Disclosure Statement

For the year ended 31 March 2023

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Disclosure Statement

For the year ended 31 March 2023

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 a 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. Toi Foundation Holdings Limited 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	19,948
Dividends	(10,000)
Retained profit for the Year	9,948

Financial and Supplementary Disclosures

This Disclosure Statement is inclusive of the Bank’s audited financial statements for the year ended 31 March 2023. 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.

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 CA.

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 30 August 2022, Fitch affirmed the Bank's rating at 'A-'; Outlook Stable.
- On 29 July 2021, Fitch revised the Bank's outlook to stable, from negative, and affirmed the rating at 'A-'.

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, Estate of Robert Lerner, Inland Revenue Department, Invivo & Co Limited, MCD Capital Limited, MTF Limited, MTF Finance Limited, MTF Leasing Limited, MTF Direct Limited, MTF Securities Limited, MTF Treasury Limited, MTFS Holdings Limited, Motor Trade Finance Limited, Riverton Dairies Limited, Riverton Farm Limited, The Lending People Limited, Tudor Park Trustees Limited.
M. (Michael) Schubert, BCom Independent non-executive Director (Deputy Chair - Board of Directors) Primary occupation: Company Director	External Directorship: AIG Insurance New Zealand Limited, Mimomax Wireless Limited, Procare Network Limited, Procare Health Trust, Resolution Life New Zealand Limited, Whakarongorau Aotearoa New Zealand Telehealth Services (GP) Limited.
M.A. (Anne) Blackburn, MA, BA, CFInstD Independent non-executive Director Primary occupation: Company Director	External Directorship: Annuitas Management Limited, Government Superannuation Fund Authority, Fisher Funds Management Limited, FFML Holdco Limited, Kiwi Wealth Limited, Kiwi Wealth Management Limited, Kiwi Investments Management Limited, Kiwi Wealth Investments General Partner Limited, Otway Silva Pty Limited, Portfolio Custodial Nominees Limited, Ponga Silva Limited, Resolution Life New Zealand Limited, Ten Gracie Square Limited, Trust Investments Management 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.
N. (Natalie) Pearce, BCom Independent non-executive Director Primary occupation: Company Director	External Directorship: Home of the Brave, KANDO Holdings Limited, One Thousand Blooms, Tax Management New Zealand Limited, The Sutherland Paget Family Trust.
M.S. (Melanie) Templeton, BBusInf Independent non-executive Director Primary occupation: Company Director	External Directorship: Booster Investment Management Limited, Holmes Group Trustee Limited, MTFS Holdings Limited, Holmes Group Trustee Limited, MTF Direct Limited, MTF Finance Limited, MTF Leasing Limited, MTF Limited, MTF Treasury Limited, MTF Securities Limited, Motor Trade Finance Limited, The Lending People limited, Xerra Earth Observation Institute 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, Te Manawaroa o Ngati Tama Charitable Trust.

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 for the year ended 31 March 2022.

- Murray Bain retired as a Director and Deputy Chair of the Board on 10 June 2022.
- Michael Schubert was appointed as the Deputy Chair of the Board from 10 June 2022.
- Melanie Templeton was appointed as a Director of the Board commencing 1 October 2022.
- Dion Tuuta retired as a Director of the Board on 18 May 2023.

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 five Board members (four 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 CA 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 2023. 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 2023.

In NZD	Board Fee	Audit Committee	Risk Committee	Other Committees	Total
Name of Director					
M.C. Darrow	(Chair) 187,500	-	-	-	187,500
M. Schubert	(Deputy Chair) 91,750	(Chair) 18,750	7,140	1,636	119,276
M.A. Blackburn	84,250	7,140	-	7,884	99,274
P.S. Dalziel	84,250	7,140	-	595	91,985
H.F. Dunlop	84,250	-	7,140	1,636	93,026
K. McDonald	84,250	7,140	(Chair) 17,440	3,437	112,267
N. Pearce	84,250	-	-	15,000	99,250
D.J. Tuuta	84,250	-	-	7,140	91,390
M.S. Templeton	42,500	3,570	-	1,563	47,633
M.I. Bain (retired 10 June 2022)	17,850	2,043	2,262	1,011	23,166
GST on Directors' fees	55,006	2,955	1,378	2,917	62,256
Total	**900,106**	**48,738**	**35,360**	**42,819**	**1,027,023**

Fees paid to Directors of the Bank for the year totalled $1,027,023 (2022: $1,034,788) inclusive of GST.

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 CA. The insurance does not cover liabilities arising from criminal actions.

Directors' Statement

Each Director believes, 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 2023:

(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 these systems were being properly applied.

M.C. Darrow
(Chair – Board of Directors)
21 June 2023

M.Schubert
(Deputy Chair- Board of Directors)
21 June 2023

M.A. Blackburn
21 June 2023

P.S. Dalziel
21 June 2023

H.F. Dunlop
21 June 2023

kevin McDonald
K.C. McDonald
21 June 2023

N. Pearce
21 June 2023

M.S. Templeton
21 June 2023

Disclosure Statement

For the year ended 31 March 2023

All in $000's

Historical Summary of Financial Statements

	2023	2022	2021	2020	2019
Financial Performance					
Total Interest income	321,063	229,678	255,961	307,137	312,614
Interest expense	133,484	67,885	112,328	164,549	174,591
Net interest income	**187,579**	**161,793**	**143,633**	**142,588**	**138,023**
Other income	25,342	19,778	18,269	21,909	23,746
Net operating income	**212,921**	**181,571**	**161,902**	**164,497**	**161,769**
Operating expenses	189,311	136,181	114,554	102,678	94,955
Impairment losses / (reversal of impairment losses)	(5,281)	(8,123)	(2,202)	20,362	4,236
Profit before tax	**28,891**	**53,513**	**49,550**	**41,457**	**62,578**
Tax expense	8,943	15,427	13,914	10,640	17,539
Net profit attributable to shareholder	**19,948**	**38,086**	**35,636**	**30,817**	**45,039**
Dividend	10,000	12,500	-	2,500	10,000
Retained profit for the year	**9,948**	**25,586**	**35,636**	**28,317**	**35,039**
Financial Position					
Total assets	9,149,978	8,960,480	8,778,474	8,179,275	7,819,045
Total impaired assets - loans and advances	34,218	16,728	23,312	17,637	3,814
Deposits	8,314,193	8,180,220	7,998,505	7,420,524	7,093,017
Total liabilities	8,419,360	8,237,220	8,067,566	7,499,323	7,165,920
Shareholder's Equity					
Retained profit for the year	9,948	25,586	35,636	28,317	35,039
Total shareholder's equity	730,618	723,260	710,908	679,952	653,125
Performance					
Return on average shareholder's equity	2.7%	5.3%	5.1%	4.6%	7.1%
Return on average total assets	0.2%	0.4%	0.4%	0.4%	0.6%
Growth in total assets	2.1%	2.1%	7.3%	4.6%	5.4%
Growth in depositors' funds	1.6%	2.3%	7.8%	4.6%	5.2%
Residential lending	6,218,637	5,852,327	5,481,169	5,222,565	4,844,453
Total lending	7,078,141	6,667,219	6,338,291	6,126,597	5,792,049
Operating expenses to net operating income	89%	75%	71%	62%	59%
Prudential					
Shareholder's equity as a % of total assets	7.98%	8.07%	8.10%	8.31%	8.35%
Common equity Tier 1 capital ratio	12.93%	13.54%	14.47%	13.88%	14.57%
Total capital ratio	12.93%	13.54%	14.47%	13.88%	14.57%

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

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2023

All in $000's

Statement of Profit or Loss:

	Note	2023	2022
Interest income calculated using the effective interest method		321,063	229,678
Interest expense		133,484	67,885
Net interest income	2	**187,579**	**161,793**
Other operating income	3	25,342	19,778
Net operating income		**212,921**	**181,571**
Operating expenses	4	189,311	136,181
Profit before credit impairment and tax		**23,610**	**45,390**
Credit impairment losses / (reversal of credit impairment losses)	16(f)	(5,281)	(8,123)
Profit before tax		**28,891**	**53,513**
Tax expense	5	8,943	15,427
Net profit after tax		**19,948**	**38,086**

Statement of Other Comprehensive Income:

Items that may be reclassified subsequently to profit or loss:

	Note	2023	2022
Movement in fair value reserve (debt instruments)		(12,031)	(79,099)
Movement in effective portion of changes in fair value of cash flow hedges		8,435	60,717
Income tax on items that may be reclassified to profit or loss	5	1,006	5,148
Other comprehensive income for the year (net of tax)		**(2,590)**	**(13,234)**
Total comprehensive income for the year		**17,358**	**24,852**

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

These financial statements are to be read in conjunction with the notes on pages 13 - 62.

Statement of Changes in Equity

For the year ended 31 March 2023

All in $000's

For the year ended March 2023	Note	Share capital	Fair value reserve	Cash flow hedge reserve	Retained earnings	Total Equity
Balance at 1 April 2022		**10,000**	**(45,810)**	**44,950**	**714,120**	**723,260**
Total comprehensive income for the period:						
Net profit after tax		-	-	-	19,948	19,948
Other comprehensive income:						
Movement in cash flow hedge reserve		-	-	8,435	-	8,435
Movement in fair value reserve		-	(12,031)	-	-	(12,031)
Related tax			3,369	(2,363)	-	1,006
Total other comprehensive income	14	-	(8,662)	6,072	-	(2,590)
Total comprehensive income for the period		**-**	**(8,662)**	**6,072**	**19,948**	**17,358**
Transactions with owner, recorded directly in equity:						
Dividends to equity holder	13	-	-	-	(10,000)	(10,000)
Total transactions with owner		**-**	**-**	**-**	**(10,000)**	**(10,000)**
Balance at 31 March 2023		**10,000**	**(54,472)**	**51,022**	**724,068**	**730,618**
For the year ended March 2022	**Note**					
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 reverse		-	-	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**

These financial statements are to be read in conjunction with the notes on pages 13 - 62.

