

Bank of New Zealand

# Disclosure Statement

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For the nine months ended 30 June 2011



This Disclosure Statement has been issued by Bank of New Zealand for the nine months ended 30 June 2011 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No. 2) 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 controlled entities and 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 nine months ended 30 June 2011*

## **Contents**

### **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](http://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 General Disclosure Statement for the year ended 30 September 2010 which is available at [www.bnz.co.nz](http://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 a long term credit rating of Aaa by Moody’s Investors Service. 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**

The ongoing earthquake activity in the Canterbury region has impacted customers, employees and branches of Bank of New Zealand. As at 30 June 2011, an allowance of \$60 million has been provided to reflect potential credit losses from the earthquake events. This comprises amounts taken in the prior and current financial years.

Although there is significant volatility in the global financial markets at present, 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**

On 12 August 2011, Michael James Ullmer retired from the Bank’s Board of Directors. On 12 August 2011, Gavin Robin Slater was appointed to the Bank’s Board of Directors.

**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

Stephen John Moir

Prudence Mary Flacks

Dr Andrew John Pearce

Edwin Gilmour Johnson

Gavin Robin Slater

Dr Susan Carrel Macken

Dollars in Millions	Note	Consolidated		
		Unaudited 9 Months 30/6/11	Unaudited 9 Months 30/6/10	Audited 12 Months 30/9/10
Interest income		2,777	2,539	3,447
Interest expense		1,752	1,592	2,166
<b>Net interest income</b>		<b>1,025</b>	947	1,281
Gains less losses on financial instruments at fair value	2	(77)	86	(18)
Other operating income		298	285	379
<b>Total operating income</b>		<b>1,246</b>	1,318	1,642
Operating expenses		580	603	818
<b>Total operating profit before impairment losses on credit exposures and income tax expense</b>		<b>666</b>	715	824
Impairment losses on credit exposures	8	114	135	187
<b>Total operating profit before income tax expense</b>		<b>552</b>	580	637
Income tax expense on operating profit		166	171	202
Income tax credit on New Zealand structured finance transactions		-	(83)	(83)
Income tax credit interest costs on New Zealand structured finance transactions		-	(84)	(84)
<b>Total income tax expense</b>		<b>166</b>	4	35
<b>Net profit attributable to shareholders of Bank of New Zealand</b>		<b>386</b>	576	602

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

Dollars in Millions	Consolidated		
	Unaudited 9 Months 30/6/11	Unaudited 9 Months 30/6/10	Audited 12 Months 30/9/10
<b>Net profit attributable to shareholders of Bank of New Zealand</b>	<b>386</b>	576	602
<b>Other comprehensive income/(expense), net of taxation</b>			
Net actuarial loss on defined benefit plan	-	-	(3)
Net change in foreign currency translation reserve	-	2	(6)
Net change in cash flow hedge reserve	18	32	78
Available for sale investments revaluation reserve:			
Change in available for sale investments revaluation reserve from revaluation	1	6	6
<b>Total other comprehensive income, net of taxation</b>	<b>19</b>	40	75
<b>Total comprehensive income attributable to shareholders of Bank of New Zealand</b>	<b>405</b>	616	677

