Bank of New Zealand

Disclosure Statement

For the six months ended 31 March 2020

No. 93

Disclosure Statement

For the six months ended 31 March 2020

This Disclosure Statement has been issued by Bank of New Zealand for the six months ended 31 March 2020 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

In this Disclosure Statement, unless the context otherwise requires:

a) "Banking Group" means Bank of New Zealand's financial reporting group, which consists of Bank of New Zealand, all of its wholly owned entities and other entities consolidated for financial reporting purposes; and

b) Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.

Contents

Bank of New Zealand Corporate Information

Address for Service

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

Nature of Business

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

Guarantees

Covered Bond Guarantee

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

The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to any senior unsecured obligations payable in New Zealand dollars. The Covered Bonds have been assigned a long term credit rating of Aaa and AAA from Moody's Investors Service Pty Limited and Fitch Australia Pty Limited, respectively. Refer to note 7 for further information. Further details about the above guarantee can be obtained by referring to the Bank's Disclosure Statement for the year ended 30 September 2019 which is available at www.bnz.co.nz.

Other material obligations of the Bank are not guaranteed.

Ultimate Parent Bank

Ultimate Parent Bank and Address for Service

The ultimate parent bank, and ultimate holding company, of Bank of New Zealand is National Australia Bank Limited. National Australia Bank Limited's address for service is Level 1, 800 Bourke Street, Docklands, Victoria 3008, Australia.

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

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

Since 30 September 2019, 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.

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

In New Zealand and globally, measures have already been introduced, and may be further extended, to control the spread of the COVID-19 pandemic, including travel and trade restrictions, restrictions on public gatherings and business operations. These measures have had, and are expected to continue to have, a substantial negative impact on economic activity both in New Zealand and globally. In addition, governments and regulatory authorities, both in New Zealand and globally, have announced welfare, banking system, fiscal and economic support packages in response to the COVID-19 pandemic with the aim of reducing the severity of social and economic downturn. The extent to which these packages may mitigate and/or defer the economic impact, including any credit losses the Banking Group may incur, is uncertain. There is also a risk that these packages (or any reforms and measures introduced as the packages are unwound) may in themselves create longer-term risks to the economy and an increase in credit and other risks facing the Banking Group.

In New Zealand, a broad range of measures has already been implemented, and further measures may be introduced, to promote financial stability and ensure foreign exchange, debt and money markets continue operating efficiently and at low cost, many of which affect the Banking Group.

Further information on some specific measures is set out below.

The New Zealand Government and the Reserve Bank of New Zealand ("RBNZ") have implemented a financial support package for homeowners and businesses affected by the economic impacts of the COVID-19 pandemic, in which the Bank, along with other New Zealand registered banks, has agreed to participate. The package includes a loan repayment deferral scheme for residential mortgages and other consumer lending, as well as lending to small to medium-sized enterprises and the agricultural sector, which facilitates the deferral of repayments for a period of up to six months. The financial support package also includes a wage subsidy scheme to help employers who are adversely affected by the COVID-19 pandemic to continue to pay their staff.

The New Zealand Government and certain New Zealand registered banks (including the Bank) have also implemented the Business Finance Guarantee Scheme to provide short-term credit to eligible small and medium-sized businesses. The New Zealand Government will take on 80% of the credit risk of each loan, with the other 20% to be retained by the New Zealand registered banks.

The RBNZ has announced a number of lending facilities intended to provide liquidity to New Zealand registered banks and to support bank lending, as well as a large scale asset purchase programme to provide further support to the New Zealand economy, build confidence, and keep interest rates low.

Amendments have been made to the Companies Act 1993 and other legislation to help businesses facing insolvency due to the COVID-19 pandemic to remain viable, including by introducing a COVID-19 business debt hibernation regime.

The Inland Revenue Department has introduced a range of measures to assist businesses impacted by the COVID-19 pandemic, including a small business cash flow loan scheme and a loss carry back scheme that allows businesses to offset current year losses against prior year profits.

Bank of New Zealand Corporate Information

Directorate
Linley Ann Wood was appointed as an Independent Non-Executive Director of the Bank, effective 14 April 2020.

Responsible Persons
Mr. Douglas Alexander McKay, ONZM, Non-Executive Director, Chairman, and Ms. Angela Mentis, Executive Director, have been authorised in writing to sign this Disclosure Statement in accordance with section 82 of the Reserve Bank of New Zealand Act 1989 (“RBNZ Act”), on behalf of the other Directors, being:

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

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

Income Statement

For the six months ended 31 March 2020

Dollars in Millions	Note	Consolidated Unaudited 6 Months 31/3/20	Audited 12 Months 30/9/19	Unaudited 6 Months 31/3/19
Interest income		**1,951**	4,195	2,115
Interest expense		**900**	2,134	1,081
Net interest income		**1,051**	2,061	1,034
Gains less losses on financial instruments	2	**76**	129	24
Other operating income	3	**190**	466	244
Total operating income		**1,317**	2,656	1,302
Operating expenses		**656**	1,135	492
Total operating profit before credit impairment charge and income tax expense		**661**	1,521	810
Credit impairment charge	8	**151**	114	46
Total operating profit before income tax expense		**510**	1,407	764
Income tax expense on operating profit		**143**	385	214
Net profit attributable to the shareholder of Bank of New Zealand		**367**	1,022	550

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

NZ IFRS 16 Leases ("NZ IFRS 16") has been adopted from 1 October 2019 and has been applied in the preparation of the income statement. Comparative balances have not been restated. Refer to note 1 for further information.

Statement of Comprehensive Income

For the six months ended 31 March 2020

Dollars in Millions	Consolidated Unaudited 6 Months 31/3/20	Audited 12 Months 30/9/19	Unaudited 6 Months 31/3/19
Net profit attributable to the shareholder of Bank of New Zealand	**367**	1,022	550
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Actuarial gain/(loss) on defined benefit plan	**-**	2	-
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	**464**	20	10
Tax on items recognised in equity	**(130)**	(6)	(3)
	334	16	7
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	**6**	85	43
Movement in cost of hedging reserve	**11**	-	-
Tax on items recognised in equity	**(5)**	(24)	(12)
	12	61	31
Total other comprehensive income/(expense)	**346**	77	38
Total comprehensive income attributable to the shareholder of Bank of New Zealand	**713**	1,099	588

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

NZ IFRS 16 has been adopted from 1 October 2019 and has been applied in the preparation of the statement of comprehensive income. Comparative balances have not been restated. Refer to note 1 for further information.

Statement of Changes in Equity

For the six months ended 31 March 2020

Dollars in Millions	Ordinary Capital	Retained Profits	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Cost of Hedging Reserve	Total Share-holder's Equity
Consolidated						
Unaudited 6 Months 31/3/20						
Balance at beginning of period	4,056	3,778	3	96	-	7,933
Comprehensive income/(expense)						
Net profit attributable to the shareholder of the Bank	-	367	-	-	-	367
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	464	-	-	-	464
Reserve movement through other comprehensive income	-	-	-	6	11	17
Tax effect on items directly recognised in equity	-	(130)	-	(2)	(3)	(135)
Total comprehensive income/(expense)	-	701	-	4	8	713
Dividends paid on ordinary shares[1]	-	-	-	-	-	-
Balance at end of period	4,056	4,479	3	100	8	8,646
Audited 12 Months 30/9/19						
Balance at beginning of year	3,456	3,885	3	35	-	7,379
Comprehensive income/(expense)						
Net profit attributable to the shareholder of the Bank	-	1,022	-	-	-	1,022
Actuarial gain/(loss) on defined benefit plan	-	2	-	-	-	2
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	20	-	-	-	20
Reserve movement through other comprehensive income	-	-	-	85	-	85
Tax effect on items directly recognised in equity	-	(6)	-	(24)	-	(30)
Total comprehensive income/(expense)	-	1,038	-	61	-	1,099
Dividends paid on ordinary shares	-	(1,145)	-	-	-	(1,145)
Issue of ordinary shares through dividend reinvestment	600	-	-	-	-	600
Balance at end of year	4,056	3,778	3	96	-	7,933
Unaudited 6 Months 31/3/19						
Balance at beginning of period	3,456	3,885	3	35	-	7,379
Comprehensive income/(expense)						
Net profit attributable to the shareholder of the Bank	-	550	-	-	-	550
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	10	-	-	-	10
Reserve movement through other comprehensive income	-	-	-	43	-	43
Tax effect on items directly recognised in equity	-	(3)	-	(12)	-	(15)
Total comprehensive income/(expense)	-	557	-	31	-	588
Dividends paid on ordinary shares	-	(945)	-	-	-	(945)
Issue of ordinary shares through dividend reinvestment	600	-	-	-	-	600
Balance at end of period	4,056	3,497	3	66	-	7,622

[1] Refer to Conditions of Registration for changes in the Bank's Conditions of Registration affecting dividend payments.

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

NZ IFRS 16 has been adopted from 1 October 2019 and has been applied in the preparation of the statement of changes in equity. Comparative balances have not been restated. Refer to note 1 for further information.

Balance Sheet

As at 31 March 2020

		Consolidated		
		Unaudited	Audited	Unaudited
Dollars in Millions	Note	**31/3/20**	30/9/19	31/3/19
Assets				
Cash and liquid assets	4	**7,002**	2,740	1,495
Due from central banks and other institutions	5	**2,254**	1,434	1,167
Trading securities	6	**7,946**	7,267	7,479
Derivative financial instruments		**9,791**	7,616	4,242
Loans and advances to customers	7	**89,549**	88,041	85,681
Amounts due from related entities	13	**717**	615	1,717
Other assets		**392**	732	1,228
Deferred tax		**274**	197	186
Property, plant and equipment		**393**	177	181
Goodwill and other intangible assets		**182**	293	382
Total assets		**118,500**	109,112	103,758
Liabilities				
Due to central banks and other institutions	10	**2,619**	1,833	1,921
Trading liabilities		**21**	91	65
Derivative financial instruments		**7,761**	6,106	3,503
Deposits and other borrowings	11	**72,956**	67,968	66,390
Bonds and notes		**21,207**	21,121	19,369
Current tax liabilities		**132**	80	41
Amounts due to related entities	13	**2,090**	838	806
Other liabilities		**1,121**	1,194	2,094
Subordinated debt	12	**1,947**	1,948	1,947
Total liabilities		**109,854**	101,179	96,136
Net assets		**8,646**	7,933	7,622
Shareholder's equity				
Contributed equity – ordinary shares		**4,056**	4,056	4,056
Reserves		**111**	99	69
Retained profits		**4,479**	3,778	3,497
Total shareholder's equity		**8,646**	7,933	7,622
Interest earning and discount bearing assets		**105,631**	98,437	95,999
Interest and discount bearing liabilities		**93,290**	87,345	84,420

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

NZ IFRS 16 has been adopted from 1 October 2019 and has been applied in the preparation of the balance sheet. Comparative balances have not been restated. Refer to note 1 for further information.

