

Bank of New Zealand

# Disclosure Statement

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For the year ended 30 September 2021



# Disclosure Statement

*For the year ended 30 September 2021*

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

In this Disclosure Statement, unless the context otherwise requires:

- a) “Banking Group” means Bank of New Zealand’s financial reporting group, which consists of Bank of New Zealand, all of its wholly owned entities and other entities consolidated for financial reporting purposes; and
- b) Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.

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# Bank of New Zealand Corporate Information

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## Address for Service

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

## Nature of Business

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

## Voting Securities and Power to Appoint Directors

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

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

## Guarantees

### Covered Bond Guarantee

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

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

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

Refer to note 27 for further information.

Other material obligations of the Bank are not guaranteed.

## Ultimate Parent Bank

### Ultimate Parent Bank and Address for Service

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

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

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

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

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

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

# Bank of New Zealand Corporate Information

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## **Ultimate Parent Bank** *continued*

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

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

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

## **Pending Proceedings or Arbitration**

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

## **Other Matters**

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

## **Directorate and Auditor**

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

### **Directors**

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

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

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

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

### **Directors' Details**

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

#### **Non-Executive Director, Chair**

Douglas Alexander McKay, ONZM

Primary Occupation: Company Director

B.A. (Auckland), A.M.P. (Harvard Business School), CMinStD  
New Zealand

Other Directorships:

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

#### **Executive Director**

Daniel James Huggins

Primary Occupation: Managing Director and Chief Executive Officer

Other Occupation: Company Director

BCom.(Hons.), MEM, MBA  
New Zealand

Other Directorships:

Nil

# Bank of New Zealand Corporate Information

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## Directorate and Auditor *continued*

### Independent Non-Executive Directors

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

#### Other Directorships:

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

Mai Chen

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

#### Other Directorships:

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

Bruce Ronald Hassall

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

#### Other Directorships:

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

Louis Arthur Hawke

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

#### Other Directorships:

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

Kevin John Kenrick

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

#### Other Directorships:

Freeview Television Limited, NZOOM Limited, TVNZ International Limited, TVNZ Investments Limited.

Linley Ann Wood

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

#### Other Directorships:

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

### Non-Executive Director

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

#### Other Directorships:

Jmega Pty Limited, National Equities Limited.

### Diversity

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

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

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

# Bank of New Zealand Corporate Information

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## Directorate and Auditor *continued*

### New Zealand Regional Audit Committee

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

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

### Responsible Persons

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

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

### Policy for Avoiding and Dealing with Conflicts of Interests

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

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

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

### Directors' Benefits

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

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

### Auditor

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

# Financial Statements

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## Historical Summary of Financial Statements

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

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

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

### Basel III regulatory capital ratios

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

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

## Income Statement

For the year ended 30 September 2021

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

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

## Statement of Comprehensive Income

For the year ended 30 September 2021

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

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

# Statement of Changes in Equity

For the year ended 30 September 2021

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

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

# Balance Sheet

As at 30 September 2021

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

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

# Cash Flow Statement

For the year ended 30 September 2021

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

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

# Notes to and Forming Part of the Financial Statements

For the year ended 30 September 2021

## Note 1 Principal Accounting Policies

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

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

### Basis for preparation

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

### Assumptions and estimates

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

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

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

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

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

### Reclassification of financial information

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

### Statement of compliance

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

### Changes in accounting policies and disclosures

#### Interest Rate Benchmark (“IBOR”) Reform

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

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

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

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

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

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

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

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

# Notes to and Forming Part of the Financial Statements

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## Note 1 Principal Accounting Policies *continued*

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

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

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

### IFRIC agenda decision on Software as a Service arrangements

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

### Net investment management income presentation

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

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

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

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

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

### Currency of presentation

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

### Foreign currency translation

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

### Rounding of amounts

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

### Principles of consolidation

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

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

### Fair value measurement

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

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

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

# Notes to and Forming Part of the Financial Statements

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## **Note 1 Principal Accounting Policies** *continued*

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

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

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

### **Financial assets**

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

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

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

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

##### *Financial assets held for trading*

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

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

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

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

#### **ii) Financial assets measured at amortised cost**

A financial asset is measured at amortised cost only if:

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

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

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

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

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

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

### **Financial liabilities**

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

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

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

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

##### *Financial liabilities held for trading*

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



# Notes to and Forming Part of the Financial Statements

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## **Note 1 Principal Accounting Policies** *continued*

### *Financial liabilities designated as measured at fair value through profit or loss*

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

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

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

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

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

### **ii) Financial liabilities held at amortised cost**

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

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

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

### **Derecognition of financial instruments**

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

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

### **Goods and services tax**

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

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

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

### **Reserves**

#### *Asset revaluation reserve*

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

#### *Cash flow hedge reserve*

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

#### *Cost of hedging reserve*

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

#### *FVTOCI reserve*

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

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# Notes to and Forming Part of the Financial Statements

## Income Statement Notes

### Note 2 Interest

#### Accounting policy

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

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

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

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

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

## Notes to and Forming Part of the Financial Statements

### Note 3 Gains Less Losses on Financial Instruments

#### Accounting policy

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

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

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

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

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

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

| Dollars in Millions  | Banking Group |           |
|--|---------------|-----------|
|  | 30/9/21       | 30/9/20   |
| Trading gains less losses on financial instruments   | 205           | 185       |
| Net gain/(loss) attributable to assets, liabilities and derivatives designated in hedge relationships  | (1)           | (6)       |
| Net gain/(loss) in the fair value of derivatives used for hedging purposes not designated in hedge relationships   | 21            | (21)      |
| Net gain/(loss) in the fair value of financial assets designated at fair value through profit or loss and related derivatives (refer to table below) <sup>1</sup>      | 14            | (23)      |
| Net gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss and related derivatives (refer to table below) <sup>1</sup> | 37            | (45)      |
| Other gains less losses on financial instruments   | 1             | (2)       |
| <b>Total gains less losses on financial instruments</b>  | <b>277</b>    | <b>88</b> |

#### Net gain/(loss) in the fair value of financial assets designated at fair value through profit or loss and related derivatives includes:

|   |      |      |
|---|------|------|
| Credit risk adjustments on financial assets designated at fair value through profit or loss       | 13   | (21) |
| Gain/(loss) in the fair value of financial assets designated at fair value through profit or loss | (17) | (16) |

#### Net gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss and related derivatives includes:

|   |       |      |
|---|-------|------|
| Gain/(loss) attributable to derivatives used for hedging of financial liabilities designated at fair value through profit or loss | (285) | 49   |
| Gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss                            | 322   | (94) |

<sup>1</sup> 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.

