Bank of New Zealand

Disclosure Statement

For the three months ended 31 December 2014

No. 76

Disclosure Statement

For the three months ended 31 December 2014

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

In this Disclosure Statement, unless the context otherwise requires:

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

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

Contents

Bank of New Zealand Corporate Information

Address for Service

The name of the Registered Bank is Bank of New Zealand (referred to either by its full name or as the "Bank" or the "Company") 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 to retail, business, agribusiness, corporate and institutional clients.

Guarantees

Covered bond guarantee – Certain debt securities ("Covered Bonds") issued by the Bank, or its controlled entity, BNZ International Funding Limited, acting through its London Branch, are guaranteed by the CBG Trustee Company Limited, solely in its capacity 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 35, Vero Centre, 48 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 rating of Aaa and AAA from Moody's Investors Service and Fitch Ratings 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 2014 which is available at www.bnz.co.nz.

Other material obligations of the Bank are not guaranteed.

Ultimate Parent Bank and Address for Service

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

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 (including, potentially, Bank of New Zealand) 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, these proceedings were stayed pending the outcome of proceedings in Australia. The potential outcome of these proceedings cannot be determined with any certainty at this stage.

Other Material Matters

During the reporting period, global financial market conditions were less volatile than in recent years but the Bank remains very aware of a potential increase in risks. The Bank considers it has an adequate liquidity, funding and capital base to manage through a period of uncertainty.

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.

Directorate

Michaela Jane Healey was appointed as a Non-Executive Director of the Bank, effective 6 October 2014.

Responsible Persons – Messrs. John Anthony Waller, Non-Executive Director, Chairman, and 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:

Prudence Mary Flacks
Michaela Jane Healey
Dr Susan Carrel Macken
Douglas Alexander McKay
Stephen John Moir
Dr Andrew John Pearce
Gavin Robin Slater

Income Statement

For the three months ended 31 December 2014

Dollars in Millions	Note	Consolidated **Unaudited 3 Months 31/12/14**	Unaudited 3 Months 31/12/13	Audited 12 Months 30/9/14
Interest income		**1,069**	944	3,926
Interest expense		**653**	544	2,302
Net interest income		**416**	400	1,624
Gains less losses on financial instruments[1]	2	**27**	1	69
Other operating income		**99**	114	443
Total operating income		**542**	515	2,136
Operating expenses		**215**	221	901
Total operating profit before impairment losses on credit exposures and income tax expense		**327**	294	1,235
Impairment losses on credit exposures	8	**4**	18	74
Total operating profit before income tax expense		**323**	276	1,161
Income tax expense on operating profit		**91**	78	311
Net profit attributable to shareholders of Bank of New Zealand		**232**	198	850

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 2014

Dollars in Millions	Consolidated **Unaudited 3 Months 31/12/14**	Unaudited 3 Months 31/12/13	Audited 12 Months 30/9/14
Net profit attributable to shareholders of Bank of New Zealand	**232**	198	850
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Actuarial gain on defined benefit plan	**-**	-	2
Credit risk adjustments on financial liabilities designated at fair value through profit or loss[1]	**33**	-	(2)
Tax on items transferred directly to equity	**(10)**	-	1
	23	-	1
Items that may be reclassified subsequently to profit or loss			
Change in cash flow hedge reserve	**33**	(33)	(18)
Change in available for sale investments revaluation reserve	**-**	6	(55)
	33	(27)	(73)
Total other comprehensive income/(expense)	**56**	(27)	(72)
Total comprehensive income attributable to shareholders of Bank of New Zealand	**288**	171	778

[1] In accordance with NZ IFRS 9 (2013) Financial Instruments, the Banking Group has presented the credit risk adjustments on financial liabilities designated at fair value through profit or loss for the three months ended 31 December 2014 and for the year ended 30 September 2014 in other comprehensive income. Comparative balances for 31 December 2013 are presented in the income statement and have not been restated. Refer to note 1 for further information.

