DISCLOSURE STATEMENT

Bank of New Zealand

General Disclosure Statement

For the year ended 30 September 2010

No. 59

This General Disclosure Statement has been issued by Bank of New Zealand for the year ended 30 September 2010 in accordance with the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 (the "Order"), as amended by the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 (Government Guarantee) Amendment Order 2008.

Bank of New Zealand has published a Supplemental Disclosure Statement in accordance with the Order. A copy of Bank of New Zealand's most recent Supplemental Disclosure Statement will be provided immediately at no charge to any person requesting a copy where the request is made at Bank of New Zealand's Registered Office, Level 4, 80 Queen Street, Auckland, New Zealand. Copies of Bank of New Zealand's most recent Supplemental Disclosure Statement will be provided at any store or agency of Bank of New Zealand at no charge to any person within five working days of a request for a copy having been made. Bank of New Zealand's most recent Supplemental Disclosure Statement is also available on the Bank's website **www.bnz.co.nz**.

In this General Disclosure Statement, unless the context otherwise requires:

a) "Banking Group" means Bank of New Zealand's financial reporting group, which consists of Bank of New Zealand, all of its controlled entities and entities consolidated for financial reporting purposes; and

b) Words and phrases defined by the Order have the same meanings when used in this General Disclosure Statement.

General Disclosure Statement

For the year ended 30 September 2010

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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, New Zealand.

Details of Incorporation

The Bank was incorporated on 29 July 1861 under The New Zealand Bank Act 1861. On 14 March 1989 the Bank became, by virtue of an Order in Council made pursuant to section 4 of the Bank of New Zealand Act 1988, a company limited by shares incorporated and registered under the Companies Act 1955. On 24 March 1997, the Bank was re-registered under the Companies Act 1993.

Voting Securities and Power to Appoint Directors

National Australia Group (NZ) Limited, National Australia Bank Limited and National Equities Limited are the only holders of a direct or indirect qualifying interest in the voting securities of the Bank. There are 2,470,997,499 voting securities of the Bank. National Australia Group (NZ) Limited is the registered and beneficial holder of 2,470,997,499 voting securities. Neither National Australia Bank Limited (the ultimate parent company) nor National Equities Limited (the immediate parent company of National Australia Group (NZ) Limited) is the registered or the beneficial holder of any of the voting securities of the Bank but each has a relevant interest in all of such securities by virtue of National Australia Group (NZ) Limited being related to them in terms of section 5B(2) of the Securities Markets Act 1988.

The ultimate parent company has the power under the Bank's constitution to appoint any person as Director of the Bank or to remove any person from the office of Director, from time to time by giving written notice to the Bank. Any appointment of a Director is subject to the Reserve Bank of New Zealand confirming it has no objection to that appointment.

Guarantees

Retail deposit guarantee – As at 12.01am on 12 October 2010 Bank of New Zealand ceased to be a member of the Crown retail deposit guarantee scheme, which had been in place from 12.01am on 12 October 2008.

Wholesale funding guarantee – Certain debt securities issued by the Bank, or by its subsidiary, BNZ International Funding Limited, prior to 30 April 2010 are guaranteed by the Crown under the Crown's wholesale funding guarantee scheme (the "Scheme"). The Scheme was closed on 30 April 2010. Information about the Scheme and copies of the guarantee eligibility certificates in respect of the relevant debts securities which have the benefit of the wholesale funding guarantee may be viewed on New Zealand Treasury's website – www.treasury.govt.nz/economy/guarantee/wholesale.

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 Crown's most recent audited financial statements and further information about the Crown guarantees are available from New Zealand Treasury's website www.treasury.govt.nz.

As at 30 September 2010, the Crown has a AAA credit rating by Standard & Poor's and Fitch Ratings, and a Aaa credit rating by Moody's Investors Service in respect of its long-term obligations payable in New Zealand dollars. During the two-year period ended 30 September 2010 there was no change to these ratings. A summary of the descriptions of the major ratings categories for each credit rating agency is included in the Credit Ratings section on page 103.

The Scheme guarantees certain payment obligations of the Bank in respect of principal and interest (excluding penalty interest) owing under the guaranteed debt securities. There are no limits on the amount of obligations covered by the guarantee eligibility certificates and no special conditions apply.

Copies of the Bank's Supplemental Deed to the Crown Wholesale Funding Guarantee (dated 19 December 2008) dated 17 February 2009 are contained in the Bank's Supplemental Disclosure Statement ("SDS"). A copy of the Bank's most recent SDS will be provided immediately at no charge to any person requesting a copy where the request is made at Bank of New Zealand's Registered Office, Level 4, 80 Queen Street, Auckland 1010, New Zealand. Copies of the Bank's most recent SDS will be provided at any store or agency of Bank of New Zealand at no charge to any person within five working days of a request for a copy having been made. The Bank's most recent SDS is also available on the Bank's website **www.bnz.co.nz**.

A guarantee eligibility certificate (in the form set out in the schedule to the Supplemental Deed to the Crown Wholesale Funding Guarantee (dated 19 December 2008) dated 17 February 2009) 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 can be found in the SDS and are available from New Zealand Treasury's website www.treasury.govt.nz.

The information about the Crown's wholesale funding guarantee above is a brief summary only. The full wholesale funding guarantee should be reviewed by any person intending to rely on the guarantee to ensure they understand how it will apply to their circumstances. Any person intending to rely on the wholesale funding guarantee should also search the relevant eligibility certificates.

Other material obligations of the Bank are not guaranteed.

Insurance Business

The Banking Group does not conduct any Insurance Business, as defined in clause 3(i) of Bank of New Zealand's conditions of registration set out on page 104.

Details on the Banking Group's involvement in the marketing and distribution of insurance products of other entities are provided in note 44 to these financial statements.

Ultimate Parent Bank

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.

Legally Enforceable Restrictions that may Materially Inhibit National Australia Bank Limited's Legal Ability to Provide Material Financial Support to Bank of New Zealand

National Australia Bank Limited does not guarantee the obligations of Bank of New Zealand.

Pursuant to the Banking Act 1959 (Cth), the Australian Prudential Regulation Authority has issued a legally enforceable prudential standard which restricts associations between an authorised deposit-taking institution (such as National Australia Bank Limited) and its related entities.

Any provision of material financial support to Bank of New Zealand by National Australia Bank Limited would need to comply with the following pertinent requirements of the prudential standard:

1. National Australia Bank Limited should not undertake any third-party dealings with the prime purpose of supporting the business of Bank of New Zealand. National Australia Bank Limited must avoid giving any impression of its support unless there are formal legal arrangements in place providing for such support.
2. National Australia Bank Limited should not hold unlimited exposures to Bank of New Zealand.
3. National Australia Bank Limited should not enter into cross-default clauses whereby a default by Bank of New Zealand on an obligation (whether financial or otherwise) is deemed to trigger a default of National Australia Bank Limited in its obligations.
4. In determining limits on acceptable levels of exposure to Bank of New Zealand, the Board of Directors of National Australia Bank Limited should have regard to the level of exposures which would be approved for unrelated entities of broadly equivalent credit status, and the impact on National Australia Bank Limited's stand-alone capital and liquidity positions, as well as its ability to continue operating, in the event of a failure of any related entity to which National Australia Bank Limited is exposed.
5. National Australia Bank Limited's exposure to Bank of New Zealand cannot exceed 50% of National Australia Bank Limited's stand-alone capital base, and its aggregate exposure to all related authorised deposit-taking institutions cannot exceed 150% of that capital base. Exposures in excess of these limits require the prior approval of the Australian Prudential Regulation Authority.

The Australian Prudential Regulation Authority has broad powers under the Banking Act 1959 (Cth) to give legally enforceable directions to National Australia Bank Limited in circumstances, for example, where it considers that National Australia Bank Limited has not complied with prudential standards or that it is in the interests of National Australia Bank Limited's deposit holders to do so. In the event that National Australia Bank Limited becomes unlikely to be able to meet its obligations or is about to suspend payments, the Australian Prudential Regulation Authority has the power to take control of National Australia Bank Limited's business or appoint an administrator to National Australia Bank Limited's affairs.

The priority of the creditors of National Australia Bank Limited in the event that National Australia Bank Limited is unable to meet its obligations is governed by various Australian laws, including the Banking Act 1959 (Cth). That Act provides that the assets of National Australia Bank Limited in Australia are to be available to meet its deposit liabilities in Australia in priority to all other liabilities.

Pending Proceedings or Arbitration

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

Other Material Matters

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

Directorate and Auditor

Communications addressed to the Directors and responsible persons, or any of them, may be sent to Level 4, 80 Queen Street, Auckland 1010, New Zealand.

Directors

Directors' details

The name, occupation, technical or professional qualifications, country of residence, and limited liability company directorships of each Director of the Bank as at the date of this General Disclosure Statement are as follows:

Non-Executive Director, Chairman

John Anthony Waller
Company Director
B.Com., FCA
New Zealand

Directorships:
Alliance Group Limited; Direct Property Fund Limited; Donaghys Limited; Fonterra Co-operative Group Limited; Haydn & Rollett Limited; JAW Advisory Limited; National Australia Bank Limited; National Equities Limited; Sky Network Television Limited

Directorate and Auditor *continued*

Executive Director
Andrew Gregory Thorburn
Managing Director and Chief Executive Officer
Bank of New Zealand
B.Com. (Economics), M.B.A. (Distinction), S.F. FINSIA
New Zealand

Directorships:
Banking Ombudsman Scheme Limited; BNZ Income Management Limited; BNZ Income Securities Limited; BNZ Income Securities 2 Limited; BNZ Life Insurance Limited; Great Western Bancorporation, Inc; Great Western Bank; National Americas Holdings LLC; National Australia Group (NZ) Limited; National Wealth Management New Zealand Holdings Limited; Serv Co Pty Limited

Independent Non-Executive Directors
Prudence Mary Flacks
Company Director
LL.B., LL.M.
New Zealand

Directorships:
BBULL Family Trust Limited; Mighty River Power Limited; Planboe Limited

Edwin Gilmour Johnson
Company Director
B.A. (Hons.) Accounting and Finance, M.B.A. (Hons.), FInstD
New Zealand

Directorships:
Chalmers Properties Limited; Fulton Hogan Pty Limited (Australia); Fulton Hogan Limited; Goldpine Group Limited; Goldpine Industries Limited; Goldpine Properties Limited; Indevin Limited; Indevin Estates Limited; Marlborough Sounds Maritime Pilots Limited; National Institute of Water & Atmospheric Research Limited; NIWA Vessel Management Limited; PMNZ Marina Holdings Limited; Port Marlborough New Zealand Limited; Port Otago Limited; Sounds Property Holdings Limited; Stone Farm Holdings Limited; Stone Farm Olives Limited; Waikawa Marina Trustee Limited; Wine Export Partners New Zealand Limited

Dr Susan Carrel Macken
Company Director
B.Sc., B.Com., Ph.D.
New Zealand

Directorships:
Blossom Bear Limited; ESR Limited; Fertility Associates Limited; Fertility Associates Holdings Limited; Fertility Associates Trustee Limited; Institute of Environmental Science and Research Limited; STG Limited; UCG Investments Limited

Stephen John Moir
Company Director
New Zealand

Directorship:
Ijap Limited

Dr Andrew John Pearce
Company Director
B.Sc. (Hons.), M.Sc., Ph.D., FNZIM
New Zealand

Directorships:
Anark Limited; Christchurch City Holdings Limited; Seon Pearce & Associates Limited

Non-Executive Directors
Cameron Anthony Clyne
Group Chief Executive Officer
National Australia Bank Limited
B.A.
Australia

Directorships:
Camel Nominees Pty Limited; Clydesdale Bank Plc; Melcam Pty Limited; National Australia Bank Limited; National Equities Limited; National Australia Group Europe Limited; Serv Co Pty Limited

Michael James Ullmer
Deputy Group Chief Executive Officer
National Australia Bank Limited
B.Sc. (Maths) (Hons.), S.F. Fin., FCA
Australia

Directorships:
European Australian Business Council Limited; Fosters Group Limited; Great Western Bank Limited; GW Development Americas, Inc; JBWere Pty Limited; JBWere (NZ) Pty Limited; Melbourne Symphony Orchestra Limited; National Americas Holdings LLC; National Australia Bank Limited; National Equities Limited; Wilclarke Proprietary Limited

New Zealand Regional Audit Committee

Members of the New Zealand Regional Audit Committee as at the date of this General Disclosure Statement are as follows:

E G Johnson (Chairman)	Independent Non-Executive Director
P M Flacks	Independent Non-Executive Director
Dr S C Macken	Independent Non-Executive Director
S J Moir	Independent Non-Executive Director
Dr A J Pearce	Independent Non-Executive Director

Responsible Persons

Messrs. John Anthony Waller and Andrew Gregory Thorburn, whose occupations, professional qualifications, countries of residence, and directorships are disclosed on pages 3 and 4, 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
Michael James Ullmer

Policy for Avoiding and Dealing with Conflicts of Interests

The policy and current practice of the Board of Directors of the Bank for avoiding or dealing with conflicts of interest which may arise from the personal, professional or business interests of the Directors, or any of them, are that, where a Director's judgment could potentially be impaired because a conflict of interest exists between the Director's business and personal affairs and the business affairs of the Bank, then that Director must declare that the conflict of interest exists and leave the meeting for the duration of the Board's discussion and voting on the relevant matter.

The Companies Act 1993 requires each Director to cause to be entered in the interests register and disclose to the Board of the Bank:

- the nature and monetary value of the Director's interest in a transaction or proposed transaction if its monetary value is able to be quantified; or
- the nature and extent of the Director's interest in a transaction or proposed transaction if its monetary value is not able to be quantified.

Directors' Benefits

There is no transaction which any Director or immediate relative or close business associate of any Director has with the Bank or any member of the Banking Group which either has been entered into on terms other than those which would, in the ordinary course of business of the Bank or any member of the Banking Group, be given to any other person of like circumstances or means, or could otherwise be reasonably likely to influence materially the exercise of that Director's duties.

Information pertaining to loans to and other transactions with Directors appears in note 35 to these financial statements.

Auditor

The auditor whose report is referred to in this General Disclosure Statement is Ernst & Young. Their address for service is Level 14, 41 Shortland Street, Auckland 1010, New Zealand.

Financial Statements

Contents

Historical Summary of Financial Statements

Dollars in Millions	Consolidated 30/9/10	30/9/09	30/9/08	30/9/07	30/9/06
Income statement					
Interest income	**3,447**	4,074	5,224	4,394	3,803
Interest expense	**2,166**	2,723	3,896	3,192	2,701
Net interest income	**1,281**	1,351	1,328	1,202	1,102
Gains less losses on financial instruments at fair value	**(18)**	(96)	215	246	155
Other operating income	**379**	397	440	372	364
Total operating income	**1,642**	1,652	1,983	1,820	1,621
Operating expenses	**818**	777	786	751	746
Total operating profit before impairment losses on credit exposures and income tax expense	**824**	875	1,197	1,069	875
Impairment losses on credit exposures	**187**	190	71	52	53
Total operating profit before income tax expense	**637**	685	1,126	1,017	822
Income tax expense on operating profit	**202**	205	341	334	262
Net profit from continuing activities before New Zealand structured finance transactions	**435**	480	785	683	560
Income tax (credit)/expense on New Zealand structured finance transactions	**(83)**	416	-	-	-
Income tax (credit)/expense interest costs on New Zealand structured finance transactions	**(84)**	245	-	-	-
Net profit/(loss) from continuing activities	**602**	(181)	785	683	560
Net profit from discontinued operations	**-**	-	-	-	45
Net profit/(loss) attributable to shareholders of Bank of New Zealand	**602**	(181)	785	683	605
Ordinary dividend	**563**	217	388	430	335
Special dividend paid on ordinary shares	**-**	-	300	-	-
Perpetual preference dividend	**57**	35	15	-	-
Significant balance sheet items					
Total assets	**69,647**	69,862	64,209	56,375	50,457
Total liabilities (including subordinated debt)	**65,645**	66,117	60,276	52,957	47,325
Ordinary shareholder's equity	**3,092**	3,035	3,483	3,418	3,132
Contributed equity – perpetual preference shareholder	**910**	710	450	-	-
Asset quality					
Individually impaired assets – at amortised cost	**490**	446	169	49	44
Individual financial assets deemed to be impaired – at fair value through profit or loss	**282**	191	32	13	9
Impairment losses on credit exposures charged to income statement – at amortised cost	**187**	190	71	52	53
Credit risk adjustments on financial assets charged to income statement – at fair value through profit or loss	**39**	67	38	19	14

The information presented in the above table has been extracted from audited financial statements that have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS").

On 28 March 2008, the Bank issued 449,730,000 perpetual preference shares to BNZ Income Management Limited ("BNZIM"), a subsidiary of the Bank's immediate parent. On 26 June 2009, the Bank issued 260,000,000 perpetual preference shares to BNZIM. On 29 December 2009, the Bank issued 200,000,000 perpetual preference shares to National Australia Group (NZ) Limited, the Bank's immediate parent. Refer to note 30 for further information.

Other than the sale of Custom Fleet (NZ) Limited on 31 July 2006, there have been no material changes in the activities of the Banking Group during the financial years referred to in this historical summary of financial statements.

Income Statement

For the year ended 30 September 2010

Dollars in Millions	Note	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Interest income	2	**3,447**	4,074	**3,674**	4,331
Interest expense	2	**2,166**	2,723	**2,456**	3,115
Net interest income		**1,281**	1,351	**1,218**	1,216
Gains less losses on financial instruments at fair value	3	**(18)**	(96)	**(18)**	(96)
Other operating income	4	**379**	397	**399**	393
Total operating income		**1,642**	1,652	**1,599**	1,513
Operating expenses	5	**818**	777	**837**	806
Total operating profit before impairment losses on credit exposures and income tax expense		**824**	875	**762**	707
Impairment losses on credit exposures	14	**187**	190	**187**	190
Total operating profit before income tax expense		**637**	685	**575**	517
Income tax expense on operating profit	7	**202**	205	**178**	155
Income tax (credit)/expense on New Zealand structured finance transactions	7	**(83)**	416	**(60)**	300
Income tax (credit)/expense interest costs on New Zealand structured finance transactions	7	**(84)**	245	**(32)**	177
Total income tax expense		**35**	866	**86**	632
Net profit/(loss) attributable to shareholders of Bank of New Zealand		**602**	(181)	**489**	(115)

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

Statement of Comprehensive Income

For the year ended 30 September 2010

Dollars in Millions	Note	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Net profit/(loss) attributable to shareholders of Bank of New Zealand		**602**	(181)	**489**	(115)
Other comprehensive income/(expense), net of taxation					
Net actuarial loss on defined benefit plan	32	**(3)**	(5)	**(3)**	(5)
Net change in foreign currency translation reserve	31	**(6)**	(3)	**(7)**	(4)
Net change in cash flow hedge reserve	31	**78**	9	**78**	9
Available for sale investments revaluation reserve:					
Change in available for sale investments revaluation reserve from revaluation	31	**6**	(9)	**6**	(9)
Available for sale investments revaluation reserve transferred to income statement on disposal	31	**-**	(7)	**-**	(7)
Total other comprehensive income/(expense), net of taxation		**75**	(15)	**74**	(16)
Total comprehensive income/(expense) attributable to shareholders of Bank of New Zealand		**677**	(196)	**563**	(131)

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

Statement of Changes in Equity

For the year ended 30 September 2010

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 (30/9/10)				
Balance at beginning of year	**1,451**	**710**	**1,587**	**2**	**3**	**10**	**(18)**	**3,745**
Comprehensive income/ (expense)								
Net profit attributable to shareholders of Bank of New Zealand	**-**	**-**	**602**	**-**	**-**	**-**	**-**	**602**
Total other comprehensive (expense)/income	**-**	**-**	**(3)**	**-**	**(6)**	**6**	**78**	**75**
Total comprehensive income/ (expense)	**-**	**-**	**599**	**-**	**(6)**	**6**	**78**	**677**
Proceeds from shares issued	**-**	**200**	**-**	**-**	**-**	**-**	**-**	**200**
Ordinary dividend	**-**	**-**	**(563)**	**-**	**-**	**-**	**-**	**(563)**
Perpetual preference dividend	**-**	**-**	**(57)**	**-**	**-**	**-**	**-**	**(57)**
Balance at end of year	**1,451**	**910**	**1,566**	**2**	**(3)**	**16**	**60**	**4,002**
				Consolidated (30/9/09)				
Balance at beginning of year	1,451	450	2,025	2	6	26	(27)	3,933
Comprehensive (expense)/ income								
Net loss attributable to shareholders of Bank of New Zealand	-	-	(181)	-	-	-	-	(181)
Total other comprehensive (expense)/income	-	-	(5)	-	(3)	(16)	9	(15)
Total comprehensive (expense)/ income	-	-	(186)	-	(3)	(16)	9	(196)
Proceeds from shares issued	-	260	-	-	-	-	-	260
Ordinary dividend	-	-	(217)	-	-	-	-	(217)
Perpetual preference dividend	-	-	(35)	-	-	-	-	(35)
Balance at end of year	1,451	710	1,587	2	3	10	(18)	3,745

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

Statement of Changes in Equity
continued

Dollars in Millions	Ordinary Capital	Perpetual Preference Capital	Retained Profits	Foreign Currency Translation Reserve	Available For Sale Investments Revaluation Reserve	Cash Flow Hedge Reserve	Total Share-holders' Equity
	The Company (30/9/10)						
Balance at beginning of year	**1,451**	**710**	**1,547**	**1**	**10**	**(18)**	**3,701**
Comprehensive income/(expense)							
Net profit attributable to shareholders of Bank of New Zealand	**-**	**-**	**489**	**-**	**-**	**-**	**489**
Total other comprehensive (expense)/income	**-**	**-**	**(3)**	**(7)**	**6**	**78**	**74**
Total comprehensive income/(expense)	**-**	**-**	**486**	**(7)**	**6**	**78**	**563**
Proceeds from shares issued	**-**	**200**	**-**	**-**	**-**	**-**	**200**
Ordinary dividend	**-**	**-**	**(563)**	**-**	**-**	**-**	**(563)**
Perpetual preference dividend	**-**	**-**	**(57)**	**-**	**-**	**-**	**(57)**
Balance at end of year	**1,451**	**910**	**1,413**	**(6)**	**16**	**60**	**3,844**
	The Company (30/9/09)						
Balance at beginning of year	1,451	450	1,919	5	26	(27)	3,824
Comprehensive (expense)/income							
Net loss attributable to shareholders of Bank of New Zealand	-	-	(115)	-	-	-	(115)
Total other comprehensive (expense)/income	-	-	(5)	(4)	(16)	9	(16)
Total comprehensive (expense)/income	-	-	(120)	(4)	(16)	9	(131)
Proceeds from shares issued	-	260	-	-	-	-	260
Ordinary dividend	-	-	(217)	-	-	-	(217)
Perpetual preference dividend	-	-	(35)	-	-	-	(35)
Balance at end of year	1,451	710	1,547	1	10	(18)	3,701

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

Balance Sheet

As at 30 September 2010

Dollars in Millions	Note	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Assets					
Cash and balances with central banks	8	**2,040**	1,553	**2,040**	1,553
Due from other financial institutions	9	**1,249**	869	**1,249**	869
Trading securities	10	**3,231**	3,662	**3,231**	3,662
Other money market placements	11	**433**	537	**433**	537
Available for sale investments	12	**273**	338	**273**	338
Loans and advances to customers	13	**54,986**	55,142	**54,978**	55,142
Derivative financial instruments	16	**5,650**	5,918	**5,650**	5,918
Amounts due from related entities	35	**539**	93	**5,144**	6,587
Investments in controlled entities	17	**-**	-	**3,055**	3,043
Current tax		**194**	18	**225**	66
Deferred tax	18	**225**	254	**216**	225
Other assets	19	**549**	1,234	**466**	1,225
Property, plant and equipment	20	**161**	142	**47**	40
Goodwill and other intangible assets	21	**117**	102	**117**	102
Total assets		**69,647**	69,862	**77,124**	79,307
Financed by:					
Liabilities					
Due to central banks and other financial institutions	23	**1,575**	3,892	**1,575**	3,892
Other money market deposits	24	**11,883**	10,767	**4,605**	4,654
Trading liabilities	25	**31**	9	**31**	9
Deposits from customers	26	**28,663**	27,233	**28,571**	27,108
Derivative financial instruments	16	**6,421**	7,643	**6,421**	7,643
Bonds and notes	27	**9,772**	7,578	**3,524**	3,234
Amounts due to related entities	35	**5,137**	6,244	**26,480**	26,508
Current tax – provision for New Zealand structured finance transactions		**-**	661	**-**	477
Other liabilities	28	**885**	810	**795**	801
Subordinated debt	29, 35	**1,278**	1,280	**1,278**	1,280
Total liabilities		**65,645**	66,117	**73,280**	75,606
Net assets		**4,002**	3,745	**3,844**	3,701
Shareholders' equity					
Contributed equity – ordinary shareholder	30	**1,451**	1,451	**1,451**	1,451
Reserves	31	**75**	(3)	**70**	(7)
Retained profits	32	**1,566**	1,587	**1,413**	1,547
Ordinary shareholder's equity		**3,092**	3,035	**2,934**	2,991
Contributed equity – perpetual preference shareholders	30	**910**	710	**910**	710
Total shareholders' equity		**4,002**	3,745	**3,844**	3,701

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

Cash Flow Statement

For the year ended 30 September 2010

Dollars in Millions	Note	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Cash flows from operating activities					
Cash was provided from:					
Dividend income		**3**	3	**23**	2
Interest income		**3,454**	4,149	**3,682**	4,406
Net trading income		**26**	121	**26**	121
Other income		**376**	387	**376**	384
Cash was applied to:					
Interest expense		**(2,240)**	(2,656)	**(2,531)**	(3,003)
Operating expenses		**(764)**	(731)	**(808)**	(776)
Net cash flows from operating activities before changes in operating assets and liabilities and income tax		**855**	1,273	**768**	1,134
Changes in operating assets and liabilities arising from cash flow movements					
Net movement in balances with central banks (term)*		**(170)**	-	**(170)**	-
Net movement in due from other financial institutions (term)*		**172**	76	**172**	76
Net movement in loans and advances to customers*		**(179)**	(3,267)	**(171)**	(3,267)
Net movement in other assets including voluntary tax payment against New Zealand structured finance transactions		**30**	(649)	**98**	(645)
Net movement in other money market placements*		**104**	314	**104**	314
Net movement in trading securities and trading liabilities*		**475**	(874)	**475**	(874)
Net movement in deposits from customers*		**1,430**	1,313	**1,463**	1,188
Net movement in due to central banks and other financial institutions (term)*		**(2,301)**	2,962	**(2,301)**	2,962
Net movement in other liabilities		**185**	(164)	**105**	(160)
Net change in operating assets and liabilities		**(254)**	(289)	**(225)**	(406)
Net cash flows from operating activities before income tax		**601**	984	**543**	728
Cash was applied to:					
Taxes and subvention payments		**(150)**	(308)	**(135)**	(254)
Net cash flows from operating activities		**451**	676	**408**	474
Cash flows from investing activities					
Cash was provided from:					
Proceeds from sale of available for sale investments		**47**	15	**47**	15
Proceeds on maturity of available for sale investments		**50**	160	**50**	160
Cash was applied to:					
Acquisition of intangible assets		**(42)**	(40)	**(42)**	(40)
Increase in investments in controlled entities	17	**-**	-	**(12)**	-
Purchase of available for sale investments		**(32)**	(475)	**(32)**	(475)
Purchase of property, plant and equipment		**(62)**	(75)	**(25)**	(23)
Net cash flows from investing activities		**(39)**	(415)	**(14)**	(363)
Cash flows from financing activities					
Net movement in bonds and notes*		**1,975**	(72)	**204**	708
Net movement in derivative financial instruments*		**(631)**	2,037	**(631)**	2,037
Net movement in other money market deposits*		**1,102**	(3,737)	**(61)**	(1,702)
Net movement in related entity funding*		**(1,553)**	1,883	**1,399**	(781)
Increase in contributed equity – perpetual preference shares	30	**200**	260	**200**	260
Ordinary dividend	32	**(563)**	(217)	**(563)**	(217)
Perpetual preference dividend	32	**(57)**	(35)	**(57)**	(35)
Net cash flows from financing activities		**473**	119	**491**	270
Net increase in cash and cash equivalents		**885**	380	**885**	381
Cash and cash equivalents at beginning of year		**1,218**	838	**1,218**	837
Cash and cash equivalents at end of year		**2,103**	1,218	**2,103**	1,218
Cash and cash equivalents at end of year comprised:					
Cash and balances with central banks (call)	8	**1,870**	1,553	**1,870**	1,553
Due from other financial institutions (call)	9	**677**	125	**677**	125
Due to central banks and other financial institutions (call)	23	**(444)**	(460)	**(444)**	(460)
Total cash and cash equivalents		**2,103**	1,218	**2,103**	1,218

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

Cash Flow Statement *continued*

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Reconciliation of net profit/(loss) attributable to shareholders of Bank of New Zealand to net cash flows from operating activities				
Net profit/(loss) attributable to shareholders of Bank of New Zealand	**602**	(181)	**489**	(115)
Add back non-cash items in net profit/(loss):				
Decrease in accrued interest receivable	**7**	75	**8**	75
Depreciation and amortisation expense	**45**	39	**33**	29
Impairment losses on credit exposures	**187**	190	**187**	190
Increase in accrued interest payable	**-**	67	**-**	112
Increase in other operating provisions	**-**	1	**-**	1
Increase in provision for tax	**-**	558	**-**	416
Loss on disposal of property, plant and equipment	**16**	6	**3**	-
Loss on disposal of intangible assets	**9**	-	**9**	-
Unrealised gains less losses on financial instruments	**44**	217	**44**	217
Deduct non-cash items in net profit/(loss):				
Decrease in accrued interest payable	**(74)**	-	**(75)**	-
Decrease in accrued subvention payments	**-**	-	**(36)**	(38)
Decrease in other operating provisions	**(16)**	-	**(16)**	-
Decrease in provision for tax	**(115)**	-	**(13)**	-
Gain on sale of available for sale investments	**-**	(7)	**-**	(7)
Deduct operating cash flows not included in net profit/(loss):				
Net change in operating assets and liabilities	**(254)**	(289)	**(225)**	(406)
Net cash flows from operating activities	**451**	676	**408**	474

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.

Cash and cash equivalents consist of cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments.

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

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

Note 1 Principal Accounting Policies

In these financial statements Bank of New Zealand is referred to as the “Bank” or the “Company”. The “Banking Group” means Bank of New Zealand, all of its controlled entities listed in note 17 and entities consolidated for financial reporting purposes.

The financial statements are general purpose financial reports prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008, as amended by the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 (Government Guarantee) Amendment Order 2008.

Basis of preparation

The preparation of the financial statements requires the use of certain estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities.

Assumptions made as at each reporting date are based on estimates at that date. Although the Banking Group has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. It is not anticipated that such differences would be material.

Statement of compliance

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

The following new standards and amendments to standards relevant to the Banking Group are not yet effective and have not yet been applied in preparing these financial statements.

- NZ IFRS 9 Financial Instruments was issued in November 2009 and is applicable for accounting periods beginning on or after 1 January 2013. It is intended to replace New Zealand International Accounting Standard (“NZ IAS”) 39 Financial Instruments: Recognition and Measurement with NZ IFRS 9. NZ IFRS 9 will be implemented in three phases which are undergoing development. The Banking Group is in the process of evaluating the potential impact of this standard.
- Improvements to NZ IFRSs (July 2010) – NZ IFRS 7 Financial Instruments: Disclosures was issued in July 2010 and is applicable for accounting periods beginning on or after 1 January 2011. The amendments address qualitative and quantitative disclosures about an entity’s exposure to risks arising from financial instruments and have removed certain disclosure requirements. The Banking Group is in the process of evaluating the potential impact of this standard.

The Banking Group has also considered all other standards issued but not yet effective and determined that they have no impact on the financial statements.

The following new standards and amendments to standards relevant to the Banking Group have been adopted from 1 October 2009 and have been applied in the preparation of these financial statements. Adoption of these standards has not resulted in any impact on the Banking Group’s reported result or financial position.

- NZ IAS 1 Presentation of Financial Statements (revised) was issued in November 2007 and is applicable for accounting periods beginning on or after 1 January 2009. The adoption of the revised NZ IAS 1 has resulted in the presentation of a statement of comprehensive income and a statement of changes in equity. These statements have replaced the statement of recognised income and expense.
- NZ IFRS 7 Financial Instruments: Disclosures (amended 2009) was issued in March 2009 and is applicable for accounting periods beginning on or after 1 January 2009. The amendments have resulted in additional fair value measurement disclosures, and disclosures about the nature and extent of liquidity risk arising from financial instruments.
- NZ IFRS 8 Operating Segments was issued in December 2006 and is applicable for accounting periods beginning on or after 1 January 2009. NZ IFRS 8 has resulted in changes to the disclosure of financial and descriptive information in relation to the Banking Group’s reportable segments.
- NZ IFRS 3 Business Combinations (revised) was issued in February 2008 and is applicable for accounting periods beginning on or after 1 July 2009. The revised NZ IFRS 3 has resulted in certain changes to measurement and disclosures in the event of a business combination.
- NZ IAS 27 Consolidated and Separate Financial Statements (amended) was issued in February 2008 and is applicable for accounting periods beginning on or after 1 July 2009. The amended NZ IAS 27 has resulted in changes to some aspects of accounting for non-controlling interests and clarifies the accounting for changes in a parent’s ownership interest in a subsidiary.