# Notes to and Forming Part of the Financial Statements

## Note 4 Other Operating Income

### Accounting policy

#### Fees and commissions

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

#### Funds management and other fiduciary activities

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

#### Net Investment management income

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

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

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

# Notes to and Forming Part of the Financial Statements

## Note 5 Operating Expenses

### Accounting policy

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

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

### Employee entitlements

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

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

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

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

<sup>1</sup>30 September 2020 comparatives include \$151 million of accelerated amortisation as a result of changes in software capitalisation policy.

<sup>2</sup>Comparative balance has been restated to align to the presentation in the current period. Refer to Note 1 for further information.

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

<sup>3</sup>Includes audits for funds and securitisation vehicles managed by the Banking Group.

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

## Notes to and Forming Part of the Financial Statements

### Note 6 Income Tax

#### Accounting policy

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

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

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

#### Imputation Credit Account

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

# Notes to and Forming Part of the Financial Statements

## Asset Notes

### Note 7 Cash and Liquid Assets

#### Accounting policy

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

#### Reverse repurchase agreements

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

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

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

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

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

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

### Note 8 Due from Central Banks and Other Institutions

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

### Note 9 Trading Securities

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

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

# Notes to and Forming Part of the Financial Statements

## Note 10 Loans and Advances to Customers

### Accounting policy

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

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

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

Included in loans and advances to customers as at 30 September 2021 was \$30 million of collateral posted with counterparties to meet standard derivative trading obligations (30 September 2020: \$631 million).

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

## Note 11 Allowance for Expected Credit Losses

### Accounting policy

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

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

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

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

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

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

### Assessment of significant increase in credit risk

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

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



# Notes to and Forming Part of the Financial Statements

## Note 11 Allowance for Expected Credit Losses *continued*

### Accounting policy

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

### Definition of Default

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

### Calculation of expected credit losses

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

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

### Non-Retail

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

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

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

### Retail

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

### Incorporation of forward looking information

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

### Key judgements and estimates

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

### Movement in Allowance for Expected Credit Loss

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

# Notes to and Forming Part of the Financial Statements

## Note 11 Allowance for Expected Credit Losses *continued*

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

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

<sup>1</sup> Classified as credit impairment charge in the income statement.

<sup>2</sup> 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.

# Notes to and Forming Part of the Financial Statements

## Note 11 Allowance for Expected Credit Losses *continued*

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

<sup>1</sup> Classified as credit impairment charge in the income statement.

<sup>2</sup> 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.

## Notes to and Forming Part of the Financial Statements

### Note 11 Allowance for Expected Credit Losses *continued*

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

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

# Notes to and Forming Part of the Financial Statements

## Note 11 Allowance for Expected Credit Losses *continued*

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

## Notes to and Forming Part of the Financial Statements

### Note 11 Allowance for Expected Credit Losses *continued*

#### Impact of changes in gross carrying amount on ECL

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

#### Residential Mortgages

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

#### Corporate exposures

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

#### ECL scenario analysis

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

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

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

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

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

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

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

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

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

## Notes to and Forming Part of the Financial Statements

### Note 11 Allowance for Expected Credit Losses *continued*

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

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

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

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

# Notes to and Forming Part of the Financial Statements

## Note 12 Asset Quality

### Accounting policy

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

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

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

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

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

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



## Notes to and Forming Part of the Financial Statements

### Note 12 Asset Quality *continued*

| Dollars in Millions                              | Banking Group (30/9/21)      |                        |                     | Total |
|--|------------------------------|------------------------|---------------------|-------|
|  | Residential Mortgage Lending | Other Retail Exposures | Corporate Exposures |       |
| <b>Past due assets not individually impaired</b> |                              |                        |                     |       |
| <b>Loans and advances to customers</b>           |                              |                        |                     |       |
| 1 - 7 days past due                              | 79                           | 37                     | 136                 | 252   |
| 8 - 29 days past due                             | 52                           | 19                     | 29                  | 100   |
| 1 - 29 days past due                             | 131                          | 56                     | 165                 | 352   |
| 30 - 59 days past due                            | 34                           | 9                      | 14                  | 57    |
| 60 - 89 days past due                            | 25                           | 5                      | 5                   | 35    |
| 90+ days past due                                | 48                           | 14                     | 84                  | 146   |
| Total past due assets not individually impaired  | 238                          | 84                     | 268                 | 590   |
| Banking Group (30/9/20)                          |                              |                        |                     |       |
| <b>Past due assets not individually impaired</b> |                              |                        |                     |       |
| <b>Loans and advances to customers</b>           |                              |                        |                     |       |
| 1 - 7 days past due                              | 76                           | 43                     | 95                  | 214   |
| 8 - 29 days past due                             | 40                           | 18                     | 30                  | 88    |
| 1 - 29 days past due                             | 116                          | 61                     | 125                 | 302   |
| 30 - 59 days past due                            | 38                           | 12                     | 22                  | 72    |
| 60 - 89 days past due                            | 21                           | 7                      | 5                   | 33    |
| 90+ days past due                                | 61                           | 18                     | 96                  | 175   |
| Total past due assets not individually impaired  | 236                          | 98                     | 248                 | 582   |

## Notes to and Forming Part of the Financial Statements

### Note 13 Derivative Financial Instruments

#### Accounting Policy

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

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

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

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

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

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

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

#### Derivative financial instruments

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

## Notes to and Forming Part of the Financial Statements

### Note 13 Derivative Financial Instruments *continued*

#### Trading derivatives

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

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

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

#### Hedging derivatives

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

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

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

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

## Notes to and Forming Part of the Financial Statements

### Note 13 Derivative Financial Instruments *continued*

#### Hedging derivatives

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

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

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

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

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

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

#### Hedged items

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

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

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

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

#### Impact of IBOR reform on hedge accounting

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

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

# Notes to and Forming Part of the Financial Statements

## Note 14 Deferred Tax

### Accounting policy

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

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

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

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

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

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

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

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

## Note 15 Other Assets

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

<sup>1</sup> Other assets includes receivables relating to prepayments and settlements clearing.

