Bank of New Zealand

Disclosure Statement

For the six months ended 31 March 2017

No. 85

Disclosure Statement

For the six months ended 31 March 2017

This Disclosure Statement has been issued by Bank of New Zealand for the six months ended 31 March 2017 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

In this Disclosure Statement, unless the context otherwise requires:

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

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

Contents

Bank of New Zealand Corporate Information

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

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

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

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

Other material obligations of the Bank are not guaranteed.

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

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

Legally Enforceable Restrictions that may Materially Inhibit National Australia Bank Limited's Legal Ability to Provide Material Financial Support to Bank of New Zealand
National Australia Bank Limited does not guarantee the obligations of Bank of New Zealand.

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

In late 2014, APRA initiated a process to reduce Australian bank non-equity exposures to their respective New Zealand banking subsidiaries (which, in the case of National Australia Bank Limited, includes the Bank) and branches, so that these non-equity exposures are minimised during ordinary times. On 19 November 2015, APRA informed National Australia Bank Limited that its Extended Licensed Entity ("ELE") non-equity exposures to New Zealand banking subsidiaries, including the Bank, were to transition to be below a limit of 5% of National Australia Bank Limited's Level One Tier One Capital. The ELE consists of National Australia Bank Limited and any APRA approved subsidiary entities assessed effectively as part of a single "stand-alone" entity for the purposes of measuring capital. APRA has regard to a number of factors when approving subsidiary entities for inclusion in the ELE, including ownership, governance, funding arrangements and regulatory characteristics of the subsidiary. Exposures for the purposes of this limit include all committed, non-intraday, non-equity exposures, including derivatives and off-balance sheet exposures. For the purposes of assessing this exposure, the 5% limit excludes equity investments and holdings of capital instruments in New Zealand banking subsidiaries. As at 31 March 2017, National Australia Bank Limited's non-equity exposures to the Bank are below 5% of National Australia Bank Limited's Level One Tier One Capital.

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

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

On 20 August 2014, a representative action was filed against the Bank in relation to certain fees. On 8 May 2017, Fair Play on Fees agreed not to continue that representative action. The Bank has agreed to make a contribution towards costs incurred in commencing the action. The Bank has not admitted any liability.

Bank of New Zealand Corporate Information

Other Matters

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

The New Zealand dairy market has been under financial pressure due to lower milk solid pay-outs in the 2015 and 2016 farming years (from 1 June to 31 May). More recent indicators support the improvement in milk solid prices; however, due to the timing of the bulk of the cash receipts being toward the end of the farming year, it is expected that some level of financial pressure in this sector will continue for a period of time. At this stage, the Bank considers it is well positioned to manage this risk.

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

Directorate

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

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

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

Stephen John Moir retired as a Director of the Bank, effective 13 April 2017.

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
Philip Wayne Chronican
Prudence Mary Flacks
Bruce Ronald Hassall
Louis Arthur Hawke
Kevin John Kenrick
Angela Mentis

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 2017

		Consolidated		
		Unaudited 6 Months	Unaudited 6 Months	Audited 12 Months
Dollars in Millions	Note	**31/3/17**	31/3/16	30/9/16
Interest income		**1,877**	1,964	3,854
Interest expense		**1,016**	1,082	2,097
Net interest income		**861**	882	1,757
Gains less losses on financial instruments	2	**22**	55	106
Other operating income		**195**	194	406
Total operating income		**1,078**	1,131	2,269
Operating expenses		**458**	434	889
Total operating profit before impairment losses on credit exposures and income tax expense		**620**	697	1,380
Impairment losses on credit exposures	8	**43**	79	120
Total operating profit before income tax expense		**577**	618	1,260
Income tax expense on operating profit		**161**	167	347
Net profit attributable to shareholders of Bank of New Zealand		**416**	451	913

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

Statement of Comprehensive Income

For the six months ended 31 March 2017

	Consolidated		
	Unaudited 6 Months	Unaudited 6 Months	Audited 12 Months
Dollars in Millions	**31/3/17**	31/3/16	30/9/16
Net profit attributable to shareholders of Bank of New Zealand	**416**	451	913
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Actuarial loss on defined benefit plan	**-**	-	(1)
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	**(39)**	77	19
Tax on items transferred directly to/(from) equity	**10**	(21)	(5)
	(29)	56	13
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	**(56)**	26	19
	(56)	26	19
Total other comprehensive income/(expense)	**(85)**	82	32
Total comprehensive income attributable to shareholders of Bank of New Zealand	**331**	533	945

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

Statement of Changes in Equity

For the six months ended 31 March 2017

Dollars in Millions	Ordinary Capital	Perpetual Preference Capital	Retained Profits	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Total Share-holders' Equity
	Consolidated Unaudited 6 Months 31/3/17					
Balance at beginning of period	**2,351**	**200**	**4,339**	**2**	**113**	**7,005**
Comprehensive income/(expense)						
Net profit attributable to shareholders of Bank of New Zealand	**-**	**-**	**416**	**-**	**-**	**416**
Total other comprehensive income/(expense)	**-**	**-**	**(29)**	**-**	**(56)**	**(85)**
Total comprehensive income/(expense)	**-**	**-**	**387**	**-**	**(56)**	**331**
Buyback of shares		**(200)**				**(200)**
Ordinary dividend	**-**	**-**	**(300)**	**-**	**-**	**(300)**
Perpetual preference dividend	**-**	**-**	**(3)**	**-**	**-**	**(3)**
Balance at end of period	**2,351**	**-**	**4,423**	**2**	**57**	**6,833**
	Unaudited 6 Months 31/3/16					
Balance at beginning of period	2,351	650	3,945	2	94	7,042
Comprehensive income/(expense)						
Net profit attributable to shareholders of Bank of New Zealand	-	-	451	-	-	451
Total other comprehensive income/(expense)	-	-	56	-	26	82
Total comprehensive income/(expense)	-	-	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
	Audited 12 Months 30/9/16					
Balance at beginning of year	2,351	650	3,945	2	94	7,042
Comprehensive income/(expense)						
Net profit attributable to shareholders of Bank of New Zealand	-	-	913	-	-	913
Total other comprehensive income/(expense)	-	-	13	-	19	32
Total comprehensive income/(expense)	-	-	926	-	19	945
Buyback of shares	-	(450)	-	-	-	(450)
Ordinary dividend	-	-	(500)	-	-	(500)
Perpetual preference dividend	-	-	(32)	-	-	(32)
Balance at end of year	2,351	200	4,339	2	113	7,005

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

Balance Sheet

As at 31 March 2017

Dollars in Millions	Note	Consolidated Unaudited 31/3/17	Unaudited 31/3/16	Audited 30/9/16
Assets				
Cash and liquid assets	4	**2,500**	1,531	1,799
Due from central banks and other institutions	5	**1,914**	1,529	2,299
Trading securities	6	**5,017**	5,110	4,703
Derivative financial instruments		**5,410**	7,388	7,319
Loans and advances to customers	7	**76,733**	71,359	74,378
Current tax assets		**58**	31	-
Amounts due from related entities	13	**1,428**	2,255	934
Other assets		**369**	371	549
Deferred tax		**182**	171	179
Property, plant and equipment		**164**	168	165
Goodwill and other intangible assets		**248**	165	216
Total assets		**94,023**	90,078	92,541
Liabilities				
Due to central banks and other institutions	10	**1,463**	1,243	1,244
Trading liabilities		**51**	252	72
Derivative financial instruments		**5,745**	8,649	7,786
Deposits and other borrowings	11	**58,995**	54,062	57,511
Bonds and notes		**17,626**	16,078	16,723
Current tax liabilities		**-**	-	35
Amounts due to related entities	13	**840**	591	434
Other liabilities		**647**	587	809
Subordinated debt	12	**1,823**	1,257	922
Total liabilities		**87,190**	82,719	85,536
Net assets		**6,833**	7,359	7,005
Shareholders' equity				
Contributed equity – ordinary shareholder		**2,351**	2,351	2,351
Reserves		**59**	122	115
Retained profits		**4,423**	4,236	4,339
Ordinary shareholder's equity		**6,833**	6,709	6,805
Contributed equity – perpetual preference shareholders	14	**-**	650	200
Total shareholders' equity		**6,833**	7,359	7,005
Interest earning and discount bearing assets		**86,071**	80,261	82,439
Interest and discount bearing liabilities		**75,777**	69,226	72,230

