

Bank of New Zealand

Disclosure Statement

For the nine months ended 30 June 2016

Disclosure Statement

For the nine months ended 30 June 2016

This Disclosure Statement has been issued by Bank of New Zealand for the nine months ended 30 June 2016 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the “Order”).

In this Disclosure Statement, unless the context otherwise requires:

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

Contents

| | |
|---|----|
| Bank of New Zealand Corporate Information | 2 |
| Interim Financial Statements | 4 |
| Notes to and Forming Part of the Interim Financial Statements | 8 |
| Credit Ratings | 22 |
| Conditions of Registration | 22 |
| Directors’ Statement | 23 |

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 and services to retail, business, agribusiness, corporate and institutional clients.

Guarantees

Covered bond guarantee – Certain debt securities (“Covered Bonds”) issued by the Bank, or its controlled entity, BNZ International Funding Limited, acting through its London Branch, are guaranteed by 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 credit rating of Aaa and AAA from Moody’s Investors Service Pty Limited and Fitch Australia Pty Limited respectively. Refer to note 7 for further information. Further details about the above guarantee can be obtained by referring to the Bank’s Disclosure Statement for the year ended 30 September 2015 which is available at www.bnz.co.nz.

Other material obligations of the Bank are not guaranteed.

Ultimate Parent Bank

Ultimate Parent Bank and Address for Service

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

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

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

The Australian Prudential Regulation Authority (“APRA”) has issued a legally enforceable prudential standard which restricts associations between an authorised deposit-taking institution (such as NAB Limited) and its related entities. Any provision of material financial support to the Bank by NAB Limited would need to comply with the pertinent requirements of the prudential standard APS222.

In late 2014, APRA initiated a process to reduce Australian bank non-equity exposures to their respective New Zealand banking subsidiaries and branches, so that these non-equity exposures are minimised during ordinary times. On 19 November 2015, APRA informed NAB Limited that its Extended Licensed Entity (“ELE”) non-equity exposures to New Zealand banking subsidiaries, including the Bank, are to transition to be below a limit of five percent of NAB Limited’s Level 1 Tier 1 Capital. The ELE consists of NAB Limited and any APRA approved subsidiary entities assessed effectively as part of a single “stand-alone” entity for the purposes of measuring capital. APRA has regard to a number of factors when approving subsidiary entities for inclusion in the ELE, including ownership, governance, funding arrangements and regulatory characteristics of the subsidiary.

APRA has allowed a period of five years, which commenced on 1 January 2016 to transition to be less than the five percent limit. Exposures for the purposes of this limit include all committed, non-intraday, non-equity exposures including derivatives and off-balance sheet exposures. Further, APRA imposed two conditions over the transition period: (i) the percentage excess above the five percent limit as at 30 June 2015 is to reduce by at least one fifth by the end of each calendar year over the transition period, and (ii) the absolute amount of routine New Zealand non-equity exposure is not to increase from the 30 June 2015 level until NAB Limited is, and expects to remain, below the five percent limit. For the purposes of assessing this exposure, the five percent limit excludes equity investments and holdings of capital instruments in New Zealand banking subsidiaries. The Bank considers that it is well-placed to meet the requirements, given NAB Limited currently has no outstanding senior unsecured loans to the Bank and does not conduct any business through a branch structure in New Zealand.

APRA has also confirmed the terms on which NAB Limited may provide contingent funding support to a New Zealand banking subsidiary during times of financial stress. APRA has confirmed that, at this time, only Covered Bonds meet its criteria for contingent funding arrangements. Such contingent funding support is proposed to be captured within an aggregate exposure limit (including debt, equity and any exposures held through a branch) of 50% of NAB Limited’s Level 1 Tier 1 Capital.

Pending Proceedings or Arbitration

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

In March 2013, a potential representative action against New Zealand banks (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, 30 April 2015, 3 December 2015 and 4 May 2016, these proceedings were stayed. The potential outcome of these proceedings cannot be determined with any certainty at this stage.

Bank of New Zealand Corporate Information

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, volatility persisted in global financial markets. The Banking Group considers that the volatility in global financial markets is now a normal factor in the operating environment and that the Bank has adequate liquidity, funding and capital to manage through these conditions.

A continuing low forecast milk solid payout rate will place pressure on New Zealand dairy farmers. The prevailing low payout environment may drive an increase in bad and doubtful debts and may impact land prices, security valuations and related parts of the New Zealand economy. At this stage, the Bank considers that it is well positioned to manage a period of lower dairy payouts.

Directorate

On 21 December 2015, Bruce Ronald Hassall was appointed as an independent Non-Executive Director of the Bank.

On 30 June 2016, Dr. Susan Carrel Macken and Dr. Andrew John Pearce retired as Directors of the Bank.

On 1 July 2016, Kevin John Kenrick was appointed as an independent Non-Executive Director of the Bank.

On 22 July 2016, Michaela Jane Healey and Gavin Robin Slater resigned as Non-Executive Directors of the Bank.

Philip Wayne Chronican will be appointed as a Non-Executive Director of the Bank, subject to the Reserve Bank of New Zealand advising that it has no objection to the appointment.

Responsible Persons

Messrs. Douglas Alexander McKay, ONZM, 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
Bruce Ronald Hassall
Kevin John Kenrick*
Stephen John Moir

* Director appointment effective 1 July 2016

Income Statement

For the nine months ended 30 June 2016

| Dollars in Millions | Note | Consolidated | | |
|---|------|----------------------------------|----------------------------------|---------------------------------|
| | | Unaudited 9 Months 30/6/16 | Unaudited 9 Months 30/6/15 | Audited 12 Months 30/9/15 |
| Interest income | | 2,901 | 3,210 | 4,247 |
| Interest expense | | 1,582 | 1,916 | 2,512 |
| Net interest income | | 1,319 | 1,294 | 1,735 |
| Gains less losses on financial instruments | 2 | 89 | 244 | 322 |
| Other operating income | | 295 | 274 | 375 |
| Total operating income | | 1,703 | 1,812 | 2,432 |
| Operating expenses | | 661 | 643 | 865 |
| Total operating profit before impairment losses on credit exposures and income tax expense | | 1,042 | 1,169 | 1,567 |
| Impairment losses on credit exposures | 8 | 106 | 64 | 128 |
| Total operating profit before income tax expense | | 936 | 1,105 | 1,439 |
| Income tax expense on operating profit | | 256 | 308 | 401 |
| Net profit attributable to shareholders of Bank of New Zealand | | 680 | 797 | 1,038 |