Historical cost

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

Currency of presentation

All amounts are expressed in New Zealand dollars unless otherwise stated.

Rounding of amounts

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

Changes in accounting policies

There has been no material changes in accounting policies, except for the adoption of new standards and amendments to standards explained above, during the financial year.

Reclassification of financial information

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

Note 1 Principal Accounting Policies *continued*

Principles of consolidation

Controlled entities are all entities (including special purpose vehicles) over which the Bank has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity.

Controlled entities are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

In assessing whether the Banking Group controls and should consolidate a special purpose vehicle, management uses their judgment considering the requirements of NZ IAS 27 and New Zealand equivalents to Standing Interpretations Committee 12 Consolidation – Special Purpose Entities having particular regard to whether the Banking Group is able to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The acquisition method of accounting is used to account for the acquisition of controlled entities by the Bank. Consideration is measured at fair value and is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. Acquisition related costs are expensed in the period in which the costs are incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company records investments in controlled entities at cost.

When a non-controlling interest is present in an acquiree, this is measured at the fair value or at the proportionate share of the acquiree's identifiable net assets. This choice is applied on a transaction by transaction basis.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration is recognised either in the income statement or in equity depending on the nature of the payment.

The excess of the aggregate of the fair value of the purchase consideration and the amount of any non-controlling interest in the entity over the fair value of the Banking Group's share of the identifiable net assets at the date of the acquisition is recorded as goodwill. If the Banking Group's interest in the fair value of the identifiable net assets of the controlled entity acquired is greater than the aggregate of the fair value of the purchase consideration and amount of any non-controlling interest, the discount on acquisition is recognised directly in the income statement on the acquisition date and no goodwill is recognised.

Inter-company balances and transactions, including income, expenses and dividends, are eliminated in full.

The financial results of the Bank's controlled entities have been prepared in accordance with the Bank's accounting policies.

Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of each of the Banking Group's foreign operations are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The General Disclosure Statement is presented in New Zealand dollars, which is the Bank's functional and presentation currency.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when recognised in other comprehensive income as qualifying cash flow hedges. Translation differences on non-monetary items held at fair value through profit or loss, such as equity securities, are reported as part of the fair value gain or loss. Translation differences on non-monetary items classified as available for sale financial assets are included in other comprehensive income.

iii) Foreign operations

The results and financial position of all of the Banking Group's operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate as at the reporting date;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income, in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and from borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Fair value measurement

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

Note 1 Principal Accounting Policies *continued*

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

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

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

Assets

Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments.

Financial assets

Financial assets comprise items such as balances with central banks, Due from other financial institutions, Trading securities, Other money market placements, Investments – available for sale, Loans and advances to customers, Derivative financial instruments and Amounts due from related entities.

Classification of financial assets

Under NZ IAS 39 Financial Instruments: Recognition and Measurement, financial assets are required to be classified as:

- at fair value through profit or loss;
- available for sale;
- held to maturity; or
- loans and receivables.

Items classified at fair value through profit or loss

In accordance with NZ IAS 39, certain financial instruments have been classified at fair value through profit or loss. Items classified at fair value through profit or loss include financial assets held for trading, financial assets designated at fair value through profit or loss and derivative financial instruments.

Purchases and sales of financial assets classified at fair value through profit or loss are recognised on trade date, being the date that the Banking Group is committed to purchase or sell an asset.

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

i) Financial assets held for trading

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative (not in a qualifying hedge relationship). The Banking Group has classified certain public and other debt securities as held for trading.

ii) Financial assets designated at fair value through profit or loss

Upon initial recognition, financial assets may be designated at fair value through profit or loss. This classification can only be used in the following circumstances:

- where designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities (not only financial assets and liabilities) or recognising the gains or losses on them on different bases. Under this criterion the Banking Group has designated certain amounts within Cash and balances with central banks, Due from other financial institutions, Other money market placements and Loans and advances to customers. Where derivative financial instruments have been transacted to hedge these amounts, an accounting inconsistency would arise if such amounts were accounted for on an amortised cost basis, as the derivatives are measured at fair value with movements in fair value recognised in the income statement. By designating these amounts at fair value through profit or loss, any fair value movements on the instrument will offset the fair value movements on hedging derivatives in the income statement; or
- those that are part of a group of financial assets, financial liabilities or both, that are managed and their performance is evaluated by management on a fair value basis in accordance with the documented risk management or investment strategy; or
- those that contain one or more embedded derivatives, except if the embedded derivative does not modify significantly the associated cash flows or it is clear with little or no analysis that separation is prohibited.

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

Note 1 Principal Accounting Policies *continued*

Investments – available for sale

Available for sale investments comprise non-derivative financial assets that are designated as available for sale or are not categorised into any of the categories of: (i) fair value through profit or loss; (ii) held to maturity; or (iii) loans and receivables.

Available for sale investments are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income until sale when the cumulative gain or loss is transferred to the income statement.

Interest income is determined using the effective interest method. Dividends earned whilst holding available for sale investments are recognised in the income statement as Other operating income. Impairment losses, and translation differences on monetary items, are recognised in the income statement. Available for sale investments are derecognised when the rights to receive cash flows have expired or the Banking Group has transferred substantially all the risks and rewards of ownership.

Loans and receivables

Loans and receivables represent the fourth classification of financial assets under NZ IAS 39. Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market and which are not classified as available for sale or at fair value through profit or loss. They arise when the Banking Group provides money or services directly to a customer and has no intention of trading the loan.

Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently recorded at amortised cost, using the effective interest method, adjusted for impairment losses, deferred income and unearned future income on lease finance. Under the effective interest method, fee income and costs directly related to the origination of the loan are deferred over the expected life of the assets or, where appropriate, a shorter period. When calculating effective interest rate the Banking Group estimates cash flows considering all contractual terms of the financial instrument, but excluding future credit losses. Unearned future income on lease finance represents interest not yet earned on the Banking Group's lease finance assets and is calculated on an actuarial basis. Loans and receivables are derecognised when the rights to receive cash flows have expired or the Banking Group has transferred substantially all of the risks and rewards of ownership.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase are classified in the investment or trading portfolios and accounted for accordingly. The Bank's obligation to repurchase is classified under Due to central banks and other financial institutions or Other money market deposits. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the term of the repurchase agreement.

Securities purchased under agreements to resell are recorded as Due from other financial institutions or Other money market placements. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Where the Banking Group has accepted collateral arising from secured placements and reverse repurchase agreements, the Banking Group is obliged to return equivalent securities. Securities repledged by the Banking Group are strictly for the purposes of providing collateral for the counterparty. These transactions are conducted under terms that are usual for customary standard lending, and securities borrowing and lending activities.

Securities lent to counterparties are also disclosed in the financial statements.

Impairment of financial assets

The Banking Group assesses at each reporting date whether there is evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets held at amortised cost is impaired and impairment losses are incurred if, and only if:

- there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the reporting date (a "loss event"); and
- that loss event has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

Financial assets at fair value through profit or loss are not assessed for impairment as their fair value reflects the credit quality of the instrument and changes in fair value are recognised in the income statement.

The Banking Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Banking Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

For Loans and advances to customers the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at either the asset's original effective interest rate or, where the original effective interest rate is not available, at the asset's contractual interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the loss is recognised using an allowance account and the amount of the loss is included in the income statement.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Note 1 Principal Accounting Policies *continued*

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not currently exist.

In addition, the Banking Group uses its experienced judgment to estimate the amount of an impairment loss. This incorporates amounts calculated to overcome model limitations and systemic risks where appropriate and supported by historical loss experience data. The use of such judgments and reasonable estimates is considered by management to be an essential part of the process and does not impact reliability.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognised using the original effective rate of interest, which was also used to discount the future cash flows for the purpose of measuring the impairment loss.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised through the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised in other comprehensive income is removed from other comprehensive income and recognised in the income statement. In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as all other financial assets. Reversals of impairment of debt securities classified as available for sale are recognised in the income statement. Reversals of impairment of equity shares classified as available for sale are not recognised in the income statement. Increases in the fair value of equity shares classified as available for sale after impairment are recognised directly in other comprehensive income.

Asset quality

The Banking Group has disclosed, in note 15, certain components of its loan portfolio as impaired assets according to the classifications discussed below:

- **Other impaired assets** means any credit exposure for which an impairment loss is required in accordance with NZ IAS 39 paragraphs 58 to 62, but is not a restructured asset.
- **Restructured assets** are those loans on which the original contractual terms have been formally modified due to the financial difficulties of borrowers, and on which interest continues to be accrued at a rate which is equal to or greater than the Banking Group's average cost of funds at the date of restructuring.
- **Assets acquired through security enforcement** are those assets (primarily real estate) acquired through actual foreclosure or in full or partial satisfaction of loans.

The following categories are also disclosed in note 15, but are not considered to be impaired assets:

- **Other assets under administration** are those loans which are not impaired or past due, where the customer is in receivership, liquidation, statutory management or any other form of administration in New Zealand, or is in an equivalent form of voluntary or involuntary administration overseas.
- **Past due assets** are those loans which are not impaired and for which payments of principal or interest are contractually past due and adequate security is held.

Derivative financial instruments and hedge accounting

All derivatives are recognised in the balance sheet at fair value on trade date and are classified as trading except where they are used as part of an effective hedge relationship. The carrying value of a derivative is remeasured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative.

The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is used as a hedging instrument and, if so, the nature of the item being hedged. The Banking Group designates certain derivatives as either hedges of movements in the fair value of recognised assets and liabilities or firm commitments (fair value hedge) or hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

The Banking Group documents, at inception of the transaction, the relationship between hedging instruments and hedged items, as well as the Banking Group's risk management objective and strategy for undertaking these hedge transactions. In addition, the documents outline how effectiveness will be measured throughout the life of the hedge relationship and its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

Any derivative that is de-designated as a hedging derivative will be accounted for as trading from the time that it is de-designated, with all subsequent movements in fair value recognised in the income statement.

i) Fair value hedge accounting

Subsequent to initial designation, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Note 1 Principal Accounting Policies *continued*

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss on an effective yield basis over the remaining period to maturity of the hedged item.

ii) Cash flow hedge accounting

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income, while the gain or loss relating to any ineffective portion is recognised immediately in the income statement. The carrying value of the hedged item is not adjusted.

Amounts accumulated in reserves are transferred to the income statement in the period in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in reserves at that time remains in reserves and is recognised in the income statement when the forecast transaction ultimately affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in reserves is immediately transferred to the income statement.

Embedded derivatives

Certain derivatives embedded in financial instruments, such as the prepayment option embedded in a debt instrument, are only treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are bifurcated and measured at fair value with changes in fair value recognised in the income statement.

Goodwill and other intangible assets

Goodwill

Goodwill arises on the acquisition of controlled entities, associated entities and joint ventures, and represents the excess of the aggregate fair value of the purchase consideration and the amount of any non-controlling interest in the entity over the fair value of the Banking Group's share of the identifiable net assets acquired on the date of the acquisition.

For the purpose of calculating goodwill, fair values of acquired assets and liabilities are determined by reference to market values or by discounting expected future cash flows to present value. This discounting is either performed using market rates or by using risk-free rates and risk-adjusted expected future cash flows.

Goodwill is capitalised and reviewed annually for impairment at each reporting date, or more frequently when there are indications that impairment may have occurred. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of these cash-generating units is represented by an individual operating segment. Impairment is assessed by comparing the carrying amount of the cash-generating unit or group of units, including the goodwill, with its recoverable amount. An impairment loss is recognised in the income statement if the carrying amount of the cash-generating unit or group of units is greater than its recoverable amount. Impairment losses for goodwill are not subsequently reversed.

Gains or losses on the disposal of an entity include the carrying amount of the goodwill relating to the entity sold.

Computer software

Computer software is stated at cost, less amortisation and provision for impairment, if any.

The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Banking Group, and where it is probable that future economic benefits will flow from its use over more than one year. Costs associated with maintaining software are recognised in the income statement as an expense as incurred.

Capitalised computer software costs are amortised on a straight-line basis over their expected useful lives of between three and five years. Amortisation expense is recognised in the income statement.

Computer software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement when an asset's carrying amount is written down immediately to its recoverable amount.

Property, plant and equipment

All land and buildings are independently revalued at least once every three years to reflect fair values. Such valuations are carried out by independent registered valuers.

Revaluation increments are credited directly to an asset revaluation reserve. However, the increase is recognised in the income statement to the extent that it reverses a revaluation decrement previously recognised as an expense. Revaluation decrements are charged against the asset revaluation reserve to the extent that they reverse previous revaluation increments for a specific asset and any excess is recognised as an expense in the income statement. This policy is applied to assets individually. Revaluation increases and decreases are not offset, even within a class of assets, unless they relate to the same asset.

All other items of property, plant and equipment are carried at cost, less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount. The recoverable amount is the higher of (i) the asset's fair value less costs to sell; and (ii) the asset's value in use.

Where a group of assets working together supports the generation of cash inflows largely independent of cash inflows from other assets or groups of assets, the recoverable amount is assessed in relation to that group of assets (cash-generating unit).

Note 1 Principal Accounting Policies *continued*

In assessing recoverable amounts, the relevant cash flows from an asset or cash-generating unit's value in use have been discounted to their present value at a pre-tax discount rate that reflects the time value of money and the risks specific to the asset or cash-generating unit.

With the exception of land, all property, plant and equipment is depreciated using the straight-line method, at the rates appropriate to its estimated useful life to the Banking Group. The following depreciation rates have been applied.

Straight-line rates	
Buildings	3.33%
Leasehold improvements	Rate based on estimated useful life to a maximum of 15 years
Furniture, fittings and other equipment	6.67 to 20%
Data processing equipment	20 to 33.33%

Profit or loss on the sale of property, plant and equipment, which is determined as the difference between the net sale proceeds and the carrying amount of property, plant and equipment at the time of disposal, is included in the income statement.

Leasing

i) As lessee

The leases entered into by the Banking Group as lessee are primarily operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the term of the lease.

ii) As lessor

Assets leased to customers are classified as finance leases if the lease arrangement transfers substantially all the risks and rewards of ownership to the lessee. When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is treated as unearned future income on lease finance.

Finance lease income is recognised over the term of the lease using the net investment method (before tax) reflecting a constant periodic rate of return.

Operating lease assets are included within Property, plant and equipment at cost and depreciated over the expected useful life of the asset after taking into account anticipated residual value. Operating lease rental income is recognised within Other operating income in the income statement on a straight-line basis over the life of the lease. Depreciation is recognised within Operating expenses.

Liabilities

Financial liabilities

Financial liabilities comprise items such as Due to central banks and other financial institutions, Other money market deposits, Trading liabilities, Deposits from customers, Derivative financial instruments, Bonds and notes, Amounts due to related entities and Subordinated debt.

Financial liabilities may be held at fair value through profit or loss or at amortised cost. Items held at fair value through profit or loss comprise both items held for trading and items specifically designated at fair value through profit or loss on initial recognition. A financial liability is classified as held for trading if it is incurred principally for the purpose of selling in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative (not in a qualifying hedge relationship). The Banking Group has classified short sales of securities as Trading liabilities.

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

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

- where designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities (not only financial assets and liabilities) or recognising the gains and losses on them on different bases. Under this criterion, the Banking Group has designated certain amounts within Due to central banks and other financial institutions, Other money market deposits, Bonds and notes and Subordinated debt. Where derivative financial instruments have been transacted to hedge these amounts, an accounting inconsistency would arise if such amounts were accounted for on an amortised cost basis, as the derivatives are measured at fair value with movements in fair value taken through the income statement. By designating these amounts at fair value through profit or loss, any fair value movements on the instrument will offset the fair value movements on hedging derivatives in the income statement; or
- those that are part of a group of financial assets, financial liabilities or both, that are managed and their performance is evaluated by management on a fair value basis in accordance with the documented risk management or investment strategy; or
- those that contain one or more embedded derivatives, except if the embedded derivative does not modify significantly the associated cash flows or it is clear with little or no analysis that separation is prohibited.

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

All other financial liabilities, including Deposits from customers, Amounts due to related entities and certain amounts within Due to central banks and financial institutions, Other money market deposits, Subordinated debt and Other liabilities are measured at amortised cost using the effective interest method.

Note 1 Principal Accounting Policies *continued*

Financial guarantees

The Banking Group provides guarantees in its normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Banking Group to guarantee the performance of a customer to a third party. Guarantees are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. It is the credit rating of the Banking Group as a guarantee provider that enhances the marketability of the paper issued by the counterparty in these circumstances.

The financial guarantee contract is initially recorded at fair value which is equal to the premium received, unless there is evidence to the contrary. Subsequently, the Banking Group records and measures the financial guarantee contract at the higher of:

- the amount initially recognised less, when appropriate, amortisation of the fee which is recognised over the life of the guarantee; and
- where it is likely the Banking Group will incur a loss as a result of issuing the contract, a liability is recognised for the estimated amount of the loss payable.

Provisions

Provisions are recognised when a legal or constructive obligation exists as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, the amount of a provision is discounted to the present value of the expenditure expected to be required to settle the obligation.

Employee entitlements

Employee entitlements to long service leave are measured as the present value of expected future payments using an actuarial valuation method based on legal and contractual entitlements and assessments having regard to staff departures, leave utilisation and future salary levels. Expected future payments are discounted using relevant market yields at the reporting date.

Wages and salaries, annual leave and other employee entitlements expected to be paid or settled within 12 months of providing the service are measured at their nominal amounts using remuneration rates that the Banking Group expects to pay when the liabilities are settled.

All other employee entitlements that are not expected to be paid or settled within 12 months of the reporting date are measured at the present value of net future cash flows.

Non-lending losses

Provisions for non-lending losses are raised for losses to be incurred by the Banking Group, which do not relate directly to amounts of principal outstanding for loans.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

Where material, certain provisions on non-lending losses are discounted to the present value of their expected future cash flows.

Restructuring costs

Provisions for restructuring costs include provisions for expenses incurred but not yet paid and future expenses that will arise as a direct consequence of decisions already made. A provision for restructuring costs is only made where the Banking Group has made a commitment and entered into an obligation such that there is no realistic alternative but to carry out the restructuring and make future payments to settle the obligation.

Restructuring cost provisions are only recognised when a detailed plan has been approved and the restructuring has either commenced or has been publicly announced. This includes the cost of staff termination benefits and surplus leased space. Costs related to on-going activities are not provided for in these financial statements.

Surplus leased space

Surplus leased space is an onerous contract and a provision is recognised when the expected benefits to be derived from the contract are less than the costs that are unavoidable under the contract. This arises where premises are currently leased under non-cancellable operating leases and either the premises are not occupied, are being subleased for lower rentals than the Banking Group pays, or there are no substantive benefits beyond a known future date. The provision is determined on the basis of the present value of net future cash flows.

Subordinated debt

Subordinated debt issued by the Banking Group to the market is recorded at fair value through profit or loss and Subordinated loans from related entities are recorded at amortised cost.

Income tax

Income tax expense is the income tax charge or benefit incurred on the current reporting period’s profit or loss and is the aggregate of the movements in deferred tax taken through the income statement and the amount of income tax payable or recoverable in respect of taxable profit or loss for the period at the applicable tax rate.

Use of money interest charged by the Inland Revenue Department in relation to certain structured finance transactions (refer to note 7 for further information), has been charged to Total income tax expense within the income statement, in accordance with NZ IAS 12 Income Taxes.

Note 1 Principal Accounting Policies *continued*

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

- for a deferred income tax liability arising from the initial recognition of goodwill; and
- where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Revenue and expense recognition

Net interest income

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

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

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

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

Dividend income

Dividend income is recorded in the income statement on an accruals basis when the Banking Group obtains control of the right to receive the dividend.

Fees and commissions

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

Funds management and other fiduciary activities

Fees and commissions earned through the marketing of funds management products and other fiduciary activities are included in the income statement as they are earned.

Gains less losses on financial instruments at fair value

Gains less losses on financial instruments at fair value comprises fair value gains and losses from three distinct activities:

- trading financial instruments;
- instruments designated in hedge accounting relationships; and
- other financial instruments designated at fair value through profit or loss.

Trading financial instruments include trading derivatives and trading securities. In general, gains less losses on trading derivatives recognises the full change in fair value of the derivatives inclusive of interest income and expense. However, in cases where the trading derivative is economically offsetting movements in the fair value of an asset or liability designated as being carried at fair value through profit or loss, the interest income and expense attributable to the derivative is recorded within net interest income and not part of the fair value movement of the trading derivative.

Note 1 Principal Accounting Policies *continued*

Interest income and expense on trading securities are reported within interest income.

Gains less losses on hedging assets, liabilities and derivatives designated in hedge accounting relationships recognise fair value movements on both the hedged item and hedging derivative in a fair value hedge accounting relationship, and hedge ineffectiveness for both fair value and cash flow hedge accounting relationships. Interest income and expense on both hedging instruments and instruments designated at fair value through profit or loss at initial recognition are recognised in net interest income.

Gains less losses on financial assets and liabilities designated at fair value through profit or loss at inception recognises fair value movements excluding interest which is reported within net interest income.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of value added tax such as goods and services tax, except where the tax incurred is not recoverable from the Inland Revenue Department. In these circumstances, the tax is recognised as part of the expense or the acquisition of the asset.

Receivables and payables are stated at an amount with tax included. The net amount of tax recoverable from, or payable to, the Inland Revenue Department is included within Other assets or Other liabilities.

Cash flows are included in the statement of cash flows on a gross basis. The tax component of cash flows for all activities is classified within operating activities.

Pensions

The Banking Group sponsors a pension scheme, which has both a defined benefit and defined contribution component.

The defined benefit plan provides defined lump sum benefits based on years of service and final average salary. The asset in respect of the defined benefit superannuation plan is recognised in the balance sheet and is measured as the fair value of the superannuation fund's assets at that date less the present value of the defined benefit obligation as at the reporting date and any unrecognised past service cost.

The Banking Group's obligation for contributions to the defined contribution plan is recognised as an expense in the income statement as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payment is available.

The present value of the defined benefit obligations for the plan is calculated using the projected unit credit method and discounted by the government bond rate.

Past service costs are recognised immediately in the income statement, unless the changes to the superannuation fund are conditional on the employees remaining in service for a specified period of time (vesting period). In this case, the past service cost is amortised on a straight-line basis over the vesting period.

Pension expense attributable to the Banking Group's defined benefit plan comprises current service cost, interest cost, expected return on plan assets and amortisation of any past service cost which has yet to vest. The Banking Group's policy where actuarial gains and losses arise as a result of actual experience is to fully recognise such amounts in other comprehensive income.

Share based payments

The Banking Group engages in equity settled share based payment transactions, via its ultimate parent, National Australia Bank Limited, in respect of services received from its employees. The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in respect of the shares or share options granted is recognised in the income statement over the period in which the services are received, which is the vesting period.

The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the National Australia Bank Limited share price over the life of the option and other relevant factors. In the absence of market prices, the fair value of the instruments at the date of grant is estimated using an appropriate valuation technique, such as a Black-Scholes option pricing model.

Except for those which include terms related to market conditions, vesting conditions included in the terms of the grant are not taken into account in estimating fair value.

Non-market vesting conditions are taken into account by adjusting the number of shares or share options included in the measurement of the cost of employee services so that, ultimately, the amount recognised in the income statement reflects the number of vested shares or share options. Where vesting conditions are related to market conditions, the charges for the services received are recognised regardless of whether or not the market related vesting condition is met, provided that the non-market vesting conditions are met.

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Note 2 Interest				
Interest income				
Central banks	**44**	64	**44**	64
Other financial institutions	**22**	26	**22**	26
Trading securities	**102**	235	**102**	235
Other money market placements	**17**	35	**17**	35
Available for sale investments	**11**	6	**11**	6
Loans and advances to customers	**3,237**	3,701	**3,252**	3,701
Other individually impaired assets	**6**	4	**6**	4
Related entities	**8**	3	**220**	260
Total interest income	**3,447**	4,074	**3,674**	4,331
Total interest income was derived from financial assets:				
Not at fair value through profit or loss	**2,252**	2,529	**2,479**	2,786
At fair value through profit or loss	**1,195**	1,545	**1,195**	1,545
	3,447	4,074	**3,674**	4,331
Interest expense				
Central banks and other financial institutions	**53**	117	**53**	117
Other money market deposits	**191**	483	**166**	353
Deposits from customers	**989**	1,146	**985**	1,141
Bonds and notes	**308**	270	**207**	136
Related entities	**210**	270	**630**	931
Subordinated loans from related entities	**31**	48	**31**	48
Other subordinated debt	**29**	29	**29**	29
Other	**355**	360	**355**	360
Total interest expense	**2,166**	2,723	**2,456**	3,115
Total interest expense was incurred on financial liabilities:				
Not at fair value through profit or loss	**1,607**	1,838	**1,897**	2,230
At fair value through profit or loss	**559**	885	**559**	885
	2,166	2,723	**2,456**	3,115

Interest income accrued on impaired financial assets for the year ended 30 September 2010 is nil as a result of rounding to the nearest million (30 September 2009: nil).

Note 3 Gains Less Losses on Financial Instruments at Fair Value

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Hedge accounting				
Net gain/(loss) arising from hedging instruments in fair value hedge accounting relationships	**10**	(107)	**10**	(107)
Net (loss)/gain arising from the hedged items attributable to the hedged risk in fair value hedge accounting relationships	**(47)**	39	**(47)**	39
Ineffectiveness arising from cash flow hedge accounting relationships	**(1)**	(8)	**(1)**	(8)
	(38)	(76)	**(38)**	(76)
Trading				
Foreign exchange trading derivatives	**53**	96	**53**	96
Interest rate related trading derivatives	**10**	64	**10**	64
Net gain/(loss) in the fair value of financial assets and liabilities held for trading	**34**	(6)	**34**	(6)
	97	154	**97**	154
Other				
Net loss in the fair value of financial assets designated at fair value through profit or loss (refer to table below)	**(81)**	(38)	**(81)**	(38)
Net gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss (refer to table below)	**8**	(141)	**8**	(141)
Bid/offer adjustment	**(2)**	-	**(2)**	-
Net (loss)/gain attributable to other derivatives used for hedging purposes that do not qualify as designated and effective hedging instruments	**(2)**	5	**(2)**	5
	(77)	(174)	**(77)**	(174)
Total gains less losses on financial instruments at fair value	**(18)**	(96)	**(18)**	(96)
Net loss in the fair value of financial assets comprised:				
(Loss)/gain in the fair value of financial assets designated at fair value through profit or loss	**(72)**	109	**(72)**	109
Credit risk adjustments on financial assets designated at fair value through profit or loss	**(35)**	(64)	**(35)**	(64)
Net gain/(loss) attributable to other derivatives used for hedging purposes that do not use hedge accounting	**26**	(83)	**26**	(83)
	(81)	(38)	**(81)**	(38)
Net gain/(loss) in the fair value of financial liabilities comprised:				
Loss in the fair value of financial liabilities designated at fair value through profit or loss	**(166)**	(62)	**(166)**	(62)
Credit value adjustments on financial liabilities designated at fair value through profit or loss	**4**	(134)	**4**	(134)
Net gain attributable to other derivatives used for hedging purposes that do not use hedge accounting	**170**	55	**170**	55
	8	(141)	**8**	(141)

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Note 4 Other Operating Income				
Dividends received from controlled entities	**-**	-	**22**	-
Dividends received from other investments	**3**	3	**1**	2
Money transfer fees	**125**	127	**125**	127
Fees earned on financial assets and liabilities at fair value through profit or loss	**49**	45	**49**	45
Fees earned on financial assets and liabilities at amortised cost	**117**	108	**117**	108
Fees earned on trust and other fiduciary activities	**6**	6	**6**	6
Other fees and commissions income	**79**	100	**79**	99
Other income	**-**	8	**-**	6
Total other operating income	**379**	397	**399**	393

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Note 5 Operating Expenses				
Amortisation and depreciation				
Amortisation of internally generated software	**15**	14	**15**	14
Amortisation of acquired software	**3**	3	**3**	3
Depreciation on leasehold improvements	**1**	2	**-**	-
Depreciation on furniture, fittings and other equipment	**13**	9	**2**	1
Depreciation on data processing equipment	**13**	11	**13**	11
	45	39	**33**	29
Personnel expenses				
Share based payments (refer to note 6)	**15**	12	**15**	12
Defined benefit pension expense (refer to note 22)	**-**	(1)	**-**	(1)
Defined contribution pension expense (refer to note 22)	**12**	7	**12**	7
Salaries and other staff expenses	**409**	391	**408**	391
	436	409	**435**	409
Other				
Loss on disposal of property, plant and equipment	**16**	6	**3**	-
Loss on disposal of intangible assets	**9**	-	**9**	-
Rental on operating leases (refer to table on page 28)	**66**	61	**11**	12
Subvention payments to controlled entities	**-**	-	**18**	31
Related entity expenses	**52**	65	**155**	145
Other expenses (refer to table below)	**194**	197	**173**	180
	337	329	**369**	368
Total operating expenses	**818**	777	**837**	806

Dollars in Thousands	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Other expenses included:				
Donations	**1,076**	113	**1,076**	113
Fees paid to auditors:				
Statutory audit services	**1,562**	1,511	**1,379**	1,344
Regulatory audit services	**331**	309	**331**	309
Other assurance related services	**2**	29	**-**	-

Note 5 Operating Expenses *continued*

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Rental on operating leases comprised:				
Lease payments				
Minimum lease payments	**66**	61	**11**	12
Contingent rents	**1**	1	**1**	-
Sub-lease payments	**(1)**	(1)	**(1)**	-
Total rental on operating leases	**66**	61	**11**	12
Personnel expenses include key management personnel remuneration paid or payable which comprised:				
Short-term employee benefits	**7**	11	**7**	11
Termination benefits	**-**	2	**-**	2
Equity compensation benefits	**2**	4	**2**	4
Total key management personnel remuneration paid or payable	**9**	17	**9**	17

Note 6 Share Based Payments Expense

Shares and performance rights (subject to various restrictions) are granted to employees of the Banking Group by the ultimate parent, National Australia Bank Limited, as part of the National Australia Bank Group's short-term and long-term incentives ("STI" and "LTI") to employees. These incentives are an integral part of the Banking Group's remuneration strategy in rewarding an employee's current and future contribution to the Banking Group's performance.

The plans described below involve the provision of equity grants to employees of the Banking Group and to non-executive Directors of the Bank. The Banking Group reimburses National Australia Bank Limited for the cost of these grants. Details of the share based payments expense and the related entity payables are contained within notes 5 and 35 respectively.

a) National Australia Bank Group New Zealand Staff Share Allocation Plan

This plan provides for the National Australia Bank Limited Board to invite any employee of the Banking Group based in New Zealand to participate in an offer under this plan. Under this plan, funds are provided (if required) to a trustee to subscribe for or purchase fully paid ordinary shares in National Australia Bank Limited on behalf of participating employees.

2009 Year-End Share offer

This programme is designed to offer A$1,000 of ordinary shares to each employee when the National Australia Bank Group's performance is on target. Shares provided under the plan qualify for a tax-exemption up to the value of A$1,000, subject to complying with sections DC13 and DC14 of the Income Tax Act 2007.

For 2009, an Employee Share Offer valued at approximately A$800 per employee was made, based on the National Australia Bank Group's achievements at year-end as measured against a scorecard of objectives for the National Australia Bank Group. Shares under the Year-End Offer were allocated on 11 December 2009. These shares are held by the trustee for three years, or until the employee ceases his or her "relevant employment" (i.e. ceases employment with either a company in the National Australia Bank Group or a company that was in the National Australia Bank Group when the shares were allocated to the employee).

Under the New Zealand programme, each eligible employee is required to pay NZ$1.00 for the whole parcel of shares offered, or the market price of the parcel, whichever is less. An employee may apply to the National Australia Bank Limited Board for a loan in respect of NZ$1.00, which shall be free of interest and other charges, and is repayable in accordance with the provisions of the trust deed. The shares are registered in the name of the trustee who holds them on behalf of the participating employee for the duration of the restriction period.