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 2017

		Consolidated		
		Unaudited 6 Months	Unaudited 6 Months	Audited 12 Months
Dollars in Millions	Note	31/3/17	31/3/16	30/9/16
Cash flows from operating activities				
Cash was provided from:				
Interest income		1,874	1,966	3,877
Other cash inflows provided from operating activities		428	279	403
Cash was applied to:				
Interest expense		(1,052)	(1,153)	(2,129)
Other cash outflows applied to operating activities		(693)	(736)	(1,367)
Net cash flows from operating activities before changes in operating assets and liabilities		557	356	784
Net change in operating assets and liabilities		(472)	(81)	(1,637)
Net cash flows from operating activities		85	275	(853)
Cash flows from investing activities				
Cash inflows provided from investing activities		-	2	2
Cash outflows applied to investing activities		(79)	(41)	(133)
Net cash flows from investing activities		(79)	(39)	(131)
Net cash flows from financing activities		111	178	1,219
Net movement in cash and cash equivalents		117	414	235
Cash and cash equivalents at beginning of period		1,527	1,292	1,292
Cash and cash equivalents at end of period		1,644	1,706	1,527
Cash and cash equivalents at end of period comprised:				
Cash and liquid assets	4	2,500	1,531	1,799
Due from central banks and other institutions classified as cash and cash equivalents	5	205	250	651
Due to central banks and other institutions classified as cash and cash equivalents	10	(1,065)	(873)	(758)
Amounts due from related entities classified as cash and cash equivalents	13	797	1,257	239
Amounts due to related entities classified as cash and cash equivalents	13	(793)	(459)	(404)
Total cash and cash equivalents		1,644	1,706	1,527
Reconciliation of net profit attributable to shareholders of Bank of New Zealand to net cash flows from operating activities				
Net profit attributable to shareholders of Bank of New Zealand		416	451	913
Add back non-cash items in net profit		141	(95)	(129)
Deduct operating cash flows not included in net profit:				
Net change in operating assets and liabilities		(472)	(81)	(1,637)
Net cash flows from operating activities		85	275	(853)

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

Notes to and Forming Part of the Financial Statements

For the six months ended 31 March 2017

Note 1 Principal Accounting Policies

These interim financial statements are general purpose financial reports prepared in accordance with New Zealand Generally Accepted Accounting Practice as appropriate for profit oriented entities, the requirements of International Accounting Standard 34: Interim Financial Reporting, New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting and the Order, and should be read in conjunction with the Disclosure Statement for the year ended 30 September 2016.

Reclassification of financial information

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

Changes in accounting policies and disclosure

There have been no material changes in accounting policies during the interim financial period. The accounting policies used in the preparation of these interim financial statements are consistent with the accounting policies used in the preparation of the Disclosure Statement for the year ended 30 September 2016.

Income Statement Notes

Dollars in Millions	Consolidated Unaudited 6 Months 31/3/17	Consolidated Unaudited 6 Months 31/3/16	Consolidated Audited 12 Months 30/9/16
Note 2 Gains Less Losses on Financial Instruments			
Trading securities	**(16)**	27	48
Trading derivatives	**(73)**	31	52
Assets, liabilities and derivatives designated in hedge relationships	**5**	(30)	(47)
Assets and liabilities designated at fair value (refer to table below)	**106**	27	53
Total gains less losses on financial instruments	**22**	55	106
Gains less losses on assets and liabilities designated at fair value comprise:			
Credit risk adjustments on financial assets	**6**	(4)	(4)
Gain/(loss) in the fair value of financial assets and liabilities	**100**	31	57

Note 3 Segment Analysis

Operating segments

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

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

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

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

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

Note 3 Segment Analysis *continued*

Dollars in Millions	Retail and Marketing	BNZ Partners**	Total Reportable Segments	Other**	Total Banking Group
			Consolidated		
			Unaudited 6 Months 31/3/17		
Net interest income	**309**	**554**	**863**	**(2)**	**861**
Other income	**113**	**166**	**279**	**(62)**	**217**
Total segment revenue	**422**	**720**	**1,142**	**(64)**	**1,078**
Operating profit before income tax expense*	**219**	**521**	**740**	**(163)**	**577**
Income tax expense/(credit)	**61**	**146**	**207**	**(46)**	**161**
Net profit attributable to shareholders of Bank of New Zealand	**158**	**375**	**533**	**(117)**	**416**
			Unaudited 6 Months 31/3/16		
Net interest income	293	478	771	111	882
Other income	111	121	232	17	249
Total segment revenue	404	599	1,003	128	1,131
Operating profit before income tax expense*	198	337	535	83	618
Income tax expense/(credit)	53	96	149	18	167
Net profit attributable to shareholders of Bank of New Zealand	145	241	386	65	451
			Audited 12 Months 30/9/16		
Net interest income	591	987	1,578	179	1,757
Other income	228	243	471	41	512
Total segment revenue	819	1,230	2,049	220	2,269
Operating profit before income tax expense*	405	784	1,189	71	1,260
Income tax expense/(credit)	112	219	331	16	347
Net profit attributable to shareholders of Bank of New Zealand	293	565	858	55	913

* For the six months ended 31 March 2017, operating profit before income tax expense within the 'Other' category included a fair value loss on financial instruments of $82 million (six months ended 31 March 2016: $13 million loss; year ended 30 September 2016: $29 million loss), which are recorded as part of the overall gains less losses on financial instruments disclosed in note 2.

** The March 2017 half year includes a reclassification of revenue and expenses relating to markets sales operations from Other Segment to BNZ Partners for the purposes of representing information reported to the BNZ Executive Team. Comparative balances for March 2016 and September 2016 have not been reclassified.

Notes to and Forming Part of the Financial Statements

Asset Notes

Dollars in Millions	Consolidated Unaudited 31/3/17	Unaudited 31/3/16	Audited 30/9/16
Note 4 Cash and Liquid Assets			
Notes and coins	154	174	135
Transaction balances with central banks	1,749	1,229	1,432
Transaction balances with other institutions	597	128	232
Total cash and liquid assets	2,500	1,531	1,799

Dollars in Millions	Consolidated Unaudited 31/3/17	Unaudited 31/3/16	Audited 30/9/16
Note 5 Due from Central Banks and Other Institutions			
Loans and advances due from other institutions	1,709	1,279	1,648
Securities purchased under agreements to resell with other financial institutions*	17	64	172
Securities purchased under agreements to resell with non-financial institutions*	188	186	479
Total due from central banks and other institutions	1,914	1,529	2,299

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

The Banking Group has accepted collateral of New Zealand government securities with a fair value of $978 million as at 31 March 2017 arising from reverse repurchase agreements included in due from central banks and other institutions and due from related entities (refer to note 13), which it is permitted to sell or repledge (31 March 2016: $1,477 million; 30 September 2016: $800 million).

Government securities with a fair value of $389 million were repledged as at 31 March 2017 (31 March 2016: $368 million; 30 September 2016: $87 million). Securities were repledged for periods of less than three months. The Bank's obligation to repurchase government securities is classified under due to central banks and other institutions (refer to note 10).

Included in due from central banks and other institutions as at 31 March 2017 was $1,013 million of collateral posted with counterparties to meet standard derivative trading obligations (31 March 2016: $1,261 million; 30 September 2016: $1,412 million).

Dollars in Millions	Consolidated Unaudited 31/3/17	Unaudited 31/3/16	Audited 30/9/16
Note 6 Trading Securities			
Government bonds, notes and securities	3,321	2,948	3,241
Semi-government bonds, notes and securities	744	447	510
Corporate and other institutions bonds, notes and securities	952	1,715	952
Total trading securities	5,017	5,110	4,703

Included in trading securities as at 31 March 2017 were $235 million encumbered through repurchase agreements (31 March 2016: $81 million; 30 September 2016: $152 million). These trading securities have not been derecognised from the Bank as the Bank retains substantially all the risks and rewards of ownership. Counterparties have the right to sell or repledge these encumbered securities. The Bank's obligation to repurchase trading securities is classified under due to central banks and other institutions (refer to note 10) and due to related entities (refer to note 13).

