



Bank of New Zealand Annual Report and Disclosure Statement

For the year ended 30 September 2023

Contents

Annual Report	1
Disclosure Statement	1
Bank of New Zealand Corporate Information	2
Financial Statements	6
Notes to and Forming Part of the Financial Statements	12
Independent Auditor's Report	80
Credit Ratings	87
Conditions of Registration	88
Directors' Statement	93

Annual Report

For the year ended 30 September 2023

The ordinary shareholder of the Bank has agreed that this Annual Report of the Banking Group need not comply with any of paragraphs (a), and (e) to (j) of subsection (1), and subsection (2) pursuant to section 211(3) of the Companies Act 1993.

Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the year ended 30 September 2023 and the independent auditor's report on those financial statements.

This Annual Report is dated 16th November 2023 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

Disclosure Statement

For the year ended 30 September 2023

This Disclosure Statement has been issued by Bank of New Zealand for the year ended 30 September 2023 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

In this Disclosure Statement, unless the context otherwise requires:

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

Address for Service

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

Nature of Business

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

Voting Securities and Power to Appoint Directors

National Australia Group (NZ) Limited (“NAGNZ”), National Australia Bank Limited and National Equities Limited are the only holders of a direct or indirect qualifying interest in the 10,075,997,499 voting securities of the Bank. NAGNZ is the registered and beneficial holder of 10,075,997,499 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 12(2) and 237(d) 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.

In the context of this document, an entity is wholly owned when a parent company holds 100% of the voting securities of the entity.

Guarantees

Covered Bond Guarantee

Certain debt securities (“Covered Bonds”) issued by the Bank, or its wholly owned controlled entity, BNZ International Funding Limited, acting through its London Branch (“BNZ-IF”), are guaranteed by CBG Trustee Company Limited, as trustee of the BNZ Covered Bond Trust (the “Covered Bond Guarantor”). The Covered Bond Guarantor has guaranteed the payment of all interest and principal under the Covered Bonds pursuant to a guarantee which is secured over a pool of assets. The Covered Bond Guarantor’s address for service is Level 16, SAP Tower, 151 Queen Street, Auckland 1010, New Zealand.

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

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 *Transfers of financial assets* 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 ABN 12 004 044 937. National Australia Bank Limited’s address for service is Level 28, 395 Bourke Street, Melbourne, Victoria 3000, Australia.

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

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

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

The Australian Prudential Regulation Authority (“APRA”) Prudential Standard APS 222 *Associations with Related Entities* (“APS 222”) restricts associations between an authorised deposit-taking institution (“ADI”) (such as National Australia Bank Limited) and its related entities (such as the Bank). Any dealings with the Bank must be consistent with terms and conditions that would be entered into with an unrelated entity (unless prior National Australia Bank Limited Board approval is obtained).

National Australia Bank Limited may provide support to a related entity such as the Bank, provided it complies with the requirements of APS 222. These requirements include that National Australia Bank Limited:

1. should not undertake any third-party dealings with the purpose of supporting the business of the Bank.
2. must not provide support unless there are formal legal arrangements in place providing for such support, the support is fixed in time and amount and in accordance with National Australia Bank Limited’s policies.
3. must not hold unlimited exposures to the Bank.
4. 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.
5. must ensure that its Board of Directors, in determining limits on acceptable levels of exposure to the Bank, 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.
6. must not have an exposure to the Bank that exceeds 25% of National Australia Bank Limited’s stand-alone Level One Tier 1 capital base, and its aggregate exposure to all related ADIs cannot exceed 75% of that Level One Tier 1 capital base.

Bank of New Zealand Corporate Information

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 2023, 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 the purchase by National Australia Bank Limited of Covered Bonds issued by the Bank would 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

Emma Elaine Gray was appointed as an independent Non-Executive Director of the Bank, effective 1 November 2023.

Nathan Laurence Goonan was appointed as a Non-Executive Director of the Bank, effective 1 November 2023.

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

Bruce Ronald Hassall retired as an independent Non-Executive Director of the Bank, effective 21 December 2022.

Louis Arthur Hawke retired as an independent Non-Executive Director of the Bank, effective 31 July 2023.

Gary Andrew Lennon retired as a Non-Executive Director of the Bank, effective 31 October 2023.

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, CFInstD

Primary Occupation: Company Director

A.M.P. (Harvard Business School, Boston), B.A. (University of Auckland)

New Zealand

Other Directorships:

Fletcher Building Limited, Fletcher Building Industries Limited, IAG New Zealand Limited, IAG (NZ) Holdings Limited, National Australia Bank Limited, Chair of Vector Limited, Wymac Consulting Limited.

Executive Director

Daniel James Huggins

Primary Occupation: Managing Director and Chief Executive Officer

Other Occupation: Company Director

MBA (Northwestern University - Kellogg School of Management, Chicago), MEM (Northwestern University - McCormick School of Engineering, Chicago),

B.Com. (Hons, University of Auckland)

New Zealand

Other Directorships:

Nil

Bank of New Zealand Corporate Information

Independent Non-Executive Directors

Barbara Joan Chapman, CNZM, CMIInstD
Primary Occupation: Company Director
B.Com. (University of Canterbury)
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.

Emma Elaine Gray

Primary Occupation: Company Director
MBA (Harvard Business School, Boston), BA Hon (Dublin City University)
Australia

Other Directorships:

Beamtree Holdings Limited.

Warwick Ean Hunt, MNZM, FKCL

Primary Occupation: Company Director
FCA, B.Acc (University of the Witwatersrand, Johannesburg)
New Zealand

Other Directorships:

Genesis Energy Limited

Kevin John Kenrick

Primary Occupation: Company Director
BMS (University of Waikato)
New Zealand

Other Directorships:

Nil

Linley Ann Wood

Primary Occupation: Company Director
MBA (Fin), LLB, BA (University of Auckland)
New Zealand

Other Directorships:

Chubb Life Insurance New Zealand Limited, Huia Private Reserve Limited, Kings School Auckland Limited, The Sleeping Giant (Fiji) Limited.

Non-Executive Director

Nathan Laurence Goonan

Primary Occupation: NAB Group Chief Financial Officer
Other Occupation: Company Director
BA Agricultural Science (Hons), BA Commerce (Finance) (University of Melbourne)
Australia

Other Directorships:

86 400 Holdings Limited, 86 400 Pty Limited, 86 400 Technology Pty Limited, Australia Japan Business Cooperation Committee, Pollinate Networks Limited.

Diversity

As at 30 September 2023, the proportions of female Directors on the BNZ Board and female members as the Bank's Officers were 29% and 36%, respectively (30 September 2022: 25% and 42%).

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

Board Audit Committee

Members of the Board Audit Committee as at the date of this Disclosure Statement were as follows:

Warwick Ean Hunt (Chair)	Independent Non-Executive Director
Barbara Joan Chapman	Independent Non-Executive Director
Douglas Alexander McKay	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 Banking (Prudential Supervision) Act 1989 (the "BPS Act"), on behalf of the other Directors, being:

Barbara Joan Chapman
Nathan Laurence Goonan
Emma Elaine Gray
Warwick Ean Hunt
Kevin John Kenrick
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 *Related entity transactions* 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

Index

Historical Summary of Financial Statements	7
Income Statement	8
Statement of Comprehensive Income	8
Statement of Changes in Equity	9
Balance Sheet	10
Cash Flow Statement	11
Notes to and Forming Part of the Financial Statements	12
1 Principal Accounting Policies	12
Income Statement Notes	16
2 Interest	16
3 Gains Less Losses on Financial Instruments	17
4 Other Operating Income	18
5 Operating Expenses	19
6 Income Tax	20
Asset Notes	21
7 Cash and Liquid Assets	21
8 Trading Assets	21
9 Loans and Advances to Customers	22
10 Allowance for Expected Credit Losses	22
11 Asset Quality	30
12 Derivative Financial Instruments	32
13 Deferred Tax	36
14 Other Assets	36
15 Goodwill and Other Intangible Assets	37
Liability Notes	38
16 Due to Central Banks and Other Institutions	38
17 Trading Liabilities	38
18 Deposits and Other Borrowings	38
19 Bonds and Notes	39
20 Other Liabilities	39
21 Leases	40
22 Subordinated Debt	41
Shareholders' Equity Note	42
23 Contributed Equity	42
Other Notes	43
24 Related Entity Transactions	43
25 Classification of Financial Instruments and Fair Value Measurement	45
26 Offsetting Financial Assets and Financial Liabilities	48
27 Transfers of Financial Assets	49
28 Segment Analysis	50
29 Contingent Liabilities and Other Commitments	51
30 Credit Exposures to Connected Persons and Non-bank Connected Persons	52
31 Structured Entities, Securitisation, Funds Management, Fiduciary Activities and Insurance	53
32 Concentrations of Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties	55
33 Investments in Wholly Owned Entities	55
34 Capital Adequacy	56
35 Risk Management	65
36 Notes to the Cash Flow Statement	79
Independent Auditor's Report	80

Historical Summary of Financial Statements

Dollars in Millions	Banking Group				
	30/9/23	30/9/22	30/9/21	30/9/20	30/9/19
Income statement					
Interest income					
Effective interest income	6,759	3,800	2,891	3,440	3,904
Fair value through profit or loss	325	116	77	179	291
Interest expense	4,187	1,412	787	1,537	2,134
Net interest income	2,897	2,504	2,181	2,082	2,061
Gains less losses on financial instruments	245	251	277	88	129
Other operating income	355	376	401	350	442
Total operating income	3,497	3,131	2,859	2,520	2,632
Operating expenses	1,222	1,076	1,060	1,158	1,111
Total operating profit before credit impairment charge and income tax expense	2,275	2,055	1,799	1,362	1,521
Credit impairment charge/(write-back)	172	89	(37)	300	114
Total operating profit before income tax expense	2,103	1,966	1,836	1,062	1,407
Income tax expense on operating profit	594	552	514	300	385
Net profit for the year	1,509	1,414	1,322	762	1,022
Dividends					
Dividends paid on ordinary shares	869	560	-	-	545
Dividends reinvested as ordinary shares	5,000	-	-	-	600
Total dividends paid on ordinary shares	5,869	560	-	-	1,145
Perpetual preference dividend	5	-	-	-	-
Significant balance sheet items					
Total assets	130,065	131,420	119,122	112,310	109,112
Total liabilities	118,205	120,359	109,241	103,653	101,179
Shareholders' equity	11,860	11,061	9,881	8,657	7,933
Contributed equity - perpetual preference shares	375	-	-	-	-
Asset quality					
Individually impaired assets - at amortised cost	144	134	199	558	648
Individual financial assets designated at fair value through profit or loss subject to credit risk adjustments	-	33	32	42	5
Credit impairment charge/(write-back) to income statement - at amortised cost	172	89	(37)	300	114
Credit risk adjustments on financial assets charged to income statement - at fair value through profit or loss (including derivatives)	(30)	11	(30)	30	3

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

Basel III regulatory capital ratios

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

	Banking Group				
	Unaudited 30/9/23	Unaudited 30/9/22	Unaudited 30/9/21	Unaudited 30/9/20	Unaudited 30/9/19
Common Equity Tier 1 capital ratio	13.3%	12.8%	13.8%	11.9%	11.0%
Tier 1 capital ratio	14.6%	13.8%	15.1%	13.2%	12.3%
Total qualifying capital ratio	15.7%	15.4%	16.9%	14.9%	13.9%
Prudential capital buffer ratio	7.7%	7.4%	8.9%	6.9%	5.9%

Income Statement

For the year ended 30 September 2023

Dollars in Millions	Note	Banking Group	
		30/9/23	30/9/22
Interest income	2		
Effective interest income		6,759	3,800
Fair value through profit or loss		325	116
Interest expense	2	4,187	1,412
Net interest income		2,897	2,504
Gains less losses on financial instruments	3	245	251
Other operating income	4	355	376
Total operating income		3,497	3,131
Operating expenses	5	1,222	1,076
Total operating profit before credit impairment charge and income tax expense		2,275	2,055
Credit impairment charge	10	172	89
Total operating profit before income tax expense		2,103	1,966
Income tax expense on operating profit	6	594	552
Net profit for the year		1,509	1,414

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 2023

Dollars in Millions	Note	Banking Group	
		30/9/23	30/9/22
Net profit for the year		1,509	1,414
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Movement in asset revaluation reserve		-	1
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	25	8	70
Tax on items recognised in equity		(2)	(20)
		6	51
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	12	(248)	355
Movement in cost of hedging reserve		(46)	28
Tax on items recognised in equity		82	(108)
		(212)	275
Total other comprehensive income/(expense)		(206)	326
Total comprehensive income for the year		1,303	1,740

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 2023

Dollars in Millions	Banking Group (30/9/23)							Total Shareholders' Equity	
	Ordinary Capital	Perpetual Preference Capital	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Cost of Hedging Reserve	FVTOCI Reserve	Retained Profits		
Balance at beginning of year	4,056	-	3	282	10	1	6,709	11,061	
Comprehensive income/(expense)									
Net profit for the year	-	-	-	-	-	-	1,509	1,509	
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	8	8	
Reserve movement through other comprehensive income	-	-	-	(248)	(46)	-	-	(294)	
Tax effect on items directly recognised in equity	-	-	-	69	13	-	(2)	80	
Total comprehensive income/(expense)	-	-	-	(179)	(33)	-	1,515	1,303	
Issue of ordinary shares through dividend reinvestment ¹	5,000	-	-	-	-	-	-	5,000	
Ordinary dividends paid through dividend reinvestment ¹	-	-	-	-	-	-	(5,000)	(5,000)	
Ordinary dividends paid	-	-	-	-	-	-	(869)	(869)	
Issue of perpetual preference shares / (issue costs)	-	375	-	-	-	-	(5)	370	
Perpetual preference dividends paid	-	-	-	-	-	-	(5)	(5)	
Balance at end of year	9,056	375	3	103	(23)	1	2,345	11,860	
				Banking Group (30/9/22)					
Balance at beginning of year	4,056	-	2	27	(10)	1	5,805	9,881	
Comprehensive income/(expense)									
Net profit for the year	-	-	-	-	-	-	1,414	1,414	
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	70	70	
Reserve movement through other comprehensive income	-	-	1	355	28	-	-	384	
Tax effect on items directly recognised in equity	-	-	-	(100)	(8)	-	(20)	(128)	
Total comprehensive income/(expense)	-	-	1	255	20	-	1,464	1,740	
Ordinary dividends paid	-	-	-	-	-	-	(560)	(560)	
Balance at end of year	4,056	-	3	282	10	1	6,709	11,061	

¹ Includes \$5,000 million dividend on ordinary shares and equivalent share issue, refer to Note 23 *Contributed equity* for further information.

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 2023

Dollars in Millions	Note	Banking Group	
		30/9/23	30/9/22
Assets			
Cash and liquid assets	7	10,913	9,581
Due from central banks and other institutions		90	372
Collateral paid		1,107	2,814
Trading assets	8	8,362	7,414
Amounts due from related entities ¹	24	829	210
Derivative financial instruments	12	4,802	9,540
Loans and advances to customers	9	101,769	99,346
Other assets	14	775	1,013
Deferred tax	13	316	293
Property, plant and equipment		604	428
Goodwill and other intangible assets	15	498	409
Total assets		130,065	131,420
Liabilities			
Due to central banks and other institutions	16	5,964	5,160
Collateral received		1,471	2,134
Trading liabilities	17	448	302
Amounts due to related entities ¹	24	899	2,160
Derivative financial instruments	12	4,321	8,228
Deposits and other borrowings	18	81,006	78,154
Current tax liabilities		40	333
Other liabilities	20	1,820	1,757
Bonds and notes ¹	19	20,786	20,181
Subordinated debt	22	1,450	1,950
Total liabilities		118,205	120,359
Net assets		11,860	11,061
Shareholders' equity			
Contributed equity – ordinary shares	23	9,056	4,056
Contributed equity – perpetual preference shares	23	375	-
Reserves		84	296
Retained profits	23	2,345	6,709
Total shareholders' equity		11,860	11,061
Interest earning and discount bearing assets		121,117	117,840
Interest and discount bearing liabilities		98,169	97,123

¹ The presentation of information has been reordered to reflect the order of liquidity. Refer to Note 1 *Principal accounting policies* for further information.

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

The financial statements are dated 16th November 2023 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

Cash Flow Statement

For the year ended 30 September 2023

Dollars in Millions	Note	Banking Group	
		30/9/23	30/9/22
Cash flows from operating activities			
Interest income		7,003	3,852
Interest expense		(3,787)	(1,282)
Net trading income/(expense)		658	(519)
Other income		355	378
Personnel expenses		(705)	(665)
Other operating expenses		(373)	(276)
Taxes and subvention payments		(830)	(512)
Net cash flows from operating activities before changes in operating assets and liabilities		2,321	976
Changes in operating assets and liabilities arising from cash flow movements			
Net movement in due from central banks and other institutions		282	(68)
Net movement in collateral paid		1,637	(3,059)
Net movement in loans and advances to customers		(2,560)	(4,753)
Net movement in amounts due from related entities ¹		(779)	3
Net movement in other assets		320	(50)
Net movement in trading assets and trading liabilities		(697)	(430)
Net movement in deposits and other borrowings		2,860	161
Net movement in due to central banks and other institutions		12	(288)
Net movement in collateral received		(705)	1,440
Net movement in amounts due to related entities ¹		(295)	792
Net movement in other liabilities		(463)	573
Net movement in derivative financial instruments		17	2,339
Net change in operating assets and liabilities¹		(371)	(3,340)
Net cash flows from operating activities¹	36	1,950	(2,364)
Cash flows from investing activities			
Acquisition of intangible assets		(179)	(173)
Purchase of property, plant and equipment		(57)	(25)
Net cash flows from investing activities		(236)	(198)
Cash flows from financing activities			
Proceeds from issue of bonds and notes		4,157	5,328
Repayment of bonds and notes		(3,467)	(2,846)
Increase in contributed equity - perpetual preference shares (net of issuance costs)	23	370	-
Repayment of subordinated debt		(500)	-
Payment of lease liabilities		(55)	(45)
Proceeds from repurchase agreements under RBNZ funding facilities		2,610	2,491
Repayment of repurchase agreements under RBNZ funding facilities		(1,472)	(1,702)
Ordinary dividend		(869)	(560)
Perpetual preference dividend		(5)	-
Net cash flows from financing activities¹		769	2,666
Net movement in cash and cash equivalents		2,483	104
Cash and cash equivalents at beginning of year		7,308	7,204
Cash and cash equivalents at end of year		9,791	7,308
Cash and cash equivalents at end of year comprised:			
Cash and liquid assets	7	10,913	9,581
Due to central banks and other institutions classified as cash and cash equivalents	16	(1,054)	(1,400)
Amounts due from related entities classified as cash and cash equivalents	24	46	206
Amounts due to related entities classified as cash and cash equivalents	24	(114)	(1,079)
Total cash and cash equivalents		9,791	7,308

¹ Comparative balances have been restated to align with the presentation used in the current period. Refer to Note 1 *Principal accounting policies* for further information.

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 2023

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 *Investments in wholly owned entities* and entities consolidated for financial reporting purposes listed in Note 31 *Structured entities, securitisation, funds management, fiduciary activities and insurance*.

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 allowance for expected credit losses, fair value measurements and income tax), 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.

