Bank of New Zealand

Disclosure Statement

For the six months ended 31 March 2012

No. 65

This Disclosure Statement has been issued by Bank of New Zealand for the six months ended 31 March 2012 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2012 (the "Order").

In this Disclosure Statement, unless the context otherwise requires:

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

Disclosure Statement

For the six months ended 31 March 2012

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Bank of New Zealand Corporate Information

Address for Service

The name of the Registered Bank is Bank of New Zealand (referred to either by its full name or as the "Bank" or the "Company") and its address for service is Level 4, 80 Queen Street, Auckland 1010, New Zealand.

Nature of Business

The Bank was incorporated on 29 July 1861. The Banking Group provides a broad range of banking and financial products to retail, business, agribusiness, corporate and institutional clients.

Guarantees

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

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

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

The information about the Crown's wholesale funding guarantee above is a brief summary only. The full wholesale funding guarantee should be reviewed by any person intending to rely on the guarantee to ensure that 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.

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 6011, 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 and AAA from Moody's Investors Service and Fitch Ratings respectively. Refer to note 8 for further information.

Further details about these guarantees can be obtained by referring to the Bank's Disclosure Statement for the year ended 30 September 2011 which is available at www.bnz.co.nz.

Other material obligations of the Bank are not guaranteed.

Ultimate Parent Bank and Address for Service

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

Pending Proceedings or Arbitration

The Bank's Directors are of the opinion that there are no pending proceedings or arbitrations concerning any member of the Banking Group, whether in New Zealand or elsewhere, that may have a material adverse effect on the Bank or the Banking Group.

Other Material Matters

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

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

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

Directorate

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

Responsible Persons – Messrs. John Anthony Waller, Non-Executive Director, Chairman, and Andrew Gregory Thorburn, Executive Director, have been authorised in writing to sign this Disclosure Statement in accordance with section 82 of the Reserve Bank of New Zealand Act 1989, on behalf of the other Directors, being:

Cameron Anthony Clyne

Prudence Mary Flacks

Edwin Gilmour Johnson

Dr Susan Carrel Macken

Stephen John Moir

Dr Andrew John Pearce

Gavin Robin Slater

Auditor

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

Income Statement

For the six months ended 31 March 2012

Dollars in Millions	Note	Consolidated Unaudited 6 Months 31/3/12	Unaudited 6 Months 31/3/11	Audited 12 Months 30/9/11
Interest income		**1,885**	1,861	3,742
Interest expense		**1,138**	1,186	2,355
Net interest income		**747**	675	1,387
Gains less losses on financial instruments at fair value	2	**(34)**	(32)	120
Other operating income		**191**	197	382
Total operating income		**904**	840	1,889
Operating expenses		**386**	382	775
Total operating profit before impairment losses on credit exposures and income tax expense		**518**	458	1,114
Impairment losses on credit exposures	9	**30**	95	152
Total operating profit before income tax expense		**488**	363	962
Income tax expense on operating profit		**136**	108	291
Net profit attributable to shareholders of Bank of New Zealand		**352**	255	671

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

Statement of Comprehensive Income

For the six months ended 31 March 2012

Dollars in Millions	Consolidated Unaudited 6 Months 31/3/12	Unaudited 6 Months 31/3/11	Audited 12 Months 30/9/11
Net profit attributable to shareholders of Bank of New Zealand	**352**	255	671
Other comprehensive (expense)/income, net of taxation			
Net actuarial loss on defined benefit plan	**-**	-	(2)
Net change in foreign currency translation reserve	**(2)**	(2)	6
Net change in cash flow hedge reserve	**(4)**	12	59
Available for sale investments revaluation reserve:			
Change in available for sale investments revaluation reserve from revaluation	**10**	1	4
Total other comprehensive income, net of taxation	**4**	11	67
Total comprehensive income attributable to shareholders of Bank of New Zealand	**356**	266	738

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

Statement of Changes in Equity

For the six months ended 31 March 2012

Dollars in Millions	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 Share-holders' Equity
Consolidated Unaudited 6 Months 31/3/12								
Balance at beginning of period	**1,451**	**910**	**1,844**	**2**	**3**	**20**	**119**	**4,349**
Comprehensive income/ (expense)								
Net profit attributable to shareholders of Bank of New Zealand	**-**	**-**	**352**	**-**	**-**	**-**	**-**	**352**
Total other comprehensive (expense)/income	**-**	**-**	**-**	**-**	**(2)**	**10**	**(4)**	**4**
Total comprehensive income/ (expense)	**-**	**-**	**352**	**-**	**(2)**	**10**	**(4)**	**356**
Perpetual preference dividend	**-**	**-**	**(32)**	**-**	**-**	**-**	**-**	**(32)**
Balance at end of period	**1,451**	**910**	**2,164**	**2**	**1**	**30**	**115**	**4,673**
Unaudited 6 Months 31/3/11								
Balance at beginning of period	1,451	910	1,566	2	(3)	16	60	4,002
Comprehensive income/ (expense)								
Net profit attributable to shareholders of Bank of New Zealand	-	-	255	-	-	-	-	255
Total other comprehensive (expense)/income	-	-	-	-	(2)	1	12	11
Total comprehensive income/ (expense)	-	-	255	-	(2)	1	12	266
Ordinary dividend	-	-	(168)	-	-	-	-	(168)
Perpetual preference dividend	-	-	(30)	-	-	-	-	(30)
Balance at end of period	1,451	910	1,623	2	(5)	17	72	4,070
Audited 12 Months 30/9/11								
Balance at beginning of year	1,451	910	1,566	2	(3)	16	60	4,002
Comprehensive income								
Net profit attributable to shareholders of Bank of New Zealand	-	-	671	-	-	-	-	671
Total other comprehensive (expense)/income	-	-	(2)	-	6	4	59	67
Total comprehensive income	-	-	669	-	6	4	59	738
Ordinary dividend	-	-	(330)	-	-	-	-	(330)
Perpetual preference dividend	-	-	(61)	-	-	-	-	(61)
Balance at end of year	1,451	910	1,844	2	3	20	119	4,349

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

Balance Sheet

As at 31 March 2012

Dollars in Millions	Note	Consolidated Unaudited 31/3/12	Unaudited 31/3/11	Audited 30/9/11
Assets				
Cash and balances with central banks	4	**2,001**	1,566	1,986
Due from other financial institutions	5	**1,138**	1,035	1,567
Trading securities	6	**3,446**	3,431	3,935
Other money market placements	7	**1,028**	333	1,037
Available for sale investments		**44**	188	62
Derivative financial instruments		**4,772**	4,588	6,949
Loans and advances to customers	8	**57,834**	55,719	56,661
Current tax		**104**	253	88
Amounts due from related entities		**545**	721	600
Other assets		**275**	351	683
Deferred tax		**153**	173	165
Property, plant and equipment		**215**	177	200
Goodwill and other intangible assets		**161**	133	152
Total assets		**71,716**	68,668	74,085
Financed by:				
Liabilities				
Due to central banks and other financial institutions	11	**1,996**	875	2,672
Other money market deposits	12	**8,541**	10,104	11,789
Trading liabilities		**15**	-	51
Deposits from customers	13	**33,883**	30,608	31,354
Derivative financial instruments		**4,873**	5,187	6,051
Bonds and notes		**13,103**	11,226	12,414
Amounts due to related entities		**2,741**	4,484	3,212
Other liabilities		**633**	836	921
Subordinated debt		**1,258**	1,278	1,272
Total liabilities		**67,043**	64,598	69,736
Net assets		**4,673**	4,070	4,349
Shareholders' equity				
Contributed equity – ordinary shareholder		**1,451**	1,451	1,451
Reserves		**148**	86	144
Retained profits		**2,164**	1,623	1,844
Ordinary shareholder's equity		**3,763**	3,160	3,439
Contributed equity – perpetual preference shareholders		**910**	910	910
Total shareholders' equity		**4,673**	4,070	4,349

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

Cash Flow Statement

For the six months ended 31 March 2012

Dollars in Millions	Note	Consolidated Unaudited 6 Months 31/3/12	Unaudited 6 Months 31/3/11	Audited 12 Months 30/9/11
Cash flows from operating activities				
Cash was provided from:				
Dividend income		**-**	-	4
Interest income		**1,875**	1,863	3,754
Net trading income		**41**	76	-
Other income		**191**	197	378
Cash was applied to:				
Interest expense		**(1,222)**	(1,184)	(2,270)
Net trading income		**-**	-	(2)
Operating expenses		**(397)**	(376)	(763)
Taxes and subvention payments		**(140)**	(118)	(118)
Net cash flows from operating activities before changes in operating assets and liabilities		**348**	458	983
Changes in operating assets and liabilities arising from cash flow movements				
Net movement in balances with central banks (term)*		**(64)**	(27)	(56)
Net movement in due from other financial institutions (term)*		**513**	(316)	(504)
Net movement in loans and advances to customers*		**(1,321)**	(931)	(1,996)
Net movement in other assets		**415**	197	(146)
Net movement in other money market placements (term)*		**(26)**	11	(83)
Net movement in trading securities and trading liabilities*		**430**	(245)	(685)
Net movement in deposits from customers*		**2,529**	1,945	2,691
Net movement in due to central banks and other financial institutions (term)*		**(330)**	(28)	522
Net movement in other liabilities		**(211)**	(49)	4
Net change in operating assets and liabilities		**1,935**	557	(253)
Net cash flows from operating activities		**2,283**	1,015	730
Cash flows from investing activities				
Cash was provided from:				
Proceeds on maturity of available for sale investments		**28**	83	208
Cash was applied to:				
Acquisition of intangible assets		**(22)**	(26)	(56)
Purchase of property, plant and equipment		**(32)**	(31)	(75)
Net cash flows from investing activities		**(26)**	26	77
Cash flows from financing activities				
Net movement in bonds and notes*		**646**	1,668	2,591
Net movement in derivative financial instruments*		**1,148**	(346)	(1,336)
Net movement in other money market deposits*		**(3,249)**	(1,778)	(92)
Net movement in related entity funding*		**(416)**	(835)	(1,930)
Net movement in subordinated debt*		**(8)**	-	-
Ordinary dividend		**-**	(168)	(330)
Perpetual preference dividend		**(32)**	(30)	(61)
Net cash flows from financing activities		**(1,911)**	(1,489)	(1,158)
Net movement in cash and cash equivalents		**346**	(448)	(351)
Cash and cash equivalents at beginning of period		**1,381**	1,732	1,732
Cash and cash equivalents at end of period		**1,727**	1,284	1,381
Cash and cash equivalents at end of period comprised:				
Cash and balances with central banks classified as cash and cash equivalents	4	**1,711**	1,369	1,760
Due from other financial institutions classified as cash and cash equivalents	5	**663**	235	579
Other money market placements classified as cash and cash equivalents	7	**680**	106	715
Due to central banks and other financial institutions classified as cash and cash equivalents	11	**(1,327)**	(426)	(1,673)
Total cash and cash equivalents		**1,727**	1,284	1,381