Dollars in Millions	Consolidated Unaudited 31/3/17	Unaudited 31/3/16	Audited 30/9/16
Note 7 Loans and Advances to Customers			
Overdrafts	2,269	2,417	2,387
Credit card outstandings	1,173	1,139	1,131
Housing loans	36,110	33,196	34,914
Other term lending	36,749	33,844	35,354
Other lending	853	1,012	907
Total gross loans and advances to customers	77,154	71,608	74,693
Deduct:			
Provision for doubtful debts and credit risk adjustments on financial assets (refer to note 8)	563	535	545
Deferred and other unearned future income and expenses	(82)	(68)	(84)
Fair value hedge adjustments	(60)	(218)	(146)
Total deductions	421	249	315
Total net loans and advances to customers	76,733	71,359	74,378

The BNZ RMBS Trust Series 2008-1 (the "RMBS Trust") provides an internal residential mortgage-backed securities ("RMBS") programme to issue securities as collateral for borrowing from the Reserve Bank of New Zealand ("RBNZ"). As at 31 March 2017, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of $4,465 million held by the RMBS Trust (31 March 2016: $4,467 million; 30 September 2016: $4,472 million). These housing loans have not been derecognised by the Bank for financial reporting purposes as the Bank retains substantially all of the risks and rewards of ownership. These housing loans and other assets (including cash) of the RMBS Trust secure debt instruments issued to the Bank as detailed in the Liquidity portfolio management section in note 20. The Banking Group had not entered into any repurchase agreements for residential mortgage-backed securities with the RBNZ as at 31 March 2017 (31 March 2016: nil; 30 September 2016: nil). The RBNZ had not accepted any residential mortgage-backed securities as collateral from the Banking Group as at 31 March 2017 (31 March 2016: nil; 30 September 2016: nil) and, as a result, the securities issued by the RMBS Trust remain unencumbered.

The BNZ Covered Bond Trust (the "Covered Bond Trust") holds certain Bank of New Zealand housing loans and its trustee guarantees the payment of interest and principal under the covered bonds issued by the Bank and BNZ-IF. The assets of the Covered Bond Trust are not available to the Bank unless and until all prior ranking creditors of the Covered Bond Trust have been satisfied. As at 31 March 2017, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of $4,951 million held by the Covered Bond Trust (31 March 2016: $4,145 million; 30 September 2016: $4,956 million). These housing loans have not been derecognised by the Bank for financial reporting purposes as the Bank retains substantially all of the risks and rewards of ownership. The Banking Group had issued debt securities with a face value of $3,874 million that were guaranteed by the Covered Bond Trust as at 31 March 2017 (31 March 2016: $3,616 million; 30 September 2016: $3,901 million). The underlying collateral that supports the guarantee provided by the Covered Bond Trust comprised of housing loans and other assets (including cash) with a carrying amount of $5,003 million as at 31 March 2017 (31 March 2016: $4,653 million; 30 September 2016: $5,003 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 31/3/17	Other Retail Exposures Unaudited 31/3/17	Corporate Exposures Unaudited 31/3/17	Total Unaudited 31/3/17
Loans and advances to customers				
Collective provision for doubtful debts measured on a 12-months expected credit loss ("ECL")	1	15	48	64
Provision for doubtful debts measured on a lifetime ECL				
Collective provision for doubtful debts for assets not credit impaired	33	12	205	250
Collective provision for doubtful debts for credit impaired assets	4	9	97	110
Specific provision for doubtful debts for credit impaired assets	9	6	82	97
Total provision for doubtful debts measured on a lifetime ECL	46	27	384	457
Total provision for doubtful debts	47	42	432	521

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 31/3/17	Collective Provision Lifetime ECL Not Credit Impaired Unaudited 31/3/17	Collective Provision Lifetime ECL Credit Impaired Unaudited 31/3/17	Specific Provision Lifetime ECL Credit Impaired Unaudited 31/3/17	Total Unaudited 31/3/17
Movement in provision for doubtful debts					
Residential mortgage lending					
Balance at beginning of period	1	12	4	11	28
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	1	(1)	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	-	-	-	-	-
Transferred to collective provision lifetime ECL credit impaired	-	-	-	-	-
Transferred to specific provision lifetime ECL credit impaired	-	-	-	-	-
Charge/(credit) to income statement excluding transfer between ECL stages*	(1)	22	-	-	21
Amounts written off	-	-	-	(2)	(2)
Recovery of amounts written off	-	-	-	-	-
Balance at end of period - Residential mortgage lending	1	33	4	9	47
Other retail exposures					
Balance at beginning of period	13	10	8	8	39
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	3	(3)	-	-	-
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)	(3)	4	-
Charge/(credit) to income statement excluding transfer between ECL stages*	-	5	4	7	16
Amounts written off	-	-	-	(17)	(17)
Recovery of amounts written off	-	-	-	4	4
Balance at end of period - Other retail exposures	15	12	9	6	42
Corporate exposures					
Balance at beginning of period	46	213	91	80	430
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	30	(29)	(1)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(6)	9	(3)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(5)	5	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(2)	(1)	3	-
Charge/(credit) to income statement excluding transfer between ECL stages*	(22)	19	6	3	6
Amounts written off	-	-	-	(4)	(4)
Recovery of amounts written off	-	-	-	-	-
Balance at end of period - Corporate exposures	48	205	97	82	432
Total					
Balance at beginning of period	60	235	103	99	497
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	34	(33)	(1)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(7)	11	(4)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(6)	6	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(3)	(4)	7	-
Charge/(credit) to income statement excluding transfer between ECL stages*	(23)	46	10	10	43
Amounts written off	-	-	-	(23)	(23)
Recovery of amounts written off	-	-	-	4	4
Total provision for doubtful debt balance at end of period	64	250	110	97	521

* 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 $24 million since 30 September 2016 was driven by increases in collective provisioning, partially offset by write-offs during the period. Across all stages, the increase was mainly attributed to the residential mortgage lending segment. Provisioning levels for other retail and corporate segments marginally increased across the period.

- Collective provision 12-months ECL (Stage 1) increased by $4 million, reflecting the net movement in originated and repaid loans.
- Collective provision lifetime ECL – not credit impaired (Stage 2) increased by $15 million, mainly due to an increase in collective provision in the residential mortgage lending and corporate segments, reflecting management's outlook of the emerging level of credit risk in these segments. This increase was offset by a decrease in collective provision in the corporate segment as a result of an improved outlook in the dairy industry, loans that returned to Stage 1 due to improvement in credit quality 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 $7 million, mainly due to an increase in collective provision for the corporate segment 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) decreased by $2 million, reflecting the write-offs during the period, partially offset by the migration of loans previously assessed collectively.

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 31/3/17	Other Retail Exposures Unaudited 31/3/17	Corporate Exposures Unaudited 31/3/17	Total Unaudited 31/3/17
Credit risk adjustment on individual financial assets				
Loans and advances to customers				
Balance at beginning of period	-	-	1	1
Charge/(credit) to income statement	-	-	-	-
Amounts written off	-	-	-	-
Balance at end of period	-	-	1	1
Credit risk adjustment on groups of financial assets				
Loans and advances to customers				
Balance at beginning of period	-	1	46	47
Charge/(credit) to income statement	-	-	(6)	(6)
Balance at end of period	-	1	40	41
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	1	41	42
Trading derivative financial instruments				
Balance at beginning of period	-	-	20	20
Charge/(credit) to income statement	-	-	(15)	(15)
Balance at end of period	-	-	5	5
Total credit risk adjustments on trading derivative financial instruments	-	-	5	5

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.

	Consolidated			
Dollars in Millions	Residential Mortgage Lending Unaudited 31/3/17	Other Retail Exposures Unaudited 31/3/17	Corporate Exposures Unaudited 31/3/17	Total Unaudited 31/3/17
Movements in pre-allowance balances				
Individually impaired assets - at amortised cost				
Balance at beginning of period	31	14	201	246
Amounts written off	(2)	(17)	(4)	(23)
Additions	12	20	34	66
Deletions	(18)	(5)	(38)	(61)
Balance at end of period	23	12	193	228
Specific provision for doubtful debt	9	6	82	97
Individually impaired assets - at fair value through profit or loss				
Balance at beginning of period	-	-	7	7
Amounts written off	-	-	-	-
Additions	-	-	1	1
Deletions	-	-	(2)	(2)
Balance at end of period	-	-	6	6
Credit risk adjustments on individual financial assets designated at fair value through profit or loss	-	-	1	1
Total impaired assets at end of period*	23	12	199	234
Individually impaired assets - undrawn lending commitments				
At amortised cost	-	-	1	1
At fair value through profit or loss	-	-	-	-
Other assets under administration	12	1	-	13

* In the NAB Half Year Results 2017 and the NAB Half Year Pillar 3 Report for 31 March 2017, NZD$795 million of BNZ's dairy exposures were classified as impaired with no loss, some of which were not past due as at 31 March 2017. 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, National Australia Bank Limited 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 16, are $3 million off-balance sheet facilities to counterparties for whom drawn balances were classified as individually impaired as at 31 March 2017. No specific provision for doubtful debt on individual off-balance sheet credit related commitments had been made as at 31 March 2017.

