

Bank of New Zealand

Disclosure Statement

For the nine months ended 30 June 2015

Disclosure Statement

For the nine months ended 30 June 2015

This Disclosure Statement has been issued by Bank of New Zealand for the nine months ended 30 June 2015 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” 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 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 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.

Since 30 September 2014, there has been no material change in regulations, legislation, or other restrictions of a legally enforceable nature that may materially inhibit the legal ability of National Australia Bank Limited to provide material financial support to the Bank. However, the Australian Prudential Regulation Authority (“APRA”) has engaged authorised deposit-taking institutions in Australia (including National Australia Bank Limited) in relation to eliminating all non-equity exposures to their New Zealand subsidiaries (which, in the case of National Australia Bank Limited, includes the Bank) and branches during ordinary times, other than routine day-to-day exposures which are to be maintained at prudent levels. Consultation with APRA is ongoing regarding these arrangements and their potential impact on the non-equity financial support that can be provided by National Australia Bank Limited to the Bank; however, at this stage, the Bank considers that it is well-placed to meet any resulting requirements given National Australia Bank Limited currently has no outstanding senior unsecured loans to the Bank and does not conduct any business through a branch structure in New Zealand.

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 and again on 30 April 2015, these proceedings were stayed pending the outcome of proceedings in Australia (currently on appeal). The potential outcome of these proceedings cannot be determined with any certainty at this stage.

Other Material 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.

During the reporting period, the Eurozone experienced an increase in market volatility. However, at this stage, the Bank considers that it has adequate liquidity, funding and capital to manage through a period of uncertainty and does not consider that this volatility will have a material impact on the Bank.

The recent fall in dairy prices and the ensuing impacts to the New Zealand dairy and related industries are the subject of close attention but, at this stage, are not considered material to the Bank. Refer to note 19 Risk Management for additional information.

Directorate

Mai Chen was appointed as an independent Non-Executive Director of the Bank, effective 21 April 2015.

On 31 July 2015, John Anthony Waller retired as Non-Executive Director and Chairman.

On 1 August 2015, Douglas Alexander McKay, ONZM, was appointed as Chairman.

Responsible Persons – Messrs. Douglas Alexander McKay, ONZM, independent 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:

Mai Chen
Prudence Mary Flacks
Michaela Jane Healey
Dr Susan Carrel Macken
Stephen John Moir
Dr Andrew John Pearce
Gavin Robin Slater

Income Statement

For the nine months ended 30 June 2015

Dollars in Millions	Note	Consolidated		
		Unaudited 9 Months 30/6/15	Unaudited 9 Months 30/6/14	Audited 12 Months 30/9/14
Interest income		3,210	2,881	3,926
Interest expense		1,916	1,664	2,302
Net interest income		1,294	1,217	1,624
Gains less losses on financial instruments	2	244	(8)	69
Other operating income		274	314	443
Total operating income		1,812	1,523	2,136
Operating expenses		643	637	901
Total operating profit before impairment losses on credit exposures and income tax expense		1,169	886	1,235
Impairment losses on credit exposures	8	64	55	74
Total operating profit before income tax expense		1,105	831	1,161
Income tax expense on operating profit		308	233	311
Net profit attributable to shareholders of Bank of New Zealand		797	598	850

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

NZ IFRS 9 Financial Instruments (2014) ("NZ IFRS 9") has been adopted from 1 October 2014 and has been applied in the preparation of the income statement. Comparative balances have not been restated. Refer to note 1 for further information.

Statement of Comprehensive Income

For the nine months ended 30 June 2015

Dollars in Millions	Consolidated		
	Unaudited 9 Months 30/6/15	Unaudited 9 Months 30/6/14	Audited 12 Months 30/9/14
Net profit attributable to shareholders of Bank of New Zealand	797	598	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	79	5	(2)
Tax on items transferred directly (from)/to equity	(22)	(1)	1
	57	4	1
Items that may be reclassified subsequently to profit or loss			
Change in cash flow hedge reserve	86	(36)	(18)
Change in available for sale investments revaluation reserve	-	(6)	(55)
	86	(42)	(73)
Total other comprehensive income/(expense)	143	(38)	(72)
Total comprehensive income attributable to shareholders of Bank of New Zealand	940	560	778

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

NZ IFRS 9 has been adopted from 1 October 2014 and has been applied in the preparation of the statement of comprehensive income. Comparative balances have not been restated. Refer to note 1 for further information.

Statement of Changes in Equity

For the nine months ended 30 June 2015

	Consolidated Unaudited 9 Months 30/6/15						
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
Balance adjusted for adoption of accounting standard	-	-	(61)	-	-	-	(61)
Comprehensive income							
Net profit attributable to shareholders of							
Bank of New Zealand	-	-	797	-	-	-	797
Total other comprehensive income	-	-	57	-	-	86	143
Total comprehensive income	-	-	854	-	-	86	940
Proceeds from shares issued	500	-	-	-	-	-	500
Ordinary dividend	-	-	(345)	-	-	-	(345)
Perpetual preference dividend	-	-	(24)	-	-	-	(24)
Balance at end of period	2,351	650	3,681	2	-	67	6,751
Unaudited 9 Months 30/6/14							
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	-	-	598	-	-	-	598
Total other comprehensive income/(expense)	-	-	4	-	(6)	(36)	(38)
Total comprehensive income/(expense)	-	-	602	-	(6)	(36)	560
Buyback of shares	-	(260)	-	-	-	-	(260)
Ordinary dividend	-	-	(420)	-	-	-	(420)
Perpetual preference dividend	-	-	(36)	-	-	-	(36)
Balance at end of period	1,851	650	3,016	2	49	(37)	5,531
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.

