Bank of New Zealand

Disclosure Statement

For the year ended 30 September 2011

No. 63

Disclosure Statement

For the year ended 30 September 2011

This Disclosure Statement has been issued by Bank of New Zealand for the year ended 30 September 2011 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2011 (the "Order").

In this Disclosure Statement, unless the context otherwise requires:

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

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Bank of New Zealand Corporate Information

Address for Service

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

Nature of Business

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

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 ("RBNZ") confirming it has no objection to that appointment.

Guarantees

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

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

As at 30 September 2011, the Crown has a AA+ credit rating by Standard & Poor's and Fitch Ratings, and a Aaa credit rating by Moody's Investors Service in respect of its long term obligations payable in New Zealand dollars. During the two-year period ended 30 September 2011, both Standard & Poor's (on 30 September 2011) and Fitch Ratings (on 29 September 2011) downgraded their ratings from AAA to AA+. A summary of the descriptions of the major ratings categories for each credit rating agency is included in the Credit Ratings section on page 95.

The Scheme guarantees certain payment obligations of the Bank in respect of principal and interest (excluding penalty interest) owing under the guaranteed debt securities. The expiry date of the guarantee is the earlier of the maturity date of the guaranteed obligation or five years after the issue date of the guaranteed obligation. There are no limits on the amount of obligations covered by the guarantee eligibility certificates and no special conditions apply.

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

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

Covered bond guarantee – Certain debt securities ("Covered Bonds") issued by the Bank, or its subsidiary, BNZ International Funding Limited (London Branch), are guaranteed by the CBG Trustee Company Limited, solely in its capacity as trustee of the BNZ Covered Bond Trust (the "Covered Bond Guarantor"). The Covered Bond Guarantor's address for service is Level 10, 141 Willis Street, Wellington, New Zealand.

The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations payable in New Zealand dollars. The Covered Bonds have been assigned a long term rating of Aaa from Moody's Investors Service and Fitch Ratings.

The Covered Bond Guarantor has guaranteed the payment of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over a pool of assets (refer to note 12 for further information). There are no material conditions applicable to the guarantee other than non-performance. There are no material legislative or regulatory restrictions in New Zealand which subordinate any claims under the guarantee of any creditors of the Bank on the assets of the Covered Bond Guarantor, to other claims on the Covered Bond Guarantor, on the winding up of the Covered Bond Guarantor.

Other material obligations of the Bank are not guaranteed.

Ultimate Parent Bank and Address for Service

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

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

Following the earthquakes in the Canterbury region, there continues to be uncertainty regarding the extent of the impact upon customers, employees, stores and partners network of the Bank. As such, an allowance of $60 million has been provided to reflect potential credit losses from the earthquake events. This comprises amounts provided in the prior and current financial years.

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

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

Directorate and Auditor

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

Directors

Directors' details

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

Non-Executive Director, Chairman

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

Directorships:
Alliance Group Limited; Direct Property Fund Limited; Direct Property Fund No. 2 Limited; Direct Property Fund No. 3 Limited; Direct Property Fund No. 4 Limited; Donaghys Limited; Fonterra Co-operative Group Limited; Haydn & Rollett Limited; JAW Advisory Limited; National Australia Bank Limited; National Equities Limited; Sky Network Television Limited; Rugby Accommodation 2011 Limited; Rugby Sales New Zealand Limited

Executive Director

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

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

Independent Non-Executive Directors

Prudence Mary Flacks
Company Director
LL.B., LL.M.
New Zealand

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

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

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

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

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

Stephen John Moir
Company Director
New Zealand

Directorship:
Ijap Limited

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

Directorships:
Christchurch City Holdings Limited; Focus Genetics Limited; Migco Pharmaceuticals Limited; Seon Pearce & Associates Limited

Non-Executive Directors

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

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

Gavin Robin Slater
Group Executive, Group Business Services
National Australia Bank Limited
B.Com
Australia

Directorship:
Nautilus Insurance PTE Limited

New Zealand Regional Audit Committee

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

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

Responsible Persons

Messrs. John Anthony Waller and Andrew Gregory Thorburn, whose occupations, professional qualifications, countries of residence, and directorships are disclosed on page 4, have been authorised in writing to sign this Disclosure Statement in accordance with section 82 of the Reserve Bank of New Zealand Act 1989, on behalf of the other Directors, being:

Cameron Anthony Clyne
Prudence Mary Flacks
Edwin Gilmour Johnson
Dr Susan Carrel Macken
Stephen John Moir
Dr Andrew John Pearce
Gavin Robin Slater

Policy for Avoiding and Dealing with Conflicts of Interest

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

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

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

Directors' Benefits

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

Information pertaining to loans to and other transactions with Directors appears in note 31 to these financial statements.

Auditor

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

Financial Statements

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Historical Summary of Financial Statements

Dollars in Millions	Consolidated 30/9/11	30/9/10	30/9/09	30/9/08	30/9/07
Income statement					
Interest income	**3,742**	3,447	4,074	5,224	4,394
Interest expense	**2,355**	2,166	2,723	3,896	3,192
Net interest income	**1,387**	1,281	1,351	1,328	1,202
Gains less losses on financial instruments at fair value	**120**	(18)	(96)	215	246
Other operating income	**382**	379	397	440	372
Total operating income	**1,889**	1,642	1,652	1,983	1,820
Operating expenses	**775**	818	777	786	751
Total operating profit before impairment losses on credit exposures and income tax expense	**1,114**	824	875	1,197	1,069
Impairment losses on credit exposures	**152**	187	190	71	52
Total operating profit before income tax expense	**962**	637	685	1,126	1,017
Income tax expense on operating profit	**291**	202	205	341	334
Net profit from continuing activities before New Zealand structured finance transactions	**671**	435	480	785	683
Income tax (credit)/expense on New Zealand structured finance transactions	**-**	(83)	416	-	-
Income tax (credit)/expense interest costs on New Zealand structured finance transactions	**-**	(84)	245	-	-
Net profit/(loss) attributable to shareholders of Bank of New Zealand	**671**	602	(181)	785	683
Dividends					
Ordinary dividend	**330**	563	217	388	430
Special dividend paid on ordinary shares	**-**	-	-	300	-
Perpetual preference dividend	**61**	57	35	15	-
Significant balance sheet items					
Total assets	**74,085**	69,647	69,862	64,209	56,375
Total liabilities	**69,736**	65,645	66,117	60,276	52,957
Ordinary shareholder's equity	**3,439**	3,092	3,035	3,483	3,418
Contributed equity – perpetual preference shareholders	**910**	910	710	450	-
Asset quality					
Individually impaired assets – at amortised cost	**466**	490	446	169	49
Individual financial assets deemed to be impaired – at fair value through profit or loss	**193**	282	191	32	13
Impairment losses on credit exposures charged to income statement – at amortised cost	**152**	187	190	71	52
Credit risk adjustments on financial assets charged to income statement – at fair value through profit or loss	**8**	39	67	38	19

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

Basel II regulatory capital ratios

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

	Regulatory Minima	Consolidated Unaudited 30/9/11	Unaudited 30/9/10	Unaudited 30/9/09	Unaudited 30/9/08
Tier One capital expressed as a percentage of total risk-weighted exposures	**4.00%**	**8.99%**	8.85%	8.08%	8.05%
Total qualifying capital expressed as a percentage of total risk-weighted exposures	**8.00%**	**11.84%**	11.81%	10.88%	10.78%

Income Statement

For the year ended 30 September 2011

Dollars in Millions	Note	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Interest income	2	**3,742**	3,447	**4,007**	3,674
Interest expense	2	**2,355**	2,166	**2,709**	2,456
Net interest income		**1,387**	1,281	**1,298**	1,218
Gains less losses on financial instruments at fair value	3	**120**	(18)	**120**	(18)
Other operating income	4	**382**	379	**388**	399
Total operating income		**1,889**	1,642	**1,806**	1,599
Operating expenses	5	**775**	818	**799**	837
Total operating profit before impairment losses on credit exposures and income tax expense		**1,114**	824	**1,007**	762
Impairment losses on credit exposures	13	**152**	187	**152**	187
Total operating profit before income tax expense		**962**	637	**855**	575
Income tax expense on operating profit	7	**291**	202	**255**	178
Income tax credit on New Zealand structured finance transactions	7	**-**	(83)	**-**	(60)
Income tax credit interest costs on New Zealand structured finance transactions	7	**-**	(84)	**-**	(32)
Total income tax expense		**291**	35	**255**	86
Net profit attributable to shareholders of Bank of New Zealand		**671**	602	**600**	489

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

Statement of Comprehensive Income

For the year ended 30 September 2011

Dollars in Millions	Note	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Net profit attributable to shareholders of Bank of New Zealand		**671**	602	**600**	489
Other comprehensive income, net of taxation					
Net actuarial loss on defined benefit plan	28	**(2)**	(3)	**(2)**	(3)
Net change in foreign currency translation reserve	27	**6**	(6)	**10**	(7)
Net change in cash flow hedge reserve	27	**59**	78	**59**	78
Available for sale investments revaluation reserve:					
Change in available for sale investments revaluation reserve from revaluation	27	**4**	6	**4**	6
Total other comprehensive income, net of taxation		**67**	75	**71**	74
Total comprehensive income attributable to shareholders of Bank of New Zealand		**738**	677	**671**	563

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

Statement of Changes in Equity

For the year ended 30 September 2011

Dollars in Millions	Ordinary Capital	Perpetual Preference Capital	Retained Profits	Asset Revaluation Reserve	Foreign Currency Translation Reserve	Available For Sale Investments Revaluation Reserve	Cash Flow Hedge Reserve	Total Share-holders' Equity
				Consolidated (30/9/11)				
Balance at beginning of year	**1,451**	**910**	**1,566**	**2**	**(3)**	**16**	**60**	**4,002**
Comprehensive income								
Net profit attributable to shareholders of Bank of New Zealand	**-**	**-**	**671**	**-**	**-**	**-**	**-**	**671**
Total other comprehensive (expense)/income	**-**	**-**	**(2)**	**-**	**6**	**4**	**59**	**67**
Total comprehensive income	**-**	**-**	**669**	**-**	**6**	**4**	**59**	**738**
Ordinary dividend	**-**	**-**	**(330)**	**-**	**-**	**-**	**-**	**(330)**
Perpetual preference dividend	**-**	**-**	**(61)**	**-**	**-**	**-**	**-**	**(61)**
Balance at end of year	**1,451**	**910**	**1,844**	**2**	**3**	**20**	**119**	**4,349**
				Consolidated (30/9/10)				
Balance at beginning of year	1,451	710	1,587	2	3	10	(18)	3,745
Comprehensive income/(expense)								
Net profit attributable to shareholders of Bank of New Zealand	-	-	602	-	-	-	-	602
Total other comprehensive (expense)/income	-	-	(3)	-	(6)	6	78	75
Total comprehensive income/(expense)	-	-	599	-	(6)	6	78	677
Proceeds from shares issued	-	200	-	-	-	-	-	200
Ordinary dividend	-	-	(563)	-	-	-	-	(563)
Perpetual preference dividend	-	-	(57)	-	-	-	-	(57)
Balance at end of year	1,451	910	1,566	2	(3)	16	60	4,002

Dollars in Millions	Ordinary Capital	Perpetual Preference Capital	Retained Profits	Foreign Currency Translation Reserve	Available For Sale Investments Revaluation Reserve	Cash Flow Hedge Reserve	Total Share-holders' Equity
				The Company (30/9/11)			
Balance at beginning of year	**1,451**	**910**	**1,413**	**(6)**	**16**	**60**	**3,844**
Comprehensive income							
Net profit attributable to shareholders of Bank of New Zealand	**-**	**-**	**600**	**-**	**-**	**-**	**600**
Total other comprehensive (expense)/income	**-**	**-**	**(2)**	**10**	**4**	**59**	**71**
Total comprehensive income	**-**	**-**	**598**	**10**	**4**	**59**	**671**
Ordinary dividend	**-**	**-**	**(330)**	**-**	**-**	**-**	**(330)**
Perpetual preference dividend	**-**	**-**	**(61)**	**-**	**-**	**-**	**(61)**
Balance at end of year	**1,451**	**910**	**1,620**	**4**	**20**	**119**	**4,124**
				The Company (30/9/10)			
Balance at beginning of year	1,451	710	1,547	1	10	(18)	3,701
Comprehensive income/(expense)							
Net profit attributable to shareholders of Bank of New Zealand	-	-	489	-	-	-	489
Total other comprehensive (expense)/income	-	-	(3)	(7)	6	78	74
Total comprehensive income/(expense)	-	-	486	(7)	6	78	563
Proceeds from shares issued	-	200	-	-	-	-	200
Ordinary dividend	-	-	(563)	-	-	-	(563)
Perpetual preference dividend	-	-	(57)	-	-	-	(57)
Balance at end of year	1,451	910	1,413	(6)	16	60	3,844

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

Balance Sheet

As at 30 September 2011

Dollars in Millions	Note	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Assets					
Cash and balances with central banks	8	**1,986**	2,040	**1,986**	2,040
Due from other financial institutions	9	**1,567**	1,249	**1,567**	1,249
Trading securities	10	**3,935**	3,231	**3,935**	3,231
Other money market placements	11	**1,037**	433	**1,037**	433
Available for sale investments		**62**	273	**62**	273
Loans and advances to customers	12	**56,661**	54,986	**56,653**	54,978
Derivative financial instruments	15	**6,949**	5,650	**6,949**	5,650
Amounts due from related entities	31	**600**	539	**9,303**	5,144
Investments in wholly owned entities	16	**-**	-	**3,055**	3,055
Current tax		**88**	194	**122**	225
Deferred tax	18	**165**	225	**160**	216
Other assets	19	**683**	549	**669**	466
Property, plant and equipment		**200**	161	**54**	47
Goodwill and other intangible assets		**152**	117	**152**	117
Total assets		**74,085**	69,647	**85,704**	77,124
Financed by:					
Liabilities					
Due to central banks and other financial institutions	20	**2,672**	1,575	**2,672**	1,575
Other money market deposits	21	**11,789**	11,883	**3,694**	4,605
Trading liabilities		**51**	31	**51**	31
Deposits from customers	22	**31,354**	28,663	**30,959**	28,571
Derivative financial instruments	15	**6,051**	6,421	**6,051**	6,421
Bonds and notes	23	**12,414**	9,772	**4,718**	3,524
Amounts due to related entities	31	**3,212**	5,137	**31,261**	26,480
Other liabilities	24	**921**	885	**902**	795
Subordinated debt	25, 31	**1,272**	1,278	**1,272**	1,278
Total liabilities		**69,736**	65,645	**81,580**	73,280
Net assets		**4,349**	4,002	**4,124**	3,844
Shareholders' equity					
Contributed equity – ordinary shareholder	26	**1,451**	1,451	**1,451**	1,451
Reserves	27	**144**	75	**143**	70
Retained profits	28	**1,844**	1,566	**1,620**	1,413
Ordinary shareholder's equity		**3,439**	3,092	**3,214**	2,934
Contributed equity – perpetual preference shareholders	26	**910**	910	**910**	910
Total shareholders' equity		**4,349**	4,002	**4,124**	3,844

