Bank of New Zealand

General Short Form Disclosure Statement

For the nine months ended 30 June 2010

No. 58

General Short Form Disclosure Statement

For the nine months ended 30 June 2010

This General Short Form Disclosure Statement has been issued by Bank of New Zealand for the nine months ended 30 June 2010 in accordance with the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2008 (the "Order"), as amended by the Registered Bank Disclosure Statement (Off-Quarter – 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 of 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 Short Form 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 Short Form Disclosure Statement.

Contents

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

As at the date of this General Short Form Disclosure Statement, depositors with Bank of New Zealand, who are not financial institutions or related parties, receive the benefit of the Crown guarantee under the New Zealand retail deposit guarantee scheme. Certain debt securities issued by the Bank in which BNZ Cash PIE (refer to note 24 to these interim financial statements for further information about BNZ Cash PIE) invests are also guaranteed by the Crown under the terms of the Bank's Crown Deed of Guarantee (Registered Bank) and Crown Deed of Nomination (Unit Trust), as amended by Deeds of Amendment of the Crown Deed of Nomination (Unit Trust). Bank of New Zealand may issue debt securities that are not subject to the New Zealand retail deposit guarantee scheme ("Excluded Debt Securities") provided that the offering document or any advertisement relating to the Excluded Debt Securities contains a prominent warning that the Excluded Debt Securities do not have the benefit of the Crown guarantee. As at the date of this General Short Form Disclosure Statement, Bank of New Zealand has not issued any Excluded Debt Securities. Certain offers of debt securities issued by the Bank (or by its subsidiary, BNZ International Funding Limited, that are guaranteed by the Bank) prior to 30 April 2010 are also guaranteed by the Crown under the Crown wholesale funding guarantee scheme.

The guarantor under the schemes 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. Copies of the Bank's Crown Deed of Guarantee (Registered Bank) dated 14 December 2009, the withdraw and replacement letter from the Crown dated 14 December 2009, Crown Deed of Nomination (Unit Trust) dated 18 March 2009, as amended by Deeds of Amendment of the Crown Deed of Nomination (Unit Trust) dated 20 November 2009 and 27 November 2009, and 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 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) was issued in respect of each issue of debt securities that is covered by the Crown wholesale funding guarantee.

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 June 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 June 2010 there was no change to these ratings. A summary of the descriptions of the major ratings categories for each rating agency is included in the Credit Ratings section on page 42.

Retail deposit guarantee – By way of letter dated 14 December 2009, on 1 January 2010 the Crown withdrew and replaced the existing Crown Deed of Guarantee (Registered Bank) dated 5 November 2008 with the Crown Deed of Guarantee (Registered Bank) dated 14 December 2009. The retail deposit guarantee is effective from 12.01am on 12 October 2008 and expires on 12.01am on 12 October 2010. The Bank has the option of applying for an extension of the guarantee to an expiry date of 31 December 2011. As at the date of this General Short Form Disclosure Statement, the Bank is unlikely to seek an extension of the guarantee.

Under the current retail deposit guarantee, the Crown guarantees retail deposits with the Bank up to NZ$1 million in aggregate per depositor. Retail deposits do not include deposits from:

- another financial institution; or
- a related party of the Bank – this includes deposits from the Bank's Directors and senior executives and their families, National Australia Bank Limited and National Australia Bank Limited's subsidiaries.

Investors in BNZ Cash PIE must be a "relevant person" under the Crown Deed of Nomination (Unit Trust) dated 18 March 2009 in order to be eligible to receive the benefit of any payments received under the retail deposit guarantee.

Bonds that are unsecured, unsubordinated obligations issued under the Bank of New Zealand Registered Transferable Deposits Deed Poll dated 12 February 1996 are covered by the retail deposit guarantee if held by anyone other than a financial institution or a related party of the Bank. The Bank's subordinated, unsecured obligations issued under the Bank of New Zealand Subordinated Debt Securities Deed Poll dated 31 May 2007 are not covered by the retail deposit guarantee.

The above is a brief summary only. The full retail deposit guarantee, the related Crown Deed of Nomination (Unit Trust) and the Deeds of Amendment of the Crown Deed of Nomination (Unit Trust) are contained in the Bank's SDS and should be reviewed by any person intending to rely on the guarantee to ensure they understand how it will apply to their circumstances.

Bank of New Zealand Corporate Information *continued*

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

The information about the Crown's wholesale funding guarantee above is a brief summary only. The full wholesale funding guarantee is contained in the Bank's SDS and 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 which are available on www.treasury.govt.nz.

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 43.

Details on the Banking Group's involvement in the marketing and distribution of insurance products of other entities are provided in note 24 to these interim 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 Short Form 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

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.

There have been no changes in the composition of the Bank's Board of Directors since the signing date of the Bank's General Disclosure Statement for the six months ended 31 March 2010.

Responsible Persons

Messrs. John Anthony Waller and Andrew Gregory Thorburn, whose occupations, professional qualifications, countries of residence, and directorships are disclosed in the General Disclosure Statement for the six months ended 31 March 2010, 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

Income Statement

For the nine months ended 30 June 2010

Dollars in Millions	Note	Consolidated Unaudited 9 Months 30/6/10	Unaudited 9 Months 30/6/09	Audited 12 Months 30/9/09
Interest income		**2,539**	3,221	4,074
Interest expense		**1,592**	2,186	2,723
Net interest income		**947**	1,035	1,351
Gains less losses on financial instruments at fair value	2	**86**	57	(96)
Other operating income		**285**	302	397
Total operating income		**1,318**	1,394	1,652
Operating expenses		**603**	571	777
Total operating profit before impairment losses on credit exposures and income tax expense		**715**	823	875
Impairment losses on credit exposures	10	**135**	142	190
Total operating profit before income tax expense		**580**	681	685
Income tax expense on operating profit		**171**	203	205
Income tax (credit)/expense on New Zealand structured finance transactions		**(83)**	416	416
Income tax (credit)/expense interest costs on New Zealand structured finance transactions		**(84)**	245	245
Total income tax expense		**4**	864	866
Net profit/(loss) attributable to shareholders of Bank of New Zealand		**576**	(183)	(181)

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

Statement of Comprehensive Income

For the nine months ended 30 June 2010

Dollars in Millions	Note	Consolidated **Unaudited 9 Months 30/6/10**	Consolidated Unaudited 9 Months 30/6/09	Consolidated Audited 12 Months 30/9/09
Net profit/(loss) attributable to shareholders of Bank of New Zealand		**576**	(183)	(181)
Other comprehensive income/(expense), net of taxation				
Net actuarial loss on defined benefit plan		**-**	-	(5)
Net change in foreign currency translation reserve		**2**	2	(3)
Net change in cash flow hedge reserve		**32**	14	9
Available for sale investments revaluation reserve				
Change in available for sale investments revaluation reserve from revaluation		**6**	(9)	(9)
Available for sale investments revaluation reserve transferred to income statement on disposal		**-**	(7)	(7)
Net change in available for sale investments revaluation reserve		**6**	(16)	(16)
Total other comprehensive income/(expense), net of taxation		**40**	-	(15)
Total comprehensive income/(expense) attributable to shareholders of Bank of New Zealand	16	**616**	(183)	(196)

