Disclosure Statement

For the year ended 31 March 2021

TSB

Disclosure Statement & Annual Report

For the year ended 31 March 2021

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General Information

This Disclosure Statement contains information as required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) ('the Order').

Name and Registered Office of Registered Bank
TSB Bank Limited is a registered bank (elsewhere in this statement referred to as the "Bank").
Registered Office: Level Five, TSB Centre, 120 Devon Street East, New Plymouth.

Principal Activity
The Bank continues to offer a full range of Retail Banking Services to its customers along with support area of operation in Foreign Exchange. The Bank has no direct exposure to the funds management industry, though it promotes the sale of Fisher Funds products, a related party.

Details of Incorporation
The Bank was established in 1850, incorporated under the provisions of the Trustee Bank Restructuring Act 1988 and the Companies Act 1955 on 30 August 1988 and reregistered under the Companies Act 1993 in May 1997.

Ownership
The Bank is wholly owned by the Toi Foundation (an independent body) via its subsidiary Toi Foundation Holdings Limited. The Foundation appoints the Board of Directors and its address for service is 21 Dawson Street, PO Box 667, New Plymouth, 4340. Refer to Note 21. Related Party Transactions and Balances for further information.

Results and Distributions	$000
Net profit after tax	42,893
Dividends	-
Retained profit for the Year	42,893

Financial and Supplementary Disclosures
This Disclosure Statement is inclusive of the Bank's audited financial statements for the year ended 31 March 2021. All necessary additional financial and supplementary disclosures are included in the notes attached to the financial statements.

Guarantee Arrangements
No material obligations of the Bank are guaranteed.

Pending Proceedings or Arbitration
The Bank has no proceedings or arbitration pending in New Zealand or elsewhere which may have a material adverse effect on the Bank. See Other Material Matters in General Information for other material proceedings pending.

Other Material Matters
As indicated in the Bank's September 2019, March 2020 and September 2020 Disclosure Statements, a review of the Bank's Anti Money Laundering and Countering Financing of Terrorism (AML/CFT) Programme had identified areas for improvement. The Bank is continuing to actively remediate the issues identified by the Reserve Bank and is providing regular updates to the Reserve Bank on its progress.

Further to this, the Bank has been in constructive discussions with the Reserve Bank regarding the alleged breaches and the civil proceedings that may result from them. On 27 May 2021 this culminated in the Reserve Bank filing a statement of claim in the High Court against the Bank for breaches of the AML/CFT Act 2009. It is not alleged that the Bank was involved in money laundering or the financing of terrorism. The Bank has been fully cooperating with the Reserve Bank in respect of the claim and has acknowledged liability. The Reserve Bank and the Bank have filed an agreed statement of facts with the High Court. The Reserve Bank is seeking civil pecuniary penalties in respect of four categories of non-compliance:

- The absence of adequate and effective procedures, policies and controls for monitoring and managing compliance with its AML/CFT programme;
- The failure to review and maintain the Bank's AML/CFT programme;
- The failure to conduct a risk assessment in respect of its realty operations; and
- The failure to have regard to certain countries it deals with when reviewing its 2017 risk assessment.

A provision in respect of a prospective liability has been made. Given the ongoing nature of the legal proceedings, further detail on this matter will be disclosed upon completion of the High Court proceeding.

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

General Information (continued)

Items Excluded by Shareholder Agreement
The report has been prepared so as to include all information required to be disclosed under the Companies Act 1993 except where the Shareholder has resolved to take advantage of the reporting concessions available to them under section 211 (3) of the Companies Act 1993.

The Shareholder has resolved to exclude remuneration disclosed by band of the most highly paid employees during the accounting period.

Auditor

It is proposed that our Auditor, KPMG, continue in accordance with Section 196 of the Companies Act 1993.

KPMG
10 Customhouse Quay
Wellington 6011

Credit Rating

As at the signing date of this Disclosure Statement, the Bank's credit rating was A- with outlook negative by Fitch ratings ("Fitch"). Fitch revised the outlook on TSB Bank Limited to negative from stable on 18 May 2020. This credit rating is applicable to the Bank's long term senior unsecured obligations payable in New Zealand, in New Zealand dollars and was affirmed by Fitch on 19 October 2020.

Rating scale for long term senior unsecured obligations:

AAA Extremely strong capacity to pay interest and repay principal in a timely manner.

AA Very strong capacity to pay interest and repay principal in a timely manner.

A Strong capacity to pay interest and repay principal in a timely manner but may be more susceptible to adverse effects of changes in circumstances and economic conditions than higher rated entities.

BBB Adequate capacity to pay interest and repay principal in a timely manner but are more likely to be weakened by adverse changes in circumstances and economic conditions than higher rated entities.

BB A degree of speculation exists with respect to the ability of an entity with this credit rating to pay interest and repay principal in a timely manner. Adverse business, financial or economic conditions could impair the borrower's capacity or willingness to meet debt service commitments in a timely manner.

B Entities rated B are more vulnerable to adverse business, financial or economic conditions than entities in higher rated categories. Adverse business, financial or economic conditions will likely impair the borrower's capacity or willingness to meet debt service commitments in a timely manner.

CCC Entities rated CCC are currently vulnerable to default and are dependent on favourable business, financial or economic conditions to meet debt service commitments in a timely manner. In the event of adverse business, financial or economic conditions the entity is likely to default.

CC Entities rated CC are currently vulnerable to non-payment of interest and principal.

C Entities rated C have filed a bankruptcy petition or taken similar action, but payment of obligations are being continued.

D 'D' rated entities are in default. This is assigned when interest or principal payments are not made on the date due or when an insolvency petition or a request to appoint a receiver is filed.

Plus (+) or Minus (-): The ratings from 'AA' to 'CCC' may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Directorate

All Directors of the Bank reside in New Zealand.

J. J. (John) Kelly

Independent and non-executive Director (Chair – Board of Directors) Company Director	External Directorship: John Kelly Livestock Limited, Te Tapu Lands Limited, Taranaki Veterinary Centre Limited, J & M Kelly Trustees Limited, JJ Kelly Family Trust, Neurological Foundation of New Zealand.

M. I. (Murray) Bain, MCom (Hons), BSc, C.F.Inst.D

Independent and non-executive Director (Deputy Chair - Board of Directors) Company Director	External Directorship: Oryx Technologies Limited, M.I. Bain & Associates Limited, Central Region's Technical Advisory Services Limited, ESA Publications (NZ) Limited, Optimum Services Limited, Optimum Services Limited, Northland Polytechnic Limited, Southern Institute of Technology Limited, Ara Institute of Canterbury Limited.

M. A. (Anne) Blackburn, MA, BA, C.F.Inst.D

Independent and non-executive Director Company Director	External Directorship: Ten Gracie Square Limited, Committee for Auckland Limited, Fisher Funds Management Limited, Resolution Life New Zealand Limited, Government Superannuation Fund Authority, Ponga Silva Limited. Annuitas Management Limited.

N. (Natalie) Pearce, BCom

Independent and non-executive Director Company Director	External Directorship: Home of the Brave.

P. M. (Peter) Schuyt, BCom, C.F.Inst.D

Independent and non-executive Director Company Director	External Directorship: Tax Management New Zealand Limited, Dairy NZ Inc. (DairyNZ Limited), The Tatua Co-operative Dairy Company Limited, Foodstuffs North Island Limited, Ahikouka Holdings Limited, Alliance Group Limited, Dairy Investment Fund Limited, Greenleaf Fresh Limited, Schuyt Investments Limited.

D. J. (Dion) Tuuta

Independent and non-executive Director Company Director	External Directorship: Port Nicholson Fisheries General Partner Limited, Koura Inc General Partner Limited, Te Ohu Kaimoana Custodian Limited, Tuuta Waetford Tapui Limited, Parininihi ki Waitotara Incorporation, Parininihi ki Waitotara Trust, Te Kotahitanga o Te Atiawa Trust.

H. F. (Harvey) Dunlop, BCom (Ag)

Non-executive Director Company Director	External Directorship: Taradise Holdings 2004 Limited, Taradise Holdings 2006 Limited, Taradise Property Management Limited, Renaissance Holdings Limited, Toi Foundation Holdings Limited, Toi Foundation, H & K Dunlop Family Trust.

P.S. (Peter) Dalziel, MBA**,** C.M.Inst.D'

Non-executive Director Company Director	External Directorship: Dolly's Milk Limited, Barberry Hill Farm Limited, PS & ME Dalziel Partnership, Stratford District Council, Toi Foundation, Tutaki Youth Trust, Raw Drinking Milk Association NZ.

K.C. (Kevin) McDonald, MBA

Non-executive Director Company Director	External Directorship: Power Group Holdings Limited, Macca's Fam Bam Family Trust

The following changes to the composition of the Board of Directors have occurred since the publication of the Bank's disclosure statement and annual report for the year ended 31 March 2020.

- Kevin McDonald was appointed as a non-executive director of the Bank on 13 January 2021.

There have been no transactions between the Bank and any Director or immediate relative or close business associate of any Director which either, has been entered into on terms other than those which would in the ordinary course of business of the Bank be given to any other person of the like circumstances or means or, which could be reasonably likely to influence materially the exercise of the Director's duties.

The Address to which any communication to the Directors may be sent is:-
TSB Bank Limited

PO Box 240
New Plymouth 4310

Directorate (continued)

Policy on Directors' Conflicts of Interest

As per Clause 22 of the Constitution of the Bank a Director who is in any way, whether directly or indirectly interested in a contract or proposed contract with the company shall declare the nature of his or her interest at a meeting of the Directors in accordance with section 140 of the Companies Act 1993 as amended, but failure to do so shall not disqualify the Director or invalidate the contract or proposed contract or render him or her liable to account. A general notice by a Director that he or she is a member of a specific firm or company and is to be regarded as interested in all transactions with that firm or company shall be sufficient disclosure under this Clause as regards such Director and any such transaction and after such general notice it shall not be necessary for such Director to give a special notice relating to any particular transaction with that firm or company. All declarations and notices given by Directors pursuant to this Clause shall be recorded in the minutes.

Directors Fees

Directors Fees received by the Directors for the year ended 31 March 2021.

In NZD	Board Fee	Audit Committee	Risk Committee	People, Culture and Capability Committee	Total
Name of Director					
J. J. Kelly	(Chair) 153,000	-	-	-	153,000
M. I. Bain	(Deputy Chair) 91,800	7,140	(Chair) 7,140	7,140	113,220
P. M. Schuyt	77,520	(Chair) 7,140	7,140	-	91,800
M. A. Blackburn	77,520	7,140	7,140	-	91,800
D. J. Tuuta	77,520	-	-	7,140	84,660
N. Pearce	77,520	7,140	7,140	(Chair) 7,140	98,940
P. S. Dalziel	77,520	7,140	-	7,140	91,800
H. F. Dunlop	77,520	-	7,140	-	84,660
K. McDonald	17,889	-	-	-	17,889
Total	**727,809**	**35,700**	**35,700**	**28,560**	**827,769**

Fees paid to Directors of the Bank for the year totalled $827,769 (31 March 2020: $808,170).

Directors' and Officers' Liability Insurance

The Bank has effected insurance for Directors and Officers in respect of liability and costs that may arise from their positions in accordance with Section 162 of the Companies Act 1993. The insurance does not cover liabilities arising from criminal actions.

Directors' Interests

Directors maintain personal banking relationships with the Bank and these are undertaken fulfilling normal bank criteria. Directors are required to table all possible conflicts of interest at the Board of Directors' meetings and are required to abstain from any vote on those proceedings. The Bank complies with all the requirements of the Companies Act 1993 in terms of registers and notices for Directors' conflict of interest.

Directors' Statement

The Directors believe, after due enquiry, that as at the date of this Disclosure Statement:

(a) The Disclosure Statement contains all the information required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order");

(b) The Disclosure Statement is not false or misleading.

The Directors believe, after due enquiry, that over the financial year to 31 March 2021:

(a) The Bank has complied with the Conditions of Registration;

(b) Credit Exposures to Connected Persons were not contrary to the interests of the Bank; and

(c) Subject to the items outlined in Other Material Matters, note 15. Risk Governance, note 19. Capital Adequacy and note 22. Commitments and Contingent Liabilities, the Bank has systems in place to monitor and control adequately the Bank'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.

J. J. Kelly
(Chair – Board of Directors)

28 June 2021

M. I. Bain
(Deputy - Board of Directors)

28 June 2021

M. A. Blackburn

28 June 2021

N. Pearce

28 June 2021

P. M. Schuyt

28 June 2021

D. J. Tuuta

28 June 2021

P. S. Dalziel

28 June 2021

H. F. Dunlop

28 June 2021

K.C. McDonald

28 June 2021

All in $000's

Historical Summary of Financial Statements

	2021	2020	2019	2018	2017
Financial Performance					
Total Interest income	255,961	307,137	312,614	296,270	290,385
Interest expense	112,328	164,549	174,591	169,465	158,850
Net interest income	**143,633**	**142,588**	**138,023**	**126,805**	**131,535**
Other income	18,269	21,909	23,746	36,518	17,224
Net operating income	**161,902**	**164,497**	**161,769**	**163,323**	**148,759**
Operating expenses	104,475	102,678	94,955	87,340	80,241
Impairment losses / (reversal of impairment losses)	(2,202)	20,362	4,236	3,918	4,010
Profit before tax	**59,629**	**41,457**	**62,578**	**72,065**	**64,508**
Tax expense	16,736	10,640	17,539	20,192	18,168
Net profit attributable to shareholder	**42,893**	**30,817**	**45,039**	**51,873**	**46,340**
Dividend	-	2,500	10,000	20,000	10,000
Retained profit for the year	**42,893**	**28,317**	**35,039**	**31,873**	**36,340**
Financial Position					
Total assets	8,788,658	8,179,275	7,819,045	7,416,277	6,802,680
Total impaired assets - loans and advances	23,312	17,637	3,814	4,400	8,919
Deposits	7,998,505	7,420,524	7,093,017	6,740,890	6,156,809
Total liabilities	8,062,994	7,499,323	7,165,920	6,803,262	6,214,556
Shareholder's Equity					
Retained profit for the year	42,893	28,317	35,039	31,873	36,340
Total shareholder's equity	725,664	679,952	653,125	613,015	588,124
Performance					
Return on average shareholder's equity	6.1%	4.6%	7.1%	8.6%	8.1%
Return on average total assets	0.5%	0.4%	0.6%	0.7%	0.7%
Growth in total assets	7.5%	4.6%	5.4%	9.0%	5.8%
Growth in depositors' funds	7.8%	4.6%	5.2%	9.5%	5.9%
Residential lending	5,481,169	5,222,565	4,844,453	4,389,811	3,851,176
Total lending	6,333,719	6,126,597	5,792,049	5,309,357	4,657,668
Operating expenses to net operating income	64.53%	62.42%	58.70%	53.48%	53.94%
Prudential					
Shareholder's equity as a % of total assets	8.26%	8.31%	8.35%	8.27%	8.65%
Common equity Tier 1 capital ratio *	14.47%	13.88%	14.57%	14.28%	14.60%
Total capital *	14.47%	13.88%	14.57%	14.28%	14.60%

* The 2021 Capital Adequacy Ratio reflects new adjustments to the Bank's credit conversion factors on off-balance sheet exposures. The 2020 ratio has also been restated to reflect this change, a reduction of 44 bps. Prior years have not been restated.

The amounts set out in the financial summary have been prepared from audited financial statements of the Bank. The Bank has no non-controlling interest.

Statement of Comprehensive Income

For the year ended 31 March 2021

All in $000's

	Note	2021	2020
Interest income calculated using the effective interest method		224,848	266,041
Other interest income		31,113	41,096
Interest expense		112,328	164,549
Net interest income	2	**143,633**	**142,588**
Other operating income	3	18,269	21,909
Net operating income		**161,902**	**164,497**
Operating expenses	4	104,475	102,678
Profit before credit impairment and tax		**57,427**	**61,819**
Credit impairment losses / (reversal of credit impairment losses)	16.(f)	(2,202)	20,362
Profit before tax		**59,629**	**41,457**
Tax expense	5	16,736	10,640
Net profit after tax		**42,893**	**30,817**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Movement in fair value reserve (debt instruments)		371	(3,254)
Movement in effective portion of changes in fair value of cash flow hedges		3,545	1,184
Income tax on items that may be reclassified to profit or loss	5	(1,097)	580
Other comprehensive income for the year (net of tax)		**2,819**	**(1,490)**
Total comprehensive income for the year		**45,712**	**29,327**

Total comprehensive income for the year is attributable to the shareholder of the Bank.

These financial statements are to be read in conjunction with the notes on pages 12 - 57.

Statement of Changes in Equity

For the year ended 31 March 2021

All in $000's

For the year ended March 2021	Note	Share capital	Fair value reserve	Cash flow hedge reserve	Retained earnings	Total Equity
Balance at 1 April 2020		**10,000**	**10,874**	**(1,319)**	**660,397**	**679,952**
Total comprehensive income for the period:						
Net profit after tax		-	-	-	42,893	42,893
Other comprehensive income:						
Movement in cash flow hedge reserve		-	-	3,545	-	3,545
Movement in fair value reserve		-	371	-	-	371
Related tax			(104)	(993)	-	(1,097)
Total other comprehensive income	14	-	267	2,552	-	2,819
Total comprehensive income for the period		**-**	**267**	**2,552**	**42,893**	**45,712**
Transactions with owner, recorded directly in equity:						
Dividends to equity holder	13	-	-	-	-	-
Total transactions with owner		**-**	**-**	**-**	**-**	**-**
Balance at 31 March 2021		**10,000**	**11,141**	**1,233**	**703,290**	**725,664**

For the year ended March 2020	Note	Share capital	Fair value reserve	Cash flow hedge reserve	Retained earnings	Total Equity
Balance at 1 April 2019		**10,000**	**13,217**	**(2,172)**	**632,080**	**653,125**
Total comprehensive income for the period						
Net profit after tax		-	-	-	30,817	30,817
Other comprehensive income:						
Movement in cash flow hedge reverse		-	-	1,184	-	1,184
Movement in fair value reserve		-	(3,254)	-	-	(3,254)
Related tax			911	(331)	-	580
Total other comprehensive income	14	-	(2,343)	853	-	(1,490)
Total comprehensive income for the period		**-**	**(2,343)**	**853**	**30,817**	**29,327**
Transactions with owner, recorded directly in equity:						
Dividends to equity holder	13	-	-	-	(2,500)	(2,500)
Total transactions with owner		**-**	**-**	**-**	**(2,500)**	**(2,500)**
Balance at 31 March 2020		**10,000**	**10,874**	**(1,319)**	**660,397**	**679,952**

These financial statements are to be read in conjunction with the notes on pages 12 - 57.

Statement of Financial Position

As at 31 March 2021

All in $000's

	Note	2021	2020
Assets			
Cash and cash equivalents		438,240	232,588
Derivative financial instruments	9	10,724	13,942
Investment securities	8	1,938,774	1,741,504
Loans and advances to customers	7	6,333,719	6,126,597
Property, plant and equipment		33,484	34,150
Intangible assets		21,938	15,404
Deferred tax asset	5	9,543	12,650
Other assets		2,236	2,440
Total assets		**8,788,658**	**8,179,275**
Liabilities			
Deposits	10	7,998,505	7,420,524
Derivative financial instruments	9	9,605	17,799
Current tax liability		2,696	5,600
Other liabilities	11	52,188	55,400
Total liabilities		**8,062,994**	**7,499,323**
Shareholder's Equity			
Share capital	13	10,000	10,000
Fair value reserve	14	11,141	10,874
Cash flow hedge reserve	14	1,233	(1,319)
Retained earnings		703,290	660,397
Total shareholder's equity		**725,664**	**679,952**
Total liabilities and shareholder's equity		**8,788,658**	**8,179,275**
Total interest earning and discount bearing assets		8,713,967	8,081,795
Total interest and discount bearing liabilities		7,330,948	6,968,817

For and on behalf of the Board of Directors:

J.J. Kelly
(Chair - Board of Directors)
28 June 2021

M.I. Bain
(Deputy Chair - Board of Directors)
28 June 2021

These financial statements are to be read in conjunction with the notes on pages 12 - 57.

