Disclosure Statement

For the year ended 31 March 2022

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Disclosure Statement

For the year ended 31 March 2022

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 4310.

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 ("CA") 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	38,086
Dividends	(12,500)
Retained profit for the Year	25,586

Financial and Supplementary Disclosures

This Disclosure Statement is inclusive of the Bank’s audited financial statements for the year ended 31 March 2022. 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

The Board of the Bank believes there are no other material matters relating to the business or affairs of the Bank or the Banking group that are not contained elsewhere in this Disclosure Statement which would, if disclosed, materially affect the decision of a person to subscribe for debt securities of which the registered bank or any members of the Bank's banking group is the issuer.

General Information (continued)

Items Excluded by Shareholder Agreement

The Disclosure Statement has been prepared so as to include all information required to be disclosed under the Companies Act 1993 ("CA") except employee remuneration disclosed by band under section 211(1)(g) CA.

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 is 'A-' with stable outlook by Fitch ratings ("Fitch"). The credit rating is applicable to the Bank's long-term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

Following changes were made to the Bank's rating in the two years immediately before the signing date:

- On 29 July 2021, Fitch revised the Bank's outlook to stable, from negative, and affirmed the rating at 'A-'.
- On 19 Oct 2020, Fitch affirmed the Bank's rating at 'A-' and maintained the outlook at negative.

Fitch	Standard & Poor's	Moody's	AM Best	Descriptions of credit rating scales
AAA	AAA	Aaa	aaa	Extremely strong capacity to pay interest and repay principal in a timely manner. Highest rating.
AA	AA	Aa	aa	Very strong capacity to pay interest and repay principal in a timely manner.
A	A	A	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	BBB	Baa	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	BB	Ba	bb	Less vulnerable in the near term but 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	B	B	b	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	CCC	Caa	ccc	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 - C	CC - C	Ca	cc - c	Highest risk of default.
D	D	C		Obligations currently 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.

M.C. (Mark) Darrow, FCA, B Bus, CFInstD, JP Independent non-executive Director (Chair – Board of Directors) Primary occupation: Company Director	External Directorship: Armstrong No 3 Trustee Limited, Armstrong No 4 Trustee Limited, Armstrong No 5 Trustee Limited, Auckland Transport, BG & LM Stratford Limited, Inland Revenue Department, Invivo & Co Limited, Leighs Construction Holdings Limited, Leighs Construction Limited, MCD Capital Limited, Motor Trade Finance Limited, MTF Direct Limited, MTF Finance Limited, MTF Leasing Limited, MTF Limited, MTF Securities Limited, MTF Treasury Limited, MTFS Holdings Limited, Riverton Farm Limited, Stratford Dairies Limited, Tiverton Farm 2002 Limited, Tudor Park Trustees Limited.
M.I. (Murray) Bain, MCom (Hons), BSc, CFInstD, ONZM Independent non-executive Director (Deputy Chair - Board of Directors) Primary occupation: Company Director	External Directorship: Ara Institute Of Canterbury Limited, Central Region's Technical Advisory Services Limited, Designer Jewellery New Zealand Limited, ESA Publications (NZ) Limited, M.I. Bain & Associates Limited, Northern Institute of Technology, Northland Polytechnic Limited, Optimum Services Limited, Oryx Technologies Limited, Southern Institute Of Technology Limited.
M.A. (Anne) Blackburn, MA, BA, CFInstD Independent non-executive Director Primary occupation: Company Director	External Directorship: Annuitas Management Limited, Fisher Funds Management Limited, Government Superannuation Fund Authority, Ponga Silva Limited, Resolution Life New Zealand Limited, Ten Gracie Square Limited.
P.S. (Peter) Dalziel, MBA**,** CMInstD Non-executive Director Primary occupation: Company Director	External Directorship: Barberry Hill Farm Ltd, Dolly's Milk Limited, PS & ME Dalziel Partnership, Raw Drinking Milk Association NZ, Stratford District Council, Toi Foundation.
H.F. (Harvey) Dunlop, BCom (Ag) Non-executive Director Primary occupation: Company Director	External Directorship: Green School New Zealand Advisory Board, H & K Dunlop Family Trust, Renaissance Holdings Limited, Taradise Holdings 2004 Limited, Taradise Holdings 2006 Limited, Taradise Property Management Limited, Toi Foundation, Toi Foundation Holdings Limited.
K.C. (Kevin) McDonald, MBA Independent non-executive Director Primary occupation: Company Director	External Directorship: Macca's Fam Bam Family Trust, Power Group Holdings Limited.
N. (Natalie) Pearce, BCom Independent non-executive Director Primary occupation: Company Director	External Directorship: Home of the Brave, Tax Management New Zealand Limited, The Sutherland Paget Family Trust, Onethousandblooms.co.nz.
M. (Michael) Schubert, Bcom Independent non-executive Director Primary occupation: Company Director	External Directorship: Auditor Oversight Committee of the FMA, Mimomax Wireless Limited, Procare Health Trust, Procare Network Limited, Silver Fern Farms Holdings Limited, Silver Fern Farms Joint Ventures Limited, Silver Fern Farms Limited, Whakarongorau Aotearoa New Zealand Telehealth Services (GP) Limited.
D.J. (Dion) Tuuta Independent non-executive Director Primary occupation: Company Director	External Directorship: Brougham Court Apartments Limited, Parininihi ki Waitotara Incorporation, Parininihi ki Waitotara Trust, Te Kotahitanga o Te Atiawa Trust, Tuuta Waetford Tapui Limited.

Changes in Board of Directors

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 2021.

- Michael Schubert was appointed as a Director of the Bank effective 6 August 2021 and became Chair of the Audit Committee on 31 August 2021.
- Peter Schuyt resigned as a Director and Chair of Audit Committee on 31 August 2021.
- John Kelly retired as a Director and Chair of the Board on 18 March 2022.
- Mark Darrow was appointed as a Director on 1 February 2022 and became Chair of the Board on 18 March 2022.

Directorate (continued)

Board Audit Committee

There is a Board Audit Committee that covers audit matters. As at the reporting date, the Committee is comprised of four Board members (three independent non-executive Directors and one non-executive Director).

Communication to Directors

Any communications addressed to the Directors may be sent to the address below.
TSB Bank Limited
PO Box 240
New Plymouth 4310

Policy on Directors' Conflicts of Interest

Directors maintain personal banking relationships with the Bank and these are undertaken fulfilling normal bank criteria. Pursuant to the Bank's Board Charter, 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 unless the other Directors have passed a resolution approving the Director's presence and/ or vote because they are satisfied that the interest should not disqualify the Director. The Bank complies with all the requirements of the Companies Act in terms of registers and notices for Directors' conflict of interest.

There were no entries in the interests register made during the year ended 31 March 2022. This includes 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.

Directors Fees

Directors Fees received by the Directors for the year ended 31 March 2022.

In NZD	Board Fee	Audit Committee	Risk Committee	People, Culture and Capability Committee	Total
Name of Director					
M.C. Darrow	(Chair) 19,913	-	-	-	19,913
J.J. Kelly (retired 18 March 2022)	(Retired Chair) 180,000	-	-	-	180,000
M.I. Bain	(Deputy Chair) 97,800	7,140	(Chair) 15,000	7,140	127,080
M.A. Blackburn	82,000	7,140	7,140	-	96,280
P.S. Dalziel	82,000	7,140	-	7,140	96,280
H.F. Dunlop	82,000	-	7,140	-	89,140
K. McDonald	82,000	-	7,140	7,140	96,280
N. Pearce	82,000	-	-	(Chair) 15,000	97,000
M. Schubert	54,667	(Chair) 10,000	4,760	-	69,427
D.J. Tuuta	82,000	-	-	7,140	89,140
P.M. Schuyt (resigned 31 August 2021)	37,406	3,421	3,421	-	44,248
Total	**881,786**	**34,841**	**44,601**	**43,560**	**1,004,788**

The fee schedule above excludes a total payment of $30k that relates to prior periods.

Fees paid to Directors of the Bank for the year totalled $1,034,788 (2021: $827,769).

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.

Disclosure Statement

For the year ended 31 March 2022

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 2022:

(a) The Bank has complied in all material respects with each Condition 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 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.

M.C. Darrow
(Chair – Board of Directors)
09 June 2022

M.I. Bain
(Deputy Chair- Board of Directors)
09 June 2022

M.A. Blackburn
09 June 2022

P.S. Dalziel
09 June 2022

H.F. Dunlop
09 June 2022

K.C. McDonald
09 June 2022

N. Pearce
09 June 2022

M. Schubert
09 June 2022

D.J. Tuuta
09 June 2022

All in $000's

Historical Summary of Financial Statements

	2022	2021	2020	2019	2018
Financial Performance					
Total Interest income	229,678	255,961	307,137	312,614	296,270
Interest expense	67,885	112,328	164,549	174,591	169,465
Net interest income	**161,793**	**143,633**	**142,588**	**138,023**	**126,805**
Other income	19,778	18,269	21,909	23,746	36,518
Net operating income	**181,571**	**161,902**	**164,497**	**161,769**	**163,323**
Operating expenses *	136,181	114,554	102,678	94,955	87,340
Impairment losses / (reversal of impairment losses)	(8,123)	(2,202)	20,362	4,236	3,918
Profit before tax	**53,513**	**49,550**	**41,457**	**62,578**	**72,065**
Tax expense *	15,427	13,914	10,640	17,539	20,192
Net profit attributable to shareholder	**38,086**	**35,636**	**30,817**	**45,039**	**51,873**
Dividend	12,500	-	2,500	10,000	20,000
Retained profit for the year	**25,586**	**35,636**	**28,317**	**35,039**	**31,873**
Financial Position					
Total assets *	8,960,480	8,778,474	8,179,275	7,819,045	7,416,277
Total impaired assets - loans and advances	16,728	23,312	17,637	3,814	4,400
Deposits	8,180,220	7,998,505	7,420,524	7,093,017	6,740,890
Total liabilities	8,237,220	8,067,566	7,499,323	7,165,920	6,803,262
Shareholder's Equity					
Retained profit for the year *	25,586	35,636	28,317	35,039	31,873
Total shareholder's equity	723,260	710,908	679,952	653,125	613,015
Performance					
Return on average shareholder's equity	5.3%	5.1%	4.6%	7.1%	8.6%
Return on average total assets	0.4%	0.4%	0.4%	0.6%	0.7%
Growth in total assets	2.1%	7.3%	4.6%	5.4%	9.0%
Growth in depositors' funds	2.3%	7.8%	4.6%	5.2%	9.5%
Residential lending	5,852,327	5,481,169	5,222,565	4,844,453	4,389,811
Total lending	6,667,219	6,338,291	6,126,597	5,792,049	5,309,357
Operating expenses to net operating income	75%	71%	62%	59%	53%
Prudential					
Shareholder's equity as a % of total assets	8.07%	8.10%	8.31%	8.35%	8.27%
Common equity Tier 1 capital ratio	13.54%	14.47%	13.88%	14.57%	14.28%
Total capital	13.54%	14.47%	13.88%	14.57%	14.28%

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.

* Comparative information and performance indicators for the year ended 31 March 2021 have been restated to reflect the change in accounting policy applied retrospectively. Refer to note 1(i). Changes in accounting policy for further information.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2022

All in $000's

Statement of Profit or Loss:

	Note	2022	2021
Interest income calculated using the effective interest method		229,678	255,961
Interest expense		67,885	112,328
Net interest income	2	**161,793**	**143,633**
Other operating income	3	19,778	18,269
Net operating income		**181,571**	**161,902**
Operating expenses *	1(i), 4	136,181	114,554
Profit before credit impairment and tax		**45,390**	**47,348**
Credit impairment losses / (reversal of credit impairment losses)	16(f)	(8,123)	(2,202)
Profit before tax		**53,513**	**49,550**
Tax expense *	1(i), 5	15,427	13,914
Net profit after tax		**38,086**	**35,636**

Statement of Other Comprehensive Income:

Items that may be reclassified subsequently to profit or loss:

	Note	2022	2021
Movement in fair value reserve (debt instruments)		(79,099)	371
Movement in effective portion of changes in fair value of cash flow hedges		60,717	3,545
Income tax on items that may be reclassified to profit or loss	5	5,148	(1,097)
Other comprehensive income for the year (net of tax)		**(13,234)**	**2,819**
Total comprehensive income for the year		**24,852**	**38,455**

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

* Comparative information have been restated to reflect the change in accounting policy applied retrospectively. Refer to note 1(i). Changes in accounting policy for further information.

These financial statements are to be read in conjunction with the notes on pages 13 - 64.

