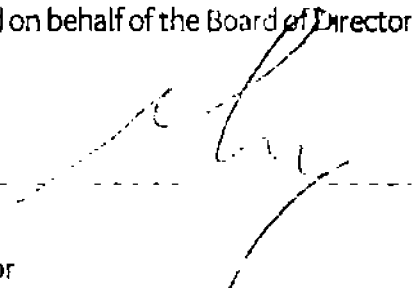


BNZ INTERNATIONAL FUNDING LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 September 2016

The Directors are pleased to present the financial statements for the year ended 30 September 2016.


For and on behalf of the Board of Directors:



Director

8 December 2016

Date



Director

8 December 2016

Date

Income Statement

For the year ended 30 September 2016

	Note	30/9/16 \$000	30/9/15 \$000
Interest income	2, 10	277,447	272,914
Interest expense	2	277,257	272,557
Net interest income		190	357
Other operating income	3, 10	9,485	8,812
Total operating income		9,675	9,169
Operating expenses	4	3,570	3,107
Operating profit before income tax		6,105	6,062
Income tax expense	5	1,709	1,697
Net profit attributable to shareholder of BNZ International Funding Limited		4,396	4,365

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

Statement of Comprehensive Income

For the year ended 30 September 2016

	30/9/16 \$000	30/9/15 \$000
Net profit attributable to shareholder of BNZ International Funding Limited	4,396	4,365
Other comprehensive income, net of taxation	-	-
Total comprehensive income attributable to shareholder of BNZ International Funding Limited	4,396	4,365

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

Statement of Changes in Equity

For the year ended 30 September 2016

	30/9/16		
	Ordinary Capital \$000	Retained Profits \$000	Total \$000
Balance at beginning of year	100	5,199	5,299
Comprehensive Income			
Net profit attributable to shareholder of BNZ International Funding Limited	-	4,396	4,396
Total other comprehensive income	-	-	-
Total comprehensive income	-	4,396	4,396
Balance at end of year	100	9,595	9,695
	30/9/15		
Balance at beginning of year	100	8,834	8,934
Comprehensive Income			
Net profit attributable to shareholder of BNZ International Funding Limited	-	4,365	4,365
Total other comprehensive income	-	-	-
Total comprehensive income	-	4,365	4,365
Ordinary dividend	-	8,000	8,000
Balance at end of year	100	5,199	5,299

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

Balance Sheet

As at 30 September 2016

	Note	30/9/16 \$000	30/9/15 \$000
Assets			
Call balances due from other financial institutions		51	57
Call balances due from related entity	10	9,951	5,537
Other amounts due from related entity	10	16,313,831	15,418,570
Total assets		16,323,843	15,424,164
Liabilities			
Short term debt securities	6	3,672,973	3,318,292
Bonds and notes	7	12,639,279	12,098,733
Amounts due to related entities	10	462	458
Current tax liabilities		1,110	1,112
Other liabilities	8	324	270
Total liabilities		16,314,148	15,418,865
Net assets		9,695	5,299
Shareholders' equity			
Contributed equity - ordinary shareholder	11	100	100
Retained profits		9,595	5,199
Total shareholders' equity		9,695	5,299

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

For and on behalf of the Board, who authorised the issue of these financial statements on 8 December 2016.

Director

Director

Cash Flow Statement

For the year ended 30 September 2016

	30/9/16	30/9/15
	\$000	\$000
Cash flows from operating activities		
Cash was provided from:		
Interest income	298,208	273,784
Other operating income	9,425	9,162
Cash was applied to:		
Interest expense	(297,991)	(273,435)
Operating expenses	(3,570)	(3,107)
Income tax payments	(1,711)	(1,412)
Net cash flows from operating activities before changes in operating assets and liabilities	4,361	4,992
Changes in operating assets and liabilities arising from cash flow movements		
Net movement in other liabilities*	(2,990)	(446)
Net change in operating assets and liabilities	(2,990)	(446)
Net cash flows from operating activities	1,371	4,546
Cash flows from financing activities		
Net movement in bonds and notes*	671,199	1,733,208
Net movement in short term debt securities*	353,364	(27,709)
Net movement in other related entity funding*	(1,021,516)	(1,705,025)
Ordinary dividend	-	(8,000)
Net cash flows from financing activities	3,047	(7,526)
Net movement in cash and cash equivalents	4,418	(2,980)
Cash and cash equivalents at beginning of year	5,594	8,574
Cash and cash equivalents at end of year	10,012	5,594
Cash and cash equivalents at end of year comprised:		
Call balances due from other financial institutions	51	57
Call balances due from related entity	9,961	5,537
Total cash and cash equivalents	10,012	5,594
Reconciliation of net profit attributable to shareholders of BNZ International Funding Limited to net cash flows from operating activities		
Net profit attributable to shareholder of BNZ International Funding Limited	4,396	4,365
<i>Add back non-cash items in net profit:</i>		
Decrease / (increase) in accrued interest receivable	20,761	870
<i>Add back non-cash items in net profit:</i>		
Decrease / (increase) in other operating income receivable	(60)	350
Increase / (decrease) in provision for tax	(2)	285
Increase / (decrease) in accrued interest payable	(20,734)	(878)
<i>Deduct operating cash flows not included in profit</i>		
Net change in operating assets and liabilities	(2,990)	(446)
Net cash flows from operating activities	1,371	4,546

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

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 Company; 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 financial statements.

