issue indefinitely if not repaid, converted or written off. The Perpetual Notes do not confer any right to vote in general meetings of the Bank or National Australia Bank Limited.

Interest

From 20 October 2021, the interest rate for the Perpetual Notes changed from a fixed rate of 6.7539% per annum to a floating interest rate equal to the three month bank bill rate plus a margin of 4.410% per annum.

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

Conversion

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

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

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

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

Ranking of Perpetual Notes

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

Subordinated Notes due to external investors - treated as Tier 2 capital

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

Other Notes

Note 13 Related Entity Transactions

Dollars in Millions	Banking Group Unaudited 31/3/22	Audited 30/9/21	Unaudited 31/3/21
Total balances with related entities			
Amounts due from related entities[1]	**662**	179	105
Derivative financial assets with related entities	**1,202**	1,713	2,216
Amounts due to related entities[2]	**1,053**	1,306	1,304
Derivative financial liabilities with related entities	**1,576**	1,352	1,703
Subordinated debt due to related entities (refer to Note 12)	**1,950**	1,950	1,400

[1] Included in amounts due from related entities as at 31 March 2022 was $296 million classified as cash and cash equivalents in the cash flow statement (30 September 2021: $172 million; 31 March 2021: $84 million).

[2] Included in amounts due to related entities as at 31 March 2022 was $1,024 million classified as cash and cash equivalents in the cash flow statement (30 September 2021: $1,017 million; 31 March 2021: $772 million).

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

Dollars in Millions	Banking Group Unaudited 31/3/22	Audited 30/9/21	Unaudited 31/3/21
Amounts due from related entities			
Collateral loan posted to ultimate parent to meet standard derivative trading obligations	**339**	-	-
Securities purchased under agreements to resell to ultimate parent	**242**	145	60
Amounts due to related entities			
Deposit from controlled entity of ultimate parent	**739**	893	664
Collateral deposit posted by ultimate parent to meet standard derivative trading obligations	**-**	212	490
Securities sold under agreements to repurchase from ultimate parent	**248**	60	23

Other transactions with related entities

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

Note 14 Fair Value of Financial Instruments

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

Hierarchy for fair value measurements

The tables on pages 21 and 22 present a three-level fair value hierarchy of the Banking Group's financial instruments.

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

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

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

The Banking Group considers transfers between levels of the fair value hierarchy, if any, to have occurred at the beginning of the respective reporting period. There were no transfers between any of the levels in the six months ended 31 March 2022 (year ended 30 September 2021: nil; six months ended 31 March 2021: nil).

Financial instruments at fair value

	Banking Group			
	Unaudited (31/3/22)			
Dollars in Millions	Fair Value Total	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Financial assets				
Trading securities	**7,103**	**3,255**	**3,848**	**-**
Derivative financial instruments	**3,823**	**-**	**3,823**	**-**
Loans and advances to customers	**603**	**-**	**603**	**-**
Financial liabilities				
Trading liabilities	**591**	**503**	**88**	**-**
Derivative financial instruments	**3,926**	**-**	**3,926**	**-**
Deposits and other borrowings	**6,375**	**-**	**6,375**	**-**
Bonds and notes	**12,632**	**-**	**12,632**	**-**
	Audited (30/9/21)			
Financial assets				
Trading securities	7,348	4,361	2,987	-
Derivative financial instruments	4,404	-	4,404	-
Loans and advances to customers	920	-	920	-
Financial liabilities				
Trading liabilities	537	460	77	-
Derivative financial instruments	3,189	-	3,189	-
Deposits and other borrowings	6,864	-	6,864	-
Bonds and notes	13,457	-	13,457	-
	Unaudited (31/3/21)			
Financial assets				
Trading securities	7,780	4,828	2,952	-
Derivative financial instruments	5,804	-	5,804	-
Loans and advances to customers	940	-	940	-
Financial liabilities				
Trading liabilities	224	199	25	-
Derivative financial instruments	4,278	-	4,278	-
Deposits and other borrowings	4,681	-	4,681	-
Bonds and notes	15,504	-	15,504	-

Note 14 Fair Value of Financial Instruments *continued*

Financial instruments at amortised cost[1]

	Banking Group				
	Unaudited (31/3/22)				
Dollars in Millions	Carrying Amount	Fair Value Total	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Financial assets					
Loans and advances to customers	97,201	96,260	-	2,025	94,235
Financial liabilities					
Deposits and other borrowings	74,060	73,979	-	73,979	-
Bonds and notes	6,232	6,206	-	6,206	-
Subordinated debt	1,950	1,989	-	1,989	-
	Audited (30/9/21)				
Financial assets					
Loans and advances to customers	93,801	93,482	-	1,948	91,534
Financial liabilities					
Deposits and other borrowings	71,244	71,228	-	71,228	-
Bonds and notes	4,061	4,097	-	4,097	-
Subordinated debt	1,950	2,004	-	2,004	-
	Unaudited (31/3/21)				
Financial assets					
Loans and advances to customers	89,760	89,662	-	2,042	87,620
Financial liabilities					
Deposits and other borrowings	69,018	69,043	-	69,043	-
Bonds and notes	2,599	2,605	-	2,605	-
Subordinated debt	1,949	1,975	552	1,423	-

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

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

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

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

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

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

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

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

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

Note 15 Segment Analysis

Operating segments

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

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

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

The profit for each operating segment 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. These are reported in the 'Other' category.