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. Refer below for further details. 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 disclosure

Recognition of ongoing trail commission payable to mortgage brokers

During the year ended 30 September 2023, the Banking Group revised its accounting treatment of ongoing trail commission payable to mortgage brokers. The Banking Group has recognised a liability within Other liabilities equal to the present value of expected future trail commission payments and a corresponding increase in capitalised brokerage costs within Loans and advances to customers. Comparative balances have not been restated.

Presentation of capitalised upfront commission paid to mortgage brokers

During the year ended 30 September 2023, the Banking Group changed the presentation of capitalised upfront commission paid to mortgage brokers which are now included in Capitalised brokerage costs within Loans and advances to customers. Previously, capitalised upfront commission paid to mortgage brokers were included in Deferred and other unearned future income and expenses within Loans and advances to customers. This change in presentation enhances the ability of users of the financial statements to understand capitalised brokerage costs arising from the origination of housing loans.

This change has been applied retrospectively and impacted the prior period financial statements of the Banking Group by a decrease of \$43 million in Deferred and other unearned future income and expenses and an increase of \$43 million in Capitalised brokerage costs as at 30 September 2022.

Reordering of certain items on the balance sheet

Certain items on the balance sheet have been reordered to enhance the Banking Group’s presentation of assets and liabilities by order of liquidity. This change has no impact on the overall financial position for the current year or comparative year.

Reclassification of certain items on the cash flow statement

Following reassessment of the nature and purpose of the underlying transactions, Net movement in derivative financial instruments and Net movement in related entity funding have been reclassified from Cash flows from financing activities to Cash flows from operating activities. The Net movement in related entity funding replaced with its two components, Net movement in amounts due from related entities and Net movement in amounts due to related entities. This change in presentation enhances the ability of users of the financial statements to understand how the Banking Group generates and uses cash and cash equivalents. This change has no impact on the overall cash flow position for the current year or comparative year.

Future accounting developments

There are no new accounting standards or amendments to existing accounting standards that are not yet effective which are expected to have a material impact on the Banking Group’s financial statements.

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.

Notes to and Forming Part of the Financial Statements

Note 1 Principal Accounting Policies *continued*

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).

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, Collateral paid, Trading assets, 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.

Notes to and Forming Part of the Financial Statements

Note 1 Principal Accounting Policies *continued*

Refer to Note 25 *Classification of financial instruments and fair value measurement* 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, Collateral received, 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.

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 *Classification of financial instruments and fair value measurement* 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.

Notes to and Forming Part of the Financial Statements

Note 1 Principal Accounting Policies *continued*

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.

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 or in case of financial instruments measured at fair value through profit or loss by reference to contractual interest rates.

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 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	
	30/9/23	30/9/22
Interest income		
Cash and liquid assets	566	170
Due from central banks and other institutions	17	7
Trading assets	288	98
Related entities	22	3
Loans and advances to customers	6,103	3,623
Other	88	15
Total interest income	7,084	3,916
Total interest income was derived from financial assets:		
Effective interest method	6,759	3,800
At fair value through profit or loss	325	116
	7,084	3,916
Interest expense		
Due to central banks and other institutions	195	39
Trading liabilities	1	-
Related entities	61	19
Deposits and other borrowings	2,563	762
Bonds and notes	1,139	483
Subordinated debt to related entities	134	87
Other	94	22
Total interest expense	4,187	1,412
Total interest expense was incurred on financial liabilities:		
Effective interest method	3,440	923
At fair value through profit or loss	747	489
	4,187	1,412

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 assets and liabilities. 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 assets and liabilities are reported within net interest income.

Gains less losses on assets, liabilities and derivatives designated in hedge accounting relationships recognise 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 recognise 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	
	30/9/23	30/9/22
Trading gains less losses on financial instruments	234	160
Net gain/(loss) attributable to assets, liabilities and derivatives designated in hedge relationships	7	18
Net gain/(loss) in the fair value of derivatives used for hedging purposes not designated in hedge relationships	(20)	(1)
Net gain/(loss) in the fair value of financial assets designated at fair value through profit or loss and related derivatives ^{1,2}	19	(7)
Net gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss and related derivatives (refer to table below) ²	5	79
Other gains less losses on financial instruments	-	2
Total gains less losses on financial instruments	245	251
Net gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss and related derivatives includes ² :		
Gain/(loss) attributable to derivatives used for hedging of financial liabilities designated at fair value through profit or loss	78	(564)
Gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss	(73)	643

¹Included in Net gain/(loss) in the fair value of financial assets designated at fair value through profit or loss and related derivatives there is nil gain or loss in the fair value of financial assets designated at fair value through profit or loss excluding credit risk adjustments (30 September 2022: \$2 million loss). Credit risk adjustments on financial assets designated at fair value through profit or loss are disclosed in Note 10 *Allowance for expected credit losses*.

²All 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 income

Unless included in the effective interest rate, fees and commissions income 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.

Investment management income

Investment management income is recognised on an accruals basis as the services are provided.

Fees and commissions expense

Unless included in the effective interest rate, fees and commissions expense are recognised on an accruals basis when the service has been provided or on completion of the underlying transaction. Fees and commissions expense include incremental expenses that vary directly with the provision of goods or services to customers. An incremental expense is one which would not be incurred if a specific good or service had not been provided to a particular customer.

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Fees and commissions		
Money transfer fees	78	84
Fees earned on financial assets and liabilities	217	201
Fees earned on trust and other fiduciary activities	6	7
Investment management income	32	32
Other fees and commissions income	51	68
Total fees and commissions income	384	392
Fees and commissions expense ¹	(32)	(17)
Net fees and commissions income	352	375
Other income	3	1
Total other operating income	355	376

¹Represents credit card rewards programme and investment management expenses which are directly attributable and incremental to fees and commissions income.

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	
	30/9/23	30/9/22
Amortisation and depreciation		
Amortisation of intangible assets	81	57
Depreciation on property, plant and equipment	91	85
Total amortisation and depreciation	172	142
Personnel expenses		
Share based payments	2	1
Defined contribution pension expense	18	17
Salaries and other staff expenses	687	645
Total personnel expenses	707	663
Other		
Impairment losses and write offs - internally generated software	9	-
Loss on disposal of property, plant and equipment	1	4
Rental expense	12	12
Related entity expenses	45	38
Other expenses	276	217
Total other operating expenses	343	271
Total operating expenses	1,222	1,076

Dollars in Thousands	Banking Group	
	30/9/23	30/9/22
Fees paid to auditors		
Audit and review of financial statements ¹	2,327	2,304
Other assurance and agreed upon procedures ²	599	592
Non-audit services ³	62	1,357

¹ Includes audits for funds and securitisation vehicles managed by the Banking Group.

² 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.

³ Fees paid for market insights and analysis services performed by an affiliate firm of Ernst & Young and remuneration benchmarking reports.

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	
	30/9/23	30/9/22
Income tax expense/ (benefit) on operating profit charged to income statement		
Current tax	617	562
Deferred tax	(23)	(10)
Total income tax expense/ (benefit) on operating profit charged to income statement	594	552
Reconciliation of income tax expense on operating profit shown in the income statement with prima facie tax payable on the pre-tax accounting profit		
Total operating profit before income tax expense	2,103	1,966
Prima facie income tax at 28%	589	550
Add/(deduct): Tax effect of amounts which are non-deductible or non-assessable:		
Non-assessable and tax paid income	-	(3)
Non-deductible expenses	-	1
Other accounting movements	5	4
Total income tax expense on operating profit	594	552
Effective tax rate	28.2%	28.1%
Income tax expense/ (benefit) charged to other comprehensive income		
Current tax	(80)	128
Total income tax expense/ (benefit) charged to other comprehensive income	(80)	128
Imputation Credit Account		
The amount of imputation credits available to the Banking Group as at 30 September 2023 was \$1,145 million (30 September 2022: \$2,587 million).		

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 classified in Notes 7 *Cash and liquid assets*, 8 *Trading assets* and 24 *Related entity transactions*.

Included in Cash and liquid assets are agreements measured at amortised cost, where 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.

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Coins, notes and cash at bank	101	143
Transaction balances with central banks	10,096	8,361
Transaction balances with other institutions	716	760
Securities purchased under agreements to resell with central banks ¹	-	13
Securities purchased under agreements to resell with other institutions ¹	-	304
Total cash and liquid assets	10,913	9,581

¹ During the year ended 30 September 2023, the Banking Group commenced the classification of certain reverse repurchase agreements as held for trading measured at fair value through profit or loss.

Note 8 Trading Assets

Accounting policy

Trading assets consists of bonds, notes, securities and reverse repurchase agreements.

Reverse repurchase agreements

Securities purchased under agreements to resell are classified in Notes 7 *Cash and liquid assets*, 8 *Trading assets* and 24 *Related entity transactions*.

Included in Trading assets are agreements measured at fair value, where they are initially recognised at fair value and subsequently, any gains and losses in fair value are then recognised as they arise.

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.

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Government bonds, notes and securities	2,737	3,509
Semi-government bonds, notes and securities	3,593	2,804
Corporate and other institutions bonds, notes and securities	1,966	1,101
Securities purchased under agreements to resell with other institutions ²	66	-
Total trading assets	8,362	7,414

² During the year ended 30 September 2023, the Banking Group commenced the classification of certain reverse repurchase agreements as held for trading measured at fair value through profit or loss.

The Banking Group has accepted collateral with a fair value of \$847 million as at 30 September 2023 arising from reverse repurchase agreements included in Trading assets, Note 7 *Cash and liquid assets* and Amounts due from related entities in Note 24 *Related entity transactions*, which it is permitted to sell or repledge (30 September 2022: \$501 million).

Government securities with a fair value of \$407 million were repledged as at 30 September 2023 (30 September 2022: \$18 million). The Bank's obligation to repurchase government securities is disclosed in Notes 16 *Due to central banks and other institutions* and 17 *Trading liabilities* and included in Amounts due to related entities in Note 24 *Related entity transactions*.

Included in Trading assets as at 30 September 2023 were \$214 million trading securities encumbered through repurchase agreements (30 September 2022: \$138 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 disclosed in Notes 16 *Due to central banks and other institutions* and 17 *Trading liabilities* and included in Amounts due to related entities in Note 24 *Related entity transactions*.

Notes to and Forming Part of the Financial Statements

Note 9 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 allowance for expected credit losses. 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	
	30/9/23	30/9/22
Overdrafts	2,273	2,195
Credit card outstandings	813	825
Housing loans	57,746	54,823
Other term lending	40,731	41,409
Other lending	896	840
Total gross loans and advances to customers	102,459	100,092
Deduct:		
Allowance for expected credit losses and credit risk adjustments (refer to Note 10) ¹	932	812
Deferred and other unearned future income and expenses ²	(88)	(53)
Capitalised brokerage costs ^{2,3}	(168)	(43)
Fair value hedge adjustments on housing loans	14	30
Total deductions	690	746
Total net loans and advances to customers	101,769	99,346

¹ The balance as at 30 September 2023 consists of allowance for expected credit losses \$926 million (30 September 2022: \$787 million) and credit risk adjustment on financial assets designated at fair value through profit or loss \$6m (30 September 2022: \$25 million).

² Upfront brokerage costs previously presented within Deferred and other unearned future income and expenses are now included in the separate disclosure of Capitalised brokerage costs. Comparative balances have been restated accordingly. Refer to Note 1 *Principal accounting policies* for further information.

³ The balance as at 30 September 2023 includes \$119 million of capitalised brokerage costs reflecting the revised accounting treatment of trail commissions payable to mortgage brokers. Comparative balances have not been restated. Refer to Note 1 *Principal accounting policies* for further information.

As at 30 September 2023, included within the Banking Group's Loans and advances to customers were housing loans with a carrying amount of \$22,273 million that have been transferred to consolidated structured entities but not derecognised in their entirety (30 September 2022: \$21,104 million). The Banking Group continues to recognise all of the transferred assets. 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 *Transfers of financial assets*, 31 *Structured entities, securitisation, funds management, fiduciary activities and insurance* and 35 *Risk management*.

Note 10 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.

ECL 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"): For exposures where there has not been a significant increase in credit risk 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 ("Stage 2"): 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"): 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 classified as Stage 2, 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.

Notes to and Forming Part of the Financial Statements

Note 10 Allowance for Expected Credit Losses *continued*

- For Residential Mortgage and Corporate Exposures 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.
- For Other Retail facilities the number of days past due are used to determine a significant increase in credit risk.
- 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 contractually 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

ECL 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 Banking Group expects to recover.

Residential Mortgage and Corporate

For Residential Mortgage and Corporate facilities, overall credit default risk is represented by the Customer Rating Score ("CRS"), as it incorporates a measure of probability of default.

ECL are calculated using three main parameters being probability of default ("PD"), loss given default ("LGD") and 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-month and lifetime PD represent the expected point-in-time ("PiT") probability of a default over the next 12 months and remaining expected lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.
- The 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.
- The 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-month 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 expected remaining life multiplied by LGD and EAD.

Other Retail

Collectively assessed allowances for credit cards and unsecured personal loans are assessed under NZ IFRS 9 *Financial Instruments* ("NZ IFRS 9") using the Roll Rate methodology at BNZ. This methodology is based on the historical rates of delinquency (which is a proxy value for PD multiplied by LGD) and the resulting amount of loss.

Incorporation of forward looking information

- The Banking Group uses internal subject matter experts from Risk, Economics and Sector Heads 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 ECL.
- 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 ECL. 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.

Movement in Allowance for Expected Credit Loss

The total allowance for ECL increased by \$139 million compared to the balance at 30 September 2022. This is mainly due to an increase in the corporate exposures allowance for ECL of \$87 million and an increase in the residential mortgage lending allowance for ECL of \$47 million due to forward looking impacts from higher interest rates, impacting debt serviceability ratios. Corporate ECL increases are mainly due to an increase of \$40 million in the collectively assessed allowance for customers impacted by the severe weather events in February 2023 and forward looking adjustments ("FLAs") of \$51 million, reflecting an increase in downside risk to the agricultural sector, offset by decreases in the economic adjustments.

Notes to and Forming Part of the Financial Statements

Note 10 Allowance for Expected Credit Losses *continued*

The following table for the year ended 30 September 2023 is prescribed by the Order and is broken down between Residential mortgage lending, Other retail exposures and Corporate exposures. The table provides a reconciliation from the opening balance to the closing balance of allowance for ECL and shows the movement in opening balance where financial assets have transferred between ECL stages and subsequent remeasurement of the allowance for ECL during the year.

Dollars in Millions	Banking Group (30/9/23)				Total
	Collectively assessed allowance			Individually assessed allowance	
	Stage 1	Stage 2	Stage 3	Stage 3	
Movement in Allowance for ECL					
Residential mortgage lending					
Balance at beginning of year	12	66	19	1	98
Changes to the opening balance due to transfer between ECL stages:					
Transferred to 12-months ECL - collectively assessed allowance	1	(1)	-	-	-
Transferred to Lifetime ECL not credit impaired - collectively assessed allowance	-	1	(1)	-	-
Transferred to Lifetime ECL credit impaired - collectively assessed allowance	-	-	-	-	-
Transferred to Lifetime ECL credit impaired - individually assessed allowance	-	-	-	-	-
Charge/(credit) to income statement due to new and increased provisions (net of releases) ¹	4	36	6	2	48
Amounts written off	-	-	-	(1)	(1)
Recovery of amounts written off	-	-	-	-	-
Balance at end of year - Residential mortgage lending	17	102	24	2	145
Other retail exposures					
Balance at beginning of year	9	18	11	2	40
Changes to the opening balance due to transfer between ECL stages:					
Transferred to 12-months ECL - collectively assessed allowance	3	(2)	(1)	-	-
Transferred to Lifetime ECL not credit impaired - collectively assessed allowance	(1)	2	(1)	-	-
Transferred to Lifetime ECL credit impaired - collectively assessed allowance	-	(1)	1	-	-
Transferred to Lifetime ECL credit impaired - individually assessed allowance	-	(1)	(2)	3	-
Charge/(credit) to income statement due to new and increased provisions (net of releases) ¹	-	5	1	8	14
Amounts written off	-	-	-	(16)	(16)
Recovery of amounts written off	-	-	-	7	7
Balance at end of year - Other retail exposures	11	21	9	4	45
Corporate exposures					
Balance at beginning of year	46	487	46	70	649
Changes to the opening balance due to transfer between ECL stages:					
Transferred to 12-months ECL - collectively assessed allowance	23	(23)	-	-	-
Transferred to Lifetime ECL not credit impaired - collectively assessed allowance	(9)	16	(7)	-	-
Transferred to Lifetime ECL credit impaired - collectively assessed allowance	-	(7)	7	-	-
Transferred to Lifetime ECL credit impaired - individually assessed allowance	-	(3)	(2)	5	-
Charge/(credit) to income statement due to new and increased provisions (net of releases) ¹	(17)	36	72	19	110
Amounts written off	-	-	-	(22)	(22)
Recovery of amounts written off	-	-	-	-	-
Discount unwind ²	-	-	-	(1)	(1)
Balance at end of year - Corporate exposures	43	506	116	71	736
Total					
Balance at beginning of year	67	571	76	73	787
Changes to the opening balance due to transfer between ECL stages:					
Transferred to 12-months ECL - collectively assessed allowance	27	(26)	(1)	-	-
Transferred to Lifetime ECL not credit impaired - collectively assessed allowance	(10)	19	(9)	-	-
Transferred to Lifetime ECL credit impaired - collectively assessed allowance	-	(8)	8	-	-
Transferred to Lifetime ECL credit impaired - individually assessed allowance	-	(4)	(4)	8	-
Charge/(credit) to income statement due to new and increased provisions (net of releases) ¹	(13)	77	79	29	172
Amounts written off	-	-	-	(39)	(39)
Recovery of amounts written off	-	-	-	7	7
Discount unwind ²	-	-	-	(1)	(1)
Total balance at end of year	71	629	149	77	926

¹ Classified as credit impairment charge in the income statement.