Statement of Financial Position

As at 31 March 2023

All in $000's

	Note	2023	2022
Assets			
Cash and cash equivalents		560,428	714,196
Derivative financial instruments	9	86,113	65,477
Investment securities	8	1,366,241	1,459,342
Loans and advances to customers	7	7,078,141	6,667,219
Property, plant and equipment		32,122	32,386
Intangible assets		1,244	1,310
Deferred tax asset	5	22,290	18,306
Other assets		3,399	2,244
Total assets		**9,149,978**	**8,960,480**
Liabilities			
Deposits	10	8,314,193	8,180,220
Derivative financial instruments	9	11,467	5,970
Current tax liability		978	1,510
Other liabilities	11	92,722	49,520
Total liabilities		**8,419,360**	**8,237,220**
Shareholder's Equity			
Share capital	13	10,000	10,000
Fair value reserve	14	(54,472)	(45,810)
Cash flow hedge reserve	14	51,022	44,950
Retained earnings		724,068	714,120
Total shareholder's equity		**730,618**	**723,260**
Total liabilities and shareholder's equity		**9,149,978**	**8,960,480**
Total interest earning and discount bearing assets		8,982,123	8,831,423
Total interest and discount bearing liabilities		7,686,818	7,413,203

For and on behalf of the Board of Directors:

M.C. Darrow
(Chair - Board of Directors)
21 June 2023

M. Schubert
(Deputy Chair - Board of Directors)
21 June 2023

These financial statements are to be read in conjunction with the notes on pages 13 - 62.

Statement of Cash Flows

For the year ended 31 March 2023

All in $000's

	Note	2023	2022
Cash Flows from Operating Activities			
Cash provided from (applied to):			
Interest income received		319,525	226,438
Other income received		24,835	19,770
Interest paid		(132,851)	(70,527)
Operating expenditure		(139,891)	(139,338)
Taxes and subvention payments		(12,451)	(14,492)
Cash flows from operating profits before changes in operating assets and liabilities		**59,167**	**21,851**
Net changes in operating assets and liabilities:			
Increase in loans and advances to customers		(404,837)	(313,351)
Derivative financial instruments		(6,705)	2,330
Increase in deposits		133,972	184,930
Cash flows from operating assets and liabilities		**(277,570)**	**(126,091)**
Net cash flows from operating activities	6	**(218,403)**	**(104,240)**
Cash Flows from Investing Activities			
Cash provided from (applied to):			
Net (purchase) / maturity of investment securities		82,636	399,129
Property, plant and equipment purchased		(4,559)	(3,137)
Intangible assets purchased		(331)	(247)
Net cash flows from investing activities		**77,746**	**395,745**
Cash Flows from Financing Activities			
Cash provided from (applied to):			
Dividends paid		(10,000)	(12,500)
Lease payments		(3,111)	(3,049)
Net cash flows from financing activities		**(13,111)**	**(15,549)**
Net increase in cash and cash equivalents		**(153,768)**	**275,956**
Add cash and cash equivalents at beginning of the year		714,196	438,240
Cash and cash equivalents at end of year		**560,428**	**714,196**

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

	2023	2022
Cash and cash at bank	20,098	21,154
Balances with Reserve Bank	540,330	693,042
Total cash and cash equivalents at end of Year	**560,428**	**714,196**

These financial statements are to be read in conjunction with the notes on pages 13 - 62.

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 21 June 2023.

(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 the following notes.

- 6 Notes to the Statement of Cash Flows - certain comparatives are restated to align with the current period's presentation.
- 16(d) Concentrations of credit exposures - other exposure is included in the total credit exposure.

(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:

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.

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

(g) Financial instruments (continued)

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. 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 and other financial liabilities (refer to Note 10 - Deposits and 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

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

(j) Critical accounting estimates, assumptions and judgements

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

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

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

(k) Standards and amendments issued but not yet effective

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

Accounting standards and amendments

NZ IFRS 17 Insurance Contracts: The standard 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.

Amendments to NZ IAS 8 Accounting Estimates: The amendments introduced the definition of accounting estimates and included other amendments to help entities distinguish changes in accounting estimates from changes in accounting policies.

Amendments to NZ IAS 12 Income Taxes: The amendments narrowed the scope of the recognition exemption so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences such as leases and decommissioning obligations.

These amendments to existing standards are not expected to have a significant impact on the Bank.

Climate standards

In October 2021, the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill was passed and consequently, the External Reporting Board ("XRB") was provided with a mandate to issue climate standards as part of a climate-related disclosures framework, and guidance on environmental, social and governance matters. The XRB has now completed the climate-related disclosure framework, with the following climate standards issued in December 2022:

- Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures (NZ CS 1) - provides the climate-related disclosure requirements for each of the four pillars (Governance, Strategy, Risk Management, and Metrics and Targets) and the assurance requirements for greenhouse gas emissions disclosures;
- Aotearoa New Zealand Climate Standard 2: Adoption of Aotearoa New Zealand Climate Standards (NZ CS 2) - provides optional adoption provisions; and
- Aotearoa New Zealand Climate Standard 3: General Requirements for Climate-related Disclosures (NZ CS 3) - provides the principles, the underlying concepts, and the general requirements.

These climate standards apply to the Bank from the accounting period beginning on 1 April 2023. The Bank has established appropriate governance and has plans in place to ensure it can meet its disclosure obligations under the climate standards for the year-ending 31 March 2024, including the measurement of Scope 1 and 2 Greenhouse Gas emissions in a reliable and repeatable manner from 1 April 2023 onwards.

Management have considered amendments to NZ IFRS which became relevant for the Bank for the first time during the year ended 31 March 2023 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 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**	**2023**	**2022**
Cash and cash equivalents	Amortised cost	17,109	2,269
Loans and advances to customers [1]	Amortised Cost	276,728	199,891
Investment securities	FVOCI	27,226	27,518
Total interest income		**321,063**	**229,678**
Interest expense	**Financial liabilities measured at**		
Deposits from customers [2]	Amortised cost	131,246	66,922
Wholesale deposits	Amortised cost	1,604	390
Lease liability	Amortised cost	634	573
Total interest expense		**133,484**	**67,885**
Net interest income		**187,579**	**161,793**

[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.

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 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.

	Note	2023	2022
Fee income			
Account and card services		8,497	8,880
Foreign exchange services		1,748	1,815
Fund and insurance products distribution		2,200	3,615
Total fee income		12,445	14,310
Gain / (loss) on financial instruments			
Hedge ineffectiveness on cash flow hedging	9	4,372	-
Cumulative gain / (loss) transferred from fair value reserve (designated at FVOCI)		-	881
Total other gains / losses		4,372	881
Other income			
Gain / (loss) on sale of fixed assets		(418)	1,722
Sundry income		8,943	2,865
Total other operating income		**25,342**	**19,778**

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.

	2023	2022
Fees paid to auditor:		
Audit and review of financial statements [1]	410	380
Audit of TSB PIE Unit Trust	5	-
Other assurance services [2]	204	181
Other services [3]	60	230
Total fees paid to auditor	679	791
Depreciation	6,712	6,424
Amortisation of intangible assets	397	382
Directors' fees	1,027	1,035
Personnel	75,442	57,297
Defined contribution plan	2,163	1,605
Information technology	33,310	26,091
Premises occupancy	3,210	3,366
Marketing	10,826	9,286
Debit / Credit card expenses [4]	9,399	9,602
Professional and legal fees	15,663	7,894
Other [5]	30,483	12,408
Total operating expenses	**189,311**	**136,181**

[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 specific IT system risk assessment services and Regulatory Advisory principally related to review of remedial policies/approaches and AML/CFT reporting obligations.

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

[5] Includes the accruals for other provisions in Note 11 - Other Liabilities.

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	**2023**	**2022**
Net profit before tax	28,891	53,513
Tax at 28%	8,089	14,984
Adjustments to prima facie tax	854	443
Tax expense	**8,943**	**15,427**
Income tax recognised in profit or loss		
Current tax expense:		
Current year	10,396	10,552
Prior period adjustments	1,525	279
Deferred tax expense:		
Current year	(3,695)	4,877
Prior period adjustments	717	(281)
Income tax expense	**8,943**	**15,427**
Deferred tax recognised in profit or loss		
Depreciation	(149)	50
Amortisation of intangibles	(2,979)	976
Provision for impairment losses	(1,747)	(2,316)
Other temporary differences*	7,853	(833)
Total deferred tax recognised in profit or loss	**2,978**	**(2,123)**
Income tax recognised in other comprehensive income		
Deferred tax expense:		
Cash flow hedge reserve	(2,363)	(17,000)
Fair value reserve	3,369	22,148
Total deferred tax recognised in other comprehensive income	**1,006**	**5,148**

* Includes temporary differences associated with provisions.

All in $000's

5. Taxation (continued)

	Note	2023	2022
Deferred tax:			
Balance at beginning of year		18,306	15,281
Deferred tax recognised in profit or loss		2,978	(2,123)
Deferred tax recognised in equity		1,006	5,148
Balance at end of year		**22,290**	**18,306**
Deferred tax relates to:			
Property, plant, and equipment		356	505
Amortisation of intangibles		2,465	5,444
Provision for impairment losses		8,333	10,080
Fair value adjustments for derivative financial instruments		(19,842)	(17,480)
Fair value movements on investment securities		21,183	17,815
Other temporary differences		9,795	1,942
Total deferred tax asset		**22,290**	**18,306**

The imputation credits available to carry forward and utilise in future periods are $316.0m (2022: $307.5m).