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

Statement of Changes in Equity

For the nine months ended 30 June 2010

Consolidated

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
9 Months 30/6/10 Unaudited								
Balance at beginning of period	**1,451**	**710**	**1,587**	**2**	**3**	**10**	**(18)**	**3,745**
Comprehensive income								
Net profit attributable to shareholders of Bank of New Zealand	**-**	**-**	**576**	**-**	**-**	**-**	**-**	**576**
Total other comprehensive income	**-**	**-**	**-**	**-**	**2**	**6**	**32**	**40**
Total comprehensive income	**-**	**-**	**576**	**-**	**2**	**6**	**32**	**616**
Proceeds from shares issued	**-**	**200**	**-**	**-**	**-**	**-**	**-**	**200**
Ordinary dividend	**-**	**-**	**(563)**	**-**	**-**	**-**	**-**	**(563)**
Perpetual preference dividend	**-**	**-**	**(42)**	**-**	**-**	**-**	**-**	**(42)**
Balance at end of period	**1,451**	**910**	**1,558**	**2**	**5**	**16**	**14**	**3,956**
9 Months 30/6/09 Unaudited								
Balance at beginning of period	1,451	450	2,025	2	6	26	(27)	3,933
Comprehensive (expense)/ income								
Net loss attributable to shareholders of Bank of New Zealand	-	-	(183)	-	-	-	-	(183)
Total other comprehensive income/ (expense)	-	-	-	-	2	(16)	14	-
Total comprehensive (expense)/income	-	-	(183)	-	2	(16)	14	(183)
Proceeds from shares issued	-	260	-	-	-	-	-	260
Ordinary dividend	-	-	(217)	-	-	-	-	(217)
Perpetual preference dividend	-	-	(23)	-	-	-	-	(23)
Balance at end of period	1,451	710	1,602	2	8	10	(13)	3,770
12 Months 30/9/09 Audited								
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 interim financial statements.

Balance Sheet

As at 30 June 2010

Dollars in Millions	Note	Consolidated **Unaudited 30/6/10**	Unaudited 30/6/09	Audited 30/9/09
Assets				
Cash and balances with central banks	5	**2,344**	1,966	1,553
Due from other financial institutions	6	**1,512**	831	869
Trading securities	7	**2,660**	3,220	3,662
Other money market placements	8	**492**	822	537
Available for sale investments		**262**	388	338
Loans and advances to customers	9	**54,761**	54,945	55,142
Derivative financial instruments		**4,460**	6,686	5,918
Amounts due from related entities		**481**	233	93
Current tax		**176**	98	18
Deferred tax		**245**	119	254
Other assets		**358**	635	1,234
Property, plant and equipment		**154**	137	142
Goodwill and other intangible assets		**100**	95	102
Total assets		**68,005**	70,175	69,862
Liabilities				
Due to central banks and other financial institutions	12	**1,072**	3,647	3,892
Other money market deposits	13	**12,959**	10,838	10,767
Trading liabilities		**15**	99	9
Deposits from customers	14	**27,986**	26,365	27,233
Derivative financial instruments		**5,146**	8,097	7,643
Bonds and notes		**9,939**	7,984	7,578
Amounts due to related entities		**5,056**	6,611	6,244
Current tax – provision for New Zealand structured finance transactions		**-**	661	661
Other liabilities		**604**	841	810
Subordinated debt	15	**1,272**	1,262	1,280
Total liabilities		**64,049**	66,405	66,117
Net assets		**3,956**	3,770	3,745
Shareholders' equity				
Contributed equity – ordinary shareholder		**1,451**	1,451	1,451
Reserves	17	**37**	7	(3)
Retained profits		**1,558**	1,602	1,587
Ordinary shareholder's equity		**3,046**	3,060	3,035
Contributed equity – perpetual preference shareholders		**910**	710	710
Total shareholders' equity	16	**3,956**	3,770	3,745

The contributed equity from ordinary and perpetual preference shareholders is included in Tier One capital of the Banking Group.

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

Cash Flow Statement

For the nine months ended 30 June 2010

Dollars in Millions	Consolidated Unaudited 9 Months 30/6/10	Consolidated Unaudited 9 Months 30/6/09	Consolidated Audited 12 Months 30/9/09
Cash flows from operating activities			
Cash was provided from:			
Dividend income	**1**	1	3
Interest income	**2,552**	3,268	4,149
Net trading income	**33**	93	121
Other income	**284**	294	387
Cash was applied to:			
Interest expense	**(1,724)**	(2,207)	(2,656)
Operating expenses	**(576)**	(564)	(731)
Net cash flows from operating activities before changes in operating assets and liabilities and income tax	**570**	885	1,273
Changes in operating assets and liabilities arising from cash flow movements			
Cash was provided from:			
Decrease in due from other financial institutions (term)*	**-**	46	76
Decrease in loans and advances to customers*	**166**	-	-
Decrease in other assets	**218**	2	-
Decrease in other money market placements*	**45**	29	314
Decrease in trading securities and trading liabilities*	**1,025**	-	-
Increase in deposits from customers*	**753**	445	1,313
Increase in due to central banks and other financial institutions (term)*	**-**	2,592	2,962
Cash was applied to:			
Decrease in due to central banks and other financial institutions (term)*	**(2,896)**	-	-
Decrease in other liabilities	**(37)**	(39)	(164)
Increase in balances with central banks (term)*	**(157)**	-	-
Increase in due from other financial institutions (term)*	**(738)**	-	-
Increase in loans and advances to customers*	**-**	(2,794)	(3,267)
Increase in other assets including voluntary tax payment against New Zealand structured finance transactions	**-**	-	(649)
Increase in trading securities and trading liabilities*	**-**	(333)	(874)
Net change in operating assets and liabilities	**(1,621)**	(52)	(289)
Net cash flows from operating activities before income tax	**(1,051)**	833	984
Cash was applied to:			
Taxes and subvention payments*	**(146)**	(301)	(308)
Net cash flows from operating activities	**(1,197)**	532	676

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

Cash Flow Statement
continued

For the nine months ended 30 June 2010

Dollars in Millions	Note	Consolidated Unaudited 9 Months 30/6/10	Consolidated Unaudited 9 Months 30/6/09	Consolidated Audited 12 Months 30/9/09
Cash flows from investing activities				
Cash was provided from:				
Proceeds from sale of available for sale investments		**25**	15	15
Proceeds on maturity of available for sale investments		**50**	-	160
Cash was applied to:				
Acquisition of intangible assets		**(22)**	(28)	(40)
Purchase of available for sale investments		**-**	(367)	(475)
Purchase of property, plant and equipment		**(33)**	(57)	(75)
Net cash flows from investing activities		**20**	(437)	(415)
Cash flows from financing activities				
Cash was provided from:				
Increase in bonds and notes*		**2,242**	383	-
Increase in contributed equity – perpetual preference shares		**200**	260	260
Increase in derivative financial instruments*		**-**	1,656	2,037
Increase in other money market deposits*		**2,184**	-	-
Other related entity funding*		**-**	2,110	1,883
Cash was applied to:				
Decrease in bonds and notes*		**-**	-	(72)
Decrease in derivative financial instruments*		**(805)**	-	-
Decrease in other money market deposits*		**-**	(3,664)	(3,737)
Other related entity funding*		**(1,576)**	-	-
Ordinary dividend		**(563)**	(217)	(217)
Perpetual preference dividend		**(42)**	(23)	(35)
Net cash flows from financing activities		**1,640**	505	119
Net increase in cash and cash equivalents		**463**	600	380
Cash and cash equivalents at beginning of period		**1,218**	838	838
Cash and cash equivalents at end of period		**1,681**	1,438	1,218
Cash and cash equivalents at end of period comprised:				
Cash and balances with central banks (call)	5	**2,187**	1,966	1,553
Due from other financial institutions (call)	6	**30**	57	125
Due to central banks and other financial institutions (call)	12	**(536)**	(585)	(460)
Total cash and cash equivalents		**1,681**	1,438	1,218

