



Bank of New Zealand Disclosure Statement

For the six months ended 31 March 2024

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Disclosure Statement

For the six months ended 31 March 2024

This Disclosure Statement has been issued by Bank of New Zealand for the six months ended 31 March 2024 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, “BNZ” or as the “Bank”). The Bank’s address for service is Level 4, 80 Queen Street, Auckland 1010, New Zealand.

Nature of Business

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

Guarantees

Covered Bond Guarantee

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

The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to any senior unsecured obligations payable in New Zealand dollars. The Covered Bonds have been assigned a long term credit rating of Aaa and AAA from Moody’s Investors Service Pty Limited and Fitch Australia Pty Limited, respectively. Refer to Note 6 *Loans and Advances to Customers* for further information. Further details about the above guarantee can be obtained by referring to the Bank’s Disclosure Statement for the year ended 30 September 2023 which is available at www.bnz.co.nz.

Other material obligations of the Bank are not guaranteed.

Ultimate Parent Bank

Ultimate Parent Bank and Address for Service

The ultimate parent bank, and ultimate holding company, of Bank of New Zealand is National Australia Bank Limited 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.

Since 30 September 2023, there have been no material changes in regulations, legislation, or other restrictions of a legally enforceable nature that may materially inhibit the legal ability of National Australia Bank Limited to provide material financial support to the Bank. Refer to the Disclosure Statement for the year ended 30 September 2023 for full disclosure of legally enforceable restrictions that may materially inhibit National Australia Bank Limited’s legal ability to provide material financial support to Bank of New Zealand.

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

On 15 March 2024, BNZ announced the retirement of Douglas Alexander McKay from the BNZ Board, effective 31 May 2024.

The BNZ Board has appointed Warwick Ean Hunt as Chair of the BNZ Board, effective 1 June 2024.

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

Auditor

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

Income Statement

For the six months ended 31 March 2024

Dollars in Millions	Note	Banking Group		
		Unaudited 6 Months 31/3/24	Audited 12 Months 30/9/23	Unaudited 6 Months 31/3/23
Interest income				
Effective interest income		3,865	6,759	3,070
Fair value through profit or loss		226	325	156
Interest expense		2,629	4,187	1,762
Net interest income		1,462	2,897	1,464
Gains less losses on financial instruments	2	144	245	119
Other operating income	3	164	355	192
Total operating income		1,770	3,497	1,775
Operating expenses		641	1,222	577
Total operating profit before credit impairment charge and income tax expense		1,129	2,275	1,198
Credit impairment charge	7	71	172	79
Total operating profit before income tax expense		1,058	2,103	1,119
Income tax expense on operating profit		296	594	314
Net profit for the period		762	1,509	805

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

Statement of Comprehensive Income

For the six months ended 31 March 2024

Dollars in Millions	Banking Group		
	Unaudited 6 Months 31/3/24	Audited 12 Months 30/9/23	Unaudited 6 Months 31/3/23
Net profit for the period	762	1,509	805
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	9	8	9
Tax on items recognised in equity	(3)	(2)	(2)
	6	6	7
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	(72)	(248)	(95)
Movement in cost of hedging reserve	(28)	(46)	(9)
Tax on items recognised in equity	28	82	29
	(72)	(212)	(75)
Total other comprehensive income/(expense)	(66)	(206)	(68)
Total comprehensive income for the period	696	1,303	737

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

Statement of Changes in Equity

For the six months ended 31 March 2024

Dollars in Millions	Banking Group								Total Shareholders' Equity
	Unaudited 6 Months 31/3/24								
	Ordinary Capital	Perpetual Preference Capital	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Cost of Hedging Reserve	FVTOCI Reserve	Retained Profits		
Balance at beginning of period	9,056	375	3	103	(23)	1	2,345	11,860	
Comprehensive income/(expense)									
Net profit for the period	-	-	-	-	-	-	762	762	
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	9	9	
Reserve movement through other comprehensive income	-	-	-	(72)	(28)	-	-	(100)	
Tax effect on items directly recognised in equity	-	-	-	20	8	-	(3)	25	
Total comprehensive income/(expense)	-	-	-	(52)	(20)	-	768	696	
Issue of ordinary shares	900	-	-	-	-	-	-	900	
Ordinary dividends paid	-	-	-	-	-	-	(679)	(679)	
Perpetual preference dividends paid	-	-	-	-	-	-	(10)	(10)	
Balance at end of period	9,956	375	3	51	(43)	1	2,424	12,767	
	Audited 12 Months 30/9/23								
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	5,000	-	-	-	-	-	-	5,000	
Ordinary dividends paid through dividend reinvestment	-	-	-	-	-	-	(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 period	9,056	375	3	103	(23)	1	2,345	11,860	
	Unaudited 6 Months 31/3/23								
Balance at beginning of period	4,056	-	3	282	10	1	6,709	11,061	
Comprehensive income/(expense)									
Net profit for the period	-	-	-	-	-	-	805	805	
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	9	9	
Reserve movement through other comprehensive income	-	-	-	(95)	(9)	-	-	(104)	
Tax effect on items directly recognised in equity	-	-	-	27	2	-	(2)	27	
Total comprehensive income/(expense)	-	-	-	(68)	(7)	-	812	737	
Issue of ordinary shares through dividend reinvestment	5,000	-	-	-	-	-	-	5,000	
Ordinary dividends paid through dividend reinvestment	-	-	-	-	-	-	(5,000)	(5,000)	
Ordinary dividends paid	-	-	-	-	-	-	(458)	(458)	
Balance at end of period	9,056	-	3	214	3	1	2,063	11,340	

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

Balance Sheet

As at 31 March 2024

Dollars in Millions	Note	Banking Group		
		Unaudited 31/3/24	Audited 30/9/23	Unaudited 31/3/23
Assets				
Cash and liquid assets ¹	4	7,559	10,950	9,744
Due from central banks and other institutions		92	90	213
Collateral paid		860	1,107	1,014
Trading assets ¹	5	10,076	9,143	7,960
Derivative financial instruments		3,434	4,802	4,400
Loans and advances to customers ¹	6	104,164	101,778	100,973
Other assets ¹		1,287	777	976
Deferred tax		321	316	304
Property, plant and equipment		610	604	421
Goodwill and other intangible assets		525	498	455
Total assets		128,928	130,065	126,460
Liabilities				
Due to central banks and other institutions ¹	9	5,185	6,080	7,237
Collateral received ¹		1,409	1,780	1,713
Trading liabilities ¹	10	1,163	868	231
Deposits and other borrowings	11	81,792	81,006	78,858
Derivative financial instruments		2,719	4,321	4,004
Current tax liabilities		15	40	95
Other liabilities ¹		2,344	1,874	1,581
Bonds and notes		20,984	20,786	19,451
Subordinated debt	12	550	1,450	1,950
Total liabilities		116,161	118,205	115,120
Net assets		12,767	11,860	11,340
Shareholders' equity				
Contributed equity – ordinary shares	13	9,956	9,056	9,056
Contributed equity – perpetual preference shares	13	375	375	-
Reserves		12	84	221
Retained profits		2,424	2,345	2,063
Total shareholders' equity		12,767	11,860	11,340
Interest earning and discount bearing assets		120,694	121,117	118,005
Interest and discount bearing liabilities		97,417	98,169	94,375

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 interim financial statements.

Cash Flow Statement

For the six months ended 31 March 2024

Dollars in Millions	Note	Banking Group		
		Unaudited 6 Months 31/3/24	Audited 12 Months 30/9/23	Unaudited 6 Months 31/3/23
Cash flows from operating activities				
Interest income		4,102	7,003	3,170
Interest expense ¹		(2,524)	(3,790)	(1,570)
Net trading income		133	658	602
Other income		182	355	190
Personnel expenses		(384)	(705)	(379)
Other operating expenses		(260)	(373)	(164)
Taxes and subvention payments		(301)	(830)	(537)
Net cash flows from operating activities before changes in operating assets and liabilities¹		948	2,318	1,312
Changes in operating assets and liabilities arising from cash flow movements				
Net (increase)/decrease in:				
Due from central banks and other institutions		(2)	282	159
Collateral paid		580	1,637	1,926
Loans and advances to customers ¹		(2,446)	(2,557)	(1,667)
Other assets ¹		(453)	322	100
Net increase/(decrease) in:				
Deposits and other borrowings		778	2,860	712
Due to central banks and other institutions		82	12	69
Collateral received ¹		(363)	(1,441)	(1,504)
Other liabilities ¹		391	(439)	(338)
Net movement in trading assets and trading liabilities ¹		(420)	(1,058)	(443)
Net movement in derivative financial instruments		(183)	17	(405)
Net change in operating assets and liabilities¹		(2,036)	(365)	(1,391)
Net cash flows from operating activities¹		(1,088)	1,953	(79)
Cash flows from investing activities				
Acquisition of intangible assets		(81)	(179)	(83)
Purchase of property, plant and equipment		(23)	(57)	(28)
Net cash flows from investing activities		(104)	(236)	(111)
Cash flows from financing activities				
Proceeds from issue of bonds and notes		2,068	4,157	1,937
Repayment of bonds and notes		(2,570)	(3,467)	(2,222)
Increase in contributed equity - perpetual preference shares (net of issuance costs)	13	-	370	-
Repayment of subordinated debt		-	(500)	-
Payment of lease liabilities		(31)	(55)	(26)
Proceeds from repurchase agreements under RBNZ funding facilities		907	2,610	2,026
Repayment of repurchase agreements under RBNZ funding facilities		(1,996)	(1,472)	(766)
Ordinary dividend		(679)	(869)	(458)
Perpetual preference dividend		(10)	(5)	-
Net cash flows from financing activities		(2,311)	769	491
Net movement in cash and cash equivalents¹		(3,503)	2,486	301
Cash and cash equivalents at beginning of period ¹		9,782	7,296	7,296
Cash and cash equivalents at end of period¹		6,279	9,782	7,597
Cash and cash equivalents at end of period comprised:				
Cash and liquid assets ¹	4	7,559	10,950	9,744
Due to central banks and other institutions classified as cash and cash equivalents ¹	9	(1,280)	(1,168)	(2,147)
Total cash and cash equivalents¹		6,279	9,782	7,597

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 interim financial statements.