Condensed Cash Flow Statement

For the six months ended 31 March 2020

Dollars in Millions	Note	Consolidated Unaudited 6 Months 31/3/20	Audited 12 Months 30/9/19	Unaudited 6 Months 31/3/19
Cash flows from operating activities				
Cash was provided from:				
Interest income		1,951	4,212	2,112
Other cash inflows provided from operating activities		200	517	244
Cash was applied to:				
Interest expense		(989)	(2,161)	(1,076)
Other cash outflows applied to operating activities		(871)	(1,369)	(873)
Net cash flows from operating activities before changes in operating assets and liabilities		291	1,199	407
Net change in operating assets and liabilities		2,426	(1,578)	(546)
Net cash flows from operating activities		2,717	(379)	(139)
Net cash flows from investing activities		(77)	(165)	(101)
Net cash flows from financing activities		588	581	(437)
Net movement in cash and cash equivalents		3,228	37	(677)
Cash and cash equivalents at beginning of period		1,946	1,909	1,909
Cash and cash equivalents at end of period		5,174	1,946	1,232
Cash and cash equivalents at end of period comprised:				
Cash and liquid assets	4	7,002	2,740	1,495
Due to central banks and other institutions classified as cash and cash equivalents	10	(1,452)	(1,033)	(1,329)
Amounts due from related entities classified as cash and cash equivalents	13	703	604	1,687
Amounts due to related entities classified as cash and cash equivalents	13	(1,079)	(365)	(621)
Total cash and cash equivalents		5,174	1,946	1,232

Reconciliation of net profit attributable to the shareholder of Bank of New Zealand to net cash flows from operating activities			
Net profit attributable to the shareholder of Bank of New Zealand	367	1,022	550
Add back non-cash items in net profit	(76)	213	(143)
Deduct items classified as investing activities included in net profit:			
Gain on sale from disposal of associate	-	(36)	-
Deduct operating cash flows not included in net profit:			
Net change in operating assets and liabilities	2,426	(1,578)	(546)
Net cash flows from operating activities	2,717	(379)	(139)

Condensed Cash Flow Statement

For the six months ended 31 March 2020

			Consolidated		
			Unaudited 6 months 31/3/20		
Dollars in Millions	Bonds and Notes	Subordinated Debt	Amounts due to Related Entities[1]	Amounts due from Related Entities[1]	Total
Reconciliation of net debt					
Balance at beginning of period	**21,121**	**1,948**	**473**	**(11)**	**23,531**
Net cash flows	**(406)**	**-**	**538**	**(3)**	**129**
Non-cash changes	**492**	**(1)**	**-**	**-**	**491**
Balance at end of period	**21,207**	**1,947**	**1,011**	**(14)**	**24,151**
			Audited 12 months 30/9/19		
Balance at beginning of year	19,760	1,946	303	(14)	21,995
Net cash flows	359	-	170	3	532
Non-cash changes	1,002	2	-	-	1,004
Balance at end of year	21,121	1,948	473	(11)	23,531
			Unaudited 6 months 31/3/19		
Balance at beginning of period	19,760	1,946	303	(14)	21,995
Net cash flows	(32)	-	(118)	(16)	(166)
Non-cash changes	(359)	1	-	-	(358)
Balance at end of period	19,369	1,947	185	(30)	21,471

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

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

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 2019.

Reclassification of financial information

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

Changes in accounting policies and disclosure

Accounting policies used in the preparation of these interim financial statements are consistent with the accounting policies used in the preparation of the Disclosure Statement for the year ended 30 September 2019, except for the adoption of the following new accounting standards, interpretations and policies on 1 October 2019:

- NZ IFRS 16 *Leases;*
- *Interest Rate Benchmark Reform* amendments to NZ IFRS 9 *Financial Instruments* ("NZ IFRS 9"), NZ IAS 39 *Financial Instruments: Recognition and Measurement* ("NZ IAS 39") and NZ IFRS 7 *Financial Instruments: Disclosures* ("NZ IFRS 7");
- Change in classification and measurement of foreign currency bonds and notes with new issuances measured at amortised cost and subject to hedge accounting; and
- NZ IFRIC 23 *Uncertainty over Income Tax Treatments* ("NZ IFRIC 23").

The impact of each of the changes is described below.

NZ IFRS 16 Leases

NZ IFRS 16 significantly changes accounting for lessees, requiring recognition of all leases (subject to certain exceptions) on balance sheet in a manner comparable to how finance leases were previously accounted for under NZ IAS 17 *Leases* ("NZ IAS 17"), including related interpretations. Lessor accounting remains largely unchanged compared to NZ IAS 17.

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

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

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

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

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

The Banking Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

The Banking Group adopted NZ IFRS 16 using the modified retrospective transition option, and as a result, comparative information from prior periods has not been restated.

On transition, NZ IFRS 16 requires the lease liability to be measured based on the future lease payments and permits two options for the measurement of the right-of-use asset. The right-of-use asset may either be measured with reference to the value of the lease liability or retrospectively (independently from the lease liability). The standard allows for these measurement options to be applied on a lease-by-lease basis.

The impact of the adoption of NZ IFRS 16 was disclosed in the Disclosure Statement for the year ended 30 September 2019. In making these disclosures, the right-of-use assets were measured with reference to the value of the lease liability.

As at 31 March 2020, right-of-use assets included within 'Property, plant and equipment' were $227 million, lease liabilities included within 'Other liabilities' were $205 million and make-good provisions included under 'Other liabilities' were $26 million. During the six months ended 31 March 2020, 'Operating expenses' included the depreciation charge relating to right-of-use assets of $27 million and 'Interest expense' included interest relating to the lease liability of $3 million.

Note 1 Principal Accounting Policies *continued*

Changes in accounting policies and disclosure *continued*

NZ IFRS 16 Leases *continued*

The following table reconciles the operating lease commitments disclosed under NZ IAS 17 as at 30 September 2019 to the opening lease liabilities recognised under NZ IFRS 16 as at 1 October 2019.

Dollars in Millions	
Operating lease commitments at 30 September 2019	228
Less short-term and low value assets	(4)
Add reassessments under NZ IFRS 16	20
Effect of discounting at a weighted average incremental borrowing rate of 2.2%	(17)
Operating lease commitments at 1 October 2019	227

On transition, the Banking Group, as lessee, applied the following practical expedients as permitted by NZ IFRS 16:

- Relied on previous assessments of contracts that were identified as leases under NZ IAS 17.
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Accounted for leases for which the lease term ends within 12 months of 1 October 2019 as short-term leases.
- Excluded initial direct costs from the measurement of right-of-use assets.
- Used hindsight to determine the lease term.

Interest Rate Benchmark Reform

Public authorities in major jurisdictions have taken steps to implement the recommendations from the review by the Financial Stability Board of interest rate benchmarks such as interbank offered rates ("IBOR"). In some jurisdictions there is already clear progress towards reform of interest rate benchmarks whilst some jurisdictions have opted to replace certain interest rate benchmarks with alternative, nearly risk-free interest rates, based on transaction data (Alternative Reference Rates). This has led to increasing uncertainty about the long-term viability of some interest rate benchmarks.

In view of this uncertainty, the Banking Group has early adopted the new standard Interest Rate Benchmark Reform issued by the New Zealand Accounting Standards Board in November 2019. The standard amends NZ IFRS 7 and NZ IFRS 9, modifying some specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by interest rate benchmark reform. The standard did not have a significant impact on the Banking Group on adoption. The Banking Group is monitoring developments by the International Accounting Standards Board, including its Phase 2 IBOR reform project, as it considers the impact to financial reporting.

The Banking Group's hedging activities expose it to the following significant interest rate benchmarks subject to cessation: USD LIBOR, GBP LIBOR, JPY LIBOR and CHF LIBOR. Some of these hedges are designated as hedge accounting relationships. In addition to interest rate risk, the Banking Group is also exposed to foreign exchange risk and potentially in the future, additional basis risk as market conventions develop and evolve.

Further information on the hedging strategy and hedge accounting relationships are explained in note 14 of the Banking Group's September 2019 Disclosure Statement with some current period changes explained in this note below.

The Banking Group has established a Project team to comprehensively manage the impacts of IBOR reform, including overseeing the transition from impacted interest rate benchmarks to Alternative Reference Rates. The Project team is part of and works closely with the respective NAB Group project team.

Change in classification and measurement of foreign currency bonds and notes

Change in classification and measurement of foreign currency bonds and notes is a voluntary change in the Banking Group's practice for measurement of these instruments in accordance with NZ IFRS 9. Historically all foreign currency bonds and notes were designated as measured at fair value through profit or loss. The Banking Group changed this practice in the current reporting period with new issuances now measured at amortised cost. Further, the Banking Group adopted hedge accounting to foreign currency bonds and notes measured at amortised cost to reflect its hedging strategy to swap foreign currency cash flows to New Zealand dollars using cross-currency interest rate swaps. The Banking Group made the election to exclude currency basis from hedge designation. Changes in fair value of hedging instruments due to currency basis are recognised in other comprehensive income and presented in the cost of hedging reserve in equity.

NZ IFRIC 23 Uncertainty over income tax treatments

NZ IFRIC 23 clarifies the application of the recognition and measurement criteria in NZ IAS 12 *Income Taxes* where there is uncertainty over income tax treatments. The interpretation requires an assessment of each uncertain tax position and consideration of whether it is probable that a taxation authority will accept the entity's position. Where it is not probable that the taxation authority will accept the position, the effect of the uncertainty is reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates.

The Banking Group's existing income tax recognition and measurement accounting policies, and related judgements, were materially aligned with the requirements of the interpretation. Consequently, no transition adjustment to retained earnings was required.

Change in policy for capitalising software

In the March 2020 half year, the Banking Group made a change to the application of the software capitalisation policy by increasing the minimum threshold at which software is capitalised from $2 million to $5 million. The impact of this change was an accelerated amortisation charge of $151 million recognised in operating expenses.

Critical accounting assumptions and estimates

The preparation of these interim financial statements requires the use of critical accounting estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Except as explained below, there have been no significant changes to the accounting estimates, judgments and assumptions used in preparing the interim financial statements compared to those applied in the preparation of the Disclosure Statement for the year ended 30 September 2019.

Note 1 Principal Accounting Policies *continued*

Measurement of expected credit losses

The impact of the COVID-19 pandemic remains uncertain and represents a material downside risk to the economy. While the methodologies and assumptions applied in the base expected credit loss ("ECL") calculations remained unchanged from those applied in the Disclosure Statement for the year ended 30 September 2019, the Banking Group has incorporated estimates, assumptions and judgments specific to the impact of the COVID-19 pandemic and the associated support packages in the measurement of ECL. These are explained further in note 8.