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

Cash Flow Statement *continued*

For the nine months ended 30 June 2010

		Consolidated		
Dollars in Millions	Note	**Unaudited 9 Months 30/6/10**	Unaudited 9 Months 30/6/09	Audited 12 Months 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		**576**	(183)	(181)
Add back non-cash items in net profit/(loss):				
Decrease in accrued interest receivable		**13**	47	75
Depreciation and amortisation expense		**32**	28	39
Impairment losses on credit exposures	10	**135**	142	190
Impairment losses on non-financial assets		**10**	-	-
Increase in accrued interest payable		**-**	-	67
Increase in other operating provisions		**-**	-	1
Increase in provision for New Zealand structured finance transactions		**-**	661	-
Increase in provision for tax		**-**	-	558
Loss on sale of property, plant and equipment		**1**	-	6
Unrealised gains less losses on financial instruments		**-**	36	217
Deduct non-cash items in net profit/(loss):				
Decrease in accrued interest payable		**(132)**	(21)	-
Decrease in other operating provisions		**(16)**	(21)	-
Decrease in provision for tax		**(142)**	(98)	-
Gain on sale of available for sale investments		**-**	(7)	(7)
Unrealised gains less losses on financial instruments		**(53)**	-	-
Deduct operating cash flows not included in net profit/(loss):				
Net change in operating assets and liabilities		**(1,621)**	(52)	(289)
Net cash flows from operating activities		**(1,197)**	532	676

Netting of cash flows

Certain cash flows (as indicated by *) are shown net as these cash flows are received and disbursed on behalf of customers and counterparties and therefore reflect the activities of these parties rather than those of the Banking Group.

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 balance sheet dates. These balances fluctuate widely in the normal course of business.

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

Notes to and Forming Part of the Interim Financial Statements

For the nine months ended 30 June 2010

Note 1 Principal Accounting Policies

These interim financial statements are general purpose financial reports prepared in accordance with the requirements of NZ IAS 34 Interim Financial Reporting and the Order, and should be read in conjunction with the General Disclosure Statement for the six months ended 31 March 2010.

There have been no material changes in accounting policies during the interim financial period. The accounting policies used in the preparation of these interim financial statements are consistent with the accounting policies used in the preparation of the General Disclosure Statement for the six months ended 31 March 2010.

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 interim financial statements. Adoption of these standards or amendments has not resulted in any impact on the Banking Group's reported result or financial position.

- NZ IAS 1 Presentation of Financial Statements (revised) 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 8 Operating Segments has resulted in changes to the disclosure of financial and descriptive information in relation to the Banking Group's reportable segments (refer to note 3).

Reclassification of financial information

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

Dollars in Millions	Consolidated Unaudited 9 Months 30/6/10	Unaudited 9 Months 30/6/09	Audited 12 Months 30/9/09

Note 2 Gains Less Losses on Financial Instruments at Fair Value

Hedge accounting			
Net gain/(loss) arising from hedging instruments in fair value hedge accounting relationships	**32**	(203)	(107)
Net (loss)/gain arising from the hedged items attributable to the hedged risk in fair value hedge accounting relationships	**(78)**	146	39
Ineffectiveness arising from cash flow hedge accounting relationships	**3**	(10)	(8)
	(43)	(67)	(76)
Trading			
Foreign exchange trading derivatives	**55**	86	96
Interest rate related trading derivatives	**15**	79	64
Net gain/(loss) in the fair value of financial assets and liabilities held for trading	**22**	(6)	(6)
	92	159	154
Other			
Net gain/(loss) in the fair value of financial assets designated at fair value through profit or loss (refer to table below)	**38**	17	(38)
Net gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss (refer to table below)	**7**	(68)	(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	**(6)**	14	5
	37	(35)	(174)
Total gains less losses on financial instruments at fair value	**86**	57	(96)
Net gain/(loss) in the fair value of financial assets comprised:			
Gain in the fair value of financial assets designated at fair value through profit or loss	**18**	189	109
Credit risk adjustments on financial assets designated at fair value through profit or loss	**(27)**	(18)	(64)
Net gain/(loss) attributable to other derivatives designated for hedging purposes that do not use hedge accounting	**47**	(154)	(83)
	38	17	(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	**(86)**	(98)	(62)
Credit value adjustments on financial liabilities designated at fair value through profit or loss	**2**	(51)	(134)
Net gain attributable to other derivatives designated for hedging purposes that do not use hedge accounting	**91**	81	55
	7	(68)	(141)

Note 3 Segment Analysis

Operating segments

An operating segment is a component of an entity engaging in business activities 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 evaluation of performance and allocation of resource. Lending assets is an additional key metric regularly provided to the New Zealand Leadership Team.

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 includes insurance activities carried out by a controlled entity of National Australia Bank Limited that is not part of the Banking Group. BNZ Partners provides financial services and products to business, agribusiness and corporate customers.

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

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

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				
	9 Months 30/6/10 Unaudited				
Dollars in Millions	**Retail**	**BNZ Partners**	**Total Reportable Segments**	**Other**	**Total Banking Group**
Revenue from external customers*	**533**	**730**	**1,263**	**55**	**1,318**
Net inter-segment revenue	**1**	**53**	**54**	**(54)**	**-**
Total segment revenue	**534**	**783**	**1,317**	**1**	**1,318**
Profit before income tax expense	**225**	**427**	**652**	**(72)**	**580**
Income tax expense	**62**	**128**	**190**	**(19)**	**171**
Income tax credit on New Zealand structured finance transactions	**-**	**-**	**-**	**(83)**	**(83)**
Income tax credit interest costs on New Zealand structured finance transactions	**-**	**-**	**-**	**(84)**	**(84)**
Total income tax expense	**62**	**128**	**190**	**(186)**	**4**
Net profit attributable to shareholders of Bank of New Zealand	**163**	**299**	**462**	**114**	**576**
Lending assets	**18,496**	**35,432**	**53,928**	**833**	**54,761**
	9 Months 30/6/09 Unaudited				
Revenue from external customers*	520	749	1,269	125	1,394
Net inter-segment revenue	3	83	86	(86)	-
Total segment revenue	523	832	1,355	39	1,394
Profit before income tax expense	197	442	639	42	681
Income tax expense	55	133	188	15	203
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	55	133	188	676	864
Net loss attributable to shareholders of Bank of New Zealand	142	309	451	(634)	(183)
Lending assets	16,441	37,631	54,072	873	54,945

* Revenue from external customers comprises of net interest income and other income.

Note 3 Segment Analysis *continued*

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

	Consolidated				
	12 Months 30/9/09 Unaudited				
Dollars in Millions	Retail	BNZ Partners	Total Reportable Segments	Other	Total Banking Group
Revenue from external customers*	695	966	1,661	(9)	1,652
Net inter-segment revenue	3	95	98	(98)	-
Total segment revenue	698	1,061	1,759	(107)	1,652
Profit before income tax expense	254	508	762	(77)	685
Income tax expense	70	153	223	(18)	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	643	866
Net loss attributable to shareholders of Bank of New Zealand	184	355	539	(720)	(181)
Lending assets	17,200	37,218	54,418	724	55,142

* Revenue from external customers comprises of net interest income and other income.

Asset Notes

Note 4 Investments in Controlled Entities

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 deregistered 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.

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 Reserve Bank of New Zealand ("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. This did not have any impact on the consolidated interim 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 amount of $493 million. This did not have any impact on the consolidated interim financial statements of the Banking Group as transactions between the Bank and the Covered Bond Trust are eliminated on consolidation.