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

Cash Flow Statement

For the year ended 30 September 2011

Dollars in Millions	Note	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Cash flows from operating activities					
Cash was provided from:					
Dividend income		**4**	3	**10**	23
Interest income		**3,754**	3,454	**4,019**	3,682
Net trading income		**-**	26	**-**	26
Other income		**378**	376	**378**	376
Cash was applied to:					
Interest expense		**(2,270)**	(2,240)	**(2,623)**	(2,531)
Net trading income		**(2)**	-	**(2)**	-
Operating expenses		**(763)**	(764)	**(802)**	(808)
Net cash flows from operating activities before changes in operating assets and liabilities and income tax		**1,101**	855	**980**	768
Changes in operating assets and liabilities arising from cash flow movements					
Net movement in balances with central banks (term)*		**(56)**	(170)	**(56)**	(170)
Net movement in due from other financial institutions (term)*		**(903)**	172	**(903)**	172
Net movement in loans and advances to customers*		**(1,996)**	(179)	**(1,996)**	(171)
Net movement in other assets		**(146)**	30	**(210)**	98
Net movement in other money market placements*		**(603)**	104	**(603)**	104
Net movement in trading securities and trading liabilities*		**(685)**	475	**(685)**	475
Net movement in deposits from customers*		**2,691**	1,430	**2,388**	1,463
Net movement in due to central banks and other financial institutions (term)*		**608**	(2,301)	**608**	(2,301)
Net movement in other liabilities		**4**	185	**71**	105
Net change in operating assets and liabilities		**(1,086)**	(254)	**(1,386)**	(225)
Net cash flows from operating activities before income tax		**15**	601	**(406)**	543
Cash was applied to:					
Taxes and subvention payments		**(118)**	(150)	**(100)**	(135)
Net cash flows from operating activities		**(103)**	451	**(506)**	408
Cash flows from investing activities					
Cash was provided from:					
Proceeds from sale of available for sale investments		**-**	47	**-**	47
Proceeds on maturity of available for sale investments		**208**	50	**208**	50
Cash was applied to:					
Acquisition of intangible assets		**(56)**	(42)	**(56)**	(42)
Increase in investments in wholly owned entities		**-**	-	**-**	(12)
Purchase of available for sale investments		**-**	(32)	**-**	(32)
Purchase of property, plant and equipment		**(75)**	(62)	**(26)**	(25)
Net cash flows from investing activities		**77**	(39)	**126**	(14)
Cash flows from financing activities					
Net movement in bonds and notes*		**2,591**	1,975	**1,156**	204
Net movement in derivative financial instruments*		**(1,336)**	(631)	**(1,336)**	(631)
Net movement in other money market deposits*		**(92)**	1,102	**(908)**	(61)
Net movement in related entity funding*		**(1,930)**	(1,553)	**675**	1,399
Increase in contributed equity – perpetual preference shares	26	**-**	200	**-**	200
Ordinary dividend	28	**(330)**	(563)	**(330)**	(563)
Perpetual preference dividend	28	**(61)**	(57)	**(61)**	(57)
Net cash flows from financing activities		**(1,158)**	473	**(804)**	491
Net movement in cash and cash equivalents		**(1,184)**	885	**(1,184)**	885
Cash and cash equivalents at beginning of year		**2,103**	1,218	**2,103**	1,218
Cash and cash equivalents at end of year		**919**	2,103	**919**	2,103
Cash and cash equivalents at end of year comprised:					
Cash and balances with central banks (call)	8	**1,760**	1,870	**1,760**	1,870
Due from other financial institutions (call)	9	**92**	677	**92**	677
Due to central banks and other financial institutions (call)	20	**(933)**	(444)	**(933)**	(444)
Total cash and cash equivalents		**919**	2,103	**919**	2,103

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

Cash Flow Statement *continued*

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Reconciliation of net profit attributable to shareholders of Bank of New Zealand to net cash flows from operating activities				
Net profit attributable to shareholders of Bank of New Zealand	**671**	602	**600**	489
Add back non-cash items in net profit:				
Decrease in accrued interest receivable	**12**	7	**12**	8
Depreciation and amortisation expense	**53**	45	**38**	33
Impairment losses on credit exposures	**152**	187	**152**	187
Increase in accrued interest payable	**85**	-	**86**	-
Increase in other liabilities	**-**	-	**1**	-
Increase in provision for tax	**178**	-	**170**	-
Loss on disposal of property, plant and equipment	**4**	16	**2**	3
Loss on disposal of intangible assets	**-**	9	**-**	9
Unrealised gains less losses on financial instruments	**-**	44	**-**	44
Deduct non-cash items in net profit:				
Decrease in accrued interest payable	**-**	(74)	**-**	(75)
Decrease in accrued subvention payments	**-**	-	**(10)**	(36)
Decrease in other liabilities	**(50)**	(16)	**(49)**	(16)
Decrease in provision for tax	**-**	(115)	**-**	(13)
Unrealised gains less losses on financial instruments	**(122)**	-	**(122)**	-
Deduct operating cash flows not included in net profit:				
Net change in operating assets and liabilities	**(1,086)**	(254)	**(1,386)**	(225)
Net cash flows from operating activities	**(103)**	451	**(506)**	408

Netting of cash flows

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

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

Note 1 Principal Accounting Policies

In these financial statements Bank of New Zealand is referred to as the "Bank" or the "Company". The "Banking Group" means Bank of New Zealand, all of its wholly owned entities listed in note 16 and entities consolidated for financial reporting purposes listed in note 17.

The financial statements are general purpose financial reports prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2011.

Assumptions and estimates

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

Assumptions made as at each reporting date (e.g. the calculation of provisions for doubtful debts and fair value adjustments) are based on best estimates at that date. Although the Banking Group has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Statement of compliance

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

The following new standards and amendments to standards relevant to the Banking Group have been adopted from 1 October 2010 and have been applied in the preparation of these financial statements:

- Amendments to NZ IFRS 7 Financial Instruments: Disclosures include the removal of the requirement for the Banking Group to apply the disclosure requirements in Appendix E of NZ IFRS 7. This has resulted in the removal of "restructured assets" in the Asset Quality note. Restructured assets have been reclassified into the other asset categories within the note.

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

- NZ IFRS 9 Financial Instruments was issued in November 2009 and is applicable for accounting periods beginning on or after 1 January 2013. It is intended to replace New Zealand International Accounting Standard ("NZ IAS") 39 Financial Instruments: Recognition and Measurement with NZ IFRS 9 in three phases. It currently establishes the classification and measurement of financial assets and liabilities. Changes to impairment provisioning and hedge accounting are still being debated. The Banking Group is in the process of evaluating the potential impact of this standard. In August 2011, an Exposure Draft was issued to propose a change in applicable date to periods beginning on or after 1 January 2015.
- Improvements to NZ IFRSs (July 2010) – NZ IFRS 7 Financial Instruments: Disclosures was issued in July 2010 and is applicable for accounting periods beginning on or after 1 January 2011. The amendments address qualitative and quantitative disclosures about an entity's exposure to risks arising from financial instruments and have removed certain disclosure requirements. The Banking Group is in the process of evaluating the potential impact of this standard.
- NZ IFRS 10 Consolidated Financial Statements was issued in June 2011 and is effective for periods beginning on or after 1 July 2013. The standard defines the principle of control, sets out requirements on how to apply the control principles, and establishes control as the basis for determining which entities are consolidated in the financial statements. The Banking Group is in the process of evaluating the potential effect of this standard.
- NZ IFRS 12 Disclosure of Interests in Other Entities was issued in June 2011 and is effective for periods beginning on or after 1 July 2013. It enhances disclosure relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The Banking Group is in the process of evaluating the potential effect of this standard.
- NZ IFRS 13 Fair Value Measurement was issued in June 2011 and is effective for periods beginning on or after 1 July 2013. It explains how to measure fair value of assets and liabilities and expands the disclosure requirements for all assets or liabilities carried at fair value. The Banking Group is in the process of evaluating the potential effect of this standard.
- NZ IAS 1 Amendments to NZ IAS 1 Presentation of Financial Statements was issued in August 2011 and is effective for periods beginning on or after 1 July 2012. It requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods (reclassification adjustments). The Banking Group is in the process of evaluating the potential effect of this standard.
- NZ IAS 27 Separate Financial Statements (amended in June 2011) is effective for periods beginning on or after 1 January 2013. It removes the disclosure requirements for consolidated financial statements, which are now included in NZ IFRS 10 and NZ IFRS 12. The impact on the financial statements is not expected to be material.
- NZ IAS 28 Investments in Associates and Joint Ventures (amended in June 2011) is effective for periods beginning on or after 1 January 2013. It replaces NZ IAS 28 (2004), as a result of the issue of NZ IFRS 11 Joint Arrangements and NZ IFRS 12, effectively shifting the disclosure requirements to those standards. The Banking Group is in the process of evaluating the potential effect of this standard.
- Harmonisation Amendments is effective for periods beginning on or after 1 July 2011. This amends multiple standards to harmonise NZ IFRS with IFRS and Australian Accounting Standards and is read in conjunction with FRS-44 NZ Additional Disclosures. The Banking Group is in the process of evaluating the potential effect of these amendments.

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

Basis for preparation

The financial statements have been prepared under the historical cost convention, modified by the application of fair value measurements required or allowed by relevant Accounting Standards.

Note 1 Principal Accounting Policies *continued*

Currency of presentation

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

Rounding of amounts

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

Reclassification of financial information

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

Principles of consolidation

Entities (including Special Purpose Entities) over which the Bank has the power to govern the financial and operating policies so as to obtain benefits from their activities are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

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

The Company records investments in wholly owned entities at cost less any provision for impairment.

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

The financial results of the Bank's consolidated entities have been prepared in accordance with the Bank's accounting policies, which have been consistently applied throughout the Banking Group.

Foreign currency translation

i) Functional and presentation currency

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

ii) Transactions and balances

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

iii) Foreign operations

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

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

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

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

Fair value measurement

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

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

Note 1 Principal Accounting Policies *continued*

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

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

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

Assets

Cash and cash equivalents

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

Financial assets

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

Classification of financial assets

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

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

Items classified at fair value through profit or loss

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

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

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

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

Where a financial liability is held at fair value, the movement in fair value attributable to changes in the Bank's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates.

i) Financial assets held for trading

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

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

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

- where designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities (not only financial assets and liabilities) or recognising the gains or losses on them on different bases. Under this criterion the Banking Group has designated certain amounts within Cash and balances with central banks, Due from other financial institutions, Other money market placements and Loans and advances to customers. Where derivative financial instruments have been transacted to hedge these amounts, an accounting inconsistency would arise if such amounts were accounted for on an amortised cost basis, as the derivatives are measured at fair value with movements in fair value recognised in the income statement. By designating these amounts at fair value through profit or loss, any fair value movements on the instrument will offset the fair value movements on hedging derivatives in the income statement; or

Note 1 Principal Accounting Policies *continued*

- those that are part of a group of financial assets, financial liabilities or both, that are managed and their performance is evaluated by management on a fair value basis in accordance with the documented risk management or investment strategy; or
- those that contain one or more embedded derivatives, except if the embedded derivative does not modify significantly the associated cash flows or it is clear with little or no analysis that separation is prohibited.

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

Investments – available for sale

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

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

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

Loans and receivables

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

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

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase are classified in the investment or trading portfolios and accounted for accordingly. They are not derecognised from the balance sheet as the Bank retains substantially all the risks and rewards of ownership. The Bank's obligation to repurchase is classified under Due to central banks and other financial institutions or Other money market deposits. The difference between the sale and repurchase prices represents interest expense and is recognised in the income statement over the term of the repurchase agreements.

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

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

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

Impairment of financial assets

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

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

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

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

Note 1 Principal Accounting Policies *continued*

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

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

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

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

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

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

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

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

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

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

Asset quality

The Banking Group has disclosed, in note 14, certain components of its loan portfolio as impaired assets according to the classifications discussed below:

- **Impaired assets** means any credit exposure for which an impairment loss is required in accordance with NZ IAS 39 paragraphs 58 to 62, but is not a restructured asset.

The following categories are also disclosed in note 14, but are not considered to be impaired assets:

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

Derivative financial instruments and hedge accounting

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

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

Note 1 Principal Accounting Policies *continued*

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

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

i) Fair value hedge accounting

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

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

ii) Cash flow hedge accounting

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

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

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

Embedded derivatives

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

Set-off Arrangements

For derivative financial instruments on the balance sheet fair value assets are not offset against fair value liabilities.

Leasing

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

Liabilities

Financial liabilities

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

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

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

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

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

Note 1 Principal Accounting Policies *continued*

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

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

Employee entitlements

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

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

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

Subordinated debt

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

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but are disclosed unless the likelihood of payment is remote.

Financial guarantees

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

The financial guarantee contract is initially recorded at fair value which is equal to the premium received, unless there is evidence to the contrary.

Subsequently, the Banking Group records and measures the financial guarantee contract at the higher of:

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

Perpetual preference shares

The Bank has issued perpetual non-cumulative preference shares. The perpetual preference shares are non-redeemable and do not create any direct or indirect contractual obligation to deliver cash to the preference shareholders, and as such are classified as equity instruments.

Income tax

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

Use of money interest charged by the Inland Revenue Department in relation to certain structured finance transactions (refer to note 7 for further information), has been recognised in current tax asset.

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

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

Note 1 Principal Accounting Policies *continued*

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

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

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

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

Revenue and expense recognition

Net interest income

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

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

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

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

Dividend income

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

Fees and commissions

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

Funds management and other fiduciary activities

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

Gains less losses on financial instruments at fair value

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

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

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

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

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

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

Note 1 Principal Accounting Policies *continued*

Goods and services tax

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

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

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

Share based payments

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

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

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

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

Income Statement Notes

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Note 2 Interest				
Interest income				
Central banks	**41**	44	**41**	44
Other financial institutions	**33**	22	**33**	22
Trading securities	**143**	102	**143**	102
Other money market placements	**29**	17	**29**	17
Available for sale investments	**6**	11	**6**	11
Loans and advances to customers	**3,465**	3,237	**3,464**	3,252
Individually impaired assets	**15**	6	**15**	6
Related entities	**10**	8	**276**	220
Total interest income	**3,742**	3,447	**4,007**	3,674
Total interest income was derived from financial assets:				
Not at fair value through profit or loss	**2,467**	2,252	**2,732**	2,479
At fair value through profit or loss	**1,275**	1,195	**1,275**	1,195
	3,742	3,447	**4,007**	3,674
Interest expense				
Central banks and other financial institutions	**61**	53	**61**	53
Other money market deposits	**171**	191	**148**	166
Deposits from customers	**1,091**	989	**1,079**	985
Bonds and notes	**429**	308	**247**	207
Related entities	**225**	210	**796**	630
Subordinated loans from related entities	**32**	31	**32**	31
Other subordinated debt	**29**	29	**29**	29
Other	**317**	355	**317**	355
Total interest expense	**2,355**	2,166	**2,709**	2,456
Total interest expense was incurred on financial liabilities:				
Not at fair value through profit or loss	**1,718**	1,607	**2,072**	1,897
At fair value through profit or loss	**637**	559	**637**	559
	2,355	2,166	**2,709**	2,456

Note 3 Gains Less Losses on Financial Instruments at Fair Value

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Trading gains less losses on financial instruments at fair value				
Foreign exchange trading gain	**89**	53	**89**	53
Interest rate related trading derivatives	**27**	10	**27**	10
Other derivatives	**1**	-	**1**	-
Net gain in the fair value of financial assets and liabilities held for trading	**4**	34	**4**	34
Trading gains less losses on financial instruments at fair value	**121**	97	**121**	97
Other gains less losses on financial instruments at fair value				
Hedge accounting				
Net gain arising from hedging instruments in fair value hedge accounting relationships	**39**	10	**39**	10
Net loss arising from the hedged items attributable to the hedged risk in fair value hedge accounting relationships	**(63)**	(47)	**(63)**	(47)
Ineffectiveness arising from cash flow hedge accounting relationships	**-**	(1)	**-**	(1)
	(24)	(38)	**(24)**	(38)
Other				
Net loss in the fair value of financial assets designated at fair value through profit or loss (refer to table below)	**(83)**	(81)	**(83)**	(81)
Net gain in the fair value of financial liabilities designated at fair value through profit or loss (refer to table below)	**83**	8	**83**	8
Bid/offer adjustment	**-**	(2)	**-**	(2)
Net gain/(loss) attributable to other derivatives used for hedging purposes that do not qualify as designated and effective hedging instruments	**23**	(2)	**23**	(2)
	23	(77)	**23**	(77)
Other gains less losses on financial instruments at fair value	**(1)**	(115)	**(1)**	(115)
Total gains less losses on financial instruments at fair value	**120**	(18)	**120**	(18)
Net loss in the fair value of financial assets comprised:				
Loss in the fair value of financial assets designated at fair value through profit or loss	**(98)**	(72)	**(98)**	(72)
Credit risk adjustments on financial assets designated at fair value through profit or loss	**(8)**	(35)	**(8)**	(35)
Net gain attributable to other derivatives used for hedging purposes that do not use hedge accounting	**23**	26	**23**	26
	(83)	(81)	**(83)**	(81)
Net gain in the fair value of financial liabilities comprised: *				
Loss in the fair value of financial liabilities designated at fair value through profit or loss	**(59)**	(166)	**(59)**	(166)
Credit value adjustments on financial liabilities designated at fair value through profit or loss	**82**	4	**82**	4
Net gain attributable to other derivatives used for hedging purposes that do not use hedge accounting	**60**	170	**60**	170
	83	8	**83**	8