# Notes to and Forming Part of the Financial Statements

## Note 16 Goodwill and Other Intangible Assets

### Accounting policy

#### Goodwill

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

#### Software costs

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

#### Impairment of intangible assets

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

#### Key judgements and estimates

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

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

## Liability Notes

### Note 17 Due to Central Banks and Other Institutions

#### Accounting policy

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

#### Repurchase agreements

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

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

<sup>1</sup>Classified as cash and cash equivalents in the cash flow statement.

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

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

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

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

## Notes to and Forming Part of the Financial Statements

### Note 18 Deposits and Other Borrowings

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

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

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

### Note 19 Bonds and Notes

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

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

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

### Note 20 Other Liabilities

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

<sup>1</sup> Other liabilities includes payables relating to settlements clearing and a Holidays Act related provision.

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

# Notes to and Forming Part of the Financial Statements

## Note 21 Leases

### Accounting policy

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

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

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

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

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

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

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

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



## Notes to and Forming Part of the Financial Statements

### Note 21 Leases *continued* Future cash flow effect of leases

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

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

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

### Note 22 Subordinated Debt

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

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

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

#### Redemption

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

#### Interest

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

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

#### Conversion

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

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

#### Ranking of 2028 Subordinated Notes

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

# Notes to and Forming Part of the Financial Statements

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## **Note 22 Subordinated Debt** *continued*

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

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

#### **Redemption**

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

#### **Interest**

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

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

#### **Ranking of 2031 Subordinated Notes**

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

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

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

#### **Interest**

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

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

#### **Conversion**

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

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

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

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

#### **Ranking of Perpetual Notes**

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

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

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# Notes to and Forming Part of the Financial Statements

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## Shareholder's Equity Note

### Note 23 Contributed Equity

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

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

#### Ordinary shares

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

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

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# Notes to and Forming Part of the Financial Statements

## Other Notes

### Note 24 Related Entity Transactions

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

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

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

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

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

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

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

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

### Transactions with related entities

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

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

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

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

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

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

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

## Notes to and Forming Part of the Financial Statements

### Note 24 Related Entity Transactions *continued*

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

#### Key management personnel

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

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

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

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

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

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

<sup>1</sup> Interest income and expense amounts are shown as nil in the table above as a result of rounding to the nearest million.

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

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

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

The number of performance rights outstanding as at 30 September 2021 was 207,176 (30 September 2020: 246,954).

For performance rights that do not have any market-based performance hurdles attached, the weighted average grant date fair value is adjusted for expected dividends over the vesting period.

## Notes to and Forming Part of the Financial Statements

### Note 25 Classification of Financial Instruments and Fair Value Measurement

#### Categories of financial assets and financial liabilities

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

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

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

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

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

#### Hierarchy for fair value measurements

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

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

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

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

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

## Notes to and Forming Part of the Financial Statements

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

#### Financial assets and liabilities at fair value

| Dollars in Millions              | Banking Group (30/9/21) |                    |                    | Fair Value Level 3 |
|----------------------------------|-------------------------|--------------------|--------------------|--------------------|
|                                  | Fair Value Total        | Fair Value Level 1 | Fair Value Level 2 |                    |
| <b>Financial assets</b>          |                         |                    |                    |                    |
| Trading securities               | 7,348                   | 4,361              | 2,987              | -                  |
| Derivative financial instruments | 4,404                   | -                  | 4,404              | -                  |
| Loans and advances to customers  | 920                     | -                  | 920                | -                  |
| <b>Financial liabilities</b>     |                         |                    |                    |                    |
| Trading liabilities              | 537                     | 460                | 77                 | -                  |
| Derivative financial instruments | 3,189                   | -                  | 3,189              | -                  |
| Deposits and other borrowings    | 6,864                   | -                  | 6,864              | -                  |
| Bonds and notes                  | 13,457                  | -                  | 13,457             | -                  |

Banking Group (30/9/20)

|                                  |        |       |        |   |
|----------------------------------|--------|-------|--------|---|
| <b>Financial assets</b>          |        |       |        |   |
| Trading securities               | 10,814 | 6,167 | 4,647  | - |
| Derivative financial instruments | 6,140  | -     | 6,140  | - |
| Loans and advances to customers  | 1,412  | -     | 1,412  | - |
| <b>Financial liabilities</b>     |        |       |        |   |
| Trading liabilities              | 54     | 31    | 23     | - |
| Derivative financial instruments | 4,711  | -     | 4,711  | - |
| Deposits and other borrowings    | 4,868  | -     | 4,868  | - |
| Bonds and notes                  | 17,825 | -     | 17,825 | - |

#### Financial assets and liabilities at amortised cost<sup>1</sup>

| Dollars in Millions             | Carrying Amount | Banking Group (30/9/21) |                    |                    | Fair Value Level 3 |
|---------------------------------|-----------------|-------------------------|--------------------|--------------------|--------------------|
|                                 |                 | Fair Value Total        | Fair Value Level 1 | Fair Value Level 2 |                    |
| <b>Financial assets</b>         |                 |                         |                    |                    |                    |
| Loans and advances to customers | 93,801          | 93,482                  | -                  | 1,948              | 91,534             |
| <b>Financial liabilities</b>    |                 |                         |                    |                    |                    |
| Deposits and other borrowings   | 71,244          | 71,228                  | -                  | 71,228             | -                  |
| Bonds and notes                 | 4,061           | 4,097                   | -                  | 4,097              | -                  |
| Subordinated debt               | 1,950           | 2,004                   | -                  | 2,004              | -                  |