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

Notes to and Forming Part of the Financial Statements

Note 10 Allowance for Expected Credit Losses *continued*

Dollars in Millions	Banking Group (30/09/22)				Total
	Collectively assessed allowance			Individually assessed allowance	
	Stage 1	Stage 2	Stage 3	Stage 3	
Movement in Allowance for ECL					
Residential mortgage lending					
Balance at beginning of year	1	44	50	-	95
Changes to the opening balance due to transfer between ECL stages:					
Transferred to 12-months ECL - collectively assessed allowance	1	(1)	-	-	-
Transferred to Lifetime ECL not credit impaired - collectively assessed allowance	-	-	-	-	-
Transferred to Lifetime ECL credit impaired - collectively assessed allowance	-	-	-	-	-
Transferred to Lifetime ECL credit impaired - individually assessed allowance	-	-	-	-	-
Charge/(credit) to income statement due to new and increased provisions (net of releases) ¹	10	23	(31)	1	3
Amounts written off	-	-	-	(1)	(1)
Recovery of amounts written off	-	-	-	1	1
Balance at end of year - Residential mortgage lending	12	66	19	1	98
Other retail exposures					
Balance at beginning of year	7	18	15	5	45
Changes to the opening balance due to transfer between ECL stages:					
Transferred to 12-months ECL - collectively assessed allowance	4	(3)	(1)	-	-
Transferred to Lifetime ECL not credit impaired - collectively assessed allowance	(1)	2	(1)	-	-
Transferred to Lifetime ECL credit impaired - collectively assessed allowance	-	(1)	1	-	-
Transferred to Lifetime ECL credit impaired - individually assessed allowance	-	(1)	(5)	6	-
Charge/(credit) to income statement due to new and increased provisions (net of releases) ¹	(1)	3	2	4	8
Amounts written off	-	-	-	(21)	(21)
Recovery of amounts written off	-	-	-	8	8
Balance at end of year - Other retail exposures	9	18	11	2	40
Corporate exposures					
Balance at beginning of year	39	445	20	114	618
Changes to the opening balance due to transfer between ECL stages:					
Transferred to 12-months ECL - collectively assessed allowance	23	(23)	-	-	-
Transferred to Lifetime ECL not credit impaired - collectively assessed allowance	(7)	10	(3)	-	-
Transferred to Lifetime ECL credit impaired - collectively assessed allowance	-	(8)	8	-	-
Transferred to Lifetime ECL credit impaired - individually assessed allowance	-	-	-	-	-
Charge/(credit) to income statement due to new and increased provisions (net of releases) ¹	(9)	63	21	3	78
Amounts written off	-	-	-	(46)	(46)
Recovery of amounts written off	-	-	-	-	-
Discount unwind ²	-	-	-	(1)	(1)
Balance at end of year - Corporate exposures	46	487	46	70	649
Total					
Balance at beginning of year	47	507	85	119	758
Changes to the opening balance due to transfer between ECL stages:					
Transferred to 12-months ECL - collectively assessed allowance	28	(27)	(1)	-	-
Transferred to Lifetime ECL not credit impaired - collectively assessed allowance	(8)	12	(4)	-	-
Transferred to Lifetime ECL credit impaired - collectively assessed allowance	-	(9)	9	-	-
Transferred to Lifetime ECL credit impaired - individually assessed allowance	-	(1)	(5)	6	-
Charge/(credit) to income statement due to new and increased provisions (net of releases) ¹	-	89	(8)	8	89
Amounts written off	-	-	-	(68)	(68)
Recovery of amounts written off	-	-	-	9	9
Discount unwind ²	-	-	-	(1)	(1)
Total balance at end of year	67	571	76	73	787

¹ Classified as credit impairment charge in the income statement.

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

Notes to and Forming Part of the Financial Statements

Note 10 Allowance for Expected Credit Losses *continued*

The following table summarises the changes in the gross carrying amounts of loans and advances to customers at amortised cost to explain changes in the Banking Group's allowance for ECL for the year.

Dollars in Millions	Banking Group (30/9/23)				Total
	Collectively assessed allowance			Individually assessed allowance	
	Stage 1	Stage 2	Stage 3	Stage 3	
Movement in gross loans and advances to customers					
Residential mortgage lending					
Gross carrying amount at beginning of year	50,558	3,975	285	5	54,823
Transfers					
Transferred to collectively assessed 12-months ECL	478	(365)	(112)	(1)	-
Transferred to collectively assessed lifetime ECL not credit impaired	(332)	364	(32)	-	-
Transferred to collectively assessed lifetime ECL credit impaired	(219)	(193)	412	-	-
Transferred to individually assessed lifetime ECL credit impaired	(2)	(7)	(3)	12	-
Net further lending/(repayment)	(2,437)	(18)	(10)	1	(2,464)
Additions	11,218	-	-	-	11,218
Deletions	(5,625)	(141)	(60)	(4)	(5,830)
Amounts written off	-	-	-	(1)	(1)
Total gross carrying amount at end of year	53,639	3,615	480	12	57,746
Allowance for ECL	17	102	24	2	145
Total net carrying amount at end of year	53,622	3,513	456	10	57,601
Other retail exposures					
Gross carrying amount at beginning of year	1,946	160	15	4	2,125
Transfers					
Transferred to collectively assessed 12-months ECL	88	(84)	(4)	-	-
Transferred to collectively assessed lifetime ECL not credit impaired	(149)	150	(1)	-	-
Transferred to collectively assessed lifetime ECL credit impaired	(14)	(10)	24	-	-
Transferred to individually assessed lifetime ECL credit impaired	(1)	(2)	(1)	4	-
Net further lending/(repayment)	(51)	(46)	-	17	(80)
Additions	517	-	-	-	517
Deletions	(452)	(52)	(14)	(4)	(522)
Amounts written off	-	-	-	(16)	(16)
Total gross carrying amount at end of year	1,884	116	19	5	2,024
Allowance for ECL	11	21	9	4	45
Total net carrying amount at end of year	1,873	95	10	1	1,979
Corporate exposures					
Gross carrying amount at beginning of year	13,823	28,202	321	125	42,471
Transfers					
Transferred to collectively assessed 12-months ECL	3,909	(3,901)	(7)	(1)	-
Transferred to collectively assessed lifetime ECL not credit impaired	(14,846)	14,871	(21)	(4)	-
Transferred to collectively assessed lifetime ECL credit impaired	(375)	(345)	720	-	-
Transferred to individually assessed lifetime ECL credit impaired	(59)	(38)	(14)	111	-
Net further lending/(repayment)	168	632	(16)	4	788
Additions	12,381	-	-	-	12,381
Deletions	(4,282)	(8,888)	(282)	(86)	(13,538)
Amounts written off	-	-	-	(22)	(22)
Total gross carrying amount at end of year	10,719	30,533	701	127	42,080
Allowance for ECL	43	506	116	71	736
Total net carrying amount at end of year	10,676	30,027	585	56	41,344
Total					
Gross carrying amount at beginning of year	66,327	32,337	621	134	99,419
Transfers					
Transferred to collectively assessed 12-months ECL	4,475	(4,350)	(123)	(2)	-
Transferred to collectively assessed lifetime ECL not credit impaired	(15,327)	15,385	(54)	(4)	-
Transferred to collectively assessed lifetime ECL credit impaired	(608)	(548)	1,156	-	-
Transferred to individually assessed lifetime ECL credit impaired	(62)	(47)	(18)	127	-
Net further lending/(repayment)	(2,320)	568	(26)	22	(1,756)
Additions	24,116	-	-	-	24,116
Deletions	(10,359)	(9,081)	(356)	(94)	(19,890)
Amounts written off	-	-	-	(39)	(39)
Total gross carrying amount at end of year	66,242	34,264	1,200	144	101,850
Allowance for ECL	71	629	149	77	926
Total net carrying amount at end of year	66,171	33,635	1,051	67	100,924

Notes to and Forming Part of the Financial Statements

Note 10 Allowance for Expected Credit Losses *continued*

Dollars in Millions	Banking Group (30/9/22)				Total
	Collectively assessed allowance			Individually assessed allowance	
	Stage 1	Stage 2	Stage 3	Stage 3	
Movement in gross loans and advances to customers					
Residential mortgage lending					
Balance at beginning of year	51,916	571	240	1	52,728
Transfers					
Transferred to collectively assessed 12-months ECL	448	(401)	(46)	(1)	-
Transferred to collectively assessed lifetime ECL not credit impaired	(3,978)	3,991	(13)	-	-
Transferred to collectively assessed lifetime ECL credit impaired	(149)	(40)	189	-	-
Transferred to individually assessed lifetime ECL credit impaired	-	-	(5)	5	-
Net further lending/(repayment)	(2,392)	(19)	(6)	2	(2,415)
Additions	12,244	-	-	-	12,244
Deletions	(7,531)	(127)	(74)	(1)	(7,733)
Amounts written off	-	-	-	(1)	(1)
Total gross carrying amount at end of year	50,558	3,975	285	5	54,823
Allowance for ECL	12	66	19	1	98
Total net carrying amount at end of year - Residential mortgage lending	50,546	3,909	266	4	54,725
Other retail exposures					
Balance at beginning of year	1,994	157	19	9	2,179
Transfers					
Transferred to collectively assessed 12-months ECL	84	(82)	(2)	-	-
Transferred to collectively assessed lifetime ECL not credit impaired	(184)	186	(1)	(1)	-
Transferred to collectively assessed lifetime ECL credit impaired	(14)	(9)	23	-	-
Transferred to individually assessed lifetime ECL credit impaired	(1)	(2)	(3)	6	-
Net further lending/(repayment)	(24)	(46)	(3)	19	(54)
Additions	506	-	-	-	506
Deletions	(415)	(44)	(18)	(8)	(485)
Amounts written off	-	-	-	(21)	(21)
Total gross carrying amount at end of year	1,946	160	15	4	2,125
Allowance for ECL	9	18	11	2	40
Total net carrying amount at end of year - Other retail exposures	1,937	142	4	2	2,085
Corporate exposures					
Balance at beginning of year	14,726	24,505	132	189	39,552
Transfers					
Transferred to collectively assessed 12-months ECL	4,829	(4,826)	(3)	-	-
Transferred to collectively assessed lifetime ECL not credit impaired	(14,258)	14,282	(17)	(7)	-
Transferred to collectively assessed lifetime ECL credit impaired	(175)	(66)	249	(8)	-
Transferred to individually assessed lifetime ECL credit impaired	(47)	(4)	-	51	-
Net further lending/(repayment)	(1,906)	(479)	26	(3)	(2,362)
Additions	15,394	-	-	-	15,394
Deletions	(4,740)	(5,210)	(66)	(51)	(10,067)
Amounts written off	-	-	-	(46)	(46)
Total gross carrying amount at end of year	13,823	28,202	321	125	42,471
Allowance for ECL	46	487	46	70	649
Total net carrying amount at end of year - Corporate exposures	13,777	27,715	275	55	41,822
Total					
Balance at beginning of year	68,636	25,233	391	199	94,459
Transfers					
Transferred to collectively assessed 12-months ECL	5,361	(5,309)	(51)	(1)	-
Transferred to collectively assessed lifetime ECL not credit impaired	(18,420)	18,459	(31)	(8)	-
Transferred to collectively assessed lifetime ECL credit impaired	(338)	(115)	461	(8)	-
Transferred to individually assessed lifetime ECL credit impaired	(48)	(6)	(8)	62	-
Net further lending/(repayment)	(4,322)	(544)	17	18	(4,831)
Additions	28,144	-	-	-	28,144
Deletions	(12,686)	(5,381)	(158)	(60)	(18,285)
Amounts written off	-	-	-	(68)	(68)
Total gross carrying amount at end of year	66,327	32,337	621	134	99,419
Allowance for ECL	67	571	76	73	787
Total net carrying amount at end of year	66,260	31,766	545	61	98,632

Notes to and Forming Part of the Financial Statements

Note 10 Allowance for Expected Credit Losses *continued* Impact of changes in gross carrying amount on ECL

Residential mortgage lending

Residential mortgage lending gross carrying amount increased by \$2,923 million in the year ended 30 September 2023, with associated ECL increasing by \$47 million. The movement in ECL reflects an increase in the gross carrying amount, as well as an overall increase in provision coverage rates. The coverage increase is due to forward looking impacts from higher interest rates, impacting debt serviceability ratios.

Other retail exposures

Other retail exposures gross carrying amount decreased by \$101 million in the year ended 30 September 2023, with associated ECL increasing by \$5 million.

Corporate exposures

Corporate exposures gross carrying amount decreased by \$391 million in the year ended 30 September 2023, with associated ECL increasing by \$87 million. The movement in ECL is due to an increase of \$40 million in the collectively assessed allowance for customers impacted by the severe weather events in February 2023 and an additional overlay to exposures in agricultural sector of \$51 million prompted by the economic slowdown in China, offset by a reduction in the economic adjustment reflecting an improvement in forecast macro-economic environment in New Zealand.

ECL scenario analysis

The Banking Group's forecasts assume the following key macro-economic variables used in the upside, base case and downside scenario as at 30 September 2023.

	Upside (%)			Base Case (%)			Downside (%)		
	FY 2024	FY 2025	FY 2026	FY 2024	FY 2025	FY 2026	FY 2024	FY 2025	FY 2026
Macro-economic indicators¹									
Gross domestic product change year on year	1.5	3.3	2.6	0.2	3.2	2.8	(2.4)	(2.2)	2.9
Unemployment	4.6	4.6	4.6	5.1	5.3	5.3	4.2	7.6	9.0
House price change year on year	7.9	13.5	6.4	5.3	12.5	5.6	(26.0)	(18.4)	2.1

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

The Banking Group continues to use the following macro-economic scenarios in estimating ECL.

Upside scenario: The scenario reflects an improvement in the supply chain and the rebuilding of inventories, leading to moderate inflation and stronger growth, with demand more resilient than expected.

Base case scenario: The base case scenario represents current forecasting of future macro-economic conditions, improving economic growth, moderate inflation and a reduction in cash rates, with house prices increasing.

Downside scenario: The downside scenario was provided by recent portfolio solvency stress testing and reflects severe but plausible macro-economic conditions under high inflation and high interest rates combined with significant house price deterioration.

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 following table shows the probability weighting of scenarios.

	Upside (%)		Base case (%)		Downside (%)	
	FY 2023	FY 2022	FY 2023	FY 2022	FY 2023	FY 2022
Macro-economic scenario weightings						
Retail	2.5	2.5	52.5	52.5	45.0	45.0
Non-Retail	2.5	2.5	52.5	52.5	45.0	45.0

Sensitivity analysis

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

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Reported probability weighted ECL	926	787
100% upside ECL	610	472
100% base case ECL	610	549
100% downside ECL	1,311	1,083

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

As at 30 September 2023, the contractual amount outstanding on loans and advances to customers written off during the year and that are still subject to enforcement activity was \$1 million for the Banking Group (30 September 2022: \$28 million).

Notes to and Forming Part of the Financial Statements

Note 10 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 (30/9/23)			Total
	Residential Mortgage Lending	Other Retail Exposures	Corporate Exposures	
Credit risk adjustment on individual financial assets				
Loans and advances to customers				
Balance at beginning of year	-	-	19	19
Charge/(credit) to income statement	-	-	(19)	(19)
Balance at end of year	-	-	-	-
Credit risk adjustment on groups of financial assets				
Loans and advances to customers				
Balance at beginning of year	-	-	6	6
Charge/(credit) to income statement	-	-	-	-
Balance at end of year	-	-	6	6
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	-	6	6
Trading derivative financial instruments				
Balance at beginning of year	-	-	17	17
Charge/(credit) to income statement	-	-	(11)	(11)
Balance at end of year	-	-	6	6
Total credit risk adjustments on trading derivative financial instruments	-	-	6	6
Banking Group (30/9/22)				
Credit risk adjustment on individual financial assets				
Loans and advances to customers				
Balance at beginning of year	-	-	15	15
Charge/(credit) to income statement	-	-	4	4
Balance at end of year	-	-	19	19
Credit risk adjustment on groups of financial assets				
Loans and advances to customers				
Balance at beginning of year	-	-	5	5
Charge/(credit) to income statement	-	-	1	1
Balance at end of year	-	-	6	6
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	-	25	25
Trading derivative financial instruments				
Balance at beginning of year	-	-	11	11
Charge/(credit) to income statement	-	-	6	6
Balance at end of year	-	-	17	17
Total credit risk adjustments on trading derivative financial instruments	-	-	17	17

Notes to and Forming Part of the Financial Statements

Note 11 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 10 *Allowance for expected credit losses*.
- **Individually impaired assets** are 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 10 *Allowance for expected credit losses*. Accordingly, when management determines that a loan is not expected to be recovered in full, the principal amount and accrued interest on the obligation are written down to estimated net realisable value.

Total individually impaired assets were \$144 million as at 30 September 2023 (30 September 2022: \$167 million). These comprise of loans and advances to customers subject to individually assessed allowance, as disclosed in Note 10 *Allowance for expected credit losses*, and individual financial assets designated at fair value through profit or loss subject to credit risk adjustments, as disclosed in the table below.

Dollars in Millions	Banking Group (30/9/23)			Total
	Residential Mortgage Lending	Other Retail Exposures	Corporate Exposures	
Individual financial assets designated at fair value through profit or loss subject to credit risk adjustments				
Balance at beginning of year	-	-	33	33
Amounts written off	-	-	-	-
Additions	-	-	-	-
Deletions	-	-	(33)	(33)
Balance at end of period	-	-	-	-
Credit risk adjustments on individual financial assets designated at fair value through profit or loss (refer to Note 10)	-	-	-	-
Individually impaired assets - undrawn lending commitments				
At amortised cost	-	-	9	9
At fair value through profit or loss	-	-	-	-
Other assets under administration	-	-	2	2
Banking Group (30/9/22)				
Individual financial assets designated at fair value through profit or loss subject to credit risk adjustments				
Balance at beginning of year	-	-	32	32
Amounts written off	-	-	-	-
Additions	-	-	2	2
Deletions	-	-	(1)	(1)
Balance at end of year	-	-	33	33
Credit risk adjustments on individual financial assets designated at fair value through profit or loss (refer to Note 10)	-	-	19	19
Individually impaired assets - undrawn lending commitments				
At amortised cost	-	-	4	4
At fair value through profit or loss	-	-	-	-
Other assets under administration	2	-	-	2

Notes to and Forming Part of the Financial Statements

Note 11 Asset Quality *continued*

Dollars in Millions	Banking Group (30/9/23)			Total
	Residential Mortgage Lending	Other Retail Exposures	Corporate Exposures	
Past due assets not individually impaired				
Loans and advances to customers				
1 - 7 days past due	141	27	169	337
8 - 29 days past due	130	10	32	172
1 - 29 days past due	271	37	201	509
30 - 59 days past due	98	8	29	135
60 - 89 days past due	57	4	61	122
90+ days past due	100	11	253	364
Total past due assets not individually impaired	526	60	544	1,130
	Banking Group (30/9/22)			
Past due assets not individually impaired				
Loans and advances to customers				
1 - 7 days past due	121	28	199	348
8 - 29 days past due	90	19	32	141
1 - 29 days past due	211	47	231	489
30 - 59 days past due	45	6	17	68
60 - 89 days past due	23	3	22	48
90+ days past due	58	9	197	264
Total past due assets not individually impaired	337	65	467	869

Notes to and Forming Part of the Financial Statements

Note 12 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. As at 31 March 2022, the Banking Group discontinued portfolio fair value hedge relationships under NZ IAS 39 *Financial Instruments: Recognition and Measurement* ("NZ IAS 39").

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

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

Derivative financial instruments

Dollars in Millions	Banking Group (30/9/23)		Banking Group (30/9/22)	
	Fair Value Assets	Fair Value Liabilities	Fair Value Assets	Fair Value Liabilities
Trading derivatives (including economic hedges)	4,403	3,923	8,786	7,748
Hedging derivatives	399	398	754	480
Total derivative financial instruments	4,802	4,321	9,540	8,228

Notes to and Forming Part of the Financial Statements

Note 12 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 (30/9/23)		Banking Group (30/9/22)	
	Fair Value Assets	Fair Value Liabilities	Fair Value Assets	Fair Value Liabilities
Foreign exchange rate-related contracts				
Spot and forward contracts	1,106	1,046	3,584	3,316
Cross currency swaps	1,042	1,032	2,847	2,573
Options	33	33	93	93
	2,181	2,111	6,524	5,982
Interest rate-related contracts				
Swaps	2,196	1,782	2,226	1,726
Options	-	4	-	5
	2,196	1,786	2,226	1,731
Other market-related contracts				
Commodity derivatives	26	26	36	35
	26	26	36	35
Total trading derivatives (including economic hedges)	4,403	3,923	8,786	7,748

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 (30/9/23)		Banking Group (30/9/22)	
			Notional Amount	Fair Value Amount	Notional Amount	Fair Value Amount
Derivative assets						
Cash flow hedges	Interest rate swaps	Interest	19,717	-	17,915	-
Cash flow hedges	Cross-currency swaps	Currency	5,857	399	9,445	754
			25,574	399	27,360	754
Derivative liabilities¹						
Cash flow hedges	Interest rate swaps	Interest	13,644	-	5,272	-
Cash flow hedges	Cross-currency swaps	Currency	9,712	332	2,497	361
Fair value hedges	Interest rate swaps	Interest	10,264	40	7,649	50
Fair value and cash flow hedges	Cross-currency swaps	Interest and currency	547	26	537	69
			34,167	398	15,955	480

¹ Certain derivative liabilities have been reclassified to align with the presentation used in the current financial year.