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 2014

	Consolidated						
	Unaudited 3 Months 31/12/14						
Dollars in Millions	**Ordinary Capital**	**Perpetual Preference Capital**	**Retained Profits**	**Asset Revaluation Reserve**	**Available For Sale Investments Revaluation Reserve**	**Cash Flow Hedge Reserve**	**Total Share-holders' Equity**
Balance at beginning of period	**1,851**	**650**	**3,257**	**2**	**-**	**(19)**	**5,741**
Comprehensive income							
Net profit attributable to shareholders of Bank of New Zealand	**-**	**-**	**232**	**-**	**-**	**-**	**232**
Total other comprehensive income	**-**	**-**	**23**	**-**	**-**	**33**	**56**
Total comprehensive income	**-**	**-**	**255**	**-**	**-**	**33**	**288**
Perpetual preference dividend	**-**	**-**	**(8)**	**-**	**-**	**-**	**(8)**
Balance at end of period	**1,851**	**650**	**3,504**	**2**	**-**	**14**	**6,021**
	Unaudited 3 Months 31/12/13						
Balance at beginning of period	1,851	910	2,870	2	55	(1)	5,687
Comprehensive income/(expense)							
Net profit attributable to shareholders of Bank of New Zealand	-	-	198	-	-	-	198
Total other comprehensive income/(expense)	-	-	-	-	6	(33)	(27)
Total comprehensive income/(expense)	-	-	198	-	6	(33)	171
Ordinary dividend	-	-	(210)	-	-	-	(210)
Perpetual preference dividend	-	-	(12)	-	-	-	(12)
Balance at end of period	1,851	910	2,846	2	61	(34)	5,636
	Audited 12 Months 30/9/14						
Balance at beginning of year	1,851	910	2,870	2	55	(1)	5,687
Comprehensive income/(expense)							
Net profit attributable to shareholders of Bank of New Zealand	-	-	850	-	-	-	850
Total other comprehensive income/(expense)	-	-	1	-	(55)	(18)	(72)
Total comprehensive income/(expense)	-	-	851	-	(55)	(18)	778
Buyback of shares	-	(260)	-	-	-	-	(260)
Ordinary dividend	-	-	(420)	-	-	-	(420)
Perpetual preference dividend	-	-	(44)	-	-	-	(44)
Balance at end of year	1,851	650	3,257	2	-	(19)	5,741

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 2014

Dollars in Millions	Note	Consolidated Unaudited 31/12/14	Unaudited 31/12/13	Audited 30/9/14
Assets				
Cash and liquid assets	4	**1,947**	1,714	1,779
Due from central banks and other institutions	5	**2,395**	1,463	2,822
Trading securities	6	**4,777**	4,845	4,396
Available for sale investments		**-**	72	-
Derivative financial instruments		**3,580**	3,754	4,644
Loans and advances to customers	7	**65,224**	62,596	64,437
Current tax assets		**4**	17	-
Amounts due from related entities	13	**1,099**	337	743
Other assets		**307**	350	374
Deferred tax		**138**	124	138
Property, plant and equipment		**187**	209	189
Goodwill and other intangible assets		**155**	182	163
Total assets		**79,813**	75,663	79,685
Financed by:				
Liabilities				
Due to central banks and other institutions	9	**1,346**	2,176	2,147
Short term debt securities	10	**4,906**	4,977	4,963
Trading liabilities		**111**	146	235
Derivative financial instruments		**4,750**	4,033	4,438
Deposits from customers	11	**45,880**	42,728	45,379
Bonds and notes		**15,083**	14,226	14,651
Current tax liabilities		**-**	-	4
Amounts due to related entities	13	**406**	295	550
Other liabilities		**595**	541	862
Subordinated debt	13	**715**	905	715
Total liabilities		**73,792**	70,027	73,944
Net assets		**6,021**	5,636	5,741
Shareholders' equity				
Contributed equity – ordinary shareholder		**1,851**	1,851	1,851
Reserves		**16**	29	(17)
Retained profits		**3,504**	2,846	3,257
Ordinary shareholder's equity		**5,371**	4,726	5,091
Contributed equity – perpetual preference shareholders		**650**	910	650
Total shareholders' equity		**6,021**	5,636	5,741

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 2014

		Consolidated		
Dollars in Millions	Note	**Unaudited 3 Months 31/12/14**	Unaudited 3 Months 31/12/13	Audited 12 Months 30/9/14
Cash flows from operating activities				
Cash was provided from:				
Interest income		**1,066**	934	3,907
Other cash inflows provided from operating activities		**298**	102	452
Cash was applied to:				
Interest expense		**(702)**	(558)	(2,255)
Other cash outflows applied to operating activities		**(313)**	(246)	(976)
Net cash flows from operating activities before changes in operating assets and liabilities		**349**	232	1,128
Net change in operating assets and liabilities		**(1,278)**	49	351
Net cash flows from operating activities		**(929)**	281	1,479
Cash flows from investing activities				
Cash inflows provided from investing activities		**49**	23	38
Cash outflows applied to investing activities		**(16)**	(17)	(83)
Net cash flows from investing activities		**33**	6	(45)
Net cash flows from financing activities		**1,055**	(945)	(1,990)
Net movement in cash and cash equivalents		**159**	(658)	(556)
Cash and cash equivalents at beginning of period		**1,336**	1,892	1,892
Cash and cash equivalents at end of period		**1,495**	1,234	1,336
Cash and cash equivalents at end of period comprised:				
Cash and liquid assets	4	**1,947**	1,714	1,779
Due from central banks and other institutions classified as cash and cash equivalents	5	**724**	772	1,119
Due to central banks and other institutions classified as cash and cash equivalents	9	**(1,120)**	(1,340)	(1,544)
Amounts due from related entities classified as cash and cash equivalents	13	**63**	125	86
Amounts due to related entities classified as cash and cash equivalents	13	**(119)**	(37)	(104)
Total cash and cash equivalents		**1,495**	1,234	1,336
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		**232**	198	850
Add back non-cash items in net profit		**117**	34	278
Add operating cash flows not included in net profit:				
Net change in operating assets and liabilities		**(1,278)**	49	351
Net cash flows from operating activities		**(929)**	281	1,479

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

Note 1 Principal Accounting Policies

These interim financial statements are general purpose financial reports prepared in accordance with the requirements of New Zealand 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 2014.