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

## Income Statement

For the nine months ended 30 June 2011

## Statement of Comprehensive Income

For the nine months ended 30 June 2011

# Statement of Changes in Equity

For the nine months ended 30 June 2011

Dollars in Millions	Consolidated							
	9 Months 30/6/11 Unaudited							
	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	1,566	2	(3)	16	60	4,002
<b>Comprehensive income</b>								
Net profit attributable to shareholders of Bank of New Zealand	-	-	386	-	-	-	-	386
Total other comprehensive income	-	-	-	-	-	1	18	19
Total comprehensive income	-	-	386	-	-	1	18	405
Ordinary dividend	-	-	(330)	-	-	-	-	(330)
Perpetual preference dividend	-	-	(45)	-	-	-	-	(45)
Balance at end of period	1,451	910	1,577	2	(3)	17	78	4,032
	9 Months 30/6/10 Unaudited							
Balance at beginning of period	1,451	710	1,587	2	3	10	(18)	3,745
<b>Comprehensive income</b>								
Net profit attributable to shareholders of Bank of New Zealand	-	-	576	-	-	-	-	576
Total other comprehensive income	-	-	-	-	2	6	32	40
Total comprehensive income	-	-	576	-	2	6	32	616
Proceeds from shares issued	-	200	-	-	-	-	-	200
Ordinary dividend	-	-	(563)	-	-	-	-	(563)
Perpetual preference dividend	-	-	(42)	-	-	-	-	(42)
Balance at end of period	1,451	910	1,558	2	5	16	14	3,956
	12 Months 30/9/10 Audited							
Balance at beginning of year	1,451	710	1,587	2	3	10	(18)	3,745
<b>Comprehensive income/ (expense)</b>								
Net profit attributable to shareholders of Bank of New Zealand	-	-	602	-	-	-	-	602
Total other comprehensive (expense)/income	-	-	(3)	-	(6)	6	78	75
Total comprehensive income/ (expense)	-	-	599	-	(6)	6	78	677
Proceeds from shares issued	-	200	-	-	-	-	-	200
Ordinary dividend	-	-	(563)	-	-	-	-	(563)
Perpetual preference dividend	-	-	(57)	-	-	-	-	(57)
Balance at end of year	1,451	910	1,566	2	(3)	16	60	4,002

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

## Balance Sheet

As at 30 June 2011

Dollars in Millions	Note	Consolidated		
		Unaudited 30/6/11	Unaudited 30/6/10	Audited 30/9/10
<b>Assets</b>				
Cash and balances with central banks	4	1,651	2,344	2,040
Due from other financial institutions	5	987	1,512	1,249
Trading securities	6	3,391	2,660	3,231
Other money market placements		392	492	433
Available for sale investments		122	262	273
Loans and advances to customers	7	56,163	54,761	54,986
Derivative financial instruments		5,058	4,460	5,650
Amounts due from related entities		692	481	539
Current tax		198	176	194
Deferred tax		186	245	225
Other assets		291	358	549
Property, plant and equipment		188	154	161
Goodwill and other intangible assets		149	100	117
<b>Total assets</b>		<b>69,468</b>	68,005	69,647
<b>Financed by:</b>				
<b>Liabilities</b>				
Due to central banks and other financial institutions	9	990	1,072	1,575
Other money market deposits	10	9,643	12,959	11,883
Trading liabilities		-	15	31
Deposits from customers	11	30,858	27,986	28,663
Derivative financial instruments		6,069	5,146	6,421
Bonds and notes		11,543	9,939	9,772
Amounts due to related entities		4,408	5,056	5,137
Other liabilities		657	604	885
Subordinated debt		1,268	1,272	1,278
<b>Total liabilities</b>		<b>65,436</b>	64,049	65,645
<b>Net assets</b>		<b>4,032</b>	3,956	4,002
<b>Shareholders' equity</b>				
Contributed equity - ordinary shareholder		1,451	1,451	1,451
Reserves		94	37	75
Retained profits		1,577	1,558	1,566
Ordinary shareholder's equity		3,122	3,046	3,092
Contributed equity - perpetual preference shareholders		910	910	910
<b>Total shareholders' equity</b>		<b>4,032</b>	3,956	4,002

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 nine months ended 30 June 2011

