

Bank of New Zealand

Disclosure Statement

For the three months ended 31 December 2011

This Disclosure Statement has been issued by Bank of New Zealand for the three months ended 31 December 2011 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 4) 2011 (the "Order").

In this Disclosure Statement, unless the context otherwise requires:

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

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Disclosure Statement

For the three months ended 31 December 2011

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Address for Service

The name of the Registered Bank is Bank of New Zealand (referred to either by its full name or as the “Bank” or the “Company”) and its address for service is Level 4, 80 Queen Street, Auckland, 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 to retail, business, agribusiness, corporate and institutional clients.

Guarantees

Wholesale funding guarantee – Certain debt securities issued by the Bank, or its subsidiary, BNZ International Funding Limited (London Branch), prior to 30 April 2010 are guaranteed by the Crown under the Crown’s wholesale funding guarantee scheme (the “Scheme”). The Scheme was closed to new guarantees on 30 April 2010. The guarantor under the Scheme is Her Majesty the Queen in right of New Zealand acting by and through the Minister of Finance (the “Crown”). The Crown’s address for service is 1 The Terrace, Wellington 6011, New Zealand.

The Scheme guarantees certain payment obligations of the Bank in respect of principal and interest (excluding penalty interest) owing under the guaranteed debt securities. The expiry date of the guarantee is the earlier of the maturity date of the guaranteed obligation or five years after the issue date of the guaranteed obligation.

A guarantee eligibility certificate is issued in respect of each issue of debt securities that is covered by the Crown wholesale funding guarantee. Copies of the guarantee eligibility certificates issued to Bank of New Zealand and information about the Scheme are available from New Zealand Treasury’s website – www.treasury.govt.nz/economy/guarantee/wholesale.

The information about the Crown’s wholesale funding guarantee above is a brief summary only. The full wholesale funding guarantee should be reviewed by any person intending to rely on the guarantee to ensure they understand how it will apply to their circumstances. Any person intending to rely on the wholesale funding guarantee should also search the relevant eligibility certificates. Further details can also be obtained by referring to the Bank’s Disclosure Statement for the year ended 30 September 2011 which is available at www.bnz.co.nz.

Covered bond guarantee – Certain debt securities (“Covered Bonds”) issued by the Bank, or its subsidiary, BNZ International Funding Limited (London Branch), are guaranteed by the CBG Trustee Company Limited, solely in its capacity as trustee of the BNZ Covered Bond Trust (the “Covered Bond Guarantor”). The Covered Bond Guarantor has guaranteed the payment of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over a pool of assets. The Covered Bond Guarantor’s address for service is Level 10, 141 Willis Street, Wellington, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations payable in New Zealand dollars. The Covered Bonds have been assigned to a long term rating of Aaa and AAA from Moody’s Investors Service and Fitch Ratings respectively. Refer to note 7 for further information.

Other material obligations of the Bank are not guaranteed.

Ultimate Parent Bank and Address for Service

The ultimate parent bank of Bank of New Zealand is National Australia Bank Limited whose address for service is Level 4 (UB 4440), 800 Bourke Street, Docklands, Victoria 3008, Australia.

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 Bank or the Banking Group.

Other Material Matters

With the continuing uncertainty over the extent of the impact of the Canterbury earthquakes and ongoing aftershocks, the Bank has retained an allowance against potential credit losses that result as a consequence.

The deteriorating sovereign debt position in Europe has become a major concern across global financial markets. However, the Bank’s Directors are of the opinion that the Bank has a strong funding and capital base to manage through this period of uncertainty.

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

Directorate

There have been no changes in the composition of the Bank’s Board of Directors since 30 September 2011.

Responsible Persons – Messrs. John Anthony Waller, Non-Executive Director, Chairman, and Andrew Gregory Thorburn, 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:

Cameron Anthony Clyne
Prudence Mary Flacks
Edwin Gilmour Johnson
Dr Susan Carrel Macken
Stephen John Moir
Dr Andrew John Pearce
Gavin Robin Slater

Income Statement

For the three months ended 31 December 2011

Dollars in Millions	Note	Consolidated		
		Unaudited 3 Months 31/12/11	Unaudited 3 Months 31/12/10	Audited 12 Months 30/9/11
Interest income		930	933	3,742
Interest expense		572	599	2,355
Net interest income		358	334	1,387
Gains less losses on financial instruments at fair value	2	139	15	120
Other operating income		102	101	382
Total operating income		599	450	1,889
Operating expenses		196	196	775
Total operating profit before impairment losses on credit exposures and income tax expense		403	254	1,114
Impairment losses on credit exposures	8	3	39	152
Total operating profit before income tax expense		400	215	962
Income tax expense on operating profit		111	65	291
Net profit attributable to shareholders of Bank of New Zealand		289	150	671