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 nine months ended 30 June 2016

| Dollars in Millions | Consolidated | | |
|--|----------------------------------|----------------------------------|---------------------------------|
| | Unaudited 9 Months 30/6/16 | Unaudited 9 Months 30/6/15 | Audited 12 Months 30/9/15 |
| Net profit attributable to shareholders of Bank of New Zealand | 680 | 797 | 1,038 |
| Other comprehensive income/(expense): | | | |
| Items that will not be reclassified to profit or loss | | | |
| Actuarial loss on defined benefit plan | - | - | (2) |
| Credit risk adjustments on financial liabilities designated at fair value through profit or loss | 65 | 79 | 125 |
| Tax on items transferred directly from equity | (18) | (22) | (35) |
| | 47 | 57 | 88 |
| Items that may be reclassified subsequently to profit or loss | | | |
| Movement in cash flow hedge reserve | 18 | 86 | 113 |
| | 18 | 86 | 113 |
| Total other comprehensive income/(expense) | 65 | 143 | 201 |
| Total comprehensive income attributable to shareholders of Bank of New Zealand | 745 | 940 | 1,239 |

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 nine months ended 30 June 2016

| Dollars in Millions | Consolidated | | | | | |
|--|----------------------------|------------------------------------|---------------------|---------------------------------|-------------------------------|---------------------------------------|
| | Unaudited 9 Months 30/6/16 | | | | | |
| | Ordinary Capital | Perpetual Preference Capital | Retained Profits | Asset Revaluation Reserve | Cash Flow Hedge Reserve | Total Share- holders' Equity |
| Balance at beginning of period | 2,351 | 650 | 3,945 | 2 | 94 | 7,042 |
| Comprehensive income/(expense) | | | | | | |
| Net profit attributable to shareholders of Bank of New Zealand | - | - | 680 | - | - | 680 |
| Total other comprehensive income/(expense) | - | - | 47 | - | 18 | 65 |
| Total comprehensive income/(expense) | - | - | 727 | - | 18 | 745 |
| Ordinary dividend | - | - | (500) | - | - | (500) |
| Perpetual preference dividend | - | - | (24) | - | - | (24) |
| Balance at end of period | 2,351 | 650 | 4,148 | 2 | 112 | 7,263 |
| | Unaudited 9 Months 30/6/15 | | | | | |
| 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/(expense) | | | | | | |
| Net profit attributable to shareholders of Bank of New Zealand | - | - | 797 | - | - | 797 |
| Total other comprehensive income/(expense) | - | - | 57 | - | 86 | 143 |
| Total comprehensive income/(expense) | - | - | 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 |
| | Audited 12 Months 30/9/15 | | | | | |
| Balance at beginning of year | 1,851 | 650 | 3,257 | 2 | (19) | 5,741 |
| Balance adjusted for adoption of accounting standard * | - | - | (61) | - | - | (61) |
| Comprehensive income/(expense) | | | | | | |
| Net profit attributable to shareholders of Bank of New Zealand | - | - | 1,038 | - | - | 1,038 |
| Total other comprehensive income/(expense) | - | - | 88 | - | 113 | 201 |
| Total comprehensive income/(expense) | - | - | 1,126 | - | 113 | 1,239 |
| Proceeds from shares issued | 500 | - | - | - | - | 500 |
| Ordinary dividend | - | - | (345) | - | - | (345) |
| Perpetual preference dividend | - | - | (32) | - | - | (32) |
| Balance at end of year | 2,351 | 650 | 3,945 | 2 | 94 | 7,042 |

* NZ IFRS 9 Financial Instruments (2014) was adopted from 1 October 2014 and was applied in the preparation of the statement of changes in equity.

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

Balance Sheet

As at 30 June 2016

| Dollars in Millions | Note | Consolidated | | |
|--|------|----------------------|----------------------|--------------------|
| | | Unaudited 30/6/16 | Unaudited 30/6/15 | Audited 30/9/15 |
| Assets | | | | |
| Cash and liquid assets | 4 | 1,685 | 1,992 | 1,634 |
| Due from central banks and other institutions | 5 | 2,777 | 2,255 | 2,009 |
| Trading securities | 6 | 4,941 | 5,166 | 4,918 |
| Derivative financial instruments | | 7,334 | 7,374 | 7,895 |
| Loans and advances to customers | 7 | 72,557 | 66,991 | 68,216 |
| Current tax assets | | 54 | 27 | - |
| Amounts due from related entities | 14 | 1,950 | 1,065 | 1,259 |
| Other assets | | 266 | 456 | 369 |
| Deferred tax | | 176 | 156 | 153 |
| Property, plant and equipment | | 166 | 175 | 176 |
| Goodwill and other intangible assets | | 187 | 159 | 158 |
| Total assets | | 92,093 | 85,816 | 86,787 |
| Financed by: | | | | |
| Liabilities | | | | |
| Due to central banks and other institutions | 9 | 1,340 | 1,759 | 1,439 |
| Short term debt securities | 10 | 6,037 | 6,464 | 5,027 |
| Trading liabilities | | 268 | 199 | 51 |
| Derivative financial instruments | | 8,354 | 7,443 | 8,310 |
| Deposits from customers | 11 | 50,285 | 45,826 | 46,729 |
| Bonds and notes | | 16,056 | 15,424 | 16,156 |
| Current tax liabilities | | - | - | 75 |
| Amounts due to related entities | 14 | 1,000 | 518 | 380 |
| Other liabilities | | 569 | 717 | 863 |
| Subordinated debt | 12 | 921 | 715 | 715 |
| Total liabilities | | 84,830 | 79,065 | 79,745 |
| Net assets | | 7,263 | 6,751 | 7,042 |
| Shareholders' equity | | | | |
| Contributed equity - ordinary shareholder | | 2,351 | 2,351 | 2,351 |
| Reserves | | 114 | 69 | 96 |
| Retained profits | | 4,148 | 3,681 | 3,945 |
| Ordinary shareholder's equity | | 6,613 | 6,101 | 6,392 |
| Contributed equity - perpetual preference shareholders | | 650 | 650 | 650 |
| Total shareholders' equity | | 7,263 | 6,751 | 7,042 |

