

Bank of New Zealand

Disclosure Statement

For the three months ended 31 December 2016

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This Disclosure Statement has been issued by Bank of New Zealand for the three months ended 31 December 2016 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the “Order”).

In this Disclosure Statement, unless the context otherwise requires:

- a) “Banking Group” means Bank of New Zealand’s financial reporting group, which consists of Bank of New Zealand, all of its wholly owned entities and other entities consolidated for financial reporting purposes; and
- b) Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.

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Bank of New Zealand Corporate Information

Address for Service

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

Nature of Business

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

Guarantees

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

The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to any senior unsecured obligations payable in New Zealand dollars. The Covered Bonds have been assigned a long term credit rating of Aaa and AAA from Moody’s Investors Service Pty Limited and Fitch Australia Pty Limited, respectively. Refer to note 7 for further information. Further details about the above guarantee can be obtained by referring to the Bank’s Disclosure Statement for the year ended 30 September 2016 which is available at www.bnz.co.nz.

Other material obligations of the Bank are not guaranteed.

Ultimate Parent Bank

Ultimate Parent Bank and Address for Service

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

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

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

National Australia Bank Limited does not guarantee the obligations of Bank of New Zealand.

Australian Prudential Regulation Authority (“APRA”) Prudential Standard APS 222 (“APS 222”) restricts associations between an authorised deposit-taking institution (such as National Australia Bank Limited) and its related entities. Any provision of material financial support to the Bank by National Australia Bank Limited would need to comply with the pertinent requirements of APS 222.

In late 2014, APRA initiated a process to reduce Australian bank non-equity exposures to their respective New Zealand banking subsidiaries (which, in the case of National Australia Bank Limited, includes the Bank) and branches, so that these non-equity exposures are minimised during ordinary times. On 19 November 2015, APRA informed National Australia Bank Limited that its Extended Licensed Entity (“ELE”) non-equity exposures to New Zealand banking subsidiaries, including the Bank, were to transition to be below a limit of 5% of National Australia Bank Limited’s Level One Tier One Capital. The ELE consists of National Australia Bank Limited and any APRA approved subsidiary entities assessed effectively as part of a single “stand-alone” entity for the purposes of measuring capital. APRA has regard to a number of factors when approving subsidiary entities for inclusion in the ELE, including ownership, governance, funding arrangements and regulatory characteristics of the subsidiary. Exposures for the purposes of this limit include all committed, non-intraday, non-equity exposures, including derivatives and off-balance sheet exposures. For the purposes of assessing this exposure, the 5% limit excludes equity investments and holdings of capital instruments in New Zealand banking subsidiaries. As at 31 December 2016, National Australia Bank Limited’s non-equity exposures to the Bank are below 5% of National Australia Bank Limited’s Level One Tier One Capital.

APRA has also confirmed the terms on which National Australia Bank Limited may provide contingent funding support to a New Zealand banking subsidiary, including the Bank, during times of financial stress. APRA has confirmed that, at this time, only covered bonds meet its criteria for contingent funding arrangements. Such contingent funding support is proposed to be captured within an aggregate exposure limit (including debt, equity and any exposures held through a branch) of 50% of National Australia Bank Limited’s Level One Tier One Capital.

Pending Proceedings or Arbitration

The Bank’s Directors are of the opinion that there are no pending proceedings or arbitrations concerning any member of the Banking Group, whether in New Zealand or elsewhere, that may have a material adverse effect on the Registered Bank or the Banking Group.

In March 2013, a potential representative action against New Zealand banks was announced in relation to certain fees. Litigation Lending Services (NZ) Limited is funding the action. On 20 August 2014, representative proceedings were filed against the Bank. On 24 September 2014, 30 April 2015, 3 December 2015 and 4 May 2016, these proceedings were stayed. The potential outcome of these proceedings cannot be determined with any certainty at this stage.

On 16 August 2016, a class action complaint was filed in the United States District Court for the Southern District of New York regarding alleged conduct concerning the Bank Bill Swap Reference Rate, which is administered by the Australian Financial Markets Association. The August 2016 complaint named a number of defendants, including the Bank. However, on 16 December 2016, an amended complaint was filed in the United States District Court for the Southern District of New York in which the Bank was no longer named as a defendant in such proceeding.

Bank of New Zealand Corporate Information

Other Matters

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

The New Zealand dairy market has been under financial pressure due to lower milk solid pay-outs in the 2015 and 2016 farming years. More recent indicators support the improvement in milk solid prices; however due to the timing of the bulk of the cash receipts being toward the end of the farming season, it is expected that financial pressure in this sector will continue for a period of time. At this stage, the Bank considers it is well provided to manage this risk.

The RBNZ has published its final outsourcing policy decisions on a revision of its Outsourcing Policy (BS11), which is intended to extend the current outsourcing policy to more explicitly deal with parent bank failure and directly link to the RBNZ's Open Bank Resolution policy. Under the revised policy, the RBNZ will require, among other things, banks to maintain a compendium of outsourced services, and there will be a formal engagement process with the RBNZ on new proposed outsourcing arrangements with related parties. Each non-New Zealand owned bank (including the Bank) will also be required to produce a separation plan for abrupt separation from its parent that is signed off by the bank's senior management and board of directors and approved by the RBNZ. The revised policy provides for a five-year transitional path for affected banks (including the Bank) to become compliant with the policy. The RBNZ plans to consult on an exposure draft of the revised policy before publishing the final wording of the policy (expected in the second (calendar) quarter of 2017). Implementation of, and compliance with, the final policy could result in increased costs to the Bank.

Directorate

Philip Wayne Chronican has been appointed as a Non-Executive Director of the Bank, effective 3 October 2016.

Angela Mentis has been appointed as a Non-Executive Director of the Bank, effective 19 December 2016.

Louis Arthur Hawke has been appointed as an independent Non-Executive Director of the Bank, effective 1 February 2017.

