Bank of New Zealand

Disclosure Statement

For the six months ended 31 March 2016

No. 81

Disclosure Statement

For the six months ended 31 March 2016

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

In this Disclosure Statement, unless the context otherwise requires:

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

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Bank of New Zealand Corporate Information

Address for Service

The name of the Registered Bank is Bank of New Zealand (referred to either by its full name or as the "Bank" 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 One Tier One Capital.

Pending Proceedings or Arbitration

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

In March 2013, a potential representative action against New Zealand banks (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 and again on 3 December 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, volatility in global financial markets remained elevated, causing credit spreads to widen for issuers of bank term debt. 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.

The recent volatility 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. A continued low forecast milk solid payout rate will place pressure on the New Zealand dairy market. The prevailing low payout environment is expected to 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.

Bank of New Zealand Corporate Information

Directorate

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

Dr. Susan Carrel Macken and Dr. Andrew John Pearce will retire as directors of the Bank, effective 30 June 2016.

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
Michaela Jane Healey
Dr Susan Carrel Macken
Stephen John Moir
Dr Andrew John Pearce
Gavin Robin Slater

Auditor

The auditor whose report is referred to in this Disclosure Statement is Ernst & Young. Their address for service is Level 9, Ernst & Young Building, 2 Takutai Square, Britomart, Auckland 1010, New Zealand.

Income Statement

For the six months ended 31 March 2016

		Consolidated		
		Unaudited 6 Months	Unaudited 6 Months	Audited 12 Months
Dollars in Millions	Note	**31/3/16**	31/3/15	30/9/15
Interest income		**1,964**	2,138	4,247
Interest expense		**1,082**	1,288	2,512
Net interest income		**882**	850	1,735
Gains less losses on financial instruments	2	**55**	133	322
Other operating income		**194**	182	375
Total operating income		**1,131**	1,165	2,432
Operating expenses		**434**	420	865
Total operating profit before impairment losses on credit exposures and income tax expense		**697**	745	1,567
Impairment losses on credit exposures	8	**79**	47	128
Total operating profit before income tax expense		**618**	698	1,439
Income tax expense on operating profit		**167**	196	401
Net profit attributable to shareholders of Bank of New Zealand		**451**	502	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 six months ended 31 March 2016

		Consolidated		
		Unaudited 6 Months	Unaudited 6 Months	Audited 12 Months
Dollars in Millions	Note	**31/3/16**	31/3/15	30/9/15
Net profit attributable to shareholders of Bank of New Zealand		**451**	502	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		**77**	57	125
Tax on items transferred directly from equity		**(21)**	(16)	(35)
		56	41	88
Items that may be reclassified subsequently to profit or loss				
Movement in cash flow hedge reserve		**26**	60	113
		26	60	113
Total other comprehensive income		**82**	101	201
Total comprehensive income attributable to shareholders of Bank of New Zealand		**533**	603	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 six months ended 31 March 2016

	Consolidated					
	Unaudited 6 Months 31/3/16					
Dollars in Millions	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						
Net profit attributable to shareholders of Bank of New Zealand	**-**	**-**	**451**	**-**	**-**	**451**
Total other comprehensive income	**-**	**-**	**56**	**-**	**26**	**82**
Total comprehensive income	**-**	**-**	**507**	**-**	**26**	**533**
Ordinary dividend	**-**	**-**	**(200)**	**-**	**-**	**(200)**
Perpetual preference dividend	**-**	**-**	**(16)**	**-**	**-**	**(16)**
Balance at end of period	**2,351**	**650**	**4,236**	**2**	**120**	**7,359**
	Unaudited 6 Months 31/3/15					
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						
Net profit attributable to shareholders of Bank of New Zealand	-	-	502	-	-	502
Total other comprehensive income	-	-	41	-	60	101
Total comprehensive income	-	-	543	-	60	603
Proceeds from shares issued	500	-	-	-	-	500
Ordinary dividend	-	-	(150)	-	-	(150)
Perpetual preference dividend	-	-	(16)	-	-	(16)
Balance at end of period	2,351	650	3,573	2	41	6,617
	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						
Net profit attributable to shareholders of Bank of New Zealand	-	-	1,038	-	-	1,038
Total other comprehensive income	-	-	88	-	113	201
Total comprehensive income	-	-	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

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

Balance Sheet

As at 31 March 2016

		Consolidated		
		Unaudited	Unaudited	Audited
Dollars in Millions	Note	**31/3/16**	31/3/15	30/9/15
Assets				
Cash and liquid assets	4	**1,531**	2,221	1,634
Due from central banks and other institutions	5	**1,529**	1,658	2,009
Trading securities	6	**5,110**	4,898	4,918
Derivative financial instruments		**7,388**	4,533	7,895
Loans and advances to customers	7	**71,359**	66,246	68,216
Current tax assets		**31**	21	-
Amounts due from related entities	15	**2,255**	1,560	1,259
Other assets		**371**	451	369
Deferred tax		**171**	156	153
Property, plant and equipment		**168**	182	176
Goodwill and other intangible assets		**165**	157	158
Total assets		**90,078**	82,083	86,787
Financed by:				
Liabilities				
Due to central banks and other institutions	10	**1,243**	1,162	1,439
Short term debt securities	11	**4,265**	4,932	5,027
Trading liabilities		**252**	-	51
Derivative financial instruments		**8,649**	6,334	8,310
Deposits from customers	12	**49,797**	45,697	46,729
Bonds and notes		**16,078**	14,930	16,156
Current tax liabilities		**-**	-	75
Amounts due to related entities	15	**591**	724	380
Other liabilities		**587**	972	863
Subordinated debt	13	**1,257**	715	715
Total liabilities		**82,719**	75,466	79,745
Net assets		**7,359**	6,617	7,042
Shareholders' equity				
Contributed equity – ordinary shareholder		**2,351**	2,351	2,351
Reserves		**122**	43	96
Retained profits		**4,236**	3,573	3,945
Ordinary shareholder's equity		**6,709**	5,967	6,392
Contributed equity – perpetual preference shareholders		**650**	650	650
Total shareholders' equity		**7,359**	6,617	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 six months ended 31 March 2016

		Consolidated		
		Unaudited 6 Months	Unaudited 6 Months	Audited 12 Months
Dollars in Millions	Note	**31/3/16**	31/3/15	30/9/15
Cash flows from operating activities				
Cash was provided from:				
Interest income		**1,966**	2,128	4,257
Other cash inflows provided from operating activities		**279**	472	416
Cash was applied to:				
Interest expense		**(1,153)**	(1,340)	(2,540)
Other cash outflows applied to operating activities		**(736)**	(652)	(1,135)
Net cash flows from operating activities before changes in operating assets and liabilities		**356**	608	998
Net change in operating assets and liabilities		**(81)**	(1,840)	(3,059)
Net cash flows from operating activities		**275**	(1,232)	(2,061)
Cash flows from investing activities				
Cash inflows provided from investing activities		**2**	49	49
Cash outflows applied to investing activities		**(41)**	(25)	(68)
Net cash flows from investing activities		**(39)**	24	(19)
Net cash flows from financing activities		**229**	1,655	2,329
Net movement in cash and cash equivalents		**465**	447	249
Cash and cash equivalents at beginning of period		**1,585**	1,336	1,336
Cash and cash equivalents at end of period		**2,050**	1,783	1,585
Cash and cash equivalents at end of period comprised:				
Cash and liquid assets	4	**1,531**	2,221	1,634
Due from central banks and other institutions classified as cash and cash equivalents	5	**250**	538	327
Due to central banks and other institutions classified as cash and cash equivalents	10	**(873)**	(935)	(927)
Amounts due from related entities classified as cash and cash equivalents	15	**1,257**	84	593
Amounts due to related entities classified as cash and cash equivalents	15	**(115)**	(125)	(42)
Total cash and cash equivalents		**2,050**	1,783	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	**451**	502	1,038
Add back non-cash items in net profit	**(95)**	106	(40)
Deduct operating cash flows not included in net profit:			
Net change in operating assets and liabilities	**(81)**	(1,840)	(3,059)
Net cash flows from operating activities	**275**	(1,232)	(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 six months ended 31 March 2016

Note 1 Principal Accounting Policies

These interim financial statements are general purpose financial reports prepared in accordance with the 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 Equivalents 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 period that had a material impact to the Bank.

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.

Income Statement Notes

Dollars in Millions	Consolidated Unaudited 6 Months 31/3/16	Unaudited 6 Months 31/3/15	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	61	56	105
Interest rate related trading derivatives	(15)	1	65
Other derivatives	(1)	1	-
Net gain in the fair value of financial assets and liabilities held for trading	27	46	58
Trading gains less losses on financial instruments	72	104	228
Other gains less losses on financial instruments			
Hedge accounting			
Net loss arising from hedging instruments in fair value hedge accounting relationships	(42)	(90)	(212)
Net gain arising from the hedged items attributable to the hedged risk in fair value hedge accounting relationships	11	93	209
Ineffectiveness arising from cash flow hedge accounting relationships	-	-	2
	(31)	3	(1)
Other			
Net loss in the fair value of financial assets (refer to table below)	(6)	-	(7)
Net (loss)/gain in the fair value of financial liabilities (refer to table below)	(17)	25	76
Bid/offer adjustment	(2)	-	(1)
Net gain attributable to other derivatives used for hedging purposes that do not qualify as designated and effective hedging instruments	39	1	27
	14	26	95
Other gains less losses on financial instruments	(17)	29	94
Total gains less losses on financial instruments	55	133	322
Net loss in the fair value of financial assets comprised:			
Gain in the fair value of financial assets designated at fair value through profit or loss	20	80	167
Credit risk adjustments on financial assets designated at fair value through profit or loss	(4)	-	(7)
Net loss attributable to other derivatives used for hedging purposes that do not qualify for hedge accounting	(22)	(80)	(167)
	(6)	-	(7)
Net (loss)/gain 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	11	(31)	(106)
Net (loss)/gain attributable to other derivatives used for hedging purposes that do not qualify for hedge accounting	(28)	56	182
	(17)	25	76

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

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

			Consolidated		
			Unaudited 6 Months 31/3/16		
Dollars in Millions	Retail and Marketing	BNZ Partners	Total Reportable Segments	Other	Total Banking Group
Revenue from external customers	**404**	**588**	**992**	**139**	**1,131**
Net inter-segment revenue	**-**	**11**	**11**	**(11)**	**-**
Total segment revenue	**404**	**599**	**1,003**	**128**	**1,131**
Operating profit before income tax expense*	**198**	**337**	**535**	**83**	**618**
Income tax expense	**53**	**96**	**149**	**18**	**167**
Net profit attributable to shareholders of Bank of New Zealand	**145**	**241**	**386**	**65**	**451**
			Unaudited 6 Months 31/3/15		
Revenue from external customers	443	553	996	169	1,165
Net inter-segment revenue	1	14	15	(15)	-
Total segment revenue	444	567	1,011	154	1,165
Operating profit before income tax expense*	211	371	582	116	698
Income tax expense	55	107	162	34	196
Net profit attributable to shareholders of Bank of New Zealand	156	264	420	82	502
			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 six months ended 31 March 2016, operating profit before income tax expense within the 'Other' included a fair value loss on financial instruments of $13 million (six months ended 31 March 2015: $27 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.