Dollars in Millions	Consolidated		
	Unaudited 9 Months 30/6/11	Unaudited 9 Months 30/6/10	Audited 12 Months 30/9/10
<b>Cash flows from operating activities</b>			
<b>Cash was provided from:</b>			
Dividend income	2	1	3
Interest income	2,787	2,552	3,454
Net trading income	37	33	26
Other income	296	284	376
<b>Cash was applied to:</b>			
Interest expense	(1,728)	(1,724)	(2,240)
Operating expenses	(546)	(576)	(764)
<b>Net cash flows from operating activities before changes in operating assets and liabilities and income tax</b>	<b>848</b>	570	855
<b>Changes in operating assets and liabilities arising from cash flow movements</b>			
Net movement in balances with central banks (term)*	(111)	(157)	(170)
Net movement in due from other financial institutions (term)*	(245)	(738)	172
Net movement in loans and advances to customers*	(1,446)	166	(179)
Net movement in other assets	247	218	30
Net movement in other money market placements*	42	45	104
Net movement in trading securities and trading liabilities*	(200)	1,025	475
Net movement in deposits from customers*	2,195	753	1,430
Net movement in due to central banks and other financial institutions (term)*	(572)	(2,896)	(2,301)
Net movement in other liabilities	(252)	(37)	185
<b>Net change in operating assets and liabilities</b>	<b>(342)</b>	(1,621)	(254)
<b>Net cash flows from operating activities before income tax</b>	<b>506</b>	(1,051)	601
<b>Cash was applied to:</b>			
Taxes and subvention payments	(127)	(146)	(150)
<b>Net cash flows from operating activities</b>	<b>379</b>	(1,197)	451
<b>Cash flows from investing activities</b>			
<b>Cash was provided from:</b>			
Proceeds from sale of available for sale investments	-	25	47
Proceeds on maturity of available for sale investments	147	50	50
<b>Cash was applied to:</b>			
Acquisition of intangible assets	(46)	(22)	(42)
Purchase of available for sale investments	-	-	(32)
Purchase of property, plant and equipment	(51)	(33)	(62)
<b>Net cash flows from investing activities</b>	<b>50</b>	20	(39)
<b>Cash flows from financing activities</b>			
Net movement in bonds and notes*	1,884	2,242	1,975
Net movement in derivative financial instruments*	186	(805)	(631)
Net movement in other money market deposits*	(2,236)	2,184	1,102
Net movement in related entity funding*	(882)	(1,576)	(1,553)
Increase in contributed equity - perpetual preference shares	-	200	200
Ordinary dividend	(330)	(563)	(563)
Perpetual preference dividend	(45)	(42)	(57)
<b>Net cash flows from financing activities</b>	<b>(1,423)</b>	1,640	473
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(994)</b>	463	885
Cash and cash equivalents at beginning of period	2,103	1,218	1,218
<b>Cash and cash equivalents at end of period</b>	<b>1,109</b>	1,681	2,103
<b>Cash and cash equivalents at end of period comprised:</b>			
Cash and balances with central banks (call)	1,370	2,187	1,870
Due from other financial institutions (call)	170	30	677
Due to central banks and other financial institutions (call)	(431)	(536)	(444)
<b>Total cash and cash equivalents</b>	<b>1,109</b>	1,681	2,103

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



## Cash Flow Statement continued

For the nine months  
ended 30 June 2011

Dollars in Millions	Note	Consolidated		
		Unaudited 9 Months 30/6/11	Unaudited 9 Months 30/6/10	Audited 12 Months 30/9/10
<b>Reconciliation of net profit attributable to shareholders of Bank of New Zealand to net cash flows from operating activities</b>				
Net profit attributable to shareholders of Bank of New Zealand		386	576	602
<b>Add back non-cash items in net profit:</b>				
Decrease in accrued interest receivable		10	13	7
Depreciation and amortisation expense		37	32	45
Impairment losses on credit exposures	8	114	135	187
Impairment losses on non-financial assets		-	10	-
Increase in accrued interest payable		24	-	-
Increase in provision for tax		42	-	-
Loss on disposal of property, plant and equipment		-	1	16
Loss on disposal of intangible assets		-	-	9
Unrealised gains less losses on financial instruments		114	-	44
<b>Deduct non-cash items in net profit:</b>				
Decrease in accrued interest payable		-	(132)	(74)
Decrease in other provisions		(6)	(16)	(16)
Decrease in provision for tax		-	(142)	(115)
Unrealised gains less losses on financial instruments		-	(53)	-
<b>Deduct operating cash flows not included in net profit:</b>				
Net change in operating assets and liabilities		(342)	(1,621)	(254)
<b>Net cash flows from operating activities</b>		<b>379</b>	<b>(1,197)</b>	<b>451</b>

### Netting of cash flows

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

Cash and cash equivalents consist of cash and short term, highly 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.

Movements in cash and cash equivalents do not represent cash flows in the normal sense. Rather, they represent changes in the net inter-bank funding on the reporting dates. These balances fluctuate widely in the normal course of business.

*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 nine months ended 30 June 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 General Disclosure Statement for the year ended 30 September 2010.

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 General Disclosure Statement for the year ended 30 September 2010.