Statement of Changes in Equity

For the year ended 31 March 2022

All in $000's

For the year ended March 2022	Note	Share capital	Fair value reserve	Cash flow hedge reserve	Retained earnings	Total Equity
Balance at 1 April 2021		**10,000**	**11,141**	**1,233**	**688,534**	**710,908**
Total comprehensive income for the period:						
Net profit after tax		-	-	-	38,086	38,086
Other comprehensive income:						
Movement in cash flow hedge reserve		-	-	60,717	-	60,717
Movement in fair value reserve		-	(79,099)	-	-	(79,099)
Related tax			22,148	(17,000)	-	5,148
Total other comprehensive income	14	-	(56,951)	43,717	-	(13,234)
Total comprehensive income for the period		**-**	**(56,951)**	**43,717**	**38,086**	**24,852**
Transactions with owner, recorded directly in equity:						
Dividends to equity holder	13	-	-	-	(12,500)	(12,500)
Total transactions with owner		**-**	**-**	**-**	**(12,500)**	**(12,500)**
Balance at 31 March 2022		**10,000**	**(45,810)**	**44,950**	**714,120**	**723,260**

For the year ended March 2021	Note	Share capital	Fair value reserve	Cash flow hedge reserve	Retained earnings	Total Equity
Balance at 31 March 2020		**10,000**	**10,874**	**(1,319)**	**660,397**	**679,952**
Balance adjusted due to SaaS write-off *	1(i)				(7,499)	(7,499)
Adjusted balance at 1 April 2021		**10,000**	**10,874**	**(1,319)**	**652,898**	**672,453**
Total comprehensive income for the period						
Net profit after tax		-	-	-	35,636	35,636
Other comprehensive income:						
Movement in cash flow hedge reverse		-	-	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**	**35,636**	**38,455**
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**	**688,534**	**710,908**

* Refer to note 1(i). Changes in accounting policy for further information.

These financial statements are to be read in conjunction with the notes on pages 13 - 64.

Statement of Financial Position

As at 31 March 2022

All in $000's

	Note	2022	2021
Assets			
Cash and cash equivalents		714,196	438,240
Derivative financial instruments	9	65,477	10,724
Investment securities	8	1,459,342	1,938,774
Loans and advances to customers [1]	7	6,667,219	6,338,291
Property, plant and equipment		32,386	33,484
Intangible assets [2]	1(i)	1,310	1,444
Deferred tax asset [2]	1(i), 5	18,306	15,281
Other assets		2,244	2,236
Total assets		**8,960,480**	**8,778,474**
Liabilities			
Deposits	10	8,180,220	7,998,505
Derivative financial instruments	9	5,970	9,605
Current tax liability		1,510	2,696
Other liabilities [1]	11	49,520	56,760
Total liabilities		**8,237,220**	**8,067,566**
Shareholder's Equity			
Share capital	13	10,000	10,000
Fair value reserve	14	(45,810)	11,141
Cash flow hedge reserve	14	44,950	1,233
Retained earnings	1(i)	714,120	688,534
Total shareholder's equity		**723,260**	**710,908**
Total liabilities and shareholder's equity		**8,960,480**	**8,778,474**
Total interest earning and discount bearing assets		8,831,423	8,713,967
Total interest and discount bearing liabilities		7,413,203	7,330,948

[1] Comparatives have been restated to ensure consistency with presentation in the current period. Refer to note 1(d). Comparative information for further information.

[2] Comparative information have been restated to reflect the change in accounting policy applied retrospectively. Refer to note 1(i). Changes in accounting policy for further information.

For and on behalf of the Board of Directors:

M.C. Darrow
(Chair - Board of Directors)
09 June 2022

Murray Bain

M.I. Bain
(Deputy Chair - Board of Directors)
09 June 2022

These financial statements are to be read in conjunction with the notes on pages 13 - 64.

Statement of Cash Flows

For the year ended 31 March 2022

All in $000's

	Note	2022	2021
Cash Flows from Operating Activities			
Cash provided from (applied to):			
Interest income received		226,438	259,697
Other income received		19,770	18,475
Interest paid		(70,527)	(121,074)
Operating expenditure *	1(i)	(139,338)	(106,644)
Taxes and subvention payments		(14,492)	(17,630)
Cash flows from operating profits before changes in operating assets and liabilities		**21,851**	**32,824**
Net changes in operating assets and liabilities:			
Increase in loans and advances to customers		(313,351)	(184,898)
Derivative financial instruments		2,330	(1,431)
Increase in deposits		184,930	558,527
Cash flows from operating assets and liabilities		**(126,091)**	**372,198**
Net cash flows from operating activities	6	**(104,240)**	**405,022**
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		399,129	(198,359)
Property, plant and equipment purchased		(3,137)	(2,967)
Intangible assets purchased *	1(i)	(247)	(1,003)
Net cash flows from investing activities		**395,745**	**(196,429)**
Cash Flows from Financing Activities			
Cash provided from (applied to):			
Dividends paid		(12,500)	-
Lease payments		(3,049)	(2,941)
Net cash flows from financing activities		**(15,549)**	**(2,941)**
Net increase in cash and cash equivalents		**275,956**	**205,652**
Add cash and cash equivalents at beginning of the year		438,240	232,588
Cash and cash equivalents at end of year		**714,196**	**438,240**

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

Cash and cash at bank	21,154	24,247
Balances with Reserve Bank	693,042	413,993
Total cash and cash equivalents at end of Year	**714,196**	**438,240**

* Comparative information have been restated to reflect the change in accounting policy applied retrospectively. Refer to note 1(i). Changes in accounting policy for further information.

These financial statements are to be read in conjunction with the notes on pages 13 - 64.

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 9 June 2022.

(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 information

To ensure consistency with presentation in the current period, comparative figures have been restated in following notes.

- Note 4. Operating Expenses and 5. Taxation - Comparatives have been restated following the retrospective application of the change in accounting policy disclosed within note 1(i).
- Note 7. Loans and Advances to Customers - Provision for doubtful debts no longer includes the loss allowance for lending commitments, details of which are presented in note 11. Other Liabilities.
- Note 16. Credit Risk Management and Asset Quality - Maximum credit exposures are updated to include lending commitments and the changes in loss allowance for lending commitments are separately disclosed from those for on-balance sheet exposures (refer to note 22. Commitments and Contingent Liabilities).
- Note 18(b). Contractual Cash flows - cash inflows from the interest rate swaps have been included.
- Note 22. Commitments and Contingent liabilities - Lending commitments are reported net of loss allowance.

(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 statement of comprehensive income.

(g) 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:

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

(g) Financial instruments (continued)

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.

Solely payments of principal and interest on the principal amount outstanding ("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 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 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.

  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. Investment Securities 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.

Financial liabilities

- In accordance with NZ IFRS 9, the Bank records all financial liabilities initially at their fair value plus or minus 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)

(h) Other assets

Other assets includes accounts receivables and prepayments.

(i) Changes in accounting policy

In April 2021, the IFRS Interpretation Committee ("IFRIC") issued a final agenda decision on *Configuration or Customisation Costs in a Cloud Computing Arrangement*. The decision provides additional guidance on the accounting treatment for configuration or customisation expenditure relating to arrangements in respect of the specific cloud computing arrangement involving a service contract, referred to as Software-as-a-Service ("SaaS").

The Bank has assessed the impact of the IFRIC decision and consequently revised its accounting policy to expense the SaaS arrangements which do not meet the identifiability and control criteria set out in *NZ IAS 38 Intangible Assets*. The costs undertaken in implementing these arrangements are also expensed unless they give rise to a separate intangible asset under NZ *IAS 38 Intangible Assets.*

The change in accounting policy has been applied retrospectively and impacted both the current and prior period presented as follows:

Financial statement item	2022	2021	2020
Statement of Financial Position			
Decrease in intangible assets	(7,980)	(10,079)	(10,415)
Increase in deferred tax assets	2,234	2,822	2,916
Decrease in retained earnings	-	(7,257)	(7,499)
Statement of comprehensive income			
Increase in operating expenses	7,980	10,079	-
Decrease in tax expense	(2,234)	(2,822)	-
Decrease in net profit after tax	(5,746)	(7,257)	-
Statement of cashflows			
Decrease in net cash flows from operating activities	(7,980)	(10,079)	-
Increase in net cash flows from investing activities	7,980	10,079	-

(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

As New Zealand has moved its COVID-19 management strategy from eradication to endemic COVID the impact of Coronavirus pandemic ("COVID-19") remains uncertain and poses 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. The Bank's accounting policy for the recognition and measurement of the allowance for ECL is set out in note 16. Credit Risk Management and Asset Quality of the Bank's annual financial statements for the year ended 31 March 2022.

The table below shows the Bank's allowance for ECL on loans and advances to customers and credit related lending commitments.

	2022 $m	2021 $m
Collectively assessed	30.2	37.0
Individually assessed	5.8	7.3
Total	**36.0**	**44.3**

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

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

Individually assessed (loans and advances to customers and lending commitments)
For the year ended March 2022, the individually assessed allowance for ECL decreased by $1.5m compared to 31 March 2021. In estimating individually assessed ECL for Stage 3 exposures, the Bank 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 (loans and advances to customers and lending commitments)
For the year ended March 2022, the collectively assessed allowance for expected credit loss decreased by $6.8m.

In estimating collectively assessed ECL, the Bank makes judgements and assumptions in relation to:
- the development of a modelling methodology, noting that the modelling of the Bank's ECL estimates is complex; and
- the selection of inputs for those models, and the interdependencies between those inputs.

There is uncertainty around the ongoing impact of COVID-19 on the New Zealand economy and how consumers, businesses and governments will respond. As New Zealand Government's strategy of dealing with COVID moves from eradication to endemic COVID the risks from the pandemic are evolving. During eradication strategy many businesses had to change their operating models and those which could not adopt remote working models had to shut their doors; under the endemic COVID strategy even those businesses which could adopt a remote working model could face severe disruptions to their operations due to high rates of staff absenteeism. Furthermore, the government support that was available to businesses whose operations were impacted by the lockdowns have been removed under endemic COVID. All of this could have an impact of populations spending habits and other secondary and tertiary economic effects. This uncertainty is incorporated in the Bank's assessment of ECL from its credit portfolio which is subject to a number of management judgements and estimates.

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 2022
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 on SICR: In response to COVID-19, New Zealand and other governments around the world have implemented severe travel restrictions on individuals and operational restrictions on businesses. Over the last quarter New Zealand government has gradually relaxed these restrictions and changed its COVID-19 management approach from eradication to containment. However, there remains a considerable amount of uncertainty around the medium and long term economic impacts of prior and ongoing restrictions with various sectors of the economy being impacted differently. For its non-residential portfolio, the Bank has reviewed the publicly available information about the potential impact of COVID management strategy, as well as direct feedback from its customers, to shortlist certain industries that will be the most impacted by the restrictions. The impacted industries have been deemed to continue to experience a SICR event and have been moved into the lifetime credit loss calculation methodology. The Bank will continue to regularly evaluate industry prospects and will make appropriate adjustments to industry classifications as and when deemed appropriate.
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.	The Bank 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, the Bank'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.	The Bank implemented a temporary model overlay to address some input data and modelling technique shortcomings which rendered the Bank unable to capture all the risk factors relevant to the lending portfolio. As the Bank 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. The Bank has elected to use a 100% base and 0% downside scenario in determining its ECL (31 March 2021: 60%/40%). 100% base scenario was chosen as Management updated economic base scenario using August 2021 financial and economic forecasts and believes that any further downside impact is adequately captured by the COVID-19 overlays discussed above. Management retested economic scenario probabilities based on February 2022 economic forecasts and found that 100% base scenario weighting is appropriate. Furthermore, Management monitored any economic developments since then for significant changes that might impact the appropriateness of 100% base scenario weighting,

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

	31 March 2022		31 March 2021	
	100 % base and 0% downside		60 % base and 40% downside	
ECL sensitivity - weightings applied to forecast scenarios	Total ECL $m	Impact $m	Total ECL $m	Impact $m
100% base scenario	30.2	-	28.8	(8.1)
60% base scenario/40% downside scenario	34.2	4.0	36.9	-
100% downside scenario	40.2	10.0	49.0	12.1

(k) Change in accounting estimates

During the reporting period, the Bank conducted the review of lending deferred acquisition cost and its related amortisation over the behavioural life of the loan. As a result, a new calculation methodology was reviewed and adopted to evenly distribute the amortisation cost over the behavioural life of the loan. This has resulted in an increase in interest income and other lending balance by $0.7m for the year.

The change in estimate does not affect the historical book values but the subsequent periods as shown in the table below:

	Note	2023 $m	2024 $m	2025 $m
Increase/ (decrease) in interest income from loans and advances due to amortisation of deferred acquisition cost	2	1.2	1.2	1.0

(l) 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.

In October 2021, the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill was passed and consequently, the External Reporting Board ("XRB") has a mandate to issue climate standards as part of a climate-related disclosures framework, and guidance on environmental, social and governance matters. The XRB is in the process of drafting the climate-related disclosure framework, expected to consist of:

- Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1) - it is expected to be issued in December 2022;
- Aotearoa New Zealand Climate Standard 2: Adoption of Climate-related Disclosures (NZ CS 2): The XRB has indicated that NZ CS 2 will offer various provisions for climate reporting entities when the new standards are required to be applied for the first time, including phased adoption, relief from providing comparative information, and practical expedients; and
- Aotearoa New Zealand Climate-related Disclosures Concepts (NZ CRDC): this is an authoritative notice containing climate-related disclosure concepts.