Asset Notes

Dollars in Millions	Consolidated Unaudited 31/3/16	Unaudited 31/3/15	Audited 30/9/15
Note 4 Cash and Liquid Assets			
Notes and coins	**174**	167	153
Transaction balances with central banks	**1,229**	1,749	1,219
Transaction balances with other institutions	**128**	305	262
Total cash and liquid assets	**1,531**	2,221	1,634

Dollars in Millions	Consolidated Unaudited 31/3/16	Unaudited 31/3/15	Audited 30/9/15
Note 5 Due from Central Banks and Other Institutions			
Loans and advances due from central banks	**-**	92	-
Loans and advances due from other institutions	**1,279**	1,028	1,682
Securities purchased under agreements to resell with other financial institutions*	**64**	538	128
Securities purchased under agreements to resell with non-financial institutions*	**186**	-	199
Total due from central banks and other institutions	**1,529**	1,658	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 $1,477 million as at 31 March 2016 arising from reverse repurchase agreements included in due from central banks and other institutions and due from related entities (refer to note 15), which it is permitted to sell or repledge (31 March 2015: $538 million; 30 September 2015: $874 million).

Government securities with a fair value of $368 million were repledged as at 31 March 2016 (31 March 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 10).

Included in due from central banks and other institutions as at 31 March 2016 was $1,261 million of collateral posted with counterparties to meet standard derivative trading obligations (31 March 2015: $1,120 million; 30 September 2015: $1,148 million).

Dollars in Millions	Consolidated Unaudited 31/3/16	Unaudited 31/3/15	Audited 30/9/15
Note 6 Trading Securities			
Government bonds, notes and securities	**2,948**	3,327	2,656
Semi-government bonds, notes and securities	**447**	499	749
Corporate and other institutions bonds, notes and securities	**1,715**	1,072	1,513
Total trading securities	**5,110**	4,898	4,918

Included in trading securities as at 31 March 2016 were $81 million encumbered through repurchase agreements (31 March 2015: $162 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 10) and due to related entities (refer to note 15).

Dollars in Millions	Consolidated Unaudited 31/3/16	Unaudited 31/3/15	Audited 30/9/15
Note 7 Loans and Advances to Customers			
Overdrafts	**2,417**	2,284	2,400
Credit card outstandings	**1,139**	1,324	1,160
Housing loans	**33,196**	31,301	31,830
Other term lending	**33,844**	30,729	32,003
Other lending	**1,012**	963	1,037
Total gross loans and advances to customers	**71,608**	66,601	68,430
Deduct:			
Specific provision for doubtful debts and credit risk adjustments on individual financial assets (refer to note 8)	**101**	151	92
Collective provision for doubtful debts and credit risk adjustments on groups of financial assets (refer to note 8)	**434**	316	374
Deferred and other unearned future income and expenses	**(68)**	(21)	(45)
Fair value hedge adjustments	**(218)**	(91)	(207)
Total deductions	**249**	355	214
Total net loans and advances to customers	**71,359**	66,246	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 31 March 2016, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of $4,467 million held by the RMBS Trust (31 March 2015: $4,471 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 21. The Banking Group had not entered into any repurchase agreements for residential mortgage-backed securities with the RBNZ as at 31 March 2016 (31 March 2015: nil; 30 September 2015: nil). The RBNZ had not accepted any residential mortgage-backed securities as collateral from the Banking Group as at 31 March 2016 (31 March 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 31 March 2016, included within the Banking Group’s loans and advances to customers were housing loans with a carrying amount of $4,145 million held by the Covered Bond Trust (31 March 2015: $5,401 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 $3,616 million that were guaranteed by the Covered Bond Trust as at 31 March 2016 (31 March 2015: $3,954 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 $4,653 million as at 31 March 2016 (31 March 2015: $5,467 million; 30 September 2015: $4,293 million).

Note 8 Provision for Doubtful Debts

The tables on pages 12 and 13 reflect provision for doubtful debts on financial assets held at amortised cost. The table on page 14 shows credit risk adjustments on financial assets designated at fair value through profit or loss.

Dollars in Millions	Consolidated Residential Mortgage Lending Unaudited 31/3/16	Other Retail Exposures Unaudited 31/3/16	Corporate Exposures Unaudited 31/3/16	Total Unaudited 31/3/16
Loans and advances to customers				
Collective provision for doubtful debts measured on a 12-months expected credit loss ("ECL")	1	12	48	61
Provision for doubtful debts measured on a lifetime ECL				
Collective provision for doubtful debts for assets not credit impaired	5	10	221	236
Collective provision for doubtful debts for credit impaired assets	6	8	75	89
Specific provision for doubtful debts for credit impaired assets	18	9	74	101
Total provision for doubtful debts measured on a lifetime ECL	29	27	370	426
Total provision for doubtful debts	30	39	418	487

Note 8 Provision for Doubtful Debts *continued*

The following table provides a reconciliation from the opening balance to the closing balance of provision for doubtful debts and shows the movement in opening balance where financial assets have been transferred between provision stages during the reporting period.

	Consolidated				
Dollars in Millions	Collective Provision 12-months ECL Unaudited 31/3/16	Collective Provision Lifetime ECL Not Credit Impaired Unaudited 31/3/16	Collective Provision Lifetime ECL Credit Impaired Unaudited 31/3/16	Specific Provision Lifetime ECL Credit Impaired Unaudited 31/3/16	Total Unaudited 31/3/16
Movement in provision for doubtful debts					
Residential mortgage lending					
Balance at beginning of period	2	5	7	14	28
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	2	(1)	(1)	-	-
Transferred to collective provision lifetime ECL not credit impaired	-	1	(1)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(1)	1	-	-
Transferred to specific provision lifetime ECL credit impaired	-	-	(1)	1	-
Charge/(credit) to income statement excluding transfer between ECL stages*	(3)	1	1	4	3
Amounts written off	-	-	-	(1)	(1)
Recovery of amounts written off	-	-	-	-	-
Balance at end of period - Residential mortgage lending	1	5	6	18	30
Other retail exposures					
Balance at beginning of period	9	7	9	6	31
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	4	(3)	(1)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(1)	2	(1)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(1)	1	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(1)	(4)	5	-
Charge/(credit) to income statement excluding transfer between ECL stages*	-	6	4	8	18
Amounts written off	-	-	-	(16)	(16)
Recovery of amounts written off	-	-	-	6	6
Balance at end of period - Other retail exposures	12	10	8	9	39
Corporate exposures					
Balance at beginning of period	65	192	34	72	363
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	30	(30)	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	(6)	11	(5)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(21)	21	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(2)	(1)	3	-
Charge/(credit) to income statement excluding transfer between ECL stages*	(41)	71	26	2	58
Amounts written off	-	-	-	(6)	(6)
Recovery of amounts written off	-	-	-	3	3
Balance at end of period - Corporate exposures	48	221	75	74	418
Total					
Balance at beginning of period	76	204	50	92	422
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	36	(34)	(2)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(7)	14	(7)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(23)	23	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(3)	(6)	9	-
Charge/(credit) to income statement excluding transfer between ECL stages*	(44)	78	31	14	79
Amounts written off	-	-	-	(23)	(23)
Recovery of amounts written off	-	-	-	9	9
Total provision for doubtful debt balance at end of period	61	236	89	101	487

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

Note 8 Provision for Doubtful Debts *continued*

Impact of changes in gross carrying amount on ECL

The following explains how significant changes in the gross carrying amount of financial assets during the period have contributed to the changes in the provision for doubtful debts. Provision for doubtful debts reflects ECL measured using the three-stage approach under NZ IFRS 9.

Overall, the net increase in the total provision for doubtful debts of $65 million since 30 September 2015 was driven by increases in specific provisioning for credit impaired assets and collective provisioning, offset by write-offs during the period. The outlook for the dairy industry largely contributed to the increase in collective provision in Stage 2 and Stage 3. Across all stages, the movements were mainly attributed to the corporate segment. Provisioning levels for residential mortgage and other retail segments marginally increased across the period.