Participating employees receive dividends and may exercise voting rights (through the trustee which are equivalent to those for other ordinary National Australia Bank Limited shares) in respect of the shares, but otherwise cannot deal with the shares until the restriction period concludes. If a participating employee leaves the Banking Group prior to the end of the three-year restriction period due to voluntary resignation or dismissal, the trustee will purchase the shares back for the lesser of the market price or the price paid by the employee for the shares.

b) National Australia Bank Group Staff Share Ownership Plan

This plan was approved by shareholders by special resolution in January 1997, and provides for the National Australia Bank Limited Board to invite any employee or non-executive Director of the Group to participate in an offer under this plan. Shares under this plan generally relate to one-off employee commencement offers or special recognition events. The Banking Group now only use performance rights as a general reward instrument.

c) National Australia Bank Group Executive Share Option Plan (No. 2) and Performance Rights Plan

Above Target STI

In November 2009, the Banking Group's senior executives participated in the Above Target offer and received the value of their STI reward in excess of their STI target in the form of National Australia Bank performance rights with a one-year restriction period (the Chief Executive Officer has a two-year restriction period). Allocations are forfeited if the employee resigns, is terminated for serious misconduct, or if the employee fails to pass specific performance and compliance expectations in respect of their performance review at the end of the following financial year.

Note 6 Share Based Payments Expense *continued*

c) National Australia Bank Group Executive Share Option Plan (No. 2) and Performance Rights Plan *continued*

Long Term Incentives

The Banking Group operates a LTI programme primarily targeted at key executive positions. The programme offered is a regional variation of the National Australia Bank Group's LTI programme, delivering performance rights (instead of shares) linked to National Australia Bank Limited's share price. Performance options ceased being used following the February 2007 grant.

The plans provide for the National Australia Bank Limited Board to grant performance rights to executives of the Banking Group to subscribe for fully paid ordinary shares in National Australia Bank Limited. Each performance right entitles the holder to subscribe for one fully paid ordinary share in National Australia Bank Limited. The performance rights cannot be transferred and are not quoted on the Australian Stock Exchange. No payment is required from executives at the time of the grant. There are no voting or dividend rights attached to the performance rights.

The National Australia Bank Limited Board may determine such other terms for the grant of performance rights consistent with Australian Stock Exchange Listing Rules and the Corporations Act 2001 (Cth).

Performance options and rights granted up to February 2007 have a performance hurdle based on Total Shareholder Return ("TSR"). During 2007, a performance hurdle (for employees other than the most senior positions) was simplified to measure Total Business Return ("TBR") for each region (e.g. New Zealand) with target TBR set in line with each regional operating plan. TBR links growth in cash earnings (before significant items) and return on equity ("ROE") and is a combination of these two measures, so a number of different combinations of results will generate the same TBR outcome. TBR is strongly correlated with TSR growth, but it can be measured on a regional basis.

2008 LTI grants for New Zealand participants were delivered in the form of performance rights only. The performance hurdle is based on the achievement of the three-year National Australia Bank Group regional (i.e. New Zealand) ROE and cash earnings targets. Each ROE and cash earnings target is set in line with the relevant regional operational business plan for the three following financial years (and will be a cumulative measurement over those three financial years).

Changes to hurdles for LTI Grants February 2006 to December 2008

In January 2010 changes were made to the performance hurdles of some LTI grants, which are now tested at a National Australia Bank Group level rather than regional level. The move to National Australia Bank Group testing is a result of global restructuring that took place in 2009. From 1 October 2009 certain regions (i.e. Australia and nabCapital) did not exist for reporting purposes, and therefore performance could not be tested against these regions. Testing at the Group level will ensure focus on the performance of the entire enterprise.

The affected grants allocations include: February 2006 regional performance options (Tranches two and three only); February 2007 regional performance options and performance rights; February 2008 LTI shares and performance rights; December 2008 LTI shares and performance rights. The modifications did not impact the fair value of the grants.

Since February 2008, allocation of performance rights have been granted in a single tranche, tested at the end of the three-year restriction period. Dependent on the level of vesting, participants will then have a period of six months to exercise. All performance options and performance rights are settled by physical delivery of shares.

The number and weighted average exercise prices of performance options and performance rights were as follows:

	Consolidated			
	Weighted Average Exercise Price A$ 30/9/10	**Number of Options 30/9/10**	Weighted Average Exercise Price A$ 30/9/09	Number of Options 30/9/09
Performance options				
Outstanding at beginning of year	**35.88**	**2,658,243**	34.91	3,251,056
Add: Granted during the year	**-**	**-**	35.50	2,500
Add: Transferred in during the year	**40.91**	**650**	34.04	263,628
Deduct: Exercised during the year	**-**	**-**	-	-
Deduct: Forfeited during the year	**33.36**	**876,873**	29.28	407,546
Deduct: Transferred out during the year	**37.70**	**155,970**	33.80	451,395
Outstanding at end of year	**36.91**	**1,626,050**	35.88	2,658,243
Exercisable at end of year		**49,315**		2,500
Performance rights				
Outstanding at beginning of year	**-**	**1,282,778**	-	980,375
Add: Granted during the year	**-**	**169,043**	-	340,843
Add: Transferred in during the year	**-**	**355**	-	119,182
Deduct: Exercised during the year	**-**	**207,153**	-	-
Deduct: Forfeited during the year	**-**	**169,679**	-	33,168
Deduct: Transferred out during the year	**-**	**97,212**	-	124,454
Outstanding at end of year	**-**	**978,132**	-	1,282,778
Exercisable at end of year		**32,689**		-

The $1 exercise price previously applied in relation to the exercise of performance rights has been waived for administrative simplicity, with the change applying retrospectively over prior year grants.

The options outstanding as at 30 September 2010 have an exercise price in the range of A$29.91 to A$40.91 (30 September 2009: A$27.85 to A$40.91) and a weighted average remaining contractual life of 1.9 years (30 September 2009: 1.9 years).

The weighted average price of National Australia Bank Limited shares during the year ended 30 September 2010 was A$26.35 (year ended 30 September 2009: A$22.27).

Note 6 Share Based Payments Expense *continued*

c) National Australia Bank Group Executive Share Option Plan (No. 2) and Performance Rights Plan *continued*

Fair value of performance options and performance rights

Valuations are based on a numerical pricing method, which takes into account both the probability, where the award contains a market condition, of achieving the performance hurdle required for these performance options or performance rights to vest, and the probability of early exercise after vesting. The numerical pricing model applied by National Australia Bank Limited to value performance options and performance rights is a simulated version of the Black-Scholes method. The simulation approach allows the valuation to take into account both the probability of achieving the performance hurdle required for the performance options or performance rights to vest and the potential for early exercise of vested performance options or performance rights. The Black-Scholes method is modified in order to incorporate the performance hurdle requirements that are integral to the number of performance options or performance rights vesting (which may be zero), and the option or performance rights holder's ability to exercise the performance option or performance right. The key assumptions and inputs for the valuation model are the volatility of National Australia Bank Limited's share price, the risk-free interest rate and National Australia Bank Limited's expected dividend yield. The volatility of share price is calculated based on actual historical volatility. Assumptions for the correlations and volatilities of share price returns for companies in the performance hurdle peer group are also required, but are of lesser importance to the valuation results. The following significant assumptions were adopted to determine the fair value of performance options and performance rights at each issue date:

	4/3/10	4/3/10	4/3/10	16/12/09	16/11/09	16/11/09	16/1/09	31/12/08
Risk-free interest rate (per annum)	-	-	-	-	-	-	3.47%	-
Life of options	1.5 years	3.5 years	3.5 years	3.5 years	2.5 years	1.5 years	5.5 years	3.5 years
Volatility of share price	-	-	-	-	-	-	36.00%	-
Dividend rate (per annum)	6.40%	6.40%	6.40%	6.40%	6.40%	6.40%	5.30%	5.30%
Exercise price of options	-	-	-	-	-	-	A$19.89	-
Fair value of performance options	-	-	-	-	-	-	A$3.54	-
Fair value of performance rights	-	A$21.60	A$10.44	-	-	-	-	-
'No hurdle' value of performance options	-	-	-	-	-	-	-	-
'No hurdle' value of performance rights	A$23.51	-	-	A$23.17	A$25.45	A$23.17	-	A$17.80

Dollars in Millions	Consolidated 30/9/10	30/9/09	The Company 30/9/10	30/9/09

Note 7 Income Tax Expense on Operating Profit

	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Income tax on operating profit charged to income statement				
Current tax	**173**	274	**150**	225
Deferred tax	**29**	(69)	**28**	(70)
Total income tax on operating profit charged to income statement	**202**	205	**178**	155
Reconciliation of income tax expense on operating profit shown in the income statement with prima facie tax payable on the pre-tax accounting profit				
Total operating profit before income tax expense	**637**	685	**575**	517
Prima facie income tax at 30%	**191**	206	**172**	155
Add/(deduct): Tax effect of amounts which are non-deductible or non-assessable:				
Non-assessable and tax paid income	**5**	(4)	**-**	(3)
Prior year adjustment	**(2)**	3	**(2)**	3
Restatement of deferred tax due to change in income tax rate	**8**	-	**8**	-
Total income tax expense on operating profit	**202**	205	**178**	155
Effective tax rate	**32%**	30%	**31%**	30%
Income tax charged to other comprehensive income				
Current tax	**9**	6	**7**	6
Deferred tax	**(1)**	(3)	**(1)**	(3)
Total income tax charged to other comprehensive income	**8**	3	**6**	3

New Zealand structured finance transactions

Following a High Court decision against the Bank and some of its wholly owned controlled entities (the "BNZ parties") with respect to certain structured finance transactions, the BNZ parties raised a provision of $661 million ($416 million core tax and $245 million interest (net of tax)) as at 30 September 2009.

On 23 December 2009, the BNZ parties entered into a settlement agreement with the Inland Revenue Department (the "IRD"), under which the BNZ parties agreed to pay 80% of the core tax, plus interest, and agreed to discontinue their legal proceedings. No penalties were assessed by the IRD. The parties have agreed that all matters relating to the transactions are now concluded.

As a result of this settlement, the BNZ parties have reversed the unused portion of the provision. This resulted in a tax credit charged to the income statement of $167 million for the Banking Group and $92 million for the Company relating to income tax credit and interest costs.

Tax changes

On 21 May 2010 the Government passed legislation to reduce the company tax rate from 30% to 28%, effective from the 2011/12 tax year. For the Banking Group, this will take effect from 1 October 2011. The resulting reduction in deferred tax asset has increased tax expense for the year ended 30 September 2010 by $8 million for both the Banking Group and the Company.

Asset Notes

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Note 8 Cash and Balances With Central Banks				
Notes and coins	**120**	138	**120**	138
Transaction balances with central banks	**1,750**	1,415	**1,750**	1,415
Loans and advances to central banks	**170**	-	**170**	-
Total cash and balances with central banks	**2,040**	1,553	**2,040**	1,553
Cash and balances with central banks comprised:				
Call balances	**1,870**	1,553	**1,870**	1,553
Term balances	**170**	-	**170**	-
Total cash and balances with central banks	**2,040**	1,553	**2,040**	1,553

The Banking Group has not accepted any collateral of New Zealand Government Securities as at 30 September 2010 arising from secured placements with central banks which it is permitted to sell or repledge (30 September 2009: nil). No collateral was repledged as at 30 September 2010 (30 September 2009: nil).

As at 30 September 2010, there was $170 million of collateral (30 September 2009: nil) posted with central banks.

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Note 9 Due from Other Financial Institutions				
Transaction balances with other financial institutions	**677**	125	**677**	125
Securities purchased under agreements to resell with other financial institutions	**88**	153	**88**	153
Loans and advances due from other financial institutions	**484**	591	**484**	591
Total due from other financial institutions	**1,249**	869	**1,249**	869
Due from other financial institutions comprised:				
Call balances	**677**	125	**677**	125
Term balances	**572**	744	**572**	744
Total due from other financial institutions	**1,249**	869	**1,249**	869

The Banking Group has accepted collateral of New Zealand Government Securities with a fair value of $88 million as at 30 September 2010 arising from reverse repurchase agreements with other financial institutions, which it is permitted to sell or repledge (30 September 2009: $153 million).

Government Securities with a fair value of $14 million was repledged as at 30 September 2010 (30 September 2009: nil). Securities are repledged for periods of less than three months.

As at 30 September 2010, there was $391 million of collateral posted (30 September 2009: $489 million). Cash collateral is posted daily.

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Note 10 Trading Securities				
Trading securities				
Treasury bills	**1,267**	2,580	**1,267**	2,580
Government securities	**974**	397	**974**	397
Semi-government securities	**145**	16	**145**	16
Bank bills	**263**	457	**263**	457
Bank bonds	**382**	127	**382**	127
Promissory notes	**171**	78	**171**	78
Other securities	**29**	7	**29**	7
Total trading securities	**3,231**	3,662	**3,231**	3,662

Included in trading securities of the Bank as at 30 September 2010 were $600 million encumbered through repurchase agreements (30 September 2009: $400 million). No trading securities were used to secure deposit obligations as at 30 September 2010 (30 September 2009: nil).

Dollars in Millions	Consolidated 30/9/10	30/9/09	The Company 30/9/10	30/9/09
Note 11 Other Money Market Placements				
Money market placements with non-financial institutions	**238**	431	**238**	431
Securities purchased under agreements to resell with non-financial institutions	**195**	106	**195**	106
Total other money market placements	**433**	537	**433**	537

The Banking Group has accepted collateral of New Zealand Government Securities with a fair value of $196 million as at 30 September 2010 arising from reverse repurchase agreements with non-financial institutions, which it is permitted to sell or repledge (30 September 2009: $106 million). Government Securities with a fair value of $43 million was repledged as at 30 September 2010 (30 September 2009: nil).

Dollars in Millions	Consolidated 30/9/10	30/9/09	The Company 30/9/10	30/9/09
Note 12 Available for Sale Investments				
Bank bonds	**94**	95	**94**	95
Promissory notes	**-**	50	**-**	50
Listed securities	**28**	23	**28**	23
Government securities	**33**	-	**33**	-
Semi-government securities	**118**	170	**118**	170
Total available for sale investments	**273**	338	**273**	338

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Note 13 Loans and Advances to Customers				
Overdrafts	**2,185**	2,497	**2,185**	2,497
Credit card outstandings	**1,369**	1,290	**1,369**	1,290
Lease finance (refer to table below)	**24**	30	**24**	30
Housing loans	**26,262**	25,397	**26,262**	25,397
Other term lending	**25,388**	26,113	**25,380**	26,113
Other lending	**149**	101	**149**	101
Total gross loans and advances to customers	**55,377**	55,428	**55,369**	55,428
Deduct:				
Allowance for impairment losses and credit risk adjustments on individual financial assets (refer to table below)	**242**	222	**242**	222
Allowance for impairment losses and credit risk adjustments on groups of financial assets (refer to table below)	**273**	237	**273**	237
Unearned future income on lease finance (refer to table below)	**4**	5	**4**	5
Deferred income	**41**	32	**41**	32
Fair value hedge adjustments	**(169)**	(210)	**(169)**	(210)
Total deductions	**391**	286	**391**	286
Total net loans and advances to customers	**54,986**	55,142	**54,978**	55,142
Lease finance				
Loans and advances to customers include lease finance receivables, which may be analysed as follows:				
Gross investment in lease finance receivables:				
Due within one year	**2**	1	**2**	1
Due within one to five years	**16**	15	**16**	15
Later than five years	**6**	14	**6**	14
Total gross investment in lease finance receivables	**24**	30	**24**	30
Deduct: Unearned future income on lease finance	**4**	5	**4**	5
Net investment in lease finance	**20**	25	**20**	25
Allowance for impairment losses and credit risk adjustments comprised:				
Individual financial assets				
Allowance for impairment losses on loans and advances to customers	**148**	159	**148**	159
Credit risk adjustments on loans designated at fair value through profit or loss	**94**	63	**94**	63
	242	222	**242**	222
Groups of financial assets				
Allowance for impairment losses on loans and advances to customers	**203**	153	**203**	153
Credit risk adjustments on loans designated at fair value through profit or loss	**70**	84	**70**	84
	273	237	**273**	237

The Banking Group provided lease finance to customers for the purchase of office equipment and other machinery.

On 11 November 2008, the RMBS Trust was established to provide an in-house residential mortgage-backed securities facility to issue securities as collateral for borrowing from the Reserve Bank of New Zealand ("RBNZ"). As at 30 September 2010, included within the Banking Group's loans and advances to customers were housing loans to the value of $4,467 million held by the RMBS Trust (30 September 2009: $6,446 million). These housing loans have not been derecognised from the Banking Group's financial statements as the Banking Group retains substantially all of the risks and rewards of ownership. The Banking Group has not entered into any repurchase agreements for residential mortgage-backed securities with the RBNZ as at 30 September 2010 (30 September 2009: face value of $2,500 million). RBNZ has not accepted any underlying collateral of residential mortgage-backed securities as at 30 September 2010 (30 September 2009: $3,098 million).

On 2 June 2010, the Covered Bond Trust was established to hold Bank of New Zealand housing loans and to provide guarantees to certain debt securities issued by the Bank or BNZ International Funding Limited, a wholly owned controlled entity of the Bank. Guarantees provided by the Covered Bond Trust have a prior claim over the assets of the Trust. As at 30 September 2010, included within the Banking Group's loans and advances to customers were housing loans to the value of $489 million held by the Covered Bond Trust (30 September 2009: nil). These housing loans have not been derecognised from the Banking Group's financial statements as the Banking Group retains substantially all of the risks and rewards of ownership. The Banking Group has issued debt securities with a face value of $425 million that were guaranteed by the Covered Bond Trust as at 30 September 2010 (30 September 2009: nil). The underlying collateral for the guarantees provided by the Covered Bond Trust comprised housing loans and other assets to the value of $493 million as at 30 September 2010 (30 September 2009: nil).

Note 14 Allowance for Impairment Losses on Credit Exposures

Dollars in Millions	Consolidated and The Company Residential Mortgage Lending 30/9/10	Other Retail Exposures 30/9/10	Corporate Exposures 30/9/10	Total 30/9/10
Allowance for impairment losses on credit exposures				
Allowance for impairment losses on individual financial assets				
Loans and advances to customers				
Balance at beginning of year	41	2	116	159
Transfer*	-	21	(21)	-
Charge to impairment losses on credit exposures in income statement	32	41	64	137
Amounts written off	(20)	(54)	(85)	(159)
Recovery of amounts written off in previous years	-	11	-	11
Balance at end of year	53	21	74	148
Allowance for impairment losses on groups of financial assets				
Loans and advances to customers				
Balance at beginning of year	20	44	89	153
Transfer*	-	14	(14)	-
Charge to impairment losses on credit exposures in income statement	11	14	25	50
Balance at end of year	31	72	100	203
Total allowance for impairment losses on credit exposures	84	93	174	351

* The methodology used to classify Other Retail and Corporate exposures has been refined to align with the classification applicable under RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B"). Retail Small to Medium enterprises exposures are now included under Other Retail. Comparative information has not been restated as the change was effective from 1 October 2009 and does not apply retrospectively.

Note 14 Allowance for Impairment Losses on Credit Exposures *continued*

Dollars in Millions	Residential Mortgage Lending 30/9/09	Other Retail Exposures 30/9/09	Corporate Exposures 30/9/09	Total 30/9/09
	Consolidated and The Company			
Allowance for impairment losses on credit exposures				
Allowance for impairment losses on individual financial assets				
Loans and advances to customers				
Balance at beginning of year	14	1	44	59
Charge to impairment losses on credit exposures in income statement	37	40	96	173
Amounts written off	(10)	(50)	(24)	(84)
Recovery of amounts written off in previous years	-	11	-	11
Balance at end of year	41	2	116	159
Allowance for impairment losses on groups of financial assets				
Loans and advances to customers				
Balance at beginning of year	8	54	74	136
Charge to impairment losses on credit exposures in income statement	12	(10)	15	17
Balance at end of year	20	44	89	153
Total allowance for impairment losses on credit exposures	61	46	205	312

The above tables only reflect 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 is 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	**Residential Mortgage Lending 30/9/10**	**Other Retail Exposures 30/9/10**	**Corporate Exposures 30/9/10**	**Total 30/9/10**
	Consolidated and The Company			
Credit risk adjustments on financial assets classified at fair value through profit or loss				
On individual financial assets				
Loans and advances to customers				
Balance at beginning of year	**-**	**-**	**63**	**63**
Transfer*	**-**	**2**	**(2)**	**-**
Charge to income statement	**-**	**-**	**49**	**49**
Amounts written off	**-**	**(2)**	**(16)**	**(18)**
Balance at end of year	**-**	**-**	**94**	**94**
On groups of financial assets				
Loans and advances to customers				
Balance at beginning of year	**-**	**-**	**84**	**84**
Transfer*	**-**	**1**	**(1)**	**-**
Charge to income statement	**-**	**-**	**(14)**	**(14)**
Balance at end of year	**-**	**1**	**69**	**70**
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	**-**	**1**	**163**	**164**
Other money market placements				
Balance at beginning of year	**-**	**-**	**1**	**1**
Charge to income statement	**-**	**-**	**-**	**-**
Balance at end of year	**-**	**-**	**1**	**1**
Total credit risk adjustments on other money market placements	**-**	**-**	**1**	**1**
Trading derivative financial instruments				
Balance at beginning of year	**-**	**-**	**5**	**5**
Charge to income statement	**-**	**-**	**4**	**4**
Balance at end of year	**-**	**-**	**9**	**9**
Total credit risk adjustments on trading derivative financial instruments	**-**	**-**	**9**	**9**

* The methodology used to classify Other Retail and Corporate exposures has been refined to align with the classification applicable under RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B"). Retail Small to Medium enterprises exposures are now included under Other Retail. Comparative information has not been restated as the change was effective from 1 October 2009 and does not apply retrospectively.

Note 14 Allowance for Impairment Losses on Credit Exposures *continued*

	Consolidated and The Company			
Dollars in Millions	Residential Mortgage Lending 30/9/09	Other Retail Exposures 30/9/09	Corporate Exposures 30/9/09	Total 30/9/09
Credit risk adjustments on financial assets classified at fair value through profit or loss				
On individual financial assets				
Loans and advances to customers				
Balance at beginning of year	-	-	6	6
Charge to income statement	-	-	59	59
Amounts written off	-	-	(2)	(2)
Balance at end of year	-	-	63	63
On groups of financial assets				
Loans and advances to customers				
Balance at beginning of year	-	-	79	79
Charge to income statement	-	-	5	5
Balance at end of year	-	-	84	84
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	-	147	147
Other money market placements				
Balance at beginning of year	-	-	1	1
Charge to income statement	-	-	-	-
Balance at end of year	-	-	1	1
Total credit risk adjustments on other money market placements	-	-	1	1
Trading derivative financial instruments				
Balance at beginning of year	-	-	2	2
Charge to income statement	-	-	3	3
Balance at end of year	-	-	5	5
Total credit risk adjustments on trading derivative financial instruments	-	-	5	5

As at 30 September 2010, the Banking Group did not have any impairment losses on restructured assets, past due assets, assets acquired through the enforcement of security or other assets under administration (30 September 2009: nil).

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

Note 15 Asset Quality

The Banking Group provides for impairment losses on credit exposures as disclosed in note 14. 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 and The Company			
Dollars in Millions	Residential Mortgage Lending 30/9/10	Other Retail Exposures 30/9/10	Corporate Exposures 30/9/10	Total 30/9/10
Movements in pre-allowance balances				
Loans and advances to customers				
Restructured assets – at amortised cost				
Balance at beginning of year	1	-	-	1
Additions	-	2	-	2
Balance at end of year	1	2	-	3
Other individually impaired assets – at amortised cost				
Balance at beginning of year	111	2	332	445
Transfer#	-	36	(36)	-
Amounts written off	(20)	(54)	(85)	(159)
Additions	165	83	273	521
Deletions	(95)	(33)	(192)	(320)
Balance at end of year	161	34	292	487
Interest forgone during the year*	8	3	37	48
Undrawn lending commitments	-	-	2	2
Other individually impaired assets – at fair value through profit or loss				
Balance at beginning of year	-	-	191	191
Transfer#	-	3	(3)	-
Amounts written off	-	(2)	(16)	(18)
Additions	-	1	182	183
Deletions	-	(2)	(72)	(74)
Balance at end of year	-	-	282	282
Interest forgone during the year*	-	-	17	17
Undrawn lending commitments	-	-	-	-
Total impaired assets at end of year	162	36	574	772
90 day past due assets				
Balance at beginning of year	76	18	116	210
Transfer#	-	22	(22)	-
Additions	202	67	331	600
Deletions	(198)	(71)	(345)	(614)
Balance at end of year	80	36	80	196
Undrawn lending commitments	-	-	1	1
Other assets under administration				
Balance at beginning of year	6	-	2	8
Transfer#	-	1	(1)	-
Additions	7	2	23	32
Deletions	(6)	(2)	(3)	(11)
Balance at end of year	7	1	21	29

* Interest forgone has been calculated based on interest rates which would have been applied to loans of similar risk and maturity.

\# The methodology used to classify Other Retail and Corporate exposures has been refined to align with the classification applicable under RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B"). Retail Small to Medium enterprises exposures are now included under Other Retail. Comparative information has not been restated as the change was effective from 1 October 2009 and does not apply retrospectively.

Note 15 Asset Quality *continued*

Dollars in Millions	Consolidated and The Company Residential Mortgage Lending 30/9/09	Other Retail Exposures 30/9/09	Corporate Exposures 30/9/09	Total 30/9/09
Movements in pre-allowance balances				
Loans and advances to customers				
Restructured assets – at amortised cost				
Balance at beginning of year	-	-	-	-
Additions	1	-	-	1
Balance at end of year	1	-	-	1
Other individually impaired assets – at amortised cost				
Balance at beginning of year	60	1	108	169
Amounts written off	(10)	(50)	(24)	(84)
Additions	173	53	386	612
Deletions	(112)	(2)	(138)	(252)
Balance at end of year	111	2	332	445
Interest forgone during the year*	6	2	35	43
Undrawn lending commitments	-	-	12	12
Other individually impaired assets – at fair value through profit or loss				
Balance at beginning of year	-	-	32	32
Amounts written off	-	-	(2)	(2)
Additions	-	-	222	222
Deletions	-	-	(61)	(61)
Balance at end of year	-	-	191	191
Interest forgone during the year*	-	-	5	5
Undrawn lending commitments	-	-	1	1
Total impaired assets at end of year	112	2	523	637
90 day past due assets				
Balance at beginning of year	31	19	44	94
Additions	176	10	422	608
Deletions	(131)	(11)	(350)	(492)
Balance at end of year	76	18	116	210
Undrawn lending commitments	-	-	-	-
Other assets under administration				
Balance at beginning of year	5	-	1	6
Additions	7	-	6	13
Deletions	(6)	-	(5)	(11)
Balance at end of year	6	-	2	8

* Interest forgone has been calculated based on interest rates which would have been applied to loans of similar risk and maturity.

As at 30 September 2010, the Banking Group did not have any assets acquired through security enforcement (30 September 2009: nil).

Off-balance sheet impaired assets (Consolidated and The Company)

Included in other contingent liabilities in note 39 on page 73 is $4 million off-balance sheet facilities that were impaired as at 30 September 2010 (30 September 2009: $1 million). No allowance for impairment losses on individual off-balance sheet credit related commitments has been made as at 30 September 2010 (30 September 2009: nil).

Note 15 Asset Quality *continued*

Credit quality of financial assets

	Consolidated			
Dollars in Millions	Residential Mortgage Lending 30/9/10	Other Retail Exposures 30/9/10	Corporate Exposures 30/9/10	Total 30/9/10
Loans and advances to customers				
Neither past due nor impaired				
Excellent credit quality	23,961	2,523	22,583	49,067
Good credit quality	869	302	1,588	2,759
Moderate credit quality	844	162	425	1,431
Total assets neither past due nor impaired	25,674	2,987	24,596	53,257
Past due assets not impaired				
1 - 7 days past due	156	64	394	614
8 - 30 days past due	101	94	94	289
31 - 60 days past due	66	31	92	189
61 - 89 days past due	23	12	25	60
90+ days past due	80	36	80	196
Total past due assets not impaired	426	237	685	1,348
Impaired assets				
Restructured assets	1	2	-	3
Individually impaired financial assets – at amortised cost	161	34	292	487
Individually impaired financial assets – at fair value through profit or loss	-	-	282	282
Total impaired assets	162	36	574	772
Gross loans and advances to customers	26,262	3,260	25,855	55,377
Other money market placements				
Neither past due nor impaired				
Excellent credit quality	-	-	419	419
Good credit quality	-	-	-	-
Moderate credit quality	-	-	6	6
Total assets neither past due nor impaired	-	-	425	425
Past due assets not impaired				
1 - 7 days past due	-	-	8	8
Total past due assets not impaired	-	-	8	8
Total other money market placements	-	-	433	433

The methodology used to classify Other Retail and Corporate exposures has been refined to align with the classification applicable under RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B"). Retail Small to Medium enterprises exposures are now included under Other Retail. Comparative information has not been restated as the change was effective from 1 October 2009 and does not apply retrospectively.

Note 15 Asset Quality *continued*

Credit quality of financial assets *continued*

Dollars in Millions	Consolidated Residential Mortgage Lending 30/9/09	Other Retail Exposures 30/9/09	Corporate Exposures 30/9/09	Total 30/9/09
Loans and advances to customers				
Neither past due nor impaired				
Excellent credit quality	23,185	1,051	24,575	48,811
Good credit quality	883	109	2,154	3,146
Moderate credit quality	822	150	416	1,388
Total assets neither past due nor impaired	24,890	1,310	27,145	53,345
Past due assets not impaired				
1 - 7 days past due	120	16	422	558
8 - 30 days past due	117	70	246	433
31 - 60 days past due	53	22	85	160
61 - 89 days past due	29	10	46	85
90+ days past due	76	18	116	210
Total past due assets not impaired	395	136	915	1,446
Impaired assets				
Restructured assets	1	-	-	1
Individually impaired financial assets – at amortised cost	111	2	332	445
Individually impaired financial assets – at fair value through profit or loss	-	-	191	191
Total impaired assets	112	2	523	637
Gross loans and advances to customers	25,397	1,448	28,583	55,428
Other money market placements				
Neither past due nor impaired				
Excellent credit quality	-	-	521	521
Good credit quality	-	-	8	8
Moderate credit quality	-	-	8	8
Total other money market placements	-	-	537	537

Note 15 Asset Quality *continued*

Credit quality of financial assets *continued*

	The Company			
Dollars in Millions	Residential Mortgage Lending 30/9/10	Other Retail Exposures 30/9/10	Corporate Exposures 30/9/10	Total 30/9/10
Loans and advances to customers				
Neither past due nor impaired				
Excellent credit quality	23,961	2,523	22,575	49,059
Good credit quality	869	302	1,588	2,759
Moderate credit quality	844	162	425	1,431
Total assets neither past due nor impaired	25,674	2,987	24,588	53,249
Past due assets not impaired				
1 - 7 days past due	156	64	394	614
8 - 30 days past due	101	94	94	289
31 - 60 days past due	66	31	92	189
61 - 89 days past due	23	12	25	60
90+ days past due	80	36	80	196
Total past due assets not impaired	426	237	685	1,348
Impaired assets				
Restructured assets	1	2	-	3
Individually impaired financial assets – at amortised cost	161	34	292	487
Individually impaired financial assets – at fair value through profit or loss	-	-	282	282
Total impaired assets	162	36	574	772
Gross loans and advances to customers	26,262	3,260	25,847	55,369
Other money market placements				
Neither past due nor impaired				
Excellent credit quality	-	-	419	419
Good credit quality	-	-	-	-
Moderate credit quality	-	-	6	6
Total assets neither past due nor impaired	-	-	425	425
Past due assets not impaired				
1 - 7 days past due	-	-	8	8
Total past due assets not impaired	-	-	8	8
Total other money market placements	-	-	433	433

The methodology used to classify Other Retail and Corporate exposures has been refined to align with the classification applicable under RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B"). Retail Small to Medium enterprises exposures are now included under Other Retail. Comparative information has not been restated as the change was effective from 1 October 2009 and does not apply retrospectively.

Note 15 Asset Quality *continued*
Credit quality of financial assets *continued*

Dollars in Millions	The Company Residential Mortgage Lending 30/9/09	Other Retail Exposures 30/9/09	Corporate Exposures 30/9/09	Total 30/9/09
Loans and advances to customers				
Neither past due nor impaired				
Excellent credit quality	23,185	1,051	24,575	48,811
Good credit quality	883	109	2,154	3,146
Moderate credit quality	822	150	416	1,388
Total assets neither past due nor impaired	24,890	1,310	27,145	53,345
Past due assets not impaired				
1 - 7 days past due	120	16	422	558
8 - 30 days past due	117	70	246	433
31 - 60 days past due	53	22	85	160
61 - 89 days past due	29	10	46	85
90+ days past due	76	18	116	210
Total past due assets not impaired	395	136	915	1,446
Impaired assets				
Restructured assets	1	-	-	1
Individually impaired financial assets – at amortised cost	111	2	332	445
Individually impaired financial assets – at fair value through profit or loss	-	-	191	191
Total impaired assets	112	2	523	637
Gross loans and advances to customers	25,397	1,448	28,583	55,428
Other money market placements				
Neither past due nor impaired				
Excellent credit quality	-	-	521	521
Good credit quality	-	-	8	8
Moderate credit quality	-	-	8	8
Total other money market placements	-	-	537	537

The credit quality of assets that are neither past due nor impaired has been classified using the Banking Group's internal customer rating system and credit monitoring procedures required under internal policies, and in accordance with the Basel II Accord. Refer to note 46 for further information on the Banking Group's credit risk policies.