Notes to and Forming Part of the Financial Statements

For the year ended 30 September 2016

Note 1 Principal Accounting Policies

Reporting entity

BNZ International Funding Limited (the "Company") is a company with limited liability incorporated in New Zealand and is a wholly owned controlled entity of Bank of New Zealand. The Company has established a London branch, registered in England & Wales under branch number BR008377 and company number FC026206. The Company's Registered Office is Level 4, 80 Queen Street, Auckland, New Zealand.

The Company is incorporated for the specific purpose of, through its London branch, raising offshore wholesale funding and undertaking other related activities for the Bank of New Zealand Group.

Basis of preparation

The financial statements have been prepared under the historical cost convention, modified by the application of fair value measurements.

Assumptions and estimates

The preparation of the financial statements requires the use of certain estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Assumptions made as at each reporting date are based on estimates at that date. Although the Company has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the reporting period in which the estimates are revised and in any future periods affected. It is not anticipated that such differences would be material. Significant estimates and judgements are further described elsewhere in this note and Note 9 Categories of Financial Assets and Financial Liabilities.

Statement of compliance

These financial statements are general purpose financial reports prepared in accordance with the Companies Act 1993 and the Financial Reporting Act 2013.

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS").

Changes in accounting policies and disclosures

New and amended accounting standards and interpretations

All mandatory standards, amendments and interpretations have been adopted in the current year. None had a material impact on these financial statements.

The Company early adopted NZ IFRS 9 (2014) Financial Instruments in the previous year.

New and amended accounting standards and interpretations not yet effective

The following new and amended accounting standard and interpretation relevant to the Company is not yet effective and has not been applied in preparing these financial statements:

- NZ IFRS 15 Revenue from Contracts with Customers, applicable for annual periods beginning on or after 1 January 2018. The new revenue standard replaces the existing notion of risks and rewards and introduces a single, principles-based five step model to be applied to all contracts with customers. The Company is in the process of evaluating the potential impact of this standard.

Other amendments to existing standards that are not yet effective are not expected to result in a material impact on the Company's reported results or financial position.

Currency of presentation

Unless stated otherwise, all amounts are expressed in New Zealand dollars which is the Company's functional and presentational currency.

Rounding of amounts

All amounts have been rounded to the nearest thousand dollars except where indicated.

Foreign currency translation

Foreign currency transactions are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognises the profit on initial recognition (i.e. on day one).

Where a financial asset or liability is subsequently measured at fair value, the best evidence is independently quoted market prices in an active market. Where such prices are unavailable, then depending on the circumstances, alternative evidence may be used, including the price of recent transactions, prices for similar instruments or prices obtained utilising component parts (which when aggregated form the price of the whole instrument).

Where no active market exists for a particular asset or liability, the Company uses standard market valuation techniques to arrive at the estimated fair value, utilising observable market sourced inputs wherever possible. Depending on the circumstances, the same alternative evidence (as described above) may be used in the valuation techniques. The valuation techniques address factors such as interest rates, liquidity and credit risk.

Fair value asset or liability prices defined above generally represent the present value of all future cash flows including those relating to interest, dividends or other cash flows as appropriate.

Notes to and Forming Part of the Financial Statements

Note 1 Principal Accounting Policies *continued*

Assets

Financial assets

Financial assets comprise items such as Call balances due from other financial institutions, Call balances due from related entity, and Other amounts due from related entity.

The Company classified its financial assets into the following measurement categories:

- those to be measured at fair value through profit or loss; and
- those to be measured at amortised cost.

The classification depends on the Company's business model for managing financial assets and the contractual terms of the financial assets cash flows. Refer to Note 9 Categories of Financial Assets and Liabilities for further information.

i) Financial assets measured at fair value through profit or loss

Items at fair value through profit or loss may include items held for trading, items specifically designated as fair value through profit or loss on initial recognition, and debt instruments with contractual terms that do not represent solely payments of principal and interest.