## 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 9 Months 30/6/11	Unaudited 9 Months 30/6/10	Audited 12 Months 30/9/10
<b>Note 2 Gains Less Losses on Financial Instruments at Fair Value</b>			
<b>Hedge accounting</b>			
Net gain arising from hedging instruments in fair value hedge accounting relationships	34	32	10
Net loss arising from the hedged items attributable to the hedged risk in fair value hedge accounting relationships	(53)	(78)	(47)
Ineffectiveness arising from cash flow hedge accounting relationships	-	3	(1)
	(19)	(43)	(38)
<b>Trading</b>			
Foreign exchange trading gain	69	55	53
Interest rate related trading derivatives	8	15	10
Net gain in the fair value of financial assets and liabilities held for trading	8	22	34
	85	92	97
<b>Other</b>			
Net (loss)/gain in the fair value of financial assets designated at fair value through profit or loss (refer to table below)	(69)	38	(81)
Net (loss)/gain in the fair value of financial liabilities designated at fair value through profit or loss (refer to table below)	(86)	7	8
Bid/offer adjustment	(1)	(2)	(2)
Net gain/(loss) attributable to other derivatives used for hedging purposes that do not qualify as designated and effective hedging instruments	13	(6)	(2)
	(143)	37	(77)
Total gains less losses on financial instruments at fair value	(77)	86	(18)
<b>Net (loss)/gain in the fair value of financial assets comprised:</b>			
(Loss)/gain in the fair value of financial assets designated at fair value through profit or loss	(89)	18	(72)
Credit risk adjustments on financial assets designated at fair value through profit or loss	(12)	(27)	(35)
Net gain attributable to other derivatives used for hedging purposes that do not use hedge accounting	32	47	26
	(69)	38	(81)
<b>Net (loss)/gain in the fair value of financial liabilities comprised:*</b>			
Gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss	151	(86)	(166)
Credit value adjustments on financial liabilities designated at fair value through profit or loss	(26)	2	4
Net (loss)/gain attributable to other derivatives used for hedging purposes that do not use hedge accounting	(211)	91	170
	(86)	7	8

\* 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 Leadership 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.

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.

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.

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 financial statements of the Banking Group; results of an entity included for management reporting purposes, but excluded from the consolidated financial statements of the Banking Group for statutory financial reporting purposes; and other balances excluded for management reporting purposes, but included as part of the consolidated financial statements of the Banking Group for statutory financial reporting purposes.

Dollars in Millions	Consolidated				
	9 Months 30/6/11 Unaudited				
	Retail	BNZ Partners	Total Reportable Segments	Other	Total Banking Group
Revenue from external customers	571	760	1,331	(85)	1,246
Net inter-segment revenue	1	60	61	(61)	-
Total segment revenue	572	820	1,392	(146)	1,246
Profit before income tax expense*	264	463	727	(175)	552
Total income tax expense	73	140	213	(47)	166
Net profit attributable to shareholders of Bank of New Zealand	191	323	514	(128)	386
	9 Months 30/6/10 Unaudited				
Revenue from external customers	533	730	1,263	55	1,318
Net inter-segment revenue	1	53	54	(54)	-
Total segment revenue	534	783	1,317	1	1,318
Profit before income tax expense*	225	427	652	(72)	580
Income tax expense	62	128	190	(19)	171
Income tax credit on New Zealand structured finance transactions	-	-	-	(83)	(83)
Income tax credit interest costs on New Zealand structured finance transactions	-	-	-	(84)	(84)
Total income tax expense	62	128	190	(186)	4
Net profit attributable to shareholders of Bank of New Zealand	163	299	462	114	576
	12 Months 30/9/10 Audited				
Revenue from external customers	722	990	1,712	(70)	1,642
Net inter-segment revenue	2	73	75	(75)	-
Total segment revenue	724	1,063	1,787	(145)	1,642
Profit before income tax expense*	300	582	882	(245)	637
Income tax expense	83	175	258	(56)	202
Income tax credit on New Zealand structured finance transactions	-	-	-	(83)	(83)
Income tax credit interest costs on New Zealand structured finance transactions	-	-	-	(84)	(84)
Total income tax expense	83	175	258	(223)	35
Net profit attributable to shareholders of Bank of New Zealand	217	407	624	(22)	602

\* For the nine months ended 30 June 2011, profit before income tax expense in the Other category includes fair value losses on financial instruments of \$164 million (nine months ended 30 June 2010: \$8 million; year ended 30 September 2010: \$94 million).