Other financial assets not included above are all considered excellent credit quality.

Note 16 Derivative Financial Instruments

Derivative financial instruments are tradable financial instruments whose value is dependent on the value of an underlying financial asset or a combination of assets. The fair value of derivative financial instruments was obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate.

Derivative financial instruments held or issued for trading purposes

The Banking Group maintains trading positions in a variety of derivative financial instruments and acts primarily in the market by satisfying the needs of its customers through foreign exchange, interest rate related services and other market-related contracts. In addition, the Banking Group takes positions on its own account within a prescribed limit framework, to manage its exposure to market and credit risks relating to trading activities. It satisfies customer needs and maintains access to market liquidity by quoting bid and offer prices on those instruments and trading with other market makers. All positions held for trading purposes are revalued on a daily basis to reflect market movements and any revaluation profit or loss is recognised immediately in the income statement.

Derivative financial instruments held or issued for purposes other than trading

Fair value hedges

The Banking Group hedges interest rate risk resulting from potential decreases in the fair value of fixed rate assets or an increase in the fair value of term deposits and funding denominated both in local and foreign currencies using interest rate and cross currency interest rate swaps.

Cash flow hedges

The Banking Group hedges a portion of its financial assets' and liabilities' cash flow risk associated with changes in short-term interest rates by entering into interest rate and cross currency interest rate swaps.

There were no transactions for which cash flow hedge accounting had to be ceased in the year ended 30 September 2010 (year ended 30 September 2009: nil) as a result of the highly probable cash flows no longer being expected to occur.

Note 16 Derivative Financial Instruments *continued*

The following tables reflect the periods when the hedged cash flows are expected to occur and affect the income statement.

Dollars in Millions	Less than 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	Over 5 Years
	Consolidated and The Company (30/9/10)					
Cash flow hedges						
Cash inflows - assets	**195**	**146**	**103**	**62**	**28**	**18**
Cash outflows - liabilities	**(87)**	**(47)**	**(20)**	**(11)**	**(2)**	**(1)**
Net cash inflows	**108**	**99**	**83**	**51**	**26**	**17**
	Consolidated and The Company (30/9/09)					
Cash flow hedges						
Cash inflows – assets	145	109	86	56	22	-
Cash outflows – liabilities	(76)	(70)	(38)	(17)	(10)	(3)
Net cash inflows/(outflows)	69	39	48	39	12	(3)

Dollars in Millions	Consolidated and The Company Notional Principal 30/9/10	 Fair Value Assets 30/9/10	 Fair Value Liabilities 30/9/10
Held for trading – at fair value*			
Foreign exchange rate related contracts			
Spot and forward contracts to purchase foreign exchange	**44,935**	**712**	**1,024**
Cross currency swaps	**41,336**	**893**	**1,272**
Options	**3,244**	**46**	**46**
	89,515	**1,651**	**2,342**
Interest rate related contracts			
Forward rate agreements	**1,915**	**1**	**-**
Swaps	**200,289**	**3,650**	**3,486**
Futures	**18,505**	**-**	**-**
Options	**1,220**	**6**	**10**
Swaptions	**183**	**4**	**3**
	222,112	**3,661**	**3,499**
Other market related contracts			
Commodity derivatives	**28**	**1**	**1**
Total held for trading – at fair value	**311,655**	**5,313**	**5,842**
Held for hedging – fair value hedges			
Interest rate related contracts			
Swaps	**15,490**	**98**	**387**
Total held for hedging – fair value hedges	**15,490**	**98**	**387**
Held for hedging – cash flow hedges			
Interest rate related contracts			
Swaps	**7,986**	**239**	**192**
Total held for hedging – cash flow hedges	**7,986**	**239**	**192**
Total derivative contracts	**335,131**	**5,650**	**6,421**

* Held for trading derivative financial instruments include some derivatives that are used for hedging purposes that are not in designated hedge accounting relationships.

Note 16 Derivative Financial Instruments *continued*

Dollars in Millions	Consolidated and The Company Notional Principal 30/9/09	Fair Value Assets 30/9/09	Fair Value Liabilities 30/9/09
Held for trading – at fair value*			
Foreign exchange rate related contracts			
Spot and forward contracts to purchase foreign exchange	33,966	921	1,512
Cross currency swaps	27,976	767	1,464
Options	2,285	32	32
	64,227	1,720	3,008
Interest rate related contracts			
Forward rate agreements	2,885	-	-
Swaps	214,759	3,805	3,786
Futures	11,984	-	-
Options	1,244	5	4
Swaptions	750	1	6
	231,622	3,811	3,796
Other market related contracts			
Commodity derivatives	646	3	3
Total held for trading – at fair value	296,495	5,534	6,807
Held for hedging – fair value hedges			
Foreign exchange rate related contracts			
Cross currency swaps	698	2	85
Interest rate related contracts			
Swaps	21,195	185	542
Total held for hedging – fair value hedges	21,893	187	627
Held for hedging – cash flow hedges			
Interest rate related contracts			
Swaps	7,627	197	209
Total held for hedging – cash flow hedges	7,627	197	209
Total derivative contracts	326,015	5,918	7,643

* Held for trading derivative financial instruments include some derivatives that are used for hedging purposes that are not in designated hedge accounting relationships.

Credit risk

The maximum exposure to credit risk at any one time is limited to the current fair value of instruments that are favourable to the Banking Group (assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. For information on the Banking Group's risk management policies, refer to note 46.

Dollars in Millions	Consolidated 30/9/10	30/9/09	The Company 30/9/10	30/9/09
Note 17 Investments in Controlled Entities				
Shares in controlled entities unlisted – at cost	-	-	**3,118**	3,106
Deduct: Provision for impairment of controlled entities	-	-	**63**	63
Total investments in controlled entities	-	-	**3,055**	3,043

Investments in controlled entities

Wholly owned controlled entities of the Bank as at 30 September 2010 were:

Name	Country of Incorporation	Principal Activities
BNZ Agricapital Limited	New Zealand	Investment company
BNZ Corporation Limited	New Zealand	Non-trading
BNZ Equity Investments Limited	New Zealand	Investment company
BNZ Equity Investments No.2 Limited	New Zealand	Investment company
BNZ Facilities Management Limited	New Zealand	Facilities management
BNZ Funding Limited	New Zealand	Non-trading
BNZ International (Hong Kong) Limited	Hong Kong	Non-trading
BNZ International Funding Limited	New Zealand	Funding company
BNZ Investments Limited	New Zealand	Investment company
BNZ Equipment Limited	New Zealand	Leasing company
BNZ International Limited	New Zealand	Non-trading
BNZ Property Investments Limited	New Zealand	Property company
BNZ Branch Properties Limited	New Zealand	Property company
BNZ Properties (Auckland) Limited	New Zealand	Non-trading
BNZ Properties Limited	New Zealand	Non-trading
National Australia Limited	New Zealand	Non-trading
New Zealand Card Services Limited	New Zealand	Non-trading
BNZI Securities No. 1 Limited	New Zealand	Non-trading
BNZI Securities No. 2 Limited	New Zealand	Non-trading
BNZ Investment Services Limited	New Zealand	Investment administration and management

All controlled entities listed above have the same reporting date as the Bank. They are all 100% owned unless otherwise stated.

Amalgamation of controlled entities

On 17 June 2009, BNZ Capital Guaranteed Growth Fund Limited, which was a wholly owned controlled entity of the Bank, was amalgamated with Bank of New Zealand, with Bank of New Zealand continuing as the amalgamated company.

Incorporation of controlled entities

BNZ Equity Investments No.2 Limited was incorporated on 12 February 2009. The original shareholder was BNZ Investments Limited. On 9 September 2009 all shares in BNZ Equity Investments No. 2 Limited were transferred to Bank of New Zealand.

BNZ Investment Services Limited, a wholly owned controlled entity of Bank of New Zealand, was incorporated on 16 October 2008.

Deregistration of controlled entities

Squadron No.1 Limited was de-registered from the Companies Register on 4 November 2009. This did not result in any change to the net assets of the Banking Group.

Changes in the composition of the Banking Group

BNZ Cash PIE (the "Fund") was established on 23 October 2008. The Fund is a Portfolio Investment Entity. Bank of New Zealand and the Directors of Bank of New Zealand are the Promoters of the Fund. BNZ Investment Services Limited, a wholly owned controlled entity of Bank of New Zealand, is the Manager and Issuer of the Fund. The Fund is consolidated as part of the Banking Group for financial reporting purposes.

BNZ Term PIE (the "Term Fund") was established on 23 September 2010. The Term Fund is a Portfolio Investment Entity. Bank of New Zealand and the Directors of Bank of New Zealand are the Promoters of the Term Fund. BNZ Investment Services Limited, a wholly owned controlled entity of Bank of New Zealand, is the Manager and Issuer of the Term Fund. The Term Fund is consolidated as part of the Banking Group for financial reporting purposes.

On 11 November 2008, the BNZ RMBS Trust Series 2008-1 (the "RMBS Trust") was established to provide an in-house residential mortgage-backed securities facility to issue securities as collateral for borrowing from the RBNZ. The establishment of the facility resulted in the Bank's financial statements recognising an intercompany payable and an intercompany receivable of equal amount of $6,491 million. On 30 September 2010, a reduction of $2 billion occurred due to the repurchase of an equal amount of assets as at that date such that the intercompany payable and intercompany receivable are each $4,491 million as at that date. This did not have any impact on the consolidated financial statements of the Banking Group as transactions between the Bank and the RMBS Trust are eliminated on consolidation.

On 2 June 2010, the BNZ Covered Bond Trust (the "Covered Bond Trust") was established to hold Bank of New Zealand housing loans and to provide guarantees to certain debt securities issued by the Bank or BNZ International Funding Limited, a wholly owned controlled entity of the Bank. Guarantees provided by the Covered Bond Trust have a prior claim over the assets of the Trust. The establishment of the facility resulted in the Bank's financial statements recognising an intercompany payable and an intercompany receivable of equal amounts of $493 million. This did not have any impact on the consolidated financial statements of the Banking Group as transactions between the Bank and the Covered Bond Trust are eliminated on consolidation. Further details on the Covered Bond Trust are provided in note 13.

Dollars in Millions	Consolidated 30/9/10	30/9/09	The Company 30/9/10	30/9/09

Note 18 Deferred Tax

Deferred tax assets				
Balance at beginning of year	**254**	88	**225**	84
Tax (expense)/credit recognised in income statement	**(29)**	69	**(28)**	70
Tax credit recognised in other comprehensive income	**1**	2	**1**	3
Tax (expense)/credit on interest costs on New Zealand structured finance transactions	**(33)**	95	**(14)**	68
Other	**32**	-	**32**	-
Balance at end of year	**225**	254	**216**	225
The deferred tax assets were attributable to the following items:				
Employee entitlements	**15**	25	**15**	25
Credit risk adjustments on financial assets designated at fair value through profit or loss	**46**	44	**46**	44
Allowance for impairment losses on credit exposures	**100**	93	**100**	93
Depreciation and amortisation	**(13)**	3	**(11)**	3
Operating expense provisions	**7**	10	**5**	8
Prepaid pension assets	**(2)**	(4)	**(2)**	(4)
Interest costs on New Zealand structured finance transactions	**62**	95	**55**	68
Other	**10**	(12)	**8**	(12)
Total deferred tax assets	**225**	254	**216**	225

The recognition of the deferred tax assets relies on management's judgments about the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

Dollars in Millions	Consolidated 30/9/10	30/9/09	The Company 30/9/10	30/9/09

Note 19 Other Assets

Accrued interest receivable	**131**	132	**130**	132
Prepaid pension assets (refer to note 22)	**5**	14	**5**	14
Securities sold – not yet settled	**252**	195	**184**	195
Voluntary tax payment against New Zealand structured finance transactions (refer to note 7)	**-**	661	**-**	661
Other assets	**161**	232	**147**	223
Total other assets	**549**	1,234	**466**	1,225

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

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Note 20 Property, Plant and Equipment				
Freehold land				
At valuation	**2**	2	**-**	-
Buildings				
At valuation	**4**	4	**-**	-
Total freehold land and buildings	**6**	6	**-**	-
Leasehold improvements				
At cost	**9**	17	**1**	1
Deduct: Accumulated depreciation	**6**	9	**1**	1
Deduct: Provision for impairment	**2**	2	**-**	-
Total leasehold improvements	**1**	6	**-**	-
Furniture, fittings and other equipment				
At cost	**153**	127	**27**	23
At cost – assets under construction	**14**	24	**-**	1
Deduct: Accumulated depreciation	**48**	51	**19**	18
Deduct: Provision for impairment	**4**	4	**-**	-
Total furniture, fittings and other equipment	**115**	96	**8**	6
Data processing equipment				
At cost	**105**	97	**105**	97
Deduct: Accumulated depreciation	**66**	63	**66**	63
Total data processing equipment	**39**	34	**39**	34
Total property, plant and equipment	**161**	142	**47**	40

Revaluation

Freehold land and buildings are carried at fair value. Revaluations occur at least once every three years, based on a rolling three-year cycle. The valuation approach is to value the land and buildings at their "market value", being the amounts for which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the valuation date, and are based on the assumption that the assets are sold on the open market. Independent valuations on certain properties were carried out in July 2010 by Glenn Loraine (MPINZ), independent registered public valuer at Darroch Limited (fair value $3 million).

Had freehold land and buildings been carried at cost less accumulated depreciation in these financial statements, the following carrying amount would have been included:

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Freehold land and buildings at cost	**3**	3	**-**	-
Notional carrying amount of freehold land and buildings	**3**	3	**-**	-

Note 20 Property, Plant and Equipment *continued*

Reconciliations of movements in property, plant and equipment

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Freehold land				
Balance at beginning of year	**2**	2	**-**	-
Balance at end of year	**2**	2	**-**	-
Buildings				
Balance at beginning of year	**4**	5	**-**	-
Net amount of revaluation increments less decrements	**-**	(1)	**-**	-
Balance at end of year	**4**	4	**-**	-
Leasehold improvements				
Balance at beginning of year	**6**	9	**-**	-
Disposals	**(4)**	(1)	**-**	-
Depreciation	**(1)**	(2)	**-**	-
Balance at end of year	**1**	6	**-**	-
Furniture, fittings and other equipment				
Balance at beginning of year	**96**	56	**6**	5
Additions	**42**	54	**5**	2
Disposals	**(10)**	(5)	**(1)**	-
Depreciation	**(13)**	(9)	**(2)**	(1)
Balance at end of year	**115**	96	**8**	6
Data processing equipment				
Balance at beginning of year	**34**	24	**34**	24
Additions	**20**	21	**20**	21
Disposals	**(2)**	-	**(2)**	-
Depreciation	**(13)**	(11)	**(13)**	(11)
Balance at end of year	**39**	34	**39**	34

Note 21 Goodwill and Other Intangible Assets

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Goodwill	**15**	15	**15**	15
Internally generated software	**96**	80	**96**	80
Acquired software	**6**	7	**6**	7
Total intangible assets	**117**	102	**117**	102
Goodwill				
Goodwill comprised:				
At cost	**15**	15	**15**	15
Total goodwill	**15**	15	**15**	15
Movement in goodwill during the year:				
Balance at beginning of year	**15**	15	**15**	15
Balance at end of year	**15**	15	**15**	15
Internally generated software				
Internally generated software comprised:				
At cost	**168**	168	**168**	168
At cost – assets under construction	**51**	32	**51**	32
Accumulated amortisation	**(83)**	(74)	**(83)**	(74)
Provision for impairment	**(40)**	(46)	**(40)**	(46)
Total internally generated software	**96**	80	**96**	80
Movement in internally generated software during the year:				
Balance at beginning of year	**80**	58	**80**	58
Additions	**38**	36	**38**	36
Disposals	**(7)**	-	**(7)**	-
Amortisation during the year	**(15)**	(14)	**(15)**	(14)
Balance at end of year	**96**	80	**96**	80
Acquired software				
Acquired software comprised:				
At cost	**32**	30	**32**	30
Accumulated amortisation	**(26)**	(23)	**(26)**	(23)
Total acquired software	**6**	7	**6**	7
Movement in acquired software during the year:				
Balance at beginning of year	**7**	6	**7**	6
Additions	**4**	4	**4**	4
Disposals	**(2)**	-	**(2)**	-
Amortisation during the year	**(3)**	(3)	**(3)**	(3)
Balance at end of year	**6**	7	**6**	7

Software is expected to have a remaining amortisation period of less than five years.

Note 22 Prepaid Pension Assets

Bank of New Zealand's employee superannuation scheme has two divisions within one fund. Division 1 is a defined benefit plan and is closed to new members. Division 2 is a cash accumulation plan and contains the majority of members. The prepaid pension assets relate to Division 1 of the scheme.

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Changes in the present value of defined benefit obligation were as follows:				
Present value of defined benefit obligation at beginning of year	**46**	53	**46**	53
Interest cost	**2**	2	**2**	2
Net actuarial loss recognised in other comprehensive income	**2**	-	**2**	-
Benefits paid	**(9)**	(9)	**(9)**	(9)
Present value of defined benefit obligation at end of year	**41**	46	**41**	46
Changes in the fair value of defined benefit plan assets were as follows:				
Fair value of defined benefit plan assets at beginning of year	**60**	80	**60**	80
Expected return on defined benefit plan assets	**2**	3	**2**	3
Net actuarial loss recognised in other comprehensive income	**(2)**	(7)	**(2)**	(7)
Transfer to division 2	**(5)**	(7)	**(5)**	(7)
Benefits paid	**(9)**	(9)	**(9)**	(9)
Fair value of defined benefit plan assets at end of year	**46**	60	**46**	60
Actual return on defined benefit plan assets	**-**	(4)	**-**	(4)
The amounts recognised in the income statement were as follows:				
Current service cost	**5**	7	**5**	7
Defined contribution pension expense funded by defined benefit plan*	**5**	7	**5**	7
Interest cost	**2**	2	**2**	2
Expected return on defined benefit plan assets	**(2)**	(3)	**(2)**	(3)
Defined benefit pension expense	**-**	(1)	**-**	(1)

* The utilisation of surplus assets in the defined benefit plan as contribution to the cash accumulation plan (Division 2) ceased in April 2010. This has resulted in the employer contributing $7 million directly to the cash accumulation plan (Division 2) in addition to the amounts above.

Dollars in Millions	Consolidated and The Company 30/9/10	30/9/09	30/9/08	30/9/07	30/9/06
Net actuarial (loss)/gain recognised in other comprehensive income comprised:					
Experience adjustment in respect of defined benefit obligation	**(2)**	-	-	2	(1)
Experience adjustment in respect of plan assets	**(2)**	(7)	2	-	-
Net actuarial (loss)/gain recognised in other comprehensive income	**(4)**	(7)	2	2	(1)
The prepaid pension assets reflected in the balance sheet comprised:					
Present value of defined benefit obligation	**(41)**	(46)	(53)	(59)	(67)
Fair value of defined benefit plan assets	**46**	60	80	89	100
Prepaid pension assets	**5**	14	27	30	33

There was $4 million actuarial loss recognised in other comprehensive income for the year ended 30 September 2010 (30 September 2009: $7 million actuarial loss). The cumulative actuarial loss as at 30 September 2010 was $12 million (30 September 2009: $7 million actuarial loss).

	Consolidated 30/9/10 %	Consolidated 30/9/09 %	The Company 30/9/10 %	The Company 30/9/09 %
The major categories of defined benefit plan assets as a percentage of the fair value of total defined benefit plan assets were as follows:				
Fixed interest and cash	**100**	100	**100**	100

Note 22 Prepaid Pension Assets *continued*

There were no financial instruments issued by the Banking Group included in the fair value of defined benefit plan assets as at 30 September 2010 (30 September 2009: $24 million).

Principal actuarial assumptions

	Consolidated		The Company	
	30/9/10 %	30/9/09 %	**30/9/10 %**	30/9/09 %
Discount rate – as at the reporting date	**3.7**	4.2	**3.7**	4.2
Expected rate of return on defined benefit plan assets used during the year	**4.0**	4.0	**4.0**	4.0
Future salary increases (for the year ending 30 September 2010)	**1.3**	1.0	**1.3**	1.0
Future salary increases (thereafter)	**1.3**	2.5	**1.3**	2.5
Future pension increases	**3.5**	3.5	**3.5**	3.5

The expected rate of return on defined benefit plan assets is a best estimate based on the expected returns of each asset class.

The principal actuarial assumptions are reviewed annually in September.

No employer contributions are expected to be paid to the defined benefit plan in the financial year ending 30 September 2011 due to the Bank utilising amounts from the pension surplus. No employee contributions are expected to be paid to the defined benefit plan in the financial year ending 30 September 2011.

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Note 23 Due to Central Banks and Other Financial Institutions				
Transaction balances with other financial institutions	**444**	460	**444**	460
Deposits from central banks	**29**	78	**29**	78
Deposits from other financial institutions	**448**	206	**448**	206
Securities sold under agreements to repurchase from central banks	**-**	2,505	**-**	2,505
Securities sold under agreements to repurchase from other financial institutions	**654**	643	**654**	643
Total due to central banks and other financial institutions	**1,575**	3,892	**1,575**	3,892
Due to central banks and other financial institutions comprised:				
Call balances	**444**	460	**444**	460
Term balances	**1,131**	3,432	**1,131**	3,432
Total due to central banks and other financial institutions	**1,575**	3,892	**1,575**	3,892

The Bank held no secured deposits from central banks and other financial institutions as at 30 September 2010 (30 September 2009: nil).

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Note 24 Other Money Market Deposits				
Money market deposits from non-financial institutions	**2,853**	2,041	**2,853**	2,041
Certificates of deposit	**1,752**	2,613	**1,752**	2,613
Commercial paper	**7,278**	6,113	**-**	-
Total other money market deposits	**11,883**	10,767	**4,605**	4,654

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Note 25 Trading Liabilities				
Short sales of securities	**31**	9	**31**	9
Total trading liabilities	**31**	9	**31**	9

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Note 26 Deposits from Customers				
Demand deposits not bearing interest	**801**	671	**801**	671
Demand deposits bearing interest	**10,302**	9,839	**10,210**	9,714
Term deposits	**17,560**	16,723	**17,560**	16,723
Total deposits from customers	**28,663**	27,233	**28,571**	27,108

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Note 27 Bonds and Notes				
Registered transferable notes	**3,524**	3,234	**3,524**	3,234
Medium term notes	**6,248**	4,344	**-**	-
Total bonds and notes	**9,772**	7,578	**3,524**	3,234

Details of the terms and conditions of these notes as at 30 September 2010 were as follows:

Issue Currency	Coupon Rate %	Maturity Date	Face Value Issue Currency Millions*	**30/9/10 Fair Value NZ $Millions**	30/9/09 Fair Value NZ $Millions
Registered transferable notes issued by Bank of New Zealand:					
New Zealand dollar	Zero Coupon	30 October 2009	24	**-**	24
New Zealand dollar	3 month NZD BKBM + 60bp	1 March 2010	187	**-**	186
New Zealand dollar	Zero Coupon	4 June 2010	50	**-**	49
New Zealand dollar	3 month NZD BKBM + 6bp	6 July 2010	50	**-**	50
New Zealand dollar	3 month NZD BKBM + 6bp	6 July 2010	50	**-**	50
New Zealand dollar	3 month NZD BKBM + 45bp	22 July 2010	40	**-**	40
New Zealand dollar	Zero Coupon	9 August 2010	50	**-**	49
New Zealand dollar	Zero Coupon	6 September 2010	50	**-**	49
New Zealand dollar	7.500 (fixed)	15 September 2010	50	**-**	51
New Zealand dollar	7.500 (fixed)	15 September 2010	50	**-**	51
New Zealand dollar	7.500 (fixed)	15 September 2010	125	**-**	129
New Zealand dollar	7.500 (fixed)	15 September 2010	100	**-**	103
New Zealand dollar	7.500 (fixed)	15 September 2010	2	**-**	2
New Zealand dollar	7.150 (fixed)	12 October 2010	24	**25**	26
New Zealand dollar	3 month NZD BKBM + 55bp	28 October 2010	50	**50**	50
New Zealand dollar	3 month NZD BKBM + 90bp	20 May 2011	80	**80**	79
New Zealand dollar	3 month NZD BKBM + 90bp	20 May 2011	30	**30**	29
New Zealand dollar	3 month NZD BKBM + 90bp	20 May 2011	60	**60**	61
New Zealand dollar	Zero Coupon	14 June 2011	50	**49**	-
New Zealand dollar	7.500 (fixed)	15 September 2011	196	**203**	209
New Zealand dollar	3 month NZD BKBM	15 October 2011	121	**120**	125
New Zealand dollar	3 month NZD BKBM + 95bp	27 July 2012	125	**126**	-
New Zealand dollar	3 month NZD BKBM	31 July 2012	11	**11**	11
New Zealand dollar	7.500 (fixed)	15 September 2012	97	**103**	105
New Zealand dollar	7.500 (fixed)	15 September 2012	24	**26**	26
New Zealand dollar	7.500 (fixed)	15 September 2012	147	**155**	-
New Zealand dollar	3 month NZD BKBM + 93bp	20 September 2012	85	**85**	-
New Zealand dollar	6.120 (fixed)	15 April 2013	50	**53**	51
New Zealand dollar	8.560 (fixed)	27 May 2013	249	**278**	276
New Zealand dollar	8.560 (fixed)	27 May 2013	130	**145**	144
New Zealand dollar	4.775 (fixed)	20 February 2014**	180	**182**	174
New Zealand dollar	4.775 (fixed)	20 February 2014**	105	**106**	102
New Zealand dollar	4.775 (fixed)	20 February 2014**	415	**421**	401
New Zealand dollar	6.700 (fixed)	31 March 2014	50	**52**	50
New Zealand dollar	8.675 (fixed)	27 May 2015	50	**57**	56
New Zealand dollar	8.675 (fixed)	27 May 2015	30	**34**	34
New Zealand dollar	8.675 (fixed)	27 May 2015	100	**115**	112
New Zealand dollar	8.675 (fixed)	27 May 2015	135	**155**	151
New Zealand dollar	6.000 (fixed)	30 June 2015***	143	**151**	-
New Zealand dollar	6.165 (fixed)	13 August 2015	224	**229**	-
New Zealand dollar	7.465 (fixed)	27 May 2016	50	**55**	53
New Zealand dollar	6.905 (fixed)	15 September 2016	60	**63**	46
New Zealand dollar	6.905 (fixed)	15 September 2016	40	**42**	30
New Zealand dollar	6.425 (fixed)	30 June 2017***	248	**263**	-
				3,524	3,234

* Face value represents current value on issue.

** These notes are covered by the Crown wholesale funding guarantee. Refer to the Guarantees section on page 2 for further information.

*** These notes are guaranteed by the Covered Bond Trust. Refer to note 13 for further information.

Note 27 Bonds and Notes *continued*

Issue Currency	Coupon Rate %	Maturity Date	Face Value Issue Currency Millions*	**30/9/10 Fair Value NZ $Millions**	30/9/09 Fair Value NZ $Millions
Medium term notes issued by BNZ International Funding Limited (London Branch):					
Hong Kong dollar	4.470 (fixed)	16 February 2010	1,000	**-**	187
Pound sterling	3 month GBP LIBOR + 2bp	6 July 2010	150	**-**	334
Singapore dollar	3.240 (fixed)	28 July 2010	100	**-**	101
US dollar	3 month USD LIBOR + 7.5bp	26 November 2010	750	**1,018**	1,043
New Zealand dollar	3 month NZD BBR FRA + 7bp	17 January 2011	100	**101**	100
New Zealand dollar	3 month NZD BBR FRA + 70bp	24 June 2011	69	**69**	69
New Zealand dollar	3 month NZD BKBM + 72bp	7 December 2011	40	**40**	-
US dollar	3 month USD LIBOR + 7.5bp	8 December 2011	600	**811**	818
Japanese yen	3 month JPY LIBOR + 60bp	25 May 2012 **	3,200	**53**	50
US dollar	2.625 (fixed)	5 June 2012 **	750	**1,057**	1,043
US dollar	3 month USD LIBOR + 70bp	18 June 2012 **	60	**82**	85
US dollar	3 month USD LIBOR + 37bp	16 July 2012 **	45	**61**	63
US dollar	3 month USD LIBOR + 30bp	6 August 2012	50	**68**	-
Hong Kong dollar	2.190 (fixed)	19 November 2012	150	**27**	-
Hong Kong dollar	2.075 (fixed)	27 November 2012	200	**36**	-
US dollar	3 month USD LIBOR + 80bp	10 December 2012	30	**41**	-
US dollar	3 month USD LIBOR + 78bp	11 December 2012	30	**41**	-
US dollar	3 month USD LIBOR + 90bp	15 May 2013	122	**166**	169
US dollar	3 month USD LIBOR + 100bp	27 August 2013	100	**135**	-
Japanese yen	1.715 (fixed)	27 May 2014 **	15,000	**253**	234
Japanese yen	1.445 (fixed)	2 June 2014 **	3,000	**50**	48
Hong Kong dollar	3.030 (fixed)	11 June 2014	100	**18**	-
US dollar	3 month USD LIBOR + 115bp	6 October 2014	50	**68**	-
Japanese yen	1.464 (fixed)	3 December 2014	5,000	**82**	-
Swiss Franc	2.000 (fixed)	18 February 2015	200	**287**	-
Swiss Franc	2.000 (fixed)	18 February 2015	100	**140**	-
Japanese yen	3 month JPY LIBOR + 55bp	26 May 2015	500	**8**	-
Japanese yen	3 month JPY LIBOR + 52bp	29 June 2015	500	**8**	-
US dollar	3 month USD LIBOR + 125bp	3 August 2015	5	**7**	-
Euro	4.000 (fixed)	8 March 2017	750	**1,464**	-
Hong Kong dollar	3.480 (fixed)	8 September 2020	53	**9**	-
New Zealand dollar	6.590 (fixed)	30 September 2020	25	**24**	-
New Zealand dollar	6.590 (fixed)	30 September 2020	25	**24**	-
				6,248	4,344

* Face value represents current value on issue.

** These notes are covered by the Crown wholesale funding guarantee. Refer to the Guarantees section on page 2 for further information.

Events after the reporting period

On 23 November 2010, BNZ International Funding Limited (London Branch) issued a Euro €1 billion medium term note with a coupon of 3.125% (fixed) and maturity date of 23 November 2017.

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09

Note 28 Other Liabilities

Accrued interest payable	**271**	397	**266**	393
Securities purchased – not yet settled	**231**	11	**163**	11
Employee entitlements	**103**	103	**103**	103
Operating expense provisions	**11**	27	**7**	23
Other liabilities	**269**	272	**256**	271
Total other liabilities	**885**	810	**795**	801

As at 30 September 2010, provisions of $2 million are expected to be utilised beyond 12 months (30 September 2009: nil).

Note 29 Subordinated Debt

The following subordinated loans and bonds are expressed to be subordinated to all other indebtedness of the Bank. The subordinated debt constitutes upper or lower Tier Two capital for RBNZ capital adequacy purposes as follows:

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Upper Tier Two capital				
Subordinated loans from related entities				
National Equities Limited	**190**	190	**190**	190
Total subordinated loans from related entities	**190**	190	**190**	190
Total upper Tier Two capital	**190**	190	**190**	190
Lower Tier Two capital				
Subordinated loans from related entities				
NAB Capital LLC	**230**	230	**230**	230
National Equities Limited	**485**	485	**485**	485
Total subordinated loans from related entities	**715**	715	**715**	715
Other subordinated debt				
NZD term subordinated fixed rate bonds	**373**	375	**373**	375
Total other subordinated debt	**373**	375	**373**	375
Total lower Tier Two capital	**1,088**	1,090	**1,088**	1,090
Total subordinated debt	**1,278**	1,280	**1,278**	1,280

The interest rates on the subordinated loans from related entities are reset every three months based on a margin over the prevailing rate for New Zealand 90-day bank bills. The effective weighted average interest rate applying on the loans was 3.8% p.a. as at 30 September 2010 (30 September 2009: 3.4% p.a.).

The subordinated loans from related entities in the above table have no fixed maturity dates. Subordinated loans from related entities that constitute part of the lower Tier Two capital are repayable on five years and one day's notice. No request to repay the loans has been received during the three months ended 30 September 2010. Subordinated loans from related entities that constitute part of the upper Tier Two capital can be repaid only at the Bank's option, subject to certain conditions, at any time on seven days' notice.

On 15 June 2007, the Bank issued $350 million subordinated bonds which are listed on the NZDX. The coupon rate on these bonds is 8.42% p.a., payable semi-annually in arrears based on the fixed coupon rate. These 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 to maturity at the five-year swap mid-rate plus 0.75% p.a.. The Bank did not hold any of these subordinated bonds as at 30 September 2010 (30 September 2009: nil). As at 30 September 2010, these bonds carried an AA- credit rating by Standard & Poor's and an Aa3 credit rating by Moody's Investors Service.