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

Dollars in Millions	Note	Consolidated Unaudited 6 Months 31/3/12	Unaudited 6 Months 31/3/11	Audited 12 Months 30/9/11
Reconciliation of net profit attributable to shareholders of Bank of New Zealand to net cash flows from operating activities				
Net profit attributable to shareholders of Bank of New Zealand		**352**	255	671
Add back non-cash items in net profit:				
Decrease in accrued interest receivable		**-**	2	12
Depreciation and amortisation expense		**30**	25	53
Impairment losses on credit exposures	9	**30**	95	152
Increase in accrued interest payable		**-**	2	85
Increase in provision for tax		**-**	-	178
Loss on disposal of property, plant and equipment		**-**	-	4
Unrealised gains less losses on financial instruments		**75**	108	-
Deduct non-cash items in net profit:				
Decrease in accrued interest payable		**(84)**	-	-
Decrease in other liabilities		**(41)**	(19)	(50)
Decrease in provision for tax		**(4)**	(10)	-
Increase in accrued interest receivable		**(10)**	-	-
Unrealised gains less losses on financial instruments		**-**	-	(122)
Deduct operating cash flows not included in net profit:				
Net change in operating assets and liabilities		**1,935**	557	(253)
Net cash flows from operating activities		**2,283**	1,015	730

Netting of cash flows

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

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

Notes to and Forming Part of the Interim Financial Statements

For the six months ended 31 March 2012

Note 1 Principal Accounting Policies

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

There have been no material changes in accounting policies during the interim financial period. The accounting policies used in the preparation of these interim financial statements are consistent with the accounting policies used in the preparation of the Disclosure Statement for the year ended 30 September 2011.

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

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

Income Statement Notes

	Consolidated		
Dollars in Millions	**Unaudited 6 Months 31/3/12**	Unaudited 6 Months 31/3/11	Audited 12 Months 30/9/11
Note 2 Gains Less Losses on Financial Instruments at Fair Value			
Trading gains less losses on financial instruments at fair value			
Foreign exchange trading gain	**48**	47	89
Interest rate related trading derivatives	**53**	16	27
Other derivatives	**-**	-	1
Net (loss)/gain in the fair value of financial assets and liabilities held for trading	**(17)**	(4)	4
Trading gains less losses on financial instruments at fair value	**84**	59	121
Other gains less losses on financial instruments at fair value			
Hedge accounting			
Net gain arising from hedging instruments in fair value hedge accounting relationships	**40**	23	39
Net loss arising from the hedged items attributable to the hedged risk in fair value hedge accounting relationships	**(35)**	(30)	(63)
Ineffectiveness arising from cash flow hedge accounting relationships	**-**	-	-
	5	(7)	(24)
Other			
Net loss in the fair value of financial assets (refer to table below)	**(63)**	(56)	(83)
Net (loss)/gain in the fair value of financial liabilities (refer to table below)	**(57)**	(32)	83
Bid/offer adjustment	**3**	(2)	-
Net (loss)/gain attributable to other derivatives used for hedging purposes that do not qualify as designated and effective hedging instruments	**(6)**	6	23
	(123)	(84)	23
Other gains less losses on financial instruments at fair value	**(118)**	(91)	(1)
Total gains less losses on financial instruments at fair value	**(34)**	(32)	120
Net loss in the fair value of financial assets comprised:			
Loss in the fair value of financial assets designated at fair value through profit or loss	**(54)**	(53)	(98)
Credit risk adjustments on financial assets designated at fair value through profit or loss	**(29)**	(21)	(8)
Net gain attributable to other derivatives used for hedging purposes that do not qualify for hedge accounting	**20**	18	23
	(63)	(56)	(83)
Net (loss)/gain in the fair value of financial liabilities comprised:*			
(Loss)/gain in the fair value of financial liabilities designated at fair value through profit or loss	**(38)**	191	(59)
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	**(51)**	9	82
Net gain/(loss) attributable to other derivatives used for hedging purposes that do not qualify for hedge accounting	**32**	(232)	60
	(57)	(32)	83

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

Note 3 Segment Analysis

Operating segments

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

The Banking Group's business is organised into two operating and reportable segments: Retail and BNZ Partners. Retail provides financial services and products to individual customers and, for management reporting purposes, includes insurance activities carried out by a controlled entity of National Australia Bank Limited that is not part of the Banking Group. BNZ Partners provides financial services and products to business, agribusiness and corporate customers.

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

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

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

	Consolidated				
	Unaudited 6 Months 31/3/12				
Dollars in Millions	**Retail**	**BNZ Partners**	**Total Reportable Segments**	**Other**	**Total Banking Group**
Revenue from external customers	**412**	**537**	**949**	**(45)**	**904**
Net inter-segment revenue	**1**	**53**	**54**	**(54)**	**-**
Total segment revenue	**413**	**590**	**1,003**	**(99)**	**904**
Operating profit before income tax expense*	**181**	**406**	**587**	**(99)**	**488**
Income tax expense	**47**	**116**	**163**	**(27)**	**136**
Net profit attributable to shareholders of Bank of New Zealand	**134**	**290**	**424**	**(72)**	**352**
	Unaudited 6 Months 31/3/11				
Revenue from external customers	378	504	882	(42)	840
Net inter-segment revenue	1	39	40	(40)	-
Total segment revenue	379	543	922	(82)	840
Operating profit before income tax expense*	176	279	455	(92)	363
Income tax expense	49	84	133	(25)	108
Net profit attributable to shareholders of Bank of New Zealand	127	195	322	(67)	255
	Audited 12 Months 30/9/11				
Revenue from external customers	769	1,041	1,810	79	1,889
Net inter-segment revenue	1	85	86	(86)	-
Total segment revenue	770	1,126	1,896	(7)	1,889
Operating profit before income tax expense*	352	654	1,006	(44)	962
Income tax expense	99	196	295	(4)	291
Net profit attributable to shareholders of Bank of New Zealand	253	458	711	(40)	671

* For the six months ended 31 March 2012, operating profit before income tax expense within the 'Other' category included fair value losses on financial instruments of $122 million (six months ended 31 March 2011: $100 million; year ended 30 September 2011: $15 million), which are recorded as part of the overall gains less losses on financial instruments at fair value disclosed in note 2.

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

Asset Notes

Dollars in Millions	Consolidated Unaudited 31/3/12	Unaudited 31/3/11	Audited 30/9/11
Note 4 Cash and Balances With Central Banks			
Notes and coins*	**130**	139	125
Transaction balances with central banks*	**1,581**	1,230	1,635
Loans and advances to central banks	**290**	197	226
Total cash and balances with central banks	**2,001**	1,566	1,986

* Classified as cash and cash equivalents in cash flow statement.

Dollars in Millions	Consolidated Unaudited 31/3/12	Unaudited 31/3/11	Audited 30/9/11
Note 5 Due from Other Financial Institutions			
Transaction balances with other financial institutions*	**447**	80	92
Securities purchased under agreements to resell with other financial institutions*	**216**	155	487
Loans and advances due from other financial institutions	**475**	800	988
Total due from other financial institutions	**1,138**	1,035	1,567

* Classified as cash and cash equivalents in cash flow statement.

The Banking Group has accepted collateral of New Zealand Government Securities with a fair value of $879 million as at 31 March 2012 arising from reverse repurchase agreements with other financial and non-financial (refer to note 7) institutions, which it is permitted to sell or repledge (31 March 2011: $260 million; 30 September 2011: $1,180 million).

Government Securities with a fair value of $406 million were repledged as at 31 March 2012 (31 March 2011: $1 million; 30 September 2011: nil). Securities were repledged for periods of less than three months.

Included in due from other financial institutions as at 31 March 2012 was $347 million of collateral posted with counterparties to meet standard derivative trading obligations (31 March 2011: $288 million; 30 September 2011: $300 million).

Dollars in Millions	Consolidated Unaudited 31/3/12	Unaudited 31/3/11	Audited 30/9/11
Note 6 Trading Securities			
Treasury bills	**1,713**	1,481	1,913
Government securities	**716**	1,186	898
Semi-government securities	**433**	75	219
Bank bills	**-**	70	448
Bank bonds	**271**	318	124
Promissory notes	**211**	223	283
Other securities	**102**	78	50
Total trading securities	**3,446**	3,431	3,935

Included in trading securities as at 31 March 2012 were $178 million encumbered through repurchase agreements (31 March 2011: $22 million; 30 September 2011: $725 million). These trading securities have not been derecognised from the Bank as the Bank retains substantially all the risks and rewards of ownership. The Bank's obligation to repurchase is classified under Due to central banks and other financial institutions. No trading securities were used to secure deposit obligations as at 31 March 2012 (31 March 2011: nil; 30 September 2011: $596 million).

Dollars in Millions	Consolidated Unaudited 31/3/12	Unaudited 31/3/11	Audited 30/9/11
Note 7 Other Money Market Placements			
Money market placements with non-financial institutions	**348**	227	322
Securities purchased under agreements to resell with non-financial institutions*	**680**	106	715
Total other money market placements	**1,028**	333	1,037

* Classified as cash and cash equivalents in cash flow statement.

