Bank of New Zealand

Disclosure Statement

For the six months ended 31 March 2018

No. 89

Disclosure Statement

For the six months ended 31 March 2018

This Disclosure Statement has been issued by Bank of New Zealand for the six months ended 31 March 2018 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 March 2018, 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 must receive non-objection from 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 and operational and strategic execution risks to the Bank.

On 3 May 2018, the RBNZ and the Financial Markets Authority asked certain New Zealand banks (including the Bank) to explain the work that each bank has undertaken to identify and address any conduct and culture issues within its business. The purpose of the request is to provide assurance that the issues highlighted in the Royal Commission in Australia are not taking place in New Zealand. The outcome of this engagement may lead to further increased political or regulatory scrutiny of the banking industry in New Zealand and may, ultimately, have an adverse impact on the reputation, operations and financial performance and position of the Bank.

Bank of New Zealand Corporate Information

Directorate

Angela Mentis was 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 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

Auditor

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

Income Statement

For the six months ended 31 March 2018

Dollars in Millions	Note	Consolidated Unaudited 6 Months 31/3/18	Audited 12 Months 30/9/17	Unaudited 6 Months 31/3/17
Interest income		**2,011**	3,843	1,877
Interest expense		**1,053**	2,049	1,016
Net interest income		**958**	1,794	861
Gains less losses on financial instruments	2	**97**	118	22
Other operating income		**215**	403	195
Total operating income		**1,270**	2,315	1,078
Operating expenses		**542**	932	458
Total operating profit before credit impairment charge and income tax expense		**728**	1,383	620
Credit impairment charge	8	**48**	83	43
Total operating profit before income tax expense		**680**	1,300	577
Income tax expense on operating profit		**190**	363	161
Net profit attributable to shareholder of Bank of New Zealand		**490**	937	416

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 2018

Dollars in Millions	Consolidated Unaudited 6 Months 31/3/18	Audited 12 Months 30/9/17	Unaudited 6 Months 31/3/17
Net profit attributable to shareholder of Bank of New Zealand	**490**	937	416
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	**4**	(48)	(39)
Tax on items transferred directly to/(from) equity	**(1)**	13	10
	3	(34)	(29)
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	**(10)**	(64)	(56)
Tax on cash flow hedge reserve	**(11)**	-	-
	(21)	(64)	(56)
Total other comprehensive income/(expense)	**(18)**	(98)	(85)
Total comprehensive income attributable to shareholder of Bank of New Zealand	**472**	839	331

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 2018

	Consolidated					
	Unaudited 6 Months 31/3/18					
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	-	-	490	-	-	490
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	-	4	-	-	4
Reserve movement through other comprehensive income	-	-	-	-	(10)	(10)
Tax effect on items directly recognised in equity	-	-	(1)	-	(11)	(12)
Total comprehensive income/(expense)	-	-	493	-	(21)	472
Proceeds from shares issued	1,105	-	-	-	-	1,105
Ordinary dividend	-	-	(1,405)	-	-	(1,405)
Balance at end of period	3,456	-	3,626	3	28	7,113
	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)
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 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
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	-	-	(39)	-	-	(39)
Reserve movement through other comprehensive income	-	-	-	-	(56)	(56)
Tax effect on items directly recognised in equity	-	-	10	-	-	10
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

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 2018

		Consolidated		
		Unaudited	Audited	Unaudited
Dollars in Millions	Note	**31/3/18**	30/9/17	31/3/17
Assets				
Cash and liquid assets	4	**2,653**	2,209	2,705
Due from central banks and other institutions	5	**1,763**	2,244	1,709
Trading securities	6	**6,241**	5,778	5,017
Derivative financial instruments		**3,910**	3,805	5,410
Loans and advances to customers	7	**80,216**	79,441	76,733
Current tax assets		**-**	-	58
Amounts due from related entities	14	**1,124**	677	1,428
Other assets		**486**	520	369
Deferred tax		**201**	191	182
Property, plant and equipment		**162**	173	164
Goodwill and other intangible assets		**309**	277	248
Total assets		**97,065**	95,315	94,023
Liabilities				
Due to central banks and other institutions	10	**2,481**	1,594	1,463
Trading liabilities		**527**	247	51
Derivative financial instruments		**2,745**	3,219	5,745
Deposits and other borrowings	11	**62,983**	59,912	58,995
Bonds and notes		**18,221**	20,157	17,626
Current tax liabilities		**28**	74	-
Amounts due to related entities	14	**622**	519	840
Other liabilities	12	**750**	828	647
Subordinated debt	13	**1,595**	1,824	1,823
Total liabilities		**89,952**	88,374	87,190
Net assets		**7,113**	6,941	6,833
Shareholder's equity				
Contributed equity – ordinary shares	15	**3,456**	2,351	2,351
Reserves		**31**	52	59
Retained profits		**3,626**	4,538	4,423
Total shareholder's equity		**7,113**	6,941	6,833
Interest earning and discount bearing assets		**90,333**	88,783	86,071
Interest and discount bearing liabilities		**80,814**	79,029	75,777

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 2018

		Consolidated		
		Unaudited 6 Months	Audited 12 Months	Unaudited 6 Months
Dollars in Millions	Note	31/3/18	30/9/17	31/3/17
Cash flows from operating activities				
Cash was provided from:				
Interest income		1,997	3,828	1,874
Other cash inflows provided from operating activities		277	666	428
Cash was applied to:				
Interest expense		(1,079)	(1,987)	(1,052)
Other cash outflows applied to operating activities		(716)	(1,152)	(693)
Net cash flows from operating activities before changes in operating assets and liabilities		479	1,355	557
Net change in operating assets and liabilities		2,526	(4,574)	(1,488)
Net cash flows from operating activities		3,005	(3,219)	(931)
Cash flows from investing activities				
Cash outflows applied to investing activities		(90)	(167)	(79)
Net cash flows from investing activities		(90)	(167)	(79)
Net cash flows from financing activities		(2,737)	3,292	1,127
Net movement in cash and cash equivalents		178	(94)	117
Cash and cash equivalents at beginning of period		1,433	1,527	1,527
Cash and cash equivalents at end of period		1,611	1,433	1,644
Cash and cash equivalents at end of period comprised:				
Cash and liquid assets	4	2,653	2,209	2,705
Due to central banks and other institutions classified as cash and cash equivalents	10	(1,597)	(921)	(1,065)
Amounts due from related entities classified as cash and cash equivalents	14	1,103	561	797
Amounts due to related entities classified as cash and cash equivalents	14	(548)	(416)	(793)
Total cash and cash equivalents		1,611	1,433	1,644
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		490	937	416
Add back non-cash items in net profit		(11)	418	141
Deduct operating cash flows not included in net profit:				
Net change in operating assets and liabilities		2,526	(4,574)	(1,488)
Net cash flows from operating activities		3,005	(3,219)	(931)

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 2018

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 periods.

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.

The Banking Group has changed the bad and doubtful debt terminology to improve consistency with the terminology used in the New Zealand Equivalent to International Financial Reporting Standard 9 (2014) Financial Instruments ("NZ IFRS 9"). As a result of this change, the term "Impairment losses on credit exposures" has been changed to "Credit impairment charge" and the term "Provision for doubtful debts" has been changed to "Provision for credit impairment".