- Collective provision 12-months ECL (Stage 1) decreased by $15 million, reflecting the net movement in originated and repaid loans. This decrease was offset by loans that returned to Stage 1 due to improvement in credit quality.
- Collective provision lifetime ECL – not credit impaired (Stage 2) increased by $32 million, mainly due to an increase in collective provision reflecting the outlook in the dairy industry. In addition, loans migrated to Stage 2 from Stage 1 due to deterioration in credit quality. This increase was offset by loans that returned to Stage 1 due to improvement in credit quality as described above, and loans that became credit impaired as a result of reduced asset quality, moving to Stage 3.
- Collective provision lifetime ECL – credit impaired (Stage 3) increased by $39 million, mainly due to increase in collective provision reflecting the outlook in the dairy industry and migration of loans from Stage 2 and to Stage 3 reflecting the deterioration in credit quality. The increases were partially offset by loans that migrated from Stage 3 to Stage 2 and to individually assessed credit impaired assets.
- Specific provision lifetime ECL– credit impaired (Stage 3) increased by $9 million, reflecting the migration of loans previously assessed collectively, partially offset by write-offs during the period.

Credit risk adjustment on financial assets designated at fair value through profit or loss

The changes in value of financial assets designated at fair value through profit or loss that are attributable to changes in credit risk have been calculated using a statistical-based calculation that estimates expected losses attributable to adverse movement in credit risks.

Credit risk adjustments on financial assets designated at fair value through profit or loss are analysed in the following table.

	Consolidated			
Dollars in Millions	Residential Mortgage Lending Unaudited 31/3/16	Other Retail Exposures Unaudited 31/3/16	Corporate Exposures Unaudited 31/3/16	Total Unaudited 31/3/16
Credit risk adjustment on individual financial assets				
Loans and advances to customers				
Balance at beginning of period	-	-	-	-
Charge/(credit) to income statement	-	-	-	-
Amounts written off	-	-	-	-
Balance at end of period	-	-	-	-
Credit risk adjustment on groups of financial assets				
Loans and advances to customers				
Balance at beginning of period	-	1	43	44
Charge/(credit) to income statement	-	-	4	4
Balance at end of period	-	1	47	48
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	1	47	48
Trading derivative financial instruments				
Balance at beginning of period	-	-	(2)	(2)
Charge/(credit) to income statement	-	-	9	9
Balance at end of period	-	-	7	7
Total credit risk adjustments on trading derivative financial instruments	-	-	7	7

Note 9 Asset Quality

The Banking Group provides for doubtful debts as disclosed in note 8. Accordingly, when management determines that recovery of a loan is doubtful, the principal amount and accrued interest on the obligation are written down to estimated net realisable value.

Dollars in Millions	Consolidated Residential Mortgage Lending Unaudited 31/3/16	Other Retail Exposures Unaudited 31/3/16	Corporate Exposures Unaudited 31/3/16	Total Unaudited 31/3/16
Movements in pre-allowance balances				
Individually impaired assets - at amortised cost				
Balance at beginning of period	40	14	160	214
Amounts written off	(1)	(16)	(6)	(23)
Additions	18	24	61	103
Deletions	(20)	(6)	(41)	(67)
Balance at end of period	37	16	174	227
Specific provision for doubtful debt	18	9	74	101
Individually impaired assets - at fair value through profit or loss				
Balance at beginning of period	-	-	1	1
Amounts written off	-	-	-	-
Additions	-	-	-	-
Deletions	-	-	(1)	(1)
Balance at end of period	-	-	-	-
Credit risk adjustments on individual financial assets designated at fair value through profit or loss	-	-	-	-
Total impaired assets at end of period*	37	16	174	227
Individually impaired assets - undrawn lending commitments				
At amortised cost	-	-	1	1
At fair value through profit or loss	-	-	-	-
Other assets under administration	14	1	1	16

* In the NAB 2016 Second Quarter Trading Update and the NAB 2016 Pillar 3 Report for 31 March 2016, NZD$579 million of BNZ's dairy exposures were classified as impaired with no loss, some of which were not past due as at 31 March 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 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.

Off-balance sheet impaired assets

Included in contingent liabilities, in note 17, was $1 million off-balance sheet facilities to counterparties for whom drawn balances were classified as individually impaired as at 31 March 2016. No specific provision for doubtful debt on individual off-balance sheet credit related commitments had been made as at 31 March 2016.

Dollars in Millions	Consolidated Residential Mortgage Lending Unaudited 31/3/16	Other Retail Exposures Unaudited 31/3/16	Corporate Exposures Unaudited 31/3/16	Total Unaudited 31/3/16
Past due assets not individually impaired				
Loans and advances to customers				
1 - 7 days past due	123	48	244	415
8 - 29 days past due	97	58	81	236
1 - 29 days past due	220	106	325	651
30 - 59 days past due	55	16	38	109
60 - 89 days past due	40	10	15	65
90+ days past due	56	23	131	210
Total past due assets not individually impaired*	371	155	509	1,035

Liability Notes

Dollars in Millions	Consolidated Unaudited 31/3/16	Unaudited 31/3/15	Audited 30/9/15
Note 10 Due to Central Banks and Other Institutions			
Transaction balances with other institutions*	**474**	820	645
Deposits from central banks	**138**	62	199
Deposits from other institutions**	**244**	180	323
Securities sold under agreements to repurchase from other institutions*	**387**	100	272
Total due to central banks and other institutions	**1,243**	1,162	1,439

* Classified as cash and cash equivalents in cash flow statement.
** Included in deposits from other institutions as at 31 March 2016 was $12 million classified as cash and cash equivalents in the cash flow statement (31 March 2015: $15 million; 30 September 2015: $10 million).

Included in due to central banks and other institutions as at 31 March 2016 was $289 million of collateral received from counterparties to meet standard derivative trading obligations (31 March 2015: $113 million; 30 September 2015: $331 million). The Bank held no secured deposits from central banks and other institutions as at 31 March 2016 (31 March 2015: nil; 30 September 2015: nil).

Dollars in Millions	Consolidated Unaudited 31/3/16	Unaudited 31/3/15	Audited 30/9/15
Note 11 Short Term Debt Securities			
Certificates of deposit	**1,639**	2,194	1,709
Commercial paper	**2,626**	2,738	3,318
Total short term debt securities	**4,265**	4,932	5,027

Dollars in Millions	Consolidated Unaudited 31/3/16	Unaudited 31/3/15	Audited 30/9/15
Note 12 Deposits from Customers			
Demand deposits not bearing interest	**4,191**	2,956	3,688
Demand deposits bearing interest	**19,540**	17,657	18,242
Term deposits	**26,066**	25,084	24,799
Total deposits from customers	**49,797**	45,697	46,729

Within term deposits, no collateral was posted by counterparties to meet standard derivative trading obligations as at 31 March 2016 (31 March 2015: nil; 30 September 2015: $3 million).

Dollars in Millions	Consolidated Unaudited 31/3/16	Unaudited 31/3/15	Audited 30/9/15
Note 13 Subordinated Debt			
Subordinated loans due to related entities	**715**	715	715
Subordinated notes due to external investors	**542**	-	-
Total subordinated debt	**1,257**	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 is 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.

Other Notes

Dollars in Millions	Consolidated Unaudited 31/3/16
Note 14 Interest Earning and Discount Bearing Assets and Liabilities	
Interest earning and discount bearing assets	80,261
Interest and discount bearing liabilities	69,226

Note 15 Related Entity Transactions

	Consolidated		
Dollars in Millions	Unaudited 31/3/16	Unaudited 31/3/15	Audited 30/9/15
Total balances with related entities			
Amounts due from related entities	2,255	1,560	1,259
Derivative financial assets with related entities	1,812	1,032	2,135
Amounts due to related entities	591	724	380
Subordinated loans due to related entities	715	715	715
Derivative financial liabilities with related entities	2,634	2,284	2,562

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

	Consolidated		
Dollars in Millions	Unaudited 31/3/16	Unaudited 31/3/15	Audited 30/9/15
Amounts due from related entities			
Collateral loan posted to ultimate parent to meet standard derivative trading obligations	782	1,261	451
Securities purchased under agreements to resell to ultimate parent	1,220	-	545
Amounts due to related entities			
Securities sold under agreements to repurchase from ultimate parent	58	61	-

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

	Consolidated		
Dollars in Millions	Unaudited 31/3/16	Unaudited 31/3/15	Audited 30/9/15
Amounts due from related entities	1,257	84	593
Amounts due to related entities	115	125	42

Other transactions with related entities

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

Note 16 Fair Value of Financial Assets and Financial Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. For the purposes of this note, carrying value refers to amounts reflected in the balance sheet. The methodologies and assumptions used in the fair value estimates are described on page 20.

As disclosed in the following hierarchy for fair value measurements table on page 19, 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 19 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 six months ended 31 March 2016 (six months ended 31 March 2015: nil; year ended 30 September 2015: nil).

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

Dollars in Millions	Carrying Value	Consolidated (31/3/16) Unaudited Total	Level 1	Level 2	Level 3
Financial assets at fair value					
Due from central banks and other institutions		1,279	-	1,279	-
Trading securities		5,110	2,948	2,162	-
Derivative financial instruments		7,388	-	7,388	-
Loans and advances to customers		6,528	-	6,528	-
Financial assets at amortised cost					
Loans and advances to customers	64,831	65,209	-	2,417	62,792
Financial liabilities at fair value					
Due to central banks and other institutions		382	-	382	-
Short term debt securities		4,265	-	4,265	-
Trading liabilities		252	252	-	-
Derivative financial instruments		8,649	-	8,649	-
Deposits from customers		4,947	-	4,947	-
Bonds and notes		16,078	-	16,078	-
Financial liabilities at amortised cost					
Deposits from customers	44,850	45,115	-	45,115	-
Subordinated debt*	542	547	-	547	-
		Consolidated (31/3/15)			
Financial assets at fair value					
Due from central banks and other institutions		1,120	-	1,120	-
Trading securities		4,898	3,327	1,571	-
Derivative financial instruments		4,533	-	4,533	-
Loans and advances to customers		6,914	-	6,914	-
Financial assets at amortised cost					
Loans and advances to customers	59,332	59,479	-	2,284	57,195
Financial liabilities at fair value					
Due to central banks and other institutions		242	-	242	-
Short term debt securities		4,932	-	4,932	-
Derivative financial instruments		6,334	-	6,334	-
Deposits from customers		4,072	-	4,072	-
Bonds and notes		14,930	-	14,930	-
Financial liabilities at amortised cost					
Deposits from customers	41,625	41,860	-	41,860	-
		Consolidated (30/9/15)			
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.