NZ IFRS 9 has been adopted from 1 October 2014 and has been applied in the preparation of the statement of changes in equity. Comparative balances have not been restated. Refer to note 1 for further information.

Balance Sheet

As at 30 June 2015

Dollars in Millions	Note	Consolidated Unaudited 30/6/15	Unaudited 30/6/14	Audited 30/9/14
Assets				
Cash and liquid assets	4	1,992	2,001	1,779
Due from central banks and other institutions	5	2,255	2,131	2,822
Trading securities	6	5,166	3,201	4,396
Available for sale investments		-	60	-
Derivative financial instruments		7,374	3,527	4,644
Loans and advances to customers	7	66,991	63,792	64,437
Current tax assets		27	89	-
Amounts due from related entities	13	1,065	365	743
Other assets		456	357	374
Deferred tax		156	122	138
Property, plant and equipment		175	200	189
Goodwill and other intangible assets		159	188	163
Total assets		85,816	76,033	79,685
Financed by:				
Liabilities				
Due to central banks and other institutions	9	1,759	1,305	2,147
Short term debt securities	10	6,464	5,432	4,963
Trading liabilities		199	165	235
Derivative financial instruments		7,443	4,118	4,438
Deposits from customers	11	45,826	44,297	45,379
Bonds and notes		15,424	13,520	14,651
Current tax liabilities		-	-	4
Amounts due to related entities	13	518	332	550
Other liabilities		717	618	862
Subordinated debt	13	715	715	715
Total liabilities		79,065	70,502	73,944
Net assets		6,751	5,531	5,741
Shareholders' equity				
Contributed equity – ordinary shareholder	13	2,351	1,851	1,851
Reserves		69	14	(17)
Retained profits		3,681	3,016	3,257
Ordinary shareholder's equity		6,101	4,881	5,091
Contributed equity – perpetual preference shareholders		650	650	650
Total shareholders' equity		6,751	5,531	5,741

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

NZ IFRS 9 has been adopted from 1 October 2014 and has been applied in the preparation of the balance sheet. Comparative balances have not been restated. Refer to note 1 for further information.

Condensed Cash Flow Statement

For the nine months ended 30 June 2015

		Consolidated		
		Unaudited 9 Months 30/6/15	Unaudited 9 Months 30/6/14	Audited 12 Months 30/9/14
Dollars in Millions	Note			
Cash flows from operating activities				
Cash was provided from:				
Interest income		3,215	2,871	3,907
Other cash inflows provided from operating activities		323	383	452
Cash was applied to:				
Interest expense		(1,988)	(1,706)	(2,255)
Other cash outflows applied to operating activities		(935)	(811)	(976)
Net cash flows from operating activities before changes in operating assets and liabilities		615	737	1,128
Net change in operating assets and liabilities		(3,251)	1,910	351
Net cash flows from operating activities		(2,636)	2,647	1,479
Cash flows from investing activities				
Cash inflows provided from investing activities		49	28	38
Cash outflows applied to investing activities		(40)	(60)	(83)
Net cash flows from investing activities		9	(32)	(45)
Net cash flows from financing activities		2,444	(1,705)	(1,990)
Net movement in cash and cash equivalents		(183)	910	(556)
Cash and cash equivalents at beginning of period		1,336	1,892	1,892
Cash and cash equivalents at end of period		1,153	2,802	1,336
Cash and cash equivalents at end of period comprised:				
Cash and liquid assets	4	1,992	2,001	1,779
Due from central banks and other institutions classified as cash and cash equivalents	5	317	1,352	1,119
Due to central banks and other institutions classified as cash and cash equivalents	9	(1,164)	(513)	(1,544)
Amounts due from related entities classified as cash and cash equivalents	13	80	70	86
Amounts due to related entities classified as cash and cash equivalents	13	(72)	(108)	(104)
Total cash and cash equivalents		1,153	2,802	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		797	598	850
Add back non-cash items in net profit		(182)	139	278
(Deduct)/add operating cash flows not included in net profit:				
Net change in operating assets and liabilities		(3,251)	1,910	351
Net cash flows from operating activities		(2,636)	2,647	1,479

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 nine months ended 30 June 2015

Note 1 Principal Accounting Policies

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

Changes in accounting policies and disclosure

Accounting policies are consistent with those applied in the Disclosure Statement for the year ended 30 September 2014, except as disclosed below.

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

- Amendments to NZ IAS 32 Financial Instruments: Presentation 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.

Early adoption

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

The Banking Group elected to early adopt NZ IFRS 9 Financial Instruments (2014) ("NZ IFRS 9") from 1 October 2014 without restatement, in accordance with the transition requirements. 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 ("NZ IAS 39") and all previous versions of NZ IFRS 9. The Banking Group has elected to exercise an accounting policy choice under NZ IFRS 9 to continue to apply the hedge accounting requirements under NZ IAS 39.

The following changes to accounting policies due to application of NZ IFRS 9 have been applied to these interim financial statements.