Income Statement Notes

	Consolidated		
	Unaudited 6 Months	Audited 12 Months	Unaudited 6 Months
Dollars in Millions	**31/3/18**	30/9/17	31/3/17
Note 2 Gains Less Losses on Financial Instruments			
Trading gains less losses on financial instruments	**64**	149	95
Net gain/(loss) attributable to assets, liabilities and derivatives designated in hedge relationships	**14**	54	5
Net gain/(loss) attributable to other derivatives used for hedging purposes that no longer qualify for hedge accounting	**(14)**	(76)	(10)
Net gain/(loss) in the fair value of financial assets (refer to table below)	**3**	15	7
Net gain/(loss) in the fair value of financial liabilities (refer to table below)[1]	**29**	(20)	(77)
Other gains less losses on financial instruments	**1**	(4)	2
Total gains less losses on financial instruments	**97**	118	22
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	**10**	20	6
Gain/(loss) in the fair value of financial assets designated at fair value through profit or loss	**(23)**	(91)	(71)
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	**148**	285	171

[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.

	Consolidated				
	Unaudited 6 Months 31/3/18				
Dollars in Millions	Retail and Marketing [1]	BNZ Partners [1]	Total Reportable Segments	Other [1]	Total Banking Group
Net interest income	**254**	**651**	**905**	**53**	**958**
Other income [2]	**96**	**184**	**280**	**32**	**312**
Total segment revenue	**350**	**835**	**1,185**	**85**	**1,270**
Operating profit/(loss) before income tax expense	**138**	**550**	**688**	**(8)**	**680**
Income tax expense/(credit)	**38**	**154**	**192**	**(2)**	**190**
Net profit attributable to shareholder of Bank of New Zealand	**100**	**396**	**496**	**(6)**	**490**
	Audited 12 Months 30/9/17				
Net interest income	480	1,213	1,693	101	1,794
Other income [2]	184	358	542	(21)	521
Total segment revenue	664	1,571	2,235	80	2,315
Operating profit/(loss) before income tax expense	234	1,046	1,280	20	1,300
Income tax expense/(credit)	65	293	358	5	363
Net profit attributable to shareholder of Bank of New Zealand	169	753	922	15	937
	Unaudited 6 Months 31/3/17				
Net interest income	237	597	834	27	861
Other income [2]	93	175	268	(51)	217
Total segment revenue	330	772	1,102	(24)	1,078
Operating profit/(loss) before income tax expense	115	509	624	(47)	577
Income tax expense/(credit)	31	142	173	(12)	161
Net profit attributable to shareholder of Bank of New Zealand	84	367	451	(35)	416

[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.

[2] Other income includes Gains less losses on financial instruments and Other operating income.

Asset Notes

Dollars in Millions	Consolidated Unaudited 31/3/18	Consolidated Audited 30/9/17	Consolidated Unaudited 31/3/17
Note 4 Cash and Liquid Assets			
Notes and coins	**201**	138	154
Transaction balances with central banks	**1,682**	1,416	1,749
Transaction balances with other institutions	**220**	210	597
Securities purchased under agreements to resell with other institutions	**550**	445	205
Total cash and liquid assets	**2,653**	2,209	2,705

The Banking Group has accepted collateral with a fair value of $1,613 million as at 31 March 2018 arising from reverse repurchase agreements included in cash and liquid assets and due from related entities (refer to note 14), which it is permitted to sell or repledge (30 September 2017: $933 million; 31 March 2017: $978 million).

Government securities with a fair value of $305 million were repledged as at 31 March 2018 (30 September 2017: $200 million; 31 March 2017: $389 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).

Dollars in Millions	Consolidated Unaudited 31/3/18	Consolidated Audited 30/9/17	Consolidated Unaudited 31/3/17
Note 5 Due from Central Banks and Other Institutions			
Loans and advances due from other institutions	**1,763**	2,244	1,709
Total due from central banks and other institutions	**1,763**	2,244	1,709

Included in due from central banks and other institutions as at 31 March 2018 was $523 million of collateral posted with counterparties to meet standard derivative trading obligations (30 September 2017: $756 million; 31 March 2017: $1,013 million).

Dollars in Millions	Consolidated Unaudited 31/3/18	Consolidated Audited 30/9/17	Consolidated Unaudited 31/3/17
Note 6 Trading Securities			
Government bonds, notes and securities	**3,030**	3,275	3,321
Semi-government bonds, notes and securities	**1,080**	843	744
Corporate and other institutions bonds, notes and securities	**2,131**	1,660	952
Total trading securities	**6,241**	5,778	5,017

Included in trading securities as at 31 March 2018 were $99 million encumbered through repurchase agreements (30 September 2017: $22 million; 31 March 2017: $235 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 14).

Dollars in Millions	Consolidated Unaudited 31/3/18	Audited 30/9/17	Unaudited 31/3/17
Note 7 Loans and Advances to Customers			
Overdrafts	**2,444**	2,397	2,269
Credit card outstandings	**1,180**	1,135	1,173
Housing loans	**38,186**	37,358	36,110
Other term lending	**38,320**	38,290	36,749
Other lending	**588**	724	853
Total gross loans and advances to customers	**80,718**	79,904	77,154
Deduct:			
Provision for credit impairment and credit risk adjustments on financial assets (refer to note 8)	**605**	581	563
Deferred and other unearned future income and expenses	**(70)**	(77)	(82)
Fair value hedge adjustments	**(33)**	(41)	(60)
Total deductions	**502**	463	421
Total net loans and advances to customers	**80,216**	79,441	76,733

Included in loans and advances to customers as at 31 March 2018 was $13 million of collateral posted with counterparties to meet standard derivative trading obligations (30 September 2017: $11 million; 31 March 2017: 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 March 2018, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of $4,461 million held by the RMBS Trust (30 September 2017: $4,471 million; 31 March 2017: $4,465 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 21. The Banking Group had not entered into any repurchase agreements for RMBS with the RBNZ as at 31 March 2018 (30 September 2017: nil; 31 March 2017: nil). The RBNZ had not accepted any RMBS as collateral from the Banking Group as at 31 March 2018 (30 September 2017: nil; 31 March 2017: 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 March 2018, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of $3,523 million held by the Covered Bond Trust (30 September 2017: $6,045 million; 31 March 2017: $4,951 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 $3,168 million that were guaranteed by the Covered Bond Trust as at 31 March 2018 (30 September 2017: $5,032 million; 31 March 2017: $3,874 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 $3,552 million as at 31 March 2018 (30 September 2017: $6,089 million; 31 March 2017: $5,003 million).

Note 8 Provision for Credit Impairment

The tables on pages 11 and 12 reflect provision for credit impairment on financial assets held at amortised cost. The table on page 13 shows credit risk adjustments on financial assets designated at fair value through profit or loss.