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

Statement of Comprehensive Income

For the three months ended 31 December 2011

Dollars in Millions	Consolidated		
	Unaudited 3 Months 31/12/11	Unaudited 3 Months 31/12/10	Audited 12 Months 30/9/11
Net profit attributable to shareholders of Bank of New Zealand	289	150	671
Other comprehensive income/(expense), net of taxation			
Net actuarial loss on defined benefit plan	-	-	(2)
Net change in foreign currency translation reserve	-	(2)	6
Net change in cash flow hedge reserve	46	(24)	59
Available for sale investments revaluation reserve:			
Change in available for sale investments revaluation reserve from revaluation	4	1	4
Total other comprehensive income/(expense), net of taxation	50	(25)	67
Total comprehensive income attributable to shareholders of Bank of New Zealand	339	125	738

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

Statement of Changes in Equity

For the three months ended
31 December 2011

Dollars in Millions	Consolidated							
	Unaudited 3 Months 31/12/11							
	Ordinary Capital	Perpetual Preference Capital	Retained Profits	Asset Revaluation Reserve	Foreign Currency Translation Reserve	Available For Sale Investments Revaluation Reserve	Cash Flow Hedge Reserve	Total Shareholders' Equity
Balance at beginning of period	1,451	910	1,844	2	3	20	119	4,349
Comprehensive income								
Net profit attributable to shareholders of Bank of New Zealand	-	-	289	-	-	-	-	289
Total other comprehensive income	-	-	-	-	-	4	46	50
Total comprehensive income	-	-	289	-	-	4	46	339
Perpetual preference dividend	-	-	(16)	-	-	-	-	(16)
Balance at end of period	1,451	910	2,117	2	3	24	165	4,672
	Unaudited 3 Months 31/12/10							
Balance at beginning of period	1,451	910	1,566	2	(3)	16	60	4,002
Comprehensive income/ (expense)								
Net profit attributable to shareholders of Bank of New Zealand	-	-	150	-	-	-	-	150
Total other comprehensive (expense)/income	-	-	-	-	(2)	1	(24)	(25)
Total comprehensive income/ (expense)	-	-	150	-	(2)	1	(24)	125
Ordinary dividend	-	-	(168)	-	-	-	-	(168)
Perpetual preference dividend	-	-	(15)	-	-	-	-	(15)
Balance at end of period	1,451	910	1,533	2	(5)	17	36	3,944
	Audited 12 Months 30/9/11							
Balance at beginning of year	1,451	910	1,566	2	(3)	16	60	4,002
Comprehensive income								
Net profit attributable to shareholders of Bank of New Zealand	-	-	671	-	-	-	-	671
Total other comprehensive (expense)/income	-	-	(2)	-	6	4	59	67
Total comprehensive income	-	-	669	-	6	4	59	738
Ordinary dividend	-	-	(330)	-	-	-	-	(330)
Perpetual preference dividend	-	-	(61)	-	-	-	-	(61)
Balance at end of year	1,451	910	1,844	2	3	20	119	4,349

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

Balance Sheet

As at 31 December 2011

Dollars in Millions	Note	Consolidated		
		Unaudited 31/12/11	Unaudited 31/12/10	Audited 30/9/11
Assets				
Cash and balances with central banks	4	2,039	1,909	1,986
Due from other financial institutions	5	584	1,341	1,567
Trading securities	6	3,778	3,759	3,935
Other money market placements		611	328	1,037
Available for sale investments		38	188	62
Loans and advances to customers	7	57,438	55,206	56,661
Derivative financial instruments		5,518	4,365	6,949
Amounts due from related entities		594	603	600
Current tax		28	212	88
Deferred tax		167	164	165
Other assets		322	267	683
Property, plant and equipment		212	170	200
Goodwill and other intangible assets		158	122	152
Total assets		71,487	68,634	74,085
Financed by:				
Liabilities				
Due to central banks and other financial institutions	9	1,180	1,222	2,672
Other money market deposits	10	9,636	11,323	11,789
Trading liabilities		28	2	51
Deposits from customers	11	33,167	30,133	31,354
Derivative financial instruments		5,326	5,388	6,051
Bonds and notes		11,663	10,353	12,414
Amounts due to related entities		3,990	4,422	3,212
Other liabilities		564	578	921
Subordinated debt		1,261	1,269	1,272
Total liabilities		66,815	64,690	69,736
Net assets		4,672	3,944	4,349
Shareholders' equity				
Contributed equity - ordinary shareholder		1,451	1,451	1,451
Reserves		194	50	144
Retained profits		2,117	1,533	1,844
Ordinary shareholder's equity		3,762	3,034	3,439
Contributed equity - perpetual preference shareholders		910	910	910
Total shareholders' equity		4,672	3,944	4,349