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

	Banking Group				
	Unaudited 6 Months (31/3/22)				
Dollars in Millions	Partnership Banking	Corporate and Institutional Banking	Total Reportable Segments	Other	Total Banking Group
Net interest income	**894**	**250**	**1,144**	**20**	**1,164**
Other income[1]	**119**	**130**	**249**	**85**	**334**
Total operating income	**1,013**	**380**	**1,393**	**105**	**1,498**
Total operating profit before income tax expense	**585**	**284**	**869**	**119**	**988**
Income tax expense	**161**	**80**	**241**	**38**	**279**
Net profit attributable to the shareholder of the Bank	**424**	**204**	**628**	**81**	**709**
	Audited 12 Months (30/9/21)				
Net interest income	1,706	438	2,144	37	2,181
Other income[1]	220	242	462	216	678
Total operating income	1,926	680	2,606	253	2,859
Total operating profit before income tax expense	1,184	546	1,730	106	1,836
Income tax expense	332	153	485	29	514
Net profit attributable to the shareholder of the Bank	852	393	1,245	77	1,322
	Unaudited 6 Months (31/3/21)				
Net interest income	815	206	1,021	52	1,073
Other income[1]	114	123	237	89	326
Total operating income	929	329	1,258	141	1,399
Total operating profit before income tax expense	551	247	798	118	916
Income tax expense	154	69	223	33	256
Net profit attributable to the shareholder of the Bank	397	178	575	85	660

[1] Other income includes Gains less losses on financial instruments and Other operating income.

Note 16 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 loss is probable and can be reliably measured, provisions have been made. Contingent liabilities are not recognised on the balance sheet, but are disclosed unless the likelihood of payment is remote.

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

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

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

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

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

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

	Banking Group		
Dollars in Millions	**Unaudited 31/3/22**	Audited 30/9/21	Unaudited 31/3/21
Contingent liabilities			
Bank guarantees	**60**	60	64
Standby letters of credit	**320**	279	250
Documentary letters of credit	**181**	153	203
Performance related contingencies	**1,163**	1,068	1,021
Total contingent liabilities	**1,724**	1,560	1,538
Credit related commitments			
Revocable commitments to extend credit	**8,744**	9,735	9,690
Irrevocable commitments to extend credit	**12,818**	12,662	12,671
Total credit related commitments	**21,562**	22,397	22,361
Total contingent liabilities and credit related commitments	**23,286**	23,957	23,899

Note 17 Concentrations of Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties

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

	Banking Group Unaudited (31/3/22) Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties Long Term Credit Rating	
Number of bank counterparties	Peak End-of-Day A-or A3 or above or its equivalent	Balance Sheet Date A-or A3 or above or its equivalent
Percentage of Common Equity Tier 1 capital		
10-14%	3	-
15 -19%	-	-
20 -24%	-	-
Number of non-bank counterparties		
Percentage of Common Equity Tier 1 capital		
10-14%	-	-
15 -19%	-	-
20 -24%	-	-

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

The Banking Group had no bank counterparties, supranationals or quasi-sovereign agencies with a long term credit rating below A- or A3, to whom their aggregate credit exposure, as at 31 March 2022, or peak end-of-day aggregate credit exposure, for the six months ended 31 March 2022, equalled or exceeded 10% of the Banking Group's Common Equity Tier 1 capital.

The Banking Group had no non-bank counterparties with a long term credit rating below A- or A3, to whom their aggregate credit exposure, as at 31 March 2022, or peak end-of-day aggregate credit exposure, for the six months ended 31 March 2022, equalled or exceeded 10% of the Banking Group's Common Equity Tier 1 Capital.

Note 18 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 2021.

Notes to and Forming Part of the Interim Financial Statements

Note 19 Capital Adequacy

The RBNZ minimum regulatory capital requirements for banks have been established under the RBNZ Capital Adequacy Framework, outlined in the new "Banking Prudential Requirements" ("BPR") documents 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.

Basel III consists of three pillars – Pillar One covers the capital requirements for banks for credit, operational, and market risks. Pillar Two covers all other material risks that are not already included in Pillar One. Pillar Three relates to market disclosure.

RBNZ Capital Adequacy Framework

The Banking Group has calculated its Risk Weighted Assets ("RWA") and minimum regulatory capital requirements based on the BPR documents.

The RBNZ Capital Adequacy Framework allows accredited banks to use their own models for calculating RWA for credit risk and the Banking Group is subject to a condition of registration requiring it to meet minimum systems and governance requirements on a continuing basis. Under the Internal Ratings Based ("IRB") 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. 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. From 1 January 2022 the Banking Group has complied with the RBNZ requirement that IRB banks calculate exposures to Bank and Sovereign asset classes using the prescribed standardised methodology in BPR131 *Standardised Credit Risk RWAs* ("BPR131").

The only other exception to the IRB approach for credit risk are portfolios of relatively low materiality for which the Bank has not sought model approval, and as such are also subject to the standardised treatment.