Once the XRB issues its first climate standard, the new requirements will apply to the Bank from the accounting period beginning on or after 1 April 2023 if the XRB's expected timeline stands.

Management have considered amendments to NZ IFRS which became relevant for the Bank for the first time during the year ended 31 March 2022 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). Credit risk assessment and measurement for further information), or to the amortised cost of a financial liability.

When calculating the 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**	**2022**	**2021**
Cash and cash equivalents	Amortised cost	2,269	809
Loans and advances to customers [1]	Amortised Cost	199,891	224,039
Investment securities	FVOCI	27,518	31,113
Total interest income		**229,678**	**255,961**
Interest expense	**Financial liabilities measured at**		
Deposits from customers [2]	Amortised cost	66,922	111,337
Wholesale deposits	Amortised cost	390	385
Lease liability	Amortised cost	573	606
Total interest expense		**67,885**	**112,328**
Net interest income		**161,793**	**143,633**

[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 periodic 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. The Bank sold its real estate arm, TSB Real Estate, in October 2020.	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.

	2022	2021
Fee income		
Account and card services	8,880	8,605
Foreign exchange services	1,815	1,473
Fund and insurance products distribution	3,615	3,416
Real estate services	-	400
Total fee income	14,310	13,894
Gains / losses on financial instruments		
Gains / (losses) on derivative financial instruments at fair value	-	65
Cumulative gains / (losses) transferred from fair value reserve (designated at FVOCI) *	881	1,491
Total other gains / losses	881	1,556
Other income		
Gains / (losses) on sale of fixed assets	1,722	353
Sundry income	2,865	2,466
Total other operating income	**19,778**	**18,269**

* Includes the recovery of $0.28m (2021: $0.75m) from Solid Energy (SENZ).

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.

	2022	2021
Fees paid to auditor:		
Audit and review of financial statements [1]	380	426
Other assurance services [2]	181	18
Other services [3]	230	89
Total fees paid to auditor	791	533
Depreciation	6,424	6,054
Amortisation of intangible assets [4]	382	755
Directors' fees	1,035	828
Personnel	57,297	45,135
Defined contribution plan	1,605	1,722
Information technology [4]	26,091	27,576
Premises occupancy	3,366	2,352
Marketing	9,286	7,370
Debit / Credit card expenses [5]	9,602	8,042
Professional and legal fees	7,894	7,406
Other [6]	12,408	6,781
Total operating expenses	**136,181**	**114,554**

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

[2] Other assurance services include independent assessment of fees and charges compliance.

[3] Other services include Regulatory Advisory principally related to AML/CFT reporting obligations and specific IT system risk assessment

[4] An increase in information technology expense and a reduction in amortisation of intangible assets reflect the IFRIC agenda decision regarding the treatment of costs associated with SaaS arrangements (refer to note 1(i). Changes in accounting policy for further information).

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

[6] Others include the donations of $6.8k (2021: $0.6k).

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	**2022**	**2021**
Net profit before tax	53,513	49,550
Tax at 28%	14,984	13,874
Adjustments to prima facie tax	443	40
Tax expense	**15,427**	**13,914**
Income tax recognised in profit or loss		
Current tax expense:		
Current year	10,552	14,403
Prior period adjustments	279	323
Deferred tax expense:		
Current year	4,877	(489)
Prior Period Adjustments	(281)	(323)
Income tax expense	**15,427**	**13,914**
Deferred tax recognised in profit or loss		
Depreciation	50	466
Amortisation of intangibles	976	(755)
Provision for impairment losses	(2,316)	(967)
Derivative financial instruments	-	(72)
Other temporary differences*	(833)	(682)
Total deferred tax recognised in profit or loss	**(2,123)**	**(2,010)**
Income tax recognised in other comprehensive income		
Deferred tax expense:		
Cash flow hedge reserve	(17,000)	(993)
Fair value reserve	22,148	(104)
Total deferred tax recognised in other comprehensive income	**5,148**	**(1,097)**

* Other temporary differences reflect adjustments for employee benefits.

All in $000's

5. Taxation (continued)

	Note	2022	2021
Deferred tax:			
Balance at beginning of year		15,281	15,566
Balance adjusted for SaaS write-offs	1(i)	-	2,822
Adjusted Balance at beginning of year		15,281	18,388
Deferred tax recognised in profit or loss		(2,123)	(2,010)
Deferred tax recognised in equity		5,148	(1,097)
Balance at end of year		**18,306**	**15,281**
Deferred tax relates to:			
Property, plant, and equipment		505	455
Amortisation of intangibles		5,444	4,468
Provision for impairment losses		10,080	12,396
Fair value adjustments for derivative financial instruments		(17,480)	(480)
Fair value movements on investment securities		17,815	(4,333)
Other temporary differences *		1,942	2,775
Total deferred tax asset		**18,306**	**15,281**

* Other temporary differences reflect adjustments for employee benefits.

The imputation credits available to carry forward and utilise in future periods are $307.5m (2021: $302.2m).

Goods and services tax

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. 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	2022	2021
Net profit after tax	**38,086**	**35,636**
Add movements in statement of financial position Items:		
Accounts payable	(6,952)	(2,691)
Current tax	(1,186)	(2,904)
Deposits from customers	181,715	549,780
Deferred tax asset	(3,617)	2,010
Accounts receivable	1,123	3,942
Lease liability	(288)	-
Derivative financial instruments	2,330	(1,431)
Loans and advances to customers	(314,134)	(185,598)
	(141,009)	**363,108**
Add non - cash items:		
Amortisation of intangible assets	382	1,726
Depreciation	6,424	6,054
Credit Impairment losses / (gains)	(8,123)	(1,502)
	(1,317)	**6,278**
Net cash flows from operating activities	**(104,240)**	**405,022**

All in $000's

Financial Position

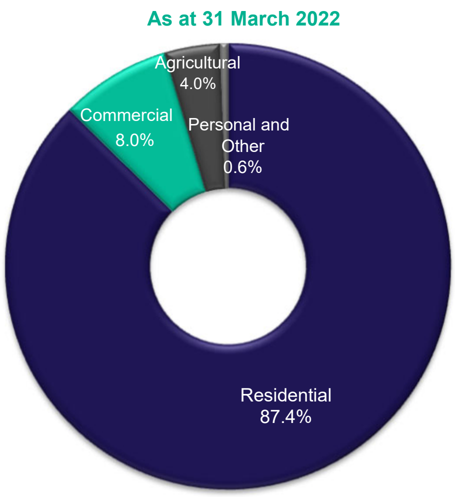
7. Loans and Advances to Customers

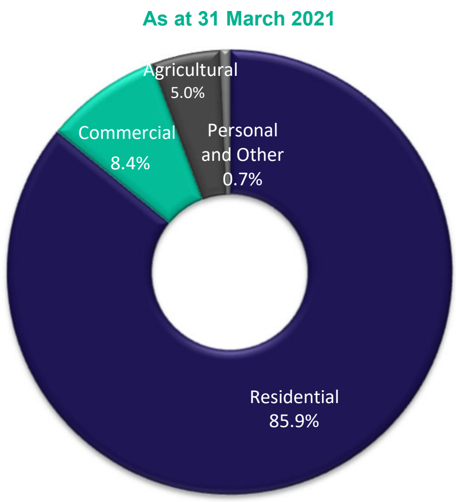
This covers all forms of lending to customers, and include mortgages, overdrafts, personal loans and credit card balances. Loans and advances to customers are recognised in the statement of financial position when cash is advanced to the customer and subsequently measured at amortised cost less allowance 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	2022	2021
Residential	19(d)	5,852,327	5,481,169
Commercial *		537,771	536,063
Agricultural		268,075	316,367
Personal		20,866	27,602
Others		21,173	16,791
Total gross loans and advances to customers		**6,700,212**	**6,377,992**
Less provision for doubtful debts	16(g)	(32,993)	(39,701)
Total loans and advances to customers		**6,667,219**	**6,338,291**

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

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





- Residential — Residential mortgages include owner-occupied housing and the lending for the purpose of investment in residential property. Residential mortgages comprise 87.4% (2021: 85.9%) of the total loan portfolio and they are secured by a first mortgage over freehold dwellings.
- Commercial — Include business loans and commercial property lending that are secured by residential or commercial properties.
- Agricultural — Agricultural loans that are secured by agricultural properties.
- Personal — Personal is inclusive of other retail lending and credit card balances.
- Others — Include lending accruals and deferred acquisition costs.

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.

Changes in fair value are recognised in other comprehensive income ("OCI"), except for interest income, impairment, and foreign exchange gains or losses, if any. Interest, premiums and discounts are amortised through interest income in the profit or loss using the effective interest method. Impairment is measured using the ECL model and is charged to the profit or loss with the corresponding amount in OCI with no reduction of the carrying value of the investment securities in accordance with NZ IFRS 7 (refer to note 16. Credit Risk Management and Asset Quality for further information on provision for credit impairment). The cumulative gain or loss recognised in OCI is transferred to the profit or loss and reported under other income when the instrument is derecognised.

All in $000's

8. Investment Securities (continued)

	2022	2021
Local authority securities	120,599	197,827
Government securities and Government-guaranteed securities	311,918	506,637
Registered bank securities	313,681	396,864
Multilateral development banks and other international organisations	455,225	511,954
Other investments securities*	257,919	325,492
Total investment securities	**1,459,342**	**1,938,774**

* Other investment securities relate to debt securities in utility companies, state enterprises, and other 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 2022 in relation to the interest rate swaps (2021: 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.

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

	As At 31 Mar 2022			As At 31 Mar 2021		
	Notional Amount	Fair Values Assets	Fair Values Liabilities	Notional Amount	Fair Values Assets	Fair Values Liabilities
Interest rate swaps						
Derivatives held as cash flow hedges	2,804,000	65,477	5,970	1,761,000	10,724	9,605
Total derivative financial instruments	**2,804,000**	**65,477**	**5,970**	**1,761,000**	**10,724**	**9,605**

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 2022	3 months or less	3 to 12 months	1 to 5 years	Over 5 years	Total
Interest rate swaps					
Pay fixed	100,000	475,000	1,954,000	-	**2,529,000**
Average fixed interest rate paid	0.40%	0.81%	1.63%	0.00%	1.42%
Receive fixed	-	85,000	190,000	-	**275,000**
Average fixed interest rate received	0.00%	2.66%	2.09%	0.00%	2.26%
Total notional amount	**100,000**	**560,000**	**2,144,000**	**-**	**2,804,000**

All in $000's

10. Deposits

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

	2022	2021
Retail term deposits *	3,452,075	3,634,927
On call deposits bearing interest*	3,901,158	3,645,708
On call deposits not bearing interest	782,063	682,890
Wholesale deposits bearing interest	44,924	34,980
Total deposits	**8,180,220**	**7,998,505**

* Includes deposits from related parties. Refer to note 21. Related Party Transactions and Balances for further information.

Concentrations of funding

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

	2022	2021
Retail deposits		
Taranaki	3,737,985	3,610,154
Rest of New Zealand	4,245,499	4,176,488
Outside New Zealand	196,736	211,863
Total funding by geographic region	**8,180,220**	**7,998,505**
Government and public authorities	4,082	26,485
Finance (wholesale deposits)	44,924	34,980
Households	7,937,736	7,743,562
Community	72,670	72,670
Commercial	120,808	120,808
Total funding by industry sector	**8,180,220**	**7,998,505**

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.

	2022	2021
Employee entitlements	6,442	7,355
Trade and other payables	18,190	29,499
Lease liabilities	15,046	15,334
Other provisions*	8,009	4,572
Other non-financial liabilities	1,833	-
Total other liabilities	**49,520**	**56,760**

* Included are $3.01m (2021: $4.57m) of provision for the loss allowance on undrawn commitment which can be separately identified from the financial instrument component (refer to note 16. Credit Risk Management and Asset Quality for further information).

All creditors and depositors are ranked equally.

All in $000's

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 2022	Note	At amortised cost	At FVOCI	AT FVPL	Fair value - hedging instruments	Total carrying amount	Fair value
Financial assets:							
Cash and cash equivalents		714,196	-	-	-	714,196	714,196
Derivative financial instruments	9	-	-	-	65,477	65,477	65,477
Investment securities	8	-	1,459,342	-	-	1,459,342	1,459,342
Loans and advances to customers	7	6,667,219	-	-	-	6,667,219	6,589,684
Other assets		2,244	-	-	-	2,244	2,244
Total financial assets		**7,383,659**	**1,459,342**	**-**	**65,477**	**8,908,478**	**8,830,943**
Financial liabilities:							
Deposits	10	8,180,220	-	-	-	8,180,220	8,178,203
Derivative financial instruments	9	-	-	-	5,970	5,970	5,970
Other liabilities		47,687	-	-	-	47,687	47,687
Total financial liabilities		**8,227,907**	**-**	**-**	**5,970**	**8,233,877**	**8,231,860**
As At 31 March 2021							
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	6,338,291	-	-	-	6,338,291	6,360,894
Other assets		2,236	-	-	-	2,236	2,236
Total financial assets		**6,778,767**	**1,938,774**	**-**	**10,724**	**8,728,265**	**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**

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 2022	Note	Level 1	Level 2	Level 3	Total
Financial assets:					
Derivative financial instruments		-	65,477	-	65,477
Investment securities *	8	163,727	1,295,615	-	1,459,342
Total financial assets measured at fair value		**163,727**	**1,361,092**	**-**	**1,524,819**
Financial liabilities:					
Derivative financial instruments		-	5,970	-	5,970
Total financial liabilities measured at fair value		**-**	**5,970**	**-**	**5,970**
As At 31 March 2021					
Financial assets:					
Derivative financial instruments		-	10,724	-	10,724
Investment securities *	8	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**

* Included in Level 1 are New Zealand Government securities.