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

Cash Flow Statement

For the three months ended 31 December 2011

Dollars in Millions	Consolidated		
	Unaudited 3 Months 31/12/11	Unaudited 3 Months 31/12/10	Audited 12 Months 30/9/11
Cash flows from operating activities			
Cash was provided from:			
Dividend income	-	-	4
Interest income	927	938	3,754
Net trading income	16	-	-
Other income	102	101	378
Cash was applied to:			
Interest expense	(639)	(572)	(2,270)
Net trading income	-	(66)	(2)
Operating expenses	(214)	(205)	(763)
Net cash flows from operating activities before changes in operating assets and liabilities and income tax	192	196	1,101
Changes in operating assets and liabilities arising from cash flow movements			
Net movement in balances with central banks (term)*	3	(38)	(56)
Net movement in due from other financial institutions (term)*	539	(821)	(504)
Net movement in loans and advances to customers*	(810)	(367)	(1,996)
Net movement in other assets	365	277	(146)
Net movement in other money market placements (term)*	98	4	(83)
Net movement in trading securities and trading liabilities*	132	(574)	(685)
Net movement in deposits from customers*	1,813	1,470	2,691
Net movement in due to central banks and other financial institutions (term)*	(677)	5	522
Net movement in other liabilities	(309)	(301)	4
Net change in operating assets and liabilities	1,154	(345)	(253)
Net cash flows from operating activities before income tax	1,346	(149)	848
Cash was applied to:			
Taxes and subvention payments	(55)	(21)	(118)
Net cash flows from operating activities	1,291	(170)	730
Cash flows from investing activities			
Cash was provided from:			
Proceeds on maturity of available for sale investments	28	83	208
Cash was applied to:			
Acquisition of intangible assets	(12)	(10)	(56)
Purchase of property, plant and equipment	(20)	(16)	(75)
Net cash flows from investing activities	(4)	57	77
Cash flows from financing activities			
Net movement in bonds and notes*	(735)	715	2,591
Net movement in derivative financial instruments*	938	276	(1,336)
Net movement in other money market deposits*	(2,159)	(557)	(92)
Net movement in related entity funding*	784	(779)	(1,930)
Ordinary dividend	-	(168)	(330)
Perpetual preference dividend	(16)	(15)	(61)
Net cash flows from financing activities	(1,188)	(528)	(1,158)
Net movement in cash and cash equivalents	99	(641)	(351)
Cash and cash equivalents at beginning of period	1,381	1,732	1,732
Cash and cash equivalents at end of period	1,480	1,091	1,381
Cash and cash equivalents at end of period comprised:			
Cash and balances with central banks (call)	1,816	1,701	1,760
Due from other financial institutions (call)	135	36	579
Other money market placements (call)	387	94	715
Due to central banks and other financial institutions (call)	(858)	(740)	(1,673)
Total cash and cash equivalents	1,480	1,091	1,381

* The amounts shown represent the net cash flows for the interim financial period.

The definition of cash and cash equivalents has been changed to include securities purchased under agreements to resell and securities sold under agreements to repurchase. This impacts total cash and cash equivalents as well as cash flows from operating activities. Prior periods have been restated to reflect this change.