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Note 30 Contributed Equity				
Issued and paid-up share capital				
Ordinary shares, fully paid – balance at beginning of year	**1,451**	1,451	**1,451**	1,451
Ordinary shares, fully paid – balance at end of year	**1,451**	1,451	**1,451**	1,451
Perpetual preference shares, fully paid – balance at beginning of year	**710**	450	**710**	450
Proceeds from shares issued	**200**	260	**200**	260
Perpetual preference shares, fully paid – balance at end of year	**910**	710	**910**	710
Total issued and paid-up share capital	**2,361**	2,161	**2,361**	2,161

The issued and paid-up capital is included in Tier One capital of the Banking Group and the Registered Bank (refer to note 45).

Ordinary shares

The authorised ordinary share capital of the Company comprises 2,470,997,499 shares, which do not have a par value. All issued shares were fully paid as at the reporting date (30 September 2009: 2,470,997,499 shares). Each of the 2,470,997,499 ordinary shares entitles the shareholder to one vote at any meeting of shareholders.

Dividends on Ordinary shares for the year ended 30 September 2010 were 22.78 cents per share (year ended 30 September 2009: 8.78 cents per share).

Perpetual non-cumulative preference shares

The perpetual preference share capital of the Company comprises 909,730,000 shares (30 September 2009: 709,730,000 shares) which do not have a par value. All issued shares were fully paid as at the reporting date.

Each of the 909,730,000 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.

March 2008 issue

On 28 March 2008, the Bank issued 449,730,000 perpetual non-cumulative preference shares ("2008 BNZ PPS") to BNZ Income Management Limited ("BNZIM"), a subsidiary of the Bank's immediate parent, National Australia Group (NZ) Limited ("NAGNZ").

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 449,730,000 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.

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 the Australian Prudential Regulation Authority ("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 (refer to December 2009 issue on page 58);
- 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.

Note 30 Contributed Equity *continued*

Dividends on the 2008 BNZ PPS for the year ended 30 September 2010 were 6.92 cents per share (year ended 30 September 2009: 6.92 cents per share).

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 (refer to December 2009 issue below);
- 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.

June 2009 issue

On 26 June 2009, the Bank issued 260,000,000 perpetual non-cumulative preference shares ("2009 BNZ PPS") to BNZIM.

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 260,000,000 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 (refer to December 2009 issue below);
- 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.

Dividends on the 2009 BNZ PPS for the year ended 30 September 2010 were 6.37 cents per share (year ended 30 September 2009: 1.64 cents per share).

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 (refer to December 2009 issue below);
- 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.

December 2009 issue

On 29 December 2009, the Bank issued 200,000,000 perpetual non-cumulative preference shares ("2009A BNZ PPS") to 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 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.

Note 30 Contributed Equity *continued*

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.

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 2008 BNZ PPS and 2009 BNZ PPS) and creditors of the Bank.

Dividends on the 2009A BNZ PPS for the year ended 30 September 2010 were 4.83 cents per share (year ended 30 September 2009: nil).

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.

	Consolidated		The Company	
Dollars in Millions	**30/9/10**	30/9/09	**30/9/10**	30/9/09
Note 31 Reserves				
Asset revaluation reserve	**2**	2	**-**	-
Foreign currency translation reserve	**(3)**	3	**(6)**	1
Available for sale investments revaluation reserve	**16**	10	**16**	10
Cash flow hedge reserve	**60**	(18)	**60**	(18)
Total reserves	**75**	(3)	**70**	(7)
Total reserves comprised:				
Asset revaluation reserve				
Balance at beginning of year	**2**	2	**-**	-
Asset revaluation reserve – movement	**-**	(1)	**-**	(1)
Deferred income taxes	**-**	1	**-**	1
Balance at end of year	**2**	2	**-**	-

The asset revaluation reserve includes the gross revaluation increments and any subsequent decrements arising from the revaluation of property, plant and equipment.

	Consolidated		The Company	
Dollars in Millions	**30/9/10**	30/9/09	**30/9/10**	30/9/09
Foreign currency translation reserve				
Balance at beginning of year	**3**	6	**1**	5
Foreign currency translation adjustments	**2**	(4)	**(1)**	(5)
Current income taxes	**(8)**	1	**(6)**	1
Balance at end of year	**(3)**	3	**(6)**	1

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign entities.

	Consolidated		The Company	
Dollars in Millions	**30/9/10**	30/9/09	**30/9/10**	30/9/09
Available for sale investments revaluation reserve				
Balance at beginning of year	**10**	26	**10**	26
Net unrealised gains/(losses) on revaluation of available for sale investments	**6**	(9)	**6**	(9)
Net gains transferred to income statement on disposal	**-**	(7)	**-**	(7)
Balance at end of year	**16**	10	**16**	10

The available for sale investments revaluation reserve records fair value revaluations on available for sale investments required to be recorded in other comprehensive income until being transferred to the income statement upon disposal of the investment.

Note 31 Reserves *continued*

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Cash flow hedge reserve				
Balance at beginning of year	**(18)**	(27)	**(18)**	(27)
Net effective unrealised gains on revaluations of cash flow hedges	**79**	16	**79**	16
Current income taxes	**(1)**	(7)	**(1)**	(7)
Balance at end of year	**60**	(18)	**60**	(18)

The cash flow hedge reserve records the effective portion of fair value revaluations of derivatives designated as cash flow hedge accounting relationships.

Note 32 Retained Profits

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Balance at beginning of year	**1,587**	2,025	**1,547**	1,919
Net profit/(loss) attributable to shareholders of Bank of New Zealand	**602**	(181)	**489**	(115)
Actuarial loss on defined benefit plan				
Gross actuarial loss on defined benefit plan	**(4)**	(7)	**(4)**	(7)
Deferred tax on actuarial loss on defined benefit plan	**1**	2	**1**	2
Net actuarial loss on defined benefit plan	**(3)**	(5)	**(3)**	(5)
Ordinary dividend	**(563)**	(217)	**(563)**	(217)
Perpetual preference dividend	**(57)**	(35)	**(57)**	(35)
Balance at end of year	**1,566**	1,587	**1,413**	1,547

Dollars in Millions	Consolidated 30/9/10	30/9/09	The Company 30/9/10	30/9/09
Note 33 Imputation Credit Account				
Balance at beginning of year	**1,271**	597	**1,023**	438
Imputation credits attaching to dividends received during the year	**1**	2	**1**	1
Imputation credits attaching to dividends paid during the year	**(216)**	(66)	**(216)**	(66)
Income tax payments during the year net of refunds	**79**	738	**31**	650
Balance at end of year	**1,135**	1,271	**839**	1,023

The Imputation Credit Account entries reported for the Company include movements for the Bank, two controlled entities, two New Zealand entities that sit outside the control of the Banking Group, but are controlled entities of National Australia Bank Limited and the Bank's immediate parent company which together form a consolidated imputation group for income tax purposes.

The Consolidated Imputation Credit Account entries reported include movements for the Bank, its controlled entities, two New Zealand entities that sit outside the control of the Banking Group, but are controlled entities of National Australia Bank Limited and the Bank's immediate parent company.

Note 34 Interest Earning and Discount Bearing Assets and Liabilities and Ranking of Liabilities

Ranking of liabilities

The deposit liabilities reported in these financial statements by the Banking Group are unsecured and rank equally with the Banking Group's other unsecured liabilities. As at 30 September 2010, $145 million (30 September 2009: $138 million) of certain unsecured liabilities rank in priority to general creditors' claims in a winding up of the Bank. Furthermore, certain unsecured liabilities are guaranteed under the Crown wholesale funding guarantee scheme. Further details on the scheme are provided in the guarantees section on page 2. Certain debt securities are guaranteed by the Covered Bond Trust. Further details on the Covered Bond Trust are provided in note 13. Subordinated debt with a carrying value totalling $1,278 million as at 30 September 2010 (30 September 2009: $1,280 million) ranks behind the claims of all other creditors in a winding up. Included in liabilities are obligations of the Bank under repurchase agreements where the Bank has agreed to repurchase $654 million of Government stock (30 September 2009: $643 million). No residential mortgage-backed securities were used as collateral securities as at 30 September 2010 (30 September 2009: $2,505 million).

Dollars in Millions	Consolidated 30/9/10	30/9/09	The Company 30/9/10	30/9/09
Interest earning and discount bearing assets	**62,103**	61,549	**66,590**	68,009
Interest and discount bearing liabilities	**57,392**	56,228	**64,892**	65,680

Note 35 Related Entity Transactions

The Bank is a wholly owned controlled entity of National Australia Group (NZ) Limited. The ultimate parent bank of Bank of New Zealand is National Australia Bank Limited. During the year ended 30 September 2010, there had been dealings between the Bank and its related entities (including the ultimate parent, other members of the National Australia Bank Group and controlled entities) as well as other related parties (including key management personnel, their close family members and their controlled entities). Details of these transactions are outlined on pages 62 to 64.

Dealings with National Australia Bank Group included on-balance sheet activities such as funding and accepting deposits and other activities such as foreign exchange and forward exchange transactions. National Australia Bank Limited also provides a range of banking services for Bank of New Zealand customers in locations where the Bank's and National Australia Bank Limited's offices were merged in London, Hong Kong, Tokyo, New York and various locations in Australia. These transactions are subject to normal commercial terms and conditions.

Note 35 Related Entity Transactions *continued*

Related entities

Amounts due from related entities

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Ultimate parent				
Loans outstanding at beginning of year	**63**	31	**18**	2
Net loans issued during the year	**267**	32	**301**	16
Loans outstanding to ultimate parent at end of year	**330**	63	**319**	18
Controlled entities of ultimate parent				
Loans outstanding at beginning of year	**30**	24	**30**	24
Net loans issued during the year	**179**	6	**179**	6
Loans outstanding to controlled entities of ultimate parent at end of year	**209**	30	**209**	30
Controlled entities of Bank of New Zealand				
Loans outstanding at beginning of year	**-**	-	**6,539**	2
Net loans (repaid)/issued during the year	**-**	-	**(1,923)**	6,537
Loans outstanding to controlled entities of Bank of New Zealand at end of year	**-**	-	**4,616**	6,539
Total amounts due from related entities	**539**	93	**5,144**	6,587
Interest income on amounts due from related entities comprised:				
Ultimate parent	**2**	3	**1**	2
Controlled entities of ultimate parent	**6**	-	**6**	-
Controlled entities of Bank of New Zealand	**-**	-	**213**	258
Total interest income on amounts due from related entities	**8**	3	**220**	260

No provisions have been recognised in respect of loans provided to related entities. There were no debts with any of the above parties written off or forgiven during the year ended 30 September 2010 (year ended 30 September 2009: nil).

The Banking Group provides banking and other administrative services to members of the National Australia Bank Group operating in New Zealand at arm's length and on normal terms and conditions.

During the financial year there have been dealings between the Company and its controlled entities, and the Banking Group and its related entities. The Company provides a range of services to related entities including the provision of banking facilities. These transactions are normally subject to commercial terms and conditions. The Company provides some accounting administration and banking services to controlled entities for which fees may be charged. Details of dividends received from controlled entities are contained in note 4.

Note 35 Related Entity Transactions *continued*

Related entities *continued*

Amounts due to related entities *continued*

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Ultimate parent				
Deposits at beginning of year	**5,356**	3,204	**2,952**	3,204
Net deposits (repaid)/received during the year	**(557)**	2,152	**(1,433)**	(252)
Deposits from ultimate parent at end of year	**4,799**	5,356	**1,519**	2,952
Controlled entities of ultimate parent				
Deposits at beginning of year	**888**	1,119	**888**	1,119
Net deposits repaid during the year	**(550)**	(231)	**(550)**	(231)
Deposits from controlled entities of ultimate parent at end of year	**338**	888	**338**	888
Controlled entities of Bank of New Zealand				
Deposits at beginning of year	**-**	-	**22,668**	16,361
Net deposits received during the year	**-**	-	**1,955**	6,307
Deposits from controlled entities of Bank of New Zealand at end of year	**-**	-	**24,623**	22,668
Total amounts due to related entities	**5,137**	6,244	**26,480**	26,508
Subordinated loans due to related entities (refer to note 29)	**905**	905	**905**	905
Interest expense on amounts due to related entities comprised:				
Ultimate parent	**198**	227	**32**	127
Controlled entities of ultimate parent	**43**	91	**43**	91
Controlled entities of Bank of New Zealand	**-**	-	**586**	761
Total interest expense on amounts due to related entities	**241**	318	**661**	979

Other transactions with related entities

Dividends paid to the shareholders are disclosed in note 32.

During the year ended 30 September 2010, the Bank issued 200,000,000 perpetual non-cumulative preference shares to National Australia Group (NZ) Limited, the Bank's immediate parent and a subsidiary of the Bank's ultimate parent, National Australia Bank Limited. During the year ended 30 September 2009, the Bank issued 260,000,000 perpetual non-cumulative preference shares to BNZ Income Management Limited, a subsidiary of the Bank's immediate parent. Refer to note 30 for further details.

During the year ended 30 September 2010, the Bank made subvention payments and payments for the use of tax losses and tax credits to its controlled entities and other controlled entities of National Australia Bank Limited totalling $110 million (year ended 30 September 2009: $124 million).

For the year ended 30 September 2010, imputation credits amounting to $3 million from the group imputation credit account (year ended 30 September 2009: $3 million) were attached to dividends paid by National Wealth Management New Zealand Holdings Limited, a controlled entity of the Bank's ultimate parent. Information about the composition of the imputation group is contained in note 33.

During the year ended 30 September 2010, the Bank provided services to National Australia Bank Limited in relation to collection services amounting to $1 million (year ended 30 September 2009: nil).

During the year ended 30 September 2010, the Bank incurred $36 million of intercompany charges from National Australia Bank Limited in relation to technology costs (year ended 30 September 2009: $51 million). The Bank incurred $16 million of other service charges from National Australia Bank Limited during the year ended 30 September 2010 (year ended 30 September 2009: $14 million).

The unrealised gains on trading and hedging derivative financial instruments transacted with National Australia Bank Limited contained within note 16 were $1,181 million as at 30 September 2010 (30 September 2009: $1,101 million). Unrealised losses on trading and hedging derivative financial instruments transacted with National Australia Bank Limited disclosed in note 16 were $1,504 million as at 30 September 2010 (30 September 2009: $1,475 million).

Commissions received from controlled entities of National Australia Bank Limited for the sale of insurance on behalf of those controlled entities during the year ended 30 September 2010 totalled $16 million (year ended 30 September 2009: $11 million).

The Banking Group recognised an intercompany payable to National Australia Bank Limited in respect of share based payments of $68 million as at 30 September 2010 (30 September 2009: $48 million).

BNZ Cash PIE (the "Fund") was established on 23 October 2008. The Fund is a Portfolio Investment Entity. Bank of New Zealand and the Directors of Bank of New Zealand are the Promoters of the Fund. BNZ Investment Services Limited, a wholly owned controlled entity of Bank of New Zealand, is the Manager and Issuer of the Fund. Until 23 September 2010 BNZ Investment Services Limited received management fees from the Fund. On 23 September 2010, the management fee reduced to 0% of funds under management. The Fund invests solely in debt securities issued by the Bank. Further information, including the investment balance as at 30 September 2010, is included in note 44. The Fund is consolidated as part of the Banking Group for financial reporting purposes.

BNZ Term PIE (the "Term Fund") was established on 23 September 2010. The Term Fund is a Portfolio Investment Entity. Bank of New Zealand and the Directors of Bank of New Zealand are the Promoters of the Term Fund. BNZ Investment Services Limited, a wholly owned controlled entity of Bank of New Zealand, is the Manager and Issuer of the Term Fund. The Term Fund invests solely in debt securities issued by the Bank. Further information, including the investment balance as at 30 September 2010, is included in note 44. The Term Fund is consolidated as part of the Banking Group for financial reporting purposes.

Note 35 Related Entity Transactions *continued*

On 11 November 2008, the RMBS Trust was established to provide an in-house residential mortgage-backed securities facility. Refer to note 17 for further information.

On 2 June 2010, the Covered Bond Trust was established to hold Bank of New Zealand housing loans and to provide guarantees to certain debt securities issued by the Bank or BNZ International Funding Limited, a wholly owned controlled entity of the Bank. The establishment of the facility resulted in the Bank's financial statements recognising an intercompany payable and an intercompany receivable of equal amount of $493 million. This did not have any impact on the consolidated financial statements of the Banking Group as transactions between the Bank and the Covered Bond Trust are eliminated on consolidation. Further details on the Covered Bond Trust are provided in note 13.

The following medium term notes issued by BNZ International Funding Limited (London Branch), a controlled entity of the Bank, were held by National Australia Bank Limited:

Issue Currency	Coupon Rate %	Maturity Date	Face Value Issue Currency Millions	**30/9/10 Fair Value NZ $Millions**	30/9/09 Fair Value NZ $Millions
Australian dollar	3 month AUD BBSW + 200bp	30 March 2012	500	**657**	610
Australian dollar	3 month AUD BBSW + 280bp	15 November 2012	1,000	**1,326**	1,227
Australian dollar	3 month AUD BBSW + 110bp	28 June 2013	500	**657**	-

As at 30 September 2010, National Australia Bank Limited have provided the Banking Group with an A$1 billion market rate advance facility for its liquidity management in the course of its normal trading activities. Funds will be made available for a term not exceeding 14 days, or at a term to be agreed with the National Australia Bank Limited at the time of usage.

Key management personnel

Key management personnel are defined as being Directors and general management of the Banking Group. The information relating to key management personnel disclosed below includes transactions with those individuals, their close family members and their controlled entities.

Loans and deposits with non-executive key management personnel of the Banking Group are made in the ordinary course of business on commercial terms and conditions. Loans and deposits with executive key management personnel of the Banking Group are made either:

- on normal terms and conditions; or
- on terms and conditions which apply to other employees in the Banking Group.

All loans made to key management personnel have been made in accordance with the Banking Group's lending policies.

Amounts due from key management personnel

Included in loans and advances to customers were the following amounts due from key management personnel:

	Consolidated		**The Company**	
Dollars in Millions	**30/9/10**	30/9/09	**30/9/10**	30/9/09
Loans outstanding at beginning of year	**5**	6	**5**	6
Net movements in loans during the year	**5**	(1)	**5**	(1)
Loans outstanding at end of year	**10**	5	**10**	5
Interest income on amounts due from key management personnel	**-**	-	**-**	-

Interest income on amounts due from key management personnel is shown as nil in the table above as a result of rounding to the nearest million.

No provisions have been recognised in respect of loans provided to key management personnel. There were no debts written off or forgiven during the year ended 30 September 2010 (year ended 30 September 2009: nil).

Amounts due to key management personnel

Included in deposits from customers were the following amounts due to key management personnel:

	Consolidated		**The Company**	
Dollars in Millions	**30/9/10**	30/9/09	**30/9/10**	30/9/09
Deposits at beginning of year	**1**	3	**1**	3
Net movements in deposits during the year	**3**	(2)	**3**	(2)
Deposits at end of year	**4**	1	**4**	1
Interest expense on amounts due to key management personnel	**-**	-	**-**	-

Interest expense on amounts due to key management personnel is shown as nil in the table above as a result of rounding to the nearest million.

Other transactions with key management personnel

The remuneration paid or payable to the Directors and other key management personnel is outlined in note 5.

Note 36 Categories of Financial Assets and Financial Liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For the purposes of this note, carrying amount refers to amounts reflected in the balance sheet. The methodologies and assumptions used in the fair value estimates are described on page 69.

	Consolidated (30/9/10)						
	Classified at Fair Value Through Profit or Loss						
Dollars in Millions	Held for Trading	Designated on Initial Recognition	Hedging	Available For Sale	Loans and Receivables	Total Carrying Amount	Fair Value
Financial assets							
Balances with central banks	**-**	**170**	**-**	**-**	**1,750**	**1,920**	**1,920**
Due from other financial institutions	**-**	**394**	**-**	**-**	**855**	**1,249**	**1,249**
Trading securities	**3,231**	**-**	**-**	**-**	**-**	**3,231**	**3,231**
Other money market placements	**-**	**238**	**-**	**-**	**195**	**433**	**433**
Available for sale investments	**-**	**-**	**-**	**273**	**-**	**273**	**273**
Loans and advances to customers	**-**	**18,800**	**-**	**-**	**36,186**	**54,986**	**55,279**
Derivative financial instruments	**5,313**	**-**	**337**	**-**	**-**	**5,650**	**5,650**
Amounts due from related entities	**-**	**-**	**-**	**-**	**539**	**539**	**539**
Other financial assets	**-**	**-**	**-**	**-**	**383**	**383**	**383**
Total financial assets	**8,544**	**19,602**	**337**	**273**	**39,908**	**68,664**	**68,957**
			Consolidated (30/9/09)				
Financial assets							
Balances with central banks	-	-	-	-	1,415	1,415	1,415
Due from other financial institutions	-	489	-	-	380	869	869
Trading securities	3,662	-	-	-	-	3,662	3,662
Other money market placements	-	431	-	-	106	537	537
Available for sale investments	-	-	-	338	-	338	338
Loans and advances to customers	-	19,272	-	-	35,870	55,142	55,489
Derivative financial instruments	5,534	-	384	-	-	5,918	5,918
Amounts due from related entities	-	-	-	-	93	93	93
Other financial assets	-	-	-	-	327	327	327
Total financial assets	9,196	20,192	384	338	38,191	68,301	68,648
			The Company (30/9/10)				
Financial assets							
Balances with central banks	**-**	**170**	**-**	**-**	**1,750**	**1,920**	**1,920**
Due from other financial institutions	**-**	**394**	**-**	**-**	**855**	**1,249**	**1,249**
Trading securities	**3,231**	**-**	**-**	**-**	**-**	**3,231**	**3,231**
Other money market placements	**-**	**238**	**-**	**-**	**195**	**433**	**433**
Available for sale investments	**-**	**-**	**-**	**273**	**-**	**273**	**273**
Loans and advances to customers	**-**	**18,800**	**-**	**-**	**36,178**	**54,978**	**55,271**
Derivative financial instruments	**5,313**	**-**	**337**	**-**	**-**	**5,650**	**5,650**
Amounts due from related entities	**-**	**-**	**-**	**-**	**5,144**	**5,144**	**5,144**
Other financial assets	**-**	**-**	**-**	**-**	**314**	**314**	**314**
Total financial assets	**8,544**	**19,602**	**337**	**273**	**44,436**	**73,192**	**73,485**
			The Company (30/9/09)				
Financial assets							
Balances with central banks	-	-	-	-	1,415	1,415	1,415
Due from other financial institutions	-	489	-	-	380	869	869
Trading securities	3,662	-	-	-	-	3,662	3,662
Other money market placements	-	431	-	-	106	537	537
Available for sale investments	-	-	-	338	-	338	338
Loans and advances to customers	-	19,272	-	-	35,870	55,142	55,489
Derivative financial instruments	5,534	-	384	-	-	5,918	5,918
Amounts due from related entities	-	-	-	-	6,587	6,587	6,587
Other financial assets	-	-	-	-	327	327	327
Total financial assets	9,196	20,192	384	338	44,685	74,795	75,142

Note 36 Categories of Financial Assets and Financial Liabilities *continued*

Dollars in Millions	Classified at Fair Value Through Profit or Loss: Held for Trading	Classified at Fair Value Through Profit or Loss: Designated on Initial Recognition	Hedging	At Amortised Cost	Total Carrying Amount	Fair Value
	Consolidated (30/9/10)					
Financial liabilities						
Due to central banks and other financial institutions	**-**	**308**	**-**	**1,267**	**1,575**	**1,575**
Other money market deposits	**-**	**11,883**	**-**	**-**	**11,883**	**11,883**
Trading liabilities	**31**	**-**	**-**	**-**	**31**	**31**
Deposits from customers	**-**	**24**	**-**	**28,639**	**28,663**	**28,730**
Derivative financial instruments	**5,842**	**-**	**579**	**-**	**6,421**	**6,421**
Bonds and notes	**-**	**9,772**	**-**	**-**	**9,772**	**9,772**
Amounts due to related entities	**-**	**-**	**-**	**5,137**	**5,137**	**5,137**
Subordinated debt	**-**	**373**	**-**	**905**	**1,278**	**1,278**
Other financial liabilities	**-**	**-**	**-**	**502**	**502**	**502**
Total financial liabilities	**5,873**	**22,360**	**579**	**36,450**	**65,262**	**65,329**
	Consolidated (30/9/09)					
Financial liabilities						
Due to central banks and other financial institutions	-	2,618	-	1,274	3,892	3,892
Other money market deposits	-	10,767	-	-	10,767	10,767
Trading liabilities	9	-	-	-	9	9
Deposits from customers	-	20	-	27,213	27,233	27,299
Derivative financial instruments	6,807	-	836	-	7,643	7,643
Bonds and notes	-	7,578	-	-	7,578	7,578
Amounts due to related entities	-	-	-	6,244	6,244	6,244
Subordinated debt	-	375	-	905	1,280	1,280
Other financial liabilities	-	-	-	408	408	408
Total financial liabilities	6,816	21,358	836	36,044	65,054	65,120
	The Company (30/9/10)					
Financial liabilities						
Due to central banks and other financial institutions	**-**	**308**	**-**	**1,267**	**1,575**	**1,575**
Other money market deposits	**-**	**4,605**	**-**	**-**	**4,605**	**4,605**
Trading liabilities	**31**	**-**	**-**	**-**	**31**	**31**
Deposits from customers	**-**	**24**	**-**	**28,547**	**28,571**	**28,638**
Derivative financial instruments	**5,842**	**-**	**579**	**-**	**6,421**	**6,421**
Bonds and notes	**-**	**3,524**	**-**	**-**	**3,524**	**3,524**
Amounts due to related entities	**-**	**-**	**-**	**26,480**	**26,480**	**26,480**
Subordinated debt	**-**	**373**	**-**	**905**	**1,278**	**1,278**
Other financial liabilities	**-**	**-**	**-**	**429**	**429**	**429**
Total financial liabilities	**5,873**	**8,834**	**579**	**57,628**	**72,914**	**72,981**
	The Company (30/9/09)					
Financial liabilities						
Due to central banks and other financial institutions	-	2,618	-	1,274	3,892	3,892
Other money market deposits	-	4,654	-	-	4,654	4,654
Trading liabilities	9	-	-	-	9	9
Deposits from customers	-	20	-	27,088	27,108	27,299
Derivative financial instruments	6,807	-	836	-	7,643	7,643
Bonds and notes	-	3,234	-	-	3,234	3,234
Amounts due to related entities	-	-	-	26,508	26,508	26,508
Subordinated debt	-	375	-	905	1,280	1,280
Other financial liabilities	-	-	-	404	404	404
Total financial liabilities	6,816	10,901	836	56,179	74,732	74,923

Further information on the fair value of derivative financial instruments is disclosed in note 16.

Note 37 Fair Value of Financial Assets and Financial Liabilities

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

Dollars in Millions	Consolidated (30/9/10) Carrying Amount	Contractual Amount	Higher/ (Lower)	The Company (30/9/10) Carrying Amount	Contractual Amount	Higher/ (Lower)
Due to central banks and other financial institutions	**308**	**308**	**-**	**308**	**308**	**-**
Other money market deposits	**11,883**	**11,884**	**(1)**	**4,605**	**4,607**	**(2)**
Deposits from customers	**24**	**24**	**-**	**24**	**24**	**-**
Bonds and notes	**9,772**	**9,465**	**307**	**3,524**	**3,359**	**165**
Subordinated debt	**373**	**350**	**23**	**373**	**350**	**23**
	22,360	**22,031**	**329**	**8,834**	**8,648**	**186**
	Consolidated (30/9/09)			**The Company** (30/9/09)		
Due to central banks and other financial institutions	2,618	2,613	5	2,618	2,613	5
Other money market deposits	10,767	10,782	(15)	4,654	4,668	(14)
Deposits from customers	20	20	-	20	20	-
Bonds and notes	7,578	7,490	88	3,234	3,155	79
Subordinated debt	375	350	25	375	350	25
	21,358	21,255	103	10,901	10,806	95

Movements in fair value of financial liabilities designated at fair value through profit or loss on initial recognition attributable to changes in credit risk

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Bonds and notes				
Balance at beginning of year	**(23)**	(153)	**6**	(15)
Movement during the year	**(6)**	130	**(15)**	21
Balance at end of year	**(29)**	(23)	**(9)**	6
Subordinated debt				
Balance at beginning of year	**(14)**	(18)	**(14)**	(18)
Movement during the year	**2**	4	**2**	4
Balance at end of year	**(12)**	(14)	**(12)**	(14)

The movement in fair value attributable to changes in the credit risk of financial liabilities designated at fair value through profit or loss is determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk.

Note 37 Fair Value of Financial Assets and Financial Liabilities *continued*

Hierarchy for fair value measurements

The following tables present a three level fair value hierarchy of the Banking Group's financial assets and financial liabilities which are measured at fair value.

The three levels in the hierarchy are based on the valuation methods and assumptions used in determining the fair values of financial assets and financial liabilities. The levels are as follows:

Level 1. Quoted prices in active markets for identical assets or liabilities.

Level 2. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

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

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

	Consolidated (30/9/10)			**The Company** (30/9/10)		
Dollars in Millions	**Total**	**Level 1**	**Level 2**	**Total**	**Level 1**	**Level 2**
Financial assets at fair value						
Held for trading						
Trading securities	**3,231**	**2,241**	**990**	**3,231**	**2,241**	**990**
Derivative financial instruments	**5,313**	**-**	**5,313**	**5,313**	**-**	**5,313**
	8,544	**2,241**	**6,303**	**8,544**	**2,241**	**6,303**
Designated on initial recognition						
Balances with central banks	**170**	**-**	**170**	**170**	**-**	**170**
Due from other financial institutions	**394**	**-**	**394**	**394**	**-**	**394**
Other money market placements	**238**	**-**	**238**	**238**	**-**	**238**
Loans and advances to customers	**18,800**	**-**	**18,800**	**18,800**	**-**	**18,800**
	19,602	**-**	**19,602**	**19,602**	**-**	**19,602**
Hedging						
Derivative financial instruments	**337**	**-**	**337**	**337**	**-**	**337**
	337	**-**	**337**	**337**	**-**	**337**
Available for sale						
Available for sale investments	**273**	**61**	**212**	**273**	**61**	**212**
	273	**61**	**212**	**273**	**61**	**212**
Financial liabilities at fair value						
Held for trading						
Trading liabilities	**31**	**31**	**-**	**31**	**31**	**-**
Derivative financial instruments	**5,842**	**-**	**5,842**	**5,842**	**-**	**5,842**
	5,873	**31**	**5,842**	**5,873**	**31**	**5,842**
Designated on initial recognition						
Due to central banks and other financial institutions	**308**	**-**	**308**	**308**	**-**	**308**
Other money market deposits	**11,883**	**-**	**11,883**	**4,605**	**-**	**4,605**
Deposits from customers	**24**	**-**	**24**	**24**	**-**	**24**
Bonds and notes	**9,772**	**-**	**9,772**	**3,524**	**-**	**3,524**
Subordinated debt	**373**	**-**	**373**	**373**	**-**	**373**
	22,360	**-**	**22,360**	**8,834**	**-**	**8,834**
Hedging						
Derivative financial instruments	**579**	**-**	**579**	**579**	**-**	**579**
	579	**-**	**579**	**579**	**-**	**579**

Note 37 Fair Value of Financial Assets and Financial Liabilities *continued*

The fair value estimates are based on the following methodologies and assumptions:

Due to / from central banks and other financial institutions, Other money market placements and Other money market deposits

These assets and liabilities are primarily short-term in nature or are receivable or payable on demand. In such cases the carrying amounts approximate their fair value. Where the term of the instrument exceeds 12 months, fair value has been determined using discounted cash flow models as appropriate.

Trading securities, Available for sale investments and Trading liabilities

Trading securities include treasury bills, bank bills and bonds, promissory notes, and government and other securities. Trading liabilities include short sales of securities. Available for sale investments include bonds, promissory notes, listed equity securities and other securities. These assets and liabilities are recorded at fair value based on quoted closing market prices as at the reporting date. Where quoted market prices are not available, the Banking Group obtains the fair value by means of discounted cash flows and other valuation techniques based on observable market prices. These techniques address factors such as interest rates, credit risk and liquidity.

Loans and advances to customers

The carrying value of loans and advances is net of allowance for impairment losses, credit risk adjustments, unearned and deferred income. Floating rate loans to customers generally reprice within six months, therefore, their fair value is assumed to equate their carrying value. For fixed rate loans, the fair value is estimated by discounting the expected future cash flows based on the maturity of the loans and advances, using current market interest rates of similar types of loans and advances or interest rate swap rates. The differences between estimated fair values of loans and advances and carrying value reflect the difference between observable market interest rates and customer rates on day one and changes in interest rates and creditworthiness of borrowers since loan or advance origination.

Derivative financial instruments

The fair values of trading and hedging derivatives, including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from observable market prices as at the reporting date, discounted cash flow models or option pricing models as appropriate.

Amounts due from / to related entities

The carrying amount of Amounts due from and due to related entities is considered to approximate the fair value.