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).

Share capital:	Note	2022	2021
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		688,534	660,397
Net profit after taxation (NPAT)		38,086	35,636
Balance adjusted for SaaS write-offs	1(i)	-	(7,499)
Retained earnings after NPAT		726,620	688,534
Dividends		(12,500)	-
Retained earnings at end of period		**714,120**	**688,534**

	31 Mar 2022		31 Mar 2021	
Dividend	$000	$ per share	$000	$ per share
Paid to Toi Foundation Holdings Limited	12,500	0.625	-	-
Total	**12,500**	**0.625**	**-**	**-**

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	2022	2021
Opening balance		1,233	(1,319)
Change in fair value of hedging instrument recognised in OCI for the year (effective portion)		60,717	3,610
Cumulative (gain) / loss transferred to the profit or loss	3	-	(65)
Related tax		(17,000)	(993)
Movement in cash flow hedge reserve		43,717	2,552
Closing balance		**44,950**	**1,233**
Fair value reserve			
Opening balance		11,141	10,874
Gross changes in fair value		(78,218)	1,862
Cumulative (gain) / loss transferred to the profit or loss	3	(881)	(1,491)
Related tax		22,148	(104)
Movement in fair value reserve		(56,951)	267
Closing balance		**(45,810)**	**11,141**

Risk Management and Capital Adequacy

15. Risk Governance

The Board of Directors has overall responsibility for ensuring that Management establishes a framework for assessing material risks and sets up a method for monitoring compliance with internal risk management policies. The Bank is committed to the appropriate management of all material risks arising from its activities, in accordance with the stated risk appetite approved by the Board of Directors.

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, the Bank has previously disclosed the need to deliver improvements in its risk management policies and processes, including the control environment, monitoring, reporting and assurance around material risks. Progress on that risk uplift work has continued unabated notwithstanding significant operational challenges presented by COVID over the last 12 months. Key focus areas include, uplifting internal policies and standards, refining risk governance practices, strengthening compliance programmes, creation and/or enhancement of obligation and control registers, reinforcing risk culture aligned to the three lines of accountability model, and embedding the operating model supporting the risk department following a restructure and expansion last year. The Bank has also undertaken a reassessment of five of its Bank Top Risks, and where these are out of appetite has developed a pathway to bring them within appetite. The Bank remains committed to taking appropriate steps to continue maturing its risk environment and this is reinforced by its business plan.

The Bank has identified a need for improved technology and data governance management policies and processes, including the control environment. While that technology and data governance environment matures there is a higher degree of uncertainty regarding any unknown risks than would be the case in a fully mature technology and data risk environment. The Bank is committed to taking appropriate steps to mature the technology and data risk environment as soon as practicable.

As part of the risk strengthening , the Bank remains focused on uplifting key areas of regulatory compliance. In that regard, the Bank has continued to undertake a review of the Credit Contracts and Consumer Finance Act 2003 ("CCCFA") and the underlying systems, processes and controls in so far as it relates to Bank lending products and services. A broad programme of work is underway.

The ongoing economic effects, supply chain disruption and COVID-related illnesses have continued to create a challenge to the Bank's operating environment as well as for our customers, and additionally created constraints in attracting and retaining the necessary specialist and skilled workforce.

(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 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 internal audit plan; and
1.4 noting the external audit plan.

15. Risk Governance (continued)

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

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.

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.

Executive Risk Committee (Executive Committee)
The role of the Executive 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.

Regulatory Oversight Committee (Executive Committee)
The role of the Regulatory Oversight Committee is to:

1.1. provide oversight of any regulatory communication or events that are likely to have a material impact on the Bank; and
1.2. assign executive ownership for delivering an appropriate response.

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.

(c) Areas of risk management

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.

15. Risk Governance (continued)

(c) Areas of risk management (continued)

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.

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 including non-financial impacts (such as customer outcomes, health & safety).

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 where appropriate. 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 and standards that reflect the risk appetite set by the Board, monitoring adherence to policies and standards and undertaking assurance activities. The third line of accountability is the independent audit function, as well as the external auditors of the Bank.

(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, 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 within the Third Line of Accountability, is to provide independent and objective assurance services to management and Directors. This include examining and evaluating the adequacy and effectiveness of internal controls, risk management, and governance processes to deliver business objectives. The scope of activity covers an “Audit Universe” that includes key business operations, processes, systems and products. 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 planning approach when selecting audit areas. Internal audit agrees management action plans for all findings raised and the implementation of these action plans are monitored and validated by the internal audit function prior to closure. 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 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. Specific 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 Customer Care 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.

All in $000's

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.

Financial instruments subject to impairment requirements of NZ IFRS 9

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.

Investment securities carried at FVOCI

The Bank reviews its holdings of investment securities in terms of its counterparty creditworthiness and measures the loss allowance using the ECL model. The collective provision against this portfolio is assessed biannually and whenever there is a significant change in the portfolio mix or change in the macro-economic factors and credit ratings. The Bank has assessed the portfolio of its investment securities and concluded that no specific provision is required at this reporting date.

Cash and cash equivalents, and other assets carried at amortised cost

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

(c) Maximum exposure to credit risk

Credit exposure is calculated on the basis of selected items on and off-balance sheet. The exposures shown below are based on the 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).

Maximum credit risk exposure	Note	2022	2021
On balance sheet			
Cash and cash equivalent		714,196	438,240
Derivative financial instruments		65,477	10,724
Investment securities	8	1,459,342	1,938,774
Loans and advances to customers (net of provision)	7	6,667,219	6,338,291
Other assets		2,244	2,236
Total on-balance sheet exposure		**8,908,478**	**8,728,265**
Off balance sheet			
Lending commitments (net of provision)	22	876,421	856,370
Total off-balance sheet exposure		**876,421**	**856,370**
Total maximum credit risk exposure		**9,784,899**	**9,584,635**

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(d) Concentrations of credit exposures

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

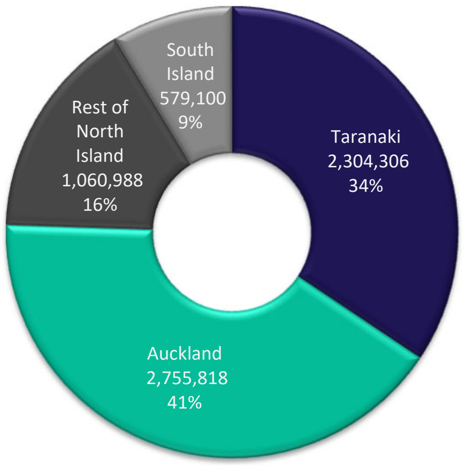
Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes have been used as the basis for disclosing customer industry sectors. An analysis of financial assets by geographic region and industry sector as at balance date is as follows:

(i) Concentration of credit exposure by geographic region

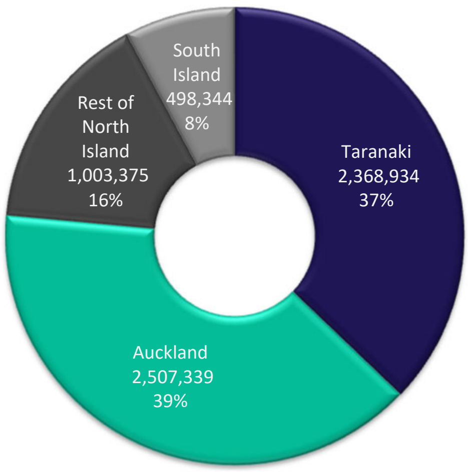
As at 31 March 2022	Note	Cash and cash equivalent	Investment securities	Loans and advances to customers	off-balance sheet	Total credit exposure
New Zealand total		714,196	855,925	6,657,642	879,430	9,107,193
Outside New Zealand		-	603,417	42,570	-	645,987
Provision for impairment	16(f),16(g)	-	-	(32,993)	(3,009)	(36,002)
Total credit exposure		**714,196**	**1,459,342**	**6,667,219**	**876,421**	**9,717,178**
As at 31 March 2021						
New Zealand total		438,240	1,289,407	6,336,389	860,942	8,966,581
Outside New Zealand		-	649,367	41,603	-	649,367
Provision for impairment	16(f),16(g)	-	-	(39,701)	(4,572)	(44,273)
Total credit exposure		**438,240**	**1,938,774**	**6,338,291**	**856,370**	**9,571,675**

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

As at 31 March 2022



As at 31 March 2021



(ii) Concentration of credit exposure by industry sector

	Note	2022	2021
Cash on hand		21,154	24,247
Local government lending and investments		170,606	247,827
New Zealand registered banks		313,681	396,864
Multilateral development banks and other international institutions		455,225	511,955
Other financial institutions		154,093	210,841
Sovereigns and Central Bank		1,004,960	920,631
Food product and beverages		-	-
Utilities		103,826	114,650
Transport, postal and warehousing		-	-
Agricultural lending		278,620	328,945
Residential lending		6,379,275	6,025,544
Personal and other lending		141,979	147,886
Commercial lending		729,761	686,558
Provision for impairment loss		(36,002)	(44,273)
Total credit exposure		**9,717,178**	**9,571,675**

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(d) Concentrations of credit exposures (continued)

(iii) 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 2022	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
10% - 15%	1	-	1	1	-	1
15% - 20%	1	-	1	1	-	1
Total	**2**	**-**	**2**	**2**	**-**	**2**
Peak exposure						
10% - 15%	1	-	1	1	-	1
15% - 20%	2	-	2	1	-	1
Total	**3**	**-**	**3**	**2**	**-**	**2**

% 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						
10% - 15%	2	-	2	1	-	1
15% - 20%	1	-	1	3	-	3
Total	**3**	**-**	**3**	**4**	**-**	**4**

"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.

(iv) 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 non-bank connected persons nor are there any contingent exposures arising from risk lay-off arrangements to connected persons as at 31 March 2022 (2021: $nil).

	2022	2021
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)	12.69%	12.06%
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)	12.69%	12.06%

16. Credit Risk Management and Asset Quality (continued)

(e) 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 (iv) 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:

(i) 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:

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.

16. Credit Risk Management and Asset Quality (continued)

(e) Expected credit loss measurement (continued)

(i) Significant increase in credit risk ("SICR") (continued)

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 (iv) 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 2022.

(ii) 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.

(iii) 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 or over the remaining lifetime.
- 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. 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 default information to regress against a list of macroeconomic factors to determine the PD. The following is the list of some of the 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.

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(e) Expected credit loss measurement (continued)

(iii) Measuring ECL - Explanation of inputs, assumptions and estimation techniques (continued)
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.

(iv) 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 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.

(f) Provision for expected credit loss

(i) Credit impairment losses/(reversal) recognised in the statement of comprehensive Income

For the year ended 31 March 2022	Loans and advances	Lending commitments	Investment securities	Total
Individual impairment expenses	85	-	-	**85**
Collective provision	(9,752)	3,009	63	**(6,680)**
Specific provision	(1,528)	-	-	**(1,528)**
Credit impairment losses to profit or loss	**(11,195)**	**3,009**	**63**	**(8,123)**
For the year ended 31 March 2021				
Individual impairment expenses	1,254	-	-	**1,254**
Collective provision	(1,722)	559	-	**(1,163)**
Specific provision	(2,293)	-	-	**(2,293)**
Credit impairment losses to profit or loss	**(2,761)**	**559**	**-**	**(2,202)**

- Loans and advances: amortised cost of the loans and advances is reduced by credit impairment losses (refer to note 9. Loans and advances).
- Investment securities: credit impairment losses are charged to the profit or loss with the corresponding amount in OCI with no reduction of the carrying value of the investment securities (refer to note 8. Investment securities).
- Lending commitments: provision for credit related lending commitments is recognised in other liabilities (refer to note 11. Other

(ii) Credit impairment losses/(reversal) recognised in the statement of financial position

As at 31 March 2022	Note	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
Loans and advances to customers	7	24,757	1,083	1,351	5,802	**32,993**
Lending commitments	11	2,843	166	-	-	**3,009**
Investment securities		63	-	-	-	**63**
As at 31 March 2021						
Loans and advances to customers	7	23,493	7,496	1,382	7,330	**39,701**
Lending commitments	11	4,002	570	-	-	**4,572**
Investment securities		-	-	-	-	**-**

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(g) Asset quality

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.