Notes to and Forming Part of the Interim Financial Statements

For the six months ended 31 March 2024

Note 1 Principal Accounting Policies

These interim financial statements are general purpose financial reports prepared in accordance with New Zealand Generally Accepted Accounting Practice as appropriate for profit oriented entities, the requirements of IAS 34 *Interim Financial Reporting*, NZ IAS 34 *Interim Financial Reporting* and the Order, and should be read in conjunction with the Disclosure Statement for the year ended 30 September 2023.

Reclassification of financial information

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

Changes in accounting policies and disclosures

Accounting policies used in the preparation of these interim financial statements are consistent with the accounting policies used in the preparation of the Disclosure Statement for the year ended 30 September 2023, except as detailed below.

Presentation of amounts due from related entities and amounts due to related entities

During the six months ended 31 March 2024, the Banking Group changed the balance sheet presentation of amounts due from related entities and amounts due to related entities. The revised presentation results in the removal of two balance sheet line items (Amounts due from related entities and Amounts due to related entities), the reclassification of related party balances to the relevant balance sheet line items, and a change in the layout of Note 14 *Related Party Disclosures*. The revised presentation enhances the Banking Group's disclosure of assets and liabilities by order of liquidity. To align with this presentation change, certain comparative balances as at 30 September 2023 and as at 31 March 2023 have been restated.

Balances previously presented in Amounts due from related entities and Amounts due to related entities comprise of:

Dollars in Millions	Banking Group	
	Audited 30/9/23	Unaudited 31/3/23
Cash and liquid assets	37	317
Trading assets	781	-
Loans and advances to customers	9	10
Other assets	2	30
Total amounts due from related entities	829	357
Due to central banks and other institutions	116	985
Collateral received	309	171
Trading liabilities	420	-
Other liabilities	54	39
Total amounts due to related entities	899	1,195

International Tax Reform - Pillar Two Model Rules

In July 2023, the External Reporting Board issued *International Tax Reform - Pillar Two Model Rules (Amendments to NZ IAS 12 Income Taxes)*, effective for annual reporting periods beginning on or after 1 January 2023. The Banking Group has adopted the amending standard from 1 October 2023 and applied the exemption from recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes. The adoption of the amending standard did not have a material impact on these interim financial statements. On 28 March 2024, New Zealand enacted tax legislation implementing the Pillar Two Model Rules published by the Organisation for Economic Co-operation and Development, with effect from 1 January 2025. The Banking Group has assessed the impact of the new legislation and determined that it does not have any material exposure to Pillar Two income taxes.

Critical accounting assumptions and estimates

The preparation of these interim financial statements requires the use of critical accounting estimates, judgements and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities. Unless explicitly stated, there have been no significant changes to the accounting estimates, judgements and assumptions used in preparing these interim financial statements compared to those applied in the preparation of the Disclosure Statement for the year ended 30 September 2023.

Future accounting developments

In April 2024, the International Accounting Standards Board issued IFRS 18 *Presentation and Disclosure in Financial Statements* ("IFRS 18"). IFRS 18 replaces IAS 1 *Presentation of Financial Statements* and will be effective for the Banking Group from 1 October 2027. IFRS 18 aims to improve how companies communicate information in their financial statements, with a focus on financial performance in the income statement. The Banking Group is currently assessing the impact of this new standard.

Notes to and Forming Part of the Interim Financial Statements

Income Statement Notes

Note 2 Gains Less Losses on Financial Instruments

Dollars in Millions	Banking Group		
	Unaudited 6 Months 31/3/24	Audited 12 Months 30/9/23	Unaudited 6 Months 31/3/23
Trading gains less losses on financial instruments	136	234	109
Net gain/(loss) attributable to assets, liabilities and derivatives designated in hedge relationships	(6)	7	2
Net gain/(loss) in the fair value of derivatives used for hedging purposes not designated in hedge relationships	1	(20)	(16)
Net gain/(loss) in the fair value of financial assets designated at fair value through profit or loss and related derivatives ^{1,2}	4	19	19
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	10	5	5
Other gains less losses on financial instruments	(1)	-	-
Total gains less losses on financial instruments	144	245	119

Net gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss and related derivatives includes²:

Gain/(loss) attributable to derivatives used for hedging of financial liabilities designated at fair value through profit or loss	235	78	69
Gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss	(225)	(73)	(64)

¹Included in Net gain/(loss) in the fair value of financial assets designated at fair value through profit or loss and related derivatives is a loss of \$2 million in the fair value of financial assets designated at fair value through profit or loss excluding credit risk adjustments (30 September 2023: nil; 31 March 2023: \$1 million loss). Credit risk adjustments on financial assets designated at fair value through profit or loss are disclosed in Note 7 *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.

Note 3 Other Operating Income

Dollars in Millions	Banking Group		
	Unaudited 6 Months 31/3/24	Audited 12 Months 30/9/23	Unaudited 6 Months 31/3/23
Fees and commissions			
Money transfer fees	31	78	44
Fees earned on financial assets and liabilities	108	217	109
Fees earned on trust and other fiduciary activities	3	6	3
Investment management income	17	32	15
Other fees and commissions income	21	51	27
Total fees and commissions income	180	384	198
Fees and commissions expense ³	(16)	(32)	(8)
Net fees and commissions income	164	352	190
Other income	-	3	2
Total other operating income	164	355	192

³Expenses directly attributable and incremental to fees and commissions income, in particular, credit card rewards programme and investment management expenses.

Notes to and Forming Part of the Interim Financial Statements

Asset Notes

Note 4 Cash and Liquid Assets

Dollars in Millions	Banking Group		
	Unaudited 31/3/24	Audited 30/9/23	Unaudited 31/3/23
Coins, notes and cash at bank	107	101	130
Transaction balances with central banks	6,707	10,096	8,719
Transaction balances with other institutions ¹	745	753	465
Securities purchased under agreements to resell with other institutions ^{1,2}	-	-	430
Total cash and liquid assets	7,559	10,950	9,744

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.

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.

Note 5 Trading Assets

Dollars in Millions	Banking Group		
	Unaudited 31/3/24	Audited 30/9/23	Unaudited 31/3/23
Government bonds, notes and securities	2,816	2,737	3,355
Semi-government bonds, notes and securities	3,749	3,593	2,849
Corporate and other institutions bonds, notes and securities	2,243	1,966	1,756
Securities purchased under agreements to resell with central banks ³	190	-	-
Securities purchased under agreements to resell with other institutions ^{3,4}	1,078	847	-
Total trading assets	10,076	9,143	7,960

³ 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.

⁴ 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.

Included in Trading assets as at 31 March 2024 were \$126 million of trading securities encumbered through repurchase agreements (30 September 2023: \$214 million; 31 March 2023: \$247 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.

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 and customary for standard lending, securities borrowing and lending activities.

As at 31 March 2024, the fair value of securities accepted as collateral that the Banking Group is permitted to sell or repledge was \$1,267 million (30 September 2023: \$847 million; 31 March 2023: \$427 million), of which securities with a fair value of \$492 million (30 September 2023: \$407 million; 31 March 2023: \$13 million) were repledged.

Notes to and Forming Part of the Interim Financial Statements

Note 6 Loans and Advances to Customers

Dollars in Millions	Banking Group		
	Unaudited 31/3/24	Audited 30/9/23	Unaudited 31/3/23
Overdrafts	2,194	2,273	2,261
Credit card outstanding	825	813	845
Housing loans	58,812	57,746	56,412
Other term lending ¹	42,151	40,740	41,318
Other lending	884	896	814
Total gross loans and advances to customers	104,866	102,468	101,650
Deduct:			
Allowance for expected credit losses and credit risk adjustments (refer to Note 7) ²	971	932	857
Deferred and other unearned future income and expenses	(102)	(88)	(51)
Capitalised brokerage costs	(176)	(168)	(150)
Fair value hedge adjustments on housing loans	9	14	21
Total deductions	702	690	677
Total net loans and advances to customers	104,164	101,778	100,973

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.