From 1 January 2022 an IRB bank must also use the standardised calculation methodology set out in BPR131 to calculate the standardised equivalent RWA for each credit exposure subject to the IRB calculation methodology and, after multiplying by the 1.06 scalar, apply a floor on IRB exposure equal to 85% of the value of those RWA recalculated using the standardised methodology.

Capital for market risk has been calculated in accordance with the approach specified in BPR140 *Market Risk*.

Capital requirement for operational risk has been calculated in accordance with the approach specified in BPR150 *Standardised Operational Risk* ("BPR150"), subject to a minimum value of $600 million.

Capital management policies

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

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

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

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

The Banking Group has an Internal Capital Adequacy Assessment Process ("ICAAP") in place which complies with the requirements set out in BPR100 *Capital Adequacy* 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 Executive Risk and Compliance Committee ("ERCC") 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 34.

The tables on the following pages detail the capital calculation, capital ratios and capital requirements as at 31 March 2022. 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 19 Capital Adequacy *continued*

Regulatory capital

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

Dollars in Millions	Banking Group Unaudited 31/3/22
Qualifying capital	
Common Equity Tier 1 capital	
Contributed equity - ordinary shares	4,056
Retained profits	6,237
Accumulated other comprehensive income and other disclosed reserves	176
Deductions from Common Equity Tier 1 capital:	
Goodwill and other intangible assets	338
Cash flow hedge reserve	161
Credit value adjustment on liabilities designated at fair value through profit or loss	(39)
Prepaid pension assets (net of deferred tax)	6
Deferred tax asset	274
Total expected loss less total eligible allowances for impairment	-
Credit enhancements	2
Total Common Equity Tier 1 capital	9,727
Additional Tier 1 capital	
Perpetual Notes[1]	788
Total Additional Tier 1 capital	788
Total Tier 1 capital	10,515
Tier 2 capital	
Revaluation reserves	2
Subordinated Notes[2]	988
Total eligible impairment allowance in excess of expected loss	210
Total Tier 2 capital	1,200
Total Tier 1 and Tier 2 qualifying capital	11,715

[1] The Perpetual Notes are subject to phase-out in accordance with BPR110 *Capital Definitions* ("BPR110"). The phase-out, which commenced on 1 January 2022, takes place until 1 July 2028, with the maximum eligible amount of AT1 capital for these instruments declining by 12.5% each year. The base amount for phase-out was fixed at the nominal amount outstanding as at 30 September 2021 and amounted to $900 million.
[2] The 2028-Subordinated Notes are subject to phase-out in accordance with BPR110. The phase-out, which commenced on 1 January 2022, takes place until 1 July 2028, with the maximum eligible amount of Tier 2 capital for these instruments declining by 12.5% each year. The base amount for phase-out was fixed at the nominal amount outstanding as at 30 September 2021 and amounted to $500 million.

Banking Group Basel III regulatory capital ratios

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

		Banking Group		
	Regulatory Minima	Unaudited 31/3/22	Unaudited 30/9/21	Unaudited 31/3/21
Common Equity Tier 1 capital ratio	4.5%	12.7%	13.8%	12.9%
Tier 1 capital ratio	6.0%	13.7%	15.1%	14.2%
Total qualifying capital ratio	8.0%	15.3%	16.9%	16.0%
Prudential capital buffer ratio	2.5%	7.3%	8.9%	8.0%

Registered Bank Basel III regulatory capital ratios

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

	The Registered Bank		
	Unaudited 31/3/22	Unaudited 30/9/21	Unaudited 31/3/21
Common Equity Tier 1 capital ratio	12.7%	13.7%	12.8%
Tier 1 capital ratio	13.7%	15.1%	14.2%
Total qualifying capital ratio	15.2%	16.9%	16.0%

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

Note 19 Capital Adequacy *continued*

Total regulatory capital requirements

	Banking Group		
	Unaudited (31/3/22)		
Dollars in Millions	Total Exposure at Default after Credit Risk Mitigation	Risk-Weighted Exposure or Implied Risk-Weighted Exposure	Total Capital Require-ment[1]
Credit risk			
Exposures subject to the internal ratings based approach[1]	109,401	43,828	3,506
Specialised lending subject to the slotting approach[1]	7,975	7,172	574
Exposures subject to the standardised approach[1]	21,954	1,880	150
Equity exposures[1]	1	4	-
Credit Value Adjustment subject to BPR ("CVA")	N/A	781	63
Adjustment for standardised RWA floor[2]	N/A	9,955	796
Total credit risk[3]	139,331	63,620	5,089
Operational risk	N/A	8,850	708
Market risk	N/A	4,209	337
Total	139,331	76,679	6,134

[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] From 1 January 2022, the Banking Group's IRB RWA (after multiplying by the 1.06 scalar) are subject to a floor equal to 85% of the value of those RWA re-calculated using the standardised methodology.

[3] In prior periods an agribusiness supervisory adjustment was recognised which increased the risk weight of the Banking Group's rural lending portfolio to a minimum as specified by the RBNZ. Effective from 31 March 2022 the Banking Group is no longer required to overlay this adjustment.