	Consolidated			
Dollars in Millions	Residential Mortgage Lending Unaudited 31/3/17	Other Retail Exposures Unaudited 31/3/17	Corporate Exposures Unaudited 31/3/17	Total Unaudited 31/3/17
Past due assets not individually impaired				
Loans and advances to customers				
1 - 7 days past due	128	40	230	398
8 - 29 days past due	81	50	38	169
1 - 29 days past due	209	90	268	567
30 - 59 days past due	53	15	52	120
60 - 89 days past due	22	10	5	37
90+ days past due	32	15	153	200
Total past due assets not individually impaired*	316	130	478	924

Liability Notes

Dollars in Millions	Consolidated Unaudited 31/3/17	Unaudited 31/3/16	Audited 30/9/16
Note 10 Due to Central Banks and Other Institutions			
Transaction balances with other institutions*	**697**	474	550
Deposits from central banks	**111**	138	130
Deposits from other institutions**	**304**	244	382
Securities sold under agreements to repurchase from other institutions*	**351**	387	182
Total due to central banks and other institutions	**1,463**	1,243	1,244

* Classified as cash and cash equivalents in the cash flow statement.
** Included in deposits from other institutions as at 31 March 2017 was $17 million classified as cash and cash equivalents in the cash flow statement (31 March 2016: $12 million; 30 September 2016: $26 million).

Included in due to central banks and other institutions as at 31 March 2017 was $263 million of collateral received from counterparties to meet standard derivative trading obligations (31 March 2016: $289 million; 30 September 2016: $284 million). The Bank held no secured deposits from central banks and other institutions as at 31 March 2017 (31 March 2016: nil; 30 September 2016: nil).

Dollars in Millions	Consolidated Unaudited 31/3/17	Unaudited 31/3/16	Audited 30/9/16
Note 11 Deposits and Other Borrowings			
Deposits not bearing interest	**4,933**	4,191	4,616
On-demand and short-term deposits bearing interest	**19,820**	19,540	19,123
Term deposits	**29,224**	26,066	27,742
Total customer deposits	**53,977**	49,797	51,481
Certificates of deposit	**1,616**	1,639	2,357
Commercial paper	**3,402**	2,626	3,673
Total deposits and other borrowings	**58,995**	54,062	57,511

Within term deposits, no collateral was posted by counterparties to meet standard derivative trading obligations as at 31 March 2017 (31 March 2016: nil; 30 September 2016: $2 million).

Dollars in Millions	Consolidated Unaudited 31/3/17	Unaudited 31/3/16	Audited 30/9/16
Note 12 Subordinated Debt			
Perpetual notes due to related entities	**900**	-	-
Subordinated loans due to related entities*	**380**	715	380
Subordinated notes due to external investors	**543**	542	542
Total subordinated debt	**1,823**	1,257	922

* These instruments qualify as Tier Two capital and are subject to phase-out in accordance with BS2B. Refer to note 19 for further information.

Subordinated Loans due to related entities treated as Tier Two capital

As at 31 March 2017, $380 million of subordinated loans (“Subordinated Loans”) were due to related entities of the Bank which are treated as Tier Two capital under the RBNZ’s transitional rules. The Subordinated Loans have no fixed maturity date and are repayable on five years and one day’s notice, and at the Bank’s option, subject to certain conditions, at any time, on seven days’ notice. The interest rate on the Subordinated Loans is reset every three months based on a margin over the prevailing rate for New Zealand 90-day bank bills.

Ranking of Subordinated Loans

In a liquidation of the Bank, the claims of holders of Subordinated Loans will rank: (1) ahead of claims of holders of ordinary shares in the Bank ("BNZ Shares") and securities that rank below the Subordinated Loans (such as the Perpetual Notes, as defined below); (2) equally with claims of other holders of the Subordinated Loans, holders of Subordinated Notes, as defined below and other securities that rank equally with the Subordinated Loans; and (3) 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).

Perpetual Notes due to related entities treated as Additional Tier One capital

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

Interest

The interest rate for the Perpetual Notes is fixed at 6.7539% per annum until 20 October 2021 (“Optional Exchange Date”) and, thereafter, will change to a floating interest rate equal to the New Zealand three month bank bill rate plus a margin of 4.410% per annum. Interest payments are non-cumulative and payable annually in arrear until the Optional Exchange Date.

Note 12 Subordinated Debt *continued*

Following the Optional Exchange Date, the interest payments are payable quarterly in arrear. Interest payments are subject to the Bank's discretion and certain conditions being satisfied (including RBNZ requirements). If interest is not paid, the Bank may not (except in limited circumstances) pay any dividends on BNZ Shares or undertake a share buy-back or other capital reduction until interest is next paid. Unpaid interest is cancelled and does not accumulate.

Conversion

On 20 October 2023, subject to certain mandatory conversion conditions, all of the Perpetual Notes will be converted into BNZ Shares. If the mandatory conversion conditions are not met, the mandatory conversion will be deferred for a specific period (provided that conversion is not required to take place as a result of a common equity trigger event ("CETE") or a non-viability trigger event ("NVTE").

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

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

If a CETE or an NVTE occurs, the Bank must convert some or all of the Perpetual Notes into BNZ Shares. A CETE will occur if the Banking Group's Common Equity Tier One capital ratio is equal to or less than 5.125%. An NVTE will occur if the RBNZ directs the Bank to convert or write off the Perpetual Notes or the Bank is made subject to statutory management and the statutory manager decides the Bank must convert or write off the Perpetual Notes.

Ranking of Perpetual Notes

In a liquidation of the Bank (if the Perpetual Notes have not been converted or written off), the claims of holders of Perpetual Notes will rank: (1) ahead of claims of holders of BNZ Shares and other subordinated securities that rank below the Perpetual Notes; (2) equally with claims of other holders of Perpetual Notes and holders of other subordinated securities that rank equally with the Perpetual Notes; and (3) behind all other claims on the Bank (such as those of the Bank's secured creditors, depositors and holders of Subordinated Loans and Subordinated Notes, and other unsecured unsubordinated bonds issued by the Bank from time to time). If the Perpetual Notes are converted into BNZ Shares, holders will rank equally with existing shareholders of the Bank.

Subordinated Notes due to external investors treated as Tier Two capital

On 17 December 2015, the Bank issued $550 million of subordinated unsecured notes ("Subordinated Notes"). The Subordinated Notes are treated as Tier Two capital under the Bank's and National Australia Bank Limited's regulatory capital requirements. The Subordinated Notes will mature on 17 December 2025 ("Maturity Date"). The Subordinated Notes do not confer any right to vote in general meetings of the Bank or National Australia Bank Limited.

Redemption

Subject to certain conditions, the Bank has the option to redeem all or some of the Subordinated Notes for their face value together with accrued interest (if any) on any 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.

Interest

The interest rate for the Subordinated Notes is fixed at 5.314% per annum fixed for five years, and will be reset if the Subordinated Notes are not redeemed on the Optional Redemption Date. Should the Subordinated Notes not be redeemed, the interest rate from the Optional Redemption Date onwards will be fixed at the five year swap rate plus a margin of 2.250% per annum. Interest is payable 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.

Conversion

If an NVTE occurs, some or all of the Subordinated Notes will automatically and immediately be converted into National Australia Bank Limited ordinary shares ("NAB Shares") or written off.

An 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 National Australia Bank Limited that without the conversion or write off of a class of capital instruments of National Australia Bank Limited which includes the Subordinated Notes, or a public sector injection of capital into, or equivalent capital support with respect to, National Australia Bank Limited, APRA considers that National Australia Bank Limited would become non-viable.

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 National Australia Bank 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 BNZ Shares to NAGNZ for an amount equivalent to the Subordinated Notes converted into NAB Shares.

Ranking of Subordinated Notes

In a liquidation of the Bank (if the Subordinated Notes have not been converted or written off), the claims of holders of Subordinated Notes will rank: (1) ahead of claims of holders of BNZ Shares and other subordinated securities that rank below the Subordinated Notes (such as the Perpetual Notes); (2) equally with claims of other holders of Subordinated Notes, holders of Subordinated Loans and holders of other subordinated securities that rank equally with the Subordinated Notes; and (3) 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). If the Subordinated Notes are converted into NAB Shares, holders will rank equally with existing shareholders of National Australia Bank Limited.

