Bank of New Zealand

Disclosure Statement

For the three months ended 31 December 2017

No. 88

Disclosure Statement

For the three months ended 31 December 2017

This Disclosure Statement has been issued by Bank of New Zealand for the three months ended 31 December 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 all 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 2017 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.

The 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.

APRA has confirmed that during ordinary times, National Australia Bank Limited's non-equity exposures to the Bank must be below 5% of National Australia Bank Limited's Level One Tier One Capital. Exposures subject to this 5% limit include all committed, non-intraday, non-equity exposures, including derivatives and off-balance sheet exposures. As at 31 December 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.

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 Reserve Bank of New Zealand ("RBNZ") published a final version of its Outsourcing Policy (BS11) in September 2017, which was incorporated into the Bank's Conditions of Registration from 1 October 2017. Under the policy, among other things, large banks are required to maintain a compendium of outsourced services, and there is a formal engagement process with the RBNZ on outsourcing arrangements with related parties. Each large non-New Zealand owned bank (including the Bank) will also be required to produce a separation plan for abrupt separation from the parent that is signed off by the bank's senior management and board of directors and approved by the RBNZ. The policy provides for a five-year transitional path for affected banks (including the Bank) to become compliant with the policy. Implementation of, and compliance with, the final policy is likely to result in increased costs, which have not yet been quantified, and operational and strategic execution risks to the Bank.

Bank of New Zealand Corporate Information

Directorate

Angela Mentis has been appointed as Managing Director and Chief Executive Officer of the Bank, effective 1 January 2018.

Anthony John Healy resigned as Managing Director and Chief Executive Officer and as Director of the Bank, effective 1 January 2018.

Responsible Persons

Mr. Douglas Alexander McKay, ONZM, Non-Executive Director, Chairman, and Ms. Angela Mentis, 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

Income Statement

For the three months ended 31 December 2017

Dollars in Millions	Note	Consolidated Unaudited 3 Months 31/12/17	 Audited 12 Months 30/9/17	 Unaudited 3 Months 31/12/16
Interest income		**1,012**	3,843	948
Interest expense		**540**	2,049	513
Net interest income		**472**	1,794	435
Gains less losses on financial instruments	2	**48**	118	38
Other operating income		**108**	403	97
Total operating income		**628**	2,315	570
Operating expenses		**243**	932	240
Total operating profit before impairment losses on credit exposures and income tax expense		**385**	1,383	330
Impairment losses on credit exposures	8	**3**	83	20
Total operating profit before income tax expense		**382**	1,300	310
Income tax expense on operating profit		**107**	363	87
Net profit attributable to shareholder of Bank of New Zealand		**275**	937	223

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

Statement of Comprehensive Income

For the three months ended 31 December 2017

Dollars in Millions	Consolidated Unaudited 3 Months 31/12/17	 Audited 12 Months 30/9/17	 Unaudited 3 Months 31/12/16
Net profit attributable to shareholder of Bank of New Zealand	**275**	937	223
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss			
Movement in asset revaluation reserve	**-**	1	-
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	**(22)**	(48)	(7)
Tax on items transferred directly to/(from) equity	**6**	13	2
	(16)	(34)	(5)
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	**(5)**	(64)	(54)
	(5)	(64)	(54)
Total other comprehensive income/(expense)	**(21)**	(98)	(59)
Total comprehensive income attributable to shareholder of Bank of New Zealand	**254**	839	164