Financial assets

The Banking Group classifies its financial assets as subsequently measured at either amortised cost or fair value depending on the Banking Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset is measured at amortised cost only if both of the following conditions are met:

- it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

The following summarises the key changes:

- the Held to maturity and Available for sale financial asset categories were removed;
- a new asset category measured at Fair value through other comprehensive income ("FVOCI") was introduced. This applies to debt instruments with contractual cash flow characteristics that are solely payments of principal and interest and held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- a new asset category for non-traded equity investments measured at FVOCI was introduced; and
- at transition, the Banking Group elected to revoke previous fair value option designations in respect of the measurement of specific lending portfolios at Fair value through profit or loss ("FVTPL"). These portfolios were subsequently accounted for at amortised cost.

Financial liabilities

Classification of financial liabilities remained largely unchanged for the Banking Group. Financial liabilities continue to be measured at either amortised cost or FVTPL. The criteria for designating a financial liability at FVTPL by applying the fair value option also remains unchanged.

Changes to impairment of financial assets

The NZ IFRS 9 impairment requirements are based on an expected credit loss model, replacing the incurred loss methodology model under NZ IAS 39. Key changes in the Banking Group's accounting policy for impairment of financial assets are listed below.

The Banking Group applies a three stage approach to measuring expected credit losses ("ECL") on debt instruments accounted for at amortised cost and FVOCI. Assets migrate through the following three stages based on their change in credit quality since initial recognition.

Stage 1: 12-months ECL ("Stage 1")

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired ("Stage 2")

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired ("Stage 3")

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under NZ IAS 39, the Banking Group's methodology for specific provisions remains unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

At each reporting date, the Banking Group assesses whether there has been a significant increase in credit risk since initial recognition by comparing the risk of default occurring over the expected life between that of the reporting date to that of the date of initial recognition.

Notes to and Forming Part of the Interim Financial Statements

Note 1 Principal Accounting Policies *continued*

Changes in accounting policies and disclosure *continued*

Changes to impairment of financial assets *continued*

The Banking Group assesses whether the credit risk on a financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Banking Group and all the cash flows that the Banking Group expects to receive. The amount of the loss is recognised using a provision for doubtful debts account.

The Banking Group considers its historical loss experience and adjusts this for current observable data. In addition, the Banking Group uses reasonable and supportable forecasts of future economic conditions including experienced judgement to estimate the amount of an expected impairment loss. NZ IFRS 9 introduces the use of macroeconomic factors which include, but are not limited to, unemployment, interest rates, gross domestic product, inflation and commercial property prices, and requires an evaluation of both the current and forecast direction of the economic cycle. Incorporating forward-looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

If, in a subsequent reporting period, the credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from full lifetime ECL to 12-months ECL.

Overall, impairment under NZ IFRS 9 results in earlier recognition of credit losses than under NZ IAS 39.

Classification and measurement change under NZ IFRS 9

The following tables summarise the classification and measurement changes by balance sheet asset class to the Banking Group's financial assets on 1 October 2014, the Banking Group's date of initial application of NZ IFRS 9. There are no changes in the classification and measurement of financial liabilities of the Banking Group.

Dollars in Millions			Consolidated	
			Unaudited as at 1/10/14	New
			Original	Carrying
			Amount	Amount
			Under	Under
Financial Asset	Notes	Original Measurement Category Under NZ IAS 39	NZ IAS 39	NZ IFRS 9
Cash and liquid assets		Loans and receivables	1,779	1,779
Due from central banks and other institutions		Loans and receivables	1,119	1,119
Due from central banks and other institutions		Fair value through profit or loss	1,703	1,703
Trading securities		Fair value through profit or loss	4,396	4,396
Available for sale investments	(a)	Available for sale		
		comprehensive income	-	-
Derivative financial instruments - trading		Fair value through profit or loss	4,582	4,582
Derivative financial instruments - hedging	(b)	Fair value through profit or loss	62	62
Loans and advances to customers		Loans and receivables	38,472	38,383
Loans and advances to customers	(c)	Fair value through profit or loss (under fair value option)	19,560	19,564
Loans and advances to customers		Fair value through profit or loss (under fair value option)	6,405	6,405
Amounts due to related entities		Loans and receivables	743	743
Other financial assets		Loans and receivables	203	203

Notes

(a) Comprises of non-traded equity instruments classified as available for sale equity investments under NZ IAS 39 in which the Banking Group has elected to apply FVOCI option under NZ IFRS 9. Accordingly, the assets will remain accounted for at FVOCI with no subsequent recycling of realised gains or losses permitted on sale or disposal. This FVOCI designation has been elected for equity investments which are not held for trading or managed on a fair value basis. The carrying amount of the FVOCI asset is less than \$1 million.

(b) Derivative financial instruments continue to be measured at FVTPL under NZ IFRS 9. The Banking Group has elected to exercise an accounting policy choice under NZ IFRS 9 to continue to apply the hedge accounting requirements under NZ IAS 39.

(c) The Banking Group has elected to apply the one off option available on transition to NZ IFRS 9 to revoke the previous fair value option ("FVO") designation made under NZ IAS 39 in respect of \$19,560 million worth of loans carried at fair value. This de-designation has been elected primarily on the basis of a reduced accounting mismatch now arising on this portion of the fair value loan portfolio and therefore it was considered appropriate to reduce the operational complexity associated with measuring these loans at fair value. Accordingly these fair value loans will be classified under NZ IFRS 9 at amortised cost (\$19,564 million) under the effective interest method and included in loans and advances in the balance sheet as at 1 October 2014. The effective interest rate of this portfolio determined as at 1 October 2014 was 6.02%. Interest income of \$487 million was recognised for the nine months ended 30 June 2015 on the loans that were classified from fair value to amortised cost under NZ IFRS 9. The fair value gain that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets had not been reclassified is \$61 million. The fair value of the loans remaining in this portfolio still held as at reporting date was \$7,647 million and the associated carrying value was \$7,655 million. There were no loans or other financial assets carried under FVO under NZ IAS 39 for which the Banking Group was required to revoke the FVO designation under NZ IFRS 9 (i.e. no longer an accounting mismatch arising where carrying these assets at FVTPL would reduce that mismatch).