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 nine months ended 30 June 2016

| Dollars in Millions | Note | Consolidated | | |
|---|------|----------------------------------|----------------------------------|---------------------------------|
| | | Unaudited 9 Months 30/6/16 | Unaudited 9 Months 30/6/15 | Audited 12 Months 30/9/15 |
| Cash flows from operating activities | | | | |
| Cash was provided from: | | | | |
| Interest income | | 2,910 | 3,215 | 4,257 |
| Other cash inflows provided from operating activities | | 415 | 323 | 416 |
| Cash was applied to: | | | | |
| Interest expense | | (1,658) | (1,988) | (2,540) |
| Other cash outflows applied to operating activities | | (1,048) | (935) | (1,135) |
| Net cash flows from operating activities before changes in operating assets and liabilities | | 619 | 615 | 998 |
| Net change in operating assets and liabilities | | (807) | (3,251) | (3,059) |
| Net cash flows from operating activities | | (188) | (2,636) | (2,061) |
| Cash flows from investing activities | | | | |
| Cash inflows provided from investing activities | | 2 | 49 | 49 |
| Cash outflows applied to investing activities | | (82) | (40) | (68) |
| Net cash flows from investing activities | | (80) | 9 | (19) |
| Net cash flows from financing activities | | 1,685 | 2,444 | 2,329 |
| Net movement in cash and cash equivalents | | 1,417 | (183) | 249 |
| Cash and cash equivalents at beginning of period | | 1,585 | 1,336 | 1,336 |
| Cash and cash equivalents at end of period | | 3,002 | 1,153 | 1,585 |
| Cash and cash equivalents at end of period comprised: | | | | |
| Cash and liquid assets | 4 | 1,685 | 1,992 | 1,634 |
| Due from central banks and other institutions classified as cash and cash equivalents | 5 | 1,208 | 317 | 327 |
| Due to central banks and other institutions classified as cash and cash equivalents | 9 | (858) | (1,164) | (927) |
| Amounts due from related entities classified as cash and cash equivalents | 14 | 1,208 | 80 | 593 |
| Amounts due to related entities classified as cash and cash equivalents | 14 | (241) | (72) | (42) |
| Total cash and cash equivalents | | 3,002 | 1,153 | 1,585 |
| 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 | | 680 | 797 | 1,038 |
| Add back non-cash items in net profit | | (61) | (182) | (40) |
| Deduct operating cash flows not included in net profit | | | | |
| Net change in operating assets and liabilities | | (807) | (3,251) | (3,059) |
| Net cash flows from operating activities | | (188) | (2,636) | (2,061) |

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 2016

Note 1 Principal Accounting Policies

These interim financial statements are general purpose financial reports prepared in accordance with the requirements of New Zealand Equivalent to International Accounting Standard (“NZ IAS”) 34 Interim Financial Reporting and the Order, and should be read in conjunction with the Disclosure Statement for the year ended 30 September 2015.

Changes in accounting policies and disclosure

The following new amendment to standards relevant to the Banking Group has been adopted from 1 October 2015 and has been applied in the preparation of these interim financial statements:

- 2014 Omnibus Amendments to New Zealand Equivalent to International Financial Reporting Standards (“NZ IFRS”) including Financial Reporting Standard 44 New Zealand Additional Disclosures which is applicable for periods beginning on or after 1 April 2015 and requires for-profit entities to disclose the statutory basis or other reporting framework, if any, under which the financial statements have been prepared. Adoption of this standard has not resulted in any impact on the Banking Group’s reported results or financial position.

There were no other amendments to the New Zealand Accounting Standards adopted during the reporting period that had a material impact to the Banking Group.

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 2015, except as disclosed above.

Notes to and Forming Part of the Interim Financial Statements

Income Statement Notes

| Dollars in Millions | Consolidated | | |
|--|----------------------------------|----------------------------------|---------------------------------|
| | Unaudited 9 Months 30/6/16 | Unaudited 9 Months 30/6/15 | Audited 12 Months 30/9/15 |
| Note 2 Gains Less Losses on Financial Instruments | | | |
| Trading gains less losses on financial instruments | | | |
| Foreign exchange trading gain | 91 | 77 | 105 |
| Interest rate related trading derivatives | (24) | 50 | 65 |
| Other derivatives | (1) | - | - |
| Net gain/(loss) in the fair value of financial assets and liabilities held for trading | 38 | 48 | 58 |
| Trading gains less losses on financial instruments | 104 | 175 | 228 |
| Other gains less losses on financial instruments | | | |
| Hedge accounting | | | |
| Net gain/(loss) arising from hedging instruments in fair value hedge accounting relationships | (2) | (160) | (212) |
| Net gain/(loss) arising from the hedged items attributable to the hedged risk in fair value hedge accounting relationships | (39) | 163 | 209 |
| Ineffectiveness arising from cash flow hedge accounting relationships | - | 2 | 2 |
| | (41) | 5 | (1) |
| Other | | | |
| Net gain/(loss) in the fair value of financial assets (refer to table below) | (7) | (1) | (7) |
| Net gain/(loss) in the fair value of financial liabilities (refer to table below) | 1 | 49 | 76 |
| Bid/offer adjustment | (2) | (2) | (1) |
| Net gain/(loss) attributable to other derivatives used for hedging purposes that no longer qualify for hedge accounting | 34 | 18 | 27 |
| | 26 | 64 | 95 |
| Other gains less losses on financial instruments | (15) | 69 | 94 |
| Total gains less losses on financial instruments | 89 | 244 | 322 |
| Net gain/(loss) in the fair value of financial assets comprised: | | | |
| Gain/(loss) in the fair value of financial assets designated at fair value through profit or loss | - | 126 | 167 |
| Credit risk adjustments on financial assets designated at fair value through profit or loss | (4) | (1) | (7) |
| Net gain/(loss) attributable to other derivatives used for hedging purposes where hedge accounting is not applied | (3) | (126) | (167) |
| | (7) | (1) | (7) |
| Net gain/(loss) in the fair value of financial liabilities comprised:* | | | |
| Gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss | 43 | (59) | (106) |
| Net gain/(loss) attributable to other derivatives used for hedging purposes where hedge accounting is not applied | (42) | 108 | 182 |
| | 1 | 49 | 76 |
| * All foreign currency gains/(losses) are excluded from this category. Due to the Banking Group's practice of managing all foreign exchange risk centrally, all foreign currency gains/(losses) are included within 'Foreign exchange trading gain' above. | | | |