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 Statement of Cash Flows

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	2023	2022
Net profit after tax	**19,948**	**38,086**
Movements in operating assets and liabilities		
Net decrease / (increase) in operating assets:		
Derivative financial instruments	(6,705)	2,330
Loans and advances to customers	(404,837)	(314,134)
Other assets	(1,155)	387
Net (decrease) / increase in operating liabilities:		
Deposits from customers	133,972	181,715
Other liabilities	41,721	(7,240)
Net movements in operating assets and liabilities	**(237,004)**	**(136,942)**
Non-cash movements and non-operating activities		
Depreciation and amortisation	7,109	6,806
Provision for credit impairment	(5,281)	(8,123)
Net current and deferred tax	(3,509)	(4,803)
Deferred expenditure	650	736
Items from non-operating activities included in net profit before tax	(316)	-
	(1,347)	**(5,384)**
Net cash flows from operating activities	**(218,403)**	**(104,240)**

All in $000's

Financial Position

7. Loans and Advances to Customers

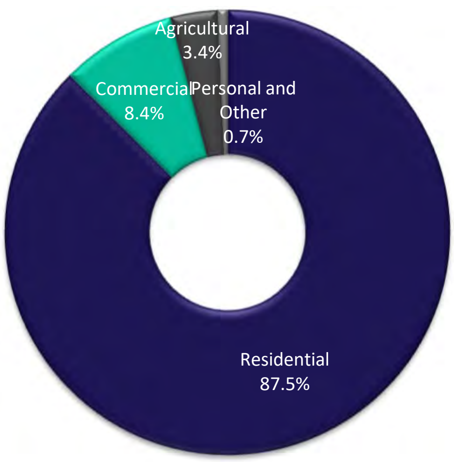
This covers all forms of lending to customers, and include mortgages, overdrafts, personal loans and credit card balances. Loans and advances to customers are recognised in the statement of financial position when cash is advanced to the customer and subsequently measured at amortised cost less allowance 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	2023	2022
Residential	19(d)	6,218,637	5,852,327
Commercial *		593,271	537,771
Agricultural		243,941	268,075
Personal		19,703	20,866
Others		28,511	21,173
Total gross loans and advances to customers		**7,104,063**	**6,700,212**
Less provision for doubtful debts	16(g)	(25,922)	(32,993)
Total loans and advances to customers		**7,078,141**	**6,667,219**

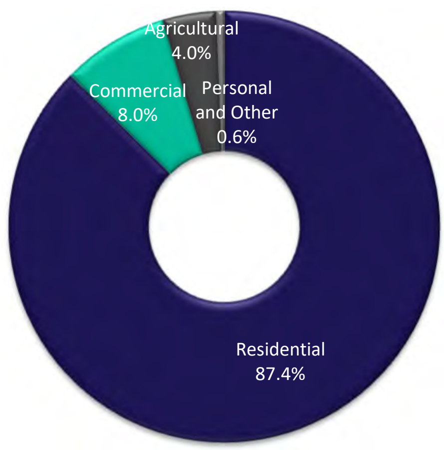
* Commercial includes a loan to Toi Foundation Holdings Limited (refer to Note 21 - Related Party Transactions and Balances for more information).

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

As at 31 March 2023



As at 31 March 2022



- Residential — Residential mortgages include owner-occupied housing and the lending for the purpose of investment in residential property. Residential mortgages comprise 87.5% (2022: 87.4%) 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 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 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)

	2023	2022
Local authority securities	109,447	120,599
Government securities and Government-guaranteed securities	287,141	311,918
Registered bank securities	284,253	313,681
Multilateral development banks and other international organisations	471,391	455,225
Other investments securities*	214,009	257,919
Total investment securities	**1,366,241**	**1,459,342**

* 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:

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.

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.

All in $000's

9. Derivative Financial Instruments (continued)

Cash flow hedge (continued)

The Bank establishes a hedge ratio by aligning the par amount of the exposure to be hedged and notional amount of the interest rate swap designated as a hedging instrument, and assesses the hedge effectiveness at inception and during the lifetime of hedge relationship using regression analysis. The ineffectiveness is the extent to which the change in the present value of future expected cash flows of the derivative hedging instrument does not offset those of the hedged item.

The main source of hedge ineffectiveness in relation to the interest rate swaps arises from differences in critical terms between the interest rate swaps and hedged items.

The amounts relating to items designated as hedging instruments and hedging ineffectiveness at reporting dates are as follows.

	As At 31 Mar 2023			As At 31 Mar 2022		
Cash flow hedges	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	3,494,000	86,113	11,467	2,804,000	65,477	5,970
Total derivative financial instruments	**3,494,000**	**86,113**	**11,467**	**2,804,000**	**65,477**	**5,970**

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

Interest rate swaps	Note	2023	2022
Change in fair value of hedging instrument (life-to-date)		75,495	62,430
Change in value of hedged item (life-to-date)		(71,123)	(62,430)
Hedge ineffectiveness recognised in profit and loss	3	4,372	-

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 2023	3 months or less	3 to 12 months	1 to 2 years	Over 2 years	Total
Interest rate swaps					
Pay fixed	190,000	770,000	1,463,000	606,000	**3,029,000**
Average fixed interest rate paid	0.50%	1.80%	3.19%	2.85%	2.60%
Receive fixed	10,000	275,000	55,000	125,000	**465,000**
Average fixed interest rate received	2.68%	4.00%	1.22%	3.70%	3.56%
Total notional amount	**200,000**	**1,045,000**	**1,518,000**	**731,000**	**3,494,000**
As At 31 Mar 2022					
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**

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

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.

	2023	2022
Retail term deposits *	4,186,534	3,452,075
On call deposits bearing interest*	3,436,708	3,901,158
On call deposits not bearing interest	641,259	782,063
Wholesale deposits bearing interest	49,692	44,924
Total deposits	**8,314,193**	**8,180,220**

***** 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:

	2023	2022
Retail deposits		
Taranaki	3,857,982	3,737,985
Rest of New Zealand	4,263,455	4,245,499
Outside New Zealand	192,756	196,736
Total funding by geographic region	**8,314,193**	**8,180,220**
Government and public authorities	27,850	4,082
Finance (wholesale deposits)	49,692	44,924
Households	8,043,173	7,937,736
Community	72,670	72,670
Commercial	120,808	120,808
Total funding by industry sector	**8,314,193**	**8,180,220**

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.

	2023	2022
Employee entitlements	7,657	6,442
Trade and other payables	37,692	18,190
Lease liabilities	13,884	15,046
Other provisions*	31,704	8,009
Other non-financial liabilities	1,785	1,833
Total other liabilities	**92,722**	**49,520**

*The Bank has been undertaking a regulatory review of its products and services. Provisions have been recognised where this review has identified areas that may result in financial loss and the costs can be reasonably estimated. The information usually required under NZ IAS 37 is not disclosed on the grounds it could impact the position of the Bank.

All creditors and depositors are ranked equally.

12. Fair Value of Financial Instruments

Fair value valuation methodology

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

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

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

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

Fair value estimates

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

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

Derivative assets and liabilities
Derivative financial instruments are classified in level 2 and their fair values are obtained from market yields and discounted cash flow models.
The fair values are estimated using present value or other market acceptable valuation techniques, using methods or assumptions that are based on observable market conditions and risks existing as at the reporting date.

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

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

Refer to 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 2023	Note	At amortised cost	At FVOCI	AT FVPL	Fair value - hedging instruments	Total carrying amount	Fair value
Financial assets:							
Cash and cash equivalents		560,428	-	-	-	560,428	560,428
Derivative financial instruments	9	-	-	-	86,113	86,113	86,113
Investment securities	8	-	1,366,241	-	-	1,366,241	1,366,241
Loans and advances to customers	7	7,078,141	-	-	-	7,078,141	6,953,749
Other assets		3,399	-	-	-	3,399	3,399
Total financial assets		**7,641,968**	**1,366,241**	**-**	**86,113**	**9,094,322**	**8,969,930**
Financial liabilities:							
Deposits	10	8,314,193	-	-	-	8,314,193	8,301,814
Derivative financial instruments	9	-	-	-	11,467	11,467	11,467
Other liabilities		90,937	-	-	-	90,937	90,937
Total financial liabilities		**8,405,130**	**-**	**-**	**11,467**	**8,416,597**	**8,404,218**
As At 31 March 2022							
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**

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 2023	Note	Level 1	Level 2	Level 3	Total
Financial assets:					
Derivative financial instruments		-	86,113	-	**86,113**
Investment securities *	8	161,217	1,205,024	-	**1,366,241**
Total financial assets measured at fair value		**161,217**	**1,291,137**	**-**	**1,452,354**
Financial liabilities:					
Derivative financial instruments		-	11,467	-	**11,467**
Total financial liabilities measured at fair value		**-**	**11,467**	**-**	**11,467**
As At 31 March 2022					
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**

* 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	2023	2022
Issued and fully paid up capital:			
20,000,000 ordinary shares		10,000	10,000
Total share capital		**10,000**	**10,000**

Retained earnings:		2023	2022
Opening balance		714,120	688,534
Net profit after taxation ("NPAT")		19,948	38,086
Retained earnings after NPAT		734,068	726,620
Dividends		(10,000)	(12,500)
Retained earnings at end of period		**724,068**	**714,120**

	31 Mar 2023		31 Mar 2022	
Dividend	$000	$ per share	$000	$ per share
Paid to Toi Foundation Holdings Limited	10,000	0.500	12,500	0.625
Total	**10,000**	**0.500**	**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	2023	2022
Opening balance		44,950	1,233
Change in fair value of hedging instrument recognised in OCI for the year (effective portion)		12,807	60,717
Cumulative (gain) / loss transferred to the profit or loss	3	(4,372)	-
Related tax		(2,363)	(17,000)
Movement in cash flow hedge reserve		6,072	43,717
Closing balance		**51,022**	**44,950**

Fair value reserve	Note	2023	2022
Opening balance		(45,810)	11,141
Gross changes in fair value		(12,031)	(78,218)
Cumulative (gain) / loss transferred to the profit or loss	3	-	(881)
Related tax		3,369	22,148
Movement in fair value reserve		(8,662)	(56,951)
Closing balance		**(54,472)**	**(45,810)**

Risk Management and Capital Adequacy

15. Risk Governance

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

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 over the last twelve 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, educating, and enabling Risk team members and embedding the operating model supporting the risk department. TSB remains committed to taking appropriate steps to continue maturing its risk environment and this is reinforced by the Bank’s strategy and business plan.