Upon initial recognition, financial assets may be designated at fair value through profit or loss. The fair value option is applied to certain balances within Other amounts due from related entity to eliminate an accounting mismatch that would otherwise arise from measuring items on a different basis.

Financial assets held at fair value through profit or loss are initially recognised at fair value, with transaction costs being recognised in the income statement as incurred. Subsequently, they are measured at fair value with gains and losses recognised in the income statement as they arise.

Where a financial asset is held at fair value, the movement in fair value attributable to interest rate market movements is either an observable market value or calculated based on changes in observable market interest rates for swaps. The movement in fair value attributable to changes in credit risk is established through a statistical-based calculation to estimate expected losses attributable to adverse movements in credit risk.

Once a financial instrument has been designated at fair value through profit or loss upon initial recognition, the Company cannot subsequently change the designation.

ii) Financial assets measured at amortised cost

A financial asset is measured at amortised cost only if:

- it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

These assets are initially recognised at fair value plus direct attributable transaction costs and subsequently measured at amortised cost.

Call balances due from other financial institutions and Call balances due from related entity consist of cash and short term, high liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments.

Liabilities

Financial liabilities

Financial liabilities comprise items such as Short term debt securities, Bonds and notes and Amounts due to related entities.

Financial liabilities may be held at fair value through profit or loss or at amortised cost. Refer to Note 9 Categories of Financial Assets and Liabilities for further information.

i) Financial liabilities held at fair value through profit or loss.

Items held at fair value through profit or loss comprise items specifically designated at fair value through profit or loss on initial recognition.

Financial liabilities held at fair value through profit or loss are initially recognised at fair value with transaction costs being recognised immediately in the income statement. Subsequently, they are measured at fair value and any gains or losses are recognised in the income statement as they arise exclusive of interest income.

Liabilities may be designated at fair value through profit or loss if they meet the following criteria:

- where designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities (not only financial assets and liabilities) or recognising the gains or losses on them on different bases; or
- those that are part of a group of financial liabilities, that are managed and their performance is evaluated by management on a fair value basis in accordance with the documented risk management or investment strategy. Under this criterion Short term debt securities and Bonds and notes have been designated at fair value through profit or loss; or
- those that contain one or more embedded derivatives, except if the embedded derivative does not modify significantly the associated cash flows or it is clear with little or no analysis that separation is prohibited.

Once a financial instrument has been designated at fair value through profit or loss upon initial recognition, the Company cannot subsequently change the designation.

Own credit risk provisions require an entity to present in other comprehensive income the fair value gains and losses attributable to changes in the entity's own credit risk for financial liabilities designed as measured at fair value through profit or loss unless this treatment would create or enlarge an accounting mismatch in the income statement. For the Company this treatment would create an accounting mismatch therefore all gains or losses on these financial liabilities (including the effects of changes in own credit risk) will continue to be presented in the profit and loss together with all gains and losses on financial assets designated at fair value through profit or loss.

ii) Financial liabilities held at amortised cost

Other related entities payable recorded within Amounts due to related entities is measured at amortised cost using the effective interest method. These liabilities are primarily short-term in nature. In such cases the carrying amount approximates their fair value.

Notes to and Forming Part of the Financial Statements

Note 1 Principal Accounting Policies *continued*

Revenue and Expense Recognition

Net Interest Income

Net interest income is reflected in the income statement using the effective interest method.

The effective interest method is a method of calculating amortisation using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that exactly discounts the estimated stream of future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability.

When calculating the effective interest rate, the cash flows are estimated considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) excluding future credit losses.

The calculation of the effective interest rate includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. Where it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments) are used.

Fees and commissions

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis when the service has been provided. Fees and commissions not integral to the effective interest rate arising from negotiating, or participating in the negotiation of a transaction with a third party, such as purchase or sale of businesses, are recognised on completion of the underlying transaction.

Gains and losses on financial instruments

Gains and losses on financial instruments recognised in the income statement (within Other operating income) comprises fair value gains and losses from financial instruments designated at fair value through profit or loss. These are the fair value movements excluding interest, which is reported within net interest income.

Income Tax

Income tax expense is the income tax charge/(benefit) incurred on the current year profit or loss and is the aggregate of the movements in deferred tax and the amount of income taxes payable/(recoverable) in respect of taxable profit/(loss) for the year at the applicable tax rate.