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

Statement of Changes in Equity

For the three months ended 31 December 2017

	Consolidated					
	Unaudited 3 Months 31/12/17					
Dollars in Millions	Ordinary Capital	Perpetual Preference Capital	Retained Profits	Asset Revaluation Reserve	Cash Flow Hedge Reserve	Total Share-holders' Equity
Balance at beginning of period	**2,351**	**-**	**4,538**	**3**	**49**	**6,941**
Comprehensive income/(expense)						
Net profit attributable to shareholder of Bank of New Zealand	**-**	**-**	**275**	**-**	**-**	**275**
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	**-**	**-**	**(22)**	**-**	**-**	**(22)**
Reserve movement through other comprehensive income	**-**	**-**	**-**	**-**	**(5)**	**(5)**
Current tax effect on items directly recognised in equity	**-**	**-**	**6**	**-**	**-**	**6**
Total comprehensive income/(expense)	**-**	**-**	**259**	**-**	**(5)**	**254**
Proceeds from shares issued	**1,105**	**-**	**-**	**-**	**-**	**1,105**
Ordinary dividend	**-**	**-**	**(1,405)**	**-**	**-**	**(1,405)**
Balance at end of period	**3,456**	**-**	**3,392**	**3**	**44**	**6,895**
	Audited 12 Months 30/9/17					
Balance at beginning of year	2,351	200	4,339	2	113	7,005
Comprehensive income/(expense)						
Net profit attributable to shareholders of Bank of New Zealand	-	-	937	-	-	937
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	-	(48)	-	-	(48)
Reserve movement through other comprehensive income	-	-	-	1	(64)	(63)
Current tax effect on items directly recognised in equity	-	-	13	-	-	13
Total comprehensive income/(expense)	-	-	902	1	(64)	839
Buyback of shares	-	(200)	-	-	-	(200)
Ordinary dividend	-	-	(700)	-	-	(700)
Perpetual preference dividend	-	-	(3)	-	-	(3)
Balance at end of year	2,351	-	4,538	3	49	6,941
	Unaudited 3 Months 31/12/16					
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	-	-	223	-	-	223
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	-	(7)	-	-	(7)
Reserve movement through other comprehensive income	-	-	-	-	(54)	(54)
Current tax effect on items directly recognised in equity	-	-	2	-	-	2
Total comprehensive income/(expense)	-	-	218	-	(54)	164
Buyback of shares	-	(200)	-	-	-	(200)
Ordinary dividend	-	-	(300)	-	-	(300)
Perpetual preference dividend	-	-	(3)	-	-	(3)
Balance at end of period	2,351	-	4,254	2	59	6,666

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

Balance Sheet

As at 31 December 2017

Dollars in Millions	Note	Consolidated Unaudited 31/12/17	Consolidated Audited 30/9/17	Consolidated Unaudited 31/12/16
Assets				
Cash and liquid assets	4	**2,971**	2,209	2,095
Due from central banks and other institutions	5	**1,416**	2,244	1,913
Trading securities	6	**6,741**	5,778	4,905
Derivative financial instruments		**3,697**	3,805	5,942
Loans and advances to customers	7	**79,949**	79,441	75,849
Amounts due from related entities	12	**1,795**	677	2,528
Other assets		**518**	520	332
Deferred tax		**185**	191	177
Property, plant and equipment		**173**	173	165
Goodwill and other intangible assets		**297**	277	231
Total assets		**97,742**	95,315	94,137
Liabilities				
Due to central banks and other institutions	9	**1,714**	1,594	2,196
Trading liabilities		**435**	247	127
Derivative financial instruments		**3,180**	3,219	6,633
Deposits and other borrowings	10	**62,933**	59,912	58,899
Bonds and notes		**19,613**	20,157	16,591
Current tax liabilities		**46**	74	1
Amounts due to related entities	12	**465**	519	617
Other liabilities		**637**	828	584
Subordinated debt	11	**1,824**	1,824	1,823
Total liabilities		**90,847**	88,374	87,471
Net assets		**6,895**	6,941	6,666
Shareholder's equity				
Contributed equity – ordinary shareholder	13	**3,456**	2,351	2,351
Reserves		**47**	52	61
Retained profits		**3,392**	4,538	4,254
Total shareholder's equity		**6,895**	6,941	6,666
Interest earning and discount bearing assets		**91,058**	88,783	85,657
Interest and discount bearing liabilities		**81,381**	79,029	75,272

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

Condensed Cash Flow Statement

For the three months ended 31 December 2017

		Consolidated		
		Unaudited 3 Months	Audited 12 Months	Unaudited 3 Months
Dollars in Millions	Note	31/12/17	30/9/17	31/12/16
Cash flows from operating activities				
Cash was provided from:				
Interest income		1,000	3,828	940
Other cash inflows provided from operating activities		260	666	97
Cash was applied to:				
Interest expense		(541)	(1,987)	(502)
Other cash outflows applied to operating activities		(380)	(1,152)	(575)
Net cash flows from operating activities before changes in operating assets and liabilities		339	1,355	(40)
Net change in operating assets and liabilities		2,228	(4,574)	(311)
Net cash flows from operating activities		2,567	(3,219)	(351)
Cash flows from investing activities				
Cash outflows applied to investing activities		(46)	(167)	(38)
Net cash flows from investing activities		(46)	(167)	(38)
Net cash flows from financing activities		(1,812)	3,292	211
Net movement in cash and cash equivalents		709	(94)	(178)
Cash and cash equivalents at beginning of period		1,433	1,527	1,527
Cash and cash equivalents at end of period		2,142	1,433	1,349
Cash and cash equivalents at end of period comprised:				
Cash and liquid assets	4	2,971	2,209	2,095
Due to central banks and other institutions classified as cash and cash equivalents	9	(1,175)	(921)	(1,380)
Amounts due from related entities classified as cash and cash equivalents	12	777	561	1,218
Amounts due to related entities classified as cash and cash equivalents	12	(431)	(416)	(584)
Total cash and cash equivalents		2,142	1,433	1,349
Reconciliation of net profit attributable to shareholder of Bank of New Zealand to net cash flows from operating activities				
Net profit attributable to shareholder of Bank of New Zealand		275	937	223
Add back non-cash items in net profit		64	418	(263)
Deduct operating cash flows not included in net profit:				
Net change in operating assets and liabilities		2,228	(4,574)	(311)
Net cash flows from operating activities		2,567	(3,219)	(351)

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

Note 1 Principal Accounting Policies

These interim financial statements are general purpose financial reports prepared in accordance with 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 2017.