Dollars in Millions	Consolidated Residential Mortgage Lending Unaudited 31/3/18	Other Retail Exposures Unaudited 31/3/18	Corporate Exposures Unaudited 31/3/18	Total Unaudited 31/3/18
Loans and advances to customers				
Collective provision for credit impairment measured on a 12-months expected credit loss ("ECL")	1	14	49	64
Provision for credit impairment measured on a lifetime ECL				
Collective provision lifetime ECL not credit impaired	52	14	280	346
Collective provision lifetime ECL credit impaired	9	13	44	66
Specific provision lifetime ECL credit impaired	5	7	99	111
Total provision for credit impairment measured on a lifetime ECL	66	34	423	523
Total provision for credit impairment	67	48	472	587

Note 8 Provision for Credit Impairment *continued*

The following table provides a reconciliation from the opening balance to the closing balance of provision for credit impairment 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 31/3/18	Collective Provision Lifetime ECL Not Credit Impaired Unaudited 31/3/18	Collective Provision Lifetime ECL Credit Impaired Unaudited 31/3/18	Specific Provision Lifetime ECL Credit Impaired Unaudited 31/3/18	Total Unaudited 31/3/18
Movement in provision for credit impairment					
Residential mortgage lending					
Balance at beginning of period	2	51	6	7	66
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	2	(1)	(1)	-	-
Transferred to collective provision lifetime ECL not credit impaired	-	1	(1)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(1)	1	-	-
Transferred to specific provision lifetime ECL credit impaired	-	-	(1)	1	-
Charge/(credit) to income statement excluding transfer between ECL stages [1]	(3)	2	5	(1)	3
Amounts written off	-	-	-	(2)	(2)
Recovery of amounts written off	-	-	-	-	-
Balance at end of period - Residential mortgage lending	1	52	9	5	67
Other retail exposures					
Balance at beginning of period	15	12	10	6	43
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	4	(4)	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	(1)	2	(1)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(2)	2	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(1)	(5)	6	-
Charge/(credit) to income statement excluding transfer between ECL stages [1]	(4)	7	7	6	16
Amounts written off	-	-	-	(16)	(16)
Recovery of amounts written off	-	-	-	5	5
Balance at end of period - Other retail exposures	14	14	13	7	48
Corporate exposures					
Balance at beginning of period	52	246	57	89	444
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	36	(36)	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	(9)	29	(20)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(5)	5	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(1)	(11)	12	-
Charge/(credit) to income statement excluding transfer between ECL stages [1]	(30)	47	13	(1)	29
Amounts written off	-	-	-	(9)	(9)
Recovery of amounts written off	-	-	-	10	10
Discount unwind [2]	-	-	-	(2)	(2)
Balance at end of period - Corporate exposures	49	280	44	99	472
Total					
Balance at beginning of period	69	309	73	102	553
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12-months ECL	42	(41)	(1)	-	-
Transferred to collective provision lifetime ECL not credit impaired	(10)	32	(22)	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(8)	8	-	-
Transferred to specific provision lifetime ECL credit impaired	-	(2)	(17)	19	-
Charge/(credit) to income statement excluding transfer between ECL stages [1]	(37)	56	25	4	48
Amounts written off	-	-	-	(27)	(27)
Recovery of amounts written off	-	-	-	15	15
Discount unwind [2]	-	-	-	(2)	(2)
Total provision for credit impairment balance at end of period	64	346	66	111	587

[1] Classified as credit impairment charge in the income statement.

[2] The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to its present value using the original effective interest rate for the asset. This discount unwinds through interest income over the period the asset is held.

Note 8 Provision for Credit Impairment *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 credit impairment. Provision for credit impairment reflects ECL measured using the three-stage approach under NZ IFRS 9.

Overall, the net increase in the total provision for credit impairment of $34 million was mainly driven by increases in collective provisioning, partially offset by write-offs during the reporting period. Across all stages, the increase was mainly attributed to the corporate segment. Provisioning levels for residential mortgage lending and other retail segments marginally increased across the period.

- Collective provision 12-months ECL (Stage 1) decreased by $5 million, mainly due to $13 billion of loans and advances that were repaid, experienced movements in underlying account balances during the period and transferred to Stage 2 or Stage 3 due to deterioration in credit quality. This was partially offset by $11 billion of loans and advances that were newly originated and transferred from Stage 2 or Stage 3 due to credit improvement.
- Collective provision lifetime ECL – not credit impaired (Stage 2) increased by $37 million, mainly due to $6 billion of loans and advances that were newly originated and transferred from Stage 1 due to deterioration in credit quality and forward looking adjustments established in the corporate segment reflecting management's outlook of the emerging level of credit risk in this segment. This was partially offset by $5 billion of loans and advances that were repaid and transferred to Stage 1 or Stage 3.
- Collective provision lifetime ECL – credit impaired (Stage 3) decreased by $7 million, mainly due to $370 million of loans and advances that were repaid and transferred to Stage 1 or Stage 2 due to improvement in credit quality. This was partially offset by $183 million of loans and advances that were transferred from Stage 1 or Stage 2 due to deterioration in credit quality.
- Specific provision lifetime ECL – credit impaired (Stage 3) increased by $9 million as a result of transfer of $106 million of loans and advances previously assessed collectively, partially offset by net write-offs during the period.

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

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

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

	Consolidated			
Dollars in Millions	Residential Mortgage Lending Unaudited 31/3/18	Other Retail Exposures Unaudited 31/3/18	Corporate Exposures Unaudited 31/3/18	Total Unaudited 31/3/18
Credit risk adjustment on individual financial assets				
Loans and advances to customers				
Balance at beginning of period	-	-	2	2
Charge/(credit) to income statement	-	-	(1)	(1)
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	-	-	26	26
Charge/(credit) to income statement	-	-	(9)	(9)
Balance at end of period	-	-	17	17
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	-	18	18
Trading derivative financial instruments				
Balance at beginning of period	-	-	14	14
Charge/(credit) to income statement	-	-	(1)	(1)
Balance at end of period	-	-	13	13
Total credit risk adjustments on trading derivative financial instruments	-	-	13	13

Note 9 Asset Quality

The Banking Group provides for credit impairment as disclosed in note 8. Accordingly, when management determines that a loan is not expected to be recovered in full, 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 31/3/18	Other Retail Exposures Unaudited 31/3/18	Corporate Exposures Unaudited 31/3/18	Total Unaudited 31/3/18
Movements in pre-allowance balances				
Individually impaired assets - at amortised cost				
Balance at beginning of period	19	10	193	222
Amounts written off	(2)	(16)	(9)	(27)
Additions	13	22	119	154
Deletions	(13)	(6)	(55)	(74)
Balance at end of period	17	10	248	275
Specific provision for credit impairment	5	7	99	111
Individually impaired assets - at fair value through profit or loss				
Balance at beginning of period	-	-	28	28
Amounts written off	-	-	-	-
Additions	-	-	4	4
Deletions	-	-	(12)	(12)
Balance at end of period	-	-	20	20
Credit risk adjustments on individual financial assets designated at fair value through profit or loss	-	-	1	1
Total impaired assets at end of period [1]	17	10	268	295
Individually impaired assets - undrawn lending commitments				
At amortised cost	-	-	8	8
At fair value through profit or loss	-	-	-	-
Other assets under administration	9	2	-	11

[1] In the NAB Half Year Results 2018 and the NAB Half Year Pillar 3 Report for 31 March 2018, NZD$81 million of BNZ's dairy exposures were classified as impaired with no loss, some of which were not past due as at 31 March 2018. 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.