Advanced Internal Ratings Based approach to credit risk management

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

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

Note 19 Capital Adequacy *continued*

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

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

	Banking Group					
	Unaudited (31/3/22)					
Dollars in Millions	Weighted Average PD (%)	Exposure at Default[2]	Exposure-Weighted LGD used for the Capital Calculation (%)	Exposure-Weighted Risk Weight (%)	Risk-Weighted Assets	Minimum Capital Requirement
Corporate						
Exposure-weighted PD grade >0 ≤ 0.1%	0.05	5,695	39	13	796	64
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.31	20,545	34	38	8,178	654
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.93	16,629	33	59	10,358	828
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.44	5,563	32	75	4,434	355
Exposure-weighted PD grade >5.0 ≤ 99.99%	10.23	1,028	39	144	1,568	125
Default PD grade = 100%	100.00	418	43	242	1,072	86
Total corporate exposures	1.77	49,878	34	50	26,406	2,112
Residential mortgage						
Exposure-weighted PD grade >0 ≤ 0.1%	-	-	-	-	-	-
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.41	1,435	16	12	180	14
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.90	53,706	19	25	13,996	1,120
Exposure-weighted PD grade >1.5 ≤ 5.0%	4.92	2,007	18	65	1,375	110
Exposure-weighted PD grade >5.0 ≤ 99.99%	-	-	-	-	-	-
Default PD grade = 100%	100.00	248	19	231	607	49
Total residential mortgage exposures	1.45	57,396	19	27	16,158	1,293
Other retail[1]						
Exposure-weighted PD grade >0 ≤ 0.1%	0.05	742	86	12	96	7
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.24	467	86	38	186	15
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.90	231	84	80	197	16
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.81	139	80	108	159	13
Exposure-weighted PD grade >5.0 ≤ 99.99%	12.63	66	78	139	97	8
Default PD grade = 100%	100.00	9	78	344	33	2
Total other retail exposures	1.50	1,654	85	44	768	61
Retail small to medium enterprises						
Exposure-weighted PD grade >0 ≤ 0.1%	0.07	172	39	7	13	1
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.30	785	30	15	129	10
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.91	467	32	31	152	12
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.59	293	33	45	139	11
Exposure-weighted PD grade >5.0 ≤ 99.99%	11.64	28	42	72	21	2
Default PD grade = 100%	100.00	22	42	184	42	4
Total retail SME exposures	2.22	1,767	32	27	496	40
Total[3]						
Exposure-weighted PD grade >0 ≤ 0.1%	0.05	6,609	45	13	905	72
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.32	23,232	34	35	8,673	693
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.90	71,033	23	33	24,703	1,976
Exposure-weighted PD grade >1.5 ≤ 5.0%	3.07	8,002	30	72	6,107	489
Exposure-weighted PD grade >5.0 ≤ 99.99%	10.41	1,122	41	142	1,686	135
Default PD grade = 100%	100.00	697	35	237	1,754	141
Total exposures	1.61	110,695	27	37	43,828	3,506

[1] Other retail includes credit cards, current accounts and personal overdrafts.
[2] Exposure at default is pre-credit risk mitigation.
[3] The CVA and adjustment for RWA floor have not been included in the above exposures.

Note 19 Capital Adequacy *continued*

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

	Banking Group			
	Unaudited (31/3/22)			
Dollars in Millions	Total Exposure	Exposure at Default[2]	Risk-Weighted Assets	Minimum Capital Requirement
On-balance sheet exposures				
Corporate	36,030	36,030	19,596	1,568
Residential mortgage	54,504	54,504	15,452	1,237
Other retail	856	856	525	42
Retail small to medium enterprises	1,323	1,323	397	32
Total on-balance sheet exposures	92,713	92,713	35,970	2,879
Off-balance sheet exposures				
Corporate	13,663	12,229	6,193	495
Residential mortgage	3,343	2,892	706	56
Other retail	2,519	798	243	19
Retail small to medium enterprises	497	444	99	8
Total off-balance sheet exposures	20,022	16,363	7,241	578
Derivatives and securities financing transactions[1]				
Corporate	1,619	1,619	617	49
Total derivatives and securities financing transactions	1,619	1,619	617	49
Summary[3]				
Corporate		49,878	26,406	2,112
Residential mortgage		57,396	16,158	1,293
Other retail		1,654	768	61
Retail small to medium enterprises		1,767	496	40
Total credit risk exposures subject to the IRB approach		110,695	43,828	3,506

[1] Total exposure for derivatives and securities financing transactions represents exposure at default pre-credit risk mitigation.
[2] Exposure at default is pre-credit risk mitigation.
[3] The CVA and adjustment for RWA floor have not been included in the above exposures.

Notes to and Forming Part of the Interim Financial Statements

Note 19 Capital Adequacy *continued*

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.

	Banking Group			
	Unaudited (31/3/22)			
Dollars in Millions	Total Exposure at Default after Credit Risk Mitigation	Risk Weight (%)	Risk-Weighted Assets	Minimum Pillar One Capital Requirement
On-balance sheet exposures subject to the slotting approach				
Strong	2,233	70	1,656	133
Good	4,332	90	4,123	330
Satisfactory	445	115	542	43
Weak	7	250	18	1
Default	42	-	-	-
Total on-balance sheet exposures subject to the slotting approach	7,059	85	6,339	507

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).