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 2017.

Income Statement Notes

	Consolidated		
Dollars in Millions	**Unaudited 3 Months 31/12/17**	Audited 12 Months 30/9/17	Unaudited 3 Months 31/12/16
Note 2 Gains Less Losses on Financial Instruments			
Trading gains less losses on financial instruments	**53**	149	72
Net gain/(loss) attributable to assets, liabilities and derivatives designated in hedge relationships	**10**	54	(3)
Net gain/(loss) attributable to other derivatives used for hedging purposes that no longer qualify for hedge accounting	**(8)**	(76)	5
Net gain/(loss) in the fair value of financial assets (refer to table below)	**1**	15	2
Net gain/(loss) in the fair value of financial liabilities (refer to table below) [1]	**(8)**	(20)	(39)
Other gains less losses on financial instruments	**-**	(4)	1
Total gains less losses on financial instruments	**48**	118	38
Net gain/(loss) in the fair value of financial assets include:			
Credit risk adjustments on financial assets designated at fair value through profit or loss	**7**	20	2
Gain/(loss) in the fair value of financial assets designated at fair value through profit or loss	**(11)**	(91)	(64)
Net gain/(loss) in the fair value of financial liabilities include:			
Gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss	**64**	285	161

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

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, fair value credit risk adjustment 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 financial statements of the Banking Group; results of an entity included for management reporting purposes, but excluded from the consolidated financial statements of the Banking Group for statutory financial reporting purposes; and other balances excluded for management reporting purposes, but included in the consolidated financial statements of the Banking Group for statutory financial reporting purposes.

Note 3 Segment Analysis *continued*

Dollars in Millions	Retail and Marketing [1]	BNZ Partners [1]	Total Reportable Segments	Other [1]	Total Banking Group
	Consolidated				
	Unaudited 3 Months 31/12/17				
Net interest income	**127**	**328**	**455**	**17**	**472**
Other income	**48**	**96**	**144**	**12**	**156**
Total segment revenue	**175**	**424**	**599**	**29**	**628**
Operating profit/(loss) before income tax expense	**73**	**293**	**366**	**16**	**382**
Income tax expense/(credit)	**20**	**82**	**102**	**5**	**107**
Net profit/(loss) attributable to shareholder of Bank of New Zealand	**53**	**211**	**264**	**11**	**275**
	Audited 12 Months 30/9/17				
Net interest income	490	1,262	1,752	42	1,794
Other income	184	358	542	(21)	521
Total segment revenue	674	1,620	2,294	21	2,315
Operating profit/(loss) before income tax expense	245	1,093	1,338	(38)	1,300
Income tax expense/(credit)	69	306	375	(12)	363
Net profit/(loss) attributable to shareholder of Bank of New Zealand	176	787	963	(26)	937
	Unaudited 3 Months 31/12/16				
Net interest income	121	312	433	2	435
Other income	47	90	137	(2)	135
Total segment revenue	168	402	570	-	570
Operating profit/(loss) before income tax expense	71	254	325	(15)	310
Income tax expense/(credit)	20	71	91	(4)	87
Net profit/(loss) attributable to shareholder of Bank of New Zealand	51	183	234	(11)	223

[1] Segment reporting has been updated to reflect changes to the Banking Group's structure. Comparative data has been restated to be consistent with the current period's segment definitions.

Asset Notes

Dollars in Millions	Consolidated Unaudited 31/12/17	Audited 30/9/17	Unaudited 31/12/16

Note 4 Cash and Liquid Assets

Notes and coins	**206**	138	212
Transaction balances with central banks	**1,390**	1,416	1,134
Transaction balances with other institutions	**303**	210	173
Securities purchased under agreements to resell with central banks	**533**	-	-
Securities purchased under agreements to resell with other institutions	**539**	445	576
Total cash and liquid assets	**2,971**	2,209	2,095

The Banking Group has accepted collateral with a fair value of $1,798 million as at 31 December 2017 arising from reverse repurchase agreements included in cash and liquid assets and due from related entities (refer to note 12), which it is permitted to sell or repledge (30 September 2017: $933 million; 31 December 2016: $1,699 million).