Note 16 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 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 from related entities reprice every 90 days, therefore, their fair value is considered to approximate their carrying value. Other subordinated notes due to external investors are based on a valuation technique using observable market sourced inputs 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.

Note 17 Contingent Liabilities and Credit Related Commitments

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

Contingent liabilities and credit related commitments exist in respect of commitments to extend credit, letters of credit and financial guarantees, as well as claims, potential claims and court proceedings against entities in the Banking Group. Any potential liability arising in respect of these claims cannot be accurately assessed. 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 and again on 3 December 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.

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:

	Consolidated		
	Unaudited	Unaudited	Audited
Dollars in Millions	**31/3/16**	31/3/15	30/9/15
Contingent liabilities			
Bank guarantees	**65**	58	68
Standby letters of credit	**373**	338	404
Documentary letters of credit	**182**	117	215
Performance related contingencies	**428**	419	440
Total contingent liabilities	**1,048**	932	1,127
Credit related commitments			
Revocable commitments to extend credit	**7,851**	7,337	7,416
Irrevocable commitments to extend credit	**9,397**	8,014	8,924
Total credit related commitments	**17,248**	15,351	16,340
Total contingent liabilities and credit related commitments	**18,296**	16,283	17,467

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

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

As at 31 March 2016 and for the three months ended 31 March 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 19 Insurance Business

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

Note 20 Capital Adequacy

The RBNZ minimum regulatory capital requirements for banks have been established under the Capital Adequacy Framework (Internal Models Based Approach) and Capital Adequacy Approach (Standardised Approach) based on the international framework developed by the Bank for International Settlements, Committee on Banking Supervision, commonly known as Basel III. These requirements outline how minimum regulatory capital is to be calculated and provide methods for measuring risks incurred by the banks in New Zealand.

The Basel III framework's objective is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profile of banks. Basel III consists of three pillars – Pillar One covers the capital requirements for banks for credit, operational, and market risks. Pillar Two covers all other material risks that are not already included in Pillar One. Pillar Three relates to market disclosure.

RBNZ Capital Adequacy Framework (Internal Models Based Approach)

The Banking Group has calculated its implied Risk-Weighted Exposure and minimum regulatory capital requirements based on the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B") for operational risk and the majority of credit risk portfolios.

Under the Internal Models Based Approach banks use their own models for estimating risk and minimum capital requirements. Under the Internal Ratings Based Approach for credit risk, the level of risk associated with customers' exposures is determined by way of the primary components of Probability of Default, Loss Given Default and Exposure at Default. These components and associated processes are subject to regular review. For exposures in the Specialised Lending asset category (including Project Finance, Object Finance, Commodity Finance and Income Producing Real Estate) the Banking Group uses supervisory slotting estimates provided by the RBNZ.

The exceptions to the Internal Ratings Based Approach for credit risk are portfolios of relatively low materiality which are subject to the standardised treatment as set out in the RBNZ's Capital Adequacy Framework (Standardised Approach) ("BS2A").

Capital for market risk has been calculated in accordance with the approach specified in BS2B.

Capital management policies

The Banking Group's primary objectives in relation to the management of capital adequacy are to comply with the requirements set out by the RBNZ, the Banking Group's primary prudential supervisor, to provide a sufficient capital base to cover risks faced by the Bank and to maintain a targeted credit rating to support future business development.

The Bank's conditions of registration require capital adequacy ratios to be calculated in accordance with BS2B. Total regulatory capital is defined as the sum of Common Equity Tier One capital, Additional Tier One capital and Tier Two capital. Tier One capital is defined as the sum of Common Equity Tier One capital and Additional Tier One capital. The Banking Group's Common Equity Tier One capital includes paid up ordinary shares and retained profits less certain deductions, Additional Tier One capital includes perpetual non-cumulative preference shares and Tier Two capital includes revaluation reserves and subordinated loans and notes.

The Banking Group is required under its conditions of registration to maintain a minimum ratio of total eligible or qualifying capital to total risk-weighted assets of 8%, of which a minimum of 4.5% must be held in Common Equity Tier One capital and a minimum of 6% must be held in Tier One capital. From 1 January 2014, the Banking Group must maintain a minimum common equity buffer ratio of 2.5% above these minimum ratios or it will face restrictions on the distribution of earnings and be required to prepare a capital plan that restores the Banking Group's buffer ratio and have that capital plan approved by the RBNZ.

The Banking Group has an Internal Capital Adequacy Assessment Process ("ICAAP") in place which complies with the requirements set out in the RBNZ's "Guidelines on a Bank's Internal Capital Adequacy Assessment Process" ("BS12") as specified under the Bank's conditions of registration. The Banking Group's ICAAP outlines the approach to maintaining capital adequacy, risk appetite and stress testing. The ICAAP considers all material risks consistent with the Banking Group's risk appetite and outlines the capital requirements.

Capital requirements, as detailed in the Banking Group's ICAAP document, are managed by the Bank's Risk Return Management Committee and Asset, Liability and Capital Committee under delegated authority from the Board of Directors.

For more information on the capital structure of the Banking Group refer to page 31.

The tables on the following pages detail the capital calculation, capital ratios and capital requirements as at 31 March 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 40 of this Disclosure Statement.

Note 20 Capital Adequacy *continued*

Regulatory capital

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

Dollars in Millions	Consolidated Unaudited 31/3/16
Qualifying capital	
Common Equity Tier One capital	
Contributed equity - ordinary shareholder	2,351
Retained profits	4,236
Deductions from Common Equity Tier One capital:	
Intangible assets	165
Credit value adjustment on liabilities designated at fair value through profit or loss	(11)
Prepaid pension assets (net of deferred tax)	4
Deferred tax asset	171
Total expected loss less total eligible allowances for impairment	129
Total Common Equity Tier One capital	6,129
Additional Tier One capital	
Contributed equity - perpetual preference shares*	364
Total Additional Tier One capital	364
Total Tier One capital	6,493
Tier Two capital	
Revaluation reserves	2
Subordinated loans due to related entities**	362
Subordinated notes due to external investors	550
Total Tier Two capital	914
Total Tier One and Tier Two qualifying capital	7,407

* 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 were repaid in February 2014.

Banking Group Basel III regulatory capital ratios

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

		Consolidated		
	Regulatory Minima	Unaudited 31/3/16	Unaudited 31/3/15	Unaudited 30/9/15
Common Equity Tier One capital ratio	4.50%	10.41%	10.79%	10.70%
Tier One capital ratio	6.00%	11.03%	11.85%	11.69%
Total qualifying capital ratio	8.00%	12.58%	12.90%	12.67%
Buffer ratio	2.50%	4.58%	4.90%	4.67%

Registered Bank Basel III regulatory capital ratios

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

	The Registered Bank		
	Unaudited 31/3/16	Unaudited 31/3/15	Unaudited 30/9/15
Common Equity Tier One capital ratio	10.39%	10.68%	10.76%
Tier One capital ratio	11.01%	11.73%	11.74%
Total qualifying capital ratio	12.56%	12.78%	12.73%

For the purpose of calculating capital adequacy ratios for the Registered Bank under BS2B, subsidiaries which are both funded exclusively and wholly owned by the Registered Bank are consolidated within the Registered Bank.

Note 20 Capital Adequacy *continued*

Total regulatory capital requirements

	Consolidated		
Dollars in Millions	Total Exposure at Default after Credit Risk Mitigation Unaudited 31/3/16	Risk-Weighted Exposure or Implied Risk-Weighted Exposure Unaudited 31/3/16	Total Capital Requirement* Unaudited 31/3/16
Credit risk			
Exposures subject to the internal ratings based approach	89,681	41,788	3,343
Equity exposures	6	25	2
Specialised lending subject to the slotting approach	7,402	7,247	581
Exposures subject to the standardised approach	2,527	955	77
Credit value adjustment subject to BS2B	N/A	1,218	96
Agribusiness supervisory adjustment**	-	-	-
Total credit risk	99,616	51,233	4,099
Operational risk	N/A	4,375	350
Market risk	N/A	3,262	261
Total	99,616	58,870	4,710

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

** The agribusiness supervisory adjustment increases the risk weight of the Banking Group's rural lending portfolio to a minimum as specified by the RBNZ. As at 31 March 2016, no adjustment was required as the Banking Group's rural lending portfolio was above the minimum as specified by the RBNZ.

Advanced Internal Ratings Based approach to credit risk management

The Banking Group's quantitative credit risk measurement is based on the Internal Ratings Based ("IRB") approach (IRB for Retail Credit portfolios and Advanced IRB for Non-retail Credit portfolios) and uses a series of models, to calculate loss estimates for the credit portfolio. This includes consideration of:

- probability of default ("PD") which estimates the probability that a customer will default over the next 12 months;
- exposure at time of default ("EAD") which estimates the amount of outstanding principal, fees and interest owed at the time of default; and
- loss given default ("LGD") which estimates the expected loss in the event of default. It is the percentage of exposure which will be lost after all recovery efforts, including legal expenses, time value of money and recovery expenses.

The above three elements (PD, EAD, and LGD) are important inputs in determining the risk-weighted exposure calculations for both on and off-balance sheet exposures, including undrawn portions of credit facilities, committed and contingent exposures. These ratings are also an important input into the credit approval, risk management, internal capital allocation and corporate governance functions of the Banking Group.

Methodologies used to calculate credit risk estimates (PD, EAD and LGD) are in accordance with BS2B and the Bank's conditions of registration. For credit risk estimates on some portfolios, the RBNZ has set prescribed risk estimates required to be used when calculating risk-weighted assets and capital under BS2B. The RBNZ prescribed risk estimates will continue to be used until the Banking Group develops its own internal models for these portfolios.