Income Statement Notes

	Consolidated		
	Unaudited 6 Months	Audited 12 Months	Unaudited 6 Months
Dollars in Millions	**31/3/20**	30/9/19	31/3/19
Note 2 Gains Less Losses on Financial Instruments			
Trading gains less losses on financial instruments	**9**	144	89
Net gain/(loss) attributable to assets, liabilities and derivatives designated in hedge relationships	**(15)**	(5)	3
Net gain/(loss) in the fair value of derivatives used for hedging purposes not designated in hedge relationships	**9**	14	3
Net gain/(loss) in the fair value of financial assets designated at fair value though profit or loss and related derivatives (refer to table below)	**1**	8	(1)
Net gain/(loss) in the fair value of financial liabilities designated at fair value though profit or loss and related derivatives (refer to table below)[1]	**78**	(32)	(70)
Other gains less losses on financial instruments	**(6)**	-	-
Total gains less losses on financial instruments	**76**	129	24
Net gain/(loss) in the fair value of financial assets designated at fair value though profit or loss and related derivatives includes:			
Credit risk adjustments on financial assets designated at fair value through profit or loss	**1**	5	4
Gain/(loss) in the fair value of financial assets designated at fair value through profit or loss	**(10)**	(8)	(5)
Net gain/(loss) in the fair value of financial liabilities designated at fair value though profit or loss and related derivatives includes:			
Gain/(loss) attributable to derivatives used for hedging of financial liabilities designated at fair value though profit or loss	**184**	540	211
Gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss	**(106)**	(572)	(281)

[1] All foreign currency gains/(losses) are excluded from this category. Due to the Banking Group's practice of managing all foreign exchange risk centrally, all foreign currency gains/(losses) are included within 'Trading gains less losses on financial instruments' above.

	Consolidated		
	Unaudited 6 Months	Audited 12 Months	Unaudited 6 Months
Dollars in Millions	**31/3/20**	30/9/19	31/3/19
Note 3 Other Operating Income			
Money transfer fees	**48**	111	56
Fees earned on financial assets and liabilities at fair value through profit or loss	**19**	43	23
Fees earned on financial assets and liabilities at amortised cost	**76**	141	68
Fees earned on trust and other fiduciary activities	**5**	14	7
Other income, other fees and commissions income	**42**	157	90
Total other operating income	**190**	466	244

Asset Notes

Dollars in Millions	Consolidated Unaudited 31/3/20	Audited 30/9/19	Unaudited 31/3/19
Note 4 Cash and Liquid Assets			
Coins, notes and cash at bank	**314**	166	162
Transaction balances with central banks	**4,625**	1,700	376
Transaction balances with other institutions	**1,017**	277	749
Securities purchased under agreements to resell with other institutions	**1,046**	597	208
Total cash and liquid assets	**7,002**	2,740	1,495

The Banking Group has accepted collateral with a fair value of $1,761 million as at 31 March 2020 arising from reverse repurchase agreements included in cash and liquid assets and amounts due from related entities (refer to note 13), which it is permitted to sell or repledge (30 September 2019: $1,176 million; 31 March 2019: $1,898 million).

Government securities with a fair value of $234 million were repledged as at 31 March 2020 (30 September 2019: $71 million; 31 March 2019: $362 million). Securities were repledged for periods of less than three months. The Bank's obligation to repurchase government securities is classified under due to central banks and other institutions (refer to note 10).

Note 5 Due from Central Banks and Other Institutions

Included in due from central banks and other institutions as at 31 March 2020 was $1,516 million of collateral posted with counterparties to meet standard derivative trading obligations (30 September 2019: $1,207 million; 31 March 2019: $758 million).

Dollars in Millions	Consolidated Unaudited 31/3/20	Audited 30/9/19	Unaudited 31/3/19
Note 6 Trading Securities			
Government bonds, notes and securities	**3,589**	2,498	3,260
Semi-government bonds, notes and securities	**2,881**	2,850	2,624
Corporate and other institutions bonds, notes and securities	**1,476**	1,919	1,595
Total trading securities	**7,946**	7,267	7,479

Included in trading securities as at 31 March 2020 were $713 million encumbered through repurchase agreements (30 September 2019: $76 million; 31 March 2019: $280 million). These trading securities have not been derecognised by the Bank as the Bank retains substantially all the risks and rewards of ownership. Counterparties have the right to sell or repledge these encumbered securities. The Bank's obligation to repurchase trading securities is classified under due to central banks and other institutions (refer to note 10) and amounts due to related entities (refer to note 13).

Dollars in Millions	Consolidated Unaudited 31/3/20	Audited 30/9/19	Unaudited 31/3/19
Note 7 Loans and Advances to Customers			
Overdrafts	**2,506**	2,970	2,700
Credit card outstandings	**1,038**	1,140	1,163
Housing loans	**44,597**	42,883	41,199
Other term lending	**40,983**	40,447	40,162
Other lending	**978**	1,050	932
Total gross loans and advances to customers	**90,102**	88,490	86,156
Deduct:			
Provision for credit impairment and credit risk adjustments on financial assets (refer to note 8)	**776**	657	618
Deferred and other unearned future income and expenses	**(68)**	(59)	(62)
Fair value hedge adjustments on housing loans	**(155)**	(149)	(81)
Total deductions	**553**	449	475
Total net loans and advances to customers	**89,549**	88,041	85,681

Included in loans and advances to customers as at 31 March 2020 was $413 million of collateral posted with counterparties to meet standard derivative trading obligations (30 September 2019: $367 million; 31 March 2019: $240 million).

As at 31 March 2020, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of $11,163 million that have been transferred to consolidated structured entities but not derecognised in their entirety (30 September 2019: $11,164 million; 31 March 2019: $9,154 million).

Note 7 Loans and Advances to Customers *continued*

The Banking Group had issued debt securities with a face value of $4,413 million that were guaranteed by the Covered Bond Trust as at 31 March 2020 (30 September 2019: $4,226 million; 31 March 2019: $4,023 million). The underlying collateral that supports the guarantee provided by the Covered Bond Trust comprised housing loans and other assets (including cash) with a carrying amount of $4,728 million as at 31 March 2020 (30 September 2019: $4,728 million; 31 March 2019: $4,728 million).

Note 8 Provision for Credit Impairment

Expected Credit Losses ("ECL") are derived from unbiased probability weighted estimates of 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 severe 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 estimates and assumptions

- In determining ECL, management judgement is applied, using objective, reasonable and supportable information about current and forecast economic conditions.
- Macro-economic variables used in these scenarios, include (but are not limited to) the cash rate, unemployment rates, Gross Domestic Product ("GDP") growth rates and residential and commercial property price indices.
- Forward looking macro-economic information and assumptions relating to the COVID-19 pandemic have been considered in these scenarios, including potential impacts of the COVID-19 pandemic, recognising uncertainty still exists in relation to the duration of the COVID-19 pandemic-related restrictions, the anticipated impact of government stimulus and regulatory actions.
- 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 Group's historical loss experience.
- Consistent with industry guidance, customer support payment deferrals as part of the COVID-19 pandemic support packages, by itself, will not result in a significant increase in credit risk, and therefore will not trigger an automatic migration from stage 1 (12-month ECL) to stage 2 (Lifetime ECL) in the credit impairment provision for such loans.

The tables on pages 13 and 14 reflect provision for credit impairment on financial assets held at amortised cost. The table on page 16 shows credit risk adjustments on financial assets designated at fair value through profit of loss.

	Consolidated			
	Residential Mortgage Lending Unaudited	Other Retail Exposures Unaudited	Corporate Exposures Unaudited	Total Unaudited
Dollars in Millions	31/3/20	31/3/20	31/3/20	31/3/20
Loans and advances to customers				
Collective provision for credit impairment measured on a 12-months ECL	2	14	53	69
Provision for credit impairment measured on a lifetime ECL				
Collective provision lifetime ECL not credit impaired	58	39	336	433
Collective provision lifetime ECL credit impaired	13	19	36	68
Specific provision lifetime ECL credit impaired	4	7	185	196
Total provision for credit impairment measured on a lifetime ECL	75	65	557	697
Total provision for credit impairment	77	79	610	766

Note 8 Provision for Credit Impairment *continued*

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

	Consolidated				
	Collective Provision 12-months ECL Unaudited	Collective Provision Lifetime ECL Not Credit Impaired Unaudited	Collective Provision Lifetime ECL Credit Impaired Unaudited	Specific Provision Lifetime ECL Credit Impaired Unaudited	Total Unaudited
Dollars in Millions	31/3/20	31/3/20	31/3/20	31/3/20	31/3/20
Movement in provision for credit impairment					
Residential mortgage lending					
Balance at beginning of period	1	53	7	2	63
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	3	(2)	(1)	-	-
Transferred to collective provision lifetime ECL not credit impaired	-	1	(1)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(1)	1	-	-
Transferred to specific provision lifetime ECL credit impaired	-	-	-	-	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	(2)	7	7	3	15
Amounts written off	-	-	-	(1)	(1)
Recovery of amounts written off	-	-	-	-	-
Balance at end of period - Residential mortgage lending	2	58	13	4	77
Other retail exposures					
Balance at beginning of period	17	22	16	5	60
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	6	(5)	(1)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(2)	3	(1)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(3)	3	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(2)	(7)	9	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	(7)	24	9	8	34
Amounts written off	-	-	-	(20)	(20)
Recovery of amounts written off	-	-	-	5	5
Balance at end of period - Other retail exposures	14	39	19	7	79
Corporate exposures					
Balance at beginning of period	53	294	26	149	522
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	45	(44)	(1)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(6)	8	(2)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(5)	5	-	-
Transferred to specific provision lifetime ECL credit impaired	(1)	(9)	(2)	12	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	(38)	92	10	38	102
Amounts written off	-	-	-	(16)	(16)
Recovery of amounts written off	-	-	-	2	2
Balance at end of period - Corporate exposures	53	336	36	185	610
Total					
Balance at beginning of period	71	369	49	156	645
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	54	(51)	(3)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(8)	12	(4)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(9)	9	-	-
Transferred to specific provision lifetime ECL credit impaired	(1)	(11)	(9)	21	-
Charge/(credit) to income statement due to new and increased provisions (net of releases)[1]	(47)	123	26	49	151
Amounts written off	-	-	-	(37)	(37)
Recovery of amounts written off	-	-	-	7	7
Total provision for credit impairment balance at end of period	69	433	68	196	766

[1] Classified as credit impairment charge in the income statement.

Note 8 Provision for Credit Impairment *continued*

Impact of changes in gross carrying amount on ECL

Overall, the net increase in the total provision for credit impairment of $121 million was mainly driven by a $108 million increase in forward looking economic adjustment (“EA Increase”) raised in March 2020, due to the future potential deterioration of macro-economic factors, including consideration of the COVID-19 pandemic. Refer Sensitivity Analysis below for further information on the EA Increase.

The following table provides a reconciliation of the movements in the provision for credit impairment.