Government securities with a fair value of $213 million were repledged as at 31 December 2017 (30 September 2017: $200 million; 31 December 2016: $181 million). Securities were repledged for periods of less than three months. The Bank's obligation to repurchase government securities is classified under due to central banks and other institutions (refer to note 9).

Dollars in Millions	Consolidated Unaudited 31/12/17	Audited 30/9/17	Unaudited 31/12/16

Note 5 Due from Central Banks and Other Institutions

Loans and advances due from other institutions	**1,416**	2,244	1,913
Total due from central banks and other institutions	**1,416**	2,244	1,913

Included in due from central banks and other institutions as at 31 December 2017 was $631 million of collateral posted with counterparties to meet standard derivative trading obligations (30 September 2017: $756 million; 31 December 2016: $974 million).

Dollars in Millions	Consolidated Unaudited 31/12/17	Consolidated Audited 30/9/17	Consolidated Unaudited 31/12/16
Note 6 Trading Securities			
Government bonds, notes and securities	**3,215**	3,275	3,160
Semi-government bonds, notes and securities	**1,356**	843	936
Corporate and other institutions bonds, notes and securities	**2,170**	1,660	809
Total trading securities	**6,741**	5,778	4,905

Included in trading securities as at 31 December 2017 were $262 million encumbered through repurchase agreements (30 September 2017: $22 million; 31 December 2016: $676 million). These trading securities have not been derecognised from the Bank as the Bank retains substantially all the risks and rewards of ownership. Counterparties have the right to sell or repledge these encumbered securities. The Bank's obligation to repurchase trading securities is classified under due to central banks and other institutions (refer to note 9) and amounts due to related entities (refer to note 12).

Dollars in Millions	Consolidated Unaudited 31/12/17	Consolidated Audited 30/9/17	Consolidated Unaudited 31/12/16
Note 7 Loans and Advances to Customers			
Overdrafts	**2,246**	2,397	2,213
Credit card outstandings	**1,193**	1,135	1,189
Housing loans	**37,803**	37,358	35,707
Other term lending	**38,460**	38,290	36,251
Other lending	**706**	724	888
Total gross loans and advances to customers	**80,408**	79,904	76,248
Deduct:			
Provision for doubtful debts and credit risk adjustments on financial assets (refer to note 8)	**569**	581	554
Deferred and other unearned future income and expenses	**(72)**	(77)	(87)
Fair value hedge adjustments	**(38)**	(41)	(68)
Total deductions	**459**	463	399
Total net loans and advances to customers	**79,949**	79,441	75,849

Included in loans and advances to customers as at 31 December 2017 was $6 million of collateral posted with counterparties to meet standard derivative trading obligations (30 September 2017: $11 million; 31 December 2016: nil).

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 RBNZ. As at 31 December 2017, included within the Banking Group’s loans and advances to customers were housing loans with a carrying amount of $4,474 million held by the RMBS Trust (30 September 2017: $4,471 million; 31 December 2016: $4,470 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 19. The Banking Group had not entered into any repurchase agreements for RMBS with the RBNZ as at 31 December 2017 (30 September 2017: nil; 31 December 2016: nil). The RBNZ had not accepted any RMBS as collateral from the Banking Group as at 31 December 2017 (30 September 2017: nil; 31 December 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 all 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 December 2017, included within the Banking Group’s loans and advances to customers were housing loans with a carrying amount of $3,945 million held by the Covered Bond Trust (30 September 2017: $6,045 million; 31 December 2016: $4,962 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 $3,475 million that were guaranteed by the Covered Bond Trust as at 31 December 2017 (30 September 2017: $5,032 million; 31 December 2016: $3,845 million). The underlying collateral that supports the guarantee provided by the Covered Bond Trust is comprised of housing loans and other assets (including cash) with a carrying amount of $3,972 million as at 31 December 2017 (30 September 2017: $6,089 million; 31 December 2016: $5,003 million).