Dollars in Millions	Consolidated Unaudited 31/3/12	Unaudited 31/3/11	Audited 30/9/11
Note 8 Loans and Advances to Customers			
Overdrafts	**2,126**	2,199	1,986
Credit card outstandings	**1,391**	1,382	1,371
Housing loans	**27,782**	26,743	27,382
Other term lending	**26,772**	25,664	26,133
Other lending	**225**	184	227
Total gross loans and advances to customers	**58,296**	56,172	57,099
Deduct:			
Allowance for impairment losses and credit risk adjustments on individual financial assets (refer to note 9)	**193**	260	227
Allowance for impairment losses and credit risk adjustments on groups of financial assets (refer to note 9)	**295**	293	279
Deferred and other unearned future income	**46**	40	39
Fair value hedge adjustments	**(72)**	(140)	(107)
Total deductions	**462**	453	438
Total net loans and advances to customers	**57,834**	55,719	56,661

The BNZ RMBS Trust Series 2008-1 (the "RMBS Trust") provides an in-house residential mortgage-backed securities facility to issue securities as collateral for borrowing from the Reserve Bank of New Zealand ("RBNZ"). As at 31 March 2012, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of $4,458 million held by the RMBS Trust (31 March 2011: $4,462 million; 30 September 2011: $4,477 million). These housing loans have not been derecognised from the Bank's financial statements as the Bank retains substantially all of the risks and rewards of ownership. The Banking Group had not entered into any repurchase agreements for residential mortgage-backed securities with the RBNZ as at 31 March 2012 (31 March 2011: nil; 30 September 2011: nil). RBNZ had not accepted any residential mortgage-backed securities as collateral from the Banking Group as at 31 March 2012 (31 March 2011: nil; 30 September 2011: nil).

The BNZ Covered Bond Trust (the "Covered Bond Trust") holds certain Bank of New Zealand housing loans, and its trustee provides guarantees of the covered bonds issued by the Bank or BNZ International Funding Limited (London Branch), a wholly owned controlled entity of the Bank. Guarantees provided in relation to the covered bonds issued have a prior claim over the assets of the Covered Bond Trust. As at 31 March 2012, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of $5,387 million held by the Covered Bond Trust (31 March 2011: $2,952 million; 30 September 2011: $4,044 million). These housing loans have not been derecognised from the Bank's financial statements as the Bank retains substantially all of the risks and rewards of ownership. The Banking Group had issued debt securities with a face value of $4,408 million that were guaranteed by the Covered Bond Trust as at 31 March 2012 (31 March 2011: $2,586 million; 30 September 2011: $3,384 million). The underlying collateral for the guarantees provided by the Covered Bond Trust comprised housing loans and other assets to the value of $5,467 million as at 31 March 2012 (31 March 2011: $2,986 million; 30 September 2011: $4,083 million).

Dollars in Millions	Consolidated			
	Residential Mortgage Lending Unaudited 31/3/12	Other Retail Exposures Unaudited 31/3/12	Corporate Exposures Unaudited 31/3/12	Total Unaudited 31/3/12
Note 9 Allowance for Impairment Losses on Credit Exposures				
Allowance for impairment losses on credit exposures				
Allowance for impairment losses on individual financial assets				
Loans and advances to customers				
Balance at beginning of period	52	23	95	170
Charge to impairment losses on credit exposures in income statement	10	11	18	39
Amounts written off	(12)	(20)	(43)	(75)
Recovery of amounts written off in previous periods	-	6	-	6
Discount unwind*	-	-	(2)	(2)
Balance at end of period	50	20	68	138
Allowance for impairment losses on groups of financial assets				
Loans and advances to customers				
Balance at beginning of period	40	68	99	207
Charge to impairment losses on credit exposures in income statement	(2)	(6)	(1)	(9)
Balance at end of period	38	62	98	198
Total allowance for impairment losses on credit exposures	88	82	166	336

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

The above table only reflects allowances for impairment losses on financial assets held at amortised cost. Credit risk adjustments on financial assets designated at fair value through profit or loss have been incorporated into the carrying value of those assets and charged to the income statement within Gains less losses on financial instruments at fair value.

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

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

Dollars in Millions	Consolidated			
	Residential Mortgage Lending Unaudited 31/3/12	Other Retail Exposures Unaudited 31/3/12	Corporate Exposures Unaudited 31/3/12	Total Unaudited 31/3/12
Credit risk adjustments on financial assets designated at fair value through profit or loss				
On individual financial assets				
Loans and advances to customers				
Balance at beginning of period	-	1	56	57
Charge to income statement	-	-	4	4
Amounts written off	-	-	(6)	(6)
Balance at end of period	-	1	54	55
On groups of financial assets				
Loans and advances to customers				
Balance at beginning of period	-	1	71	72
Charge to income statement	-	-	25	25
Balance at end of period	-	1	96	97
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	2	150	152
Trading derivative financial instruments				
Balance at beginning of period	-	-	9	9
Charge to income statement	-	-	(1)	(1)
Balance at end of period	-	-	8	8
Total credit risk adjustments on trading derivative financial instruments	-	-	8	8

Note 10 Asset Quality

The Banking Group provides for impairment losses on credit exposures as disclosed in note 9. Accordingly, when management determines that recovery of a loan is doubtful, the principal amount and accrued interest on the obligation are written down to estimated net realisable value.

	Consolidated			
Dollars in Millions	Residential Mortgage Lending Unaudited 31/3/12	Other Retail Exposures Unaudited 31/3/12	Corporate Exposures Unaudited 31/3/12	Total Unaudited 31/3/12
Movements in pre-allowance balances				
Individually impaired assets – at amortised cost				
Balance at beginning of period	140	34	292	466
Amounts written off	(12)	(20)	(43)	(75)
Additions	64	30	83	177
Deletions	(63)	(14)	(81)	(158)
Balance at end of period	129	30	251	410
Allowance for impairment losses on individual financial assets	50	20	68	138
Undrawn lending commitments	-	-	2	2
Individually impaired assets – at fair value through profit or loss				
Balance at beginning of period	-	1	192	193
Amounts written off	-	-	(6)	(6)
Additions	-	1	24	25
Deletions	-	-	(93)	(93)
Balance at end of period	-	2	117	119
Credit risk adjustments on individual financial assets designated at fair value through profit or loss	-	1	54	55
Undrawn lending commitments	-	-	1	1
Total impaired assets at end of period	129	32	368	529
Other assets under administration				
Balance at end of period	10	2	2	14

Included in contingent liabilities in note 16 is $2 million off-balance sheet facilities to counterparties for whom drawn balances are classified as individually impaired as at 31 March 2012. No allowance for impairment losses on individual off-balance sheet credit related commitments had been made as at 31 March 2012.

Credit quality of financial assets

	Consolidated			
Dollars in Millions	Residential Mortgage Lending Unaudited 31/3/12	Other Retail Exposures Unaudited 31/3/12	Corporate Exposures Unaudited 31/3/12	Total Unaudited 31/3/12
Past due assets not impaired				
Loans and advances to customers				
1 - 7 days past due	177	61	299	537
8 - 29 days past due	109	81	151	341
1 - 29 days past due	286	142	450	878
30 - 59 days past due	91	25	61	177
60 - 89 days past due	48	12	47	107
90+ days past due	86	31	97	214
	511	210	655	1,376

Liability Notes

Dollars in Millions	Consolidated Unaudited 31/3/12	Consolidated Unaudited 31/3/11	Consolidated Audited 30/9/11
Note 11 Due to Central Banks and Other Financial Institutions			
Transaction balances with other financial institutions*	**729**	404	933
Deposits from central banks	**67**	29	608
Deposits from other financial institutions	**602**	420	391
Securities sold under agreements to repurchase from other financial institutions*	**598**	22	740
Total due to central banks and other financial institutions	**1,996**	875	2,672

* Classified as cash and cash equivalents in cash flow statement.

Dollars in Millions	Consolidated Unaudited 31/3/12	Consolidated Unaudited 31/3/11	Consolidated Audited 30/9/11
Note 12 Other Money Market Deposits			
Money market deposits from non-financial institutions	**1,668**	2,454	1,864
Certificates of deposit	**2,089**	2,269	1,830
Commercial paper	**4,784**	5,381	8,095
Total other money market deposits	**8,541**	10,104	11,789

Dollars in Millions	Consolidated Unaudited 31/3/12	Consolidated Unaudited 31/3/11	Consolidated Audited 30/9/11
Note 13 Deposits from Customers			
Demand deposits not bearing interest	**1,960**	1,536	1,724
Demand deposits bearing interest	**11,781**	10,565	10,644
Term deposits	**20,142**	18,507	18,986
Total deposits from customers	**33,883**	30,608	31,354

Other Notes

Dollars in Millions	Consolidated Unaudited 31/3/12
Note 14 Interest Earning and Discount Bearing Assets and Liabilities	
Interest earning and discount bearing assets	**64,799**
Interest and discount bearing liabilities	**59,493**

Dollars in Millions	Consolidated Unaudited 31/3/12
Note 15 Related Entities Transactions	
Total amounts due from related entities	**545**
Total amounts due to related entities*	**3,646**

* Included in Total amounts due to related entities was $905 million classified as Subordinated debt on the balance sheet.

Note 16 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:

	Consolidated		
Dollars in Millions	**Unaudited 31/3/12**	Unaudited 31/3/11	Audited 30/9/11
Contingent liabilities			
Bank guarantees	**58**	53	55
Standby letters of credit	**319**	332	324
Documentary letters of credit	**64**	73	69
Performance related contingencies	**314**	328	331
Total contingent liabilities	**755**	786	779
Credit related commitments			
Revocable commitments to extend credit	**6,881**	6,455	6,341
Irrevocable commitments to extend credit	**7,155**	7,151	6,986
Total credit related commitments	**14,036**	13,606	13,327
Total contingent liabilities and credit related commitments	**14,791**	14,392	14,106

Note 17 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.

	Consolidated			
	Unaudited 31/3/12			
	Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties Long Term Credit Rating			
	Peak End-of-Day Number of Non-banks		Balance Sheet Date Number of Non-banks	
Percentage of Shareholders' Equity %	No Long Term Credit Rating	Total	No Long Term Credit Rating	Total
10 - 14	**-**	**-**	**1**	**1**
15 - 19	**1**	**1**	**-**	**-**
20+	**-**	**-**	**-**	**-**

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

As at 31 March 2012 and for the three months ended 31 March 2012, the Banking Group had no credit exposures to bank counterparties that equalled or exceeded 10% of the Banking Group's equity and met the disclosure thresholds described above.