	Banking Group				
	Unaudited (31/3/22)				
Dollars in Millions	Total Exposure	Exposure at Default	Average Risk Weight (%)	Risk-Weighted Assets	Minimum Pillar One Capital Requirement
Off-balance sheet exposures subject to the slotting approach					
Off-balance sheet exposures	27	13	83	12	1
Undrawn commitments	1,778	893	86	813	65
Market related contracts	807	10	75	8	1
Total off-balance sheet exposures subject to the slotting approach	2,612	916	86	833	67
Total exposures subject to the slotting approach		7,975	85	7,172	574

Note 19 Capital Adequacy *continued*

Credit risk exposures subject to the standardised approach

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

Dollars in Millions	Banking Group Unaudited (31/3/22) Total Exposure at Default after Credit Risk Mitigation	Average Risk Weight (%)	Risk-Weighted Assets	Minimum Pillar One Capital Requirement
On-balance sheet exposures subject to the standardised approach				
Sovereigns and central banks	16,127	-	-	-
Multilateral development banks and other international organisations	318	-	-	-
Public sector entities	603	20	128	10
Bank	966	39	395	32
Corporate	75	99	80	6
Residential mortgage	19	76	16	1
Past due assets	2	150	3	-
Other assets[1]	1,991	43	903	73
Total on-balance sheet exposures subject to the standardised approach	20,101	7	1,525	122

[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	Total Exposure or Principal Amount	Average Credit Conversion Factor (%)	Banking Group Unaudited (31/3/22) Credit Equivalent Amount	Average Risk Weight (%)	Risk-Weighted Assets	Minimum Pillar One Capital Requirement
Off-balance sheet exposures subject to the standardised approach						
Total off-balance sheet exposures subject to the standardised approach	281	58	163	32	55	4

Dollars in Millions	Total Exposure	Banking Group Unaudited (31/3/22) Credit Equivalent Amount	Average Risk Weight (%)	Risk-Weighted Exposure	Minimum Pillar One Capital Requirement
Counterparty credit risk for counterparties subject to the standardised approach					
Foreign exchange contracts[2]	640	480	20	103	8
Interest rate contracts[2]	1,775	1,210	15	197	16
Other	-	-	2	-	-
Total counterparty credit risk for counterparties subject to the standardised approach	2,415	1,690	17	300	24
Total exposures subject to the standardised approach		21,954	8	1,880	150

[2] The total exposure reflects the exposure at default pre-credit risk mitigation. The credit equivalent amount reflects the exposure at default after credit risk mitigation.

Equity exposures

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

Dollars in Millions	Banking Group Unaudited (31/3/22) Exposure at Default	Risk Weight (%)	Risk-Weighted Exposures	Minimum Pillar One Capital Requirement
Equity holdings (not deducted from capital) included in the NZX 50 or overseas equivalent index	-	300	-	-
All other equity holdings (not deducted from capital)	1	400	4	-
Total equity exposures	1	400	4	-

Note 19 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.

	Banking Group		
Dollars in Millions	Bank Unaudited 31/3/22	Sovereign Unaudited 31/3/22	Corporate (Including Specialised Lending) Unaudited 31/3/22
For portfolios subject to the standardised approach:			
Total value of exposures covered by eligible financial collateral	519	4,432	1
For all portfolios:			
Total value of exposures covered by credit derivatives or guarantees	-	-	-

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

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

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

	Banking Group Unaudited (31/3/22)		
Dollars in Millions	On-balance Sheet Exposures at Default	Off-balance Sheet Exposures at Default[1]	Total Exposures at Default
LVR Range			
0-59%	25,113	1,397	26,510
60-69%	12,216	526	12,742
70-79%	13,812	664	14,476
80-89%	2,235	30	2,265
Over 90%	1,128	275	1,403
Total exposures at default secured by residential mortgages	54,504	2,892	57,396

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

Reconciliation of exposures secured by residential mortgages to housing loans in Note 7 *Loans and advances to customers*

	Banking Group
Dollars in Millions	On-balance Sheet Exposures at Default Unaudited 31/3/22
Loans and advances to customers - housing loans	54,503
Add: Partial write offs excluded under the IRB approach	1
Total housing loan exposures secured by residential mortgages	54,504

Operational risk

	Banking Group Unaudited (31/3/22)	
Dollars in Millions	Implied Risk-Weighted Exposure	Total Operational Risk Capital Requirement
Operational risk	8,850	708

The Banking Group calculated operational risk capital using the standardised approach set out in BPR150, subject to a minimum value of $600 million.

Note 19 Capital Adequacy *continued*

Market risk

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

	Banking Group			
	Unaudited (31/3/22)			
	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	4,065	4,940	325	395
Foreign exchange risk	143	147	12	12
Equity risk	1	1	-	-
Total market risk	4,209	5,088	337	407

The aggregate market risk exposure above is derived in accordance with BPR 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 BPR. Other material risks assessed by the Banking Group include balance sheet and liquidity risk, regulatory risk, conduct risk, compliance risk, sustainability risk and strategic risk.