Other financial assets

Other financial assets include securities sold but not yet settled and accrued interest receivable. Securities sold but not yet settled are based on observable market prices as at the reporting date. The fair value of accrued interest receivable is approximately equal to the carrying amounts on the balance sheet due to the short-term nature of the amounts.

Deposits from customers

With respect to Deposits from customers, the fair value of non-interest-bearing, call and variable rate deposits and fixed rate deposits repricing within six months is approximated as the carrying value as at the reporting date. For other fixed rate term deposits, the fair value is estimated by discounting the cash flows based on the maturity of the deposit, using current market interest rates.

Bonds and notes

Bonds and notes are recorded at fair value based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments. This is based on observable market prices as at the reporting date where available, otherwise alternative observable market source data is used. The fair value includes a calculation of the Banking Group's own credit risk based on observable market data for recent bonds and notes issuances.

Subordinated debt

All subordinated loans from related entities reprice every 90 days, therefore, their fair value is assumed to be their carrying value.

The fair value of other subordinated debt is based on quoted closing market prices as at the reporting date.

Other financial liabilities

Other financial liabilities include securities purchased but not yet settled and accrued interest payable. Securities purchased but not yet settled are based on observable market prices as at the reporting date. The fair value of accrued interest payable is approximately equal to the carrying amounts on the balance sheet due to the short-term nature of the amounts.

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

Note 38 Segment Analysis

Operating segments

An operating segment is a component of an entity engaging in business activities and whose operating results are regularly reviewed by the entity's chief operating decision maker. For each operating segment identified by the Banking Group, financial information is regularly reported to the New Zealand Leadership Team for the purposes of evaluation of performance and allocation of resource. Lending assets and deposit liabilities are additional key metrics that are regularly provided to the New Zealand Leadership Team. Deposit liabilities represent Money market deposits from non-financial institutions and Deposits from customers.

The Banking Group's business is organised into the following operating segments: Retail, BNZ Partners and BNZ Wholesale (formerly BNZ Capital). BNZ Wholesale, by virtue of its size, does not qualify as a reportable segment for the purpose of this note. There are two 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. Other Banking Group operations include wholesale and markets operations, funding operations and providing strategic support and services to other segments, none of which constitutes a separately reportable segment.

Revenues and expenses directly associated with each operating segment are included in determining their result. Transactions between operating segments are based on agreed recharges between segments. Segment revenue represents revenue directly attributable to a segment and a portion of the Banking Group's revenue that can be allocated to a segment on a reasonable basis. Segment revenue includes Net interest income and Other operating income, and includes transfer pricing adjustments to reflect intersegment funding arrangements. Intersegment pricing is determined on an arm's length basis. As a majority of the reportable segments' revenues are derived from interest and the New Zealand Leadership Team relies primarily on net interest income to assess the performance of the segment, total interest income and expense is presented on a net 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.

Other adjustments primarily represent elimination entries on consolidation of the results of the Banking Group's controlled entities in the preparation of the consolidated financial statements of the Banking Group; results of an entity included for management reporting purposes but excluded from the consolidated financial statements of the Banking Group for statutory financial reporting purposes; and other balances excluded for management reporting purposes but included as part of the consolidated financial statements of the Banking Group for statutory financial reporting purposes.

Prior to 1 October 2009, the Banking Group's relationships with large corporations and institutions were managed by BNZ Capital and are now included under BNZ Partners. As a result of this change, comparative information has been restated accordingly.

	Consolidated (30/9/10)					
Dollars in Millions	Retail	BNZ Partners	Total Reportable Segments	All Other Segments	Other Adjustments	Total Banking Group
Net interest income	480	777	1,257	24	-	1,281
Other income	242	213	455	63	(157)	361
Total revenue from external customers*	722	990	1,712	87	(157)	1,642
Net inter-segment revenue	2	73	75	(75)	-	-
Total segment revenue	724	1,063	1,787	12	(157)	1,642
Operating expenses**	373	357	730	74	14	818
Operating profit before impairment losses on credit exposures and income tax expense	351	706	1,057	(62)	(171)	824
Impairment losses on credit exposures	51	124	175	28	(16)	187
Operating profit before income tax expense	300	582	882	(90)	(155)	637
Income tax expense	83	175	258	(17)	(39)	202
Income tax credit on New Zealand structured finance transactions	-	-	-	-	(83)	(83)
Income tax credit interest costs on New Zealand structured finance transactions	-	-	-	-	(84)	(84)
Total income tax expense	83	175	258	(17)	(206)	35
Net profit attributable to shareholders of Bank of New Zealand	217	407	624	(73)	51	602
Lending assets	18,973	35,396	54,369	617	-	54,986
Deposit liabilities	14,703	14,469	29,172	2,344	-	31,516
** Operating expenses include:						
Depreciation and amortisation expenses	1	-	1	44	-	45

* For the year ended 30 September 2010, there were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Banking Group's revenues.

Note 38 Segment Analysis *continued*

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

Dollars in Millions	Retail	BNZ Partners	Total Reportable Segments	All Other Segments	Other Adjustments	Total Banking Group
	Consolidated (30/9/09)					
Net interest income	461	751	1,212	141	(2)	1,351
Other income	234	215	449	248	(396)	301
Total revenue from external customers*	695	966	1,661	389	(398)	1,652
Net inter-segment revenue	3	95	98	(98)	-	-
Total segment revenue	698	1,061	1,759	291	(398)	1,652
Operating expenses**	388	367	755	34	(12)	777
Operating profit before impairment losses on credit exposures and income tax expense	310	694	1,004	257	(386)	875
Impairment losses on credit exposures	56	186	242	2	(54)	190
Operating profit before income tax expense	254	508	762	255	(332)	685
Income tax expense	70	153	223	74	(92)	205
Income tax expense on New Zealand structured finance transactions	-	-	-	-	416	416
Income tax expense interest costs on New Zealand structured finance transactions	-	-	-	-	245	245
Total income tax expense	70	153	223	74	569	866
Net loss attributable to shareholders of Bank of New Zealand	184	355	539	181	(901)	(181)
Lending assets	17,200	37,218	54,418	724	-	55,142
Deposit liabilities	13,223	13,678	26,901	2,373	-	29,274
** Operating expenses include:						
Depreciation and amortisation expenses	1	-	1	38	-	39

* For the year ended 30 September 2009, there were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Banking Group's revenues.

Other adjustments

The tables below detail reconciling items comprising Other adjustments in the segment analysis tables presented above.

Dollars in Millions	**Consolidated** **30/9/10**	30/9/09
Other adjustments comprised:		
Total segment revenue		
Eliminations and consolidation adjustments	**(47)**	(43)
Fair value credit risk adjustment	**(16)**	(54)
Fair value gains or losses on financial instruments	**(94)**	(301)
	(157)	(398)
Operating profit before income tax expense		
Eliminations and consolidation adjustments	**(22)**	(18)
One-off project costs excluded for management reporting	**(39)**	(13)
Fair value gains or losses on financial instruments	**(94)**	(301)
	(155)	(332)
Income tax expense		
Eliminations and consolidation adjustments	**1**	2
One-off project costs excluded for management reporting	**(12)**	(4)
Fair value gains or losses on financial instruments	**(28)**	(90)
	(39)	(92)

Note 38 Segment Analysis *continued*

Geographical information

The Banking Group has operations primarily in New Zealand. Geographical revenue information is based on the location of the office in which the transactions were booked, whereas for assets, it is based on the location of the assets.

Dollars in Millions	Consolidated 30/9/10	30/9/09
Revenue from external customers		
New Zealand	**1,636**	1,644
Overseas	**6**	8
Total revenue	**1,642**	1,652
Non-current assets		
New Zealand	**276**	244
Overseas	**2**	-
Total non-current assets	**278**	244

Note 39 Contingent Liabilities and Credit 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 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.

Other contingent liabilities and commitments arising in respect of the Banking Group's operations were:

	Consolidated		**The Company**	
Dollars in Millions	**Notional Amount 30/9/10**	Notional Amount 30/9/09	**Notional Amount 30/9/10**	Notional Amount 30/9/09
Contingent liabilities				
Bank guarantees	**52**	53	**52**	53
Standby letters of credit	**342**	389	**342**	389
Documentary letters of credit	**91**	50	**91**	50
Performance related contingencies	**331**	387	**331**	387
Unpaid share capital in BNZ International (Hong Kong) Limited	**-**	-	**17**	15
Total other contingent liabilities	**816**	879	**833**	894
Credit related commitments				
Revocable commitments to extend credit	**4,995**	4,870	**4,995**	4,870
Irrevocable commitments to extend credit	**6,960**	7,369	**6,960**	7,369
Total credit related commitments	**11,955**	12,239	**11,955**	12,239
Total contingent liabilities and credit related commitments	**12,771**	13,118	**12,788**	13,133
Total contingent liabilities and credit related commitments comprised:				
New Zealand				
Agriculture, forestry and fishing	**594**	645	**594**	645
Mining	**61**	39	**61**	39
Manufacturing	**1,212**	1,152	**1,212**	1,152
Electricity, gas and water	**852**	687	**852**	687
Construction	**142**	142	**142**	142
Wholesale and retail trade	**1,225**	1,033	**1,225**	1,033
Accommodation, restaurants, culture and recreation	**241**	226	**241**	226
Transport and storage	**196**	323	**196**	323
Communications	**122**	236	**122**	236
Financial, investment and insurance	**380**	469	**380**	469
Property, business and personal services	**754**	1,122	**754**	1,122
Government, education, health and community services	**483**	720	**483**	720
Real estate – mortgage	**1,317**	1,368	**1,317**	1,368
Personal lending	**197**	86	**197**	86
Related entities	**-**	-	**17**	15
Total New Zealand	**7,776**	8,248	**7,793**	8,263
Revocable commitments to extend credit	**4,995**	4,870	**4,995**	4,870
Total contingent liabilities and credit related commitments	**12,771**	13,118	**12,788**	13,133

Contingent liabilities and credit related commitments by geographical location presented in the tables above are based on the geographical location of the office in which the exposures are recognised.

The contingent liabilities and credit related commitments by industry sector presented in the above tables are based on the RBNZ M3 Institutions Standard Statistical Return.

Note 39 Contingent Liabilities and Credit Commitments *continued*

Contingent liabilities

The maximum exposure to credit risk to the Banking Group for contingent exposures is the maximum amount that the Banking Group would have to pay if the contingent liability is called upon. For commitments to extend credit, the maximum credit exposure to the Banking Group is the full amount of the commitment.

The Banking Group uses the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risk as it does for on-balance sheet loan assets.

The Bank has recourse arrangements with customers and others in respect of almost all of the contingent liabilities.

Guarantees

The Banking Group provides guarantees in its normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Banking Group to guarantee the performance of a customer to a third party. Guarantees are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. It is the rating of the Banking Group as a guarantee provider that enhances the marketability of the paper issued by the counterparty in these circumstances. Guarantees are also provided on behalf of counterparties as performance bonds. The Banking Group has four principal types of guarantees:

- **Bank guarantees** – a guarantee that is an agreement by which the Bank agrees to pay an amount of money on demand on behalf of a customer to a third party during the life of the guarantee;
- **Standby letters of credit** – an obligation of the Bank on behalf of a customer to make payment to a third party in the event that the customer fails to meet an outstanding financial obligation;
- **Documentary letters of credit** – a guarantee that is established to indemnify exporters and importers in their trade transactions where the Bank agrees to make certain trade payments on behalf of a specified customer under specific conditions; and
- **Performance related contingencies** – a guarantee given by the Bank that undertakes to pay a sum of money to a third party where the customer fails to carry out certain terms and conditions of a contract.

The credit risk involved in issuing letters of credit and financial guarantees is essentially the same as that involved in extending loan facilities to customers. Apart from the normal documentation for a facility of this type, the customer must also provide the Banking Group with a written indemnity, undertaking that, in the event the Banking Group is called upon to pay, the Banking Group will be fully reimbursed by the customer.

Fees in relation to guarantees are collected over the life of the contract. Revenue is recognised on an accrual basis.

Guarantees to controlled entities

The Bank guarantees the obligations of BNZ International Funding Limited ("BNZIF"), acting through its London Branch, in respect of securities issued by BNZIF, London Branch to wholesale investors.

The constitution of BNZIF requires funds raised by its London Branch to be on-lent to the Bank on terms and conditions which match the terms and conditions of the original funding, including the same principal amount, currency, term and interest rate basis, and with corresponding redemption events and status (except that funds on-lent to the Bank will not be guaranteed).

As a result, the Bank has recognised its liabilities in relation to BNZIF, London Branch, on its balance sheet under Amounts due to related entities. Consequently, this guarantee has not been recognised as a contingent liability.

Unpaid share capital in controlled entities and other companies

This represents unpaid share capital in the wholly owned controlled entity, BNZ International (Hong Kong) Limited.

Credit related commitments

Irrevocable commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiry dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments are expected to expire without being drawn down, the total commitment amounts do not necessarily represent future cash requirements.

Revocable commitments to extend credit represent those facilities which can be cancelled at any time at the Bank's discretion without the risk of incurring significant penalty or expense. These facilities are generally on-demand.

For information on the Banking Group's risk management policies, refer to note 46.

	Consolidated		The Company	
Dollars in Millions	**30/9/10**	30/9/09	**30/9/10**	30/9/09
Note 40 Capital Expenditure Commitments				
Leasehold improvements				
Due within one year	**-**	2	**-**	-
Furniture, fittings and other equipment				
Due within one year	**8**	3	**2**	-
Data processing equipment				
Due within one year	**3**	4	**3**	4
Total capital expenditure commitments	**11**	9	**5**	4

These capital expenditure commitments have been entered into but not provided for in these financial statements.

Dollars in Millions	Consolidated 30/9/10	30/9/09	The Company 30/9/10	30/9/09

Note 41 Lease Commitments

Dollars in Millions	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Operating lease commitments				
Land and buildings*				
Non-cancellable future minimum lease payments:				
Due within one year	**44**	51	**1**	2
Due within one to five years	**121**	122	**-**	1
Due after five years	**174**	185	**-**	-
Total land and buildings lease commitments	**339**	358	**1**	3

* Figures include liabilities taken up for surplus leased space.

	Consolidated 30/9/10	Consolidated 30/9/09	The Company 30/9/10	The Company 30/9/09
Fleet vehicles				
Non-cancellable future minimum lease payments:				
Due within one year	**5**	5	**5**	5
Due within one to five years	**4**	3	**4**	3
Total fleet vehicles lease commitments	**9**	8	**9**	8
Total non-cancellable future minimum lease payments	**348**	366	**10**	11

The Banking Group enters into operating leases in relation to store and Corporate office premises for its retail and head office operations. Contingent rentals arise on some retail premises based on volume transacted through the stores.

Total future minimum sublease payments expected to be received under non-cancellable operating subleases as at the reporting date was $1 million (30 September 2009: $1 million).

Note 42 Credit Exposures to Connected Persons and Non-bank Connected Persons

The RBNZ defines Connected Persons to be other members of the National Australia Bank Group and Directors of the Bank. Controlled entities of the Bank are not connected persons. Credit exposures to connected persons have been derived in accordance with the Banking Group's conditions of registration and are net of allowance for impairment losses on individual financial assets and exclude advances of a capital nature. Credit exposures to connected persons have been calculated on a partial bilateral net basis, netting derivative balances. Certain term loans from National Australia Bank Group have also been netted against derivative exposures. Netting is only applied up to a maximum of 125% of the Banking Group's Tier One capital and where such transactions are subject to a bilateral netting agreement. As required by the Order, a copy of the bilateral netting agreement is included in the Supplemental Disclosure Statement published in conjunction with this General Disclosure Statement (refer to page 1 for further information).

Dollars in Millions	Consolidated $ 30/9/10	Percentage of Tier One Capital at End of Period 30/9/10	$ 30/9/09	Percentage of Tier One Capital at End of Period 30/9/09
As at end of period				
Credit exposure to connected persons (on gross basis, before netting)	**2,047**	**54.7%**	1,866	52.7%
Credit exposure to connected persons (amount netted)	**2,005**	**53.6%**	1,818	51.3%
Credit exposure to connected persons (on partial bilateral net basis)	**42**	**1.1%**	48	1.4%
Credit exposure to non-bank connected persons	**-**	**0.0%**	-	0.0%
Peak for the three months ended				
Credit exposure to connected persons (on gross basis, before netting)	**1,784**	**47.7%**	2,316	65.4%
Credit exposure to connected persons (amount netted)	**1,645**	**44.0%**	2,111	59.6%
Credit exposure to connected persons (on partial bilateral net basis)	**139**	**3.7%**	205	5.8%
Credit exposure to non-bank connected persons	**-**	**0.0%**	2	0.1%

As at 30 September 2010, the Banking Group's rating-contingent limit was 75% of the Banking Group's Tier One capital. There were no changes to this limit during the three months ended 30 September 2010. Within the overall rating-contingent limit, there is a sublimit of 15% of Tier One capital which applies to aggregate credit exposures to non-bank connected persons. Aggregate gross exposures to connected persons must not exceed 125% of the Banking Group's Tier One capital.

The rating-contingent limit on credit exposures to connected persons as set out in the Bank's conditions of registration has been complied with at all times during the three months ended 30 September 2010.

Where a bank is funding a large loan it is common practice to share the risk of a customer default with other connected banks. These arrangements are called risk lay-off arrangements. As at 30 September 2010, the Banking Group had contingent credit exposures of $31 million (30 September 2009: $365 million) arising from risk lay-off arrangements with connected persons. There were no allowances for impairment losses on individual financial assets provided against credit exposures to connected persons as at 30 September 2010 (30 September 2009: nil).

Note 43 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 and the central government of any country 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			
	Peak End-of-Day Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties			
	Number of Non-banks		Number of Banks	
Percentage of Shareholders' Equity %	**For the 3 Months Ended 30/9/10**	For the 3 Months Ended 30/9/09	**For the 3 Months Ended 30/9/10**	For the 3 Months Ended 30/9/09
10 - 19	**-**	1	**5**	6
20 - 29	**-**	-	**2**	3
30 - 39	**-**	-	**-**	1
50 - 59	**-**	-	**1**	1

	Consolidated			
	Balance Sheet Date Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties			
	Number of Non-banks		Number of Banks	
Percentage of Shareholders' Equity %	**As At 30/9/10**	As At 30/9/09	**As At 30/9/10**	As At 30/9/09
10 - 19	**-**	1	**3**	3
20 - 29	**-**	-	**-**	1
30 - 39	**-**	-	**-**	1
40 - 49	**-**	-	**1**	-

Large exposure – credit ratings

	Consolidated			
Dollars in Millions	**As At 30/9/10 $**	**As At 30/9/10 %**	As At 30/9/09 $	As At 30/9/09 %
Non-banks				
Exposures of investment grade credit rating	**-**	**-**	484	100
Total non-banks exposures	**-**	**-**	484	100
Banks				
Exposures of investment grade credit rating	**3,464**	**100**	3,698	100
Total banks exposures	**3,464**	**100**	3,698	100

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 tables have been compiled using gross exposures before risk lay-offs.

Note 44 Securitisation, Funds Management, Other Fiduciary Activities, and the Marketing and Distribution of Insurance Products

Funds management

During the year ended 30 September 2010, the Bank marketed the products of Assure Funds Management Limited through its store network and derived commission from the sale of superannuation schemes and unit trusts marketed on behalf of Assure Funds Management Limited.

The Bank also provides services to a number of clients which include advice on, administration, and management of, investment portfolios.

BNZ Cash PIE (the "Fund") was established on 23 October 2008. The Fund is a Portfolio Investment Entity. Bank of New Zealand and the Directors of Bank of New Zealand are the Promoters of the Fund. BNZ Investment Services Limited, a wholly owned controlled entity of Bank of New Zealand, is the Manager and Issuer of the Fund. The Fund is consolidated as part of the Banking Group for financial reporting purposes.

BNZ Term PIE (the "Term Fund") was established on 23 September 2010. The Term Fund is a Portfolio Investment Entity. Bank of New Zealand and the Directors of Bank of New Zealand are the Promoters of the Term Fund. BNZ Investment Services Limited, a wholly owned controlled entity of Bank of New Zealand, is the Manager and Issuer of the Term Fund. The Term Fund is consolidated as part of the Banking Group for financial reporting purposes.

During the year ended 30 September 2010, the Bank held deposits on behalf of customers of JBWere (NZ) Pty Limited. JBWere (NZ) Pty Limited became a related party of the Banking Group during the current reporting period following its acquisition by the National Australia Bank Group. JBWere (NZ) Pty Limited is not a part of the Banking Group.

The outstanding value of assets related to funds management activities is set out in the table below. These assets are not owned by the Banking Group and are, therefore, not included as part of the Banking Group's assets on the balance sheet. The Fund and Term Fund invest solely in debt securities issued by the Banking Group and on consolidation their assets are eliminated against liabilities recorded by the Bank. Unitholders' interests are included as part of the Banking Group's liabilities.

Dollars in Millions	**30/9/10**	30/9/09
Funds distributed on behalf of third parties	**432**	521
Portfolios managed on behalf of customers	**1,195**	1,089
Deposits held by customers of JBWere (NZ) Pty Limited	**14**	-
BNZ Cash PIE	**92**	125
BNZ Term PIE	**-**	-

Marketing and distribution of insurance products

The Banking Group is involved in marketing insurance products for the following entities: BNZ Life Insurance Limited, American Home Assurance Company (New Zealand Branch) ("Chartis"), The National Mutual Life Association of Australasia Limited ("AXA"), IAG New Zealand Limited and affiliated business divisions NZI, NAC Insurance and Swann Insurance (NZ), Cigna Life Insurance New Zealand Limited, Zurich Australian Insurance Limited, QBE Insurance (International) Limited, Lumley General Insurance (NZ) Limited and Vero Insurance New Zealand Limited.

All of these entities are unrelated to the Banking Group, with the exception of BNZ Life Insurance Limited, a controlled entity of National Australia Bank Limited, which is an Affiliated Insurance Entity as defined in the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B").

Securitisation

The Banking Group has arranged the securitisation of certain corporate customers' assets and provides banking services to corporate customers' securitisation vehicles. The Bank services securitisation arrangements and seconds staff to entities which market and service securitisation activities. It provides interest rate derivatives to securitisation arrangements and leases premises to a securitisation vehicle. It may also purchase assets at fair value from entities which conduct securitisation activities. All transactions have taken place on arm's length terms and conditions.

The Banking Group's involvement in securitisation activities is subject to internal credit, compliance and legal approval processes to ensure that any difficulties arising from the securitisation activities do not impact adversely on the Banking Group, beyond that which is normal for arm's length commercial relationships.

As at 30 September 2010, securitisation arrangements in which the Banking Group is involved to the extent detailed above amounted to $1,646 million (30 September 2009: $2,098 million).

On 11 November 2008, the RMBS Trust was established to provide an in-house residential mortgage-backed securities facility. As at 30 September 2010, included within the Banking Group's loans and advances to customers were housing loans to the value of $4,467 million held by the RMBS Trust (30 September 2009: $6,446 million). These housing loans have not been derecognised from the Banking Group's financial statements as the Banking Group retains substantially all of the risks and rewards of ownership.

On 2 June 2010, the Covered Bond Trust was established to hold Bank of New Zealand housing loans and to provide guarantees to certain debt securities issued by the Bank or BNZ International Funding Limited, a wholly owned controlled entity of the Bank. Guarantees provided by the Covered Bond Trust have a prior claim over the assets of the Trust. As at 30 September 2010, included within the Banking Group's loans and advances to customers were housing loans to the value of $489 million held by the Covered Bond Trust (30 September 2009: nil). These housing loans have not been derecognised from the Banking Group's financial statements as the Banking Group retains substantially all of the risks and rewards of ownership. Further details on the Covered Bond Trust are provided in note 13.

Note 44 Securitisation, Funds Management, Other Fiduciary Activities, and the Marketing and Distribution of Insurance Products *continued*

Risk management

The Banking Group has in place policies and procedures to ensure that the activities identified above are conducted in an appropriate manner. Should adverse investment or liquidity conditions arise it is considered that the Banking Group's policies and procedures, combined with those of BNZ Life Insurance Limited, will minimise the possibility that those conditions will adversely impact the Banking Group. The policies and procedures referred to include comprehensive and prominent disclosure of information regarding products, formal and regular review of operations and policies by internal auditors and management, appropriate contractual agreements and compliance with contractual obligations and regulatory requirements.

The Banking Group's risk review and risk management systems are equally applicable to the marketing and distribution of products by the third party entities identified in the marketing and distribution of insurance products and funds management sections above. In addition, the following measures are also taken to manage any risk to the Banking Group of marketing and distributing insurance products:

- disclaimers on policies, application forms and other collateral relating to insurance products expressly state that the policy is not an obligation of Bank of New Zealand and that Bank of New Zealand does not guarantee the obligations of the insurer;
- the risks under policies issued by BNZ Life Insurance Limited are substantially reinsured; and
- the introduction of new policies and changes to existing policies marketed or distributed by the Banking Group are subject to the Banking Group's standard risk management policies and procedures.

The Bank does not guarantee the capital, income or return of any of the products referred to above.

Transactions with Banking Group entities

Financial services provided by any member of the Banking Group to entities which are involved in trust, custodial, funds management and other fiduciary activities and securitisation arrangements, and to affiliated insurance entities which conduct marketing and distribution of insurance products, or on whose behalf the marketing and distribution of insurance products are conducted, have been provided on arm's length terms and conditions and at fair value. Assets purchased from any such entities by any member of the Banking Group have been purchased on arm's length terms and conditions and at fair value.

Peak aggregate funding provided to entities

The Bank does not provide any funding to individual unit trusts which the Banking Group distributes on behalf of third parties.

Peak end-of-day aggregate funding (including funding provided by the purchase of securities) provided by the Banking Group to individual affiliated insurance entities and entities involved in securitisation activities is disclosed in the table below:

	Consolidated					
	Peak End-of-Day Aggregate Amount of Funding During the Period Dollars in Thousands		Peak End-of-Day Aggregate Amount of Funding During the Period Expressed as a Percentage of the Amount of the Entity's Assets at End of Period		Peak End-of-Day Aggregate Amount of Funding During the Period Expressed as a Percentage of the Banking Group's Tier One Capital at End of Period	
	For the 3 Months Ended 30/9/10	For the 3 Months Ended 30/9/09	**For the 3 Months Ended 30/9/10**	For the 3 Months Ended 30/9/09	**For the 3 Months Ended 30/9/10**	For the 3 Months Ended 30/9/09
BNZ Life Insurance Limited	**-**	1,893	**-**	3.0%	**-**	0.1%
Speirs Securities Limited	**80,800**	83,600	**99.4%**	75.0%	**2.2%**	2.4%
Gough Securities Limited	**28,900**	60,340	**54.9%**	51.8%	**0.8%**	1.7%
Perpetual Trust Limited	**195,000**	195,000	**100.0%**	100.0%	**5.2%**	5.5%

The above table has been compiled using gross exposures before risk lay-offs.

Note 45 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 the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B").

Note 45 Capital Adequacy *continued*

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 maintain a targeted credit rating to support future business development.

The Banking Group's conditions of registration require capital adequacy ratios to be calculated in accordance with the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B") dated March 2008. 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 Banking Group'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.

The tables included in the following pages detail the capital calculation, capital ratios and risk-weighted assets as at 30 September 2010. During the financial year the Banking Group fully complied with all RBNZ's capital requirements as set out in the Banking Group's conditions of registration.

Regulatory capital

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

Dollars in Millions	Consolidated Unaudited 30/9/10	Consolidated Unaudited 30/9/09
Qualifying capital		
Tier One capital		
Contributed equity – ordinary shareholder	**1,451**	1,451
Contributed equity – perpetual preference shareholder	**910**	710
Retained profits	**1,566**	1,587
Deductions from Tier One capital:		
Intangible assets	**117**	102
Credit value adjustment on liabilities designated at fair value through profit or loss	**24**	21
Prepaid pension assets (net of deferred tax)	**4**	10
50% of total expected loss less total eligible allowances for impairment	**42**	71
Total Tier One capital	**3,740**	3,544
Upper Tier Two capital		
Revaluation reserves	**15**	15
Subordinated loans from related entities	**190**	190
Total upper Tier Two capital	**205**	205
Lower Tier Two capital		
Subordinated loans from related entities	**715**	715
Other subordinated debt	**373**	375
Total lower Tier Two capital	**1,088**	1,090
Deductions from Tier Two capital:		
50% of total expected loss less total eligible allowances for impairment	**42**	71
Total Tier Two capital	**1,251**	1,224
Total Tier One and Tier Two qualifying capital	**4,991**	4,768

Note 45 Capital Adequacy *continued*

Basel II regulatory capital ratios

The table below shows the capital adequacy ratios based on the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B").

	Consolidated		
	Regulatory Minima	Unaudited 30/9/10	Unaudited 30/9/09
Tier One capital expressed as a percentage of total risk-weighted exposures	**4.00%**	**8.85%**	8.08%
Total qualifying capital expressed as a percentage of total risk-weighted exposures	**8.00%**	**11.81%**	10.88%

Total regulatory capital requirements

	Consolidated		
Dollars in Millions	Total Exposure at Default Unaudited 30/9/10	Risk-Weighted Exposure or Implied Risk-Weighted Exposure Unaudited 30/9/10	Total Capital Requirement Unaudited 30/9/10
Credit risk			
Exposures subject to the internal ratings based approach	**72,763**	**32,509**	**2,601**
Equity exposures	**40**	**132**	**11**
Specialised lending subject to the slotting approach	**2,020**	**1,733**	**139**
Exposures subject to the standardised approach	**1,275**	**1,028**	**82**
Total credit risk	**76,098**	**35,402**	**2,833**
Operational risk	**N/A**	**3,978**	**318**
Market risk	**N/A**	**1,812**	**145**
Supervisory adjustment[1]	**N/A**	**1,077**	**86**
Total	**N/A**	**42,269**	**3,382**

1 The Supervisory adjustment is calculated at 15% of the retail housing Risk-Weighted Assets, as per the Banking Group's conditions of registration. No adjustment was required to maintain the Basel II minimum capital requirement at no less than 90% of the Basel I minimum capital requirement.

Basel I regulatory capital ratios

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

	Consolidated		The Registered Bank	
Dollars in Millions	Audited 30/9/10	Audited 30/9/09	Audited 30/9/10	Audited 30/9/09
Tier One capital expressed as a percentage of total risk-weighted exposures	**7.92%**	7.58%	**8.08%**	7.75%
Total qualifying capital expressed as a percentage of total risk-weighted exposures	**10.63%**	10.29%	**10.78%**	10.46%
Total risk-weighted exposures	**47,728**	47,710	**47,804**	47,790

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 the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B") and the Banking Group'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.