Changes in accounting policy and disclosure

The following new amendment to standards relevant to the Banking Group have been adopted from 1 October 2014 and have been applied in the preparation of these financial statements:

- Amendments to NZ IAS 32 Offsetting Financial Assets and Financial Liabilities effective 1 January 2014 has been amended to clarify the conditions for offsetting financial assets and liabilities. Adoption of this standard has not resulted in any significant impact on the Banking Group's reported results or financial position.

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 2014.

Early adoption

The Banking Group has not elected to early adopt any new or amended accounting standards or interpretations for the three months ended 31 December 2014.

New Zealand International Financial Reporting Standards ("NZ IFRS") 9 – Financial Instruments

NZ IFRS 9 Financial Instruments (2014) ("NZ IFRS 9") was issued on 4 September 2014 and is applicable for accounting periods beginning on or after 1 January 2018. This standard sets out new requirements for classification and measurement, impairment and hedge accounting for financial assets and liabilities. It replaces NZ IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of NZ IFRS 9. The standard is effective for the Banking Group in the year commencing 1 October 2018. Early adoption is permitted.

The Australian Accounting Standard Board issued the Australian equivalent accounting standard AASB 9 Financial Instruments in December 2014, with early adoption permitted for reporting periods beginning 24 July 2014. National Australia Bank Group has elected to early adopt the standard with an application date of 1 October 2014. The Banking Group intends to early adopt NZ IFRS 9 with the same application date, though early adoption is dependent on the implementation of changes to New Zealand's regulatory requirements.

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 reporting periods.

Income Statement Notes

	Consolidated		
Dollars in Millions	**Unaudited 3 Months 31/12/14**	Unaudited 3 Months 31/12/13	Audited 12 Months 30/9/14
Note 2 Gains Less Losses on Financial Instruments			
Trading gains less losses on financial instruments			
Foreign exchange trading gain	**26**	16	75
Interest rate related trading derivatives	**-**	33	61
Other derivatives	**-**	-	(1)
Net gain/(loss) in the fair value of financial assets and liabilities held for trading	**19**	(6)	20
Trading gains less losses on financial instruments	**45**	43	155
Other gains less losses on financial instruments			
Hedge accounting			
Net (loss)/gain arising from hedging instruments in fair value hedge accounting relationships	**(50)**	20	4
Net gain/(loss) arising from the hedged items attributable to the hedged risk in fair value hedge accounting relationships	**51**	(19)	(9)
Ineffectiveness arising from cash flow hedge accounting relationships	**1**	(1)	(2)
	2	-	(7)
Other			
Net loss in the fair value of financial assets (refer to table below)	**(33)**	(15)	(78)
Net gain/(loss) in the fair value of financial liabilities (refer to table below)	**11**	(20)	(4)
Bid/offer adjustment	**(1)**	(1)	1
Net gain/(loss) attributable to other derivatives used for hedging purposes that do not qualify as designated and effective hedging instruments	**3**	(6)	2
	(20)	(42)	(79)
Other gains less losses on financial instruments	**(18)**	(42)	(86)
Total gains less losses on financial instruments	**27**	1	69
Net 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	**37**	(39)	(33)
Credit risk adjustments on financial assets designated at fair value through profit or loss	**(29)**	(5)	(41)
Net (loss)/gain attributable to other derivatives used for hedging purposes that do not qualify for hedge accounting	**(41)**	29	(4)
	(33)	(15)	(78)
Net gain/(loss) in the fair value of financial liabilities comprised:[1]			
(Loss)/gain in the fair value of financial liabilities designated at fair value through profit or loss	**(9)**	31	(11)
Credit risk adjustments on financial liabilities designated at fair value through profit or loss[2]	**-**	(2)	-
Net gain/(loss) attributable to other derivatives used for hedging purposes that do not qualify for hedge accounting	**20**	(49)	7
	11	(20)	(4)

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

[2] In accordance with NZ IFRS 9 (2013) Financial Instruments, the Banking Group has presented the credit risk adjustments on financial liabilities designated at fair value through profit or loss for the three months ended 31 December 2014 and for the year ended 30 September 2014 in other comprehensive income. Comparative balances for 31 December 2013 are presented in the income statement and have not been restated. Refer to note 1 for further information.

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 evaluation of performance and allocation of resources.