Statement of Cash Flows

For the year ended 31 March 2021

All in $000's

	Note	2021	2020
Cash Flows from Operating Activities			
Cash provided from (applied to):			
Interest income received		259,697	308,564
Other income received		18,475	21,672
Interest paid		(121,074)	(168,191)
Operating expenditure		(96,565)	(81,688)
Taxes and subvention payments		(17,630)	(19,214)
Cash flows from operating profits before changes in operating assets and liabilities		**42,903**	**61,143**
Net changes in operating assets and liabilities:			
Increase in loans and advances to customers		(184,898)	(357,754)
Derivative financial instruments		(1,431)	(558)
Increase in deposits		558,527	331,826
Cash flows from operating assets and liabilities		**372,198**	**(26,486)**
Net cash flows from operating activities	6	**415,101**	**34,657**
Cash Flows from Investing Activities			
Cash provided from (applied to):			
Sale of Harmoney loan portfolio (net of impairment allowance)		5,900	-
Net (purchase) / maturity of investment securities		(198,359)	84,469
Property, plant and equipment purchased		(2,967)	(13,764)
Intangible assets purchased		(11,082)	(9,620)
Net cash flows from investing activities		**(206,508)**	**61,085**
Cash Flows from Financing Activities			
Cash provided from (applied to):			
Dividends paid		-	(10,000)
Lease payments		(2,941)	(2,219)
Net cash flows from financing activities		**(2,941)**	**(12,219)**
Net increase in cash and cash equivalents		**205,652**	**83,523**
Add cash and cash equivalents at beginning of the year		232,588	149,065
Cash and cash equivalents at end of year		**438,240**	**232,588**

Reconciliation of cash and cash equivalents to the statement of financial position

	2021	2020
Cash and cash at bank	24,247	21,966
Balances with Reserve Bank	413,993	210,622
Total cash and cash equivalents at end of Year	**438,240**	**232,588**

These financial statements are to be read in conjunction with the notes on pages 12 - 57.

Basis of Preparation

1. Statement of Compliance and General Accounting Policies

(a) Statement of compliance

TSB Bank Limited (the Bank) is a profit-oriented company registered under the Companies Act 1993 and incorporated in New Zealand. The Bank's principal business activity is retail banking in New Zealand. These financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 2013, and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"). The financial statements also comply with the requirements of the Financial Markets Conduct Act 2013 and the Order.

The Bank's financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 28 June 2021.

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value as required by relevant accounting standards.

(c) Presentation currency and rounding

The amounts contained in this disclosure statement and the financial statements are presented in New Zealand dollars and are rounded to the nearest thousand dollars. New Zealand dollars is the functional currency of the Bank.

(d) Comparative data

To ensure consistency with the current period, comparative figures have been restated where appropriate.

(e) Segment reporting

The Bank operates as one segment, in the business of retail banking in New Zealand. The Bank has no debt or equity instruments trading in the public market. The Bank therefore falls outside the scope of NZ IFRS 8 Operating Segments. On this basis no detailed segment information is presented as it is not required.

(f) Foreign currency translation

The Bank trades foreign currency throughout its branch network. All foreign currency monetary assets and liabilities are converted at the rates of exchange ruling as at balance date. Unrealised gains and losses arising from these revaluations and gains and losses arising from foreign exchange dealings are recognised immediately in profit or loss.

(g) Other assets

Other assets includes the accrual of other service related income, and the payment in advance of the delivery of goods or the rendering of services.

(h) Financial instruments

The Bank is a full service financial institution offering an extensive range of financial instruments. Financial instruments are transacted on a commercial basis to derive an interest yield / cost with terms and conditions having due regard to the nature of the transaction and the risks involved. All financial instruments are accounted for on a settlement date basis, except for derivatives which are accounted for on trade date.

The Bank recognises and classifies its financial instruments in accordance with NZ IFRS 9 which contains three principal classification categories for financial assets based on contractual cash flow characteristics and business model:

Financial assets

- **Amortised cost** - applies to financial assets recognised and initially measured at fair value plus transaction cost that are managed within the business model whose objective is to hold to collect the contractual cash flows and their contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

  Included in this category are cash and cash equivalents, loans and advances to customers and other assets.
  - Cash and cash equivalents consist of cash, call deposits due from/to other banks and demand balances with the Reserve Bank. They are short-term, highly liquid instruments that are readily convertible to known amounts of cash and therefore subject to insignificant risk of changes in value. Cash and cash equivalents are used in the day-to-day cash management of the Bank.
  - Loans and advances to customers: Refer to note 7. Loans and Advances to Customers.
  - Other assets include the accrual of other service related income.

1. Statement of Compliance and General Accounting Policies (continued)

(h) Financial instruments (continued)

Financial assets (continued)

- **Amortised cost (continued)**
  These assets are subsequently measured at amortised cost using the effective interest methods and the carrying value of these assets is adjusted for provision for impairment as described in note 16. Credit Risk Management and Asset Quality.

- **Fair value through other comprehensive income (FVOCI)** - applies to financial assets recognised and initially measured at fair value plus transaction cost that are held in a dual business model whose objective is achieved by both collecting contractual SPPI cash flows and selling the assets.

  This category includes investment securities (refer to note 8 for further information) and they are subsequently held at fair value. The fair value gains or losses accumulated are reported in other comprehensive income as changes of 'fair value reserve'. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

- **Fair value through profit or loss (FVPL)** - includes the groups of trading assets or the assets managed on a fair value basis as the contractual cash flows are not SPPI on the principal amount outstanding. The Bank may designate financial assets at FVPL when doing so eliminates or significantly reduces measurement or recognition inconsistencies. Financial instruments at FVPL are recorded in the statement of financial position at fair value. Gains or losses arising from changes in fair value are recognised in other operating income. Included in the categories are derivative assets and derivative liabilities. Financial assets designated at FVPL cannot subsequently change their designation and therefore are not subject to the reclassification requirements of NZ IFRS 9.

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is whether the Bank's objective is to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. Factors considered by the Bank in determining the business model for a group of assets include past experience on how cash flows for these assets were collected. For example, the Bank's business model for the mortgage loan book is to hold to collect contractual cash flows. Another example is the liquidity portfolio of assets, which is held by the Bank as part of liquidity management and is generally classified within the hold to collect and sell business model.

SPPI*:* where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending agreement i.e. interest primarily includes consideration for the time value of money and credit risk. Interest can also include consideration for administration and profit margin, consistently with a basic lending agreement.

Financial liabilities

- In accordance with NZ IFRS 9, the Bank records all financial liabilities initially at their fair value plus or minus, in the case of the financial liabilities not at fair value through profit or loss (FVPL), transaction costs and classifies them as subsequently measured at amortised cost using the effective interest method, except for financial liabilities at FVPL, financial guarantee contracts and commitments. Financial liabilities measured at amortised costs include deposits (refer to note 10. Deposits for further information) and other financial liabilities (refer to note 11. Other Liabilities for further information).

Derecognition
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when its contractual obligations are discharged, cancelled or expire. The differences between the carrying amount of financial assets / liabilities measured at the date of derecognition and the consideration received / paid to the counterparty involved are recognised in profit or loss.

Offsetting financial assets and liabilities
The Bank offsets financial assets and financial liabilities and reports the net balance in the statement of financial position where there is a legally enforceable right to set-off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Details on how the fair value of financial instruments is determined are disclosed in note 12. Fair Value of Financial Instruments.

All in $000's

1. Statement of Compliance and General Accounting Policies (continued)

(i) Changes in accounting policy

All accounting policies are consistent with those used in previous periods.

(j) Critical accounting estimates, assumptions and judgements

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the relevant accounting policy or in the relevant note (further information in note 12. Fair Value of Financial Instruments and note 16. Credit Risk Management and Asset Quality).

The estimates and associated assumptions are based on historical experience, forward looking assumptions and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Implications of COVID-19 on allowance for expected credit loss (ECL)

The impact of Covid-19 remains uncertain and poses significant downside risks to the economy. This uncertainty is incorporated in the Bank's assessment of expected credit losses (ECL) from its credit portfolio which are subject to a number of management judgements and estimates. Refer to note 16. Credit Risk Management and Asset Quality for the Bank's accounting policy for recognition and measurement of the allowance for ECL.

TSB measures allowance for ECL using an ECL impairment model in compliance with NZ IFRS 9 Financial Instruments. TSB's accounting policy for the recognition and measurement of the allowance for ECL is described in Note 16. Credit Risk Management and Asset Quality of the Bank's annual financial statements for the year ended 31 March 2021.

Implications of COVID-19 on allowance for ECL

The table below shows TSB's allowance for ECL (refer note 16 for further information).

	2021 $m	2020 $m
Collectively assessed	37.0	38.1
Individually assessed	7.3	9.6
Total	**44.3**	**47.7**

Individually assessed

For the year ended March 2021 the individually assessed allowance for ECL decreased by $2.3m. In estimating individually assessed ECL for Stage 3 exposures, TSB makes judgements and assumptions in relation to:

- expected repayments;
- the realisable value of collateral;
- the economic prospects for the customer;
- competing claims; and
- the likely cost and duration of the work-out process.

Consideration has been given to the potential impact of COVID-19 which has been incorporated into the judgements and assumptions made regarding these matters.

Collectively assessed

For the year ended March 2021 the collectively assessed allowance for expected credit loss decreased by $1.2m.

In estimating collectively assessed ECL, TSB makes judgements and assumptions in relation to:

- the development of a modelling methodology, noting that the modelling of TSB's ECL estimates is complex; and
- the selection of inputs for those models, and the interdependencies between those inputs.

There is ongoing uncertainty around the long-term impact of COVID-19 on the New Zealand economy and how consumers, businesses and governments will respond. This uncertainty is incorporated in TSB's assessment of ECL from its credit portfolio which is subject to a number of management judgements and estimates.

1. Statement of Compliance and General Accounting Policies (continued)

(j) Critical accounting estimates, assumptions and judgements (continued)

The following table summarises the key judgements and assumptions in relation to the model inputs, the interdependencies between those inputs and highlights significant changes during the current period.

Judgement	Description	Changes and considerations during the year ended 31 March 2021
Determining when a significant increase in credit risk (SICR) has occurred	In measuring ECL, judgement is required when setting the rules and trigger points used to determine when a SICR has occurred since the initial recognition of a loan. This is important in that it results in the financial asset moving from 'stage 1' to 'stage 2', and results in an increase in the ECL from an allowance based on the probability of default in the next 12 months, to an allowance for lifetime expected credit losses. Decrease in credit risk as a result of transitioning from stage 2 back to stage 1 can also result in a significant change to the ECL allowance. These examples highlight the importance and potential impact that setting these trigger points can have on the ECL allowance.	**Impact of COVID-19 restrictions of SICR** As a response to the COVID-19 outbreak New Zealand and other governments around the world have implemented severe travel restrictions on individuals and operational restrictions on businesses. Although a lot of the restrictions have been eased there remains a considerable amount of uncertainty around the medium and long term primary and secondary economic impacts of COVID-19. For its non-residential portfolio, TSB has reviewed the publicly available information about the potential impact of of COVID-19, to shortlist certain industries that are most impacted by COVID-19. It then further divided these industries into two groupings, those industries or components within an industry where a structural shift in the economic prospects have occurred (impacted industries), and those where the impact is deemed to be short-term or still uncertain at the time of preparation of this report (potentially impacted industries). The impacted industries have been deemed to have experienced a SICR event and have been moved into the lifetime credit loss calculation methodology. This approach is consistent with prior year's treatment of Commercial portfolio. In addition, for one industry, to which TSB has a significant exposure, this approach has been refined to implement a fixed value overlay equivalent to moving 50% of the Industry to a SICR status as there has been a significant deterioration in industry performance overall but given TSB's portfolio characteristics Management did not believe it was prudent to move the whole industry to a SICR status. Consequently all customer exposures in that industry remained in Stage 1 balances and the fixed value overlay was also recorded against Stage 1 balances. TSB will continue to regularly evaluate industry prospects, refine provision methodology and will make appropriate adjustments to industry classifications as and when deemed appropriate. For the residential portfolio, TSB used both market and internally available information, including customer uptake of COVID-19 support packages discussed below, to estimate the impact of COVID-19 on portfolio credit risk and implemented a management overlay to capture the increase in portfolio credit risk through its expected credit losses. *Impact of COVID-19 Support packages:* In response to the immediate impact of COVID- 19 on the economy, TSB has rolled out COVID-19 support packages for its customers, including loan repayment deferrals, designed to provide short term assistance during the time of most severe COVID-19 related restrictions. These packages are available to customers who have had their incomes impacted by COVID-19 and were current with their payments prior to the restrictions being implemented. TSB uses information on customers who have taken advantage of these packages when determining the management overlay for increase in credit risk across the residential loan portfolio.
Measuring both 12-month and lifetime credit losses	ECL is a function of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD). These are point-in-time measures reflecting the relevant forward looking information determined by management. Judgement is involved in determining which forward-looking information variables are relevant for particular lending portfolios and for determining the sensitivity of the parameters to movements in these forward looking variables.	TSB has used probability weighted scenarios to determine the expected distribution of credit loss outcomes. The scenarios were developed based on external macroeconomic forecasts, including Treasury and RBNZ forecasts, TSB's internal modelling and management judgement. A view was taken on the probability of the forecasts eventuating.
Management temporary adjustments	Management temporary adjustments to the ECL allowances are adjustments used when it is deemed that existing inputs, assumptions and model techniques do not capture all the risk factors relevant to our lending portfolios. The use of management temporary adjustments may impact the amount of ECL recognised.	TSB implemented a temporary model overlay to address some input data and modelling technique shortcomings which rendered TSB unable to capture all the risk factors relevant to the lending portfolio. As TSB works to enhance the model and incorporates outstanding risk factors, the need for the overlay will be reassessed.

1. Statement of Compliance and General Accounting Policies (continued)

(j) Critical accounting estimates, assumptions and judgements (continued)

ECL sensitivity analysis

Given the large amount of uncertainty in the current economic environment, expected credit losses should be considered as a best estimate within a range of possible estimates. TSB has elected to use a 60% base and 40% downside (2020: 50%/50%) scenario in determining its ECL.

The table below illustrates the sensitivity of ECL to key macroeconomic factors used in determining it:

ECL sensitivity - Weightings applied to forecast scenarios	Total ECL $m	Impact $m
100% base scenario	28.8	(8.1)
60% base scenario/40% downside scenario	36.9	-
100% downside scenario	49.0	12.1

(k) Standards and amendments issued but not yet effective

The following new standards have been issued but are not yet effective and have not been applied in the preparation of these financial statements:

NZ IFRS 17 Insurance Contracts was issued in August 2017 to replace NZ IFRS 4 and is not effective for the Bank until 1 April 2023. NZ IFRS 17 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts. The Bank does not issue insurance or reinsurance contracts therefore NZ IFRS 17 is not expected to have a material impact on the Bank.

Management have considered amendments to NZ IFRS which became relevant for the Bank for the first time during the year ended 31 March 2021 and have concluded they have no material impact on the Bank's financial position or performance. No new standards, amendments or interpretations to existing standards that are not yet effective have been early adopted by the Bank in these financial statements.

All in $000's

Financial Performance

2. Net Interest Income

Interest income is measured using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. Interest income on interest earning financial assets measured at fair value through other comprehensive income (FVOCI) under NZ IFRS 9 is also recorded by using the EIR method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial asset, except for the financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired (refer to note 16.(b) for further information), or to the amortised cost of a financial liability.

When calculating the effective interest rate (EIR), the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The interest income or expense is allocated through the life of the instruments and is measured for inclusion in profit or loss by applying the effective interest rate to the instrument's amortised cost.

Interest expense on deposits from customers relates to financial liabilities measured at amortised cost.

Interest income	Financial assets measured at	2021	2020
Cash and cash equivalents	Amortised cost	809	1,145
Loans and advances to customers [1]	Amortised Cost	224,039	264,896
Investment securities	FVOCI	31,113	41,096
Total interest income		**255,961**	**307,137**
Interest expense	**Financial liabilities measured at**		
Deposits from customers [2]	Amortised cost	111,337	162,497
Wholesale deposits	Amortised cost	385	1,374
Lease liability	Amortised cost	606	678
Total interest expense		**112,328**	**164,549**
Net interest income		**143,633**	**142,588**

[1] Includes interest income earned on the commercial loan due from Toi Foundation Holdings Limited (refer to note 21. Related Party Transactions and Balances for further information).

[2] Includes interest expense on deposits from Toi Foundation (refer to note 21. Related Party Transactions and Balances for further information).

3. Other Operating Income

Revenue is recognised to the extent that is probable that economic benefits will flow to the Bank and that revenue can be reliably measured. Included in other operating income are fee income, gains or losses on financial instruments and other income.

Fee income
Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

All in $000's

3. Other Operating Income (continued)

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers for fee and commission income.

Type of service / products	Nature and timing of satisfaction of performance obligations	Revenue recognition under NZ IFRS 15
Account and card services	The Bank provides account and card services including account management, provision of overdraft facilities and debit/credit cards. Fee income from account and card services represents the income arising from financial assets that are not at FVPL. It excludes amounts incorporated in determining the effective interest rate on such financial assets and financial liabilities. Fees for ongoing account management are charged to the customer's account on a monthly basis. Card fees are charged on a six-monthly or annual basis. Transaction-based fees for interchange, and overdrafts are charged to the customer's account when the transaction takes place.	Revenue from account and card service fees is recognised when received given the short-term duration of the related performance obligations. Revenue related to these transactions is recognised at the point in time when the transaction takes place.
Foreign exchange services	The Bank provides foreign currency transactions services. Transaction-based fees for foreign currency transactions are charged to the customer's account when the transaction takes place.	Revenue related to these transactions is recognised at the point in time when the transaction takes place.
Fund and insurance products distribution	The Bank markets different products through its network, namely through the sale of asset management services provided by Fisher Funds (refer to note 21. Related Party Transactions and Balances for more information) and insurance products. The Bank receives income in return.	Ongoing marketing and promotional activities performed by the Bank means that there are ongoing performance obligations and the revenue should be recognised across the relevant period.
Real estate services	The Banks provides real estate services to its customers. Real-estate commissions are charged to the customers when the transaction takes place.	Revenue related to these transactions is recognised at the point in time when the transaction takes place.

Gains or losses on financial instruments

Included are net gains or losses from the movements in fair value of derivative financial instruments and cumulative gains or losses reclassified from accumulated other comprehensive income in the fair value reserve to profit or loss upon derecognition of investments securities (debt instruments) designated at fair value through other comprehensive income (FVOCI). Interest income and expense on these financial instruments are recognised within net interest income and do not form part of the fair value movements of the financial instruments.

Other income

Included are gains or losses on sale of fixed assets and sundry income that includes the recoverable proportion of goods and services tax (GST) on expenses incurred . Refer to note 5. Taxation for more information on GST.

The receivables and contract liabilities from contracts with customers are deemed immaterial and have not been disclosed separately.

	2021	2020
Fee income		
Account and card services	8,605	9,269
Foreign exchange services	1,473	2,203
Fund and insurance products distribution	3,416	3,314
Real estate services	400	993
Total fee income	13,894	15,779
Gains / losses on financial instruments		
Gains / (losses) on derivative financial instruments at fair value	65	130
Cumulative gains / (losses) transferred from fair value reserve (designated at FVOCI) [1]	1,491	3,423
Total other gains / losses	1,556	3,553
Other income		
Gains / (losses) on sale of fixed assets	353	(70)
Sundry income [2]	2,466	2,647
Total other operating income	**18,269**	**21,909**

[1] Includes the recovery of $0.75m (2020: $2.02m) from Solid Energy (SENZ).

[2] Includes $20k post-tax gain recognised from the sale of TSB Real Estate.

All in $000's

4. Operating Expenses

All expenses are recognised in profit or loss on an accrual basis.

Depreciation

The cost of property, plant and equipment (excluding land) less the estimated residual value is depreciated over their useful lives (lease term for leased assets) on a straight line basis. The range of useful lives of the asset classes are:

Buildings	50 to 100 years
Furniture and fittings	5 to 10 years
Computer equipment	1 to 5 years
Leased assets	Up to 30 years

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each balance date.

Assets are reviewed for indications of impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Any impairment loss or write-down is recognised in profit or loss as an expense.

Amortisation

Amortisation is provided on intangible assets that consist of acquired computer software licences, naming rights and certain acquired and internally generated software.

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their expected useful lives (two to four years) on a straight line basis.

The identifiable and directly associated cost of acquiring and developing software are capitalised where the software is controlled by the Bank, and where it is probable that future economic benefits will flow from its use over more than one year. Intangible assets are amortised on a straight line basis over their expected useful lives (two to ten years). Costs associated with maintaining software are recognised as an expense as incurred. Intangible assets are subject to the same impairment review process as property, plant and equipment. Any impairment loss is recognised profit or loss as an expense.

Personnel

Personnel includes expenses associated with employees' wages, salaries and other associated costs. The expense is recognised over the period the employee renders the service to receive the benefit.