(i) Movement in provision for credit impairment allowances and gross exposures

Movements in credit impairment allowances - total

Net loans and advances to customers	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
Balance as at 1 April 2021	23,493	7,496	1,382	7,330	39,701
Transfers between stages					
Transferred to Stage 1	5,774	(5,360)	(313)	(101)	-
Transferred to Stage 2	(75)	81	(6)	-	-
Transferred to Stage 3	(7)	(53)	69	(9)	-
Charged / (credited) to profit or loss	(4,399)	(1,078)	173	(1,430)	(6,734)
Amounts written off	20	-	52	12	84
Recovery	(49)	(3)	(6)	-	(58)
Balance as at 31 March 2022	24,757	1,083	1,351	5,802	32,993
Off-balance sheet credit related commitments					
Balance as at 1 April 2021	4,002	570	-	-	4,572
Transfers between stages					
Transferred to Stage 1	300	(300)	-	-	-
Transferred to Stage 2	-	-	-	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	(1,459)	(104)	-	-	(1,563)
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2022	2,843	166	-	-	3,009

Impact of changes in gross carrying amount and credit related commitments - total

Gross loans and advances to customers	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
Balance as at 1 April 2021	5,791,576	557,754	5,131	23,531	6,377,992
Transfers between stages					
Transferred to Stage 1	426,058	(422,765)	(1,406)	(1,887)	-
Transferred to Stage 2	(12,585)	12,592	(7)	-	-
Transferred to Stage 3	(3,623)	(4,259)	8,352	(470)	-
Additions	1,735,741	17,873	120	2,670	1,756,404
Deletions and repayments	(1,327,977)	(92,714)	(6,523)	(6,901)	(1,434,115)
Amounts (written off) / recovered	(69)	(4)	13	(9)	(69)
Balance as at 31 March 2022	6,609,121	68,477	5,680	16,934	6,700,212
Off-balance sheet credit related commitments - total					
Balance as at 1 April 2021	832,397	27,707	98	740	860,942
Transfers between stages					
Transferred to Stage 1	(18,785)	18,785	-	-	-
Transferred to Stage 2	5	(5)	-	-	-
Transferred to Stage 3	-	-	-	-	-
Additions	257,697	187	-	-	257,884
Deletions and repayments	(202,311)	(38,803)	(3)	-	(241,117)
Amounts (written off) / recovered	-	32	28	1,661	1,721
Balance as at 31 March 2022	869,003	7,903	123	2,401	879,430

Overall the loss allowance is 0.54% of gross loan balances as at 31 March 2022, down from 0.69% as at 31 March 2021. The $8.3m (18.7%) decrease in loss allowance was driven by successful management of arrears and a change in management overlay assumptions around the impact of COVID-19 on Residential Lending portfolio as New Zealand economy and the housing market proved their resilience to lockdowns.

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(g) Asset quality (continued)

(i) Movement in provision for credit impairment allowances and gross exposures (continued)

Movements in credit impairment allowances - residential

Net loans and advances to customers	Stage 1 assessed 12 month ECL	Stage 2 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Total
Balance as at 1 April 2021	11,213	5,925	693	764	18,595
Transfers between stages					
Transferred to Stage 1	5,204	(4,793)	(313)	(98)	-
Transferred to Stage 2	(14)	14	-	-	-
Transferred to Stage 3	(7)	(52)	68	(9)	-
Charged / (credited) to profit or loss	(4,097)	(873)	742	(393)	(4,621)
Amounts written off	16	-	6	12	34
Recovery	-	-	-	-	-
Balance as at 31 March 2022	12,315	221	1,196	276	14,008
Off-balance sheet credit related commitments					
Balance as at 1 April 2021	896	120	-	-	1,016
Transfers between stages					-
Transferred to Stage 1	113	(113)	-	-	-
Transferred to Stage 2	-	-	-	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	(168)	(5)	-	-	(173)
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2022	841	2	-	-	843

Impact of changes in gross carrying amount and credit related commitments - residential

Gross loans and advances to customers					
Balance as at 1 April 2021	4,962,768	502,555	3,134	12,712	5,481,169
Transfers between stages					
Transferred to Stage 1	409,734	(406,510)	(1,406)	(1,818)	-
Transferred to Stage 2	(6,081)	6,081	-	-	-
Transferred to Stage 3	(3,620)	(4,242)	8,332	(470)	-
Additions	1,589,649	5,671	113	2,670	1,598,103
Deletions and repayments	(1,143,905)	(75,064)	(4,681)	(3,261)	(1,226,911)
Amounts (written off) / recovered	(16)	-	(6)	(12)	(34)
Balance as at 31 March 2022	5,808,529	28,491	5,486	9,821	5,852,327
Off-balance sheet credit related commitments					
Balance as at 1 April 2021	531,069	13,306	-	-	544,375
Transfers between stages					-
Transferred to Stage 1	(12,383)	12,383	-	-	-
Transferred to Stage 2	1	(1)	-	-	-
Transferred to Stage 3	-	-	-	-	-
Additions	175,171	187	-	-	175,358
Deletions and repayments	(167,464)	(25,329)	-	-	(192,793)
Amounts (written off) / recovered	-	1	6	-	7
Balance as at 31 March 2022	526,394	547	6	-	526,947

While gross balances increased by $354m (5.9%) over the period there has been a significant decrease in Stage 2 balances as the COVID-19 management overall assumption across the portfolio was removed. This coupled with overall improvement in portfolio performance has led to a $4.8m (24.3%) release in provisions. Overall collateral backing of the portfolio remains very strong which is reflected in the low provision cover of Individually assessed impaired accounts.

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(g) Asset quality (continued)

(i) Movement in provision for credit impairment allowances and gross exposures (continued)

Movements in credit impairment allowances - commercial

Net loans and advances to customers	Stage 1 assessed 12 month ECL	Stage 2 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Total provision
Balance as at 1 April 2021	9,109	691	1	6,566	16,367
Transfers between stages					
Transferred to Stage 1	534	(531)	-	(3)	-
Transferred to Stage 2	(3)	3	-	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	(1,848)	(68)	(1)	(1,037)	(2,954)
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2022	7,792	95	-	5,526	13,413
Off-balance sheet credit related commitments					
Balance as at 1 April 2021	1,173	390	-	-	1,563
Transfers between stages					
Transferred to Stage 1	184	(184)	-	-	-
Transferred to Stage 2	-	-	-	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	(405)	(66)	-	-	(471)
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2022	952	140	-	-	1,092

Impact of changes in gross carrying amount and credit related commitments - commercial

Gross loans and advances to customers					
Balance as at 1 April 2021	505,177	20,065	2	10,819	536,063
Transfers between stages					
Transferred to Stage 1	15,326	(15,257)	-	(69)	-
Transferred to Stage 2	(357)	357	-	-	-
Transferred to Stage 3	-	-	-	-	-
Additions	119,388	3,536	-	-	122,924
Deletions and repayments	(115,342)	(2,232)	(2)	(3,640)	(121,216)
Amounts (written off) / recovered	-	-	-	-	-
Balance as at 31 March 2022	524,192	6,469	-	7,110	537,771
Off-balance sheet credit related commitments					
Balance as at 1 April 2021	189,044	13,335	3	740	203,122
Transfers between stages					-
Transferred to Stage 1	(6,339)	6,339	-	-	-
Transferred to Stage 2	-	-	-	-	-
Transferred to Stage 3	-	-	-	-	-
Additions	81,411	-	-	-	81,411
Deletions and repayments	(28,627)	(13,128)	(3)	-	(41,758)
Amounts (written off) / recovered	-	-	-	1,661	1,661
Balance as at 31 March 2022	235,489	6,546	-	2,401	244,436

Commercial portfolio experienced steady performance since March 2021. The portfolio gross balances remained relatively unchanged over the year while the total provision allowances decreased by $3.4m during the period.

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(g) Asset quality (continued)

(i) Movement in provision for credit impairment allowances and gross exposures (continued)

Movements in credit impairment allowances - agricultural

Net loans and advances to customers	Stage 1 assessed 12 month ECL	Stage 2 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Total provision
Balance as at 1 April 2021	2,505	821	564	-	3,890
Transfers between stages					
Transferred to Stage 1	25	(25)	-	-	-
Transferred to Stage 2	(56)	56	-	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	1,910	(109)	(564)	-	1,237
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2022	4,384	743	-	-	5,127
Off-balance sheet credit related commitments					
Balance as at 1 April 2021	86	2	-	-	88
Transfers between stages					
Transferred to Stage 1	-	-	-	-	-
Transferred to Stage 2	-	-	-	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	66	-	-	-	66
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2022	152	2	-	-	154

Impact of changes in gross carrying amount and credit related commitments - agricultural

Gross loans and advances to customers					
Balance as at 1 April 2021	280,323	34,204	1,840	-	316,367
Transfers between stages					
Transferred to Stage 1	737	(737)	-	-	-
Transferred to Stage 2	(6,061)	6,061	-	-	-
Transferred to Stage 3	-	-	-	-	-
Additions	25,802	8,584	-	-	34,386
Deletions and repayments	(65,602)	(15,236)	(1,840)	-	(82,678)
Amounts (written off) / recovered	-	-	-	-	-
Balance as at 30 September 2021	235,199	32,876	-	-	268,075
Off-balance sheet credit related commitments					
Balance as at 1 April 2021	12,471	108	-	-	12,579
Transfers between stages					-
Transferred to Stage 1	(9)	9	-	-	-
Transferred to Stage 2	4	(4)	-	-	-
Transferred to Stage 3	-	-	-	-	-
Additions	1,092	-	-	-	1,092
Deletions and repayments	(3,157)	-	-	-	(3,157)
Amounts (written off) / recovered	-	31	-	-	31
Balance as at 31 March 2022	10,401	144	-	-	10,545

Agricultural portfolio saw a decline in gross exposures by $48m (15%) during the reporting period. Despite the reduction in gross balances the total provision allowance across the portfolio increased by $1.3m, the increase was driven by an update to the forward-looking economic scenarios.

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(g) Asset quality (continued)

(i) Movement in provision for credit impairment allowances and gross exposures (continued)

Movements in credit impairment allowances - other

Net loans and advances to customers	Stage 1 assessed 12 month ECL	Stage 2 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Total provision
Balance as at 1 April 2021	666	59	124	-	849
Transfers between stages					
Transferred to Stage 1	11	(11)	-	-	-
Transferred to Stage 2	(2)	8	(6)	-	-
Transferred to Stage 3	-	(1)	1	-	-
Charged / (credited) to profit or loss	(364)	(28)	(4)	-	(396)
Amounts written off	4	-	46	-	50
Recovery	(49)	(3)	(6)	-	(58)
Balance as at 31 March 2022	266	24	155	-	445
Off-balance sheet credit related commitments					
Balance as at 1 April 2021	1,847	58	-	-	1,905
Transfers between stages					
Transferred to Stage 1	3	(3)	-	-	-
Transferred to Stage 2	-	-	-	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	(952)	(33)	-	-	(985)
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2022	898	22	-	-	920

Impact of changes in gross carrying amount and credit related commitments - other

Gross loans and advances to customers	Stage 1 assessed 12 month ECL	Stage 2 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Total provision
Balance as at 1 April 2021	43,308	930	155	-	44,393
Transfers between stages					
Transferred to Stage 1	261	(261)	-	-	-
Transferred to Stage 2	(86)	93	(7)	-	-
Transferred to Stage 3	(3)	(17)	20	-	-
Additions	902	82	7	-	991
Deletions and repayments	(3,128)	(182)	-	-	(3,310)
Amounts (written off) / recovered	(53)	(4)	19	3	(35)
Balance as at 31 March 2022	41,201	641	194	3	42,039
Off-balance sheet credit related commitments					
Balance as at 1 April 2021	99,813	958	95	-	100,866
Transfers between stages					
Transferred to Stage 1	(54)	54	-	-	-
Transferred to Stage 2	-	-	-	-	-
Transferred to Stage 3	-	-	-	-	-
Additions	23	-	-	-	23
Deletions and repayments	(3,063)	(346)	-	-	(3,409)
Amounts (written off) / recovered	-	-	22	-	22
Balance as at 31 March 2022	96,719	666	117	-	97,502

Other portfolio saw a small reduction in gross balances of $2m and the provision allowances decreased by $1.4m, reflecting the improved outlook based on forward-looking economic scenarios.

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(g) Asset quality (continued)

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.