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 services and products 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 'Other' in the table below 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 31/12/14				
Dollars in Millions	**Retail and Marketing[2]**	**BNZ Partners**	**Total Reportable Segments**	**Other**	**Total Banking Group**
Revenue from external customers	**221**	**272**	**493**	**49**	**542**
Net inter-segment revenue	**-**	**6**	**6**	**(6)**	**-**
Total segment revenue	**221**	**278**	**499**	**43**	**542**
Operating profit before income tax expense[1]	**99**	**174**	**273**	**50**	**323**
Income tax expense	**26**	**50**	**76**	**15**	**91**
Net profit attributable to shareholders of Bank of New Zealand	**73**	**124**	**197**	**35**	**232**
	Unaudited 3 Months 31/12/13				
Dollars in Millions	Retail[2]	BNZ Partners	Total Reportable Segments	Other	Total Banking Group
Revenue from external customers	218	275	493	22	515
Net inter-segment revenue	-	5	5	(5)	-
Total segment revenue	218	280	498	17	515
Operating profit before income tax expense[1]	97	173	270	6	276
Income tax expense	29	45	74	4	78
Net profit attributable to shareholders of Bank of New Zealand	68	128	196	2	198
	Audited 12 Months 30/9/14				
Revenue from external customers	861	1,121	1,982	154	2,136
Net inter-segment revenue	2	21	23	(23)	-
Total segment revenue	863	1,142	2,005	131	2,136
Operating profit before income tax expense[1]	365	669	1,034	127	1,161
Income tax expense	108	175	283	28	311
Net profit attributable to shareholders of Bank of New Zealand	257	494	751	99	850

1 For the three months ended 31 December 2014, operating profit before income tax expense within the 'Other' included fair value gains on financial instruments of $10 million (three months ended 31 December 2013: $34 million loss; year ended 30 September 2014: $70 million loss), which are recorded as part of the overall gains less losses on financial instruments disclosed in note 2.

2 For the three months ended 31 December 2014, the Banking Group's operating and reporting segments have been reviewed and as a result, the two segments have changed from 'Retail' and 'BNZ Partners' to 'Retail and Marketing' and 'BNZ Partners'. Comparative balances have not been reclassified to reflect this change.

Asset Notes

Dollars in Millions	Consolidated Unaudited 31/12/14	Unaudited 31/12/13	Audited 30/9/14
Note 4 Cash and Liquid Assets			
Notes and coins	**217**	224	134
Transaction balances with central banks	**1,584**	1,390	1,553
Transaction balances with other institutions	**146**	100	92
Total cash and liquid assets	**1,947**	1,714	1,779

Dollars in Millions	Consolidated Unaudited 31/12/14	Unaudited 31/12/13	Audited 30/9/14
Note 5 Due from Central Banks and Other Institutions			
Loans and advances due from central banks	**121**	283	127
Loans and advances due from other institutions	**1,550**	196	1,576
Securities purchased under agreements to resell with other financial institutions[1]	**485**	143	467
Securities purchased under agreements to resell with non-financial institutions[2]	**239**	841	652
Total due from central banks and other institutions	**2,395**	1,463	2,822

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

2 Included in securities purchased under agreements to resell with non-financial institutions as at 31 December 2014 were $239 million classified as cash and cash equivalents in the cash flow statement (31 December 2013: $629 million; 30 September 2014: $652 million).

The Banking Group has accepted collateral of New Zealand Government Securities with a fair value of $730 million as at 31 December 2014 arising from reverse repurchase agreements, which it is permitted to sell or repledge (31 December 2013: $990 million; 30 September 2014: $1,140 million). No government securities were used to secure deposit obligations as at 31 December 2014 (31 December 2013: $310 million; 30 September 2014: nil).

Government securities with a fair value of $28 million were repledged as at 31 December 2014 (31 December 2013: $177 million; 30 September 2014: $122 million). Securities were repledged for periods of less than three months. The Bank's obligation to repurchase is classified under due to central banks and other institutions.

Included in due from central banks and other institutions as at 31 December 2014 was $799 million of collateral posted with counterparties to meet standard derivative trading obligations (31 December 2013: $479 million; 30 September 2014: $627 million).

Dollars in Millions	Consolidated Unaudited 31/12/14	Unaudited 31/12/13	Audited 30/9/14
Note 6 Trading Securities			
Government bonds, notes and securities	**2,747**	2,542	2,856
Semi-government bonds, notes and securities	**296**	541	447
Corporate and other institutions bonds, notes and securities	**1,734**	1,762	1,093
Total trading securities	**4,777**	4,845	4,396

Included in trading securities as at 31 December 2014 were $184 million encumbered through repurchase agreements (31 December 2013: $376 million; 30 September 2014: $264 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 is classified under due to central banks and other institutions.