As at 31 March 2022, the Banking Group had an internal capital allocation for strategic risk of $105 million (30 September 2021: $105 million; 31 March 2021: $105 million).

Capital structure

Contributed equity – Ordinary shares

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

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

Subordinated debt

Refer to Note 12 *Subordinated Debt* for further information on Perpetual Notes, Subordinated Notes and Listed Subordinated Notes.

Reserves

Accumulated other comprehensive income and other disclosed reserves in Tier 1 Capital includes the cost of hedging reserve of $14 million which captures changes in fair value of hedging instruments due to currency basis and the FVOCI reserve of $1 million which captures changes in the fair value of investments in equity instruments that are measured at fair value through other comprehensive income.

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

Note 19 Capital Adequacy *continued*

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 31/3/22	Unaudited 30/9/21	Unaudited 31/3/21	**Unaudited 31/3/22**	Unaudited 30/9/21	Unaudited 31/3/21
Common Equity Tier 1 Capital ratio	**12.48%**	13.00%	12.37%	**12.32%**	12.78%	12.40%
Tier 1 Capital ratio	**14.07%**	14.64%	14.01%	**14.09%**	14.58%	14.20%
Total Capital ratio	**18.55%**	18.91%	17.90%	**19.03%**	19.20%	18.33%

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

The ultimate parent bank of the Banking Group is National Australia Bank Limited which reports under the Advanced Internal Ratings Based approach for credit risk (other than for regulatory prescribed portfolios and some other small portfolios where the standardised approach to credit risk is applied), and the Standardised Measurement Approach to operational risk (previously the Advanced Measurement Approach for the year ended 30 September 2021) . 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 2022.

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

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

Note 20 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 2021.

Concentrations of credit exposure

The table below presents the maximum exposure to credit risk of financial assets before taking into account any collateral held or other credit enhancements.

	Banking Group		
	Unaudited	Audited	Unaudited
Dollars in Millions	**31/3/22**	30/9/21	31/3/21
Maximum exposure to credit risk			
Cash and liquid assets	**11,978**	9,560	7,081
Due from central banks and other institutions	**927**	809	1,028
Trading securities	**7,103**	7,348	7,780
Derivative financial instruments	**3,823**	4,404	5,804
Gross loans and advances to customers	**98,540**	95,429	91,412
Amounts due from related entities	**662**	179	105
Total on-balance sheet credit exposures	**123,033**	117,729	113,210
Off-balance sheet credit exposures[1]	**14,542**	14,222	14,209
Total maximum exposure to credit risk	**137,575**	131,951	127,419

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

The table below presents the Banking Group's concentrations of credit exposure by industry sector and geographical location. Except for derivative financial instruments, the majority of the overseas credit exposures relate to New Zealand based assets funded in New Zealand dollars for offshore customers. The concentrations of credit exposure by industry sector are based on Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes. The concentrations of credit exposure by geographical location are based on the geographical location of the counterparty's tax residency.

	Banking Group		
	Unaudited (31/3/22)		
Dollars in Millions	On-balance sheet	Off-balance sheet	Total exposure
Concentration by industry			
Agriculture	13,673	1,029	14,702
Forestry and fishing	971	314	1,285
Mining	390	175	565
Manufacturing	3,685	1,446	5,131
Electricity, gas and water	740	702	1,442
Construction	1,238	730	1,968
Wholesale and retail trade	3,875	1,399	5,274
Accommodation, restaurants, culture and recreation	1,653	309	1,962
Transport and storage	1,970	883	2,853
Communications	423	183	606
Financial, investment and insurance	18,919	1,422	20,341
Property, business and personal services	10,652	2,252	12,904
Government, education, health and community services	7,605	1,614	9,219
Real estate - mortgage	54,503	2,075	56,578
Personal lending	872	9	881
Related entities[2]	1,864	-	1,864
Total credit exposures by industry	123,033	14,542	137,575
Concentration by geography			
New Zealand	117,965	14,337	132,302
Overseas	5,068	205	5,273
Total credit exposures by geography	123,033	14,542	137,575

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

Note 20 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.

	Banking Group Unaudited (31/3/22)						
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	12,170	11,934	-	-	-	-	236
Due from central banks and other institutions	927	874	53	-	-	-	-
Trading securities	7,103	2,404	585	675	114	3,325	-
Derivative financial instruments	3,823	-	-	-	-	-	3,823
Gross loans and advances to customers	98,540	49,177	7,782	12,421	12,920	13,913	2,327
Deductions from loans and advances to customers	(736)	-	-	-	-	-	(736)
Amounts due from related entities	662	593	-	-	-	-	69
All other assets	1,570	-	-	-	-	-	1,570
Total assets	124,059	64,982	8,420	13,096	13,034	17,238	7,289
Liabilities							
Due to central banks and other institutions	5,658	4,027	54	13	65	1,499	-
Trading liabilities	591	-	-	-	36	555	-
Derivative financial instruments	3,926	-	-	-	-	-	3,926
Deposits and other borrowings	80,435	49,649	8,718	6,982	1,265	574	13,247
Bonds and notes	18,864	2,873	456	1,980	2,914	10,641	-
Amounts due to related entities	1,053	992	-	-	-	-	61
Subordinated debt	1,950	1,950	-	-	-	-	-
All other liabilities	1,111	-	-	-	-	-	1,111
Total liabilities	113,588	59,491	9,228	8,975	4,280	13,269	18,345
Shareholder's equity							
Total shareholder's equity	10,471	-	-	-	-	-	10,471
Total liabilities and shareholder's equity	124,059	59,491	9,228	8,975	4,280	13,269	28,816
On-balance sheet sensitivity gap	-	5,491	(808)	4,121	8,754	3,969	(21,527)
Derivative financial instruments							
Net hedging derivative notionals	-	(611)	1,436	(2,408)	(3,205)	4,788	-
Interest sensitivity gap - net	-	4,880	628	1,713	5,549	8,757	(21,527)