Dollars in Millions	Consolidated Residential Mortgage Lending Unaudited 31/12/17	Other Retail Exposures Unaudited 31/12/17	Corporate Exposures Unaudited 31/12/17	Total Unaudited 31/12/17
Note 8 Asset Quality				
Provision for doubtful debts				
Loans and advances to customers				
Provision for doubtful debts measured on a 12-months expected credit loss ("ECL")				
Collective provision for doubtful debts	1	15	49	65
Provision for doubtful debts measured on a lifetime ECL				
Collective provision for doubtful debts for assets not credit impaired	49	13	272	334
Collective provision for doubtful debts for credit impaired assets	3	9	31	43
Specific provision for doubtful debts for credit impaired assets	5	7	94	106
Total provision for doubtful debts measured on a lifetime ECL	57	29	397	483
Total provision for doubtful debts	58	44	446	548
Credit risk adjustment on financial assets designated at fair value through profit or loss				
Loans and advances to customers				
Credit risk adjustments on individual financial assets	-	-	1	1
Credit risk adjustments on groups of financial assets	-	-	20	20
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	-	21	21
Trading derivative financial instruments				
Credit risk adjustments on groups of financial instruments	-	-	21	21
Pre-allowance balance at end of period				
Loans and advances to customers				
Individually impaired assets - at amortised cost	14	11	242	267
Individually impaired assets - at fair value through profit or loss	-	-	16	16
Total individually impaired assets at end of period [1]	14	11	258	283
90 days past due assets not individually impaired				
Loans and advances to customers	26	17	73	116
Charges to income statement on financial assets				
Loans and advances to customers				
Charge/(credit) to impairment losses on credit exposure measured on a 12-months ECL				
Impairment losses on group of financial assets	(1)	-	(3)	(4)
Charge/(credit) to impairment losses on credit exposure measured on a lifetime ECL				
Impairment losses on group of assets not credit impaired	(2)	1	26	25
Impairment losses on group of credit impaired assets	(3)	(1)	(26)	(30)
Impairment losses on individual credit impaired assets	(1)	5	8	12
Total charge/(credit) to impairment losses on credit exposure measured on a lifetime ECL	(6)	5	8	7
Total charge/(credit) to impairment losses on credit exposures [2]	(7)	5	5	3
Charge/(credit) to income statement on financial assets designated at fair value through profit or loss				
Loans and advances to customers				
Credit risk adjustments on individual financial assets	-	-	(1)	(1)
Credit risk adjustments on groups of financial assets	-	-	(6)	(6)
Total charge/(credit) to income statement on loans and advances to customer designated at fair value through profit or loss	-	-	(7)	(7)
Trading derivative financial instruments				
Charge/(credit) to income statement on groups of financial instruments	-	-	-	-

[1] In the NAB 2018 First Quarter Trading Update and the NAB 2018 Pillar 3 Report for 31 December 2017, NZD$69 million of the Bank's dairy exposures were classified as impaired with no loss, some of which were not past due as at 31 December 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 the Prudential Standard APS 220 by APRA. This APRA definition is used for reporting purposes by the Bank's ultimate parent, NAB in its Pillar 3 report. Under the APRA definition, Impaired Assets include Individually Impaired Assets and also certain exposures that are in default (but for which no loss is expected) where recovery timeframes are expected to be longer than usual.

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

Liability Notes

Dollars in Millions	Consolidated Unaudited 31/12/17	Audited 30/9/17	Unaudited 31/12/16
Note 9 Due to Central Banks and Other Institutions			
Transaction balances with other institutions [1]	**746**	798	638
Deposits from central banks	**121**	103	177
Deposits from other institutions [2]	**435**	587	669
Securities sold under agreements to repurchase from other institutions [1]	**412**	106	712
Total due to central banks and other institutions	**1,714**	1,594	2,196

[1] Classified as cash and cash equivalents in the cash flow statement.
[2] Included in deposits from other institutions as at 31 December 2017 was $17 million classified as cash and cash equivalents in the cash flow statement (30 September 2017: $17 million; 31 December 2016: $30 million).

Included in due to central banks and other institutions as at 31 December 2017 was $384 million of collateral received from counterparties to meet standard derivative trading obligations (30 September 2017: $457 million; 31 December 2016: $341 million).

Dollars in Millions	Consolidated Unaudited 31/12/17	Audited 30/9/17	Unaudited 31/12/16
Note 10 Deposits and Other Borrowings			
Deposits not bearing interest	**5,520**	5,087	4,905
On-demand and short-term deposits bearing interest	**19,945**	18,850	19,377
Term deposits	**34,011**	32,194	29,271
Total customer deposits	**59,476**	56,131	53,553
Certificates of deposit	**1,340**	1,351	1,845
Commercial paper	**2,117**	2,430	3,501
Total deposits and other borrowings	**62,933**	59,912	58,899

Included in deposits and other borrowings as at 31 December 2017 was $1 million of collateral was posted by counterparties to meet standard derivative trading obligations (30 September 2017: $1 million; 31 December 2016: nil).