Responsible Persons

Ms. Prudence Mary Flacks, independent Non-Executive Director, and Mr. Anthony John Healy, Executive Director, have been authorised in writing to sign this Disclosure Statement in accordance with section 82 of the Reserve Bank of New Zealand Act 1989, on behalf of the other Directors, being:

Mai Chen
Philip Wayne Chronican
Bruce Ronald Hassall
Louis Arthur Hawke
Kevin John Kenrick
Douglas Alexander McKay
Angela Mentis
Stephen John Moir

Income Statement

For the three months ended 31 December 2016

Dollars in Millions	Note	Consolidated		
		Unaudited 3 Months 31/12/16	Unaudited 3 Months 31/12/15	Audited 12 Months 30/9/16
Interest income		948	1,000	3,854
Interest expense		513	562	2,097
Net interest income		435	438	1,757
Gains less losses on financial instruments	2	38	(1)	106
Other operating income		97	93	406
Total operating income		570	530	2,269
Operating expenses		240	224	889
Total operating profit before impairment losses on credit exposures and income tax expense		330	306	1,380
Impairment losses on credit exposures	8	20	39	120
Total operating profit before income tax expense		310	267	1,260
Income tax expense on operating profit		87	75	347
Net profit attributable to shareholders of Bank of New Zealand		223	192	913

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

Statement of Comprehensive Income

For the three months ended 31 December 2016

Dollars in Millions	Consolidated		
	Unaudited 3 Months 31/12/16	Unaudited 3 Months 31/12/15	Audited 12 Months 30/9/16
Net profit attributable to shareholders of Bank of New Zealand	223	192	913
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Actuarial loss on defined benefit plan	-	-	(1)
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	(7)	32	19
Tax on items transferred directly to/(from) equity	2	(9)	(5)
	(5)	23	13
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	(54)	(28)	19
	(54)	(28)	19
Total other comprehensive income/(expense)	(59)	(5)	32
Total comprehensive income attributable to shareholders of Bank of New Zealand	164	187	945

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

Statement of Changes in Equity

For the three months ended 31 December 2016

Dollars in Millions	Consolidated Unaudited 3 Months 31/12/16					Total Share- holders' Equity
	Ordinary Capital	Perpetual Preference Capital	Retained Profits	Asset Revaluation Reserve	Cash Flow Hedge Reserve	
Balance at beginning of period	2,351	200	4,339	2	113	7,005
Comprehensive income/(expense)						
Net profit attributable to shareholders of Bank of New Zealand	-	-	223	-	-	223
Total other comprehensive income/(expense)	-	-	(5)	-	(54)	(59)
Total comprehensive income/(expense)	-	-	218	-	(54)	164
Buyback of shares	-	(200)	-	-	-	(200)
Ordinary dividend	-	-	(300)	-	-	(300)
Perpetual preference dividend	-	-	(3)	-	-	(3)
Balance at end of period	2,351	-	4,254	2	59	6,666
Unaudited 3 Months 31/12/15						
Balance at beginning of period	2,351	650	3,945	2	94	7,042
Comprehensive income/(expense)						
Net profit attributable to shareholders of Bank of New Zealand	-	-	192	-	-	192
Total other comprehensive income/(expense)	-	-	23	-	(28)	(5)
Total comprehensive income/(expense)	-	-	215	-	(28)	187
Ordinary dividend	-	-	(200)	-	-	(200)
Perpetual preference dividend	-	-	(8)	-	-	(8)
Balance at end of period	2,351	650	3,952	2	66	7,021
Audited 12 Months 30/9/16						
Balance at beginning of year	2,351	650	3,945	2	94	7,042
Comprehensive income/(expense)						
Net profit attributable to shareholders of Bank of New Zealand	-	-	913	-	-	913
Total other comprehensive income/(expense)	-	-	13	-	19	32
Total comprehensive income/(expense)	-	-	926	-	19	945
Buyback of shares	-	(450)	-	-	-	(450)
Ordinary dividend	-	-	(500)	-	-	(500)
Perpetual preference dividend	-	-	(32)	-	-	(32)
Balance at end of year	2,351	200	4,339	2	113	7,005

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

Balance Sheet

As at 31 December 2016

Dollars in Millions		Consolidated		
	Note	Unaudited 31/12/16	Unaudited 31/12/15	Audited 30/9/16
Assets				
Cash and liquid assets	4	1,519	2,059	1,799
Due from central banks and other institutions	5	2,489	1,685	2,299
Trading securities	6	4,905	4,978	4,703
Derivative financial instruments		5,942	5,363	7,319
Loans and advances to customers	7	75,849	69,757	74,378
Current tax assets		-	22	-
Amounts due from related entities	14	2,528	2,283	934
Other assets		332	339	549
Deferred tax		177	161	179
Property, plant and equipment		165	172	165
Goodwill and other intangible assets		231	165	216
Total assets		94,137	86,984	92,541
Financed by:				
Liabilities				
Due to central banks and other institutions	9	2,196	1,287	1,244
Short term debt securities	10	5,346	5,633	6,030
Trading liabilities		127	183	72
Derivative financial instruments		6,633	6,953	7,786
Deposits from customers	11	53,553	48,766	51,481
Bonds and notes		16,591	15,028	16,723
Current tax liabilities		1	-	35
Amounts due to related entities	14	617	316	434
Other liabilities		584	540	809
Subordinated debt	12	1,823	1,257	922
Total liabilities		87,471	79,963	85,536
Net assets		6,666	7,021	7,005
Shareholders' equity				
Contributed equity – ordinary shareholder		2,351	2,351	2,351
Reserves		61	68	115
Retained profits		4,254	3,952	4,339
Ordinary shareholder's equity		6,666	6,371	6,805
Contributed equity – perpetual preference shareholders		-	650	200
Total shareholders' equity		6,666	7,021	7,005

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

Condensed Cash Flow Statement

For the three months ended 31 December 2016

		Consolidated		
		Unaudited 3 Months 31/12/16	Unaudited 3 Months 31/12/15	Audited 12 Months 30/9/16
Dollars in Millions	Note			
Cash flows from operating activities				
Cash was provided from:				
Interest income		940	997	3,877
Other cash inflows provided from operating activities		97	247	403
Cash was applied to:				
Interest expense		(502)	(624)	(2,129)
Other cash outflows applied to operating activities		(575)	(434)	(1,367)
Net cash flows from operating activities before changes in operating assets and liabilities		(40)	186	784
Net change in operating assets and liabilities		377	460	(1,637)
Net cash flows from operating activities		337	646	(853)
Cash flows from investing activities				
Cash inflows provided from investing activities		-	2	2
Cash outflows applied to investing activities		(38)	(24)	(133)
Net cash flows from investing activities		(38)	(22)	(131)
Net cash flows from financing activities		(477)	437	1,219
Net movement in cash and cash equivalents		(178)	1,061	235
Cash and cash equivalents at beginning of period		1,527	1,292	1,292
Cash and cash equivalents at end of period		1,349	2,353	1,527
Cash and cash equivalents at end of period comprised:				
Cash and liquid assets	4	1,519	2,059	1,799
Due from central banks and other institutions classified as cash and cash equivalents	5	576	127	651
Due to central banks and other institutions classified as cash and cash equivalents	9	(1,380)	(630)	(758)
Amounts due from related entities classified as cash and cash equivalents	14	1,218	1,083	239
Amounts due to related entities classified as cash and cash equivalents	14	(584)	(286)	(404)
Total cash and cash equivalents		1,349	2,353	1,527
Reconciliation of net profit attributable to shareholders of Bank of New Zealand to net cash flows from operating activities				
Net profit attributable to shareholders of Bank of New Zealand		223	192	913
Add back non-cash items in net profit		(263)	(6)	(129)
Deduct operating cash flows not included in net profit				
Net change in operating assets and liabilities		377	460	(1,637)
Net cash flows from operating activities		337	646	(853)