	Consolidated				
Dollars in Millions	Collective Provision 12-months ECL Unaudited 31/3/20	Collective Provision Lifetime ECL Not Credit Impaired Unaudited 31/3/20	Collective Provision Lifetime ECL Credit Impaired Unaudited 31/3/20	Specific Provision Lifetime ECL Credit Impaired Unaudited 31/3/20	Total Unaudited 31/3/20
Movement in provision for credit impairment					
Balance at beginning of period	71	369	49	156	645
EA Increase	2	96	10	-	108
Other movements	(4)	(32)	9	40	13
Total provision for credit impairment balance at end of period	69	433	68	196	766

The following explains how changes in the gross carrying amount of financial assets during the period have contributed to the changes in the provision for credit impairment excluding the impact of the $108 million EA Increase. Provision for credit impairment reflects ECL measured using the three-stage approach under NZ IFRS 9.

- Collective provision 12-months ECL (Stage 1) decreased by $4 million mainly due to an overall improvement in credit quality on Stage 1 loans and advances. During the period $15.7 billion of loans and advances were newly originated or transferred from Stage 2 or Stage 3 due to credit improvement. This was partially offset by the $11.4 billion of loans and advances that were repaid, experienced movements in underlying account balances during the period or transferred to Stage 2 or Stage 3 due to deterioration in credit quality.
- Collective provision lifetime ECL not credit impaired (Stage 2) decreased by $32 million mainly due to $6 billion of loans and advances that were repaid or transferred to Stage 1 or Stage 3. This was partially offset by $5.4 billion of loans and advances transferred from Stage 1 or Stage 3.
- Collective provision lifetime ECL credit impaired (Stage 3) increased by $9 million mainly due to $304 million of loans and advances that were transferred from Stage 1 or Stage 2 due to deterioration in credit quality. This was partially offset by $234 million of loans and advances that were repaid or transferred to Stage 1 or Stage 2 due to improvement in credit quality.
- Specific provision lifetime ECL credit impaired (Stage 3) increased by $40 million due to a $63 million increase in individually impaired loans and advances. The increase was mainly due to $215 million of loans and advances that experienced change in the underlying account balances or were transferred from previously being assessed collectively. This was offset by $152 million of loans and advances that were repaid or written off during the period.

Sensitivity Analysis

As at 31 March 2020, 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. Given the point in the credit cycle and forecast near-term outlook, including anticipated COVID-19 pandemic impacts, a negligible weighting has been applied to the upside scenario. The base case scenario incorporates a reasonable level of portfolio stress driven by forecast macro-economic factors, including potential impacts of the COVID-19 pandemic, that deteriorate sharply in 2020 before recovering in 2021. For instance, 2020 conditions include negative 3% change in GDP (+3.4% in 2021), unemployment levels moving to low double digits and house prices falling by 10% before rebounding +2.6% in 2021. The severe downside scenario assumes a more severe and prolonged downturn, including sustained negative GDP change (-4.4% cumulative decrease over 3 years), unemployment levels moving to low double digits and acute falls in asset values, including cumulative house price falls of approximately 34.3% over 3 years. The assumptions used to inform the sensitivity analysis are based on expectations of the future as at the reporting date.

Dollars in Millions	Unaudited 31/3/20
Reported probability weighted ECL	766
100% base case ECL	719
100% severe downside ECL	1,010

Note 8 Provision for Credit Impairment *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.

	Consolidated			
Dollars in Millions	Residential Mortgage Lending Unaudited 31/3/20	Other Retail Exposures Unaudited 31/3/20	Corporate Exposures Unaudited 31/3/20	Total Unaudited 31/3/20
Credit risk adjustment on individual financial assets				
Loans and advances to customers				
Balance at beginning of period	-	-	1	1
Charge/(credit) to income statement	-	-	(1)	(1)
Balance at end of period	-	-	-	-
Credit risk adjustment on groups of financial assets				
Loans and advances to customers				
Balance at beginning of period	-	-	11	11
Charge/(credit) to income statement	-	-	(1)	(1)
Balance at end of period	-	-	10	10
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	-	10	10
Trading derivative financial instruments				
Balance at beginning of period	-	-	19	19
Charge/(credit) to income statement	-	-	11	11
Balance at end of period	-	-	30	30
Total credit risk adjustments on trading derivative financial instruments	-	-	30	30

Note 9 Asset Quality

The Banking Group provides for credit impairment as disclosed in note 8. Accordingly, when management determines that a loan is not expected to be recovered in full, the principal amount and accrued interest on the obligation are written down to estimated net realisable value.

	Consolidated			
	Residential Mortgage Lending Unaudited	Other Retail Exposures Unaudited	Corporate Exposures Unaudited	Total Unaudited
Dollars in Millions	31/3/20	31/3/20	31/3/20	31/3/20
Movements in pre-allowance balances				
Individually impaired assets - at amortised cost				
Balance at beginning of period	15	7	626	648
Amounts written off	(1)	(20)	(16)	(37)
Additions	15	23	177	215
Deletions	(17)	(3)	(95)	(115)
Balance at end of period	12	7	692	711
Specific provision for credit impairment	4	7	185	196
Individually impaired assets - at fair value through profit or loss				
Balance at beginning of period	-	-	5	5
Amounts written off	-	-	-	-
Additions	-	-	-	-
Deletions	-	-	(5)	(5)
Balance at end of period	-	-	-	-
Credit risk adjustments on individual financial assets designated at fair value through profit or loss	-	-	-	-
Total impaired assets at end of period	12	7	692	711
Individually impaired assets - undrawn lending commitments				
At amortised cost	-	-	16	16
At fair value through profit or loss	-	-	-	-
Other assets under administration	3	2	4	9

	Consolidated			
	Residential Mortgage Lending Unaudited	Other Retail Exposures Unaudited	Corporate Exposures Unaudited	Total Unaudited
Dollars in Millions	31/3/20	31/3/20	31/3/20	31/3/20
Past due assets not individually impaired				
Loans and advances to customers				
1 - 7 days past due	154	48	217	419
8 - 29 days past due	98	37	97	232
1 - 29 days past due	252	85	314	651
30 - 59 days past due	68	18	30	116
60 - 89 days past due	35	7	18	60
90+ days past due	49	22	111	182
Total past due assets not individually impaired	404	132	473	1,009

Liability Notes

Dollars in Millions	Consolidated Unaudited 31/3/20	Audited 30/9/19	Unaudited 31/3/19
Note 10 Due to Central Banks and Other Institutions			
Transaction balances with other institutions[1]	**787**	892	1,079
Deposits from central banks	**286**	250	138
Deposits from other institutions[2]	**891**	568	459
Securities sold under agreements to repurchase from central banks[1]	**300**	-	-
Securities sold under agreements to repurchase from other institutions[1]	**355**	123	245
Total due to central banks and other institutions	**2,619**	1,833	1,921

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

[2] Included in deposits from other institutions as at 31 March 2020 was $10 million classified as cash and cash equivalents in the cash flow statement (30 September 2019: $18 million; 31 March 2019: $5 million).

Included in due to central banks and other institutions as at 31 March 2020 was $962 million of collateral posted by counterparties to meet standard derivative trading obligations (30 September 2019: $522 million; 31 March 2019: $339 million).

Dollars in Millions	Consolidated Unaudited 31/3/20	Audited 30/9/19	Unaudited 31/3/19
Note 11 Deposits and Other Borrowings			
Deposits not bearing interest	**7,417**	6,267	6,011
On-demand and short term deposits bearing interest	**26,031**	21,865	21,142
Term deposits	**33,009**	34,933	34,325
Total customer deposits	**66,457**	63,065	61,478
Certificates of deposit	**2,052**	1,349	1,623
Commercial paper	**4,447**	3,554	3,289
Total deposits and other borrowings	**72,956**	67,968	66,390

Included in deposits and other borrowings as at 31 March 2020 was $13 million of collateral posted by counterparties to meet standard derivative trading obligations (30 September 2019: $5 million; 31 March 2019: $3 million).

Dollars in Millions	Consolidated Unaudited 31/3/20	Audited 30/9/19	Unaudited 31/3/19
Note 12 Subordinated Debt			
Subordinated notes due to related entity	**500**	500	500
Perpetual notes due to related entity	**900**	900	900
Subordinated notes due to external investors	**547**	548	547
Total subordinated debt	**1,947**	1,948	1,947

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

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

Redemption

Subject to certain conditions, including the approval of the RBNZ, the Bank has the option to redeem all or some of the Subordinated Notes for their face value together with accrued interest (if any) on any interest payment date on or after 8 May 2023. 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 Subordinated Notes if a regulatory or tax event occurs.

Interest

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

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

Note 12 Subordinated Debt *continued*

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

Conversion

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

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

Ranking of Subordinated Notes

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

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

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

Interest

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

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

Conversion

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

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

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

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

Ranking of Perpetual Notes

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

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

On 17 December 2015, the Bank issued $550 million of subordinated unsecured notes ("Listed Subordinated Notes"). The Listed Subordinated Notes are treated as Tier 2 capital under the Bank's and National Australia Bank Limited's regulatory capital requirements. The Listed Subordinated Notes will mature on 17 December 2025. The Listed Subordinated Notes do not confer any right to vote in general meetings of the Bank or National Australia Bank Limited.

Redemption

Subject to certain conditions, including the approval of the RBNZ, the Bank has the option to redeem all or some of the Listed Subordinated Notes for their face value together with accrued interest (if any) on any interest payment date on or after 17 December 2020 ("Optional Redemption Date"). 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 Listed Subordinated Notes if a regulatory or tax event occurs.

Interest

The interest rate for the Listed Subordinated Notes is fixed at 5.314% per annum for five years, and will be reset if the Listed Subordinated Notes are not redeemed on the Optional Redemption Date. Should the Listed Subordinated Notes not be redeemed, the interest rate from the Optional Redemption Date onwards will be fixed at the five year swap rate plus a margin of 2.250% per annum. Interest is payable quarterly in arrear subject to the Bank being solvent (by satisfying the solvency test in section 4 of the Companies Act 1993) on the relevant payment date and remaining solvent immediately after making the payment. If the Bank does not pay an amount on the Listed Subordinated Notes because it has not satisfied the solvency test, the Bank must pay that amount on the first date on which it is able to make the payment and satisfy the solvency test.

Note 12 Subordinated Debt *continued*

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

Interest *continued*

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

Conversion

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

Under the terms and conditions of the Listed Subordinated Notes, an NVTE will occur if: (i) the RBNZ gives the Bank a direction under the RBNZ Act requiring the Bank to exercise its right of conversion or write off of its Tier 2 capital instruments; (ii) the Bank is made subject to statutory management under the RBNZ Act and the New Zealand statutory manager announces his or her decision to convert or write off the Bank's Tier 2 capital instruments; or (iii) APRA has provided a written determination to National Australia Bank Limited that without the conversion or write off of a class of capital instruments of National Australia Bank Limited which includes the Listed Subordinated Notes, or a public sector injection of capital into, or equivalent capital support with respect to, National Australia Bank Limited, APRA considers that National Australia Bank Limited would become non-viable.

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

Ranking of Listed Subordinated Notes

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

Recent Development

In response to the impacts of the COVID-19 pandemic, the RBNZ has stated that New Zealand-incorporated registered banks should not redeem non-Common Equity Tier 1 capital instruments, until the economic outlook has sufficiently recovered.