	2021	2020
Fees paid to auditor:		
Audit and review of financial statements [1]	426	201
Audit of TSB Realty Trust	-	5
Other services [2]	107	292
Total fees paid to auditor	533	498
Depreciation	6,054	5,686
Amortisation of intangible assets	4,548	3,226
Directors' fees	828	808
Personnel	45,135	42,022
Defined contribution plan	1,722	1,658
Information technology	13,704	13,403
Premises occupancy	2,352	2,135
Marketing	7,370	8,706
Debit / Credit card expenses [3]	8,042	6,694
Other	14,187	17,842
Total operating expenses	**104,475**	**102,678**

[1] Included are fees for the audit of annual financial statements and review of interim financial statements.

[2] Other services includes regulatory advisory & IT risk assessment services totalling to $107k (2020: $292k).

[3] Debit / Credit card expenses are fee expenses arising from financial liabilities that are not at FVPL.

All in $000's

5. Taxation

Income tax

Income tax on the profit for the period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at balance date after taking advantage of all allowable deductions under current taxation legislation and any adjustment to tax payable in respect of previous years.

Deferred tax is accounted for in respect of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at balance date.

In accordance with NZ IAS 12 Income Taxes, a deferred tax asset is recognised only to the extent that it is probable (i.e. more likely than not) that a future taxable profit will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

When the temporary differences cause the operating surplus to be higher than the taxable surplus, a deferred tax liability is recognised. When the operating surplus is lower than the taxable surplus, a deferred tax asset is recognised.

Movements in fair value (and deferred tax) related to investment securities, cash flow hedges and the revaluation of non-current assets (if applicable), are recognised in other comprehensive income and presented in shareholder's equity accordingly.

Reconciliation of net profit before tax to tax expense	**2021**	**2020**
Net profit before tax	59,629	41,457
Tax at 28%	16,696	11,608
Adjustments to prima facie tax	40	(968)
Tax expense	**16,736**	**10,640**
Income tax recognised in profit or loss		
Current tax expense:		
Current year	14,403	18,399
Prior period adjustments	323	(8)
Deferred tax expense:		
Current year	2,333	(8,095)
Prior Period Adjustments	(323)	344
Income tax expense	**16,736**	**10,640**
Deferred tax recognised in profit or loss		
Depreciation	466	1,073
Amortisation of intangibles	(755)	240
Provision for impairment losses	(967)	5,356
Derivative financial instruments	(72)	(150)
Other temporary differences*	(682)	1,232
Total deferred tax recognised in profit or loss	**(2,010)**	**7,751**
Income tax recognised in other comprehensive income		
Deferred tax expense:		
Cash flow hedge reserve	(993)	(331)
Fair value reserve	(104)	911
Total deferred tax recognised in other comprehensive income	**(1,097)**	**580**

* Other temporary differences reflect adjustments for employee benefits.

All in $000's

5. Taxation (continued)

	2021	2020
Deferred tax:		
Balance at beginning of year	12,650	4,319
Deferred tax recognised in profit or loss	(2,010)	7,751
Deferred tax recognised in equity	(1,097)	580
Balance at end of year	**9,543**	**12,650**
Deferred tax relates to:		
Property, plant, and equipment	455	(11)
Amortisation of intangibles	(1,270)	(515)
Provision for impairment losses	12,396	13,363
Fair value adjustments for derivative financial instruments	(480)	585
Fair value movements on investment securities	(4,333)	(4,221)
Other temporary differences *	2,775	3,449
Total deferred tax asset	**9,543**	**12,650**

* Other temporary differences reflect adjustments for employee benefits.

The imputation credits available to carry forward and utilise in future periods are $302.17m (31 March 2020: $286.39m).

Goods and services tax (GST)

Revenues, expenses and assets are initially recognised gross of the amount of goods and services tax (GST) unless stated otherwise. As the principal activity of the Bank is providing financial services, only a proportion of GST paid on inputs is recoverable from Inland Revenue Department. The recoverable proportion of GST is adjusted from the cost of acquisition of the asset or is recognised as other income.

6. Notes to the Cash Flow

The statement of cash flows has been prepared using the direct approach, including the netting of cash flows associated with deposits from customers, loans and advances to customers and investment securities.

The following are the definitions of the terms used in the statement of cash flows:

(a) Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts;
(b) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, intangible assets, and investment securities;
(c) Financing activities are those activities that result in changes in the size and composition of the capital structure of the Bank; and
(d) Operating activities include all transactions and other events that are not investing or financing activities.

Reconciliation of net profit after tax to net cash flows from operating activities	2021	2020
Net profit after tax	**42,893**	**30,817**
Add movements in statement of financial position Items:		
Accounts payable	(2,691)	8,537
Current tax	(2,904)	(823)
Deposits from customers	549,780	327,507
Deferred tax asset	2,010	(7,751)
Accounts receivable	3,942	1,189
Lease liability	-	2,219
Derivative financial instruments	(1,431)	(558)
Loans and advances to customers	(185,598)	(357,754)
	363,108	**(27,434)**
Add non - cash items:		
Amortisation of intangible assets	4,548	3,226
Depreciation	6,054	5,686
Credit Impairment losses / (gains)	(1,502)	20,362
Other Impairment losses / (gains)	-	2,000
	9,100	**29,274**
Net cash flows from operating activities	**415,101**	**34,657**

All in $000's

Financial Position

7. Loans and Advances to Customers

This covers all forms of lending to customers, and include mortgages, overdrafts, personal loans and credit card balances. Loans and advances to customers are recognised in the statement of financial position when cash is advanced to the customer and subsequently measured at amortised cost less allowance for impairment to reflect the estimated recoverable amounts. Refer to note 16. Credit Risk Management and Asset Quality for further information on provision for credit impairment.

	Note	2021	2020
Residential	19.(d)	5,481,169	5,222,565
Commercial [1]		536,063	558,665
Agricultural		316,367	331,038
Personal [2]		27,602	43,338
Others [3]		16,791	18,720
Total gross loans and advances to customers		**6,377,992**	**6,174,326**
Less provision for impairment	16.(f)	(44,273)	(47,729)
Total loans and advances to customers		**6,333,719**	**6,126,597**

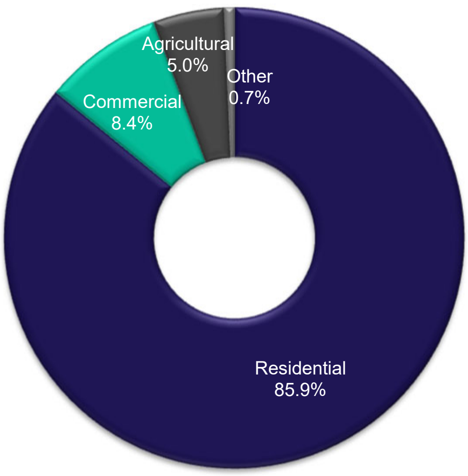
1 Commercial includes a loan to Toi Foundation Holdings Limited (refer to note 21. Related Party Transactions and Balances for more information).

2 Personal is inclusive of other retail lending and credit card balances. In March 2021, TSB sold its Harmoney loan portfolio which had a carrying value of $6.6m as at the time of sale.

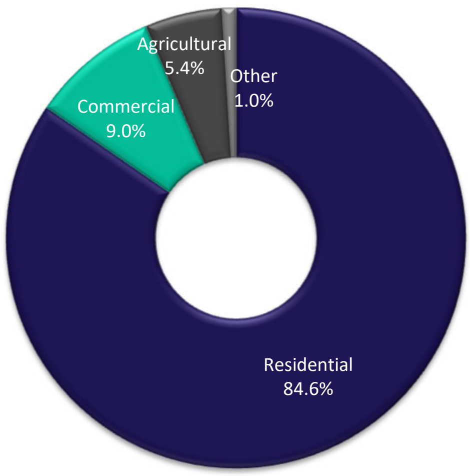
3 Others include lending accruals and deferred acquisition costs.

Charts below show the percentage (%) breakdown of the loans and advances to customers.

As at 31 March 2021



As at 31 March 2020



8. Investment Securities

Included in this category are certificates of deposit, commercial paper and other debt securities measured at fair value through other comprehensive income (FVOCI) that are originated with a mixed objective that is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. They are used to manage liquidity and may be sold prior to maturity. Interest earned whilst holding investment securities is recognised in the profit or loss using the effective interest method.

Unrealised gains and losses are recognised directly in other comprehensive income and presented in the fair value reserve within the statement of changes in equity, until the assets are sold or otherwise disposed of. On disposal the accumulated change in fair value is transferred to profit or loss and reported under other Income. Interest, premiums and discounts are amortised through profit or loss using the effective interest method.

All in $000's

8. Investment Securities (continued)

	2021	2020
Local authority securities	197,827	128,719
Government securities	506,637	513,032
Registered bank securities	396,864	473,779
Other investments*	837,446	625,974
Total investment securities	**1,938,774**	**1,741,504**

* Other investments relate to investments in utility companies, state enterprises, and commercial paper and bonds of New Zealand corporates.

9. Derivative Financial Instruments

The Bank uses derivatives for risk management purposes as part of its asset and liability risk management activities to manage exposure to interest rate changes. Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or hedges that are economic hedges, but do not meet the hedge accounting requirements. The treatment of changes in the derivatives' fair value depends on their classification. Provided certain criteria are met for hedge accounting under NZ IFRS 9, either fair value or cash flow hedge accounting can be applied. Hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item.

For derivatives, any accrued interest is recognised and measured as part of the derivative's fair value. Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging criteria, they are classified as 'held for trading' for accounting purposes. Any derivative that is de-designated as a hedging derivative will be accounted for as held for trading from the time that it is de-designated, with all subsequent movements in fair value recognised in the profit or loss. The Bank has the following derivative financial instruments:

Economic hedge
Included under this classification are any derivatives entered into by the Bank in order to economically hedge its exposures for risk management purposes that do not meet the NZ IFRS 9 hedge accounting criteria.

Cash flow hedge
The main derivative type used by the Bank is interest rate swaps. Interest rate swaps relate to contracts taken out by the Bank with other counterparties. The Bank manages its cash flow interest rate risk by using:

(i) floating-to-fixed interest rate swaps to fix the income of a pool of floating rate assets (including loans and advances to customers and investment securities)

(ii) fixed-to-floating interest rate swaps to fix the cost of floating interest rate deposits.

During the reporting period, both the hedging derivatives and hedged items were all denominated in New Zealand dollars.

Under these swaps, the Bank agrees with other parties to exchange, at specified intervals (mainly quarterly or semi-annually), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

The Bank's loans and advances to customers and the deposits are carried at amortised cost, whilst the investment securities are accounted for at FVOCI. These balance sheet items are contractually repriced from time to time and to that extent are also exposed to the risk of future changes in market interest rates.

The Bank documents, at inception of the transaction, the relationship between hedging instruments and hedged items, as well as the Bank's risk management objective and strategy for undertaking these hedge transactions. In addition, the documents outline how effectiveness will be measured throughout the life of the hedge relationship and its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedge transactions are highly effective in offsetting changes in cash flows of hedged items.

Method used to test hedge effectiveness and determine the hedge ratio is primarily based on regression analysis.

Hedge ineffectiveness may occur due to:
- the credit value/debit value adjustment on the interest rate swaps which is not matched by the hedged item; and
- differences in critical terms between the interest rate swaps and hedge items.

There was no ineffectiveness during 2021 in relation to the interest rate swaps (2020: nil).

All in $000's

9. Derivative Financial Instruments (continued)

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and presented in the cash flow hedge reserve in equity, while the gain or loss relating to any ineffective portion is recognised immediately in the profit or loss. The carrying value of the hedged item is not adjusted.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the profit or loss when the forecast transaction ultimately affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss.

FX forward exchange currency assets

The Bank enters into forward exchange contracts (FEC) on its own and on behalf of customers with other banks. Where the contract is entered on behalf of customers, a separate contract is formed between the Bank and customers for any liability / asset that may arise as a result of the FEC. The fair value of these derivatives is obtained from observable market prices as at reporting date.

As at reporting date, there were no material holdings of foreign currency.

The Bank's risk management policy is included in note 17. Market Risk Management.

	As At 31 Mar 2021			As At 31 Mar 2020		
	Notional Amount	Fair Values Assets	Fair Values Liabilities	Notional Amount	Fair Values Assets	Fair Values Liabilities
Interest rate swaps						
Derivatives held as economic hedges	-	-	-	20,000	-	258
Derivatives held as cash flow hedges	1,761,000	10,724	9,605	1,243,000	13,942	17,541
Total derivative financial instruments	**1,761,000**	**10,724**	**9,605**	**1,263,000**	**13,942**	**17,799**

The notional amount, recorded gross, represents the quantity of the derivative contracts' underlying instruments.

The profile of the timing of the notional amount and average price of derivatives designated in cash flow hedge relationships is outlined in the following table:

As At 31 Mar 2021	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest rate swaps					
Pay fixed	240,000	725,000	498,000	28,000	**1,491,000**
Average fixed interest rate paid	0.58%	0.76%	0.79%	1.06%	0.75%
Receive fixed	20,000	-	250,000	-	**270,000**
Average fixed interest rate received	1.19%	0.00%	2.22%	0.00%	2.14%
Total notional amount	**260,000**	**725,000**	**748,000**	**28,000**	**1,761,000**

All in $000's

10. Deposits

Deposits cover all forms of funding, and include savings, transactional accounts, term deposits, registered certificate of deposits (RCD's). Wholesale deposits consist of registered certificates of deposit (RCD). Deposits including the amounts due to related entities are measured at amortised cost using the effective interest method.

	2021	2020
Retail term deposits *	3,634,927	3,940,007
On call deposits bearing interest	3,645,708	2,948,945
On call deposits not bearing interest	682,890	451,707
Wholesale deposits bearing interest	34,980	79,865
Total deposits	**7,998,505**	**7,420,524**

* Includes term deposits from Toi Foundation (refer to note 21. Related Party Transactions and Balances for more information).

Concentrations of funding

Concentrations of funding by geographic region and industry sector at balance date are as follows:

	2021	2020
Retail deposits		
Taranaki	3,610,154	3,298,650
Rest of New Zealand	4,176,488	3,922,215
Outside New Zealand	211,863	199,659
Total funding by geographic region	**7,998,505**	**7,420,524**
Government and public authorities	26,485	30,663
Finance (wholesale deposits)	34,980	79,865
Households	7,743,562	7,169,271
Community	72,670	53,733
Commercial	120,808	86,992
Total funding by industry sector	**7,998,505**	**7,420,524**

11. Other Liabilities

The Bank provides for the cost of employees' annual entitlements and long-service entitlements under the terms of their employment contracts. The liability for long-service entitlements is calculated as the present value of the expected future payments after allowing for salary reviews, years of service with the Bank, and other parameters affecting probability of payment. A provision is recognised for the amount expected to be paid and therefore recorded in other liabilities.

Lease liabilities are measured in accordance with NZ IFRS 16 and the finance cost on these liabilities is disclosed in note 2. Net Interest Income.

	2021	2020
Employee entitlements	7,355	10,285
Trade and other payables	29,499	28,976
Lease liabilities	15,334	15,854
Other non-financial liabilities	-	285
Total other liabilities	**52,188**	**55,400**

All creditors and depositors are ranked equally.

12. Fair Value of Financial Instruments

Fair value valuation methodology

Certain financial instruments are carried on the statement of financial position at fair value. The best evidence of fair value is a quoted market price in an active market. Therefore, where possible, fair value is based on quoted market prices.

The following fair value hierarchy, as set out in NZ IFRS 13: Fair Value Measurement, has been used to categorise the inputs to valuation techniques used to measure the financial assets and financial liabilities which are carried at fair value:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Where a quoted market price for an instrument is not available, the Bank uses its judgement to select a variety of methods and make assumptions depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instruments at each reporting date. Specific valuation techniques used to value financial instruments are described below in fair value estimates.

Fair value estimates

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. The fair value of the Bank's financial instruments is estimated as follows:

Cash and cash equivalents
Included are cash and call deposits with the Reserve Bank. These assets are short term in nature and therefore the related carrying value is equivalent to their fair value.

Derivative assets and liabilities
Derivative financial instruments are classified in level 2 and their fair values are obtained from market yields and discounted cash flow models.

The fair values are estimated using present value or other market acceptable valuation techniques, using methods or assumptions that are based on observable market conditions and risks existing as at the reporting date.

Investment securities
Estimates of fair value for investment securities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets, or by using valuation techniques. Where a market price in a liquid market is not readily available, the fair value is determined by reference to the market price available for a security with similar credit, maturity and yield characteristics or by using industry standard pricing models incorporating observable market inputs.

Loans and advances to customers
The fair value of loans and advances to customers is estimated using discounted cash flow models based on the interest rate repricing of the loans and advances. Discount rates applied in this calculation are based on the current market interest rates for loans and advances to customers with similar credit and maturity profiles. The current market interest rates are based on what the scheduled rate would be for a similar term and maturity profile as at reporting date.

Refer to the note 17. Market Risk Management for further information on interest rate repricing.

Other assets, deposits from customers and other liabilities
For non-interest bearing debt, call and variable rate deposits, the carrying amounts in the statement of financial position are a reasonable estimate of their fair value because all are short-term in nature. For other term deposits, fair value is estimated using discounted cash flow models based on the maturity of the deposits. The discount rates applied in this calculation are based on current market interest rates for similar deposits with similar maturity profiles. For all other assets, and other liabilities, the carrying amounts in the statement of financial position are a reasonable estimate of their fair value.

All in $000's

12. Fair Value of Financial Instruments (continued)

The following table summarises the carrying amounts and fair values of financial assets and financial liabilities.

As At 31 March 2021	Note	At amortised cost	At FVOCI	AT FVPL	Fair value - hedging instruments	Total carrying amount	Fair value
Financial assets:							
Cash and cash equivalents		438,240	-	-	-	438,240	438,240
Derivative financial instruments	9	-	-	-	10,724	10,724	10,724
Investment securities	8	-	1,938,774	-	-	1,938,774	1,938,774
Loans and advances to customers	7	6,333,719	-	-	-	6,333,719	6,360,894
Other assets		2,236	-	-	-	2,236	2,236
Total financial assets		**6,774,195**	**1,938,774**	**-**	**10,724**	**8,723,693**	**8,750,868**
Financial liabilities:							
Deposits	10	7,998,505	-	-	-	7,998,505	8,024,014
Derivative financial instruments	9	-	-	-	9,605	9,605	9,605
Other liabilities		52,188	-	-	-	52,188	52,188
Total financial liabilities		**8,050,693**	**-**	**-**	**9,605**	**8,060,298**	**8,085,807**
As At 31 March 2020							
Financial assets:							
Cash and cash equivalents		232,588	-	-	-	232,588	232,588
Derivative financial instruments	9	-	-	-	13,942	13,942	13,942
Investment securities	8	-	1,741,504	-	-	1,741,504	1,741,504
Loans and advances to customers	7	6,126,597	-	-	-	6,126,597	6,116,841
Other assets		2,440	-	-	-	2,440	2,440
Total financial assets		**6,361,625**	**1,741,504**	**-**	**13,942**	**8,117,071**	**8,107,315**
Financial liabilities:							
Deposits	10	7,420,524	-	-	-	7,420,524	7,372,049
Derivative financial instruments	9	-	-	-	17,799	17,799	17,799
Other liabilities		55,115	-	-	-	55,115	55,115
Total financial liabilities		**7,475,639**	**-**	**-**	**17,799**	**7,493,438**	**7,444,963**

The table below shows the fair value of the Bank's financial instruments measured at fair value on a recurring basis according to the fair value hierarchy described above.

As At 31 March 2021	Note	Level 1	Level 2	Level 3	Total
Financial assets:					
Derivative financial instruments		-	10,724	-	10,724
Investment securities *		166,308	1,772,466	-	1,938,774
Total financial assets measured at fair value		**166,308**	**1,783,190**	**-**	**1,949,498**
Financial liabilities:					
Derivative financial instruments		-	9,605	-	9,605
Total financial liabilities measured at fair value		**-**	**9,605**	**-**	**9,605**
As At 31 March 2020					
Financial assets:					
Derivative financial instruments		-	13,942	-	13,942
Investment securities *		177,902	1,563,602	-	1,741,504
Total financial assets measured at fair value		**177,902**	**1,577,544**	**-**	**1,755,446**
Financial liabilities:					
Derivative financial instruments		-	17,799	-	17,799
Total financial liabilities measured at fair value		**-**	**17,799**	**-**	**17,799**

* Included in Level 1 are New Zealand Government securities which have been reclassified from Level 2 to Level 1. The reclassification has been retrospectively applied and the prior year comparatives have been restated accordingly.

All in $000's

13. Share Capital, Retained Earnings and Dividend Paid

All ordinary shares have equal voting rights and share equally in dividends and assets on winding up. All shares are held by Toi Foundation through its fully owned subsidiary, Toi Foundation Holdings Limited (refer to Note 21. Related Party Transactions and Balances for more information). Dividends are recognised in the financial year in which they are authorised and approved by the Board of Directors.