Cash Flow Statement continued

For the three months ended
31 December 2011

Dollars in Millions	Note	Consolidated		
		Unaudited 3 Months 31/12/11	Unaudited 3 Months 31/12/10	Audited 12 Months 30/9/11
Reconciliation of net profit attributable to shareholders of Bank of New Zealand to net cash flows from operating activities				
Net profit attributable to shareholders of Bank of New Zealand		289	150	671
Add back non-cash items in net profit:				
Decrease in accrued interest receivable		-	5	12
Depreciation and amortisation expense		14	12	53
Impairment losses on credit exposures	8	3	39	152
Increase in accrued interest payable		-	27	85
Increase in provision for tax		56	44	178
Loss on disposal of property, plant and equipment		-	-	4
Deduct non-cash items in net profit:				
Decrease in accrued interest payable		(67)	-	-
Decrease in other liabilities		(32)	(21)	(50)
Increase in accrued interest receivable		(3)	-	-
Unrealised gains less losses on financial instruments		(123)	(81)	(122)
Deduct operating cash flows not included in net profit:				
Net change in operating assets and liabilities		1,154	(345)	(253)
Net cash flows from operating activities		1,291	(170)	730

Netting of cash flows

Certain cash flows (as indicated by *) are shown net as these cash flows are either received and disbursed on behalf of customers and counterparties and therefore reflect the activities of these parties rather than those of the Bank; or are received and disbursed in transactions where the turnover is quick, the amounts large and the maturities short.

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

Notes to and Forming Part of the Interim Financial Statements

For the three months ended 31 December 2011

Note 1 Principal Accounting Policies

These interim financial statements are general purpose financial reports prepared in accordance with the requirements of NZ IAS 34 Interim Financial Reporting and the Order, and should be read in conjunction with the Disclosure Statement for the year ended 30 September 2011.

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 2011.

The following amendments to standards relevant to the Banking Group have been adopted from 1 October 2011 and have been applied in the preparation of these financial statements. Adoption of these amendments has not resulted in any significant impact on the Banking Group's reported results or financial position.

- Harmonisation Amendments are effective for accounting periods beginning on or after 1 July 2011. This amends multiple standards to harmonise NZ IFRS with IFRS and Australian Accounting Standards and is read in conjunction with FRS-44 NZ Additional Disclosures.
- Improvements to NZ IFRSs (July 2010) – NZ IFRS 7 Financial Instruments: Disclosure is applicable for accounting periods beginning on or after 1 January 2011. The amendments remove certain disclosure requirements and address qualitative and quantitative disclosures about an entity's exposure to risk arising from financial instruments.

Reclassification of financial information

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

Income Statement Notes

Dollars in Millions	Consolidated		
	Unaudited 3 Months 31/12/11	Unaudited 3 Months 31/12/10	Audited 12 Months 30/9/11
Note 2 Gains Less Losses on Financial Instruments at Fair Value			
Trading gains less losses on financial instruments at fair value			
Foreign exchange trading gain	24	23	89
Interest rate related trading derivatives	20	34	27
Other derivatives	-	-	1
Net gain/(loss) in the fair value of financial assets and liabilities held for trading	7	(11)	4
Trading gains less losses on financial instruments at fair value	51	46	121
Other gains less losses on financial instruments at fair value			
Hedge accounting			
Net gain arising from hedging instruments in fair value hedge accounting relationships	8	42	39
Net loss arising from the hedged items attributable to the hedged risk in fair value hedge accounting relationships	(6)	(41)	(63)
Ineffectiveness arising from cash flow hedge accounting relationships	-	-	-
	2	1	(24)
Other			
Net loss in the fair value of financial assets designated at fair value through profit or loss (refer to table below)	(43)	(33)	(83)
Net gain in the fair value of financial liabilities designated at fair value through profit or loss (refer to table below)	130	7	83
Bid/offer adjustment	1	(2)	-
Net (loss)/gain attributable to other derivatives used for hedging purposes that do not qualify as designated and effective hedging instruments	(2)	(4)	23
	86	(32)	23
Other gains less losses on financial instruments at fair value	88	(31)	(1)
Total gains less losses on financial instruments at fair value	139	15	120
Net loss in the fair value of financial assets comprised:			
Loss in the fair value of financial assets designated at fair value through profit or loss	(1)	(58)	(98)
Credit risk adjustments on financial assets designated at fair value through profit or loss	(22)	(9)	(8)
Net (loss)/gain attributable to other derivatives used for hedging purposes that do not use hedge accounting	(20)	34	23
	(43)	(33)	(83)
Net gain in the fair value of financial liabilities comprised:*			
(Loss)/gain in the fair value of financial liabilities designated at fair value through profit or loss	(67)	137	(59)
Credit value adjustments on financial liabilities designated at fair value through profit or loss	35	7	82
Net gain/(loss) attributable to other derivatives used for hedging purposes that do not use hedge accounting	162	(137)	60
	130	7	83

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

Note 3 Segment Analysis

Operating segments

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

The Banking Group's business is organised into two operating and reportable segments: Retail and BNZ Partners. Retail provides financial services and products to individual 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 services and products to business, agribusiness and corporate customers.