	Consolidated		
Dollars in Millions	**Unaudited 30/6/10**	Unaudited 30/6/09	Audited 30/9/09
Note 5 Cash and Balances With Central Banks			
Notes and coins	**128**	143	138
Transaction balances with central banks	**2,059**	1,823	1,415
Loans and advances to central banks	**157**	-	-
Total cash and balances with central banks	**2,344**	1,966	1,553
Cash and balances with central banks comprised:			
Call balances	**2,187**	1,966	1,553
Term balances	**157**	-	-
Total cash and balances with central banks	**2,344**	1,966	1,553
Note 6 Due from Other Financial Institutions			
Transaction balances with other financial institutions	**30**	57	125
Securities purchased under agreements to resell with other financial institutions	**1,106**	49	153
Loans and advances due from other financial institutions	**376**	725	591
Total due from other financial institutions	**1,512**	831	869
Due from other financial institutions comprised:			
Call balances	**30**	57	125
Term balances	**1,482**	774	744
Total due from other financial institutions	**1,512**	831	869

Dollars in Millions	Consolidated Unaudited 30/6/10	Consolidated Unaudited 30/6/09	Consolidated Audited 30/9/09
Note 7 Trading Securities			
Treasury bills	**965**	1,673	2,580
Government securities	**850**	71	397
Semi-government securities	**94**	5	16
Bank bills	**415**	1,108	457
Bank bonds	**203**	202	127
Promissory notes	**105**	150	78
Other securities	**28**	11	7
Total trading securities	**2,660**	3,220	3,662

Included in trading securities as at 30 June 2010 were $17 million encumbered through repurchase agreements (30 June 2009: $71 million; 30 September 2009: $400 million). No trading securities were used to secure deposit obligations as at 30 June 2010 (30 June 2009: nil; 30 September 2009: nil).

Dollars in Millions	Consolidated Unaudited 30/6/10	Consolidated Unaudited 30/6/09	Consolidated Audited 30/9/09
Note 8 Other Money Market Placements			
Money market placements with non-financial institutions	**299**	626	431
Securities purchased under agreements to resell with non-financial institutions	**193**	196	106
Total other money market placements	**492**	822	537

Dollars in Millions	Consolidated Unaudited 30/6/10	Unaudited 30/6/09	Audited 30/9/09
Note 9 Loans and Advances to Customers			
Overdrafts	**2,332**	2,692	2,497
Credit card outstandings	**1,365**	1,268	1,290
Lease finance	**26**	34	30
Housing loans	**26,023**	25,185	25,397
Other term lending	**25,330**	25,777	26,113
Other lending	**128**	101	101
Total gross loans and advances to customers	**55,204**	55,057	55,428
Deduct:			
Allowance for impairment losses and credit risk adjustments on individual financial assets (refer to table below)	**274**	145	222
Allowance for impairment losses and credit risk adjustments on groups of financial assets (refer to table below)	**264**	242	237
Unearned future income on lease finance	**4**	6	5
Deferred income	**40**	31	32
Fair value hedge adjustments	**(139)**	(312)	(210)
Total deductions	**443**	112	286
Total net loans and advances to customers	**54,761**	54,945	55,142
Allowance for impairment losses and credit risk adjustments comprised:			
Individual financial assets			
Allowance for impairment losses on loans and advances to customers	**175**	130	159
Credit risk adjustments on loans designated at fair value through profit or loss	**99**	15	63
	274	145	222
Groups of financial assets			
Allowance for impairment losses on loans and advances to customers	**192**	156	153
Credit risk adjustments on loans designated at fair value through profit or loss	**72**	86	84
	264	242	237

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 RBNZ. As at 30 June 2010, included within the Banking Group's loans and advances to customers were housing loans to the value of $6,464 million held by the RMBS Trust (30 June 2009: $6,436 million; 30 September 2009: $6,446 million). These housing loans have not been derecognised from the Banking Group's interim financial statements as the Banking Group retains substantially all of the risks and rewards of ownership. The Banking Group has not entered into any repurchase agreements for residential mortgage-backed securities with the RBNZ as at 30 June 2010 (30 June 2009: face value of $2,500 million; 30 September 2009: face value of $2,500 million). RBNZ has not accepted any underlying collateral of residential mortgage-backed securities as at 30 June 2010 (30 June 2009: $3,098 million; 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 June 2010, included within the Banking Group's loans and advances to customers were housing loans to the value of $487 million held by the Covered Bond Trust (30 June 2009: nil; 30 September 2009: nil). These housing loans have not been derecognised from the Banking Group's interim financial statements as the Banking Group retains substantially all of the risks and rewards of ownership. The Banking Group has issued debt securities with a face value of $425 million that were guaranteed by the Covered Bond Trust as at 30 June 2010 (30 June 2009: nil; 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 $494 million as at 30 June 2010 (30 June 2009: nil; 30 September 2009: nil).

Dollars in Millions	Consolidated Residential Mortgage Lending Unaudited 30/6/10	Other Retail Exposures Unaudited 30/6/10	Corporate Exposures Unaudited 30/6/10	Total Unaudited 30/6/10
Note 10 Allowance for Impairment Losses on Credit Exposures				
Allowance for impairment losses on credit exposures				
Allowance for impairment losses on individual financial assets				
Loans and advances to customers				
Balance at beginning of period	**41**	**2**	**116**	**159**
Transfer*	**-**	**21**	**(21)**	**-**
Charge to impairment losses on credit exposures in income statement	**17**	**31**	**48**	**96**
Amounts written off	**(13)**	**(42)**	**(33)**	**(88)**
Recovery of amounts written off in previous periods	**-**	**8**	**-**	**8**
Balance at end of period	**45**	**20**	**110**	**175**
Allowance for impairment losses on groups of financial assets				
Loans and advances to customers				
Balance at beginning of period	**20**	**44**	**89**	**153**
Transfer*	**-**	**14**	**(14)**	**-**
Charge to impairment losses on credit exposures in income statement	**10**	**8**	**21**	**39**
Balance at end of period	**30**	**66**	**96**	**192**
Total allowance for impairment losses on credit exposures	**75**	**86**	**206**	**367**
	30/6/09 Unaudited			
Allowance for impairment losses on credit exposures				
Allowance for impairment losses on individual financial assets				
Loans and advances to customers				
Balance at beginning of period	14	1	44	59
Charge to impairment losses on credit exposures in income statement	25	30	67	122
Amounts written off	(6)	(36)	(16)	(58)
Recovery of amounts written off in previous periods	-	7	-	7
Balance at end of period	33	2	95	130
Allowance for impairment losses on groups of financial assets				
Loans and advances to customers				
Balance at beginning of period	8	54	74	136
Charge to impairment losses on credit exposures in income statement	2	(2)	20	20
Balance at end of period	10	52	94	156
Total allowance for impairment losses on credit exposures	43	54	189	286
	30/9/09 Audited			
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 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.

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

Note 10 Allowance for Impairment Losses on Credit Exposures *continued*

The tables on page 19 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 are attributable to changes in credit risk have been calculated using a statistical-based calculation that estimates expected losses attributable to adverse movement in credit risks.

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

	Consolidated			
Dollars in Millions	Residential Mortgage Lending Unaudited 30/6/10	Other Retail Exposures Unaudited 30/6/10	Corporate Exposures Unaudited 30/6/10	Total Unaudited 30/6/10
Credit risk adjustments on financial assets designated at fair value through profit or loss				
On individual financial assets				
Loans and advances to customers				
Balance at beginning of period	-	-	63	63
Transfer*	-	2	(2)	-
Charge to income statement	-	(1)	40	39
Amounts written off	-	(1)	(2)	(3)
Balance at end of period	-	-	99	99
On groups of financial assets				
Loans and advances to customers				
Balance at beginning of period	-	-	84	84
Transfer*	-	1	(1)	-
Charge to income statement	-	-	(12)	(12)
Balance at end of period	-	1	71	72
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	1	170	171
Other money market placements				
Balance at beginning of period	-	-	1	1
Charge to income statement	-	-	-	-
Balance at end of period	-	-	1	1
Total credit risk adjustments on other money market placements	-	-	1	1
Trading derivative financial instruments				
Balance at beginning of period	-	-	5	5
Charge to income statement	-	-	-	-
Balance at end of period	-	-	5	5
Total credit risk adjustments on trading derivative financial instruments	-	-	5	5

* 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 10 Allowance for Impairment Losses on Credit Exposures *continued*