Note 18 Securitisation and Insurance Business

Securitisation activities

During the three months ended 31 March 2012, the Bank issued NZD $350 million of registered transferable notes with a coupon of 5.773% (fixed) and maturity date of 19 January 2018. In addition, BNZ International Funding Limited (London Branch) issued a Euro €500 million medium term note with a coupon of 2.375% (fixed) and a maturity date of 7 May 2015. These notes are guaranteed by the Covered Bond Trust. Further details on the Covered Bond Trust are provided in note 8.

Insurance business

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

Note 19 Capital Adequacy

The RBNZ minimum regulatory capital requirements for banks have been established under the Capital Adequacy Framework (Internal Models Based Approach) and Capital Adequacy Approach (Standardised Approach) based on the international framework developed by the Bank for International Settlements, Committee on Banking Supervision, commonly known as Basel II. These requirements outline how minimum regulatory capital is to be calculated and provide methods for measuring risks incurred by the banks in New Zealand.

RBNZ Capital Adequacy Framework (Internal Models Based Approach)

The Banking Group has calculated its implied Risk-Weighted Exposure and minimum regulatory capital requirements based on the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B") for operational risk and the majority of credit risk portfolios.

Under the Internal Models Based Approach banks use their own models for estimating risk and minimum capital requirements. For credit risk the level of risk associated with customers' exposures is determined by way of the primary components of Probability of Default, Loss Given Default and Exposure at Default. For exposures in the Specialised Lending asset category (including Project Finance, Object Finance, Commodity Finance and Income Producing Real Estate) the Banking Group uses supervisory slotting estimates provided by the RBNZ.

The exceptions to the Internal Ratings Based Approach for Credit Risk are portfolios of relatively low materiality which are subject to the standardised treatment as set out in the RBNZ's Capital Adequacy Framework (Standardised Approach) ("BS2A").

Capital for market risk has been calculated in accordance with the approach specified by BS2B.

Capital management policies

The Banking Group's primary objectives in relation to the management of capital adequacy are to comply with the requirements set out by the RBNZ, the Banking Group's primary prudential supervisor, to provide a sufficient capital base to cover risks faced by the Bank and to maintain a targeted credit rating to support future business development.

The Bank's conditions of registration require capital adequacy ratios to be calculated in accordance with BS2B dated June 2011. For regulatory capital adequacy purposes, capital comprises two elements, Tier One and Tier Two capital, from which certain deductions are made to arrive at eligible Tier One and Tier Two capital. Tier One capital includes paid up ordinary shares, perpetual preference shares, retained profits less intangible assets and certain other deductions. Tier Two capital is divided into two levels. Upper Tier Two capital consists of revaluation reserves and perpetual subordinated debt while lower Tier Two capital consists of term subordinated debt and other qualifying capital instruments. Tier Two capital is limited to 100% of Tier One capital. Lower Tier Two capital is limited to 50% of Tier One capital.

The Banking Group is required under its conditions of registration to maintain a minimum ratio of total eligible or qualifying capital to total risk-weighted assets of 8%, of which a minimum of 4% must be held in Tier One capital.

The Banking Group has an Internal Capital Adequacy Assessment Process in place which complies with the requirements set out in the RBNZ's "Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")" ("BS12") as specified under the Bank's conditions of registration. The Banking Group's ICAAP outlines the approach to maintaining capital adequacy, risk appetite and stress testing. The ICAAP considers all material risks consistent with the Banking Group's risk appetite and outlines the capital requirements.

Capital requirements, as detailed in the Banking Group's ICAAP document, are managed by the Bank's Asset and Liability Committee and Capital Committee under delegated authority from the Board of Directors.

For more information on the capital structure of the Banking Group, refer to page 24.

Note 19 Capital Adequacy *continued*

The tables included below and on the following pages detail the capital calculation, capital ratios and risk-weighted assets as at 31 March 2012. 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.

Regulatory capital

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

Dollars in Millions	Consolidated Unaudited 31/3/12
Qualifying capital	
Tier One capital	
Contributed equity – ordinary shareholder	1,451
Contributed equity – perpetual preference shareholders	910
Retained profits	2,164
Deductions from Tier One capital:	
Intangible assets	161
Credit risk adjustment on liabilities designated at fair value through profit or loss	44
Prepaid pension assets (net of deferred tax)	2
50% of total expected loss less total eligible allowances for impairment	43
Total Tier One capital	4,275
Upper Tier Two capital	
Revaluation reserves	33
Subordinated loans from related entities	190
Total upper Tier Two capital	223
Lower Tier Two capital	
Subordinated loans from related entities	715
Other subordinated debt	353
Total lower Tier Two capital	1,068
Deductions from Tier Two capital:	
50% of total expected loss less total eligible allowances for impairment	43
Total Tier Two capital	1,248
Total Tier One and Tier Two qualifying capital	5,523

Basel II regulatory capital ratios

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

		Consolidated		
	Regulatory Minima	Unaudited 31/3/12	Unaudited 31/3/11	Unaudited 30/9/11
Tier One capital expressed as a percentage of total risk-weighted exposures	4.00%	9.59%	8.49%	8.99%
Total qualifying capital expressed as a percentage of total risk-weighted exposures	8.00%	12.39%	11.29%	11.84%

Under the wholesale funding guarantee scheme the Banking Group is also required to hold an additional 2% of Tier One capital. For further information on the wholesale funding guarantee scheme, please refer to page 2.

Total regulatory capital requirements

	Consolidated		
Dollars in Millions	Total Exposure at Default Unaudited 31/3/12	Risk-Weighted Exposure or Implied Risk-Weighted Exposure Unaudited 31/3/12	Total Capital Requirement Unaudited 31/3/12
Credit risk			
Exposures subject to the internal ratings based approach	75,108	32,183	2,575
Equity exposures	47	143	12
Specialised lending subject to the slotting approach	5,538	4,886	391
Exposures subject to the standardised approach	1,010	655	52
Total credit risk	81,703	37,867	3,030
Operational risk	N/A	3,911	313
Market risk	N/A	2,815	226
Total	N/A	44,593	3,569

Note 19 Capital Adequacy *continued*

Basel I regulatory capital ratios

The table below shows the capital adequacy ratios based on the RBNZ's Basel I Capital Adequacy Framework ("BS2").

	The Registered Bank		
	Unaudited 31/3/12	Unaudited 31/3/11	Unaudited 30/9/11
Tier One capital expressed as a percentage of total risk-weighted exposures	**8.73%**	8.12%	8.25%
Total qualifying capital expressed as a percentage of total risk-weighted exposures	**11.27%**	10.80%	10.85%

For the purposes of calculating capital adequacy ratios for the Banking Group (the "Registered Bank") under Basel I, subsidiaries which are both wholly owned and wholly funded by the Registered Bank are consolidated within the Registered Bank.

Advanced Internal Ratings Based approach to credit risk management

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

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

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

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

Controls surrounding credit risk rating systems

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

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

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

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

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

	Consolidated					
Dollars in Millions	**Weighted Average PD (%) Unaudited 31/3/12**	**Exposure at Default Unaudited 31/3/12**	**Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 31/3/12**	**Exposure-Weighted Risk Weight (%) Unaudited 31/3/12**	**Risk-Weighted Assets Unaudited 31/3/12**	**Minimum Capital Requirement Unaudited 31/3/12**
Corporate						
Exposure-weighted PD grade > 0 ≤ 0.1%	**0.06**	**3,914**	**53**	**25**	**971**	**78**
Exposure-weighted PD grade > 0.1 ≤ 0.5%	**0.30**	**9,058**	**37**	**45**	**4,037**	**323**
Exposure-weighted PD grade > 0.5 ≤ 1.5%	**0.96**	**8,292**	**33**	**64**	**5,290**	**423**
Exposure-weighted PD grade > 1.5 ≤ 5.0%	**2.54**	**8,401**	**35**	**89**	**7,497**	**600**
Exposure-weighted PD grade > 5.0 ≤ 99.99%	**8.25**	**713**	**41**	**153**	**1,087**	**87**
Default PD grade = 100%	**100.00**	**617**	**43**	**138**	**853**	**68**
Total corporate exposures	**3.22**	**30,995**	**38**	**64**	**19,735**	**1,579**

Note 19 Capital Adequacy *continued*

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

	Consolidated					
Dollars in Millions	Weighted Average PD (%) Unaudited 31/3/12	Exposure at Default Unaudited 31/3/12	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 31/3/12	Exposure-Weighted Risk Weight (%) Unaudited 31/3/12	Risk-Weighted Assets Unaudited 31/3/12	Minimum Capital Requirement Unaudited 31/3/12
Sovereign						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.03	4,970	4	1	39	3
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.41	8	45	58	4	-
Exposure-weighted PD grade > 0.5 ≤ 1.5%	1.05	11	45	86	10	1
Exposure-weighted PD grade > 1.5 ≤ 5.0%	3.12	16	45	156	25	2
Exposure-weighted PD grade > 5.0 ≤ 99.99%	-	-	-	-	-	-
Default PD grade = 100%	-	-	-	-	-	-
Total sovereign exposures	0.04	5,005	5	2	78	6
Bank						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.05	3,450	32	12	397	32
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.48	136	60	77	104	8
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.62	10	61	84	8	1
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.30	1	57	135	1	-
Exposure-weighted PD grade > 5.0 ≤ 99.99%	5.72	1	61	200	1	-
Default PD grade = 100%	-	-	-	-	-	-
Total bank exposures	0.07	3,598	33	14	511	41
Residential mortgage						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.03	-	38	4	-	-
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.39	1,895	17	12	222	18
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.91	25,880	22	27	6,924	554
Exposure-weighted PD grade > 1.5 ≤ 5.0%	4.92	2,530	20	69	1,744	139
Exposure-weighted PD grade > 5.0 ≤ 99.99%	-	-	-	-	-	-
Default PD grade = 100%	100.00	326	27	183	594	48
Total residential mortgage exposures	2.26	30,631	21	31	9,484	759
Other retail[1]						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.05	890	85	13	118	9
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.24	705	83	39	273	22
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.97	426	83	87	369	30
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.83	408	83	120	488	39
Exposure-weighted PD grade > 5.0 ≤ 99.99%	14.16	189	82	153	289	23
Default PD grade = 100%	100.00	18	72	590	107	9
Total other retail exposures	2.38	2,636	84	62	1,644	132
Retail SME[2]						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.07	143	32	6	9	1
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.31	827	26	14	119	9
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.87	537	30	29	158	13
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.49	525	29	41	214	17
Exposure-weighted PD grade > 5.0 ≤ 99.99%	12.94	138	34	64	88	7
Default PD grade = 100%	100.00	73	44	196	143	11
Total retail SME exposures	4.96	2,243	29	33	731	58
Total						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.04	13,367	31	11	1,534	123
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.31	12,629	36	38	4,759	380
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.92	35,156	25	36	12,759	1,022
Exposure-weighted PD grade > 1.5 ≤ 5.0%	3.06	11,881	33	84	9,969	797
Exposure-weighted PD grade > 5.0 ≤ 99.99%	9.94	1,041	48	141	1,465	117
Default PD grade = 100%	100.00	1,034	39	164	1,697	136
Total exposures	2.49	75,108	30	43	32,183	2,575

1. Other retail includes credit cards, current accounts and personal overdrafts.
2. SME refers to Small to Medium enterprises.