Other Notes

Dollars in Millions	Consolidated Unaudited 31/3/17	Consolidated Unaudited 31/3/16	Consolidated Audited 30/9/16

Note 13 Related Entity Transactions

Total balances with related entities			
Amounts due from related entities*	**1,428**	2,255	934
Derivative financial assets with related entities	**1,367**	1,812	1,739
Amounts due to related entities**	**840**	591	434
Subordinated loans and Perpetual Notes due to related entities	**1,280**	715	380
Derivative financial liabilities with related entities	**1,798**	2,634	2,227

* Included in amounts due from related entities as at 31 March 2017 was $797 million classified as cash and cash equivalent in the cash flow statement (31 March 2016: $1,257 million; 30 September 2016: $239 million).

** Included in amounts due to related entities as at 31 March 2017 was $793 million classified as cash and cash equivalent in the cash flow statement (31 March 2016: $459 million; 30 September 2016: $404 million).

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

Dollars in Millions	Consolidated Unaudited 31/3/17	Consolidated Unaudited 31/3/16	Consolidated Audited 30/9/16
Amounts due from related entities			
Collateral loan posted to ultimate parent to meet standard derivative trading obligations	**411**	782	483
Securities purchased under agreements to resell to ultimate parent	**764**	1,220	135
Amounts due to related entities			
Securities sold under agreements to repurchase from ultimate parent	**270**	58	54

Other transactions with related entities

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

Note 14 Contributed Equity

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

Note 15 Fair Value of Financial Assets and Financial Liabilities

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

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 or amortised cost. The fair value of the financial assets and financial liabilities are considered to approximate the carrying value disclosed in the balance sheet with the exception of loans and advances to customers, deposits from customers and subordinated debt. Financial assets and financial liabilities are measured at amortised cost where the carrying value does not equal fair value.

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

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

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

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

There were no transfers between any of the levels in the six months ended 31 March 2017 (six months ended 31 March 2016: nil; year ended 30 September 2016: nil).

Notes to and Forming Part of the Financial Statements

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

		Consolidated			
		Unaudited (31/3/17)			
Dollars in Millions	Carrying Value	Total	Level 1	Level 2	Level 3
Financial assets at fair value					
Due from central banks and other institutions		1,499	-	1,499	-
Trading securities		5,017	3,321	1,696	-
Derivative financial instruments		5,410	-	5,410	-
Loans and advances to customers		4,819	-	4,819	-
Financial assets at amortised cost					
Loans and advances to customers	71,914	72,033	-	2,269	69,764
Financial liabilities at fair value					
Due to central banks and other institutions		415	-	415	-
Trading liabilities		51	51	-	-
Derivative financial instruments		5,745	-	5,745	-
Deposits and other borrowings		7,022	-	7,022	-
Bonds and notes		17,626	-	17,626	-
Financial liabilities at amortised cost					
Deposits and other borrowings	51,973	52,147	-	52,147	-
Subordinated debt	1,443	1,462	558	904	-
		Unaudited (31/3/16)			
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	-
Trading liabilities		252	252	-	-
Derivative financial instruments		8,649	-	8,649	-
Deposits and other borrowings		9,212	-	9,212	-
Bonds and notes		16,078	-	16,078	-
Financial liabilities at amortised cost					
Deposits and other borrowings	44,850	45,115	-	45,115	-
Subordinated debt	542	555	555	-	-
		Audited (30/9/16)			
Financial assets at fair value					
Due from central banks and other institutions		1,412	-	1,412	-
Trading securities		4,703	3,241	1,462	-
Derivative financial instruments		7,319	-	7,319	-
Loans and advances to customers		5,562	-	5,562	-
Financial assets at amortised cost					
Loans and advances to customers	68,816	69,093	-	2,387	66,706
Financial liabilities at fair value					
Due to central banks and other institutions		512	-	512	-
Trading liabilities		72	72	-	-
Derivative financial instruments		7,786	-	7,786	-
Deposits and other borrowings		12,223	-	12,223	-
Bonds and notes		16,723	-	16,723	-
Financial liabilities at amortised cost					
Deposits and other borrowings	45,288	45,507	-	45,507	-
Subordinated debt	542	564	564	-	-

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

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

Due from central banks and other institutions, Due to central banks and other institutions

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.

Derivative financial instruments

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

Loans and advances to customers

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

Deposits and other borrowings

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.

With respect to short term debt securities, these liabilities are primarily short term in nature. 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.

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. For perpetual notes due to related entities, the fair value is estimated by discounting the expected future cash flows based on the maturity of the notes, using current market interest rates of similar types of notes. The fair value of subordinated notes due to external investors is based on quoted closing market prices as at the reporting date.

Other financial assets/liabilities

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

Note 16 Contingent Liabilities and Credit Related Commitments

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

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

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

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

		Consolidated	
	Unaudited	Unaudited	Audited
Dollars in Millions	**31/3/17**	31/3/16	30/9/16
Contingent liabilities			
Bank guarantees	**71**	65	65
Standby letters of credit	**307**	373	349
Documentary letters of credit	**74**	182	126
Performance related contingencies	**562**	428	466
Total contingent liabilities	**1,014**	1,048	1,006
Credit related commitments*			
Revocable commitments to extend credit	**8,219**	7,851	8,012
Irrevocable commitments to extend credit**	**9,459**	9,397	9,839
Total credit related commitments	**17,678**	17,248	17,851
Total contingent liabilities and credit related commitments	**18,692**	18,296	18,857

* Irrevocable commitments to extend credit are agreements to lend to a customer which can be drawn down at any time before the commitments expire as long as there is no violation of any condition established in the contract. Revocable commitments to extend credit represent those facilities which can be cancelled at any time at the Bank's discretion without the risk of incurring significant penalty or expense.

** In the Contingent Liabilities and Other Commitments note of the Bank's Disclosure Statement for the year ended 30 September 2016 (note 36 on page 54) and for the three months ended 31 December 2016 (note 17 on page 19), the disclosed amounts for "Irrevocable commitments to extend credit" were incorrect. The Banking Group's credit related commitments were under-reported due to a limit loading error with a maximum variance of 1.01% of the total contingent liabilities and credit related commitments during these two periods. There is no impact on the Banking Group's financial position for these periods.

Note 17 Concentrations of Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties

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

	Consolidated Unaudited (31/03/17) Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties Long Term Credit Rating	
Number of non-bank counterparties	Peak End-of-Day A-or A3 or above or its equivalent	Balance Sheet Date A-or A3 or above or its equivalent*
Percentage of shareholders' equity		
10-14%	2	-
15-19%	-	-
Over 20%	-	-

* In the Concentrations of Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties note of the Bank's Disclosure Statements for the year ended 30 September 2016 (note 38 on page 56) and for the three months ended 31 December 2016 (note 18 on page 19), the disclosed number for "Non-bank counterparties with a long term credit rating of A- or A3 or above, of its equivalent and the percentage of exposure to the Banking Group's shareholders' equity of 10-14%" were incorrectly reported as 1. The correct numbers that should have been reported for these periods is 2. There is no impact on the Banking Group's financial position for these periods.

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

As at 31 March 2017 and for the three months ended 31 March 2017, the Banking Group had no bank counterparties with a long term credit rating below A- or A3, to whom their aggregate credit exposure equalled or exceeded 10% of the Banking Group's equity and met the disclosure thresholds described above.

Note 18 Insurance Business

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

Note 19 Capital Adequacy

The RBNZ minimum regulatory capital requirements for banks have been established under BS2B and Capital Adequacy Framework (Standardised Approach) ("BS2A") 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) ("BS2B")

The Banking Group has calculated its implied Risk-Weighted Exposure and minimum regulatory capital requirements based on BS2B for operational risk and the majority of credit risk portfolios.

Under BS2B, 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 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 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 perpetual notes 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. 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 32.

The tables on the following pages detail the capital calculation, capital ratios and capital requirements as at 31 March 2017. During the reporting period the Banking Group fully complied with all RBNZ's capital requirements as set out in the Bank's conditions of registration, except as disclosed on page 38 of this Disclosure Statement.