	Consolidated			
Dollars in Millions	Residential Mortgage Lending Unaudited 31/3/18	Other Retail Exposures Unaudited 31/3/18	Corporate Exposures Unaudited 31/3/18	Total Unaudited 31/3/18
Past due assets not individually impaired				
Loans and advances to customers				
1 - 7 days past due	125	58	245	428
8 - 29 days past due	70	40	38	148
1 - 29 days past due	195	98	283	576
30 - 59 days past due	57	16	61	134
60 - 89 days past due	27	8	7	42
90+ days past due	28	17	75	120
Total past due assets not individually impaired	307	139	426	872

Liability Notes

Dollars in Millions	Consolidated Unaudited 31/3/18	Audited 30/9/17	Unaudited 31/3/17
Note 10 Due to Central Banks and Other Institutions			
Transaction balances with other institutions [1]	**1,370**	798	697
Deposits from central banks	**91**	103	111
Deposits from other institutions [2]	**810**	587	304
Securities sold under agreements to repurchase from other institutions [1]	**210**	106	351
Total due to central banks and other institutions	**2,481**	1,594	1,463

[1] Classified as cash and cash equivalents in the cash flow statement.
[2] Included in deposits from other institutions as at 31 March 2018 was $17 million classified as cash and cash equivalents in the cash flow statement (30 September 2017: $17 million; 31 March 2017: $17 million).

Included in due to central banks and other institutions as at 31 March 2018 was $636 million of collateral received from counterparties to meet standard derivative trading obligations (30 September 2017: $457 million; 31 March 2017: $263 million).

Dollars in Millions	Consolidated Unaudited 31/3/18	Audited 30/9/17	Unaudited 31/3/17
Note 11 Deposits and Other Borrowings			
Deposits not bearing interest	**5,503**	5,087	4,933
On-demand and short-term deposits bearing interest	**20,106**	18,850	19,820
Term deposits	**33,677**	32,194	29,224
Total customer deposits	**59,286**	56,131	53,977
Certificates of deposit	**1,958**	1,351	1,616
Commercial paper	**1,739**	2,430	3,402
Total deposits and other borrowings	**62,983**	59,912	58,995

Included in deposits and other borrowings as at 31 March 2018 was $15 million of collateral was posted by counterparties to meet standard derivative trading obligations (30 September 2017: $1 million; 31 March 2017: nil).

Note 12 Other Liabilities

Included in other liabilities is a $54 million restructuring-related provision raised by the Banking Group in March 2018. The provision charge was recognised in other operating expenses for the six months ended 31 March 2018. The Bank expects the cash flows related to the recognised provisions to occur over the period to September 2020.

Dollars in Millions	Consolidated Unaudited 31/3/18	Audited 30/9/17	Unaudited 31/3/17
Note 13 Subordinated Debt			
Subordinated loans due to related entities	**150**	380	380
Perpetual notes due to related entities	**900**	900	900
Subordinated notes due to external investors	**545**	544	543
Total subordinated debt	**1,595**	1,824	1,823

Subordinated Loans due to related entities

Subordinated loans due to a related entity of $230 million were repaid on 15 March 2018.

As at 31 March 2018, a subordinated loan of $150 million ("Subordinated Loan") had been provided by a related entity of the Bank. Refer to note 22 for further information.

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.

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.

Note 13 Subordinated Debt *continued*

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 the Subordinated Loan 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, the holder of the Subordinated Loan 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 31/3/18	Audited 30/9/17	Unaudited 31/3/17

Note 14 Related Entity Transactions

Total balances with related entities			
Amounts due from related entities [1]	**1,124**	677	1,428
Derivative financial assets with related entities	**1,246**	1,294	1,367
Amounts due to related entities [2]	**622**	519	840
Derivative financial liabilities with related entities	**1,181**	1,393	1,798
Subordinated loans and perpetual notes due to related entities	**1,050**	1,280	1,280

[1] Included in amounts due from related entities as at 31 March 2018 was $1,103 million classified as cash and cash equivalent in the cash flow statement (30 September 2017: $561 million; 31 March 2017: $797 million).
[2] Included in amounts due to related entities as at 31 March 2018 was $548 million classified as cash and cash equivalent in the cash flow statement (30 September 2017: $416 million; 31 March 2017: $793 million).

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

Dollars in Millions	Consolidated Unaudited 31/3/18	Audited 30/9/17	Unaudited 31/3/17
Amounts due from related entities			
Collateral loan posted to ultimate parent to meet standard derivative trading obligations	**-**	101	411
Securities purchased under agreements to resell to ultimate parent	**1,063**	514	764
Amounts due to related entities			
Collateral deposit posted by ultimate parent to meet standard derivative trading obligations	**22**	-	-
Securities sold under agreements to repurchase from ultimate parent	**195**	116	270

Other transactions with related entities

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

Note 15 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 16 Fair Value of Financial Assets and Financial Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. For the purposes of this note, carrying value refers to amounts reflected in the balance sheet. The methodologies and assumptions used in the fair value estimates are described on page 19.

Hierarchy for fair value measurements

The tables on pages 18 and 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 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 six months ended 31 March 2018 (year ended 30 September 2017: nil; six months ended 31 March 2017: nil).

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

Hierarchy for fair value measurements *continued*

Financial assets and liabilities at fair value

	Consolidated			
	Unaudited (31/3/18)			
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	**1,024**	**-**	**1,024**	**-**
Trading securities	**6,241**	**3,030**	**3,211**	**-**
Derivative financial instruments	**3,910**	**-**	**3,910**	**-**
Loans and advances to customers	**3,505**	**-**	**3,505**	**-**
Financial liabilities				
Due to central banks and other institutions	**265**	**-**	**265**	**-**
Trading liabilities	**527**	**527**	**-**	**-**
Derivative financial instruments	**2,745**	**-**	**2,745**	**-**
Deposits and other borrowings	**4,844**	**-**	**4,844**	**-**
Bonds and notes	**18,221**	**-**	**18,221**	**-**
	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 (31/3/17)			
Financial assets				
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 liabilities				
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	-

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

Hierarchy for fair value measurements *continued*

Financial assets and liabilities at amortised cost [1]

	Consolidated				
	Unaudited (31/3/18)				
Dollars in Millions	Carrying Amount	Fair Value Total	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Financial assets					
Loans and advances to customers	**76,711**	**76,706**	**-**	**2,444**	**74,262**
Financial liabilities					
Deposits and other borrowings	**58,139**	**58,321**	**-**	**58,321**	**-**
Subordinated debt	**1,445**	**1,485**	**569**	**916**	**-**
	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 (31/3/17)				
Financial assets					
Loans and advances to customers	71,914	71,896	-	2,269	69,627
Financial liabilities					
Deposits and other borrowings	51,973	52,147	-	52,147	-
Subordinated debt	1,443	1,462	558	904	-

[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 provision for credit impairment, 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 17 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	**31/3/18**	30/9/17	31/3/17
Contingent liabilities			
Bank guarantees	**81**	79	71
Standby letters of credit	**274**	292	307
Documentary letters of credit	**161**	105	74
Performance related contingencies	**650**	635	562
Total contingent liabilities	**1,166**	1,111	1,014
Credit related commitments			
Revocable commitments to extend credit	**8,916**	8,395	8,219
Irrevocable commitments to extend credit[1]	**11,897**	11,844	11,484
Total credit related commitments	**20,813**	20,239	19,703
Total contingent liabilities and credit related commitments	**21,979**	21,350	20,717

[1] Comparative data for “Irrevocable commitments to extended credit” has been restated due to a data error in the Banking Group’s unutilised credit limit.