Banking Group (30/9/20)

|                                 |        |        |     |        |        |
|---------------------------------|--------|--------|-----|--------|--------|
| <b>Financial assets</b>         |        |        |     |        |        |
| Loans and advances to customers | 86,737 | 86,808 | -   | 2,136  | 84,672 |
| <b>Financial liabilities</b>    |        |        |     |        |        |
| Deposits and other borrowings   | 66,973 | 67,051 | -   | 67,051 | -      |
| Bonds and notes                 | 1,687  | 1,689  | -   | 1,689  | -      |
| Subordinated debt               | 1,949  | 1,995  | 555 | 1,440  | -      |

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

## Notes to and Forming Part of the Financial Statements

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

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

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

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

#### **Trading securities and Trading liabilities**

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

#### **Derivative financial instruments**

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

#### **Loans and advances to customers**

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

#### **Deposits and other borrowings**

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

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

#### **Bonds and notes**

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

#### **Subordinated debt**

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

#### **Other financial assets/liabilities**

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

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# Notes to and Forming Part of the Financial Statements

## Note 26 Offsetting Financial Assets and Financial Liabilities

### Accounting policy

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

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

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

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

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

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

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

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

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

### Derivative financial instruments

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

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

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

## Notes to and Forming Part of the Financial Statements

### Note 26 Offsetting Financial Assets and Financial Liabilities *continued*

#### Reverse repurchase and repurchase agreements

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

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

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

#### Loans and advances, deposits and other borrowings

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

### Note 27 Transfers of Financial Assets

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

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

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

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

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

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

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

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

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

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

# Notes to and Forming Part of the Financial Statements

## Note 28 Segment Analysis

### Operating segments

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

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

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

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

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

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

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

<sup>1</sup> Other income includes Gains less losses on financial instruments (refer to note 3) and Other operating income (refer to note 4).

<sup>2</sup> For the year ended 30 September 2021, there were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Banking Group's revenues (30 September 2020: nil).

<sup>3</sup> Comparative balances have been reclassified to align with the segment definitions as at 30 September 2021.

# Notes to and Forming Part of the Financial Statements

## Note 29 Contingent Liabilities and Other Commitments

### Accounting policy

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

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

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

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

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

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

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

### Contingent liabilities

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

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

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

### Guarantees

The Banking Group has four principal types of guarantees:

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

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

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

### Clearing and settlement obligations

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

## Notes to and Forming Part of the Financial Statements

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### **Note 29 Contingent Liabilities and Other Commitments** *continued*

#### **Other contingent liabilities**

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

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

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

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

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

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

#### **Credit related commitments**

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

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

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

#### **Guarantees to wholly owned controlled entities**

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

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## Notes to and Forming Part of the Financial Statements

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

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

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

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

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

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

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

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

# Notes to and Forming Part of the Financial Statements

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

### Funds management

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

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

| Dollars in Millions                                    | 30/9/21 | 30/9/20 |
|--|---------|---------|
| Portfolios managed on behalf of customers <sup>1</sup> | 6,690   | 5,640   |
| BNZ Term PIE   | 873     | 1,372   |

<sup>1</sup> Comparative balances have been restated to exclude assets managed by customers directly.

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

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

### Insurance business

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

### Marketing and distribution of insurance products

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

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

### Structured entities

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

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

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

### Consolidated structured entities

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

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

### RMBS Trust and Covered Bond Trust

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

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

### Term PIE Investment Entity

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

## Notes to and Forming Part of the Financial Statements

### Note 31 Structured Entities, Securitisation, Funds Management, Fiduciary Activities and Insurance *continued* Unconsolidated structured entities

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

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

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

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

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

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

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

#### Risk management

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

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

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

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

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

#### Transactions with Banking Group entities

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

#### Peak aggregate funding provided to entities

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

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



## Notes to and Forming Part of the Financial Statements

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

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

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

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

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

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

### Note 33 Investments in Wholly Owned Entities

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

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

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

# Notes to and Forming Part of the Financial Statements

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## Note 34 Capital Adequacy

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

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

### RBNZ Capital Adequacy Framework

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

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

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

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

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

### Capital management policies

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

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

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

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

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

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

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

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

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

## Notes to and Forming Part of the Financial Statements

### Note 34 Capital Adequacy *continued*

#### Regulatory capital

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

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

#### Banking Group Basel III regulatory capital ratios

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

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

#### Registered Bank Basel III regulatory capital ratios

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

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

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

# Notes to and Forming Part of the Financial Statements

## Note 34 Capital Adequacy *continued*

### Total regulatory capital requirements

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

<sup>1</sup>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.

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

### Advanced Internal Ratings Based approach to credit risk management

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

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

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

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

### Controls surrounding credit risk rating systems

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

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

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

## Notes to and Forming Part of the Financial Statements

### Note 34 Capital Adequacy *continued*

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

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

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

<sup>1</sup> Other retail includes credit cards, current accounts and personal overdrafts.

<sup>2</sup> Exposure at default is pre-credit risk mitigation.