Notes to and Forming Part of the Interim Financial Statements

Note 1 Principal Accounting Policies *continued*

Changes in accounting policies and disclosure *continued*

Balance sheet impact of the adoption of NZ IFRS 9

The following table is a reconciliation of the balance sheet from NZ IAS 39 to NZ IFRS 9 as at 1 October 2014.

Dollars in Millions	Consolidated
Loans and advances to customers	
Measured at amortised cost	
NZ IAS 39 carrying amount as at 30 September 2014	38,472
Reclassification of loans from fair value through profit or loss	19,560
Remeasurement of loans previously classified at fair value through profit or loss	4
Carrying amount of loans previously held at fair value	19,564
Remeasurement of provision for doubtful debts for loans held at amortised cost	(89)
NZ IFRS 9 carrying amount as at 1 October 2014	57,947
Loans and advances to customers	
Measured at fair value through profit or loss	
NZ IAS 39 carrying amount as at 30 September 2014	25,965
Reclassification of fair value loans to amortised cost	(19,560)
NZ IFRS 9 carrying amount as at 1 October 2014	6,405
Deferred tax	
NZ IAS 39 carrying amount as at 30 September 2014	138
Increase in deferred tax asset arising from remeasurement of loans previously classified at fair value through profit or loss and remeasurement of impairment of provisions	20
NZ IFRS 9 carrying amount as at 1 October 2014	158
Current tax	
NZ IAS 39 carrying amount as at 30 September 2014	(4)
Increase in current tax asset arising from remeasurement of loans previously classified at fair value through profit or loss	4
NZ IFRS 9 carrying amount as at 1 October 2014	-
Retained earnings	
NZ IAS 39 carrying amount as at 30 September 2014	3,257
Transition adjustment to retained earnings in relation to adopting NZ IFRS 9	(61)
NZ IFRS 9 carrying amount as at 1 October 2014	3,196

The following table is a reconciliation of the closing balance for allowance for impairment losses in accordance with NZ IAS 39 to the opening balance determined in accordance with NZ IFRS 9 as at 1 October 2014.

Dollars in Millions	Consolidated			NZ IFRS 9
	NZ IAS 39 Closing Balance as at 30/9/14	Reclassifica- tion	Remeasure- ment	Opening Balance as at 1/10/14
Provision for doubtful debts on financial assets held at amortised cost	244	-	89	333
Provision for doubtful debts on financial assets previously held at fair value	-	117	(40)	77
Credit risk adjustment on financial assets held at fair value through profit or loss	154	(117)	-	37
Total allowance for impairment losses	398	-	49	447

Total allowance for impairment losses disclosed in the table above excludes the credit risk adjustment on trading derivatives which is not impacted by the adoption of NZ IFRS 9.

Critical accounting assumptions and estimates

The preparation of this report requires the use of critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amounts of liabilities.

With the exception of the assumptions used for the calculation for provision for doubtful debts arising from the adoption of NZ IFRS 9, no other significant change has occurred in this reporting period from those assumptions applied in the Disclosure Statement for the year ended 30 September 2014.

The impact of adopting NZ IFRS 9 is described above, with further information disclosed in note 8.

Notes to and Forming Part of the Interim Financial Statements

Income Statement Notes

	Consolidated		
	Unaudited 9 Months 30/6/15	Unaudited 9 Months 30/6/14	Audited 12 Months 30/9/14
Dollars in Millions			
Note 2 Gains Less Losses on Financial Instruments			
Trading gains less losses on financial instruments			
Foreign exchange trading gain	77	52	75
Interest rate related trading derivatives	50	49	61
Other derivatives	-	-	(1)
Net gain in the fair value of financial assets and liabilities held for trading	48	8	20
Trading gains less losses on financial instruments	175	109	155
Other gains less losses on financial instruments			
Hedge accounting			
Net (loss)/gain arising from hedging instruments in fair value hedge accounting relationships	(160)	35	4
Net gain/(loss) arising from the hedged items attributable to the hedged risk in fair value hedge accounting relationships	163	(43)	(9)
Ineffectiveness arising from cash flow hedge accounting relationships	2	(2)	(2)
	5	(10)	(7)
Other			
Net loss in the fair value of financial assets (refer to table below)	(1)	(53)	(78)
Net gain/(loss) in the fair value of financial liabilities (refer to table below)	49	(48)	(4)
Bid/offer adjustment	(2)	(1)	1
Net gain/(loss) attributable to other derivatives used for hedging purposes that do not qualify as designated and effective hedging instruments	18	(5)	2
	64	(107)	(79)
Other gains less losses on financial instruments	69	(117)	(86)
Total gains less losses on financial instruments	244	(8)	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	126	(46)	(33)
Credit risk adjustments on financial assets designated at fair value through profit or loss	(1)	(31)	(41)
Net (loss)/gain attributable to other derivatives used for hedging purposes that do not qualify for hedge accounting	(126)	24	(4)
	(1)	(53)	(78)
Net gain/(loss) in the fair value of financial liabilities comprised:*			
(Loss)/gain in the fair value of financial liabilities designated at fair value through profit or loss	(59)	1	(11)
Net gain/(loss) attributable to other derivatives used for hedging purposes that do not qualify for hedge accounting	108	(49)	7
	49	(48)	(4)
* 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 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.