	Consolidated			
Dollars in Millions	Residential Mortgage Lending Unaudited 30/6/09	Other Retail Exposures Unaudited 30/6/09	Corporate Exposures Unaudited 30/6/09	Total Unaudited 30/6/09
Credit risk adjustments on financial assets designated at fair value through profit or loss				
On individual financial assets				
Loans and advances to customers				
Balance at beginning of period	-	-	6	6
Charge to income statement	-	-	11	11
Amounts written off	-	-	(2)	(2)
Balance at end of period	-	-	15	15
On groups of financial assets				
Loans and advances to customers				
Balance at beginning of period	-	-	79	79
Charge to income statement	-	-	7	7
Balance at end of period	-	-	86	86
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	-	101	101
Other money market placements				
Balance at beginning of period	-	-	1	1
Charge to income statement	-	-	-	-
Balance at end of period	-	-	1	1
Total credit risk adjustments on other money market placements	-	-	1	1
Trading derivative financial instruments				
Balance at beginning of period	-	-	2	2
Charge to income statement	-	-	5	5
Balance at end of period	-	-	7	7
Total credit risk adjustments on trading derivative financial instruments	-	-	7	7

Note 10 Allowance for Impairment Losses on Credit Exposures *continued*

	Consolidated			
Dollars in Millions	Residential Mortgage Lending Audited 30/9/09	Other Retail Exposures Audited 30/9/09	Corporate Exposures Audited 30/9/09	Total Audited 30/9/09
Credit risk adjustments on financial assets designated at fair value through profit or loss				
On individual financial assets				
Loans and advances to customers				
Balance at beginning of 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 June 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 June 2009: nil; 30 September 2009: nil).

Note 11 Asset Quality

The Banking Group provides for impairment losses on credit exposures as disclosed in note 10. 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.

Pre-allowance balances at end of period

Loans and advances to customers

	Consolidated			
Dollars in Millions	Residential Mortgage Lending Unaudited 30/6/10	Other Retail Exposures Unaudited 30/6/10	Corporate Exposures Unaudited 30/6/10	Total Unaudited 30/6/10
Restructured assets – at amortised cost	**1**	**2**	**-**	**3**
Other individually impaired assets – at amortised cost	**131**	**32**	**291**	**454**
Other individually impaired assets – at fair value through profit or loss	**-**	**-**	**292**	**292**
90 day past due assets	**97**	**39**	**118**	**254**
Other assets under administration	**7**	**1**	**1**	**9**
Total pre-allowance balances	**236**	**74**	**702**	**1,012**
	30/6/09 Unaudited			
Restructured assets – at amortised cost	-	-	-	-
Other individually impaired assets – at amortised cost	111	2	276	389
Other individually impaired assets – at fair value through profit or loss	-	-	53	53
90 day past due assets	59	21	115	195
Other assets under administration	7	-	3	10
Total pre-allowance balances	177	23	447	647
	30/9/09 Audited			
Restructured assets – at amortised cost	1	-	-	1
Other individually impaired assets – at amortised cost	111	2	332	445
Other individually impaired assets – at fair value through profit or loss	-	-	191	191
90 day past due assets	76	18	116	210
Other assets under administration	6	-	2	8
Total pre-allowance balances	194	20	641	855

Past due loans are not necessarily doubtful. Gross amounts for the Banking Group have been stated without taking into account security available for such loans. The Banking Group did not have any assets acquired through security enforcement as at 30 June 2010 (30 June 2009: nil; 30 September 2009: nil).

The undrawn lending commitments in relation to other individually impaired assets under corporate exposures were $5 million as at 30 June 2010 (30 June 2009: $2 million; 30 September 2009: $13 million).

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.

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

Liability Notes

Dollars in Millions	Consolidated Unaudited 30/6/10	Unaudited 30/6/09	Audited 30/9/09
Note 12 Due to Central Banks and Other Financial Institutions			
Transaction balances with other financial institutions	**536**	585	460
Deposits from central banks	**25**	107	78
Deposits from other financial institutions	**494**	110	206
Securities sold under agreements to repurchase from central banks	**-**	2,513	2,505
Securities sold under agreements to repurchase from other financial institutions	**17**	332	643
Total due to central banks and other financial institutions	**1,072**	3,647	3,892
Due to central banks and other financial institutions comprised:			
Call balances	**536**	585	460
Term balances	**536**	3,062	3,432
Total due to central banks and other financial institutions	**1,072**	3,647	3,892
Note 13 Other Money Market Deposits			
Money market deposits from non-financial institutions	**2,632**	2,251	2,041
Certificates of deposit	**2,294**	4,186	2,613
Commercial paper	**8,033**	4,401	6,113
Total other money market deposits	**12,959**	10,838	10,767
Note 14 Deposits from Customers			
Demand deposits not bearing interest	**722**	649	671
Demand deposits bearing interest	**10,222**	9,774	9,839
Term deposits	**17,042**	15,942	16,723
Total deposits from customers	**27,986**	26,365	27,233

Note 15 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:

	Consolidated		
Dollars in Millions	**Unaudited 30/6/10**	Unaudited 30/6/09	Audited 30/9/09
Upper Tier Two capital			
Subordinated loans from related entities			
National Equities Limited	**190**	190	190
Total subordinated loans from related entities	**190**	190	190
Total upper Tier Two capital	**190**	190	190
Lower Tier Two capital			
Subordinated loans from related entities			
NAB Capital LLC	**230**	230	230
National Equities Limited	**485**	485	485
Total subordinated loans from related entities	**715**	715	715
Other subordinated debt			
NZD term subordinated fixed rate bonds	**367**	357	375
Total other subordinated debt	**367**	357	375
Total lower Tier Two capital	**1,082**	1,072	1,090
Total subordinated debt	**1,272**	1,262	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 3.4% p.a. as at 30 June 2010 (30 June 2009: 3.5% p.a.; 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 June 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 June 2010 (30 June 2009: nil; 30 September 2009: nil). As at 30 June 2010, these bonds carried an AA- credit rating by Standard & Poor's and an Aa3 credit rating by Moody's Investors Service.

Shareholders' Equity Notes

Dollars in Millions	Consolidated Unaudited 30/6/10	Unaudited 30/6/09	Audited 30/9/09
Note 16 Shareholders' Equity			
Ordinary shareholder's equity at beginning of period	**3,035**	3,483	3,483
Perpetual preference shareholders' equity at beginning of period	**710**	450	450
Total shareholders' equity at beginning of period	**3,745**	3,933	3,933
Total comprehensive income/(expense) for the period	**616**	(183)	(196)
Transactions with owners during the period			
Proceeds from perpetual preference shares issued	**200**	260	260
Ordinary dividend	**(563)**	(217)	(217)
Perpetual preference dividend	**(42)**	(23)	(35)
Total transactions with owners during the period	**(405)**	20	8
Movement in shareholders' equity for the period	**211**	(163)	(188)
Total shareholders' equity at end of period	**3,956**	3,770	3,745

Ordinary shares

Each of the 2,470,997,499 ordinary shares entitles the shareholder to one vote at any meeting of shareholders.

Perpetual non-cumulative preference shares

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

December 2009 issue

On 29 December 2009, the Bank issued 200,000,000 perpetual non-cumulative preference shares ("2009A BNZ PPS") to National Australia Group (NZ) Limited ("NAGNZ"), the Bank's immediate parent and a subsidiary of the Bank's ultimate parent, National Australia Bank Limited.

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

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

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

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

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

Dividends on the 2009A BNZ PPS rank for payment:

- before the Bank's ordinary shareholder;
- equally with any other shares issued by the Bank that, by their terms, are expressed to rank equally with the 2009A BNZ PPS; and
- after all other shareholders (including the holders of the perpetual preference shares previously issued by the Bank on 28 March 2008 and 26 June 2009) and creditors of the Bank.

In the event of the 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 perpetual preference shares previously issued by the Bank on 28 March 2008 and 26 June 2009) and creditors of the Bank.