## Notes to and Forming Part of the Financial Statements

### Note 34 Capital Adequacy *continued*

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

| Dollars in Millions                       | Banking Group           |                                  |  |                                   |                      | Minimum Capital Requirement |
|---|-------------------------|----------------------------------|--|-----------------------------------|----------------------|-----------------------------|
|   | Weighted Average PD (%) | Exposure at Default <sup>2</sup> | Exposure-Weighted LGD used for the Capital Calculation (%) | Exposure-Weighted Risk Weight (%) | Risk-Weighted Assets |                             |
| <b>Retail small to medium enterprises</b> |                         |                                  |  |                                   |                      |                             |
| Exposure-weighted PD grade >0 ≤ 0.1%      | 0.07                    | 167                              | 39   | 7                                 | 13                   | 1                           |
| Exposure-weighted PD grade >0.1 ≤ 0.5%    | 0.29                    | 746                              | 30   | 15                                | 122                  | 10                          |
| Exposure-weighted PD grade >0.5 ≤ 1.5%    | 0.94                    | 501                              | 32   | 31                                | 165                  | 13                          |
| Exposure-weighted PD grade >1.5 ≤ 5.0%    | 2.58                    | 354                              | 34   | 45                                | 169                  | 13                          |
| Exposure-weighted PD grade >5.0 ≤ 99.99%  | 10.83                   | 31                               | 39   | 66                                | 21                   | 2                           |
| Default PD grade = 100%                   | 100.00                  | 25                               | 46   | 197                               | 52                   | 4                           |
| Total retail SME exposures                | 2.42                    | 1,824                            | 32   | 28                                | 542                  | 43                          |

| <b>Total<sup>1</sup></b>                 |        |         |    |     |        |       |
|--|--------|---------|----|-----|--------|-------|
| Exposure-weighted PD grade >0 ≤ 0.1%     | 0.02   | 28,593  | 16 | 4   | 1,254  | 100   |
| Exposure-weighted PD grade >0.1 ≤ 0.5%   | 0.31   | 22,822  | 34 | 35  | 8,548  | 684   |
| Exposure-weighted PD grade >0.5 ≤ 1.5%   | 0.89   | 69,119  | 23 | 33  | 24,298 | 1,944 |
| Exposure-weighted PD grade >1.5 ≤ 5.0%   | 3.14   | 8,546   | 30 | 75  | 6,751  | 540   |
| Exposure-weighted PD grade >5.0 ≤ 99.99% | 10.47  | 1,249   | 41 | 145 | 1,918  | 155   |
| Default PD grade = 100%                  | 100.00 | 595     | 36 | 211 | 1,331  | 105   |
| Total exposures                          | 1.29   | 130,924 | 24 | 32  | 44,100 | 3,528 |

<sup>1</sup> The CVA and the Agribusiness supervisory adjustment have not been included in the above exposures.

<sup>2</sup> Exposure at default is pre-credit risk mitigation

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

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

<sup>1</sup> Total exposure for market related contracts represents gross notional amounts.

<sup>2</sup> Exposure at default is pre-credit risk mitigation.

## Notes to and Forming Part of the Financial Statements

### Note 34 Capital Adequacy *continued*

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

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

<sup>1</sup> The CVA and the Agribusiness supervisory adjustment have not been included in the above exposures.

<sup>2</sup> Exposure at default is pre-credit risk mitigation.

#### Specialised lending subject to the slotting approach

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

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

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

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

## Notes to and Forming Part of the Financial Statements

### Note 34 Capital Adequacy *continued*

#### Credit risk exposures subject to the standardised approach

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

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

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

<sup>2</sup> The total exposure or principal amount reflects the gross notional value of contracts.

#### Equity exposures

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

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

#### Credit risk mitigation

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

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

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



## Notes to and Forming Part of the Financial Statements

### Note 34 Capital Adequacy *continued*

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

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

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

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

<sup>1</sup> Off-balance sheet items include unutilised limits and loans approved, but not yet drawn.

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

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

#### Operational risk

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

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

#### Market risk

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

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

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

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

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

# Notes to and Forming Part of the Financial Statements

## Note 34 Capital Adequacy *continued*

### Capital for other material risks

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

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

### Capital structure

#### Contributed equity – Ordinary shares

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

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

#### Subordinated debt

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

#### Reserves

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

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

### National Australia Bank Limited capital adequacy

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

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

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

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

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

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

National Australia Bank Limited's Annual Financial Report and Pillar 3 report, incorporating the requirements of APS 330, can be accessed at [www.nab.com.au](http://www.nab.com.au).

# Notes to and Forming Part of the Financial Statements

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## **Note 35 Risk Management**

### **Risk Management**

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

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

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

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

The key risks faced by the Banking Group include:

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

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

### **Board governance**

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

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

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

### **Executive governance**

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

### **Internal audit function**

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

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

### **External auditor and credit rating agencies**

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

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

# Notes to and Forming Part of the Financial Statements

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## **Note 35 Risk Management** *continued*

### **Credit risk**

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

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

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

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

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

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

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

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

### **Cash and liquid assets**

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

### **Due from central banks and other institutions**

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

### **Trading securities**

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

### **Derivative financial instruments**

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

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

### **Gross loans and advances to customers**

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

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

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

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

## Notes to and Forming Part of the Financial Statements

### Note 35 Risk Management *continued*

#### Amounts due from related entities

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

#### Concentrations of credit exposure

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

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

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

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

<sup>1</sup> Off-balance sheet credit exposures include contingent liabilities and irrevocable commitments to extend credit.

<sup>2</sup> Related entities include amounts due from related entities and derivative financial assets with related entities.