Notes to and Forming Part of the Interim Financial Statements

Note 3 Segment Analysis

Operating segments

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

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

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

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

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

| Dollars in Millions | Consolidated | | | | |
|--|-----------------------------------|---------------------|----------------------------------|--------------|----------------------------|
| | Unaudited 9 Months 30/6/16 | | | | |
| | Retail and Marketing | BNZ Partners | Total Reportable Segments | Other | Total Banking Group |
| Revenue from external customers | 609 | 894 | 1,503 | 200 | 1,703 |
| Net inter-segment revenue | - | 17 | 17 | (17) | - |
| Total segment revenue | 609 | 911 | 1,520 | 183 | 1,703 |
| Operating profit before income tax expense* | 301 | 539 | 840 | 96 | 936 |
| Income tax expense | 84 | 151 | 235 | 21 | 256 |
| Net profit attributable to shareholders of Bank of New Zealand | 217 | 388 | 605 | 75 | 680 |
| | Unaudited 9 Months 30/6/15 | | | | |
| 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 |
| | Audited 12 Months 30/9/15 | | | | |
| Revenue from external customers | 878 | 1,139 | 2,017 | 415 | 2,432 |
| Net inter-segment revenue | - | 27 | 27 | (27) | - |
| Total segment revenue | 878 | 1,166 | 2,044 | 388 | 2,432 |
| Operating profit before income tax expense* | 403 | 747 | 1,150 | 289 | 1,439 |
| Income tax expense | 107 | 209 | 316 | 85 | 401 |
| Net profit attributable to shareholders of Bank of New Zealand | 296 | 538 | 834 | 204 | 1,038 |

* For the nine months ended 30 June 2016, operating profit before income tax expense within the 'Other' category included a fair value loss on financial instruments of \$11 million (nine months ended 30 June 2015: \$71 million gain; year ended 30 September 2015: \$100 million gain), which are recorded as part of the overall gains less losses on financial instruments disclosed in note 2.

Notes to and Forming Part of the Interim Financial Statements

Asset Notes

| Dollars in Millions | Consolidated | | |
|--|----------------------|----------------------|--------------------|
| | Unaudited 30/6/16 | Unaudited 30/6/15 | Audited 30/9/15 |
| Note 4 Cash and Liquid Assets | | | |
| Notes and coins | 143 | 142 | 153 |
| Transaction balances with central banks | 1,423 | 1,567 | 1,219 |
| Transaction balances with other institutions | 119 | 283 | 262 |
| Total cash and liquid assets | 1,685 | 1,992 | 1,634 |

| Dollars in Millions | Consolidated | | |
|--|----------------------|----------------------|--------------------|
| | Unaudited 30/6/16 | Unaudited 30/6/15 | Audited 30/9/15 |
| Note 5 Due from Central Banks and Other Institutions | | | |
| Loans and advances due from central banks | 110 | 333 | - |
| Loans and advances due from other institutions | 1,459 | 1,605 | 1,682 |
| Securities purchased under agreements to resell with other financial institutions* | 915 | - | 128 |
| Securities purchased under agreements to resell with non-financial institutions* | 293 | 317 | 199 |
| Total due from central banks and other institutions | 2,777 | 2,255 | 2,009 |

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

The Banking Group has accepted collateral of New Zealand government securities with a fair value of \$2,368 million as at 30 June 2016 arising from reverse repurchase agreements included in due from central banks and other institutions and due from related entities (refer to note 14), which it is permitted to sell or repledge (30 June 2015: \$319 million; 30 September 2015: \$874 million).

Government securities with a fair value of \$275 million were repledged as at 30 June 2016 (30 June 2015: nil; 30 September 2015: \$113 million). Securities were repledged for periods of less than three months. The Bank's obligation to repurchase government securities is classified under due to central banks and other institutions (refer to note 9).

Included in due from central banks and other institutions as at 30 June 2016 was \$1,433 million of collateral posted with counterparties to meet standard derivative trading obligations (30 June 2015: \$1,036 million; 30 September 2015: \$1,148 million).

| Dollars in Millions | Consolidated | | |
|--|----------------------|----------------------|--------------------|
| | Unaudited 30/6/16 | Unaudited 30/6/15 | Audited 30/9/15 |
| Note 6 Trading Securities | | | |
| Government bonds, notes and securities | 2,484 | 3,059 | 2,656 |
| Semi-government bonds, notes and securities | 586 | 376 | 749 |
| Corporate and other institutions bonds, notes and securities | 1,871 | 1,731 | 1,513 |
| Total trading securities | 4,941 | 5,166 | 4,918 |

Included in trading securities as at 30 June 2016 were \$229 million encumbered through repurchase agreements (30 June 2015: \$70 million; 30 September 2015: \$159 million). These trading securities have not been derecognised from the Bank as the Bank retains substantially all the risks and rewards of ownership. Counterparties have the right to sell or repledge these encumbered securities. The Bank's obligation to repurchase trading securities is classified under due to central banks and other institutions (refer to note 9) and due to related entities (refer to note 14).

Notes to and Forming Part of the Interim Financial Statements

| Dollars in Millions | Consolidated | | |
|---|----------------------|----------------------|--------------------|
| | Unaudited 30/6/16 | Unaudited 30/6/15 | Audited 30/9/15 |
| Note 7 Loans and Advances to Customers | | | |
| Overdrafts | 2,527 | 2,364 | 2,400 |
| Credit card outstandings | 1,093 | 1,222 | 1,160 |
| Housing loans | 33,913 | 31,571 | 31,830 |
| Other term lending | 34,324 | 31,118 | 32,003 |
| Other lending | 1,011 | 1,000 | 1,037 |
| Total gross loans and advances to customers | 72,868 | 67,275 | 68,430 |
| Deduct: | | | |
| Specific provision for doubtful debts and credit risk adjustments on individual financial assets (refer to note 8) | 110 | 156 | 92 |
| Collective provision for doubtful debts and credit risk adjustments on groups of financial assets (refer to note 8) | 442 | 320 | 374 |
| Deferred and other unearned future income and expenses | (73) | (31) | (45) |
| Fair value hedge adjustments | (168) | (161) | (207) |
| Total deductions | 311 | 284 | 214 |
| Total net loans and advances to customers | 72,557 | 66,991 | 68,216 |

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 2016, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of \$4,454 million held by the RMBS Trust (30 June 2015: \$4,242 million; 30 September 2015: \$4,467 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 20. The Banking Group had not entered into any repurchase agreements for residential mortgage-backed securities with the RBNZ as at 30 June 2016 (30 June 2015: nil; 30 September 2015: nil). The RBNZ had not accepted any residential mortgage-backed securities as collateral from the Banking Group as at 30 June 2016 (30 June 2015: nil; 30 September 2015: 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 2016, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of \$4,709 million held by the Covered Bond Trust (30 June 2015: \$4,159 million; 30 September 2015: \$4,204 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 \$3,939 million that were guaranteed by the Covered Bond Trust as at 30 June 2016 (30 June 2015: \$3,332 million; 30 September 2015: \$3,436 million). The underlying collateral that supports the guarantee provided by the Covered Bond Trust comprised housing loans and other assets with a carrying amount of \$5,003 million as at 30 June 2016 (30 June 2015: \$4,293 million; 30 September 2015: \$4,293 million).