Note 19 Capital Adequacy *continued*

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

The following table analyses the value and exposure at default of on-balance sheet exposures, off-balance sheet exposures and market related contracts under the IRB approach by asset class:

	Consolidated			
Dollars in Millions	Total Exposure Unaudited 31/3/12	Exposure at Default Unaudited 31/3/12	Risk-Weighted Assets Unaudited 31/3/12	Minimum Capital Requirement Unaudited 31/3/12
On-balance sheet exposures				
Corporate	22,635	22,635	15,085	1,207
Sovereign	4,748	4,748	62	4
Bank	2,151	2,151	205	16
Residential mortgage	27,785	27,785	8,827	706
Other retail	1,540	1,540	1,249	100
Retail SME	1,840	1,840	646	51
Total on-balance sheet exposures	60,699	60,699	26,074	2,084
Off-balance sheet exposures				
Corporate	7,527	6,773	3,786	303
Sovereign	71	50	7	1
Bank	643	635	107	9
Residential mortgage	2,268	2,846	657	53
Other retail	3,137	1,096	395	32
Retail SME	438	403	85	7
Total off-balance sheet exposures	14,084	11,803	5,037	405
Market related contracts				
Corporate	80,468	1,587	864	69
Sovereign	8,579	207	9	1
Bank	181,552	812	199	16
Total market related contracts	270,599	2,606	1,072	86
Summary				
Corporate	110,630	30,995	19,735	1,579
Sovereign	13,398	5,005	78	6
Bank	184,346	3,598	511	41
Residential mortgage	30,053	30,631	9,484	759
Other retail	4,677	2,636	1,644	132
Retail SME	2,278	2,243	731	58
Total credit risk exposures subject to the IRB approach	345,382	75,108	32,183	2,575

Equity exposures

The table below shows the capital required to be held as a result of equities held.

	Consolidated			
Dollars in Millions	Exposure at Default Unaudited 31/3/12	Risk Weight (%) Unaudited 31/3/12	Risk-Weighted Exposures Unaudited 31/3/12	Minimum Pillar One Capital Requirement Unaudited 31/3/12
Equity holdings (not deducted from capital) that are publicly traded	44	300	132	11
All other equity holdings (not deducted from capital)	3	400	11	1
Total equity exposures	47	304	143	12

Note 19 Capital Adequacy *continued*

Specialised lending subject to the slotting approach

The tables below show specialised lending exposures for which the supervisory slotting approach has been used and includes Project Finance, Object Finance, Commodity Finance and Income Producing Real Estate exposures.

On-balance sheet exposures subject to the slotting approach

	Consolidated			
Dollars in Millions	Total Exposure at Default after Credit Risk Mitigation Unaudited 31/3/12	Risk Weight (%) Unaudited 31/3/12	Risk-Weighted Assets Unaudited 31/3/12	Minimum Pillar One Capital Requirement Unaudited 31/3/12
Strong	2,068	70	1,534	123
Good	2,002	90	1,892	151
Satisfactory	811	115	987	79
Weak	42	250	110	9
Default[1]	185	-	-	-
Total on-balance sheet exposures subject to the slotting approach	5,108	84	4,523	362

1. Default category represents arrangements that do not have external credit ratings.

The categories of specialised lending above are associated with the risk weight shown. These categories broadly correspond to external credit assessments from Standard & Poor's rating scale: BBB- or better (Strong); BB+ or BB (Good); BB- or B+ (Satisfactory); B to C- (Weak); N/A (Default).

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

Off-balance sheet exposures subject to the slotting approach

	Consolidated				
Dollars in Millions	Total Exposure Unaudited 31/3/12	Exposure at Default Unaudited 31/3/12	Average Risk Weight (%) Unaudited 31/3/12	Risk-Weighted Assets Unaudited 31/3/12	Minimum Pillar One Capital Requirement Unaudited 31/3/12
Off-balance sheet exposures	134	8	84	7	1
Undrawn commitments	547	362	85	306	24
Market related contracts	1,150	60	82	50	4
Total off-balance sheet exposures subject to the slotting approach	1,831	430	84	363	29
Total exposures subject to the slotting approach		5,538	84	4,886	391

Credit risk exposures subject to the standardised approach

The tables below and on page 22 show credit risk exposures, for which the standardised approach has been used.

On-balance sheet exposures subject to the standardised approach

	Consolidated			
Dollars in Millions	Total Exposure at Default after Credit Risk Mitigation Unaudited 31/3/12	Average Risk Weight (%) Unaudited 31/3/12	Risk-Weighted Assets Unaudited 31/3/12	Minimum Pillar One Capital Requirement Unaudited 31/3/12
Corporate	31	89	28	2
Residential mortgages	17	36	6	1
Past due assets	-	121	-	-
Other assets	956	64	614	49
Total on-balance sheet exposures subject to the standardised approach	1,004	65	648	52

Past due assets relate to arrangements that are 90 days past due or considered to be unlikely to be repaid without realising the security. Past due assets include arrangements relating to residential mortgages.

Other assets relate to all other non-lending assets (including interest receivables, account receivables, intangibles and cash accounts) not included in the other categories.

Note 19 Capital Adequacy *continued*

Credit risk exposures subject to the standardised approach *continued*

Off-balance sheet exposures subject to the standardised approach

Dollars in Millions	Consolidated Total Exposure or Principal Amount Unaudited 31/3/12	Average Credit Conversion Factor (%) Unaudited 31/3/12	Credit Equivalent Amount Unaudited 31/3/12	Average Risk Weight (%) Unaudited 31/3/12	Risk-Weighted Assets Unaudited 31/3/12	Minimum Pillar One Capital Requirement Unaudited 31/3/12
Total off-balance sheet exposures subject to the standardised approach	11	45	5	104	6	-
Market related contracts subject to the standardised approach						
Foreign exchange contracts	42	N/A	1	100	1	-
Total market related contracts subject to the standardised approach	42	N/A	1	100	1	-
Total exposures subject to the standardised approach		N/A	1,010	65	655	52

Credit risk mitigation

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

The table below shows the total value of exposures covered by eligible financial collateral (after haircutting) for portfolios subject to the standardised approach and total value of exposures covered by credit derivatives and guarantees for all portfolios.

Credit derivatives are held by National Australia Bank Limited on behalf of the Banking Group. No credit derivatives are held directly by the Banking Group. Guarantees are provided by National Australia Bank Limited to the Banking Group.

Dollars in Millions	Consolidated Corporate (Including Specialised Lending) Unaudited 31/3/12
For portfolios subject to the standardised approach:	
Total value of exposures covered by eligible financial or IRB collateral (after haircutting)	7
For all portfolios:	
Total value of exposures covered by credit derivatives or guarantees	-

Residential mortgages by loan-to-valuation ratio

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

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

Dollars in Millions	Consolidated On-balance Sheet Exposures at Default Unaudited 31/3/12	Off-balance Sheet Exposures at Default* Unaudited 31/3/12	Total Exposures at Default Unaudited 31/3/12
LVR range			
0 - 59%	9,789	1,295	11,084
60 - 69%	4,883	435	5,318
70 - 79%	9,209	705	9,914
80 - 89%	1,850	61	1,911
Over 90%	2,054	350	2,404
Total exposures at default secured by residential mortgages	27,785	2,846	30,631

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

Note 19 Capital Adequacy *continued*

Reconciliation of mortgage-related amounts

	Consolidated			
Dollars in Millions	On-balance Sheet Exposures Unaudited 31/3/12	On-balance Sheet Exposures at Default Unaudited 31/3/12	Off-balance Sheet Exposures at Default Unaudited 31/3/12	Total Exposures at Default Unaudited 31/3/12
Total exposures at default secured by residential mortgages based on LVR table	N/A	27,785	2,846	30,631
Credit risk exposures secured by residential mortgages subject to the IRB approach	27,785	27,785	2,846	30,631
Credit risk exposures secured by residential mortgages subject to the standardised approach	17	17	-	17
Total exposures secured by residential mortgages	27,802	27,802	2,846	30,648
Reconciliation of on-balance sheet mortgage-related exposures from note 19 Capital adequacy to housing loans from note 8 Loans and advances to customers				
Loans and advances to customers – housing loans	27,782			
Add: Partial write offs excluded under the IRB approach	20			
Total exposures secured by residential mortgages	27,802			

Operational risk

	Consolidated	
Dollars in Millions	Implied Risk-Weighted Exposure Unaudited 31/3/12	Total Operational Risk Capital Requirement Unaudited 31/3/12
Operational risk	3,911	313

The operational risk capital requirement above has been calculated under the Advanced Measurement Approach which the Banking Group uses for determining its regulatory capital for operational risk. The Advanced Measurement Approach is in accordance with BS2B.