# Notes to and Forming Part of the Financial Statements

## Note 35 Risk Management *continued*

### Credit risk exposures by risk grade

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

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

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

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

### Derivatives

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

### Undrawn credit commitments

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

### Operational risk

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

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

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

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

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

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

# Notes to and Forming Part of the Financial Statements

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## Note 35 Risk Management *continued*

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

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

### Compliance risk

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

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

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

### Conduct risk

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

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

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

### Strategy in using financial instruments

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

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

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

### Market risk - traded

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

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

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

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

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

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

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

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

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

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

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

## Notes to and Forming Part of the Financial Statements

### Note 35 Risk Management *continued*

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

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

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

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

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

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

#### Foreign exchange risk

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

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

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

#### Net open position

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

#### Market risk – non-traded/banking positions

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

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

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



## Notes to and Forming Part of the Financial Statements

### Note 35 Risk Management *continued*

#### Interest rate risk

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

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

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

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

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

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

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

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

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

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

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

## Notes to and Forming Part of the Financial Statements

### Note 35 Risk Management *continued*

#### Interest rate repricing schedule

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

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

# Notes to and Forming Part of the Financial Statements

## Note 35 Risk Management *continued*

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

### Equity risk

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

### Liquidity risk

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

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

The following are types of liquidity risks:

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

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

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

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

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

## Notes to and Forming Part of the Financial Statements

### Note 35 Risk Management *continued*

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

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

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

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

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

### Maturity profile

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

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

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

<sup>1</sup> Derivative financial liabilities include hedging and trading derivative cash flows.

# Notes to and Forming Part of the Financial Statements

## Note 35 Risk Management *continued*

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

<sup>1</sup> Derivative financial liabilities include hedging and trading derivative cash flows.

### Liquidity portfolio management

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

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

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

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

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

### Additional RBNZ facilities

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

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

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

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

## Notes to and Forming Part of the Financial Statements

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### **Note 35 Risk Management** *continued*

#### **Regulatory liquidity ratios**

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

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

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 =  $100 \times (\text{one-month mismatch dollar amount} / \text{total funding})$ .

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 =  $100 \times (\text{one-year core funding dollar amount} / \text{BS13 total loans and advances})$  and must currently remain above 50 percent on a daily basis.

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

## Notes to and Forming Part of the Financial Statements

### Note 35 Risk Management *continued*

#### Concentrations of funding

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

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

<sup>1</sup> This represents the wholesale active funding programmes of BNZ-IF and the Bank from offshore markets.

#### Sustainability risk

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

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

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

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

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

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

# Notes to and Forming Part of the Financial Statements

## Note 36 Notes to the Cash Flow Statement

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

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

<sup>1</sup> Balances at beginning and end of year exclude amounts classified as cash and cash equivalents in the cash flow statement.





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

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

#### Opinion

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

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

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

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

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

#### Basis for opinion

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

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

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



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

## Key audit matters

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

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

## Allowance for Expected Credit Losses

### Why significant

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

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

Key areas of judgment included:

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

### How our audit addressed the key audit matter

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

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

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

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

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

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

# Auditor's Report



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## Why significant

## How our audit addressed the key audit matter

In conjunction with our IT specialists, we assessed the effectiveness of relevant controls relating to the:

- ▶ capture of data, including loan origination and transactional data, ongoing internal credit quality assessments, storage of data in data warehouses, and interfaces with the models; and
- ▶ expected credit loss models, including functionality, model governance and validation and ongoing monitoring.

We considered the adequacy and appropriateness of the disclosures related to expected credit losses within the consolidated financial statements.

## Information Technology (IT) systems and controls over financial reporting

### Why significant

A significant part of the Banking Group's financial reporting process is primarily reliant on IT systems with automated processes and controls relating to the capture, storage and extraction of information.

A fundamental component of controls related to these IT systems is ensuring that risks relating to inappropriate user access management, unauthorised program changes and IT operating protocols are addressed.

### How our audit addressed the key audit matter

We focused on those IT systems and controls that are significant to the Banking Group's financial reporting process.

We involved our IT specialists, as audit procedures over IT systems and controls require specific expertise.

We assessed the design and tested the operating effectiveness of the Banking Group's IT controls, including those related to user access, change management and data integrity.

Where we identified design and/or operating deficiencies in the IT control environment, our procedures included the following:

- ▶ extending our testing to validate the integrity and reliability of the associated systems, data and reporting as it relates to financial reporting.
- ▶ where automated procedures were supported by systems with identified deficiencies, extending our procedures to test alternative controls and performing additional testing of the resulting data and financial statement balances.

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

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

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

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

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



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

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

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

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

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

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

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

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

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

- (i) we have obtained all the information and explanations we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Banking Group as far as appears from an examination of those records.

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

### **Conclusion**

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

# Auditor's Report

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

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

## **Basis for conclusion**

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

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

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

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

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

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

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

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

Chartered Accountants  
Auckland  
17 November 2021

## Credit Ratings

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

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

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

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

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

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

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

## Conditions of Registration

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

### Conditions of registration that apply on and after 30 June 2021 - Bank of New Zealand

The registration of Bank of New Zealand (the "bank") as a registered bank is subject to the following conditions:

1. That—
  - (a) the Total capital ratio of the banking group is not less than 8%;
  - (b) the Tier 1 capital ratio of the banking group is not less than 6%;
  - (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;
  - (d) the Total capital of the banking group is not less than \$30 million;
  - (e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and
  - (f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

For the purposes of this condition of registration,—

the scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is 1.06;

"Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015, except that in the formulae for calculating the ratios, the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015, subject to a minimum value of \$600m;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015.

a Tier 2 capital instrument is an instrument that meets the requirements of subsection 2.16(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 or subsection B3.2(2)(a) or (c) of the Reserve Bank of New Zealand document "BPR110: Capital Definitions";

"Total capital" has the same meaning as in Part 2 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 except that the amount of Tier 2 capital included in the calculation of total capital must include the value of any Tier 2 capital instrument meeting the definition given in this condition of registration;

"Total capital ratio" has the same meaning as in Part 3 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 except that in the formula calculating "total capital ratio", the value of "total capital" is as defined in this condition of registration, and the term "total capital requirement for operational risk" has the same meaning as in Part 9 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015, subject to a minimum value of \$600m;

the Reserve Bank of New Zealand document "BPR001: Glossary" provides definitions for the defined terms highlighted in the Reserve Bank of New Zealand document "BPR110: Capital Definitions".