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

The Banking Group’s disclosure of concentrations of credit exposures to individual counterparties and groups of closely related counterparties is based on actual credit exposures and excludes credit exposures to connected persons, the central government or central bank of any country with a long-term credit rating of A- or A3 or above, or its equivalent, and excludes supranationals or quasi-sovereign agencies 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 Common Equity Tier One capital.

	Consolidated Unaudited (31/3/18) Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties Long Term Credit Rating	
Number of 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 Common Equity Tier One capital		
10-14%	1	-
15-19%	2	2
20-24%	2	-

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, supranationals or quasi-sovereign agencies with a long term credit rating below A- or A3, to whom their aggregate credit exposure, as at 31 March 2018, and peak end-of-day aggregate credit exposure, for the three months ended 31 March 2018, equalled or exceeded 10% of the Banking Group’s Common Equity Tier One Capital.

The Banking Group had no non-bank counterparties with a long term credit rating below or above A- or A3, to whom their aggregate credit exposure, as at 31 March 2018, and peak end-of-day aggregate credit exposure, for the three months ended 31 March 2018, equalled or exceeded 10% of the Banking Group’s Common Equity Tier One Capital.

Note 19 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 20 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 29.

The tables included below and on the following pages detail the capital calculation, capital ratios and capital requirements as at 31 March 2018. During the reporting period the Banking Group complied with all RBNZ's capital requirements as set out in the Bank's Conditions of Registration, except as disclosed on page 36 of this Disclosure Statement.

Note 20 Capital Adequacy *continued*

Regulatory capital

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

Dollars in Millions	Consolidated Unaudited 31/3/18
Qualifying capital	
Common Equity Tier One capital	
Contributed equity - ordinary shares	3,456
Retained profits	3,626
Accumulated other comprehensive income and other disclosed reserves	28
Deductions from Common Equity Tier One capital:	
Goodwill and other intangible assets	309
Cash flow hedge reserve	28
Credit value adjustment on liabilities designated at fair value through profit or loss	(83)
Prepaid pension assets (net of deferred tax)	3
Deferred tax asset	201
Total expected loss less total eligible allowances for impairment	50
Total Common Equity Tier One capital	6,602
Additional Tier One capital	
Subordinated perpetual notes due to related entities	900
Total Additional Tier One capital	900
Total Tier One capital	7,502
Tier Two capital	
Revaluation reserves	3
Subordinated notes due to external investors	550
Total Tier Two capital	553
Total Tier One and Tier Two qualifying capital	8,055

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 31/3/18	Unaudited [1] 30/9/17	Unaudited [1] 31/3/17
Common Equity Tier One capital ratio	4.50%	10.75%	10.38%	10.30%
Tier One capital ratio	6.00%	12.22%	11.83%	11.77%
Total qualifying capital ratio	8.00%	13.12%	13.02%	12.97%
Buffer ratio	2.50%	5.12%	5.02%	4.97%

[1] Comparative data for the Banking Group's capital ratios have been restated due to a data error in the Banking Group's unutilised credit limit.

Registered Bank Basel III regulatory capital ratios

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

	The Registered Bank		
	Unaudited 31/3/18	Unaudited [1] 30/9/17	Unaudited [1] 31/3/17
Common Equity Tier One capital ratio	10.74%	10.34%	10.28%
Tier One capital ratio	12.21%	11.80%	11.75%
Total qualifying capital ratio	13.11%	12.98%	12.95%

[1] Comparative data for the Banking Group's capital ratios has been restated due to a data error in the Banking Group's unutilised credit limit.

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

Note 20 Capital Adequacy *continued*

Total regulatory capital requirements

Dollars in Millions	Consolidated Total Exposure at Default Unaudited 31/3/18	Risk-Weighted Exposure or Implied Risk-Weighted Exposure Unaudited 31/3/18	Total Capital Requirement[1] Unaudited 31/3/18
Credit risk			
Exposures subject to the internal ratings based approach	103,732	43,706	3,498
Equity exposures	12	50	4
Specialised lending subject to the slotting approach	8,552	8,051	644
Exposures subject to the standardised approach	2,670	1,236	99
Credit value adjustment subject to BS2B	N/A	1,090	87
Agribusiness supervisory adjustment[2]	N/A	581	46
Total credit risk	114,966	54,714	4,378
Operational risk	N/A	4,375	350
Market risk	N/A	2,302	184
Total	114,966	61,391	4,912

[1] 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.

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

Advanced Internal Ratings Based approach to credit risk management

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

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

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

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

Controls surrounding credit risk rating systems

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

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

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

Note 20 Capital Adequacy *continued*

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

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

	Consolidated					
Dollars in Millions	Weighted Average PD (%) Unaudited 31/3/18	Exposure at Default Unaudited 31/3/18	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 31/3/18	Exposure-Weighted Risk Weight (%) Unaudited 31/3/18	Risk-Weighted Assets Unaudited 31/3/18	Minimum Capital Requirement Unaudited 31/3/18
Corporate						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.05	6,129	38	16	999	80
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.30	15,531	33	38	5,978	479
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.93	13,693	33	64	8,780	702
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.47	8,459	36	92	7,802	624
Exposure-weighted PD grade > 5.0 ≤ 99.99%	11.37	1,762	40	170	3,003	240
Default PD grade = 100%	100.00	491	42	259	1,270	102
Total corporate exposures	2.34	46,065	35	60	27,832	2,227
Sovereign						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.03	5,343	8	1	80	6
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.41	18	45	73	13	1
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.74	20	45	102	21	2
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.15	-	45	104	-	-
Exposure-weighted PD grade > 5.0 ≤ 99.99%	5.72	-	45	147	-	-
Default PD grade = 100%	-	-	-	-	-	-
Total sovereign exposures	0.03	5,381	8	2	114	9
Bank						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.04	5,961	45	16	963	77
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.17	563	37	32	180	15
Exposure-weighted PD grade > 0.5 ≤ 1.5%	1.29	2	60	115	2	-
Exposure-weighted PD grade > 1.5 ≤ 5.0%	4.36	8	60	176	13	1
Exposure-weighted PD grade > 5.0 ≤ 99.99%	5.75	-	60	196	-	-
Default PD grade = 100%	-	-	-	-	-	-
Total bank exposures	0.06	6,534	44	18	1,158	93
Residential mortgage						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.03	-	38	6	-	-
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.40	1,613	18	14	227	18
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.92	37,446	20	28	10,320	826
Exposure-weighted PD grade > 1.5 ≤ 5.0%	4.92	2,186	19	72	1,569	126
Exposure-weighted PD grade > 5.0 ≤ 99.99%	-	-	-	-	-	-
Default PD grade = 100%	100.00	187	22	230	431	34
Total residential mortgage exposures	1.56	41,432	20	30	12,547	1,004
Other retail [1]						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.05	765	86	13	100	8
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.25	619	85	41	253	21
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.95	424	84	87	369	30
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.87	344	84	122	418	33
Exposure-weighted PD grade > 5.0 ≤ 99.99%	12.60	142	82	153	218	17
Default PD grade = 100%	100.00	13	78	297	37	3
Total other retail exposures	2.00	2,307	85	60	1,395	112