Dollars in Millions	Consolidated Unaudited 31/12/17	Audited 30/9/17	Unaudited 31/12/16
Note 11 Subordinated Debt			
Subordinated loans due to related entities	**380**	380	380
Perpetual notes due to related entities	**900**	900	900
Subordinated notes due to external investors	**544**	544	543
Total subordinated debt	**1,824**	1,824	1,823

Subordinated Loans due to related entities treated as Tier Two capital

As at 31 December 2017, $380 million of subordinated loans ("Subordinated Loans") have been provided by related entities of the Bank. The Subordinated Loans are treated as Tier Two capital under the Bank's regulatory capital requirements, subject to phase-out in accordance with BS2B. Refer to note 18 and note 20 for further information. 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 11 Subordinated Debt *continued*

Interest *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. Under the terms and conditions of the Perpetual Notes, a CETE will occur if the Banking Group's Common Equity Tier One capital ratio is equal to or less than 5.125% and 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 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.

Under the terms and conditions of the Subordinated Notes, 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 31/12/17	Audited 30/9/17	Unaudited 31/12/16

Note 12 Related Entity Transactions

Total balances with related entities			
Amounts due from related entities [1]	1,795	677	2,528
Derivative financial assets with related entities	1,278	1,294	1,518
Amounts due to related entities [2]	465	519	617
Derivative financial liabilities with related entities	1,314	1,393	2,239
Subordinated loans and perpetual notes due to related entities	1,280	1,280	1,280

[1] Included in amounts due from related entities was $777 million classified as cash and cash equivalent in the cash flow statement (30 September 2017: $561 million; 31 December 2016: $1,218 million).
[2] Included in amounts due to related entities was $431 million classified as cash and cash equivalent in the cash flow statement (30 September 2017: $416 million; 31 December 2016: $584 million).

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

Dollars in Millions	Consolidated Unaudited 31/12/17	Audited 30/9/17	Unaudited 31/12/16
Amounts due from related entities			
Collateral loan posted to ultimate parent to meet standard derivative trading obligations	11	101	685
Securities purchased under agreements to resell to ultimate parent	715	514	1,130
Amounts due to related entities			
Securities sold under agreements to repurchase from ultimate parent	63	116	142

Other transactions with related entities

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

Note 13 Contributed Equity

On 8 December 2017, the Bank issued 1.105 billion ordinary shares to NAGNZ at a subscription price of $1.00 per share. This resulted in the number of the Bank's ordinary shares increasing from 3,370,997,499 to 4,475,997,499 and the Bank's ordinary share capital increasing by $1.105 billion.

Note 14 Fair Value of Financial Assets and Financial Liabilities

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

Hierarchy for fair value measurements

The tables on pages 15 and 16 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 and other borrowings 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 judgement in selecting an appropriate valuation technique for financial instruments which are not quoted in an active market.

The Banking Group considers transfers between levels of the fair value hierarchy, if any, to have occurred at the beginning of the respective reporting period. There were no transfers between any of the levels in the three months ended 31 December 2017.

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

Hierarchy for Fair Value measurements *continued*

Financial assets and liabilities at fair value

	Consolidated			
		Unaudited (31/12/17)		
Dollars in Millions	Fair Value Total	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Financial assets				
Due from central banks and other institutions	595	-	595	-
Trading securities	6,741	3,215	3,526	-
Derivative financial instruments	3,697	-	3,697	-
Loans and advances to customers	3,923	-	3,923	-
Financial liabilities				
Due to central banks and other institutions	172	-	172	-
Trading liabilities	435	435	-	-
Derivative financial instruments	3,180	-	3,180	-
Deposits and other borrowings	5,013	-	5,013	-
Bonds and notes	19,613	-	19,613	-
		Audited (30/9/17)		
Financial assets				
Due from central banks and other institutions	1,322	-	1,322	-
Trading securities	5,778	3,275	2,503	-
Derivative financial instruments	3,805	-	3,805	-
Loans and advances to customers	3,989	-	3,989	-
Financial liabilities				
Due to central banks and other institutions	232	-	232	-
Trading liabilities	247	247	-	-
Derivative financial instruments	3,219	-	3,219	-
Deposits and other borrowings	5,119	-	5,119	-
Bonds and notes	20,157	-	20,157	-
		Unaudited (31/12/16)		
Financial assets				
Due from central banks and other institutions	1,703	-	1,703	-
Trading securities	4,905	3,160	1,745	-
Derivative financial instruments	5,942	-	5,942	-
Loans and advances to customers	5,142	-	5,142	-
Financial liabilities				
Due to central banks and other institutions	846	-	846	-
Trading liabilities	127	127	-	-
Derivative financial instruments	6,633	-	6,633	-
Deposits and other borrowings	9,345	-	9,345	-
Bonds and notes	16,591	-	16,591	-

Note 14 Fair Value of Financial Assets and Financial Liabilities

Hierarchy for Fair Value measurements *continued*

Financial assets and liabilities at amortised cost [1]