Note 19 Capital Adequacy *continued*

Regulatory capital

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

Dollars in Millions	Consolidated Unaudited 31/3/17
Qualifying capital	
Common Equity Tier One capital	
Contributed equity - ordinary shareholder	2,351
Retained profits	4,423
Deductions from Common Equity Tier One capital:	
Goodwill and other intangible assets	248
Credit value adjustment on liabilities designated at fair value through profit or loss	(79)
Prepaid pension assets (net of deferred tax)	3
Deferred tax asset	182
Total expected loss less total eligible allowances for impairment	126
Total Common Equity Tier One capital	6,294
Additional Tier One capital	
Subordinated perpetual notes due to related entities	900
Total Additional Tier One capital	900
Total Tier One capital	7,194
Tier Two capital	
Revaluation reserves	2
Subordinated loans due to related entities*	181
Subordinated notes due to external investors	550
Total Tier Two capital	733
Total Tier One and Tier Two qualifying capital	7,927

* 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 due to related entities of $190 million and $335 million were repaid in February 2014 and June 2016 respectively.

Banking Group Basel III regulatory capital ratios

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

		Consolidated		
	Regulatory Minima	Unaudited 31/3/17	Unaudited 31/3/16	Unaudited 30/9/16
Common Equity Tier One capital ratio	4.50%	10.55%	10.41%	10.21%
Tier One capital ratio	6.00%	12.06%	11.03%	10.54%
Total qualifying capital ratio	8.00%	13.29%	12.58%	12.04%
Buffer ratio	2.50%	5.29%	4.58%	4.04%

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 31/3/17	Unaudited 31/3/16	Unaudited 30/9/16
Common Equity Tier One capital ratio	10.53%	10.39%	10.23%
Tier One capital ratio	12.04%	11.01%	10.56%
Total qualifying capital ratio	13.27%	12.56%	12.06%

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 19 Capital Adequacy *continued*

Total regulatory capital requirements

	Consolidated		
	Total Exposure at Default after Credit Risk Mitigation Unaudited	Risk-Weighted Exposure or Implied Risk-Weighted Exposure Unaudited	Total Capital Requirement* Unaudited
Dollars in Millions	31/3/17	31/3/17	31/3/17
Credit risk			
Exposures subject to the internal ratings based approach	96,421	43,609	3,489
Equity exposures	15	60	5
Specialised lending subject to the slotting approach	7,960	7,564	605
Exposures subject to the standardised approach	2,476	984	78
Credit value adjustment subject to BS2B	N/A	978	78
Total credit risk	106,872	53,195	4,255
Operational risk	N/A	4,375	350
Market risk	N/A	2,073	166
Total	106,872	59,643	4,771

* 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.

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 19 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 31/3/17	Exposure at Default Unaudited 31/3/17	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 31/3/17	Exposure-Weighted Risk Weight (%) Unaudited 31/3/17	Risk-Weighted Assets Unaudited 31/3/17	Minimum Capital Requirement Unaudited 31/3/17
Corporate						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.06	5,036	36	18	889	71
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.30	13,872	35	42	5,804	464
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.94	12,657	33	65	8,183	655
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.54	8,218	36	94	7,707	617
Exposure-weighted PD grade > 5.0 ≤ 99.99%	10.50	1,226	39	158	1,941	155
Default PD grade = 100%	100.00	1,172	44	338	3,960	317
Total corporate exposures	3.96	42,181	35	68	28,484	2,279
Sovereign						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.03	6,023	8	2	112	9
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.49	28	45	60	17	2
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.79	6	45	70	4	-
Exposure-weighted PD grade > 1.5 ≤ 5.0%	1.86	2	45	105	2	-
Exposure-weighted PD grade > 5.0 ≤ 99.99%	5.72	-	45	147	-	-
Default PD grade = 100%	-	-	-	-	-	-
Total sovereign exposures	0.03	6,059	9	2	135	11
Bank						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.03	4,746	36	12	562	45
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.17	291	52	45	131	11
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.78	-	60	107	-	-
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.95	4	60	152	6	-
Exposure-weighted PD grade > 5.0 ≤ 99.99%	5.72	-	60	195	-	-
Default PD grade = 100%	-	-	-	-	-	-
Total bank exposures	0.04	5,041	37	14	699	56
Residential mortgage						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.03	38	31	5	2	-
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.40	1,601	18	14	221	18
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.91	34,886	21	29	10,020	801
Exposure-weighted PD grade > 1.5 ≤ 5.0%	4.92	2,160	20	74	1,596	128
Exposure-weighted PD grade > 5.0 ≤ 99.99%	-	-	-	-	-	-
Default PD grade = 100%	100.00	176	24	253	447	36
Total residential mortgage exposures	1.56	38,861	21	32	12,286	983
Other retail*						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.05	787	85	13	101	8
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.25	620	83	40	245	19
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.95	403	83	86	346	28
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.94	369	84	122	449	36
Exposure-weighted PD grade > 5.0 ≤ 99.99%	12.36	126	81	150	189	15
Default PD grade = 100%	100.00	12	78	412	48	4
Total other retail exposures	1.91	2,317	84	59	1,378	110

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

Note 19 Capital Adequacy *continued*

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

	Consolidated					
Dollars in Millions	Weighted Average PD (%) Unaudited 31/3/17	Exposure at Default Unaudited 31/3/17	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 31/3/17	Exposure-Weighted Risk Weight (%) Unaudited 31/3/17	Risk-Weighted Assets Unaudited 31/3/17	Minimum Capital Requirement Unaudited 31/3/17
Retail small to medium enterprises						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.07	135	35	7	10	1
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.30	626	28	15	96	8
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.96	553	31	32	177	14
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.59	563	33	47	263	21
Exposure-weighted PD grade > 5.0 ≤ 99.99%	11.56	57	38	69	39	3
Default PD grade = 100%	100.00	28	45	150	42	3
Total retail SME exposures	2.88	1,962	31	32	627	50
Total*						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.04	16,765	28	10	1,676	134
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.30	17,038	35	38	6,514	522
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.92	48,505	25	39	18,730	1,498
Exposure-weighted PD grade > 1.5 ≤ 5.0%	3.01	11,316	34	89	10,023	802
Exposure-weighted PD grade > 5.0 ≤ 99.99%	10.71	1,409	43	154	2,169	173
Default PD grade = 100%	100.00	1,388	42	324	4,497	360
Total exposures	2.47	96,421	29	45	43,609	3,489

* The BS2B credit value adjustment has 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 31/3/17	Exposure at Default Unaudited 31/3/17	Risk-Weighted Assets Unaudited 31/3/17	Minimum Capital Requirement Unaudited 31/3/17
On-balance sheet exposures				
Corporate	32,144	32,144	22,913	1,833
Sovereign	5,683	5,683	85	7
Bank	3,346	3,345	363	29
Residential mortgage	36,116	36,116	11,585	927
Other retail	1,320	1,320	1,000	80
Retail small to medium enterprises	1,579	1,579	523	42
Total on-balance sheet exposures	80,188	80,187	36,469	2,918
Off-balance sheet exposures				
Corporate*	9,630	8,605	4,805	385
Sovereign	111	76	20	2
Bank	693	683	43	3
Residential mortgage	3,182	2,745	701	56
Other retail	2,839	997	378	30
Retail small to medium enterprises	426	383	104	8
Total off-balance sheet exposures	16,881	13,489	6,051	484
Market related contracts				
Corporate	219,108	1,432	766	61
Sovereign	10,165	300	30	2
Bank	125,350	1,013	293	24
Total market related contracts	354,623	2,745	1,089	87

* In the Capital Adequacy note of the Bank's Disclosure Statements for the year ended 30 September 2016 (note 40 on page 63) and for the three months ended 31 December 2016 (note 20 on page 20), the disclosed amounts for "Corporate off-balance sheet exposures" were under-reported by $191 million and $181 million respectively with a maximum impact in the capital ratios of 2 basis points for these periods.

Note 19 Capital Adequacy *continued*

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

	Consolidated			
Dollars in Millions	Total Exposure Unaudited 31/3/17	Exposure at Default Unaudited 31/3/17	Risk-Weighted Assets Unaudited 31/3/17	Minimum Capital Requirement Unaudited 31/3/17
Summary				
Corporate	260,882	42,181	28,484	2,279
Sovereign	15,959	6,059	135	11
Bank	129,389	5,041	699	56
Residential mortgage	39,298	38,861	12,286	983
Other retail*	4,159	2,317	1,378	110
Retail small and medium enterprises	2,005	1,962	627	50
Total credit risk exposures subject to the IRB approach**	451,692	96,421	43,609	3,489

* Other retail includes credit cards, current accounts and personal overdrafts.
** The BS2B credit value adjustment has 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 31/3/17	Risk Weight (%) Unaudited 31/3/17	Risk-Weighted Exposures Unaudited 31/3/17	Minimum Pillar One Capital Requirement Unaudited 31/3/17
Equity holdings (not deducted from capital) that are publicly traded	-	300	-	-
All other equity holdings (not deducted from capital)	15	400	60	5
Total equity exposures	15	400	60	5

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.