Market risk

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

	Consolidated Unaudited 31/3/12			
	Implied Risk-Weighted Exposure		Aggregate Capital Charge	
Dollars in Millions	End of Period	Peak End-of-Day	End of Period	Peak End-of-Day
Interest rate risk	2,747	2,793	220	223
Foreign currency risk	22	106	2	8
Equity risk	46	46	4	4
Total	2,815	2,945	226	235

The aggregate market risk exposure above is derived in accordance with BS2B and the Bank's conditions of registration.

For each category of market risk, the Banking Group's end of period aggregate capital charge is the charge as at the end of period reported. The peak end-of-day aggregate capital charge is the maximum over the half year accounting period at the close of each business day.

Equity risk subject to a market risk capital charge as shown above relates to equities owned by the Bank.

Pillar two capital for other material risks

The Banking Group actively manages and measures all material risks affecting its operations. These risks go beyond the traditional banking risks of credit, operational and market risk. The measurement and management of all material risks is determined under the Banking Group's ICAAP and includes consideration of all other material risks, additional to those included in determining the minimum regulatory capital requirements under Basel II Pillar One. Other material risks assessed by the Banking Group include liquidity and funding risk, insurance, concentration, business and financial reporting risk, pension, contagion and regulatory reporting risks.

As at 31 March 2012, the Banking Group had an internal capital allocation for business risk of $132 million (31 March 2011: $159 million; 30 September 2011: $139 million). The assessment of business risk covers strategic, reputation and earnings risk.

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

Note 19 Capital Adequacy *continued*

National Australia Bank Limited capital adequacy

	Ultimate Parent Banking Group			Ultimate Parent Bank		
	Basel II Unaudited 31/3/12	Basel II Unaudited 31/3/11	Basel II Unaudited 30/9/11	**Basel II Unaudited 31/3/12**	Basel II Unaudited 31/3/11	Basel II Unaudited 30/9/11
Tier One capital expressed as a percentage of total risk-weighted exposures	**10.17%**	9.19%	9.70%	**11.70%**	11.00%	11.45%
Total qualifying capital expressed as a percentage of total risk-weighted exposures	**11.52%**	11.33%	11.26%	**12.93%**	13.08%	12.78%

The ultimate parent banking group data is the Level 2 capital ratios as published in the National Australia Bank Limited Risk and Capital Report ("RCR") and represents the consolidation of the National Australia Bank Group and all its subsidiary entities, other than the non-consolidated subsidiaries as outlined in the RCR. The Level 2 Group operates in multiple regulatory jurisdictions and applies a combination of Basel II advanced and standardised approaches depending on the prescribed prudential requirements within those jurisdictions. Further information on the Basel II methodologies applied across the ultimate parent banking group is outlined in the RCR.

The ultimate parent bank of the Banking Group is National Australia Bank Limited which reports under the Advanced approach for credit risk (other than for defined assets that are immaterial in terms of RWA or are not required to be treated as IRB under the Basel II framework), and the Advanced Measurement Approach ("AMA") for operational risk. The ultimate parent bank capital ratios represent the Level 1 National Australia Bank Limited capital ratios, which comprises National Australia Bank Limited and its subsidiary entities approved by Australian Prudential Regulation Authority ("APRA") as part of the Extended Licensed Entity.

Under prudential regulations, National Australia Bank Group is required to hold a prudential capital ratio ("PCR") as determined by APRA for both the Level 1 and Level 2 Groups. The PCR is prescribed on a bilateral basis, and is not publicly disclosed. National Australia Bank Limited met the minimum capital adequacy requirements set by APRA as at 31 March 2012.

National Australia Bank Limited is required to publicly disclose Basel II pillar Three risk management and capital adequacy information at the reporting date, as specified in APRA's Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information ("APS 330"). Updates are provided on a semi-annual and quarterly basis in accordance with the APS 330 reporting requirements. National Australia Bank Limited's Annual Financial Report and RCR, incorporating the requirements of APS 330, can be accessed at www.nabgroup.com.

Capital structure

Contributed equity – Ordinary shares

These shares do not have a par value; each share entitles the shareholder to one vote at any meeting of shareholders. All shares rank equally in dividends and proceeds available to ordinary shareholders in a winding up.

Contributed equity – Perpetual non-cumulative preference shares

Each of the perpetual non-cumulative preference shares is non-redeemable and carries no voting rights other than in relation to amendments of the rights, privileges, limitations and conditions attaching to these shares.

December 2009 issue

On 29 December 2009, the Bank issued perpetual non-cumulative preference shares ("2009A BNZ PPS") to National Australia Group (NZ) Limited ("NAGNZ"), the Bank's immediate parent and a subsidiary of the Bank's ultimate parent, National Australia Bank Limited ("NAB").

The 2009A BNZ PPS were issued in conjunction with the making of a loan by NAB, acting through its New York branch ("NAB NY"), to NAGNZ. NAGNZ invested the proceeds of the loan in the 2009A BNZ PPS.

The 2009A BNZ PPS are non-redeemable and carry no voting rights other than in relation to amendments of the rights, privileges, limitations and conditions attaching to the 2009A BNZ PPS. Dividends are payable quarterly in arrears, but are non-cumulative if dividends are not paid for the reasons set out below.

The dividend payable on the 2009A BNZ PPS is determined by reference to the seven-year mid-market swap rate plus a margin of 3.50% p.a.. The initial rate was set at 9.25% p.a. on 23 December 2009, applicable for the period from (and including) 29 December 2009 to (but excluding) 28 December 2016. Dividend rates are to be reset seven-yearly on the business day falling two business days before 28 December (or the applicable business day if 28 December is not a business day) in the relevant year. The first dividend reset date is 22 December 2016.

Dividends will not be paid on the 2009A BNZ PPS if any of the following conditions apply: (a) the Directors of the Bank in their sole discretion do not resolve to pay the dividend on the relevant dividend payment date; (b) such a payment would result in the Bank's Tier One capital ratio ceasing to comply with the RBNZ's then current capital adequacy requirements; or (c) the Directors of the Bank are not satisfied that the Bank will be solvent (under the solvency test set out in section 4 of the Companies Act 1993) immediately after payment of the dividend.

If the Bank does not pay a dividend on the 2009A BNZ PPS on a scheduled dividend payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its other shares that rank equally with or junior to the 2009A BNZ PPS (other than pro-rata distributions or payments on shares that rank equally with the 2009A BNZ PPS) unless and until it has paid two consecutive dividends in full on the 2009A BNZ PPS.

Note 19 Capital Adequacy *continued*

Capital structure *continued*

Dividends on the 2009A BNZ PPS rank for payment:

- before the Bank's ordinary shareholder;
- equally with any other shares issued by the Bank that, by their terms, are expressed to rank equally with the 2009A BNZ PPS; and
- after all other shareholders (including the holders of the 2008 BNZ PPS (refer to March 2008 issue) and 2009 BNZ PPS (refer to June 2009 issue)) and creditors of the Bank.

In the event of liquidation of the Bank, the 2009A BNZ PPS rank:

- before the Bank's ordinary shareholder;
- equally with any other shares issued by the Bank that, by their terms, are expressed to rank equally with the 2009A BNZ PPS; and
- after all other shareholders (including the holders of the 2008 BNZ PPS and 2009 BNZ PPS) and creditors of the Bank.

June 2009 issue

On 26 June 2009, the Bank issued perpetual non-cumulative preference shares ("2009 BNZ PPS") to BNZ Income Management Limited ("BNZIM"), a subsidiary of the Bank's immediate parent, NAGNZ.

The 2009 BNZ PPS were issued in conjunction with the issue of perpetual non-cumulative shares by BNZ Income Securities 2 Limited ("BNZIS 2"), a subsidiary of the Bank's ultimate parent. Under the transaction, BNZIS 2 issued perpetual non-cumulative shares ("BNZIS 2 Shares") to members of the public in New Zealand. These shares are listed on the NZDX. The proceeds from the issue of BNZIS 2 Shares were advanced to BNZIM as a perpetual loan. BNZIM in turn invested the proceeds of the loan from BNZIS 2 in the 2009 BNZ PPS.

The 2009 BNZ PPS are non-redeemable and carry no voting rights other than in relation to amendments of the rights, privileges, limitations and conditions attaching to the 2009 BNZ PPS. Dividends are payable quarterly in arrears, but are non-cumulative if dividends are not paid for the reasons set out below.

The dividend payable on the 2009 BNZ PPS is determined by reference to the five-year mid-market swap rate plus a margin of 4.09% p.a.. The initial rate was set at 9.10% p.a. on 26 May 2009, applicable for the period from (and including) 26 June 2009 to (but excluding) 30 June 2014 (as 28 June 2014 is not a business day). Dividend rates are to be reset five-yearly on the business day falling two business days before 28 June (or the applicable business day if 28 June is not a business day) in the relevant year. The first dividend reset date is 26 June 2014.

Dividends will not be paid on the 2009 BNZ PPS if any of the following conditions apply: (a) the Directors of the Bank in their sole discretion do not resolve to pay the dividend on the relevant dividend payment date; (b) such a payment would result in any of the Bank's capital ratios ceasing to comply with the RBNZ's then current capital adequacy requirements; (c) the Directors of the Bank are not satisfied that the Bank will be solvent (under the solvency test set out in section 4 of the Companies Act 1993) immediately after payment of the dividend; or (d) (unless APRA otherwise agrees) certain dividend payment conditions apply relating to non-payment of the dividend on the BNZIS 2 Shares payable on the corresponding dividend payment date for the 2009 BNZ PPS (such conditions relating to whether the National Australia Bank Group will still comply with certain APRA capital ratios and have sufficient distributable profits after payment of the relevant dividend on the BNZIS 2 Shares, and to APRA otherwise objecting to the payment of the relevant dividend on the BNZIS 2 Shares).

If the Bank does not pay a dividend on the 2009 BNZ PPS on a scheduled dividend payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its other shares that rank equally with or junior to the 2009 BNZ PPS (other than pro-rata distributions or payments on shares that rank equally with the 2009 BNZ PPS) unless and until it has paid two consecutive dividends in full on the 2009 BNZ PPS or a call option that applies to the BNZIS 2 Shares has been exercised and the BNZIS 2 Shares have been transferred pursuant to such call option.