Deferred tax assets are the amounts of income taxes recoverable in future periods including unused tax losses and unused tax credits carried forward. Deferred tax liabilities are the amounts of income taxes payable in future periods. Deferred tax assets and liabilities arise when there is a temporary difference between the tax bases (amount attributable to the asset or liability for tax purposes) of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax assets and liabilities are determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The carrying amount of deferred income tax assets is reviewed as at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Notes to and Forming Part of the Financial Statements

	30/9/16	30/9/15
	\$000	\$000
Note 2 Interest		
Interest income		
Related entities	277,447	272,914
Total interest income	277,447	272,914
Interest expense		
Short term debt securities	21,594	9,623
Bonds and notes	255,663	262,934
Total interest expense	277,257	272,557
	30/9/16	30/9/15
	\$000	\$000
Note 3 Other Operating Income		
Treasury services and funding fee	9,485	8,812
Gain/(loss) in the fair value of financial assets designated at fair value through profit or loss	(115,254)	9,144
Credit risk adjustments on financial assets designated at fair value through profit or loss	14,668	(81,103)
Gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss	115,254	(9,144)
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	(14,668)	81,103
Total other operating income	9,485	8,812
	30/9/16	30/9/15
	\$000	\$000
Note 4 Operating Expenses		
Legal expenses	1,473	1,033
Personnel expenses	447	475
Fees paid to auditors - Statutory audit services	76	79
Fees paid to auditors - Other assurance related services	157	127
Rating agency fees	549	356
Other professional fees	339	165
Consultancy fees	22	44
Other	507	828
Total operating expenses	3,570	3,107

Notes to and Forming Part of the Financial Statements

	30/9/16	30/9/15
	\$000	\$000
Note 5 Income Tax Expense on Operating Profit		
Income tax charged to income statement		
Current tax	1,709	1,697
Total income tax charged to income statement	1,709	1,697
Reconciliation of income tax expense shown in the income statement with prima facie tax payable on the pre-tax accounting profit		
Total operating profit before income tax expense	6,105	6,062
Prima facie income tax at 28%	1,709	1,697
Tax expense on operating profit	1,709	1,697
Effective tax rate	28%	28%

	30/9/16	30/9/15
	\$000	\$000
Note 6 Short Term Debt Securities		
Commercial paper	3,672,973	3,318,292
Total short term debt securities	3,672,973	3,318,292
All commercial paper has been raised through the Company's London branch, in the financial, investment and insurance industry sectors. Short term debt securities rank equally in priority with claims on financial liabilities in the event of liquidation.		

	30/9/16	30/9/15
	\$000	\$000
Note 7 Bonds and Notes		
Medium term notes	12,639,279	12,096,733
Total bonds and notes	12,639,279	12,096,733
All bonds and notes have been raised through the Company's London branch, in the financial, investment and insurance industry sector.		

Notes to and Forming Part of the Financial Statements

Note 7 Bonds and Notes *continued*

Details of the terms and conditions of these medium term notes as at 30 September 2016 were as follows:

Issue Currency	Coupon Rate %	Maturity Date	Face Value Issue Currency Thousands* 30/9/16	Fair value NZ \$000 30/9/16	Face Value Issue Currency Thousands* 30/9/16	Fair value NZ \$000 30/9/16
US Dollar	3 month USD LIBOR + 130bp	17 November 2015	-	-	10,000	15,749
British Pound	3 month GBP LIBOR + 70bp	29 January 2016	-	-	250,000	597,630
US Dollar	3 month USD LIBOR + 65bp	22 April 2016	-	-	80,000	126,048
US Dollar	1.0725 (fixed)	30 April 2016	-	-	20,000	31,517
Australian Dollar	6.250 (fixed)	14 June 2016**	-	-	700,000	804,471
Hong Kong Dollar	3 month HIBOR + 51.6bp	12 July 2016	-	-	775,000	156,831
Euro	4.000 (fixed)	8 March 2017	750,000	1,205,127	750,000	1,426,329
Japanese Yen	1.150 (fixed)	23 March 2017	1,000,000	13,588	1,000,000	13,350
US Dollar	3 month USD LIBOR + 150bp	24 May 2017	15,000	20,849	15,000	24,039
Japanese Yen	3 month JPY LIBOR + 100bp	26 July 2017	11,400,000	156,591	11,400,000	152,917
Japanese Yen	1.260 (fixed)	26 July 2017	14,100,000	194,154	14,100,000	189,579
Euro	3.125 (fixed)	23 November 2017**	1,000,000	1,641,211	1,000,000	1,933,155
Swiss Franc	1.500 (fixed)	22 January 2018	225,000	332,035	225,000	380,835
Hong Kong Dollar	1.375 (fixed)	26 January 2018	780,000	138,981	780,000	157,361
US Dollar	1.900 (fixed)	26 February 2018	600,000	832,364	600,000	947,376
Japanese Yen	3 month JPY LIBOR + 27bp	13 March 2018	2,000,000	27,339	2,000,000	26,463
US Dollar	3 month USD LIBOR + 80bp	23 April 2018	10,000	13,872	10,000	15,833
Euro	1.250 (fixed)	23 May 2018	500,000	793,964	500,000	907,270
US Dollar	3 month USD LIBOR + 45bp	20 August 2018	10,000	13,766	10,000	15,648
US Dollar	3 month USD LIBOR + 82bp	26 November 2018	10,000	13,864	10,000	15,811
Japanese Yen	0.4700 (fixed)	27 November 2018	2,000,000	27,272	2,000,000	26,318
US Dollar	3 month USD LIBOR + 75bp	13 December 2018	10,000	13,836	10,000	15,489
US Dollar	2.2825 (fixed)	13 December 2018	10,000	13,690	10,000	15,769
US Dollar	2.350 (fixed)	4 March 2019	1,000,000	1,399,731	1,000,000	1,583,635
US Dollar	3 month USD LIBOR + 32bp	20 March 2019	100,000	136,782	100,000	155,164
Swiss Franc	1.125 (fixed)	20 September 2019	275,000	406,739	275,000	464,312
US Dollar	3 month USD LIBOR + 72bp	24 October 2019	100,000	138,180	100,000	157,258
Euro	3 month EURIBOR + 50bp	2 December 2019	550,000	853,958	550,000	970,889
Hong Kong Dollar	3.480 (fixed)	8 September 2020	53,000	9,113	53,000	11,417
New Zealand Dollar	6.590 (fixed)	30 September 2020	50,000	56,371	50,000	55,603
Swiss Franc	1.375 (fixed)	3 February 2021	200,000	306,989	200,000	348,838
Japanese Yen	0.1775 (fixed)	12 February 2021	17,000,000	229,842	-	-
Hong Kong Dollar	2.500 (fixed)	1 March 2021	233,000	40,343	-	-
US Dollar	2.750 (fixed)	2 March 2021	500,000	710,372	-	-
Hong Kong Dollar	2.320 (fixed)	31 March 2021	180,000	31,961	-	-
Hong Kong Dollar	2.350 (fixed)	31 March 2021	169,000	26,624	-	-
Hong Kong Dollar	2.560 (fixed)	31 March 2021	125,000	22,195	-	-
US Dollar	3 month USD LIBOR + 114bp	19 May 2021	30,000	41,637	-	-
US Dollar	3 month USD LIBOR + 105bp	15 June 2021	10,000	13,821	-	-
Euro	0.125 (fixed)	17 June 2021**	750,000	1,174,267	-	-
Hong Kong Dollar	2.060 (fixed)	22 June 2021	160,000	27,191	-	-
US Dollar	3 month USD LIBOR + 100bp	28 June 2021	10,000	13,757	-	-
US Dollar	3 month USD LIBOR + 100bp	22 July 2021	20,000	27,561	-	-
US Dollar	2.100 (fixed)	14 September 2021	600,000	826,527	-	-
US Dollar	3 month USD LIBOR + 98bp	14 September 2021	250,000	344,570	-	-
Swiss Franc	0.250 (fixed)	24 June 2022	200,000	289,994	200,000	322,784
Euro	0.685 (fixed)	28 July 2025	20,000	30,545	-	-
Australian Dollar	4.000 (fixed)	30 September 2025	30,000	27,706	30,000	33,045
				12,639,279		12,096,733

All medium term notes issued by the Company are on-lent to Bank of New Zealand, the Company's parent company.

* Face value represents current value on issue held by the market.

** These medium term notes are guaranteed by the Trustee of the BNZ Covered Bond Trust ("the Covered Bond Trust"). Refer to Note 10 Related Entity Transactions for further information.

Notes to and Forming Part of the Financial Statements

	30/9/16	30/9/15
	\$000	\$000
Note 8 Other Liabilities		
Accrued expenses	324	270
Total other liabilities	324	270

	30/9/16		
	Fair Value Through Profit or Loss \$000	At Amortised Cost \$000	Total Carrying Amount \$000

Note 9 Categories of Financial Assets and Financial Liabilities

Financial assets			
Call balances due from other financial institutions		51	51
Call balances due from related entity	-	9,961	9,961
Other amounts due from related entity	16,312,301	1,530	16,313,831
Total financial assets	16,312,301	11,542	16,323,843
Financial liabilities			
Short term debt securities	3,672,973	-	3,672,973
Bonds and notes	12,639,279	-	12,639,279
Amounts due to related entities	-	462	462
Total financial liabilities	16,312,252	462	16,312,714

	30/9/15		
Financial assets			
Call balances due from other financial institutions	-	57	57
Call balances due from related entity	-	5,537	5,537
Other amounts due from related entity	15,417,100	1,470	15,418,570
Total financial assets	15,417,100	7,064	15,424,164
Financial liabilities			
Short term debt securities	3,318,292	-	3,318,292
Bonds and notes	12,098,733	-	12,098,733
Amounts due to related entities	-	458	458
Total financial liabilities	15,417,025	458	15,417,483