² The balance as at 31 March 2024 consists of allowance for expected credit losses \$971 million (30 September 2023: \$926 million; 31 March 2023: \$851 million) and credit risk adjustment on financial assets at fair value through profit or loss of \$nil (30 September 2023: \$6 million; 31 March 2023: \$6 million).

As at 31 March 2024, included within the Banking Group's Loans and advances to customers were housing loans with a carrying amount of \$22,345 million that have been transferred to consolidated structured entities but not derecognised in their entirety (30 September 2023: \$22,273 million; 31 March 2023: \$20,826 million). The Banking Group continues to recognise all of the transferred assets.

The Banking Group had issued debt securities with a face value of \$6,943 million that were guaranteed by the BNZ Covered Bond Trust as at 31 March 2024 (30 September 2023: \$6,791 million; 31 March 2023: \$5,378 million). The underlying collateral that supports the guarantee provided by the BNZ Covered Bond Trust comprised housing loans, collections receivable and cash with a carrying amount of \$7,868 million as at 31 March 2024 (30 September 2023: \$7,868 million; 31 March 2023: \$6,279 million). The fair value of the underlying collateral is approximately equal to the carrying amount due to its short term nature.

Note 7 Allowance for Expected Credit Losses

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

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

Key judgements and estimates

- In determining ECL, management judgement is applied, using objective, reasonable and supportable information about current and forecast economic conditions and granular probability of default and loss given default assumptions.
- Macro-economic 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.
- When determining whether the risk of default has increased significantly since initial recognition, both quantitative and qualitative information is considered, including expert credit assessment, forward-looking information and analysis based on the Banking Group's historical loss experience.

Movement in allowance for expected credit losses

The total allowance for ECL increased by \$45 million compared to the balance as at 30 September 2023. This is due to increases in the allowance for ECL for residential mortgage lending of \$49 million as a result of forward-looking view of debt serviceability ratios due to higher interest rates, and other retail of \$2 million. These increases are partially offset by a decrease in the corporate exposures allowance for ECL of \$6 million, due to a reduction in the collectively assessed allowance of \$22 million predominantly due to some customers impacted by severe weather events in February 2023 transferring from Stage 3 to either Stage 1 or Stage 2 classification, partially offset by an increase in the individually assessed allowance of \$16 million for customers in the agribusiness and commercial real estate portfolios.

Notes to and Forming Part of the Interim Financial Statements

Note 7 Allowance for Expected Credit Losses *continued*

The following table for the six months ended 31 March 2024 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 period.

Dollars in Millions	Banking Group				Total
	Unaudited (31/3/24)			Individually assessed allowance Stage 3	
	Collectively assessed allowance		Stage 3		
	Stage 1	Stage 2	Stage 3	Stage 3	
Movement in Allowance for ECL					
Residential mortgage lending					
Balance at beginning of period	17	102	24	2	145
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	-	(1)	1	-	-
Transferred to Lifetime ECL credit impaired - individually assessed allowance	-	-	-	-	-
Charge/(credit) to income statement due to new and increased provisions (net of releases) ¹	(2)	35	8	8	49
Amounts written off	-	-	-	-	-
Recovery of amounts written off	-	-	-	-	-
Balance at end of period - Residential mortgage lending	16	135	33	10	194
Other retail exposures					
Balance at beginning of period	11	21	9	4	45
Changes to the opening balance due to transfer between ECL stages:					
Transferred to 12-months ECL - collectively assessed allowance	2	(2)	-	-	-
Transferred to Lifetime ECL not credit impaired - collectively assessed allowance	(1)	1	-	-	-
Transferred to Lifetime ECL credit impaired - collectively assessed allowance	-	(1)	1	-	-
Transferred to Lifetime ECL credit impaired - individually assessed allowance	-	(1)	(1)	2	-
Charge/(credit) to income statement due to new and increased provisions (net of releases) ¹	-	-	6	1	7
Amounts written off	-	-	-	(8)	(8)
Recovery of amounts written off	-	-	-	3	3
Balance at end of period - Other retail exposures	12	18	15	2	47
Corporate exposures					
Balance at beginning of period	43	506	116	71	736
Changes to the opening balance due to transfer between ECL stages:					
Transferred to 12-months ECL - collectively assessed allowance	22	(18)	(4)	-	-
Transferred to Lifetime ECL not credit impaired - collectively assessed allowance	(8)	22	(14)	-	-
Transferred to Lifetime ECL credit impaired - collectively assessed allowance	-	(4)	4	-	-
Transferred to Lifetime ECL credit impaired - individually assessed allowance	-	(3)	(13)	16	-
Charge/(credit) to income statement due to new and increased provisions (net of releases) ¹	(13)	40	(22)	10	15
Amounts written off	-	-	-	(20)	(20)
Recovery of amounts written off	-	-	-	-	-
Discount unwind ²	-	-	-	(1)	(1)
Balance at end of period - Corporate exposures	44	543	67	76	730
Total					
Balance at beginning of period	71	629	149	77	926
Changes to the opening balance due to transfer between ECL stages:					
Transferred to 12-months ECL - collectively assessed allowance	25	(21)	(4)	-	-
Transferred to Lifetime ECL not credit impaired - collectively assessed allowance	(9)	23	(14)	-	-
Transferred to Lifetime ECL credit impaired - collectively assessed allowance	-	(6)	6	-	-
Transferred to Lifetime ECL credit impaired - individually assessed allowance	-	(4)	(14)	18	-
Charge/(credit) to income statement due to new and increased provisions (net of releases) ¹	(15)	75	(8)	19	71
Amounts written off	-	-	-	(28)	(28)
Recovery of amounts written off	-	-	-	3	3
Discount unwind ²	-	-	-	(1)	(1)
Total balance at end of period	72	696	115	88	971

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 Interim Financial Statements

Note 7 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 period.

Dollars in Millions	Banking Group Unaudited (31/3/24)				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 period	53,639	3,615	480	12	57,746
Transfers					
Transferred to collectively assessed 12-months ECL	381	(325)	(56)	-	-
Transferred to collectively assessed lifetime ECL not credit impaired	(948)	1,151	(203)	-	-
Transferred to collectively assessed lifetime ECL credit impaired	(165)	(94)	259	-	-
Transferred to individually assessed lifetime ECL credit impaired	(2)	(36)	(4)	42	-
Net further lending/(repayment)	(1,235)	(12)	(7)	(1)	(1,255)
Additions	5,332	-	-	-	5,332
Deletions	(2,905)	(54)	(51)	(1)	(3,011)
Amounts written off	-	-	-	-	-
Total gross carrying amount at end of period	54,097	4,245	418	52	58,812
Allowance for ECL	16	135	33	10	194
Total net carrying amount at end of period - Residential mortgage lending	54,081	4,110	385	42	58,618
Other retail exposures					
Gross carrying amount at beginning of period	1,884	116	19	5	2,024
Transfers					
Transferred to collectively assessed 12-months ECL	64	(62)	(2)	-	-
Transferred to collectively assessed lifetime ECL not credit impaired	(90)	91	(1)	-	-
Transferred to collectively assessed lifetime ECL credit impaired	(7)	(7)	14	-	-
Transferred to individually assessed lifetime ECL credit impaired	(1)	(2)	(1)	4	-
Net further lending/(repayment)	(25)	(36)	(1)	6	(56)
Additions	248	-	-	-	248
Deletions	(183)	(19)	(9)	(4)	(215)
Amounts written off	-	-	-	(8)	(8)
Total gross carrying amount at end of period	1,890	81	19	3	1,993
Allowance for ECL	12	18	15	2	47
Total net carrying amount at end of period - Other retail exposures	1,878	63	4	1	1,946
Corporate exposures					
Gross carrying amount at beginning of period	10,719	30,533	701	127	42,080
Transfers					
Transferred to collectively assessed 12-months ECL	2,405	(2,291)	(114)	-	-
Transferred to collectively assessed lifetime ECL not credit impaired	(5,721)	5,880	(154)	(5)	-
Transferred to collectively assessed lifetime ECL credit impaired	(174)	(117)	291	-	-
Transferred to individually assessed lifetime ECL credit impaired	(21)	(76)	(105)	202	-
Net further lending/(repayment)	513	(25)	(3)	(31)	454
Additions	7,039	-	-	-	7,039
Deletions	(1,591)	(3,605)	(223)	(73)	(5,492)
Amounts written off	-	-	-	(20)	(20)
Total gross carrying amount at end of period	13,169	30,299	393	200	44,061
Allowance for ECL	44	543	67	76	730
Total net carrying amount at end of period - Corporate exposures	13,125	29,756	326	124	43,331
Total					
Gross carrying amount at beginning of period	66,242	34,264	1,200	144	101,850
Transfers					
Transferred to collectively assessed 12-months ECL	2,850	(2,678)	(172)	-	-
Transferred to collectively assessed lifetime ECL not credit impaired	(6,759)	7,122	(358)	(5)	-
Transferred to collectively assessed lifetime ECL credit impaired	(346)	(218)	564	-	-
Transferred to individually assessed lifetime ECL credit impaired	(24)	(114)	(110)	248	-
Net further lending/(repayment)	(747)	(73)	(11)	(26)	(857)
Additions	12,619	-	-	-	12,619
Deletions	(4,679)	(3,678)	(283)	(78)	(8,718)
Amounts written off	-	-	-	(28)	(28)
Total gross carrying amount at end of period	69,156	34,625	830	255	104,866
Allowance for ECL	72	696	115	88	971
Total net carrying amount at end of period	69,084	33,929	715	167	103,895

Notes to and Forming Part of the Interim Financial Statements

Note 7 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 \$1,066 million in the six months ended 31 March 2024, with associated ECL increasing by \$49 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 the impacts from higher interest rates, impacting the forward-looking view of debt serviceability ratios.