Note 45 Capital Adequacy *continued*

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 Banking Group'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 30/9/10	Exposure at Default Unaudited 30/9/10	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 30/9/10	Exposure-Weighted Risk Weight (%) Unaudited 30/9/10	Risk-Weighted Assets Unaudited 30/9/10	Minimum Capital Requirement Unaudited 30/9/10
Corporate						
Exposure-weighted PD grade > 0 ≤ 0.1%	**0.06**	**4,034**	**48**	**17**	**694**	**56**
Exposure-weighted PD grade > 0.1 ≤ 0.5%	**0.30**	**8,258**	**38**	**41**	**3,392**	**271**
Exposure-weighted PD grade > 0.5 ≤ 1.5%	**0.98**	**8,534**	**33**	**62**	**5,251**	**420**
Exposure-weighted PD grade > 1.5 ≤ 5.0%	**2.67**	**9,267**	**36**	**88**	**8,141**	**651**
Exposure-weighted PD grade > 5.0 ≤ 99.99%	**8.63**	**1,094**	**41**	**144**	**1,578**	**126**
Default PD grade = 100%	**100.00**	**963**	**47**	**307**	**2,956**	**237**
Total corporate exposures	**4.40**	**32,150**	**38**	**68**	**22,012**	**1,761**
Sovereign						
Exposure-weighted PD grade > 0 ≤ 0.1%	**0.01**	**4,244**	**5**	**1**	**38**	**3**
Exposure-weighted PD grade > 0.1 ≤ 0.5%	**0.44**	**9**	**45**	**62**	**6**	**-**
Exposure-weighted PD grade > 0.5 ≤ 1.5%	**1.20**	**13**	**45**	**93**	**12**	**1**
Exposure-weighted PD grade > 1.5 ≤ 5.0%	**3.31**	**13**	**45**	**160**	**21**	**2**
Exposure-weighted PD grade > 5.0 ≤ 99.99%	**-**	**-**	**-**	**-**	**-**	**-**
Default PD grade = 100%	**-**	**-**	**-**	**-**	**-**	**-**
Total sovereign exposures	**0.03**	**4,279**	**5**	**2**	**77**	**6**
Bank						
Exposure-weighted PD grade > 0 ≤ 0.1%	**0.05**	**2,633**	**24**	**8**	**200**	**16**
Exposure-weighted PD grade > 0.1 ≤ 0.5%	**0.45**	**134**	**10**	**8**	**12**	**1**
Exposure-weighted PD grade > 0.5 ≤ 1.5%	**0.62**	**19**	**-**	**-**	**-**	**-**
Exposure-weighted PD grade > 1.5 ≤ 5.0%	**2.47**	**-**	**16**	**41**	**-**	**-**
Exposure-weighted PD grade > 5.0 ≤ 99.99%	**5.72**	**-**	**60**	**195**	**-**	**-**
Default PD grade = 100%	**-**	**-**	**-**	**-**	**-**	**-**
Total bank exposures	**0.07**	**2,786**	**24**	**8**	**212**	**17**

Note 45 Capital Adequacy *continued*

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

	Consolidated					
Dollars in Millions	Weighted Average PD (%) Unaudited 30/9/10	Exposure at Default Unaudited 30/9/10	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 30/9/10	Exposure-Weighted Risk Weight (%) Unaudited 30/9/10	Risk-Weighted Assets Unaudited 30/9/10	Minimum Capital Requirement Unaudited 30/9/10
Residential mortgage						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.07	599	19	4	21	2
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.34	18,641	21	13	2,392	191
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.94	2,178	22	28	600	48
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.01	6,228	22	46	2,849	228
Exposure-weighted PD grade > 5.0 ≤ 99.99%	22.87	861	24	113	972	78
Default PD grade = 100%	100.00	327	30	237	774	62
Total residential mortgage exposures	2.54	28,834	22	26	7,608	609
Other retail[1]						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.05	854	87	14	117	9
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.24	713	85	39	280	22
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.97	409	84	87	356	29
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.86	405	84	121	489	39
Exposure-weighted PD grade > 5.0 ≤ 99.99%	15.00	220	82	157	344	28
Default PD grade = 100%	100.00	22	69	486	109	9
Total other retail exposures	2.77	2,623	85	65	1,695	136
Retail SME[2]						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.07	82	20	4	4	-
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.36	196	25	15	30	2
Exposure-weighted PD grade > 0.5 ≤ 1.5%	1.04	700	27	30	208	17
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.71	927	31	45	414	33
Exposure-weighted PD grade > 5.0 ≤ 99.99%	7.88	110	34	57	63	5
Default PD grade = 100%	100.00	76	45	244	186	15
Total retail SME exposures	5.64	2,091	30	43	905	72
Total						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.04	12,446	29	9	1,074	86
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.32	27,951	28	22	6,112	487
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.97	11,853	32	54	6,427	515
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.43	16,840	32	71	11,914	953
Exposure-weighted PD grade > 5.0 ≤ 99.99%	14.57	2,285	38	129	2,957	237
Default PD grade = 100%	100.00	1,388	43	290	4,025	323
Total exposures	3.22	72,763	31	45	32,509	2,601

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

Note 45 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 30/9/10	Exposure at Default* Unaudited 30/9/10	Risk-Weighted Assets Unaudited 30/9/10	Minimum Capital Requirement Unaudited 30/9/10
On-balance sheet exposures				
Corporate	24,378	24,378	17,776	1,422
Sovereign	3,825	3,825	45	4
Bank	1,807	1,807	87	7
Residential mortgage	26,251	26,251	7,174	574
Other retail	1,523	1,523	1,276	102
Retail SME	1,737	1,737	776	62
Total on-balance sheet exposures	59,521	59,521	27,134	2,171
Off-balance sheet exposures				
Corporate	7,295	6,397	3,361	269
Sovereign	72	55	12	1
Bank	430	423	14	1
Residential mortgage	2,052	2,583	434	35
Other retail	3,140	1,100	419	34
Retail SME	388	354	129	10
Total off-balance sheet exposures	13,377	10,912	4,369	350
Market-related contracts				
Corporate	87,160	1,375	875	70
Sovereign	11,979	399	20	1
Bank	212,634	556	111	9
Total market-related contracts	311,773	2,330	1,006	80
Summary				
Corporate	118,833	32,150	22,012	1,761
Sovereign	15,876	4,279	77	6
Bank	214,871	2,786	212	17
Residential mortgage	28,303	28,834	7,608	609
Other retail	4,663	2,623	1,695	136
Retail SME	2,125	2,091	905	72
Total credit risk exposures subject to the internal ratings based approach	384,671	72,763	32,509	2,601

* The Exposure at Default figure reflected in the above tables includes loans drawn and commitments (loans approved, but not yet drawn).

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 30/9/10	Risk Weight (%) Unaudited 30/9/10	Risk-Weighted Exposures Unaudited 30/9/10	Minimum Pillar One Capital Requirement Unaudited 30/9/10
Equity holdings (not deducted from capital) that are publicly traded	28	300	84	7
All other equity holdings (not deducted from capital)	12	400	48	4
Total equity exposures	40	330	132	11

Note 45 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 30/9/10	Risk Weight (%) Unaudited 30/9/10	Risk-Weighted Assets Unaudited 30/9/10	Minimum Pillar One Capital Requirement Unaudited 30/9/10
Strong	1,030	70	764	61
Good	478	90	456	37
Satisfactory	187	115	228	18
Total on-balance sheet exposures subject to the slotting approach	1,695	81	1,448	116

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

The calculated Risk-Weighted Assets reflected above include the required scalar of 1.06, specified in the Banking Group'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 30/9/10	Exposure at Default Unaudited 30/9/10	Average Risk Weight (%) Unaudited 30/9/10	Risk-Weighted Assets Unaudited 30/9/10	Minimum Pillar One Capital Requirement Unaudited 30/9/10
Off-balance sheet exposures	29	9	90	8	1
Undrawn commitments	266	266	89	238	19
Market-related contracts	718	50	78	39	3
Total off-balance sheet exposures subject to the slotting approach	1,013	325	88	285	23
Total exposures subject to the slotting approach		2,020	82	1,733	139

Note 45 Capital Adequacy *continued*

Credit risk exposures subject to the standardised approach

The tables below 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 30/9/10	Average Risk Weight (%) Unaudited 30/9/10	Risk-Weighted Assets Unaudited 30/9/10	Minimum Pillar One Capital Requirement Unaudited 30/9/10
Corporate	33	97	32	3
Residential mortgages	21	59	12	1
Past due assets	2	90	2	-
Other assets	1,214	80	977	78
Total on-balance sheet exposures subject to standardised approach	1,270	81	1,023	82

Past due assets relate to arrangements that are 90 days past due or considered to be unlikely to be repaid without realising the security. Other assets relate to all other non-lending assets (including interest receivables, account receivables, intangibles and cash accounts) not included in the other categories.

Off-balance sheet exposures subject to the standardised approach

	Consolidated					
Dollars in Millions	Total Exposure or Principal Amount Unaudited 30/9/10	Average Credit Conversion Factor (%) Unaudited 30/9/10	Credit Equivalent Amount Unaudited 30/9/10	Average Risk Weight (%) Unaudited 30/9/10	Risk-Weighted Assets Unaudited 30/9/10	Minimum Pillar One Capital Requirement Unaudited 30/9/10
Total off-balance sheet exposures subject to the standardised approach	14	29	4	91	4	-
Market-related contracts subject to the standardised approach						
Foreign exchange contracts	35	N/A	1	106	1	-
Interest rate contracts	5	N/A	-	106	-	-
Total market-related contracts subject to the standardised approach	40	N/A	1	106	1	-
Total exposures subject to the standardised approach		N/A	1,275	81	1,028	82

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.

	Consolidated
Dollars in Millions	Corporate (Including Specialised Lending) Unaudited 30/9/10
For portfolios subject to the standardised approach:	
Total value of exposures covered by eligible financial or IRB collateral (after haircutting)	-
For all portfolios:	
Total value of exposures covered by credit derivatives or guarantees	31

Note 45 Capital Adequacy *continued*

Residential mortgages by loan-to-valuation ratio

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

The LVRs are calculated as the current loan balance divided by the Banking Group's valuation of the security at origination of the current exposure.

Dollars in Millions	Consolidated Value of Exposures Unaudited 30/9/10
LVR range	
0-59%	**10,929**
60-69%	**5,097**
70-79%	**8,659**
80-89%	**1,506**
Over 90%	**1,479**
Total exposures secured by residential mortgages (excluding loans approved, but not yet drawn)	**27,670**

Operational risk

	Consolidated	
Dollars in Millions	Implied Risk-Weighted Exposure Unaudited 30/9/10	Total Operational Risk Capital Requirement Unaudited 30/9/10
Operational risk	**3,978**	**318**

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 the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B"). Further details are outlined in note 46.

Market risk

The tables below show market risk end of period and peak end-of-day capital charges.

	Consolidated (30/9/10 Unaudited)					
	Implied Risk-Weighted Exposure		Aggregate Capital Charge		Aggregate Capital Charge as a Percentage of the Banking Group's Equity as at End of Period	
Dollars in Millions	End of Period	Peak End-of-Day	End of Period	Peak End-of-Day	End of Period	Peak End-of-Day
Interest rate risk	**1,719**	**2,496**	**138**	**200**	**3.4%**	**5.0%**
Foreign currency risk	**53**	**90**	**4**	**7**	**0.1%**	**0.2%**
Equity risk	**40**	**42**	**3**	**3**	**0.1%**	**0.1%**
Total	**1,812**	**2,628**	**145**	**210**	**3.6%**	**5.3%**
	Consolidated (30/9/09 Unaudited)					
Interest rate risk	2,004	2,929	160	234	4.3%	6.2%
Foreign currency risk	32	64	3	5	0.1%	0.1%
Equity risk	33	35	3	3	0.1%	0.1%
Total	2,069	3,028	166	242	4.4%	6.5%

The aggregate market risk exposure above is derived in accordance with the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B").

For each category of market risk, the Banking Group's end of period aggregate capital charge is the charge as at 30 September 2010. The peak end-of-day aggregate capital charge is the maximum over the last quarter at the close of each business day. Further details are outlined in note 46.

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

Capital for other material risks

The Banking Group actively manages and measures all material risks affecting its operations. These risks go beyond the traditional banking risks of credit, operational and market risk. The measurement and management of all material risks is determined under the Banking Group's ICAAP and includes consideration of all other material risks, additional to those included in determining the minimum regulatory capital requirements under 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 30 September 2010, the Banking Group had an internal capital allocation for Business Risk of $150 million (30 September 2009: $125 million). The assessment of Business Risk covers strategic, reputation and earnings risk.

Note 45 Capital Adequacy *continued*

National Australia Bank Limited capital adequacy

	Ultimate Parent Banking Group		Ultimate Parent Bank	
	Basel II 30/9/10	Basel II 30/9/09	**Basel II 30/9/10**	Basel II 30/9/09
Tier One capital expressed as a percentage of total risk-weighted exposures	**8.91%**	8.96%	**10.75%**	10.76%
Total qualifying capital expressed as a percentage of total risk-weighted exposures	**11.36%**	11.48%	**13.11%**	13.23%

The Ultimate Parent Banking Group data is the Level 2 capital ratio as published in the National Australia Bank Limited Risk and Capital Report ("RCR") and represents the consolidation of the National Australia Banking 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 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. National Australia Bank Limited has also been accredited for interest rate risk in the banking book for its banking operations. The internal model for calculating traded market risk was re-accredited by APRA in 2006. The Ultimate Parent Bank capital ratios represent the Level 1 National Australia Bank capital ratios, which comprises National Australia Bank Limited and its subsidiary entities approved by APRA as part of the Extended Licensed Entity.

Under prudential regulations, 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 publically disclosed. Under APRA's prudential standards, the minimum PCR for Australian Banks is 8% of its total risk-weighted assets, of which a minimum of 4% must be held as Tier 1 capital. APRA may specify a higher PCR, proportional to the overall risk profile of an Authorised Deposit-taking Institution.

National Australia Bank Limited met the minimum capital adequacy requirements set by APRA as at 30 September 2010.

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.

Note 46 Financial Risk Management

Management of risk is an essential element of the Banking Group's strategy, with emphasis placed on a pro-active rather than reactive approach. This is done under a policy framework, and controls, originated by the National Australia Bank Group and adopted within the Banking Group. The Banking Group is responsible for the identification and quantification of the particular risks to which it is exposed and for ensuring that appropriate policies and procedures are in place.

The Risk Management division (which comprises Risk Partners, Risk Retail, Enterprise Risk Insight, Risk Business Support, Strategic Business Services, Office of the Chief Risk Officer and Legal Services) monitors the Banking Group's risk profile of existing and future business operations. The Risk Management division assists business units in the design and implementation of appropriate risk management policies and strategies, promotes Bank awareness of the need to manage risk, including the development of relevant skills across the Bank, and the achievement of a balance between risk minimisation and reward for risks accepted. Where appropriate the Risk Management division may directly manage certain customer relationships. The Board, through the Board Risk Committee, delegates management of risk to the Risk Management Committee. The Risk Management Committee comprises executive, general, and senior management, with responsibility to ensure the risks associated with product development and new or changed processes are adequately identified and managed.

The Banking Group is regulated by the RBNZ and is also subject to the prudential reporting requirements of APRA as part of the National Australia Bank Group.

A separate New Zealand Regional Audit Committee, comprising five independent Directors of the Bank, assists the Board to fulfil its statutory and fiduciary responsibilities relating to accounting practices and internal control systems of the Banking Group and to oversee the internal audit function.

Audit Committee responsibilities are to:

- present formal reports to the Bank's Board of Directors on its activities;
- liaise with the Bank's Board of Directors, the Principal Board Audit Committee, external and internal auditors, and management;
- oversee and appraise the independence, quality, cost effectiveness and extent of the audit function;
- perform an independent overview of the financial information prepared by the Banking Group's management; and
- evaluate the adequacy and effectiveness of the financial control, compliance and other internal control systems and policies of the Bank.

The internal audit function is the responsibility of Internal Audit who report to the New Zealand Regional Audit Committee, the Managing Director and to National Australia Bank Limited Internal Audit. Audits are conducted using a risk-based approach to assess key business risks and internal control systems. Both core banking and specialist functions, including interrogation of electronic data processing systems, are audited with high risk areas covered annually. Certain financial audits of accounting information are also undertaken.

A compliance programme is in place to ensure all staff understand and comply with the legal obligations and responsibilities of the Bank.

Note 46 Financial Risk Management *continued*

As part of their work in issuing an auditor's independent review report on the Banking Group's six monthly results or an auditor's independent audit report on the Banking Group's annual results, the Banking Group's external auditors, Ernst & Young, may review parts of the Banking Group's risk management framework that impact on significant aspects of the financial systems, but only to the extent necessary to form their independent review or audit opinion.

Credit ratings agencies also conduct annual reviews of the Banking Group's risk management approach and risk profile.

Management of major balance sheet risk areas is outlined below, but many other types of risk, for example, environmental, payment systems, computer systems, fraud, legislative compliance and business continuity/disaster recovery, are routinely managed by the Banking Group.

Strategy in using financial instruments

By their nature, the Banking Group's activities are principally related to the use of financial instruments, including derivatives. The Banking Group accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn interest margins by investing these funds in high-quality assets. The Banking Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Banking Group also seeks to earn interest margins through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet loans and advances; the Banking Group also enters into guarantees and other commitments such as letters of credit and other bonds.

The Banking Group also trades in financial instruments where it takes positions in traded and over-the-counter instruments, including derivatives, to take advantage of short-term market movements. The Board places trading limits on the level of exposure that can be taken in relation to close of business positions.

Market risk

Market risk recognises the potential for changes in the market value of the Banking Group's trading and investing positions. Such positions result from borrowing from and lending to customers, underwriting, market making, specialist and proprietary trading and investing activities. Market risk of traded derivative financial instruments is the risk that the value of derivatives will be adversely affected by changes in the market value of the underlying index instrument, reference rate or index.

The Banking Group applies a Value at Risk ("VaR") methodology to estimate the market risk of positions held in terms of potential for loss, based upon a number of statistical assumptions for various changes in market conditions. The Board sets limits on the VaR that may be accepted, which is monitored on a daily basis.

The management of market risk is segregated between risks resulting from mainstream banking activities and risks derived from the Banking Group's trading activities.

The information below details the various market risks for the Banking Group.

Foreign currency risk

Foreign currency risk results from exposures to changes in spot prices, forward prices and the volatility of currency rates. Currency risk arises from foreign currency balances and the trading of any foreign currency denominated products, such as spot and forward contracts, currency options, foreign currency cash, foreign currency loans and deposits, foreign currency interest rate derivatives and foreign currency securities.

Trading positions arise as a consequence of executing transactions for customers, acting as a price maker for other institutions in the inter-bank market and at the Banking Group's own initiative as principal in order to benefit from anticipating movements in exchange rates. Foreign exchange limits are in place to control the net present valued position across all currencies. Additional controls include daily profit and loss referral levels and 30-day rolling loss referral levels. Scenario analyses and stress tests are performed daily. These measure the potential effects of various market events including, but not limited to, widening of credit spreads, increases in market volatility and significant moves in selected markets, on the Banking Group's trading net revenues. These controls are monitored and reported daily, independently of the Markets division, to regional and global management. In addition, there is regular reporting of market risk data to the Board of Directors.

An analysis of the net open position by currency is shown in the following table. The net open position in each currency represents the net of the non-derivative assets and liabilities in that currency aggregated with the net expected cash flows from derivative financial instrument purchases and sales from foreign exchange transactions in that currency including foreign currency options and futures and the principal on currency swaps. The amounts are stated in New Zealand dollar equivalents translated using the spot exchange rates as at the reporting date.

Net open position

	Consolidated		The Company	
Dollars in Millions	**30/9/10**	30/9/09	**30/9/10**	30/9/09
US dollar	**(20)**	13	**(20)**	13
Australian dollar	**(4)**	(15)	**(4)**	(15)
Japanese yen	**(28)**	(8)	**(28)**	(8)
Pound sterling	**(1)**	13	**(1)**	13
Euro	**35**	(9)	**35**	(9)
Swiss franc	**2**	-	**2**	-
Other	**1**	2	**1**	2

Interest rate risk

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

Note 46 Financial Risk Management *continued*

Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, mortgage prepayment speeds and credit spreads. The Banking Group takes an exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Exposure to interest rate risk arises in respect of the following activities: borrowing from and lending to customers; borrowing to fund the Banking Group in both domestic and international wholesale debt markets; trading and investing in money market instruments such as government stock, bank bills, commercial paper; foreign exchange instruments such as foreign exchange contracts; and derivative financial instruments such as swaps, options and futures.

Changes in interest rates can impact the Banking Group's financial results by affecting the spread on the interest earning assets and interest bearing liabilities, and the market value of trading positions.

The Banking Group's Asset and Liability Committee has responsibility for managing structural interest rate risk. Exposure to interest rate risk is measured primarily through analysis of repricing maturities of the Banking Group's assets, liabilities and derivative financial instruments using both VaR and Earnings at Risk ("EaR") frameworks.

The trading positions are managed separately from the retail bank's interest rate risk. Trading positions are revalued daily and the revaluation impact is reflected in the income statement. Management of the trading risk focuses on the measurement of losses arising from adverse changes in interest rates.

Trading and funding managers actively manage portfolios and may take positions which anticipate rate movements in order to profit from market opportunities. Both activities operate within a context of trading limits and are monitored daily by independent reporting and analysis units. These units report the Banking Group's interest rate risk positions to general and executive management and, where appropriate, the Board of Directors.

Interest rate repricing schedule

The following tables represent a breakdown, by repricing dates or contractual maturity, whichever is the earlier, of the balance sheet. 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 (30/9/10)					
Dollars in Millions	Total	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Sensitive
Assets						
Cash and balances with central banks	2,040	1,916	-	-	-	124
Due from other financial institutions	1,249	1,157	-	-	-	92
Trading securities	3,231	3,231	-	-	-	-
Other money market placements	433	433	-	-	-	-
Available for sale investments	273	84	131	30	-	28
Gross loans and advances to customers	55,377	30,018	8,767	15,479	344	769
Deductions from loans and advances to customers	(391)	-	-	(2)	(2)	(387)
Derivative financial instruments	5,650	-	-	-	-	5,650
Amounts due from related entities	539	517	-	-	-	22
All other assets	1,246	-	-	-	-	1,246
Total assets	69,647	37,356	8,898	15,507	342	7,544
Liabilities						
Due to central banks and other financial institutions	1,575	1,507	62	-	-	6
Other money market deposits	11,883	6,747	5,098	38	-	-
Trading liabilities	31	31	-	-	-	-
Deposits from customers	28,663	18,757	7,638	1,466	1	801
Derivative financial instruments	6,421	-	-	-	-	6,421
Bonds and notes	9,772	3,296	319	4,213	1,944	-
Amounts due to related entities	5,137	2,786	2,211	-	-	140
Subordinated debt	1,278	905	-	373	-	-
All other liabilities	885	-	-	-	-	885
Total liabilities	65,645	34,029	15,328	6,090	1,945	8,253
Net balance of derivative financial instruments		623	1,843	(2,367)	(99)	

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

Note 46 Financial Risk Management *continued*

Interest rate repricing schedule *continued*

Dollars in Millions	Total	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Sensitive
	Consolidated (30/9/09)					
Assets						
Cash and balances with central banks	1,553	1,411	-	-	-	142
Due from other financial institutions	869	788	-	-	-	81
Trading securities	3,662	3,662	-	-	-	-
Other money market placements	537	537	-	-	-	-
Available for sale investments	338	-	50	265	-	23
Gross loans and advances to customers	55,428	27,392	9,201	17,748	451	636
Deductions from loans and advances to customers	(286)	-	-	(2)	(3)	(281)
Derivative financial instruments	5,918	-	-	-	-	5,918
Amounts due from related entities	93	49	-	-	-	44
All other assets	1,750	-	-	-	-	1,750
Total assets	69,862	33,839	9,251	18,011	448	8,313
Liabilities						
Due to central banks and other financial institutions	3,892	2,474	1,418	-	-	-
Other money market deposits	10,767	7,031	3,696	40	-	-
Trading liabilities	9	9	-	-	-	-
Deposits from customers	27,233	19,388	6,053	1,121	-	671
Derivative financial instruments	7,643	-	-	-	-	7,643
Bonds and notes	7,578	3,437	770	2,890	481	-
Amounts due to related entities	6,244	6,140	-	-	-	104
Current tax – provision for New Zealand structured finance transactions	661	-	-	-	-	661
Subordinated debt	1,280	905	-	375	-	-
All other liabilities	810	-	-	-	-	810
Total liabilities	66,117	39,384	11,937	4,426	481	9,889
Net balance of derivative financial instruments		9,261	1,016	(10,024)	(253)	
	The Company (30/9/10)					
Assets						
Cash and balances with central banks	**2,040**	**1,916**	**-**	**-**	**-**	**124**
Due from other financial institutions	**1,249**	**1,157**	**-**	**-**	**-**	**92**
Trading securities	**3,231**	**3,231**	**-**	**-**	**-**	**-**
Other money market placements	**433**	**433**	**-**	**-**	**-**	**-**
Available for sale investments	**273**	**84**	**131**	**30**	**-**	**28**
Gross loans and advances to customers	**55,369**	**30,010**	**8,767**	**15,479**	**344**	**769**
Deductions from loans and advances to customers	**(391)**	**-**	**-**	**(2)**	**(2)**	**(387)**
Derivative financial instruments	**5,650**	**-**	**-**	**-**	**-**	**5,650**
Amounts due from related entities	**5,144**	**5,012**	**-**	**-**	**-**	**132**
All other assets	**4,126**	**-**	**-**	**-**	**-**	**4,126**
Total assets	**77,124**	**41,843**	**8,898**	**15,507**	**342**	**10,534**
Liabilities						
Due to central banks and other financial institutions	**1,575**	**1,507**	**62**	**-**	**-**	**6**
Other money market deposits	**4,605**	**3,907**	**660**	**38**	**-**	**-**
Trading liabilities	**31**	**31**	**-**	**-**	**-**	**-**
Deposits from customers	**28,571**	**18,665**	**7,638**	**1,466**	**1**	**801**
Derivative financial instruments	**6,421**	**-**	**-**	**-**	**-**	**6,421**
Bonds and notes	**3,524**	**588**	**252**	**2,261**	**423**	**-**
Amounts due to related entities	**26,480**	**15,908**	**6,734**	**1,952**	**1,521**	**365**
Subordinated debt	**1,278**	**905**	**-**	**373**	**-**	**-**
All other liabilities	**795**	**-**	**-**	**-**	**-**	**795**
Total liabilities	**73,280**	**41,511**	**15,346**	**6,090**	**1,945**	**8,388**
Net balance of derivative financial instruments		**623**	**1,843**	**(2,367)**	**(99)**	

Note 46 Financial Risk Management *continued*
Interest rate repricing schedule *continued*

	The Company (30/9/09)					
Dollars in Millions	Total	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Sensitive
Assets						
Cash and balances with central banks	1,553	1,411	-	-	-	142
Due from other financial institutions	869	788	-	-	-	81
Trading securities	3,662	3,662	-	-	-	-
Other money market placements	537	537	-	-	-	-
Available for sale investments	338	-	50	265	-	23
Gross loans and advances to customers	55,428	27,392	9,201	17,748	451	636
Deductions from loans and advances to customers	(286)	-	-	(2)	(3)	(281)
Derivative financial instruments	5,918	-	-	-	-	5,918
Amounts due from related entities	6,587	6,509	-	-	-	78
All other assets	4,701	-	-	-	-	4,701
Total assets	79,307	40,299	9,251	18,011	448	11,298
Liabilities						
Due to central banks and other financial institutions	3,892	2,474	1,418	-	-	-
Other money market deposits	4,654	3,373	1,241	40	-	-
Trading liabilities	9	9	-	-	-	-
Deposits from customers	27,108	19,263	6,053	1,121	-	671
Derivative financial instruments	7,643	-	-	-	-	7,643
Bonds and notes	3,234	705	483	1,565	481	-
Amounts due to related entities	26,508	22,106	2,743	1,325	-	334
Current tax – provision for New Zealand structured finance transactions	477	-	-	-	-	477
Subordinated debt	1,280	905	-	375	-	-
All other liabilities	801	-	-	-	-	801
Total liabilities	75,606	48,835	11,938	4,426	481	9,926
Net balance of derivative financial instruments		9,261	1,016	(10,024)	(253)	

Equity risk
Equity risk results from exposures to changes in prices and volatility of individual equities, equity baskets and equity indices. Management reviews the Banking Group's exposure to any equity risk on a monthly basis.

Market risk – Trading
The market risk exposures resulting from the Banking Group's trading activities are subject to disciplines prescribed in the Traded Market Risk Policy and are subject to a comprehensive limit structure. The primary risk measure applied is VaR, which is a standard measure used in the industry. The Banking Group also employs other risk measures to supplement VaR, with appropriate limits to manage and control risks, and communicate the specific nature of market exposures to executive management and the Board Risk Committee. These supplementary measures include stress testing, stop loss, position and sensitivity limits.

The Traded Market Risk unit is an independent unit responsible for identifying, monitoring, and reporting the market risk exposures of the Banking Group's trading activities. This includes monitoring compliance with delegated market risk limits.

VaR is an estimate of potential losses resulting from shifts in interest rates, currency exchange rates, traded credit spreads, option volatility, equity prices and commodity prices. The estimate is calculated on an entire trading portfolio basis, including both physical and derivative positions.

VaR is calculated using historical simulation. This method involves multiple revaluations of the trading books using two years of historical pricing shifts. The pricing data is rolled monthly so as to have the most recent two-year history of prices. The results are ranked and the loss at the 99th percentile confidence interval identified. The calculation and rate shifts used assume a one-day holding period for all positions.

Note 46 Financial Risk Management *continued*

The use of a VaR methodology has limitations, which include:

- the historical data used to calculate VaR is not always an appropriate proxy for current market conditions. If market volatility or correlation conditions change significantly, losses may occur more frequently and to a greater magnitude than in the VaR measure;
- VaR methodology assumes that positions are held for one day and may underestimate losses on positions that cannot be hedged or reversed inside that timeframe;
- VaR is calculated on positions at the close of each trading day, and does not measure risk on positions taken and closed before the end of each trading session; and
- VaR does not describe the directional bias or size of the positions generating the risk.

VaR results are checked against profit/loss via back testing for reasonableness and to assess the continued relevance of the model assumptions.

The following table shows the Banking Group VaR for the trading portfolio, including both physical and derivative positions:

	Consolidated and The Company							
	As At		Average Value During Period		Minimum Value During Period		Maximum Value During Period	
Dollars in Millions	**30/9/10**	30/9/09	**30/9/10**	30/9/09	**30/9/10**	30/9/09	**30/9/10**	30/9/09
VaR at a 99% confidence level								
Foreign exchange risk	**1.53**	0.43	**0.83**	1.82	**0.07**	0.18	**2.60**	4.91
Interest rate risk	**1.73**	6.93	**4.56**	5.04	**1.04**	1.39	**8.74**	8.24
Volatility risk	**0.03**	0.17	**0.11**	0.11	**0.03**	0.02	**0.21**	0.22
Commodities risk	**-**	-	**-**	-	**-**	-	**-**	-
Credit risk	**1.07**	0.69	**1.11**	1.18	**0.66**	0.35	**1.51**	1.99
Diversification benefit	**(1.29)**	(1.79)	**(1.71)**	(2.79)	**(0.41)**	0.39	**(3.51)**	(6.48)
Total VaR for physical and derivative positions	**3.07**	6.43	**4.90**	5.36	**1.39**	2.33	**9.55**	8.88

VaR is measured individually for foreign exchange risk, interest rate risk, volatility risk, commodities risk and credit risk. The individual risk categories do not sum up to the total risk number due to diversification benefits. Risk limits are applied in these categories separately, and against the total risk position.

Market risk – Non-trading/ Banking positions

Non-traded market risk includes structural interest rate risk, structural foreign exchange risk, liquidity and funding risk. The primary objective for the management and overview of the risk is to maintain the risk profile within approved risk appetite and limits, while implementing strategies that optimise stable current and future earnings from the impact of market volatility.

The Non-Traded Market Risk unit plays a key independent role in reviewing and overseeing, from a risk management perspective, the balance sheet forecasts and related funding and capital management plans prepared by BNZ Treasury. It also monitors the application of appropriate risk appetite limits and capital allocation of these plans.

Policies, inclusive of risk appetite and limits, are approved by the National Australia Bank Group's Board, with authority delegated to the National Australia Bank Group's Asset and Liability Management Committee and the Banking Group's Asset and Liability Management Committee for their subsequent implementation and monitoring. Interest rate risk management across the National Australia Bank Group is directed by National Australia Bank Group Treasury, with execution on a regional basis. Risk overview is the responsibility of the Banking Group's Non-Traded Market Risk team which reports to the Chief Risk Officer. This team maintains standards of independence and control resilience consistent with traded market risk.

Interest rate risk in the Banking Book

Interest rate risk is measured, managed and monitored regionally using VaR and EaR limits, incorporating cash flow analysis, scenario analysis and stress testing. Interest rate risk identification and quantification is to address all regulatory requirements.

VaR is the potential loss (or gain) in the mark-to-market value of the balance sheet from the current interest rate risk profile if left unhedged over the next three months (the holding period). It is not a maximum loss, but a 99.0% confidence loss estimated from historic market volatility.

EaR is the amount of the VaR that could accrue as lost net interest income over the next 12 months (the forecast period).

The VaR and EaR are calculated using a historic simulation methodology, which relies on the rate change experience in the respective foreign currency markets over the last eight years capturing both parallel and non-parallel rate changes. These are independently sourced from daily market closing swap rates.

The following measurement approach is used:

- VaR and EaR exposures are measured and reported at least monthly and are not to exceed the relevant limit at any time; and
- measurement of risk is from a BNZ Treasury perspective, which has capital allocated in line with the established benchmark of one-to-five years and as per current transfer pricing methodology. This reflects the desire for BNZ Treasury to invest capital over a longer term to generate stable earnings; and
- to complement the VaR and EaR metrics a series of stress tests and scenarios are modelled each month and reported to Regional and Group Asset and Liability Committees. A suite of stress scenarios is modelled on a monthly basis by Group Non-Traded Market Risk in consultation with National Australia Bank Group Treasury.

Note 46 Financial Risk Management *continued*

Key parameters currently applied in the interest rate risk model are:

- 99.0% confidence level;
- three-month holding period;
- eight years of historical data (updated daily);
- rate changes are proportional rather than absolute;
- investment term for capital is two years; and
- investment term for core "Non-Interest Bearing" liabilities (the sum of low and non-interest rate bearing liabilities) is five years.

The table below show the aggregate VaR figures for Non-Traded Market Risk:

	Consolidated and The Company	
Dollars in Millions	**30/9/10**	30/9/09
VaR for physical and derivative positions at a 99.0% confidence level		
New Zealand		
As at end of year	**54**	16
Average value during year ended	**24**	14
Minimum value during year ended	**7**	7
Maximum value during year ended	**54**	37

The table below show the aggregate EaR figures for Non-Traded Market Risk:

	Consolidated and The Company	
Dollars in Millions	**30/9/10**	30/9/09
EaR for physical and derivative positions at a 99.0% confidence level		
New Zealand		
As at end of year	**7**	3
Average value during year ended	**6**	4
Minimum value during year ended	**3**	2
Maximum value during year ended	**9**	6

Liquidity risk

Maintaining adequate liquidity to meet the current and future payment obligations at a reasonable cost is a core objective of the Banking Group.