Notes to and Forming Part of the Financial Statements

Note 9 Categories of Financial Assets and Financial Liabilities *continued*

Difference between carrying amount and contractual amount on financial liabilities designated at fair value through profit or loss on initial recognition

	30/9/16			30/9/15		
	Carrying Amount \$000	Contractual Amount \$000	Higher/ (Lower) \$000	Carrying Amount \$000	Contractual Amount \$000	Higher/ (Lower) \$000
Short term debt securities	3,672,973	3,665,601	7,372	3,318,292	3,315,282	3,010
Bonds and notes	12,639,279	12,343,386	295,893	12,098,733	11,672,186	426,547
	16,312,252	16,008,987	303,265	15,417,025	14,987,468	429,557

Movements in fair value of Bonds and notes designated at fair value through profit or loss on initial recognition attributable to changes in credit risk

	30/9/16 \$000	30/9/15 \$000
Bonds and notes		
Balance at beginning of year	38,483	119,586
Movement during the year	14,668	(81,103)
Balance at end of year	53,151	38,483

The movement in fair value attributable to changes in the credit risk of bonds and notes designated at fair value through profit or loss is determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk. The movement in fair value of these liabilities has resulted in an equal and opposite movement in the Amount due from related entities, which has an offsetting effect to the Company as a result of the on-lending agreement with Bank of New Zealand.

Hierarchy for fair value measurements

The following paragraphs present a three level fair value hierarchy of the Company's financial assets and financial liabilities which are measured at 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. The Company did not have any financial assets or financial liabilities measured at fair value that met the criteria of Level 1 classification.

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). As at 30 September 2016, all fair value assets and liabilities have been assessed as Level 2 using observable market data as inputs which are generally modified in some way such as averaging at source (e.g. multi-contributor page) or a valuation technique (e.g. interpolation or discounting) (30 September 2015: all).

Level 3. Inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Company did not have any financial assets or financial liabilities measured at fair value that met the criteria of Level 3 classification.

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

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 Company's own credit risk based on observable market data.

Other amounts due from related entity

Other amounts due from related entity 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.

Notes to and Forming Part of the Financial Statements

Note 10 Related Entity Transactions

The Company is a wholly owned controlled entity of Bank of New Zealand whose ultimate parent company is National Australia Bank Limited. Bank of New Zealand has guaranteed all debt securities issued by the Company, acting through its London branch, for the amount and term of such securities. If the Company, acting through its London branch, issues any debt securities that are guaranteed by Bank of New Zealand, then the proceeds of that debt issue must be on-lent to Bank of New Zealand on terms and conditions that match the terms and conditions of the debt issue. Financial liabilities represented by Bonds and notes, Short term debt securities and accrued interest payable are guaranteed by Bank of New Zealand.

The Covered Bond Trust holds Bank of New Zealand housing loans and provides guarantees to certain debt securities issued by the Company or Bank of New Zealand, the Company's parent company. The payment of interest and principal of certain debt securities issued by the Company is guaranteed by the Covered Bond Trust. Guarantees provided in relation to the covered bonds issued have a prior claim over the assets of the Covered Bond Trust. The underlying collateral for the guarantees provided by the Covered Bond Trust comprised housing loans and other assets to the value of \$5,003 million as at 30 September 2016 (30 September 2015: \$4,293 million). Refer to Note 7 Bonds and Notes for further information.

Other principal intragroup transactions comprise: (1) the provision of treasury and funding services to Bank of New Zealand, which earn treasury service and funding fee income, (2) the supply, as required, of settlement, accounting, tax, regulatory compliance and legal services and seconded staff from Bank of New Zealand and/or National Australia Bank Limited, (3) a licence of London branch premises from National Australia Bank Limited, (4) payment to Bank of New Zealand for the reimbursement of provisional tax paid on the Company's behalf, and (5) commercial paper and bonds and notes issued to National Australia Bank Limited. These transactions with Bank of New Zealand Limited and National Australia Bank Group have been entered into at arm's length on normal commercial terms and conditions.

Key management personnel are defined as being Directors of the Company. During the year ended 30 September 2016, there were no loans made to or deposits received from key management personnel, their close family members, or their controlled entities (30 September 2015: nil). No compensation was paid by the Company to key management personnel during the year ended 30 September 2016 (30 September 2015: nil).

The following table provides the total amount of transactions with related entities for the relevant financial year.