Other retail exposures

Other retail exposures gross carrying amount decreased by \$31 million in the six months ended 31 March 2024, with associated ECL increasing by \$2 million.

Corporate exposures

Corporate exposures gross carrying amount increased by \$1,981 million in the six months ended 31 March 2024, with associated ECL decreasing by \$6 million. The movement in ECL is mainly due to a reduction in the collectively assessed allowance of \$22 million due to some customers impacted by severe weather events in February 2023 transferring from Stage 3 to either Stage 1 or Stage 2 classification, partially offset by an increase in the individually assessed allowance of \$16 million for customers in the agribusiness and commercial real estate portfolios.

ECL scenario analysis

The Banking Group's forecasts assume the following key macro-economic variables used in the upside, base case and downside scenario as at 31 March 2024.

	Upside (%) Unaudited			Base case (%) Unaudited			Downside (%) Unaudited		
	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	1.0	3.6	3.0	0.0	3.0	3.0	(2.4)	(2.2)	2.9
Unemployment	5.2	5.3	5.3	5.2	5.6	5.2	4.2	7.6	9.0
House price change year on year	6.2	13.5	12.0	3.3	12.8	12.0	(26.0)	(18.4)	2.1

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

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 (%) Unaudited		Base case (%) Unaudited		Downside (%) Unaudited	
	HY 2024	FY 2023	HY 2024	FY 2023	HY 2024	FY 2023
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		
	Unaudited 31/3/24	Unaudited 30/9/23	Unaudited 31/3/23
Reported probability weighted ECL	971	926	851
100% upside ECL	570	610	618
100% base case ECL	602	610	631
100% downside ECL	1,423	1,311	1,123

Notes to and Forming Part of the Interim Financial Statements

Note 7 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. As at 31 March 2024 there were no individual financial assets designated at fair value through profit or loss subject to credit risk adjustments (30 September 2023: nil).

Dollars in Millions	Banking Group Unaudited (31/3/24)			Total
	Residential Mortgage Lending	Other Retail Exposures	Corporate Exposures	
Credit risk adjustment on groups of financial assets				
Loans and advances to customers¹				
Balance at beginning of period	-	-	6	6
Charge/(credit) to income statement	-	-	(6)	(6)
Balance at end of period	-	-	-	-
Trading derivative financial instruments				
Balance at beginning of period	-	-	6	6
Charge/(credit) to income statement	-	-	(1)	(1)
Balance at end of period	-	-	5	5
Total credit risk adjustments on trading derivative financial instruments	-	-	5	5

¹During the six months ended 31 March 2024, the Banking Group commenced the classification of certain loans and advances to customers as financial assets measured at amortised cost. These were previously measured at fair value through profit or loss.

Notes to and Forming Part of the Interim Financial Statements

Note 8 Asset Quality

The Banking Group provides for credit impairment as disclosed in Note 7 *Allowance for Expected Credit Losses*. Accordingly, when management determines that a loan is not expected to be recovered in full, the principal amount and accrued interest on the obligation are written down to the estimated net realisable value.

Total individually impaired assets were \$255 million as at 31 March 2024. These comprise of loans and advances to customers subject to individually assessed allowance, as disclosed in Note 7 *Allowance for Expected Credit Losses*. As at 31 March 2024 there were no individual financial assets designated at fair value through profit or loss subject to credit risk adjustments.

Dollars in Millions	Banking Group Unaudited (31/3/24)			Total
	Residential Mortgage Lending	Other Retail Exposures	Corporate Exposures	
Individually impaired assets - undrawn lending commitments				
At amortised cost	-	-	5	5
Other assets under administration	5	-	4	9

Dollars in Millions	Banking Group Unaudited (31/3/24)			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	177	20	124	321
8 - 29 days past due	180	15	85	280
1 - 29 days past due	357	35	209	601
30 - 59 days past due	120	7	48	175
60 - 89 days past due	75	4	19	98
90+ days past due	143	13	205	361
Total past due assets not individually impaired	695	59	481	1,235

Notes to and Forming Part of the Interim Financial Statements

Liability Notes

Note 9 Due to Central Banks and Other Institutions

Dollars in Millions	Banking Group		
	Unaudited 31/3/24	Audited 30/9/23	Unaudited 31/3/23
Transaction balances with other institutions ^{1,2}	1,280	1,062	1,809
Deposits from central banks	111	86	87
Deposits from other institutions ^{2,3}	292	341	371
Securities sold under agreements to repurchase from central banks ⁴	3,502	4,591	4,713
Securities sold under agreements to repurchase from other institutions ^{1,2,5}	-	-	257
Total due to central banks and other institutions	5,185	6,080	7,237

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

² 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.

³ Included in deposits from other institutions as at 31 March 2024 was nil amount classified as cash and cash equivalents in the cash flow statement (30 September 2023: \$106 million; 31 March 2023: \$81 million).

⁴ Included in securities sold under agreements to repurchase from central banks as at 31 March 2024 was \$1,053 million (30 September 2023: \$1,142 million; 31 March 2023: \$1,264 million) relating to Term Lending Facility and \$2,449 million (30 September 2023: \$3,449 million; 31 March 2023: \$3,449 million) relating to Funding for Lending Programme.

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 10 Trading Liabilities

Dollars in Millions	Banking Group		
	Unaudited 31/3/24	Audited 30/9/23	Unaudited 31/3/23
Securities sold short	546	237	231
Securities sold under agreements to repurchase from other institutions ^{6,7}	617	631	-
Total trading liabilities	1,163	868	231

⁶ 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.

⁷ 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 11 Deposits and Other Borrowings

Dollars in Millions	Banking Group		
	Unaudited 31/3/24	Audited 30/9/23	Unaudited 31/3/23
Deposits not bearing interest	13,588	13,686	15,003
On-demand and short term deposits bearing interest	29,716	30,014	28,983
Term deposits	36,702	34,802	30,585
Total customer deposits	80,006	78,502	74,571
Certificates of deposit	1,034	1,587	2,275
Commercial paper	752	917	2,012
Total deposits and other borrowings	81,792	81,006	78,858

Notes to and Forming Part of the Interim Financial Statements

Note 12 Subordinated Debt

Dollars in Millions	Banking Group		
	Unaudited 31/3/24	Audited 30/9/23	Unaudited 31/3/23
Subordinated Notes due to related entity	550	550	1,050
Perpetual Notes due to related entity	-	900	900
Total subordinated debt	550	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 Reserve Bank of New Zealand ("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 ordinary shares in the Bank ("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. On 20 October 2023 the Perpetual Notes, all held by National Australia Group (NZ) Limited ("NAGNZ") were converted into 762,750,000 BNZ Shares. 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.

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 Interim Financial Statements

Shareholders' Equity Note

Note 13 Contributed Equity

Number of shares in Millions	Banking Group		
	Unaudited 31/3/24	Audited 30/9/23	Unaudited 31/3/23
Issued and fully paid shares			
Ordinary shares - balance at beginning of period	10,076	5,076	5,076
Ordinary shares - issued during the period	763	5,000	5,000
Ordinary shares - balance at end of period	10,839	10,076	10,076
Perpetual preference shares - balance at beginning of period	375	-	-
Perpetual preference shares - issued during the period	-	375	-
Perpetual preference shares - balance at end of period	375	375	-
Total issued and fully paid shares	11,214	10,451	10,076

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 20 *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 20 October 2023 the Perpetual Notes, all held by NAGNZ were converted into 762,750,000 BNZ Shares. Refer to Note 12 *Subordinated Debt* for further information.

Perpetual preference shares

The perpetual preference shares have 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 holders, and as such are classified as equity instruments.

Notes to and Forming Part of the Interim Financial Statements

Other Notes

Note 14 Related Party Disclosures

Dollars in Millions	Banking Group		
	Unaudited 31/3/24	Audited 30/9/23	Unaudited 31/3/23
Balances with related entities			
Cash and liquid assets	26	37	317
Trading assets	445	781	-
Derivative financial instruments	1,360	1,879	1,610
Loans and advances to customers	5	9	10
Other assets	9	2	30
Total due from related entities	1,845	2,708	1,967
Due to central banks and other institutions	79	116	985
Collateral received	389	309	171
Trading liabilities	387	420	-
Derivative financial instruments	941	1,647	1,455
Other liabilities	18	54	39
Subordinated debt (refer to Note 12)	550	1,450	1,950
Total due to related entities	2,364	3,996	4,600

Other transactions with related entities

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

Notes to and Forming Part of the Interim Financial Statements

Note 15 Fair Value of Financial Instruments

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

Hierarchy for fair value measurements

The tables on pages 20 and 21 present a three-level fair value hierarchy of the Banking Group's financial instruments.