Dollars in Millions	Consolidated Unaudited 31/12/14	Unaudited 31/12/13	Audited 30/9/14
Note 7 Loans and Advances to Customers			
Overdrafts	**2,096**	2,172	2,220
Credit card outstandings	**1,377**	1,392	1,296
Housing loans	**30,941**	29,593	30,603
Other term lending	**30,211**	29,100	29,778
Other lending	**944**	779	920
Total gross loans and advances to customers	**65,569**	63,036	64,817
Deduct:			
Allowance for impairment losses and credit risk adjustments on individual financial assets (refer to note 8)	**152**	131	120
Allowance for impairment losses and credit risk adjustments on groups of financial assets (refer to note 8)	**269**	290	278
Deferred and other unearned future income	**(27)**	7	(20)
Fair value hedge adjustments	**(49)**	12	2
Total deductions	**345**	440	380
Total net loans and advances to customers	**65,224**	62,596	64,437

The BNZ RMBS Trust Series 2008-1 (the "RMBS Trust") provides an internal residential mortgage-backed securities programme to issue securities as collateral for borrowing from the Reserve Bank of New Zealand ("RBNZ"). As at 31 December 2014, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of $4,438 million held by the RMBS Trust (31 December 2013: $4,449 million; 30 September 2014: $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 of the RMBS Trust secure debt instruments issued to BNZ as detailed in note 19. The Banking Group had not entered into any repurchase agreements for residential mortgage-backed securities with the RBNZ as at 31 December 2014 (31 December 2013: nil; 30 September 2014: nil). RBNZ had not accepted any residential mortgage-backed securities as collateral from the Banking Group as at 31 December 2014 (31 December 2013: nil; 30 September 2014: 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 provides guarantees of the covered bonds issued by the Bank or BNZ International Funding Limited, acting through its London Branch, a wholly owned controlled entity of the Bank. Guarantees provided in relation to the covered bonds issued have a prior claim over the assets of the Covered Bond Trust. As at 31 December 2014, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of $5,406 million held by the Covered Bond Trust (31 December 2013: $5,402 million; 30 September 2014: $5,413 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 $4,134 million that were guaranteed by the Covered Bond Trust as at 31 December 2014 (31 December 2013: $4,352 million; 30 September 2014: $4,297 million). The underlying collateral for the guarantees provided by the Covered Bond Trust comprised housing loans and other assets to the face value of $5,467 million as at 31 December 2014 (31 December 2013: $5,467 million; 30 September 2014: $5,467 million).

Within other lending, no collateral was posted with counterparties to meet standard derivative trading obligations as at 31 December 2014 (31 December 2013: $12 million; 30 September 2014: nil).

	Consolidated			
Dollars in Millions	Residential Mortgage Lending Unaudited 31/12/14	Other Retail Exposures Unaudited 31/12/14	Corporate Exposures Unaudited 31/12/14	Total Unaudited 31/12/14
Note 8 Asset Quality				
Allowance for impairment losses and credit risk adjustments				
Loans and advances to customers				
Individual financial assets				
Allowance for impairment losses	20	7	83	110
Credit risk adjustments on individual financial assets designated at fair value through profit or loss	-	-	42	42
	20	7	125	152
Groups of financial assets				
Allowance for impairment losses	6	30	92	128
Credit risk adjustments on groups of financial assets designated at fair value through profit or loss	-	3	138	141
	6	33	230	269
Trading derivative financial instruments				
Credit risk adjustments on groups of financial assets designated at fair value through profit or loss	-	-	7	7
Charges to income statement on financial assets				
Charge to impairment losses on credit exposures[1]				
Loans and advances to customers				
Impairment losses on individual financial assets	-	3	1	4
Impairment losses on groups of financial assets	-	(1)	1	-
	-	2	2	4
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	-	-	38	38
Credit risk adjustments on groups of financial assets	-	-	(9)	(9)
	-	-	29	29
Trading derivative financial instruments				
Charge to income statement on groups of financial assets	-	-	3	3
Pre-allowance balances at end of period				
Loans and advances to customers				
Individually impaired assets – at amortised cost	56	12	175	243
Individually impaired assets – at fair value through profit or loss	-	-	67	67
Total impaired assets at end of period	56	12	242	310
90 days past due assets	44	22	130	196

[1] Classified as impairment losses on credit exposures in the income statement.

Off-balance sheet impaired assets

Included in contingent liabilities in note 15 was $2 million of off-balance sheet facilities to counterparties for whom drawn balances are classified as individually impaired as at 31 December 2014. No allowance for impairment losses on individual off-balance sheet credit related commitments had been made as at 31 December 2014.

Liability Notes

Dollars in Millions	Consolidated Unaudited 31/12/14	Unaudited 31/12/13	Audited 30/9/14
Note 9 Due to Central Banks and Other Institutions			
Transaction balances with other institutions[1]	**943**	479	1,176
Deposits from central banks[2]	**74**	367	80
Deposits from other institutions[3]	**171**	792	551
Securities sold under agreements to repurchase from other financial institutions[1]	**158**	538	340
Total due to central banks and other institutions	**1,346**	2,176	2,147

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

2 No deposits from central banks were classified as cash and cash equivalents in the cash flow statement as at 31 December 2014 (31 December 2013: $300 million; 30 September 2014: nil).