	30/9/16 \$000	30/9/15 \$000
Amount due from related entity		
Bank of New Zealand	16,323,792	15,424,107
Amount due to related entities		
Bank of New Zealand	333	112
National Australia Bank Limited	129	346

	30/9/16		30/9/15	
	Revenue from Related Entities \$000	Expenses to Related Entities \$000	Revenue from Related Entities \$000	Expenses to Related Entities \$000
Transactions with Related Entities				
Bank of New Zealand	286,932	1,528	281,726	1,568
National Australia Bank Limited	-	296		738

Dividends paid to the shareholders are disclosed in note 11.

During the year ended 30 September 2016, the Company made a payment of \$402,000 to Bank of New Zealand for the reimbursement of provisional tax paid on the Company's behalf (30 September 2015: \$341,000 to BNZ for provisional tax paid).

	30/9/16 Number of shares in Thousands	30/9/15
Note 11 Contributed equity		
Ordinary shares, fully paid	100	100
Total contributed equity	100	100

Each of the 100,000 (30 September 2015: 100,000) ordinary shares entitles the shareholder to one vote at any meeting of shareholders and shares equally in dividends and surpluses on winding up. Shares do not have a par value.

When managing capital, which includes contributed equity and retained profits, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to the shareholders.

No dividends were paid on Shares for the year ended 30 September 2016 (year ended 30 September 2015: dividends of \$80 per share).

Notes to and Forming Part of the Financial Statements

Note 12 Interest Rate Repricing Schedule

The following tables represent a breakdown, by repricing dates or contractual maturity, whichever is the earlier, of the balance sheet.

\$000	30/9/16					
	Total	Up to 3 Months	Over 3 Months and up to 1 year	Over 1 Year and up to 2 Years	Over 2 Years	Non- Interest Sensitive
Assets						
Call balances due from financial institutions	51	51	-	-	-	-
Call balances due from related entity	9,961	9,961	-	-	-	-
Other amounts due from related entity	16,313,831	4,886,285	2,029,940	3,738,554	5,657,473	1,579
Total assets	16,323,843	4,896,297	2,029,940	3,738,554	5,657,473	1,579
Liabilities						
Short term debt securities	3,672,973	3,055,903	617,070	-	-	-
Bonds and notes	12,639,279	1,830,382	1,412,870	3,738,554	5,657,473	-
Amounts due to related entities	462	-	-	-	-	462
All other liabilities	1,434	-	-	-	-	1,434
Total liabilities	16,314,148	4,886,285	2,029,940	3,738,554	5,657,473	1,896
30/9/15						
Assets						
Call balances due from financial institutions	57	57	-	-	-	-
Call balances due from related entity	5,537	5,537	-	-	-	-
Other amounts due from related entity	15,418,570	5,764,340	835,988	1,629,258	7,187,439	1,545
Total assets	15,424,164	5,769,934	835,988	1,629,258	7,187,439	1,545
Liabilities						
Short term debt securities	3,318,292	3,318,292	-	-	-	-
Bonds and notes	12,098,733	2,446,048	835,988	1,629,258	7,187,439	-
Amounts due to related entities	458	-	-	-	-	458
All other liabilities	1,382	-	-	-	-	1,382
Total liabilities	15,418,865	5,764,340	835,988	1,629,258	7,187,439	1,840

Notes to and Forming Part of the Financial Statements

Note 13 Maturity Profile

The table below presents the Company's undiscounted cash flows by remaining contractual maturities as at balance sheet date.

The gross cash flows disclosed below are contractual undiscounted cash flows 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 Company and its counterparties. Information on the management of liquidity risk is included in note 17.

\$000	30/9/16						
	Carrying Amount	Gross Cash Inflows/ (Outflows)	On Demand	0-3 Months	3-12 Months	1-5 Years	Over 5 Years
Financial assets							
Call balances due from financial institutions	51	51	51	-	-	-	-
Call balances due from related entity	9,961	9,961	9,961	-	-	-	-
Other amounts due from related entity	16,313,831	16,628,926	-	1,812,278	3,699,630	10,763,421	353,597
Total	16,323,649	16,638,938	10,012	1,812,278	3,699,630	10,763,421	353,597
Financial liabilities							
Short term debt securities	(3,672,973)	(3,677,923)	-	(1,664,370)	(2,013,553)	-	-
Bonds and notes	(12,639,279)	(12,949,425)	-	(146,330)	(1,686,077)	(10,763,421)	(353,597)
Amounts due to related entities	(462)	(462)	-	(462)	-	-	-
Other financial liabilities	(324)	(324)	-	(324)	-	-	-
Total	(16,313,038)	(16,628,134)	-	(1,811,486)	(3,699,630)	(10,763,421)	(353,597)
30/9/15							
Financial assets							
Call balances due from financial institutions	57	57	57	-	-	-	-
Call balances due from related entity	5,537	5,537	5,537	-	-	-	-
Other amounts due from related entity	15,418,570	15,675,832	-	1,867,953	3,508,232	9,610,889	688,758
Total	15,424,164	15,681,426	5,594	1,867,953	3,508,232	9,610,889	688,758
Financial liabilities							
Short term debt securities	(3,318,292)	(3,320,667)	-	(1,672,000)	(1,648,667)	-	-
Bonds and notes	(12,098,733)	(12,353,620)	-	(194,408)	(1,859,565)	(9,610,889)	(688,758)
Amounts due to related entities	(458)	(458)	-	(458)	-	-	-
Other financial liabilities	(270)	(270)	-	(270)	-	-	-
Total	(15,417,753)	(15,675,015)	-	(1,867,136)	(3,508,232)	(9,610,889)	(688,758)