	Consolidated			
Dollars in Millions	Total Exposure at Default after Credit Risk Mitigation Unaudited 31/3/17	Risk Weight (%) Unaudited 31/3/17	Risk-Weighted Assets Unaudited 31/3/17	Minimum Pillar One Capital Requirement Unaudited 31/3/17
On-balance sheet exposures subject to the slotting approach				
Strong	1,421	70	1,054	84
Good	4,319	90	4,118	330
Satisfactory	1,253	115	1,524	122
Weak	40	250	106	8
Default	104	-	-	-
Total on-balance sheet exposures subject to the slotting approach	7,137	90	6,802	544

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 19 Capital Adequacy *continued*

Dollars in Millions	Consolidated Total Exposure Unaudited 31/3/17	Exposure At Default Unaudited 31/3/17	Average Risk Weight (%) Unaudited 31/3/17	Risk-Weighted Assets Unaudited 31/3/17	Minimum Pillar One Capital Requirement Unaudited 31/3/17
Off-balance sheet exposures subject to the slotting approach					
Off-balance sheet exposures	103	31	90	28	2
Undrawn commitments	1,349	743	94	695	56
Market related contracts	1,544	49	80	39	3
Total off-balance sheet exposures subject to the slotting approach	2,996	823	93	762	61
Total exposures subject to the slotting approach		7,960	90	7,564	605

Credit risk exposures subject to the standardised approach

The tables below show credit risk exposures, for which the standardised approach has been used.

Dollars in Millions	Consolidated Total Exposure at Default after Credit Risk Mitigation Unaudited 31/3/17	Average Risk Weight (%) Unaudited 31/3/17	Risk-Weighted Assets Unaudited 31/3/17	Minimum Pillar One Capital Requirement Unaudited 31/3/17
On-balance sheet exposures subject to the standardised approach				
Corporate	452	51	229	18
Residential mortgages	103	92	95	8
Past due assets	1	140	2	-
Other assets*	1,590	39	628	50
Total on-balance sheet exposures subject to the standardised approach	2,146	44	954	76

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

Dollars in Millions	Consolidated Total Exposure or Principal Amount Unaudited 31/3/17	Average Credit Conversion Factor (%) Unaudited 31/3/17	Credit Equivalent Amount Unaudited 31/3/17	Average Risk Weight (%) Unaudited 31/3/17	Risk-Weighted Assets Unaudited 31/3/17	Minimum Pillar One Capital Requirement Unaudited 31/3/17
Off-balance sheet exposures subject to the standardised approach						
Total off-balance sheet exposures subject to the standardised approach	87	23	20	86	17	1

Dollars in Millions	Consolidated Total Exposure or Principal Amount Unaudited 31/3/17	Average Credit Conversion Factor (%) Unaudited 31/3/17	Credit Equivalent Amount Unaudited 31/3/17	Average Risk Weight (%) Unaudited 31/3/17	Risk-Weighted Assets Unaudited 31/3/17	Minimum Pillar One Capital Requirement Unaudited 31/3/17
Market related contracts subject to the standardised approach						
Foreign exchange contracts	17	N/A	-	106	-	-
Interest rate contracts*	201,722	N/A	310	4	13	1
Other	2	N/A	-	4	-	-
Total market related contracts subject to the standardised approach	201,741	N/A	310	114	13	1
Total exposures subject to the standardised approach		N/A	2,476	40	984	78

* 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 19 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 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	31/3/17
For portfolios subject to the standardised approach:	
Total value of exposures covered by eligible financial or IRB collateral	6
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	31/3/17	31/3/17	31/3/17
LVR Range			
0 - 59%	13,913	1,197	15,110
60 - 69%	7,829	528	8,357
70 - 79%	11,665	718	12,383
80 - 89%	1,403	25	1,428
Over 90%	1,306	277	1,583
Total exposures at default secured by residential mortgages	36,116	2,745	38,861

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

	Consolidated
	On-balance Sheet Exposures at Default Unaudited
Dollars in Millions	31/3/17
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	36,110
Add: Partial write offs excluded under the IRB approach	7
Less: Interest accrued	(1)
Total exposures secured by residential mortgages	36,116

Note 19 Capital Adequacy *continued*

Operational risk

	Consolidated	
	Implied Risk-Weighted Exposure Unaudited	Total Operational Risk Capital Requirement Unaudited
Dollars in Millions	31/3/17	31/3/17
Operational risk	4,375	350

The operational risk capital requirement above has been calculated under the Advanced Measurement Approach ("AMA") 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 31/3/17			
	Implied Risk-Weighted Exposure		Aggregate Capital Charge	
Dollars in Millions	End of Period	End-of-Day	End of Period	End-of-Day
Interest rate risk	2,026	4,850	162	388
Foreign exchange risk	32	105	3	8
Equity risk	15	15	1	1
Total	2,073	4,970	166	397

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, pension risk, regulatory and compliance risk and strategic risk.

As at 31 March 2017, the Banking Group had an internal capital allocation for strategic business risk of $111 million (31 March 2016: $157 million; 30 September 2016: $157 million).

National Australia Bank Limited capital adequacy

The table below 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
	31/3/17	31/3/16	30/9/16	**31/3/17**	31/3/16	30/9/16
Common Equity Tier One capital ratio	**10.11%**	9.69%	9.77%	**10.37%**	9.68%	9.99%
Tier One capital ratio	**12.51%**	11.77%	12.19%	**13.01%**	11.89%	12.71%
Total qualifying capital ratio	**14.71%**	13.25%	14.14%	**15.35%**	13.42%	14.80%

The ultimate parent banking group data is the Level 2 capital ratio (as published in the National Australia Bank 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 National Australia Bank 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 AMA for operational risk. The ultimate parent bank capital ratios are effectively represented by the Level 1 capital ratios, which comprises National Australia Bank 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. National Australia Bank Limited met the minimum capital adequacy requirements set by APRA as at 31 March 2017.

National Australia Bank 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.

Note 19 Capital Adequacy *continued*

National Australia Bank 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.

Subordinated debt

Refer to note 12 for material terms and conditions relating to the subordinated debt.

Note 20 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 2016.

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 31/3/17						
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	2,500	2,176	-	-	-	-	324
Due from central banks and other institutions	1,914	1,905	9	-	-	-	-
Trading securities	5,017	1,165	728	1,791	497	836	-
Derivative financial instruments	5,410	-	-	-	-	-	5,410
Gross loans and advances to customers	77,154	43,755	3,978	7,444	11,580	8,834	1,563
Deductions from loans and advances to customers	(421)	-	-	-	-	-	(421)
Amounts due from related entities	1,428	1,373	-	-	-	-	55
All other assets	1,021	-	-	-	-	-	1,021
Total assets	94,023	50,374	4,715	9,235	12,077	9,670	7,952
Liabilities							
Due to central banks and other institutions	1,463	1,411	28	6	11	7	-
Trading liabilities	51	-	-	-	-	51	-
Derivative financial instruments	5,745	-	-	-	-	-	5,745
Deposits and other borrowings	58,995	35,393	9,282	6,867	1,532	988	4,933
Bonds and notes	17,626	3,657	181	3,368	2,798	7,622	-
Amounts due to related entities	840	752	-	-	-	-	88
Other liabilities	647	-	-	-	-	-	647
Subordinated debt	1,823	380	-	-	-	1,443	-
Total liabilities	87,190	41,593	9,491	10,241	4,341	10,111	11,413
Shareholders' equity							
Total shareholders' equity	6,833	-	-	-	-	-	6,833
Total liabilities and shareholders' equity	94,023	41,593	9,491	10,241	4,341	10,111	18,246
On-balance sheet sensitivity gap	-	8,781	(4,776)	(1,006)	7,736	(441)	(10,294)
Derivative financial instruments							
Net balance of derivative financial instruments	-	(10,436)	6,053	4,343	(3,438)	3,478	-
Interest sensitivity gap - net	-	(1,655)	1,277	3,337	4,298	3,037	(10,294)
Interest sensitivity gap - cumulative	-	(1,655)	(378)	2,959	7,257	10,294	-

Note 20 Risk Management *continued*

Maturity profile

The table below presents the Banking Group's cash flows by remaining contractual maturities as at the reporting date.