Share capital:	**2021**	**2020**
Issued and fully paid up capital:		
20,000,000 ordinary shares	10,000	10,000
Total share capital	**10,000**	**10,000**
Retained earnings:		
Opening balance	660,397	632,080
Net profit after taxation (NPAT)	42,893	30,817
Retained earnings after NPAT	703,290	662,897
Dividends	-	(2,500)
Retained earnings at end of period	**703,290**	**660,397**

	31 Mar 2021		**31 Mar 2020**	
Dividend	$000	$ per share	$000	$ per share
Interim	-	-	2,500	0.125
Special	-	-	-	-
Final	-	-	-	-
Total	**-**	**-**	**2,500**	**0.125**

In response to COVID-19, RBNZ imposed restrictions on making distributions of dividends on ordinary shares and redemption of non-Common Equity Tier 1 (“CET1”) capital instruments for all locally incorporated banks in New Zealand. The restrictions took effect from 2 April 2020 and applied to the Bank under revised Conditions of Registration. The Bank has made no dividend payment during the year in compliance with the requirement of the RBNZ. Refer to note 23. Subsequent Event for the changes made to the Conditions of Registration subsequent to the Bank's balance date.

14. Reserves

The cash flow hedge reserve is used to recognise the effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges (refer to note 9. Derivative Financial Instruments for more details). The cumulative gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other operating income.

The Bank has investment securities measured at FVOCI and the changes in fair value of which are accumulated within the fair value reserve until the assets are derecognised or reclassified. As at the reporting date, the Bank has no investments in equity instruments designated as at FVOCI.

The following table shows a breakdown of the Bank's reserves and the movements in these reserves during the reporting period.

Cash flow hedge reserve	**Note**	**2021**	**2020**
Opening balance		(1,319)	(2,172)
Change in fair value of hedging instrument recognised in OCI for the year (effective portion)		3,610	1,314
Cumulative (gain) / loss transferred to the profit or loss	3	(65)	(130)
Related tax		(993)	(331)
Movement in cash flow hedge reserve		2,552	853
Closing balance		**1,233**	**(1,319)**

Fair value reserve			
Opening balance		10,874	13,217
Gross changes in fair value		1,862	169
Cumulative (gain) / loss transferred to the profit or loss	3	(1,491)	(3,423)
Related tax		(104)	911
Movement in fair value reserve		267	(2,343)
Closing balance		**11,141**	**10,874**

Risk Management and Capital Adequacy

15. Risk Governance

The Bank is committed to the appropriate management of all risks arising from its activities, in accordance with the stated risk appetite approved by the Board of Directors. The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework, including the material risk domains and the associated risk appetite for each of the material risk domains.

Whilst there have been no material changes to the risk management policies, or material exposures to any new types of risk since publication of the previous Disclosure Statement, other than those identified in the Other Material Matters in General Information section and in note 22. Commitments and Contingent Liabilities of this Disclosure Statement, the Bank has identified the need for improvements in its risk control framework and has embarked on an improvement programme. During the period the Bank has restructured and expanded its risk department and reviewed its approach to risk management and control processes. Enhancements are underway, including the review, update, and uplift of key risk management policies, processes and models, and the control environment, monitoring, and assurance around material risks. The Bank remains committed to taking appropriate steps to continue maturing its risk environment.

(a) Risk governance and the role of the Board of Directors

The Board of the Bank has the primary responsibility for effective risk management. These responsibilities are delegated to the Executive Management of the Bank through the Banks Delegated Authorities Framework.

The Bank's risk management framework embeds risk management accountability and responsibility throughout the Bank. The Banks' risk management framework is comprised of the following elements:

- A three lines of accountability model that defines the roles and responsibilities of individuals in relation to the effective management of risk;
- material risk domains and associated risk appetite statements and measurement mechanisms;
- policies and procedures covering risk identification, assessment, controls, treatment, monitoring, measurement and reporting; and
- mechanisms for the on-going review of systems, policies, and procedures, including independent review by Internal and External Audit.

The various Standing Committees of the Board (part (b)) monitor performance against the risk appetite, policy and metrics.
Executive management, including Standing Executive Management Committees, of the Bank ensure that policies are managed appropriately and provides assurance to the Standing Board Committees. The tactical implementation of policies through Executive Management ensures that operational processes are appropriately implemented and risks taken on by the organisation are effectively identified, assessed and managed in accordance with the risk appetite established by the Board.

(b) Standing Committees of the Board and Executive Management

Audit Committee (Board Committee)
The role of the Audit Committee is to assist the Board in discharging its oversight responsibilities by:

1.1 Overseeing the effectiveness and integrity of the Bank's financial controls' financial reporting process, and internal audit function;
1.2 reviewing and recommending to the Board appropriate actions around the:
  - appointment of external auditor;
  - appointment of the co-sourced internal audit function;
  - integrity of the financial statements and financial reporting systems;
  - compliance with financial reporting regulatory requirements; and
  - compliance with non-financial regulatory requirements.

1.3 approving the:
  - external audit plan; and
  - internal audit plan.

Risk Committee (Board Committee)
The role of the Risk Committee is to assist the Board in discharging its oversight responsibilities by:
1.1 ensuring that risk appetite is appropriate for the operating environment, aligned to the Banks strategic objectives and supported by the Banks capital allocation;
1.2 inquiring into the effectiveness and integrity of the risk management framework and associated risk appetite, policies and procedures; and
1.3 examining performance against risk appetite through risk reporting for each of the material risk domains.

15. Risk Governance (continued)

(b) Standing Committees of the Board and Executive Management (continued)

People, Culture and Capability Committee (Board Committee)
The role of the People, Culture and Capability Committee is to assist the Board in discharging its responsibilities by:

1.1 Working with the Chairperson of the Board in planning the Board composition, evaluating the competencies required of prospective directors, identifying those prospective directors, evaluating their independence and competencies, developing succession plans for the Board, setting board remuneration policies and making recommendations to the Board accordingly;

1.2 providing oversight on Executive Management, people management processes, including specifically appointments, remuneration, performance assessments, succession management and making recommendations to the Board accordingly; and

1.3 overseeing the effectiveness and integrity of people management policies and procedures of the Bank.

Asset and Liability Committee (Executive Committee)
The role of the Asset and Liability Committee (ALCO) is to:

1.1 assist Management with its oversight responsibilities with respect to asset and liability management, liquidity and capital management, as well as the management of interest rate and FX market risk;

1.2 oversee the implementation of an effective process for managing the Bank's FX and interest rate market risk (including pricing and product approval), liquidity risk, and Internal and Regulatory Capital risks relating to the Bank's balance sheet and associated activities, including the adoption from time to time of policies, risk limits and capital levels; and

1.3 oversee the effective management of processes in relation to the credit risk arising from the Bank's investment and liquidity portfolio.

Management Operational Risk Committee (Executive Committee)
The role of the Management Operational Risk Committee is to:

1.1. assist Management in providing effective governance over operational and compliance risk management;

1.2. oversee the implementation of processes for effectively managing operational and compliance risk; and

1.3. review key risk indicators, associated reporting and other monitoring outputs that determine the effectiveness and adequacy of controls for operational and compliance risks.

Credit Committee (Executive Committee)
The role of the Credit Committee is to:

1.1 assist management in discharging its oversight responsibilities with respect to credit risk management;

1.2 oversee the implementation of an effective process for managing credit risk relating to the Bank's retail, agribusiness, commercial and business lending portfolios; and

1.3 where appropriate, exercise delegated authority to review and approve credit exposures outside of the CEO's delegated authority.

The terms of reference of this committee and its membership is set by the Risk Committee of the Board.

The primary risks arising from the activities of the Bank are credit risk, market risk (mainly interest rate risk and foreign currency risk), liquidity risk, and operational risk.

Credit risk
Credit risk is the potential risk for loss arising from the failure of a debtor or counterparty to meet their contractual obligations to the Bank. Credit risk principally arises within the Bank from its core business of providing lending facilities and comprises both on-balance sheet and off-balance sheet exposures. Details of credit risk management and asset quality are shown in note 16. Credit Risk Management and Asset Quality.

Market risk
Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Details of market risk management are shown in note 17. Market Risk Management.

Liquidity risk
The Bank defines liquidity risk generally as the inability of the bank to access the funds that it needs to meet its obligations when they become due. Liquidity can be in the form of cash on hand, securities available for sale, or borrowing arrangements that the Bank can utilise when required.

The Bank's business model gives rise to liquidity risk largely through its role in the maturity transformation between its assets (loans and investments) and its liabilities (deposits and other funding). The Bank acknowledges that it takes on liquidity risk as a core part of its business strategy and that the Bank's shareholder is unlikely to be able to provide additional liquidity support should it be required.

15. Risk Governance (continued)

(c) Areas of risk management (continued)

Liquidity risk (continued)

The liquidity risks faced by the Bank can be generally be classified into three different types:

- Operational liquidity risk - the risk that the Bank does not have enough cash or collateral to make payments to its counterparties and customers as they fall due;
- Structural liquidity risk - the risk associated with longer term liquidity mismatches that might exist within the Bank's balance sheet and which may create an unnecessarily large funding need in the future; and
- Market liquidity risk - the risk that an asset cannot be sold in the market quickly, or if its sale is executed very rapidly, that this can only be achieved at a heavily discounted price.

Details of liquidity and funding risk management are shown in note 18. Liquidity and Funding Risk Management.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed processes, human error, system failures or from external events. This includes the risk of failure to comply with laws, regulations, contractual agreements, internal policies and operating processes. The Bank will seek to limit exposure to risk that will impinge on the Bank's ability to operate effectively and efficiently. Operational risk events can result in either direct loss, increased cost, or other indirect loss to the Bank (such as reduced revenue).

The Bank understands that efforts to reduce operational risk to zero could impact on ease of doing business and achieving strategic objectives and will therefore seek to minimise operational risk by either reducing the likelihood of an operational risk event occurring or the impact of the risk event occurring. It does not and cannot reasonably expect to eliminate all instances of operational risk.

The management of operational risk is a challenge due to its broad scope as operational risks arise from all activities conducted across the Bank. To address this challenge the Bank puts in place controls to manage and mitigate operational risks. Management benchmark practices against industry standards and, where appropriate, residual operational risk is transferred by the Bank, through its insurance programme.

The requirements for management of operational risks are equally applicable to all parts of the Bank. The Risk Committee of the Board provides oversight of operational risk management across the Bank. The Risk Committee, as well as the executive management team of the Bank receive quarterly reports on the Bank's operational risk profile and performance against operational risk metrics.

To implement its operational risk management approach, the Bank applies the three lines of accountability model. The first line of accountability is responsible for identifying and managing the inherent operational risks in business activities that they carry out. The second line of accountability is responsible for setting and maintaining policies that reflect the risk appetite set by the Board, monitoring adherence to policies and undertaking assurance activities. The third line of accountability is the co-sourced independent audit function, as well as the external auditors of the Bank.

Detailed policy parameters around operational risk are comprehensively detailed in the Banks suite of operational risk policies and procedures.

(d) Risk management system review

The Bank operates a continuous cycle of review in relation to its risk management framework and its material risk domains. Policies for material risk domains are scheduled for internal review annually, to ensure that they remain relevant and risk appetite is appropriate for achieving the Banks strategic objectives. In addition, the Bank relies on advice from external third parties in relation to specific areas of managing operational risk, when required, for example when specific knowledge or expertise is not available internally.

(e) Internal audit

Internal audit's role is to evaluate and suggest improvements to the effectiveness of governance, risk management and control processes and act as the third line of accountability. The internal audit function is co-sourced to PwC. The internal audit function reports directly to the Chairperson of the Audit Committee. In the performance of this role, the internal audit function adopts a risk based approach to selecting areas to undertake an audit. The risk-based approach is underpinned by the Bank's risk assessment matrix. Findings from internal audits are documented in management action plans and the implementation of management action plans is monitored and reported on by the internal audit function. Significant findings and the status of management action plans are reported quarterly to the Audit Committee.

16. Credit Risk Management and Asset Quality

(a) Credit risk management

The Bank seeks to provide credit across its core customer base consisting of the retail, agribusiness, commercial and business sectors. The Bank does not seek to remove risks across this sector, rather it seeks to offer credit to sound customers that have the intent, willingness and ability to repay. Entry into new product or market segments is to be undertaken with caution, piloted as necessary to gain necessary experience and resource before significant growth is undertaken.

The Bank aims to manage its credit exposures by focusing its activities on areas that it is most able to manage and influence, avoiding areas where the Bank has limited experience or knowledge.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is clear segregation of duties between transaction originators in the business and approvers, apart from structural delegation processes in the retail portfolio. All credit exposure limits are approved within a defined credit approval authority framework and the Bank manages its exposures following the principle of diversification across products, regions, industries, collateral types and client segments.

Credit risk governance is managed through a delegation framework from the Board Risk Committee to the Credit Committee and CEO. The CEO delegates to the Head of Credit. All have specific roles within the credit function. Regular meetings are undertaken and reports to the CEO, executive management and the Risk Committee are provided to ensure that risks arising from credit activities are within parameters set by the Board through the Risk Committee.

Overarching credit risk policies are approved by the Board and are consistent with the overall and specific Risk Appetite Statement (RAS) associated with the individual areas of credit risk. The principles of credit delegation are outlined in the credit policies and the Credit Committee is responsible for the oversight of these delegations, their performance, and overall portfolio performance.

Risk measurement plays a key role, along with judgement and experience, in informing risk taking and portfolio management decisions. A standard application credit scoring system is used to support and inform retail credit decisions. The Bank refers to external consumer scores from credit bureaus where these are available, but are not the only input used to determine retail risk grades. Lower grades are indicative of a higher probability of default. Risk grades are also assigned to non-performing and default loans as well as loans that have been restructured.

Agribusiness, commercial and business bank loans are also risk graded at initiation using standardised models, experience and data provided on application. These grades are updated at least annually for material exposures through an annual review process, which is independently reviewed by the second line credit risk function.

Credit risk is managed through the use of trained, competent lenders, structured approval processes considering the character, capacity, capability, collateral and condition applicable to the borrower; validation of this information; hindsight reviews; and portfolio and exposure performance management. Non-standard, non-retail lending activities are undertaken by specialist units within the Bank to ensure that the Bank's exposures are appropriately managed.

Loans which are showing signs of distress are managed by the Credit Solutions management function, which is responsible for taking action to minimise losses in the event of default or to realise securities where appropriate. All defaults are reported to credit bureaus via the Bank’s recoveries partners.

Wholesale counterparty credit arrangements in respect of the Bank's investment and liquidity portfolio are managed through an approved counterparty approach, derived from Board policy and delegations. This allows maximum limits in respect of credit risk associated with the counterparty relating to the credit rating of the counterparty, the type of instrument that has been issued by the counterparty, and the maturity profile of the counterparty.

Major credit exposures to individual counterparties, groups, connected persons, and portfolios of retail exposures are reviewed and approved by the Credit Committee.

All other credit approval authorities are delegated through the Risk Committee of the Board to the CEO who delegates to the Head of Credit. The Head of Credit has the ability to delegate further to individuals based upon their proven competence and experience, and the size and characteristics of the loan. Delegations are managed through a delegation framework and all decisions made through the delegation process are subject to independent hindsight review.

Credit concentration risk is managed through counterparty or group limits, industry limits (where appropriate), product limits, collateral type limits and regional exposure limits. Credit risk is further mitigated through the use of tools such as collateral, credit insurance and guarantees. The reliance that can be placed on such mitigating factors is assessed in the light of legal certainty and enforceability, market valuation, correlation and counterparty risk of the credit insurance provider. However, the existence of credit mitigations do not substitute for the ability of the borrower to pay, which is the primary consideration of any lending decision.

All credit risk is denominated in New Zealand dollars, and for non-wholesale credit exposure, is based in New Zealand.

16. Credit Risk Management and Asset Quality (continued)

(b) Credit risk assessment and measurement

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial losses to the Bank.

The Bank is exposed to credit risks arising from the following groups of financial assets that are subject to impairment requirements of NZ IFRS 9.

Types of financial assets	Measured at	Estimated gross carrying amount 2021	2020
Cash and cash equivalent	amortised cost	438,240	232,588
Investment securities	FVOCI	1,938,774	1,741,504
Loans and advances to customers	amortised cost	6,333,719	6,126,597
Other assets	amortised cost	2,236	2,440

The Bank has assessed the impairment requirements for cash and cash equivalents, investment securities and other assets. However, the identified impairment loss for the groups of assets was immaterial.

Investment securities carried at FVOCI
The Bank has reviewed its holdings of investment securities in terms of its counterparty credit policy and based on this review, and other information on hand, does not believe there is any evidence to indicate material impairment in this portfolio. The collective provision against this portfolio is assessed at each reporting date and whenever there is a significant change in the portfolio mix or change in the macro-economic factors and credit ratings. Furthermore, no specific provisions are being held against possible non-performance by any investment in this portfolio.

Loans and advances to customers carried at amortised cost
The majority of the Bank's provisions for impairment for lending assets are made on a collective basis. The credit quality of loans and advances to customers are continuously monitored since initial recognition and those that are neither past due or impaired can be assessed by reference to the Bank's internal credit risk rating system. At the origination of loans and advances to customers, loans are risk graded based on a number of characteristics that indicate Probability of Default (PD) and/or Loss Given Default (LGD). These risk grades are reviewed periodically for adverse changes during the life of the loan. Credit impairment allowance for loans and advances to customers carried at amortised cost are deducted from the gross carrying amount of the assets and impairment losses are presented as credit impairment losses in the statement of profit and loss.

(c) Expected credit loss measurement

The Bank applies a three-stage model in accordance with NZ IFRS 9 to measures credit risk of a portfolio of assets using its internal credit risk model whose key inputs are probability of default (PD), loss given default (LGD), and exposure at default (ED). This is supplemented with forward-looking information on macroeconomic factors (refer to section C.4 below for further information).

The following diagram summarises the impairment requirements under NZ IFRS 9:

Change in credit quality since initial recognition

Stage 1 - 12 month ECL	Stage 2 - Lifetime ECL	Stage 3 - Lifetime ECL
Initial recognition	significant increase in credit risk since initial recognition	credit impaired assets

- 12 month ECL (Stage 1): applies to all items resulting from possible default events within 12 months after reporting date.
- Lifetime ECL (Stage 2 and 3): represents the ECL that result from all possible default events over the expected life of a financial instrument. If a financial instrument experiences a significant increase in credit risk since initial recognition then is moved to Stage 2 but is not yet deemed to be credit-impaired. When objective evidence of credit-impairment emerges with one or more events that have a detrimental impact on the estimated future cash flows of the financial assets then the asset is moved to Stage 3.

The change in the credit quality of a financial asset results in movements between the three stages.

The key judgments and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below:

C.1. Significant increase in credit risk (SICR)

The Bank considers that a loan or advance to customers to have experienced a significant increase in credit risk when one or more of the quantitative, qualitative or backstop criteria have been met:

16. Credit Risk Management and Asset Quality (continued)

(c) Expected credit loss measurement (continued)

Quantitative and qualitative criteria:

Over the term of the loans and advances to customers, the Bank accounts for its credit risk by appropriately providing for ECL on a timely basis. In calculating the expected credit loss rates, the Bank considers historical loss rates for each category of customers that share similar risk characteristics, and adjusts for forward looking macroeconomic data. The Bank provides for credit losses against loans and advances to customers on both an individual and collective basis as follows:

Category	Basis	Description and quantitative criteria for SICR	Recognition of interest revenue
Stage 1 - 12month ECL	Collective	Customers with a low risk of default that have a strong capacity to meet contractual cash flows (interest and/or principal repayments).	Effective interest rate applied to the gross carrying amount
Stage 2 - Lifetime ECL	Collective	Significant increase in credit risk is presumed if the loans and advances are more than 30 days past due in making a contractual payment or when there is reasonable and/or supportable information that there is an increase in the risk of a default occurring on the asset as at the reporting date.	Effective interest rate applied to the gross carrying amount
Stage 3 - Lifetime ECL	Collective	Loans and advances are deemed credit impaired when they are over 90 days past due in making a contractual payment and/or when there is objective evidence of the events that indicate the borrower is in significant financial difficulty.	Effective interest rate applied to the amortised cost (net of collective provision)*
	Specific (individual)	Loans and advances are deemed 'impaired' when the Bank has exhausted all options to rehabilitate a mortgage debt and/or expects to incur a loss. Impaired assets are specifically provided for on an individual basis.	Effective interest rate applied to amortised cost (net of specific provision)*
Write-off		Financial assets are written off when there is no reasonable expectation of recovery and customers fail to engage in a repayment plan with the Bank. Those financial assets that are written-off are still subject to enforcement activity.	None

* When a financial asset becomes credit-impaired, the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. The Bank reverts to calculating interest income on a gross basis if the credit risk of the financial asset improves and deemed no longer credit-impaired.