Controls surrounding credit risk rating systems

The credit risk rating systems cover all methods, processes, controls, data collection and technology that support the assessment of credit risk, the assignment of internal credit risk ratings and the quantification of associated default and loss estimates.

The credit risk rating systems and risk estimate processes are governed by the Banking Group's Credit Risk Committee and are an integral part of reporting to senior management. Management and staff of the credit risk function regularly assess the performance of the rating systems, monitor progress on changes being made to systems and identify any areas for improvement. These systems are subject to rigorous internal review and approval and regular independent review. The annual validation of models is undertaken by specialists who are responsible for overseeing the design, implementation and performance of all rating models across the Banking Group.

The risk-weighted asset amounts presented in the following tables include a scalar of 1.06 as required by the RBNZ in accordance with the Bank's conditions of registration.

Note 20 Capital Adequacy *continued*

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

The following tables analyse credit risk exposures by asset class split into PD bandings. (The lower the PD banding the less the probability of default over the next 12 months.)

	Consolidated					
Dollars in Millions	Weighted Average PD (%) Unaudited 31/3/16	Exposure at Default Unaudited 31/3/16	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 31/3/16	Exposure-Weighted Risk Weight (%) Unaudited 31/3/16	Risk-Weighted Assets Unaudited 31/3/16	Minimum Capital Requirement Unaudited 31/3/16
Corporate						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.06	4,415	33	17	743	59
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.30	13,308	38	47	6,189	495
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.95	11,026	32	63	6,987	559
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.59	8,729	36	98	8,522	682
Exposure-weighted PD grade > 5.0 ≤ 99.99%	10.43	1,299	40	164	2,135	171
Default PD grade = 100%	100.00	915	44	328	3,003	240
Total corporate exposures	3.59	39,692	36	69	27,579	2,206
Sovereign						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.03	4,488	7	2	71	6
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.42	14	45	65	9	1
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.63	18	45	69	13	1
Exposure-weighted PD grade > 1.5 ≤ 5.0%	1.81	2	45	111	2	-
Exposure-weighted PD grade > 5.0 ≤ 99.99%	5.72	-	45	147	-	-
Default PD grade = 100%	-	-	-	-	-	-
Total sovereign exposures	0.03	4,522	7	2	95	8
Bank						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.03	3,461	47	17	599	48
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.18	575	32	29	168	14
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.78	10	60	92	10	1
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.37	13	60	142	18	1
Exposure-weighted PD grade > 5.0 ≤ 99.99%	5.72	-	60	195	-	-
Default PD grade = 100%	-	-	-	-	-	-
Total bank exposures	0.06	4,059	45	20	795	64
Residential mortgage						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.03	-	38	6	-	-
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.39	2,047	18	14	276	22
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.91	32,720	21	28	9,037	723
Exposure-weighted PD grade > 1.5 ≤ 5.0%	4.92	2,203	20	70	1,550	124
Exposure-weighted PD grade > 5.0 ≤ 99.99%	-	-	-	-	-	-
Default PD grade = 100%	100.00	202	25	231	466	37
Total residential mortgage exposures	1.65	37,172	21	30	11,329	906
Other retail*						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.05	798	85	13	103	9
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.25	607	83	39	240	19
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.95	395	83	86	339	27
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.80	324	83	119	386	31
Exposure-weighted PD grade > 5.0 ≤ 99.99%	11.89	136	81	149	203	16
Default PD grade = 100%	100.00	12	77	538	67	5
Total other retail exposures	1.89	2,272	83	59	1,338	107

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

Note 20 Capital Adequacy *continued*

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

	Consolidated					
Dollars in Millions	Weighted Average PD (%) Unaudited 31/3/16	Exposure at Default Unaudited 31/3/16	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 31/3/16	Exposure-Weighted Risk Weight (%) Unaudited 31/3/16	Risk-Weighted Assets Unaudited 31/3/16	Minimum Capital Requirement Unaudited 31/3/16
Retail small to medium enterprises						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.07	135	34	7	9	1
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.30	639	28	15	98	8
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.96	511	31	32	164	13
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.59	582	34	48	279	22
Exposure-weighted PD grade > 5.0 ≤ 99.99%	11.56	58	38	69	40	3
Default PD grade = 100%	100.00	39	40	157	62	5
Total retail SME exposures	3.45	1,964	31	33	652	52
Total*						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.04	13,297	31	11	1,525	123
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.31	17,190	37	41	6,980	559
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.92	44,680	24	37	16,550	1,324
Exposure-weighted PD grade > 1.5 ≤ 5.0%	3.03	11,853	34	91	10,757	860
Exposure-weighted PD grade > 5.0 ≤ 99.99%	10.61	1,493	44	159	2,378	190
Default PD grade = 100%	100.00	1,168	41	308	3,598	287
Total exposures	2.40	89,681	30	47	41,788	3,343

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

The following table analyses the value and exposure at default of on-balance sheet exposures, off-balance sheet exposures and market related contracts under the IRB approach by asset class:

	Consolidated			
Dollars in Millions	Total Exposure Unaudited 31/3/16	Exposure at Default Unaudited 31/3/16	Risk-Weighted Assets Unaudited 31/3/16	Minimum Capital Requirement Unaudited 31/3/16
On-balance sheet exposures				
Corporate	29,881	29,881	21,908	1,753
Sovereign	4,070	4,070	68	6
Bank	2,100	2,100	390	31
Residential mortgage	33,200	33,200	10,346	828
Other retail	1,292	1,292	992	79
Retail small to medium enterprises	1,593	1,593	550	44
Total on-balance sheet exposures	72,136	72,136	34,254	2,741
Off-balance sheet exposures				
Corporate	9,120	8,189	4,706	376
Sovereign	86	50	14	1
Bank	850	839	78	7
Residential mortgage	3,296	3,972	983	78
Other retail	2,888	980	346	28
Retail small to medium enterprises	412	371	102	8
Total off-balance sheet exposures	16,652	14,401	6,229	498
Market related contracts				
Corporate	218,072	1,622	965	77
Sovereign	12,704	402	13	1
Bank	151,654	1,120	327	26
Total market related contracts	382,430	3,144	1,305	104

Note 20 Capital Adequacy *continued*

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

	Consolidated			
Dollars in Millions	Total Exposure Unaudited 31/3/16	Exposure at Default Unaudited 31/3/16	Risk-Weighted Assets Unaudited 31/3/16	Minimum Capital Requirement Unaudited 31/3/16
Summary*				
Corporate	257,073	39,692	27,579	2,206
Sovereign	16,860	4,522	95	8
Bank	154,604	4,059	795	64
Residential mortgage	36,496	37,172	11,329	906
Other retail	4,180	2,272	1,338	107
Retail small and medium enterprises	2,005	1,964	652	52
Total credit risk exposures subject to the IRB approach	471,218	89,681	41,788	3,343

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

Equity exposures

The table below shows the capital required to be held as a result of equities held.

	Consolidated			
Dollars in Millions	Exposure at Default Unaudited 31/3/16	Risk Weight (%) Unaudited 31/3/16	Risk-Weighted Exposures Unaudited 31/3/16	Minimum Pillar One Capital Requirement Unaudited 31/3/16
Equity holdings (not deducted from capital) that are publicly traded	-	300	-	-
All other equity holdings (not deducted from capital)	6	400	25	2
Total equity exposures	6	400	25	2

Specialised lending subject to the slotting approach

The tables below show specialised lending exposures for which the supervisory slotting approach has been used and includes Project Finance, Object Finance, Commodity Finance and Income Producing Real Estate exposures.

On-balance sheet exposures subject to the slotting approach

	Consolidated			
Dollars in Millions	Total Exposure at Default after Credit Risk Mitigation Unaudited 31/3/16	Risk Weight (%) Unaudited 31/3/16	Risk-Weighted Assets Unaudited 31/3/16	Minimum Pillar One Capital Requirement Unaudited 31/3/16
Strong	910	70	675	54
Good	4,094	90	3,898	312
Satisfactory	1,416	115	1,724	138
Weak	59	250	157	13
Default	112	-	-	-
Total on-balance sheet exposures subject to the slotting approach	6,591	92	6,454	517

The categories of specialised lending above are associated with the risk weight shown. These categories broadly correspond to external credit assessments from Standard & Poor's rating scale: BBB- or better (Strong); BB+ or BB (Good); BB- or B+ (Satisfactory); B to C- (Weak).

The calculated risk-weighted assets reflected above include the required scalar of 1.06, specified in the Bank's conditions of registration, which is not reflected in the risk weight shown.

Note 20 Capital Adequacy *continued*

Off-balance sheet exposures subject to the slotting approach

	Consolidated				
Dollars in Millions	Total Exposure Unaudited 31/3/16	Exposure At Default Unaudited 31/3/16	Average Risk Weight (%) Unaudited 31/3/16	Risk-Weighted Assets Unaudited 31/3/16	Minimum Pillar One Capital Requirement Unaudited 31/3/16
Off-balance sheet exposures	157	41	97	39	3
Undrawn commitments	1,253	699	99	695	56
Market related contracts	1,238	71	84	59	5
Total off-balance sheet exposures subject to the slotting approach	2,648	811	98	793	64
Total exposures subject to the slotting approach		7,402	93	7,247	581

Credit risk exposures subject to the standardised approach

On-balance sheet exposures subject to the standardised approach

	Consolidated			
Dollars in Millions	Total Exposure at Default after Credit Risk Mitigation Unaudited 31/3/16	Average Risk Weight (%) Unaudited 31/3/16	Risk-Weighted Assets Unaudited 31/3/16	Minimum Pillar One Capital Requirement Unaudited 31/3/16
Corporate	419	59	245	20
Residential mortgages	123	79	97	8
Past due assets	2	128	3	-
Other assets*	1,768	33	585	47
Total on-balance sheet exposures subject to the standardised approach	2,312	40	930	75

* Other assets relate to all other non-lending assets (including interest receivables, account receivables, intangibles and cash accounts) that are not included in the other categories in the table.