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

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Note 4 Other Operating Income				
Dividends received from controlled entities	**-**	-	**8**	22
Dividends received from other investments	**4**	3	**2**	1
Money transfer fees	**104**	125	**104**	125
Fees earned on financial assets and liabilities at fair value through profit or loss	**47**	49	**47**	49
Fees earned on financial assets and liabilities at amortised cost	**135**	117	**135**	117
Fees earned on trust and other fiduciary activities	**7**	6	**7**	6
Other fees and commissions income	**84**	79	**84**	79
Other income	**1**	-	**1**	-
Total other operating income	**382**	379	**388**	399

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Note 5 Operating Expenses				
Amortisation and depreciation				
Amortisation of goodwill and other intangible assets	**21**	18	**21**	18
Depreciation on property, plant and equipment	**32**	27	**17**	15
	53	45	**38**	33
Personnel expenses				
Share based payments (refer to note 6)	**9**	15	**9**	15
Defined contribution pension expense	**11**	12	**11**	12
Salaries and other staff expenses	**401**	409	**400**	408
	421	436	**420**	435
Other				
Loss on disposal of property, plant and equipment	**4**	16	**2**	3
Loss on disposal of intangible assets	**-**	9	**-**	9
Rental on operating leases (refer to table below)	**59**	66	**10**	11
Subvention payments to controlled entities	**-**	-	**7**	18
Related entity expenses	**56**	52	**155**	155
Other expenses (refer to table below)	**182**	194	**167**	173
	301	337	**341**	369
Total operating expenses	**775**	818	**799**	837
Rental on operating leases comprised:				
Lease payments				
Minimum lease payments	**60**	66	**11**	11
Contingent rents	**-**	1	**-**	1
Sub-lease payments	**(1)**	(1)	**(1)**	(1)
Total rental on operating leases	**59**	66	**10**	11
Personnel expenses include key management personnel remuneration paid or payable which comprised:				
Short term employee benefits	**6**	7	**6**	7
Termination benefits	**1**	-	**1**	-
Equity compensation benefits	**2**	2	**2**	2
Total key management personnel remuneration paid or payable	**9**	9	**9**	9

Dollars in Thousands	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Other expenses included:				
Donations	**1,766**	1,076	**1,766**	1,076
Fees paid to auditors:				
Statutory audit services	**1,642**	1,562	**1,553**	1,379
Regulatory audit services	**286**	331	**286**	331
Other assurance related services	**28**	2	**28**	-

Note 6 Share Based Payments Expense

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

The plans described below involve the provision of equity grants to employees of the Banking Group. The Banking Group reimburses National Australia Bank Limited for the cost of these grants. Details of the share based payments expense and the related entity payables are contained within notes 5 and 31 respectively.

As at 30 September 2011, share based payments expense of $15 million incurred by Bank of New Zealand in relation to performance options and rights granted to employees had not yet been charged by National Australia Bank Limited (30 September 2010: $23 million). This amount is required to be expensed in future periods under NZ IFRS 2 Share-based Payment.

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

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

Year-End Share offer

This programme is designed to offer approximately A$1,000 of ordinary shares to each employee when the National Australia Bank Group's performance is on target, as measured against a scorecard of objectives for the National Australia Bank Group for the financial year. These shares are held by the trustee for three years, or until the employee ceases his or her employment.

Under the New Zealand programme, each eligible employee is required to pay NZ$1.00 for the whole parcel of shares offered, or the market price of the parcel, whichever is less. Participating employees receive dividends and may exercise voting rights in respect of the shares, but otherwise cannot transact the shares until the three-year restriction period concludes. If a participating employee leaves the Banking Group prior to the end of the three-year restriction period due to voluntary resignation or dismissal, the trustee will purchase the shares back for the lesser of the market price or the price paid by the employee for the shares.

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

STI Deferral

In November 2010, the Banking Group's senior executives participated in the STI Deferral offer and received half of the value of their STI rewards in forms of National Australia Bank performance rights. The deferred award is allocated in two equal tranches with half restricted for 12 months and the remaining half for 24 months. Performance rights are lapsed if the employee ceases employment or fails to pass specific compliance expectations in respect of their performance review. The Board may also, in its discretion, lapse all or part of an employee's performance rights.

Long Term Incentives

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

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

Performance options and rights granted prior to February 2007 were subject to a performance hurdle based on total shareholder return. Performance options and rights granted since this date are subject to such conditions as the National Australia Bank Group's Board of Directors consider appropriate and may include conditions relating to the performance of the National Australia Bank Group or the performance and conduct of the employee.

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

Note 6 Share Based Payments Expense *continued*

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

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

	Consolidated			
	Weighted Average Exercise Price A$ 30/9/11	**Number of Options 30/9/11**	Weighted Average Exercise Price A$ 30/9/10	Number of Options 30/9/10
Performance options				
Outstanding at beginning of year	**36.91**	**1,626,050**	35.88	2,658,243
Add: Granted during the year	**-**	**-**	-	-
Add: Transferred in during the year	**39.45**	**6,108**	40.91	650
Deduct: Exercised during the year	**-**	**-**	-	-
Deduct: Forfeited during the year	**35.60**	**778,686**	33.36	876,873
Deduct: Transferred out during the year	**37.31**	**18,491**	37.70	155,970
Outstanding at end of year	**38.03**	**834,981**	36.91	1,626,050
Exercisable at end of year		**72,876**		49,315
Performance rights				
Outstanding at beginning of year	**-**	**978,132**	-	1,282,778
Add: Granted during the year	**-**	**144,052**	-	169,043
Add: Transferred in during the year	**-**	**1,446**	-	355
Deduct: Exercised during the year	**-**	**132,132**	-	207,153
Deduct: Forfeited during the year	**-**	**329,283**	-	169,679
Deduct: Transferred out during the year	**-**	**15,996**	-	97,212
Outstanding at end of year	**-**	**646,219**	-	978,132
Exercisable at end of year		**9,172**		32,689

The options outstanding as at 30 September 2011 have an exercise price in the range of A$29.91 to A$40.91 (30 September 2010: A$29.91 to A$40.91) and a weighted average remaining contractual life of 0.7 years (30 September 2010: 1.9 years).

The weighted average price of National Australia Bank Limited shares during the year ended 30 September 2011 was A$24.53 (year ended 30 September 2010: A$26.35).

Fair value of performance options and performance rights

The following table shows the significant assumptions used as inputs into the grant date fair value calculation of performance options and performance rights granted during the last two years. In the following table, values have been presented as weighted averages, but the specific values for each grant are used for the fair value calculation. The following table shows a 'no hurdle' value where the grant includes performance options and performance rights which have non-market based performance hurdles attached. For further details of the fair value methodology, refer to note 1.

	Consolidated	
	30/9/11	30/9/10
Weighted average values		
Contractual life (years)	**3.1**	2.7
Risk-free interest rate (per annum)	**5.18%**	4.66%
Expected volatility of share price	**42.00%**	40.00%
Closing share price on grant date	**A$24.73**	A$27.20
Dividend yield (per annum)	**5.88%**	6.40%
Fair value of performance rights	**A$11.15**	A$10.44
'No hurdle' value of performance rights	**A$22.05**	A$24.58
Expected time to vesting (years)	**2.40**	2.01

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Note 7 Income Tax Expense on Operating Profit				
Income tax on operating profit charged to income statement				
Current tax	**236**	173	**202**	150
Deferred tax	**55**	29	**53**	28
Total income tax on operating profit charged to income statement	**291**	202	**255**	178
Reconciliation of income tax expense on operating profit shown in the income statement with prima facie tax payable on the pre-tax accounting profit				
Total operating profit before income tax expense	**962**	637	**855**	575
Prima facie income tax at 30%	**289**	191	**257**	172
Add/(deduct): Tax effect of amounts which are non-deductible or non-assessable:				
Non-assessable and tax paid income	**(6)**	5	**(6)**	-
Prior year adjustment	**5**	(2)	**1**	(2)
Restatement of deferred tax due to change in income tax rate	**3**	8	**3**	8
Total income tax expense on operating profit	**291**	202	**255**	178
Effective tax rate	**30%**	32%	**30%**	31%
Income tax charged to other comprehensive income				
Current tax	**(12)**	9	**(12)**	7
Deferred tax	**(1)**	(1)	**(1)**	(1)
Total income tax charged to other comprehensive income	**(13)**	8	**(13)**	6

New Zealand structured finance transactions

In 2009, a High Court decision against the Bank and some of its wholly owned controlled entities (the "BNZ parties") with respect to certain structured finance transactions resulted in a provision being raised by the BNZ parties of $661 million as at 30 September 2009. In 2010, the BNZ parties entered into a settlement agreement with the Inland Revenue Department which resulted in the BNZ parties reversing a portion of the provision and recognising a tax credit charged to the income statement of $167 million for the Banking Group and $92 million for the Company.

Tax changes

On 21 May 2010 the Government passed legislation to reduce the company tax rate from 30% to 28%, effective from the 2011/12 tax year. For the Banking Group, this will take effect from 1 October 2011. The resulting reduction in deferred tax asset has increased tax expense for the year ended 30 September 2011 by $3 million (30 September 2010: $8 million) for both the Banking Group and the Company.

Asset Notes

Note 8 Cash and Balances With Central Banks

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Notes and coins	**125**	120	**125**	120
Transaction balances with central banks	**1,635**	1,750	**1,635**	1,750
Loans and advances to central banks	**226**	170	**226**	170
Total cash and balances with central banks	**1,986**	2,040	**1,986**	2,040
Cash and balances with central banks comprised:				
Call balances	**1,760**	1,870	**1,760**	1,870
Term balances	**226**	170	**226**	170
Total cash and balances with central banks	**1,986**	2,040	**1,986**	2,040

The Banking Group has not accepted any collateral of New Zealand government securities as at 30 September 2011 arising from secured placements with central banks which it is permitted to sell or repledge (30 September 2010: nil). No collateral was repledged as at 30 September 2011 (30 September 2010: nil).

As at 30 September 2011, there was $226 million of cash collateral (30 September 2010: $170 million) posted with central banks.

Note 9 Due from Other Financial Institutions

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Transaction balances with other financial institutions	**92**	677	**92**	677
Securities purchased under agreements to resell with other financial institutions	**487**	88	**487**	88
Loans and advances due from other financial institutions	**988**	484	**988**	484
Total due from other financial institutions	**1,567**	1,249	**1,567**	1,249
Due from other financial institutions comprised:				
Call balances	**92**	677	**92**	677
Term balances	**1,475**	572	**1,475**	572
Total due from other financial institutions	**1,567**	1,249	**1,567**	1,249

The Banking Group has accepted collateral of New Zealand government securities with a fair value of $1,180 million as at 30 September 2011 arising from reverse repurchase agreements with other financial and non-financial (refer to note 11) institutions, which it is permitted to sell or repledge (30 September 2010: $88 million). Government securities of $596 million were used to secure deposit obligations as at 30 September 2011 (30 September 2010: nil).

No government securities were repledged as at 30 September 2011 (30 September 2010: $14 million). Securities were repledged for periods of less than three months.

As at 30 September 2011, there was $300 million of collateral posted (30 September 2010: $391 million). Cash collateral is posted daily.

Note 10 Trading Securities

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Trading securities				
Treasury bills	**1,913**	1,267	**1,913**	1,267
Government securities	**898**	974	**898**	974
Semi-government securities	**219**	145	**219**	145
Bank bills	**448**	263	**448**	263
Bank bonds	**124**	382	**124**	382
Promissory notes	**283**	171	**283**	171
Other securities	**50**	29	**50**	29
Total trading securities	**3,935**	3,231	**3,935**	3,231

Included in trading securities of the Bank as at 30 September 2011 were $725 million encumbered through repurchase agreements (30 September 2010: $600 million).

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Note 11 Other Money Market Placements				
Money market placements with non-financial institutions	**322**	238	**322**	238
Securities purchased under agreements to resell with non-financial institutions	**715**	195	**715**	195
Total other money market placements	**1,037**	433	**1,037**	433

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Note 12 Loans and Advances to Customers				
Overdrafts	**1,986**	2,185	**1,986**	2,185
Credit card outstandings	**1,371**	1,369	**1,371**	1,369
Housing loans	**27,382**	26,262	**27,382**	26,262
Other term lending	**26,133**	25,388	**26,125**	25,380
Other lending	**227**	173	**227**	173
Total gross loans and advances to customers	**57,099**	55,377	**57,091**	55,369
Deduct:				
Allowance for impairment losses and credit risk adjustments on individual financial assets (refer to table below)	**227**	242	**227**	242
Allowance for impairment losses and credit risk adjustments on groups of financial assets (refer to table below)	**279**	273	**279**	273
Deferred and other unearned future income	**39**	45	**39**	45
Fair value hedge adjustments	**(107)**	(169)	**(107)**	(169)
Total deductions	**438**	391	**438**	391
Total net loans and advances to customers	**56,661**	54,986	**56,653**	54,978
Allowance for impairment losses and credit risk adjustments comprised:				
Individual financial assets				
Allowance for impairment losses on loans and advances to customers	**170**	148	**170**	148
Credit risk adjustments on loans designated at fair value through profit or loss	**57**	94	**57**	94
	227	242	**227**	242
Groups of financial assets				
Allowance for impairment losses on loans and advances to customers	**207**	203	**207**	203
Credit risk adjustments on loans designated at fair value through profit or loss	**72**	70	**72**	70
	279	273	**279**	273

The BNZ RMBS Trust Series 2008-1 (the "RMBS Trust") provides an in-house residential mortgage-backed securities facility to issue securities as collateral for borrowing from the RBNZ. As at 30 September 2011, included within the Banking Group's loans and advances to customers were housing loans to the value of $4,477 million held by the RMBS Trust (30 September 2010: $4,467 million). These housing loans have not been derecognised from the Banking Group's financial statements as the Banking Group retains substantially all of the risks and rewards of ownership. The Banking Group had not entered into any repurchase agreements for residential mortgage-backed securities with the RBNZ as at 30 September 2011 (30 September 2010: nil). RBNZ had not accepted any residential mortgage-backed securities as collateral from the Banking Group as at 30 September 2011 (30 September 2010: nil).

The BNZ Covered Bond Trust (the "Covered Bond Trust") holds certain Bank of New Zealand housing loans, and its trustee provides guarantees of the covered bonds issued by the Bank or BNZ International Funding Limited (London Branch), a wholly owned controlled entity of the Bank. Guarantees provided in relation to the covered bonds issued have a prior claim over the assets of the Covered Bond Trust. As at 30 September 2011, included within the Banking Group's loans and advances to customers were housing loans to the value of $4,044 million held by the Covered Bond Trust (30 September 2010: $489 million). These housing loans have not been derecognised from the Banking Group's financial statements as the Banking Group retains substantially all of the risks and rewards of ownership. The Banking Group had issued debt securities with a face value of $3,384 million that were guaranteed by the Covered Bond Trust as at 30 September 2011 (30 September 2010: $425 million). The underlying collateral for the guarantees provided by the Covered Bond Trust comprised housing loans and other assets to the value of $4,083 million as at 30 September 2011 (30 September 2010: $493 million).

Further details on the transactions with the RMBS Trust and the Covered Bond Trust are provided in note 31.

Note 13 Allowance for Impairment Losses on Credit Exposures

Dollars in Millions	Consolidated and The Company Residential Mortgage Lending 30/9/11	Other Retail Exposures 30/9/11	Corporate Exposures 30/9/11	Total 30/9/11
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	53	21	74	148
Charge to impairment losses on credit exposures in income statement	22	44	82	148
Amounts written off	(23)	(53)	(58)	(134)
Recovery of amounts written off in previous years	-	11	-	11
Discount unwind*	-	-	(3)	(3)
Balance at end of year	52	23	95	170
Allowance for impairment losses on groups of financial assets				
Loans and advances to customers				
Balance at beginning of year	31	72	100	203
Charge to impairment losses on credit exposures in income statement	9	(4)	(1)	4
Balance at end of year	40	68	99	207
Total allowance for impairment losses on credit exposures	92	91	194	377

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

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

* The methodology used to classify Other Retail and Corporate exposures has been refined to align with the classification applicable under RBNZ's Capital Adequacy Framework (Internal Models Based Approach) (BS2B). Retail Small to Medium enterprises exposures are now included under Other Retail.