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

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

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

Dollars in Millions	Consolidated				
	Unaudited 3 Months 31/12/11				
	Retail	BNZ Partners	Total Reportable Segments	Other	Total Banking Group
Revenue from external customers	202	269	471	128	599
Net inter-segment revenue	(1)	30	29	(29)	-
Total segment revenue	201	299	500	99	599
Operating profit before income tax expense*	92	221	313	87	400
Income tax expense	24	62	86	25	111
Net profit attributable to shareholders of Bank of New Zealand	68	159	227	62	289
	Unaudited 3 Months 31/12/10				
Revenue from external customers	192	251	443	7	450
Net inter-segment revenue	-	20	20	(20)	-
Total segment revenue	192	271	463	(13)	450
Operating profit before income tax expense*	94	138	232	(17)	215
Income tax expense	26	42	68	(3)	65
Net profit attributable to shareholders of Bank of New Zealand	68	96	164	(14)	150
	Audited 12 Months 30/9/11				
Revenue from external customers	769	1,041	1,810	79	1,889
Net inter-segment revenue	1	85	86	(86)	-
Total segment revenue	770	1,126	1,896	(7)	1,889
Operating profit before income tax expense*	352	654	1,006	(44)	962
Income tax expense	99	196	295	(4)	291
Net profit attributable to shareholders of Bank of New Zealand	253	458	711	(40)	671

* For the three months ended 31 December 2011, operating profit before income tax expense within 'Other' includes fair value gains on financial instruments of \$121 million (three months ended 31 December 2010: \$16 million loss; year ended 30 September 2011: \$15 million loss), which are recorded as part of the overall gains less losses on financial instruments at fair value disclosed in note 2.

Asset Notes

Dollars in Millions	Consolidated		
	Unaudited 31/12/11	Unaudited 31/12/10	Audited 30/9/11
Note 4 Cash and Balances With Central Banks			
Notes and coins	192	212	125
Transaction balances with central banks	1,624	1,489	1,635
Loans and advances to central banks	223	208	226
Total cash and balances with central banks	2,039	1,909	1,986

Dollars in Millions	Consolidated		
	Unaudited 31/12/11	Unaudited 31/12/10	Audited 30/9/11
Note 5 Due from Other Financial Institutions			
Transaction balances with other financial institutions	102	32	92
Securities purchased under agreements to resell with other financial institutions	33	4	487
Loans and advances due from other financial institutions	449	1,305	988
Total due from other financial institutions	584	1,341	1,567

Included in due from other financial institutions as at 31 December 2011 was \$327 million of collateral posted with counterparties to meet standard derivative trading obligations (31 December 2010: \$553 million; 30 September 2011: \$300 million).

Dollars in Millions	Consolidated		
	Unaudited 31/12/11	Unaudited 31/12/10	Audited 30/9/11
Note 6 Trading Securities			
Treasury bills	1,460	1,290	1,913
Government securities	1,017	978	898
Semi-government securities	280	142	219
Bank bills	269	904	448
Bank bonds	196	286	124
Promissory notes	456	103	283
Other securities	100	56	50
Total trading securities	3,778	3,759	3,935

Included in trading securities as at 31 December 2011 were \$314 million encumbered through repurchase agreements (31 December 2010: \$124 million; 30 September 2011: \$725 million). No trading securities were used to secure deposit obligations as at 31 December 2011 (31 December 2010: nil; 30 September 2011: \$596 million).

Dollars in Millions	Consolidated		
	Unaudited 31/12/11	Unaudited 31/12/10	Audited 30/9/11
Note 7 Loans and Advances to Customers			
Overdrafts	1,927	2,021	1,986
Credit card outstandings	1,441	1,440	1,371
Housing loans	27,626	26,432	27,382
Other term lending	26,704	25,588	26,133
Other lending	203	168	227
Total gross loans and advances to customers	57,901	55,649	57,099
Deduct:			
Allowance for impairment losses and credit risk adjustments on individual financial assets (refer to note 8)	226	260	227
Allowance for impairment losses and credit risk adjustments on groups of financial assets (refer to note 8)	292	267	279
Deferred and other unearned future income	45	44	39
Fair value hedge adjustments	(100)	(128)	(107)
Total deductions	463	443	438
Total net loans and advances to customers	57,438	55,206	56,661