The Bank continues to address 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. TSB is committed to taking appropriate steps to mature the technology and data risk environment as soon as practicable.

The Bank remains focused on uplifting key areas of regulatory compliance, including compliance with the Credit Contracts and Consumer Finance Act 2003. Significant progress has been made in the implementation and testing of key controls and reporting designed to assist the Bank with meeting its regulatory obligations. Until these are fully embedded there will remain a degree of uncertainty regarding related risks.

The banking industry relies heavily on the knowledge, skills, and expertise of its workforce to effectively manage operations and deliver value to customers. However, the current economic environment has witnessed a tightening of the labour market, characterised by a shortage of qualified professionals and increased competition for talent. The Bank is undertaking an assessment of the potential risks and the implementation of appropriate measures to mitigate them. TSB remains committed to attracting and retaining skilled employees through, for example, employee training and development, engagement, and well-being policies and practices.

(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 Bank's Delegated Authorities Framework.

The Bank's risk management framework embeds risk management accountability and responsibility throughout the Bank. The Bank’s 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 Bank's strategic objectives and supported by the Bank's 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 and Remuneration Committee (Board Committee)

The role of the People and Remuneration Committee assists the Board in discharging its responsibilities by:

1.1 working with the Board Chair on relevant matters relating to the CEO such as appointment, remuneration and performance;

1.2 providing oversight of the Executive Management , remuneration and performance framework;

1.3 overseeing the effectiveness and integrity of people management strategies, risks policies and procedures of the Bank; and

1.4 making recommendations to the Board accordingly.

Digital Transformation Advisory Committee (Board Committee)

The role of the Digital Transformation Advisory Committee (DTAC) is to assist the Board in discharging its oversight responsibilities by providing support, expert advice, and guidance to assist the Digital Transformation Programme in delivering the outcomes defined in the TSB 2030 Strategy.

Loan Decisioning Risk Committee (Board Committee)

The Loan Decisioning Risk Committee's (LDRC) role is to assist the Board in discharging its responsibilities for the Bank's credit decisions. It is supported by the senior management-level Loan Decision Credit Committee. Its responsibilities are:

1.1 To approve individual loan submissions within its authority, and recommend to the Board for approval of credit submissions outside its authority; and

1.2 Review and oversight of lending portfolio top risks, including general loan portfolio performance as called for from time to time.

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.

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 oversight of effectiveness and compliance with material policies, criteria (standards), procedures, risk limits and reporting requirements;

1.3 monitor performance of the Bank's credit risk grading systems and lending decisioning systems; and

1.4 monitor effectiveness of the delegated credit authority process.

Board members may also attend working groups with the Executives from time to time.

(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.

15. Risk Governance (continued)

(c) Areas of risk management (continued)

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

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

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

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 the 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.

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 Bank's 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 includes 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 cascaded from the Board to the CEO, and a mangement Credit Committee. The CEO delegates to the Head of Credit. All have specific roles within the credit function. Regular meetings are undertaken and reports to 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, 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 conditions 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. 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 from 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 does 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 sheets. 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	2023	2022
On balance sheet			
Cash and cash equivalent		560,428	714,196
Derivative financial instruments		86,113	65,477
Investment securities	8	1,366,241	1,459,342
Loans and advances to customers (net of provision)	7	7,078,141	6,667,219
Other assets		3,399	2,244
Total on-balance sheet exposure		**9,094,322**	**8,908,478**
Off balance sheet			
Lending commitments (net of provision)	22	845,447	876,421
Total off-balance sheet exposure		**845,447**	**876,421**
Total maximum credit risk exposure		**9,939,769**	**9,784,899**

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.

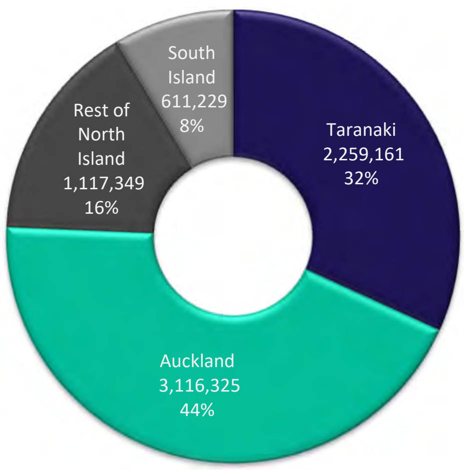
Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes have been used as the basis for disclosing customer industry sectors. An analysis of financial assets by geographic region and industry sector as at balance date is as follows:

(i) Concentration of credit exposure by geographic region

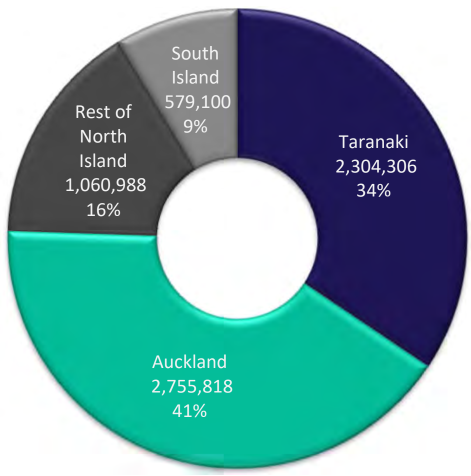
As at 31 March 2023	Note	Cash and cash equivalent	Investment securities	Loans and advances to customers	Other exposure	Lending commitments	Total credit exposure
New Zealand total		560,428	768,927	7,061,015	89,512	849,289	9,329,171
Outside New Zealand		-	597,314	43,048	-	-	640,362
Provision for impairment	16(f),16(g)	-	-	(25,922)	-	(3,842)	(29,764)
Total credit exposure		**560,428**	**1,366,241**	**7,078,141**	**89,512**	**845,447**	**9,939,769**
As at 31 March 2022							
New Zealand total		714,196	855,925	6,657,642	67,721	879,430	9,174,914
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**	**67,721**	**876,421**	**9,784,899**

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

As at 31 March 2023



As at 31 March 2022



(ii) Concentration of credit exposure by industry sector

	Note	2023	2022
Cash on hand		20,098	21,154
Local government lending and investments		164,132	170,606
New Zealand registered banks		284,253	313,681
Multilateral development banks and other international institutions		471,391	455,225
Other financial institutions		156,468	154,093
Sovereigns and Central Bank		827,471	1,004,960
Utilities		57,541	103,826
Agricultural lending		252,067	278,620
Residential lending		6,718,456	6,379,275
Personal and other lending		145,304	141,979
Commercial lending		782,840	729,761
Provision for impairment loss		(29,764)	(36,002)
Other exposure		89,512	67,721
Total credit exposure		**9,939,769**	**9,784,899**

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 2023	"A" Rated	"B" Rated	Total	"A" Rated	"B" Rated	Total
10% - 15%	3	-	3	-	-	-
15% - 20%	-	-	-	2	-	2
Total	**3**	**-**	**3**	**2**	**-**	**2**
Peak exposure						
10% - 15%	3	-	3	-	-	-
15% - 20%	-	-	-	2	-	2
Total	**3**	**-**	**3**	**2**	**-**	**2**

% 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**

"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 October 2021.

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 2023 (2022: $nil).

	2023	2022
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)	12.74%	12.69%
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)	12.74%	12.69%

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 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; and
- Experiencing other forms of financial hardship.

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.

Impact of Cyclone Gabrielle and North Island Floods
The recent weather events, North Island floods and Cyclone Gabrielle, have had an impact on our customers. As at 31 March 2023, 33 customers have been identified through self-reporting as being impacted by these events with a combined exposure of $24m which represents about 0.34% of the total loan portfolio which is roughly in line with our proportionate exposure to the impacted regions relative to the rest of the industry. These customers have been offered financial support packages as they work through the next steps with their insurers and have been downgraded to Stage 2 of the ECL model (Significant Increase in Credit Risk). Consequent increase in provisions was $240k which Credit Risk deems an appropriate level of provision cover for the risk under the current conditions.

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 2023.

(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.

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

16. Credit Risk Management and Asset Quality (continued)

(e) Expected credit loss measurement (continued)

(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. Expected credit losses are the discounted product of the PD, ED and 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.

The ECL is determined by projecting the PD 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 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.

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 5 years.

The following assumptions have been applied 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.
- management temporary adjustments: the Bank implements a temporary model overlay to address some input data and modelling technique shortcomings which renders 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.

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.