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

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

Note 13 Allowance for Impairment Losses on Credit Exposures *continued*

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

	Consolidated and The Company			
Dollars in Millions	Residential Mortgage Lending 30/9/11	Other Retail Exposures 30/9/11	Corporate Exposures 30/9/11	Total 30/9/11
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	-	-	94	94
Charge to income statement	-	1	6	7
Amounts written off	-	-	(44)	(44)
Balance at end of year	-	1	56	57
On groups of financial assets				
Loans and advances to customers				
Balance at beginning of year	-	1	69	70
Charge to income statement	-	-	2	2
Balance at end of year	-	1	71	72
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	2	127	129
Other money market placements				
Balance at beginning of year	-	-	1	1
Charge to income statement	-	-	(1)	(1)
Balance at end of year	-	-	-	-
Total credit risk adjustments on other money market placements	-	-	-	-
Trading derivative financial instruments				
Balance at beginning of year	-	-	9	9
Charge to income statement	-	-	-	-
Balance at end of year	-	-	9	9
Total credit risk adjustments on trading derivative financial instruments	-	-	9	9

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

Note 13 Allowance for Impairment Losses on Credit Exposures *continued*

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

* The methodology used to classify Other Retail and Corporate exposures has been refined to align with the classification applicable under RBNZ's Capital Adequacy Framework (Internal Models Based Approach) (BS2B). Retail Small to Medium enterprises exposures are now included under Other Retail.

Note 14 Asset Quality

The Banking Group provides for impairment losses on credit exposures as disclosed in note 13. Accordingly, when management determines that recovery of a loan is doubtful, the principal amount and accrued interest on the obligation are written down to estimated net realisable value.

	Consolidated and The Company			
Dollars in Millions	Residential Mortgage Lending 30/9/11	Other Retail Exposures 30/9/11	Corporate Exposures 30/9/11	Total 30/9/11
Movements in pre-allowance balances				
Individually impaired assets – at amortised cost				
Balance at beginning of year	162	36	292	490
Amounts written off	(23)	(53)	(58)	(134)
Additions	145	102	334	581
Deletions	(144)	(51)	(276)	(471)
Balance at end of year	140	34	292	466
Allowance for impairment losses on individual financial assets	52	23	95	170
Undrawn lending commitments	-	-	3	3
Individually impaired assets – at fair value through profit or loss				
Balance at beginning of year	-	-	282	282
Amounts written off	-	-	(44)	(44)
Additions	-	3	201	204
Deletions	-	(2)	(247)	(249)
Balance at end of year	-	1	192	193
Credit risk adjustments on individual financial assets designated at fair value through profit or loss	-	1	56	57
Undrawn lending commitments	-	-	1	1
Total impaired assets at end of year	140	35	484	659
Other assets under administration				
Balance at end of year	9	1	-	10

Note 14 Asset Quality *continued*

Dollars in Millions	Consolidated and The Company Residential Mortgage Lending 30/9/10	Other Retail Exposures 30/9/10	Corporate Exposures 30/9/10	Total 30/9/10
Movements in pre-allowance balances				
Loans and advances to customers				
Individually impaired assets – at amortised cost				
Balance at beginning of year	112	2	332	446
Transfer*	-	36	(36)	-
Amounts written off	(20)	(54)	(85)	(159)
Additions	165	85	273	523
Deletions	(95)	(33)	(192)	(320)
Balance at end of year	162	36	292	490
Allowance for impairment losses on individual financial assets	53	21	74	148
Undrawn lending commitments	-	-	2	2
Individually impaired assets – at fair value through profit or loss				
Balance at beginning of year	-	-	191	191
Transfer*	-	3	(3)	-
Amounts written off	-	(2)	(16)	(18)
Additions	-	1	182	183
Deletions	-	(2)	(72)	(74)
Balance at end of year	-	-	282	282
Credit risk adjustments on individual financial assets designated at fair value through profit or loss	-	-	94	94
Undrawn lending commitments	-	-	-	-
Total impaired assets at end of year	162	36	574	772
Other assets under administration				
Balance at end of year	7	1	21	29

* 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.

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

Off-balance sheet facilities that are expected to be impaired as at 30 September 2011 were nil as a result of rounding to the nearest million (30 September 2010: $4 million). No allowance for impairment losses on individual off-balance sheet credit related commitments had been made as at 30 September 2011 (30 September 2010: nil).

Note 14 Asset Quality *continued*

Credit quality of financial assets

Dollars in Millions	Consolidated			
	Residential Mortgage Lending 30/9/11	Other Retail Exposures 30/9/11	Corporate Exposures 30/9/11	Total 30/9/11
Loans and advances to customers				
Neither past due nor impaired				
Excellent credit quality	25,001	2,777	23,454	51,232
Good credit quality	879	305	1,466	2,650
Moderate credit quality	924	142	356	1,422
Total assets neither past due nor impaired	26,804	3,224	25,276	55,304
Past due assets not impaired				
1 - 7 days past due	153	61	302	516
8 - 29 days past due	96	77	68	241
1 - 29 days past due	249	138	370	757
30 - 59 days past due	72	24	50	146
60 - 89 days past due	38	10	12	60
90+ days past due	79	31	92	202
Total past due assets not impaired	438	203	524	1,165
Impaired assets				
Individually impaired financial assets – at amortised cost	140	34	292	466
Individually impaired financial assets – at fair value through profit or loss	-	1	163	164
Total impaired assets	140	35	455	630
Total gross loans and advances to customers	27,382	3,462	26,255	57,099
Other money market placements				
Neither past due nor impaired				
Excellent credit quality	-	-	1,008	1,008
Good credit quality	-	-	-	-
Moderate credit quality	-	-	-	-
Total assets neither past due nor impaired	-	-	1,008	1,008
Impaired assets				
Individually impaired financial assets – at fair value through profit or loss	-	-	29	29
Total impaired assets	-	-	29	29
Total other money market placements	-	-	1,037	1,037

Note 14 Asset Quality *continued*

Credit quality of financial assets *continued*

	Consolidated			
Dollars in Millions	Residential Mortgage Lending 30/9/10	Other Retail Exposures 30/9/10	Corporate Exposures 30/9/10	Total 30/9/10
Loans and advances to customers				
Neither past due nor impaired				
Excellent credit quality	23,961	2,523	22,583	49,067
Good credit quality	869	302	1,588	2,759
Moderate credit quality	844	162	425	1,431
Total assets neither past due nor impaired	25,674	2,987	24,596	53,257
Past due assets not impaired				
1 - 7 days past due	156	64	394	614
8 - 29 days past due	94	87	94	275
1 - 29 days past due	250	151	488	889
30 - 59 days past due	71	36	92	199
60 - 89 days past due	25	14	25	64
90+ days past due	80	36	80	196
Total past due assets not impaired	426	237	685	1,348
Impaired assets				
Individually impaired financial assets – at amortised cost	162	36	292	490
Individually impaired financial assets – at fair value through profit or loss	-	-	282	282
Total impaired assets	162	36	574	772
Total gross loans and advances to customers	26,262	3,260	25,855	55,377
Other money market placements				
Neither past due nor impaired				
Excellent credit quality	-	-	419	419
Good credit quality	-	-	-	-
Moderate credit quality	-	-	6	6
Total assets neither past due nor impaired	-	-	425	425
Past due assets not impaired				
1 - 7 days past due	-	-	8	8
Total past due assets not impaired	-	-	8	8
Total other money market placements	-	-	433	433

Note 14 Asset Quality *continued*
Credit quality of financial assets *continued*

Dollars in Millions	The Company Residential Mortgage Lending 30/9/11	Other Retail Exposures 30/9/11	Corporate Exposures 30/9/11	Total 30/9/11
Loans and advances to customers				
Neither past due nor impaired				
Excellent credit quality	25,001	2,777	23,449	51,227
Good credit quality	879	305	1,463	2,647
Moderate credit quality	924	142	356	1,422
Total assets neither past due nor impaired	26,804	3,224	25,268	55,296
Past due assets not impaired				
1 - 7 days past due	153	61	302	516
8 - 29 days past due	96	77	68	241
1 - 29 days past due	249	138	370	757
30 - 59 days past due	72	24	50	146
60 - 89 days past due	38	10	12	60
90+ days past due	79	31	92	202
Total past due assets not impaired	438	203	524	1,165
Impaired assets				
Individually impaired financial assets – at amortised cost	140	34	292	466
Individually impaired financial assets – at fair value through profit or loss	-	1	163	164
Total impaired assets	140	35	455	630
Total gross loans and advances to customers	27,382	3,462	26,247	57,091
Other money market placements				
Neither past due nor impaired				
Excellent credit quality	-	-	1,008	1,008
Good credit quality	-	-	-	-
Moderate credit quality	-	-	-	-
Total assets neither past due nor impaired	-	-	1,008	1,008
Impaired assets				
Individually impaired financial assets – at fair value through profit or loss	-	-	29	29
Total impaired assets	-	-	29	29
Total other money market placements	-	-	1,037	1,037

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

Note 14 Asset Quality *continued*

Credit quality of financial assets *continued*

Dollars in Millions	The Company Residential Mortgage Lending 30/9/10	Other Retail Exposures 30/9/10	Corporate Exposures 30/9/10	Total 30/9/10
Loans and advances to customers				
Neither past due nor impaired				
Excellent credit quality	23,961	2,523	22,575	49,059
Good credit quality	869	302	1,588	2,759
Moderate credit quality	844	162	425	1,431
Total assets neither past due nor impaired	25,674	2,987	24,588	53,249
Past due assets not impaired				
1 - 7 days past due	156	64	394	614
8 - 29 days past due	94	87	94	275
1 - 29 days past due	250	151	488	889
30 - 59 days past due	71	36	92	199
60 - 89 days past due	25	14	25	64
90+ days past due	80	36	80	196
Total past due assets not impaired	426	237	685	1,348
Impaired assets				
Individually impaired financial assets – at amortised cost	162	36	292	490
Individually impaired financial assets – at fair value through profit or loss	-	-	282	282
Total impaired assets	162	36	574	772
Total gross loans and advances to customers	26,262	3,260	25,847	55,369
Other money market placements				
Neither past due nor impaired				
Excellent credit quality	-	-	419	419
Good credit quality	-	-	-	-
Moderate credit quality	-	-	6	6
Total assets neither past due nor impaired	-	-	425	425
Past due assets not impaired				
1 - 7 days past due	-	-	8	8
Total past due assets not impaired	-	-	8	8
Total other money market placements	-	-	433	433

The credit quality of assets that are neither past due nor impaired has been classified using the Banking Group's internal customer rating system and credit monitoring procedures required under internal policies, and in accordance with the Basel II Accord. Refer to note 40 for further information on the Banking Group's credit risk policies.

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

Note 15 Derivative Financial Instruments

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

Derivative financial instruments held or issued for trading purposes

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

Derivative financial instruments held or issued for purposes other than trading

Fair value hedges

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

Note 15 Derivative Financial Instruments *continued*

Cash flow hedges

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

There were no transactions for which cash flow hedge accounting had to be ceased during the year ended 30 September 2011 (year ended 30 September 2010: nil) as a result of the highly probable cash flows no longer being expected to occur.

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

	Consolidated and The Company (30/9/11)					
Dollars in Millions	Less than 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	Over 5 Years
Cash flow hedges						
Cash inflows - assets	**172**	**124**	**80**	**47**	**24**	**4**
Cash outflows - liabilities	**(44)**	**(22)**	**(13)**	**(4)**	**-**	**-**
Net cash inflows	**128**	**102**	**67**	**43**	**24**	**4**
	Consolidated and The Company (30/9/10)					
Cash flow hedges						
Cash inflows - assets	195	146	103	62	28	18
Cash outflows - liabilities	(87)	(47)	(20)	(11)	(2)	(1)
Net cash inflows	108	99	83	51	26	17

	Consolidated and The Company		
Dollars in Millions	Notional Principal 30/9/11	Fair Value Assets 30/9/11	Fair Value Liabilities 30/9/11
Held for trading - at fair value*			
Foreign exchange rate related contracts			
Spot and forward contracts to purchase foreign exchange	**37,300**	**1,193**	**733**
Cross currency swaps	**42,528**	**2,046**	**1,729**
Options	**5,751**	**87**	**87**
	85,579	**3,326**	**2,549**
Interest rate related contracts			
Forward rate agreements	**4,555**	**1**	**-**
Swaps	**228,392**	**3,355**	**3,342**
Futures	**23,123**	**-**	**-**
Options	**2,426**	**7**	**21**
Swaptions	**1,655**	**6**	**3**
	260,151	**3,369**	**3,366**
Other market related contracts			
Commodity derivatives	**25**	**2**	**2**
Credit default swaps	**170**	**5**	**3**
	195	**7**	**5**
Total held for trading - at fair value	**345,925**	**6,702**	**5,920**
Held for hedging - cash flow hedges			
Interest rate related contracts			
Swaps	**8,647**	**247**	**131**
Total held for hedging - cash flow hedges	**8,647**	**247**	**131**
Total derivative contracts	**354,572**	**6,949**	**6,051**

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

Note 15 Derivative Financial Instruments *continued*

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

Credit risk

The maximum exposure to credit risk at any one time is limited to the current fair value of instruments that are favourable to the Banking Group (assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. For information on the Banking Group's risk management policies, refer to note 40.

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Note 16 Investments in Wholly Owned Entities				
Shares in wholly owned entities unlisted – at cost	**-**	-	**3,118**	3,118
Deduct: Provision for impairment of wholly owned entities	**-**	-	**63**	63
Total investments in wholly owned entities	**-**	-	**3,055**	3,055

Wholly owned entities of the Bank as at 30 September 2011 were:

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

All wholly owned entities listed above have the same reporting date as the Bank.

Movements in wholly owned entities

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

Note 17 Special Purpose Entities

The following special purpose entities are consolidated for financial reporting purposes:

Name	Country of Domicile	Principal Activities
BNZ Term PIE	New Zealand	Portfolio investment entity
BNZ Cash PIE	New Zealand	Portfolio investment entity
BNZ Covered Bond Trust	New Zealand	Funding structure vehicle
BNZ RMBS Trust Series 2008-1	New Zealand	Funding structure vehicle

Movements in special purpose entities

BNZ Term PIE (the "Term Fund") was established on 23 September 2010. The Term Fund is a Portfolio Investment Entity. The Bank and the Directors of the Bank are the Promoters of the Term Fund. BNZ Investment Services Limited, a wholly owned controlled entity of the Bank, is the Manager and Issuer of the Term Fund.

On 2 June 2010, the BNZ Covered Bond Trust (the "Covered Bond Trust") was established to hold BNZ housing loans and to provide guarantees of 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.

Further details on the transactions with these entities are provided in note 31.

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10

Note 18 Deferred Tax

Deferred tax assets				
Balance at beginning of year	**225**	254	**216**	225
Tax expense recognised in income statement *	**7**	(29)	**2**	(28)
Tax credit recognised in other comprehensive income	**1**	1	**1**	1
Tax expense on interest costs on New Zealand structured finance transactions*	**(62)**	(33)	**(55)**	(14)
Other	**(6)**	32	**(4)**	32
Balance at end of year	**165**	225	**160**	216
The deferred tax assets were attributable to the following items:				
Employee entitlements	**12**	15	**12**	15
Credit risk adjustments on financial assets designated at fair value through profit or loss	**39**	46	**39**	46
Allowance for impairment losses on credit exposures	**106**	100	**106**	100
Depreciation and amortisation	**(4)**	(13)	**(5)**	(11)
Operating expense provisions	**6**	7	**3**	5
Prepaid pension assets	**(1)**	(2)	**(1)**	(2)
Interest costs on New Zealand structured finance transactions	**-**	62	**-**	55
Other	**7**	10	**6**	8
Total deferred tax assets	**165**	225	**160**	216

* The total movement to the net deferred tax asset recognised in the income statement includes a $62 million (The Company: $55 million) credit arising from the interest costs on New Zealand structured finance transactions being tax deductible in the 2011 income year. The deferred tax asset in respect of this balance has therefore been transferred to current tax.