Dollars in Millions	Consolidated				
	Unaudited 9 Months 30/6/15				
	Retail and Marketing**	BNZ Partners	Total Reportable Segments	Other	Total Banking Group
Revenue from external customers	658	836	1,494	318	1,812
Net inter-segment revenue	-	21	21	(21)	-
Total segment revenue	658	857	1,515	297	1,812
Operating profit before income tax expense*	310	564	874	231	1,105
Income tax expense	86	157	243	65	308
Net profit attributable to shareholders of Bank of New Zealand	224	407	631	166	797
Unaudited 9 Months 30/6/14					
	Retail**	BNZ Partners	Total Reportable Segments	Other	Total Banking Group
Revenue from external customers	640	831	1,471	52	1,523
Net inter-segment revenue	1	15	16	(16)	-
Total segment revenue	641	846	1,487	36	1,523
Operating profit before income tax expense*	278	500	778	53	831
Income tax expense	82	131	213	20	233
Net profit attributable to shareholders of Bank of New Zealand	196	369	565	33	598
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*	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

* For the nine months ended 30 June 2015, operating profit before income tax expense within the 'Other' category included fair value gains on financial instruments of \$71 million (nine months ended 30 June 2014: \$103 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.

** For the nine months ended 30 June 2015, there has been a structural realignment of business units in the Banking Group. 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.

Notes to and Forming Part of the Interim Financial Statements

Asset Notes

Dollars in Millions	Consolidated		
	Unaudited 30/6/15	Unaudited 30/6/14	Audited 30/9/14
Note 4 Cash and Liquid Assets			
Notes and coins	142	142	134
Transaction balances with central banks	1,567	1,750	1,553
Transaction balances with other institutions	283	109	92
Total cash and liquid assets	1,992	2,001	1,779

Dollars in Millions	Consolidated		
	Unaudited 30/6/15	Unaudited 30/6/14	Audited 30/9/14
Note 5 Due from Central Banks and Other Institutions			
Loans and advances due from central banks	333	245	127
Loans and advances due from other institutions	1,605	534	1,576
Securities purchased under agreements to resell with other financial institutions [*]	-	848	467
Securities purchased under agreements to resell with non-financial institutions [*]	317	504	652
Total due from central banks and other institutions	2,255	2,131	2,822

^{*} Classified as cash and cash equivalents in cash flow statement.

The Banking Group has accepted collateral of New Zealand Government Securities with a fair value of \$319 million as at 30 June 2015 arising from reverse repurchase agreements, which it is permitted to sell or repledge (30 June 2014: \$1,341 million; 30 September 2014: \$1,140 million).

No Government securities were repledged or sold as at 30 June 2015 (30 June 2014: \$6 million; 30 September 2014: \$122 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.

Included in due from central banks and other institutions as at 30 June 2015 was \$1,036 million of collateral posted with counterparties to meet standard derivative trading obligations (30 June 2014: \$779 million; 30 September 2014: \$627 million).

Dollars in Millions	Consolidated		
	Unaudited 30/6/15	Unaudited 30/6/14	Audited 30/9/14
Note 6 Trading Securities			
Government bonds, notes and securities	3,059	1,983	2,856
Semi-government bonds, notes and securities	376	375	447
Corporate and other institutions bonds, notes and securities	1,731	843	1,093
Total trading securities	5,166	3,201	4,396

Included in trading securities as at 30 June 2015 were \$70 million encumbered through repurchase agreements (30 June 2014: \$25 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 trading securities is classified under due to central banks and other institutions and due to related entities.

Notes to and Forming Part of the Interim Financial Statements

Dollars in Millions	Consolidated		
	Unaudited 30/6/15	Unaudited 30/6/14	Audited 30/9/14
Note 7 Loans and Advances to Customers			
Overdrafts	2,364	2,267	2,220
Credit card outstandings	1,222	1,334	1,296
Housing loans	31,571	30,302	30,603
Other term lending	31,118	29,475	29,778
Other lending	1,000	844	920
Total gross loans and advances to customers	67,275	64,222	64,817
Deduct:			
Allowance for impairment losses and credit risk adjustments on individual financial assets (refer to note 8)	156	115	120
Allowance for impairment losses and credit risk adjustments on groups of financial assets (refer to note 8)	320	286	278
Deferred and other unearned future income and expenses	(31)	(8)	(20)
Fair value hedge adjustments	(161)	37	2
Total deductions	284	430	380
Total net loans and advances to customers	66,991	63,792	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 30 June 2015, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of \$4,242 million held by the RMBS Trust (30 June 2014: \$4,468 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 30 June 2015 (30 June 2014: nil; 30 September 2014: nil). RBNZ had not accepted any residential mortgage-backed securities as collateral from the Banking Group as at 30 June 2015 (30 June 2014: 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 guarantees payment of interest and principal under 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. 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 30 June 2015, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of \$4,159 million held by the Covered Bond Trust (30 June 2014: \$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 \$3,332 million that were guaranteed by the Covered Bond Trust as at 30 June 2015 (30 June 2014: \$4,165 million; 30 September 2014: \$4,297 million). The underlying collateral that supports the guarantee provided by the Covered Bond Trust comprised housing loans and other assets with a carrying value of \$4,293 million as at 30 June 2015 (30 June 2014: \$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 30 June 2015 (30 June 2014: \$25 million; 30 September 2014: nil).