Dollars in Millions	Consolidated Unaudited 30/6/10	Unaudited 30/6/09	Audited 30/9/09
Note 17 Reserves			
Asset revaluation reserve	**2**	2	2
Foreign currency translation reserve	**5**	8	3
Available for sale investments revaluation reserve	**16**	10	10
Cash flow hedge reserve	**14**	(13)	(18)
Total reserves	**37**	7	(3)

Other Notes

Dollars in Millions	Consolidated Unaudited 30/6/10	Unaudited 30/6/09	Audited 30/9/09
Note 18 Interest Earning and Discount Bearing Assets and Liabilities			
Interest earning and discount bearing assets	**61,980**	61,858	61,549
Interest and discount bearing liabilities	**57,400**	56,011	56,228

Dollars in Millions	Consolidated Unaudited 30/6/10	Unaudited 30/6/09	Audited 30/9/09
Note 19 Forward Commitments to Purchase Securities			
Forward purchases of securities	**22**	80	11

Note 20 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.

Details of the Banking Group's derivative and off-balance sheet exposures as at 30 June 2010 (excluding sold puts and sold calls on foreign exchange option contracts, interest rate contracts and other option contracts) are disclosed in note 23.

The notional amount of sold puts and sold calls outstanding as at the off-quarter balance sheet date comprised:

Dollars in Millions	Consolidated Unaudited 30/6/10	Unaudited 30/6/09	Audited 30/9/09
Foreign exchange option contracts	**1,416**	1,523	1,143
Interest rate option contracts	**601**	1,503	1,411

Note 21 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 total 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 Short Form Disclosure Statement (refer to page 1 for further information).

	Consolidated					
Dollars in Millions	**$ Unaudited 30/6/10**	**Percentage of Tier One Capital at End of Period Unaudited 30/6/10**	$ Unaudited 30/6/09	Percentage of Tier One Capital at End of Period Unaudited 30/6/09	$ Audited 30/9/09	Percentage of Tier One Capital at End of Period Audited 30/9/09
As at end of period						
Credit exposure to connected persons (on gross basis, before netting)	**1,849**	**49.4%**	2,274	65.0%	1,866	52.7%
Credit exposure to connected persons (amount netted)	**1,767**	**47.2%**	2,088	59.7%	1,818	51.3%
Credit exposure to connected persons (on partial bilateral net basis)	**82**	**2.2%**	186	5.3%	48	1.4%
Credit exposure to non-bank connected persons	**-**	**0.0%**	-	0.0%	-	0.0%
Peak for the three months ended						
Credit exposure to connected persons (on gross basis, before netting)	**2,303**	**61.5%**	2,814	80.4%	2,316	65.4%
Credit exposure to connected persons (amount netted)	**1,818**	**48.5%**	2,547	72.8%	2,111	59.6%
Credit exposure to connected persons (on partial bilateral net basis)	**485**	**13.0%**	267	7.6%	205	5.8%
Credit exposure to non-bank connected persons	**-**	**0.0%**	-	0.0%	2	0.1%

As at 30 June 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 June 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.

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 June 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 June 2010, the Banking Group had contingent credit exposures of $33 million (30 June 2009: $439 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 June 2010 (30 June 2009: nil; 30 September 2009: nil).

Note 22 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 Unaudited 30/6/10**	For the 3 Months Ended Unaudited 30/6/09	For the 3 Months Ended Audited 30/9/09	**For the 3 Months Ended Unaudited 30/6/10**	For the 3 Months Ended Unaudited 30/6/09	For the 3 Months Ended Audited 30/9/09
10 - 19	**-**	1	1	**4**	4	6
20 - 29	**-**	-	-	**1**	2	3
30 - 39	**-**	-	-	**1**	1	1
40 - 49	**-**	-	-	**1**	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 Unaudited 30/6/10**	As At Unaudited 30/6/09	As At Audited 30/9/09	**As At Unaudited 30/6/10**	As At Unaudited 30/6/09	As At Audited 30/9/09
10 - 19	**-**	1	1	**3**	3	3
20 - 29	**-**	-	-	**-**	1	1
30 - 39	**-**	-	-	**1**	-	1
40 - 49	**-**	-	-	**-**	1	-

Large exposure – credit ratings

	Consolidated					
Dollars in Millions	**As At Unaudited 30/6/10 $**	**As At Unaudited 30/6/10 %**	As At Unaudited 30/6/09 $	As At Unaudited 30/6/09 %	As At Audited 30/9/09 $	As At Audited 30/9/09 %
Non-banks						
Exposures of investment grade credit rating	**-**	**-**	492	100	484	100
Total non-banks exposures	**-**	**-**	492	100	484	100
Banks						
Exposures of investment grade credit rating	**2,834**	**100**	4,679	100	3,698	100
Total banks exposures	**2,834**	**100**	4,679	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 23 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").

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 under the Basel II framework 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, revenue and similar reserves, 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.

Bank of New Zealand is an issuer under the Crown wholesale funding guarantee scheme. Further details on the Scheme are provided in the guarantees section on page 2 of this document. Under this Scheme, New Zealand incorporated registered banks must maintain an additional 2% Tier One capital, above the 4% regulatory minimum.

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.

Note 23 Capital Adequacy *continued*

The tables included in the following pages detail the capital calculation, capital ratios and risk-weighted assets as at 30 June 2010. During the interim financial period 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.

	Consolidated		
Dollars in Millions	**Unaudited 30/6/10**	Unaudited 30/6/09	Unaudited 30/9/09
Qualifying capital			
Tier One capital			
Contributed equity - ordinary shareholder	**1,451**	1,451	1,451
Contributed equity - perpetual preference shareholders	**910**	710	710
Retained profits (gross of dividend paid)	**1,595**	1,602	1,587
Deduct: Ordinary dividend paid	**37**	-	-
Deductions from Tier One capital:			
Intangible assets	**100**	95	102
Credit value adjustment on liabilities designated at fair value through profit or loss	**23**	79	21
Prepaid pension assets (net of deferred tax)	**7**	16	10
50% of total expected loss less total eligible allowances for impairment	**44**	73	71
Total Tier One capital	**3,745**	3,500	3,544
Upper Tier Two capital			
Unaudited retained profits (gross of dividend paid)	**161**	-	-
Revaluation reserves	**23**	20	15
Subordinated loans from related entities	**190**	190	190
Deduct: Ordinary dividend paid	**146**	-	-
Deduct: Perpetual preference dividend paid	**15**	-	-
Total upper Tier Two capital	**213**	210	205
Lower Tier Two capital			
Subordinated loans from related entities	**715**	715	715
Other subordinated debt	**367**	357	375
Total lower Tier Two capital	**1,082**	1,072	1,090
Deductions from Tier Two capital:			
50% of total expected loss less total eligible allowances for impairment	**44**	73	71
Total Tier Two capital	**1,251**	1,209	1,224
Total Tier One and Tier Two qualifying capital	**4,996**	4,709	4,768

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 30/6/10**	Unaudited 30/6/09	Unaudited 30/9/09
Tier One capital expressed as a percentage of total risk-weighted exposures	**4.00%**	**8.72%**	7.50%	8.08%
Total qualifying capital expressed as a percentage of total risk-weighted exposures	**8.00%**	**11.63%**	10.09%	10.88%

Note 23 Capital Adequacy *continued*

Total regulatory capital requirements

Dollars in Millions	Consolidated		
	Total Exposure at Default Unaudited 30/6/10	Risk-Weighted Exposure or Implied Risk-Weighted Exposure Unaudited 30/6/10	Total Capital Requirement Unaudited 30/6/10
Credit risk			
Exposures subject to the internal ratings based approach	**74,075**	**33,376**	**2,670**
Other internal ratings based exposures	**344**	**218**	**17**
Equity exposures	**37**	**120**	**10**
Specialised lending subject to the slotting approach	**958**	**776**	**61**
Exposures subject to the standardised approach	**1,338**	**1,101**	**88**
Total credit risk	**76,752**	**35,591**	**2,846**
Operational risk	**N/A**	**4,061**	**325**
Market risk	**N/A**	**2,236**	**179**
Supervisory adjustment[1]	**N/A**	**1,071**	**86**
Total	**N/A**	**42,959**	**3,436**

[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").