The loss allowance for loan commitments and financial guarantee contracts are recognised together with the loss allowance for the loan.

Quantitative and qualitative criteria (continued):

A significant increase in credit risk is also considered when the borrower meets one or more of the following criteria:

- In short-term forbearance
- Direct debit cancellation
- Extension of the terms granted
- Significant arrears within the last 12 months

Additionally, for the Commercial and Agricultural portfolios, a significant increase in credit risk is also considered if the borrower is under watch and/or the instrument meets one or more of the following criteria:

- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors/loans.

The assessment of SICR incorporates forward-looking information (refer to section C.4 below for further information) and is performed on a monthly basis at a portfolio level for all loans and receivables to customers held by the Bank.

Backstop

A backstop is applied and the financial instrument considered to have a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payment.

The Bank has not used the low credit risk exemption for any financial instrument in the year ended 31 March 2021.

16. Credit Risk Management and Asset Quality (continued)

(c) Expected credit loss measurement (continued)

C.2. Definition of default and credit-impaired assets
The Bank has defined a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative and qualitative criteria
- The borrowers are over 90 days past due in making a contractual payment
- There is objective evidence of the events that indicate the borrower is in significant financial difficulty
- The borrower is in long-term forbearance
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy

The 90 days past due default definition used for the loans and advances to customers is consistent with the past due presumption under NZ IFRS 9 for the mortgage portfolio. However, this definition differs from that applied for impaired assets used for regulatory purposes as disclosed in section (h) Asset quality information. The adoption of this presumption will be monitored and reviewed by the Credit Risk department on an annual basis to ensure it remains appropriate.

An instrument ceases to be in default when it no longer exhibits arrears for a minimum period of six months.

C.3. Measuring ECL - Explanation of inputs, assumptions and estimation techniques
The ECL is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since the initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (ED) and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above).
- ED is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M ED) or over the remaining lifetime (Lifetime ED).
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage of loss per unit of exposure (ED). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and ED for each future period. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure was not prepaid or defaulted in an earlier period). This effectively calculates an ECL for each future period, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The PD is developed by performing a linear regression based on the 12 months prior performance of the loans classified as impaired or 90 days or more in arrears. The regression is based on historical observed data and is performed separately for each product type. The Bank has used internal arrears information to regress against a list of macroeconomic factors to determine the PD. The following is the list of factors that have been considered during the analysis: gross domestic product, unemployment rate, dairy price, residential investment, 90-day interest rate, household debt and consumer price index.

The ED is primarily derived from the available balances at reporting date.

The LGD is determined using historical losses by observing the actual write-offs that have occurred over the past few years.

The maximum period considered when estimating ECLs has been determined as the maximum between 4 years and the remaining contractual life. The ECL is probability-weighted and is discounted at the effective interest rate. The Bank has considered its historical loss experience for the last 3 years.

The following assumptions have been introduced in the ECL computation during the period:
- cooling-off period: the determination of the days in arrears has been modified to mitigate the volatility of the transfers between the different impairment stages.
- portfolio factors: whilst determining the PD, additional scalars have been incorporated, based on portfolio segmentation.

In instances where forward looking statistical analysis of the Bank's portfolio and performance data produced ECL provisioning numbers that management considers to be insufficient, model floors for ECL model factors based on industry publications were used.

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(c) Expected credit loss measurement (continued)

C.4. Forward-looking information incorporated in the ECL models

The calculation of ECL incorporates forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. The forward-looking information includes macroeconomic factors such as forecast gross domestic product (GDP), interest rate and unemployment rate in measuring the provisions for expected credit losses (ECL) on groups of financial assets that share similar credit risk characteristics.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political change, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors.

Significant estimates and judgements

The provision for impairment are based on assumptions about risk of default and expected loss rates. The Bank uses judgement in making these assumptions and selecting the inputs to the calculation of impairment, based on the Bank's past history, existing market conditions and forward-looking estimates at each reporting date.

(d) Credit risk exposure

D.1. Maximum exposure to credit risk - Financial instruments subject to impairment

The following table contains an analysis of the credit exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount and related lending commitments (refer to note 16.(i)) of the financial assets best represent the Bank's maximum exposure to credit risk on these assets.

As at 31 March 2021	Stage 1 Collectively assessed	Stage 2 Collectively assessed	Stage 3 Collectively assessed	Stage 3 Individually assessed	Total
Residential mortgage loans (gross)	4,962,768	502,555	3,134	12,712	**5,481,169**
Residential mortgage loans (net of provision)	4,950,659	496,510	2,441	11,948	**5,461,558**
Expected credit loss rate	0.2%	1.2%	22.1%	6.0%	0.4%
Commercial exposures (gross)	505,177	20,065	2	10,819	**536,063**
Commercial exposures (net of provision)	494,895	18,984	1	4,253	**518,133**
Expected credit loss rate	2.0%	5.4%	50.0%	60.7%	3.3%
Agricultural exposures (gross)	280,323	34,204	1,840	-	**316,367**
Agricultural exposures (net of provision)	277,732	33,381	1,276	-	**312,389**
Expected credit loss rate	0.9%	2.4%	30.7%	0.0%	1.3%
Other exposures (gross)	43,308	930	155	-	**44,393**
Other exposures (net of provision)	40,795	813	31	-	**41,639**
Expected credit loss rate	5.8%	12.6%	80.0%	0.0%	6.2%
Cash and cash equivalent	438,240	-	-	-	**438,240**
Investment securities (gross)	1,938,774	-	-	-	**1,938,774**
Other assets	2,236	-	-	-	**2,236**
Expected credit loss rate	0.0%	0.0%	0.0%	0.0%	0.0%
As at 31 March 2020					
Residential mortgage loans (gross)	4,687,969	517,629	1,337	15,630	**5,222,565**
Residential mortgage loans (net of provision)	4,678,653	512,070	1,094	14,348	**5,206,165**
Expected credit loss rate	0.2%	1.1%	18.2%	8.2%	0.3%
Commercial exposures (gross)	352,730	193,921	-	12,014	**558,665**
Commercial exposures (net of provision)	348,127	183,550	-	3,796	**535,473**
Expected credit loss rate	1.3%	5.3%	0.0%	68.4%	4.2%
Agricultural exposures (gross)	290,651	35,991	-	4,396	**331,038**
Agricultural exposures (net of provision)	287,369	34,757	-	4,273	**326,399**
Expected credit loss rate	1.1%	3.4%	0.0%	2.8%	1.4%
Other exposures (gross)	57,775	3,449	834	-	**62,058**
Other exposures (net of provision)	55,474	3,033	53	-	**58,560**
Expected credit loss rate	4.0%	12.1%	93.6%	0.0%	5.6%
Cash and cash equivalent	232,588	-	-	-	**232,588**
Investment securities (gross)	1,741,504	-	-	-	**1,741,504**
Other assets	2,440	-	-	-	**2,440**
Expected credit loss rate	0.0%	0.0%	0.0%	0.0%	0.0%

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(d) Credit risk exposure (continued)

A fixed value SICR provision overlay was recorded against Stage 1 balances in the Bank's Commercial portfolio. This was recorded in Stage 1 as the overlay was not assigned to specific loans, and as such, the associated loan balances also remain in Stage 1. This resulted in a significant decrease in Stage 2 balances when compared with March 2020 figures, as previously the provision methodology assigned SICR status to specific loans within specific industries and moved them to Stage 2.

D.2. Maximum exposure to credit risk - Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. hedging instrument):

Maximum exposure to risk	2021	2020
Derivative financial instruments	10,724	13,942

D.3 Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

Credit-impaired assets As at 31 March 2021	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Residential mortgage loans	15,846	1,457	14,389	29,918
Commercial	10,821	6,567	4,254	11,108
Agricultural	1,840	564	1,276	2,115
Other	155	124	31	-
Total credit-impaired assets	**28,662**	**8,712**	**19,950**	**43,141**
As at 31 March 2020				
Residential mortgage loans	16,967	1,525	15,442	**28,338**
Commercial	12,014	8,218	3,796	**13,537**
Agricultural	4,396	123	4,273	**5,969**
Other	834	781	53	**265**
Total credit-impaired assets	**34,211**	**10,647**	**23,564**	**48,109**

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(e) Loss allowance

The following table provides a reconciliation from the opening balance to the closing balance of provision for impairment and show movement between stages during the reporting period.

Movements for credit impairment allowances 31 March 2021	Stage 1 Collectively assessed 12 month ECL	Stage 2 Collectively assessed Lifetime ECL	Stage 3 Collectively assessed Lifetime ECL	Stage 3 Individually assessed Lifetime ECL	Total provision
Residential mortgage loans					
Balance at beginning of the year	9,316	5,559	243	1,282	16,400
Transfers between ECL stages:					
Transferred to Stage 1	3,994	(3,847)	(107)	(40)	-
Transferred to Stage 2	(817)	862	-	(45)	-
Transferred to Stage 3	(6)	(39)	51	(6)	-
Charged / (credited) to profit or loss	(378)	3,510	506	(460)	3,178
Amounts written off	-	-	-	33	33
Recovery	-	-	-	-	-
Balance at end of the year	**12,109**	**6,045**	**693**	**764**	**19,611**
Commercial exposures					
Balance at beginning of the year	4,603	10,371	-	8,218	23,192
Transfers between stages:					
Transferred to Stage 1	8,799	(8,784)	-	(15)	-
Transferred to Stage 2	(203)	203	-	-	-
Transferred to Stage 3	(1)	-	1	-	-
Charged / (credited) to profit or loss	(2,916)	(709)	-	(1,637)	(5,262)
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance at end of the year	**10,282**	**1,081**	**1**	**6,566**	**17,930**
Agricultural exposures					
Balance at beginning of the year	3,282	1,234	-	123	4,639
Transfers between ECL stages:					
Transferred to Stage 1	149	(149)	-	-	-
Transferred to Stage 2	(9)	109	-	(100)	-
Transferred to Stage 3	-	(8)	8	-	-
Charged / (credited) to profit or loss	(831)	(363)	556	(23)	(661)
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance at end of the year	**2,591**	**823**	**564**	**-**	**3,978**
Other exposures					
Balance at beginning of the year	2,301	416	781	-	3,498
Transfers between ECL stages:					
Transferred to Stage 1	73	(73)	-	-	-
Transferred to Stage 2	(13)	13	-	-	-
Transferred to Stage 3	(1)	-	1	-	-
Charged / (credited) to profit or loss	156	(267)	(658)	-	(769)
Amounts written off	1	31	-	-	32
Recovery	(4)	(3)	-	-	(7)
Balance at end of the year	**2,513**	**117**	**124**	**-**	**2,754**
Total credit exposures					
Balance at beginning of the year	19,502	17,580	1,024	9,623	47,729
Transfers between ECL stages:	11,965	(11,713)	(46)	(206)	-
Charged / (credited) to profit or loss	(3,969)	2,171	404	(2,120)	(3,514)
Amounts written off	1	31	-	33	65
Recovery	(4)	(3)	-	-	(7)
Balance at end of the year	**27,495**	**8,066**	**1,382**	**7,330**	**44,273**

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All in $000's

16. Credit Risk Management and Asset Quality (continued)

(e) Loss allowance (continued)

Movements for credit impairment allowances 31 March 2020	Stage 1 Collectively assessed 12 month ECL	Stage 2 Collectively assessed Lifetime ECL	Stage 3 Collectively assessed Lifetime ECL	Stage 3 Individually assessed Lifetime ECL	Total provision
Residential mortgage loans					
Balance at beginning of the year	7,251	122	3,141	305	10,819
Transfers between ECL stages:					
Transferred to Stage 1	27	(27)	-	-	-
Transferred to Stage 2	(559)	1,169	(610)	-	-
Transferred to Stage 3	(1)	(2)	3	-	-
Charged / (credited) to profit or loss	2,591	4,297	(2,291)	966	5,563
Amounts written off	7	-	-	11	18
Recovery	-	-	-	-	-
Balance at end of the year	**9,316**	**5,559**	**243**	**1,282**	**16,400**
Commercial exposures					
Balance at beginning of the year	3,677	283	-	-	3,960
Transfers between ECL stages:					
Transferred to Stage 1	15	(15)	-	-	-
Transferred to Stage 2	(684)	684	-	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	1,595	9,419	-	8,218	19,232
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance at end of the year	**4,603**	**10,371**	**-**	**8,218**	**23,192**
Agricultural exposures					
Balance at beginning of the year	3,157	1,288	-	100	4,545
Transfers between ECL stages:					
Transferred to Stage 1	-	-	-	-	-
Transferred to Stage 2	(114)	114	-	-	-
Transferred to Stage 3	(2)	-	2	-	-
Charged / (credited) to profit or loss	241	(168)	(2)	23	94
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance at end of the year	**3,282**	**1,234**	**-**	**123**	**4,639**
Other exposures					
Balance at beginning of the year	6,990	597	1,688	-	9,275
Transfers between ECL stages:					
Transferred to Stage 1	2	(2)	-	-	-
Transferred to Stage 2	(31)	31	-	-	-
Transferred to Stage 3	(2)	-	2	-	-
Charged / (credited) to profit or loss	(4,846)	(215)	(920)	-	(5,981)
Amounts written off	188	5	11	-	204
Recovery	-	-	-	-	-
Balance at end of the year	**2,301**	**416**	**781**	**-**	**3,498**
Total credit exposures					
Balance at beginning of the year	21,075	2,290	4,829	405	28,599
Transfers between ECL stages:	(1,349)	1,952	(603)	-	-
Charged / (credited) to profit or loss	(419)	13,333	(3,213)	9,207	18,908
Amounts written off	195	5	11	11	222
Recovery	-	-	-	-	-
Balance at end of the year	**19,502**	**17,580**	**1,024**	**9,623**	**47,729**

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(e) Loss allowance (continued)

Impact of changes in gross financial assets on loss allowances - 31 March 2021	Stage 1 Collectively assessed	Stage 2 Collectively assessed	Stage 3 Collectively assessed	Stage 3 Individually assessed	Total
Residential mortgage loans					
Balance at beginning of the year	4,687,969	517,629	1,337	15,630	5,222,565
Net transfers between stages	(79,025)	74,966	6,408	(2,349)	-
Additions	1,354,952	29,449	-	-	1,384,401
Deletions and repayments	(1,001,128)	(119,489)	(4,611)	(536)	(1,125,764)
Amounts (written off) / recovered	-	-	-	(33)	(33)
Balance at end of the year	**4,962,768**	**502,555**	**3,134**	**12,712**	**5,481,169**
Commercial exposures					
Balance at beginning of the year	352,730	193,921	-	12,014	558,665
Net transfers between stages	147,862	(147,182)	-	(680)	-
Additions	109,028	3,796	-	540	113,364
Deletions and repayments	(104,443)	(30,470)	2	(1,055)	(135,966)
Amounts (written off) / recovered	-	-	-	-	-
Balance at end of the year	**505,177**	**20,065**	**2**	**10,819**	**536,063**
Agricultural exposures					
Balance at beginning of the year	290,651	35,991	-	4,396	331,038
Net transfers between stages	2,496	(1,089)	1,840	(3,247)	-
Additions	36,286	7,549	-	-	43,835
Deletions and repayments	(49,110)	(8,247)	-	(1,149)	(58,506)
Amounts (written off) / recovered	-	-	-	-	-
Balance at end of the year	**280,323**	**34,204**	**1,840**	**-**	**316,367**
Other exposures					
Balance at beginning of the year	57,775	3,449	834	-	62,058
Net transfers between stages	603	(639)	36	-	-
Additions	4,808	62	-	-	4,870
Deletions and repayments	(19,873)	(1,908)	(715)	-	(22,496)
Amounts (written off) / recovered	(5)	(34)	-	-	(39)
Balance at end of the year	**43,308**	**930**	**155**	**-**	**44,393**

The following explains how significant changes in the gross carrying amount of financial assets during the year have contributed to the changes in the provision for credit impairment. Provision for credit impairment reflects Expected Credit Losses (ECL) measured using the three-stage approach under NZ IFRS 9.

The overall change in the collective provision for credit impairment for the year was a decrease of $1.16m. The main drivers of the provision decrease were updates to management overlays associated with long to medium term impact of COVID-19 on the credit portfolio, and change in composition of the unsecured lending portfolio; these were partially offset by lending growth in the Residential mortgage segment. The provision reduction includes a $0.54m decrease in Agri portfolio provision, $0.74m decrease in provision for loans in the unsecured lending portfolio and a $3.61m provision decrease across in the Commercial portfolio, these were partially offset by a $3.73m provision increase in the Residential Mortgages portfolio.

Updated management assumptions that reflect the changing nature of the underlying portfolio and their relationship to external factors also impacted the total value of provisions held across the entire lending book.

Detailed information regarding the changes are as follows:

- Collective Provision 12 month ECL (Stage 1) increased by $7.99m due to a combination of lending book growth and changes to the composition of the unsecured lending portfolio.
- Collective Provision Lifetime ECL not credit impaired (Stage 2) decreased by $9.51m. This was primarily due to a $9.70m collective provision decrease in the Commercial and Agri portfolio, driven by updates to COVID-19 impacted industries overlay being deemed to have experienced a Significant Increase in Credit Risk, and a $0.49m Collective Provision increase in the Residential Lending portfolio also driven by updates to management overlays around COVID-19 impact on the portfolio.
- Collective Provision Lifetime ECL credit impaired (Stage 3) increased by $0.36m, driven by portfolio performance.
- Specific provision lifetime ECL credit impairment decreased by $2.29m driven by a decrease in balances of $8.5m, successful management of customer positions and continuous reassessment of provisions.

Refer to note 1.(j) for information on ECL sensitivity analysis.

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(f) Movement in balances of credit impairment allowances

As at 31 March 2021	Residential mortgage loans	Commercial exposures	Agricultural exposures	Other exposures	Total Credit exposures
Specific provision for impairment					
Balance at beginning of period	1,282	8,218	123	-	9,623
Addition / (deletion)	(551)	(1,652)	(123)	-	(2,326)
Current year amounts written off	33	-	-	-	33
Reversal of previously recognised provision	-	-	-	-	-
Specific provision balance at end of period	**764**	**6,566**	**-**	**-**	**7,330**
Collective provision for impairment					
Balance at beginning of period	15,118	14,974	4,516	3,498	38,106
Recognised in profit or loss	3,729	(3,610)	(538)	(744)	(1,163)
Collective provision balance at end of period	**18,847**	**11,364**	**3,978**	**2,754**	**36,943**
Total provision for impairment loss	**19,611**	**17,930**	**3,978**	**2,754**	**44,273**
As at 31 March 2020					
Specific provision for impairment					
Balance at beginning of period	305	-	100	-	405
Addition / (deletion)	966	8,218	23	-	9,207
Current year amounts written off	11	-	-	-	11
Reversal of previously recognised provision	-	-	-	-	-
Balance of specific provision at end of period	**1,282**	**8,218**	**123**	**-**	**9,623**
Collective provision for impairment					
Balance at beginning of period	10,514	3,960	4,445	9,275	28,194
Recognised in profit or loss	4,604	11,014	71	(5,777)	9,912
Collective provision balance at end of period	**15,118**	**14,974**	**4,516**	**3,498**	**38,106**
Total provision for impairment loss	**16,400**	**23,192**	**4,639**	**3,498**	**47,729**

Impairment losses recognised in profit or loss

	2021	2020
Individual impairment expenses	1,254	1,232
Movement in specific provision	(2,293)	9,218
Movement in collective provision	(1,163)	9,912
Impairment losses – loans and advances	**(2,202)**	**20,362**

(g) Asset quality information

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

Impaired assets

The impaired assets consist of restructured assets, assets acquired through the enforcement of security and other individually impaired assets.

A restructured asset is any credit exposure for which:

(a) The original terms have been changed to grant the counterparty a concession that would not otherwise have been available, due to the counterparty's difficulties in complying with the original terms;

(b) The revised terms of the facility are not comparable with the terms of new facilities with comparable risks; and

(c) The yield on the asset following restructuring is equal to, or greater than, the Bank's average cost of funds, or a loss is not otherwise expected to be incurred.

Assets acquired through the enforcement of security are where the Bank assumes ownership of an asset (primarily real estate) in settlement of all or part of the debt. Other individually impaired assets means any credit exposures for which an impairment loss is required to be recognised in accordance with NZ IFRS 9.