3 Included in deposits from other institutions as at 31 December 2014 were $19 million classified as cash and cash equivalents in the cash flow statement (31 December 2013: $23 million; 30 September 2014: $28 million).

Included in due to central banks and other institutions as at 31 December 2014 was $114 million of collateral received from counterparties to meet standard derivative trading obligations (31 December 2013: $256 million; 30 September 2014: $223 million). The Bank held no secured deposits from central banks and other institutions as at 31 December 2014 (31 December 2013: $300 million; 30 September 2014: nil).

Dollars in Millions	Consolidated Unaudited 31/12/14	Unaudited 31/12/13	Audited 30/9/14
Note 10 Short Term Debt Securities			
Certificates of deposit	**2,228**	1,725	1,618
Commercial paper	**2,678**	3,252	3,345
Total short term debt securities	**4,906**	4,977	4,963

Dollars in Millions	Consolidated Unaudited 31/12/14	Unaudited 31/12/13	Audited 30/9/14
Note 11 Deposits from Customers			
Demand deposits not bearing interest	**2,961**	2,765	2,713
Demand deposits bearing interest	**17,181**	15,203	16,169
Term deposits	**25,738**	24,760	26,497
Total deposits from customers	**45,880**	42,728	45,379

Other Notes

Dollars in Millions	Consolidated Unaudited 31/12/14
Note 12 Interest Earning and Discount Bearing Assets and Liabilities	
Interest earning and discount bearing assets	**73,190**
Interest and discount bearing liabilities	**65,362**

Dollars in Millions	Consolidated Unaudited 31/12/14	Unaudited 31/12/13	Audited 30/9/14
Note 13 Related Entity Transactions			
Total amounts due from related entities	**1,099**	337	743
Total amounts due to related entities	**1,121**	1,200	1,265

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

Dollars in Millions	Consolidated Unaudited 31/12/14	Unaudited 31/12/13	Audited 30/9/14
Amounts due from related entities			
Classified in total amounts due from related entities as cash and cash equivalents in the cash flow statement	**63**	125	86
Collateral loan posted to ultimate parent to meet standard derivative trading obligations	**538**	-	-
Securities purchased under agreements to resell to ultimate parent	**-**	-	24
Amounts due to related entities			
Classified in total amounts due to related entities as cash and cash equivalents in the cash flow statement	**119**	37	104
Subordinated loans due to related entities	**715**	905	715
Collateral deposit posted by ultimate parent to meet standard derivative trading obligations	**-**	8	79
Securities sold under agreements to repurchase from ultimate parent	**53**	15	47

Note 14 Fair Value of Financial Assets and Financial Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. For the purposes of this note, carrying amount refers to amounts reflected in the balance sheet. The methodologies and assumptions used in the fair value estimates are described on page 16.

As disclosed in the hierarchy for fair value measurements table below, 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 and Deposits from customers.

Hierarchy for fair value measurements

The following tables present a three level fair value hierarchy of the Banking Group's financial assets and financial liabilities which are measured at fair value and financial assets and financial liabilities 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.

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

Hierarchy for fair value measurements *continued*

There were no transfers between Level 1 and 2 in the three months ended 31 December 2014 (three months ended 31 December 2013: nil; year ended 30 September 2014: nil).

	Consolidated (31/12/14)				
	Unaudited				
Dollars in Millions	Carrying Value	Total	Level 1	Level 2	Level 3
Financial assets at fair value					
Due from central banks and other institutions		1,671	-	1,671	-
Trading securities		4,777	2,747	2,030	-
Derivative financial instruments		3,580	-	3,580	-
Loans and advances to customers		26,336	-	26,336	-
Financial assets at amortised cost					
Loans and advances to customers	38,888	38,961	-	2,096	36,865
Financial liabilities at fair value					
Due to central banks and other institutions		245	-	245	-
Short term debt securities		4,906	-	4,906	-
Trading liabilities		111	111	-	-
Derivative financial instruments		4,750	-	4,750	-
Deposits from customers		4,237	-	4,237	-
Bonds and notes		15,083	-	15,083	-
Financial liabilities at amortised cost					
Deposits from customers	41,643	41,852	-	41,852	-

	Consolidated (31/12/13)				
	Unaudited				
Dollars in Millions	Carrying Value[1]	Total	Level 1	Level 2	Level 3
Financial assets at fair value					
Due from central banks and other institutions		479	-	479	-
Trading securities		4,845	2,542	2,303	-
Available for sale investments		72	72	-	-
Derivative financial instruments		3,754	-	3,754	-
Loans and advances to customers		24,801	-	24,801	-
Financial liabilities at fair value					
Due to central banks and other institutions		1,159	-	1,159	-
Short term debt securities		4,977	-	4,977	-
Trading liabilities		146	146	-	-
Derivative financial instruments		4,033	-	4,033	-
Deposits from customers		2,699	-	2,699	-
Bonds and notes		14,226	-	14,226	-

[1] The disclosure requirements of NZ IFRS 13 do not require comparative information provided for periods before initial application.