Dividends on the 2009 BNZ PPS rank for payment:

- before the Bank's ordinary shareholder and holders of 2009A BNZ PPS;
- equally with any other shares issued by the Bank that, by their terms, are expressed to rank equally with the 2009 BNZ PPS; and
- after all other shareholders and creditors of the Bank.

In the event of the liquidation of the Bank, the 2009 BNZ PPS rank:

- before the Bank's ordinary shareholder and holders of 2009A BNZ PPS;
- equally with any other shares issued by the Bank that, by their terms, are expressed to rank equally with the 2009 BNZ PPS; and
- after all other shareholders and creditors of the Bank.

March 2008 issue

On 28 March 2008, the Bank issued perpetual non-cumulative preference shares ("2008 BNZ PPS") to BNZIM.

The 2008 BNZ PPS were issued in conjunction with the issue of perpetual non-cumulative shares by BNZ Income Securities Limited ("BNZIS"), a subsidiary of the Bank's ultimate parent. Under the transaction, BNZIS issued perpetual non-cumulative shares ("BNZIS Shares") to members of the public in New Zealand. These shares are listed on the NZDX. The proceeds from the issue of the BNZIS Shares were advanced to BNZIM as a perpetual loan. BNZIM in turn invested the proceeds of the loan from BNZIS in the 2008 BNZ PPS.

Note 19 Capital Adequacy *continued*

Capital structure *continued*

The 2008 BNZ PPS are non-redeemable and carry no voting rights other than in relation to amendments of the rights, privileges, limitations and conditions attaching to the 2008 BNZ PPS. Dividends are payable quarterly in arrears, but are non-cumulative if dividends are not paid for the reasons set out below.

The dividend payable on the 2008 BNZ PPS is determined by reference to the five-year mid-market swap rate plus a margin of 2.20%. The initial rate was set at 9.89% p.a. on 26 March 2008, applicable for the period from (and including) 28 March 2008 to (but excluding) 28 March 2013. Dividend rates are to be reset five-yearly on the business day falling two business days before 28 March (or the applicable business day if 28 March is not a business day) in the relevant year. The first dividend reset date is 26 March 2013.

Dividends will not be paid on the 2008 BNZ PPS if any of the following conditions apply: (a) the Directors of the Bank in their sole discretion do not resolve to pay the dividend on the relevant dividend payment date; (b) such a payment would result in any of the Bank's capital ratios ceasing to comply with the RBNZ's then current capital adequacy requirements; (c) the Directors of the Bank are not satisfied that the Bank will be solvent (under the solvency test set out in section 4 of the Companies Act 1993) immediately after payment of the dividend; or (d) (unless APRA otherwise agrees) certain dividend payment conditions apply relating to non-payment of the dividend on the BNZIS Shares payable on the corresponding dividend payment date for the 2008 BNZ PPS (such conditions relating to whether the National Australia Bank Group will still comply with certain APRA capital ratios and have sufficient distributable profits after payment of the relevant dividend on the BNZIS Shares, and to APRA otherwise objecting to the payment of the relevant dividend on the BNZIS Shares).

If the Bank does not pay a dividend on the 2008 BNZ PPS on a scheduled dividend payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its other shares that rank equally with or junior to the 2008 BNZ PPS (other than pro-rata distributions or payments on shares that rank equally with the 2008 BNZ PPS) unless and until it has paid two consecutive dividends in full on the 2008 BNZ PPS or a call option that applies to the BNZIS Shares has been exercised and the BNZIS Shares have been transferred pursuant to such call option.

Dividends on the 2008 BNZ PPS rank for payment:

- before the Bank's ordinary shareholder and holders of 2009A BNZ PPS;
- equally with any other shares issued by the Bank that, by their terms, are expressed to rank equally with the 2008 BNZ PPS; and
- after all other shareholders and creditors of the Bank.

In the event of the liquidation of the Bank, the 2008 BNZ PPS rank:

- before the Bank's ordinary shareholder and holders of 2009A BNZ PPS;
- equally with any other shares issued by the Bank that, by their terms, are expressed to rank equally with the 2008 BNZ PPS; and
- after all other shareholders and creditors of the Bank.

Subordinated debt

Subordinated debt ranks behind the claims of all other creditors in a winding up. Material terms and conditions relating to the subordinated debt are as follows:

Subordinated loans from related entities held in upper Tier Two capital

These loans have no fixed maturity and are repayable only at the Bank's option, subject to certain conditions, at any time on seven days' notice. The interest rate is reset every three months based on a margin over the prevailing rate for New Zealand 90-day bank bills.

Subordinated loans from related entities held in lower Tier Two capital

These loans have no fixed maturity and are repayable on five years and one day's notice. The interest rate is reset every three months based on a margin over the prevailing rate for New Zealand 90-day bank bills.

Other subordinated debt held in lower Tier Two capital

The coupon rate on these bonds is 8.42% p.a., payable semi-annually in arrears. The bonds have a maturity date of 15 June 2017, but can be called by the Bank on 15 June 2012. If the bonds are not called by the Bank on 15 June 2012 they will continue to pay interest at the five year swap rate plus 0.75%.

Note 20 Financial Risk Management

Financial risk management policies

There have been no material changes to the Banking Group's policies for managing risk, or material exposures to new categories of risk since 31 December 2011.

Interest rate repricing schedule

The following table represents a breakdown of the balance sheet, by repricing dates or contractual maturity, whichever is the earlier. As interest rates and yield curves change over time, the Banking Group may be exposed to a loss in earnings due to the characteristics of the assets and their corresponding liability funding. These mismatches are actively managed as part of the overall interest rate risk management process. In managing the structural interest rate risk, the primary objectives are to limit the extent to which Net interest income could be impacted from an adverse movement in interest rates and to maximise shareholders' earnings.

	Consolidated (31/3/12 Unaudited)						
Dollars in Millions	Total	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-Interest Sensitive
Assets							
Cash and balances with central banks	2,001	1,869	-	-	-	-	132
Due from other financial institutions	1,138	1,108	-	-	-	-	30
Trading securities	3,446	3,446	-	-	-	-	-
Other money market placements	1,028	1,028	-	-	-	-	-
Available for sale investments	44	-	-	-	-	-	44
Derivative financial instruments	4,772	-	-	-	-	-	4,772
Gross loans and advances to customers	58,296	37,228	2,355	2,789	5,773	8,688	1,463
Deductions from loans and advances to customers	(462)	-	-	-	-	(2)	(460)
Amounts due from related entities	545	497	17	3	-	-	28
All other assets	908	-	-	-	-	-	908
Total assets	71,716	45,176	2,372	2,792	5,773	8,686	6,917
Liabilities							
Due to central banks and other financial institutions	1,996	1,951	20	20	-	5	-
Other money market deposits	8,541	4,585	3,770	143	12	31	-
Trading liabilities	15	15	-	-	-	-	-
Deposits from customers	33,883	21,547	6,077	2,704	623	972	1,960
Derivative financial instruments	4,873	-	-	-	-	-	4,873
Bonds and notes	13,103	3,752	279	55	1,311	7,706	-
Amounts due to related entities	2,741	2,657	-	-	-	-	84
Subordinated debt	1,258	1,258	-	-	-	-	-
All other liabilities	633	-	-	-	-	-	633
Total liabilities	67,043	35,765	10,146	2,922	1,946	8,714	7,550
Shareholders' equity							
Total shareholders' equity	4,673	-	-	-	-	-	4,673
Total liabilities and shareholders' equity	71,716	35,765	10,146	2,922	1,946	8,714	12,223
On-balance sheet sensitivity gap	-	9,411	(7,774)	(130)	3,827	(28)	(5,306)
Derivative financial instruments							
Net balance of derivative financial instruments	-	(8,854)	5,426	1,796	(38)	1,670	-
Interest sensitivity gap – net	-	557	(2,348)	1,666	3,789	1,642	(5,306)
Interest sensitivity gap – cumulative	-	557	(1,791)	(125)	3,664	5,306	-

Note 20 Financial Risk Management *continued*

Maturity profile

The table below presents the Banking Group's cash flows by remaining contractual maturities as at the reporting date, except Available for sale investments, Trading securities and Trading liabilities, which the Banking Group has the ability to realise at short notice and are presented by expected maturity.

The gross cash flows disclosed hereunder are the 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 Banking Group and its counterparties, such as early repayments or refinancing of term loans. Off-balance sheet exposures are excluded from the table below as contractual cash flows, if any, are contingent in nature. Irrevocable commitments to extend credit can be drawn down at any time before the commitments expire. Details of off-balance sheet exposures are included in note 16. Other assets and other liabilities only include balances which have contractual future cash flows.

	Consolidated (31/3/12 Unaudited)						
Dollars in Millions	Carrying Amount	Gross Cash Inflow/ (Outflow)	On Demand	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years
Assets							
Cash and balances with central banks	2,001	2,001	1,711	290	-	-	-
Due from other financial institutions	1,138	1,138	447	691	-	-	-
Trading securities	3,446	3,446	-	3,446	-	-	-
Other money market placements	1,028	1,030	282	748	-	-	-
Available for sale investments	44	44	-	-	44	-	-
Loans and advances to customers	57,834	80,328	5,523	12,295	6,989	21,207	34,314
Amounts due from related entities	545	545	4	504	37	-	-
Other assets	181	181	-	181	-	-	-
Total	66,217	88,713	7,967	18,155	7,070	21,207	34,314
Liabilities							
Due to central banks and other financial institutions	(1,996)	(1,997)	(729)	(1,223)	(40)	(5)	-
Other money market deposits	(8,541)	(8,575)	(407)	(6,256)	(1,866)	(46)	-
Trading liabilities	(15)	(15)	-	(15)	-	-	-
Deposits from customers	(33,883)	(34,401)	(13,741)	(9,806)	(9,053)	(1,800)	(1)
Bonds and notes	(13,103)	(14,646)	-	(1,275)	(1,086)	(8,932)	(3,353)
Amounts due to related entities	(2,741)	(2,928)	(97)	(114)	(131)	(2,586)	-
Subordinated debt	(1,258)	(1,429)	-	(372)	(15)	(122)	(920)
Other liabilities	(502)	(502)	-	(502)	-	-	-
Total	(62,039)	(64,493)	(14,974)	(19,563)	(12,191)	(13,491)	(4,274)
Derivatives							
Derivative financial instruments inflow		85,531	-	33,354	15,034	27,671	9,472
Derivative financial instruments (outflow)		(86,436)	-	(33,411)	(15,163)	(28,260)	(9,602)

Liquidity portfolio management

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

	Consolidated
Dollars in Millions	Unaudited 31/3/12
Cash and balances immediately convertible to cash	2,261
Securities purchased under agreements to resell	896
Treasury bills	1,671
Government securities	538
Semi-government securities	433
Bank bonds	271
Promissory notes	211
Other securities	102
Total liquidity portfolio	6,383

As at 31 March 2012, the Banking Group also held unencumbered residential mortgage-backed securities ("RMBS") of $4,491 million. The RMBS can be sold to RBNZ under agreements to repurchase for liquidity purposes. The RBNZ has imposed a cap limiting the amount of RMBS deemed as eligible in the liquidity portfolio to 4% of total assets.