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

Notes to and Forming Part of the Interim Financial Statements

For the three months ended 31 December 2016

Note 1 Principal Accounting Policies

These interim financial statements are general purpose financial reports prepared in accordance with the requirements of New Zealand Equivalent to International Accounting Standard (“NZ IAS”) 34 Interim Financial Reporting and the Order, and should be read in conjunction with the Disclosure Statement for the year ended 30 September 2016.

Reclassification of financial information

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

Changes in accounting policies and disclosure

All mandatory standards, amendments and interpretations have been adopted from 1 October 2016. None had a material impact on these interim financial statements.

The accounting policies used in the preparation of these interim financial statements are consistent with the accounting policies used in the preparation of the Disclosure Statement for the year ended 30 September 2016, except as disclosed above.

Notes to and Forming Part of the Interim Financial Statements

Income Statement Notes

	Consolidated		
	Unaudited 3 Months 31/12/16	Unaudited 3 Months 31/12/15	Audited 12 Months 30/9/16
Dollars in Millions			
Note 2 Gains Less Losses on Financial Instruments			
Trading gains less losses on financial instruments			
Foreign exchange trading gain	26	31	114
Interest rate related trading derivatives	73	12	(25)
Other derivatives	-	-	(1)
Net gain/(loss) in the fair value of financial assets and liabilities held for trading	(27)	(15)	48
Trading gains less losses on financial instruments	72	28	136
Other gains less losses on financial instruments			
Hedge accounting			
Net gain/(loss) arising from hedging instruments in fair value hedge accounting relationships	74	16	15
Net gain/(loss) arising from the hedged items attributable to the hedged risk in fair value hedge accounting relationships	(77)	(38)	(62)
Ineffectiveness arising from cash flow hedge accounting relationships	-	-	(1)
	(3)	(22)	(48)
Other			
Net gain/(loss) in the fair value of financial assets (refer to table below)	2	(5)	(8)
Net gain/(loss) in the fair value of financial liabilities (refer to table below)	(39)	(24)	(15)
Bid/offer adjustment	1	(1)	(1)
Net gain/(loss) attributable to other derivatives used for hedging purposes that no longer qualify for hedge accounting	5	23	42
	(31)	(7)	18
Other gains less losses on financial instruments	(34)	(29)	(30)
Total gains less losses on financial instruments	38	(1)	106
Net gain/(loss) in the fair value of financial assets comprised:			
Gain/(loss) in the fair value of financial assets designated at fair value through profit or loss	(64)	(40)	(3)
Credit risk adjustments on financial assets designated at fair value through profit or loss	2	(6)	(4)
Net gain/(loss) attributable to other derivatives used for hedging purposes where hedge accounting is not applied	64	41	(1)
	2	(5)	(8)
Net gain/(loss) in the fair value of financial liabilities comprised:*			
Gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss	161	95	62
Net gain/(loss) attributable to other derivatives used for hedging purposes where hedge accounting is not applied	(200)	(119)	(77)
	(39)	(24)	(15)

* All foreign currency gains/(losses) are excluded from this category. Due to the Banking Group's practice of managing all foreign exchange risk centrally, all foreign currency gains/(losses) are included within 'Foreign exchange trading gain' above.

Notes to and Forming Part of the Interim Financial Statements

Note 3 Segment Analysis

Operating segments

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

The Banking Group's business is organised into two major operating and reportable segments: Retail and Marketing, and BNZ Partners. The Retail and Marketing function provides transactional banking, savings and investments, home loans, credit cards and personal loans to individual and small business customers and, for management reporting purposes, includes insurance activities carried out by a controlled entity of National Australia Bank Limited that is not part of the Banking Group. BNZ Partners provides financial products and services to medium-sized business, agribusiness, private banking, institutional and corporate customers.

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

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

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

	Consolidated				
	Unaudited 3 Months 31/12/16				
Dollars in Millions	Retail and Marketing	BNZ Partners	Total Reportable Segments	Other	Total Banking Group
Net interest income	154	266	420	15	435
Other income	57	66	123	12	135
Total segment revenue	211	332	543	27	570
Operating profit before income tax expense*	111	242	353	(43)	310
Income tax expense/(credit)	31	68	99	(12)	87
Net profit attributable to shareholders of Bank of New Zealand	80	174	254	(31)	223
Unaudited 3 Months 31/12/15					
Net interest income	147	236	383	55	438
Other income	55	64	119	(27)	92
Total segment revenue	202	300	502	28	530
Operating profit before income tax expense*	98	177	275	(8)	267
Income tax expense/(credit)	27	50	77	(2)	75
Net profit attributable to shareholders of Bank of New Zealand	71	127	198	(6)	192
Audited 12 Months 30/9/16					
Net interest income	591	987	1,578	179	1,757
Other income	228	243	471	41	512
Total segment revenue	819	1,230	2,049	220	2,269
Operating profit before income tax expense*	405	784	1,189	71	1,260
Income tax expense/(credit)	112	219	331	16	347
Net profit attributable to shareholders of Bank of New Zealand	293	565	858	55	913

* For the three months ended 31 December 2016, operating profit before income tax expense within the 'Other' category included a fair value loss on financial instruments of \$35 million (three months ended 31 December 2015: \$19 million loss; year ended 30 September 2016: \$29 million loss), which are recorded as part of the overall gains less losses on financial instruments disclosed in note 2.