Past due asset

A past due asset is any credit exposure where a counterparty has failed to make payment when contractually due, and which is not a restructured asset, other individually impaired asset, or a financial asset acquired through the enforcement of security. A 90-day past due asset is a financial asset which has not been operated by the counterparty within its contractual payment terms for at least 90 days and which is not a restructured asset, other individually impaired asset, or a financial asset acquired through the enforcement of security.

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(g) Asset quality information (continued)

Asset under administration

An asset under administration is any credit exposure which is not an individually impaired asset or a past due asset but which is to a counterparty:

(a) who is in receivership, liquidation, bankruptcy, statutory management or any form of administration in New Zealand; or

(b) who is in any other equivalent form of voluntary or involuntary administration in an overseas jurisdiction.

The majority of the Bank's provisions for impairment are made on a collective basis. The table below shows the credit quality information for loans and advances to customers.

As at 31 March 2021	Note	Residential mortgage loans	Commercial exposures	Agricultural exposures	Other exposures	Total Credit exposures
Neither past due or impaired		**5,424,847**	**521,937**	**316,291**	**43,541**	**6,306,616**
Past due assets not impaired:						
Less than 30 days		32,978	1,339	76	121	34,514
30 to 59 days		7,806	2,053	-	572	10,431
60 to 89 days		1,748	16	-	20	1,784
90 days and over		1,196	-	-	139	1,335
Balance of past due but not impaired assets at end of period		**43,728**	**3,408**	**76**	**852**	**48,064**
Movements in individually impaired assets:						
Balance at beginning of period		1,629	11,611	4,397	-	17,637
Additions		8,098	11,741	-	-	19,839
Amounts written off / loans closed out		(4,189)	-	-	-	(4,189)
Transfer back to loans and advances to customers		7,056	(12,634)	(4,397)	-	(9,975)
Balance of impaired assets at end of period		**12,594**	**10,718**	**-**	**-**	**23,312**
Total gross loans and advances to customers	7	**5,481,169**	**536,063**	**316,367**	**44,393**	**6,377,992**
Less provision for impairment	16.(f)	19,611	17,930	3,978	2,754	44,273
Total loans and advances to customers		**5,461,558**	**518,133**	**312,389**	**41,639**	**6,333,719**
As at 31 March 2020						
Neither past due or impaired		**5,148,754**	**545,410**	**324,638**	**57,943**	**6,076,745**
Past due assets not impaired:						
Less than 30 days		62,876	1,591	2,003	1,401	67,871
30 to 59 days		7,328	53	-	1,461	8,842
60 to 89 days		1,177	-	-	426	1,603
90 days and over		801	-	-	827	1,628
Balance of past due but not impaired		**72,182**	**1,644**	**2,003**	**4,115**	**79,944**
Movements in individually impaired assets:						
Balance at beginning of period		482	-	3,332	-	3,814
Additions		4,577	11,611	1,137	-	17,325
Amounts written off / loans closed out		(11)	-	-	-	(11)
Transfer back to loans and advances to customers		(3,419)	-	(72)	-	(3,491)
Balance of impaired assets at end of period		**1,629**	**11,611**	**4,397**	**-**	**17,637**
Total gross loans and advances to customers	7	**5,222,565**	**558,665**	**331,038**	**62,058**	**6,174,326**
Less provision for impairment	16.(f)	16,400	23,192	4,639	3,498	47,729
Total loans and advances to customers		**5,206,165**	**535,473**	**326,399**	**58,560**	**6,126,597**

Undrawn balances on lending commitments to counterparties

Undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired total $733k at reporting date (2020: $82k).

Other assets under administration

The Bank does not have any assets under administration (2020: $166k).

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(h) Concentrations of credit exposures

Concentrations of credit exposures arise where the Bank is exposed to risk in activities or industries of a similar nature.

Credit exposure is calculated on the basis of selected items on and off-balance sheet. The exposures shown below are based on net carrying amounts as reported in the statement of financial position without taking account of any collateral held. Off-balance sheet exposures include undrawn lending commitments. Refer to note 22. Commitments and Contingent Liabilities for more information on commitments.

(i) **On and off- balance sheet**

On and off- balance sheet	Note	2021	2020
On balance sheet:			
Cash and cash equivalents		438,240	232,588
Investment securities	8	1,938,774	1,741,504
Loans and advances to customers	7	6,333,719	6,126,597
Off balance sheet:			
Lending commitments	22	860,942	764,042
Total Credit Exposures		**9,571,675**	**8,864,731**

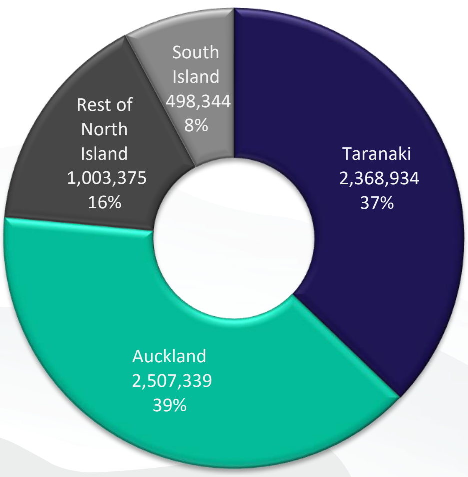
Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes have been used as the basis for disclosing customer industry sectors. An analysis of financial assets by geographic region and industry sector as at balance date is as follows:

(ii) **Concentration of credit exposure by geographic region**

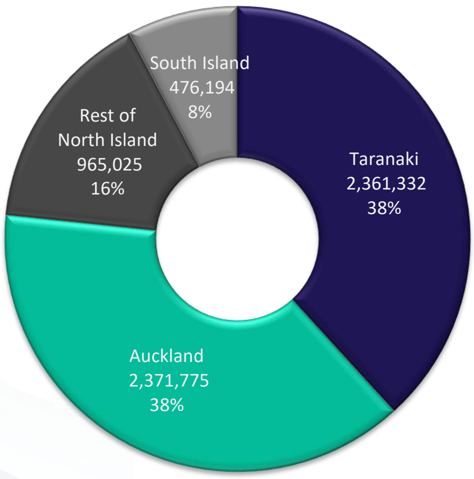
As at 31 March 2021	Note	Cash and cash equivalent	Investment securities	Loans and advances to customers	off-balance sheet	Total credit exposure
New Zealand total		438,240	1,289,407	6,377,992	860,942	8,966,581
Outside New Zealand		-	649,367	-	-	649,367
Provision for impairment	16.(f)	-	-	(44,273)	-	(44,273)
Total credit exposure		**438,240**	**1,938,774**	**6,333,719**	**860,942**	**9,571,675**
As at 31 March 2020						
New Zealand total		232,588	1,216,694	6,174,326	764,042	8,387,650
Outside New Zealand		-	524,810	-	-	524,810
Provision for impairment	16.(f)	-	-	(47,729)	-	(47,729)
Total credit exposure		**232,588**	**1,741,504**	**6,126,597**	**764,042**	**8,864,731**

Charts below show further breakdown of loans and advances to customers by geographic region.

As at 31 March 2021



As at 31 March 2020



All in $000's

16. Credit Risk Management and Asset Quality (continued)

(h) Concentrations of credit exposures (continued)

(iii) Concentration of credit exposure by industry sector

	2021	2020
Cash on hand	24,247	21,966
Local government lending and investments	247,827	180,434
New Zealand registered banks	396,864	473,779
Multilateral development banks and other international institutions	511,955	370,272
Other financial institutions	210,841	127,474
Sovereigns and Central Bank	920,631	723,654
Food product and beverages	-	-
Utilities	114,650	128,228
Mining	-	-
Transport, postal and warehousing	-	-
Information media and telecommunications	-	-
Agricultural lending	328,945	350,072
Residential lending	6,025,544	5,729,666
Personal and other lending	147,886	170,124
Community lending	-	4,881
Commercial lending	686,558	631,910
Provision for impairment loss	(44,273)	(47,729)
Total credit exposure	**9,571,675**	**8,864,731**

(i) Concentration of credit exposures to individual counterparties

The following disclosures show the number of individual counterparties or groups of closely related counterparties where the period end and peak end-of-day credit exposures equalled or exceeded 10% of the Bank's Common Equity Tier 1 (CET1) capital as at balance date (excluding exposures to connected persons, central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, and any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent).

The peak aggregate end-of-day credit exposure is the largest daily actual credit exposure for the period between the reporting date for the previous disclosure statement and the reporting date for this disclosure statement. The credit rating is applicable to an entity's long term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

% of CET1	Number of bank counterparties			Number of non bank counterparties		
As at 31 March 2021	“A” Rated	“B” Rated	Total	“A” Rated	“B” Rated	Total
10% - 15%	3	-	3	2	-	2
15% - 20%	-	-	-	1	-	1
Total	**3**	**-**	**3**	**3**	**-**	**3**
Peak exposure	“A” Rated	“B” Rated	Total	“A” Rated	“B” Rated	Total
10% - 15%	2	-	2	1	-	1
15% - 20%	1	-	1	3	-	3
Total	**3**	**-**	**3**	**4**	**-**	**4**

% of CET1	Number of bank counterparties			Number of non bank counterparties		
As at 31 March 2020	“A” Rated	“B” Rated	Total	“A” Rated	“B” Rated	Total
10% - 15%	4	-	4	3	-	3
15% - 20%	1	-	1	-	-	-
Total	**5**	**-**	**5**	**3**	**-**	**3**
Peak exposure	“A” Rated	“B” Rated	Total	“A” Rated	“B” Rated	Total
10% - 15%	3	-	3	3	-	3
15% - 20%	2	-	2	-	-	-
Total	**5**	**-**	**5**	**3**	**-**	**3**

“A” Rated: counterparties that have a long-term credit rating of A- or A3 or above, or its equivalent.
“B” Rated: counterparties that have a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent.

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(j) Concentration of credit exposures to connected persons

Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis (net of specific provisions and excluding advances of a capital nature). The Bank only has credit exposures to non-bank connected persons. Peak end-of-day credit exposures to non-bank connected persons are calculated using the Bank's tier one capital at the end of the period. The rating-contingent limit, which is applicable to the Bank as at balance date, is 30%. There have been no rating-contingent limit changes during the last year. Within the rating-contingent limit there is a sub-limit of 15%, which applies to non-bank connected persons. All limits on aggregate credit exposure to all connected persons and non-bank connected persons in the Bank's Conditions of Registration have been complied with at all times over the last quarter. The information on credit exposures to connected persons has been derived in accordance with the Reserve Bank of New Zealand document entitled “Connected Exposures Policy (BS8)” dated November 2015.

There are no specific provisions against credit exposures to connected persons as at 31 March 2021 (31 March 2020: $nil).

	2021	2020
Credit exposures to non-bank connected persons at period end	83,600	83,600
Credit exposures to non-bank connected persons at period end (expressed as % of total tier one capital)	12.06%	12.80%
Peak credit exposures to non-bank connected persons during the period	83,600	83,600
Peak credit exposures to non-bank connected persons during the period (expressed as % of total tier one capital)	12.06%	12.80%

(k) Maximum exposure to credit risk

The Bank does not have any material exposures on which balances have been netted. As such, the carrying amount of loans and advances (gross of provisions), investment securities, plus commitments are as set out in note 22. Commitments and Contingent Liabilities represent the Bank's maximum exposure to credit risk for on and off-balance sheet financial instruments.

(l) Coverage provided by collateral held on loans

The table below presents the maximum exposure to credit risk for balance sheet financial instruments before taking account of the financial effect of any collateral held, unless such collateral meets the offsetting criteria in NZ IAS 32 Financial Instruments: Presentation.

The most common types of acceptable collateral include security over real estate, cash deposits, and other security over business

	As at 31 March 2021			As at 31 March 2020		
Balance sheet position	Maximum exposure to credit risk	Financial effect of collateral	Unsecured portion of credit exposure	Maximum exposure to credit risk	Financial effect of collateral	Unsecured portion of credit exposure
Cash and cash equivalents	438,240	438,240	-	232,588	232,588	-
Derivative financial instruments	10,724	-	10,724	13,942	-	13,942
Investment securities	1,938,774	314,233	1,624,541	1,741,504	203,458	1,538,046
Loans and advances to customers	6,333,719	6,306,117	27,602	6,126,597	6,083,259	43,338
Other financial assets	2,236	2,236	-	2,440	2,440	-
Total exposure to credit risk	**8,723,693**	**7,060,826**	**1,662,867**	**8,117,071**	**6,521,744**	**1,595,327**

17. Market Risk Management

Interest rate risk

Interest rate risk (IRR) refers to the risk to the Bank's economic value or earnings arising from adverse movements in interest rates. The Bank has a preference for stability of earnings, which is consistent with the Shareholder's expectations of stable dividend payments over time.

When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of the Bank's assets, liabilities and off-balance sheet instruments and in turn, their economic value. Changes in interest rates also affect the bank's earnings by altering interest rate-sensitive income and expenses, affecting its net interest income (NII).

The Bank measures and manages its interest rate risk using a combination of economic value and earnings-based measures.

Under the economic value approach, the measure of interest rate risk is the theoretical change in the market value of the entire balance sheet. The economic value for both on and off-balance sheet items is derived from their contractual cash flows, which are discounted to reflect current market rates.

All in $000's

17. Market Risk Management (continued)

Interest rate risk (continued)

Under the earnings-based measure, the focus is on the impact of changes in interest rates on future reported net interest income (NII). This focus reflects both the importance of NII the Bank's overall earnings and the direct link to changes in interest rates.

The Bank is exposed to IRR from mismatches in the repricing dates, or differences in the repricing characteristics of its assets and liabilities. The Bank closely monitors the repricing behaviour of its assets and liabilities and ensures that any mismatches remain within policy limits. This may be done with the use approved derivative transactions. The Bank does not seek to eliminate interest rate risk, rather to limit downside variability in NII.

Foreign currency risk

Foreign currency risk is the risk to the Bank's earnings or market value caused by movements in foreign exchange rates.
The Bank provides foreign exchange services via its branch network and offers foreign currency deposit accounts to customers via a third party.

Limits are in place to control the amount of foreign currency exposure. The Bank's policy is to maintain minimal levels of foreign currency cash balances and therefore foreign currency exposure is immaterial. The Bank also ensures customers who have foreign currency deposit accounts with the Bank are aware that they could be exposed to foreign currency fluctuations in their own right.

(a) Interest rate repricing schedule

The interest rate repricing schedule of on-balance sheet financial assets and financial liabilities has been prepared on the basis of contractual maturity or next repricing date, whichever is earlier.

As at 31 March 2021	0-3 Months	3-6 Months	6-12 Months	1-2 Years	Over 2 Years	Non-Interest sensitive	Total
Assets							
Cash and cash equivalents	413,993	-	-	-	-	24,247	438,240
Derivative financial instruments	-	-	-	-	-	10,724	10,724
Investment securities	742,991	115,078	73,171	196,775	810,759	-	1,938,774
Loans and advances to customers	2,096,210	933,112	1,836,767	1,115,050	380,062	(27,482)	6,333,719
Other financial assets	-	-	-	-	-	2,236	2,236
Total financial assets	**3,253,194**	**1,048,190**	**1,909,938**	**1,311,825**	**1,190,821**	**9,725**	**8,723,693**
Liabilities							
Deposits	5,007,709	1,069,234	748,046	328,106	162,520	682,890	7,998,505
Derivative financial instruments	-	-	-	-	-	9,605	9,605
Lease liabilities	531	499	950	1,854	11,500	-	15,334
Other financial liabilities *	-	-	-	-	-	36,854	36,854
Total financial liabilities	**5,008,240**	**1,069,733**	**748,996**	**329,960**	**174,020**	**729,349**	**8,060,298**
Derivative notional principals (net)	**1,001,000**	**(150,000)**	**(575,000)**	**(215,000)**	**(61,000)**	**-**	**-**
Interest sensitivity gap	**(754,046)**	**(171,543)**	**585,942**	**766,865**	**955,801**	**(719,624)**	**663,395**
As at 31 March 2020							
Assets							
Cash and cash equivalents	210,622	-	-	-	-	21,966	232,588
Derivative financial instruments	-	-	-	-	-	13,942	13,942
Investment securities	818,564	43,365	115,350	263,000	456,651	44,574	1,741,504
Loans and advances to customers	1,824,474	528,842	1,400,407	1,921,250	480,633	(29,009)	6,126,597
Other financial assets	-	-	-	-	-	2,440	2,440
Total financial assets	**2,853,660**	**572,207**	**1,515,757**	**2,184,250**	**937,284**	**53,913**	**8,117,071**
Liabilities							
Deposits	4,293,520	963,610	910,639	573,078	227,970	451,707	7,420,524
Derivative financial instruments	-	-	-	-	-	17,799	17,799
Lease liabilities	562	568	1,129	1,783	11,812	-	15,854
Other financial liabilities *	-	-	-	-	-	39,261	39,261
Total financial liabilities	**4,294,082**	**964,178**	**911,768**	**574,861**	**239,782**	**508,767**	**7,493,438**
Derivative notional principals (net)	**633,305**	**(15,305)**	**(275,000)**	**(525,000)**	**182,000**	**-**	**-**
Interest sensitivity gap	**(807,117)**	**(407,276)**	**328,989**	**1,084,389**	**879,502**	**(454,854)**	**623,633**

* Other financial liabilities include accounts payable and provision for dividend.

All in $000's

17. Market Risk Management (continued)

(b) Sensitivity analysis

In accordance with NZ IFRS 7, an assessment has been undertaken of the market risk sensitivity of net interest income and shareholder's equity based on fluctuations in interest rates.

The primary objective of the Bank's framework for the management of interest rate risk is to minimise the impact of changes in wholesale interest rates on the Bank's earnings. The Risk Framework includes limits for both earnings at risk and economic value, as well as re-pricing gap analysis.

Next 12 months net interest earnings

The figures in the table below indicate the outcome of the earnings at risk measure for the current period.

Scenarios	Change in net Interest Earnings ($m)	
	31 Mar 2021	31 Mar 2020
-2.0%	2.8	0.8
-1.0%	1.4	0.8
1.0%	(2.4)	(2.9)
2.0%	(4.7)	(6.5)

The earnings at risk measure looks at the sensitivity of net interest earnings over the next twelve months to potential changes in interest rates and is measured on a monthly basis.

Earnings at risk is measured assuming immediate one percent and two percent parallel movement in interest rates across the yield curve. Sensitivity of net interest earnings is measured using a model that takes into account current and projected future changes in terms of asset and liability levels as well as product mix.

The earnings at risk calculation has been amended to remove the assumption that interest rates are floored at zero. Where the modelled movement in interest rates would result in a negative rate, the calculation applies the negative rate; this is in line with the Bank's internal models. Prior year comparatives have not been restated.

Economic value of shareholder's equity (EVE)

The figures in the table below indicate the outcome of the EVE measure for the current period.

Scenarios	Change in EVE ($m)	
	31 Mar 2021	31 Mar 2020
-2.0%	37.5	15.2
-1.0%	18.8	12.7
1.0%	(20.6)	(18.7)
2.0%	(40.1)	(37.8)

The economic value of shareholders equity (EVE) risk measure looks at the sensitivity of the economic value of the Bank to changes in wholesale interest rates and is measured on a monthly basis.

The current economic value for both on and off-balance sheet assets and liabilities is derived from their contractual cash flows, which are discounted to reflect current market rates. The sensitivity of the EVE is measured assuming immediate one percent and two percent parallel movements in interest rates across the yield curve.

18. Liquidity and Funding Risk Management

(a) Core liquid assets

The Bank maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow. The table below lists the Bank's core liquid assets.

	2021	2020
Cash and cash equivalents	438,240	232,588
Investment securities:		
Local authority securities	197,827	128,719
Government securities	506,637	513,032
Registered bank securities	396,864	473,779
Other investments	837,446	625,974
Total investment securities	**1,938,774**	**1,741,504**
Total core liquid assets	**2,377,014**	**1,974,092**

All in $000's

18. Liquidity and Funding Risk Management (continued)

(b) Contractual cash flows

The following tables analyse the Bank's financial liabilities into relevant maturity groupings based on the remaining period as at balance date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows and include principal and future interest cash flows, and therefore will not agree to the carrying values on the statement of financial position.