As at 31 March 2012, there was an ongoing A$1 billion market rate advance facility provided from NAB for the Banking Group's liquidity management in the course of its normal trading activities.

Note 20 Financial Risk Management *continued*

Concentrations of funding

The Banking Group's concentrations of funding is reported by geographical location and industry sector in the table below. The concentrations of funding by geographical location is based on the geographical location of the office in which the funds are recognised. The concentrations of funding by industry sector is based on the categories in the RBNZ M3 Institutions Standard Statistical Return.

	Consolidated
Dollars in Millions	Unaudited 31/3/12
New Zealand	
Agriculture, forestry and fishing	1,745
Mining	139
Manufacturing	1,118
Electricity, gas and water	113
Construction	411
Wholesale and retail trade	1,072
Accommodation, restaurants, culture and recreation	837
Transport and storage	461
Communications	170
Financial, investment and insurance	13,621
Property, business and personal services	5,651
Government, education, health and community services	2,290
Personal deposits	17,453
Related entities	3,595
Total New Zealand	48,676
United Kingdom *	
Financial, investment and insurance	12,560
Total United Kingdom	12,560
Singapore	
Manufacturing	1
Financial, investment and insurance	30
Property, business and personal services	1
Personal deposits	218
Related entities	51
Total Singapore	301
Total funding	61,537
Total funding comprised:	
Due to central banks and other financial institutions	1,996
Other money market deposits	8,541
Trading liabilities	15
Deposits from customers	33,883
Bonds and notes	13,103
Amounts due to related entities	2,741
Subordinated debt **	1,258
Total funding	61,537

* This represents the funding activities of BNZ International Funding Limited (London Branch).

** Included in Subordinated debt was $905 million due to related entities as at 31 March 2012.

Note 20 Financial Risk Management *continued*

Concentrations of credit exposure

The Banking Group's concentrations of credit exposure is reported by geographical location and industry sector in the table below. The concentrations of credit exposure on financial assets by geographical location is based on the geographical location of the counterparty's tax residency. The concentrations of credit exposure relating to guarantees and credit related commitments by geographical location is based on geographical location of the office in which the exposures are recognised. The concentrations of credit exposure by industry sector is based on the categories in the RBNZ M3 Institutions Standard Statistical Return.

The table below presents the maximum exposure to credit risk of financial assets before taking into account any collateral held or other credit enhancements and credit risk exposures relating to guarantees and credit related commitments. Except for derivative financial instruments, the majority of the overseas credit exposures are raised for New Zealand based assets funded in New Zealand dollars for offshore customers. For more information on guarantees and credit related commitments, refer to note 16.

	Consolidated
Dollars in Millions	Unaudited 31/3/12
Financial assets	
New Zealand	
Agriculture	10,028
Forestry and fishing	547
Mining	172
Manufacturing	2,351
Electricity, gas and water	1,074
Construction	624
Wholesale and retail trade	2,484
Accommodation, restaurants, culture and recreation	1,055
Transport and storage	905
Communications	339
Financial, investment and insurance	5,408
Property, business and personal services	8,416
Government, education, health and community services	4,029
Real estate – mortgage	27,329
Personal lending	1,785
Related entities	246
Total New Zealand	66,792
Overseas	
Agriculture	5
Forestry and fishing	3
Wholesale and retail trade	10
Accommodation, restaurants, culture and recreation	7
Communications	7
Financial, investment and insurance	3,487
Property, business and personal services	7
Government, education, health and community services	42
Real estate – mortgage	453
Personal lending	28
Related entities	299
Total Overseas	4,348
Total credit exposures on financial assets	71,140
Total credit exposures on financial assets comprised:	
Balances with central banks	1,871
Due from other financial institutions	1,138
Trading securities	3,446
Other money market placements	1,028
Available for sale investments	44
Derivative financial instruments	4,772
Gross Loans and advances to customers	58,296
Amounts due from related entities	545
Total credit exposures on financial assets	71,140

Note 20 Financial Risk Management *continued*

Concentrations of credit exposure *continued*

Dollars in Millions	Consolidated Unaudited 31/3/12
Guarantees and credit related commitments	
New Zealand	
Agriculture	549
Forestry and fishing	62
Mining	77
Manufacturing	1,097
Electricity, gas and water	723
Construction	146
Wholesale and retail trade	1,072
Accommodation, restaurants, culture and recreation	209
Transport and storage	312
Communications	147
Financial, investment and insurance	617
Property, business and personal services	869
Government, education, health and community services	679
Real estate – mortgage	1,305
Personal lending	46
Total New Zealand	7,910
Total credit exposures on guarantees and irrevocable credit related commitments	7,910

Note 21 Subsequent Events

Subsequent to 31 March 2012, the Bank issued 400,000,000 ordinary shares ("Shares") to its immediate parent National Australia Group (NZ) Limited on 10th May 2012. The Shares were issued at a subscription price of $1.00 each and are on the same terms as, and rank equally with, all existing ordinary shares in the Bank. This has resulted in the Bank's fully paid ordinary shares increasing from $1,451 million (2,470,997,499 shares) to $1,851 million (2,870,997,499 shares) with effect from 10th May 2012.

ERNST & YOUNG Chartered Accountants

Auditor's Independent Review Report

To the shareholders of Bank of New Zealand

We have reviewed pages 3 to 31 of the Disclosure Statement for the six months ended 31 March 2012 of Bank of New Zealand (the "Bank") and its subsidiaries (the "Banking Group") which consists of the interim financial statements required by Clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2012 (the "Order") and the supplementary information required by Schedules 5, 7, 11, 13, 16 and 18 of the Order. The interim financial statements comprise the balance sheet as at 31 March 2012, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended, and the notes to the financial statements that include a statement of accounting policies and other explanatory information for the Banking Group.

This report is made solely to the Bank's shareholders, as a body. Our review has been undertaken so that we might state to the Bank's shareholders those matters we are required to state to them in an independent auditor's review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholders as a body, for our review work, for this report, or for our findings.

Directors' responsibilities

The directors of Bank of New Zealand (the "Directors") are responsible for the Disclosure Statement which includes interim financial statements prepared in accordance with Clause 25 of the Order and that fairly present the financial position of the Banking Group as at 31 March 2012, and its financial performance and cash flows for the six months ended on that date. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible for including supplementary information in the Disclosure Statement which complies with Schedules 3, 5, 7, 11, 13, 16 and 18 of the Order.

Reviewer's responsibilities

We are responsible for reviewing the interim financial statements and the supplementary information, disclosed in accordance with Clause 25, Schedules 5, 7, 11, 13, 16 and 18 of the Order and presented to us by the Directors.

We are responsible for reviewing the financial statements (excluding the supplementary information) in order to report to you whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the interim financial statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting ("NZ IAS 34") and do not fairly present the financial position of the Banking Group as at 31 March 2012 and its financial performance and cash flows for the six months ended on that date.

We are responsible for reviewing the supplementary information (excluding the supplementary information relating to capital adequacy) in order to report to you whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order.

We are responsible for reviewing the supplementary information relating to capital adequacy in order to report to you whether, in our opinion on the basis of procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information relating to capital adequacy is not in all material respects:

(a) prepared in accordance with the Bank's Conditions of Registration;

(b) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and

(c) disclosed in accordance with Schedule 11 of the Order.

Basis of review opinion

A review is limited primarily to enquiries of the Bank and Banking Group personnel and analytical review procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit on the interim financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the interim financial statements, and the supplementary information required by Schedules 5, 7, 11, 13, 16 and 18 of the Order, of the Banking Group for the six months ended 31 March 2012 in accordance with the Review Engagement Standards issued by the External Reporting Board.

Ernst & Young provides regulatory audit and other assurance related services to the Bank and Banking Group. We have no other relationship with, or interest in, the Bank or Banking Group.

Partners and employees of our firm may deal with the Bank and Banking Group on normal terms within the ordinary course of trading activities of the business of the Bank and Banking Group. These matters have not impaired our independence as auditors of the Bank and Banking Group.

ERNST & YOUNG

Statement of review findings

Based on our review nothing has come to our attention that causes us to believe that:

- the interim financial statements on pages 3 to 31 (excluding the supplementary information) do not fairly present the financial position of the Banking Group as at 31 March 2012 and its financial performance and cash flows for the six months ended on that date, in accordance with generally accepted accounting practice in New Zealand as it relates to interim financial statements;
- the supplementary information prescribed by Schedules 5, 7, 13, 16 and 18 of the Order, does not fairly state the matters to which it relates in accordance with those Schedules; and
- the supplementary information relating to capital adequacy prescribed in Schedule 11 of the Order, is not, in all material respects:
    - prepared in accordance with the Bank's Conditions of Registration;
    - prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
    - disclosed in accordance with Schedule 11 of the Order.

Ernst + Young

16 May 2012
Auckland

Credit Ratings

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

Conditions of Registration

Changes in conditions of registration

There have been no changes to the Bank's conditions of registration since 31 December 2011.

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 six months ended 31 March 2012:
   (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 16th of May 2012 and signed by Messrs. Waller and Thorburn as Directors and as responsible persons on behalf of all the other Directors.

J A Waller
Chairman

A G Thorburn
Managing Director and Chief Executive Officer