The BNZ RMBS Trust Series 2008-1 (the "RMBS Trust") provides an in-house residential mortgage-backed securities facility to issue securities as collateral for borrowing from the RBNZ. As at 31 December 2011, included within the Banking Group's loans and advances to customers were housing loans to the value of \$4,470 million held by the RMBS Trust (31 December 2010: \$4,469 million; 30 September 2011: \$4,477 million). These housing loans have not been derecognised from the Banking Group's interim financial statements as the Banking Group retains substantially all of the risks and rewards of ownership. The Banking Group had not entered into any repurchase agreements for residential mortgage-backed securities with the RBNZ as at 31 December 2011 (31 December 2010: nil; 30 September 2011: nil) and, therefore, RBNZ had not accepted any residential mortgage-backed securities as collateral from the Banking Group as at 31 December 2011 (31 December 2010: nil; 30 September 2011: nil).

The BNZ Covered Bond Trust (the "Covered Bond Trust") holds certain Bank of New Zealand housing loans, and its trustee provides guarantees of the covered bonds issued by the Bank or BNZ International Funding Limited (London Branch), a wholly owned controlled entity of the Bank. Guarantees provided in relation to the covered bonds issued have a prior claim over the assets of the Covered Bond Trust. As at 31 December 2011, included within the Banking Group's loans and advances to customers were housing loans to the value of \$4,049 million held by the Covered Bond Trust (31 December 2010: \$2,607 million; 30 September 2011: \$4,044 million). These housing loans have not been derecognised from the Banking Group's interim financial statements as the Banking Group retains substantially all of the risks and rewards of ownership. The Banking Group had issued debt securities with a face value of \$3,321 million that were guaranteed by the Covered Bond Trust as at 31 December 2011 (31 December 2010: \$2,147 million; 30 September 2011: \$3,384 million). The underlying collateral for the guarantees provided by the Covered Bond Trust comprised housing loans and other assets to the value of \$4,083 million as at 31 December 2011 (31 December 2010: \$2,626 million; 30 September 2011: \$4,083 million).

**Notes to and
Forming
Part of the
Interim
Financial
Statements**
continued

Dollars in Millions	Consolidated			
	Residential Mortgage Lending Unaudited 31/12/11	Other Retail Exposures Unaudited 31/12/11	Corporate Exposures Unaudited 31/12/11	Total Unaudited 31/12/11
Note 8 Asset Quality				
Allowance for impairment losses and credit risk adjustments				
Loans and advances to customers				
<i>Individual financial assets</i>				
Allowance for impairment losses	53	21	93	167
Credit risk adjustments on individual financial assets designated at fair value through profit or loss	-	1	58	59
	53	22	151	226
<i>Groups of financial assets</i>				
Allowance for impairment losses	37	64	100	201
Credit risk adjustments on groups of financial assets designated at fair value through profit or loss	-	1	90	91
	37	65	190	292
Other money market placements				
Credit risk adjustments on groups of financial assets designated at fair value through profit or loss	-	-	1	1
Trading derivative financial instruments				
Credit risk adjustments on groups of financial assets designated at fair value through profit or loss	-	-	10	10
Charges to income statement on financial assets				
Charge to impairment losses on credit exposures				
Loans and advances to customers				
Impairment losses on individual financial assets	4	3	2	9
Impairment losses on groups of financial assets	(3)	(4)	1	(6)
	1	(1)	3	3
Charge to income statement on financial assets designated at fair value through profit or loss				
Loans and advances to customers				
Credit risk adjustments on individual financial assets	-	-	2	2
Credit risk adjustments on groups of financial assets	-	-	19	19
	-	-	21	21
Other money market placements				
Credit risk adjustments on groups of financial assets	-	-	1	1
	-	-	22	22
Trading derivative financial instruments				
Charge to income statement on groups of financial assets	-	-	1	1
Pre-allowance balances at end of period				
Loans and advances to customers				
Other individually impaired assets – at amortised cost	133	30	282	445
Other individually impaired assets – at fair value through profit or loss	-	2	167	169
Total impaired assets at end of period	133	32	449	614
90 days past due assets	68	31	92	191
Off-balance sheet impaired assets				
Included in contingent liabilities in note 13 on page 14 was \$2 million off-balance sheet facilities that were impaired as at 31 December 2011. No allowance for impairment losses on individual off-balance sheet credit related commitments had been made as at 31 December 2011.				