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

Note 20 Capital Adequacy *continued*

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

	Consolidated					
Dollars in Millions	Weighted Average PD (%) Unaudited 31/3/18	Exposure at Default Unaudited 31/3/18	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 31/3/18	Exposure-Weighted Risk Weight (%) Unaudited 31/3/18	Risk-Weighted Assets Unaudited 31/3/18	Minimum Capital Requirement Unaudited 31/3/18
Retail small to medium enterprises						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.07	129	37	7	10	1
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.30	647	29	16	103	8
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.95	583	30	31	181	14
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.60	572	34	48	274	23
Exposure-weighted PD grade > 5.0 ≤ 99.99%	10.86	53	39	70	37	3
Default PD grade = 100%	100.00	29	42	186	55	4
Total retail SME exposures	2.86	2,013	31	33	660	53
Total [1]						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.04	18,327	34	12	2,152	172
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.31	18,991	33	36	6,754	542
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.92	52,168	24	38	19,673	1,574
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.96	11,569	34	87	10,076	807
Exposure-weighted PD grade > 5.0 ≤ 99.99%	11.45	1,957	43	166	3,258	260
Default PD grade = 100%	100.00	720	37	249	1,793	143
Total exposures	1.77	103,732	29	42	43,706	3,498

[1] 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 31/3/18	Exposure at Default Unaudited 31/3/18	Risk-Weighted Assets Unaudited 31/3/18	Minimum Capital Requirement Unaudited 31/3/18
On-balance sheet exposures				
Corporate	33,578	33,578	21,411	1,713
Sovereign	5,117	5,117	92	7
Bank	4,241	4,241	729	58
Residential mortgage	38,186	38,186	11,676	934
Other retail	1,335	1,335	1,013	81
Retail small to medium enterprises	1,536	1,536	525	42
Total on-balance sheet exposures	83,993	83,993	35,446	2,835
Off-balance sheet exposures				
Corporate	12,201	10,954	5,649	452
Sovereign	139	56	11	1
Bank	727	709	61	5
Residential mortgage	3,698	3,246	871	70
Other retail	2,805	972	382	31
Retail small to medium enterprises	524	477	135	11
Total off-balance sheet exposures	20,094	16,414	7,109	570
Market related contracts				
Corporate	183,803	1,533	772	62
Sovereign	10,964	208	11	1
Bank	162,299	1,584	368	30
Total market related contracts	357,066	3,325	1,151	93

Note 20 Capital Adequacy *continued*

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

	Consolidated			
Dollars in Millions	Total Exposure Unaudited 31/3/18	Exposure at Default Unaudited 31/3/18	Risk-Weighted Assets Unaudited 31/3/18	Minimum Capital Requirement Unaudited 31/3/18
Summary [1]				
Corporate	229,582	46,065	27,832	2,227
Sovereign	16,220	5,381	114	9
Bank	167,267	6,534	1,158	93
Residential mortgage	41,884	41,432	12,547	1,004
Other retail	4,140	2,307	1,395	112
Retail small and medium enterprises	2,060	2,013	660	53
Total credit risk exposures subject to the IRB approach	461,153	103,732	43,706	3,498

[1] 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 31/3/18	Risk Weight (%) Unaudited 31/3/18	Risk-Weighted Exposures Unaudited 31/3/18	Minimum Pillar One Capital Requirement Unaudited 31/3/18
Equity holdings (not deducted from capital) that are publicly traded	-	300	-	-
All other equity holdings (not deducted from capital)	12	400	50	4
Total equity exposures	12	400	50	4

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 31/3/18	Risk Weight (%) Unaudited 31/3/18	Risk-Weighted Assets Unaudited 31/3/18	Minimum Pillar One Capital Requirement Unaudited 31/3/18
On-balance sheet exposures subject to the slotting approach				
Strong	1,622	70	1,203	96
Good	4,845	90	4,619	370
Satisfactory	855	115	1,038	83
Weak	62	250	165	13
Default	76	-	-	-
Total on-balance sheet exposures subject to the slotting approach	7,460	89	7,025	562

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 (Australia) Pty Limited rating scale: BBB- or better (Strong); BB+ or BB (Good); BB- or B+ (Satisfactory); B to C- (Weak).

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

Note 20 Capital Adequacy *continued*

Dollars in Millions	Total Exposure Unaudited 31/3/18	Exposure At Default Unaudited 31/3/18	Average Risk Weight (%) Unaudited 31/3/18	Risk-Weighted Assets Unaudited 31/3/18	Minimum Pillar One Capital Requirement Unaudited 31/3/18
	Consolidated				
Off-balance sheet exposures subject to the slotting approach					
Off-balance sheet exposures	64	28	89	25	2
Undrawn commitments	1,833	1,012	95	959	77
Market related contracts	1,761	52	80	42	3
Total off-balance sheet exposures subject to the slotting approach	3,658	1,092	94	1,026	82
Total exposures subject to the slotting approach		8,552	90	8,051	644

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	Total Exposure at Default Unaudited 31/3/18	Average Risk Weight (%) Unaudited 31/3/18	Risk-Weighted Assets Unaudited 31/3/18	Minimum Pillar One Capital Requirement Unaudited 31/3/18
	Consolidated			
On-balance sheet exposures subject to the standardised approach				
Corporate	215	105	227	18
Residential mortgage	98	96	94	8
Past due assets	1	159	2	-
Other assets [1]	1,480	49	719	58
Total on-balance sheet exposures subject to the standardised approach	1,794	58	1,042	84

[1] 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	Total Exposure or Principal Amount Unaudited 31/3/18	Average Credit Conversion Factor (%) Unaudited 31/3/18	Credit Equivalent Amount Unaudited 31/3/18	Average Risk Weight (%) Unaudited 31/3/18	Risk-Weighted Assets Unaudited 31/3/18	Minimum Pillar One Capital Requirement Unaudited 31/3/18
	Consolidated					
Off-balance sheet exposures subject to the standardised approach						
Total off-balance sheet exposures subject to the standardised approach	79	26	20	88	18	1
Market related contracts subject to the standardised approach						
Foreign exchange contracts	45	N/A	-	106	-	-
Interest rate contracts [2]	440,726	N/A	854	21	176	14
Other	12	N/A	2	2	-	-
Total market related contracts subject to the standardised approach	440,783	N/A	856	21	176	14
Total exposures subject to the standardised approach		N/A	2,670	46	1,236	99

[2] The total exposure or principal amount reflects the gross notional value of contracts transacted through a qualifying central counterparty ("QCCP").