All in $000's

16. Credit Risk Management and Asset Quality (continued)

(e) Expected credit loss measurement (continued)

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 65% base and 35% downside scenario in determining its ECL (31 March 2022: 100%/0%). The scenario probabilities were chosen as Management updated its economic base scenario using August 2022 financial and economic forecasts and monitored ongoing economic developments. It was determined that the rapidly increasing cost of living, driven by persistently high inflation, and cost of borrowing, driven by increasing interest rates, are putting strain on personal and family finances increasing the likelihood of a hard economic landing and a stagflationary economic downturn. After carefully weighing the current economic developments and a range of possible outcomes Management reached a conclusion that a 35% likelihood that its downside scenario materialises is appropriate.

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

	31 March 2023		31 March 2022	
	65 % base and 35% downside		100 % base and 0% downside	
ECL sensitivity - weightings applied to forecast scenarios	Total ECL $m	Impact $m	Total ECL $m	Impact $m
100% base scenario	24.6	(5.2)	30.2	-
65% base scenario / 35% downside scenario	29.8	-	34.2	4.0
100% downside scenario	39.3	9.5	40.2	10.0

(f) Provision for expected credit loss

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

For the year ended 31 March 2023	Loans and advances	Lending commitments	Investment securities	Total
Individual impairment expenses	984	-	-	**984**
Collective provision	(1,655)	833	(27)	**(849)**
Specific provision	(5,416)	-	-	**(5,416)**
Credit impairment losses to profit or loss	**(6,087)**	**833**	**(27)**	**(5,281)**
For the year ended 31 March 2022				
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)**

- Loans and advances: amortised cost of the loans and advances is reduced by credit impairment losses (refer to Note 7 - Loans and Advances to Customers).
- 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 Liabilities).

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

As at 31 March 2023	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	21,705	2,147	1,684	386	**25,922**
Lending commitments	11	3,800	42	-	-	**3,842**
Investment securities		(27)	-	-	-	**(27)**
As at 31 March 2022						
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**

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 2022	24,757	1,083	1,351	5,802	32,993
Transfers between stages					
Transferred to Stage 1	630	(226)	(178)	(226)	-
Transferred to Stage 2	(334)	426	(72)	(20)	-
Transferred to Stage 3	(119)	(30)	(369)	518	-
Charged / (credited) to profit or loss	(3,217)	894	988	(4,688)	(6,023)
Amounts written off	(12)	-	(49)	(1,000)	(1,061)
Recovery	-	-	13	-	13
Balance as at 31 March 2023	21,705	2,147	1,684	386	25,922
Off-balance sheet credit related commitments					
Balance as at 1 April 2022	2,843	166	-	-	3,009
Transfers between stages					
Transferred to Stage 1	140	(140)	-	-	-
Transferred to Stage 2	(3)	3	-	-	-
Transferred to Stage 3	(2)	-	-	2	-
Charged / (credited) to profit or loss	822	13	-	(2)	833
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2023	3,800	42	-	-	3,842

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 2022	6,609,121	68,477	5,680	16,934	6,700,212
Transfers between stages					
Transferred to Stage 1	24,429	(18,508)	(825)	(5,096)	-
Transferred to Stage 2	(80,541)	81,089	(295)	(253)	-
Transferred to Stage 3	(32,385)	(3,924)	5,296	31,013	-
Additions	1,427,890	11,693	401	562	1,440,546
Deletions and repayments	(1,017,379)	(7,089)	(3,285)	(8,942)	(1,036,695)
Amounts (written off) / recovered	-	-	-	-	-
Balance as at 31 March 2023	6,931,135	131,738	6,972	34,218	7,104,063
Off-balance sheet credit related commitments - total					
Balance as at 1 April 2022	869,003	7,903	123	2,401	879,430
Transfers between stages					
Transferred to Stage 1	6,703	(6,703)	-	-	-
Transferred to Stage 2	(2,096)	2,096	-	-	-
Transferred to Stage 3	(1,150)	-	8	1,142	-
Additions	204,475	394	16	365	205,250
Deletions and repayments	(231,663)	(1,175)	(2)	(2,551)	(235,391)
Amounts (written off) / recovered	-	-	-	-	-
Balance as at 31 March 2023	845,272	2,515	145	1,357	849,289

Overall the loss allowance is $29.8m or 0.4% of gross loan balances as at 31 March 2023, down from 0.5% as at 31 March 2022. The $6.2m (17.3%) decrease in loss allowance, despite a net $403.9m (6.0%) growth in gross loan balances, was driven by successful management of impaired customers and change in management assumptions around long-term impact of COVID-19 which was offset by portfolio growth and an increased probability of a downside economic scenario.

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 2022	12,315	221	1,196	276	14,008
Transfers between stages					
Transferred to Stage 1	483	(79)	(178)	(226)	-
Transferred to Stage 2	(128)	210	(62)	(20)	-
Transferred to Stage 3	(37)	(29)	(371)	437	-
Charged / (credited) to profit or loss	130	596	771	(242)	1,255
Amounts written off	(12)	-	-	-	(12)
Recovery	-	-	-	-	-
Balance as at 31 March 2023	12,751	919	1,356	225	15,251
Off-balance sheet credit related commitments					
Balance as at 1 April 2022	841	2	-	-	843
Transfers between stages					
Transferred to Stage 1	1	(1)	-	-	-
Transferred to Stage 2	(3)	3	-	-	-
Transferred to Stage 3	(2)	-	-	2	-
Charged / (credited) to profit or loss	(57)	9	-	(2)	(50)
Amounts written off	-	-	-	-	-
Recovery					-
Balance as at 31 March 2023	780	13	-	-	793

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

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 2022	5,808,529	28,491	5,486	9,821	5,852,327
Transfers between stages					
Transferred to Stage 1	16,195	(10,274)	(825)	(5,096)	-
Transferred to Stage 2	(60,842)	61,378	(283)	(253)	-
Transferred to Stage 3	(17,155)	(3,900)	4,982	16,073	-
Additions	1,269,812	11,606	-	562	1,281,980
Deletions and repayments	(904,436)	(5,967)	(3,029)	(2,238)	(915,670)
Amounts (written off) / recovered	-	-	-	-	-
Balance as at 31 March 2023	6,112,103	81,334	6,331	18,869	6,218,637
Off-balance sheet credit related commitments					
Balance as at 1 April 2022	526,394	547	6	-	526,947
Transfers between stages					
Transferred to Stage 1	237	(237)	-	-	-
Transferred to Stage 2	(2,090)	2,090	-	-	-
Transferred to Stage 3	(1,039)	-	8	1,031	-
Additions	134,327	394	-	365	135,086
Deletions and repayments	(161,233)	(941)	(2)	(38)	(162,214)
Amounts (written off) / recovered	-	-	-	-	-
Balance as at 31 March 2023	496,596	1,853	12	1,358	499,819

Residential gross loan balances increased by $366.3m (6.3%) over the period which together with the change in economic outlook and portfolio performance led to a net provision increase of $1.2m (8.0%).

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 2022	7,792	95	-	5,526	13,413
Transfers between stages					
Transferred to Stage 1	94	(94)	-	-	-
Transferred to Stage 2	(30)	30	-	-	-
Transferred to Stage 3	(82)	-	1	81	-
Charged / (credited) to profit or loss	(2,302)	109	141	(4,446)	(6,498)
Amounts written off	-	-	-	(1,000)	(1,000)
Recovery	-	-	-	-	-
Balance as at 31 March 2023	5,472	140	142	161	5,915
Off-balance sheet credit related commitments					
Balance as at 1 April 2022	952	140	-	-	1,092
Transfers between stages					
Transferred to Stage 1	139	(139)	-	-	-
Transferred to Stage 2	-	-	-	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	640	(1)	-	-	639
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2023	1,731	-	-	-	1,731

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 2022	524,192	6,469	-	7,110	537,771
Transfers between stages					
Transferred to Stage 1	6,453	(6,453)	-	-	-
Transferred to Stage 2	(5,498)	5,498	-	-	-
Transferred to Stage 3	(15,189)	-	249	14,940	-
Additions	143,221	-	401	-	143,622
Deletions and repayments	(81,015)	(163)	(243)	(6,701)	(88,122)
Amounts (written off) / recovered	-	-	-	-	-
Balance as at 31 March 2023	572,164	5,351	407	15,349	593,271
Off-balance sheet credit related commitments					
Balance as at 1 April 2022	235,489	6,546	-	2,401	244,436
Transfers between stages					
Transferred to Stage 1	6,466	(6,466)	-	-	-
Transferred to Stage 2	(6)	6	-	-	-
Transferred to Stage 3	(111)	-	-	111	-
Additions	64,411	-	-	-	64,411
Deletions and repayments	(61,994)	(86)	-	(2,513)	(64,593)
Amounts (written off) / recovered	-	-	-	-	-
Balance as at 31 March 2023	244,255	-	-	(1)	244,254

Commercial gross loan balances increased by $55.3m (10.3%) over the period; however, successful management of a large impaired exposure and update to modelling assumptions around future economic losses, including COVID-19 management overlay, led to a provision release of $6.9m (47.3%).