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

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10

Note 19 Other Assets

Accrued interest receivable	**127**	131	**126**	130
Prepaid pension assets	**2**	5	**2**	5
Securities sold – not yet settled	**406**	252	**406**	184
Other assets	**148**	161	**135**	147
Total other assets	**683**	549	**669**	466

Note 20 Due to Central Banks and Other Financial Institutions

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Transaction balances with other financial institutions	**933**	444	**933**	444
Deposits from central banks	**608**	29	**608**	29
Deposits from other financial institutions	**391**	448	**391**	448
Securities sold under agreements to repurchase from other financial institutions	**740**	654	**740**	654
Total due to central banks and other financial institutions	**2,672**	1,575	**2,672**	1,575
Due to central banks and other financial institutions comprised:				
Call balances	**933**	444	**933**	444
Term balances	**1,739**	1,131	**1,739**	1,131
Total due to central banks and other financial institutions	**2,672**	1,575	**2,672**	1,575

The Bank held $550 million of secured deposits from central banks and other financial institutions as at 30 September 2011 (30 September 2010: nil).

Note 21 Other Money Market Deposits

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Money market deposits from non-financial institutions	**1,864**	2,853	**1,864**	2,853
Certificates of deposit	**1,830**	1,752	**1,830**	1,752
Commercial paper	**8,095**	7,278	**-**	-
Total other money market deposits	**11,789**	11,883	**3,694**	4,605

Note 22 Deposits from Customers

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Demand deposits not bearing interest	**1,724**	1,289	**1,724**	1,289
Demand deposits bearing interest	**10,644**	9,814	**10,498**	9,722
Term deposits	**18,986**	17,560	**18,737**	17,560
Total deposits from customers	**31,354**	28,663	**30,959**	28,571

Dollars in Millions	Consolidated 30/9/11	30/9/10	The Company 30/9/11	30/9/10
Note 23 Bonds and Notes				
Registered transferable notes	**4,718**	3,524	**4,718**	3,524
Medium term notes	**7,696**	6,248	**-**	-
Total bonds and notes	**12,414**	9,772	**4,718**	3,524

Details of the terms and conditions of these notes as at 30 September 2011 were as follows:

Issue Currency	Coupon Rate %	Maturity Date	Face Value Issue Currency Millions*	**30/9/11 Fair Value NZ $Millions**	30/9/10 Fair Value NZ $Millions
Registered transferable notes issued by Bank of New Zealand:					
New Zealand dollar	7.150 (fixed)	12 October 2010	24	**-**	25
New Zealand dollar	3 month NZD BKBM + 55bp	28 October 2010	50	**-**	50
New Zealand dollar	3 month NZD BKBM + 90bp	20 May 2011	170	**-**	170
New Zealand dollar	Zero Coupon	14 June 2011	50	**-**	49
New Zealand dollar	7.500 (fixed)	15 September 2011	196	**-**	203
New Zealand dollar	3 month NZD BKBM	15 October 2011	130	**130**	120
New Zealand dollar	3 month NZD BKBM + 95bp	27 July 2012	125	**126**	126
New Zealand dollar	3 month NZD BKBM	31 July 2012	11	**11**	11
New Zealand dollar	7.500 (fixed)	15 September 2012	275	**286**	284
New Zealand dollar	3 month NZD BKBM + 93bp	20 September 2012	85	**85**	85
New Zealand dollar	6.120 (fixed)	15 April 2013	50	**53**	53
New Zealand dollar	8.560 (fixed)	27 May 2013	460	**505**	423
New Zealand dollar	3 month NZD BKBM + 120bp	20 December 2013	194	**194**	-
New Zealand dollar	4.775 (fixed)	20 February 2014 **	700	**722**	709
New Zealand dollar	3 month NZD BKBM + 130bp	11 March 2014	400	**401**	-
New Zealand dollar	6.700 (fixed)	31 March 2014	50	**52**	52
New Zealand dollar	3 month NZD BKBM + 120bp	22 January 2015	300	**300**	-
New Zealand dollar	8.675 (fixed)	27 May 2015	315	**363**	361
New Zealand dollar	6.000 (fixed)	30 June 2015 ***	174	**186**	151
New Zealand dollar	6.165 (fixed)	13 August 2015	375	**394**	229
New Zealand dollar	7.465 (fixed)	27 May 2016	50	**56**	55
New Zealand dollar	5.730 (fixed)	15 July 2016	179	**185**	-
New Zealand dollar	6.905 (fixed)	15 September 2016	93	**99**	105
New Zealand dollar	6.425 (fixed)	30 June 2017 ***	250	**270**	263
New Zealand dollar	3 month NZD BKBM + 127bp	29 March 2019***	300	**300**	-
				4,718	3,524

* Face value represents current value on issue.

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

*** These notes are guaranteed by the Covered Bond Trust. Refer to the Guarantees section on page 2 and note 12 for further information.

Note 23 Bonds and Notes *continued*

Issue Currency	Coupon Rate %	Maturity Date	Face Value Issue Currency Millions*	**30/9/11 Fair Value NZ $Millions**	30/9/10 Fair Value NZ $Millions
Medium term notes issued by BNZ International Funding Limited (London Branch):					
US dollar	3 month USD LIBOR + 7.5bp	26 November 2010	750	**-**	1,018
New Zealand dollar	3 month NZD BBR FRA + 7bp	17 January 2011	100	**-**	101
New Zealand dollar	3 month NZD BBR FRA + 70bp	24 June 2011	69	**-**	69
New Zealand dollar	3 month NZD BKBM + 72bp	7 December 2011	40	**40**	40
US dollar	3 month USD LIBOR + 7.5bp	8 December 2011	600	**783**	811
Japanese yen	3 month JPY LIBOR + 60bp	25 May 2012 **	3,200	**55**	53
US dollar	2.625 (fixed)	5 June 2012 **	750	**1,001**	1,057
US dollar	3 month USD LIBOR + 70bp	18 June 2012 **	60	**79**	82
US dollar	3 month USD LIBOR + 37bp	16 July 2012 **	45	**59**	61
US dollar	3 month USD LIBOR + 30bp	6 August 2012	50	**65**	68
Hong Kong dollar	2.190 (fixed)	19 November 2012	150	**26**	27
Hong Kong dollar	2.075 (fixed)	27 November 2012	200	**35**	36
US dollar	3 month USD LIBOR + 80bp	10 December 2012	30	**39**	41
US dollar	3 month USD LIBOR + 78bp	11 December 2012	30	**39**	41
US dollar	3 month USD LIBOR + 90bp	15 May 2013	122	**160**	166
US dollar	3 month USD LIBOR + 100bp	27 August 2013	100	**131**	135
Japanese yen	3 month JPY LIBOR + 45bp	11 November 2013	2,900	**50**	-
Hong Kong dollar	3 month HIBOR + 65bp	18 November 2013	100	**17**	-
Japanese yen	1.715 (fixed)	27 May 2014 **	15,000	**266**	253
Japanese yen	1.445 (fixed)	2 June 2014 **	3,000	**53**	50
Hong Kong dollar	3.030 (fixed)	11 June 2014	100	**18**	18
US dollar	3 month USD LIBOR + 115bp	6 October 2014	50	**65**	68
Japanese yen	1.464 (fixed)	3 December 2014	5,000	**88**	82
Swiss Franc	2.000 (fixed)	18 February 2015	300	**450**	427
Japanese yen	3 month JPY LIBOR + 55bp	26 May 2015	500	**9**	8
Japanese yen	3 month JPY LIBOR + 52bp	29 June 2015	500	**8**	8
US dollar	3 month USD LIBOR + 125bp	3 August 2015	5	**7**	7
US dollar	3 month USD LIBOR + 130bp	17 November 2015	10	**13**	-
Australian Dollar	6.250 (fixed)	14 June 2016 ***	700	**937**	-
Euro	4.000 (fixed)	8 March 2017	750	**1,318**	1,464
Euro	3.125 (fixed)	23 November 2017 ***	1,000	**1,826**	-
Hong Kong dollar	3.480 (fixed)	8 September 2020	53	**9**	9
New Zealand dollar	6.590 (fixed)	30 September 2020	25	**25**	24
New Zealand dollar	6.590 (fixed)	30 September 2020	25	**25**	24
				7,696	6,248

* Face value represents current value on issue.

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

*** These notes are guaranteed by the Covered Bond Trust. Refer to the Guarantees section on page 2 and note 12 for further information.

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Note 24 Other Liabilities				
Accrued interest payable	**297**	271	**293**	266
Securities purchased – not yet settled	**261**	231	**261**	163
Employee entitlements	**110**	103	**110**	103
Other liabilities	**253**	280	**238**	263
Total other liabilities	**921**	885	**902**	795

Note 25 Subordinated Debt

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

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Upper Tier Two capital				
Subordinated loans from related entities				
National Equities Limited	**190**	190	**190**	190
Total subordinated loans from related entities	**190**	190	**190**	190
Total upper Tier Two capital	**190**	190	**190**	190
Lower Tier Two capital				
Subordinated loans from related entities				
NAB Capital LLC	**230**	230	**230**	230
National Equities Limited	**485**	485	**485**	485
Total subordinated loans from related entities	**715**	715	**715**	715
Other subordinated debt				
NZD term subordinated fixed rate bonds	**367**	373	**367**	373
Total other subordinated debt	**367**	373	**367**	373
Total lower Tier Two capital	**1,082**	1,088	**1,082**	1,088
Total subordinated debt	**1,272**	1,278	**1,272**	1,278

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 these loans was 3.5% p.a. as at 30 September 2011 (30 September 2010: 3.8% 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. They can also be repaid at the Bank's option, subject to certain conditions, at any time on seven days' notice. No request to repay the loans has been received during the three months ended 30 September 2011. 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 at face value which are listed on the NZDX. The coupon rate on these bonds is 8.42% p.a., payable semi-annually in arrears based on the fixed coupon rate. These bonds have a maturity date of 15 June 2017, but can be called by the Bank on 15 June 2012. If the bonds are not called by the Bank on 15 June 2012, they will continue to pay interest to maturity at the five-year swap mid-rate plus 0.75% p.a.. The Bank did not hold any of these subordinated bonds as at 30 September 2011 (30 September 2010: nil). As at 30 September 2011, these bonds carried an AA- credit rating by Standard & Poor's and an A2 credit rating by Moody's Investors Service. Subsequent to the reporting date, the Standard & Poor's credit rating on these bonds changed from AA- to A- on 1 December 2011. This has resulted from a global review by Standard & Poor's of its rating methodology for the banking industry, with more emphasis placed on a country's economic strengths as well as the strength of its banking industry.

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Note 26 Contributed Equity				
Issued and paid-up share capital				
Ordinary shares, fully paid – balance at beginning of year	**1,451**	1,451	**1,451**	1,451
Ordinary shares, fully paid – balance at end of year	**1,451**	1,451	**1,451**	1,451
Perpetual preference shares, fully paid – balance at beginning of year	**910**	710	**910**	710
Proceeds from shares issued	**-**	200	**-**	200
Perpetual preference shares, fully paid – balance at end of year	**910**	910	**910**	910
Total issued and paid-up share capital	**2,361**	2,361	**2,361**	2,361

The issued and paid-up capital is included in Tier One capital of the Banking Group and the Registered Bank (refer to note 39).

Ordinary shares

The authorised ordinary share capital of the Company comprises 2,470,997,499 shares, which do not have a par value. All issued shares were fully paid as at the reporting date (30 September 2010: 2,470,997,499 shares). Each of the 2,470,997,499 ordinary shares entitles the shareholder to one vote at any meeting of shareholders.

Dividends on Ordinary shares for the year ended 30 September 2011 were 13.35 cents per share (year ended 30 September 2010: 22.78 cents per share).

Perpetual non-cumulative preference shares

The perpetual preference share capital of the Company comprises 909,730,000 shares (30 September 2010: 909,730,000 shares) which do not have a par value. All issued shares were fully paid as at the reporting date.

Each of the 909,730,000 perpetual non-cumulative preference shares is non-redeemable and carries no voting rights other than in relation to amendments of the rights, privileges, limitations and conditions attaching to these shares.

March 2008 issue

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

The 2008 BNZ PPS were issued in conjunction with the issue of perpetual non-cumulative shares by BNZ Income Securities Limited ("BNZIS"), a subsidiary of the Bank's ultimate parent. Under the transaction, BNZIS issued 449,730,000 perpetual non-cumulative shares ("BNZIS Shares") to members of the public in New Zealand. These shares are listed on the NZDX. The proceeds from the issue of the BNZIS Shares were advanced to BNZIM as a perpetual loan. BNZIM in turn invested the proceeds of the loan from BNZIS in the 2008 BNZ PPS.

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

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

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

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

Dividends on the 2008 BNZ PPS rank for payment:

- before the Bank's ordinary shareholder and holders of 2009A BNZ PPS (refer to December 2009 issue on page 48);
- equally with any other shares issued by the Bank that, by their terms, are expressed to rank equally with the 2008 BNZ PPS; and
- after all other shareholders and creditors of the Bank.

Note 26 Contributed Equity *continued*

Dividends on the 2008 BNZ PPS for the year ended 30 September 2011 were 6.92 cents per share (year ended 30 September 2010: 6.92 cents per share).

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

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

June 2009 issue

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

The 2009 BNZ PPS were issued in conjunction with the issue of perpetual non-cumulative shares by BNZ Income Securities 2 Limited ("BNZIS 2"), a subsidiary of the Bank's ultimate parent. Under the transaction, BNZIS 2 issued 260,000,000 perpetual non-cumulative shares ("BNZIS 2 Shares") to members of the public in New Zealand. These shares are listed on the NZDX. The proceeds from the issue of BNZIS 2 Shares were advanced to BNZIM as a perpetual loan. BNZIM in turn invested the proceeds of the loan from BNZIS 2 in the 2009 BNZ PPS.

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

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

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

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

Dividends on the 2009 BNZ PPS rank for payment:

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

Dividends on the 2009 BNZ PPS for the year ended 30 September 2011 were 6.37 cents per share (year ended 30 September 2010: 6.37 cents per share).

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

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

December 2009 issue

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

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

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

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

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

Note 26 Contributed Equity *continued*

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

Dividends on the 2009A BNZ PPS rank for payment:

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

Dividends on the 2009A BNZ PPS for the year ended 30 September 2011 were 6.48 cents per share (year ended 30 September 2010: 4.83 cents per share).

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

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

	Consolidated		The Company	
Dollars in Millions	**30/9/11**	30/9/10	**30/9/11**	30/9/10
Note 27 Reserves				
Asset revaluation reserve	**2**	2	**-**	-
Foreign currency translation reserve	**3**	(3)	**4**	(6)
Available for sale investments revaluation reserve	**20**	16	**20**	16
Cash flow hedge reserve	**119**	60	**119**	60
Total reserves	**144**	75	**143**	70
Total reserves comprised:				
Asset revaluation reserve				
Balance at beginning of year	**2**	2	**-**	-
Balance at end of year	**2**	2	**-**	-

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

	Consolidated		The Company	
Dollars in Millions	**30/9/11**	30/9/10	**30/9/11**	30/9/10
Foreign currency translation reserve				
Balance at beginning of year	**(3)**	3	**(6)**	1
Foreign currency translation adjustments	**(6)**	2	**(2)**	(1)
Current income taxes	**12**	(8)	**12**	(6)
Balance at end of year	**3**	(3)	**4**	(6)

The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations.