Notes to and Forming Part of the Financial Statements

Note 12 Derivative Financial Instruments *continued*

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

Dollars in Millions	Banking Group (30/9/23)				Banking Group (30/9/22)			
	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	13,180	27,768	2,677	43,625	5,805	22,573	2,458	30,836
Cross-currency swaps	-	13,062	3,054	16,116	-	7,548	4,931	12,479
Total notional amount ¹	13,180	40,830	5,731	59,741	5,805	30,121	7,389	43,315

¹ Certain derivative liabilities have been reclassified to align with the presentation used in the current financial year.

The average rate for major currencies of the final exchange of cross-currency swaps designated in hedge accounting relationships is shown in the following table.

Currency	Banking Group	
	30/9/23	30/9/22
USD:NZD	1.490	1.481
EUR:NZD	1.715	1.683
CHF:NZD	1.554	1.554
AUD:NZD	1.077	1.077

The average executed rate for interest rate swaps in hedge accounting relationships for major currencies is shown in the following table.

Currency	Banking Group (30/9/23)		Banking Group (30/9/22)	
	Fair value hedges	Cash flow hedges	Fair value hedges	Cash flow hedges
	%	%	%	%
NZD Interest Rate	-	0.04 - 7.30	-	(0.01) - 4.87
USD Interest Rate	1.00 - 4.85	-	1.00 - 2.87	-
EUR Interest Rate	0.01 - 3.71	-	0.01 - 2.55	-
CHF Interest Rate	0.37 - 0.37	-	0.37 - 0.37	-

Hedged items

The balance of the cash flow hedge reserve, which represents the effective portion of the movements in the hedging instrument, is presented in the Banking Group's *Statement of changes in equity*. The movements in hedging instruments recognised in other comprehensive income are reported in the Banking Group's *Statement of comprehensive income*. There were \$12 million of balances recognised in the cash flow hedge reserve for which hedge accounting is no longer applied (30 September 2022: \$16 million). 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 2022: nil).

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 shown in the table below. The accumulated amount of fair value hedge adjustments included in the carrying amount of hedged items that have ceased to be adjusted for hedging gains and losses are \$14 million (30 September 2022: \$30 million). The Banking Group does not hedge its entire exposure to a class of financial instruments, therefore the carrying amounts below do not equal the total carrying amounts disclosed in other notes.

Dollars in Millions	Banking Group (30/9/23)		Banking Group (30/9/22)	
	Carrying Amount	Fair value hedge adjustments	Carrying Amount	Fair value hedge adjustments
Assets				
Loans and advances to customers (housing loans) ²	-	(14)	-	(30)
Liabilities				
Bonds and notes	10,717	(882)	8,166	(846)

² As at 31 March 2022, the Banking Group discontinued portfolio fair value hedge relationships under NZ IAS 39. Loans and advances to customers (housing loans) are no longer designated as hedged items in portfolio fair value hedges.

Notes to and Forming Part of the Financial Statements

Note 12 Derivative Financial Instruments *continued*

Hedge ineffectiveness

Fair value and cash flow hedge relationships result in the following changes in value used as the basis for recognising hedge ineffectiveness for the period.

	Banking Group				Hedge	Hedge
	Change in fair value on hedging instruments 30/9/23	Change in fair value on hedging instruments 30/9/22	Change in fair value on hedged items 30/9/23	Change in fair value on hedged items 30/9/22	ineffectiveness recognised in income statement 30/9/23	ineffectiveness recognised in income statement 30/9/22
Dollars in Millions						
Fair value hedges (interest rate risk)	(43)	(750)	48	766	5	16
Cash flow hedges (interest rate risk)	(217)	346	219	(344)	2	2
Cash flow hedges (currency risk)	(75)	1,086	75	(1,086)	-	-
Fair value and cash flow hedges (interest rate and currency risk)	23	(83)	(23)	83	-	-
Total	(312)	599	319	(581)	7	18

	Banking Group	
	30/9/23	30/9/22
Dollars in Millions		
Cash flow hedge (interest rate risk)		
Cash flow hedges - gains or losses recognised in other comprehensive income	71	335
Amount reclassified from the cash flow hedge reserve to income statement	(305)	(6)

	Banking Group	
	30/9/23	30/9/22
Dollars in Millions		
Cash flow hedge (currency risk)		
Cash flow hedges - gains or losses recognised in other comprehensive income	(80)	1,065
Amount reclassified from the cash flow hedge reserve to income statement	66	(1,039)

Notes to and Forming Part of the Financial Statements

Note 13 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	
	30/9/23	30/9/22
Deferred tax assets		
Balance at beginning of year	293	283
Tax benefit recognised in income statement	23	10
Balance at end of year	316	293
Deferred tax assets were attributable to the following items:		
Employee entitlements	9	9
Credit risk adjustments on financial assets designated at fair value through profit or loss	3	12
Allowance for expected credit losses on credit exposures	259	220
Depreciation and amortisation	31	29
Operating expense provisions	5	5
Prepaid pension assets	(2)	(2)
NZ IFRS 16 leases	3	-
Other	8	20
Total deferred tax assets	316	293

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 14 Other Assets

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Accrued interest receivable	251	169
Prepaid pension assets	8	8
Securities sold – not yet settled	206	479
Other assets	310	357
Total other assets	775	1,013

Notes to and Forming Part of the Financial Statements

Note 15 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 ten years.

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.

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Goodwill	15	15
Internally generated software ¹	461	379
Acquired software	22	15
Total goodwill and other intangible assets	498	409
At cost	1,402	1,266
Deduct: Accumulated amortisation/impairment losses	(904)	(857)
Total goodwill and other intangible assets	498	409

¹Included in internally generated software was a work in progress balance of \$136 million as at 30 September 2023 (30 September 2022: \$205 million).

Notes to and Forming Part of the Financial Statements

Liability Notes

Note 16 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 Notes 16 *Due to central banks and other institutions*, 17 *Trading liabilities* and 24 *Related entity transactions*. Included in Due to central banks and other institutions are agreements measured at amortised cost, where 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	
	30/9/23	30/9/22
Transaction balances with other institutions ¹	948	1,250
Deposits from central banks	86	79
Deposits from other institutions ²	339	229
Securities sold under agreements to repurchase from central banks ³	4,591	3,453
Securities sold under agreements to repurchase from other institutions ^{1,4}	-	149
Total due to central banks and other institutions	5,964	5,160

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

² Included in deposits from other institutions as at 30 September 2023 was \$106 million classified as cash and cash equivalents in the cash flow statement (30 September 2022: \$1 million).

³ Included in securities sold under agreements to repurchase from central banks as at 30 September 2023 was \$1,142 million (30 September 2022: \$1,353 million) relating to Term Lending Facility and \$3,449 million (30 September 2022: \$2,100 million) relating to Funding for Lending Programme.

⁴ During the year ended 30 September 2023, the Banking Group commenced the classification of certain repurchase agreements as held for trading measured at fair value through profit or loss.

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

Note 17 Trading Liabilities

Accounting policy

Trading liabilities consists of short sales of securities 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 Notes 16 *Due to central banks and other institutions*, 17 *Trading liabilities* and 24 *Related entity transactions*. Included in Trading liabilities are agreements measured at fair value, where they are initially recognised at fair value and subsequently, any gains and losses in fair value are then recognised in the income statement as they arise.

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Securities sold short	237	302
Securities sold under agreements to repurchase from other institutions ⁵	211	-
Total trading liabilities	448	302

⁵ During the year ended 30 September 2023, the Banking Group commenced the classification of certain repurchase agreements as held for trading measured at fair value through profit or loss.

Note 18 Deposits and Other Borrowings

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Deposits not bearing interest	13,686	12,784
On-demand and short term deposits bearing interest	30,014	33,295
Term deposits	34,802	28,126
Total customer deposits	78,502	74,205
Certificates of deposit	1,587	1,661
Commercial paper	917	2,288
Total deposits and other borrowings	81,006	78,154

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.

Notes to and Forming Part of the Financial Statements

Note 19 Bonds and Notes

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Domestic Covered Bonds	-	302
Offshore Covered Bonds	6,357	4,893
Domestic medium term notes	4,411	3,161
Offshore medium term notes	10,018	11,825
Total bonds and notes	20,786	20,181

As at 30 September 2023, the contractual amount to be paid at maturity of the Bonds and notes is \$21,972 million (30 September 2022: \$21,391 million).

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Bonds and notes by currency		
US Dollar	7,276	8,238
New Zealand Dollar	4,411	3,463
Australian Dollar	175	185
Hong Kong Dollar	136	140
Euro	7,792	7,203
Swiss Franc	996	952
Total bonds and notes by currency	20,786	20,181

Note 20 Other Liabilities

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Accrued interest payable	628	221
Payables and accrued expenses	304	344
Securities purchased – not yet settled	207	682
Employee entitlements	102	101
Lease liabilities	448	279
Other liabilities	131	130
Total other liabilities	1,820	1,757

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	
	30/9/23	30/9/22
Effect of leases on the Balance Sheet		
Right-of-use assets		
Property, plant and equipment		
Buildings	436	277
Technology and other	1	3
Total right-of-use assets	437	280
Additions to right-of-use assets during the period	211	8
Lease Liabilities		
Other liabilities	448	279
Total lease liabilities	448	279

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Effect of leases on the Income Statement		
Depreciation		
Buildings	51	48
Technology and other	2	2
Total depreciation on right-of-use assets	53	50
Interest	9	7
Total interest expense on lease liability	9	7
Short-term lease expense	3	6
Total short-term lease expense	3	6

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	
	30/9/23	30/9/22
Due within one year	55	49
Due after one year but no later than five years	160	124
Due after five years	434	145
Total non-cancellable lease commitments	649	318

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 \$67 million over the next five years (year ended 30 September 2022: \$182 million).

Notes to and Forming Part of the Financial Statements

Note 22 Subordinated Debt

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Subordinated Notes due to related entity		
National Australia Bank Limited	550	1,050
Total Subordinated Notes due to related entity	550	1,050
Perpetual Notes due to related entity		
National Australia Bank Limited	900	900
Total Perpetual Notes due to related entity	900	900
Total subordinated debt	1,450	1,950

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

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

Redemption

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

Interest

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

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

Ranking of 2031-Subordinated Notes

In a liquidation of the Bank, the claims of holders of 2031-Subordinated Notes will rank: (1) ahead of claims of holders of BNZ Shares and other subordinated securities that rank below the 2031-Subordinated Notes (such as the perpetual preference shares issued to external investors); (2) equally with claims of other holders of 2031-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 (converted)

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 were treated as Additional Tier 1 capital under the Bank's regulatory capital requirements and were subject to a transitional phase out from 1 January 2022. For further information refer to Note 34 *Capital adequacy*. The Perpetual Notes did not confer any right to vote in general meetings of the Bank or National Australia Bank Limited.

Interest

From 20 October 2021, the interest rate for the Perpetual Notes was a floating interest rate equal to the three-month bank bill rate plus a margin of 4.41% per annum.

Interest was payable quarterly in arrear subject to the Bank's discretion and certain conditions being satisfied (including RBNZ requirements).

Conversion

On 20 October 2023 the Perpetual Notes, all held by NAGNZ, converted into 762,750,000 BNZ Shares.

Ranking of Perpetual Notes

In a liquidation of the Bank (if the Perpetual Notes had not been converted), the claims of holders of Perpetual Notes would have ranked: (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 ranked 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 2031-Subordinated Notes, and other unsecured unsubordinated bonds issued by the Bank from time to time).

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

On 8 May 2018, the Bank issued \$500 million of subordinated unsecured notes ("2028-Subordinated Notes") which were scheduled to mature on 8 May 2028. On 8 May 2023, the bank exercised its option to fully redeem the 2028-Subordinated Notes prior to the scheduled maturity date of 8 May 2028. The 2028-Subordinated Notes were treated as Tier 2 capital under the Bank's regulatory capital requirements and were subject to a transitional phase-out from 1 January 2022.

Notes to and Forming Part of the Financial Statements

Shareholders' Equity Note

Note 23 Contributed Equity

Number of shares in Millions	Banking Group	
	30/9/23	30/9/22
Issued and fully paid shares		
Ordinary shares - balance at beginning of year	5,076	5,076
Ordinary shares - issued during the year	5,000	-
Ordinary shares - balance at end of year	10,076	5,076
Perpetual preference shares - balance at beginning of year	-	-
Perpetual preference shares - issued during the year	375	-
Perpetual preference shares - balance at end of year	375	-
Total issued and fully paid shares	10,451	5,076

The issued and fully paid ordinary shares are included in Common Equity Tier 1 capital of the Banking Group and the Registered Bank. The issued and fully paid perpetual preference shares qualify as Additional Tier 1 capital of the Banking Group and the Registered Bank (refer to Note 34 *Capital Adequacy*).

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.

On 30 March 2023, the Bank paid a dividend of \$5,000 million and issued 5,000 million ordinary shares to National Australia Group (NZ) Limited at a subscription price of \$1.00 per share under a dividend reinvestment plan. This resulted in the number of the Bank's ordinary shares increasing from 5,075,997,499 to 10,075,997,499 and the Bank's ordinary share capital increasing by \$5,000 million.

Dividends on ordinary shares for the year ended 30 September 2023 were a weighted average of 77.19 cents per share (year ended 30 September 2022: a weighted average of 11.03 cents per share).

Perpetual preference shares

On 14 June 2023, the Bank issued 375,000,000 perpetual preference shares ("PPS") to external investors, at an issue price of \$1. The perpetual preference shares do not create any direct or indirect contractual obligation to deliver cash or another financial instrument to the holders, and as such are classified as equity instruments. The key terms of the PPS are as follows:

PPS distributions are payable at the discretion of the Bank, are subject to conditions, and are non-cumulative. If a distribution is not paid in full on the PPS within 3 business days of a distribution payment date, the Bank must not authorise or pay a dividend on its ordinary shares, acquire its ordinary shares or otherwise undertake a capital reduction in respect of its ordinary shares, until a subsequent PPS distribution is paid in full or there are no longer any PPS outstanding.

The distribution rate for the PPS is fixed at 7.30% per annum until 14 June 2029, after which it will be a floating rate which will be reset quarterly to be equal to the sum of the applicable 3 month bank bill rate plus 3.00%, with PPS distributions scheduled to be paid on 14 March, 14 June, 14 September and 14 December each year.

The PPS have no fixed maturity date and will remain on issue indefinitely if not redeemed by the Bank. The Bank may redeem all of the PPS on an optional redemption date (each scheduled distribution payment date from 14 June 2029); or at any time if a tax event or regulatory event occurs. Redemption is subject to certain conditions being met, including obtaining the RBNZ's approval. Holders of PPS have no right to require that the PPS be redeemed.

The PPS confer no rights on a holder of PPS to:

- vote at any general meeting of the Bank or participate in any other decision or resolution of the Bank's ordinary shareholders;
- participate in the issue of any other securities in the Bank or to participate in any bonus issues of securities of the Bank; or
- participate in the profits or property of the Bank, except by receiving payments on the PPS.

In a liquidation of the Bank, the PPS will rank behind the claims of depositors and other general and subordinated creditors of the Bank (except for holders of equal ranking preference shares, securities and other obligations of the Bank) but ahead of the rights of holders of the Bank's ordinary shares.

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 2023, 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	
	30/9/23	30/9/22
Balances with related entities		
Amounts due from ultimate parent	819	195
Amounts due from controlled entities of ultimate parent	10	15
Total amounts due from related entities ¹	829	210
Derivative financial assets with related entities	1,879	3,997
Amounts due to ultimate parent	827	1,123
Amounts due to controlled entities of ultimate parent	72	1,037
Total amounts due to related entities ²	899	2,160
Derivative financial liabilities with related entities	1,647	3,112
Subordinated debt due to related entities (refer to Note 22)	1,450	1,950

¹ Included in amounts due from related entities as at 30 September 2023 was \$46 million classified as cash and cash equivalents in the cash flow statement (30 September 2022: \$206 million).

² Included in amounts due to related entities as at 30 September 2023 was \$114 million classified as cash and cash equivalents in the cash flow statement (30 September 2022: \$1,079 million).

No provisions have been recognised in respect of loans provided to related entities (year ended 30 September 2022: nil). There were no debts with any of the above parties written off or forgiven during the year ended 30 September 2023 (year ended 30 September 2022: nil).

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

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Amounts due from related entities		
Securities purchased under agreements to resell to ultimate parent	781	184
Amounts due to related entities		
Deposit from controlled entity of ultimate parent	-	972
Collateral received from ultimate parent to meet derivative trading obligations	309	1,045
Securities sold under agreements to repurchase from ultimate parent	420	9

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.

Ordinary dividends paid to the shareholder are disclosed in the Statement of Changes in Equity and in Note 23 *Contributed equity*.

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 2023, KiwiSaver, PWS, YWS and BWF collectively held \$27 million in transactional bank accounts with the Bank (30 September 2022: \$22 million). Refer to Note 31 *Structured entities, securitisation, funds management, fiduciary activities and insurance* 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 *Transfers of financial assets* for further information.

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

On 30 September 2022, NAB completed the sale of National Wealth Management New Zealand Holdings Limited, BNZ Life Insurance Limited and BNZ Insurance Services Limited to Partners Life Limited, at which point these companies ceased to be controlled entities of National Australia Bank Limited and related entities of the Banking Group. For the year ended 30 September 2023, no imputation credits were utilised from the group imputation credit account for National Wealth Management New Zealand Holdings Limited (year ended 30 September 2022: \$8 million).

Notes to and Forming Part of the Financial Statements

Note 24 Related Entity Transactions *continued*

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Interest income on amounts due from related entities		
Ultimate parent	21	3
Controlled entities of ultimate parent	1	-
Total interest income on amounts due from related entities	22	3
Interest expense on amounts due to related entities		
Ultimate parent	158	93
Controlled entities of ultimate parent	37	13
Total interest expense on amounts due to related entities	195	106
Gains less losses on financial instruments and other operating income		
Net unrealised gain/(loss) on derivative contracts with ultimate parent	(653)	524
Commissions received from controlled entities of ultimate parent for sale of insurance	-	12
Operating expenses		
Intercompany recharges paid to ultimate parent	32	23
Other service charges paid to ultimate parent	13	15
Other transactions		
Payment for the use of tax losses to controlled entities of ultimate parent	8	4

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 normal commercial terms and conditions. Loans and deposits with executive key management personnel of the Bank are made either:

- on normal 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 normal commercial terms and conditions.

All loans made to key management personnel have been made in accordance with the Bank's lending policies. No individually assessed allowance has 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 2023 (year ended 30 September 2022: nil).

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Transactions with key management personnel		
Short term employee benefits	11	14
Other long-term benefits	1	1
Termination benefits	-	1
Share-based payments	2	1
Total key management personnel benefits	14	17
Loans to key management personnel	14	14
Deposits from key management personnel	9	9
Interest income on amounts due from key management personnel ¹	1	-
Interest expense on amounts due to key management personnel ¹	-	-

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

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

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

	Banking Group (30/9/23)		Banking Group (30/9/22)	
	Number	Weighted average grant date fair value	Number	Weighted average grant date fair value
Performance rights granted during the year	67,337	A\$11.65	54,019	A\$17.30
Fully paid ordinary shares granted during the year	33,190	A\$30.60	31,829	A\$29.22

The number of performance rights outstanding as at 30 September 2023 was 121,356 (30 September 2022: 54,019).