*Asset Notes*

Dollars in Millions	Consolidated		
	Unaudited 30/6/11	Unaudited 30/6/10	Audited 30/9/10
<b>Note 4 Cash and Balances With Central Banks</b>			
Notes and coins	136	128	120
Transaction balances with central banks	1,234	2,059	1,750
Loans and advances to central banks	281	157	170
<b>Total cash and balances with central banks</b>	<b>1,651</b>	<b>2,344</b>	<b>2,040</b>

Dollars in Millions	Consolidated		
	Unaudited 30/6/11	Unaudited 30/6/10	Audited 30/9/10
<b>Note 5 Due from Other Financial Institutions</b>			
Transaction balances with other financial institutions	170	30	677
Securities purchased under agreements to resell with other financial institutions	358	1,106	88
Loans and advances due from other financial institutions	459	376	484
<b>Total due from other financial institutions</b>	<b>987</b>	<b>1,512</b>	<b>1,249</b>

Dollars in Millions	Consolidated		
	Unaudited 30/6/11	Unaudited 30/6/10	Audited 30/9/10
<b>Note 6 Trading Securities</b>			
Treasury bills	1,466	965	1,267
Government securities	1,345	850	974
Semi-government securities	32	94	145
Bank bills	-	415	263
Bank bonds	205	203	382
Promissory notes	290	105	171
Other securities	53	28	29
<b>Total trading securities</b>	<b>3,391</b>	<b>2,660</b>	<b>3,231</b>

Included in trading securities as at 30 June 2011 were \$229 million encumbered through repurchase agreements (30 June 2010: \$17 million; 30 September 2010: \$600 million). \$44 million of trading securities were used to secure deposit obligations as at 30 June 2011 (30 June 2010: nil; 30 September 2010: nil).

Dollars in Millions	Consolidated		
	Unaudited 30/6/11	Unaudited 30/6/10	Audited 30/9/10
<b>Note 7 Loans and Advances to Customers</b>			
Overdrafts	2,321	2,332	2,185
Credit card outstandings	1,392	1,365	1,369
Lease finance	21	26	24
Housing loans	27,077	26,023	26,262
Other term lending	25,637	25,330	25,388
Other lending	170	128	149
<b>Total gross loans and advances to customers</b>	<b>56,618</b>	55,204	55,377
<b>Deduct:</b>			
Allowance for impairment losses and credit risk adjustments on individual financial assets (refer to note 8)	243	274	242
Allowance for impairment losses and credit risk adjustments on groups of financial assets (refer to note 8)	287	264	273
Unearned future income on lease finance	3	4	4
Deferred income	38	40	41
Fair value hedge adjustments	(116)	(139)	(169)
<b>Total deductions</b>	<b>455</b>	443	391
<b>Total net loans and advances to customers</b>	<b>56,163</b>	54,761	54,986

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 Reserve Bank of New Zealand ("RBNZ"). As at 30 June 2011, included within the Banking Group's loans and advances to customers were housing loans to the value of \$4,466 million held by the RMBS Trust (30 June 2010: \$6,464 million; 30 September 2010: \$4,467 million). These housing loans have not been derecognised from the Banking Group's 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 30 June 2011 (30 June 2010: nil; 30 September 2010: nil). RBNZ had not accepted any residential mortgage-backed securities as collateral from the Banking Group as at 30 June 2011 (30 June 2010: nil; 30 September 2010: 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 30 June 2011, included within the Banking Group's loans and advances to customers were housing loans to the value of \$4,046 million held by the Covered Bond Trust (30 June 2010: \$487 million; 30 September 2010: \$489 million). These housing loans have not been derecognised from the Banking Group's 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 \$3,377 million that were guaranteed by the Covered Bond Trust as at 30 June 2011 (30 June 2010: \$425 million; 30 September 2010: \$425 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 30 June 2011 (30 June 2010: \$494 million; 30 September 2010: \$493 million).