Off-balance sheet exposures subject to the standardised approach

	Consolidated					
Dollars in Millions	Total Exposure or Principal Amount Unaudited 31/3/16	Average Credit Conversion Factor (%) Unaudited 31/3/16	Credit Equivalent Amount Unaudited 31/3/16	Average Risk Weight (%) Unaudited 31/3/16	Risk-Weighted Assets Unaudited 31/3/16	Minimum Pillar One Capital Requirement Unaudited 31/3/16
Total off-balance sheet exposures subject to the standardised approach	68	30	20	86	18	1

	Consolidated					
Dollars in Millions	Total Exposure or Principal Amount Unaudited 31/3/16	Average Credit Conversion Factor (%) Unaudited 31/3/16	Credit Equivalent Amount Unaudited 31/3/16	Average Risk Weight (%) Unaudited 31/3/16	Risk-Weighted Assets Unaudited 31/3/16	Minimum Pillar One Capital Requirement Unaudited 31/3/16
Market related contracts subject to the standardised approach						
Foreign exchange contracts	11	N/A	-	106	-	-
Interest rate contracts*	137,804	N/A	195	4	7	1
Other - OTC etc	2	N/A	-	4	-	-
Total market related contracts subject to the standardised approach	137,817	N/A	195	114	7	1
Total exposures subject to the standardised approach		N/A	2,527	38	955	77

* The total exposure or principal amount reflects the gross notional value of contracts transacted through a qualifying central counterparty ("QCCP"). The application of a risk weight for exposures to central counterparties was enacted by the RBNZ as part of its Basel III reforms. Capital requirements have been calculated in accordance with BS2B.

Note 20 Capital Adequacy *continued*

Credit risk mitigation

The Banking Group assesses the integrity and ability of counterparties to meet their contractual financial obligations for repayment. Collateral security in the form of property or a security interest in personal property is generally taken for business credit except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance (e.g. housing loans) is generally secured against real estate while short term revolving consumer credit is generally unsecured.

The following table shows the total value of exposures covered by eligible financial collateral (after haircutting) for portfolios subject to the standardised approach and total value of exposures covered by credit derivatives and guarantees for all portfolios.

	Consolidated
	Corporate (Including Specialised Lending) Unaudited
Dollars in Millions	31/3/16
For portfolios subject to the standardised approach:	
Total value of exposures covered by eligible financial or IRB collateral (after haircutting)	25
For all portfolios:	
Total value of exposures covered by credit derivatives or guarantees	-

Residential mortgages by loan-to-valuation ratio

The following table 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	Off-balance Sheet Exposures at Default* Unaudited	Total Exposures at Default Unaudited
Dollars in Millions	31/3/16	31/3/16	31/3/16
LVR Range			
0 - 59%	11,532	1,628	13,160
60 - 69%	6,886	739	7,625
70 - 79%	11,911	1,225	13,136
80 - 89%	1,553	54	1,607
Over 90%	1,318	326	1,644
Total exposures at default secured by residential mortgages	33,200	3,972	37,172

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

	Consolidated
	On-balance Sheet Exposures at Default Unaudited
Dollars in Millions	31/3/16
Reconciliation of exposures secured by residential mortgages to housing loans in note 7 Loans and advances to customers	
Loans and advances to customers - housing loans	33,196
Add: Partial write offs excluded under the IRB approach	4
Total exposures secured by residential mortgages	33,200

Note 20 Capital Adequacy *continued*

Operational risk

	Consolidated	
	Implied Risk-Weighted Exposure Unaudited	Total Operational Risk Capital Requirement Unaudited
Dollars in Millions	31/3/16	31/3/16
Operational risk	4,375	350

The operational risk capital requirement above has been calculated under the Advanced Measurement Approach which the Banking Group uses for determining its regulatory capital for operational risk together with any required regulatory adjustments. The Advanced Measurement Approach is in accordance with BS2B.

Market risk

The following table shows market risk end of period and peak end-of-day capital charges.

	Consolidated Unaudited 31/3/16			
	Implied Risk-Weighted Exposure		Aggregate Capital Charge	
Dollars in Millions	End of Period	Peak End-of-Day	End of Period	Peak End-of-Day
Interest rate risk	3,236	4,271	259	342
Foreign exchange risk	20	62	2	5
Equity risk	6	6	-	-
Total	3,262	4,339	261	347

The aggregate market risk exposure above is derived in accordance with BS2B and the Bank's conditions of registration.

For each category of market risk, the Banking Group's end of period aggregate capital charge is the charge as at the end of period reported. The peak end-of-day aggregate capital charge is the maximum over the half year accounting period at the close of each business day.

Equity risk subject to a market risk capital charge as shown above relates to equities owned by the Bank.

Capital for other material risks

The Banking Group actively manages and measures all material risks affecting its operations. These risks go beyond the traditional banking risks of credit, operational and market risk. The measurement and management of all material risks is determined under the Banking Group's ICAAP and includes consideration of all other material risks, additional to those included in determining the minimum regulatory capital requirements under BS2B. Other material risks assessed by the Banking Group include liquidity risk, funding risk, contagion risk, concentration risk, regulatory and compliance risk, strategic positioning risk and strategic execution risk.

As at 31 March 2016, the Banking Group had an internal capital allocation for business risk of $157 million (31 March 2015: $95 million; 30 September 2015: $95 million). The assessment of business risk covers strategic, reputation and earnings risk.

NAB Limited capital adequacy

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

	Ultimate Parent Banking Group			Ultimate Parent Bank		
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Dollars in Millions	31/3/16	31/3/15	30/9/15	31/3/16	31/3/15	30/9/15
Common Equity Tier One capital ratio	9.69%	8.87%	10.24%	9.68%	10.08%	11.60%
Tier One capital ratio	11.77%	11.13%	12.44%	11.89%	12.58%	13.97%
Total qualifying capital ratio	13.25%	12.81%	14.15%	13.42%	14.41%	15.78%

The ultimate parent banking group data is the Level 2 capital ratio (as published in the NAB Limited Pillar 3 report) and represents the consolidation of NAB and all its subsidiary entities, other than the non-consolidated subsidiaries as outlined in the Pillar 3 report. The Level 2 Group operates in multiple regulatory jurisdictions and applies a combination of Basel capital framework and standardised approaches depending on the prescribed prudential requirements within those jurisdictions. Further information on the Basel capital framework methodologies applied across the ultimate parent banking group is outlined in the Pillar 3 report.

The ultimate parent bank of the Banking Group is NAB Limited which reports under the Advanced approach for credit risk (other than for defined assets that are immaterial in terms of risk-weighted assets or are not required to be treated as IRB under the Basel capital framework), and the Advanced Measurement Approach ("AMA") for operational risk. The ultimate parent bank capital ratios represent the Level 1 NAB Limited capital ratios, which comprises NAB Limited and its subsidiary entities approved by APRA as part of the Extended Licensed Entity.

Under prudential regulations, NAB is required to hold capital above the prudential capital ratio ("PCR") as determined by APRA for both the Level 1 and Level 2 Groups. The PCR is prescribed on a bilateral basis, and is not publicly disclosed. NAB Limited met the minimum capital adequacy requirements set by APRA as at 31 March 2016.

Note 20 Capital Adequacy *continued*

NAB Limited capital adequacy *continued*

NAB Limited is required to publicly disclose risk management and capital adequacy information as at the reporting date, as specified in APRA's Pillar 3 Prudential Standard APS 330 Capital Adequacy: Public Disclosure (“APS 330”). Updates are provided on a semi-annual and quarterly basis in accordance with the APS 330 reporting requirements.

NAB Limited’s Annual Financial Report and Pillar 3 report, incorporating the requirements of APS 330, can be accessed at www.nab.com.au.

Capital structure

Contributed equity – Ordinary shares

These shares do not have a par value; each share entitles the shareholder to one vote at any meeting of shareholders. All shares rank equally in dividends and proceeds available to ordinary shareholders in a winding up.

Contributed equity – Perpetual non-cumulative preference shares

The perpetual non-cumulative preference share capital of the Bank comprises 649,730,000 shares, which do not have a par value. All issued shares were fully paid as at the reporting date.

Each of the perpetual non-cumulative preference shares is non-redeemable and carries no voting rights other than in relation to amendments of the rights, privileges, limitations and conditions attaching to these shares.

March 2008 issue

On 28 March 2008, the Bank issued 449,730,000 perpetual non-cumulative preference shares (“2008 BNZ PPS”) to BNZ Income Management Limited (“BNZIM”), a subsidiary of the Bank’s immediate parent, NAGNZ.

The 2008 BNZ PPS were issued in conjunction with the issue of perpetual non-cumulative shares by BNZ Income Securities Limited (“BNZIS”), a subsidiary of the Bank’s ultimate parent. Under the transaction, BNZIS issued 449,730,000 perpetual non-cumulative shares (“BNZIS Shares”) to members of the public in New Zealand. On 28 March 2013, National Equities Limited (“NEL”), a subsidiary of the Bank’s ultimate parent, purchased all BNZIS Shares not already held by itself, following NAB Limited having earlier exercised its right to call the shares and nominating NEL to be the purchaser of the shares. The proceeds from the issue of the BNZIS Shares remain advanced to BNZIM as a perpetual loan. BNZIM in turn retains its investment of the proceeds of the loan from BNZIS in the 2008 BNZ PPS.

The 2008 BNZ PPS are non-redeemable and carry no voting rights other than in relation to amendments of the rights, privileges, limitations and conditions attaching to the 2008 BNZ PPS. Dividends are payable quarterly in arrears, but are non-cumulative if dividends are not paid for the reasons set out below.

The dividend payable on the 2008 BNZ PPS is determined by reference to the five-year mid-market swap rate plus a margin of 2.20%. The dividend rate was reset at 5.63% p.a. on 26 March 2013, applicable for the period from (and including) 28 March 2013 to (but excluding) 28 March 2018. Dividend rates are to be reset five-yearly on the business day falling two business days before 28 March (or the applicable business day if 28 March is not a business day) in the relevant year. The next dividend reset date is 26 March 2018.