Notes to and Forming Part of the Interim Financial Statements

Note 8 Asset Quality

The Banking Group elected to early adopt NZ IFRS 9 from 1 October 2014 which sets out new requirements for impairment of financial assets using the expected credit loss approach and classification of financial assets. Refer to note 1 for further information.

	Residential Mortgage Lending Unaudited 30/6/15	Consolidated Other Retail Exposures Unaudited 30/6/15	Corporate Exposures Unaudited 30/6/15	Total Unaudited 30/6/15
Dollars in Millions				
Provision for doubtful debts				
Loans and advances to customers				
<i>Provision for doubtful debts measured on a 12-months ECL</i>				
Collective provision for doubtful debts	2	9	61	72
<i>Provision for doubtful debts measured on a lifetime ECL</i>				
Collective provision for doubtful debts for assets not credit impaired	5	6	154	165
Collective provision for doubtful debts for credit impaired assets	8	8	29	45
Specific provision for doubtful debts for credit impaired assets	19	14	123	156
Total provision for doubtful debts measured on a lifetime ECL	32	28	306	366
Total provision for doubtful debts	34	37	367	438
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	-	-	-	-
Credit risk adjustments on groups of financial assets	-	1	37	38
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	1	37	38
Trading derivative financial instruments				
Credit risk adjustments on groups of financial assets	-	-	1	1
Pre-allowance balance at end of period				
Loans and advances to customers				
Individually impaired assets - at amortised cost	50	20	220	290
Individually impaired assets - at fair value through profit or loss	-	-	-	-
Total impaired assets at end of period	50	20	220	290
90 days past due assets not individually impaired				
Loans and advances to customers	43	21	115	179
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	-	(8)	(7)
<i>Charge/(credit) to impairment losses on credit exposure measured on a lifetime ECL</i>				
Impairment losses on group of assets not credit impaired	1	(1)	12	12
Impairment losses on group of credit impaired assets	4	-	(18)	(14)
Impairment losses on individual credit impaired assets	3	19	51	73
Total charge/(credit) to impairment losses on credit exposure measured on a lifetime ECL	8	18	45	71
Total charge/(credit) to impairment losses on credit exposures*	9	18	37	64
Charge/(credit) 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	-	-	1	1
Total charge/(credit) to income statement on loans and advances to customer designated at fair value through profit or loss	-	-	1	1
Trading derivative financial instruments				
Charge to income statement on groups of financial assets	-	-	(3)	(3)

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

Off-balance sheet impaired assets

Included in contingent liabilities in note 15 were \$1 million of off-balance sheet facilities to counterparties for whom drawn balances were classified as individually impaired as at 30 June 2015. No allowance for impairment losses on individual off-balance sheet credit related commitments had been made as at 30 June 2015.

Notes to and Forming Part of the Interim Financial Statements

Liability Notes

Dollars in Millions	Consolidated		
	Unaudited 30/6/15	Unaudited 30/6/14	Audited 30/9/14
Note 9 Due to Central Banks and Other Institutions			
Transaction balances with other institutions*	1,093	465	1,176
Deposits from central banks	175	71	80
Deposits from other institutions**	430	744	551
Securities sold under agreements to repurchase from other institutions*	61	25	340
Total due to central banks and other institutions	1,759	1,305	2,147

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

** Included in deposits from other institutions as at 30 June 2015 was \$10 million classified as cash and cash equivalents in the cash flow statement (30 June 2014: \$23 million; 30 September 2014: \$28 million).

Included in due to central banks and other institutions as at 30 June 2015 was \$446 million of collateral posted by counterparties to meet standard derivative trading obligations (30 June 2014: \$331 million; 30 September 2014: \$223 million). The Bank held no secured deposits from central banks and other institutions as at 30 June 2015 (30 June 2014: nil; 30 September 2014: nil).

In the BNZ Disclosure Statement for the six months ended 31 March 2015, on page 17, note 10 on Due to Central Banks and Other Institutions, the amount disclosed for collateral posted by counterparties to meet standard derivative trading obligations for the comparative balance date as at 31 March 2014 was reported incorrectly as nil. The correct amount is \$289 million. There is no impact on the Banking Group's financial position as at 31 March 2014.

Dollars in Millions	Consolidated		
	Unaudited 30/6/15	Unaudited 30/6/14	Audited 30/9/14
Note 10 Short Term Debt Securities			
Certificates of deposit	2,183	2,104	1,618
Commercial paper	4,281	3,328	3,345
Total short term debt securities	6,464	5,432	4,963

Dollars in Millions	Consolidated		
	Unaudited 30/6/15	Unaudited 30/6/14	Audited 30/9/14
Note 11 Deposits from Customers			
Demand deposits not bearing interest	3,008	2,680	2,713
Demand deposits bearing interest	18,193	15,829	16,169
Term deposits	24,625	25,788	26,497
Total deposits from customers	45,826	44,297	45,379

Notes to and Forming Part of the Interim Financial Statements

Other Notes

Dollars in Millions

**Consolidated
Unaudited
30/6/15**

Note 12 Interest Earning and Discount Bearing Assets and Liabilities

Interest earning and discount bearing assets	75,632
Interest and discount bearing liabilities	67,806