Other Notes

Dollars in Millions	Consolidated Unaudited 31/3/20	Audited 30/9/19	Unaudited 31/3/19

Note 13 Related Entity Transactions

Total balances with related entities			
Amounts due from related entities[1]	717	615	1,717
Derivative financial assets with related entities	3,848	2,756	1,613
Amounts due to related entities[2]	2,090	838	806
Derivative financial liabilities with related entities	2,982	2,359	1,482
Subordinated debt due to related entities (refer to note 12)	1,400	1,400	1,400

[1] Included in amounts due from related entities as at 31 March 2020 was $703 million classified as cash and cash equivalent in the cash flow statement (30 September 2019: $604 million; 31 March 2019: $1,687 million).

[2] Included in amounts due to related entities as at 31 March 2020 was $1,079 million classified as cash and cash equivalent in the cash flow statement (30 September 2019: $365 million; 31 March 2019: $621 million).

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

Dollars in Millions	Consolidated Unaudited 31/3/20	Audited 30/9/19	Unaudited 31/3/19
Amounts due from related entities			
Securities purchased under agreements to resell to ultimate parent	697	574	1,664
Amounts due to related entities			
Collateral deposit posted by ultimate parent to meet standard derivative trading obligations	960	383	128
Securities sold under agreements to repurchase from ultimate parent	275	24	389

Other transactions with related entities

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

Note 14 Fair Value of Financial Assets and Financial Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. For the purposes of this note, carrying amount refers to amounts reflected in the balance sheet.

Hierarchy for fair value measurements

The tables on pages 22 and 23 present a three-level fair value hierarchy of the Banking Group's financial assets and financial liabilities which are measured at fair value or amortised cost. The fair value of the financial assets and financial liabilities are considered to approximate the carrying value disclosed in the balance sheet with the exception of loans and advances to customers, deposits and other borrowings, bonds and notes and subordinated debt.

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Banking Group did not have any financial assets or financial liabilities measured at fair value that met the criteria of Level 3 classification.

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

The Banking Group considers transfers between levels of the fair value hierarchy, if any, to have occurred at the beginning of the respective reporting period. There were no transfers between any of the levels in the six months ended 31 March 2020 (year ended 30 September 2019: nil; six months ended 31 March 2019: nil).

Financial assets and liabilities at fair value

	Consolidated			
	Unaudited (31/3/20)			
Dollars in Millions	Fair Value Total	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Financial assets				
Due from central banks and other institutions	586	-	586	-
Trading securities	7,946	3,506	4,440	-
Derivative financial instruments	9,791	-	9,791	-
Loans and advances to customers	1,776	-	1,776	-
Financial liabilities				
Due to central banks and other institutions	132	-	132	-
Trading liabilities	21	8	13	-
Derivative financial instruments	7,761	-	7,761	-
Deposits and other borrowings	8,056	-	8,056	-
Bonds and notes	19,394	-	19,394	-
	Audited (30/9/19)			
Financial assets				
Due from central banks and other institutions	132	-	132	-
Trading securities	7,267	2,492	4,775	-
Derivative financial instruments	7,616	-	7,616	-
Loans and advances to customers	2,042	-	2,042	-
Financial liabilities				
Due to central banks and other institutions	215	-	215	-
Trading liabilities	91	21	70	-
Derivative financial instruments	6,106	-	6,106	-
Deposits and other borrowings	5,247	-	5,247	-
Bonds and notes	21,121	-	21,121	-
	Unaudited (31/3/19)			
Financial assets				
Due from central banks and other institutions	308	-	308	-
Trading securities	7,479	3,260	4,219	-
Derivative financial instruments	4,242	-	4,242	-
Loans and advances to customers	2,361	-	2,361	-
Financial liabilities				
Due to central banks and other institutions	214	-	214	-
Trading liabilities	65	65	-	-
Derivative financial instruments	3,503	-	3,503	-
Deposits and other borrowings	5,545	-	5,545	-
Bonds and notes	19,369	-	19,369	-

Note 14 Fair Value of Financial Assets and Financial Liabilities *continued*

Hierarchy for fair value measurements *continued*

Financial assets and liabilities at amortised cost[1]

Dollars in Millions	Carrying Value	Fair Value Total	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
	Consolidated				
	Unaudited (31/3/20)				
Financial assets					
Loans and advances to customers	**87,773**	**87,896**	**-**	**2,506**	**85,390**
Financial liabilities					
Deposits and other borrowings	**64,900**	**65,013**	**-**	**65,013**	**-**
Bonds and notes	**1,813**	**1,686**	**-**	**1,686**	**-**
Subordinated debt	**1,947**	**1,936**	**551**	**1,385**	**-**
	Audited (30/9/19)				
Financial assets					
Loans and advances to customers	85,999	86,083	-	2,970	83,113
Financial liabilities					
Deposits and other borrowings	62,721	62,816	-	62,816	-
Subordinated debt	1,948	2,038	570	1,468	-
	Unaudited (31/3/19)				
Financial assets					
Loans and advances to customers	83,320	83,373	-	2,700	80,673
Financial liabilities					
Deposits and other borrowings	60,845	61,061	-	61,061	-
Subordinated debt	1,947	2,014	567	1,447	-

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

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

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

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

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

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

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

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

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

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

Note 14 Fair Value of Financial Assets and Financial Liabilities *continued*

Hierarchy for fair value measurements *continued*

Other financial assets/liabilities

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

Note 15 Segment Analysis

Operating segments

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

The Banking Group's business is organised into three major reportable and operating segments: Partnership Banking; Private, Wealth and Insurance; and Corporate and Institutional Banking. Partnership Banking provides financial products and services to retail, business and corporate customers. Private, Wealth & Insurance provides private banking, investment products and services to retail customers and, for management reporting purposes, includes insurance activities carried out by a controlled entity of National Australia Bank Limited that is not part of the Banking Group. Corporate and Institutional Banking provides financial products and services to corporate agribusiness and institutional customers.

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

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

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

	Consolidated					
	Unaudited 6 Months 31/3/20					
Dollars in Millions	Partnership Banking	Private Wealth and Insurance	Corporate and Institutional Banking	Total Reportable Segments	Other[3]	Total Banking Group
Net interest income	**904**	**19**	**82**	**1,005**	**46**	**1,051**
Other income[1]	**141**	**53**	**98**	**292**	**(26)**	**266**
Total operating income	**1,045**	**72**	**180**	**1,297**	**20**	**1,317**
Operating profit before income tax expense	**597**	**33**	**137**	**767**	**(257)**	**510**
Income tax expense	**167**	**10**	**39**	**216**	**(73)**	**143**
Net profit attributable to the shareholder of Bank of New Zealand	**430**	**23**	**98**	**551**	**(184)**	**367**
	Audited 12 Months 30/9/19					
Net interest income	1,758	40	159	1,957	104	2,061
Other income[1]	300	120	206	626	(31)	595
Total operating income	2,058	160	365	2,583	73	2,656
Operating profit before income tax expense	1,150	81	245	1,476	(69)	1,407
Income tax expense	322	21	69	412	(27)	385
Net profit attributable to the shareholder of Bank of New Zealand	828	60	176	1,064	(42)	1,022
	Unaudited 6 Months 31/3/19[2]					
Net interest income	859	19	77	955	79	1,034
Other income[1]	148	59	93	300	(32)	268
Total operating income	1,007	78	170	1,255	47	1,302
Operating profit before income tax expense	555	39	124	718	46	764
Income tax expense	155	11	35	201	13	214
Net profit attributable to the shareholder of Bank of New Zealand	400	28	89	517	33	550

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

[2] Comparative balances have been reclassified to align with the segment definitions as at 31 March 2020.

[3] As at 31 March 2020, 'Other' category includes forward looking EA Increase (refer to note 8) and accelerated amortisation charge as a result of a further change to the software capitalisation policy (refer to note 1).

Note 16 Contingent Liabilities and Other Commitments

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Where some loss is probable, provisions have been made. The notional amount represents the maximum potential amount that could be lost if a counterparty fails to meet its financial obligations. Contingent liabilities are not recognised in the balance sheet, but are disclosed unless the likelihood of payment is remote.

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

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

Overall, the number and scale of investigations, reviews and litigation involving banking institutions has increased significantly over the current and preceding financial year. The Banking Group has received information requests from its regulators as part of both industry and bank-specific reviews being undertaken, and the Banking Group has also initiated contact with its regulators on compliance-related matters. The scope of reviews, inquiries and investigations can be wide-ranging and can result in customer remediation programmes.

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

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

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

The Labour Inspectorate of the New Zealand Ministry of Business, Innovation and Employment ("MBIE") has undertaken a programme of compliance audits of a number of New Zealand organisations, including BNZ, in respect of the Holidays Act 2003 (the "Holidays Act"). Since 2017, the Banking Group has worked with MBIE to review its compliance with the Holidays Act, including in respect of annual and public holiday payments to certain employees, and is completing remediation, as agreed with MBIE. In addition, the legislative interpretation of the definition of "discretionary payments" under the Holidays Act is not yet certain and, once it has been definitively determined, any potential implications for the Banking Group will need to be considered.

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

	Consolidated		
Dollars in Millions	**Unaudited 31/3/20**	Audited 30/9/19	Unaudited 31/3/19
Contingent liabilities			
Bank guarantees	**65**	66	73
Standby letters of credit	**265**	259	285
Documentary letters of credit[1]	**162**	159	99
Performance related contingencies	**642**	653	677
Total contingent liabilities	**1,134**	1,137	1,134
Credit related commitments			
Revocable commitments to extend credit	**9,706**	9,363	9,927
Irrevocable commitments to extend credit	**11,142**	11,732	11,717
Total credit related commitments	**20,848**	21,095	21,644
Total contingent liabilities and credit related commitments	**21,982**	22,232	22,778

[1]Comparative information has been restated to reflect revised data.

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

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

	Consolidated Unaudited (31/3/20) Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties Long Term Credit Rating	
Number of bank counterparties	Peak End-of-Day A-or A3 or above or its equivalent	Balance Sheet Date A-or A3 or above or its equivalent
Percentage of Common Equity Tier 1 capital		
10-14%	3	3
15 -19%	2	-
20 -24%	2	-
Number of non-bank counterparties		
Percentage of Common Equity Tier 1 capital		
10-14%	-	2
15 -19%	2	-
20 -24%	1	1

Where the Banking Group is funding large loans, it is common practice to share the risk of a customer default with other connected banks or enter into other risk lay-off arrangements. The above table has been compiled using gross exposures before risk lay-offs. No account is taken of collateral, security and/or netting agreements that do not qualify for offset in accordance with NZ IAS 32 *Financial Instruments: Presentation* which the Banking Group may hold in respect of the various counterparty exposures.

The Banking Group had no bank counterparties, supranationals or quasi-sovereign agencies with a long term credit rating below A- or A3, to whom their aggregate credit exposure, as at 31 March 2020, and peak end-of-day aggregate credit exposure, for the six months ended 31 March 2020, 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 2020, and peak end-of-day aggregate credit exposure, for the six months ended 31 March 2020, equalled or exceeded 10% of the Banking Group's Common Equity Tier 1 Capital.