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 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 16. Other assets and other liabilities only include balances which have contractual future cash flows.

			Consolidated Unaudited 31/3/17				
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	2,500	2,500	2,500	-	-	-	-
Due from central banks and other institutions	1,914	1,915	-	1,905	10	-	-
Trading securities	5,017	5,186	-	869	2,836	1,123	358
Loans and advances to customers	76,733	102,614	5,959	16,613	9,753	26,589	43,700
Amounts due from related entities	1,428	1,445	30	1,179	28	208	-
Other assets	272	272	-	272	-	-	-
Total	87,864	113,932	8,489	20,838	12,627	27,920	44,058
Liabilities							
Due to central banks and other institutions	(1,463)	(1,468)	(714)	(689)	(46)	(19)	-
Trading liabilities	(51)	(60)	-	-	(1)	(8)	(51)
Deposits and other borrowings	(58,995)	(59,572)	(24,454)	(14,635)	(17,804)	(2,679)	-
Bonds and notes	(17,626)	(18,381)	-	(414)	(4,273)	(12,766)	(928)
Amounts due to related entities	(840)	(840)	(523)	(285)	(32)	-	-
Other liabilities	(531)	(531)	-	(490)	(41)	-	-
Subordinated debt	(1,823)	(2,449)	-	(9)	(89)	(395)	(1,956)
Total	(81,329)	(83,301)	(25,691)	(16,522)	(22,286)	(15,867)	(2,935)
Derivatives*							
Derivative financial instruments inflow		114,921	-	46,838	21,634	35,747	10,702
Derivative financial instruments (outflow)		(115,917)	-	(46,781)	(22,095)	(36,441)	(10,600)

* 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 31/3/17
Cash and balances immediately convertible to cash	2,986
Securities purchased under agreements to resell	205
Government bonds, notes and securities**	2,697
Semi-government bonds, notes and securities	744
Corporate and other institution bonds, notes and securities	952
Total liquidity portfolio	7,584

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

As at 31 March 2017, the Banking Group also held unencumbered RMBS of $4,491 million of which $4,300 million are available to be sold to the RBNZ under agreements to repurchase for liquidity purposes. These RMBS are secured by residential housing loans and other assets. Refer to note 7 for further information. The Banking Group had not entered into any repurchase agreements for residential mortgage-backed securities with the RBNZ as at 31 March 2017.

As at 31 March 2017, there was an A$500 million standby liquidity facility, which is reviewed annually, provided from National Australia Bank Limited for the Bank's liquidity management.

Note 20 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 Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes.

		Consolidated
		Unaudited
Dollars in Millions	Note	31/3/17
Concentration by Industry		
Agriculture, forestry and fishing		2,531
Mining		86
Manufacturing		1,395
Electricity, gas and water		55
Construction		786
Wholesale and retail trade		1,572
Accommodation, restaurants, culture and recreation		1,064
Transport and storage		695
Communications		201
Financial, investment and insurance		31,309
Property, business and personal services		9,476
Government, education, health and community services		3,156
Personal deposits		26,352
Related entities	13	2,120
Total funding by industry		80,798
Concentration by geography		
New Zealand		63,756
Overseas*		17,042
Total funding by geography		80,798
Total funding comprised:		
Due to central banks and other institutions		1,463
Trading liabilities		51
Deposits and other borrowings		58,995
Bonds and notes		17,626
Amounts due to related entities		840
Subordinated debt**		1,823
Total funding		80,798

* This represents the funding activities of BNZ-IF.

** Includes subordinated debt of $1,280 million due to related entities as at 31 March 2017. Refer to note 12 for further information.

Note 20 Risk Management *continued*

Concentrations of credit exposure

The Banking Group's concentrations of credit exposure are reported by geographical location and industry sector in the table below. The concentrations of credit exposure by geographical location is based on the geographical location of the counterparty's tax residency. The concentrations of credit exposure by industry sector is based on ANZSIC codes.

The table below 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.

		Consolidated		
		On-balance sheet Unaudited	Off-balance sheet* Unaudited	Total exposure Unaudited
Dollars in Millions	Note	31/3/17	31/3/17	31/3/17
Concentration by industry				
Agriculture		13,884	325	14,209
Forestry and fishing		917	266	1,183
Mining		135	294	429
Manufacturing		3,274	1,490	4,764
Electricity, gas and water		1,088	822	1,910
Construction		1,003	380	1,383
Wholesale and retail trade		3,495	1,113	4,608
Accommodation, restaurants, culture and recreation		1,221	262	1,483
Transport and storage		1,542	521	2,063
Communications		276	174	450
Financial, investment and insurance		14,051	731	14,782
Property, business and personal services		9,982	1,507	11,489
Government, education, health and community services		1,994	903	2,897
Real estate - mortgage		36,110	1,648	37,758
Personal lending		1,502	37	1,539
Related entities**	13	2,795	-	2,795
Total credit exposures by industry		93,269	10,473	103,742
Concentration by geography* **				
New Zealand		85,593	10,418	96,011
Overseas		7,676	55	7,731
Total credit exposures by geography		93,269	10,473	103,742

* Off-balance sheet credit exposures include contingent liabilities and irrevocable commitments to extend credit. Refer to note 16 for further information.

** Related entities include amounts due from related entities and derivative financial assets with related entities. Refer to note 13 for further information.

*** The Banking Group has revised its methodology to calculate concentration of off-balance sheet credit exposures by geographical location, which is based on the counterparty's tax residency. Under the previous methodology, it was presented based on the geographical location of the office in which the exposures were recognised.

	Consolidated
	Unaudited
Dollars in Millions	31/3/17
Maximum exposure to credit risk	
Cash and liquid assets	2,346
Due from central banks and other institutions	1,914
Trading securities	5,017
Derivative financial instruments	5,410
Gross loans and advances to customers	77,154
Amounts due from related entities	1,428
Total on-balance sheet credit exposures	93,269
Off-balance sheet credit exposures****	10,473
Total maximum exposure to credit risk	103,742

**** Off-balance sheet credit exposures include contingent liabilities and irrevocable commitments to extend credit. In the Contingent Liabilities and Other Commitments note of the Bank's Disclosure Statement for the year ended 30 September 2016 (note 36 on page 54) and for the three months ended 31 December 2016 (note 17 on page 19), the disclosed amounts for "Irrevocable commitments to extend credit" were incorrect. The Banking Group's credit related commitments were under-reported due to a limit loading error with a maximum variance of 1.01% of the total contingent liabilities and credit related commitments during these two periods. There is no impact on the Banking Group's financial position for these periods.

Chartered Accountants

Independent Review Report

To the shareholder of Bank of New Zealand

We have reviewed pages 4 to 35 of the Disclosure Statement of Bank of New Zealand (the "Bank") for the six month period ended 31 March 2017 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 2017, 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 2017 or from time to time during the period.

This report is made solely to the Bank's shareholder. Our review has been undertaken so that we might state to the Bank's shareholder 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 shareholder, 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 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) 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 have not been prepared, 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) 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 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.

Auditor’s Independent Review Report

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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 35 (excluding the supplementary information disclosed in Notes 8, 9, 17, 18, 19, 20, and the ‘Interest earning and discount bearing assets’ and ‘Interest and discount bearing liabilities’ disclosed on page 6) have not been prepared, 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 19) 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 19) 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 2017
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 Negative
Moody's Investors Service Pty Limited	Aa3	Outlook Negative
Fitch Australia Pty Limited	AA-	Outlook Stable

Conditions of Registration

Changes in conditions of registration

There were no changes made to the Bank's conditions of registration since 31 December 2016.

Non-compliance with conditions of registration

The Banking Group fully complied with all of the RBNZ's capital requirements as set out in the Bank's conditions of registration since 30 September 2016, except that the Bank identified that it had failed to correctly load a very small number of customer facility limits which resulted in errors in prior Disclosure Statements, most recently the Disclosure Statement for the year ended 30 September 2016 and for the three months ended 31 December 2016, as well as a breach of Condition of Registration 1B. The errors and associated impacts are set out as footnotes to notes 16, 17, 19 and 20 on pages 21, 22, 27 and 35 respectively, of this Disclosure Statement. The breach of Condition of Registration 1B arises from the fact that the limit was not correctly included in the Bank's risk weighted asset calculations.

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 2017:

   (a) the Bank has complied with its conditions of registration applicable during that period, except as disclosed on page 38 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 2017 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

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