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

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

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

The Banking Group considers transfers between levels of the fair value hierarchy, if any, to have occurred at the beginning of the respective reporting period. There were no transfers between any of the levels in the six months ended 31 March 2024 (year ended 30 September 2023: nil; six months ended 31 March 2023: nil).

Financial instruments at fair value

Dollars in Millions	Banking Group			
	Fair Value Total	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Unaudited (31/3/24)				
Financial assets				
Trading assets	10,076	1,989	8,087	-
Derivative financial instruments	3,434	-	3,434	-
Loans and advances to customers ¹	-	-	-	-
Financial liabilities				
Trading liabilities	1,163	519	644	-
Deposits and other borrowings	1,786	-	1,786	-
Derivative financial instruments	2,719	-	2,719	-
Bonds and notes	8,614	-	8,614	-
Audited (30/9/23)				
Financial assets				
Trading assets ²	9,143	1,984	7,159	-
Derivative financial instruments	4,802	-	4,802	-
Loans and advances to customers	603	-	603	-
Financial liabilities				
Trading liabilities ²	868	215	653	-
Deposits and other borrowings	2,504	-	2,504	-
Derivative financial instruments	4,321	-	4,321	-
Bonds and notes	10,069	-	10,069	-
Unaudited (31/3/23)				
Financial assets				
Trading assets	7,960	2,609	5,351	-
Derivative financial instruments	4,400	-	4,400	-
Loans and advances to customers	465	-	465	-
Financial liabilities				
Trading liabilities	231	226	5	-
Deposits and other borrowings	4,287	-	4,287	-
Derivative financial instruments	4,004	-	4,004	-
Bonds and notes	10,274	-	10,274	-

¹ During the six months ended 31 March 2024, the Banking Group commenced the classification of certain loans and advances to customers as financial assets measured at amortised cost. These were previously measured at fair value through profit or loss.

² 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.

Notes to and Forming Part of the Interim Financial Statements

Note 15 Fair Value of Financial Instruments *continued*

Financial instruments at amortised cost¹

Dollars in Millions	Banking Group				
	Carrying Amount	Unaudited (31/3/24)			
		Fair Value Total	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Financial assets					
Loans and advances to customers ²	104,164	103,552	-	2,194	101,358
Financial liabilities					
Deposits and other borrowings	80,006	79,999	-	79,999	-
Bonds and notes	12,370	12,376	-	12,376	-
Subordinated debt	550	544	-	544	-
Audited (30/9/23)					
Financial assets					
Loans and advances to customers ³	101,175	100,008	-	2,273	97,735
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	-
Unaudited (31/3/23)					
Financial assets					
Loans and advances to customers ³	100,508	99,302	-	2,261	97,041
Financial liabilities					
Deposits and other borrowings	74,571	74,504	-	74,504	-
Bonds and notes	9,177	9,086	-	9,086	-
Subordinated debt	1,950	1,955	-	1,955	-

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

² During the six months ended 31 March 2024, the Banking Group commenced the classification of certain loans and advances to customers as financial assets measured at amortised cost. These were previously measured at fair value through profit or loss.

³ 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 fair value estimates are based on the following methodologies and assumptions:

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.

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.

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.

Notes to and Forming Part of the Interim Financial Statements

Note 16 Segment Analysis

Operating segments

An operating segment is a component of an entity engaging in business activities and whose operating results are regularly reviewed by the entity's chief operating decision maker. For each operating segment identified by the Banking Group, financial information is regularly reported to the 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, small and medium businesses (including agribusiness) and private customers. Corporate and Institutional Banking provides financial products and services to large corporate and institutional customers (including property and agribusiness).

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; 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.

Dollars in Millions	Banking Group				Total Banking Group
	Partnership Banking	Corporate and Institutional Banking	Total Reportable Segments	Other	
	Unaudited 6 Months (31/3/24)				
Net interest income	1,033	354	1,387	75	1,462
Other income ¹	103	122	225	83	308
Total operating income	1,136	476	1,612	158	1,770
Total operating profit/(loss) before income tax expense	1,009	422	1,431	(373)	1,058
Income tax expense	283	118	401	(105)	296
Net profit/(loss) for the period	726	304	1,030	(268)	762
	Audited 12 Months (30/9/23)				
Net interest income	2,142	696	2,838	59	2,897
Other income ¹	223	264	487	113	600
Total operating income	2,365	960	3,325	172	3,497
Total operating profit/(loss) before income tax expense ²	1,973	930	2,903	(800)	2,103
Income tax expense ²	554	260	814	(220)	594
Net profit/(loss) for the period	1,419	670	2,089	(580)	1,509
	Unaudited 6 Months (31/3/23)				
Net interest income	1,082	338	1,420	44	1,464
Other income ¹	120	132	252	59	311
Total operating income	1,202	470	1,672	103	1,775
Total operating profit/(loss) before income tax expense ²	1,039	471	1,510	(391)	1,119
Income tax expense ²	291	132	423	(109)	314
Net profit/(loss) for the period	748	339	1,087	(282)	805

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

² Comparative balances have been reclassified to align with the segment definitions as at 31 March 2024.

Notes to and Forming Part of the Interim Financial Statements

Note 17 Contingent Liabilities and Other Commitments

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Where 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.

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.

Bank guarantees, letters of credit and credit related commitments arising in respect of the Banking Group's operations were:

Dollars in Millions	Banking Group		
	Unaudited 31/3/24	Audited 30/9/23	Unaudited 31/3/23
Bank guarantees and letters of credit			
Bank guarantees	404	414	430
Standby letters of credit	315	317	330
Documentary letters of credit	91	106	113
Performance related contingencies	1,415	1,417	1,294
Total bank guarantees and letters of credit	2,225	2,254	2,167
Credit related commitments			
Revocable commitments to extend credit	5,954	7,452	6,198
Irrevocable commitments to extend credit	13,330	14,217	14,606
Total credit related commitments	19,284	21,669	20,804
Total bank guarantees, letters of credit and credit related commitments	21,509	23,923	22,971

Notes to and Forming Part of the Interim Financial Statements

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

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

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

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

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

The Banking Group had no bank counterparties, supranationals or quasi-sovereign agencies with a long term credit rating below A- or A3, to whom their aggregate credit exposure, as at 31 March 2024, or peak end-of-day aggregate credit exposure, for the six months ended 31 March 2024, equalled or exceeded 10% of the Banking Group's Common Equity Tier 1 capital.

The Banking Group had no non-bank counterparties with a long term credit rating below A- or A3, to whom their aggregate credit exposure, as at 31 March 2024, or peak end-of-day aggregate credit exposure, for the six months ended 31 March 2024, equalled or exceeded 10% of the Banking Group's Common Equity Tier 1 Capital.

Note 19 Insurance Business

The Banking Group does not conduct any Insurance Business, as defined in the Bank's Conditions of Registration. The Bank's Conditions of Registration can be obtained by referring to the Bank's Disclosure Statement for the year ended 30 September 2023.

Notes to and Forming Part of the Interim Financial Statements

Note 20 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.

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 of 1.2 for exposures subject to the IRB approach and 1 for exposures subject to the standardised approach, apply a floor on the IRB exposures equal to 85% of the value of those RWA recalculated using the standardised methodology.

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 33.

The tables on the following pages detail the capital calculation, capital ratios and capital requirements as at 31 March 2024. 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 Interim Financial Statements

Note 20 Capital Adequacy *continued*

Regulatory capital

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

	Banking Group Unaudited 31/3/24
Dollars in Millions	
Qualifying capital	
Common Equity Tier 1 capital	
Contributed equity - ordinary shares	9,956
Retained profits	2,424
Accumulated other comprehensive income and other disclosed reserves	9
Deductions from Common Equity Tier 1 capital:	
Goodwill and other intangible assets	525
Cash flow hedge reserve	51
Credit value adjustment on liabilities designated at fair value through profit or loss	(25)
Prepaid pension assets (net of deferred tax)	6
Deferred tax asset	321
Total expected loss less total eligible allowances for impairment	23
Total Common Equity Tier 1 capital	11,488
Additional Tier 1 capital	
Contributed equity - perpetual preference shares	375
Total Additional Tier 1 capital	375
Total Tier 1 capital	11,863
Tier 2 capital	
Revaluation reserves	3
Subordinated Notes	550
Total eligible impairment allowance in excess of expected loss	357
Total Tier 2 capital	910
Total Tier 1 and Tier 2 qualifying capital	12,773

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.