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 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 2022	4,384	743	-	-	5,127
Transfers between stages					
Transferred to Stage 1	51	(51)	-	-	-
Transferred to Stage 2	(175)	175	-	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	(1,086)	181	-	-	(905)
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2023	3,174	1,048	-	-	4,222
Off-balance sheet credit related commitments					
Balance as at 1 April 2022	152	2	-	-	154
Transfers between stages					
Transferred to Stage 1	-	-	-	-	-
Transferred to Stage 2	-	-	-	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	(52)	(2)	-	-	(54)
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2023	100	-	-	-	100

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

Gross loans and advances to customers					
Balance as at 1 April 2022	235,199	32,876	-	-	268,075
Transfers between stages					
Transferred to Stage 1	1,706	(1,706)	-	-	-
Transferred to Stage 2	(14,115)	14,115	-	-	-
Transferred to Stage 3	-	-	-	-	-
Additions	8,753	-	-	-	8,753
Deletions and repayments	(31,928)	(959)	-	-	(32,887)
Amounts (written off) / recovered	-	-	-	-	-
Balance as at 30 September 2022	199,615	44,326	-	-	243,941
Off-balance sheet credit related commitments					
Balance as at 1 April 2022	10,401	144	-	-	10,545
Transfers between stages					
Transferred to Stage 1	-	-	-	-	-
Transferred to Stage 2	-	-	-	-	-
Transferred to Stage 3	-	-	-	-	-
Additions	1,083	-	-	-	1,083
Deletions and repayments	(3,399)	(103)	-	-	(3,502)
Amounts (written off) / recovered	-	-	-	-	-
Balance as at 31 March 2023	8,085	41	-	-	8,126

Agricultural gross loan balances decreased by $24.2m (9.0%) which together with a downgrade of a number of customers to Stage 2 (Significant increase in Credit Risk) of the Collective Provision model led to a net provision release of $1.0m (18.2%).

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 2022	266	24	155	-	445
Transfers between stages					
Transferred to Stage 1	2	(2)	-	-	-
Transferred to Stage 2	(1)	11	(10)	-	-
Transferred to Stage 3	-	(1)	1	-	-
Charged / (credited) to profit or loss	41	8	76	-	125
Amounts written off	-	-	(49)	-	(49)
Recovery	-	-	13	-	13
Balance as at 31 March 2023	308	40	186	-	534
Off-balance sheet credit related commitments					
Balance as at 1 April 2022	898	22	-	-	920
Transfers between stages					
Transferred to Stage 1	-	-	-	-	-
Transferred to Stage 2	-	-	-	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	291	7	-	-	298
Amounts written off	-	-	-	-	-
Recovery	-	-	-	-	-
Balance as at 31 March 2023	1,189	29	-	-	1,218

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

Gross loans and advances to customers					
Balance as at 1 April 2022	41,201	641	194	3	42,039
Transfers between stages					
Transferred to Stage 1	75	(75)	-	-	-
Transferred to Stage 2	(86)	98	(12)	-	-
Transferred to Stage 3	(41)	(24)	65	-	-
Additions	6,104	87	-	-	6,191
Deletions and repayments	-	-	(13)	(3)	(16)
Amounts (written off) / recovered	-	-	-	-	-
Balance as at 31 March 2023	47,253	727	234	-	48,214
Off-balance sheet credit related commitments					
Balance as at 1 April 2022	96,719	666	117	-	97,502
Transfers between stages					
Transferred to Stage 1	-	-	-	-	-
Transferred to Stage 2	-	-	-	-	-
Transferred to Stage 3	-	-	-	-	-
Additions	4,654	-	16	-	4,670
Deletions and repayments	(5,037)	(45)	-	-	(5,082)
Amounts (written off) / recovered	-	-	-	-	-
Balance as at 31 March 2023	96,336	621	133	-	97,090

Other portfolio saw a reduction in gross loan balances of $6.2m (14.7%), however due to deteriorating expectations of future portfolio performance off the back of an increased probability of an economic downturn the portfolio saw a provision increase of $0.4m (28.4%).

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 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 provision
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 provision
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	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	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	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	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
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	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	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 31 March 2022	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
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
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)

(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 2023	Residential mortgage loans	Commercial exposures	Agricultural exposures	Other exposures	Total Credit exposures
Specific provision for impairment					
Balance at beginning of period	276	5,526	-	-	5,802
Addition / (deletion)	(51)	(4,365)	-	-	(4,416)
Current year amounts written off	-	(1,000)	-	-	(1,000)
Reversal of previously recognised provision	-	-	-	-	-
Specific provision balance at end of period	**225**	**161**	**-**	**-**	**386**
Collective provision for impairment					
Balance at beginning of period	14,575	8,979	5,281	1,365	30,200
Recognised in profit or loss	1,244	(1,494)	(959)	387	(822)
Collective provision balance at end of period	**15,819**	**7,485**	**4,322**	**1,752**	**29,378**
Total provision for impairment loss	**16,044**	**7,646**	**4,322**	**1,752**	**29,764**
As at 31 March 2022					
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	-	-	-	-	-
Balance of specific provision 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**

(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 $1.36m at reporting date (2022: $2.39m.)

Other assets under administration:
As at 31 March 2023, the Bank had no (2022: $0.32m) 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 2023	Note	Residential mortgage loans	Commercial exposures	Agricultural exposures	Other exposures	Total Credit exposures
Neither past due or impaired		**6,134,550**	**570,273**	**241,169**	**47,275**	**6,993,267**
Past due assets not impaired:						
Less than 30 days		51,851	7,626	2,772	34	62,283
30 to 59 days		8,197	17	-	642	8,856
60 to 89 days		2,517	-	-	40	2,557
90 days and over		2,653	6	-	223	2,882
Balance of past due but not impaired assets at end of period		**65,218**	**7,649**	**2,772**	**939**	**76,578**
Movements in individually impaired assets:						
Balance at beginning of period		9,707	7,018	-	3	16,728
Additions		562	-	-	-	562
Amounts written off / loans closed out		(2,238)	(6,701)	-	(3)	(8,942)
Transfer back to loans and advances to customers		10,838	15,032	-	-	25,870
Balance of impaired assets at end of period		**18,869**	**15,349**	**-**	**-**	**34,218**
Total gross loans and advances to customers	7	**6,218,637**	**593,271**	**243,941**	**48,214**	**7,104,063**
Less provision for impairment	7	15,251	5,915	4,222	534	25,922
Total loans and advances to customers		**6,203,386**	**587,356**	**239,719**	**47,680**	**7,078,141**
As at 31 March 2022						
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**

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 2023, $38m 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 March 2023, the Bank has total securities of $1.4 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 2023			As at 31 March 2022		
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	560,428	560,428	-	714,196	714,196	-
Derivative financial instruments	86,113	-	86,113	65,477	-	65,477
Investment securities	1,366,241	161,217	1,205,024	1,459,342	163,727	1,295,615
Loans and advances to customers (net of provision)	7,078,141	7,058,438	19,703	6,667,219	6,646,353	20,866
Other assets	3,399	3,399	-	2,244	2,244	-
Total exposure to credit risk	**9,094,322**	**7,783,482**	**1,310,840**	**8,908,478**	**7,526,520**	**1,381,958**

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 (on balance):	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
As at 31 March 2023				
Residential mortgage loans	25,200	1,581	23,619	42,563
Commercial	15,756	303	15,453	256
Agricultural	-	-	-	-
Other	234	186	48	-
Total credit-impaired assets	**41,190**	**2,070**	**39,120**	**42,819**
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**

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 NII. This focus reflects both the importance of NII the Bank's overall earnings and the direct link to changes in interest rates.

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

Foreign currency risk

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

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

(a) Interest rate repricing schedule

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

As at 31 March 2023	0-3 Months	3-6 Months	6-12 Months	1-2 Years	Over 2 Years	Non-Interest sensitive	Total
Assets							
Cash and cash equivalents	540,330	-	-	-	-	20,098	560,428
Derivative financial instruments	-	-	-	-	-	86,113	86,113
Investment securities	166,657	25,270	123,103	270,612	780,599	-	1,366,241
Loans and advances to	1,743,297	911,937	1,513,781	1,960,050	946,487	2,589	7,078,141
Other financial assets	-	-	-	-	-	3,399	3,399
Total financial assets	**2,450,284**	**937,207**	**1,636,884**	**2,230,662**	**1,727,086**	**112,199**	**9,094,322**
Liabilities							
Deposits	4,731,227	1,253,536	1,285,321	257,155	145,695	641,259	8,314,193
Derivative financial instruments	-	-	-	-	-	11,467	11,467
Lease liabilities	697	678	1,296	2,220	8,993	-	13,884
Other financial liabilities *	1	-	-	-	-	77,052	77,053
Total financial liabilities	**4,731,925**	**1,254,214**	**1,286,617**	**259,375**	**154,688**	**729,778**	**8,416,597**
Derivative notional principals (net)	**2,384,000**	**(190,000)**	**(305,000)**	**(1,408,000)**	**(481,000)**	**-**	**-**
Interest sensitivity gap	**102,359**	**(507,007)**	**45,267**	**563,287**	**1,091,398**	**(617,579)**	**677,725**
As at 31 March 2022							
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**

* 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 2023	31 Mar 2022
-2.0%	(9.1)	(6.5)
-1.0%	(4.6)	(2.4)
1.0%	4.6	1.0
2.0%	9.2	3.9

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 ("EVE")

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

Scenarios	Change in EVE ($m)	
	31 Mar 2023	31 Mar 2022
-2.0%	28.6	29.6
-1.0%	14.5	18.4
1.0%	(13.4)	(20.2)
2.0%	(26.5)	(33.9)

The 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.