- 1A. That—
  - (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ('ICAAP')" (BS12) dated December 2007;
  - (b) under its ICAAP the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015; and
  - (c) the bank determines an internal capital allocation for each identified and measured "other material risk".
- 1B. That the bank complies with the minimum requirements set out in the following sections of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015:
  - (a) the model approval requirements in section 1.3A;
  - (b) the compendium requirements in section 1.3B;
  - (c) the minimum requirements for the IRB approach in sections 4.217 to 4.324 (that is, Subpart 4C of BS2B); and
  - (d) the minimum qualitative requirements for using the Advanced Measurement Approach ("AMA") for operational risk set out in sections 8.4(a) and sections 8.5 to 8.14.
- 1C. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:
  - (a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit on distributions that corresponds to the banking group's buffer ratio:

| Banking group's buffer ratio | Percentage limit to distributions of the bank's earnings |
|------------------------------|--|
| 0% - 0.625%                  | 0%   |
| >0.625 - 1.25%               | 20%  |
| >1.25 - 1.875%               | 40%  |
| >1.875 - 2.5%                | 50%  |

## Conditions of Registration

- (b) prepare a capital plan to restore the banking group’s buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and
- (c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration,—

“buffer ratio”, “distributions”, and “earnings” have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: “Capital Adequacy Framework (Internal Models Based Approach)” (BS2B) dated November 2015, except that in the formula for calculating the buffer ratio, the term “total capital requirement for operational risk” has the same meaning as in Part 9 of the Reserve Bank of New Zealand document “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated November 2015, subject to a minimum value of \$600m;

the scalar referred to in the Reserve Bank of New Zealand document “Capital Adequacy Framework (Internal Models Based Approach)” (BS2B) dated November 2015 is 1.06.

- 1D. That, if the buffer ratio of the banking group is more than 2.5%, the bank must limit aggregate distribution, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to no more than 50% of the bank’s earnings.

For the purposes of this condition of registration,—

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document “Capital Adequacy Framework (Internal Models Based Approach)” (BS2B) dated November 2015;

“buffer ratio”, “distributions”, and “earnings” have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: “Capital Adequacy Framework (Internal Models Based Approach)” (BS2B) dated November 2015, except that in the formula for calculating the buffer ratio, the term “total capital requirement for operational risk” has the same meaning as in Part 9 of the Reserve Bank of New Zealand document “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated November 2015, subject to a minimum value of \$600m;

the scalar referred to in the Reserve Bank of New Zealand document “Capital Adequacy Framework (Internal Models Based Approach)” (BS2B) dated November 2015 is 1.06;

the bank must not make any individual dividend payment contributing to aggregate distributions for a financial year until it has completed its interim financial accounts for the first six months of its financial year or its annual financial accounts for its full financial year, and must not make any such dividend payment less than six months after any previous such dividend payment.

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

In this condition of registration, the meaning of “material” is based on generally accepted accounting practice.

3. That the banking group’s insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the banking group’s insurance business is the sum of the following amounts for entities in the banking group:

- (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and
- (b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity’s insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the banking group’s insurance business—

- (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
- (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,—

“insurance business” means the undertaking or assumption of liability as an insurer under a contract of insurance:

“insurer” and “contract of insurance” have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

| Credit rating of the bank <sup>1</sup> | Connected exposure limit (% of the banking group’s Tier 1 capital) |
|--|--|
| AA / Aa2 and above                     | 75   |
| AA- / Aa3                              | 70   |
| A+ / A1                                | 60   |
| A / A2                                 | 40   |
| A- / A3                                | 30   |
| BBB+ /Baa1 and below                   | 15   |

<sup>1</sup> This table uses the rating scales of Standard & Poor’s, Fitch Ratings and Moody’s Investors Service. (Fitch Ratings’ scale is identical to Standard & Poor’s.)

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the banking group’s Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled “Connected exposures policy” (BS8) dated November 2015.



## Conditions of Registration

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5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
6. That the bank complies with the following corporate governance requirements:
  - (a) the board of the bank must have at least five directors;
  - (b) the majority of the board members must be non-executive directors;
  - (c) at least half of the board members must be independent directors;
  - (d) an alternate director, –
    - (i) for a non-executive director must be non-executive; and
    - (ii) for an independent director must be independent;
  - (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
  - (f) the chairperson of the board of the bank must be independent; and
  - (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

For the purposes of this condition of registration, “non-executive” and “independent” have the same meaning as in the Reserve Bank of New Zealand document entitled “Corporate Governance” (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:
  - (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
  - (b) the Reserve Bank has advised that it has no objection to that appointment.
8. That a person must not be appointed as chairperson of the board of the bank unless:
  - (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
  - (b) the Reserve Bank has advised that it has no objection to that appointment.
9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
  - (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
  - (b) the committee must have at least three members;
  - (c) every member of the committee must be a non-executive director of the bank;
  - (d) the majority of the members of the committee must be independent; and
  - (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

For the purposes of this condition of registration, “non-executive” and “independent” have the same meaning as in the Reserve Bank of New Zealand document entitled “Corporate Governance” (BS14) dated July 2014.

10. That a substantial proportion of the bank's business is conducted in and from New Zealand.
11. That the bank will not, without first obtaining the written approval of the Reserve Bank, revoke the constitution of BNZ International Funding Limited or alter the constitution of BNZ International Funding Limited if such alteration would delete or amend or negate the effect of clause 2.2 of the constitution.
12. That:
  - (a) the business and affairs of the bank are managed by, or under the direction or supervision of, the board of the bank;
  - (b) the employment contract of the chief executive officer of the bank or person in an equivalent position (together “CEO”) is with the bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the bank; and
  - (c) all staff employed by the bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and be accountable (directly or indirectly) to the CEO of the bank.
13. That the bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the bank that are carried on by a person other than the bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the bank or of a service provider to the bank, the following outcomes:
  - (a) that the bank's clearing and settlement obligations due on a day can be met on that day;
  - (b) that the bank's financial risk positions on a day can be identified on that day;
  - (c) that the bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
  - (d) that the bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

This condition ceases to apply in respect of an existing outsourcing arrangement on the earlier of either 1 October 2023 or when the existing outsourcing arrangement becomes compliant with condition 22, from which point in time condition 22 will apply to that outsourcing arrangement.