	Consolidated (30/9/14)				
	Audited				
Dollars in Millions	Carrying Value	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		4,396	2,856	1,540	-
Derivative financial instruments		4,644	-	4,644	-
Loans and advances to customers		25,965	-	25,965	-
Financial assets at amortised cost					
Loans and advances to customers	38,472	38,448	-	2,220	36,228
Financial liabilities at fair value					
Due to central banks and other institutions		631	-	631	-
Short term debt securities		4,963	-	4,963	-
Trading liabilities		235	235	-	-
Derivative financial instruments		4,438	-	4,438	-
Deposits from customers		4,717	-	4,717	-
Bonds and notes		14,651	-	14,651	-
Financial liabilities at amortised cost					
Deposits from customers	40,662	40,850	-	40,850	-

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

Hierarchy for fair value measurements *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, Available for sale investments 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. Available for sale investments included listed equity securities and other securities. These assets and liabilities are recorded at fair value based on quoted closing market prices as at the reporting date. Where quoted market prices are not available, the Banking Group obtain the fair value by means of discounted cash flows and other valuation techniques based on observable market prices. These techniques address factors such as interest rates, credit risk and liquidity.

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 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.

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.

Amounts due from/to related entities

The carrying amount of Amounts due from and due to related entities is considered to approximate the fair value.

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

All subordinated loans from related entities reprice every 90 days, therefore, their fair value is considered to approximate their carrying value.

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 the short term nature of the amounts.

Note 15 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. Where some loss is probable appropriate provisions have been made.

In March 2013, a potential representative action against New Zealand banks (including, potentially, Bank of New Zealand) 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, these proceedings were stayed pending the outcome of proceedings in Australia. The potential outcome of these proceedings cannot be determined with any certainty at this stage.

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

	Consolidated		
Dollars in Millions	**Unaudited 31/12/14**	Unaudited 31/12/13	Audited 30/9/14
Contingent liabilities			
Bank guarantees	**57**	59	56
Standby letters of credit	**353**	341	354
Documentary letters of credit	**85**	57	102
Performance related contingencies	**414**	387	386
Total contingent liabilities	**909**	844	898
Credit related commitments			
Revocable commitments to extend credit	**7,466**	6,797	7,008
Irrevocable commitments to extend credit	**7,950**	7,952	7,965
Total credit related commitments	**15,416**	14,749	14,973
Total contingent liabilities and credit related commitments	**16,325**	15,593	15,871

Note 16 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.

As at 31 December 2014 and for the three months ended 31 December 2014, the Banking Group had no bank or non-bank counterparties that equalled or exceeded 10% of the Banking Group's equity and met the disclosure requirements described above.

Note 17 Insurance Business

The Banking Group does not conduct any Insurance Business, as defined in clause 3 of the Bank's conditions of registration.

Note 18 Capital Adequacy

The tables included below and on the following page detail the capital calculation, capital ratios and capital requirements as at 31 December 2014. During the interim financial period the Banking Group fully complied with all RBNZ's capital requirements as set out in the Bank's conditions of registration, except as disclosed on page 20 of this Disclosure Statement. 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.

Dollars in Millions	Consolidated Unaudited 31/12/14
Qualifying capital	
Common Equity Tier One capital (before deductions)	5,355
Deductions from Common Equity Tier One capital	315
Total Common Equity Tier One capital (net of all deductions)	5,040
Total Additional Tier One capital[1]	650
Total Tier One capital	5,690
Total Tier Two capital[2]	717
Total Tier One and Tier Two qualifying capital	6,407

1 Contributed equity (comprised of perpetual preference shares) in Additional Tier One capital are subject to phase-out in accordance with BS2B. The phase-out takes place over five years, with the maximum eligible amount of Additional Tier One capital for these instruments declining by 20% each year which commenced on 1 January 2014. The base amount for phase-out was fixed at the nominal amount outstanding as at 1 January 2013 and amounted to $910 million. Perpetual preference shares of $260 million were repurchased in June 2014.

2 Subordinated loans from related entities in Tier Two capital are subject to phase-out in accordance with BS2B. The phase-out takes place over five years, with the maximum eligible amount of Tier Two capital for these instruments declining by 20% each year which commenced on 1 January 2014. 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 of $190 million were repaid in February 2014. Tier Two Capital includes asset revaluation reserve of $2 million.