Liability Notes

Dollars in Millions	Consolidated		
	Unaudited 31/12/11	Unaudited 31/12/10	Audited 30/9/11
Note 9 Due to Central Banks and Other Financial Institutions			
Transaction balances with other financial institutions	542	595	933
Deposits from central banks	64	34	608
Deposits from other financial institutions	258	448	391
Securities sold under agreements to repurchase from other financial institutions	316	145	740
Total due to central banks and other financial institutions	1,180	1,222	2,672

Dollars in Millions	Consolidated		
	Unaudited 31/12/11	Unaudited 31/12/10	Audited 30/9/11
Note 10 Other Money Market Deposits			
Money market deposits from non-financial institutions	1,791	2,622	1,864
Certificates of deposit	1,816	1,943	1,830
Commercial paper	6,029	6,758	8,095
Total other money market deposits	9,636	11,323	11,789

Dollars in Millions	Consolidated		
	Unaudited 31/12/11	Unaudited 31/12/10	Audited 30/9/11
Note 11 Deposits from Customers			
Demand deposits not bearing interest	1,995	1,434	1,724
Demand deposits bearing interest	11,367	10,483	10,644
Term deposits	19,805	18,216	18,986
Total deposits from customers	33,167	30,133	31,354

**Notes to and
Forming
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continued

Other Notes

Dollars in Millions	Consolidated
	Unaudited 31/12/11
Note 12 Interest Earning and Discount Bearing Assets and Liabilities	
Interest earning and discount bearing assets	63,665
Interest and discount bearing liabilities	58,845

Note 13 Contingent Liabilities and Credit Related Commitments

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

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

On 31 July 2006, the Bank sold 100% of the share capital in Custom Fleet (NZ) Limited. The Bank provided limited indemnities regarding certain sale-related warranties and the performance of Custom Fleet (NZ) Limited prior to 31 July 2006. These indemnities are valid for a period of not longer than seven years from the date of sale.

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

Dollars in Millions	Consolidated		
	Unaudited 31/12/11	Unaudited 31/12/10	Audited 30/9/11
Contingent liabilities			
Bank guarantees	56	54	55
Standby letters of credit	326	339	324
Documentary letters of credit	51	79	69
Performance related contingencies	320	330	331
Total contingent liabilities	753	802	779
Credit related commitments			
Revocable commitments to extend credit	6,745	6,113	6,341
Irrevocable commitments to extend credit	7,093	7,325	6,986
Total credit related commitments	13,838	13,438	13,327
Total contingent liabilities and credit related commitments	14,591	14,240	14,106

Note 14 Concentrations of Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties

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

Percentage of Shareholders' Equity %	Consolidated			
	Unaudited 31/12/11			
	Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties			
	Long Term Credit Rating			
	Peak End-of-Day Number of Non-banks	Balance Sheet Date Number of Non-banks		
	No Long Term Credit Rating	No Long Term Credit Rating	Total	Total
10 - 14	-	-	-	-
15 -19	1	-	1	-
20+	-	-	-	-

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

As at 31 December 2011 and for the three months ended 31 December 2011, the Banking Group had no bank counterparties that equalled or exceeded 10% of the Banking Group's equity and met the disclosure thresholds described above.

Note 15 Insurance Business

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

Note 16 Capital Adequacy

The tables included below detail the capital calculation, capital ratios and capital requirements as at 31 December 2011. During the interim financial period the Banking Group fully complied with all RBNZ's capital requirements as set out in the Bank's conditions of registration. The Bank's conditions of registration require capital adequacy ratios for the Banking Group to be calculated under the Basel II framework in accordance with the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B") dated June 2011.

Regulatory capital

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

Dollars in Millions	Consolidated	
	Unaudited 31/12/11	
Qualifying capital		
Tier One capital (before deductions)		4,205
Deductions from Tier One capital		314
Total Tier One capital (net of all deductions and adjustments)		3,891
Tier Two capital (before deductions)		1,579
Deductions from Tier Two capital		65
Total Tier Two capital		1,514
Total Tier One and Tier Two qualifying capital		5,405

Basel II regulatory capital ratios

The table below shows the capital adequacy ratios based on BS2B.