Included in other lending as at 30 June 2016 was \$1 million of collateral posted with counterparties to meet standard derivative trading obligations (30 June 2015: nil; 30 September 2015: nil).

Notes to and Forming Part of the Interim Financial Statements

Note 8 Asset Quality

| Dollars in Millions | Consolidated | | | Total Unaudited 30/6/16 |
|--|--|--|--|-------------------------------|
| | Residential Mortgage Lending Unaudited 30/6/16 | Other Retail Exposures Unaudited 30/6/16 | Corporate Exposures Unaudited 30/6/16 | |
| Provision for doubtful debts | | | | |
| Loans and advances to customers | | | | |
| <i>Provision for doubtful debts measured on a 12-months expected credit loss ("ECL")</i> | | | | |
| Collective provision for doubtful debts | 1 | 12 | 43 | 56 |
| <i>Provision for doubtful debts measured on a lifetime ECL</i> | | | | |
| Collective provision for doubtful debts for assets not credit impaired | 3 | 9 | 238 | 250 |
| Collective provision for doubtful debts for credit impaired assets | 4 | 8 | 77 | 89 |
| Specific provision for doubtful debts for credit impaired assets | 15 | 7 | 87 | 109 |
| Total provision for doubtful debts measured on a lifetime ECL | 22 | 24 | 402 | 448 |
| Total provision for doubtful debts | 23 | 36 | 445 | 504 |
| Credit risk adjustment on financial assets designated at fair value through profit or loss | | | | |
| Loans and advances to customers | | | | |
| Credit risk adjustments on individual financial assets | - | - | 1 | 1 |
| Credit risk adjustments on groups of financial assets | - | 1 | 46 | 47 |
| Total credit risk adjustments on loans and advances designated at fair value through profit or loss | - | 1 | 47 | 48 |
| Trading derivative financial instruments | | | | |
| Credit risk adjustments on groups of financial assets | - | - | 11 | 11 |
| Pre-allowance balance at end of period | | | | |
| Loans and advances to customers | | | | |
| Individually impaired assets - at amortised cost | 33 | 13 | 185 | 231 |
| Individually impaired assets - at fair value through profit or loss | - | - | 7 | 7 |
| Total impaired assets at end of period* | 33 | 13 | 192 | 238 |
| 90 days past due assets not individually impaired | | | | |
| Loans and advances to customers | 35 | 19 | 93 | 147 |
| Charges to income statement on financial assets | | | | |
| Loans and advances to customers | | | | |
| <i>(Credit)/charge to impairment losses on credit exposure measured on a 12-months ECL</i> | | | | |
| Impairment losses on group of financial assets | (1) | 3 | (22) | (20) |
| <i>(Credit)/charge to impairment losses on credit exposure measured on a lifetime ECL</i> | | | | |
| Impairment losses on group of assets not credit impaired | (2) | 2 | 46 | 46 |
| Impairment losses on group of credit impaired assets | (3) | (1) | 43 | 39 |
| Impairment losses on individual credit impaired assets | 4 | 17 | 20 | 41 |
| Total (credit)/charge to impairment losses on credit exposure measured on a lifetime ECL | (1) | 18 | 109 | 126 |
| Total (credit)/charge to impairment losses on credit exposures** | (2) | 21 | 87 | 106 |
| 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 | - | - | 1 | 1 |
| Credit risk adjustments on groups of financial assets | - | - | 3 | 3 |
| Total charge to income statement on loans and advances to customer designated at fair value through profit or loss | - | - | 4 | 4 |
| Trading derivative financial instruments | | | | |
| Charge to income statement on groups of financial assets | - | - | 13 | 13 |

* In the NAB 2016 Third Quarter Trading Update and the NAB 2016 Pillar 3 Report for 30 June 2016, NZD\$636 million of BNZ's dairy exposures were classified as impaired with no loss, some of which were not past due as at 30 June 2016. The definition of Individually Impaired Assets applied in the table above aligns to New Zealand regulatory requirements. It differs to the definition of Impaired Assets as set out in the Prudential Standard APS 220 by APRA. This APRA definition is used for reporting purposes by the Bank's ultimate parent, NAB in its Pillar 3 report. Under the APRA definition, Impaired Assets include Individually Impaired Assets and also certain exposures that are in default (but for which no loss is expected) where recovery timeframes are expected to be longer than usual.

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

Off-balance sheet impaired assets

Included in contingent liabilities, in note 16, is \$1 million of off-balance sheet facilities to counterparties for whom drawn balances were classified as individually impaired as at 30 June 2016. No specific provision for doubtful debt on individual off-balance sheet credit related commitments had been made as at 30 June 2016.

Notes to and Forming Part of the Interim Financial Statements

Liability Notes

| Dollars in Millions | Consolidated | | |
|---|----------------------|----------------------|--------------------|
| | Unaudited 30/6/16 | Unaudited 30/6/15 | Audited 30/9/15 |
| Note 9 Due to Central Banks and Other Institutions | | | |
| Transaction balances with other institutions* | 510 | 1,093 | 645 |
| Deposits from central banks | 57 | 175 | 199 |
| Deposits from other institutions** | 437 | 430 | 323 |
| Securities sold under agreements to repurchase from other institutions* | 336 | 61 | 272 |
| Total due to central banks and other institutions | 1,340 | 1,759 | 1,439 |

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

** Included in deposits from other institutions as at 30 June 2016 was \$12 million classified as cash and cash equivalents in the cash flow statement (30 June 2015: \$10 million; 30 September 2015: \$10 million).