	2023	2022
Cash and cash equivalents	560,428	714,196
Investment securities:		
Local authority securities	109,447	120,599
Government securities	287,141	311,918
Registered bank securities	284,253	313,681
Other securities	685,400	713,144
Total investment securities	**1,366,241**	**1,459,342**
Total core liquid assets	**1,926,669**	**2,173,538**

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 2023	On demand	0-1 Months	1-3 Months	3-12 Months	1-5 Year	Over 5 Years	Total
Liabilities:							
Deposits	4,048,848	419,895	893,825	2,628,056	441,164	-	8,431,788
Lease liabilities	-	277	556	2,351	6,164	9,950	19,298
Derivative financial instruments							
Inflows from derivatives	-	(11,379)	(26,620)	(113,322)	(110,049)	-	(261,370)
Outflows from derivatives	-	3,856	20,859	70,032	88,936	-	183,683
Other financial liabilities	-	38,445	6,460	2,300	3,740	-	50,945
Total financial liabilities	**4,048,848**	**451,094**	**895,080**	**2,589,417**	**429,955**	**9,950**	**8,424,344**
Lending commitments (off-balance sheet)	**845,447**	**-**	**-**	**-**	**-**	**-**	**845,447**
As at 31 March 2022							
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**

(c) 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 period ended 31 March 2023	Three month period ended 31 December 2022
One-week mismatch ratio	15.2%	15.7%
One-month mismatch ratio	18.2%	18.5%
Core funding ratio	113.0%	115.6%

19. Capital Adequacy

The Bank is subject to regulation by the Reserve Bank of New Zealand ("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 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 $228 million of capital in excess of the minimum capital requirement.

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 2023.

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	2023 31 Mar Unaudited Basel III	2022 31 Mar Unaudited Basel III
Common Equity Tier 1 ("CET1") capital ratio	4.50%	12.93%	13.54%
Tier 1 capital ratio	6.00%	12.93%	13.54%
Total capital ratio	8.00%	12.93%	13.54%
Prudential capital buffer	2.50%	4.93%	5.54%

(b) Regulatory Capital

	Note	2023 Basel III Unaudited	2022 Basel III Unaudited
Tier 1 capital			
CET1 capital:			
Issued and fully paid up share capital		10,000	10,000
Retained earnings		714,120	688,534
Current period's audited retained earnings		9,948	25,586
Fair value reserve		(54,472)	(45,810)
Cash flow hedge reserve		51,022	44,950
		730,618	**723,260**
Less Deductions from CET1 Capital:			
Intangible assets		1,244	1,310
Cash flow hedge reserve		51,022	44,950
Deferred tax assets		22,290	18,306
Implicit risk adjustment*		57,000	57,000
		131,556	**121,566**
Total CET 1 capital		**599,062**	**601,694**
Additional Tier 1 (“AT1”) Capital		-	-
Total Tier 1 capital		**599,062**	**601,694**
Tier 2 capital			
Unrealised revaluation on security holdings at 45%		-	-
Total capital		**599,062**	**601,694**

*Implicit risk adjustment has been made in accordance with Condition 1C of the Bank's Conditions of Registration. Refer to Note 23 - Subsequent Event for the changes made to the Bank's Conditions of Registration after the reporting period.

All in $000's

19. Capital Adequacy (continued)

(c) Credit risk

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

As at 31 March 2023	Total exposure after risk mitigation [1]	Risk weighting	Risk weighted exposure	Minimum Pillar one capital requirement
Cash	11,712	0%	-	-
Sovereigns & RBNZ	827,470	0%	-	-
Multilateral development banks	471,391	0%	-	-
Multilateral development banks	-	20%	-	-
Public sector entities	114,306	20%	22,861	1,829
Banks	40,872	20%	8,174	654
Banks	251,768	50%	125,884	10,071
Corporate	177,378	20%	35,476	2,838
Corporate	36,631	50%	18,315	1,465
Corporate	807,042	100%	807,042	64,563
Residential mortgages not past due:				
Non-property investment <80% LVR *	4,176,612	35%	1,461,814	116,945
Non-property investment 80%<90% LVR *	360,864	50%	180,432	14,435
Non-property investment 90%<100% LVR *	42,555	75%	31,916	2,553
Non-property investment >100% LVR *	2,998	100%	2,998	240
Property investment <80% LVR *	1,547,279	40%	618,911	49,513
Property investment 80%<90% LVR *	7,578	70%	5,305	424
Property investment 90%<100% LVR *	237	90%	213	17
Property investment >100% LVR *	221	100%	221	18
Welcome home <80% LVR *	1,033	35%	361	29
Welcome home 80%<90% LVR *	18,476	35%	6,467	517
Welcome home 90%<100% LVR *	17,295	50%	8,648	692
Welcome home >100% LVR *	748	100%	748	60
Reverse mortgages <60% LVR *	6,761	50%	3,381	270
Reverse mortgages 60%<80% LVR *	-	80%	-	-
Reverse mortgages >80% LVR *	-	100%	-	-
Past due residential mortgages *	20,729	100%	20,729	1,658
Other past due assets	66	100%	66	5
Other past due assets	15,170	150%	22,755	1,820
Other lending	47,617	100%	47,617	3,809
Other assets	35,522	100%	35,522	2,842
Non-risk weighted assets	109,647	0%	-	-
Total on-balance sheet exposures	**9,149,978**		**3,465,856**	**277,267**

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

As at 31 March 2023	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	94,426	0%	-	N/A	-	-
Commitment with certain drawdown	144,163	100%	144,163	47%	67,264	5,381
Commitment with uncertain drawdown	601,980	50%	300,991	57%	170,522	13,642
Other commitment where original maturity is less than or equal to 1 year	1,860	20%	372	37%	138	11
Performance related contingency	3,018	50%	1,509	100%	1,509	121
Market related contracts:						
interest rate contracts [2]	3,494,000	Various	97,358	43%	41,795	3,344
Credit valuation adjustment (CVA)	-		-	0%	22,061	1,765
Total off-balance sheet exposures	**4,339,447**		**544,393**		**303,289**	**24,264**

[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 2023	On balance sheet	Off balance sheet	Total
LVR does not exceed 80%	5,749,740	490,127	6,239,867
LVR exceeds 80% and not 90%	389,083	8,466	397,549
LVR exceed 90%	64,563	433	64,996
Total residential mortgages	**6,203,386**	**499,026**	**6,702,412**

(ii) Reconciliation of residential mortgage related amounts

	Note	2023
Gross residential mortgage loans (on balance sheet exposures)	7, 16(g)	6,218,637
Provision for credit impairment (on balance sheet exposures)	16(g)	(15,251)
Residential mortgage loans (net of provision)	16(g)	6,203,386
Undrawn commitments relating to residential mortgages (off balance sheet exposures)	16(g)	499,819
Provision for credit impairment (off balance sheet exposures)	16(g)	(793)
Undrawn commitments relating to residential mortgages (net of provision)		499,026
Total residential mortgage loans net of provision for credit impairment		**6,702,412**

(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 2023		Implied risk weighted exposure	Aggregate capital charge
End of period capital charges	Interest risk	277,938	22,235
Peak end of day capital charges	Interest risk	293,600	23,488

(f) Risk weighted exposure and total capital requirements

As at 31 March 2023	Total Exposure after credit risk mitigation	Risk weighted exposure or Implied RWE	Capital requirement
Total credit risk plus equity	9,584,724	3,769,146	301,532
Operational risk	N/A	585,613	46,849
Market risk	N/A	277,938	22,235
Total	**9,584,724**	**4,632,697**	**370,616**

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 optionality, operational, regulatory and compliance, cyber, legacy and proprietary systems, control environment, and strategic execution.

The Bank has made an internal capital allocation of $58.5m (2022:$55.4m) 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.

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 ("FFML").

The TSB PIE Unit Trust was wound up on 26 January 2023 with all funds distributed out to the unitholders. While in operation TSB Bank Limited was the manager and promoter, and the New Zealand Guardian Trust Company Limited was the Trustee of the TSB Bank PIE Unit Trust.

As at 31 March 2023, the TSB Bank PIE Unit Trust had $nil (2022: $7.9m) 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 Investments Limited holds 66.01% (2022: 66.01%) effective shareholding of FFML via FFML TopCo Limited. Toi Foundation Holdings Limited sold its interest (10%) in FFML to Toi Foundation Investments Limited in November 2022.

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	2023	2022
Statement of Financial Position			
Loans to Toi Foundation Holdings Limited	7	272	-
Total due from related parties		272	-
Deposits from Toi Foundation		2,128	4,606
Deposits from Toi Foundation Holdings Limited		4,024	7,859
Deposits from Toi Foundation Investments Limited		19	2,218
Total due to related parties		6,171	14,683
Statement of Changes in Equity			
Dividends paid to Toi Foundation	13	10,000	12,500
Statement of Profit or Loss			
Interest income received from Toi Foundation Holdings Limited	2	2	309
Interest expense paid to Toi Foundation	2	95	175
Fee income received from Toi Foundation Holdings Limited		611	261
Commission income received from Fisher Funds Management Limited		1,051	1,037

During the reporting period, subvention payments were made to Toi Foundation Holdings Limited of $0.680m (2022: $0.797m) and Toi Foundation Investments Limited of $0.383m (2022: $0.635m).

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.

	2023	2022
Key management compensation:		
Short-term employee benefits	3,797	4,534
Other long-term benefits	305	305
Termination benefits	-	126
Total key management compensation	**4,102**	**4,965**
Loans to directors and key management personnel:		
Balance at beginning of period	9,610	7,171
Net loans / (repaid) during the period	(65)	2,439
Balance at end of period	**9,545**	**9,610**
Deposits from directors and key management personnel:		
Balance at beginning of period	17,916	16,777
Net deposits received / (repaid) during the period	(115)	1,139
Balance at end of period	**17,801**	**17,916**

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 continues to focus on key areas of regulatory compliance. The Bank's review of the Credit Contracts and Consumer Finance Act 2003 ("CCCFA") in relation to the Bank's products and services remains underway. Where this review has identified areas that may give rise to loss and liability and that can reliably be estimated a provision is included in Other Liabilities (Note 11). The final outcomes and possible exposures that could be associated with this review are complex to ascertain and remain uncertain, given the wide range of matters to be considered under this legislation. This will continue to be subject to further work and consideration.