Notes to and  
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Dollars in Millions	Consolidated			
	Residential Mortgage Lending Unaudited 30/6/11	Other Retail Exposures Unaudited 30/6/11	Corporate Exposures Unaudited 30/6/11	Total Unaudited 30/6/11
<b>Note 8 Asset Quality</b>				
<b>Allowance for impairment losses and credit risk adjustments</b>				
<b>Loans and advances to customers</b>				
<i>Individual financial assets</i>				
Allowance for impairment losses	57	20	90	167
Credit risk adjustments on individual financial assets designated at fair value through profit or loss	-	1	75	76
	57	21	165	243
<i>Groups of financial assets</i>				
Allowance for impairment losses	37	70	108	215
Credit risk adjustments on groups of financial assets designated at fair value through profit or loss	-	1	71	72
	37	71	179	287
<b>Other money market placements</b>				
Credit risk adjustments on groups of financial assets designated at fair value through profit or loss	-	-	1	1
<b>Trading derivative financial instruments</b>				
Credit risk adjustments on groups of financial assets designated at fair value through profit or loss	-	-	8	8
<b>Charges to income statement on financial assets</b>				
<b>Charge to impairment losses on credit exposures</b>				
<b>Loans and advances to customers</b>				
Impairment losses on individual financial assets	20	28	54	102
Impairment losses on groups of financial assets	6	(2)	8	12
	26	26	62	114
<b>Charge to income statement on financial assets designated at fair value through profit or loss</b>				
<b>Loans and advances to customers</b>				
Credit risk adjustments on individual financial assets	-	1	9	10
Credit risk adjustments on groups of financial assets	-	-	2	2
	-	1	11	12
<b>Other money market placements</b>				
Credit risk adjustments on groups of financial assets	-	-	-	-
	-	1	11	12
<b>Trading derivative financial instruments</b>				
Charge to income statement on groups of financial assets	-	-	(1)	(1)
<b>Pre-allowance balances at end of period</b>				
<b>Loans and advances to customers</b>				
Other individually impaired assets - at amortised cost	157	32	353	542
Other individually impaired assets - at fair value through profit or loss	-	1	154	155
Restructured assets	3	-	32	35
Total impaired assets at end of period	160	33	539	732
90 days past due assets	89	42	134	265
<b>Off-balance sheet impaired assets</b>				
Off-balance sheet facilities that were impaired as at 30 June 2011 was nil as a result of rounding to the nearest million. No allowance for impairment losses on individual off-balance sheet credit related commitments had been made as at 30 June 2011.				

## Liability Notes

Dollars in Millions	Consolidated		
	Unaudited 30/6/11	Unaudited 30/6/10	Audited 30/9/10
<b>Note 9 Due to Central Banks and Other Financial Institutions</b>			
Transaction balances with other financial institutions	431	536	444
Deposits from central banks	78	25	29
Deposits from other financial institutions	247	494	448
Securities sold under agreements to repurchase from other financial institutions	234	17	654
<b>Total due to central banks and other financial institutions</b>	<b>990</b>	<b>1,072</b>	<b>1,575</b>

Dollars in Millions	Consolidated		
	Unaudited 30/6/11	Unaudited 30/6/10	Audited 30/9/10
<b>Note 10 Other Money Market Deposits</b>			
Money market deposits from non-financial institutions	2,016	2,632	2,853
Certificates of deposit	2,774	2,294	1,752
Commercial paper	4,853	8,033	7,278
<b>Total other money market deposits</b>	<b>9,643</b>	<b>12,959</b>	<b>11,883</b>

Dollars in Millions	Consolidated		
	Unaudited 30/6/11	Unaudited 30/6/10	Audited 30/9/10
<b>Note 11 Deposits from Customers</b>			
Demand deposits not bearing interest	1,616	1,157	1,289
Demand deposits bearing interest	10,428	9,787	9,814
Term deposits	18,814	17,042	17,560
<b>Total deposits from customers</b>	<b>30,858</b>	<b>27,986</b>	<b>28,663</b>

**Notes to and  
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*Other Notes*

Dollars in Millions	<b>Consolidated</b>
	<b>Unaudited 30/6/11</b>
<b>Note 12 Interest Earning and Discount Bearing Assets and Liabilities</b>	
Interest earning and discount bearing assets	<b>62,846</b>
Interest and discount bearing liabilities	<b>57,684</b>

**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	<b>Consolidated</b>		
	<b>Unaudited 30/6/11</b>	Unaudited 30/6/10	Audited 30/9/10
<b>Contingent liabilities</b>			
Bank guarantees	<b>56</b>	50	52
Standby letters of credit	<b>319</b>	352	342
Documentary letters of credit	<b>78</b>	93	91
Performance related contingencies	<b>332</b>	324	331
Total contingent liabilities	<b>785</b>	819	816
<b>Credit related commitments</b>			
Revocable commitments to extend credit	<b>5,055</b>	5,056	4,995
Irrevocable commitments to extend credit	<b>7,212</b>	7,827	6,960
Total credit related commitments	<b>12,267</b>	12,883	11,955
Total contingent liabilities and credit related commitments	<b>13,052</b>	13,702	12,771

**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.

As at 30 June 2011 and for the three months ended 30 June 2011, the Banking Group has no bank or non-bank counterparties that equal or exceed 10% of the Banking Group's equity and meets the disclosure thresholds described above.