	Consolidated		The Company	
Dollars in Millions	**30/9/11**	30/9/10	**30/9/11**	30/9/10
Available for sale investments revaluation reserve				
Balance at beginning of year	**16**	10	**16**	10
Net unrealised gains on revaluation of available for sale investments	**4**	6	**4**	6
Balance at end of year	**20**	16	**20**	16

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

	Consolidated		The Company	
Dollars in Millions	**30/9/11**	30/9/10	**30/9/11**	30/9/10
Cash flow hedge reserve				
Balance at beginning of year	**60**	(18)	**60**	(18)
Net effective unrealised gains on revaluations of cash flow hedges	**59**	79	**59**	79
Current income taxes	-	(1)	-	(1)
Balance at end of year	**119**	60	**119**	60

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

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Note 28 Retained Profits				
Balance at beginning of year	**1,566**	1,587	**1,413**	1,547
Net profit attributable to shareholders of Bank of New Zealand	**671**	602	**600**	489
Actuarial loss on defined benefit plan				
Gross actuarial loss on defined benefit plan	**(3)**	(4)	**(3)**	(4)
Deferred tax on actuarial loss on defined benefit plan	**1**	1	**1**	1
Net actuarial loss on defined benefit plan	**(2)**	(3)	**(2)**	(3)
Ordinary dividend	**(330)**	(563)	**(330)**	(563)
Perpetual preference dividend	**(61)**	(57)	**(61)**	(57)
Balance at end of year	**1,844**	1,566	**1,620**	1,413

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Note 29 Imputation Credit Account				
Balance at beginning of year	**1,135**	1,271	**839**	1,023
Imputation credits attaching to dividends received during the year	**1**	1	**1**	1
Imputation credits attaching to dividends paid during the year	**(131)**	(216)	**(131)**	(216)
Income tax payments during the year net of refunds	**72**	79	**46**	31
Balance at end of year	**1,077**	1,135	**755**	839

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

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

Note 30 Interest Earning and Discount Bearing Assets and Liabilities and Ranking of Liabilities

Ranking of liabilities

Included in liabilities of the Bank as at 30 September 2011 are $550 million of deposits from central banks (30 September 2010: nil), which are secured by $596 million of New Zealand government stock. All other deposit liabilities reported in these financial statements by the Banking Group are unsecured and rank equally with the Banking Group's other unsecured liabilities. Included in liabilities are obligations of the Bank under repurchase agreements where the Bank has agreed to repurchase $740 million of government stock (30 September 2010: $654 million). As at 30 September 2011, $137 million (30 September 2010: $145 million) of certain unsecured liabilities rank in priority to general creditors' claims in a winding up of the Bank. Furthermore, certain unsecured liabilities are guaranteed under the Crown wholesale funding guarantee scheme. Further details on the scheme are provided in the guarantees section on page 2. Certain debt securities are guaranteed by the Covered Bond Trust. Further details on the Covered Bond Trust are provided on page 2 and in note 12. Subordinated debt with a carrying value totalling $1,272 million as at 30 September 2011 (30 September 2010: $1,278 million) ranks behind the claims of all other creditors in a winding up. No residential mortgage-backed securities were used as collateral securities as at 30 September 2011 (30 September 2010: nil).

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Interest earning and discount bearing assets	**64,629**	61,615	**73,194**	66,102
Interest and discount bearing liabilities	**60,928**	56,904	**72,587**	64,404

Note 31 Related Entity Transactions

The Bank is a wholly owned controlled entity of National Australia Group (NZ) Limited. The ultimate parent bank of Bank of New Zealand is National Australia Bank Limited. During the year ended 30 September 2011, there had been dealings between the Bank and its related entities (including the ultimate parent, other members of the National Australia Bank Group and controlled entities) as well as other related parties (including key management personnel, their close family members and their controlled entities). Details of these transactions are outlined on pages 52 to 54.

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

Note 31 Related Entity Transactions *continued*

Related entities

Amounts due from related entities

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Ultimate parent				
Loans outstanding at beginning of year	**330**	63	**319**	18
Net loans issued during the year	**4**	267	**11**	301
Loans outstanding to ultimate parent at end of year	**334**	330	**330**	319
Controlled entities of ultimate parent				
Loans outstanding at beginning of year	**209**	30	**209**	30
Net loans issued during the year	**57**	179	**57**	179
Loans outstanding to controlled entities of ultimate parent at end of year	**266**	209	**266**	209
Controlled entities of Bank of New Zealand				
Loans outstanding at beginning of year	**-**	-	**4,616**	6,539
Net loans issued/(repaid) during the year	**-**	-	**4,091**	(1,923)
Loans outstanding to controlled entities of Bank of New Zealand at end of year	**-**	-	**8,707**	4,616
Total amounts due from related entities	**600**	539	**9,303**	5,144
Interest income on amounts due from related entities comprised:				
Ultimate parent	**3**	2	**2**	1
Controlled entities of ultimate parent	**7**	6	**7**	6
Controlled entities of Bank of New Zealand	**-**	-	**267**	213
Total interest income on amounts due from related entities	**10**	8	**276**	220

No provisions have been recognised in respect of loans provided to related entities. There were no debts with any of the above parties written off or forgiven during the year ended 30 September 2011 (year ended 30 September 2010: nil).

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

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

Amounts due to related entities

Dollars in Millions	Consolidated 30/9/11	Consolidated 30/9/10	The Company 30/9/11	The Company 30/9/10
Ultimate parent				
Deposits at beginning of year	**4,799**	5,356	**1,519**	2,952
Net deposits repaid during the year	**(1,935)**	(557)	**(1,215)**	(1,433)
Deposits from ultimate parent at end of year	**2,864**	4,799	**304**	1,519
Controlled entities of ultimate parent				
Deposits at beginning of year	**338**	888	**338**	888
Net deposits received/(repaid) during the year	**10**	(550)	**10**	(550)
Deposits from controlled entities of ultimate parent at end of year	**348**	338	**348**	338
Controlled entities of Bank of New Zealand				
Deposits at beginning of year	**-**	-	**24,623**	22,668
Net deposits received during the year	**-**	-	**5,986**	1,955
Deposits from controlled entities of Bank of New Zealand at end of year	**-**	-	**30,609**	24,623
Total amounts due to related entities	**3,212**	5,137	**31,261**	26,480
Subordinated loans due to related entities (refer to note 25)	**905**	905	**905**	905
Interest expense on amounts due to related entities comprised:				
Ultimate parent	**215**	198	**25**	32
Controlled entities of ultimate parent	**42**	43	**42**	43
Controlled entities of Bank of New Zealand	**-**	-	**761**	586
Total interest expense on amounts due to related entities	**257**	241	**828**	661

Note 31 Related Entity Transactions *continued*

Related entities *continued*

Other transactions with related entities

Dividends paid to the shareholders are disclosed in note 28.

During the year ended 30 September 2010, the Bank issued 200,000,000 perpetual non-cumulative preference shares to National Australia Group (NZ) Limited, the Bank's immediate parent and a subsidiary of the Bank's ultimate parent, National Australia Bank Limited. Refer to note 26 for further details.

During the year ended 30 September 2011, the Bank made subvention payments and payments for the use of tax losses and tax credits to its controlled entities and other controlled entities of National Australia Bank Limited totalling $55 million (year ended 30 September 2010: $110 million).

For the year ended 30 September 2011, no imputation credits from the group imputation credit account (year ended 30 September 2010: $3 million) were attached to dividends paid by National Wealth Management New Zealand Holdings Limited, a controlled entity of the Bank's ultimate parent. Information about the composition of the imputation group is contained in note 29.

During the year ended 30 September 2011, the Bank provided services to National Australia Bank Limited in relation to collection services amounting to $1 million (year ended 30 September 2010: $1 million).

During the year ended 30 September 2011, the Bank incurred $45 million of intercompany charges from National Australia Bank Limited in relation to technology costs (year ended 30 September 2010: $36 million). The Bank incurred $11 million of other service charges from National Australia Bank Limited during the year ended 30 September 2011 (year ended 30 September 2010: $16 million).

The unrealised gains on trading and hedging derivative financial instruments transacted with National Australia Bank Limited contained within note 15 were $1,704 million as at 30 September 2011 (30 September 2010: $1,181 million). Unrealised losses on trading and hedging derivative financial instruments transacted with National Australia Bank Limited disclosed in note 15 were $1,463 million as at 30 September 2011 (30 September 2010: $1,504 million).

Commissions received from controlled entities of National Australia Bank Limited for the sale of insurance on behalf of those controlled entities during the year ended 30 September 2011 totalled $17 million (year ended 30 September 2010: $16 million).

The Banking Group recognised an intercompany payable to National Australia Bank Limited in respect of share based payments of $9 million as at 30 September 2011 (30 September 2010: $68 million).

BNZ Cash PIE (the "Fund") is a Portfolio Investment Entity. The Bank and the Directors of the Bank are the Promoters of the Fund. BNZ Investment Services Limited, a wholly owned controlled entity of the Bank, is the Manager and Issuer of the Fund. Until 23 September 2010 BNZ Investment Services Limited had received management fees from the Fund. On 23 September 2010, the management fee reduced to 0% of funds under management. The Fund invests solely in debt securities issued by the Bank. Further information, including the investment balance as at 30 September 2011, is included in notes 17 and 38. The Fund is consolidated as part of the Banking Group for financial reporting purposes.

BNZ Term PIE (the "Term Fund") was established on 23 September 2010. The Term Fund is a Portfolio Investment Entity. The Bank and the Directors of the Bank are the Promoters of the Term Fund. BNZ Investment Services Limited, a wholly owned controlled entity of the Bank, is the Manager and Issuer of the Term Fund. The Term Fund invests solely in debt securities issued by the Bank. Further information, including the investment balance as at 30 September 2011, is included in notes 17 and 38. The Term Fund is consolidated as part of the Banking Group for financial reporting purposes.

The RMBS Trust provides an in-house residential mortgage-backed securities facility. The establishment of the facility resulted in the Bank's financial statements recognising an intercompany payable and an intercompany receivable of equal amount of $4,499 million as at 30 September 2011 (30 September 2010: $4,492 million). This did not have any impact on the consolidated financial statements of the Banking Group as transactions between the Bank and the RMBS Trust are eliminated on consolidation. Further details on the RMBS Trust are provided in notes 12 and 38.

On 2 June 2010, the Covered Bond Trust was established to hold Bank of New Zealand housing loans and to provide guarantees to certain debt securities issued by the Bank or BNZ International Funding Limited, a wholly owned controlled entity of the Bank. The establishment of the facility resulted in the Bank's financial statements recognising an intercompany payable and an intercompany receivable of equal amount of $4,083 million as at 30 September 2011 (30 September 2010: $493 million). This did not have any impact on the consolidated financial statements of the Banking Group as transactions between the Bank and the Covered Bond Trust are eliminated on consolidation. Further details on the Covered Bond Trust are provided in notes 12 and 38.

The Bank guarantees the obligations of BNZ International Funding Limited ("BNZIF"), acting through its London Branch, in respect of securities issued by BNZIF, London Branch to wholesale investors. Refer to note 35 for further details.

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

Issue Currency	Coupon Rate %	Maturity Date	Face Value Issue Currency Millions	**30/9/11 Fair Value NZ $Millions**	30/9/10 Fair Value NZ $Millions
Australian dollar	3 month AUD BBSW + 200bp	30 March 2012	500	**637**	657
Australian dollar	3 month AUD BBSW + 280bp	15 November 2012	1,000	**1,286**	1,326
Australian dollar	3 month AUD BBSW + 110bp	28 June 2013	500	**637**	657

As at 30 September 2011, there is an A$1 billion market rate advance facility (30 September 2010: A$1 billion) provided from National Australia Bank Limited for the Banking Group's liquidity management in the course of its normal trading activities. Funds will be made available for a term not exceeding 14 days, or at a term to be agreed with the National Australia Bank Limited at the time of usage. Fees for the provision of this facility are charged at 0.55% per annum.

Note 31 Related Entity Transactions *continued*

Key management personnel

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

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

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

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

Amounts due from key management personnel

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

	Consolidated		The Company	
Dollars in Millions	**30/9/11**	30/9/10	**30/9/11**	30/9/10
Loans outstanding at beginning of year	**10**	5	**10**	5
Net movements in loans during the year	**(2)**	5	**(2)**	5
Loans outstanding at end of year	**8**	10	**8**	10
Interest income on amounts due from key management personnel	**-**	-	**-**	-

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

No provisions have been recognised in respect of loans provided to key management personnel. There were no debts written off or forgiven during the year ended 30 September 2011 (year ended 30 September 2010: nil).

Amounts due to key management personnel

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

	Consolidated		The Company	
Dollars in Millions	**30/9/11**	30/9/10	**30/9/11**	30/9/10
Deposits at beginning of year	**4**	1	**4**	1
Net movements in deposits during the year	**(3)**	3	**(3)**	3
Deposits at end of year	**1**	4	**1**	4
Interest expense on amounts due to key management personnel	**-**	-	**-**	-

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

Other transactions with key management personnel

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

Note 32 Categories of Financial Assets and Financial Liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For the purposes of this note, carrying amount refers to amounts reflected in the balance sheet. The methodologies and assumptions used in the fair value estimates are described on page 60.

Dollars in Millions	Classified at Fair Value Through Profit or Loss: Held for Trading	Classified at Fair Value Through Profit or Loss: Designated on Initial Recognition	Hedging	Available For Sale	Loans and Receivables	Total Carrying Amount	Fair Value
Consolidated (30/9/11)							
Financial assets							
Balances with central banks	**-**	**226**	**-**	**-**	**1,760**	**1,986**	**1,986**
Due from other financial institutions	**-**	**961**	**-**	**-**	**606**	**1,567**	**1,567**
Trading securities	**3,935**	**-**	**-**	**-**	**-**	**3,935**	**3,935**
Other money market placements	**-**	**322**	**-**	**-**	**715**	**1,037**	**1,037**
Available for sale investments	**-**	**-**	**-**	**62**	**-**	**62**	**62**
Loans and advances to customers	**-**	**20,155**	**-**	**-**	**36,506**	**56,661**	**56,854**
Derivative financial instruments	**6,702**	**-**	**247**	**-**	**-**	**6,949**	**6,949**
Amounts due from related entities	**-**	**-**	**-**	**-**	**600**	**600**	**600**
Other financial assets	**-**	**-**	**-**	**-**	**533**	**533**	**533**
Total financial assets	**10,637**	**21,664**	**247**	**62**	**40,720**	**73,330**	**73,523**
Consolidated (30/9/10)							
Financial assets							
Balances with central banks	-	170	-	-	1,870	2,040	2,040
Due from other financial institutions	-	394	-	-	855	1,249	1,249
Trading securities	3,231	-	-	-	-	3,231	3,231
Other money market placements	-	238	-	-	195	433	433
Available for sale investments	-	-	-	273	-	273	273
Loans and advances to customers	-	18,800	-	-	36,186	54,986	55,279
Derivative financial instruments	5,313	-	337	-	-	5,650	5,650
Amounts due from related entities	-	-	-	-	539	539	539
Other financial assets	-	-	-	-	383	383	383
Total financial assets	8,544	19,602	337	273	40,028	68,784	69,077
The Company (30/9/11)							
Financial assets							
Balances with central banks	**-**	**226**	**-**	**-**	**1,760**	**1,986**	**1,986**
Due from other financial institutions	**-**	**961**	**-**	**-**	**606**	**1,567**	**1,567**
Trading securities	**3,935**	**-**	**-**	**-**	**-**	**3,935**	**3,935**
Other money market placements	**-**	**322**	**-**	**-**	**715**	**1,037**	**1,037**
Available for sale investments	**-**	**-**	**-**	**62**	**-**	**62**	**62**
Loans and advances to customers	**-**	**20,155**	**-**	**-**	**36,498**	**56,653**	**56,846**
Derivative financial instruments	**6,702**	**-**	**247**	**-**	**-**	**6,949**	**6,949**
Amounts due from related entities	**-**	**-**	**-**	**-**	**9,303**	**9,303**	**9,303**
Other financial assets	**-**	**-**	**-**	**-**	**532**	**532**	**532**
Total financial assets	**10,637**	**21,664**	**247**	**62**	**49,414**	**82,024**	**82,217**
The Company (30/9/10)							
Financial assets							
Balances with central banks	-	170	-	-	1,870	2,040	2,040
Due from other financial institutions	-	394	-	-	855	1,249	1,249
Trading securities	3,231	-	-	-	-	3,231	3,231
Other money market placements	-	238	-	-	195	433	433
Available for sale investments	-	-	-	273	-	273	273
Loans and advances to customers	-	18,800	-	-	36,178	54,978	55,271
Derivative financial instruments	5,313	-	337	-	-	5,650	5,650
Amounts due from related entities	-	-	-	-	5,144	5,144	5,144
Other financial assets	-	-	-	-	314	314	314
Total financial assets	8,544	19,602	337	273	44,556	73,312	73,605