For the purposes of this condition of registration:

- (a) the term “legal and practical ability to control and execute” is explained in the Reserve Bank of New Zealand document entitled “Outsourcing Policy” (BS11) dated January 2006; and
- (b) the term “existing outsourcing arrangement” is defined in the Reserve Bank of New Zealand document entitled “Outsourcing Policy” (BS11) dated April 2020.

## Conditions of Registration

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14. That the banking group complies with the following quantitative requirements for liquidity-risk management:

- (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
- (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
- (c) the one-year core funding ratio of the banking group is not less than 50 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled “Liquidity Policy” (BS13) dated May 2021 and “Liquidity Policy Annex: Liquid Assets” (BS13A) dated May 2021.

15. That the bank has an internal framework for liquidity risk management that is adequate in the bank’s view for managing the bank’s liquidity risk at a prudent level, and that, in particular:

- (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
- (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
- (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
- (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

16. That no more than 10% of total assets may be beneficially owned by a SPV.

For the purposes of this condition,—

“total assets” means all assets of the banking group plus any assets held by any SPV that are not included in the banking group’s assets:

“SPV” means a person—

- (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
- (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
- (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

“covered bond” means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

17. That—

- (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
  - (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
  - (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document “Significant Acquisitions Policy” (BS15) dated December 2011; and
- (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
  - (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
  - (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document “Significant Acquisitions Policy” (BS15) dated December 2011; and
  - (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

For the purposes of this condition of registration, “qualifying acquisition or business combination”, “notification threshold” and “non-objection threshold” have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document “Significant Acquisitions Policy” (BS15) dated December 2011.

18. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—

- (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—
  - (i) all liabilities are frozen in full; and
  - (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
- (b) apply a de minimis to relevant customer liability accounts;
- (c) apply a partial freeze to the customer liability account balances;
- (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
- (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
- (f) reinstate customers’ access to some or all of their residual frozen funds.

For the purposes of this condition of registration, “de minimis”, “partial freeze”, “customer liability account”, and “frozen and unfrozen funds” have the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated September 2013.

19. That the bank has an Implementation Plan that—

- (a) is up-to-date; and
- (b) demonstrates that the bank’s prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: “Open Bank Resolution Pre-positioning Requirements Policy” (BS17) dated September 2013.

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For the purposes of this condition of registration, “Implementation Plan” has the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated September 2013.

20. That the bank has a compendium of liabilities that—
- (a) at the product-class level lists all liabilities, indicating which are—
    - (i) pre-positioned for Open Bank Resolution; and
    - (ii) not pre-positioned for Open Bank Resolution;
  - (b) is agreed to by the Reserve Bank; and
  - (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

For the purposes of this condition of registration, “compendium of liabilities” and “pre-positioned and non pre-positioned liabilities” have the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated September 2013.

21. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

For the purposes of this condition of registration, “Implementation Plan” has the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated September 2013.

22. That the bank must comply with the Reserve Bank of New Zealand document “Outsourcing Policy” (BS11) dated April 2020.
23. That, for a loan-to-valuation measurement period ending on or before 30 June 2021, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
24. That, for a loan-to-valuation measurement period ending on or after 31 July 2021, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
25. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
26. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,—

“banking group” means Bank of New Zealand (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

“generally accepted accounting practice” has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 23 to 26,—

“loan-to-valuation ratio”, “non property-investment residential mortgage loan”, “property-investment residential mortgage loan”, “qualifying new mortgage lending amount in respect of property-investment residential mortgage loans”, “qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans”, and “residential mortgage loan” have the same meaning as in the Reserve Bank of New Zealand document entitled “Framework for Restrictions on High-LVR Residential Mortgage Lending” (BS19) dated January 2019:

“loan-to-valuation measurement period” means—

- (a) the three calendar month period ending on the last day of May 2021; and
- (b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of June 2021.

### Changes in Conditions of Registration

Between 30 September 2020 and 30 September 2021, the RBNZ made the following changes to the Bank's Conditions of Registration.

On 30 November 2020, the Bank's Conditions of Registration were updated to reflect (i) a revised calculation approach for the Bank's operational risk capital to be based on the standardised approach under BS2A (including a minimum value of \$600m), and (ii) the continued requirement for the Bank to meet the qualitative requirements of the Advanced Measurement Approach under BS2B in relation to operational risk.

On 1 March 2021, the Bank's Conditions of Registration were updated to reintroduce residential mortgage lending restrictions at high loan-to-valuation ratios.

From 29 April 2021, the Bank's Conditions of Registration were amended to restrict the timing of dividend distributions and the amount of dividend distributions relative to buffer ratios. From 1 May 2021, the amended Conditions of Registration also included updates to the Liquidity Policy (BS13 and BS13A).

On 30 June 2021, the Bank's Conditions of Registration were updated to reflect new RBNZ processes for issuing capital Tier 2 instruments.

## Conditions of Registration

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From 1 January 2021, the Bank's breach reporting obligations were changed to require the Bank to publicly disclose where they have been non-compliant with their Conditions of Registration in a material respect in their Disclosure Statements.

### **Non-compliance with Conditions of Registration**

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

## Directors' Statement

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

1. as at the date on which this Disclosure Statement is signed:
  - (a) the Disclosure Statement contains all the information that is required by the Order; and
  - (b) the Disclosure Statement is not false or misleading; and
2. during the year ended 30 September 2021:
  - (a) the Bank has complied with its Conditions of Registration applicable during that period, except as disclosed on page 91 of this Disclosure Statement;
  - (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
  - (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 17<sup>th</sup> November 2021 and signed by Mr. McKay and Mr. Huggins as Directors and as responsible persons on behalf of all the other Directors.

**D A McKay**  
Chair

**D J Huggins**  
Managing Director and Chief Executive Officer