Dollars in Millions	Consolidated			The Registered Bank		
	Unaudited 30/6/10	Unaudited 30/6/09	Audited 30/9/09	**Unaudited 30/6/10**	Unaudited 30/6/09	Audited 30/9/09
Tier One capital expressed as a percentage of total risk-weighted exposures	**8.03%**	7.36%	7.58%	**8.18%**	7.60%	7.75%
Total qualifying capital expressed as a percentage of total risk-weighted exposures	**10.78%**	10.00%	10.29%	**10.92%**	10.23%	10.46%
Total risk-weighted exposures	**47,183**	48,537	47,710	**47,262**	48,609	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 23 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 30/6/10	Exposure at Default Unaudited 30/6/10	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 30/6/10	Exposure-Weighted Risk Weight (%) Unaudited 30/6/10	Risk-Weighted Assets Unaudited 30/6/10	Minimum Capital Requirement Unaudited 30/6/10
Corporate						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.06	3,615	47	17	601	48
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.30	8,702	38	41	3,553	284
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.98	8,919	34	63	5,610	449
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.70	9,221	36	89	8,171	654
Exposure-weighted PD grade > 5.0 ≤ 99.99%	7.40	1,136	42	142	1,617	129
Default PD grade = 100%	100.00	1,014	46	326	3,310	265
Total corporate exposures	4.49	32,607	38	70	22,862	1,829
Sovereign						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.01	4,014	5	1	27	2
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.32	5	45	43	2	-
Exposure-weighted PD grade > 0.5 ≤ 1.5%	1.17	9	45	85	8	1
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.88	15	45	158	25	2
Exposure-weighted PD grade > 5.0 ≤ 99.99%	5.72	-	45	147	-	-
Default PD grade = 100%	-	-	-	-	-	-
Total sovereign exposures	0.02	4,043	5	2	62	5
Bank						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.05	3,265	29	8	262	21
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.47	798	4	3	23	2
Exposure-weighted PD grade > 0.5 ≤ 1.5%	1.01	-	58	101	1	-
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.61	1	23	60	-	-
Exposure-weighted PD grade > 5.0 ≤ 99.99%	7.87	-	60	223	-	-
Default PD grade = 100%	-	-	-	-	-	-
Total bank exposures	0.13	4,064	24	7	286	23
Residential mortgage						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.07	666	19	4	24	2
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.34	18,422	21	13	2,367	189
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.95	2,241	21	28	617	49
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.02	6,164	22	46	2,810	225
Exposure-weighted PD grade > 5.0 ≤ 99.99%	24.28	875	24	113	992	79
Default PD grade = 100%	100.00	304	29	250	761	61
Total residential mortgage exposures	2.53	28,672	22	26	7,571	605

Note 23 Capital Adequacy *continued*

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

	Consolidated					
Dollars in Millions	Weighted Average PD (%) Unaudited 30/6/10	Exposure at Default Unaudited 30/6/10	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 30/6/10	Exposure-Weighted Risk Weight (%) Unaudited 30/6/10	Risk-Weighted Assets Unaudited 30/6/10	Minimum Capital Requirement Unaudited 30/6/10
Other retail[1]						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.05	850	87	14	117	9
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.24	703	85	39	277	22
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.96	396	84	87	344	28
Exposure-weighted PD grade > 1.5 ≤ 5.0%	3.00	419	85	123	513	41
Exposure-weighted PD grade > 5.0 ≤ 99.99%	15.04	226	83	157	355	29
Default PD grade = 100%	100.00	22	74	459	101	8
Total other retail exposures	2.85	2,616	85	65	1,707	137
Retail SME[2]						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.07	78	21	5	4	-
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.36	206	25	16	32	3
Exposure-weighted PD grade > 0.5 ≤ 1.5%	1.03	694	28	30	209	17
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.73	917	31	44	407	32
Exposure-weighted PD grade > 5.0 ≤ 99.99%	7.92	103	36	62	63	5
Default PD grade = 100%	100.00	75	44	232	173	14
Total retail SME exposures	5.60	2,073	30	43	888	71
Total						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.04	12,488	30	8	1,035	82
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.33	28,836	27	22	6,254	500
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.98	12,259	33	55	6,789	544
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.46	16,737	32	71	11,926	954
Exposure-weighted PD grade > 5.0 ≤ 99.99%	14.47	2,340	39	129	3,027	242
Default PD grade = 100%	100.00	1,415	43	307	4,345	348
Total exposures	3.22	74,075	31	45	33,376	2,670

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

Note 23 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 30/6/10	Exposure at Default* Unaudited 30/6/10	Risk-Weighted Assets Unaudited 30/6/10	Minimum Capital Requirement Unaudited 30/6/10
On-balance sheet exposures				
Corporate	24,694	24,694	18,656	1,492
Sovereign	3,763	3,763	52	4
Bank	3,011	3,011	127	10
Residential mortgage	26,009	26,009	7,127	570
Other retail	1,516	1,516	1,285	103
Retail SME	1,736	1,736	764	61
Total on-balance sheet exposures	60,729	60,729	28,011	2,240
Off-balance sheet exposures				
Corporate	7,783	6,861	3,521	282
Sovereign	74	52	8	1
Bank	413	406	16	1
Residential mortgage	2,134	2,663	444	35
Other retail	3,159	1,100	422	34
Retail SME	370	337	124	10
Total off-balance sheet exposures	13,933	11,419	4,535	363
Market-related contracts				
Corporate	87,073	1,052	685	55
Sovereign	8,875	228	2	-
Bank	207,987	647	143	12
Total market-related contracts	303,935	1,927	830	67
Summary				
Corporate	119,550	32,607	22,862	1,829
Sovereign	12,712	4,043	62	5
Bank	211,411	4,064	286	23
Residential mortgage	28,143	28,672	7,571	605
Other retail	4,675	2,616	1,707	137
Retail SME	2,106	2,073	888	71
Total credit risk exposures subject to the internal ratings based approach	378,597	74,075	33,376	2,670

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

Note 23 Capital Adequacy *continued*

Other IRB exposures

The table below relates to all other exposures that are subject to the IRB approach not included in the tables on pages 34 to 36.

	Consolidated			
Dollars in Millions	Exposure at Default Unaudited 30/6/10	Average Risk Weight (%) Unaudited 30/6/10	Risk-Weighted Assets Unaudited 30/6/10	Minimum Capital Requirement Unaudited 30/6/10
Exposures from funding provided to securitisation entities				
Total other IRB credit risk exposures	344	63	218	17

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 30/6/10	Risk Weight (%) Unaudited 30/6/10	Risk-Weighted Exposures Unaudited 30/6/10	Minimum Pillar One Capital Requirement Unaudited 30/6/10
Equity holdings (not deducted from capital) that are publicly traded	28	300	84	7
All other equity holdings (not deducted from capital)	9	400	36	3
Total equity exposures	37	324	120	10

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 30/6/10	Risk Weight (%) Unaudited 30/6/10	Risk-Weighted Assets Unaudited 30/6/10	Minimum Pillar One Capital Requirement Unaudited 30/6/10
Strong	608	70	451	36
Good	96	90	92	7
Satisfactory	83	115	101	8
Total on-balance sheet exposures subject to the slotting approach	787	82	644	51