Note 20 Capital Adequacy *continued*

Credit risk mitigation

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

The table below 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	31/3/18
For portfolios subject to the standardised approach:	
Total value of exposures covered by eligible financial or IRB collateral	4
For all portfolios:	
Total value of exposures covered by credit derivatives or guarantees	-

Residential mortgages by loan-to-valuation ratio

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

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

	Consolidated		
	On-balance Sheet Exposures at Default Unaudited	Off-balance Sheet Exposures at Default [1] Unaudited	Total Exposures at Default Unaudited
Dollars in Millions	31/3/18	31/3/18	31/3/18
LVR Range			
0 - 59%	16,027	1,295	17,322
60 - 69%	8,460	693	9,153
70 - 79%	11,277	886	12,163
80 - 89%	1,336	20	1,356
Over 90%	1,086	352	1,438
Total exposures at default secured by residential mortgages	38,186	3,246	41,432

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

Operational risk

	Consolidated	
	Implied Risk-Weighted Exposure Unaudited	Total Operational Risk Capital Requirement Unaudited
Dollars in Millions	31/3/18	31/3/18
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 AMA is in accordance with BS2B.

Note 20 Capital Adequacy *continued*

Market risk

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

	Consolidated Unaudited 31/3/18			
	Implied Risk-Weighted Exposure	Peak	Aggregate Capital Charge	Peak
Dollars in Millions	End of Period	End-of-Day	End of Period	End-of-Day
Interest rate risk	2,266	4,122	181	330
Foreign exchange risk	24	45	2	4
Equity risk	12	13	1	1
Total market risk	2,302	4,180	184	335

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 2018, the Banking Group had an internal capital allocation for strategic business risk of $109 million (30 September 2017: $111 million; 31 March 2017: $111 million).

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 13 for further information.

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
	31/3/18	30/9/17	31/3/17	**31/3/18**	30/9/17	31/3/17
Common Equity Tier One capital ratio	**10.21%**	10.06%	10.11%	**10.54%**	10.37%	10.37%
Tier One capital ratio	**12.40%**	12.41%	12.51%	**12.92%**	12.96%	13.01%
Total qualifying capital ratio	**14.43%**	14.58%	14.71%	**15.05%**	15.26%	15.35%

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 2018.

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.

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.

Note 21 Risk Management

Risk management disclosure

There have been no material changes to the Banking Group's policies for managing risk, or material exposures to new categories of risk since 31 December 2017.

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 shareholder's earnings.

	Consolidated						
	Unaudited 31/3/18						
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	Non-Interest Bearing
Assets							
Cash and liquid assets	2,653	2,245	-	-	-	-	408
Due from central banks and other institutions	1,763	1,733	30	-	-	-	-
Trading securities	6,241	2,158	868	1,954	66	1,195	-
Derivative financial instruments	3,910	-	-	-	-	-	3,910
Gross loans and advances to customers	80,718	45,915	4,223	8,629	13,666	6,582	1,703
Deductions from loans and advances to customers	(502)	-	-	-	-	-	(502)
Amounts due from related entities	1,124	1,069	-	-	-	-	55
All other assets	1,158	-	-	-	-	-	1,158
Total assets	97,065	53,120	5,121	10,583	13,732	7,777	6,732
Liabilities							
Due to central banks and other institutions	2,481	2,414	8	7	11	41	-
Trading liabilities	527	-	-	-	-	527	-
Derivative financial instruments	2,745	-	-	-	-	-	2,745
Deposits and other borrowings	62,983	39,922	7,701	6,559	2,097	1,201	5,503
Bonds and notes	18,221	4,388	-	1,949	1,836	10,048	-
Amounts due to related entities	622	508	-	2	-	-	112
Subordinated debt	1,595	150	-	-	-	1,445	-
All other liabilities	778	-	-	-	-	-	778
Total liabilities	89,952	47,382	7,709	8,517	3,944	13,262	9,138
Shareholder's equity							
Total shareholder's equity	7,113	-	-	-	-	-	7,113
Total liabilities and shareholder's equity	97,065	47,382	7,709	8,517	3,944	13,262	16,251
On-balance sheet interest sensitivity gap	-	5,738	(2,588)	2,066	9,788	(5,485)	(9,519)
Derivative financial instruments							
Net balance of derivative financial instruments	-	(9,619)	3,908	2,005	(5,511)	9,217	-
Interest sensitivity gap - net	-	(3,881)	1,320	4,071	4,277	3,732	(9,519)
Interest sensitivity gap - cumulative	-	(3,881)	(2,561)	1,510	5,787	9,519	-

Note 21 Risk Management *continued*

Maturity profile

The table below shows the cash flows by remaining contractual maturities of the Banking Group's financial liabilities and derivative financial liabilities 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. Off-balance sheet exposures are excluded from the table below as contractual cash flows, if any, are contingent in nature. Irrevocable commitments to extend credit can be drawn down at any time before the commitments expire. Details of off-balance sheet exposures are included in note 17. Other liabilities only include balances which have contractual future cash flows.

	Consolidated Unaudited 31/3/18					
Dollars in Millions	On Demand	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
Financial liabilities						
Due to central banks and other institutions	1,388	1,026	17	57	-	2,488
Trading liabilities	-	89	7	37	406	539
Deposits and other borrowings	25,237	19,579	15,332	3,498	-	63,646
Bonds and notes	-	1,149	2,681	12,800	2,617	19,247
Amounts due to related entities	354	236	32	-	-	622
Other liabilities	-	556	37	-	-	593
Subordinated debt	-	8	85	373	1,695	2,161
Total	26,979	22,643	18,191	16,765	4,718	89,296
Derivative financial liabilities [1]						
Derivative financial liabilities (inflow)	-	(20,145)	(10,236)	(14,162)	(5,511)	(50,054)
Derivative financial liabilities outflow	-	21,251	11,629	17,182	5,854	55,916

[1] Derivative financial liabilities 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 31/3/18
Cash and balances immediately convertible to cash [2]	2,123
Net securities purchased under agreements to resell	681
Government bonds, notes and securities	3,030
Semi-government bonds, notes and securities	1,080
Corporate and other institution bonds, notes and securities	2,131
Total liquidity portfolio	9,045

[2] Included within Cash and balances immediately convertible to cash is $20 million due from related entities and other institutions.

As at 31 March 2018, 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 March 2018.

Note 21 Risk Management *continued*

Regulatory liquidity ratios

The table below shows the arithmetic 3-month average of the respective daily ratio values in accordance with RBNZ's Liquidity Policy (BS13/BS13A) ("BS13") and the Bank's Conditions of Registration relating to liquidity-risk management.

The one-week mismatch ratio is a measure of the Bank's one-week mismatch amount over its total funding, where the one-week mismatch amount represents the Bank's portfolio of primary liquid assets plus expected cash inflows minus expected cash outflows during a one-week period of stress. The bank is required to maintain this ratio above a minimum level of zero percent on a daily basis. The one-week mismatch ratio = 100 x (one-week mismatch dollar amount / total funding).

The one-month mismatch ratio is a measure of the Bank's one-month mismatch amount over its total funding, where the one-month mismatch amount represents the Bank's stock of primary and secondary liquid assets plus expected cash inflows minus expected cash outflows during a one-month period of stress. The bank must maintain this ratio above a minimum level of zero percent on a daily basis. The one-month mismatch ratio = 100 x (one-month mismatch dollar amount / total funding).