(i) Movement in provision for credit impairment allowances and gross exposures (continued)

Movements in credit impairment allowances - total

Net loans and advances to customers	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
Balance as at 1 April 2020	16,908	16,161	1,024	9,623	43,716
Transfers between stages					
Transferred to Stage 1	11,954	(11,792)	(107)	(55)	-
Transferred to Stage 2	(975)	1,120	-	(145)	-
Transferred to Stage 3	(7)	(47)	60	(6)	-
Charged / (credited) to profit or loss	(4,382)	2,055	353	(2,099)	(4,073)
Amounts written off	2	(1)	52	12	65
Recovery	(7)	-	-	-	(7)
Balance as at 31 March 2021	23,493	7,496	1,382	7,330	39,701
Off-balance sheet credit related commitments					
Balance as at 1 April 2020	2,594	1,419	-	-	4,013
Transfers between stages					
Transferred to Stage 1	1,053	(1,053)	-	-	-
Transferred to Stage 2	(68)	68	-	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	423	136	-	-	559
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2021	4,002	570	-	-	4,572

Impact of changes in gross carrying amount and credit related commitments - total

Gross loans and advances to customers	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
Balance as at 1 April 2020	5,389,126	750,990	2,171	32,040	6,174,327
Transfers between stages					
Transferred to Stage 1	522,620	(520,799)	(587)	(1,234)	-
Transferred to Stage 2	(448,231)	452,616	-	(4,385)	-
Transferred to Stage 3	(2,454)	(5,761)	8,872	(657)	-
Additions	1,505,074	40,855	-	540	1,546,469
Deletions and repayments	(1,174,538)	(160,143)	(5,276)	(2,761)	(1,342,718)
Amounts (written off) / recovered	(21)	(4)	(49)	(12)	(86)
Balance as at 31 March 2021	5,791,576	557,754	5,131	23,531	6,377,992
Off-balance sheet credit related commitments - total					
Balance as at 1 April 2020	704,680	69,136	127	720	774,663
Transfers between stages					
Transferred to Stage 1	(60,399)	59,727	31	641	-
Transferred to Stage 2	13,839	(13,848)	-	9	-
Transferred to Stage 3	297	-	(297)	-	-
Additions	243,373	1,828	-	1,609	246,810
Deletions and repayments	(69,393)	(89,136)	2	(2,239)	(160,766)
Amounts (written off) / recovered	-	-	235	-	235
Balance as at 31 March 2021	832,397	27,707	98	740	860,942

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.

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(g) Asset quality (continued)

(i) Movement in provision for credit impairment allowances and gross exposures (continued)

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.

Movements in credit impairment allowances - residential

Net loans and advances to customers	Stage 1 assessed 12 month ECL	Stage 2 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Total provision
Balance as at 1 April 2020	8,682	5,272	243	1,282	15,479
Transfers between stages					
Transferred to Stage 1	3,773	(3,626)	(107)	(40)	-
Transferred to Stage 2	(802)	847	-	(45)	-
Transferred to Stage 3	(5)	(39)	50	(6)	-
Charged / (credited) to profit or loss	(450)	3,471	501	(439)	3,083
Amounts written off	15	-	6	12	33
Recovery	-	-	-	-	-
Balance as at 31 March 2021	11,213	5,925	693	764	18,595
Off-balance sheet credit related commitments					
Balance as at 1 April 2020	634	287	-	-	921
Transfers between stages					-
Transferred to Stage 1	226	(226)	-	-	-
Transferred to Stage 2	(16)	16	-	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	52	43	-	-	95
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2021	896	120	-	-	1,016

Impact of changes in gross carrying amount and credit related commitments - residential

Gross loans and advances to customers					
Balance as at 1 April 2020	4,687,969	517,629	1,337	15,630	5,222,565
Transfers between stages					
Transferred to Stage 1	356,242	(355,088)	(587)	(567)	-
Transferred to Stage 2	(432,849)	433,974	-	(1,125)	-
Transferred to Stage 3	(2,418)	(3,921)	6,996	(657)	-
Additions	1,354,952	29,448	-	-	1,384,400
Deletions and repayments	(1,001,112)	(119,487)	(4,606)	(557)	(1,125,762)
Amounts (written off) / recovered	(16)	-	(6)	(12)	(34)
Balance as at 31 March 2021	4,962,768	502,555	3,134	12,712	5,481,169
Off-balance sheet credit related commitments					
Balance as at 1 April 2020	468,923	37,877	31	56	506,887
Transfers between stages					
Transferred to Stage 1	(29,748)	29,713	31	4	-
Transferred to Stage 2	11,714	(11,714)	-	-	-
Transferred to Stage 3	297	-	(297)	-	-
Additions	186,522	1,513	-	-	188,035
Deletions and repayments	(106,639)	(44,083)	-	(60)	(150,782)
Amounts (written off) / recovered	-	-	235	-	235
Balance as at 31 March 2021	531,069	13,306	-	-	544,375

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(g) Asset quality (continued)

(i) Movement in provision for credit impairment allowances and gross exposures (continued)

Movements in credit impairment allowances - commercial

Net loans and advances to customers	Stage 1 assessed 12 month ECL	Stage 2 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Total provision
Balance as at 1 April 2020	3,690	9,342	-	8,218	21,250
Transfers between stages					
Transferred to Stage 1	7,970	(7,955)	-	(15)	-
Transferred to Stage 2	(152)	152	-	-	-
Transferred to Stage 3	(1)	-	1	-	-
Charged / (credited) to profit or loss	(2,398)	(848)	-	(1,637)	(4,883)
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2021	9,109	691	1	6,566	16,367
Off-balance sheet credit related commitments					
Balance as at 1 April 2020	913	1,029	-	-	1,942
Transfers between stages					
Transferred to Stage 1	816	(816)	-	-	-
Transferred to Stage 2	(51)	51	-	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	(505)	126	-	-	(379)
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2021	1,173	390	-	-	1,563

Impact of changes in gross carrying amount and credit related commitments - commercial

Gross loans and advances to customers	Stage 1 assessed 12 month ECL	Stage 2 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Total provision
Balance as at 1 April 2020	352,730	193,921	-	12,014	558,665
Transfers between stages					
Transferred to Stage 1	162,079	(161,399)	-	(680)	-
Transferred to Stage 2	(14,217)	14,217	-	-	-
Transferred to Stage 3	-	-	-	-	-
Additions	109,028	3,796	-	540	113,364
Deletions and repayments	(104,443)	(30,470)	-	(1,055)	(135,968)
Amounts (written off) / recovered	-	-	2	-	2
Balance as at 31 March 2021	505,177	20,065	2	10,819	536,063
Off-balance sheet credit related commitments					
Balance as at 1 April 2020	116,888	27,657	-	632	145,177
Transfers between stages					
Transferred to Stage 1	(28,044)	27,439	-	605	-
Transferred to Stage 2	2,073	(2,082)	-	9	-
Transferred to Stage 3	-	-	-	-	-
Additions	54,536	247	-	1,609	56,392
Deletions and repayments	43,591	(39,926)	3	(2,115)	1,553
Amounts (written off) / recovered	-	-	-	-	-
Balance as at 31 March 2021	189,044	13,335	3	740	203,122

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(g) Asset quality (continued)

(i) Movement in provision for credit impairment allowances and gross exposures (continued)

Movements in credit impairment allowances - agricultural

Net loans and advances to customers	Stage 1 assessed 12 month ECL	Stage 2 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Total
Balance as at 1 April 2020	3,146	1,178	-	123	4,447
Transfers between stages					-
Transferred to Stage 1	146	(146)	-	-	-
Transferred to Stage 2	(9)	109	-	(100)	-
Transferred to Stage 3	-	(8)	8	-	-
Charged / (credited) to profit or loss	(778)	(312)	556	(23)	(557)
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2021	2,505	821	564	-	3,890
Off-balance sheet credit related commitments					
Balance as at 1 April 2020	136	56	-	-	192
Transfers between stages					
Transferred to Stage 1	3	(3)	-	-	-
Transferred to Stage 2	-	-	-	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	(53)	(51)	-	-	(104)
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2021	86	2	-	-	88

Impact of changes in gross carrying amount and credit related commitments - agricultural

Gross loans and advances to customers	Stage 1 assessed 12 month ECL	Stage 2 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Total
Balance as at 1 April 2020	290,651	35,991	-	4,396	331,038
Transfers between stages					-
Transferred to Stage 1	3,259	(3,272)	-	13	-
Transferred to Stage 2	(763)	4,023	-	(3,260)	-
Transferred to Stage 3	-	(1,840)	1,840	-	-
Additions	36,286	7,549	-	-	43,835
Deletions and repayments	(49,110)	(8,247)	-	(1,149)	(58,506)
Amounts (written off) / recovered	-	-	-	-	-
Balance as at 31 March 2021	280,323	34,204	1,840	-	316,367
Off-balance sheet credit related commitments					
Balance as at 1 April 2020	16,735	2,438	-	32	19,205
Transfers between stages					-
Transferred to Stage 1	(2,470)	2,438	-	32	-
Transferred to Stage 2	-	-	-	-	-
Transferred to Stage 3	-	-	-	-	-
Additions	2,147	68	-	-	2,215
Deletions and repayments	(3,941)	(4,836)	-	(64)	(8,841)
Amounts (written off) / recovered	-	-	-	-	-
Balance as at 31 March 2021	12,471	108	-	-	12,579

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(g) Asset quality (continued)

(i) Movement in provision for credit impairment allowances and gross exposures (continued)

Movements in credit impairment allowances - other

Net loans and advances to customers	Stage 1 assessed 12 month ECL	Stage 2 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Total
Balance as at 1 April 2020	1,390	369	781	-	2,540
Transfers between stages					-
Transferred to Stage 1	65	(65)	-	-	-
Transferred to Stage 2	(12)	12	-	-	-
Transferred to Stage 3	(1)	-	1	-	-
Charged / (credited) to profit or loss	(756)	(256)	(704)	-	(1,716)
Amounts written off	(13)	(1)	46	-	32
Recovery	(7)	-	-	-	(7)
Balance as at 31 March 2021	666	59	124	-	849
Off-balance sheet credit related commitments					
Balance as at 1 April 2020	911	47	-	-	958
Transfers between stages					
Transferred to Stage 1	8	(8)	-	-	-
Transferred to Stage 2	(1)	1	-	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	929	18	-	-	947
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2021	1,847	58	-	-	1,905

Impact of changes in gross carrying amount and credit related commitments - other

Gross loans and advances to customers	Stage 1 assessed 12 month ECL	Stage 2 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Stage 3 assessed Lifetime ECL	Total
Balance as at 1 April 2020	57,776	3,449	834	-	62,059
Transfers between stages					-
Transferred to Stage 1	1,040	(1,040)	-	-	-
Transferred to Stage 2	(402)	402	-	-	-
Transferred to Stage 3	(36)	-	36	-	-
Additions	4,808	62	-	-	4,870
Deletions and repayments	(19,873)	(1,939)	(670)	-	(22,482)
Amounts (written off) / recovered	(5)	(4)	(45)	-	(54)
Balance as at 31 March 2021	43,308	930	155	-	44,393
Off-balance sheet credit related commitments					
Balance as at 1 April 2020	102,134	1,164	96	-	103,394
Transfers between stages					
Transferred to Stage 1	(137)	137	-	-	-
Transferred to Stage 2	52	(52)	-	-	-
Transferred to Stage 3	-	-	-	-	-
Additions	168	-	-	-	168
Deletions and repayments	(2,404)	(291)	(1)	-	(2,696)
Amounts (written off) / recovered	-	-	-	-	-
Balance as at 31 March 2021	99,813	958	95	-	100,866

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(g) Asset quality (continued)

(i) Movement in provision for credit impairment allowances and gross exposures (continued)

The table below summarises the movements in credit impairment allowance by major type of credit exposure.

As at 31 March 2022	Residential mortgage loans	Commercial exposures	Agricultural exposures	Other exposures	Total Credit exposures
Specific provision for impairment					
Balance at beginning of period	764	6,566	-	-	7,330
Addition / (deletion)	(500)	(1,040)	-	-	(1,540)
Current year amounts written off	12	-	-	-	12
Reversal of previously recognised provision	-	-	-	-	-
Specific provision balance at end of period	**276**	**5,526**	**-**	**-**	**5,802**
Collective provision for impairment					
Balance at beginning of period	18,847	11,364	3,978	2,754	36,943
Recognised in profit or loss	(4,272)	(2,385)	1,303	(1,389)	(6,743)
Collective provision balance at end of period	**14,575**	**8,979**	**5,281**	**1,365**	**30,200**
Total provision for impairment loss	**14,851**	**14,505**	**5,281**	**1,365**	**36,002**
As at 31 March 2021					
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	-	-	-	-	-
Balance of specific provision 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**

(ii) Other asset quality and past due 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 (continued)

(ii) Other asset quality and past due 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.

Undrawn balances on lending commitments to counterparties:
Undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired total $2.39m at reporting date (2021: $0.73m.)

Other assets under administration:
As at 31 March 2022, the Bank had $0.32m (2021: $nil) other assets under administration.