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 instruments

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

Dollars in Millions	Banking Group (30/9/23)			Banking Group (30/9/22)		
	Fair Value Through Profit or Loss	At Amortised Cost	Total Carrying Amount	Fair Value Through Profit or Loss	At Amortised Cost	Total Carrying Amount
Financial assets						
Cash and liquid assets	-	10,913	10,913	-	9,581	9,581
Due from central banks and other institutions	-	90	90	-	372	372
Collateral paid	-	1,107	1,107	-	2,814	2,814
Trading assets ¹	8,362	-	8,362	7,414	-	7,414
Amounts due from related entities ¹	782	47	829	-	210	210
Derivative financial instruments	4,802	-	4,802	9,540	-	9,540
Loans and advances to customers	603	101,166	101,769	648	98,698	99,346
Other financial assets	-	559	559	-	711	711
Total financial assets	14,549	113,882	128,431	17,602	112,386	129,988
Financial liabilities						
Due to central banks and other institutions	-	5,964	5,964	-	5,160	5,160
Collateral received	-	1,471	1,471	-	2,134	2,134
Trading liabilities ¹	448	-	448	302	-	302
Amounts due to related entities ¹	419	480	899	-	2,160	2,160
Derivative financial instruments	4,321	-	4,321	8,228	-	8,228
Deposits and other borrowings	2,504	78,502	81,006	3,949	74,205	78,154
Other financial liabilities	-	1,567	1,567	-	1,519	1,519
Bonds and notes	10,069	10,717	20,786	12,015	8,166	20,181
Subordinated debt	-	1,450	1,450	-	1,950	1,950
Total financial liabilities	17,761	100,151	117,912	24,494	95,294	119,788

¹ During the year ended 30 September 2023, the Banking Group commenced the classification of certain reverse repurchase agreements and repurchase agreements as held for trading measured at fair value through profit or loss.

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	
	30/9/23	30/9/22
Bonds and notes		
Balance at beginning of year	51	121
Movement during the year	(8)	(70)
Balance at end of year	43	51

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 46 present a three-level fair value hierarchy of the Banking Group's financial instruments.

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

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

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

The Banking Group considers transfers between levels of the fair value hierarchy, if any, to have occurred at the beginning of the respective reporting period. There were no transfers between any of the levels for the year ended 30 September 2023 (year ended 30 September 2022: nil).

Notes to and Forming Part of the Financial Statements

Note 25 Classification of Financial Instruments and Fair Value Measurement *continued* Financial instruments at fair value

Dollars in Millions	Banking Group (30/9/23)			
	Fair Value Total	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Financial assets				
Trading assets ¹	8,362	1,984	6,378	-
Amounts due from related entities ¹	782	-	782	-
Derivative financial instruments	4,802	-	4,802	-
Loans and advances to customers	603	-	603	-
Financial liabilities				
Trading liabilities ¹	448	215	233	-
Amounts due to related entities ¹	419	-	419	-
Derivative financial instruments	4,321	-	4,321	-
Deposits and other borrowings	2,504	-	2,504	-
Bonds and notes	10,069	-	10,069	-
Banking Group (30/9/22)				
Financial assets				
Trading assets	7,414	2,914	4,500	-
Derivative financial instruments	9,540	-	9,540	-
Loans and advances to customers	648	-	648	-
Financial liabilities				
Trading liabilities	302	277	25	-
Derivative financial instruments	8,228	-	8,228	-
Deposits and other borrowings	3,949	-	3,949	-
Bonds and notes	12,015	-	12,015	-

Financial instruments at amortised cost²

Dollars in Millions	Carrying Amount	Banking Group (30/9/23)			Fair Value Level 3
		Fair Value Total	Fair Value Level 1	Fair Value Level 2	
Financial assets					
Loans and advances to customers	101,166	99,999	-	2,273	97,726
Financial liabilities					
Deposits and other borrowings	78,502	78,438	-	78,438	-
Bonds and notes	10,717	10,669	-	10,669	-
Subordinated debt	1,450	1,446	-	1,446	-
Banking Group (30/9/22)					
Financial assets					
Loans and advances to customers	98,698	97,315	-	2,195	95,120
Financial liabilities					
Deposits and other borrowings	74,205	74,082	-	74,082	-
Bonds and notes	8,166	8,103	-	8,103	-
Subordinated debt	1,950	1,974	-	1,974	-

¹ During the year ended 30 September 2023, the Banking Group commenced the classification of certain reverse repurchase agreements and repurchase agreements as held for trading measured at fair value through profit or loss.

² 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

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/Due to central banks and other institutions and Collateral paid/Collateral received

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 assets and Trading liabilities

Trading assets include treasury bills, bank bills and bonds, promissory notes, government and other securities, and reverse repurchase agreements. Trading liabilities include short sales of securities and repurchase agreements. 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.

Amounts due from related entities/Amounts due to related entities

These include reverse repurchase agreements/repurchase agreements that are classified as held for trading and measured at fair value through profit and loss. Fair value is calculated based on a discounted cash flow model using an appropriate yield curve. Other balances, including collateral paid/received with ultimate parent, are primarily short term in nature or are receivable or payable on demand and in such cases the carrying amounts approximate their fair value.

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

Deposits and other borrowings

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

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

Bonds and notes

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

Subordinated debt

For Subordinated Notes and Perpetual Notes, the fair value is estimated by discounting the expected future cash flows based on the maturity of the notes, using current market interest rates of similar types of notes.

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.

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* ("NZ IAS 32"), 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 on balance sheet' and 'Amounts not subject to enforceable netting arrangements' included in the table below.

Dollars in Millions	Banking Group (30/9/23)								
	Amounts Subject to Enforceable Netting Arrangements			Related Amounts not Offset			Net Amount	Amounts not Subject to Enforceable Netting Arrangements	Carrying Amount
	Effect of Offsetting on Balance Sheet	Net Amounts Reported on Balance Sheet	Financial Instruments	Non-Cash Collateral ¹	Cash Collateral ¹				
Gross Amounts	Amount Offset								
Financial assets									
Derivative financial instruments	17,643	13,054	4,589	2,361	300	1,673	255	213	4,802
Collateral paid ²	2,308	1,201	1,107	-	-	505	602	-	1,107
Reverse repurchase agreements ³	847	-	847	-	847	-	-	-	847
Loans and advances	1,660	1,626	34	-	-	-	34	101,735	101,769
Financial liabilities									
Derivative financial instruments	17,851	14,180	3,671	2,361	-	505	805	650	4,321
Collateral received ⁴	1,855	75	1,780	-	-	1,673	107	-	1,780
Repurchase agreements ⁵	5,222	-	5,222	-	5,222	-	-	-	5,222
Deposits and other borrowings	3,180	1,626	1,554	-	-	-	1,554	79,452	81,006

Banking Group (30/9/22)

Financial assets									
Derivative financial instruments	20,595	11,727	8,868	4,773	161	2,877	1,057	672	9,540
Collateral paid ²	3,945	1,131	2,814	-	-	1,921	893	-	2,814
Reverse repurchase agreements ³	501	-	501	-	501	-	-	-	501
Loans and advances	928	895	33	-	-	-	33	99,313	99,346
Financial liabilities									
Derivative financial instruments	20,245	12,741	7,504	4,773	-	1,921	810	724	8,228
Collateral received ⁴	3,296	117	3,179	-	-	2,877	302	-	3,179
Repurchase agreements ⁵	3,611	-	3,611	-	3,611	-	-	-	3,611
Deposits and other borrowings	2,211	895	1,316	-	-	-	1,316	76,838	78,154

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

² Collateral paid to meet derivative trading obligations is reported in the balance sheet within Collateral paid of \$1,107 million (30 September 2022: \$2,814 million).

³ Reverse repurchase agreements are reported in the balance sheet within Cash and liquid assets of nil (30 September 2022: \$317 million), Trading assets of \$66 million (30 September 2022: nil) and Amounts due from related entities of \$781 million (30 September 2022: \$184 million) respectively. Refer to Notes 7 *Cash and liquid assets*, 8 *Trading assets* and 24 *Related entity transactions* for further information.

⁴ Collateral received to meet derivative trading obligations is reported in the balance sheet within Collateral received of \$1,471 million (30 September 2022: \$2,134 million) and Related entity transactions of \$309 million (30 September 2022: \$1,045 million). Refer to Note 24 *Related entity transactions* for further information.

⁵ Repurchase agreements are reported in the balance sheet within Due to central banks and other institutions of \$4,591 million (30 September 2022: \$3,602 million), Trading liabilities of \$211 million (30 September 2022: nil) and Amounts due to related entities of \$420 million (30 September 2022: \$9 million) respectively. Refer to Notes 16 *Due to central banks and other institutions*, 17 *Trading liabilities* and 24 *Related entity transactions* 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 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 9 *Loans and advances to customers* and deposits not bearing interest and on-demand and short term deposits bearing interest in Note 18 *Deposits and other borrowings*. 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. 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 *Risk management*.

The Covered Bond Trust holds certain Bank of New Zealand housing loans and its trustee guarantees the payment of all interest and principal under the Covered Bonds issued by the Bank and BNZ-IF. The assets of the Covered Bond Trust are not available to the Bank unless and until all prior ranking creditors of the Covered Bond Trust have been satisfied. The housing loans held by the 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.

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 obligations under agreements to repurchase are classified under Notes 16 *Due to central banks and other institutions*, 17 *Trading liabilities* and 24 *Related Entity Transactions*. Further details on securities sold under agreements to repurchase are provided in these notes.

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

	Banking Group			
	Carrying Amount of Assets 30/9/23	Carrying Amount of Assets 30/9/22	Carrying Amount of Associated Liabilities 30/9/23	Carrying Amount of Associated Liabilities 30/9/22
Dollars in Millions				
Housing loans held by RMBS Trust	14,678	14,745	4,591	3,453
Housing loans held by Covered Bond Trust	7,595	6,359	6,357	5,195
Government bonds and securities	214	138	214	138
	22,487	21,242	11,162	8,786

The Banking Group had issued debt securities with a face value of \$6,791 million that were guaranteed by the Covered Bond Trust as at 30 September 2023 (30 September 2022: \$5,613 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 \$7,868 million as at 30 September 2023 (30 September 2022: \$6,550 million). The fair value of the underlying collateral is approximately equal to the carrying amount due to its short term nature.

Further details on the transactions with the RMBS Trust and the Covered Bond Trust are provided in Notes 31 *Structured entities, securitisation, funds management, fiduciary activities and insurance* and 35 *Risk management*.

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 assessment and resource allocation.

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

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

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; accounting differences between management and statutory financial reporting; and elimination entries on consolidation of the results of the Banking Group's controlled entities in the preparation of the consolidated financial statements of the Banking Group.

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 (30/9/23)				Total Banking Group
	Partnership Banking	Corporate and Institutional Banking	Total Reportable Segments	Other	
Net interest income	2,142	696	2,838	59	2,897
Other income ¹	223	264	487	113	600
Total operating income ²	2,365	960	3,325	172	3,497
Operating expenses	961	209	1,170	52	1,222
Total operating profit before credit impairment charge and income tax expense	1,404	751	2,155	120	2,275
Credit impairment charge/(write-back)	128	(31)	97	75	172
Total operating profit before income tax expense	1,276	782	2,058	45	2,103
Income tax expense on operating profit	358	218	576	18	594
Net profit for the year	918	564	1,482	27	1,509
Lending assets	78,439	23,265	101,704	65	101,769
Deposit liabilities	61,553	13,721	75,274	3,228	78,502
	Banking Group (30/9/22)				
Net interest income	1,915	543	2,458	46	2,504
Other income ¹	234	272	506	121	627
Total operating income ²	2,149	815	2,964	167	3,131
Operating expenses	869	166	1,035	41	1,076
Total operating profit before credit impairment charge and income tax expense	1,280	649	1,929	126	2,055
Credit impairment charge	43	2	45	44	89
Total operating profit before income tax expense	1,237	647	1,884	82	1,966
Income tax expense on operating profit	346	181	527	25	552
Net profit for the year	891	466	1,357	57	1,414
Lending assets	75,445	23,816	99,261	85	99,346
Deposit liabilities	59,480	11,926	71,406	2,799	74,205

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

² For the year ended 30 September 2023, 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 2022: nil).

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

Bank guarantees and letters of credit

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. The Banking Group has four principal types of guarantees:

- Bank guarantees.
- Standby letters of credit.
- Documentary letters of credit.
- Performance related contingencies.

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 is considered as "on-demand" because the Banking Group has no control when the holder might call upon the instrument. The Banking Group expects that not all of the contingent liabilities will be drawn before their contractual expiry.

The Bank typically has recourse to specific assets pledged as collateral in the event of a default by a party for which the Bank has guaranteed its obligations to a third party and therefore tend to carry the same credit risk as loans.

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 Banking Group'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 *Risk management*.

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Bank guarantees and letters of credit		
Bank guarantees	414	473
Standby letters of credit	317	356
Documentary letters of credit	106	254
Performance related contingencies	1,417	1,167
Total bank guarantees and letters of credit	2,254	2,250
Credit related commitments		
Revocable commitments to extend credit	7,452	5,904
Irrevocable commitments to extend credit	14,217	14,433
Total credit related commitments	21,669	20,337
Total bank guarantees, letters of credit and credit related commitments	23,923	22,587

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.

Other contingent liabilities

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 may relate to, or have related in recent years to, a range of matters, including anti-money laundering and countering financing of terrorism compliance issues. These matters 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.

Guarantees to wholly owned controlled entities

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 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 individual credit impairment allowances and exclude advances of a capital nature.

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

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

	Banking Group (30/9/23)	
	Dollars in Millions	% of Tier One Capital As At
As at end of year		
Credit exposure to connected persons (on gross basis, before netting)	5,293	45.5%
Credit exposure to connected persons (amount netted)	1,647	14.1%
Credit exposure to connected persons (on partial bilateral net basis)	3,646	31.4%
Credit exposure to non-bank connected persons	-	-
Peak for the year ended		
Credit exposure to connected persons (on gross basis, before netting)	6,195	53.2%
Credit exposure to connected persons (amount netted)	1,832	15.7%
Credit exposure to connected persons (on partial bilateral net basis)	4,363	37.5%
Credit exposure to non-bank connected persons	-	-

As at 30 September 2023, the Banking Group's rating-contingent limit to connected persons 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 2023. 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 2023.

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 2023, 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 allowance for impairment losses on credit exposures to connected persons as at 30 September 2023.

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 managed investment schemes that are managed and issued by its wholly owned subsidiary BNZISL. Refer to Note 24 *Related entity transactions* for further information. The Bank provides banking services to BNZISL for these products. 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	Banking Group	
	30/9/23	30/9/22
Managed Investment Scheme Regulated Offers	7,243	6,537
BNZ Term PIE	1,471	890

Managed Investment Scheme Regulated Offers 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 2023, 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 89.

Marketing and distribution of insurance products

The Banking Group is involved in marketing insurance products for the following entities: IAG New Zealand Limited, AIG Insurance New Zealand Limited and Partners Life Limited. All of these entities are unrelated to the Banking Group.

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 *Transfers of financial assets*.

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 2023.

Dollars in Millions	Banking Group (30/9/23)			Total	Banking Group (30/9/22)			Total
	Senior Investment Grade	Investment Grade	Sub-Investment Grade		Senior Investment Grade	Investment Grade	Sub-Investment Grade	
Carrying amount of loans and advances	887	5	2	894	1,795	21	11	1,827
Commitments and guarantees	614	-	-	614	511	1	1	513
Total maximum exposure to credit loss	1,501	5	2	1,508	2,306	22	12	2,340

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 *Risk management* 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 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; 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 for the year ended 30 September 2022 which conducted 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 2023, 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.

Credit exposures to individual counterparties and groups of closely related counterparties were:

	Banking Group (30/9/23)	
	Peak End-of-Day A- or A3 or above or its equivalent	Balance Sheet Date A- or A3 or above or its equivalent
Number of bank counterparties		
Percentage of Common Equity Tier 1 capital		
10-14%	-	-
15-19%	1	-
20-24%	-	-

Number of non-bank counterparties

	Peak End-of-Day A- or A3 or above or its equivalent	Balance Sheet Date A- or A3 or above or its equivalent
Percentage of Common Equity Tier 1 capital		
10-14%	1	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 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 2023, or peak end-of-day aggregate credit exposure, for the six months ended 30 September 2023, 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 2023, or peak end-of-day aggregate credit exposure, for the six months ended 30 September 2023, 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 2023 were:

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

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

Notes to and Forming Part of the Financial Statements

Note 34 Capital Adequacy

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

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

RBNZ Capital Adequacy Framework

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

The RBNZ Capital Adequacy Framework allows accredited banks to use their own models for calculating RWA for credit risk; this is the Internal Ratings Based (“IRB”) approach. Subject to a condition of registration requiring the Banking Group to meet minimum systems and governance requirements on a continuing basis, the Bank has been accredited to use the IRB approach for certain credit risk exposures. Under the IRB approach for credit risk, the level of risk associated with customers’ exposures is determined by way of the primary components of Probability of Default, Loss Given Default and Exposure at Default. For exposures in the Specialised Lending asset category (including Project Finance, Object Finance, Commodity Finance and Income Producing Real Estate) the Banking Group uses supervisory slotting estimates provided by the RBNZ. From 1 January 2022 the Banking Group has complied with the RBNZ requirement that IRB banks calculate exposures to Bank and Sovereign asset classes using the prescribed standardised methodology in BPR131 *Standardised Credit Risk RWAs* (“BPR131”).

Credit risk for portfolios of relatively low materiality, for which the Bank has not sought model approval, are also subject to the standardised treatment.

In calculating the total capital requirement, a scalar has been applied to the RWA, as required by the RBNZ in accordance with the Bank’s Conditions of Registration. Effective from 1 October 2022, the scalar increased from 1.06 to 1.2 for exposures subject to the IRB approach and reduced from 1.06 to 1 for exposures subject to the standardised approach.

From 1 January 2022 IRB banks have also been required to use the standardised calculation methodology set out in BPR131 to calculate the standardised equivalent RWA for each credit exposure subject to the IRB calculation methodology and, after multiplying by the scalar, apply a floor on the IRB exposures equal to 85% of the value of those RWA recalculated using the standardised methodology. Effective from 1 October 2022 the applicable scalar increased from 1.06 to 1.2.

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

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

Capital management policies

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

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

As required by the RBNZ’s BPR on regulatory capital, since 1 July 2022 the Banking Group has been in a six year transition period to increase Tier 1 capital to 16% of RWA (including a prudential capital buffer of 9% of RWA), of which up to 2.5% can be in the form of Additional Tier 1 (“AT1”) capital, and increase total capital to 18% of RWA, of which up to 2% can be in the form of Tier 2 capital.

The Banking Group has an Internal Capital Adequacy Assessment Process (“ICAAP”) in place which complies with the requirements set out in BPR100 *Capital Adequacy* as specified under the Bank’s Conditions of Registration. The Banking Group’s ICAAP outlines the approach to maintaining capital adequacy, risk appetite and stress testing. The ICAAP considers all material risks consistent with the Banking Group’s risk appetite and outlines the capital requirements.