Included in due to central banks and other institutions as at 30 June 2016 was \$390 million of collateral posted by counterparties to meet standard derivative trading obligations (30 June 2015: \$446 million; 30 September 2015: \$331 million). The Bank held no secured deposits from central banks and other institutions as at 30 June 2016 (30 June 2015: nil; 30 September 2015: nil).

| Dollars in Millions | Consolidated | | |
|---|----------------------|----------------------|--------------------|
| | Unaudited 30/6/16 | Unaudited 30/6/15 | Audited 30/9/15 |
| Note 10 Short Term Debt Securities | | | |
| Certificates of deposit | 2,915 | 2,183 | 1,709 |
| Commercial paper | 3,122 | 4,281 | 3,318 |
| Total short term debt securities | 6,037 | 6,464 | 5,027 |

| Dollars in Millions | Consolidated | | |
|--|----------------------|----------------------|--------------------|
| | Unaudited 30/6/16 | Unaudited 30/6/15 | Audited 30/9/15 |
| Note 11 Deposits from Customers | | | |
| Demand deposits not bearing interest | 4,404 | 3,008 | 3,688 |
| Demand deposits bearing interest | 19,079 | 18,193 | 18,242 |
| Term deposits | 26,802 | 24,625 | 24,799 |
| Total deposits from customers | 50,285 | 45,826 | 46,729 |

Included in term deposits as at 30 June 2016 was \$1 million of collateral posted by counterparties to meet standard derivative trading obligations (30 June 2015: nil; 30 September 2015: \$3 million).

Notes to and Forming Part of the Interim Financial Statements

| Dollars in Millions | Consolidated | | |
|--|----------------------|----------------------|--------------------|
| | Unaudited 30/6/16 | Unaudited 30/6/15 | Audited 30/9/15 |
| Note 12 Subordinated Debt | | | |
| Subordinated loans due to related entities | 380 | 715 | 715 |
| Subordinated notes due to external investors | 541 | - | - |
| Total subordinated debt | 921 | 715 | 715 |

On 17 December 2015, the Bank issued \$550 million of subordinated unsecured notes ("Subordinated Notes"), which are currently quoted on the NZX Debt Market under the ticker code BNZ090. The Subordinated Notes are treated as Tier Two capital under the Bank's and NAB Limited's regulatory capital requirements. The Subordinated Notes will mature on 17 December 2025 ("Maturity Date"), but in certain circumstances the Bank may at its option repay some or all of the Subordinated Notes on any scheduled interest payment date on or after 17 December 2020 ("Optional Redemption Date"). At any time, the Bank may repay all (but not some only) of the Subordinated Notes if a regulatory or tax event occurs. The initial interest rate for the Subordinated Notes was 5.314% per annum, which is fixed for five years and will be reset on the Optional Redemption Date. From the Optional Redemption Date to the Maturity Date, the interest rate will be the sum of the Five Year Swap Rate (a benchmark interest rate for a term of five years) on the Optional Redemption Date plus 2.250%. Interest is scheduled to be paid quarterly in arrear subject to the Bank being solvent (by satisfying the solvency test in section 4 of the Companies Act 1993) on the relevant payment date and remaining solvent immediately after making the payment. If the Bank does not pay an amount on the Subordinated Notes because it has not satisfied the solvency test, the Bank must pay that amount on the first date on which it is able to make the payment and satisfy the solvency test. Interest will accrue daily (at the interest rate then applicable to the Subordinated Notes) on any interest that is not paid when scheduled as a result of the Bank not satisfying the solvency test on the relevant payment date. If some or all of the Subordinated Notes are converted or written off, any rights to receive interest on those Subordinated Notes (including any accrued but unpaid interest) are also terminated and written off.

If a non-viability trigger event ("NVTE") occurs, some or all of the Subordinated Notes will automatically and immediately be converted to NAB Limited ordinary shares or written off. A NVTE will occur if: (i) the RBNZ gives the Bank a direction under the Reserve Bank of New Zealand Act 1989 ("RBNZ Act") requiring the Bank to exercise its right of conversion or write off of its Tier Two capital instruments; (ii) the Bank is made subject to statutory management under the RBNZ Act and the New Zealand statutory manager announces his or her decision to convert or write off the Bank's Tier Two capital instruments; or (iii) APRA has provided a written determination to NAB Limited that without the conversion or write off of a class of capital instruments of NAB which includes the Subordinated Notes, or a public sector injection of capital into, or equivalent capital support with respect to, NAB Limited, APRA considers that NAB Limited would become non-viable. The RBNZ may give the Bank a direction that affects the Subordinated Notes under the RBNZ Act if the RBNZ has reasonable grounds to believe, based on the Bank's financial position, that: (a) the Bank is insolvent or is likely to become insolvent; (b) the Bank is about to suspend payment or is unable to meet its obligations as and when they fall due; (c) the affairs of the Bank are being conducted in a manner prejudicial to the soundness of the financial system; (d) the circumstances of the Bank are such as to be prejudicial to the soundness of the financial system; or (e) the business of the Bank has not been, or is not being, conducted in a prudent manner.

If the Subordinated Notes are not converted or written off, in a liquidation of the Bank, the holder's right to claim payment on the Subordinated Notes will rank: (a) ahead of claims of holders of ordinary shares of the Bank and securities that rank below the Subordinated Notes; (b) equally with claims of other holders of the Subordinated Notes and holders of other securities that rank equally with the Subordinated Notes with respect to priority of payment in a liquidation; and (c) behind all other claims (such as those of the Bank's secured creditors, depositors and holders of unsecured unsubordinated bonds issued by the Bank from time to time).

In connection with the Subordinated Notes, a Coordination Agreement dated 11 November 2015 between the Bank, National Australia Group (NZ) Limited ("NAGNZ"), National Equities Limited and NAB Limited sets out intragroup transactions that are intended to occur on conversion of the Subordinated Notes. Under this agreement, the Bank is required to issue a variable number of ordinary shares to NAGNZ for an amount equivalent to the Subordinated Notes converted into NAB Limited ordinary shares.

Subordinated loans due to related entities of \$335 million were repaid in June 2016.

Notes to and Forming Part of the Interim Financial Statements

Other Notes

| | |
|---------------------|---|
| Dollars in Millions | Consolidated Unaudited 30/6/16 |
|---------------------|---|

Note 13 Interest Earning and Discount Bearing Assets and Liabilities

| | |
|--|--------|
| Interest earning and discount bearing assets | 82,459 |
| Interest and discount bearing liabilities | 71,401 |

| | | | |
|---------------------|------------------------------|----------------------|--------------------|
| Dollars in Millions | Consolidated | | |
| | Unaudited 30/6/16 | Unaudited 30/6/15 | Audited 30/9/15 |

Note 14 Related Entity Transactions

Total balances with related entities

| | | | |
|--|-------|-------|-------|
| Amounts due from related entities | 1,950 | 1,065 | 1,259 |
| Derivative financial assets with related entities | 1,723 | 1,673 | 2,135 |
| Amounts due to related entities | 1,000 | 518 | 380 |
| Subordinated loans due to related entities | 380 | 715 | 715 |
| Derivative financial liabilities with related entities | 2,279 | 2,410 | 2,562 |