Note 18 Insurance Business

The Banking Group does not conduct any Insurance Business, as defined in the Bank's Conditions of Registration. The Bank's Conditions of Registration can be obtained by referring to the Bank's Disclosure Statement for the year ended 30 September 2019.

Note 19 Capital Adequacy

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

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

RBNZ Capital Adequacy Framework (Internal Models Based Approach)

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

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

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

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

Capital management policies

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

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

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

The RBNZ has announced significant changes to the capital adequacy framework for New Zealand registered banks, which will result in a significant increase in the level of capital that the Banking Group is required to hold, as well as changes to what types of instruments constitute eligible regulatory capital. The new regime is currently expected to be implemented in stages from 1 July 2021, with a transition period of seven years before banks are required to fully comply with the new rules.

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

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

For more information on the capital structure of the Banking Group, refer to page 35.

The tables on the following pages detail the capital calculation, capital ratios and capital requirements as at 31 March 2020. During the reporting period the Banking Group complied with all RBNZ's capital requirements as set out in the Bank's Conditions of Registration.

Note 19 Capital Adequacy *continued*

Regulatory capital

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

Dollars in Millions	Consolidated Unaudited 31/3/20
Qualifying capital	
Common Equity Tier 1 capital	
Contributed equity - ordinary shares	4,056
Retained profits	4,479
Accumulated other comprehensive income and other disclosed reserves	108
Deductions from Common Equity Tier 1 capital:	
Goodwill and other intangible assets	182
Cash flow hedge reserve	100
Credit value adjustment on liabilities designated at fair value through profit or loss	306
Prepaid pension assets (net of deferred tax)	4
Deferred tax asset	274
Total expected loss less total eligible allowances for impairment	41
Credit enhancements	1
Total Common Equity Tier 1 capital	7,735
Additional Tier 1 capital	
Subordinated debt due to related entities	900
Total Additional Tier 1 capital	900
Total Tier 1 capital	8,635
Tier 2 capital	
Revaluation reserves	3
Subordinated debt due to related entities	500
Subordinated debt due to external investors	550
Total eligible impairment allowance in excess of expected loss	91
Total Tier 2 capital	1,144
Total Tier 1 and Tier 2 qualifying capital	9,779

Banking Group Basel III regulatory capital ratios

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

	Consolidated			
	Regulatory Minima	Unaudited 31/3/20	Unaudited 30/9/19	Unaudited 31/3/19
Common Equity Tier 1 capital ratio	4.50%	11.16%	10.97%	10.60%
Tier 1 capital ratio	6.00%	12.46%	12.32%	11.96%
Total qualifying capital ratio	8.00%	14.11%	13.93%	13.57%
Buffer ratio	2.50%	6.11%	5.93%	5.57%

Registered Bank Basel III regulatory capital ratios

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

	The Registered Bank		
	Unaudited 31/3/20	Unaudited 30/9/19	Unaudited 31/3/19
Common Equity Tier 1 capital ratio	11.12%	10.92%	10.53%
Tier 1 capital ratio	12.42%	12.27%	11.90%
Total qualifying capital ratio	14.07%	13.88%	13.50%

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

Note 19 Capital Adequacy *continued*

Total regulatory capital requirements

	Consolidated		
Dollars in Millions	Total Exposure at Default Unaudited 31/3/20	Risk-Weighted Exposure or Implied Risk-Weighted Exposure Unaudited 31/3/20	Total Capital Requirement[1] Unaudited 31/3/20
Credit risk			
Exposures subject to the internal ratings based approach	119,974	46,992	3,759
Equity exposures	3	10	1
Specialised lending subject to the slotting approach	8,537	7,903	633
Exposures subject to the standardised approach	2,508	934	75
Credit value adjustment subject to BS2B	N/A	2,007	161
Agribusiness supervisory adjustment[2]	N/A	1,049	84
Total credit risk	131,022	58,895	4,713
Operational risk	N/A	7,500	600
Market risk	N/A	2,906	233
Total	131,022	69,301	5,546

[1] In calculating the total capital requirement, a scalar of 1.06 has been applied to the risk-weighted assets, as required by the RBNZ in accordance with the Bank's Conditions of Registration.

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

Advanced Internal Ratings Based approach to credit risk management

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

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

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

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

Controls surrounding credit risk rating systems

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

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

The risk-weighted asset amounts presented in the following tables include a scalar of 1.06 as required by the RBNZ in accordance with the Bank's Conditions of Registration.

Note 19 Capital Adequacy *continued*

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

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

	Consolidated					
Dollars in Millions	Weighted Average PD (%) Unaudited 31/3/20	Exposure at Default Unaudited 31/3/20	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 31/3/20	Exposure-Weighted Risk Weight (%) Unaudited 31/3/20	Risk-Weighted Assets Unaudited 31/3/20	Minimum Capital Requirement Unaudited 31/3/20
Corporate						
Exposure-weighted PD grade >0 ≤ 0.1%	0.04	7,282	34	14	991	79
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.30	18,835	35	40	7,597	608
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.95	15,267	35	66	10,081	806
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.50	7,144	36	90	6,445	516
Exposure-weighted PD grade >5.0 ≤ 99.99%	9.41	1,222	40	154	1,884	151
Default PD grade = 100%	100.00	922	44	294	2,713	217
Total corporate exposures	2.80	50,672	35	59	29,711	2,377
Sovereign						
Exposure-weighted PD grade >0 ≤ 0.1%	0.03	9,858	4	1	77	6
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.37	16	45	63	10	1
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.83	1	45	98	1	-
Exposure-weighted PD grade >1.5 ≤ 5.0%	1.92	-	45	104	-	-
Exposure-weighted PD grade >5.0 ≤ 99.99%	5.72	-	45	147	-	-
Default PD grade = 100%	-	-	-	-	-	-
Total sovereign exposures	0.03	9,875	4	1	88	7
Bank						
Exposure-weighted PD grade >0 ≤ 0.1%	0.04	6,817	26	9	608	49
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.21	502	47	43	216	17
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.79	12	60	92	12	1
Exposure-weighted PD grade >1.5 ≤ 5.0%	4.35	10	60	176	18	1
Exposure-weighted PD grade >5.0 ≤ 99.99%	6.13	-	60	200	1	-
Default PD grade = 100%	-	-	-	-	-	-
Total bank exposures	0.05	7,341	28	12	855	68
Residential mortgage						
Exposure-weighted PD grade >0 ≤ 0.1%	0.03	-	38	6	-	-
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.40	1,742	19	15	255	20
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.90	43,928	21	28	12,208	977
Exposure-weighted PD grade >1.5 ≤ 5.0%	4.92	2,076	19	71	1,464	117
Exposure-weighted PD grade >5.0 ≤ 99.99%	-	-	-	-	-	-
Default PD grade = 100%	100.00	217	21	221	480	38
Total residential mortgage exposures	1.50	47,963	20	30	14,407	1,152
Other retail[1]						
Exposure-weighted PD grade >0 ≤ 0.1%	0.05	737	86	13	95	8
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.25	566	85	41	232	19
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.95	384	84	87	333	27
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.82	294	83	119	351	28
Exposure-weighted PD grade >5.0 ≤ 99.99%	12.31	160	82	152	243	19
Default PD grade = 100%	100.00	14	80	217	31	2
Total other retail exposures	2.22	2,155	85	60	1,285	103

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

Note 19 Capital Adequacy *continued*

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

	Consolidated					
Dollars in Millions	Weighted Average PD (%) Unaudited 31/3/20	Exposure at Default Unaudited 31/3/20	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 31/3/20	Exposure-Weighted Risk Weight (%) Unaudited 31/3/20	Risk-Weighted Assets Unaudited 31/3/20	Minimum Capital Requirement Unaudited 31/3/20
Retail small to medium enterprises						
Exposure-weighted PD grade >0 ≤ 0.1%	0.07	167	38	8	13	1
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.30	739	32	18	130	10
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.93	564	34	35	195	16
Exposure-weighted PD grade >1.5 ≤ 5.0%	2.59	417	36	51	212	17
Exposure-weighted PD grade >5.0 ≤ 99.99%	13.12	50	42	78	39	3
Default PD grade = 100%	100.00	31	44	185	57	5
Total retail SME exposures	2.83	1,968	34	33	646	52
Total[1]						
Exposure-weighted PD grade >0 ≤ 0.1%	0.04	24,861	21	7	1,784	143
Exposure-weighted PD grade >0.1 ≤ 0.5%	0.31	22,400	35	38	8,440	675
Exposure-weighted PD grade >0.5 ≤ 1.5%	0.91	60,156	25	38	22,830	1,827
Exposure-weighted PD grade >1.5 ≤ 5.0%	3.02	9,941	34	85	8,490	679
Exposure-weighted PD grade >5.0 ≤ 99.99%	9.87	1,432	45	151	2,167	173
Default PD grade = 100%	100.00	1,184	40	277	3,281	262
Total exposures	1.88	119,974	27	39	46,992	3,759

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

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

	Consolidated			
Dollars in Millions	Total Exposure Unaudited 31/3/20	Exposure at Default Unaudited 31/3/20	Risk-Weighted Assets Unaudited 31/3/20	Minimum Capital Requirement Unaudited 31/3/20
On-balance sheet exposures				
Corporate	36,129	36,129	22,723	1,818
Sovereign	9,257	9,257	63	5
Bank	4,610	4,610	611	49
Residential mortgage	44,598	44,598	13,491	1,078
Other retail	1,233	1,233	952	76
Retail small to medium enterprises	1,474	1,474	514	41
Total on-balance sheet exposures	97,301	97,301	38,354	3,067
Off-balance sheet exposures				
Corporate	12,008	10,871	5,594	447
Sovereign	172	124	17	1
Bank	658	640	43	3
Residential mortgage	3,816	3,365	916	74
Other retail	2,755	922	333	27
Retail small to medium enterprises	547	494	132	11
Total off-balance sheet exposures	19,956	16,416	7,035	563
Market related contracts				
Corporate	192,003	3,672	1,394	112
Sovereign	20,835	494	8	1
Bank	79,677	2,091	201	16
Total market related contracts	292,515	6,257	1,603	129

Note 19 Capital Adequacy *continued*

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

Dollars in Millions	Consolidated Total Exposure Unaudited 31/3/20	Exposure at Default Unaudited 31/3/20	Risk-Weighted Assets Unaudited 31/3/20	Minimum Capital Requirement Unaudited 31/3/20
Summary[1]				
Corporate	240,140	50,672	29,711	2,377
Sovereign	30,264	9,875	88	7
Bank	84,945	7,341	855	68
Residential mortgage	48,414	47,963	14,407	1,152
Other retail	3,988	2,155	1,285	103
Retail small to medium enterprises	2,021	1,968	646	52
Total credit risk exposures subject to the IRB approach	409,772	119,974	46,992	3,759