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

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

The tables on the following pages detail the capital calculation, capital ratios and capital requirements as at 30 September 2023. During the reporting period the Banking Group complied with all of the 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.

	Banking Group
	Unaudited
	30/9/23
Dollars in Millions	
Qualifying capital	
Common Equity Tier 1 capital	
Contributed equity - ordinary shares	9,056
Retained profits	2,345
Accumulated other comprehensive income and other disclosed reserves	81
Deductions from Common Equity Tier 1 capital:	
Goodwill and other intangible assets	498
Cash flow hedge reserve	103
Credit value adjustment on liabilities designated at fair value through profit or loss	(31)
Prepaid pension assets (net of deferred tax)	6
Deferred tax asset	316
Total expected loss less total eligible allowances for impairment	-
Total Common Equity Tier 1 capital	10,590
Additional Tier 1 capital	
Perpetual Notes ¹	675
Contributed equity - perpetual preference shares	375
Total Additional Tier 1 capital	1,050
Total Tier 1 capital	11,640
Tier 2 capital	
Revaluation reserves	3
Subordinated Notes ²	550
Total eligible impairment allowance in excess of expected loss	317
Total Tier 2 capital	870
Total Tier 1 and Tier 2 qualifying capital	12,510

¹ The Perpetual Notes are subject to phase-out in accordance with BPR110 *Capital Definitions* ("BPR110"). The phase-out, which commenced on 1 January 2022, takes place until 1 July 2028, with the maximum eligible amount of AT1 capital for these instruments declining by 12.5% each year. The base amount for phase-out was fixed at the nominal amount outstanding as at 30 September 2021 and amounted to \$900 million. On 20 October 2023, all the Perpetual Notes were converted into 762,750,000 ordinary shares in the Bank.

² The 2031-Subordinated Notes of \$550 million are not subject to phase-out in accordance with BPR110.

Banking Group Basel III regulatory capital ratios

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

	Banking Group		
	Regulatory	Unaudited	Unaudited
	Minima	30/9/23	30/9/22
Common Equity Tier 1 capital ratio	4.5%	13.3%	12.8%
Tier 1 capital ratio	6.0%	14.6%	13.8%
Total qualifying capital ratio	8.0%	15.7%	15.4%
Prudential capital buffer ratio	4.5%	7.7%	7.4%

Registered Bank Basel III regulatory capital ratios

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

	The Registered Bank	
	Unaudited	Unaudited
	30/9/23	30/9/22
Common Equity Tier 1 capital ratio	13.2%	12.8%
Tier 1 capital ratio	14.6%	13.8%
Total qualifying capital ratio	15.7%	15.4%

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

Notes to and Forming Part of the Financial Statements

Note 34 Capital Adequacy *continued*

Total regulatory capital requirements

	Banking Group		
	Unaudited (30/9/23)		
	Total Exposure at Default after Credit Risk Mitigation	Risk-Weighted Exposure or Implied Risk-Weighted Exposure	Total Capital Requirement ¹
Dollars in Millions			
Credit risk			
Exposures subject to the internal ratings based approach ¹	114,968	50,850	4,069
Specialised lending subject to the slotting approach ¹	6,995	7,746	620
Exposures subject to the standardised approach ¹	25,846	3,343	267
Equity exposures ¹	1	5	-
Credit Value Adjustment subject to BPR ("CVA")	N/A	472	38
Adjustment for standardised RWA floor ²	N/A	2,697	216
Total credit risk	147,810	65,113	5,210
Operational risk	N/A	10,325	826
Market risk	N/A	4,308	345
Total	147,810	79,746	6,381

¹ In calculating the total capital requirement, a scalar has been applied to the RWA, as required by the RBNZ in accordance with the Bank's Conditions of Registration. Effective from 1 October 2022, the scalar increased from 1.06 to 1.2 for exposures subject to the IRB approach, and reduced from 1.06 to 1 for exposures subject to the standardised approach.

² From 1 January 2022, the Banking Group's IRB RWA (after multiplying by the scalar) are subject to a floor equal to 85% of the value of those RWA recalculated using the standardised methodology. Effective from 1 October 2022 the scalar increased from 1.06 to 1.2.

Advanced Internal Ratings Based approach to credit risk management

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

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

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

Methodologies used to calculate credit risk estimates (PD, EAD and LGD) are in accordance with the BPR and the Bank's Conditions of Registration. For credit risk estimates on some portfolios, the RBNZ has set prescribed risk estimates required to be used when calculating risk-weighted assets and capital under the BPR.

Controls surrounding credit risk rating systems

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

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

The risk-weighted asset amounts calculated using the IRB approach, presented in the following tables, include a scalar of 1.2 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 ²	Unaudited (30/9/23)		Risk-Weighted Assets	Minimum Capital Requirement
Exposure-Weighted LGD used for the Capital Calculation (%)			Exposure-Weighted Risk Weight (%)			
Corporate						
Exposure-weighted PD grade >0 ≤ 0.1%	0.05	5,747	40	15	1,060	85
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.32	20,248	33	35	8,436	675
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.90	17,556	31	53	11,260	901
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.48	6,159	34	79	5,834	467
Exposure-weighted PD grade >5.0 ≤ 99.99%	9.03	845	39	135	1,371	110
Default PD grade = 100%	100.00	858	35	228	2,344	187
Total corporate exposures	2.55	51,413	33	49	30,305	2,425
Residential mortgage						
Exposure-weighted PD grade >0 ≤ 0.1%	-	-	-	-	-	-
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.40	1,175	18	13	185	15
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.97	57,363	18	24	16,851	1,348
Exposure-weighted PD grade >1.5 ≤ 5.0%	4.92	1,845	18	62	1,368	110
Exposure-weighted PD grade >5.0 ≤ 99.99%	-	-	-	-	-	-
Default PD grade = 100%	100.00	317	20	228	865	69
Total residential mortgage exposures	1.60	60,700	18	26	19,269	1,542
Other retail¹						
Exposure-weighted PD grade >0 ≤ 0.1%	0.05	735	87	12	108	9
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.24	454	86	38	205	16
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.90	195	86	82	191	15
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.68	103	84	113	140	11
Exposure-weighted PD grade >5.0 ≤ 99.99%	12.13	36	81	143	61	5
Default PD grade = 100%	100.00	6	72	397	31	3
Total other retail exposures	1.10	1,529	86	40	736	59
Retail small to medium enterprises						
Exposure-weighted PD grade >0 ≤ 0.1%	0.07	166	40	8	15	1
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.30	749	30	16	140	11
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.91	446	32	31	163	13
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.65	271	34	46	149	12
Exposure-weighted PD grade >5.0 ≤ 99.99%	11.48	33	38	66	26	2
Default PD grade = 100%	100.00	22	37	174	47	4
Total retail SME exposures	2.36	1,687	33	27	540	43
Total³						
Exposure-weighted PD grade >0 ≤ 0.1%	0.05	6,648	45	15	1,183	95
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.32	22,626	33	33	8,966	717
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.95	75,560	22	31	28,465	2,277
Exposure-weighted PD grade >1.5 ≤ 5.0%	3.03	8,378	31	75	7,491	600
Exposure-weighted PD grade >5.0 ≤ 99.99%	9.24	914	40	133	1,458	117
Default PD grade = 100%	100.00	1,203	32	228	3,287	263
Total exposures	2.03	115,329	26	37	50,850	4,069

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

² Exposure at default is pre-credit risk mitigation.

³ The CVA and adjustment for RWA floor have not been included in the above exposures.

Notes to and Forming Part of the Financial Statements

Note 34 Capital Adequacy *continued*

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

Dollars in Millions	Banking Group			
	Unaudited (30/9/23)			
	Total Exposure	Exposure at Default ²	Risk-Weighted Assets	Minimum Capital Requirement
On-balance sheet exposures				
Corporate	37,123	37,123	22,959	1,837
Residential mortgage	57,747	57,747	18,439	1,475
Other retail	792	792	495	40
Retail small to medium enterprises	1,237	1,237	412	33
Total on-balance sheet exposures	96,899	96,899	42,305	3,385
Off-balance sheet exposures				
Corporate	15,016	13,487	6,795	544
Residential mortgage	3,465	2,953	830	67
Other retail	2,291	737	241	19
Retail small to medium enterprises	507	450	128	10
Total off-balance sheet exposures	21,279	17,627	7,994	640
Derivatives and securities financing transactions¹				
Corporate	803	803	551	44
Total derivatives and securities financing transactions	803	803	551	44
Summary³				
Corporate		51,413	30,305	2,425
Residential mortgage		60,700	19,269	1,542
Other retail		1,529	736	59
Retail small to medium enterprises		1,687	540	43
Total credit risk exposures subject to the IRB approach		115,329	50,850	4,069

¹ Total exposure for derivatives and securities financing transactions represents exposure at default pre-credit risk mitigation.

² Exposure at default is pre-credit risk mitigation.

³ The CVA and adjustment for RWA floor have not been included in the above exposures.

Notes to and Forming Part of the Financial Statements

Note 34 Capital Adequacy *continued*

Specialised lending subject to the slotting approach

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

Dollars in Millions	Banking Group Unaudited (30/9/23)			
	Total Exposure at Default after Credit Risk Mitigation	Risk Weight (%)	Risk-Weighted Assets	Minimum Pillar One Capital Requirement
On-balance sheet exposures subject to the slotting approach				
Strong	989	70	830	67
Good	4,404	90	4,741	379
Satisfactory	828	115	1,142	91
Weak	135	250	404	33
Default	47	-	-	-
Total on-balance sheet exposures subject to the slotting approach	6,403	93	7,117	570

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

Dollars in Millions	Banking Group Unaudited (30/9/23)				
	Total Exposure	Exposure at Default	Average Risk Weight (%)	Risk-Weighted Assets	Minimum Pillar One Capital Requirement
Off-balance sheet exposures subject to the slotting approach					
Off-balance sheet exposures	8	4	76	4	-
Undrawn commitments	1,145	577	88	613	49
Market related contracts	1,318	11	87	12	1
Total off-balance sheet exposures subject to the slotting approach	2,471	592	88	629	50
Total exposures subject to the slotting approach		6,995	92	7,746	620

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 Unaudited (30/9/23)				Minimum Pillar One Capital Requirement
	Total Exposure at Default after Credit Risk Mitigation	Average Risk Weight (%)	Risk- Weighted Exposure		
On-balance sheet exposures subject to the standardised approach					
Sovereigns and central banks	15,789	-	-	-	
Multilateral development banks and other international organisations	1,395	-	-	-	
Public sector entities	1,519	20	304	24	
Bank	2,650	41	1,092	87	
Corporate	57	100	58	5	
Residential mortgage	9	86	8	1	
Past due assets	-	150	-	-	
Other assets ¹	1,348	90	1,208	97	
Total on-balance sheet exposures subject to the standardised approach	22,767	12	2,670	214	

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

Dollars in Millions	Banking Group Unaudited (30/9/23)					Minimum Pillar One Capital Requirement
	Total Exposure or Principal Amount	Average Credit Conversion Factor (%)	Credit Equivalent Amount	Average Risk Weight (%)	Risk- Weighted Exposure	
Off-balance sheet exposures subject to the standardised approach						
Total off-balance sheet exposures subject to the standardised approach	607	89	539	32	170	13

Dollars in Millions	Banking Group Unaudited (30/9/23)				Minimum Pillar One Capital Requirement
	Total Exposure	Credit Equivalent Amount	Average Risk Weight (%)	Risk- Weighted Exposure	
Counterparty credit risk for counterparties subject to the standardised approach					
Foreign exchange contracts ²	1,553	1,025	30	306	24
Interest rate contracts ²	2,696	1,509	13	194	16
Other	7	6	40	3	-
Total counterparty credit risk for counterparties subject to the standardised approach	4,256	2,540	20	503	40
Total exposures subject to the standardised approach	25,846		13	3,343	267

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

Equity exposures

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

Dollars in Millions	Banking Group Unaudited (30/9/23)			
	Exposure at Default	Risk Weight (%)	Risk- Weighted Exposure	Minimum Pillar One Capital Requirement
Equity holdings (not deducted from capital) included in the NZX 50 or overseas equivalent index	-	300	-	-
All other equity holdings (not deducted from capital)	1	400	5	-
Total equity exposures	1	377	5	-

Notes to and Forming Part of the Financial Statements

Note 34 Capital Adequacy *continued*

Credit risk mitigation

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

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

Dollars in Millions	Banking Group Unaudited (30/09/23)				
	Bank	Sovereign	Corporate (Including Specialised Lending)	Residential Mortgage	Other
For portfolios subject to the standardised approach:					
Total value of exposures covered by eligible financial collateral	1,669	7,304	1	-	-
For all portfolios:					
Total value of exposures covered by credit derivatives or guarantees	-	-	-	-	-

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

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

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

Dollars in Millions	Banking Group Unaudited (30/9/23)		
	On-balance Sheet Exposures at Default	Off-balance Sheet Exposures at Default ¹	Total Exposures at Default
LVR Range			
0-59%	29,317	1,427	30,744
60-69%	12,903	515	13,418
70-79%	12,998	647	13,645
80-89%	1,832	23	1,855
Over 90%	697	341	1,038
Total exposures at default secured by residential mortgages	57,747	2,953	60,700

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

Reconciliation of exposures secured by residential mortgages to housing loans in Note 9 *Loans and advances to customers*

Dollars in Millions	Banking Group
	On-balance Sheet Exposures at Default Unaudited 30/9/23
Loans and advances to customers - housing loans	57,746
Add: Partial write offs excluded under the IRB approach	1
Total housing loan exposures secured by residential mortgages	57,747

Operational risk

Dollars in Millions	Banking Group Unaudited (30/9/23)	
	Implied Risk- Weighted Exposure	Total Operational Risk Capital Requirement
Operational risk	10,325	826

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

Notes to and Forming Part of the Financial Statements

Note 34 Capital Adequacy *continued*

Market risk

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

Dollars in Millions	Banking Group Unaudited (30/9/23)			
	Implied Risk- Weighted Exposure Peak		Aggregate Capital Charge Peak	
	End of Period	End-of-Day	End of Period	End-of-Day
Interest rate risk	4,283	4,456	343	356
Foreign exchange risk	24	96	2	8
Equity risk	1	1	-	-
Total market risk	4,308	4,553	345	364

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

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

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

Capital for other material risks

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

As at 30 September 2023, the Banking Group had an internal capital allocation for strategic risk of nil (30 September 2022: \$0 million).

Capital structure

Contributed equity

Refer to Note 23 *Contributed Equity* for further information on ordinary shares and perpetual preference shares.

Subordinated debt

Refer to Note 22 *Subordinated debt* for further information on Perpetual Notes and Subordinated Notes.

Reserves

Accumulated other comprehensive income and other disclosed reserves in Tier 1 capital includes the cost of hedging reserve of \$(23) million which captures changes in the fair value of hedging instruments due to currency basis and the FVTOCI 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 \$3 million included in Tier 2 capital relates to increments and any subsequent decrements arising from the revaluation of property, plant and equipment.

National Australia Bank Limited capital adequacy

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

	Ultimate Parent Banking Group		Ultimate Parent Bank	
	Unaudited 30/9/23	Unaudited 30/9/22	Unaudited 30/9/23	Unaudited 30/9/22
Common Equity Tier 1 capital ratio	12.22%	11.51%	12.13%	11.24%
Tier 1 capital ratio	14.19%	13.14%	14.36%	13.05%
Total capital ratio	19.88%	18.17%	20.67%	18.57%

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

The ultimate parent bank of the Banking Group is National Australia Bank Limited which reports under the Advanced Internal Ratings-Based approach for credit risk (other than for regulatory prescribed portfolios and other portfolios where the standardised approach to credit risk is applied), and the Standardised Measurement Approach to 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 2023.

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

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

Notes to and Forming Part of the Financial Statements

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, obligations and controls within their business in line with risk appetite);
- second line: Risk (who establish risk management frameworks and provide insight, review and challenge 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:

- strategic risk;
- credit risk;
- market risk – trading;
- market risk – non-trading/banking positions, including interest rate risk in the banking book;
- liquidity risk;
- operational risk;
- compliance risk;
- conduct 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. The key 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 has ultimate responsibility to monitor and review the adequacy of the Banking Group's corporate governance practices (including risk management) and is supported by a number of committees. The Board Risk and Compliance Committee ("BRCC") 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 Executive Risk and Compliance Committee ("ERCC"), which leads management in respect of risk matters relating to culture, integrated governance processes, risk strategy and performance. ERCC refers any matters of significant importance to BRCC for its consideration and attention.

Internal audit function

The independent internal audit function operates under the authority of the Board Audit Committee ("BAC"). BAC 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. Internal audit is a functionally independent and objective assurance function that assists BAC in discharging its duties and responsibilities to the BNZ Board. The work performed provides independent assurance on BNZ's compliance with, and effectiveness of, the risk management framework.

It is the policy of BNZ's Board to maintain and support internal audit as an assurance function operating independently of executive and business unit management and with separate functional reporting lines. The internal audit function is under the control of the General Manager Internal Audit who has independent functional reporting lines to the Chair of BAC and informational reporting lines to BNZ's Managing Director and CEO, BNZ's Chief Financial Officer and National Australia Bank's Executive General Manager Audit.

A risk-based audit plan is compiled and approved by BAC annually. Audits are conducted to assess key business risks and internal control systems across the Banking Group throughout the year. The internal audit function reports to BAC quarterly and provides an update on progress relating to the approved audit plan.

The internal audit function is the custodian of the Group Whistleblower policy and processes at BNZ. The internal audit function will also receive information from any employee or officer of the Banking Group who wishes to disclose a relevant matter and the internal audit function will act on the information as appropriate.

External auditor and credit rating agencies

As part of their work in issuing an independent auditor's review report on the Banking Group's six month Disclosure Statement or an independent auditor's 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

Note 35 Risk Management *continued*

Strategic risk

Strategic risk is the risk to earnings, capital, liquidity, funding and reputation arising from an inadequate response to changes in the external environment; and risk of failing to properly consider downstream impacts and achieve effective outcomes when executing material change programmes.

Risk is a key consideration in the Banking Group's annual strategic planning process. The Banking Group prioritises and invests significant resources in the execution of initiatives that are aligned to its chosen strategy, including transformation and change programmes. These programmes primarily focus on customers, technology, digital and data assets, infrastructure, business improvement, cultural transformation, regulatory compliance and changes to associated controls, and may have dependencies on external suppliers or partners. Strategic risk is monitored via performance against the Banking Group's Risk Appetite Statement and review and challenge of initiatives established to deliver the Banking Group's strategy.

Credit risk

Credit risk is the risk that a customer will fail to meet their 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. Allowances 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.

In general, the Banking 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.

Collateral paid

Collateral paid consists of collateral to meet 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 assets

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. 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 8 *Trading assets*.

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 CSAs 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 *Capital adequacy*.

Notes to and Forming Part of the Financial Statements

Note 35 Risk Management *continued*

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.

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.

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Maximum exposure to credit risk		
Cash and liquid assets ^{1,2}	10,812	9,438
Due from central banks and other institutions	90	372
Collateral paid	1,107	2,814
Trading assets ²	8,362	7,414
Amounts due from related entities	829	210
Derivative financial instruments	4,802	9,540
Gross loans and advances to customers	102,459	100,092
Total on-balance sheet credit exposures	128,461	129,880
Off-balance sheet credit exposures ³	16,471	16,683
Total maximum exposure to credit risk	144,932	146,563

¹ Cash and liquid assets exclude coins, notes and cash at bank.