Dollars in Millions	Carrying Amount	Fair Value Total	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
	Consolidated				
	Unaudited (31/12/17)				
Financial assets					
Loans and advances to customers	76,026	76,033	-	2,246	73,787
Financial liabilities					
Deposits and other borrowings	57,920	58,108	-	58,108	-
Subordinated debt	1,444	1,491	551	940	-
	Audited (30/9/17)				
Financial assets					
Loans and advances to customers	75,452	75,452	-	2,397	73,055
Financial liabilities					
Deposits and other borrowings	54,793	54,977	-	54,977	-
Subordinated debt	1,444	1,495	568	927	-
	Unaudited (31/12/16)				
Financial assets					
Loans and advances to customers	70,707	70,676	-	2,213	68,463
Financial liabilities					
Deposits and other borrowings	49,554	49,734	-	49,734	-
Subordinated debt	1,443	1,447	549	898	-

[1] Fair values for financial assets and liabilities at amortised cost, where the carrying amount is not considered a close approximation of fair value.

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

Due from central banks and other institutions and 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 have accounted for 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 to their carrying value. For fixed rate loans, the fair value is estimated by discounting the expected future cash flows based on the maturity of the loans and advances, using current market interest rates of similar types of loans and advances or interest rate swap rates. The differences between estimated fair values of loans and advances and carrying value reflect the difference between observable market interest rates and customer rates on day one and changes in interest rates and creditworthiness of borrowers since loan or advance origination.

Deposits and other borrowings

With respect to customer deposits, 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 certificates of deposit and commercial paper, these liabilities are primarily short term in nature. The carrying amounts have been determined using discounted cash flow models based on observable market prices.

Bonds and notes

Bonds and notes are recorded at fair value based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments. This is based on observable market prices as at the reporting date where available, otherwise alternative observable market source data is used. The fair value includes a calculation of the Banking Group's own credit risk based on observable market data.

Subordinated debt

Subordinated loans due to related entities reprice every 90 days, therefore, their fair value is considered to approximate their carrying value. 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 15 Contingent Liabilities and Credit Related Commitments

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. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Where some loss is probable, provisions have been made. Contingent liabilities are not recognised in the balance sheet, but are disclosed unless the likelihood of payment is remote.

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 working with the Labour Inspectorate to reach an appropriate resolution. At this stage, the final outcome cannot be determined with any certainty.

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

	Consolidated		
	Unaudited	Audited	Unaudited
Dollars in Millions	**31/12/17**	30/9/17	31/12/16
Contingent liabilities			
Bank guarantees	**80**	79	70
Standby letters of credit	**292**	292	304
Documentary letters of credit	**116**	105	99
Performance related contingencies	**649**	635	517
Total contingent liabilities	**1,137**	1,111	990
Credit related commitments			
Revocable commitments to extend credit	**8,268**	8,395	8,141
Irrevocable commitments to extend credit	**9,430**	9,651	9,552
Total credit related commitments	**17,698**	18,046	17,693
Total contingent liabilities and credit related commitments	**18,835**	19,157	18,683

Note 16 Concentrations of Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties

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

	Consolidated	
	Unaudited (31/12/17) 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 shareholder's equity		
10-14%	**1**	-

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 that do not qualify for offset in accordance with NZ IAS 32 Financial Instruments: Presentation which the Banking Group may hold in respect of the various counterparty exposures.

The Banking Group had no bank counterparties with a long term credit rating below A- or A3, to whom their aggregate credit exposure, as at 31 December 2017, and peak end-of-day aggregate credit exposure, for the three months ended 31 December 2017, equalled or exceeded 10% of the Banking Group’s equity.

Note 17 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 2017.

Note 18 Capital Adequacy

The Bank's Conditions of Registration require capital adequacy ratios to be calculated in accordance with the RBNZ's current Capital Adequacy Framework (Internal Models Based Approach) ("BS2B").

The tables included below and on the following page detail the capital calculation, capital ratios and capital requirements as at 31 December 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.

Regulatory capital

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

Dollars in Millions	Consolidated Unaudited 31/12/17
Qualifying capital	
Common Equity Tier One capital (before deductions)	6,892
Deductions from Common Equity Tier One capital	479
Total Common Equity Tier One capital (net of all deductions)	6,413
Total Additional Tier One capital	900
Total Tier One capital	7,313
Total Tier Two capital [1]	734
Total Tier One and Tier Two qualifying capital	8,047

[1] Included within the Banking Group's Tier Two capital is an asset revaluation reserve of $3 million, Subordinated notes due to external investors of $550 million, and Subordinated loans due to related entities of $181 million. Subordinated loans due to related entities are subject to phase-out in accordance with BS2B. The phase-out, which commenced on 1 January 2014, takes place over five years, and concluded on 1 January 2018, 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.