Dollars in Millions

Consolidated
Unaudited **Unaudited** **Audited**
30/6/15 **30/6/14** **30/9/14**

Note 13 Related Entity Transactions

Total amounts due from related entities	1,065	365	743
Total amounts due to related entities	1,233	1,047	1,265

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

Dollars in Millions

Consolidated
Unaudited **Unaudited** **Audited**
30/6/15 **30/6/14** **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	80	70	86
Collateral loan posted to ultimate parent to meet standard derivative trading obligations	770	84	-
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	72	108	104
Subordinated loans due to related entities	715	715	715
Collateral deposit posted by ultimate parent to meet standard derivative trading obligations	-	-	79
Securities sold under agreements to repurchase from ultimate parent	9	7	47

Other transactions with related entities

On 24 March 2015, the Bank issued 500,000,000 ordinary shares ("Shares") to its immediate parent, National Australia Group (NZ) Limited ("NAGNZ"). The Shares were issued at a subscription price of \$1.00 each and on the same terms as, and rank equally with all existing ordinary shares in the Bank. This resulted in the Bank's fully paid ordinary shares increasing from 2,870,997,499 shares to 3,370,997,499 shares with effect from 24 March 2015.

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

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 value refers to amounts reflected in the balance sheet. The methodologies and assumptions used in the fair value estimates are described on page 18.

As disclosed in the following hierarchy for fair value measurements table, 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 judgement 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 nine months ended 30 June 2015 (nine months ended 30 June 2014: nil; year ended 30 September 2014: nil).

Notes to and Forming Part of the Interim Financial Statements

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

Hierarchy for fair value measurements *continued*

NZ IFRS 9 has been adopted from 1 October 2014 and has been applied in the preparation of the following table. Comparative balances have not been restated. On transition to NZ IFRS 9, the Banking Group elected to revoke previous elections to measure specific lending portfolios at FVTPL. These portfolios are now measured at amortised cost. Refer to note 1 for further information.

Dollars in Millions	Carrying Value	Consolidated (30/6/15)			
		Unaudited Total	Level 1	Level 2	Level 3
Financial assets at fair value					
Due from central banks and other institutions		1,938	-	1,938	-
Trading securities		5,166	3,059	2,107	-
Derivative financial instruments		7,374	-	7,374	-
Loans and advances to customers		7,106	-	7,106	-
Financial assets at amortised cost					
Loans and advances to customers	59,885	60,146	-	2,364	57,782
Financial liabilities at fair value					
Due to central banks and other institutions		605	-	605	-
Short term debt securities		6,464	-	6,464	-
Trading liabilities		199	199	-	-
Derivative financial instruments		7,443	-	7,443	-
Deposits from customers		3,692	-	3,692	-
Bonds and notes		15,424	-	15,424	-
Financial liabilities at amortised cost					
Deposits from customers	42,134	42,387	-	42,387	-

Dollars in Millions	Carrying Value	Consolidated (30/6/14)			
		Unaudited Total	Level 1	Level 2	Level 3
Financial assets at fair value					
Due from central banks and other institutions		779	-	779	-
Trading securities		3,201	1,983	1,218	-
Available for sale investments		60	60	-	-
Derivative financial instruments		3,527	-	3,527	-
Loans and advances to customers		25,558	-	25,558	-
Financial assets at amortised cost					
Loans and advances to customers	38,234	38,159	-	2,267	35,892
Financial liabilities at fair value					
Due to central banks and other institutions		816	-	816	-
Short term debt securities		5,432	-	5,432	-
Trading liabilities		165	165	-	-
Derivative financial instruments		4,118	-	4,118	-
Deposits from customers		4,346	-	4,346	-
Bonds and notes		13,520	-	13,520	-
Financial liabilities at amortised cost					
Deposits from customers	39,951	40,097	-	40,097	-

Dollars in Millions	Carrying Value	Consolidated (30/9/14)			
		Audited 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	-

Notes to and Forming Part of the Interim Financial Statements

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 obtains 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.

Notes to and Forming Part of the Interim Financial Statements

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 and again on 30 April 2015, these proceedings were stayed pending the outcome of proceedings in Australia (currently on appeal). 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:

Dollars in Millions	Consolidated		
	Unaudited 30/6/15	Unaudited 30/6/14	Audited 30/9/14
Contingent liabilities			
Bank guarantees	68	56	56
Standby letters of credit	343	360	354
Documentary letters of credit	186	93	102
Performance related contingencies	430	420	386
Total contingent liabilities	1,027	929	898
Credit related commitments			
Revocable commitments to extend credit	7,124	7,041	7,008
Irrevocable commitments to extend credit	8,642	8,089	7,965
Total credit related commitments	15,766	15,130	14,973
Total contingent liabilities and credit related commitments	16,793	16,059	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 30 June 2015 and for the three months ended 30 June 2015, 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.

Notes to and Forming Part of the Interim Financial Statements

Note 18 Capital Adequacy

The tables included below and on the following page detail the capital calculation, capital ratios and capital requirements as at 30 June 2015. 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 23 of this Disclosure Statement.

The Bank's condition 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 30/6/15
Dollars in Millions	
Qualifying capital	
Common Equity Tier One capital (before deductions)	6,032
Deductions from Common Equity Tier One capital	345
Total Common Equity Tier One capital (net of all deductions)	5,687
Total Additional Tier One capital*	546
Total Tier One capital	6,233
Total Tier Two capital**	545
Total Tier One and Tier Two qualifying capital	6,778

* Contributed equity (comprised of perpetual preference shares) in Additional Tier One capital 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 Additional Tier One 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 \$910 million. Perpetual preference shares of \$260 million were repurchased in June 2014.