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 2022	Note	Residential mortgage loans	Commercial exposures	Agricultural exposures	Other exposures	Total Credit exposures
Neither past due or impaired		**5,808,167**	**529,966**	**268,075**	**41,157**	**6,647,365**
Past due assets not impaired:						
Less than 30 days		28,057	787	-	127	28,971
30 to 59 days		1,389	-	-	555	1,944
60 to 89 days		1,216	-	-	23	1,239
90 days and over		3,791	-	-	174	3,965
Balance of past due but not impaired assets at end of period		**34,453**	**787**	**-**	**879**	**36,119**
Movements in individually impaired assets:						
Balance at beginning of period		12,594	10,718	-	-	23,312
Additions		8,383	-	-	-	8,383
Amounts written off / loans closed out		(7,484)	-	-	-	(7,484)
Transfer back to loans and advances to customers		(3,786)	(3,700)	-	3	(7,483)
Balance of impaired assets at end of period		**9,707**	**7,018**	**-**	**3**	**16,728**
Total gross loans and advances to customers	7	**5,852,327**	**537,771**	**268,075**	**42,039**	**6,700,212**
Less provision for impairment	7	14,008	13,413	5,127	445	32,993
Total loans and advances to customers		**5,838,319**	**524,358**	**262,948**	**41,594**	**6,667,219**
As at 31 March 2021						
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		**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	7	18,595	16,367	3,890	849	39,701
Total loans and advances to customers		**5,462,574**	**519,696**	**312,477**	**43,544**	**6,338,291**

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(h) Credit risk mitigation, collateral and other credit enhancements

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

The Bank's loan portfolio comprises predominantly of residential mortgages (88%) which are secured by first-ranking registered mortgages over residential property. As at 31 March 2022, $50m 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 2022, the Bank has total securities of $1.5 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.

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.

Coverage provided by collateral held on loans

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

	As at 31 March 2022			As at 31 March 2021		
On-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	714,196	714,196	-	438,240	438,240	-
Derivative financial instruments	65,477	-	65,477	10,724	-	10,724
Investment securities	1,459,342	163,727	1,295,615	1,938,774	314,233	1,624,541
Loans and advances to customers (net of provision)	6,667,219	6,646,353	20,866	6,333,719	6,306,117	27,602
Other assets	2,244	2,244	-	2,236	2,236	-
Total exposure to credit risk	**8,908,478**	**7,526,520**	**1,381,958**	**8,723,693**	**7,060,826**	**1,662,867**

Collateral on credit impaired assets

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:	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
As at 31 March 2022				
Residential mortgage loans	15,307	1,472	13,835	16,422
Commercial	7,110	5,526	1,584	8,650
Agricultural	-	-	-	-
Other	197	155	42	-
Total credit-impaired assets	**22,614**	**7,153**	**15,461**	**25,072**
As at 31 March 2021				
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**

All in $000's

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.

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

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 2022	0-3 Months	3-6 Months	6-12 Months	1-2 Years	Over 2 Years	Non-Interest sensitive	Total
Assets							
Cash and cash equivalents	693,042	-	-	-	-	21,154	714,196
Derivative financial instruments	-	-	-	-	-	65,477	65,477
Investment securities	223,996	35,364	124,418	234,635	840,929	-	1,459,342
Loans and advances to	2,105,185	666,523	1,151,298	1,486,180	1,269,853	(11,820)	6,667,219
Other financial assets	-	-	-	-	-	2,244	2,244
Total financial assets	**3,022,223**	**701,887**	**1,275,716**	**1,720,815**	**2,110,782**	**77,055**	**8,908,478**
Liabilities							
Deposits	5,151,302	953,781	873,440	288,238	131,396	782,063	8,180,220
Derivative financial instruments	-	-	-	-	-	5,970	5,970
Lease liabilities	622	625	1,177	2,276	10,346	-	15,046
Other financial liabilities *	-	-	-	-	-	32,641	32,641
Total financial liabilities	**5,151,924**	**954,406**	**874,617**	**290,514**	**141,742**	**820,674**	**8,233,877**
Derivative notional principals (net)	**2,104,000**	**(165,000)**	**(225,000)**	**(850,000)**	**(864,000)**	**-**	**-**
Interest sensitivity gap	**(25,701)**	**(417,519)**	**176,099**	**580,301**	**1,105,040**	**(743,619)**	**674,601**
As at 31 March 2021							
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	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**

* 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 2022	31 Mar 2021
-2.0%	(6.5)	2.8
-1.0%	(2.4)	1.4
1.0%	1.0	(2.4)
2.0%	3.9	(4.7)

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.

Economic value of shareholder's equity
The figures in the table below indicate the outcome of the EVE measure for the current period.

Scenarios	Change in EVE ($m)	
	31 Mar 2022	31 Mar 2021
-2.0%	29.6	37.5
-1.0%	18.4	18.8
1.0%	(20.2)	(20.6)
2.0%	(33.9)	(40.1)

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.

	2022	2021
Cash and cash equivalents	714,196	438,240
Investment securities:		
Local authority securities	120,599	197,827
Government securities	311,918	506,637
Registered bank securities	313,681	396,864
Other securities	713,144	837,446
Total investment securities	**1,459,342**	**1,938,774**
Total core liquid assets	**2,173,538**	**2,377,014**

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. The Bank does not manage liquidity risk on the basis of the information provided below.

As at 31 March 2022	On demand	0-1 Months	1-3 Months	3-12 Months	1-5 Year	Over 5 Years	Total
Liabilities:							
Deposits	4,672,957	413,493	843,650	1,860,349	440,846	-	8,231,295
Lease liabilities	-	6,244	507	2,194	7,512	10,289	26,746
Derivative financial instruments							
Inflows from derivatives	(103)	(2,027)	(7,235)	(53,724)	(106,221)	-	(169,310)
Outflows from derivatives	183	1,752	6,514	32,913	63,309	-	104,671
Other financial liabilities	-	18,473	5,785	-	374	-	24,632
Total financial liabilities	**4,673,037**	**437,935**	**849,221**	**1,841,732**	**405,820**	**10,289**	**8,218,034**
Lending commitments (off-balance sheet)	**876,421**	**-**	**-**	**-**	**-**	**-**	**876,421**
As at 31 March 2021							
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
Derivative financial instruments							
Inflows from derivatives	(19)	(462)	(2,051)	(7,005)	(15,967)	-	(25,504)
Outflows from derivatives	81	739	1,695	7,937	13,570	-	24,022
Other financial liabilities	-	30,230	5,805	-	820	-	36,855
Total financial liabilities	**4,315,258**	**452,656**	**957,254**	**1,841,507**	**523,342**	**11,247**	**8,101,264**
Lending commitments (off-balance sheet)	**860,942**	**-**	**-**	**-**	**-**	**-**	**860,942**

(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 2022			As at 31 March 2021		
	Current	Non-current	Total	Current	Non-current	Total
Assets						
Cash and cash equivalents	714,196	-	714,196	438,240	-	438,240
Derivative financial instruments	65,477	-	65,477	10,724	-	10,724
Investment securities	359,076	1,100,266	1,459,342	795,306	1,143,468	1,938,774
Loans and advances to customers	2,954,969	3,712,250	6,667,219	3,760,152	2,578,139	6,338,291
Deferred tax asset	-	18,306	18,306	-	15,281	15,281
Property, plant and equipment	-	32,386	32,386	-	33,484	33,484
Intangible assets	-	1,310	1,310	-	1,444	1,444
Other assets *	2,244	-	2,244	2,236	-	2,236
Total assets	**4,095,962**	**4,864,518**	**8,960,480**	**5,006,658**	**3,771,816**	**8,778,474**
Liabilities						
Deposits	7,760,334	419,886	8,180,220	7,507,027	491,478	7,998,505
Derivative financial instruments	5,970	-	5,970	9,605	-	9,605
Current tax liability	1,510	-	1,510	2,696	-	2,696
Lease liabilities	2,424	12,622	15,046	1,979	13,355	15,334
Other liabilities	32,266	2,208	34,474	40,606	820	41,426
Total liabilities	**7,802,504**	**434,716**	**8,237,220**	**7,561,913**	**505,653**	**8,067,566**

* 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 Liquidity and Funding 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 management of 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.

The Bank has provided a remediation plan to RBNZ to address the findings raised relevant to the Bank from its industry thematic review of compliance with its liquidity policy. The Bank has not identified any material non-compliance with the conditions of registration.

	Three month ended 31 March 2022	Three month ended 31 December 2021
One-week mismatch ratio	16.0%	14.7%
One-month mismatch ratio	20.1%	19.4%
Core funding ratio	116.8%	117.6%

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.
- Prudential Capital Buffer ("PCB") 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 (superseded by new Banking Prudential Requirements "BPR" on 1 October 2021) 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.

The Bank has identified the scope to resolve these matters but calculations are yet to be reperformed. The Bank currently holds approximately $270 million of capital in excess of the minimum capital requirement. The initial assessment of the impact of these corrections will result in an increase to the Bank’s minimum capital requirement of up to $6m.

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 2022.

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	2022 31 Mar Unaudited Basel III	2021 31 Mar Unaudited Basel III
Common Equity Tier 1 ("CET1") capital ratio	4.50%	13.54%	14.47%
Tier 1 capital ratio	6.00%	13.54%	14.47%
Total capital ratio	8.00%	13.54%	14.47%
Prudential capital buffer	2.50%	5.54%	6.47%

(b) Regulatory Capital

	Note	2022 Basel III Unaudited	2021 Basel III Unaudited
Tier 1 capital			
CET1 capital:			
Issued and fully paid up share capital		10,000	10,000
Retained earnings		688,534	660,397
Balance adjusted for SaaS write-offs	1(i)	-	(7,499)
Current period's audited retained earnings		25,586	35,636
Fair value reserve		(45,810)	11,141
Cash flow hedge reserve		44,950	1,233
		723,260	**710,908**
Less Deductions from CET1 Capital:			
Intangible assets		1,310	1,444
Cash flow hedge reserve		44,950	1,233
Deferred tax assets		18,306	9,543
Implicit risk adjustment*		57,000	57,000
		121,566	**69,220**
Total CET 1 capital		**601,694**	**641,688**
Additional Tier 1 (“AT1”) Capital		-	-
Total Tier 1 capital		**601,694**	**641,688**
Tier 2 capital			
Unrealised revaluation on security holdings at 45%		-	-
Total capital		**601,694**	**641,688**

*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 2022	Total exposure after risk mitigation [1]	Risk weighting	Risk weighted exposure	Minimum Pillar one capital requirement
Cash	10,338	0%	-	-
Sovereigns & RBNZ	1,004,960	0%	-	-
Multilateral development banks	455,225	0%	-	-
Multilateral development banks	-	20%	-	-
Public sector entities	120,826	20%	24,165	1,933
Banks	60,212	20%	12,042	963
Banks	264,285	50%	132,143	10,571
Corporate	166,516	20%	33,303	2,664
Corporate	46,111	50%	23,056	1,844
Corporate	832,384	100%	832,384	66,591
Residential mortgages not past due:				
Non-property investment <80% LVR *	3,818,014	35%	1,336,305	106,904
Non-property investment 80%<90% LVR *	353,024	50%	176,511	14,121
Non-property investment 90%<100% LVR *	43,296	75%	32,472	2,598
Non-property investment >100% LVR *	1,754	100%	1,754	140
Property investment <80% LVR *	1,550,688	40%	620,275	49,622
Property investment 80%<90% LVR *	7,879	70%	5,516	441
Property investment 90%<100% LVR *	271	90%	244	19
Property investment >100% LVR *	140	100%	140	11
Welcome home <80% LVR *	1,219	35%	427	34
Welcome home 80%<90% LVR *	24,816	35%	8,686	695
Welcome home 90%<100% LVR *	22,871	50%	11,435	915
Welcome home >100% LVR *	1,079	100%	1,079	86
Reverse mortgages <60% LVR *	7,258	50%	3,629	290
Reverse mortgages 60%<80% LVR *	-	80%	-	-
Reverse mortgages >80% LVR *	-	100%	-	-
Past due residential mortgages *	6,010	100%	6,010	481
Other past due assets	37	100%	37	3
Other past due assets	-	150%	-	-
Other lending	41,545	100%	41,545	3,324
Other assets	34,630	100%	34,630	2,770
Non-risk weighted assets	85,092	0%	-	-
Total on-balance sheet exposures	**8,960,480**		**3,337,788**	**267,020**

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

As at 31 March 2022	Total exposure after risk mitigation [1]	Credit conversion factor	Credit equivalent amount	Average risk weight	Risk weighted exposure	Minimum Pillar one capital requirement
Commitments that can be cancelled unconditionally	94,979	0%	-	N/A	-	-
Commitment with certain drawdown	181,537	100%	181,537	45%	80,786	6,463
Commitment with uncertain drawdown	555,848	50%	277,924	51%	141,405	11,312
Other commitment where original maturity is less than or equal to 1 year	41,631	20%	8,326	100%	8,326	666
Performance related contingency	2,426	50%	1,213	100%	1,213	97
Market related contracts:						
interest rate contracts [2]	2,804,000	Various	76,197	42%	31,789	2,543
Credit valuation adjustment (CVA)	-		-	0%	22,727	1,818
Total off-balance sheet exposures	**3,680,421**		**545,197**		**286,246**	**22,899**

[1] No credit risk mitigation has been included (refer to note 19(h). Credit Risk Mitigation for further information).

[2] The credit equivalent amount for market related contracts (which are all interest rate contracts) were calculated in accordance with BPR131: Standardised Credit Risk RWAs.