Note 20 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.

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 amount 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 liabilities only include balances which have contractual future cash flows.

	Banking Group Unaudited (31/3/22)					
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	1,032	1,763	1,045	1,861	-	5,701
Trading liabilities	-	4	12	382	269	667
Deposits and other borrowings	48,160	13,760	17,089	1,893	-	80,902
Bonds and notes	-	1,407	2,865	12,901	2,915	20,088
Amounts due to related entities	776	267	10	-	-	1,053
Other liabilities	-	339	81	147	161	728
Subordinated debt	-	8	51	1,067	1,141	2,267
Total	49,968	17,548	21,153	18,251	4,486	111,406
Derivative financial liabilities[1]						
Derivative financial liabilities (inflow)	-	(44,105)	(14,430)	(30,756)	(8,290)	(97,581)
Derivative financial liabilities outflow	-	46,254	16,595	38,182	10,457	111,488

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

Liquidity portfolio management

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

Dollars in Millions	Banking Group Unaudited 31/3/22
Cash and balances immediately convertible to cash[1]	11,584
Securities purchased under agreements to resell	361
Government bonds, notes and securities	3,326
Semi-government bonds, notes and securities	1,578
Corporate and other institutions bonds, notes and securities	1,608
Total liquidity portfolio	18,457

[1] Included within cash and balances immediately convertible to cash is $52 million due from other institutions.

In May 2008, the RBNZ expanded the range of acceptable collateral that banks can pledge and borrow against as part of changes to its liquidity management arrangements designed to help to ensure adequate liquidity for New Zealand financial institutions in the event that global market disruption were to intensify. From July 31, 2008, acceptable collateral included residential mortgage-backed securities ("RMBS") that satisfy the RBNZ's criteria.

As at 31 March 2022, the Banking Group held RMBS of $13,000 million of which $12,240 million is available to be sold to the RBNZ under agreements to repurchase. The amount of $12,240 million is subject to a 19% reduction in value in accordance with RBNZ's Operating Rules and Guidelines. These RMBS are secured by housing loans and other assets.

For liquidity purposes, in accordance with the RBNZ's Liquidity Policy (BS13/BS13A) ("BS13"), from May 2021 there is a 5% limit on the Banking Group's total assets (previously 4%) giving a net balance of $6,203 million.

Additional RBNZ facilities

As part of COVID-19 support measures, on 26 May 2020, the RBNZ made available a Term Lending Facility ("TLF") to offer loans for a fixed term of three years at the rate of the Official Cash Rate ("OCR"). On 20 August 2020, the RBNZ announced it would extend the availability of the TLF to 31 January 2021 and extend the term to five years. On 16 December 2020, the RBNZ announced the extension of the availability of the TLF to 28 July 2021. The TLF is now closed for additional drawdowns. As at 31 March 2022, the Banking Group had repurchase agreements with the RBNZ with a value of $1,519 million under the TLF.

On 7 December 2020, the RBNZ made available its Funding for Lending Programme ("FLP") aimed at lowering the cost of borrowing for New Zealand businesses and households. The FLP allows eligible participants to access three-year floating interest rate funding at the prevailing OCR within eighteen months for an initial allocation of 4% of eligible loans, with a further six months for an additional allocation of 2% of eligible loans, using qualifying collateral. As at 31 March 2022, the Banking Group had repurchase agreements with the RBNZ with a value of $1,750 million under the FLP.

The underlying collateral accepted by the RBNZ in relation to the TLF and FLP facilities as at 31 March 2022 are RMBS to the value of $3,931 million.

Note 20 Risk Management *continued*

Regulatory liquidity ratios

The table below shows the three-month average of the respective daily ratio values in accordance with 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.