**Note 15 Securitisation and Insurance Business**

**Securitisation activities**

During the three months ended 30 June 2011, BNZ International Funding Limited (London branch) issued A\$700 million (face value) of medium term notes with a coupon of 6.25% (fixed) and maturity date of 14 June 2016. These notes are guaranteed by the Covered Bond Trust. Further details on the Covered Bond Trust are provided in note 7.

**Insurance business**

The Banking Group does not conduct any Insurance Business, as defined in clause 3(a) 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 30 June 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	<b>Consolidated</b>
	Unaudited 30/6/11
<b>Qualifying capital</b>	
Tier One capital (before deductions)	3,984
Deductions from Tier One capital	289
Total Tier One capital (net of all deductions and adjustments)	3,695
Tier Two capital (before deductions)	1,415
Deductions from Tier Two capital	216
Total Tier Two capital	1,199
Total Tier One and Tier Two qualifying capital	4,894

### Basel II regulatory capital ratios

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

	<b>Consolidated</b>	
	Regulatory Minima	Unaudited 30/6/11
Tier One capital expressed as a percentage of total risk-weighted exposures	4.00%	8.49%
Total qualifying capital expressed as a percentage of total risk-weighted exposures	8.00%	11.24%

### Total regulatory capital requirements

Dollars in Millions	<b>Consolidated</b>
	Total Capital Requirement* Unaudited 30/6/11
<b>Credit risk</b>	
Exposures subject to the internal ratings based approach (refer to table below)	2,634
Equity exposures	9
Specialised lending subject to the slotting approach	259
Exposures subject to the standardised approach	55
Total credit risk	2,957
<b>Operational risk</b>	322
<b>Market risk</b>	203
<b>Total</b>	3,482

\* 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	<b>Consolidated</b>
	Total Minimum Capital Requirement Unaudited 30/6/11
Corporate	1,659
Sovereign	5
Bank	26
Residential mortgage	732
Other retail	138
Retail small to medium enterprises	74
Total exposures	2,634

**Note 16 Capital Adequacy** *continued*

**Residential mortgages by loan-to-valuation ratio**

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

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

	<b>Consolidated</b>		
	<b>On-balance Sheet Exposures at Default Unaudited 30/6/11</b>	<b>Off-balance Sheet Exposures at Default* Unaudited 30/6/11</b>	<b>Total Exposures at Default Unaudited 30/6/11</b>
Dollars in Millions			
<b>LVR Range</b>			
0-59%	9,887	1,287	11,174
60-69%	4,864	408	5,272
70-79%	8,800	665	9,465
80-89%	1,663	54	1,717
Over 90%	1,860	300	2,160
	<b>27,074</b>	<b>2,714</b>	<b>29,788</b>

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

**Pillar two capital for other material risks**

As at 30 June 2011, the Banking Group had an internal capital allocation for Business Risk of \$139 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 31 March 2011.

**Liquidity portfolio management**

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

	<b>Consolidated</b>
	<b>Unaudited 30/6/11</b>
Dollars in Millions	
Cash and balances immediately convertible to cash	1,822
Securities purchased under agreements to resell	488
Treasury bills	1,373
Government securities	1,072
Semi-government securities	32
Bank bonds	248
Promissory notes	290
Other securities	44
Total liquidity portfolio	<b>5,369</b>

As at 30 June 2011, the Banking Group also held unencumbered residential mortgage-backed securities ("RMBS") of \$4,491 million. The RMBS assets can be purchased under agreements to resell 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.

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 30 June 2011 the following changes were made to the Bank's conditions of registration:

- the conditions relating to the capital adequacy framework were amended to refer to the latest version of "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B), to implement revised farm lending capital requirements with effect from 30 June 2011;
- the condition on connected lending requirements was updated to refer to the latest version of "Connected Exposures Policy" (BS8), which is updated to refer to the latest version of BS2B; and
- the condition setting the quantitative liquidity requirements was updated to increase the minimum core funding ratio from 65% to 70%, with effect from 1 July 2011.

## Credit Ratings

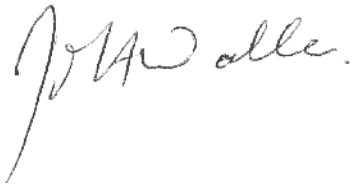
## Conditions of Registration

## 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 nine months ended 30 June 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 17<sup>th</sup> of August 2011 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