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 30/6/10	Exposure at Default Unaudited 30/6/10	Average Risk Weight (%) Unaudited 30/6/10	Risk-Weighted Assets Unaudited 30/6/10	Minimum Pillar One Capital Requirement Unaudited 30/6/10
Off-balance sheet exposures	2	1	78	1	-
Undrawn commitments	114	114	77	88	7
Market-related contracts	737	56	77	43	3
Total off-balance sheet exposures subject to the slotting approach	853	171	77	132	10
Total exposures subject to the slotting approach		958	81	776	61

Note 23 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

Dollars in Millions	Consolidated Total Exposure at Default after Credit Risk Mitigation Unaudited 30/6/10	Average Risk Weight (%) Unaudited 30/6/10	Risk-Weighted Assets Unaudited 30/6/10	Minimum Pillar One Capital Requirement Unaudited 30/6/10
Corporate	34	99	34	3
Residential mortgages	20	59	12	1
Past due assets	3	89	3	-
Other assets	1,276	82	1,048	84
Total on-balance sheet exposures subject to the standardised approach	1,333	82	1,097	88

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

Dollars in Millions	Consolidated Total Exposure or Principal Amount Unaudited 30/6/10	Average Credit Conversion Factor (%) Unaudited 30/6/10	Credit Equivalent Amount Unaudited 30/6/10	Average Risk Weight (%) Unaudited 30/6/10	Risk-Weighted Assets Unaudited 30/6/10	Minimum Pillar One Capital Requirement Unaudited 30/6/10
Total off-balance sheet exposures subject to the standardised approach	12	33	4	90	3	-
Market-related contracts subject to the standardised approach						
Foreign exchange contracts	16	N/A	1	106	1	-
Interest rate contracts	5	N/A	-	106	-	-
Total market-related contracts subject to the standardised approach	21	N/A	1	106	1	-
Total exposures subject to the standardised approach		N/A	1,338	82	1,101	88

Credit risk mitigation

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

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

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

Dollars in Millions	Consolidated Corporate (Including Specialised Lending) Unaudited 30/6/10
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	33

Note 23 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 30/6/10
LVR range	
0-59%	**10,983**
60-69%	**4,985**
70-79%	**8,546**
80-89%	**1,462**
Over 90%	**1,452**
Total exposures secured by residential mortgages (excluding loans approved, but not yet drawn)	**27,428**

Operational risk

Dollars in Millions	Consolidated Implied Risk-Weighted Exposure Unaudited 30/6/10	Consolidated Total Operational Risk Capital Requirement Unaudited 30/6/10
Operational risk	**4,061**	**325**

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").

Market risk

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

	Consolidated					
	30/6/10 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	**2,163**	**2,854**	**173**	**228**	**4.4%**	**5.8%**
Foreign currency risk	**33**	**147**	**3**	**12**	**0.1%**	**0.3%**
Equity risk	**40**	**43**	**3**	**3**	**0.1%**	**0.1%**
Total	**2,236**	**3,044**	**179**	**243**	**4.6%**	**6.2%**
	30/6/09 Unaudited					
Interest rate risk	2,414	2,966	193	237	5.1%	6.3%
Foreign currency risk	65	103	5	8	0.1%	0.2%
Equity risk	34	38	3	3	0.1%	0.1%
Total	2,513	3,107	201	248	5.3%	6.6%
	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 the end of period reported. The peak end-of-day aggregate capital charge is the maximum over the last quarter at the close of each business day.

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

Note 23 Capital Adequacy *continued*

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 June 2010, the Banking Group had an internal capital allocation for Business Risk of $150 million (30 June 2009: $137 million; 30 September 2009: $125 million). The assessment of Business Risk covers strategic, reputation and earnings risk.

Note 24 Securitisation, Funds Management, Other Fiduciary Activities, and the Marketing and Distribution of Insurance Products

Funds management

During the nine months ended 30 June 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. Bank of New Zealand's debt securities (which include deposits) in which the Fund invests are guaranteed by the Crown under the terms of the Crown Guarantee given by the Crown (and which operates until 12.01 am on 12 October 2010). The Fund invests solely in debt securities guaranteed under the New Zealand retail deposit guarantee scheme (for further information, refer to the Crown Deed of Nomination (Unit Trust) dated 18 March 2009, as amended by Deeds of Amendment of the Crown Deed of Nomination (Unit Trust) dated 20 November 2009 and 27 November 2009, contained in the Supplemental Disclosure Statement).

As at 30 June 2010, the outstanding value of assets related to the Fund amounted to $104 million (30 June 2009: $129 million; 30 September 2009: $125 million). The Fund invests solely in debt securities issued by the Banking Group and on consolidation its assets are eliminated against liabilities recorded by the Bank. Unitholders' interests are included as part of the Banking Group's liabilities.

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 June 2010, securitisation arrangements in which the Banking Group has been involved to the extent detailed above amounted to $1,876 million (30 June 2009: $2,136 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 June 2010, included within the Banking Group's loans and advances to customers were housing loans to the value of $6,464 million held by the RMBS Trust (30 June 2009: $6,436 million; 30 September 2009: $6,446 million). These housing loans have not been derecognised from the Banking Group's interim financial statements as the Banking Group retains substantially all of the risks and rewards of ownership.

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 June 2010, included within the Banking Group's loans and advances to customers were housing loans to the value of $487 million held by the Covered Bond Trust (30 June 2009: nil; 30 September 2009: nil). These housing loans have not been derecognised from the Banking Group's interim financial statements as the Banking Group retains substantially all of the risks and rewards of ownership.

Note 24 Securitisation, Funds Management, Other Fiduciary Activities, and the Marketing and Distribution of Insurance Products *continued*

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 below table:

	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 Unaudited 30/6/10	For the 3 Months Ended Unaudited 30/6/09	For the 3 Months Ended Audited 30/9/09	**For the 3 Months Ended Unaudited 30/6/10**	For the 3 Months Ended Unaudited 30/6/09	For the 3 Months Ended Audited 30/9/09	**For the 3 Months Ended Unaudited 30/6/10**	For the 3 Months Ended Unaudited 30/6/09	For the 3 Months Ended Audited 30/9/09
BNZ Life Insurance Limited	**245**	245	1,893	**0.4%**	0.4%	3.0%	**0.0%**	0.0%	0.1%
Speirs Securities Limited	**77,566**	79,000	83,600	**84.4%**	68.1%	75.0%	**2.1%**	2.3%	2.4%
Gough Securities Limited	**36,500**	66,300	60,340	**54.3%**	50.2%	51.8%	**1.0%**	1.9%	1.7%
Perpetual Trust Limited	**195,000**	195,000	195,000	**100.0%**	96.3%	100.0%	**5.2%**	5.6%	5.5%

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

Note 25 Risk Management Policies

There have been no material changes to the Banking Group's policies for managing risk, or material exposures to new categories of risk, since the 31 March 2010 General Disclosure Statement was signed.

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 June 2010, the Standard & Poor's credit rating changed from AA Outlook Stable to AA Outlook Negative on 25 July 2008, then from AA Outlook Negative to AA Outlook Stable on 10 November 2008.

During the two-year period ended 30 June 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.

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

Conditions of Registration

Conditions of registration as from 31 March 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 March 2008 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 March 2008 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 March 2008 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 March 2008 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 March 2008 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 March 2008;

      (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 March 2008; 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 March 2008; 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 March 2008.

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.

Conditions of Registration *continued*

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 March 2008.

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 rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's).

Conditions of Registration *continued*

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).

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 Short Form Disclosure Statement is signed:
   (a) the Short Form Disclosure Statement contains all the information that is required by the Order; and
   (b) the Short Form Disclosure Statement is not false or misleading; and
2. during the nine months ended 30 June 2010:
   (a) the Bank has complied with its conditions of registration applicable during that period;
   (b) credit exposures to connected persons (refer to note 21 on page 29) 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 Short Form Disclosure Statement is dated at Auckland this 12th day of August 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