² During the year ended 30 September 2023, the Banking Group commenced the classification of certain reverse repurchase agreements as held for trading measured at fair value through profit or loss. Refer to Note 7 *Cash and liquid assets*.

³ Off-balance sheet credit exposures include bank guarantees, letters of credit and irrevocable commitments to extend credit.

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

Dollars in Millions	Banking Group (30/9/23)			Banking Group (30/9/22)		
	On-balance sheet	Off-balance sheet	Total exposure	On-balance sheet	Off-balance sheet	Total exposure
Concentration by industry						
Agriculture	14,406	1,149	15,555	14,327	1,205	15,532
Forestry and fishing	1,089	347	1,436	1,066	341	1,407
Mining	240	240	480	330	225	555
Manufacturing	3,670	1,709	5,379	4,240	1,478	5,718
Electricity, gas and water	648	596	1,244	668	721	1,389
Construction	1,572	867	2,439	1,317	861	2,178
Wholesale and retail trade	4,471	1,530	6,001	4,270	1,390	5,660
Accommodation, restaurants, culture and recreation	1,553	456	2,009	1,561	408	1,969
Transport and storage	1,967	1,435	3,402	1,954	1,366	3,320
Communications	430	241	671	361	171	532
Financial, investment and insurance	18,690	1,628	20,318	20,106	1,737	21,843
Property, business and personal services	10,289	2,043	12,332	11,297	2,369	13,666
Government, education, health and community services	8,182	1,118	9,300	8,516	1,291	9,807
Real estate - mortgage	57,746	3,105	60,851	54,823	3,108	57,931
Personal lending	800	7	807	837	12	849
Related entities ⁴	2,708	-	2,708	4,207	-	4,207
Total credit exposures by industry	128,461	16,471	144,932	129,880	16,683	146,563
Concentration by geography						
New Zealand	121,045	16,211	137,256	119,840	16,317	136,157
Overseas	7,416	260	7,676	10,040	366	10,406
Total credit exposures by geography	128,461	16,471	144,932	129,880	16,683	146,563

⁴ 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 to the accounting policy section of Note 10 *Allowance for expected credit losses* for further information.

Dollars in Millions	Banking Group (30/9/23)			
	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
Credit risk exposure by risk grade				
Senior investment grade	42,286	2,580	-	44,866
Investment grade	26,697	10,914	-	37,611
Sub-investment grade	12,493	29,377	-	41,870
Default	-	-	1,426	1,426
Total credit risk exposure by risk grade	81,476	42,871	1,426	125,773
Banking Group (30/9/22)				
Credit risk exposure by risk grade				
Senior investment grade	38,040	2,879	-	40,919
Investment grade	27,519	11,858	-	39,377
Sub-investment grade	13,810	27,109	-	40,919
Default	-	-	791	791
Total credit risk exposure by risk grade	79,369	41,846	791	122,006

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.

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's activities involve the use of financial instruments to mitigate 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.

Notes to and Forming Part of the Financial Statements

Note 35 Risk Management *continued*

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 and market making; 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.

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.

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. At an executive level, governance is provided by the Banking Group's Market Risk Committee, which is a subcommittee of the Banking Group's ERCC.

All trading activities are subject to the disciplines prescribed in the NAB Group Traded Market Risk Policy which is approved by the National Australia Bank Limited Board of Directors ("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 550 days of historical pricing shifts. The pricing data is updated daily so as to have the most recent 550 day 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;
- 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	
	30/9/23	30/9/22	30/9/23	30/9/22	30/9/23	30/9/22	30/9/23	30/9/22
VaR at a 99% confidence level								
Foreign exchange risk	0.17	0.46	0.44	0.33	0.07	0.08	2.51	1.29
Interest rate risk	1.63	1.73	2.21	2.81	1.09	1.20	4.56	6.09
Volatility risk	0.01	0.03	0.01	0.03	0.01	0.01	0.03	0.08
Credit spread risk	0.86	0.85	0.58	0.46	0.21	0.22	1.29	0.85
Diversification benefit	(0.64)	(1.19)	(0.86)	(0.49)	N/A	N/A	N/A	N/A
Total VaR for physical and derivative positions	2.03	1.88	2.38	3.14	1.11	1.36	4.73	5.74

VaR is measured individually for foreign exchange risk, interest rate risk, volatility 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.

Notes to and Forming Part of the Financial Statements

Note 35 Risk Management *continued*

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	
	30/9/23	30/9/22
US dollar	7	54
Australian dollar	(2)	56
Japanese yen	3	1
Pound sterling	1	2
Euro	(4)	(4)
Swiss franc	-	(1)
Hong Kong dollar	-	(1)
Other	2	1

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 and also holdings of high quality liquid assets within the prudential asset portfolio.

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

Non-traded market risk policies are approved by the 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

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 three 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	
	30/9/23	30/9/22
VaR for physical and derivative positions at a 99% confidence level		
New Zealand		
As at end of year	36	29
Average value during year ended	34	34
Minimum value during year ended	27	25
Maximum value during year ended	40	41

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

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
EaR for physical and derivative positions at a 99% confidence level		
New Zealand		
As at end of year	10	21
Average value during year ended	16	20
Minimum value during year ended	8	11
Maximum value during year ended	25	29

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 shareholders' earnings.

Dollars in Millions	Banking Group (30/9/23)						
	Total	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non- Interest Bearing
Assets							
Cash and liquid assets	10,913	10,732	-	-	-	-	181
Due from central banks and other institutions	90	81	9	-	-	-	-
Collateral paid	1,107	1,107	-	-	-	-	-
Trading assets	8,362	1,354	729	670	1,788	3,821	-
Amounts due from related entities	829	827	-	-	-	-	2
Derivative financial instruments	4,802	-	-	-	-	-	4,802
Gross loans and advances to customers	102,459	49,520	7,957	16,965	16,112	9,445	2,460
Deductions from loans and advances to customers	(690)	-	-	-	-	-	(690)
All other assets	2,193	-	-	-	-	-	2,193
Total assets	130,065	63,621	8,695	17,635	17,900	13,266	8,948
Liabilities							
Due to central banks and other institutions	5,964	4,712	34	36	22	1,160	-
Collateral received	1,471	1,471	-	-	-	-	-
Trading liabilities	448	211	-	-	-	237	-
Amounts due to related entities	899	730	-	-	-	-	169
Derivative financial instruments	4,321	-	-	-	-	-	4,321
Deposits and other borrowings	81,006	45,026	9,815	10,252	1,205	1,022	13,686
All other liabilities	1,860	-	-	-	-	-	1,860
Bonds and notes	20,786	1,940	1,392	2,701	3,241	11,512	-
Subordinated debt	1,450	1,450	-	-	-	-	-
Total liabilities	118,205	55,540	11,241	12,989	4,468	13,931	20,036
On-balance sheet sensitivity gap	11,860	8,081	(2,546)	4,646	13,432	(665)	(11,088)
Derivative financial instruments							
Net hedging derivative notional	-	(5,130)	5,558	(3,140)	(8,010)	10,722	-
Interest sensitivity gap - net	11,860	2,951	3,012	1,506	5,422	10,057	(11,088)

Notes to and Forming Part of the Financial Statements

Note 35 Risk Management *continued*

Dollars in Millions	Total	Banking Group (30/9/22)					Over 2 Years	Non-Interest Bearing
		Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years		
Assets								
Cash and liquid assets	9,581	9,402	-	-	-	-	-	179
Due from central banks and other institutions	372	328	44	-	-	-	-	-
Collateral paid	2,814	2,814	-	-	-	-	-	-
Trading assets	7,414	1,626	671	1,097	344	3,676	-	-
Amounts due from related entities	210	196	-	-	-	-	-	14
Derivative financial instruments	9,540	-	-	-	-	-	-	9,540
Gross loans and advances to customers	100,092	47,818	7,207	14,585	15,337	12,695	2,450	-
Deductions from loans and advances to customers	(746)	-	-	-	-	-	-	(746)
All other assets	2,143	-	-	-	-	-	-	2,143
Total assets	131,420	62,184	7,922	15,682	15,681	16,371	13,580	
Liabilities								
Due to central banks and other institutions	5,160	3,700	28	74	25	1,333	-	-
Collateral received	2,134	2,134	-	-	-	-	-	-
Trading liabilities	302	-	-	-	159	143	-	-
Amounts due to related entities	2,160	2,027	-	-	-	-	-	133
Derivative financial instruments	8,228	-	-	-	-	-	-	8,228
Deposits and other borrowings	78,154	47,329	8,743	7,441	1,210	646	12,785	-
All other liabilities	2,090	-	-	-	-	-	-	2,090
Bonds and notes	20,181	2,638	1,176	1,187	4,587	10,593	-	-
Subordinated debt	1,950	1,950	-	-	-	-	-	-
Total liabilities	120,359	59,778	9,947	8,702	5,981	12,715	23,236	
On-balance sheet sensitivity gap ¹	11,061	2,406	(2,025)	6,980	9,700	3,656	(9,656)	
Derivative financial instruments								
Net hedging derivative notionals	-	(1,256)	4,599	(5,738)	(4,104)	6,499	-	-
Interest sensitivity gap - net ¹	11,061	1,150	2,574	1,242	5,596	10,155	(9,656)	

¹ Comparative balances have been restated to align with the presentation used in the current period.

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. At an executive level, governance is provided by the Banking Group's Asset, Liability and Capital Committee ("ALCCO"), which is a subcommittee of the Banking Group's ERCC.

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 BRCC. To aid in the fulfilment of its guidance responsibilities, the BRCC receives recommendations from the ERCC 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 ERCC.

Notes to and Forming Part of the Financial Statements

Note 35 Risk Management *continued*

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 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 *Contingent liabilities and other commitments*. Other assets and other liabilities only include balances which have contractual future cash flows.

Dollars in Millions	Banking Group (30/9/23)					Total Inflow/ (Outflow)
	On Demand	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years	
Assets						
Cash and liquid assets	10,913	-	-	-	-	10,913
Due from central banks and other institutions	-	82	9	-	-	91
Collateral paid	-	1,107	-	-	-	1,107
Trading assets	-	878	1,596	5,760	1,132	9,366
Amounts due from related entities	46	783	-	-	-	829
Loans and advances to customers	5,390	20,488	16,276	32,103	78,295	152,552
Other assets	-	615	-	-	-	615
Total	16,349	23,953	17,881	37,863	79,427	175,473
Liabilities						
Due to central banks and other institutions	(948)	(1,566)	(978)	(2,742)	-	(6,234)
Collateral received	-	(1,471)	-	-	-	(1,471)
Trading liabilities	-	(212)	(4)	(154)	(178)	(548)
Amounts due to related entities	(114)	(785)	-	-	-	(899)
Deposits and other borrowings	(43,104)	(15,930)	(20,743)	(2,444)	-	(82,221)
Other liabilities	-	(646)	(63)	(266)	(434)	(1,409)
Bonds and notes	-	(721)	(5,130)	(15,478)	(2,544)	(23,873)
Subordinated debt ¹	-	(913)	(27)	(143)	(649)	(1,732)
Total	(44,166)	(22,244)	(26,945)	(21,227)	(3,805)	(118,387)
Derivative financial liabilities²						
Derivative financial liabilities inflow	-	43,472	15,166	26,618	5,439	90,695
Derivative financial liabilities (outflow)	-	(46,878)	(20,082)	(36,459)	(8,784)	(112,203)

¹ The maturity classification of the Bank's Perpetual Notes reflects the scheduled mandatory conversion date. Refer to Note 22 *Subordinated debt* for further information.

² 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 (30/9/22)					Total Inflow/ (Outflow)
	On Demand	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years	
Assets						
Cash and liquid assets	9,264	317	-	-	-	9,581
Due from central banks and other institutions	-	330	44	-	-	374
Collateral paid	-	2,814	-	-	-	2,814
Trading assets	-	1,570	1,866	3,120	1,758	8,314
Amounts due from related entities	22	188	-	-	-	210
Loans and advances to customers	5,310	19,726	14,681	30,805	63,337	133,859
Other assets	-	914	-	-	-	914
Total	14,596	25,859	16,591	33,925	65,095	156,066
Liabilities						
Due to central banks and other institutions	(1,250)	(658)	(1,123)	(2,254)	-	(5,285)
Collateral received	-	(2,134)	-	-	-	(2,134)
Trading liabilities	-	(1)	(4)	(297)	(31)	(333)
Amounts due to related entities	(1,070)	(1,090)	-	-	-	(2,160)
Deposits and other borrowings	(45,883)	(13,340)	(17,543)	(1,947)	-	(78,713)
Other liabilities	-	(1,117)	(37)	(124)	(145)	(1,423)
Bonds and notes	-	(1,296)	(2,665)	(15,398)	(3,261)	(22,620)
Subordinated debt ¹	-	(13)	(33)	(1,175)	(1,180)	(2,401)
Total	(48,203)	(19,649)	(21,405)	(21,195)	(4,617)	(115,069)
Derivative financial liabilities²						
Derivative financial liabilities inflow	-	51,309	16,707	21,673	5,529	95,218
Derivative financial liabilities (outflow)	-	(55,359)	(22,048)	(32,424)	(8,447)	(118,278)

¹ The maturity classification of the Bank's Perpetual Notes reflects the scheduled mandatory conversion date. Refer to Note 22 *Subordinated debt* for further information.

² 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	
	30/9/23	30/9/22
Cash and balances immediately convertible to cash ³	10,913	9,314
Securities purchased under agreements to resell	216	343
Government bonds, notes and securities	2,506	3,232
Semi-government bonds, notes and securities	3,587	2,779
Corporate and other institutions bonds, notes and securities	1,966	1,101
Total liquidity portfolio	19,188	16,769

³ As at 30 September 2023, there were no amounts due from other institutions included within Cash and balances immediately convertible to cash (30 September 2022: \$50 million).

As at 30 September 2023, the Banking Group also held residential mortgage-backed securities ("RMBS") of \$15,000 million (30 September 2022: \$15,000 million) of which \$14,160 (30 September 2022: \$14,160 million) is eligible to be sold to the RBNZ under agreements to repurchase. The amount of \$14,160 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.

In accordance with the RBNZ's Liquidity Policy (BS13/BS13A) ("BS13"), there is a limit on the amount of RMBS that can be considered as qualifying liquid assets eligible to be sold to the RBNZ under agreements to repurchase, with a maximum allowance of 5% of the Banking Group's total assets, giving a net balance of \$6,506 million (30 September 2022: \$6,394 million).

Additional RBNZ facilities

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 term to five years. The TLF has been closed for drawdowns since 29 July 2021. As at 30 September 2023, the Banking Group had repurchase agreements with the RBNZ with a value of \$1,142 million (30 September 2022: \$1,353 million) under the TLF.

On 7 December 2020, the RBNZ made available its Funding for Lending Programme ("FLP") aimed at lowering the cost of borrowing for New Zealand businesses and households. The FLP allowed eligible participants to access three-year floating interest rate funding at the prevailing OCR, using qualifying collateral. The FLP has been closed for drawdowns since 7 December 2022. As at 30 September 2023, Banking Group had repurchase agreements with the RBNZ with a value of \$3,449 million (30 September 2022: \$2,100 million) under the FLP.

The underlying collateral accepted by the RBNZ in relation to the TLF and FLP facilities as at 30 September 2023 are RMBS to the value of \$5,768 million (30 September 2022: \$4,195 million).

Notes to and Forming Part of the Financial Statements

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 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 65 percent on a daily basis.

	Banking Group	
	Unaudited For the 3 months ended 30/9/23	Unaudited For the 3 months ended 30/6/23
One-week mismatch ratio	8.7%	6.6%
One-month mismatch ratio	9.5%	7.0%
One-year core funding ratio	90.1%	89.3%

Notes to and Forming Part of the Financial Statements

Note 35 Risk Management *continued*

Concentrations of funding

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

Dollars in Millions	Note	Banking Group	
		30/9/23	30/9/22
Concentration by industry			
Customer deposits			
Agriculture, forestry and fishing		3,181	3,260
Mining		394	483
Manufacturing		1,798	2,252
Electricity, gas and water		126	128
Construction		1,625	1,470
Wholesale and retail trade		2,665	2,577
Accommodation, restaurants, culture and recreation		1,586	1,605
Transport and storage		1,847	1,310
Communications		469	342
Financial, investment and insurance		8,678	7,487
Property, business and personal services		13,400	14,003
Government, education, health and community services		3,811	3,359
Personal deposits		38,922	35,929
Total customer deposits by industry		78,502	74,205
Concentration by geography			
Wholesale funding			
New Zealand		15,362	16,528
Overseas ¹		17,292	19,006
Total wholesale funding by geography		32,654	35,534
Total funding		111,156	109,739
Total funding comprised:			
Customer deposits	18	78,502	74,205
Wholesale funding			
Due to central banks and other institutions		5,964	5,160
Collateral received		1,471	2,134
Amounts due to related entities		479	2,160
Other borrowings	18	2,504	3,949
Bonds and notes		20,786	20,181
Subordinated debt		1,450	1,950
Total wholesale funding		32,654	35,534
Total funding		111,156	109,739

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

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 Practices 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 are 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).

Notes to and Forming Part of the Financial Statements

Note 35 Risk Management *continued*

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.

For the Banking Group's approach to calculating operational risk capital for the purpose of capital adequacy, refer to Note 34 *Capital adequacy*.

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. It may arise intentionally or unintentionally from decisions and 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. At an executive level, 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 ERCC.

Sustainability risk

Sustainability risk is the risk that Environmental, Social or Governance ("ESG") events or conditions negatively impact the risk and return profile, value or reputation of BNZ or its customers and suppliers or its ultimate parent company.

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 introduced mandatory climate-related reporting by publicly listed companies, large insurers, investment managers, large banks and non-bank deposit takers. It requires BNZ, as a "climate reporting entity", to annually prepare and make public climate disclosures on the effects of climate change on its business, in accordance with climate-related disclosure standards, issued by the External Reporting Board in December 2022. BNZ's first mandatory climate-related disclosure will be due in late 2024.

Sustainability risk is managed by implementing policies, frameworks, processes and tools used for other material risk types, such as operational risk. At an executive level, governance and oversight of sustainability risk resides with the ESG Executive Committee, a sub-committee of ERCC.

Notes to and Forming Part of the Financial Statements

Note 36 Notes to the Cash Flow Statement

Dollars in Millions	Banking Group	
	30/9/23	30/9/22
Reconciliation of net profit for the year to net cash flows from operating activities		
Net profit for the year	1,509	1,414
Increase in accrued interest receivable	(81)	(67)
Depreciation and amortisation expense	172	142
Credit impairment charge	172	89
Impairment losses and write offs on non-financial assets	9	-
Increase/(decrease) in provision for tax	(236)	40
Unrealised gains less losses on financial instruments	414	(770)
Increase in accrued interest payable	400	130
Decrease in other liabilities	(39)	(7)
(Gain)/loss on disposal of property, plant and equipment	1	4
Gain on equity investments	-	1
Deduct operating cash flows not included in net profit:		
Net change in operating assets and liabilities ¹	(371)	(3,340)
Net cash flows from operating activities¹	1,950	(2,364)

¹ Comparative balances have been restated to align with the presentation used in the current period. Refer to Note 1 *Principal accounting policies* for further information.