As at 31 March 2021	On demand	0-1 Months	1-3 Months	3-12 Months	1-5 Year	Over 5 Years	Total
Liabilities:							
Deposits	4,315,196	421,924	951,355	1,838,713	517,140	-	8,044,328
Lease liabilities	-	225	450	1,862	7,779	11,247	21,563
Other financial liabilities *	81	30,969	7,500	7,937	14,390	-	60,877
Total financial liabilities	**4,315,277**	**453,118**	**959,305**	**1,848,512**	**539,309**	**11,247**	**8,126,768**
Lending commitments (off-balance sheet)	**860,942**	**-**	**-**	**-**	**-**	**-**	**860,942**
As at 31 March 2020							
Liabilities:							
Deposits	3,480,517	590,196	826,764	1,822,497	803,990	-	7,523,964
Lease liabilities	-	243	486	2,166	8,230	11,426	22,551
Other financial liabilities *	-	30,945	17,642	2,932	5,331	210	57,060
Total financial liabilities	**3,480,517**	**621,384**	**844,892**	**1,827,595**	**817,551**	**11,636**	**7,603,575**
Lending commitments (off-balance sheet)	**764,042**	**-**	**-**	**-**	**-**	**-**	**764,042**

* Other financial liabilities include accounts payable, provision for dividend and derivative financial instruments.

(c) Current and non-current assets and liabilities

Assets and liabilities are classified as current if it is expected they will be realised, consumed or settled within 12 months of the reporting date.

Non-current assets include property, plant and equipment and intangible assets as well as financial assets of a long term nature. Non-current liabilities include financial and non-financial liabilities which are expected to be settled after twelve months from reporting date. For the purposes of this disclosure, the fair value of derivatives has been classified as current.

	As at 31 March 2021			As at 31 March 2020		
	Current	Non-current	Total	Current	Non-current	Total
Assets						
Cash and cash equivalents	438,240	-	438,240	232,588	-	232,588
Derivative financial instruments	10,724	-	10,724	13,942	-	13,942
Investment securities	795,306	1,143,468	1,938,774	704,137	1,037,367	1,741,504
Loans and advances to customers	3,755,580	2,578,139	6,333,719	2,601,400	3,525,197	6,126,597
Deferred tax asset	-	9,543	9,543	-	12,650	12,650
Property, plant and equipment	-	33,484	33,484	-	34,150	34,150
Intangible assets	-	21,938	21,938	-	15,404	15,404
Other assets *	2,236	-	2,236	2,440	-	2,440
Total assets	**5,002,086**	**3,786,572**	**8,788,658**	**3,554,507**	**4,624,768**	**8,179,275**
Liabilities						
Deposits	7,507,027	491,478	7,998,505	6,617,355	803,169	7,420,524
Derivative financial instruments	9,605	-	9,605	17,799	-	17,799
Current tax liability	2,696	-	2,696	5,600	-	5,600
Lease liabilities	1,979	13,355	15,334	2,259	13,595	15,854
Other liabilities	36,034	820	36,854	33,929	5,617	39,546
Total liabilities	**7,557,341**	**505,653**	**8,062,994**	**6,676,942**	**822,381**	**7,499,323**

* Other assets include receivables, prepayments and sundry debtors.

All in $000's

18. Liquidity and Funding Risk Management (continued)

(d) Regulatory liquidity ratios

The Bank's Conditions of Registration sets regulatory minimums for liquidity risk that the Bank is required to meet. These ratios are calculated daily in accordance with the RBNZ's Liquidity Policy (BS13) and the quarterly average of each daily ratio are disclosed below. As part of its over-arching risk management practices, the Bank has adopted a conservative approach to liquidity management and aims for liquidity to be well in excess of the minimum regulatory requirements. The Bank's Treasury Policy, which is approved by the Board of Directors, sets out the minimum internal liquidity requirements for the Bank as well as providing guidance for the Bank's portfolio of liquid assets.

The Bank manages its liquidity risk through a combination of forward looking cash flow management, as well as maintaining a portfolio of high quality liquid assets that can be realised quickly if required. The Bank also closely monitors a series of potential leading indicators for liquidity risk, including term deposit reinvestment rates and the weighted average term of funding.

In the event of a severe liquidity event, the Bank has a contingency funding plan in place which outlines the actions the Bank would take in order to manage the situation.

	Three month ended 31 March 2021	Three month ended 31 December 2020
One-week mismatch ratio	18.4%	18.3%
One-month mismatch ratio	24.4%	24.7%
Core funding ratio	124.5%	125.0%

19. Capital Adequacy

The Bank is subject to regulation by the RBNZ. The RBNZ has set minimum regulatory capital requirements for banks that are consistent with the internationally agreed framework developed by the Basel Committee on Banking Supervision. These requirements define what is acceptable as capital and provide for methods of measuring the risks incurred by the Bank. The Bank must comply with RBNZ minimum capital adequacy ratios under its Conditions of Registration.

The Bank's objectives for the management of Capital Adequacy are to comply at all times with the regulatory capital requirements set by the Reserve Bank of New Zealand (RBNZ); to maintain a strong capital base to cover the inherent risks of the business in excess of that required by rating agencies to maintain an investment credit grading; and to support the future development and growth of the business to maximise shareholder's value.

Total regulatory capital is divided into Tier 1 and Tier 2 capital. Tier 1 capital comprises Common Equity Tier 1 ("CET1") capital and Additional Tier 1 ("AT1") capital. Tier 1 capital primarily consists of shareholder's equity and other capital instruments acceptable to the RBNZ, less intangible assets, cash flow hedge reserve, deferred tax assets and a deduction for any advances of a capital nature to connected persons. Tier 2 Capital comprises capital instruments as defined by the RBNZ.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of risk weighted exposures. Risk weighted exposures are derived by assigning a risk weight percentage to certain categories of exposures, including statement of financial position assets (excluding intangible assets and capital deductions for investments in subsidiaries not wholly owned or funded), and off-balance sheet assets. The risk weighting categories range from 0% - 150%. It should be noted that the regulatory risk weightings may not be consistent with the loss experience of the Bank.

As a Condition of Registration, the Bank must comply with the following minimum requirements set by the RBNZ:
- Total capital must not be less that 8% of risk weighted exposure.
- Tier 1 capital must not be less than 6% of risk weighted exposure.
- Common Equity Tier One capital must not be less than 4.5% of risk weighted exposure.
- Capital must not be less than NZ$30m.
- Buffer ratio must be not less than 2.5%.

The Board of Directors has ultimate responsibility for capital adequacy, and approves capital policy and minimum capital levels and limits. These are typically at a higher level than required by the Regulator to reduce the risk of breaching Conditions of Registration. The Bank monitors its Capital Adequacy and reports this on a regular basis to the Board and on a monthly basis to the RBNZ.

In November 2019, the Bank identified that it had incorrectly applied "Capital Adequacy Framework (Standardised Approach (BS2A)" when calculating its risk weighted assets and regulatory capital. The incorrect application of BS2A did not result in non-compliance with Condition of Registration 1 after 31 December 2018, as a new version of that condition took effect from 1 January 2019. The details of the incorrect application are as follows:

1. The Bank used loan-to-value ratios calculated at origination, as opposed to recalculating them for each reporting period.
2. The Bank also identified several credit data classification discrepancies.

Due to the size and complexity involved in implementing fixes for the identified issues, calculations are yet to be reperformed. It is anticipated the impact of these corrections will result in an increase to the Bank's minimum capital requirement of up to $6 million. The Bank currently holds $296 million of capital in excess of the minimum capital requirement. The impact equates to a reduction in the Banks regulatory capital ratios of up to 25 basis points.

A project has been established to resolve these issues and remediation is ongoing.

In June 2021, the Bank identified issues with its application of aspects of BS2A when assessing whether a credit conversion factor of 0% could apply to some undrawn commitments. The Bank has adjusted this in its Capital Adequacy calculation for the year ended 31 March 2021, and also restated its 31 March 2020 comparatives. The impact of the change was a reduction of 50bps to the 31 March 2021 ratio, and 44bps to the prior year’s ratio. The Bank complied with its minimum regulatory capital ratios at all times.

The capital adequacy tables set out on the following pages summarise the composition of regulatory capital and the capital adequacy ratios for the Bank for the year ended 31 March 2021.

All in $000's

19. Capital Adequacy (continued)

(a) Capital Adequacy Ratios

Total capital adequacy ratios for the Bank at balance date are:

	RBNZ Minimum ratio requirement	2021 31 Mar Unaudited Basel III	2020 31 Mar Unaudited Basel III
Common Equity Tier 1 capital ratio	4.50%	14.47%	13.88%
Tier 1 capital ratio	6.00%	14.47%	13.88%
Total capital ratio	8.00%	14.47%	13.88%
Buffer ratio	2.50%	6.47%	5.88%

(b) Regulatory Capital

	2021 Basel III Unaudited	2020 Basel III Unaudited
Tier 1 capital		
Common Equity Tier 1 ("CET1") capital		
Issued and fully paid up share capital	10,000	10,000
Retained earnings	660,397	632,080
Current period's audited retained earnings	42,893	28,317
Fair value reserve	11,141	10,874
Cash flow hedge reserve	1,233	(1,319)
	725,664	**679,952**
Less Deductions from CET1 Capital		
Intangible assets	21,938	15,404
Cash flow hedge reserve	1,233	(1,319)
Deferred tax assets	9,543	12,650
Implicit risk adjustment*	57,000	57,000
	89,714	**83,735**
Total CET 1 capital	**635,950**	**596,217**
Additional Tier 1 ("AT1") Capital	-	-
Total Tier 1 capital	**635,950**	**596,217**
Tier 2 capital		
Unrealised revaluation on security holdings at 45%	-	-
Total capital	**635,950**	**596,217**

*Implicit risk adjustment has been made in accordance with Condition 1C of the Bank's Conditions of Registration.

All in $000's

19. Capital Adequacy (continued)

(c) Credit risk

(i) **On-balance sheet exposures**

As at 31 March 2021	Total exposure after risk mitigation	Risk weighting	Risk weighted exposure	Minimum Pillar one capital requirement
Cash	10,558	0%	-	-
Sovereigns & RBNZ	920,630	0%	-	-
Multilateral development banks	491,685	0%	-	-
Multilateral development banks	20,270	20%	4,054	324
Public sector entities	198,046	20%	39,609	3,169
Banks	106,702	20%	21,340	1,707
Banks	303,852	50%	151,926	12,154
Corporate	209,406	20%	41,881	3,350
Corporate	47,701	50%	23,850	1,908
Corporate	900,338	100%	900,338	72,027
Residential mortgages not past due:				
Non-property investment <80% LVR *	3,526,333	35%	1,234,217	98,737
Non-property investment 80%<90% LVR *	353,121	50%	176,561	14,125
Non-property investment 90%<100% LVR *	51,901	75%	38,926	3,114
Non-property investment >100% LVR *	759	100%	759	61
Property investment <80% LVR *	1,444,043	40%	577,617	46,209
Property investment 80%<90% LVR *	6,180	70%	4,326	346
Property investment 90%<100% LVR *	662	90%	596	48
Property investment >100% LVR *	36	100%	36	3
Welcome home <80% LVR *	1,503	35%	526	42
Welcome home 80%<90% LVR *	36,291	35%	12,702	1,016
Welcome home 90%<100% LVR *	29,366	50%	14,683	1,175
Welcome home >100% LVR *	1,425	100%	1,425	114
Reverse mortgages <60% LVR *	8,018	50%	4,009	321
Reverse mortgages 60%<80% LVR *	134	80%	107	9
Reverse mortgages >80% LVR *	-	100%	-	-
Past due residential mortgages *	2,803	100%	2,803	224
Other past due assets	28	100%	28	2
Other past due assets	-	150%	-	-
Other lending	43,516	100%	43,516	3,481
Other assets	46,443	100%	46,443	3,715
Non-risk weighted assets	26,909	0%	-	-
Total on-balance sheet exposures	**8,788,659**		**3,342,278**	**267,381**

(ii) **Off-balance sheet exposures**

As at 31 March 2021	Total exposure	Credit conversion factor	Credit equivalent amount	Average risk weight	Risk weighted exposure	Minimum Pillar one capital requirement
Commitments that can be cancelled unconditionally	96,753	0%	-	N/A	-	-
Commitment with certain drawdown	187,870	100%	187,870	42%	78,727	6,298
Commitment with uncertain drawdown	569,143	50%	284,571	52%	147,278	11,782
Performance related contingency	2,603	50%	1,302	100%	1,302	104
Market related contracts:						
interest rate contracts*	1,761,000	Various	14,884	34%	5,024	402
Credit valuation adjustment (CVA)	-		-	0%	3,407	273
Total off-balance sheet exposures	**2,617,369**		**488,627**		**235,738**	**18,859**

* The credit equivalent amount for market related contracts (which are all interest rate contracts) were calculated using the current exposure method.

All in $000's

19. Capital Adequacy (continued)

(d) Residential mortgages

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

LVR Range as at 31 Mar 2021	On balance sheet	off balance sheet	Total
LVR does not exceed 80%	4,982,801	528,014	5,510,815
LVR exceeds 80% and not 90%	395,592	14,026	409,618
LVR exceed 90%	84,182	1,318	85,500
Total residential mortgages	**5,462,575**	**543,358**	**6,005,933**

(ii) Reconciliation of residential mortgage related amounts

	Note	2021
Gross residential mortgage loans (on balance sheet exposures)	7	5,481,169
Provision for credit impairment (on balance sheet exposures)		(18,594)
Residential mortgage loans net of provision for credit impairment (on balance sheet exposures)	19.(c)(i), 19(d)(i)	5,462,575
Provision for credit impairment (off balance sheet exposures)		(1,017)
Residential mortgage loans net of total provision for credit impairment	16.(d)	5,461,558
Undrawn commitments (off balance sheet exposures)		544,375
Total residential mortgage loans net of provision for credit impairment	19(d)(i)	**6,005,933**

(e) Market risk

In accordance with clause 9 of Schedule 9 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014, peak end-of-day aggregate capital charge and peak end-of-day aggregate capital charge as a percentage of the Bank's equity at the end of the period, are derived by following the risk methodology for measuring capital requirements within Part 10 of - Capital Adequacy Framework (Standardised Approach) (BS2A).

As at 31 March 2021		Implied risk weighted exposure	Aggregate capital charge
End of period capital charges	Interest risk	278,557	22,285
Peak end of day capital charges	Interest risk	278,557	22,285

(f) Risk weighted exposure and total capital requirements

As at 31 March 2021	Total Exposure after credit risk mitigation	Risk weighted exposure or Implied RWE	Capital requirement
Total credit risk plus equity	9,250,376	3,578,015	286,241
Operational risk	N/A	539,390	43,151
Market risk	N/A	278,557	22,285
Total	**9,250,376**	**4,395,962**	**351,677**

All in $000's

19. Capital Adequacy (continued)

(g) Capital for other material risks (Pillar II)

Pillar 2 is intended to ensure that banks have adequate capital to support all risks in their business, and includes the requirement on banks to have an "Internal Capital Adequacy Assessment Process (ICAAP)" for assessing their overall Capital Adequacy in relation to risk profile and a strategy for maintaining adequate capital to support risk. The Bank's ICAAP has identified other areas of risk not covered by Pillar I (credit risk, market risk, and operational risk) and assigned a level of capital to them. These risks include but are not limited to strategic risk, reputational risk, environmental risk, liquidity risk, investment portfolio risk, sector and regional concentration risk, natural disaster risk, brand risk and ownership structure.

The Bank has made an internal capital allocation of $61.7m (2020: $61.7m) to cover these identified risks.

(h) Credit Risk Mitigation

The Bank determines whether it requires security to mitigate credit risk associated with the loans and investments that it makes in the course of its business.

The Bank's loan portfolio comprises predominantly of residential mortgages (86%) which are secured by first-ranking registered mortgages over residential property. As at 31 March 2021, $69m of these loans are underwritten by Housing New Zealand Corporation, a Statutory Crown Corporation, as part of its Welcome Home Loan programme.

Other lending, in the form of overdrafts and credit cards, is unsecured.

As at 31 Mar 2021, the Bank has total securities of $1.9 billion for the liquidity management purpose. These securities have been issued by the New Zealand Government and other Crown entities, domestic banks, multilateral development banks, supranational organisations and domestic corporate entities on the basis of their high financial standing and credit ratings. The Bank holds no guarantees or credit derivatives against them.

The Bank does not hold collateral in the form of cash or other securities to mitigate credit risk relating to the derivatives it has entered into for the purpose of interest rate risk management.

All in $000's

Other Disclosures

20. Securitisation, Funds Management, Other Fiduciary Activities and Marketing and Distribution of Insurance Products

The Bank has no involvement with any securitisation, custodial, or other fiduciary activities. The Bank does not conduct any insurance business, however general insurance, life insurance, and KiwiSaver products are marketed through the Bank's branch network. These have been provided at arm's length terms and conditions. The Bank provides no funding to the entities on whose behalf the insurance products are marketed. External third party insurance companies underwrite these. The Bank markets Fisher Funds KiwiSaver products through the Bank's branch network. Refer to note 21. Related Party Transactions and Balances in regards to the related party loan to Toi Foundation Holdings Limited and commission income from Fisher Funds Management Limited.

TSB Bank Limited is the manager and promoter of the TSB Bank PIE Unit Trust, and the New Zealand Guardian Trust Company Limited is the Trustee. Units in the fund do not directly represent deposits or other liabilities of the Bank. However, the Trust Deed stipulates that the TSB Bank PIE Unit Trust is invested exclusively in TSB Bank debt securities.

As at 31 March 2021, the TSB Bank PIE Unit Trust had $9.6m (31 March 2020: $11.1m) invested with the Bank.

21. Related Party Transactions and Balances

In April 2021, the TSB Community Trust undertook a rebranding, resulting in name changes to its various group entities. These were as follows:

Former name	Rebranded name
TSB Community Trust	Toi Foundation
TSB Group Limited	Toi Foundation Holdings Limited
TSB Group Investments Limited	Toi Foundation Investments Limited

The Bank is wholly owned by the Toi Foundation through its fully owned subsidiary, Toi Foundation Holdings Limited. During the period the Foundation operated bank account facilities which were on normal customer terms and conditions.

The Bank markets Fisher Funds KiwiSaver products through the Bank's branch network and receives commission income in return. Toi Foundation Holdings Limited together with its subsidiary, Toi Foundation Investments Limited, hold 66.01% (2020: 66.01%) shareholding of Fisher Funds Management Limited.

The following table shows the outstanding balances and transactions between Toi group entities that arose from the ordinary course of business and carried out at market interest rates.

Recognised in	Note	2021	2020
Statement of Financial Position			
Loans to Toi Foundation Holdings Limited	7	35,440	52,803
Deposits from Toi Foundation	10	4,916	7,603
Deposits from other Toi group entities	10	6,080	2
Statement of Changes in Equity			
Dividends paid to Toi Foundation	13	-	2,500
Statement of Profit or Loss			
Interest income received from Toi Foundation Holdings Limited	2	1,280	2,484
Interest expense paid to Toi Foundation	2	285	479
Commission income received from Fisher Funds Management Limited		817	724

During the reporting period, subvention payments were made to Toi Foundation Holdings Limited of $0.998m (2020: $1.375m), TSB Group Capital Limited of $0.016m (2020: $0.014m) and Toi Foundation Investments Limited of $0.743m (2020: $0.893m).

All in $000's

Other Disclosures

21. Related Party Transactions and Balances (continued)

Transactions with directors and key management personnel

Key management personnel are defined as the directors, trustees and senior management of the Bank – those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Loans made to and deposits held by the key management personnel are made in the course of ordinary business on normal terms and conditions, other than some loans made to key management personnel, which are made with an interest rate at a discount to market.

	2021	2020
Key management compensation:		
Short-term employee benefits	4,379	3,584
Other long-term benefits	35	(3)
Termination benefits	87	285
Retirement benefits	245	-
Total key management compensation	**4,746**	**3,866**
Loans to directors and key management personnel:		
Balance at beginning of period	2,695	3,476
Net loans / (repaid) during the period	4,476	(781)
Balance at end of period	**7,171**	**2,695**
Deposits from directors and key management personnel:		
Balance at beginning of period	20,282	17,961
Net deposits received / (repaid) during the period	(3,505)	2,321
Balance at end of period	**16,777**	**20,282**

Loans and deposits to directors and key management personnel include the directors of the Toi group entities.

22. Commitments and Contingent Liabilities

The Bank discloses a contingent liability when it has a possible obligation arising from past events that will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Bank's control. A contingent liability is disclosed when a present obligation is not recognised because it is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

As part of risk strengthening the Bank has continued to focus on key areas of regulatory compliance. In that regard, the Bank is undertaking a review of the Credit Contracts and Consumer Finance Act 2003 in so far as it relates to Bank products and services. The outcomes and total costs that could be associated with this review, including relating to customer remediations, are not known at this stage of the review.

The Bank issues commitments to extend credit and other credit facilities. These financial instruments attract service charges in line with market process for similar arrangements. They are not sold or traded. The items generally do not involve cash payments other than in the event of default. The service charges are set as part of the broader customer credit process and reflects the probability of default. They are disclosed as commitments at their face value.