Notes to and Forming Part of the Interim Financial Statements

Asset Notes

Dollars in Millions	Consolidated		
	Unaudited 31/12/16	Unaudited 31/12/15	Audited 30/9/16
Note 4 Cash and Liquid Assets			
Notes and coins	212	210	135
Transaction balances with central banks	1,134	1,600	1,432
Transaction balances with other institutions	173	249	232
Total cash and liquid assets	1,519	2,059	1,799

Dollars in Millions	Consolidated		
	Unaudited 31/12/16	Unaudited 31/12/15	Audited 30/9/16
Note 5 Due from Central Banks and Other Institutions			
Loans and advances due from other institutions	1,913	1,558	1,648
Securities purchased under agreements to resell with other financial institutions *	-	127	172
Securities purchased under agreements to resell with non-financial institutions *	576	-	479
Total due from central banks and other institutions	2,489	1,685	2,299

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

The Banking Group has accepted collateral of New Zealand government securities with a fair value of \$1,699 million as at 31 December 2016 arising from reverse repurchase agreements included in due from central banks and other institutions and due from related entities (refer to note 14), which it is permitted to sell or repledge (31 December 2015: \$1,160 million; 30 September 2016: \$800 million).

Government securities with a fair value of \$181 million were repledged as at 31 December 2016 (31 December 2015: \$184 million; 30 September 2016: \$87 million). Securities were repledged for periods of less than three months. The Bank's obligation to repurchase government securities is classified under due to central banks and other institutions (refer to note 9).

Included in due from central banks and other institutions as at 31 December 2016 was \$974 million of collateral posted with counterparties to meet standard derivative trading obligations (31 December 2015: \$1,282 million; 30 September 2016: \$1,412 million).

Dollars in Millions	Consolidated		
	Unaudited 31/12/16	Unaudited 31/12/15	Audited 30/9/16
Note 6 Trading Securities			
Government bonds, notes and securities	3,160	2,948	3,241
Semi-government bonds, notes and securities	936	369	510
Corporate and other institutions bonds, notes and securities	809	1,661	952
Total trading securities	4,905	4,978	4,703

Included in trading securities as at 31 December 2016 were \$676 million encumbered through repurchase agreements (31 December 2015: \$18 million; 30 September 2016: \$152 million). These trading securities have not been derecognised from the Bank as the Bank retains substantially all the risks and rewards of ownership. Counterparties have the right to sell or repledge these encumbered securities. The Bank's obligation to repurchase trading securities is classified under due to central banks and other institutions (refer to note 9) and due to related entities (refer to note 14).

Notes to and Forming Part of the Interim Financial Statements

Dollars in Millions	Consolidated		
	Unaudited 31/12/16	Unaudited 31/12/15	Audited 30/9/16
Note 7 Loans and Advances to Customers			
Overdrafts	2,213	2,282	2,387
Credit card outstandings	1,189	1,190	1,131
Housing loans	35,707	32,439	34,914
Other term lending	36,251	33,120	35,354
Other lending	888	1,008	907
Total gross loans and advances to customers	76,248	70,039	74,693
Deduct:			
Specific provision for doubtful debts and credit risk adjustments on individual financial assets (refer to note 8)	104	92	100
Collective provision for doubtful debts and credit risk adjustments on groups of financial assets (refer to note 8)	450	412	445
Deferred and other unearned future income/(expenses)	(87)	(53)	(84)
Fair value hedge adjustments	(68)	(169)	(146)
Total deductions	399	282	315
Total net loans and advances to customers	75,849	69,757	74,378

The BNZ RMBS Trust Series 2008-1 (the “RMBS Trust”) provides an internal residential mortgage-backed securities (“RMBS”) programme to issue securities as collateral for borrowing from the Reserve Bank of New Zealand (“RBNZ”). As at 31 December 2016, included within the Banking Group’s loans and advances to customers were housing loans with a carrying amount of \$4,470 million held by the RMBS Trust (31 December 2015: \$4,465 million; 30 September 2016: \$4,472 million). These housing loans have not been derecognised by the Bank for financial reporting purposes as the Bank retains substantially all of the risks and rewards of ownership. These housing loans and other assets (including cash) of the RMBS Trust secure debt instruments issued to the Bank as detailed in the Liquidity portfolio management section in note 21. The Banking Group had not entered into any repurchase agreements for residential mortgage-backed securities with the RBNZ as at 31 December 2016 (31 December 2015: nil; 30 September 2016: nil). The RBNZ had not accepted any residential mortgage-backed securities as collateral from the Banking Group as at 31 December 2016 (31 December 2015: nil; 30 September 2016: nil) and, as a result, the securities issued by the RMBS Trust remain unencumbered.

The BNZ Covered Bond Trust (the “Covered Bond Trust”) holds certain Bank of New Zealand housing loans and its trustee guarantees the payment of interest and principal under the covered bonds issued by the Bank and BNZ-IF. The assets of the Covered Bond Trust are not available to the Bank unless and until all prior ranking creditors of the Covered Bond Trust have been satisfied. As at 31 December 2016, included within the Banking Group’s loans and advances to customers were housing loans with a carrying amount of \$4,962 million held by the Covered Bond Trust (31 December 2015: \$4,251 million; 30 September 2016: \$4,956 million). These housing loans have not been derecognised by the Bank for financial reporting purposes as the Bank retains substantially all of the risks and rewards of ownership. The Banking Group had issued debt securities with a face value of \$3,845 million that were guaranteed by the Covered Bond Trust as at 31 December 2016 (31 December 2015: \$3,241 million; 30 September 2016: \$3,901 million). The underlying collateral that supports the guarantee provided by the Covered Bond Trust is comprised of housing loans and other assets (including cash) with a carrying amount of \$5,003 million as at 31 December 2016 (31 December 2015: \$4,293 million; 30 September 2016: \$5,003 million).