Note 14 Impaired assets

No provision has been made against the value of assets reported on the balance sheet. There is no expected loss on the call balances due from other financial institutions, call balances due from related entity and other amounts due from related entity.

Note 15 Segment Information

The Company operates in New Zealand in one industry segment. Its primary business is funding. Financial information for the segment is available to the Board of Directors of the Company for the purpose of evaluating performance and resource allocation, and is the same information presented in these financial statements. All revenues of the Company are received from Bank of New Zealand.

Geographical revenue information is based on the location of the office in which the transactions were booked, and all revenues are derived in New Zealand.

Note 16 Contingent Liabilities and Other Commitments

The Company had no contingent liabilities and commitments as at 30 September 2016 (30 September 2015: nil).

Notes to and Forming Part of the Financial Statements

Note 17 Risk Management Policies

The Board of Directors of the Company is committed to the management of risk and has identified the following risks:

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a counterparty to settle its financial and contractual obligations to the Company as they fall due.

The maximum exposure to credit risk arising from Call balances due from other financial institutions, Call balances due from related entity and Other amounts due from related entity is equal to the carrying amount of each class of receivable. The credit quality of these financial assets is deemed as excellent based on Bank of New Zealand's current credit rating. As at 30 September 2016, these balances represent 100% of the Company's credit exposures (30 September 2015: 100%). Bank of New Zealand represents the only group of closely related counterparties to which the Company has a credit exposure which exceeds 10% of equity, with an exposure of 168,373% of equity as at 30 September 2016 (30 September 2015: 291,076%). Bank of New Zealand guarantees the obligations of the Company, acting through its London branch, in respect of all securities issued by the Company's London branch to wholesale investors.

As at 30 September 2016, there are no collateral or other credit enhancements obtained in respect of amounts due from related entities.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates and credit spreads. Exposure to interest rate risk arises in respect of funding through issuing commercial paper and medium term notes.

No sensitivity analysis has been performed as the interest rate risk has been mitigated by the on-lending agreement with Bank of New Zealand.

Foreign exchange risk

Foreign exchange risk results from exposures to changes in foreign exchange rates. Currency risk arises from foreign currency balances and the trading of any foreign currency denominated product, such as foreign currency bonds and notes.

No sensitivity analysis has been performed as the currency risk has been mitigated by the on-lending agreement with Bank of New Zealand.

Liquidity risk

Liquidity risk arises from the mismatch in the maturity of financial assets and liabilities, plus their settlement characteristics. Maintaining adequate liquidity to meet the current and future payment obligations at a reasonable cost is a core objective of the Company.

All proceeds from commercial paper and medium term notes issued by the Company are on-lent to Bank of New Zealand, the Company's parent company, on terms and conditions which match the terms and conditions of the debt issue, and all relevant risks, including interest rate, currency and liquidity risks, are mitigated through the offsetting with Bank of New Zealand. Refer to Note 10 Related Entity Transactions for more information.

Independent Auditor's Report

To the Shareholder of BNZ International Funding Limited

Report on the Financial Statements

We have audited the financial statements of BNZ International Funding Limited on pages 1 to 16, which comprise the balance sheet of BNZ International Funding Limited as at 30 September 2016, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholder. Our audit has been undertaken so that we might state to the company's shareholder those matters we are required to state to them in an auditor's 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 company and the company's shareholder, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

The directors are responsible on behalf of the company for the preparation and fair presentation of the financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

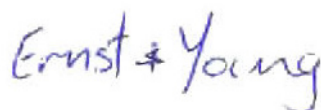
We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Ernst & Young provides other assurance related services to BNZ International Funding Limited. We have no other relationship with, or interest in BNZ International Funding Limited.

Partners and employees of our firm may deal with the company on normal terms within the ordinary course of trading activities of the business of the company.

Opinion

In our opinion, the financial statements on pages 1 to 16 present fairly, in all material respects, the financial position of BNZ International Funding Limited as at 30 September 2016 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.



8 December 2016
Auckland