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

| | | | |
|---------------------|------------------------------|----------------------|--------------------|
| Dollars in Millions | Consolidated | | |
| | Unaudited 30/6/16 | Unaudited 30/6/15 | Audited 30/9/15 |

Amounts due from related entities

| | | | |
|---|-------|-----|-----|
| Collateral loan posted to ultimate parent to meet standard derivative trading obligations | 529 | 770 | 451 |
| Securities purchased under agreements to resell to ultimate parent | 1,158 | - | 545 |

Amounts due to related entities

| | | | |
|---|-----|---|---|
| Securities sold under agreements to repurchase from ultimate parent | 167 | 9 | - |
|---|-----|---|---|

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

| | | | |
|-----------------------------------|------------------------------|----------------------|--------------------|
| Dollars in Millions | Consolidated | | |
| | Unaudited 30/6/16 | Unaudited 30/6/15 | Audited 30/9/15 |
| Amounts due from related entities | 1,208 | 80 | 593 |
| Amounts due to related entities | 241 | 72 | 42 |

Other transactions with related entities

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

Note 15 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 on page 17, the fair value of the financial assets and financial liabilities are considered to approximate the carrying value disclosed in the balance sheet with the exception of loans and advances to customers, deposits from customers and subordinated debt.

Hierarchy for fair value measurements

The tables on page 17 present a three level fair value hierarchy of the Banking Group's financial assets and financial liabilities which are measured at fair value, 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.

In the current reporting period listed subordinated debt, previously classified as Level 2, have been now classified as Level 1. There were no transfers between any of the levels in the nine months ended 30 June 2015 and for the year ended 30 September 2015.

Notes to and Forming Part of the Interim Financial Statements

Note 15 Fair Value of Financial Assets and Financial Liabilities *continued*

Hierarchy for Fair Value measurements *continued*

| Dollars in Millions | Carrying Value | Consolidated Unaudited (30/6/16) | | | |
|--|----------------|-------------------------------------|---------|---------|---------|
| | | Total | Level 1 | Level 2 | Level 3 |
| Financial assets at fair value | | | | | |
| Due from central banks and other institutions | | 1,569 | - | 1,569 | - |
| Trading securities | | 4,941 | 2,484 | 2,457 | - |
| Derivative financial instruments | | 7,334 | - | 7,334 | - |
| Loans and advances to customers | | 5,941 | - | 5,941 | - |
| Financial assets at amortised cost | | | | | |
| Loans and advances to customers | 66,616 | 66,905 | - | 2,527 | 64,378 |
| Financial liabilities at fair value | | | | | |
| Due to central banks and other institutions | | 494 | - | 494 | - |
| Short term debt securities | | 6,037 | - | 6,037 | - |
| Trading liabilities | | 268 | 268 | - | - |
| Derivative financial instruments | | 8,354 | - | 8,354 | - |
| Deposits from customers | | 5,314 | - | 5,314 | - |
| Bonds and notes | | 16,056 | - | 16,056 | - |
| Financial liabilities at amortised cost | | | | | |
| Deposits from customers | 44,971 | 45,188 | - | 45,188 | - |
| Subordinated debt* | 541 | 555 | 555 | - | - |
| Unaudited (30/6/15) | | | | | |
| 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 | - |
| Audited (30/09/15) | | | | | |
| Financial assets at fair value | | | | | |
| Due from central banks and other institutions | | 1,682 | - | 1,682 | - |
| Trading securities | | 4,918 | 2,656 | 2,262 | - |
| Derivative financial instruments | | 7,895 | - | 7,895 | - |
| Loans and advances to customers | | 7,133 | - | 7,133 | - |
| Financial assets at amortised cost | | | | | |
| Loans and advances to customers | 61,083 | 61,432 | - | 2,400 | 59,032 |
| Financial liabilities at fair value | | | | | |
| Due to central banks and other institutions | | 522 | - | 522 | - |
| Short term debt securities | | 5,027 | - | 5,027 | - |
| Trading liabilities | | 51 | 51 | - | - |
| Derivative financial instruments | | 8,310 | - | 8,310 | - |
| Deposits from customers | | 3,875 | - | 3,875 | - |
| Bonds and notes | | 16,156 | - | 16,156 | - |
| Financial liabilities at amortised cost | | | | | |
| Deposits from customers | 42,854 | 43,122 | - | 43,122 | - |

* This amount represents subordinated notes due to external investors. These were previously classified as Level 2.

Notes to and Forming Part of the Interim Financial Statements

Note 15 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 and Trading liabilities

Trading securities include treasury bills, bank bills and bonds, promissory notes, and government and other securities. Trading liabilities include short sales of securities. Where quoted market prices are not available, the Banking Group obtains the fair value by means of discounted cash flows and other valuation techniques based on observable market prices. These techniques 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 to their carrying value. For fixed rate loans, the fair value is estimated by discounting the expected future cash flows based on the maturity of the loans and advances, using current market interest rates of similar types of loans and advances or interest rate swap rates. The differences between estimated fair values of loans and advances and carrying value reflect the difference between observable market interest rates and customer rates on day one and changes in interest rates and creditworthiness of borrowers since loan or advance origination.

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

Subordinated loans due to related entities reprice every 90 days, therefore, their fair value is considered to approximate their carrying value. The fair value of subordinated notes due to external investors is based on quoted closing market prices as at the reporting date.

Other financial assets/liabilities

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

Notes to and Forming Part of the Interim Financial Statements

Note 16 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, 30 April 2015, 3 December 2015 and 4 May 2016, these proceedings were stayed. The potential outcome of these proceedings cannot be determined with any certainty at this stage.

On 6 June 2015, the Credit Contracts and Consumer Finance Act 2003 (as amended by the Credit Contracts and Consumer Finance Amendment Act 2014) ("CCCFA") came fully into force. The Bank is currently validating and reviewing its compliance with the CCCFA with a particular focus on disclosure requirements. As at the reporting date this review is still in progress.