	Regulatory Minima	Banking Group		
		Unaudited 31/3/24	Unaudited 30/9/23	Unaudited 31/3/23
Common Equity Tier 1 capital ratio	4.5%	14.1%	13.3%	13.3%
Tier 1 capital ratio	6.0%	14.5%	14.6%	14.1%
Total qualifying capital ratio	8.0%	15.6%	15.7%	15.7%
Prudential capital buffer ratio	4.5%	7.6%	7.7%	7.7%

Registered Bank Basel III regulatory capital ratios

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

	The Registered Bank		
	Unaudited 31/3/24	Unaudited 30/9/23	Unaudited 31/3/23
Common Equity Tier 1 capital ratio	14.0%	13.2%	13.2%
Tier 1 capital ratio	14.5%	14.6%	14.1%
Total qualifying capital ratio	15.6%	15.7%	15.7%

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 Interim Financial Statements

Note 20 Capital Adequacy *continued*

Total regulatory capital requirements

Dollars in Millions	Banking Group		
	Unaudited (31/3/24)		
	Total Exposure at Default after Credit Risk Mitigation	Risk-Weighted Exposure or Implied Risk-Weighted Exposure	Total Capital Requirement ¹
Credit risk			
Exposures subject to the internal ratings based approach ¹	115,727	52,421	4,194
Specialised lending subject to the slotting approach ¹	6,609	7,238	579
Exposures subject to the standardised approach ¹	22,447	3,805	304
Equity exposures ¹	1	5	-
Credit Value Adjustment subject to BPR ("CVA")	N/A	564	45
Adjustment for standardised RWA floor ²	N/A	2,311	185
Total credit risk	144,784	66,344	5,307
Operational risk	N/A	11,025	882
Market risk	N/A	4,335	347
Total	144,784	81,704	6,536

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.

² 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.

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 Interim Financial Statements

Note 20 Capital Adequacy *continued*

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

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

Dollars in Millions	Banking Group					
	Weighted Average PD (%)	Exposure at Default ²	Unaudited (31/3/24)			
Exposure-Weighted LGD used for the Capital Calculation (%)			Exposure-Weighted Risk Weight (%)	Risk-Weighted Exposures	Minimum Capital Requirement	
Corporate						
Exposure-weighted PD grade >0 ≤ 0.1%	0.04	5,229	39	15	926	74
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.31	20,055	33	35	8,344	668
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.90	17,524	31	53	11,203	896
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.47	7,134	35	79	6,768	541
Exposure-weighted PD grade >5.0 ≤ 99.99%	9.28	1,067	37	132	1,695	136
Default PD grade = 100%	100.00	475	39	239	1,361	109
Total corporate exposures	1.89	51,484	33	49	30,297	2,424
Residential mortgage						
Exposure-weighted PD grade >0 ≤ 0.1%	-	-	-	-	-	-
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.40	1,074	17	13	165	13
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.98	58,238	19	26	17,868	1,429
Exposure-weighted PD grade >1.5 ≤ 5.0%	4.92	1,819	19	65	1,419	114
Exposure-weighted PD grade >5.0 ≤ 99.99%	-	-	-	-	-	-
Default PD grade = 100%	100.00	464	22	245	1,363	109
Total residential mortgage exposures	1.84	61,595	19	28	20,815	1,665
Other retail¹						
Exposure-weighted PD grade >0 ≤ 0.1%	0.05	730	87	12	107	9
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.24	454	86	38	207	17
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.90	195	86	82	192	15
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.69	106	84	113	144	11
Exposure-weighted PD grade >5.0 ≤ 99.99%	12.88	35	81	145	60	5
Default PD grade = 100%	100.00	8	74	540	55	4
Total other retail exposures	1.25	1,528	86	42	765	61
Retail small to medium enterprises						
Exposure-weighted PD grade >0 ≤ 0.1%	0.07	183	40	8	17	2
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.29	782	31	16	149	12
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.91	422	34	32	164	13
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.59	230	35	47	129	10
Exposure-weighted PD grade >5.0 ≤ 99.99%	12.34	32	40	71	27	2
Default PD grade = 100%	100.00	20	41	238	58	5
Total retail SME exposures	2.19	1,669	34	27	544	44
Total³						
Exposure-weighted PD grade >0 ≤ 0.1%	0.04	6,142	45	14	1,050	85
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.32	22,365	33	33	8,865	710
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.96	76,379	22	32	29,427	2,353
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.95	9,289	32	76	8,460	676
Exposure-weighted PD grade >5.0 ≤ 99.99%	9.47	1,134	39	131	1,782	143
Default PD grade = 100%	100.00	967	31	244	2,837	227
Total exposures	1.86	116,276	26	38	52,421	4,194

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 Interim Financial Statements

Note 20 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 (31/3/24)			Minimum Capital Requirement
	Total Exposure	Exposure at Default ²	Risk- Weighted Exposures	
On-balance sheet exposures				
Corporate	38,959	38,959	23,359	1,869
Residential mortgage	58,813	58,813	20,010	1,601
Other retail	807	807	528	42
Retail small to medium enterprises	1,191	1,191	409	33
Total on-balance sheet exposures	99,770	99,770	44,306	3,545
Off-balance sheet exposures				
Corporate	13,192	11,710	6,350	508
Residential mortgage	3,291	2,782	805	64
Other retail	2,223	721	237	19
Retail small to medium enterprises	478	478	135	11
Total off-balance sheet exposures	19,184	15,691	7,527	602
Derivatives and securities financing transactions¹				
Corporate	815	815	588	47
Total derivatives and securities financing transactions	815	815	588	47
Summary³				
Corporate		51,484	30,297	2,424
Residential mortgage		61,595	20,815	1,665
Other retail		1,528	765	61
Retail small to medium enterprises		1,669	544	44
Total credit risk exposures subject to the IRB approach		116,276	52,421	4,194

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

² Exposure at default is pre-credit risk mitigation.

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

Notes to and Forming Part of the Interim Financial Statements

Note 20 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 (31/3/24)			
	Total Exposure at Default after Credit Risk Mitigation	Risk Weight (%)	Risk-Weighted Exposures	Minimum Pillar One Capital Requirement
On-balance sheet exposures subject to the slotting approach				
Strong	1,016	70	853	68
Good	4,168	90	4,502	360
Satisfactory	664	115	917	73
Weak	169	250	507	41
Default	155	-	-	-
Total on-balance sheet exposures subject to the slotting approach	6,172	92	6,779	542

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 (31/3/24)				
	Total Exposure	Exposure at Default	Average Risk Weight (%)	Risk-Weighted Exposures	Minimum Pillar One Capital Requirement
Off-balance sheet exposures subject to the slotting approach					
Off-balance sheet exposures	7	4	92	4	-
Undrawn commitments	800	422	88	444	36
Market related contracts	1,379	11	84	11	1
Total off-balance sheet exposures subject to the slotting approach	2,186	437	87	459	37
Total exposures subject to the slotting approach	-	6,609	91	7,238	579

Notes to and Forming Part of the Interim Financial Statements

Note 20 Capital Adequacy *continued*

Credit risk exposures subject to the standardised approach

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

Dollars in Millions	Banking Group Unaudited (31/3/24)			
	Total Exposure at Default after Credit Risk Mitigation	Risk Weight or Average Risk Weight (%)	Risk-Weighted Exposures	Minimum Pillar One Capital Requirement
On-balance sheet exposures subject to the standardised approach				
Sovereigns and central banks	11,966	-	-	-
Multilateral development banks and other international organisations	1,307	-	-	-
Public sector entities	1,843	20	369	29
Banks	3,295	42	1,391	111
Corporate	-	100	-	-
Residential mortgages	-	40	-	-
Past due assets	-	56	-	-
Other assets ¹	1,509	91	1,376	110
Total on-balance sheet exposures subject to the standardised approach	19,920	16	3,136	250

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 (31/3/24)					
	Total Exposure or Principal Amount	Average Credit Conversion Factor (%)	Credit Equivalent Amount	Average Risk Weight (%)	Risk-Weighted Exposures	Minimum Pillar One Capital Requirement
Off-balance sheet exposures subject to the standardised approach						
Total off-balance sheet exposures subject to the standardised approach	580	100	578	28	163	13

Dollars in Millions	Banking Group Unaudited (31/3/24)				
	Total Exposure	Credit Equivalent Amount	Average Risk Weight (%)	Risk-Weighted Exposures	Minimum Pillar One Capital Requirement
Counterparty credit risk for counterparties subject to the standardised approach					
Foreign exchange contracts ²	1,599	1,127	32	358	29
Interest rate contracts ²	1,880	812	18	144	12
Other	10	10	37	4	-
Total counterparty credit risk for counterparties subject to the standardised approach	3,489	1,949	26	506	41
Total exposures subject to the standardised approach	22,447		17	3,805	304

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

Equity exposures

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

Dollars in Millions	Banking Group Unaudited (31/3/24)			
	Exposure at Default	Risk Weight (%)	Risk-Weighted Exposures	Minimum Pillar One Capital Requirement
Equity holdings (not deducted from capital) included in the NZX 50 or overseas equivalent index	-	300	-	-
All other equity holdings (not deducted from capital)	1	400	5	-
Total equity exposures	1	377	5	-