Basel III regulatory capital ratios

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

	Consolidated	
	Regulatory Minima	Unaudited 31/12/14
Common Equity Tier One capital ratio	4.50%	9.66%
Tier One capital ratio	6.00%	10.91%
Total qualifying capital ratio	8.00%	12.28%
Buffer ratio for Common Equity Tier One capital	2.50%	4.28%

Total regulatory capital requirements

Dollars in Millions	Consolidated Total Capital Requirement[3] Unaudited 31/12/14
Credit risk	
Exposures subject to the internal ratings based approach	2,796
Equity exposures	-
Specialised lending subject to the slotting approach	504
Exposures subject to the standardised approach	66
Credit value adjustment subject to BS2B	66
Agribusiness supervisory adjustment[4]	147
Total credit risk	3,579
Operational risk	350
Market risk	244
Total	4,173

3 In calculating 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.

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

In the BNZ Disclosure Statement for the year ended 30 September 2014, on page 68, Note 40 on Capital Adequacy under "Off-balance sheet exposures subject to the slotting approach", the disclosed number for "Exposure at default (EAD) undrawn commitments" was reported incorrectly as nil. The correct amount that should have been reported is $485 million. There is no impact on the capital ratios for 30 September 2014.

Note 18 Capital Adequacy *continued*

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

	Consolidated
Dollars in Millions	**Total Minimum Capital Requirement Unaudited 31/12/14**
Corporate	**1,679**
Sovereign	**5**
Bank	**60**
Residential mortgage	**881**
Other retail	**121**
Retail small to medium enterprises	**50**
Total credit risk exposures subject to the IRB approach[1]	**2,796**

[1] The BS2B credit value adjustment and agribusiness supervisory adjustment have not been included in the above exposures.

Residential mortgages by loan-to-valuation ratio

The table below sets out residential mortgage lending (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		
Dollars in Millions	**On-balance Sheet Exposures at Default Unaudited 31/12/14**	**Off-balance Sheet Exposures at Default[2] Unaudited 31/12/14**	**Total Exposures at Default Unaudited 31/12/14**
LVR Range			
0-59%	**10,071**	**1,432**	**11,503**
60-69%	**5,821**	**548**	**6,369**
70-79%	**11,791**	**1,080**	**12,871**
80-89%	**1,684**	**61**	**1,745**
Over 90%	**1,579**	**270**	**1,849**
Total exposures at default secured by residential mortgages	**30,946**	**3,391**	**34,337**

[2] Off-balance sheet exposures include unutilised limits and loans approved but not yet drawn.

Capital for other material risks

As at 31 December 2014, the Banking Group had an internal capital allocation for Business Risk of $95 million. The assessment of Business Risk covers strategic, reputation and earnings risk.

Note 19 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 2014.

Liquidity portfolio management

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

	Consolidated
Dollars in Millions	**Unaudited 31/12/14**
Cash and balances immediately convertible to cash	**2,819**
Securities purchased under agreements to resell	**724**
Government bonds, notes and securities	**2,535**
Semi-government bonds, notes and securities	**296**
Corporate and other financial bonds, notes and securities	**1,734**
Total liquidity portfolio	**8,108**

As at 31 December 2014, the Banking Group also held unencumbered residential mortgage-backed securities ("RMBS") of $4,491 million issued by the RMBS Trust to BNZ, of which $4,300 million can be sold to 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 2014.

As at 31 December 2014, there was an A$1,250 million standby liquidity facility, which is reviewed annually, provided from National Australia Bank Limited for the Banking Group'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 Stable
Moody's Investors Service Pty Limited	Aa3	Outlook Stable
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 2014, the Bank's conditions of registration were updated to refer to a new version of "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated October 2014, which includes an additional requirement for banks using internal models to maintain a formal record of approved models (a 'compendium') that is agreed to by the RBNZ. The references to "Connected exposures policy" (BS8) and "Framework for Restrictions on High – LVR Residential Mortgage Lending" (BS19) in the conditions of registration were also updated to refer to the latest versions dated October 2014 as these documents were also updated due to references in them to BS2B.

Non-compliance with Conditions of Registration

As previously set out on page 94 of the BNZ Disclosure Statement for the year ended 30 September 2014, the Bank did not have required RBNZ approvals in place for three of its capital models on 1 July 2014 when a revised version of BS2B came into effect. The three models account for $262 million or 0.6% of the Bank's credit risk weighted assets as at 31 December 2014. As a result of its failure to have obtained the required RBNZ approvals, the Bank has been in breach of its Condition of Registration 1B since 1 July 2014. The Bank submitted model change approval requests for these models prior to 31 December 2014.

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 2014:
   (a) the Bank has complied with its conditions of registration applicable during that period, except as disclosed on page 20 of this Disclosure Statement;

   (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and

   (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 17th of February 2015 and signed by Messrs. Waller and Healy as Directors and as responsible persons on behalf of all the other Directors.

J A Waller
Chairman

A J Healy
Managing Director and Chief Executive Officer