	Banking Group	
	Unaudited For the 3 months ended 31/3/22	Unaudited For the 3 months ended 31/12/21
One-week mismatch ratio	**6.6%**	5.2%
One-month mismatch ratio	**6.6%**	5.5%
One-year core funding ratio	**87.8%**	87.4%

Note 20 Risk Management *continued*

Concentrations of funding

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

		Banking Group
		Unaudited
Dollars in Millions	Note	31/3/22
Concentration by industry		
Customer deposits		
Agriculture, forestry and fishing		3,418
Mining		393
Manufacturing		2,047
Electricity, gas and water		171
Construction		1,563
Wholesale and retail trade		2,669
Accommodation, restaurants, culture and recreation		1,553
Transport and storage		919
Communications		350
Financial, investment and insurance		8,153
Property, business and personal services		13,604
Government, education, health and community services		4,410
Personal deposits		34,810
Total customer deposits by industry		74,060
Concentration by geography		
Wholesale funding		
New Zealand		14,745
Overseas[1]		19,155
Total wholesale funding by geography		33,900
Total funding		107,960
Total funding comprised:		
Customer deposits	11	74,060
Wholesale funding		
Due to central banks and other institutions		5,658
Other borrowings	11	6,375
Bonds and notes		18,864
Amounts due to related entities		1,053
Subordinated debt		1,950
Total wholesale funding		33,900
Total funding		107,960

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

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the Shareholder of Bank of New Zealand

Conclusions

We have reviewed the consolidated 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 of Bank of New Zealand (the "Bank") and the entities it controlled at 31 March 2022 or from time to time during the period (collectively the "Banking Group") as included on pages 4 to 40 of the Disclosure Statement. The consolidated interim financial statements and supplementary information comprise:

- the balance sheet of the Banking Group as at 31 March 2022;
- the income statement, statement of comprehensive income, statement of changes in equity and condensed cash flow statement for the six months then ended of the Banking Group;
- the notes to the consolidated interim financial statements including a summary statement of significant accounting policies and;
- the supplementary information required by Schedules 5, 7, 11, 13, 16 and 18 of the Order.

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

- the consolidated interim financial statements (excluding the supplementary information disclosed in Notes 8, 9, 17, 18, 19 and 20, and the 'Interest earning and discount bearing assets' and 'Interest and discount bearing liabilities' disclosed on page 6 ("supplementary information")) have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* (NZ IAS 34) and International Accounting Standard 34: *Interim Financial Reporting* (IAS 34);
- the supplementary information (excluding information relating to capital adequacy disclosed in Note 19 and the regulatory liquidity ratios disclosed in Note 20) required to be disclosed under 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 19) and regulatory liquidity requirements (being the regulatory liquidity ratios disclosed in Note 20) 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.

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 auditor's 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 the conclusions we have formed.

Basis for conclusions

We conducted our review in accordance with NZ SRE 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's responsibilities for the review of the consolidated interim financial statements and supplementary information* section of our report. We are independent of the Banking Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements.

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

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Directors' responsibilities for the consolidated interim financial statements and supplementary information

The directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the consolidated interim financial statements in accordance with Clause 25 of the Order, which requires the consolidated interim financial statements to comply with NZ IAS 34 and IAS 34, and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the review of the consolidated interim financial statements and supplementary information

Our responsibility is to express a conclusion on the consolidated interim financial statements and the supplementary information based on our review.

NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that:

- the consolidated interim financial statements (excluding the supplementary information), taken as a whole, have not been prepared, in all material respects, in accordance with NZ IAS 34 and IAS 34.
- the supplementary information (excluding information relating to capital adequacy in Note 19 and the regulatory liquidity ratios disclosed in Note 20), does not fairly state, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18.
- the supplementary information relating to capital adequacy disclosed in Note 19 and regulatory liquidity requirements (being the regulatory liquidity ratios disclosed in Note 20), is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

A review of interim financial statements and supplementary information in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on any element of this Disclosure Statement.

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

Ernst + Young

Chartered Accountants
Auckland
26 May 2022

Credit Ratings

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

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

Conditions of Registration

Changes in Conditions of Registration

Between 30 September 2021 and 31 March 2022, the RBNZ made the following changes to the Bank's Conditions of Registration.

On 1 October 2021, the Bank's Conditions of Registration were updated to reflect the implementation of (i) the new Banking Prudential Requirements and (ii) the changes to LVR restrictions.

On 1 January 2022, the Bank's Conditions of Registration were updated to reflect (i) the normalisation of the minimum requirement for the core funding ratio back to 75% and (ii) changes clarifying the timing of the measurement period for LVR restrictions.

Non-compliance with Conditions of Registration

In the Bank's disclosure statement for the year ended 30 September 2020, the Bank noted that the investigation phase of its comprehensive review of the data and systems used to calculate its regulatory capital had concluded and the Bank was continuing with remediation activities with the RBNZ being provided regular updates on progress. This remediation activity remains ongoing and the Bank intends to provide a final update on completion of the programme.

Directors' Statement

The Directors of Bank of New Zealand state that each Director of the Bank believes, after due enquiry, that:

1. as at the date on which this Disclosure Statement is signed:
   (a) the Disclosure Statement contains all the information that is required by the Order; and
   (b) the Disclosure Statement is not false or misleading; and
2. during the six months ended 31 March 2022:
   (a) the Bank has complied with its Conditions of Registration applicable during that period, except as disclosed on page 43 of this Disclosure Statement;
   (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
   (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 26th May 2022 and signed by Mr. McKay and Mr. Huggins as Directors and as responsible persons on behalf of all the other Directors.

D A McKay
Chair

D J Huggins
Managing Director and Chief Executive Officer

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