Notes to and Forming Part of the Interim Financial Statements

Dollars in Millions

	Residential Mortgage Lending Unaudited 31/12/16	Consolidated Other Retail Exposures Unaudited 31/12/16	Corporate Exposures Unaudited 31/12/16	Total Unaudited 31/12/16
Note 8 Asset Quality				
Provision for doubtful debts				
Loans and advances to customers				
<i>Provision for doubtful debts measured on a 12-months expected credit loss ("ECL")</i>				
Collective provision for doubtful debts	1	14	46	61
<i>Provision for doubtful debts measured on a lifetime ECL</i>				
Collective provision for doubtful debts for assets not credit impaired	19	10	211	240
Collective provision for doubtful debts for credit impaired assets	5	8	91	104
Specific provision for doubtful debts for credit impaired assets	9	9	85	103
Total provision for doubtful debts measured on a lifetime ECL	33	27	387	447
Total provision for doubtful debts	34	41	433	508
Credit risk adjustment on financial assets designated at fair value through profit or loss				
Loans and advances to customers				
Credit risk adjustments on individual financial assets	-	-	1	1
Credit risk adjustments on groups of financial assets	-	1	44	45
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	1	45	46
Trading derivative financial instruments				
Credit risk adjustments on groups of financial instruments	-	-	4	4
Pre-allowance balance at end of period				
Loans and advances to customers				
Individually impaired assets - at amortised cost	25	13	208	246
Individually impaired assets - at fair value through profit or loss	-	-	6	6
Total individually impaired assets at end of period*	25	13	214	252
90 days past due assets not individually impaired				
Loans and advances to customers	30	15	143	188
Charges to income statement on financial assets				
Loans and advances to customers				
<i>Charge/(credit) to impairment losses on credit exposure measured on a 12-months ECL</i>				
Impairment losses on group of financial assets	-	1	-	1
<i>Charge/(credit) to impairment losses on credit exposure measured on a lifetime ECL</i>				
Impairment losses on group of assets not credit impaired	7	-	(2)	5
Impairment losses on group of credit impaired assets	1	-	-	1
Impairment losses on individual credit impaired assets	(1)	4	10	13
Total charge/(credit) to impairment losses on credit exposure measured on a lifetime ECL	7	4	8	19
Total charge/(credit) to impairment losses on credit exposures**	7	5	8	20
Charge to income statement on financial assets designated at fair value through profit or loss				
Loans and advances to customers				
Credit risk adjustments on individual financial assets	-	-	-	-
Credit risk adjustments on groups of financial assets	-	-	(2)	(2)
Total charge to income statement on loans and advances to customer designated at fair value through profit or loss	-	-	(2)	(2)
Trading derivative financial instruments				
Charge/(credit) to income statement on groups of financial instruments	-	-	(16)	(16)

* In the NAB 2017 First Quarter Trading Update and the NAB 2017 Pillar 3 Report for 31 December 2016, NZD\$792 million of BNZ's dairy exposures were classified as impaired with no loss, some of which were not past due as at 31 December 2016. The definition of Individually Impaired Assets applied in the table above aligns to New Zealand regulatory requirements. It differs to the definition of Impaired Assets as set out in the Prudential Standard APS 220 by APRA. This APRA definition is used for reporting purposes by the Bank's ultimate parent, NAB in its Pillar 3 report. Under the APRA definition, Impaired Assets include Individually Impaired Assets and also certain exposures that are in default (but for which no loss is expected) where recovery timeframes are expected to be longer than usual.

** Classified as impairment losses on credit exposures in the income statement.

Off-balance sheet impaired assets

Included in note 17, are \$3 million of off-balance sheet facilities to counterparties for whom drawn balances were classified as individually impaired as at 31 December 2016. No specific provision for doubtful debt on individual off-balance sheet credit related commitments had been made as at 31 December 2016.

Notes to and Forming Part of the Interim Financial Statements

Liability Notes

Dollars in Millions	Consolidated		
	Unaudited 31/12/16	Unaudited 31/12/15	Audited 30/9/16
Note 9 Due to Central Banks and Other Institutions			
Transaction balances with other institutions*	638	413	550
Deposits from central banks	177	54	130
Deposits from other institutions**	669	618	382
Securities sold under agreements to repurchase from other institutions*	712	202	182
Total due to central banks and other institutions	2,196	1,287	1,244

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

** Included in deposits from other institutions as at 31 December 2016 was \$30 million classified as cash and cash equivalents in the cash flow statement (31 December 2015: \$15 million; 30 September 2016: \$26 million).

Included in due to central banks and other institutions as at 31 December 2016 was \$341 million of collateral posted by counterparties to meet standard derivative trading obligations (31 December 2015: \$463 million; 30 September 2016: \$284 million). The Bank held no secured deposits from central banks and other institutions as at 31 December 2016 (31 December 2015: nil; 30 September 2016: nil).

Dollars in Millions	Consolidated		
	Unaudited 31/12/16	Unaudited 31/12/15	Audited 30/9/16
Note 10 Short Term Debt Securities			
Certificates of deposit	1,845	2,556	2,357
Commercial paper	3,501	3,077	3,673
Total short term debt securities	5,346	5,633	6,030

Dollars in Millions	Consolidated		
	Unaudited 31/12/16	Unaudited 31/12/15	Audited 30/9/16
Note 11 Deposits from Customers			
Demand deposits not bearing interest	4,905	4,048	4,616
Demand deposits bearing interest	19,377	19,001	19,123
Term deposits	29,271	25,717	27,742
Total deposits from customers	53,553	48,766	51,481

Within term deposits, no collateral was posted by counterparties to meet standard derivative trading obligations (31 December 2015: nil; 30 September 2016: \$2 million).

Notes to and Forming Part of the Interim Financial Statements

Dollars in Millions	Consolidated		
	Unaudited 31/12/16	Unaudited 31/12/15	Audited 30/9/16
Note 12 Subordinated Debt			
Subordinated loans and Perpetual Notes due to related entities	1,280	715	380
Subordinated notes due to external investors	543	542	542
Total subordinated debt	1,823	1,257	922

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

The interest rate for the Perpetual Notes is fixed at 6.7539% per annum until 20 October 2021 ("Optional Exchange Date") and, thereafter, will change to a floating interest rate equal to the New Zealand 3 month bank bill rate plus a margin of 4.41% per annum. Interest payments are non-cumulative and payable annually in arrear in October each year until the Optional Exchange Date. Following the Optional Exchange Date, the interest payments are payable quarterly in arrear in January, April, July and October each year. Interest payments are subject to the Bank's discretion and certain conditions being satisfied (including RBNZ requirements). If interest is not paid, the Bank may not (except in limited circumstances) pay any dividends on its ordinary shares or undertake a share buy-back or other capital reduction until interest is next paid. Unpaid interest is cancelled and does not accumulate.