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

Equity exposures

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

Dollars in Millions	Consolidated Exposure at Default Unaudited 31/3/20	Risk Weight (%) Unaudited 31/3/20	Risk-Weighted Exposures Unaudited 31/3/20	Minimum Pillar One Capital Requirement Unaudited 31/3/20
Equity holdings (not deducted from capital) that are publicly traded	-	300	-	-
All other equity holdings (not deducted from capital)	3	400	10	1
Total equity exposures	3	400	10	1

Specialised lending subject to the slotting approach

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

Dollars in Millions	Consolidated Total Exposure at Default after Credit Risk Mitigation Unaudited 31/3/20	Risk Weight (%) Unaudited 31/3/20	Risk-Weighted Assets Unaudited 31/3/20	Minimum Pillar One Capital Requirement Unaudited 31/3/20
On-balance sheet exposures subject to the slotting approach				
Strong	1,774	70	1,316	105
Good	5,205	90	4,960	397
Satisfactory	717	115	872	70
Weak	16	250	42	3
Default	54	-	-	-
Total on-balance sheet exposures subject to the slotting approach	7,766	87	7,190	575

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

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

Note 19 Capital Adequacy *continued*

Specialised lending subject to the slotting approach *continued*

Dollars in Millions	Consolidated Total Exposure Unaudited 31/3/20	Exposure at Default Unaudited 31/3/20	Average Risk Weight (%) Unaudited 31/3/20	Risk-Weighted Assets Unaudited 31/3/20	Minimum Pillar One Capital Requirement Unaudited 31/3/20
Off-balance sheet exposures subject to the slotting approach					
Off-balance sheet exposures	18	9	91	8	1
Undrawn commitments	1,451	688	94	646	52
Market related contracts	1,163	74	80	59	5
Total off-balance sheet exposures subject to the slotting approach	2,632	771	93	713	58
Total exposures subject to the slotting approach		8,537	93	7,903	633

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	Consolidated Total Exposure at Default after Credit Risk Mitigation Unaudited 31/3/20	Average Risk Weight (%) Unaudited 31/3/20	Risk-Weighted Assets Unaudited 31/3/20	Minimum Pillar One Capital Requirement Unaudited 31/3/20
On-balance sheet exposures subject to the standardised approach				
Corporate	143	105	151	12
Residential mortgage	50	92	46	4
Past due assets	-	159	-	-
Other assets[1]	1,427	45	641	51
Total on-balance sheet exposures subject to the standardised approach	1,620	52	838	67

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

Dollars in Millions	Consolidated Total Exposure or Principal Amount Unaudited 31/3/20	Average Credit Conversion Factor (%) Unaudited 31/3/20	Credit Equivalent Amount Unaudited 31/3/20	Average Risk Weight (%) Unaudited 31/3/20	Risk-Weighted Assets Unaudited 31/3/20	Minimum Pillar One Capital Requirement Unaudited 31/3/20
Off-balance sheet exposures subject to the standardised approach						
Total off-balance sheet exposures subject to the standardised approach	84	24	20	99	20	2
Market related contracts subject to the standardised approach						
Foreign exchange contracts	5	N/A	-	106	-	-
Interest rate contracts[2]	843,542	N/A	868	9	76	6
Other	4	N/A	-	-	-	-
Total market related contracts subject to the standardised approach	843,551	N/A	868	9	76	6
Total exposures subject to the standardised approach		N/A	2,508	37	934	75

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

Note 19 Capital Adequacy *continued*

Credit risk mitigation

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

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

	Consolidated
	Corporate (Including Specialised Lending) Unaudited
Dollars in Millions	31/3/20
For portfolios subject to the standardised approach:	
Total value of exposures covered by eligible financial or IRB collateral	1
For all portfolios:	
Total value of exposures covered by credit derivatives or guarantees	-

Residential mortgages by loan-to-valuation ratio

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

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

	Consolidated		
	On-balance Sheet Exposures at Default Unaudited	Off-balance Sheet Exposures at Default[1] Unaudited	Total Exposures at Default Unaudited
Dollars in Millions	31/3/20	31/3/20	31/3/20
LVR Range			
0-59%	18,153	1,299	19,452
60-69%	9,642	589	10,231
70-79%	13,159	992	14,151
80-89%	2,327	35	2,362
Over 90%	1,317	450	1,767
Total exposures at default secured by residential mortgages	44,598	3,365	47,963

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

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

	Consolidated
	On-balance Sheet Exposures at Default Unaudited
Dollars in Millions	31/3/20
Loans and advances to customers - housing loans	44,597
Add: Partial write offs excluded under the IRB approach	1
Total exposures secured by residential mortgages	44,598

Operational risk

	Consolidated	
	Implied Risk-Weighted Exposure Unaudited	Total Operational Risk Capital Requirement Unaudited
Dollars in Millions	31/3/20	31/3/20
Operational risk	7,500	600

The operational risk capital requirement above is the higher of the operational risk capital floor prescribed by the RBNZ of $600 million and the amount calculated under the Advanced Measurement Approach ("AMA"), which the Banking Group uses for determining its regulatory capital for operational risk. The AMA is in accordance with BS2B.

Note 19 Capital Adequacy *continued*

Market risk

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

	Consolidated			
	Unaudited (31/3/20)			
	Implied Risk-Weighted Exposure		Aggregate Capital Charge	
Dollars in Millions	End of Period	Peak End-of-Day	End of Period	Peak End-of-Day
Interest rate risk	2,861	3,875	229	310
Foreign exchange risk	44	148	4	12
Equity risk	1	1	-	-
Total market risk	2,906	4,024	233	322

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

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

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

Capital for other material risks

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

As at 31 March 2020, the Banking Group had an internal capital allocation for strategic risk of $109 million (30 September 2019: $109 million; 31 March 2019: $109 million).

Capital structure

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

Subordinated debt
Refer to note 12 for further information.

Reserves
Accumulated other comprehensive income and other disclosed reserves in Tier 1 Capital includes the cost of hedging reserve of $8 million which captures changes in fair value of hedging instruments due to currency basis.

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 31/3/20	Unaudited 30/9/19	Unaudited 31/3/19	Unaudited 31/3/20	Unaudited 30/9/19	Unaudited 31/3/19
Common Equity Tier 1 Capital ratio	10.39%	10.38%	10.40%	10.41%	10.52%	10.64%
Tier 1 Capital ratio	11.96%	12.36%	12.45%	12.13%	12.67%	12.86%
Total Capital ratio	14.61%	14.68%	14.00%	14.93%	15.14%	14.50%

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

The ultimate parent bank of the Banking Group is National Australia Bank Limited which reports under the Advanced approach for credit risk (other than for defined assets that are immaterial in terms of risk-weighted assets or are not required to be treated as IRB under the Basel capital framework), and the AMA for operational risk. The ultimate parent bank capital ratios are effectively represented by the Level 1 capital ratios, which comprises National Australia Bank Limited and its subsidiary entities approved by APRA as part of the Extended Licensed Entity.

Under prudential regulations, NAB is required to hold capital above the prudential capital ratio ("PCR") and capital conservation buffer as determined by APRA for both the Level 1 and Level 2 Groups. The PCR is prescribed on a bilateral basis, and is not publicly disclosed. National Australia Bank Limited met the minimum capital adequacy requirements set by APRA as at 31 March 2020.

National Australia Bank Limited is required to publicly disclose risk management and capital adequacy information as at the reporting date, as specified in APRA's Pillar 3 Prudential Standard APS 330: Public Disclosure ("APS 330"). Updates are provided on a quarterly basis in accordance with the APS 330 reporting requirements.

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

Note 20 Risk Management

Risk management disclosure

There have been no material changes to the Banking Group's policies for managing risk, or material exposures to new categories of risk since 30 September 2019.

Concentrations of credit exposure

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

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

	Consolidated		
	On-balance sheet Unaudited	Off-balance sheet[1] Unaudited	Total exposure Unaudited
Dollars in Millions	31/3/20	31/3/20	31/3/20
Concentration by industry			
Agriculture	14,607	941	15,548
Forestry and fishing	1,109	215	1,324
Mining	405	274	679
Manufacturing	4,135	1,636	5,771
Electricity, gas and water	1,222	552	1,774
Construction	1,204	622	1,826
Wholesale and retail trade	3,658	1,223	4,881
Accommodation, restaurants, culture and recreation	1,590	272	1,862
Transport and storage	2,505	366	2,871
Communications	398	238	636
Financial, investment and insurance	16,062	1,171	17,233
Property, business and personal services	11,222	1,797	13,019
Government, education, health and community services	8,859	1,099	9,958
Real estate - mortgage	44,597	1,828	46,425
Personal lending	1,360	42	1,402
Related entities[2]	4,565	-	4,565
Total credit exposures by industry	117,498	12,276	129,774
Concentration by geography			
New Zealand	107,137	11,999	119,136
Overseas	10,361	277	10,638
Total credit exposures by geography	117,498	12,276	129,774

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

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

	Consolidated
Dollars in Millions	31/3/20
Maximum exposure to credit risk	
Cash and liquid assets	6,688
Due from central banks and other institutions	2,254
Trading securities	7,946
Derivative financial instruments	9,791
Gross loans and advances to customers	90,102
Amounts due from related entities	717
Total on-balance sheet credit exposures	117,498
Off-balance sheet credit exposures	12,276
Total maximum exposure to credit risk	129,774

Note 20 Risk Management *continued*

Interest rate repricing schedule

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

				Consolidated			
				Unaudited (31/3/20)			
Dollars in Millions	Total	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-Interest Bearing
Assets							
Cash and liquid assets	7,002	6,427	100	-	-	-	475
Due from central banks and other institutions	2,254	2,238	16	-	-	-	-
Trading securities	7,946	1,497	758	608	747	4,336	-
Derivative financial instruments	9,791	-	-	-	-	-	9,791
Gross loans and advances to customers	90,102	49,823	5,443	11,830	14,932	6,175	1,899
Deductions from loans and advances to customers	(553)	-	-	-	-	-	(553)
Amounts due from related entities	717	701	-	-	-	-	16
All other assets	1,241	-	-	-	-	-	1,241
Total assets	118,500	60,686	6,317	12,438	15,679	10,511	12,869
Liabilities							
Due to central banks and other institutions	2,619	2,349	220	15	-	34	1
Trading liabilities	21	-	-	-	-	21	-
Derivative financial instruments	7,761	-	-	-	-	-	7,761
Deposits and other borrowings	72,956	46,053	10,766	6,400	1,216	1,104	7,417
Bonds and notes	21,207	2,119	64	1,596	3,239	14,189	-
Amounts due to related entities	2,090	1,958	-	-	-	-	132
Subordinated debt	1,947	500	-	547	900	-	-
All other liabilities	1,253	-	-	-	-	-	1,253
Total liabilities	109,854	52,979	11,050	8,558	5,355	15,348	16,564
Shareholder's equity							
Total shareholder's equity	8,646	-	-	-	-	-	8,646
Total liabilities and shareholder's equity	118,500	52,979	11,050	8,558	5,355	15,348	25,210
On-balance sheet sensitivity gap	-	7,707	(4,733)	3,880	10,324	(4,837)	(12,341)
Derivative financial instruments							
Net hedging derivative notionals	-	(7,794)	5,640	(1,836)	(4,936)	8,926	-
Interest sensitivity gap - net	-	(87)	907	2,044	5,388	4,089	(12,341)