Dividends will not be paid on the 2008 BNZ PPS if any of the following conditions apply: (a) the Directors of the Bank in their sole discretion do not resolve to pay the dividend on the relevant dividend payment date; (b) such a payment would result in any of the Bank’s capital ratios ceasing to comply with the RBNZ’s then current capital adequacy requirements; (c) the Directors of the Bank are not satisfied that the Bank will be solvent (under the solvency test set out in section 4 of the Companies Act 1993) immediately after payment of the dividend; or (d) (unless the APRA otherwise agrees) certain dividend payment conditions apply relating to non-payment of the dividend on the BNZIS Shares payable on the corresponding dividend payment date for the 2008 BNZ PPS (such conditions relating to whether NAB Limited will still comply with certain APRA capital ratios and have sufficient distributable profits after payment of the relevant dividend on the BNZIS Shares, and to APRA otherwise objecting to the payment of the relevant dividend on the BNZIS Shares).

Dividends on the 2008 BNZ PPS rank for payment:

- before the Bank’s ordinary shareholder and the holders of the 2009A BNZ PPS (refer to December 2009 issue below) ;
- equally with any other shares issued by the Bank that, by their terms, are expressed to rank equally with the 2008 BNZ PPS; and
- after all other shareholders and creditors of the Bank.

In the event of the liquidation of the Bank, the 2008 BNZ PPS rank:

- before the Bank’s ordinary shareholder and the holders of the 2009A BNZ PPS (refer December 2009 issue below);
- equally with any other shares issued by the Bank that, by their terms, are expressed to rank equally with the 2008 BNZ PPS; and
- after all other shareholders and creditors of the Bank.

June 2009 issue

On 30 June 2014, the Bank bought back the $260 million of perpetual non-cumulative preference shares (“2009 BNZ PPS”) issued to BNZIM on 26 June 2009.

December 2009 issue

On 29 December 2009, the Bank issued 200,000,000 perpetual non-cumulative preference shares (“2009A BNZ PPS”) to NAGNZ, the Bank’s immediate parent and a subsidiary of the Bank’s ultimate parent, NAB Limited.

The 2009A BNZ PPS were issued in conjunction with the making of a loan by NAB Limited, acting through its New York branch, to NAGNZ. NAGNZ invested the proceeds of the loan in the 2009A BNZ PPS.

The 2009A BNZ PPS are non-redeemable and carry no voting rights other than in relation to amendments of the rights, privileges, limitations and conditions attaching to the 2009A BNZ PPS. Dividends are payable quarterly in arrears, but are non-cumulative if dividends are not paid for the reasons set out below.

The dividend payable on the 2009A BNZ PPS is determined by reference to the seven-year mid-market swap rate plus a margin of 3.50% p.a.. The initial rate was set at 9.25% p.a. on 23 December 2009, applicable for the period from (and including) 29 December 2009 to (but excluding) 28 December 2016. Dividend rates are to be reset seven-yearly on the business day falling two business days before 28 December (or the applicable business day if 28 December is not a business day) in the relevant year. The first dividend reset date is 22 December 2016.

Note 20 Capital Adequacy *continued*

Capital Structure *continued*

December 2009 issue *continued*

Dividends will not be paid on the 2009A BNZ PPS if any of the following conditions apply: (a) the Directors of the Bank in their sole discretion do not resolve to pay the dividend on the relevant dividend payment date; (b) such a payment would result in the Bank's Tier One capital ratio ceasing to comply with the RBNZ's then current capital adequacy requirements; or (c) the Directors of the Bank are not satisfied that the Bank will be solvent (under the solvency test set out in section 4 of the Companies Act 1993) immediately after payment of the dividend.

If the Bank does not pay a dividend on the 2009A BNZ PPS on a scheduled dividend payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its other shares that rank equally with or junior to the 2009A BNZ PPS (other than pro-rata distributions or payments on shares that rank equally with the 2009A BNZ PPS) unless and until it has paid two consecutive dividends in full on the 2009A BNZ PPS.

Dividends on the 2009A BNZ PPS rank for payment:

- before the Bank's ordinary shareholder;
- equally with any other shares issued by the Bank that, by their terms, are expressed to rank equally with the 2009A BNZ PPS; and
- after all other shareholders (including the holder of the 2008 BNZ PPS) and creditors of the Bank.

In the event of liquidation of the Bank, the 2009A BNZ PPS rank:

- before the Bank's ordinary shareholder;
- equally with any other shares issued by the Bank that, by their terms, are expressed to rank equally with the 2009A BNZ PPS; and
- after all other shareholders (including the holder of the 2008 BNZ PPS) and creditors of the Bank.

Subordinated debt

Subordinated debt ranks behind the claims of all other creditors of the Bank. All the Bank's subordinated loans issued as at 30 June 2012 are subject to phase-out from eligibility as capital under the RBNZ Basel III transitional arrangements from 1 January 2014. The phase-out takes place over five years, with the maximum eligible amount of capital declining by 20% each year which commenced on 1 January 2014. The base amount for phase-out was fixed as at 1 January 2013.

Material terms and conditions relating to the subordinated debt are as follows:

Subordinated loans due to related entities held in Tier Two capital

Subordinated loans of $190 million were repaid in February 2014.

Subordinated loans of $715 million as at 31 March 2016 have no fixed maturity and are repayable on five years and one day's notice. These are also repayable at the Bank's option, subject to certain conditions at any time on seven days' notice. The interest rate is reset every three months based on a margin over the prevailing rate for New Zealand 90-day bank bills.

Subordinated notes due to external investors held in Tier Two capital

Subordinated Notes of $550 million as at 31 March 2016 will mature on 17 December 2025, 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. 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 is 5.314% per annum, which is fixed for five years and will be reset on the Optional Redemption Date. Refer to note 13 for further information.

Note 21 Risk Management

Risk management disclosure

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 December 2015.

Interest rate repricing schedule

The following table represents a breakdown of the balance sheet, by repricing dates or contractual maturity, whichever is the earlier. As interest rates and yield curves change over time, the Banking Group may be exposed to a loss in earnings due to the characteristics of the assets and their corresponding liability funding. These mismatches are actively managed as part of the overall interest rate risk management process. In managing the structural interest rate risk, the primary objectives are to limit the extent to which net interest income could be impacted from an adverse movement in interest rates and to maximise shareholders' earnings.

				Consolidated Unaudited 31/3/16			
Dollars in Millions	Total	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 year	Over 1 Year and up to 2 Years	Over 2 Years	Not Interest Bearing
Assets							
Cash and liquid assets	1,531	1,239	-	-	-	-	292
Due from central banks and other institutions	1,529	1,529	-	-	-	-	-
Trading securities	5,110	5,110	-	-	-	-	-
Derivative financial instruments	7,388	-	-	-	-	-	7,388
Gross loans and advances to customers	71,608	40,052	2,649	6,889	13,581	6,998	1,439
Deductions from loans and advances to customers	(249)	-	-	-	-	-	(249)
Amounts due from related entities	2,255	2,214	-	-	-	-	41
All other assets	906	-	-	-	-	-	906
Total assets	90,078	50,144	2,649	6,889	13,581	6,998	9,817
Liabilities							
Due to central banks and other institutions	1,243	1,216	7	4	13	3	-
Short term debt securities	4,265	3,470	569	226	-	-	-
Trading liabilities	252	252	-	-	-	-	-
Derivative financial instruments	8,649	-	-	-	-	-	8,649
Deposits from customers	49,797	30,458	6,747	5,783	1,571	1,047	4,191
Bonds and notes	16,078	3,791	280	1,294	3,926	6,787	-
Amounts due to related entities	591	517	-	-	-	-	74
Other liabilities	587	-	-	-	-	-	587
Subordinated debt	1,257	715	-	-	-	550	(8)
Total liabilities	82,719	40,419	7,603	7,307	5,510	8,387	13,493
Shareholders' equity							
Total shareholders' equity	7,359	-	-	-	-	-	7,359
Total liabilities and shareholders' equity	90,078	40,419	7,603	7,307	5,510	8,387	20,852
On-balance sheet sensitivity gap	-	9,725	(4,954)	(418)	8,071	(1,389)	(11,035)
Derivative financial instruments							
Net balance of derivative financial instruments	-	(7,196)	4,935	1,391	(5,168)	6,038	-
Interest sensitivity gap - net	-	2,529	(19)	973	2,903	4,649	(11,035)
Interest sensitivity gap - cumulative	-	2,529	2,510	3,483	6,386	11,035	-

Note 21 Risk Management *continued*

Maturity profile

The table below presents the Banking Group's cash flows by remaining contractual maturities as at the reporting date, except trading securities and trading liabilities, which the Banking Group has the ability to realise at short notice and are presented by expected maturity.

The gross cash flows disclosed hereafter are the contractual undiscounted cash flows and include both principal and associated future interest payments and therefore will not necessarily agree to the carrying values on the balance sheet. Actual cash flows can differ significantly from contractual cash flows as a result of future actions of the Banking Group and its counterparties, such as early repayments or refinancing of term loans. Off-balance sheet exposures are excluded from the table below as contractual cash flows, if any, are contingent in nature. Irrevocable commitments to extend credit can be drawn down at any time before the commitments expire. Details of off-balance sheet exposures are included in note 17. Other assets and other liabilities only include balances which have contractual future cash flows.