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

Note 32 Categories of Financial Assets and Financial Liabilities *continued*

Dollars in Millions	Classified at Fair Value Through Profit or Loss: Held for Trading	Classified at Fair Value Through Profit or Loss: Designated on Initial Recognition	Hedging	At Amortised Cost	Total Carrying Amount	Fair Value
Consolidated (30/9/11)						
Financial liabilities						
Due to central banks and other financial institutions	**-**	**386**	**-**	**2,286**	**2,672**	**2,672**
Other money market deposits	**-**	**11,789**	**-**	**-**	**11,789**	**11,789**
Trading liabilities	**51**	**-**	**-**	**-**	**51**	**51**
Deposits from customers	**-**	**47**	**-**	**31,307**	**31,354**	**31,425**
Derivative financial instruments	**5,920**	**-**	**131**	**-**	**6,051**	**6,051**
Bonds and notes	**-**	**12,414**	**-**	**-**	**12,414**	**12,414**
Amounts due to related entities	**-**	**-**	**-**	**3,212**	**3,212**	**3,212**
Subordinated debt	**-**	**367**	**-**	**905**	**1,272**	**1,272**
Other financial liabilities	**-**	**-**	**-**	**558**	**558**	**558**
Total financial liabilities	**5,971**	**25,003**	**131**	**38,268**	**69,373**	**69,444**
Consolidated (30/9/10)						
Financial liabilities						
Due to central banks and other financial institutions	-	308	-	1,267	1,575	1,575
Other money market deposits	-	11,883	-	-	11,883	11,883
Trading liabilities	31	-	-	-	31	31
Deposits from customers	-	24	-	28,639	28,663	28,730
Derivative financial instruments	5,842	-	579	-	6,421	6,421
Bonds and notes	-	9,772	-	-	9,772	9,772
Amounts due to related entities	-	-	-	5,137	5,137	5,137
Subordinated debt	-	373	-	905	1,278	1,278
Other financial liabilities	-	-	-	502	502	502
Total financial liabilities	5,873	22,360	579	36,450	65,262	65,329
The Company (30/9/11)						
Financial liabilities						
Due to central banks and other financial institutions	**-**	**386**	**-**	**2,286**	**2,672**	**2,672**
Other money market deposits	**-**	**3,694**	**-**	**-**	**3,694**	**3,694**
Trading liabilities	**51**	**-**	**-**	**-**	**51**	**51**
Deposits from customers	**-**	**47**	**-**	**30,912**	**30,959**	**31,030**
Derivative financial instruments	**5,920**	**-**	**131**	**-**	**6,051**	**6,051**
Bonds and notes	**-**	**4,718**	**-**	**-**	**4,718**	**4,718**
Amounts due to related entities	**-**	**-**	**-**	**31,261**	**31,261**	**31,261**
Subordinated debt	**-**	**367**	**-**	**905**	**1,272**	**1,272**
Other financial liabilities	**-**	**-**	**-**	**554**	**554**	**554**
Total financial liabilities	**5,971**	**9,212**	**131**	**65,918**	**81,232**	**81,303**
The Company (30/9/10)						
Financial liabilities						
Due to central banks and other financial institutions	-	308	-	1,267	1,575	1,575
Other money market deposits	-	4,605	-	-	4,605	4,605
Trading liabilities	31	-	-	-	31	31
Deposits from customers	-	24	-	28,547	28,571	28,638
Derivative financial instruments	5,842	-	579	-	6,421	6,421
Bonds and notes	-	3,524	-	-	3,524	3,524
Amounts due to related entities	-	-	-	26,480	26,480	26,480
Subordinated debt	-	373	-	905	1,278	1,278
Other financial liabilities	-	-	-	429	429	429
Total financial liabilities	5,873	8,834	579	57,628	72,914	72,981

Further information on the fair value of derivative financial instruments is disclosed in note 15.

Note 33 Fair Value of Financial Assets and Financial Liabilities

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

Dollars in Millions	Consolidated (30/9/11) Carrying Amount	Contractual Amount	Higher/ (Lower)	The Company (30/9/11) Carrying Amount	Contractual Amount	Higher/ (Lower)
Due to central banks and other financial institutions	**386**	**386**	**-**	**386**	**386**	**-**
Other money market deposits	**11,789**	**11,792**	**(3)**	**3,694**	**3,699**	**(5)**
Deposits from customers	**47**	**47**	**-**	**47**	**47**	**-**
Bonds and notes	**12,414**	**12,056**	**358**	**4,718**	**4,515**	**203**
Subordinated debt	**367**	**350**	**17**	**367**	**350**	**17**
	25,003	**24,631**	**372**	**9,212**	**8,997**	**215**

	Consolidated (30/9/10)			The Company (30/9/10)		
Due to central banks and other financial institutions	308	308	-	308	308	-
Other money market deposits	11,883	11,884	(1)	4,605	4,607	(2)
Deposits from customers	24	24	-	24	24	-
Bonds and notes	9,772	9,465	307	3,524	3,359	165
Subordinated debt	373	350	23	373	350	23
	22,360	22,031	329	8,834	8,648	186

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

Dollars in Millions	Consolidated 30/9/11	30/9/10	The Company 30/9/11	30/9/10
Bonds and notes				
Balance at beginning of year	**(29)**	(23)	**(9)**	6
Movement during the year	**(90)**	(6)	**5**	(15)
Balance at end of year	**(119)**	(29)	**(4)**	(9)
Subordinated debt				
Balance at beginning of year	**(12)**	(14)	**(12)**	(14)
Movement during the year	**8**	2	**8**	2
Balance at end of year	**(4)**	(12)	**(4)**	(12)

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

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

Note 33 Fair Value of Financial Assets and Financial Liabilities *continued*

Hierarchy for fair value measurements

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

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

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

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

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

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

	Consolidated (30/9/11)			**The Company** (30/9/11)		
Dollars in Millions	Total	Level 1	Level 2	Total	Level 1	Level 2
Financial assets at fair value						
Held for trading						
Trading securities	3,935	2,811	1,124	3,935	2,811	1,124
Derivative financial instruments	6,702	-	6,702	6,702	-	6,702
	10,637	2,811	7,826	10,637	2,811	7,826
Designated on initial recognition						
Balances with central banks	226	-	226	226	-	226
Due from other financial institutions	961	-	961	961	-	961
Other money market placements	322	-	322	322	-	322
Loans and advances to customers	20,155	-	20,155	20,155	-	20,155
	21,664	-	21,664	21,664	-	21,664
Hedging						
Derivative financial instruments	247	-	247	247	-	247
	247	-	247	247	-	247
Available for sale						
Available for sale investments	62	33	29	62	33	29
	62	33	29	62	33	29
Financial liabilities at fair value						
Held for trading						
Trading liabilities	51	51	-	51	51	-
Derivative financial instruments	5,920	-	5,920	5,920	-	5,920
	5,971	51	5,920	5,971	51	5,920
Designated on initial recognition						
Due to central banks and other financial institutions	386	-	386	386	-	386
Other money market deposits	11,789	-	11,789	3,694	-	3,694
Deposits from customers	47	-	47	47	-	47
Bonds and notes	12,414	-	12,414	4,718	-	4,718
Subordinated debt	367	-	367	367	-	367
	25,003	-	25,003	9,212	-	9,212
Hedging						
Derivative financial instruments	131	-	131	131	-	131
	131	-	131	131	-	131

There were no transfers between Level 1 and 2 in the year.

Note 33 Fair Value of Financial Assets and Financial Liabilities *continued*

Hierarchy for fair value measurements *continued*

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

Note 33 Fair Value of Financial Assets and Financial Liabilities *continued*

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

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

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

Trading securities, Available for sale investments and Trading liabilities

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

Loans and advances to customers

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

Derivative financial instruments

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

Amounts due from / to related entities

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

Other financial assets

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

Deposits from customers

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

Bonds and notes

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

Subordinated debt

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

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

Other financial liabilities

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

Note 34 Segment Analysis

Operating segments

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

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

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

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

	Consolidated (30/9/11)					
Dollars in Millions	Retail	BNZ Partners	Total Reportable Segments	All Other Segments	Other Adjustments	Total Banking Group
Net interest income	538	800	1,338	49	-	1,387
Other income	231	241	472	95	(65)	502
Total revenue from external customers*	769	1,041	1,810	144	(65)	1,889
Net inter-segment revenue	1	85	86	(86)	-	-
Total segment revenue	770	1,126	1,896	58	(65)	1,889
Operating expenses**	382	370	752	54	(31)	775
Operating profit before impairment losses on credit exposures and income tax expense	388	756	1,144	4	(34)	1,114
Impairment losses on credit exposures	36	102	138	10	4	152
Operating profit before income tax expense	352	654	1,006	(6)	(38)	962
Total income tax expense	99	196	295	7	(11)	291
Net profit attributable to shareholders of Bank of New Zealand	253	458	711	(13)	(27)	671
Lending assets	20,479	35,443	55,922	739	-	56,661
Deposit liabilities	16,716	14,742	31,458	1,760	-	33,218
** Operating expenses include:						
Depreciation and amortisation expenses	1	-	1	52	-	53

* For the year ended 30 September 2011, there were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Banking Group's revenues.

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

Note 34 Segment Analysis *continued*

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

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

Other adjustments

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

Dollars in Millions	**Consolidated** **30/9/11**	30/9/10
Other adjustments comprised:		
Total segment revenue		
Eliminations and consolidation adjustments	**(54)**	(47)
Fair value credit risk adjustment	**4**	(16)
Fair value gains or losses on financial instruments	**(15)**	(94)
	(65)	(157)
Operating profit before income tax expense		
Eliminations and consolidation adjustments	**(23)**	(22)
One-off project costs excluded for management reporting	**-**	(39)
Fair value gains or losses on financial instruments	**(15)**	(94)
	(38)	(155)
Income tax expense		
Eliminations and consolidation adjustments	**(6)**	1
One-off project costs excluded for management reporting	**-**	(12)
Fair value gains or losses on financial instruments	**(5)**	(28)
	(11)	(39)

Note 34 Segment Analysis *continued*

Geographical information

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

	Consolidated	
Dollars in Millions	**30/9/11**	30/9/10
Revenue from external customers		
New Zealand	**1,885**	1,636
Overseas	**4**	6
Total revenue	**1,889**	1,642
Non-current assets*		
New Zealand	**351**	276
Overseas	**1**	2
Total non-current assets	**352**	278

* In accordance with NZ IFRS 8 Operating Segments Non-current assets do not include financial instruments, deferred tax assets or post-employment benefit assets.

Note 35 Contingent Liabilities and Other 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.

Contingent liabilities and credit related commitments arising in respect of the Banking Group's operations were:

	Consolidated		The Company	
Dollars in Millions	**Notional Amount 30/9/11**	Notional Amount 30/9/10	**Notional Amount 30/9/11**	Notional Amount 30/9/10
Contingent liabilities				
Bank guarantees	**55**	52	**55**	52
Standby letters of credit	**324**	342	**324**	342
Documentary letters of credit	**69**	91	**69**	91
Performance related contingencies	**331**	331	**331**	331
Unpaid share capital in BNZ International (Hong Kong) Limited	**-**	-	**16**	17
Total other contingent liabilities	**779**	816	**795**	833
Credit related commitments				
Revocable commitments to extend credit	**6,341**	6,056	**6,341**	6,056
Irrevocable commitments to extend credit	**6,986**	6,960	**6,986**	6,960
Total credit related commitments	**13,327**	13,016	**13,327**	13,016
Total contingent liabilities and credit related commitments	**14,106**	13,832	**14,122**	13,849

Note 35 Contingent Liabilities and Other Commitments *continued*

Dollars in Millions	Consolidated Notional Amount 30/9/11	Consolidated Notional Amount 30/9/10	The Company Notional Amount 30/9/11	The Company Notional Amount 30/9/10
Total contingent liabilities and credit related commitments comprised:				
New Zealand				
Agriculture	**509**	523	**509**	523
Forestry and fishing	**86**	71	**86**	71
Mining	**72**	61	**72**	61
Manufacturing	**1,190**	1,212	**1,190**	1,212
Electricity, gas and water	**719**	852	**719**	852
Construction	**159**	142	**159**	142
Wholesale and retail trade	**916**	1,225	**916**	1,225
Accommodation, restaurants, culture and recreation	**201**	241	**201**	241
Transport and storage	**299**	196	**299**	196
Communications	**200**	122	**200**	122
Financial, investment and insurance	**570**	380	**570**	380
Property, business and personal services	**618**	754	**618**	754
Government, education, health and community services	**656**	483	**656**	483
Real estate – mortgage	**1,317**	1,317	**1,317**	1,317
Personal lending	**253**	197	**253**	197
Related entities	**-**	-	**16**	17
Total New Zealand	**7,765**	7,776	**7,781**	7,793
Revocable commitments to extend credit	**6,341**	6,056	**6,341**	6,056
Total contingent liabilities and credit related commitments	**14,106**	13,832	**14,122**	13,849

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

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

Contingent liabilities

The maximum exposure to credit risk to the Banking Group for contingent exposures is the notional amount which represents the amount that the Banking Group would have to pay if the contingent liability is called upon.

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

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

i) Guarantees

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

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

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

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

ii) Unpaid share capital in wholly owned controlled entities and other companies

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

Note 35 Contingent Liabilities and Other Commitments *continued*

Credit related commitments

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

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

For information on the Banking Group's risk management policies, refer to note 40.

Guarantees to wholly owned controlled entities

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

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

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

Other commitments

	Consolidated		The Company	
	30/9/11	30/9/10	**30/9/11**	30/9/10
Capital expenditure commitments *	**7**	11	**5**	5
Land and building operating lease commitments (refer to table below)**	**372**	339	**-**	1
Fleet vehicles operating lease commitments	**10**	9	**10**	9
Total other commitments	**389**	359	**15**	15
Land and buildings operating lease commitments comprised:				
Non-cancellable future minimum lease payments:				
Due within one year	**45**	44	**-**	1
Due within one to five years	**154**	121	**-**	-
Due after five years	**173**	174	**-**	-
Total land and buildings lease commitments	**372**	339	**-**	1

* These capital expenditure commitments have been entered into but not provided for in these financial statements.
** Figures include liabilities taken up for surplus leased space.

Note 36 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 Bank's conditions of registration and RBNZ's Connected Exposures Policy (BS8). The amounts 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. There is a limit of 125% of the Banking Group's Tier One capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure.

	Consolidated	
Dollars in Millions	$ 30/9/11	% of Tier One Capital As At 30/9/11
As at end of year		
Credit exposure to connected persons (on gross basis, before netting)	2,840	72.5%
Credit exposure to connected persons (amount netted)	1,462	37.3%
Credit exposure to connected persons (on partial bilateral net basis)	1,378	35.2%
Credit exposure to non-bank connected persons	-	0.0%
Peak for the year ended		
Credit exposure to connected persons (on gross basis, before netting)	2,840	72.5%
Credit exposure to connected persons (amount netted)	1,462	37.3%
Credit exposure to connected persons (on partial bilateral net basis)	1,378	35.2%
Credit exposure to non-bank connected persons	-	0.0%

As at 30 September 2011, the Banking Group's rating-contingent limit was 70% of the Banking Group's Tier One capital. This limit was adjusted after the change in Moody's Investors Service credit rating on 27 May 2011. 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 year ended 30 September 2011. Aggregate gross exposures to connected persons must not exceed 125% of the Banking Group's Tier One capital.

Where a bank is funding a large loan it is common practice to share the risk of a customer default with other connected banks. These arrangements are called risk lay-off arrangements. As at 30 September 2011, the Banking Group had contingent credit exposures of $30 million arising from risk lay-off arrangements with connected persons. There were no allowances for impairment losses on individual financial assets provided against credit exposures to connected persons as at 30 September 2011.

Note 37 Concentrations of Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties

The Banking Group's disclosure of concentrations of credit exposures to individual counterparties and groups of closely related counterparties is based on actual credit exposures and excludes credit exposures to connected persons, the central government of any country with a long term credit rating of A- or A3 or above, or its equivalent, and banks with a long term credit rating of A- or A3 or above, or its equivalent. Peak credit exposures to individual counterparties are calculated using the Banking Group's end of period shareholders' equity.

	Consolidated (30/9/11) Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties Long Term Credit Rating			
	Peak End-of-Day Number of Non-banks		Balance Sheet Date Number of Non-banks	
Percentage of Shareholders' Equity %	No Long Term Credit Rating	Total	No Long Term Credit Rating	Total
10 - 14	-	-	-	-
15 - 19	1	1	1	1
20+	-	-	-	-

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

As at 30 September 2011 and for the three months ended 30 September 2011, the Banking Group had no bank counterparties that equalled or exceeded 10% of the Banking Group's equity and met the disclosure thresholds described above.