	2021	2020
Lending commitments (gross):		
Performance-related contingencies	2,626	3,218
Undrawn commitments *	858,316	760,824
Total lending commitments	**860,942**	**764,042**
Other commitments:		
Rental / lease commitments less than one year	6	10
Rental / lease commitments greater than one year	17	23
Capital commitments	7,900	4,210
Total other commitments	**7,923**	**4,243**
Total commitments	**868,865**	**768,285**

* Includes $48.16m (31 March 2020: $30.8m) related to the facility granted to Toi Foundation Holdings Limited, a related entity.

There are no material contingent liabilities and outstanding claims that are not provided for as at 31 March 2021.

Other Disclosures

23. Subsequent Events

Subsequent to 31 March 2021, the Bank’s Conditions of Registration were modified by RBNZ. The amendments can be summarised as follows:

Effective 29 April 2021

- RBNZ has eased the dividend restriction by amending the Bank's Conditions of Registration that take effect on 29 April 2021 to allow distributions up to 50% of the Bank's earnings (net profit after tax) for the year ended 31 March 2021. The revised dividend restriction will remain in place until 1 July 2022.

On 28 June 2021, the Board of Directors declared a dividend of $7.5 million.

As indicated in the Bank’s September 2019, March 2020 and September 2020 Disclosure Statements, a review of the Bank’s Anti Money Laundering and Countering Financing of Terrorism (AML/CFT) Programme had identified areas for improvement. The Bank is continuing to actively remediate the issues identified by the Reserve Bank and is providing regular updates to the Reserve Bank on its progress.

Further to this, the Bank has been in constructive discussions with the Reserve Bank regarding the alleged breaches and the civil proceedings that may result from them. On 27 May 2021 this culminated in the Reserve Bank filing a statement of claim in the High Court against the Bank for breaches of the AML/CFT Act 2009. It is not alleged that the Bank was involved in money laundering or the financing of terrorism. The Bank has been fully cooperating with the Reserve Bank in respect of the claim and has acknowledged liability. The Reserve Bank and the Bank have filed an agreed statement of facts with the High Court. The Reserve Bank is seeking civil pecuniary penalties in respect of four categories of non-compliance:

- The absence of adequate and effective procedures, policies and controls for monitoring and managing compliance with its AML/CFT programme;
- The failure to review and maintain the Bank’s AML/CFT programme;
- The failure to conduct a risk assessment in respect of its realty operations; and
- The failure to have regard to certain countries it deals with when reviewing its 2017 risk assessment.

A provision in respect of a prospective liability has been made. Given the ongoing nature of the legal proceedings, further detail on this matter will be disclosed upon completion of the High Court proceeding.

There have been no other material events subsequent to the reporting date that require adjustments or disclosure in these financial statements.

Conditions of Registration

These conditions apply on and after 1 March 2021

The registration of TSB Bank Limited (“the bank”) as a registered bank is subject to the following conditions:

1. That—
   (a) the Total capital ratio of the banking group is not less than 8%;
   (b) the Tier 1 capital ratio of the banking group is not less than 6%;
   (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;
   (d) the Total capital of the banking group is not less than $30 million;
   (e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and
   (f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document “Application requirements for capital recognition or repayment and notification requirements in respect of capital” (BS16) dated November 2015 in respect of regulatory capital instruments.

For the purposes of this condition of registration,—

except to the extent modified by Condition 1C, “Total capital ratio”, “Tier 1 capital ratio”, and “Common Equity Tier 1 capital ratio” have the same meaning as in Part 3 of the Reserve Bank of New Zealand document “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated November 2015;

“Total capital” has the same meaning as in Part 2 of the Reserve Bank of New Zealand document “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated November 2015;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 8(2)(a) or (c) of the Reserve Bank of New Zealand document “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated November 2015;

a Tier 2 capital instrument is an instrument that meets the requirements of subsection 9(2)(a) or (c) of the Reserve Bank of New Zealand document “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated November 2015.

1A. That—
   (a) the bank has an internal capital adequacy assessment process (“ICAAP”) that accords with the requirements set out in the document “Guidelines on a bank’s internal capital adequacy assessment process (‘ICAAP’)” (BS12) dated December 2007;
   (b) under its ICAAP the bank identifies and measures its “other material risks” defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated November 2015; and
   (c) the bank determines an internal capital allocation for each identified and measured “other material risk”.

1B. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:
   (a) according to the following table, limit any distributions of the bank’s earnings payable to holders of Additional Tier 1 capital instruments to the percentage limit on distributions that corresponds to the banking group’s buffer ratio:

Banking group's buffer ratio	Percentage limit to distributions of the bank's earnings
0% – 0.625%	0%
>0.625 – 1.25%	20%
>1.25 – 1.875%	40%
>1.875 – 2.5%	60%

   (b) prepare a capital plan to restore the banking group’s buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and
   (c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration, except to the extent modified by Condition 1C —
“buffer ratio”, “distributions”, and “earnings” have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated November 2015;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 8.2(a) or (c) of the Reserve Bank of New Zealand document “Capital Adequacy Framework (Standardised Approach)” (BS2A) dated November 2015.

1BA. That the bank must make no distributions, whether paid out of earnings, or out of accumulated previous years' retained earnings or other reserves included within the banking group's total capital, other than discretionary payments payable to holders of Additional Tier 1 capital instruments to the extent permitted by condition 1B.

For the purposes of this condition of registration,—

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 8.2(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

"total capital" has the same meaning as in Part 2 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

"distributions" and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

1C. That when calculating the banking group's Common Equity Tier 1 capital ratio, Tier 1 capital ratio and Total capital ratio for the purposes of Condition 1, and the banking group's buffer ratio for the purposes of Condition 1B, in addition to the amounts deducted in calculating Common Equity Tier 1 capital in accordance with subsection 7(3) of BS2A, the bank must deduct an additional amount of $57 million for the implicit risk arising from the bank's association with Fisher Funds Management Limited ("FFML").

For the purposes of this condition of registration, "BS2A" means the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

1D. That the bank, in every full year and half year disclosure statement that it is required to publish, discloses the deduction for implicit risk required by Condition 1C as a separate item within the required disclosure of deductions from Common Equity Tier 1 capital.

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.
For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

(a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and
(b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the banking group's insurance business—
(a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
(b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,—
"insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance:
"insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

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

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

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

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

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected exposure policy" (BS8) dated November 2015.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the bank complies with the following corporate governance requirements:
   (a) the board of the bank must have at least five directors;
   (b) the majority of the board members must be non-executive directors;
   (c) at least half of the board members must be independent directors;
   (d) an alternate director,—
      (i) for a non-executive director must be non-executive; and
      (ii) for an independent director must be independent;
   (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
   (f) the chairperson of the board of the bank must be independent; and
   (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer or to the deputy chief executive officer, is made in respect of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
   (b) the committee must have at least three members;
   (c) every member of the committee must be a non-executive director of the bank;
   (d) the majority of the members of the committee must be independent; and
   (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

10. That a substantial proportion of the bank's business is conducted in and from New Zealand.

11. That the banking group complies with the following quantitative requirements for liquidity-risk management:
    (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
    (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
    (c) the one-year core funding ratio of the banking group is not less than 50 per cent at the end of each business day.

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled “Liquidity Policy” (BS13) dated January 2018 and “Liquidity Policy Annex: Liquid Assets” (BS13A) dated October 2018.

12. That the bank has an internal framework for liquidity risk management that is adequate in the bank’s view for managing the bank’s liquidity risk at a prudent level, and that, in particular:
    (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
    (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
    (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
    (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

13. That no more than 10% of total assets may be beneficially owned by a SPV.
    For the purposes of this condition,—
    “total assets” means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets:
    “SPV” means a person—
    (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
    (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
    (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

    “covered bond” means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

14 That—
    (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document “Significant Acquisitions Policy” (BS15) dated December 2011; and
    (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document “Significant Acquisitions Policy” (BS15) dated December 2011; and
        (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

    For the purposes of this condition of registration, “qualifying acquisition or business combination”, “notification threshold” and “non-objection threshold” have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document “Significant Acquisitions Policy” (BS15) dated December 2011.

15 That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can—
    (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager—
        (i) all liabilities are frozen in full; and
        (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
    (b) apply a *de minimis* to relevant customer liability accounts;
    (c) apply a partial freeze to the customer liability account balances;
    (d) reopen by no later than 9 am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
    (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
    (f) reinstate customers' access to some or all of their residual frozen funds.

    For the purposes of this condition of registration, “de minimis”, “partial freeze”, “customer liability account”, and “frozen and unfrozen funds” have the same meaning as in the Reserve Bank of New Zealand document “Open Bank Resolution (OBR) Pre-positioning Requirements Policy” (BS17) dated September 2013.

16. That the bank has an Implementation Plan that—
    (a) is up-to-date; and
    (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS 17) dated September 2013.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

17. That the bank has a compendium of liabilities that—
    (a) at the product-class level lists all liabilities, indicating which are—
        (i) pre-positioned for Open Bank Resolution; and
        (ii) not pre-positioned for Open Bank Resolution;
    (b) is agreed to by the Reserve Bank; and
    (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

    For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

18. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

19. That, for a loan-to-valuation measurement period ending on or before 30 September 2021, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

20. That, for a loan-to-valuation measurement period ending on or after 31 October 2021, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

21. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

22. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,—

"banking group" means TSB Bank Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 19 to 22,—

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated January 2019:

"loan-to-valuation measurement period" means—
(a) the six calendar month period ending on the last day of August 2021; and
(b) thereafter a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of September 2021.

Conditions of Registration

Changes in Conditions of Registration

The following changes have been made to the Bank's Conditions of Registration since the reporting date of the Bank's previous disclosure statement pursuant to section 74(2) of the Reserve Bank of New Zealand Act 1989:

Conditions with the loan-to-valuation ratio (LVR) limits on new residential mortgage lending have been reinstated at the same level as prior to the onset of the COVID-19 pandemic:

Effective 1 March 2021

- LVR restrictions for investors have been reinstated to a maximum of 5% of new lending at LVRs above 70%.
- LVR restrictions for owner-occupiers have also been reinstated to a maximum of 20% of new lending at LVRs above 80%.

Effective 1 May 2021

- LVR restrictions for investors will be raised to a maximum of 5% of new lending at LVRs above 60%.

There have been no other changes to the Bank's Conditions of Registration.

Independent Auditor's Report

To the shareholder of TSB Bank Limited

Report on the audit of the disclosure statement

Opinion

In our opinion, the accompanying consolidated financial statements (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) of TSB Bank Limited (the 'Bank') on pages 8 to 57:

i. give a true and fair view of the Bank's financial position as at 31 March 2021 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards ('NZIFRS').

In our opinion, the supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the 'Order') and is included within notes 15, 16, 17, 18, 19 and 20 of the disclosure statement:

i. has been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration;

ii. is in accordance with the books and records of the banking group in all material respects; and

iii. fairly states the matters to which it relates in accordance with those Schedules

We have audited the accompanying financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) which comprise:

— the statement of financial position as at 31 March 2021;

— the statements of comprehensive income, changes in equity and cash flows for the year then ended;

— notes, including a summary of significant accounting policies and other explanatory information; and

— the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order.

Basis for Opinion

We conducted our Audit in accordance with International Standards on Auditing (New Zealand) ('ISA's (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Our responsibilities under ISA (NZ) are further described in the auditor's responsibilities for the audit of the financial statements (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) section of our report.

Our firm has also provided other services to the Bank in relation to regulatory advisory and IT risk assessment services. Subject to certain restrictions, partners and employees of our firm may also deal with the Bank on normal terms within the ordinary course of trading activities of the business of the Bank. These matters have not impaired our independence as auditor of the Bank. The firm has no other relationship with, or interest in, the Bank.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at $2.7 million determined with reference to a benchmark of the Bank's profit before tax. We chose the benchmark because, in our view, this is a key measure of the Bank's performance.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

Key changes in the assessment of audit risks

Economic outlook

The significant impact created by the COVID-19 pandemic, particularly in the assessment of the provision for credit impairment, has continued. Whilst New Zealand has performed stronger than initial forecasts made at the beginning of the pandemic, there remains uncertainty in the general macro-economic environment. The judgement applied by the bank in determining a collectively assessed allowance for expected credit losses associated with the Covid-19 pandemic should be considered as a best estimate within a range of possible estimates. The key audit matter "Provision for Credit Impairment", detailed below, is unchanged from last year. We draw attention to Note 1(j) of the financial statements which describes the impact of COVID-19 on the business.

The key audit matter

Provision for credit impairment

Refer to Note 16 to the Disclosure Statement.

The collective and specific expected credit loss ("ECL") provision is a key audit matter owing to the financial significance of loans and advances and the high level of judgement and complexity involved in estimating impairment provisions against these loans.

Due to the ongoing uncertain impact of COVID-19 on the macro-economic environment, this judgement and complexity remains heightened in respect of assessing the long-term impact of the pandemic and the path to recovery. This is reflected in the increased uncertainty in relation to judgements about future cashflows, security values and the underlying assumptions made to estimate expected credit losses. In addition, management applied judgement in the determination of modelling overlays to adjust for future market conditions.

For loans that have been identified as impaired, judgement is involved primarily with estimating the timing and proceeds from the future sale of assets securing the loans.

For loans not currently impaired, judgement is required as the collective impairment provision is forward-looking and involves estimating the likelihood that these loans will default in the future and the amount of loss if they do default.

How the matter was addressed in our audit

Our audit procedures for the specific and collective provision for credit impairment included:

Provisions against specific individual loans (specific provision)

- Testing of lending related controls, including testing the approval of new lending facilities and monitoring of loans in arrears.
- Re-performing the specific impairment provision calculations for a sample of individual loans and evaluating the basis for the individual provision. We challenged the Bank's assessment of loan recoverability and the impact on the provision. To do this, we reviewed the information on the Bank's loan file including third party valuations, discussed the case with management and performed our own assessment of recoverability;
- Performed credit assessments of a sample of loans, focusing on larger exposures, areas of emerging risk and loans in arrears, to determine whether the loans have been appropriately monitored and provided for if necessary.

Provisions estimated for the loan portfolio as a whole (collective provision)

- Assessing the Bank's methodology used in the Expected Credit Loss (ECL) model to calculate the collective provision against the requirements of NZ IFRS 9: *Financial Instruments* ("NZ IFRS 9") and industry practice;
- Testing the accuracy of key inputs into the ECL model by checking a sample of balances to source systems and historic data (both internal and external data sources);
- Assessing forward-looking economic assumptions and the development of economic scenarios against external economic information and the application into the ECL model. Given the degree of continued uncertainty in respect of forecast macroeconomic inputs in a COVID-19 scenario, this included benchmarking managements estimates to a range of different market forecasts;
- Assessing the rationale for, and mathematical accuracy of, management overlays applied to the model to reflect a significant increase in credit risk for components of the loan portfolio as a result of COVID-19;
- Testing the accuracy of the model calculations;
- Assessing the Bank's significant accounting policies and disclosures in the financial statements against the requirements of NZ IFRS 9;

The key audit matter

Operation of IT systems and controls

The Banking Group is heavily dependent on IT systems for the processing and recording of a large volume of transactions each day, as well as other core banking activity. Given this, there are some areas of our audit where we seek to place reliance on IT systems, automated controls, and system generated reports. The ability to rely on IT is dependent on the Bank's General IT environment being designed, implemented, and operating effectively. This includes controls relevant to system changes and development, IT operations, developer and user access controls.

How the matter was addressed in our audit

Our audit procedures, for the Bank, amongst others, included:

- Gaining an understanding of business processes, key controls, and IT systems relevant to our planned audit approach;
- Testing the design and operating effectiveness of the General IT control environment, including core banking IT systems, in-scope automated controls, and in-scope reports; and
- Evaluating General IT controls relevant to IT system changes, IT operations, developer and user access controls.

Other information

The Directors, on behalf of the Bank, are responsible for the other information included in the Bank's disclosure statement. Other information includes the Highlights, Messages from Chair and CEO on pages 2 to 29 within the Bank's Annual Report and also includes information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order and is included on pages 2 to 7 and 58 to 63 of the Bank's Disclosure Statement. Our opinion on the disclosure statement does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the disclosure statement our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the disclosure statement or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other legal and regulatory requirements

In accordance with the requirements of clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by the Banking Group, as far as appears from our examination of those records.

Responsibilities of Directors for the consolidated financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements)

The Directors, on behalf of the Bank, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with Clause 24 of the Order, NZIFRS;
- the preparation and fair presentation of supplementary information (excluding the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements), in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order;
- implementing necessary internal control to enable the preparation of financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and

- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements)

Our objective is:

- to obtain reasonable assurance about whether the consolidated disclosure statement, including the financial statements prepared in accordance with Clause 24 of the Order, and supplementary information (excluding the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements), in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-2/

This description forms part of our independent auditor's report.

Review conclusion on the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, disclosed in notes18(d) and 19 to the disclosure statement, is not, in all material respects:

i. prepared in accordance with the Bank's conditions of registration; and

ii. disclosed in accordance with Schedule 9 of the Order.

We have reviewed the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, as disclosed in notes 18(d) and 19 of the disclosure statement for the year ended 31 March 2021. The supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements comprises the information that is required to be disclosed in accordance with Schedule 9 of the Order.

Basis for conclusion on the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

A review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("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. Our responsibilities under that standard are further described in the Auditor's Responsibilities for the Review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements section of our report.

As the auditor of TSB Bank Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Responsibilities of Directors for the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

The directors are responsible for the preparation of supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements that is required to be disclosed under Schedule 9 of the Order and prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) and described in notes 18(d) and 19 to the disclosure statement.

Auditor's responsibilities for the review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

Our responsibility is to express a conclusion on the Capital Adequacy and Regulatory Liquidity Requirements based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity ("NZ SRE 2410") issued by the New Zealand External Reporting Board. As the auditor of TSB Bank Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and plan and perform the review to obtain limited assurance about whether the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements is, in all material respects:

- prepared in accordance with the Bank's conditions of registration; and
- disclosed in accordance with Schedule 9 of the Order.

A review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements 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 the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements disclosures.

Use of this independent auditor's report

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

The engagement partner on the audit resulting in this independent auditor's report is Brent Manning.

For and on behalf of

KPMG
Wellington

28 June 2021

Glossary of abbreviations

The following abbreviations are used throughout the report.

AT1	Additional Tier 1
CET1	Common Equity Tier 1
ECL	Expected credit loss
ED	Exposure at default
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
IRR	Interest Rate Risk
IDR	Issuer Default Rating
LVR	Loan-to-valuation ratio
LGD	Loss given default
NII	Net Interest Income
NZ IAS	New Zealand equivalent to International Accounting Standards
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
PD	Probability of default
RBNZ	Reserve Bank of New Zealand
RCD	Registered Certificate of Deposits
SICR	Significant increase in credit risk (SICR)
SPPI	Solely payments of principal and interest on the principal amount outstanding

Directory

Directors

J.J. (John) Kelly, Chair
M.I. (Murray) Bain, MCom (Hons), BSc, C.F.Inst.D, Deputy Chair
M.A. (Anne) Blackburn, MA, BA, C.F.Inst.D
N. (Natalie) Pearce, BCom
P.M. (Peter) Schuyt, BCom, C.F.Inst.D
D.J. (Dion) Tuuta
H.F. (Harvey) Dunlop, BCom (Ag)
P.S. (Peter) Dalziel, MBA, C.M.Inst.D
K.C. (Kevin) McDonald, MBA

Executive Management

D. (Donna) Cooper, B.Bus, MA Int Bus, CEO
R.G. (Roddy) Bennett, BSc, CA, GM Finance (retired effective 28 May 2021)
B.J. (Brendon) Roche, B.Com, Acting GM Finance
T. (Tracey) Berry, PGDPFP, GM Regulatory and Compliance Uplift Office
G. (Graeme) Scrivener, MA, BA(Hons), Chief Risk Officer
J.S. (Justine) St John, BCom, GM Marketing
L. (Liz) Maguire, BCom, Acting GM Technology
C. (Chris) Boggs, BCom, MBM, GM People & Culture
S. (Seán) Edwards, MBA, MHSc (Psych), GM Customer Solutions and Service
H. (Herman) Visagie, BCom, LLB, Chief of Staff
L. (Larissa) Vaughan, LLB (Hons), GM Regulatory Affairs and General Counsel

Registered Office

Level 5, TSB Centre, 120 Devon St East, New Plymouth, 4310

Auditor

KPMG
10 Customhouse Quay, Wellington

Contact Us

Postal Address: PO Box 240, Taranaki Mail Centre, New Plymouth, 4340
Phone Number: (06) 968 3700
Fax Number: (06) 968 3740
Web Address: https://www.tsb.co.nz/contact