			Consolidated Unaudited 31/3/16				
Dollars in Millions	Carrying Amount	Gross Cash Inflow/ (Outflow)	On Demand	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years
Assets							
Cash and liquid assets	1,531	1,531	1,531	-	-	-	-
Due from central banks and other institutions	1,529	1,529	-	1,529	-	-	-
Trading securities	5,110	5,110	-	5,110	-	-	-
Loans and advances to customers	71,359	96,968	6,062	14,358	8,903	26,309	41,336
Amounts due from related entities	2,255	2,281	20	2,021	24	216	-
Other assets	285	285	-	285	-	-	-
Total	82,069	107,704	7,613	23,303	8,927	26,525	41,336
Liabilities							
Due to central banks and other institutions	(1,243)	(1,245)	(486)	(730)	(12)	(17)	-
Short term debt securities	(4,265)	(4,285)	-	(2,396)	(1,889)	-	-
Trading liabilities	(252)	(252)	-	(252)	-	-	-
Deposits from customers	(49,797)	(50,361)	(23,731)	(11,013)	(12,818)	(2,799)	-
Bonds and notes	(16,078)	(16,995)	-	(1,412)	(2,133)	(12,786)	(664)
Amounts due to related entities	(591)	(591)	(400)	(180)	(11)	-	-
Other liabilities	(445)	(445)	-	(445)	-	-	-
Subordinated debt	(1,257)	(1,515)	-	(13)	(38)	(744)	(720)
Total	(73,928)	(75,689)	(24,617)	(16,441)	(16,901)	(16,346)	(1,384)
Derivatives*							
Derivative financial instruments inflow		115,772	-	50,638	20,488	34,888	9,758
Derivative financial instruments (outflow)		(117,703)	-	(51,213)	(20,958)	(35,773)	(9,759)

* Derivative financial instruments includes hedging and trading derivative cash flows.

Liquidity portfolio management

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

Dollars in Millions	**Consolidated** Unaudited 31/3/16
Cash and balances immediately convertible to cash	1,549
Securities purchased under agreements to resell	250
Government bonds, notes and securities	2,499
Semi-government bonds, notes and securities	447
Corporate and other institution bonds, notes and securities	1,715
Total liquidity portfolio	6,460

As at 31 March 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 31 March 2016.

As at 31 March 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.

Note 21 Risk Management *continued*

Concentrations of funding

The Banking Group's concentrations of funding is reported by geographical location and industry sector in the following table. The concentrations of funding by geographical location is based on the geographical location of the office in which the funds are recognised. The concentrations of funding by industry sector is based on the categories in the RBNZ M3 Institutions Standard Statistical Return.

		Consolidated
		Unaudited
Dollars in Millions	Note	31/3/16
New Zealand		
Agriculture, forestry and fishing		2,253
Mining		88
Manufacturing		1,344
Electricity, gas and water		68
Construction		691
Wholesale and retail trade		1,410
Accommodation, restaurants, culture and recreation		986
Transport and storage		571
Communications		129
Financial, investment and insurance		13,844
Property, business and personal services		8,532
Government, education, health and community services		2,886
Personal deposits		24,907
Related entities	15	1,306
Total New Zealand		59,015
United Kingdom*		
Financial, investment and insurance		14,468
Total United Kingdom		14,468
Total funding		73,483
Total funding comprised:		
Due to central banks and other institutions		1,243
Short term debt securities		4,265
Trading liabilities		252
Deposits from customers		49,797
Bonds and notes		16,078
Amounts due to related entities		591
Subordinated debt**		1,257
Total funding		73,483

* This represents the funding activities of BNZ International Funding Limited (London Branch).
** Includes subordinated debt of $715 million due to related entities as at 31 March 2016. Refer to note 13 for further information.

Note 21 Risk Management *continued*

Concentrations of credit exposure

The Banking Group's concentrations of credit exposure is reported by geographical location and industry sector in the following table. The concentrations of credit exposure on financial assets by geographical location is based on the geographical location of the counterparty's tax residency. The concentrations of credit exposure relating to guarantees and credit related commitments by geographical location is based on geographical location of the office in which the exposures are recognised. The concentrations of credit exposure by industry sector is based on the categories in the RBNZ M3 Institutions Standard Statistical Return.

The following table presents the maximum exposure to credit risk of financial assets before taking into account any collateral held or other credit enhancements. Except for derivative financial instruments, the majority of the overseas credit exposures are raised for New Zealand based assets funded in New Zealand dollars for offshore customers. For more information on guarantees and credit related commitments, refer to note 17.

		Consolidated
		Unaudited
Dollars in Millions	Note	31/3/16
Financial assets		
New Zealand		
Agriculture		13,632
Forestry and fishing		739
Mining		182
Manufacturing		3,314
Electricity, gas and water		1,263
Construction		957
Wholesale and retail trade		3,116
Accommodation, restaurants, culture and recreation		1,071
Transport and storage		1,314
Communications		376
Financial, investment and insurance		8,920
Property, business and personal services		9,256
Government, education, health and community services		1,876
Real estate - mortgage		32,653
Personal lending		1,564
Related entities*	15	233
Total New Zealand		80,466
Overseas		
Agriculture		9
Manufacturing		25
Electricity, gas and water		3
Wholesale and retail trade		6
Accommodation, restaurants, culture and recreation		8
Financial, investment and insurance		4,244
Property, business and personal services		91
Real estate - mortgage		543
Personal lending		18
Related entities*	15	3,834
Total Overseas		8,781
Total credit exposures on financial assets		89,247
Total credit exposures on financial assets comprised:		
Cash and liquid assets		1,357
Due from central banks and other institutions		1,529
Trading securities		5,110
Derivative financial instruments		7,388
Gross loans and advances to customers		71,608
Amounts due from related entities		2,255
Total credit exposures on financial assets		89,247

* Related entities include amounts due from related entities and derivative financial assets with related entities. Refer to note 15 for further information.

Note 21 Risk Management *continued*
Concentrations of credit exposure *continued*

Dollars in Millions	**Consolidated** Unaudited 31/3/16
Contingent liabilities and irrevocable credit related commitments	
New Zealand	
Agriculture	428
Forestry and fishing	319
Mining	278
Manufacturing	1,509
Electricity, gas and water	685
Construction	253
Wholesale and retail trade	1,129
Accommodation, restaurants, culture and recreation	266
Transport and storage	413
Communications	285
Financial, investment and insurance	681
Property, business and personal services	1,546
Government, education, health and community services	1,057
Real estate - mortgage	1,553
Personal lending	43
Total New Zealand	10,445
Total credit exposures on contingent liabilities and irrevocable credit related commitments	10,445

Chartered Accountants

Independent Review Report

To the shareholders of Bank of New Zealand

We have reviewed pages 4 to 37 of the Disclosure Statement of Bank of New Zealand (the "Bank") for the six month period ended 31 March 2016 which includes the interim financial statements required by Clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information required by Schedules 5, 7, 11, 13, 16 and 18 of the Order. The interim financial statements comprise the balance sheet as at 31 March 2016, the income statement, statement of comprehensive income, statement of changes in equity and condensed cash flow statement for the six months then ended, and the notes to the interim financial statements that include the statement of accounting policies and selected explanatory information for the Banking Group. The Banking Group comprises the Bank and the entities it controlled at 31 March 2016 or from time to time during the period.

This report is made solely to the Bank's shareholders, as a body. Our review has been undertaken so that we might state to the Bank's shareholders those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholders as a body, for our review work, for this report, or for our findings.

Directors' responsibilities
The directors of the Bank (the "Directors") are responsible on behalf of the Bank, for the preparation and fair presentation of the Disclosure Statement, which includes interim financial statements prepared in accordance with Clause 25 of the Order and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the Disclosure Statement that is free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible on behalf of the Bank, for including supplementary information in the Disclosure Statement which complies with Schedules 3, 5, 7, 11, 13, 16 and 18 of the Order.

Reviewer's responsibilities
Our responsibility is to express a conclusion on the fair presentation of the interim financial statements and the supplementary information, disclosed in accordance with Clause 25 and Schedules 5, 7, 11, 13, 16 and 18 of the Order, presented by the Directors based on our review.

Our responsibility is to express a conclusion on the interim financial statements (excluding the supplementary information) as to whether, in our opinion on the basis of procedures performed by us, anything has come to our attention that would cause us to believe that the interim financial statements do not fairly present, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*.

Our responsibility is to express a conclusion on the supplementary information (excluding the supplementary information relating to capital adequacy) regarding whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order.

Our responsibility is to express a conclusion on the supplementary information relating to capital adequacy regarding whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects:

a) prepared in accordance with the Bank's Conditions of Registration;

b) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and

c) disclosed in accordance with Schedule 11 of the Order.

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410: *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410"). As the auditor of the Bank, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Chartered Accountants

Basis of statement
A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on this Disclosure Statement.

In addition to this review and the audit of the annual Disclosure Statement of the Bank and Banking Group, we have provided other assurance and remuneration benchmarking services to the Bank and Banking Group. In addition, partners and employees of our firm may deal with the Bank and Banking Group on normal terms within the ordinary course of trading activities of the business of the Bank and Banking Group. These matters have not impaired our independence as auditors of the Bank and Banking Group. We have no other relationship with, or interest in, the Bank or Banking Group.

Statement of review findings
Based on our review nothing has come to our attention that causes us to believe that:

- the interim financial statements on pages 4 to 37 (excluding the supplementary information disclosed in Notes 8, 9, 14, 18, 19, 20 and 21) do not fairly present, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*; and
- the supplementary information (excluding the supplementary information disclosed in Note 20) prescribed by Schedules 5, 7, 13, 16 and 18 of the Order, does not fairly state the matters to which it relates in accordance with those Schedules; and
- the supplementary information relating to capital adequacy (disclosed in Note 20) prescribed by Schedule 11 of the Order, is not, in all material respects:
  - prepared in accordance with the Bank's Conditions of Registration;
  - prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
  - disclosed in accordance with Schedule 11 of the Order.

Ernst + Young

19 May 2016
Auckland

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

There were no changes made to the Bank's conditions of registration since 31 December 2015.

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 prior to the end of the reporting period 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 six months ended 31 March 2016:

   (a) the Bank has complied with its conditions of registration applicable during that period, except as disclosed on page 40 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 May 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