The following are types of liquidity risks:

- Intra-Day: Ability of the Banking Group to meet its intra-day collateral requirements in relation to its clearing and settlement obligations.
- Operational: Ability of the Banking Group to meet its refinancing requirements for a predefined period, e.g. up to 30 days.
- Structural: Liquidity Risk profile of the balance sheet to accommodate the Banking Group's Strategic Plan and risk appetite.

The Banking Group manages liquidity risk on a contractual basis through a combination of positive cash flow management, the maintenance of portfolios containing high quality liquid assets and maintenance of a prudent funding strategy. The Banking Group undertakes a conservative approach by imposing internal prudential limits that are in addition to regulatory requirements.

The Bank's Board has the ultimate responsibility to monitor and review the adequacy of the Banking Group's liquidity compliance and management framework with the guidance of the Bank's Board Risk Committee. To aid in the fulfilment of its guidance responsibilities the Board Risk Committee receives guidance from the Bank's Risk Management Committee and regular presentations on the Banking Group's liquidity management activity, risk limits and sensitivity metrics. The Banking Group's Asset and Liability Committee is responsible for approval, and providing overview, of the execution of the liquidity strategy and escalation of issues to the Risk Management Committee.

The Banking Group is subject to RBNZ's liquidity requirements (as set out in the RBNZ's "Liquidity Policy" (BS13/BS13A), which took effect from 1 April 2010), and APRA's prudential standard "Liquidity" (APS 210).

Consistent with the requirements of RBNZ's Liquidity Policy, liquidity risk is measured and managed in the Banking Group on a cash flow mismatch and also core funding basis to ensure that the Banking Group exceeds RBNZ specified minimum standards for these metrics.

Similarly, in accordance with the requirements of APS 210, risk is measured and managed in the Banking Group on a cash flow basis. The Banking Group is required to monitor both 'going concern' and 'name crisis' scenarios, and cash flow mismatch limits have been established to limit the Banking Group's exposure. An additional prudential requirement of the Banking Group is to maintain liquid asset portfolios to meet unexpected cash flow requirements.

A three-level contingency plan has been established for the management of an escalated liquidity requirement where the Banking Group experiences either restricted access to wholesale funding, or a large increase in the withdrawal of funds. The plan identifies triggers on each level, details the actions required, allocates the key tasks to individuals, provides a timeframe and defines a management committee to manage the action plan.

The ability to realise assets quickly is an important source of liquidity for the Banking Group. The Banking Group holds sizeable balances of high quality assets such as cash and securities that are acceptable under repurchase agreements with the RBNZ to meet these needs.

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

Note 46 Financial Risk Management *continued*

Maturity profile

The tables on pages 94 to 96 present the Banking Group and the Company'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.

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 tables on page 94 to 96 as contractual cash flows, if any, are contingent in nature. Irrevocable commitments to extend credit can be drawn down at anytime before the commitments expire. Details of off-balance sheet exposures are included in note 39. Other assets and other liabilities only include balances which have contractual future cash flows.

			Consolidated (30/9/10)				
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	2,040	2,040	1,870	170	-	-	-
Due from other financial institutions	1,249	1,249	107	1,142	-	-	-
Trading securities	3,231	3,231	-	3,231	-	-	-
Other money market placements	433	435	234	201	-	-	-
Available for sale investments	273	273	-	51	222	-	-
Loans and advances to customers	54,986	76,775	3,482	15,329	7,588	17,035	33,341
Amounts due from related entities	539	539	485	37	17	-	-
Other assets	439	439	-	439	-	-	-
Total	63,190	84,981	6,178	20,600	7,827	17,035	33,341
Liabilities							
Due to central banks and other financial institutions	(1,575)	(1,576)	(444)	(1,070)	(62)	-	-
Other money market deposits	(11,883)	(11,919)	(597)	(6,394)	(4,887)	(41)	-
Trading liabilities	(31)	(31)	-	(31)	-	-	-
Deposits from customers	(28,663)	(29,069)	(11,103)	(8,617)	(7,682)	(1,667)	-
Bonds and notes	(9,772)	(10,761)	-	(1,225)	(823)	(6,735)	(1,978)
Amounts due to related entities	(5,137)	(5,495)	(135)	(1,437)	(1,078)	(2,845)	-
Subordinated debt	(1,278)	(1,651)	-	(33)	(32)	(256)	(1,330)
Other liabilities	(732)	(732)	-	(732)	-	-	-
Total	(59,071)	(61,234)	(12,279)	(19,539)	(14,564)	(11,544)	(3,308)
Derivatives							
Derivative financial instruments inflow		53,401	-	27,206	12,215	10,421	3,559
Derivative financial instruments (outflow)		(54,992)	-	(27,330)	(12,529)	(11,460)	(3,673)

Note 46 Financial Risk Management *continued*

Maturity profile *continued*

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
			Consolidated (30/9/09)				
Assets							
Cash and balances with central banks	1,553	1,553	1,553	-	-	-	-
Due from other financial institutions	869	870	125	745	-	-	-
Trading securities	3,662	3,662	-	3,662	-	-	-
Other money market placements	537	538	432	106	-	-	-
Available for sale investments	338	356	-	30	60	266	-
Loans and advances to customers	55,142	77,151	3,688	16,765	7,214	16,226	33,258
Amounts due from related entities	93	93	14	79	-	-	-
Other assets	1,043	1,043	661	382	-	-	-
Total	63,237	85,266	6,473	21,769	7,274	16,492	33,258
Liabilities							
Due to central banks and other financial institutions	(3,892)	(3,914)	(460)	(2,026)	(1,428)	-	-
Other money market deposits	(10,767)	(10,822)	(498)	(6,951)	(3,329)	(44)	-
Trading liabilities	(9)	(9)	-	(9)	-	-	-
Deposits from customers	(27,233)	(27,560)	(10,510)	(9,633)	(6,157)	(1,260)	-
Bonds and notes	(7,578)	(8,289)	-	(134)	(1,584)	(6,095)	(476)
Amounts due to related entities	(6,244)	(6,600)	(112)	(1,139)	(1,602)	(3,720)	(27)
Subordinated debt	(1,280)	(1,660)	-	(30)	(39)	(241)	(1,350)
Other liabilities	(667)	(667)	-	(627)	(40)	-	-
Total	(57,670)	(59,521)	(11,580)	(20,549)	(14,179)	(11,360)	(1,853)
Derivatives							
Derivative financial instruments inflow		45,895	-	25,391	8,088	10,159	2,257
Derivative financial instruments (outflow)		(48,022)	-	(26,040)	(8,518)	(11,252)	(2,212)
			The Company (30/9/10)				
Assets							
Cash and balances with central banks	**2,040**	**2,040**	**1,870**	**170**	**-**	**-**	**-**
Due from other financial institutions	**1,249**	**1,249**	**107**	**1,142**	**-**	**-**	**-**
Trading securities	**3,231**	**3,231**	**-**	**3,231**	**-**	**-**	**-**
Other money market placements	**433**	**435**	**234**	**201**	**-**	**-**	**-**
Available for sale investments	**273**	**273**	**-**	**51**	**222**	**-**	**-**
Loans and advances to customers	**54,978**	**76,767**	**3,482**	**15,329**	**7,588**	**17,027**	**33,341**
Amounts due from related entities	**5,144**	**11,513**	**594**	**66**	**155**	**649**	**10,049**
Other assets	**370**	**370**	**-**	**370**	**-**	**-**	**-**
Total	**67,718**	**95,878**	**6,287**	**20,560**	**7,965**	**17,676**	**43,390**
Liabilities							
Due to central banks and other financial institutions	**(1,575)**	**(1,576)**	**(444)**	**(1,070)**	**(62)**	**-**	**-**
Other money market deposits	**(4,605)**	**(4,630)**	**(597)**	**(3,549)**	**(443)**	**(41)**	**-**
Trading liabilities	**(31)**	**(31)**	**-**	**(31)**	**-**	**-**	**-**
Deposits from customers	**(28,571)**	**(28,977)**	**(11,011)**	**(8,617)**	**(7,682)**	**(1,667)**	**-**
Bonds and notes	**(3,524)**	**(4,078)**	**-**	**(127)**	**(567)**	**(2,947)**	**(437)**
Amounts due to related entities	**(26,480)**	**(33,691)**	**(3,417)**	**(5,487)**	**(5,915)**	**(7,282)**	**(11,590)**
Subordinated debt	**(1,278)**	**(1,651)**	**-**	**(33)**	**(32)**	**(256)**	**(1,330)**
Other liabilities	**(651)**	**(651)**	**-**	**(651)**	**-**	**-**	**-**
Total	**(66,715)**	**(75,285)**	**(15,469)**	**(19,565)**	**(14,701)**	**(12,193)**	**(13,357)**
Derivatives							
Derivative financial instruments inflow		**53,401**	**-**	**27,206**	**12,215**	**10,421**	**3,559**
Derivative financial instruments (outflow)		**(54,992)**	**-**	**(27,330)**	**(12,529)**	**(11,460)**	**(3,673)**

Note 46 Financial Risk Management *continued*

Maturity profile *continued*

Dollars in Millions	The Company (30/9/09)						
	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	1,553	1,553	1,553	-	-	-	-
Due from other financial institutions	869	870	125	745	-	-	-
Trading securities	3,662	3,662	-	3,662	-	-	-
Other money market placements	537	538	432	106	-	-	-
Available for sale investments	338	356	-	30	60	266	-
Loans and advances to customers	55,142	77,151	3,688	16,765	7,214	16,226	33,258
Amounts due from related entities	6,587	15,215	14	109	161	860	14,071
Other assets	1,043	1,043	661	382	-	-	-
Total	69,731	100,388	6,473	21,799	7,435	17,352	47,329
Liabilities							
Due to central banks and other financial institutions	(3,892)	(3,914)	(460)	(2,026)	(1,428)	-	-
Other money market deposits	(4,654)	(4,700)	(498)	(3,290)	(868)	(44)	-
Trading liabilities	(9)	(9)	-	(9)	-	-	-
Deposits from customers	(27,108)	(27,435)	(10,385)	(9,633)	(6,157)	(1,260)	-
Bonds and notes	(3,234)	(3,797)	-	(99)	(931)	(2,291)	(476)
Amounts due to related entities	(26,508)	(35,670)	(3,362)	(4,915)	(4,912)	(8,383)	(14,098)
Subordinated debt	(1,280)	(1,660)	-	(30)	(39)	(241)	(1,350)
Other liabilities	(667)	(667)	-	(627)	(40)	-	-
Total	(67,352)	(77,852)	(14,705)	(20,629)	(14,375)	(12,219)	(15,924)
Derivatives							
Derivative financial instruments inflow		45,895	-	25,391	8,088	10,159	2,257
Derivative financial instruments (outflow)		(48,022)	-	(26,040)	(8,518)	(11,252)	(2,212)

Note 46 Financial Risk Management *continued*

Concentrations of funding

The concentrations of funding by geographical location presented in the table below is based on the geographical location of the office in which the funds are recognised.

The concentrations of funding by industry sector presented in the table below is based on the RBNZ M3 Institutions Standard Statistical Return.

	Consolidated		The Company	
Dollars in Millions	**30/9/10**	30/9/09	**30/9/10**	30/9/09
New Zealand				
Agriculture, forestry and fishing	**1,480**	1,445	**1,480**	1,445
Mining	**73**	51	**73**	51
Manufacturing	**1,372**	837	**1,372**	837
Electricity, gas and water	**149**	218	**149**	218
Construction	**349**	352	**349**	352
Wholesale and retail trade	**1,028**	967	**1,028**	967
Accommodation, restaurants, culture and recreation	**596**	572	**596**	572
Transport and storage	**527**	590	**527**	590
Communications	**107**	87	**107**	87
Financial, investment and insurance	**11,175**	13,401	**11,175**	13,401
Property, business and personal services	**4,709**	4,419	**4,709**	4,419
Government, education, health and community services	**1,981**	1,833	**1,981**	1,833
Personal deposits	**14,574**	13,939	**14,482**	13,814
Related entities	**5,767**	6,374	**27,110**	26,638
Total New Zealand	**43,887**	45,085	**65,138**	65,224
United Kingdom				
Financial, investment and insurance	**13,526**	10,457	**-**	-
Total United Kingdom	**13,526**	10,457	**-**	-
Singapore				
Financial, investment and insurance	**169**	170	**169**	170
Personal deposits	**418**	471	**418**	471
Property, business and personal services	**33**	36	**33**	36
Related entities	**275**	775	**275**	775
Total Singapore	**895**	1,452	**895**	1,452
Total funding	**58,308**	56,994	**66,033**	66,676
Total funding comprised:				
Due to central banks and other financial institutions	**1,575**	3,892	**1,575**	3,892
Other money market deposits	**11,883**	10,767	**4,605**	4,654
Deposits from customers	**28,663**	27,233	**28,571**	27,108
Bonds and notes	**9,772**	7,578	**3,524**	3,234
Amounts due to related entities	**5,137**	6,244	**26,480**	26,508
Subordinated debt*	**1,278**	1,280	**1,278**	1,280
Total funding	**58,308**	56,994	**66,033**	66,676

* Included in Subordinated debt was $905 million due to related entities as at 30 September 2010 (30 September 2009: $905 million). Refer to note 29 for further information.

Note 46 Financial Risk Management *continued*

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes, people, systems or from external events. To enhance the Banking Group's ability to identify, assess and manage operational risks, a systematic framework and methodology for operational risk management has been developed and implemented.

Effective operational risk management within the Banking Group is based upon the following core elements:

- business unit responsibility for their own operational risks; and
- central Operational Risk and Compliance function which liaises directly with the business, together with Operational Risk partners supporting each line of Business; and
- an independent Internal Audit function.

The primary roles of the Operational Risk function are policy making; advisory and support, including assurance; the assessment of new and re-engineered products and processes; business continuity; risk measurement and control; and reporting.

The primary role of the Compliance function is the monitoring of the effectiveness of business controls to ensure business units meet their compliance obligations. It also provides subject matter expertise and additional assistance to the business to ensure their units are complying with their obligations and assists in the identification of systemic trends across the region.

The Bank has been accredited by the RBNZ to use the AMA for Operational Risk from 1 January 2008. This has resulted in the Bank calculating its operational risk implied risk weighted exposure and resultant capital requirement as required by the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B").

The Bank's quantitative operational risk measurement approach is based on the AMA and uses the factors below to estimate the aggregate loss distribution for total operational risk losses over a 12-month horizon:

- internal loss data;
- relevant external loss data;
- consideration of our business environment and controls; and
- the outputs of a scenario analysis process.

The inputs are combined to yield probability and impact distributions that describe the Bank's exposure to extreme operational risk events, and a simulation approach is then used to generate an equivalent aggregate loss distribution. The operational risk regulatory capital amount is given by the 99.9% percentile of this aggregate loss distribution.

The operational risk calculations are performed on an aggregate Bank-wide basis, and the resultant capital is allocated across major business lines. At present, no adjustment is made to regulatory capital to account for expected losses, or for the mitigating affect of the Bank's insurance programme.

Credit risk

Credit risk is the potential risk of financial loss resulting from the failure of a customer to settle its financial and contractual obligations to the Banking Group as they fall due.

Administration of the Banking Group's lending is the responsibility of Risk Management, which disseminates credit policies and procedures. All loans are subject to a customer rating and there are monitoring procedures and systems in place to control exposures to individual customers and geographical and industry segments to ensure asset quality is maintained. Exposure to any one customer is further restricted by sub-limits covering on and off-balance sheet exposures, and daily settlement risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored on a daily basis. Lending authorities are delegated from the National Australia Bank Limited's Board through the Bank's Managing Director and Chief Risk Officer, with approval to sub-delegate these to business units provided by the Board Risk Committee. Individual lending authorities are then allocated according to demonstrated skills and experience.

The main form of credit risk mitigation utilised by the Banking Group is the taking of collateral against loans and advances provided to customers. The Banking Group evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral taken, if deemed necessary by the Banking Group upon extension of credit, is based on management's credit evaluation of the counterparty and on the availability of collateral. Collateral held varies, but may include:

- general security interests over all assets and undertakings of an entity, including uncalled capital and called but unpaid capital;
- specific or inter-locking guarantees;
- specific security interests over defined assets of the counterparty, including mortgages over landed property; and / or
- facility agreements and other documentation which include affirmative and negative covenants and in some instances guarantees of counterparty obligations.

A restructured facility is one where the original contractual terms have been modified to provide for non-commercial concessions of interest, or principal, or other payments due, or for an extension in maturity for reasons related to the financial difficulties of an entity. The Banking Group separately identifies facilities restructured on non-commercial terms as a result of a client's inability to meet original contractual obligations. Restructured facilities are deemed performing and must demonstrate good prospect of being able to meet the modified contractual terms. Where doubt exists as to the capacity to sustain the modified terms, the facilities remain impaired and an appropriate level of individual provision is held.

The Banking Group continuously monitors its credit risk to counterparties through the examination of default indicators such as irregular or delinquent accounts. In addition, there are specialist units such as Risk Asset Review which undertake regular reviews of loan portfolios and Strategic Business Services which has specific responsibility for the management of accounts classified as categorised assets. These processes enable doubtful debts to be identified at the earliest possible time. Impairment provisions are raised for losses that have been incurred as at the reporting date in line with the requirements of NZ IAS 39. Recoverable amounts for impaired assets take into account the current market value of collateral held and the tradability of securities.

Note 46 Financial Risk Management *continued*

Concentrations of credit exposure

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.

The concentrations of credit exposure by geographical location presented in the table below is based on the geographical location of the counterparty's tax residency.

The concentrations of credit exposure by industry sector presented in the table below is based on 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. For information on credit risk exposures relating to guarantees and credit related commitments, refer to note 39.

	Consolidated		The Company	
Dollars in Millions	**30/9/10**	30/9/09	**30/9/10**	30/9/09
New Zealand				
Agriculture, forestry and fishing	**9,892**	9,539	**9,884**	9,539
Mining	**161**	102	**161**	102
Manufacturing	**2,287**	2,805	**2,287**	2,805
Electricity, gas and water	**857**	788	**857**	788
Construction	**570**	481	**570**	481
Wholesale and retail trade	**2,200**	2,204	**2,200**	2,204
Accommodation, restaurants, culture and recreation	**924**	946	**924**	946
Transport and storage	**936**	961	**936**	961
Communications	**174**	179	**174**	179
Financial, investment and insurance	**4,195**	5,352	**4,195**	5,352
Property, business and personal services	**7,987**	8,823	**7,987**	8,823
Government, education, health and community services	**5,778**	4,579	**5,778**	4,579
Real estate – mortgage	**25,842**	25,005	**25,842**	25,005
Personal lending	**1,778**	1,698	**1,778**	1,698
Related entities	**209**	42	**4,825**	6,566
Total New Zealand	**63,790**	63,504	**68,398**	70,028
Overseas				
Agriculture, forestry and fishing	**5**	2	**5**	2
Manufacturing	**1**	2	**1**	2
Electricity, gas and water	**1**	1	**1**	1
Wholesale and retail trade	**11**	9	**11**	9
Accommodation, restaurants, culture and recreation	**4**	5	**4**	5
Transport and storage	**2**	2	**2**	2
Communications	**16**	-	**16**	-
Financial, investment and insurance	**3,827**	4,035	**3,827**	4,035
Property, business and personal services	**4**	4	**4**	4
Government, education, health and community services*	**237**	230	**237**	230
Real estate – mortgage	**420**	392	**420**	392
Personal lending	**24**	23	**24**	23
Related entities	**330**	51	**319**	21
Total Overseas	**4,882**	4,756	**4,871**	4,726
Total credit exposures	**68,672**	68,260	**73,269**	74,754
Total credit exposures comprised:				
Balances with central banks	**1,920**	1,415	**1,920**	1,415
Due from other financial institutions	**1,249**	869	**1,249**	869
Trading securities	**3,231**	3,662	**3,231**	3,662
Other money market placements	**433**	537	**433**	537
Available for sale investments	**273**	338	**273**	338
Gross Loans and advances to customers	**55,377**	55,428	**55,369**	55,428
Derivative financial instruments	**5,650**	5,918	**5,650**	5,918
Amounts due from related entities	**539**	93	**5,144**	6,587
Total credit exposures	**68,672**	68,260	**73,269**	74,754

* Includes balances with Supranationals.

Note 46 Financial Risk Management *continued*

Derivatives

The Banking Group maintains strict control limits on net open derivative positions (the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Banking Group (assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. The requirement for collateral or other security for these instruments will be assessed based on the creditworthiness of the counterparty.

Undrawn credit commitments

Undrawn credit commitments represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Banking Group is potentially exposed to credit risk with respect to undrawn credit commitments for an amount equal to the total amount undrawn. However, the level of credit risk is mitigated through most commitments to extend credit being contingent upon customers maintaining specific credit standards. The Banking Group monitors the term to maturity of all credit commitments, drawn and undrawn, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Independent Auditor's Report

To the Shareholders of Bank of New Zealand

Report on the General Disclosure Statement

We have audited the General Disclosure Statement (excluding the supplementary information relating to Capital Adequacy in note 45 (the "Capital Adequacy Information")) of Bank of New Zealand (the "Bank'') and its subsidiaries (the "Banking Group") on pages 8 to 100. The General Disclosure Statement on pages 8 to 100 comprises the financial statements and the supplementary information. The financial statements comprise the balance sheet of the Bank and the Banking Group as at 30 September 2010, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Bank and the Banking Group for the year then ended, and a summary of significant accounting policies and other explanatory information. The supplementary information comprises the information disclosed in notes 34, 42, 43 and 44 of the General Disclosure Statement (the "Supplementary Information") as required by Schedules 4, 6 to 9 and clause 17 of Schedule 3 of the Registered Bank Disclosure Statement (Full and Half Year – New Zealand Incorporated Registered Banks) Order 2008, as amended (the "Order").

This report is made solely to the Bank's shareholders in accordance with Clause 19(2) of the Order. Our audit has been undertaken so that we might state to the Bank's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholders, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the General Disclosure Statement

The directors of the Bank are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

The directors are also responsible for the preparation of the Supplementary Information and for its preparation in accordance with the guidelines issued pursuant to Section 78(3) of the Reserve Bank of New Zealand Act 1989 and any Conditions of Registration.

Auditor's Responsibility

Our responsibility is to express an opinion on the General Disclosure Statement on pages 8 to 100 (excluding the Capital Adequacy Information), based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the General Disclosure Statement on pages 8 to 100 (excluding the Capital Adequacy Information) is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the General Disclosure Statement on pages 8 to 100 (excluding the Capital Adequacy Information). The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the General Disclosure Statement on pages 8 to 100 (excluding the Capital Adequacy Information), whether due to fraud or error. In making those risk assessments, we have considered internal control relevant to the Bank and Banking Group's preparation of the financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and Banking Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the General Disclosure Statement on pages 8 to 100 (excluding the Capital Adequacy Information).

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

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.

Opinion

In our opinion the General Disclosure Statement of the Bank and the Banking Group on pages 8 to 100 (excluding the Supplementary Information and Capital Adequacy Information):

- complies with generally accepted accounting practice in New Zealand;
- complies with International Financial Reporting Standards; and
- gives a true and fair view of the financial position of the Bank and Banking Group as at 30 September 2010 and the financial performance and cash flows of the Bank and Banking Group for the year then ended.

In our opinion, the Supplementary Information:

- has been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any Conditions of Registration;
- is in accordance with the books and records of the Bank and Banking Group; and
- fairly states, in all material respects, the matters to which it relates, in accordance with those Schedules.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, and clauses 2(d) and 2(e) of Schedule 1 of the Order, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by the Bank, as far as appears from our examination of those records.

Report on the Supplementary Information Relating to Capital Adequacy

We have reviewed the supplementary information prescribed in Schedule 5B of the Order relating to Capital Adequacy in note 45 of the General Disclosure Statement (the "Capital Adequacy Information").

This report is made solely to the Bank's shareholders in accordance with Clause 19(2) of the Order. 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 a 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, for our review work, for this report, or for our findings.

Directors' Responsibility for the Capital Adequacy Information

The directors are responsible for the preparation and presentation of the Capital Adequacy Information which is required to be prepared in accordance with the Bank's Conditions of Registration and with the Bank's internal models for credit risk and operational risk, as accredited by the Reserve Bank of New Zealand.

Reviewer's Responsibilities

We are responsible for reviewing the Capital Adequacy Information in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the Capital Adequacy Information is not free from material misstatement.

Basis of Statement

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

We conducted our review of the Capital Adequacy Information in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the Capital Adequacy Information is free of material misstatement either caused by fraud or error. We also evaluated the overall adequacy of the presentation of the Capital Adequacy Information.

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.

Statement of Review Findings

Based on our review procedures, which are not an audit, nothing has come to our attention that causes us to believe that the Capital Adequacy Information 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 5B of the Order.

Ernst & Young

2 December 2010
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	Aa2	Outlook Stable

During the two-year period ended 30 September 2010, the Standard & Poor's credit rating changed from AA Outlook Negative to AA Outlook Stable on 10 November 2008.

During the two-year period ended 30 September 2010, there was no change to the Moody's Investors Service credit rating.

The following is a summary of the descriptions of the major ratings categories for rating agencies for the rating of long-term senior unsecured obligations.

Standard & Poor's	Moody's Investors Service	Fitch Ratings	Description of Grade
AAA	Aaa	AAA	Ability to repay principal and interest is extremely strong. This is the highest investment category.
AA	Aa	AA	Very strong ability to repay principal and interest in a timely manner.
A	A	A	Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.
BBB	Baa	BBB	Adequate ability to repay principal and interest. More vulnerable to adverse changes.
BB	Ba	BB	Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.
B	B	B	Greater vulnerability and therefore greater likelihood of default.
CCC	Caa	CCC	Likelihood of default considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.
CC to C	Ca to C	CC to C	Highest risk of default.
D	-	RD & D	Obligations currently in default.

Credit ratings by Standard & Poor's and Fitch Ratings may be modified by the addition of a plus or minus sign to show relative standing with the major rating categories. Moody's Investors Service apply numeric modifiers 1, 2 and 3 to show relative standing within the major rating categories with 1 indicating the higher end of that category and 3 indicating the lower end.

Conditions of Registration

The conditions of registration imposed on Bank of New Zealand by the Reserve Bank of New Zealand pursuant to section 74(2) of the Reserve Bank of New Zealand Act 1989 which were applicable as at the date of signing of this General Disclosure Statement are as follows:

Conditions of registration as from 15 October 2010 – Bank of New Zealand

The registration of Bank of New Zealand (the "Bank") as a registered bank is subject to the following conditions:

1. That the Banking Group complies with the following requirements:

   (a) the total capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document: "Capital adequacy framework (internal models based approach)" (BS2B) dated October 2010 is not less than 8%;

   (b) the Tier One capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document: "Capital adequacy framework (internal models based approach)" (BS2B) dated October 2010 is not less than 4%; and

   (c) the capital of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document: "Capital adequacy framework (internal models based approach)" (BS2B) dated October 2010 is not less than $30 million.

   For the purposes of this condition of registration the scalar referred to in the Reserve Bank of New Zealand document: "Capital adequacy framework (internal models based approach)" (BS2B) dated October 2010 is 1.06.

   For the purposes of this condition of registration, the supervisory adjustment referred to in the Reserve Bank of New Zealand document: "Capital adequacy framework (internal models based approach)" (BS2B) dated October 2010 is the sum of:

   (a) 15% of risk-weighted retail residential housing exposures (including both on and off-balance sheet exposures); and

   (b) 12.5 times the greater of: zero; and 90% of adjusted Basel I capital, less adjusted Basel II capital; where

      (i) "adjusted Basel I capital" means 8% of total risk-weighted exposures, plus deductions from Tier One capital, plus deductions from total capital, all calculated in accordance with the Reserve Bank of New Zealand document: "Capital adequacy framework (Basel I approach)" (BS2) dated October 2010;

      (ii) "adjusted Basel II capital" means 8% of total Basel II risk-weighted exposures, plus deductions from Tier One capital, plus deductions from Tier Two capital, less any amount included in Tier Two capital arising from the excess of eligible allowances for impairment over EL (expected losses), all calculated in accordance with the Reserve Bank of New Zealand document "Capital adequacy framework (internal models based approach)" (BS2B) dated October 2010; and

      (iii) "total Basel II risk-weighted exposures" means scalar x (risk-weighted on and off balance sheet credit exposures) + 12.5 x total capital charge for market risk exposure + 12.5 x total capital requirement for operational risk + 15% of risk-weighted retail residential housing exposures (including both on and off balance sheet exposures).

1A. That:

   (a) the Bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")" (BS12) dated December 2007;

   (b) under its ICAAP the Bank identifies and measures its "other material risks" defined as all material risks of the Banking Group that are not explicitly captured in the calculation of Tier One and total capital ratios under the requirements set out in the document "Capital adequacy framework (internal models based approach)" (BS2B) dated October 2010; and

   (c) the Bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That the Banking Group complies with all requirements set out in the Reserve Bank of New Zealand document: "Capital adequacy framework (internal models based approach)" (BS2B) dated October 2010.

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.

3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets. For the purposes of this condition:

   (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disapplied by sections 4(1) (a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;

   (ii) In measuring the size of the Banking Group's insurance business:

      (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:

         - the total consolidated assets of the group headed by that entity;
         - or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;

      (b) otherwise, the size of each insurance business conducted by any entity within the Banking Group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;

      (c) the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the Banking Group. All amounts in parts (a) and (b) shall relate to on-balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;

      (d) where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the Banking Group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit rating[1]	Connected exposure limit (% of the Banking Group's Tier One capital)
AA / Aa2 and above	75
AA- / Aa3	70
A+ / A1	60
A / A2	40
A- / A3	30
BBB+ / Baa1 and below	15

   Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15 percent of the Banking Group's Tier One capital.

   For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected exposures policy" (BS8) dated October 2010.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
6. That the board of the registered bank contains at least two independent Directors. In this context an independent director is a director who is not an employee of the registered bank, and who is not a director, trustee or employee of any holding company of the registered bank, or any other entity capable of controlling or significantly influencing the registered bank.
7. That the chairperson of the Bank's board is not an employee of the registered bank.
8. That the Bank's constitution does not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).
9. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, shall be made in respect of the Bank unless:
   (i) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (ii) the Reserve Bank has advised that it has no objection to that appointment.
10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.
11. That the Bank will not, without first obtaining the written approval of the Reserve Bank, revoke the constitution of BNZ International Funding Limited or alter the constitution of BNZ International Funding Limited if such alteration would delete or amend or negate the effect of clause 2.2 of the constitution.
12. That:
   (a) the business and affairs of the Bank are managed by, or under the direction or supervision of, the Board of the Bank;
   (b) the employment contract of the chief executive officer of the Bank or person in an equivalent position (together "CEO") is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the Board of the Bank; and
   (c) all staff employed by the Bank shall have their remuneration determined by (or under the delegated authority of) the Board or the CEO of the Bank and be accountable (directly or indirectly) to the CEO of the Bank.
13. That by 30 June 2010 the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried on by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the Bank or of a service provider to the Bank, the following outcomes:
   (a) that the Bank's clearing and settlement obligations due on a day can be met on that day;
   (b) that the Bank's financial risk positions on a day can be identified on that day;
   (c) that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
   (d) that the Bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

   For the purposes of this condition of registration, the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006.
14. That the Banking Group complies with the following quantitative requirements for liquidity-risk management with effect from 1 April 2010:
   (a) the one-week mismatch ratio of the Banking Group is not less than zero percent at the end of each business day;
   (b) the one-month mismatch ratio of the Banking Group is not less than zero percent at the end of each business day; and
   (c) the one-year core funding ratio of the Banking Group is not less than 65 percent at the end of each business day.

   For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated March 2010 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated March 2010, except that until 31 October 2010 the ratios may be calculated without applying the requirements of sub-paragraphs 59(a), 59(b) and 59(c) of BS13.

1 This table uses the ratings scale of Standard & Poor's, Fitch Ratings and Moody's Investor Service. (Fitch Ratings' scale is identical to Standard & Poor's)

15. That, with effect from 1 April 2010, the registered bank has an internal framework for liquidity risk management that is adequate in the registered bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:
    (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
    (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
    (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
    (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

For the purposes of these conditions of registration, the term "Banking Group" means the Bank of New Zealand's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993).

Changes in conditions of registration

The following change has been made to the Bank's conditions of registration since the last General Short Form Disclosure Statement issued for the nine months ended 30 June 2010:

The Reserve Bank of New Zealand has amended Bank of New Zealand's previous conditions of registration 1, 1A, 1B and 4 following the issuance in October 2010 of revised versions of BS2 and BS2B, relating to the Capital adequacy framework, and BS8 relating to Credit exposures to connected persons. The effective date for these amended conditions is 15 October 2010.

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 year ended 30 September 2010:
   (a) the Bank has complied with its conditions of registration applicable during that period;
   (b) credit exposures to connected persons (refer to note 42 on page 75) 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 2nd December 2010 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