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 31/12/17
Common Equity Tier One capital ratio	4.50%	10.74%
Tier One capital ratio	6.00%	12.24%
Total qualifying capital ratio	8.00%	13.47%
Buffer ratio	2.50%	5.47%

Total regulatory capital requirements

Dollars in Millions	Consolidated Total Capital Requirement [2] Unaudited 31/12/17
Credit risk	
Exposures subject to the internal ratings based approach	3,351
Equity exposures	4
Specialised lending subject to the slotting approach	629
Exposures subject to the standardised approach	115
Credit value adjustment subject to BS2B	78
Agribusiness supervisory adjustment [3]	45
Total credit risk	4,222
Operational risk	350
Market risk	208
Total	4,780

[2] In calculating the total capital requirement, a scalar of 1.06 has been applied to the risk-weighted assets, as required by the RBNZ in accordance with the Bank's Conditions of Registration.
[3] The agribusiness supervisory adjustment increases the risk weight of the Banking Group's rural lending portfolio to a minimum specified by the RBNZ.

Note 18 Capital Adequacy *continued*

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

Dollars in Millions	Consolidated Minimum Capital Requirement Unaudited 31/12/17
Corporate	2,108
Sovereign	7
Bank	75
Residential mortgage	997
Other retail [1]	111
Retail small to medium enterprises	53
Total credit risk exposures subject to the IRB approach [2]	3,351

[1] Other retail includes credit cards, current accounts and personal overdrafts.

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

Residential mortgages by loan-to-valuation ratio

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

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

	Consolidated		
Dollars in Millions	On-balance Sheet Exposures at Default Unaudited 31/12/17	Off-balance Sheet Exposures at Default [3] Unaudited 31/12/17	Total Exposures at Default Unaudited 31/12/17
LVR Range			
0-59%	15,692	1,247	16,939
60-69%	8,382	560	8,942
70-79%	11,243	735	11,978
80-89%	1,334	23	1,357
Over 90%	1,157	270	1,427
Total exposures at default secured by residential mortgages	37,808	2,835	40,643

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

Capital for other material risks

As at 31 December 2017, the Banking Group had an internal capital allocation for strategic business risk of $109 million. The assessment of business risk covers strategic, reputation and earnings risk.

Note 19 Risk Management

There have been no material changes to the Banking Group's policies for managing risk, or material exposures to new categories of risk since 30 September 2017.

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 31/12/17
Cash and balances immediately convertible to cash [4]	3,453
Net securities purchased under agreements to resell	877
Government bonds, notes and securities	3,215
Semi-government bonds, notes and securities	1,356
Corporate and other institution bonds, notes and securities	2,170
Total liquidity portfolio	11,071

[4] Included within Cash and balances immediately convertible to cash is $1,554 million due from related entities and other institutions.

As at 31 December 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, which are subject to a 19% reduction in value (net $3,483 million). 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 RMBS with the RBNZ as at 31 December 2017.

Note 20 Subsequent Events

On 17 January 2018, the Bank's wholly owned subsidiary, BNZ Investments Limited, entered into an agreement to sell its 25% shareholding in Paymark Limited to Ingenico Group for NZ$47.5 million. The sale price is higher than the current carrying value of the investment in associate. The transaction is subject to regulatory approvals.

Subsequent to 31 December 2017, the Bank's Board of Directors resolved to repay $230 million of subordinated loans provided by a related entity of the Bank, with repayment to be effected on or around 15 March 2018.

Credit Ratings

The Bank 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	A1	Outlook Stable
Fitch Australia Pty Limited	AA-	Outlook Stable

Conditions of Registration

Changes in Conditions of Registration
From 1 October 2017, the Bank's Conditions of Registration were updated to reflect that the Bank must comply with the Reserve Bank of New Zealand document "Outsourcing Policy" (BS11) dated September 2017.

Directors' Statement

The Directors of Bank of New Zealand state that each Director of the Bank believes, after due enquiry, that:

1. as at the date on which the Disclosure Statement is signed:
    (a) the Disclosure Statement contains all the information that is required by the Order; and
    (b) the Disclosure Statement is not false or misleading; and
2. during the three months ended 31 December 2017:
    (a) the Bank has complied with its Conditions of Registration applicable during that period;
    (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 22nd of February 2018 and signed by Mr. McKay and Ms. Mentis as Directors and as responsible persons on behalf of all the other Directors.

D A McKay
Chairman

A Mentis
Managing Director and Chief Executive Officer