The one-year core funding ratio measures the extent to which loans and advances are funded by funding that is considered stable. The one-year core funding ratio = 100 x (one-year core funding dollar amount / BS13 total loans and advances) and must currently remain above 75 percent on a daily basis.

	Consolidated	
	Unaudited For the 3 months ended 31/3/18	Unaudited For the 3 months ended 31/12/17
One-week mismatch ratio	**5.4%**	6.4%
One-month mismatch ratio	**6.0%**	6.9%
One-year core funding ratio	**86.2%**	87.3%

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
Dollars in Millions	Unaudited 31/3/18
Concentration by Industry	
Agriculture, forestry and fishing	**2,855**
Mining	**118**
Manufacturing	**1,643**
Electricity, gas and water	**48**
Construction	**885**
Wholesale and retail trade	**1,717**
Accommodation, restaurants, culture and recreation	**1,141**
Transport and storage	**876**
Communications	**157**
Financial, investment and insurance	**32,670**
Property, business and personal services	**10,215**
Government, education, health and community services	**3,702**
Personal deposits	**28,730**
Related entities [2]	**1,672**
Total funding by industry	**86,429**
Concentration by geography	
New Zealand	**70,195**
Overseas [1]	**16,234**
Total funding by geography	**86,429**
Total funding comprised:	
Due to central banks and other institutions	**2,481**
Trading liabilities	**527**
Deposits and other borrowings	**62,983**
Bonds and notes	**18,221**
Amounts due to related entities	**622**
Subordinated debt [2]	**1,595**
Total funding	**86,429**

[1] This represents the funding activities of BNZ-IF.
[2] Includes subordinated debt of $1,050 million due to related entities as at 31 March 2018. Refer to note 13 for further information.

Note 21 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		
Dollars in Millions	On-balance sheet Unaudited 31/3/18	Off-balance sheet [1] Unaudited 31/3/18	Total exposure Unaudited 31/3/18
Concentration by industry			
Agriculture	14,504	1,152	15,656
Forestry and fishing	1,135	257	1,392
Mining	219	185	404
Manufacturing	3,505	1,487	4,992
Electricity, gas and water	1,076	689	1,765
Construction	1,137	389	1,526
Wholesale and retail trade	3,171	1,508	4,679
Accommodation, restaurants, culture and recreation	1,308	380	1,688
Transport and storage	1,786	755	2,541
Communications	287	238	525
Financial, investment and insurance	10,361	1,039	11,400
Property, business and personal services	10,124	2,017	12,141
Government, education, health and community services	5,576	1,235	6,811
Real estate - mortgage	38,186	1,696	39,882
Personal lending	1,463	36	1,499
Related entities [2]	2,370	-	2,370
Total credit exposures by industry	96,208	13,063	109,271
Concentration by geography			
New Zealand	89,296	13,023	102,319
Overseas	6,912	40	6,952
Total credit exposures by geography	96,208	13,063	109,271

[1] Off-balance sheet credit exposures include contingent liabilities and irrevocable commitments to extend credit. Refer to note 17 for further information.

[2] Related entities include amounts due from related entities and derivative financial assets with related entities. Refer to note 14 for further information.

Dollars in Millions	Consolidated Unaudited 31/3/18
Maximum exposure to credit risk	
Cash and liquid assets	2,452
Due from central banks and other institutions	1,763
Trading securities	6,241
Derivative financial instruments	3,910
Gross loans and advances to customers	80,718
Amounts due from related entities	1,124
Total on-balance sheet credit exposures	96,208
Off-balance sheet credit exposures	13,063
Total maximum exposure to credit risk	109,271

Note 22 Subsequent Events

On 8 May 2018, the Bank repaid the Subordinated Loan of $150 million provided by a related entity of the Bank.

On 8 May 2018, the Bank issued $500 million of convertible subordinated unsecured notes ("Notes") to National Australia Bank Limited. The interest rate on the Notes will be reset every six months based on a margin over the prevailing rate for New Zealand six month bank bills. The Notes are treated as Tier Two capital of the Bank for regulatory purposes.

Auditor’s Independent Review Report

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Independent Review Report

To the shareholder of Bank of New Zealand

We have reviewed pages 4 to 33 of the Disclosure Statement of Bank of New Zealand (the “Bank”) for the six month period ended 31 March 2018 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 2018, 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 2018 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 and regulatory liquidity requirements) 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 and regulatory liquidity requirements 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, 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.

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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 33 (excluding the supplementary information disclosed in Notes 8, 9, 18, 19, 20, 21, 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 information relating to capital adequacy disclosed in Note 20 and the regulatory liquidity ratios disclosed in Note 21) prescribed by Schedules 5, 7, 13, 16 and 18 of the Order, does not fairly state the matters to which it relates in accordance with those Schedules; and
- the supplementary information relating to capital adequacy (disclosed in Note 20) and regulatory liquidity requirements (the regulatory liquidity ratios disclosed in Note 21) that is required to be disclosed under Schedule 11 of the Order, is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

Ernst + Young

17 May 2018
Auckland

Credit Ratings

As at the date on which this Disclosure Statement is signed, 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.

Non-compliance with Conditions of Registration

In March 2018, the Bank identified that due to a data error, since 2003 it has incorrectly calculated unutilised credit limits for certain Customised Average Rate Loans ("CARLs") offered predominantly to business customers. The data error has not impacted any of the Bank's CARL customers but it has resulted in the misstatement of credit exposures, risk-weighted assets and exposures at default in relation to these CARLs, and the Bank's capital adequacy disclosures, in disclosure statements relating to prior financial reporting periods. The Bank considers the incorrect calculation and resulting misstatement of the Bank's capital adequacy disclosures in prior financial reporting periods to be a breach of Condition of Registration 1B but the Bank has not breached any of its required minimum capital adequacy ratios.

The data error has been corrected in the current financial reporting period and the capital adequacy ratios previously reported for the six months ended 31 March 2017 and the year ended 30 September 2017 have been restated, as follows:

	Consolidated			
	30/9/17		31/3/17	
	Unaudited Reported	Unaudited Restated	Unaudited Reported	Unaudited Restated
Common Equity Tier One capital ratio	10.65%	10.38%	10.55%	10.30%
Tier One capital ratio	12.14%	11.83%	12.06%	11.77%
Total qualifying capital ratio	13.36%	13.02%	13.29%	12.97%
Buffer ratio	5.36%	5.02%	5.29%	4.97%

In April 2018, the Bank identified that since April 2016 it has not applied the correct collateral values when calculating the risk-weighted assets of a small number of business lending exposures. This resulted in an overstatement of capital ratios by no more than 2 basis points in the financial reporting periods since 30 June 2016. The Bank considers the incorrect calculation and resulting misstatement of the Bank's capital adequacy disclosures to be a breach of Condition of Registration 1B, which has not been corrected in the current financial reporting period. This matter did not cause the Bank to breach any of its required minimum capital adequacy ratios.

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 six months ended 31 March 2018:
   (a) the Bank has complied with its Conditions of Registration applicable during that period, except as disclosed on page 36 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 17th of May 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