If a common equity capital trigger event ("CECTE") or a non-viability trigger event ("NVTE") occurs, the Bank must convert some or all of the Perpetual Notes into ordinary shares of the Bank ("Bank Shares"). A CECTE will occur if the Banking Group's Common Equity Tier One capital ratio is equal to or less than 5.125%. A NVTE will occur if the RBNZ directs the Bank to convert or write off the Perpetual Notes or the Bank is made subject to statutory management and the statutory manager decides the Bank must convert or write off the Perpetual Notes.

On the Optional Exchange Date, or on any date if a regulatory or tax event occurs, the Bank may, subject to certain conditions, convert or repay some or all of the Perpetual Notes.

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

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

Holders of the Perpetual Notes do not have any rights to vote in general meetings of the Bank.

In a liquidation of the Bank (if the Perpetual Notes have not been converted or written off) the claims of holders of Perpetual Notes will rank: (1) ahead of claims of holders of Bank Shares and other subordinated securities that, by their terms, rank after the Perpetual Notes; (2) equally with claims of other holders of Perpetual Notes and holders of other subordinated securities that rank equally with the Perpetual Notes; and (3) behind all other claims on the Bank.

If the Perpetual Notes are converted into Bank Shares, holders will rank equally with existing shareholders of the Bank.

Notes to and Forming Part of the Interim Financial Statements

Other Notes

Dollars in Millions

**Consolidated
Unaudited
31/12/16**

Note 13 Interest Earning and Discount Bearing Assets and Liabilities

Interest earning and discount bearing assets	85,657
Interest and discount bearing liabilities	75,272

Dollars in Millions

Note 14 Related Entity Transactions

Total balances with related entities

	Unaudited 31/12/16	Consolidated Unaudited 31/12/15	Audited 30/9/16
Amounts due from related entities	2,528	2,283	934
Derivative financial assets with related entities	1,518	1,326	1,739
Amounts due to related entities	617	316	434
Subordinated loans and Perpetual Notes due to related entities	1,280	715	380
Derivative financial liabilities with related entities	2,239	2,326	2,227

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

	Unaudited 31/12/16	Consolidated Unaudited 31/12/15	Audited 30/9/16
Amounts due from related entities			
Collateral loan posted to ultimate parent to meet standard derivative trading obligations	685	981	483
Securities purchased under agreements to resell to ultimate parent	1,130	1,038	135
Amounts due to related entities			
Securities sold under agreements to repurchase from ultimate parent	142	-	54

Included within the amounts classified as cash and cash equivalents in the cash flow statement were the following balances with related entities:

	Unaudited 31/12/16	Consolidated Unaudited 31/12/15	Audited 30/9/16
Amounts due from related entities	1,218	1,083	239
Amounts due to related entities	584	286	404

Other transactions with related entities

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

Note 15 Contributed Equity

On 28 December 2016, the Bank bought back the \$200 million of perpetual non-cumulative preference shares ("2009A BNZ PPS") issued to National Australia Group (NZ) Limited on 29 December 2009.

Note 16 Fair Value of Financial Assets and Financial Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. For the purposes of this note, carrying value refers to amounts reflected in the balance sheet. The methodologies and assumptions used in the fair value estimates are described on page 18.

Hierarchy for fair value measurements

The tables on page 17 present a three level fair value hierarchy of the Banking Group's financial assets and financial liabilities which are measured at fair value or amortised cost. The fair value of the financial assets and financial liabilities are considered to approximate the carrying value disclosed in the balance sheet with the exception of loans and advances to customers, deposits from customers and subordinated debt. Financial assets and financial liabilities are measured at amortised cost where the carrying value does not equal fair value.

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

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

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

The Banking Group considers transfers between levels of the fair value hierarchy, if any, to have occurred at the beginning of the respective reporting period.

There were no transfers between any of the levels in the three months ended 31 December 2016 (three months ended 31 December 2015: nil; year ended 30 September 2016: nil).

Notes to and Forming Part of the Interim Financial Statements

Note 16 Fair Value of Financial Assets and Financial Liabilities *continued*

Dollars in Millions	Carrying Value	Consolidated			
		Unaudited (31/12/16)			
		Total	Level 1	Level 2	Level 3
Financial assets at fair value					
Due from central banks and other institutions		1,703	-	1,703	-
Trading securities		4,905	3,160	1,745	-
Derivative financial instruments		5,942	-	5,942	-
Loans and advances to customers		5,142	-	5,142	-
Financial assets at amortised cost					
Loans and advances to customers	70,707	70,826	-	2,213	68,613
Financial liabilities at fair value					
Due to central banks and other institutions		846	-	846	-
Short term debt securities		5,346	-	5,346	-
Trading liabilities		127	127	-	-
Derivative financial instruments		6,633	-	6,633	-
Deposits from customers		3,999	-	3,999	-
Bonds and notes		16,591	-	16,591	-
Financial liabilities at amortised cost					
Deposits from customers	49,554	49,734	-	49,734	-
Subordinated debt	1,443	1,447	549	898	-
Unaudited (31/12/15)					
Financial assets at fair value					
Due from central banks and other institutions		1,558	-	1,558	-
Trading securities		4,978	2,948	2,030	-
Derivative financial instruments		5,363	-	5,363	-
Loans and advances to customers		6,559	-	6,559	-
Financial assets at amortised cost					
Loans and advances to customers	63,198	63,474	-	2,282	61,192
Financial liabilities at fair value					
Due to central banks and other institutions		672	-	672	-
Short term debt securities		5,633	-	5,633	-
Trading liabilities		183	183	-	-
Derivative financial instruments		6,953	-	6,953	-
Deposits from customers		4,610	-	4,610	-
Bonds and notes		15,028	-	15,028	-
Financial liabilities at amortised cost					
Deposits from customers	44,156	44,381	-	44,381	-
Subordinated debt	542	548	548	-	-
Audited (30/09/16)					
Financial assets at fair value					
Due from central banks and other institutions		1,412	-	1,412	-
Trading securities		4,703	3,241	1,462	-
Derivative financial instruments		7,319	-	7,319	-
Loans and advances to customers		5,562	-	5,562	-
Financial assets at amortised cost					
Loans and advances to customers	68,816	69,093	-	2,387	66,706
Financial liabilities at fair value					
Due to central banks and other institutions		512	-	512	-
Short term debt securities		6,030	-	6,030	-
Trading liabilities		72	72	-	-
Derivative financial instruments		7,786	-	7,786	-
Deposits from customers		6,193	-	6,193	-
Bonds and notes		16,723	-	16,723	-
Financial liabilities at amortised cost					
Deposits from customers	45,288	45,507	-	45,507	-
Subordinated debt	542	564	564	-	-