** Subordinated loans from related entities in Tier Two capital 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 of \$190 million were repaid in February 2014. Tier Two capital includes an asset revaluation reserve of \$2 million.

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 30/6/15
Common Equity Tier One capital ratio	4.50%	10.56%
Tier One capital ratio	6.00%	11.58%
Total qualifying capital ratio	8.00%	12.59%
Buffer ratio for Common Equity Tier One capital	2.50%	4.59%

Total regulatory capital requirements

	Consolidated Total Capital Requirement*** Unaudited 30/6/15
Dollars in Millions	
Credit risk	
Exposures subject to the internal ratings based approach	2,936
Equity exposures	-
Specialised lending subject to the slotting approach	510
Exposures subject to the standardised approach	64
Credit value adjustment subject to BS2B	83
Agribusiness supervisory adjustment****	116
Total credit risk	3,709
Operational risk	350
Market risk	249
Total	4,308

*** 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.

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

Notes to and Forming Part of the Interim Financial Statements

Note 18 Capital Adequacy *continued*

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

	Consolidated Total Minimum Capital Requirement Unaudited 30/6/15
Dollars in Millions	
Corporate	1,827
Sovereign	6
Bank	56
Residential mortgage	878
Other retail	114
Retail small to medium enterprises	55
Total credit risk exposures subject to the IRB approach*	2,936

* 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 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 30/6/15	Off-balance Sheet Exposures at Default** Unaudited 30/6/15	Total Exposures at Default Unaudited 30/6/15
Dollars in Millions			
LVR Range			
0-59%	10,399	1,457	11,856
60-69%	6,183	568	6,751
70-79%	11,962	1,037	12,999
80-89%	1,618	59	1,677
Over 90%	1,413	257	1,670
Total exposures at default secured by residential mortgages	31,575	3,378	34,953

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

Capital for other material risks

As at 30 June 2015, 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 31 March 2015.

The recent fall in dairy prices and the ensuing impacts to the New Zealand dairy and related industries are the subject of close attention by the Bank. A substantially lower forecast milk solid payout rate in 2015/16 than in 2014/15 is expected to place pressure on the New Zealand dairy market. Should a low dairy payout environment prevail, this has the potential to drive an increase in bad and doubtful debts. At this stage, the Bank considers that it is well positioned to manage a period of lower dairy payouts.

Liquidity portfolio management

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

	Consolidated Unaudited 30/6/15
Dollars in Millions	
Cash and balances immediately convertible to cash	2,561
Securities purchased under agreements to resell	317
Government bonds, notes and securities	3,059
Semi-government bonds, notes and securities	376
Corporate and other institution bonds, notes and securities	1,731
Total liquidity portfolio	8,044

Notes to and Forming Part of the Interim Financial Statements

Note 19 Risk Management *continued*

Liquidity portfolio management *continued*

As at 30 June 2015, the Banking Group also held unencumbered residential mortgage-backed securities ("RMBS") of \$4,491 million 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 RBNZ as at 30 June 2015.

As at 30 June 2015, 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.

Corrections to concentrations of credit exposure as at 31 March 2015

In the BNZ Disclosure Statement for the six months ended 31 March 2015, on page 37, note 21 Risk Management, in the concentrations of credit exposure section, the amounts disclosed for certain New Zealand credit exposure categories as at 31 March 2015 were reported incorrectly. The correct amounts are disclosed below. There is no impact on the Banking Group's financial position as at 31 March 2015.

Dollars in Millions	Consolidated	
	Unaudited 31/3/15 Reported Amount	Restated Amount
Financial assets		
New Zealand		
Forestry and fishing	656	686
Manufacturing	3,309	3,317
Wholesale and retail trade	2,889	2,907
Financial, investment and insurance	8,078	8,273
Personal lending	2,082	1,831

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 there were no changes to the Bank's conditions of registration.

Non-compliance with conditions of registration

The Banking Group fully complied with all of the RBNZ's capital requirements as set out in the Bank's conditions of registration, except that 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 \$231 million or 0.5% of the Bank's credit risk-weighted assets as at 30 June 2015. 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. In June 2015, RBNZ provided the Bank with its feedback in relation to the model change approval requests, confirming its approval to decommission two of the models. The RBNZ has not yet fully considered the proposed treatment for exposures that are currently rated by the remaining model and the Bank remains in dialogue with the RBNZ on this matter.

In April 2015, the Bank identified a single case where it had consented to a charge in favour of another person over a residential property used as security for a residential mortgage loan and the combined value of the secured lending exceeded 80% of the property value. This constituted a breach of Condition of Registration 24. The consent was given on behalf of the Bank contrary to the relevant internal policies of the Bank. The Bank has included the amount of the loan secured by the subsequent charge within its LVR flow for the relevant period and at all times the Bank has complied with the high-LVR "speed limit" under condition 22 of the Bank's 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 nine months ended 30 June 2015:
 - (a) the Bank has complied with its conditions of registration applicable during that period, except as disclosed on page 23 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 18th of August 2015 and signed by Messrs. McKay and Healy as Directors and as responsible persons on behalf of all the other Directors.



D A McKay
Chairman



A J Healy
Managing Director and Chief Executive Officer



BNZ is a member of the National Australia Bank Group