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 2022	On balance sheet	Off balance sheet	Total
LVR does not exceed 80%	5,382,603	514,768	5,897,371
LVR exceeds 80% and not 90%	385,989	10,551	396,540
LVR exceed 90%	69,727	785	70,512
Total residential mortgages	**5,838,319**	**526,104**	**6,364,423**

(ii) Reconciliation of residential mortgage related amounts

	Note	2022
Gross residential mortgage loans (on balance sheet exposures)	7, 16(g)	5,852,327
Provision for credit impairment (on balance sheet exposures)	16(g)	(14,008)
Residential mortgage loans (net of provision)	16(g)	5,838,319
Undrawn commitments relating to residential mortgages (off balance sheet exposures)	16(g)	526,947
Provision for credit impairment (off balance sheet exposures)	16(g)	(843)
Undrawn commitments relating to residential mortgages (net of provision)		526,104
Total residential mortgage loans net of provision for credit impairment		**6,364,423**

(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 BPR140: Market risk exposure of the RBNZ's Capital Adequacy Framework.

As at 31 March 2022		Implied risk weighted exposure	Aggregate capital charge
End of period capital charges	Interest risk	250,354	20,028
Peak end of day capital charges	Interest risk	258,880	20,710

(f) Risk weighted exposure and total capital requirements

As at 31 March 2022	Total Exposure after credit risk mitigation	Risk weighted exposure or Implied RWE	Capital requirement
Total credit risk plus equity	9,420,584	3,624,034	289,923
Operational risk	N/A	569,061	45,525
Market risk	N/A	250,354	20,028
Total	**9,420,584**	**4,443,449**	**355,476**

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 $55.4m (2021: $61.7m) to cover these identified risks.

(h) Credit risk mitigation

Refer to note 1(g). Financial instruments for the Bank's policies and processes for on-balance sheet netting. Off-balance sheet lending commitments do not meet the criteria for netting.

The Bank uses the simple method to measure the mitigating effects of collateral. However, the total value of exposures covered by guarantees or credit derivatives is not considered to be material and not taken into consideration for the calculation of Capital Adequacy. Refer to note 16(h). Credit risk mitigation, collateral and other credit enhancements for further information.

As at 31 March 2022	Total value of on- and off-balance sheet exposures covered by eligible collateral (after haircutting)	Total value of on- and off-balance sheet exposures covered by guarantees or credit derivatives
Sovereign or central bank	-	-
Multilateral development banks and other international organisations	-	-
Public sector entities	-	-
Bank	-	-
Corporate	-	-
Residential mortgage	-	-
Other	-	-
Total	**-**	**-**

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 insurance products. 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 2022, the TSB Bank PIE Unit Trust had $7.9m (2021: $9.6m) invested with the Bank.

21. Related Party Transactions and Balances

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% (2021: 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	2022	2021
Statement of Financial Position			
Loans to Toi Foundation Holdings Limited	7	-	35,440
Deposits from Toi Foundation		4,606	4,916
Deposits from other Toi Foundation Holdings Limited		7,859	1
Deposits from other Toi Foundation Investment Limited		2,218	6,079
Statement of Changes in Equity			
Dividends paid to Toi Foundation	13	12,500	-
Statement of Profit or Loss			
Interest income received from Toi Foundation Holdings Limited	2	309	1,280
Interest expense paid to Toi Foundation	2	175	285
Commission income received from Fisher Funds Management Limited		1,037	817

During the reporting period, subvention payments were made to Toi Foundation Holdings Limited of $0.797m (2021: $0.998m), TSB Group Capital Limited of $0.006m (2021: $0.016m) and Toi Foundation Investments Limited of $0.635m (2021: $0.743m).

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.

	2022	2021
Key management compensation:		
Short-term employee benefits	4,534	4,379
Other long-term benefits	305	35
Termination benefits	126	87
Retirement benefits	-	245
Total key management compensation	**4,965**	**4,746**
Loans to directors and key management personnel:		
Balance at beginning of period	7,171	2,695
Net loans / (repaid) during the period	2,439	4,476
Balance at end of period	**9,610**	**7,171**
Deposits from directors and key management personnel:		
Balance at beginning of period	16,777	20,282
Net deposits received / (repaid) during the period	1,139	(3,505)
Balance at end of period	**17,916**	**16,777**

Loans and deposits to directors and key management personnel include the directors of the Toi Foundation 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 has continued to undertake a review of the Credit Contracts and Consumer Finance Act 2003 ("CCCFA") in so far as it relates to Bank products and services. A broad programme of work has advanced, with an initial focus on readying the Bank to meet the changes that took effect on 1 December 2021. This CCCFA review continues into 2022. Where this review has identified any areas that may give rise to loss or liability, and where that can be reliably estimated, the Bank has provisioned for those. The final outcomes and total costs, losses or liabilities that could be associated with this review are complex to ascertain and will be subject to further work and consideration.

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.

	2022	2021
Lending commitments (net of provision):		
Performance-related contingencies	2,426	2,603
Undrawn commitments *	873,995	853,767
Total lending commitments	**876,421**	**856,370**
Other commitments:		
Rental / lease commitments less than one year	-	6
Rental / lease commitments greater than one year	-	17
Capital commitments	1,460	7,900
Total other commitments	**1,460**	**7,923**
Total commitments	**877,881**	**868,865**

* Includes $83.6m (2021: $48.2m) related to the facility granted to Toi Foundation Holdings Limited, a related entity.

All in $000's

Other Disclosures

22. Commitments and Contingent Liabilities (continued)

The Bank operates in a complex and changing regulatory environment. In recent years there has been an increase in the number of regulatory developments, investigations, inquiries, reviews, private and public claims and enforcement action across the financial services industry. The Bank continues to monitor, assess and respond to these changes to the extent they are relevant to it. In the course of this, the Bank may identify potential issues that requires changes and/or improvements to its products and services, its systems, remedial activity and/or engagement with regulators. Where this may give rise to future liabilities and can be determined with sufficient certainty they will be provisioned for on a case by case basis. However, in some situations any potential future liability cannot yet be determined with accuracy, this may occur because the relevant facts are not yet known, the application of law or the outcome is otherwise too uncertain.

23. Subsequent Events

There have been no 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 January 2022.

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;

   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 Subpart B2 of BPR100: Capital Adequacy;

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

1A. That—
   (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in Part D of BPR100: Capital Adequacy;
   (b) under its ICAAP the bank identifies and measures its "other material risks" defined in Part D of BPR100: Capital Adequacy; and

   (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That, if the Prudential Capital Buffer (PCB) ratio of the banking group is 2.5% or less, the bank must—
   (a) according to the following table, limit the aggregate distributions of the bank's earnings, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to the percentage limit on distributions that corresponds to the banking group's PCB ratio; and

Banking group's PCB ratio	Percentage limit on distributions of the bank's earnings	Capital Buffer Response Framework stage
0% – 0.5%	0%	Stage 3
>0.5 – 1%	30%	Stage 2
>1 – 2%	50%	Stage 1
>2 – 2.5%	50%	None

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

   For the purposes of this condition of registration, except to the extent modified by Condition 1C —
   "prudential capital buffer ratio", "distributions", and "earnings" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy;

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

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

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

1BB. That, if the prudential capital buffer ratio of the banking group is more than 2.5%, the bank must limit aggregate distributions, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to no more than 50% of the bank's earnings.

   For the purposes of this condition of registration, except to the extent modified by Condition 1C —

   "prudential capital buffer ratio", "distributions", and "earnings" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy;

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

   the bank must not make any individual dividend payment contributing to aggregate distributions for a financial year until it has completed its interim financial accounts for the first six months of its financial year or its annual financial accounts for its full financial year, and must not make any such dividend payment less than six months after any previous such dividend payment.

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 Conditions 1B and 1BA, in addition to the amounts deducted in calculating Common Equity Tier 1 capital in accordance with sections B1.3 to B1.13 of BPR110: Capital Definitions, 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").

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.

1E. That:

(a) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued on or after 1 July 2021 in the calculation of its capital ratios unless it has completed the notification requirements in Part B of BPR120: Capital Adequacy Process Requirements in respect of the instrument; and

(b) the bank meets the requirements of Part C of BPR120: Capital Adequacy Process Requirements in respect of regulatory capital instruments.

For the purposes of this condition of registration,—

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

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

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 October 2021.

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

6. That the bank complies with the following corporate governance requirements:
   (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 75 per cent at the end of each business day.

   For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated May 2021 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated May 2021.

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, 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.

20. That, for a loan-to-valuation measurement period ending on or before 31 December 2021, 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.

21. That, for a loan-to-valuation measurement period ending on or after 31 January 2022, 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 10% 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 these conditions of registration, the version dates of the Reserve Bank of New Zealand Banking Prudential Requirement (BPR) documents that are referred to in the capital adequacy conditions 1 to 1E, or are referred to in turn by those documents or by Banking Supervision Handbook (BS) documents, are—

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

In conditions of registration 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 October 2021:

“loan-to-valuation measurement period” means—

(a) the six calendar month period ending on the last days of October, and November 2021 respectively;
(b) the three calendar month period ending on the last day of December 2021; and
(b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of January 2022.

Changes in Conditions of Registration

The Reserve Bank of New Zealand ("RBNZ") has made following changes to the Bank's Conditions of Registration since the reporting date of the Bank's previous Disclosure Statement:

- Effective 1 October 2021, incorporation of new Banking Prudential Requirements (BPRs), which reflect the RBNZ’s capital review decisions.
- Effective 1 November 2021, restrictions imposed that, for a loan-to-valuation measurement period ending on or after 31 January 2022, 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 10%.
- Effective 1 January 2022, minimum core funding ratio increases to 75%.

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 financial statements (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) of TSB Bank Limited (the 'Bank') on pages 9 to 64:

i. give a true and fair view of the Bank's financial position as at 31 March 2022 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') and International Financial Reporting Standards.

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 Bank 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 2022;
- the statement of profit and loss, statement of other 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 assurance services to the Bank in relation to independent assessments of fees and interest calculation compliance. We have also provided other services to the Bank in relation to regulatory advisory principally related to AML/CFT reporting obligations and specific IT system 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 $2.8 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 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	How the matter was addressed in our audit
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 impact of COVID-19 and wider economic disruption the level of judgement and complexity remains heightened in respect of assessing the long-term impacts 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.	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, 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; — 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	How the matter was addressed in our audit
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.	Our audit procedures for 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 information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order and is included on pages 3 to 8 and 65 to 70 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 Bank, as far as appears from our examination of those records.

Responsibilities of Directors for the 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 financial statements in accordance with Clause 24 of the Order, NZIFRS and International Financial Reporting Standards;
- 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 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 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 ISA's (NZ) 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 financial statements.

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

http://www.xrb.govt.nz/standards-for-assurance-practitioners/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 note 19 and note 18(d) to the disclosure statement, is not, in all material respects 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 note 19 and note 18(d) of the disclosure statement for the year ended 31 March 2022. 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. 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 in accordance with the requirements of that Schedule and as described in note 19 and 18(d) 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 supplementary information relating Capital Adequacy and Regulatory Liquidity Requirements based on our review. We conducted our review in accordance with NZ SRE 2410 issued by the New Zealand External Reporting Board. As the auditor of TSB Bank Limited, NZ SRE 2410 requires that we plan and perform the review to obtain limited assurance about whether the supplementary information relating Capital Adequacy and Regulatory Liquidity Requirements is, in all material respects 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 ISA's (NZ). 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 Graeme Edwards.

For and on behalf of

KPMG

KPMG
Wellington

9 June 2022

Glossary of abbreviations

The following abbreviations are used throughout the report.

AT1	Additional Tier 1
BPR	Banking Prudential Requirements documents by Reserve Bank of New Zealand
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
SaaS	Software-as-a-Service
SICR	Significant increase in credit risk
SPPI	Solely payments of principal and interest on the principal amount outstanding

Directory

Directors

M.C. (Mark) Darrow, FCA, B Bus, CFInstD, JP, Chair *(appointed as a Director on 1 February 2022 and became Chair of the Board on 18 March 2022)*
M.I. (Murray) Bain, MCom (Hons), BSc, CFInstD, ONZM, Deputy Chair
M.A. (Anne) Blackburn, MA, BA, CFInstD
P.S. (Peter) Dalziel, MBA, CMInstD
H.F. (Harvey) Dunlop, BCom (Ag)
K.C. (Kevin) McDonald, MBA
N. (Natalie) Pearce, BCom
M. (Michael) Schubert, Bcom
D.J. (Dion) Tuuta
J.J. (John) Kelly *(retired as a Director and Chair of the Board on 18 March 2022)*

Executive Management

D. (Donna) Cooper, B Bus, MA Int Bus, CEO
J. (Joe) Bishop, BA (Hons), GM Product and Marketing
C. (Chris) Boggs, BCom, MBM, GM People & Strategy
G. (Gordon) Davidson, BA, CA, MBA, Chief Financial Officer
J. (Julian) Downs, BSc, GM Technology
S. (Sean) Edwards, MBA, MHSc (Psych), GM Customer Solutions and Service
G. (Graeme) Scrivener, MA, BA(Hons), Chief Risk Officer
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

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