Note 20 Risk Management *continued*

Maturity profile

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

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

	Consolidated Unaudited 31/3/20					
Dollars in Millions	On Demand	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years	Total (Inflow)/ Outflow
Liabilities						
Due to central banks and other institutions	797	1,553	236	36	-	2,622
Trading liabilities	-	-	-	2	24	26
Deposits and other borrowings	33,258	17,562	20,206	2,442	-	73,468
Bonds and notes	-	1,207	2,154	16,475	2,227	22,063
Amounts due to related entities	805	1,258	27	-	-	2,090
Other liabilities	-	451	53	145	27	676
Subordinated debt	-	11	65	1,732	572	2,380
Total	34,860	22,042	22,741	20,832	2,850	103,325
Derivative financial liabilities[1]						
Derivative financial liabilities (inflow)	-	(50,562)	(12,751)	(21,517)	(6,135)	(90,965)
Derivative financial liabilities outflow	-	54,520	16,647	30,179	8,438	109,784

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

Liquidity portfolio management

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

Dollars in Millions	Consolidated Unaudited 31/3/20
Cash and balances immediately convertible to cash[1]	6,180
Net securities purchased under agreements to resell	792
Government bonds, notes and securities	3,589
Semi-government bonds, notes and securities	2,881
Corporate and other institution bonds, notes and securities	1,476
Total liquidity portfolio	14,918

[1] Included within Cash and balances immediately convertible to cash is $224 million due from other institutions.

As at 31 March 2020, the Banking Group also held unencumbered residential mortgage-backed securities ("RMBS") of $6,500 million of which $6,240 million is available to be sold to the RBNZ under agreements to repurchase for liquidity purposes. The amount of $6,240 million is subject to a 19% reduction in value and a 4% limit on the Banking Group's total assets giving a net balance of $4,383 million. These RMBS are secured by housing loans and other assets. The Banking Group had not entered into any repurchase agreements for RMBS with the RBNZ as at 31 March 2020.

Regulatory liquidity ratios

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

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

The one-month mismatch ratio is a measure of the Bank's one-month mismatch amount over its total funding, where the one-month mismatch amount represents the Bank's stock of primary and secondary liquid assets plus expected cash inflows minus expected cash outflows during a one-month period of stress. The Bank must maintain this ratio above a minimum level of zero percent on a daily basis. The one-month mismatch ratio = 100 x (one-month mismatch dollar amount / total funding).

The one-year core funding ratio measures the extent to which loans and advances are funded by funding that is considered stable. The one-year core funding ratio = 100 x (one-year core funding dollar amount / BS13 total loans and advances) and must currently remain above 75 percent on a daily basis. On 2 April 2020, the RBNZ reduced the one-year core funding ratio requirement from not less than 75% to not less than 50%.

Note 20 Risk Management *continued*

Regulatory liquidity ratios *continued*

	Consolidated Unaudited For the 3 months ended 31/3/20	Consolidated Unaudited For the 3 months ended 31/12/19
One-week mismatch ratio	**5.8%**	5.2%
One-month mismatch ratio	**6.4%**	6.3%
One-year core funding ratio	**86.0%**	85.1%

Concentrations of funding

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

Dollars in Millions	Note	Consolidated Unaudited 31/3/20
Concentration by industry		
Customer deposits		
Agriculture, forestry and fishing		2,946
Mining		187
Manufacturing		1,880
Electricity, gas and water		153
Construction		1,265
Wholesale and retail trade		2,451
Accommodation, restaurants, culture and recreation		1,416
Transport and storage		843
Communications		509
Financial, investment and insurance		8,734
Property, business and personal services		11,639
Government, education, health and community services		3,038
Personal deposits		31,396
Total customer deposits by industry		66,457
Concentration by geography		
Wholesale funding		
New Zealand		12,337
Overseas[1]		22,025
Total wholesale funding by geography		34,362
Total funding		100,819
Total funding comprised:		
Customer deposits	11	66,457
Wholesale funding		
Due to central banks and other institutions		2,619
Other borrowings	11	6,499
Bonds and notes		21,207
Amounts due to related entities		2,090
Subordinated debt		1,947
Total wholesale funding		34,362
Total funding		100,819

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

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Independent Review Report to the Shareholder of Bank of New Zealand

We have reviewed the consolidated interim financial statements required by Clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information required by Schedules 5, 7, 11, 13, 16 and 18 of the Order of Bank of New Zealand (the "Bank") and the entities it controlled at 31 March 2020 or from time to time during the period (collectively the "Banking Group") as included on pages 3 to 39 of the Disclosure Statement. The interim financial statements and supplementary information comprise:

- the balance sheet of the Banking Group as at 31 March 2020;
- the income statement, statement of comprehensive income, statement of changes in equity and condensed cash flow statement for the six months then ended of the Banking Group;
- the notes to the consolidated interim financial statements including a summary statement of significant accounting policies and;
- the supplementary information required by Schedules 5, 7, 11, 13, 16 and 18 of the Order.

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

Directors' responsibilities

The directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the consolidated interim financial statements in accordance with Clause 25 of the Order, which requires the consolidated interim financial statements to comply with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*, and for such internal control as the directors determine is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

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

Reviewer's responsibilities

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

Our responsibility in relation to the consolidated interim financial statements (excluding the supplementary information disclosed in Notes 8, 9, 17, 18, 19, 20, and the 'Interest earning and discount bearing assets' and 'Interest and discount bearing liabilities' disclosed on page 6 ("supplementary information")) is to express a conclusion as to whether, on the basis of procedures performed by us, anything has come to our attention that would cause us to believe that the consolidated interim financial statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*.

Our responsibility in relation to the supplementary information (excluding information relating to capital adequacy in Note 19 and the regulatory liquidity ratios disclosed in Note 20) prescribed by Schedules 5, 7, 13, 16 and 18 of the Order is to express a conclusion as to whether, on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state, in all material respects, the matters to which it relates in accordance with those Schedules.

Our responsibility in relation to supplementary information relating to capital adequacy disclosed in Note 19 and regulatory liquidity requirements (being the regulatory liquidity ratios disclosed in Note 20) that is required to be disclosed under Schedule 11 of the Order is to express a conclusion as to whether, on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

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

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Basis of conclusion
We conducted our review in accordance with NZ SRE 2410.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, we do not express an audit opinion on any element of this Disclosure Statement.

Ernst & Young provides audit services and other assurance 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. These matters have not impaired our independence of the Banking Group. We have no other relationship with, or interest in, the Banking Group.

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

- the consolidated interim financial statements on pages 3 to 39 (excluding the supplementary information) have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting and International Accounting Standard 34: Interim Financial Reporting;
- the supplementary information (excluding information relating to capital adequacy disclosed in Note 19 and the regulatory liquidity ratios disclosed in Note 20) prescribed by Schedules 5, 7, 13, 16 and 18 of the Order, does not fairly state, in all material respects, the matters to which it relates in accordance with those Schedules; and
- the supplementary information relating to capital adequacy (disclosed in Note 19) and regulatory liquidity requirements (being the regulatory liquidity ratios disclosed in Note 20) that is required to be disclosed under Schedule 11 of the Order, is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

Emphasis of Matter – Uncertainties of COVID-19 Impacts
We draw your attention to information under the headings 'Critical accounting assumptions and estimates' and 'Measurement of expected credit losses' in Note 1 'Principal Accounting Policies' in the consolidated interim financial statements. This note describes the impact of the ongoing COVID-19 pandemic on the Banking group's financial position and performance.

In our view, this matter is fundamental to the users' understanding of the consolidated interim financial statements and the financial position and performance of the Banking Group. Our conclusion is not modified with respect to this matter.

Ernst + Young

Chartered Accountants
22 May 2020
Auckland

A member firm of Ernst & Young Global Limited

Credit Ratings

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

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

Conditions of Registration

Changes in Conditions of Registration

There were no changes made to the Bank's Conditions of Registration during the period 1 October 2019 to 31 March 2020.

On 2 April 2020, a new Condition of Registration came into effect, reflecting the RBNZ's response to the COVID-19 pandemic. The changes prohibit the payment of distributions (including dividends on ordinary shares), other than discretionary payments payable to holders of Additional Tier 1 capital instruments. Changes were also introduced to reduce the one-year core funding ratio requirement from not less than 75% to not less than 50%, and to extend the transition period of the RBNZ's Outsourcing Policy (Banking Standard 11) ("BS 11") from five to six years.

On 1 May 2020, the RBNZ removed three Conditions of Registration that imposed restrictions on new residential mortgage lending at high loan-to-value ratios. The RBNZ has indicated that it will consider the re-imposition of these conditions around 1 May 2021.

Non-compliance with Conditions of Registration

As previously disclosed in the Bank's Disclosure Statements for the years ended 30 September 2018 and 30 September 2019, the Bank is undertaking a comprehensive review of the data and systems used to calculate its regulatory capital. In May 2019, the Bank notified the RBNZ that it had identified errors in the calculation of capital as a result of the review and related activities. These errors constitute a breach of Condition of Registration 1B and the Bank has subsequently completed actions to correct these errors. As a result of the identified errors, the remaining scope of work to be completed within the comprehensive review, and the possibility that further errors may be identified, the RBNZ has required the Bank to provide regular reporting on the progress of the review and has increased the Bank's operational risk capital floor by $250 million, to $600 million, as a temporary and precautionary measure pending the successful conclusion of the review.

As previously disclosed in the Bank's Disclosure Statement for the year ended 30 September 2019, the Bank has identified two instances of non-compliance with Condition of Registration 25 relating to the acquisition of non-parent related, third-party services. The Bank provided the RBNZ with a further update in February 2020 which highlighted additional potential instances of non-compliance that will require remediation through a programme of work that has been established. These instances will be disclosed once they have been identified through the Bank's programme of work. In addition, during the reporting period, the Bank identified errors in its BS 11 compendium of contracts, an instance of a contract entered into as part of the Bank's response to the COVID-19 pandemic prior to a related RBNZ whitelist exemption coming into effect, and an instance of a contract where the Bank failed to conclude negotiations with a third party within a timeframe required by the RBNZ, resulting in potential non-compliance with Condition of Registration 25.

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 2020:
   (a) the Bank has complied with its Conditions of Registration applicable during that period, except as disclosed on page 42 of this Disclosure Statement;
   (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
   (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 22nd May 2020 and signed by Mr. McKay and Ms. Mentis as Directors and as responsible persons on behalf of all the other Directors.

DA McKay

D A McKay
Chairman

Angela Mentis

A Mentis
Managing Director and Chief Executive Officer