Dollars in Millions	Banking Group (30/9/23)			
	Bonds and Notes	Subordinated Debt	RBNZ Facilities	Total ¹
Reconciliation of net debt				
Balance at beginning of year	20,181	1,950	3,453	25,584
Net cash flows	690	(500)	1,138	1,328
Non-cash changes				
Foreign exchange adjustments	(110)	-	-	(110)
Fair value adjustments	59	-	-	59
Hedge adjustments	(36)	-	-	(36)
Other non-cash movements	2	-	-	2
Balance at end of year	20,786	1,450	4,591	26,827
Banking Group (30/9/22)				
Balance at beginning of year	17,518	1,950	2,664	22,132
Net cash flows	2,482	-	789	3,271
Non-cash changes				
Foreign exchange adjustments	1,751	-	-	1,751
Fair value adjustments	(714)	-	-	(714)
Hedge adjustments	(847)	-	-	(847)
Other non-cash movements	(9)	-	-	(9)
Balance at end of year	20,181	1,950	3,453	25,584

¹ Comparative balances have been restated to align with the presentation used in the current period. Refer to Note 1 *Principal accounting policies* for further information.



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Assurance engagements performed by Ernst & Young

Our assurance procedures in relation to Bank of New Zealand (the "Bank") and the entities it controlled as 30 September 2023 or from time to time during the year (collectively the "Banking Group") consisted of the following:

- ▶ Audit of the consolidated financial statements (the "Financial Statements") of the Banking Group for the year ended 30 September 2023 that are required by Clause 24 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") included on pages 8 to 79 of the Annual Report and Disclosure Statement. These pages also include the Supplementary Information, and the Capital Adequacy and Regulatory Liquidity Information which are subject to a separate opinion and conclusion respectively as described below and so are not covered by the Financial Statement audit.
- ▶ Audit of the information required by Clause 21 of the Order to be disclosed in accordance with Schedule 4 (being the "additional information on statement of financial position" that is presented on the Balance Sheet, additional information on concentrations of credit risk (Note 35), additional information on interest rate sensitivity (Note 35), additional information on liquidity risk (Note 35)), Schedule 7 (Asset quality in Note 11), Schedule 13 (Concentration of credit exposures to individual counterparties in the Note 32), Schedule 14 (Credit exposures to connected persons in Note 32), Schedule 15 (Insurance business, securitisation, funds management, other fiduciary activities, and marketing and distribution of insurance products in Note 31) and Schedule 17 (Risk management policies in Note 35) of the Order (together the "Supplementary Information"). The Supplementary Information is presented for the year ended 30 September 2023.
- ▶ Limited assurance engagement in relation to the information required by Clause 21 to be disclosed in accordance with Schedule 11 of the Order which is disclosed in Note 34 (the "Capital Adequacy and Regulatory Liquidity Ratio Information"). The Capital Adequacy and Regulatory Liquidity Ratio Information is presented for the year ended 30 September 2023.

Independent auditor's report to the Shareholders of Bank of New Zealand Report on the audit of the Financial Statements and Supplementary Information

Opinion

We have audited the Financial Statements and the Supplementary Information (as defined above). The Financial Statements comprise the:

- ▶ balance sheet of the Banking Group as at 30 September 2023;
- ▶ income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended of the Banking Group; and
- ▶ notes to the Financial Statements including a summary of significant accounting policies.

In our opinion:

- ▶ the Financial Statements present fairly, in all material respects, the consolidated financial position of the Banking Group as at 30 September 2023 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; and
- ▶ the Supplementary Information for the year ended 30 September 2023:
 - ▶ presents fairly the matters to which it relates; and
 - ▶ is disclosed in accordance with Schedules 4, 7, 13 to 15 and 17 of the Order.



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We have not audited the Capital Adequacy and Regulatory Liquidity Ratio Information (as defined above) and our opinion does not extend to this information.

This report is made solely to the Bank's shareholders, as a body. Our audit has been undertaken so that we might state to the Bank's shareholders 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 shareholders, as a body, 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* 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.

Ernst & Young provides interim financial statement and supplementary information review, other assurance and agreed-upon procedure services and remuneration benchmarking reports to the Banking Group. We also audit funds and securitisation vehicles managed by 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 Financial Statements of the current year. These matters were addressed in the context of our audit of the 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* 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.



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Allowance for Expected Credit Losses

Why significant

As disclosed in Notes 10 *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).

In assessing the allowance for expected credit loss, key areas of significant judgment included:

- ▶ the application of the impairment requirements of NZ IFRS 9 within the expected credit loss methodology;
- ▶ the identification of exposures with a significant increase in credit risk;
- ▶ assumptions used in the expected credit loss models, for both exposures assessed on an individual or collective basis; and
- ▶ the incorporation of forward-looking information to reflect current and anticipated future external factors, both in the multiple economic scenarios and the probability weighting determined for each of these scenarios.

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.

How our audit addressed the key audit matter

We assessed the alignment of the Banking Group's expected credit loss models and their underlying methodology with the requirements of NZ IFRS 9.

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 determination and assessment of significant increase in credit risk;
- ▶ sensitivity of provisions to changes in modelling assumptions; and
- ▶ the basis for and data used to determine forward looking adjustments.

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

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

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

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, ongoing monitoring/validation and model governance.

We assessed the adequacy and appropriateness of the disclosures related to credit impairment within the Notes to the consolidated financial statements.



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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 a high volume of information.

A fundamental component of these IT systems and controls is ensuring that risks relating to inappropriate user access management, unauthorised program changes and IT operating protocols are addressed.

This was identified as a key audit matter as our audit approach is dependent on the effective operation of the IT controls.

How our audit addressed the key audit matter

We focused on those IT systems and controls that are significant to the financial reporting process.

We involved our IT specialists, as audit procedures over IT systems and controls require specific expertise.

We assessed the design, implementation and operating effectiveness of IT controls, including those related to:

- ▶ User access management
- ▶ Change and release management
- ▶ IT operations management

Where we identified design and/or operating deficiencies in the IT control environment, our audit procedures included the following:

- ▶ we assessed the integrity and reliability of the systems and data related to financial reporting; and
- ▶ where automated procedures were supported by systems with identified deficiencies, we either performed additional testing in relation to the IT system or related controls, or we varied the nature, timing and extent of substantive procedures performed.

Information other than the Financial Statements, Supplementary Information and auditor's report

The directors of the Bank are responsible, on behalf of the Bank, for the Annual Report and Disclosure Statement, which includes information other than the Financial Statements, the Supplementary Information and auditor's report.

Our opinion on the 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. We have performed a limited assurance engagement on the Capital Adequacy and Regulatory Liquidity Information as explained below.

In connection with our audit of the 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 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 Financial Statements and Supplementary Information

The directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the Financial Statements in accordance New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and the Supplementary Information in accordance with Clause 21 of the Order and Schedules 4, 7, 13 to 15 and 17 of the Order and for such internal control as the directors determine is necessary to enable the preparation of Financial Statements and Supplementary Information that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements and Supplementary Information, the directors are responsible for assessing on behalf of the Bank, 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 Financial Statements and Supplementary Information

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole and Supplementary Information 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 Financial Statements and Supplementary Information.

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.

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

Chartered Accountants
Auckland
16 November 2023



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Independent Assurance Report to the Shareholders of Bank of New Zealand Limited assurance report on the Capital Adequacy and Regulatory Liquidity Information

Conclusion

We have undertaken a limited assurance engagement on the compliance of the Bank's Capital Adequacy and Regulatory Liquidity Information for the year ended 30 September 2023, in all material respects, with Schedule 11 of the Order.

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Capital Adequacy and Regulatory Liquidity Information for the year ended 30 September 2023 disclosed in Notes 34 and 35 to the Financial Statements is not disclosed, in all material respects, in accordance with Schedule 11 of the Order.

Basis for Conclusion

We conducted our engagement in accordance with Standard on Assurance Engagements 3100 (Revised) Compliance Engagements (SAE 3100 (Revised)) issued by the New Zealand Auditing and Assurance Standards Board.

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

Directors' Responsibilities

The Directors are responsible on behalf of the Bank for:

1. Compliance with the Order, including Clause 21 which requires the Capital Adequacy and Regulatory Liquidity Information to be included in the Annual Report and Disclosure Statement in accordance with Schedule 11 of the Order.
2. Identification of risks that threaten compliance with Clause 21 and Schedule 11 of the Order being met, controls which will mitigate those risks and monitoring ongoing compliance.

Our Independence and Quality Management

We have complied with the independence and other requirements of 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 which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Assurance Practitioner's Responsibilities

Our responsibility is to express a limited assurance conclusion on whether the Bank's Capital Adequacy and Regulatory Liquidity Information is not disclosed, in all material respects, in accordance with Schedule 11 of the Order. SAE 3100 (Revised) requires that we plan and perform our procedures to obtain limited assurance about whether anything has come to our attention that causes us to believe that the Bank's Capital Adequacy and Regulatory Liquidity Information is not disclosed, in all material respects, in accordance with Schedule 11 of the Order.

In a limited assurance engagement, the assurance practitioner performs procedures, primarily consisting of discussion and enquiries of management and others within the entity, as appropriate, and observation and walk-throughs, and evaluates the evidence obtained. The procedures selected depend on our judgement, including identifying areas where the risk of material non-compliance with Schedule 11 of the Order is likely to arise.



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Given the circumstances of the engagement, in performing the procedures listed above we:

- ▶ Obtained an understanding of the Bank's compliance framework and internal control environment to meet the Capital Adequacy and Regulatory Liquidity Information requirements in accordance with the Reserve Bank of New Zealand's (RBNZ) prudential requirements for banks.
- ▶ Obtained an understanding of the processes, models, data and internal controls implemented over the preparation of the Capital Adequacy and Regulatory Liquidity Information.
- ▶ Agreed selected elements of the Capital Adequacy and Regulatory Liquidity Information to information extracted from the Bank's models, accounting records or other supporting documentation or, in relation to Clause 18 of Schedule 11 of the Order, publicly available information.
- ▶ Performed analytical and other procedures on the Capital Adequacy and Regulatory Liquidity Information disclosed in accordance with Schedule 11 and considered its consistency with the Financial Statements of the Banking Group.
- ▶ Obtained an understanding and assessed the impact of any matters of non-compliance, either advised to us or of which we otherwise became aware, with the RBNZ's prudential requirements for banks that relate to capital adequacy and regulatory liquidity information and inspected relevant correspondence with RBNZ.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion on compliance with Schedule 11 of the Order.

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

Inherent Limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that fraud, error, or non-compliance with compliance requirements may occur and not be detected. A limited assurance engagement on the Bank's disclosure of Capital Adequacy and Regulatory Liquidity Information in the Annual Report and Disclosure Statement for the year ended 30 September 2023 does not provide assurance on whether compliance will continue in the future.

Restrictions on Use of Report

This report has been prepared for the Bank's shareholders for the purpose of providing limited assurance that the Bank's Capital Adequacy and Regulatory Liquidity Information has complied with Schedule 11 of the Order. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholders for our limited assurance work, for this report, or for the conclusions we have formed. We acknowledge that our report will be included in the Bank's Annual Report and Disclosure Statement.

Chartered Accountants
Auckland
16 November 2023

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"; and
- on 7 June 2021, Standard & Poor's revised the Bank's credit rating outlook from "outlook negative" to "outlook stable".

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 applies 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 BPS Act which were applicable as at the balance date of this Disclosure Statement are as follows:

Conditions of registration that apply on and after 23 August 2023 - 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.

For the purposes of this condition of registration,—

“Total capital ratio”, “Tier 1 capital ratio”, and “Common Equity Tier 1 capital ratio” have the same meaning as in Subpart B2 of BPR100: Capital Adequacy, except that in the formulae for calculating the ratios, the term “total capital requirement for operational risk” included in “total RWA equivalents” has the same meaning as in BPR150: Standardised Operational Risk, subject to a minimum value of \$600 million;

“Total capital” has the same meaning as in BPR110: Capital Definitions.

- 1A. That—
 - (a) the bank has an internal capital adequacy assessment process (“ICAAP”) that accords with the requirements set out in Part D of BPR100: Capital Adequacy;
 - (b) under its ICAAP the bank identifies and measures its “other material risks” defined in Part D of BPR100: Capital Adequacy; and
 - (c) the bank determines an internal capital allocation for each identified and measured “other material risk”.
- 1B. That the bank must—
 - (a) comply with the minimum requirements for using the IRB approach set out in BPR134: IRB Minimum System Requirements;
 - (b) comply with the minimum qualitative requirements for using the AMA approach for operational risk set out in subpart B1 of BPR151: AMA Operational Risk;
 - (c) follow the process in Part E of BPR120: Capital Adequacy Process Requirements for obtaining Reserve Bank approval for any changes to any IRB credit risk model;
 - (d) maintain a compendium of approved models in accordance with the requirements of section E1.5 of BPR120: Capital Adequacy Process requirements.
- 1C. That, if the Prudential Capital Buffer (PCB) ratio of the banking group is 4.5% or less, the bank must—
 - (a) according to the following table, limit the aggregate distributions of the bank’s earnings, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to the percentage limit on distributions that corresponds to the banking group’s PCB ratio; and

Banking group's PCB ratio	Percentage limit on distributions of the bank's earnings	Capital Buffer Response Framework stage
0% - 0.5%	0%	Stage 3
>0.5 - 1%	30%	Stage 2
>1 - 2%	60%	Stage 1
>2 - 4.5%	100%	None

- (b) comply with the Capital Buffer Response Framework requirements as set out in Part D of BPR120: Capital Adequacy Process Requirements.

For the purposes of this condition of registration,—

“prudential capital buffer ratio”, “distributions”, and “earnings” have the same meaning as in Subpart B2 of BPR100: Capital Adequacy, except that in the formula for calculating the prudential capital buffer ratio, the term “total capital requirement for operational risk” included in “total RWA equivalents” has the same meaning as in BPR150: Standardised Operational Risk, subject to a minimum value of \$600 million;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of B2.2(2)(a), (c) or (d) of BPR110: Capital Definitions.

- 1CA. That the bank must not make any distribution on a transitional AT1 capital instrument on or after the date on which on any conversion or write-off provision in the terms and conditions of the instrument is triggered due to either a loss absorption trigger event or a non-viability trigger event.

For the purposes of this condition of registration, “transitional AT1 capital instrument” has the meaning given in section A2.3 of BPR110: Capital Definitions and “loss absorption trigger event” and “non-viability trigger event” have the meanings given in sub-section C2.2(3) of BPR120: Capital Adequacy Requirements.

- 1D. That:
 - (a) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued on or after 17 June 2021 in the calculation of its capital ratios unless it has completed the notification requirements in Part B of BPR120: Capital Adequacy Process Requirements in respect of the instrument; and
 - (b) the bank meets the requirements of Part C of BPR120: Capital Adequacy Process Requirements in respect of regulatory capital instruments.

For the purposes of this condition of registration,—

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection B2.2(2)(a) or (c) of BPR110: Capital Definitions;

a Tier 2 capital instrument is an instrument that meets the requirements of subsection B3.2(2)(a) or (c) of BPR110: Capital Definitions.

Conditions of Registration

- 1E. That for the purposes of LGD estimates for farm lending exposures covered by a Deed of Indemnity from the Crown under the North Island Weather Events Loan Guarantee Scheme, the bank may choose to apply either the relevant minimum LGD in Table C3.2 of BPR133, or an LGD of 8.5%.

For the purposes of this condition of registration, “LGD” (loss given default) has the meaning given in BPR001: Glossary.

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:

- 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
- 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—

- all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
- if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,—

“insurance business” means the undertaking or assumption of liability as an insurer under a contract of insurance:

“insurer” and “contract of insurance” have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit rating of the bank ¹	Connected exposure limit (% of the banking group’s Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

¹ This table uses the rating scales of Standard & Poor’s, Fitch Ratings and Moody’s Investors Service. (Fitch Ratings’ scale is identical to Standard & Poor’s.)

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the banking group’s Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled “Connected exposures policy” (BS8) dated October 2021.

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:

- the board of the bank must have at least five directors;
- the majority of the board members must be non-executive directors;
- at least half of the board members must be independent directors;
- an alternate director,—
 - for a non-executive director must be non-executive; and
 - for an independent director must be independent;
- at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
- the chairperson of the board of the bank must be independent; and
- 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:

- the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
- the Reserve Bank has advised that it has no objection to that appointment.

Conditions of Registration

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 September 2022.
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 75 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 July 2022 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated July 2022.

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

Conditions of Registration

- (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 June 2022.

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 June 2022.

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 June 2022.

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 June 2022.

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 June 2022.

22. That the bank must comply with the Reserve Bank of New Zealand document “Outsourcing Policy” (BS11) dated September 2022.

Conditions of Registration

23. That, for a loan-to-valuation measurement period ending on or after 31 August 2023, 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 65%, 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 August 2023, 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 15% 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.
25. 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 these conditions of registration, the version dates of the Reserve Bank of New Zealand Banking Prudential Requirement (BPR) documents that are referred to in the capital adequacy conditions 1 to 1D, or are referred to in turn by those documents or by Banking Supervision Handbook (BS) documents, are—

BPR document	Version date
BPR100: Capital adequacy	1 October 2021
BPR110: Capital definitions	1 October 2021
BPR120: Capital adequacy process requirements	1 July 2021
BPR130: Credit risk RWAs overview	1 July 2021
BPR131: Standardised credit risk RWAs	1 October 2021
BPR132: Credit risk mitigation	1 October 2021
BPR133: IRB credit risk RWAs	1 October 2021
BPR134: IRB minimum system requirements	1 July 2021
BPR140: Market risk exposure	1 October 2021
BPR150: Standardised operational risk	1 July 2021
BPR151: AMA operational risk	1 July 2021
BPR160: Insurance, securitisation, and loan transfers	1 July 2021
BPR001: Glossary	1 July 2021

In conditions of registration 23 to 25,—

“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 October 2021:

“loan-to-valuation measurement period” means a period of three calendar months ending on the last day of the third calendar month.

Changes in Conditions of Registration

Between 30 September 2022 and 30 September 2023, the RBNZ made the following changes to the Bank's Conditions of Registration.

On 1 June 2023, the Bank's Conditions of Registration were updated to give effect to changes to LVR restriction ratios.

On 1 July 2023, the Bank's Conditions of Registration were updated to increase the Prudential Capital Buffer (PCB) ratio of 3.5% to 4.5% for Domestic-Systemically Important Banks (D-SIBs).

On 23 August 2023, the Bank's Conditions of Registration were updated to reflect the North Island Weather Events Loan Guarantee Scheme where the Bank may choose to apply either the relevant minimum LGD in Table C3.2 of BPR133 or an LGD of 8.5%.

In addition, on 1 October 2023 following the balance date of this Disclosure Statement, the Bank's Conditions of Registration were updated to (i) refer to updated versions of Banking Prudential Requirements (BPRs) following the decisions made on the Mutual Capital Instruments and Risk Weights Omnibus consultations and (ii) reflect the phased implementation of the updated version of Banking Standard 8 (BS8: Connected Exposures) which, among other things, removes the gross connected exposures limit as a percentage of Tier 1 capital.

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. The Bank intends to provide a final update in its Disclosure Statement on completion of the programme.

Directors' Statement

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

1. as at the date on which this Disclosure Statement is signed:
 - (a) the Disclosure Statement contains all the information that is required by the Order; and
 - (b) the Disclosure Statement is not false or misleading; and
2. during the year ended 30 September 2023:
 - (a) the Bank has complied in all material respects with its Conditions of Registration that applied during the period.
 - (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
 - (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 16th November 2023 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