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

| Dollars in Millions | Consolidated | | |
|---|----------------------|----------------------|--------------------|
| | Unaudited 30/6/16 | Unaudited 30/6/15 | Audited 30/9/15 |
| Contingent liabilities | | | |
| Bank guarantees | 65 | 68 | 68 |
| Standby letters of credit | 391 | 343 | 404 |
| Documentary letters of credit | 195 | 186 | 215 |
| Performance related contingencies | 443 | 430 | 440 |
| Total contingent liabilities | 1,094 | 1,027 | 1,127 |
| Credit related commitments | | | |
| Revocable commitments to extend credit | 8,143 | 7,124 | 7,416 |
| Irrevocable commitments to extend credit | 9,858 | 8,642 | 8,924 |
| Total credit related commitments | 18,001 | 15,766 | 16,340 |
| Total contingent liabilities and credit related commitments | 19,095 | 16,793 | 17,467 |

Note 17 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 2016 and for the three months ended 30 June 2016, 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 18 Insurance Business

The Banking Group does not conduct any Insurance Business, as defined in the Bank's conditions of registration. The Bank's conditions of registration can be obtained by referring to the Bank's Disclosure Statement for the year ended 30 September 2015.

Notes to and Forming Part of the Interim Financial Statements

Note 19 Capital Adequacy

The tables included below and on the following page detail the capital calculation, capital ratios and capital requirements as at 30 June 2016. During the financial period the Banking Group fully complied with all of the RBNZ's capital requirements as set out in the Bank's conditions of registration, except as disclosed on page 22 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 30/6/16 |
|--|---|
| Qualifying capital | |
| Common Equity Tier One capital (before deductions) | 6,499 |
| Deductions from Common Equity Tier One capital | 485 |
| Total Common Equity Tier One capital (net of all deductions) | 6,014 |
| Total Additional Tier One capital* | 364 |
| Total Tier One capital | 6,378 |
| Total Tier Two capital** | 914 |
| Total Tier One and Tier Two qualifying capital | 7,292 |

* 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 due to 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 and \$335 million were repaid in February 2014 and June 2016 respectively. Tier Two capital includes an asset revaluation reserve of \$2 million. On 17 December 2015, the Bank issued \$550 million of subordinated notes that qualify for Tier Two capital in accordance with BS2B. Refer to note 12 for further information.

Banking Group Basel III regulatory capital ratios

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

| | Consolidated Regulatory Minima | Unaudited 30/6/16 |
|--------------------------------------|---|------------------------------|
| Common Equity Tier One capital ratio | 4.50% | 10.30% |
| Tier One capital ratio | 6.00% | 10.92% |
| Total qualifying capital ratio | 8.00% | 12.48% |
| Buffer ratio | 2.50% | 4.48% |

Total regulatory capital requirements

| Dollars in Millions | Consolidated Total Capital Requirement*** Unaudited 30/6/16 |
|--|--|
| Credit risk | |
| Exposures subject to the internal ratings based approach | 3,408 |
| Equity exposures | 2 |
| Specialised lending subject to the slotting approach | 607 |
| Exposures subject to the standardised approach | 68 |
| Credit value adjustment subject to BS2B | 103 |
| Total credit risk | 4,188 |
| Operational risk | 350 |
| Market risk | 135 |
| Total | 4,673 |

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

Notes to and Forming Part of the Interim Financial Statements

Note 19 Capital Adequacy *continued*

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

| | Consolidated Total Minimum Capital Requirement Unaudited 30/6/16 |
|---|---|
| Dollars in Millions | |
| Corporate | 2,251 |
| Sovereign | 7 |
| Bank | 69 |
| Residential mortgage | 927 |
| Other retail* | 103 |
| Retail small to medium enterprises | 51 |
| Total credit risk exposures subject to the IRB approach** | 3,408 |

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

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

Residential mortgages by loan-to-valuation ratio

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

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

| | Consolidated | | |
|---|--|--|--|
| | On-balance Sheet Exposures at Default Unaudited 30/6/16 | Off-balance Sheet Exposures at Default*** Unaudited 30/6/16 | Total Exposures at Default Unaudited 30/6/16 |
| Dollars in Millions | | | |
| LVR Range | | | |
| 0-59% | 11,889 | 1,704 | 13,593 |
| 60-69% | 7,041 | 739 | 7,780 |
| 70-79% | 12,100 | 1,295 | 13,395 |
| 80-89% | 1,560 | 53 | 1,613 |
| Over 90% | 1,327 | 349 | 1,676 |
| Total exposures at default secured by residential mortgages | 33,917 | 4,140 | 38,057 |

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

Capital for other material risks

As at 30 June 2016, the Banking Group had an internal capital allocation for business risk of \$157 million. The assessment of business risk covers strategic, reputation and earnings risk.

Note 20 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 2016.

Liquidity portfolio management

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

| | Consolidated Unaudited 30/6/16 |
|---|---|
| Dollars in Millions | |
| Cash and balances immediately convertible to cash | 1,711 |
| Securities purchased under agreements to resell | 1,208 |
| Government bonds, notes and securities**** | 1,980 |
| Semi-government bonds, notes and securities | 586 |
| Corporate and other institution bonds, notes and securities | 1,871 |
| Total liquidity portfolio | 7,356 |

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

As at 30 June 2016, the Banking Group also held unencumbered residential mortgage-backed securities (“RMBS”) of \$4,491 million of which \$4,300 million can be sold to the RBNZ under agreements to repurchase for liquidity purposes. These RMBS are secured by residential housing loans and other assets.

Refer to note 7 for further information. The Banking Group had not entered into any repurchase agreements for residential mortgage-backed securities with the RBNZ as at 30 June 2016.

As at 30 June 2016, there was an A\$1,000 million standby liquidity facility, which is reviewed annually, provided from NAB Limited for the Bank’s liquidity management.

Credit Ratings

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

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

Subsequent to the reporting date, on 7 July 2016, Standard & Poor's revised the credit rating outlook on the Commonwealth of Australia which resulted in a change of outlook for the major Australian banks and their New Zealand subsidiaries (including BNZ), from Stable to Negative.

Subsequent to the reporting date, on 18 August 2016, Moody's revised the credit rating outlook for the major Australian banks and, on 19 August 2016, their New Zealand subsidiaries (including BNZ), from Stable to Negative.

Conditions of Registration

Changes in conditions of registration

There have been no changes made to the Bank's conditions of registration since 31 March 2016.

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 since 30 September 2015, except that the Bank did not have the required RBNZ approvals in place for three of its capital models on 1 July 2014 when a revised version of BS2B came into effect. As a result of its failure to have obtained the required RBNZ approvals, the Bank had been in breach of its condition of registration 1B since 1 July 2014. This breach situation was remedied in December 2015 when all exposures previously rated by the three unapproved capital models were migrated to models approved by the RBNZ.

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 2016:
 - (a) the Bank has complied with its conditions of registration applicable during that period, except as disclosed on page 22 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 19th of August 2016 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