Notes to and Forming Part of the Interim Financial Statements

Note 20 Capital Adequacy *continued*

Credit risk mitigation

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

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

Dollars in Millions	Banking Group Unaudited (31/3/24)				
	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	1,602	6,957	-	-	-
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 (31/3/24)		
	On-balance Sheet Exposures at Default	Off-balance Sheet Exposures at Default ¹	Total Exposures at Default
LVR Range			
0-59%	28,345	1,361	29,706
60-69%	12,737	493	13,230
70-79%	14,660	608	15,268
80-89%	2,255	31	2,286
Over 90%	816	289	1,105
Total exposures at default secured by residential mortgages	58,813	2,782	61,595

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 6 *Loans and advances to customers*

Dollars in Millions	Banking Group
	On-balance Sheet Exposures at Default Unaudited 31/3/24
Loans and advances to customers - housing loans	58,812
Add: Partial write offs excluded under the IRB approach	1
Total housing loan exposures secured by residential mortgages	58,813

Operational risk

Dollars in Millions	Banking Group Unaudited (31/3/24)	
	Implied Risk- Weighted Exposure	Total Operational Risk Capital Requirement
Operational risk	11,025	882

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 Interim Financial Statements

Note 20 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 (31/3/24)			
	Implied Risk- Weighted Exposure Peak		Aggregate Capital Charge Peak	
	End of Period	End-of-Day	End of Period	End-of-Day
Interest rate risk	4,302	4,541	344	364
Foreign exchange risk	32	141	3	11
Equity risk	1	1	-	-
Total market risk	4,335	4,683	347	375

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 31 March 2024, the Banking Group had an internal capital allocation for strategic risk of nil (30 September 2023: \$0 million; 31 March 2023: \$0 million).

Capital structure

Contributed equity

Refer to Note 13 *Contributed Equity* for further information on ordinary shares and perpetual preference shares.

Subordinated debt

Refer to Note 12 *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 \$(43) 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 31/3/24	Unaudited 30/9/23	Unaudited 31/3/23	Unaudited 31/3/24	Unaudited 30/9/23	Unaudited 31/3/23
Common Equity Tier 1 capital ratio	12.15%	12.22%	12.21%	11.85%	12.13%	12.03%
Tier 1 capital ratio	14.13%	14.19%	13.89%	14.05%	14.36%	13.92%
Total capital ratio	20.27%	19.88%	19.76%	20.76%	20.67%	20.43%

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 31 March 2024.

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 Pillar 3 report, incorporating the requirements of APS 330, can be accessed at www.nab.com.au.

Notes to and Forming Part of the Interim Financial Statements

Note 21 Risk Management

Risk management disclosure

There have been no material changes to the Banking Group's policies for managing risk, or material exposures to new categories of risk, since 30 September 2023.

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		
	Unaudited 31/3/24	Audited 30/9/23	Unaudited 31/3/23
Maximum exposure to credit risk			
Cash and liquid assets ^{1, 2, 3}	7,452	10,849	9,614
Due from central banks and other institutions	92	90	213
Collateral paid	860	1,107	1,014
Trading assets ^{2, 3}	10,076	9,143	7,960
Derivative financial instruments	3,434	4,802	4,400
Gross loans and advances to customers ³	104,866	102,468	101,650
Other financial assets ⁴	945	559	737
Total on-balance sheet credit exposures	127,725	129,018	125,588
Off-balance sheet credit exposures ⁵	15,555	16,471	16,773
Total maximum exposure to credit risk	143,280	145,489	142,361

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 4 *Cash and Liquid Assets*.

³ 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.

⁴ Other financial assets include securities sold but not yet settled, accrued interest and due from customers on acceptances. Comparative balances have been restated to align with the presentation used in the current period.

⁵ 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		Total exposure
	On-balance sheet	Off-balance sheet	
Concentration by industry			
Agriculture	14,411	1,216	15,627
Forestry and fishing	1,112	324	1,436
Mining	251	204	455
Manufacturing	3,903	1,464	5,367
Electricity, gas and water	598	879	1,477
Construction	1,757	780	2,537
Wholesale and retail trade	4,719	1,330	6,049
Accommodation, restaurants, culture and recreation	1,715	413	2,128
Transport and storage	2,054	1,256	3,310
Communications	438	220	658
Financial, investment and insurance	18,840	1,472	20,312
Property, business and personal services	10,036	1,805	11,841
Government, education, health and community services	8,070	1,252	9,322
Real estate - mortgage	58,812	2,935	61,747
Personal lending	1,009	5	1,014
Total credit exposures by industry	127,725	15,555	143,280
Concentration by geography			
New Zealand	121,076	15,296	136,372
Overseas	6,649	259	6,908
Total credit exposures by geography	127,725	15,555	143,280

Notes to and Forming Part of the Interim Financial Statements

Note 21 Risk Management *continued*

Interest rate repricing schedule

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

Dollars in Millions	Total	Banking Group Unaudited (31/3/24)					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	7,559	7,285	-	-	-	-	-	274
Due from central banks and other institutions	92	91	1	-	-	-	-	-
Collateral paid	860	860	-	-	-	-	-	-
Trading assets	10,076	3,183	692	238	1,546	4,417	-	-
Derivative financial instruments	3,434	-	-	-	-	-	-	3,434
Gross loans and advances to customers	104,866	52,964	12,121	15,982	14,082	7,232	2,485	-
Deductions from loans and advances to customers	(702)	-	-	-	-	-	-	(702)
Other financial assets ¹	945	-	-	-	-	-	-	945
Total financial assets	127,130	64,383	12,814	16,220	15,628	11,649	6,436	
Liabilities								
Due to central banks and other institutions	5,185	3,895	32	51	581	548	78	-
Collateral received	1,409	1,409	-	-	-	-	-	-
Trading liabilities	1,163	617	-	-	69	477	-	-
Deposits and other borrowings	81,792	45,232	10,893	9,586	1,289	1,204	13,588	-
Derivative financial instruments	2,719	-	-	-	-	-	-	2,719
Other financial liabilities ¹	2,119	-	-	-	-	-	-	2,119
Bonds and notes	20,984	1,684	2,678	1,876	2,630	12,116	-	-
Subordinated debt	550	550	-	-	-	-	-	-
Total financial liabilities	115,921	53,387	13,603	11,513	4,569	14,345	18,504	
On-balance sheet sensitivity gap	11,209	10,996	(789)	4,707	11,059	(2,696)	(12,068)	
Derivative financial instruments								
Net hedging derivative notionals	-	(7,758)	2,901	(2,487)	(5,174)	12,518	-	-
Interest sensitivity gap - net	11,209	3,238	2,112	2,220	5,885	9,822	(12,068)	

¹ The Banking Group has revised the classification used to calculate other financial assets and other financial liabilities.

Notes to and Forming Part of the Interim Financial Statements

Note 21 Risk Management *continued*

Maturity profile

The table below shows cash flows by remaining contractual maturities of the Banking Group's financial liabilities and derivative financial liabilities.

The gross cash flows disclosed hereafter are the contractual undiscounted cash flows and include both principal and associated future interest payments and therefore will not agree to the carrying values on the balance sheet. Actual cash flows can differ significantly from contractual cash flows as a result of future actions of the Banking Group and its counterparties. Other financial liabilities only include balances which have contractual future cash flows.

Dollars in Millions	Banking Group Unaudited (31/3/24)					Total (Inflow)/ Outflow
	On Demand	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years	
Liabilities						
Due to central banks and other institutions	1,280	606	1,529	1,927	-	5,342
Collateral received	-	1,409	-	-	-	1,409
Trading liabilities	-	619	10	278	439	1,346
Deposits and other borrowings	42,705	16,499	21,132	2,754	-	83,090
Other financial liabilities ¹	-	1,003	104	299	521	1,927
Bonds and notes	-	334	5,052	17,187	1,154	23,727
Subordinated debt	-	8	27	144	631	810
Total	43,985	20,478	27,854	22,589	2,745	117,651
Derivative financial liabilities²						
Derivative financial liabilities (inflow)	-	(30,330)	(11,187)	(24,625)	(3,746)	(69,888)
Derivative financial liabilities outflow	-	32,946	14,188	31,197	6,197	84,528

¹ The Banking Group has revised the classification used to calculate other financial liabilities.

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 Unaudited 31/3/24
Cash and balances immediately convertible to cash	7,559
Securities purchased under agreements to resell	651
Government bonds, notes and securities	2,271
Semi-government bonds, notes and securities	3,748
Corporate and other institutions bonds, notes and securities	2,243
Total liquidity portfolio	16,472

As at 31 March 2024, the Banking Group also held residential mortgage-backed securities ("RMBS") of \$15,000 million of which \$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 \$6,491 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 31 March 2024, the Banking Group had repurchase agreements with the RBNZ with a value of \$1,053 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 31 March 2024, the Banking Group had repurchase agreements with the RBNZ with a value of \$2,449 million under the FLP.

The underlying collateral accepted by the RBNZ in relation to the TLF and FLP facilities as at 31 March 2024 are RMBS to the value of \$4,463 million.