Notes to and Forming Part of the Interim Financial Statements

Note 16 Fair Value of Financial Assets and Financial Liabilities *continued*

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

Due from central banks and other institutions, Due to central banks and other institutions and Short term debt securities

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

Trading securities and Trading liabilities

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

Derivative financial instruments

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

Loans and advances to customers

The carrying value of loans and advances is net of allowance for impairment losses, credit risk adjustments, unearned and deferred income. Floating rate loans to customers generally reprice within six months, therefore, their fair value is assumed to equate to their carrying value. For fixed rate loans, the fair value is estimated by discounting the expected future cash flows based on the maturity of the loans and advances, using current market interest rates of similar types of loans and advances or interest rate swap rates. The differences between estimated fair values of loans and advances and carrying value reflect the difference between observable market interest rates and customer rates on day one and changes in interest rates and creditworthiness of borrowers since loan or advance origination.

Deposits from customers

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

Bonds and notes

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

Subordinated debt

Subordinated loans due to related entities reprice every 90 days, therefore, their fair value is considered to approximate their carrying value. For perpetual notes due to related entities the fair value is estimated by discounting the expected future cash flows based on the maturity of the notes, using current market interest rates of similar types of notes. The fair value of subordinated notes due to external investors is based on quoted closing market prices as at the reporting date.

Other financial assets/liabilities

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

Notes to and Forming Part of the Interim Financial Statements

Note 17 Contingent Liabilities and Credit Related Commitments

Bank of New Zealand and other income tax group members have a joint and several liability for the income tax liability of the income tax group. Bank of New Zealand is not expected to incur any additional tax liability as a result of this joint and several liability.

Contingent liabilities and credit related commitments exist in respect of commitments to extend credit, letters of credit and financial guarantees, as well as claims, potential claims and court proceedings against entities in the Banking Group. Any potential liability arising in respect of these claims cannot be accurately assessed with certainty. Where some loss is probable provisions have been made.

In March 2013, a potential representative action against New Zealand banks was announced in relation to certain fees. Litigation Lending Services (NZ) Limited is funding the action. On 20 August 2014, representative proceedings were filed against the Bank. On 24 September 2014, 30 April 2015, 3 December 2015 and 4 May 2016, these proceedings were stayed. The potential outcome of these proceedings cannot be determined with any certainty at this stage.

The Labour Inspectorate of the Ministry of Business, Innovation and Employment is currently undertaking a programme of compliance audits of a number of New Zealand organisations in respect of the Holidays Act 2003 (the "Holidays Act"). The Bank requested early participation in this programme in May 2016 and received the Labour Inspectorate's final report, which set out its findings regarding the Bank's compliance with the Holidays Act, on 18 January 2017. The findings suggested that the Bank has not complied with certain requirements of the Holidays Act, including in respect of annual and public holiday payments to certain employees. The Bank is reviewing the findings and intends to work with the Labour Inspectorate to reach an appropriate resolution. At this stage, the final outcome of the audit, including possible remediation, cannot be determined with any certainty.

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

Dollars in Millions	Consolidated		
	Unaudited 31/12/16	Unaudited 31/12/15	Audited 30/9/16
Contingent liabilities			
Bank guarantees	70	67	65
Standby letters of credit	304	373	349
Documentary letters of credit	99	218	126
Performance related contingencies	517	429	466
Total contingent liabilities	990	1,087	1,006
Credit related commitments			
Revocable commitments to extend credit	8,141	7,624	8,012
Irrevocable commitments to extend credit	9,552	9,116	9,839
Total credit related commitments	17,693	16,740	17,851
Total contingent liabilities and credit related commitments	18,683	17,827	18,857

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

The Banking Group's disclosure of concentrations of credit exposures to individual counterparties and groups of closely related counterparties is based on actual credit exposures and excludes credit exposures to connected persons, the central government of any country with a long term credit rating of A- or A3 or above, or its equivalent, and banks with a long term credit rating of A- or A3 or above, or its equivalent. Peak credit exposures to individual counterparties are calculated using the Banking Group's end of period shareholders' equity.

Number of non-bank counterparties	Consolidated Unaudited (31/12/16) Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties* Long Term Credit Rating	
	Peak End-of-Day A- or A3 or above or its equivalent	Balance Sheet Date A- or A3 or above or its equivalent
Percentage of shareholders' equity		
10-14%	1	1
15-19%	1	-
Over 20%	-	-

* The Banking Group has revised its methodology to calculate credit exposures based on maximum exposure to credit risk, which includes financial guarantees and undrawn loan commitments. This table reflects the change in methodology. Under the previous methodology, the Banking Group had no non-bank counterparties that met the disclosure thresholds.

Where the Banking Group is funding large loans, it is common practice to share the risk of a customer default with other connected banks or enter into other risk lay-off arrangements. The above table has been compiled using gross exposures before risk lay-offs. No account is taken of collateral, security and/or netting agreements which the Banking Group may hold in respect of the various counterparty exposures.

As at 31 December 2016 and for the three months ended 31 December 2016, the Banking Group had no bank counterparties to whom their aggregate credit exposure equalled or exceeded 10% of the Banking Group's equity and met the disclosure thresholds described above.

In Note 38 on Concentrations of Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties (on page 56) of the BNZ Disclosure Statement for the year ended 30 September 2016, two incorrect column headings were used which indicated the exposures being reported were to non-banks with no long term credit rating. In both instances the exposures were to counterparties with credit ratings of A- or A3 or above (or its equivalent). The correct title is "A- or A3 or above or its equivalent".

Notes to and Forming Part of the Interim Financial Statements

Note 19 Insurance Business

The Banking Group does not conduct any Insurance Business, as defined in the Bank's conditions of registration. The Bank's conditions of registration can be obtained by referring to the Bank's Disclosure Statement for the year ended 30 September 2016.

Note 20 Capital Adequacy

The tables included below and on the following page detail the capital calculation, capital ratios and capital requirements as at 31 December 2016. During the financial period the Banking Group fully complied with all RBNZ's capital requirements as set out in the Bank's conditions of registration.

The Bank's conditions of registration require capital adequacy ratios for the Banking Group to be calculated under the Basel III framework in accordance with the RBNZ's current Capital Adequacy Framework (Internal Models Based Approach) ("BS2B").