	Consolidated	
	Regulatory Minima	Unaudited 31/12/11
Tier One capital expressed as a percentage of total risk-weighted exposures	4.00%	8.76%
Total qualifying capital expressed as a percentage of total risk-weighted exposures	8.00%	12.17%

Total regulatory capital requirements

Dollars in Millions	Consolidated	
	Total Capital Requirement* Unaudited 31/12/11	
Credit risk		
Exposures subject to the internal ratings based approach (refer to table below)		2,597
Equity exposures		10
Specialised lending subject to the slotting approach		354
Exposures subject to the standardised approach		52
Total credit risk		3,013
Operational risk		327
Market risk		215
Total		3,555

* 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.

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

Dollars in Millions	Consolidated	
	Total Minimum Capital Requirement Unaudited 31/12/11	
Corporate		1,626
Sovereign		5
Bank		30
Residential mortgage		747
Other retail		132
Retail small to medium enterprises		57
Total exposures		2,597

Note 16 Capital Adequacy *continued*

Residential mortgages by loan-to-valuation ratio

The table below sets out residential mortgage lending (including loans to businesses) 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.

Dollars in Millions	Consolidated		
	On-balance Sheet Exposures at Default Unaudited 31/12/11	Off-balance Sheet Exposures at Default* Unaudited 31/12/11	Total Exposures at Default Unaudited 31/12/11
LVR Range			
0-59%	9,849	1,304	11,153
60-69%	4,892	441	5,333
70-79%	9,065	757	9,822
80-89%	1,805	59	1,864
Over 90%	1,995	325	2,320
	27,606	2,886	30,492

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

Pillar two capital for other material risks

As at 31 December 2011, the Banking Group had an internal capital allocation for Business Risk of \$132 million. The assessment of Business Risk covers strategic, reputation and earnings risk.

Note 17 Financial Risk Management

There have been no material changes to the Banking Group's policies for managing risk, or material exposures to new categories of risk since 30 September 2011.

Liquidity portfolio management

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

Dollars in Millions	Consolidated
	Unaudited 31/12/11
Cash and balances immediately convertible to cash	2,017
Securities purchased under agreements to resell	420
Treasury bills	1,405
Government securities	703
Semi-government securities	280
Bank bills	269
Bank bonds	196
Promissory notes	456
Other securities	100
Total liquidity portfolio	5,846

As at 31 December 2011, the Banking Group also held unencumbered residential mortgage-backed securities ("RMBS") of \$4,491 million. The RMBS can be sold to RBNZ under agreements to repurchase for liquidity purposes. The RBNZ has imposed a cap limiting the amount of RMBS deemed as eligible in the liquidity portfolio to 4% of total assets.

As at 31 December 2011, there was an ongoing A\$1 billion market rate advance facility provided from National Australia Bank Limited for the Banking Group's liquidity management in the course of its normal trading activities.

Note 18 Subsequent Events

Subsequent to 31 December 2011, the Bank issued NZD \$350 million of registered transferable notes with a coupon of 5.773% (fixed) and maturity date of 19 January 2018. In addition, BNZ International Funding Limited (London Branch) issued a Euro €500 million medium term note with a coupon of 2.375% (fixed) and a maturity date of 7 May 2015.

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

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

Changes in conditions of registration

On 31 December 2011 the following changes were made to the Bank's conditions of registration:

- a new condition was inserted relating to significant acquisitions undertaken by the Bank. Significant acquisitions have the potential to materially change the risks that the Bank faces, and the new condition strengthens the RBNZ's supervisory oversight of such acquisitions; and
- the conditions relating to liquidity-risk management were amended to refer to the latest version of "Liquidity Policy Annex: Liquidity Assets" (BS13A) dated December 2011.

Credit Ratings

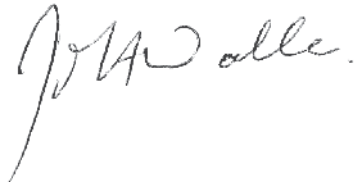
Conditions of Registration

Directors' Statement

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

1. as at the date on which the Disclosure Statement is signed:
 - (a) the Disclosure Statement contains all the information that is required by the Order; and
 - (b) the Disclosure Statement is not false or misleading; and
2. during the three months ended 31 December 2011:
 - (a) the Bank has complied with its conditions of registration applicable during that period;
 - (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
 - (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 14th of February 2012 and signed by Messrs. Waller and Thorburn as Directors and as responsible persons on behalf of all the other Directors.



J A Waller
Chairman



A G Thorburn
Managing Director and Chief Executive Officer



BNZ is a member of the National Australia Bank Group