Notes to and Forming Part of the Interim Financial Statements

Note 21 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 75 percent on a daily basis.

	Banking Group	
	Unaudited For the 3 months ended 31/3/24	Unaudited For the 3 months ended 31/12/23
One-week mismatch ratio	7.8%	9.4%
One-month mismatch ratio	8.3%	10.1%
One-year core funding ratio	89.6%	91.1%

Notes to and Forming Part of the Interim Financial Statements

Note 21 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 Unaudited 31/3/24
Concentration by industry		
Customer deposits		
Agriculture, forestry and fishing		3,051
Mining		469
Manufacturing		1,825
Electricity, gas and water		136
Construction		1,667
Wholesale and retail trade		2,863
Accommodation, restaurants, culture and recreation		1,645
Transport and storage		1,922
Communications		305
Financial, investment and insurance		8,615
Property, business and personal services		13,093
Government, education, health and community services		4,015
Personal deposits		40,400
Total customer deposits by industry		80,006
Concentration by geography		
Wholesale funding		
New Zealand		10,774
Overseas ¹		17,731
Total wholesale funding by geography		28,505
Total funding		108,511
Total funding comprised:		
Customer deposits	11	80,006
Wholesale funding²		
Due to central banks and other institutions		5,185
Other borrowings	11	1,786
Bonds and notes		20,984
Subordinated debt		550
Total wholesale funding		28,505
Total funding		108,511

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

²Following a review of the Banking Group's financial instruments that represent wholesale funding, Collateral received has been removed from this table.

Note 22 Subsequent Events

On 30 April 2024, the Bank completed the sale of BNZ Investment Services Limited (a wholly owned controlled entity of the Bank), which is the manager and issuer of certain NZ managed investment schemes, to a newly established entity FirstCape Limited ("FirstCape"). FirstCape is jointly owned by NAB, Jarden Wealth and Asset Management Holdings Limited, and funds managed by Pacific Equity Partners. The transaction is expected to result in a pre-tax gain of approximately \$103 million (before transaction costs). This gain will be included in the Bank's statutory net profit for the half year ending 30 September 2024. The ultimate financial outcome of the transaction remains subject to the finalisation of the completion accounts process.



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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 at 31 March 2024 or from time to time during the period (collectively the "Banking Group") consisted of the following:

- ▶ Limited assurance engagement in relation to the condensed consolidated interim financial statements (the "Interim Financial Statements") of the Bank for the six months ended 31 March 2024 that are required by Clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") included on pages 3 to 38 of the Disclosure Statement. These pages also include the Supplementary Information, and the Capital Adequacy and Regulatory Liquidity Ratios Information which are subject to separate conclusions as described below and so are not covered by the Interim Financial Statements assurance.
- ▶ Limited assurance engagement in relation to the information required by Clause 22 of the Order to be disclosed in accordance with Schedule 5 (being the "additional information on statement of financial position" that is presented on the balance sheet and in Notes 2 and 14, additional information on income statement that is presented on the income statement and in Notes 2 and 7, additional information on concentrations of credit risk (Note 21), additional information on concentrations of funding (Note 21), additional information on interest rate sensitivity (Note 21), additional information on liquidity risk (Note 21) and reconciliation of mortgage-related amounts (Note 20)), Schedule 7 (Asset Quality in Notes 7 and 8), Schedule 13 (Concentration of Credit Exposures to Individual Counterparties in Note 18), Schedule 16 (Insurance business, securitisation, funds management, other fiduciary activities, and marketing and distribution of insurance products in Note 19) and Schedule 18 (Risk Management Policies in Note 21) of the Order (together the "Supplementary Information"). The Supplementary Information is presented for the six months ended 31 March 2024 or as at that date, as applicable.
- ▶ Limited assurance engagement in relation to the information required by Clause 22 of the Order to be disclosed in accordance with Schedule 11 of the Order which is disclosed in Notes 20 and 21 (the "Capital Adequacy and Regulatory Liquidity Ratios Information"). The Capital Adequacy and Regulatory Liquidity Ratios Information is presented for the six months ended 31 March 2024 or as at that date, as applicable.

Independent Auditor's Review Report to the Shareholders of Bank of New Zealand Report on the Interim Financial Statements and Supplementary Information

Conclusion

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

- ▶ the balance sheet of the Banking Group as at 31 March 2024;
- ▶ the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six months then ended of the Banking Group; and
- ▶ other explanatory information.

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

- ▶ Interim Financial Statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* (NZ IAS 34) and International Accounting Standard 34: *Interim Financial Reporting* (IAS 34), and
- ▶ Supplementary Information that is required to be disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Order:
 - ▶ does not present fairly, in all material respects, the matters to which it relates; or
 - ▶ is not disclosed, in all material respects, in accordance with those schedules.

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

Independent Auditor's Review Report



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Basis for conclusion

We conducted our review in accordance with New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibilities are further described in the *Auditor's responsibilities for the review of the Interim Financial Statements and Supplementary Information* section of our report.

We are independent of the Banking Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements.

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

Directors' responsibilities for the Interim Financial Statements and Supplementary Information

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

In addition, the directors are responsible, on behalf of the Bank, for the preparation of the Supplementary Information which presents fairly, in all material respects, the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order.

Auditor's responsibilities for the review of the Interim Financial Statements and Supplementary Information

Our responsibility is to express a conclusion on the Interim Financial Statements and Supplementary Information based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the:

- ▶ Interim Financial Statements, taken as a whole, have not been prepared, in all material respects, in accordance with NZ IAS 34 and IAS 34; and
- ▶ Supplementary Information that is required to be disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Order:
 - ▶ does not present fairly, in all material respects, the matters to which it relates; or
 - ▶ is not disclosed, in all material respects, in accordance with those schedules; or
 - ▶ if applicable, has not been prepared, in all material respects in accordance with any conditions of registration relating to disclosure requirements imposed under section 74(4)(c) of the Banking (Prudential Supervision) Act 1989.

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

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

The Ernst & Young signature logo is written in a black, cursive script.

Chartered Accountants
23 May 2024
Auckland

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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 Ratios Information

Conclusion

We have undertaken a limited assurance engagement on the compliance, in all material respects, of the Bank's Capital Adequacy and Regulatory Liquidity Ratios Information for the six months ended 31 March 2024 or as at that date, as applicable, 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 Ratios Information for the six months ended 31 March 2024 or as at that date, as applicable, disclosed in Notes 20 and 21 to the Interim 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 22 which requires the Capital Adequacy and Regulatory Liquidity Ratios Information to be included in the Disclosure Statement in accordance with Schedule 11 of the Order.
2. Identification of risks that threaten compliance with Clause 22 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 Ratios 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 Ratios 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.

Independent Auditor's Review Report



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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 Ratios 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 Ratios Information.
- ▶ Agreed selected elements of the Capital Adequacy and Regulatory Liquidity Ratios 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 Ratios Information disclosed in accordance with Schedule 11 and considered its consistency with the Interim 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 ratios 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 financial statement and supplementary information audit, 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 Ratios Information in the Disclosure Statement for the six months ended 31 March 2024 or as at that date, as applicable, 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 as to whether the Bank's Capital Adequacy and Regulatory Liquidity Ratios 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 Disclosure Statement.

The signature 'Ernst & Young' is written in a black, cursive script.

Chartered Accountants
Auckland
23 May 2024

Credit Ratings

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

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

Conditions of Registration

Changes in Conditions of Registration

Between 30 September 2023 and 31 March 2024, the RBNZ made the following changes to the Bank's Conditions of Registration.

On 1 October 2023, the Bank's Conditions of Registration were updated to (i) refer to updated versions of Banking Prudential Requirements 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 Policy*) which, among other things, removes the gross connected exposures limit as a percentage of Tier 1 capital.

On 1 December 2023, the Bank's Conditions of Registration were updated to permit the Bank to return customers impacted by Cyclone Gabrielle from a "restricted" classification to "performing" without waiting six months to re-rate the loan as "non-defaulted".

In addition, on 1 April 2024 following the balance date of this Disclosure Statement, the Bank's Conditions of Registration were updated to (i) incorporate the adjustments necessary to clarify the risk weighting of past due loans underwritten by Kāinga Ora, (ii) reflect that the phased implementation of the updated version of Banking Standard 8 (*BS8 Connected Exposures Policy*) is complete and (iii) remove the requirements for the transition period which ended on 30 September 2023 for Banking Standard 11 (*BS11 Outsourcing Policy*).

Non-compliance with Conditions of Registration

The Bank's Disclosure Statement for the year ended 30 September 2020 noted that it had concluded an investigation phase of the data and systems used to calculate its regulatory capital and was continuing with remediation activities. The programme under which these remediation activities were being undertaken has now concluded with a number of non-material data and system related errors being advised to RBNZ and subsequently corrected.

Directors' Statement

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

1. as at the date on which this Disclosure Statement is signed:
 - (a) the Disclosure Statement contains all the information that is required by the Order; and
 - (b) the Disclosure Statement is not false or misleading; and
2. during the six months ended 31 March 2024:
 - (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 23rd May 2024 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