Regulatory capital

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

	Consolidated Unaudited 31/12/16
Dollars in Millions	
Qualifying capital	
Common Equity Tier One capital (before deductions)	6,605
Deductions from Common Equity Tier One capital	493
Total Common Equity Tier One capital (net of all deductions)	6,112
Total Additional Tier One capital*	900
Total Tier One capital	7,012
Total Tier Two capital**	914
Total Tier One and Tier Two qualifying capital	7,926

* On 20 October 2016, the Bank issued Perpetual Notes of \$900 million which are treated as Additional Tier One capital under the Bank's regulatory capital requirements. Refer to note 12 for further information. Perpetual preference shares of \$200 million were repurchased in December 2016.

** Included within the Banking Group's Tier Two capital is an asset revaluation reserve of \$2 million, Subordinated notes due to external investors of \$550 million, and Subordinated loans due to related entities of \$362 million. Subordinated loans due to related entities are subject to phase-out in accordance with BS2B. The phase-out, which commenced on 1 January 2014, takes place over five years, with the maximum eligible amount of Tier Two capital for these instruments declining by 20% each year. The base amount for phase-out was fixed at the nominal amount outstanding as at 1 January 2013 and amounted to \$905 million. Subordinated loans due to related entities of \$190 million and \$335 million were repaid in February 2014 and June 2016 respectively.

Banking Group Basel III regulatory capital ratios

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

	Consolidated Regulatory Minima	Unaudited 31/12/16
Common Equity Tier One capital ratio	4.50%	10.09%
Tier One capital ratio	6.00%	11.58%
Total qualifying capital ratio	8.00%	13.09%
Buffer ratio	2.50%	5.09%

Total regulatory capital requirements

	Consolidated Total Capital Requirement*** Unaudited 31/12/16
Dollars in Millions	
Credit risk	
Equity exposures	4
Specialised lending subject to the slotting approach	607
Exposures subject to the standardised approach	91
Credit value adjustment subject to BS2B	80
Total credit risk not subject to the internal ratings based approach	782
Exposures subject to the internal ratings based approach	3,477
Total credit risk	4,259
Operational risk	350
Market risk	235
Total	4,844

*** In calculating the total capital requirement, a scalar of 1.06 has been applied to the risk-weighted assets, as required by the RBNZ in accordance with the Bank's conditions of registration.

Notes to and Forming Part of the Interim Financial Statements

Note 20 Capital Adequacy *continued*

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

	Consolidated Total Minimum Capital Requirement Unaudited 31/12/16
Dollars in Millions	
Corporate	2,268
Sovereign	10
Bank	52
Residential mortgage	990
Other retail*	107
Retail small to medium enterprises	50
Total credit risk exposures subject to the IRB approach**	3,477

* Other retail includes credit cards, current accounts and personal overdrafts.

** The BS2B credit value adjustment has not been included in the above exposures.

Residential mortgages by loan-to-valuation ratio

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

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

	Consolidated		
	On-balance Sheet Exposures at Default Unaudited 31/12/16	Off-balance Sheet Exposures at Default*** Unaudited 31/12/16	Total Exposures at Default Unaudited 31/12/16
Dollars in Millions			
LVR Range			
0-59%	13,209	1,254	14,463
60-69%	7,650	576	8,226
70-79%	11,993	785	12,778
80-89%	1,488	23	1,511
Over 90%	1,372	272	1,644
Total exposures at default secured by residential mortgages	35,712	2,910	38,622

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

Capital for other material risks

As at 31 December 2016, the Banking Group had an internal capital allocation for strategic business risk of \$111 million. The assessment of business risk covers strategic, reputation and earnings risk.

Note 21 Risk Management

There have been no material changes to the Banking Group's policies for managing risk, or material exposures to new categories of risk since 30 September 2016.

Liquidity portfolio management

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

	Consolidated Unaudited 31/12/16
Dollars in Millions	
Cash and balances immediately convertible to cash	2,657
Securities purchased under agreements to resell	576
Government bonds, notes and securities****	2,303
Semi-government bonds, notes and securities	936
Corporate and other institution bonds, notes and securities	809
Total liquidity portfolio	7,281

**** Government bonds, notes and securities that are encumbered through repurchase agreements have been excluded in the above table as they are not held for liquidity management purposes.

As at 31 December 2016, the Banking Group also held unencumbered RMBS of \$4,491 million of which \$4,300 million are available to be sold to the RBNZ under agreements to repurchase for liquidity purposes. These RMBS are secured by residential housing loans and other assets. Refer to note 7 for further information. The Banking Group had not entered into any repurchase agreements for residential mortgage-backed securities with the RBNZ as at 31 December 2016.

As at 31 December 2016, there was an A\$500 million standby liquidity facility, which is reviewed annually, provided from National Australia Bank Limited for the Bank's liquidity management.

Credit Ratings

Bank of New Zealand has the following credit ratings applicable to its long term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

Rating Agency	Current Credit Rating	Qualification
Standard & Poor’s (Australia) Pty Limited	AA -	Outlook Negative
Moody’s Investors Service Pty Limited	Aa3	Outlook Negative
Fitch Australia Pty Limited	AA-	Outlook Stable

Conditions of Registration

Changes in conditions of registration

During the reporting period the following changes were made to the Bank’s Conditions of Registration:

From 1 October 2016, the Bank’s Conditions of Registration were updated to:

- Impose conditions of registration relating to residential mortgage lending nationwide to property investors and non-property investors. The conditions allow only a small (5%) flow of investor mortgage lending with LVRs greater than 60%, and a 10% flow of non-property investor lending with LVRs above 80%.
- Refer to a revised version of “Framework for Restrictions on High-LVR Residential Mortgage Lending” (BS19) which amends some of the terms and conditions (including exemptions) relating to the LVR conditions of registration.

Directors' Statement

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

1. as at the date on which the Disclosure Statement is signed:
 - (a) the Disclosure Statement contains all the information that is required by the Order; and
 - (b) the Disclosure Statement is not false or misleading; and
2. during the three months ended 31 December 2016:
 - (a) the Bank has complied with its conditions of registration applicable during that period;
 - (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
 - (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 23rd of February 2017 and signed by Ms. Flacks and Mr. Healy as Directors and as responsible persons on behalf of all the other Directors.



P M Flacks
Director



A J Healy
Managing Director and Chief Executive Officer