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. During 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 contingent 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.

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.

	2023	2022
Lending commitments (net of provision):		
Performance-related contingencies	3,018	2,426
Undrawn commitments *	842,429	873,995
Total lending commitments	**845,447**	**876,421**
Other commitments:		
Capital commitments	827	1,460
Total other commitments	**827**	**1,460**
Total commitments	**846,274**	**877,881**

* Includes $83.3m (2022: $83.6m) related to the facility granted to Toi Foundation Holdings Limited, a related entity.

Other Disclosures

23. Subsequent Events

Changes to the Bank's Conditions of Registration

The Bank’s Conditions of Registration were modified by RBNZ as follows:

Effective 1 June 2023

- Mortgage loan-to-value (LVR) restrictions referenced in conditions 19 and 20 have been eased.
- The Bank’s implicit risk capital requirement (formerly referenced in conditions 1C and 1D) has been removed.

Dividend declared

On 21 June 2023, the Board of Directors approved the payment of a fully imputed 2023 final dividend of $5.0 million.

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

Conditions of Registration

These conditions apply on and after 1 July 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%	60%	Stage 1
>2 – 2.5%	100%	None

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

   For the purposes of this condition of registration, 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.

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

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 June 2022.

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" (BS17) dated June 2022.

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

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 June 2022.

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 June 2022.

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

Conditions of Registration

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 no changes to the Bank's Conditions of Registration since the reporting date of the Bank's previous Disclosure Statement.

Refer to the Note 23 - Subsequent Event for the changes made to the Bank's Conditions of Registration after the reporting date.

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 62:

i. give a true and fair view of the Bank's financial position as at 31 March 2023 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. presents fairly the matters to which it relates;

ii. is disclosed in accordance with those schedules; and

iii. has been prepared, in all material respects, in accordance with any conditions of registration relating to the disclosure requirements, imposed under section 74(4)(c) of the Banking (Prudential Supervision) Act 1989 and any conditions of registration.

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 2023;
- the statements of profit and loss, statement of comprehensive income, changes in equity and cash flows for the year then ended;
- notes, including a summary of significant accounting policies and other explanatory information; and
- the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order.

Basis for Opinion

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

We are independent of the Bank in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New

Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Our firm has also provided other assurance services to the Bank in relation to independent assessment of fees and charges compliance and other services in relation to regulatory advisory principally related to review of remedial policies/approaches. 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 $2.58 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

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. The Bank's provision for credit impairment comprises a collective provision and to a lesser extent a specific provision. A significant level of economic uncertainty that remains in the current macro-economic environment with rising interest rates, inflationary pressures on cost of living and falling security values. The result is the judgement and complexity involved in estimating the provision remains	Our audit procedures included: — Evaluating the design and implementation effectiveness of key financial reporting controls relating to the Bank's lending credit review and monitoring processes. — 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, historic data and published independent forecast 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

The key audit matter	How the matter was addressed in our audit
heightened in respect of assessing the long-term impacts. 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. For loans that are 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.	benchmarking managements estimates to a range of different market forecasts. — Performing 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. — Assessing the Bank's significant accounting policies and disclosures in the financial statements against the requirements of NZ IFRS 9 and the appropriateness of the disclosures of key assumptions and sensitivities of these changes on the year-end credit provision.
Application of hedge accounting	

Refer to Note 9 to the disclosure statement.
 	
The Bank enters into derivatives (interest rate swaps) to manage it's interest rate risk. Cash flow hedge accounting is applied to swaps taken out to hedge floating rate loans and funding.
 	
The rapidly changing interest rate environment has meant that the New Zealand retail interest rates have not moved in step with benchmark interest rates and term deposit rates have been below the benchmark interest rates. This divergence creates heightened risk of hedges not demonstrating an effective hedge relationship in order to qualify for hedge accounting and a greater level of ineffectiveness being recognised on those hedges that do continue to meet the requirements for hedge accounting. As a result, the Bank could experience significant
 	
volatility in the Income Statement from changes in the fair value of the derivatives.
 	
Due to the complexity of hedge accounting (including capacity testing) which increased in the current interest rate environment, we consider this to be a key audit matter.
	Our audit procedures included:
	— Reviewing the Bank's accounting policies related to financial instruments and management's approach against the requirements of NZ IFRS 9.
	— Agreeing the terms of the derivatives to the confirmation provided by the derivative counterparty.
	— Using our hedge accounting and valuations specialists we:
	  — Independently recalculated the fair value of all derivatives recorded by the Bank.
	  — Analysed and assessed the appropriateness of the hedge ratio applied by management.
	  — Performed hedge effectiveness calculations for a sample of derivatives and used these results to independently calculate an estimate of hedge ineffectiveness to compare to management's assessment.

Operation of IT system and controls	
The Bank 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.	Our audit procedures included: — Updating our understanding of business processes, key financial reporting controls and IT systems relevant to the planned audit. — Assessing the design and operating effectiveness of the General IT control environment, including the core banking

The key audit matter	How the matter was addressed in our audit
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.	IT system, in-scope automated controls and in-scope reports. — 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 63 to 68 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.

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.

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

For and on behalf of

KPMG

KPMG
Wellington

21 June 2023

Independent Limited Assurance Report to the members of TSB Bank Limited

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

Based on our limited assurance conclusion, which is not a reasonable assurance engagement or audit, nothing has come to our attention that would lead us to believe that the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, disclosed in note 18(c) and note 19 to the Disclosure Statement, is not, in all material respects disclosed in accordance with Schedule 9 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the 'Order').

We have reviewed the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, as disclosed in note 18(c) and note 19 of the Disclosure Statement for the year ended 31 March 2023. 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.

Standards we followed

We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised*) Assurance Engagements other than audits or reviews of historical financial information* and Standard on Assurance Engagements SAE 3100 (Revised) *Assurance Engagements on Compliance*. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion. In accordance with those standards:

- used our professional judgement to plan and perform the engagement to obtain limited assurance that the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements is free from material misstatement and non-compliance, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express a conclusion on the effectiveness of these controls; and
- ensured that the engagement team possess the appropriate knowledge, skills and professional competencies.

How to interpret limited assurance and material misstatement and non-compliance

In a limited assurance engagement, the assurance practitioner performs procedures, primarily consisting of discussion and enquiries of management and others within the entity, as appropriate, and observation and walk-throughs, and evaluates the evidence obtained. The procedures selected depend on our judgement, including identifying areas where the risk of material misstatement and non-compliance with Schedule 9 of the Order is likely to arise.

The procedures performed in a limited assurance engagement vary in nature and timing from and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Misstatements, including omissions, within the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements and non-compliance are considered material if, individually or in the aggregate, they could reasonably be expected to influence the relevant decisions of the intended users taken on the basis of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements.

Inherent Limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that fraud, error or non-compliance with compliance requirements may occur and not be detected.

Restriction of distribution and use

Our report is made solely for the shareholder of TSB Bank Limited. Our assurance work has been undertaken so that we might state to the members those matters we are required to state to them in the assurance report and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the members for our work, for this independent limited assurance report, and/or for the conclusions we have reached.

Director's responsibility 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 in accordance with Schedule 9 of the Order, which the Directors have determined to meet the needs of the recipients. This responsibility includes such internal control as the Directors determine is necessary to enable the preparation of the supplementary information relating to Capital

Adequacy and Regulatory Liquidity Requirements that is free from material misstatement and non-compliance whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion to TSB Bank Limited on whether anything has come to our attention that the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements has not, in all material respects, been prepared in accordance with Schedule 9 of the Order for the year ended 31 March 2023.

Our independence and quality control

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Professional and Ethical Standard 3 (Amended) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our firm has also provided other services to TSB Bank Limited in relation to the audit of the Bank's full-year Disclosure statement and annual report, review of the Bank's half-year Disclosure Statement, other assurance services in relation to independent assessment of fees and charges compliance and other services in relation to regulatory advisory principally related to review of remedial policies/approaches. 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 assurance providers of the Bank for this engagement. The firm has no other relationship with, or interest in, the Bank.

KPMG

KPMG
Wellington

21 June 2023

Glossary of abbreviations

The following abbreviations are used throughout the report.

AML/CFT Act	Anti-Money Laundering and Countering Financing of Terrorism Act 2009
AT1	Additional Tier 1
BPR	Banking Prudential Requirements documents by Reserve Bank of New Zealand
CCCFA	Credit Contracts and Consumer Finance Act 2003
CA	Companies Act 1993
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
M. (Michael) Schubert, BCom, 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.S. (Melanie) Templeton, BBusInf
D.J. (Dion) Tuuta (retired in May 2023)

Executive Management

D. (Donna) Cooper, B Bus, MA Int Bus, CEO
M. (Molly) Auva'a-O'Brien, Dip Travel and Tourism, GM Operational Excellence
J. (Joe) Bishop, BA (Hons), GM Product and Marketing
C. (Chris) Boggs, BCom, MBM, GM People & Strategy
P. (Penny) Burgess, BCom, GM Customer Delivery
G. (Gordon) Davidson, BA, CA, MBA, Chief Financial Officer
J. (Julian) Downs, BSc, GM Technology
G. (Graeme) Scrivener, MA, BA(Hons), Chief Risk Officer
L. (Larissa) Vaughan, LLB (Hons), GM Regulatory Affairs and General Counsel

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