Note 38 Insurance Business, Securitisation, Funds Management, Other Fiduciary Activities, and the Marketing and Distribution of Insurance Products

Funds management

During the year ended 30 September 2011, the Bank marketed the products of AXA New Zealand Limited through its stores and partners network and derived commission from the sale of superannuation schemes and unit trusts marketed on behalf of AXA New Zealand 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") is a Portfolio Investment Entity. The Bank and the Directors of the Bank are the Promoters of the Fund. BNZ Investment Services Limited, a wholly owned controlled entity of the Bank, is the Manager and Issuer of the Fund. The Fund is consolidated as part of the Banking Group for financial reporting purposes.

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

During the year ended 30 September 2011, the Bank held deposits on behalf of customers of JBWere (NZ) Pty Limited. JBWere (NZ) Pty Limited is a related party of the Banking Group, but is not a part of the Banking Group.

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

Dollars in Millions	**30/9/11**	30/9/10
Portfolios managed on behalf of customers	**1,209**	1,195
BNZ Cash PIE	**146**	92
BNZ Term PIE	**249**	-

Insurance business

The Banking Group does not conduct any Insurance Business, as defined in clause 3 of Bank of New Zealand's conditions of registration set out on page 96.

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, Vero Insurance New Zealand Limited and affiliated business division Mariner Marine.

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 securities or assets at fair value from entities which conduct securitisation activities. All transactions have taken place on arm's length terms and conditions.

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

As at 30 September 2011, securitisation arrangements in which the Banking Group is involved to the extent detailed above amounted to $1,502 million (30 September 2010: $1,839 million).

The RMBS Trust provides an in-house residential mortgage-backed securities facility. As at 30 September 2011, included within the Banking Group's loans and advances to customers were housing loans to the value of $4,477 million held by the RMBS Trust (30 September 2010: $4,467 million). These housing loans have not been derecognised from the Banking Group's financial statements as the Banking Group retains substantially all of the risks and rewards of ownership.

On 2 June 2010, the Covered Bond Trust was established to hold Bank of New Zealand housing loans and to provide guarantees to certain debt securities issued by the Bank or BNZ International Funding Limited, a wholly owned controlled entity of the Bank. Guarantees provided by the Covered Bond Trust have a prior claim over the assets of the Trust. As at 30 September 2011, included within the Banking Group's loans and advances to customers were housing loans to the value of $4,044 million held by the Covered Bond Trust (30 September 2010: $489 million). These housing loans have not been derecognised from the Banking Group's financial statements as the Banking Group retains substantially all of the risks and rewards of ownership.

Further details on the transactions with the RMBS Trust and the Covered Bond Trust are provided in note 31.

Note 38 Insurance Business, Securitisation, Funds Management, Other Fiduciary Activities, and the Marketing and Distribution of Insurance Products *continued*

Risk management

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

The Banking Group's risk review and risk management systems are equally applicable to the marketing and distribution of products by the third party entities identified in the marketing and distribution of insurance products and funds management sections above.

In addition, the following measures are also taken to manage any risk to the Banking Group of marketing and distributing insurance products:

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

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

Transactions with Banking Group entities

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

Peak aggregate funding provided to entities

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

Peak end-of-day aggregate funding (including funding provided by the purchase of securities) provided by the Banking Group to individual affiliated insurance entities and entities involved in securitisation activities, where the Banking Group is involved in the origination of securitised assets, and the marketing or servicing of securitisation schemes, is disclosed in the table below:

	Consolidated					
Dollars in Thousands	Peak End-of-Day Aggregate Amount of Funding During the Year		Peak End-of-Day Aggregate Amount of Funding During the Year Expressed as a Percentage of the Amount of the Entity's Assets at End of Year		Peak End-of-Day Aggregate Amount of Funding During the Year Expressed as a Percentage of the Banking Group's Tier One Capital at End of Year	
	For the Year Ended 30/9/11	For the Year Ended 30/9/10	**For the Year Ended 30/9/11**	For the Year Ended 30/9/10	**For the Year Ended 30/9/11**	For the Year Ended 30/9/10
BNZ Life Insurance Limited	**-**	245	**-**	0.4%	**-**	0.0%
Speirs Securities Limited*	**72,800**	80,800	**226.1%**	99.4%	**1.9%**	2.2%
Gough Securities Limited	**21,820**	52,140	**92.0%**	99.0%	**0.6%**	1.4%
Perpetual Trust Limited	**195,000**	195,000	**100.0%**	100.0%	**5.0%**	5.2%

* The total assets of Speirs Securities Limited at the date of the peak end-of-day aggregate during the year ended 30 September 2011 was $81 million. The peak exposure represents 89.4% of the entity's assets as at that date. The aggregate amount of funding as at 30 September 2011 was $29 million. This exposure represents 90.1% of the entity's assets at end of year.

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

Note 39 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 in BS2B.

Capital management policies

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

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

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

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

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

Information on the capital structure of the Banking Group is detailed in notes 25 and 26.

Note 39 Capital Adequacy *continued*

The tables included below and on the following pages detail the capital calculation, capital ratios and risk-weighted assets as at 30 September 2011. During the financial period the Banking Group fully complied with all RBNZ's capital requirements as set out in the Bank's conditions of registration.

Regulatory capital

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

Dollars in Millions	Consolidated Unaudited 30/9/11
Qualifying capital	
Tier One capital	
Contributed equity – ordinary shareholder	**1,451**
Contributed equity – perpetual preference shareholders	**910**
Retained profits	**1,844**
Deductions from Tier One capital:	
Intangible assets	**152**
Credit value adjustment on liabilities designated at fair value through profit or loss	**81**
Prepaid pension assets (net of deferred tax)	**2**
50% of total expected loss less total eligible allowances for impairment	**53**
Total Tier One capital	**3,917**
Upper Tier Two capital	
Revaluation reserves	**25**
Subordinated loans from related entities	**190**
Total upper Tier Two capital	**215**
Lower Tier Two capital	
Subordinated loans from related entities	**715**
Other subordinated debt	**367**
Total lower Tier Two capital	**1,082**
Deductions from Tier Two capital:	
50% of total expected loss less total eligible allowances for impairment	**53**
Total Tier Two capital	**1,244**
Total Tier One and Tier Two qualifying capital	**5,161**

Basel II regulatory capital ratios

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

	Consolidated Regulatory Minima	Consolidated Unaudited 30/9/11	Unaudited 30/9/10
Tier One capital expressed as a percentage of total risk-weighted exposures	**4.00%**	**8.99%**	8.85%
Total qualifying capital expressed as a percentage of total risk-weighted exposures	**8.00%**	**11.84%**	11.81%

Note 39 Capital Adequacy *continued*

Total regulatory capital requirements

Dollars in Millions	Consolidated Total Exposure at Default Unaudited 30/9/11	Risk-Weighted Exposure or Implied Risk-Weighted Exposure Unaudited 30/9/11	Total Capital Requirement Unaudited 30/9/11
Credit risk			
Exposures subject to the internal ratings based approach	**75,224**	**32,320**	**2,586**
Equity exposures	**37**	**115**	**9**
Specialised lending subject to the slotting approach	**4,345**	**3,799**	**305**
Exposures subject to the standardised approach	**973**	**619**	**49**
Total credit risk	**80,579**	**36,853**	**2,949**
Operational risk	**N/A**	**4,031**	**322**
Market risk	**N/A**	**2,695**	**215**
Total	**N/A**	**43,579**	**3,486**

Basel I regulatory capital ratios

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

	The Registered Bank Audited 30/9/11	Audited 30/9/10
Tier One capital expressed as a percentage of total risk-weighted exposures	**8.25%**	8.08%
Total qualifying capital expressed as a percentage of total risk-weighted exposures	**10.85%**	10.78%

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

Advanced Internal Ratings Based approach to credit risk management

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

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

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

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

Controls surrounding credit risk rating systems

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

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

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

Note 39 Capital Adequacy *continued*

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

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

	Consolidated					
Dollars in Millions	Weighted Average PD (%) Unaudited 30/9/11	Exposure at Default Unaudited 30/9/11	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 30/9/11	Exposure-Weighted Risk Weight (%) Unaudited 30/9/11	Risk-Weighted Assets Unaudited 30/9/11	Minimum Capital Requirement Unaudited 30/9/11
Corporate						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.05	4,151	52	20	830	67
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.30	9,029	36	41	3,737	299
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.99	7,801	34	66	5,142	411
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.66	8,760	35	92	8,077	646
Exposure-weighted PD grade > 5.0 ≤ 99.99%	7.81	835	41	147	1,224	98
Default PD grade = 100%	100.00	671	43	157	1,051	84
Total corporate exposures	3.44	31,247	38	64	20,061	1,605
Sovereign						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.01	4,824	4	-	20	2
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.41	7	45	59	4	-
Exposure-weighted PD grade > 0.5 ≤ 1.5%	1.17	10	45	84	9	1
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.74	17	45	146	24	2
Exposure-weighted PD grade > 5.0 ≤ 99.99%	8.30	-	45	172	-	-
Default PD grade = 100%	-	-	-	-	-	-
Total sovereign exposures	0.02	4,858	4	1	57	5
Bank						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.05	3,883	31	9	368	30
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.48	134	61	78	104	8
Exposure-weighted PD grade > 0.5 ≤ 1.5%	1.01	1	61	105	1	-
Exposure-weighted PD grade > 1.5 ≤ 5.0%	4.30	-	59	174	1	-
Exposure-weighted PD grade > 5.0 ≤ 99.99%	-	-	-	-	-	-
Default PD grade = 100%	-	-	-	-	-	-
Total bank exposures	0.06	4,018	32	12	474	38
Residential mortgage						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.03	-	38	4	-	-
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.39	1,868	17	12	216	17
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.91	25,496	21	26	6,729	538
Exposure-weighted PD grade > 1.5 ≤ 5.0%	4.92	2,454	20	68	1,661	133
Exposure-weighted PD grade > 5.0 ≤ 99.99%	-	-	-	-	-	-
Default PD grade = 100%	100.00	311	27	185	575	46
Total residential mortgage exposures	2.23	30,129	21	30	9,181	734
Other retail[1]						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.05	875	85	13	116	9
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.24	702	83	39	272	22
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.98	419	83	87	364	29
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.84	421	83	120	504	40
Exposure-weighted PD grade > 5.0 ≤ 99.99%	13.69	196	81	152	297	24
Default PD grade = 100%	100.00	19	72	517	97	8
Total other retail exposures	2.42	2,632	84	63	1,650	132
Retail SME[2]						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.08	58	24	5	3	-
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.39	192	25	16	31	3
Exposure-weighted PD grade > 0.5 ≤ 1.5%	1.04	864	26	28	241	19
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.69	1,035	30	44	453	36
Exposure-weighted PD grade > 5.0 ≤ 99.99%	7.58	117	32	54	63	5
Default PD grade = 100%	100.00	74	45	143	106	9
Total retail SME exposures	5.14	2,340	29	38	897	72

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

Note 39 Capital Adequacy *continued*

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

Dollars in Millions	Consolidated Weighted Average PD (%) Unaudited 30/9/11	Exposure at Default Unaudited 30/9/11	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 30/9/11	Exposure-Weighted Risk Weight (%) Unaudited 30/9/11	Risk-Weighted Assets Unaudited 30/9/11	Minimum Capital Requirement Unaudited 30/9/11
Total						
Exposure-weighted PD grade > 0 ≤ 0.1%	**0.04**	**13,791**	**31**	**10**	**1,337**	**108**
Exposure-weighted PD grade > 0.1 ≤ 0.5%	**0.32**	**11,932**	**36**	**37**	**4,364**	**349**
Exposure-weighted PD grade > 0.5 ≤ 1.5%	**0.93**	**34,591**	**25**	**36**	**12,486**	**998**
Exposure-weighted PD grade > 1.5 ≤ 5.0%	**3.11**	**12,687**	**33**	**84**	**10,720**	**857**
Exposure-weighted PD grade > 5.0 ≤ 99.99%	**8.79**	**1,148**	**47**	**138**	**1,584**	**127**
Default PD grade = 100%	**100.00**	**1,075**	**39**	**170**	**1,829**	**147**
Total exposures	**2.57**	**75,224**	**30**	**43**	**32,320**	**2,586**

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:

Dollars in Millions	Consolidated Total Exposure Unaudited 30/9/11	Exposure at Default Unaudited 30/9/11	Risk-Weighted Assets Unaudited 30/9/11	Minimum Capital Requirement Unaudited 30/9/11
On-balance sheet exposures				
Corporate	**23,210**	**23,210**	**15,762**	**1,261**
Sovereign	**4,547**	**4,547**	**49**	**4**
Bank	**2,411**	**2,411**	**174**	**14**
Residential mortgage	**27,379**	**27,379**	**8,559**	**684**
Other retail	**1,531**	**1,531**	**1,246**	**100**
Retail SME	**1,939**	**1,939**	**746**	**60**
Total on-balance sheet exposures	**61,017**	**61,017**	**26,536**	**2,123**
Off-balance sheet exposures				
Corporate	**6,933**	**6,167**	**3,349**	**268**
Sovereign	**67**	**49**	**5**	**1**
Bank	**682**	**675**	**111**	**9**
Residential mortgage	**2,188**	**2,750**	**622**	**50**
Other retail	**3,143**	**1,101**	**404**	**32**
Retail SME	**436**	**401**	**151**	**12**
Total off-balance sheet exposures	**13,449**	**11,143**	**4,642**	**372**
Market related contracts				
Corporate	**90,241**	**1,870**	**950**	**76**
Sovereign	**8,510**	**262**	**3**	**-**
Bank	**226,856**	**932**	**189**	**15**
Total market related contracts	**325,607**	**3,064**	**1,142**	**91**
Summary				
Corporate	**120,384**	**31,247**	**20,061**	**1,605**
Sovereign	**13,124**	**4,858**	**57**	**5**
Bank	**229,949**	**4,018**	**474**	**38**
Residential mortgage	**29,567**	**30,129**	**9,181**	**734**
Other retail	**4,674**	**2,632**	**1,650**	**132**
Retail SME	**2,375**	**2,340**	**897**	**72**
Total credit risk exposures subject to the IRB approach	**400,073**	**75,224**	**32,320**	**2,586**

Note 39 Capital Adequacy *continued*

Equity exposures

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

Dollars in Millions	Consolidated Exposure at Default Unaudited 30/9/11	Risk Weight (%) Unaudited 30/9/11	Risk-Weighted Exposures Unaudited 30/9/11	Minimum Pillar One Capital Requirement Unaudited 30/9/11
Equity holdings (not deducted from capital) that are publicly traded	33	300	99	8
All other equity holdings (not deducted from capital)	4	400	16	1
Total equity exposures	37	311	115	9

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

Dollars in Millions	Consolidated Total Exposure at Default after Credit Risk Mitigation Unaudited 30/9/11	Risk Weight (%) Unaudited 30/9/11	Risk-Weighted Assets Unaudited 30/9/11	Minimum Pillar One Capital Requirement Unaudited 30/9/11
Strong	1,750	70	1,297	104
Good	1,471	90	1,396	112
Satisfactory	617	115	753	60
Weak	24	250	63	5
Default[1]	156	-	-	-
Total on-balance sheet exposures subject to the slotting approach	4,018	82	3,509	281

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

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

The calculated Risk-Weighted Assets reflected above includes the required scalar of 1.06, specified in the Bank's conditions of registration, which is not reflected in the risk weight shown.

Off-balance sheet exposures subject to the slotting approach

Dollars in Millions	Consolidated Total Exposure Unaudited 30/9/11	Exposure at Default Unaudited 30/9/11	Average Risk Weight (%) Unaudited 30/9/11	Risk-Weighted Assets Unaudited 30/9/11	Minimum Pillar One Capital Requirement Unaudited 30/9/11
Off-balance sheet exposures	134	8	84	7	1
Undrawn commitments	367	248	91	226	18
Market related contracts	980	71	80	57	5
Total off-balance sheet exposures subject to the slotting approach	1,481	327	89	290	24
Total exposures subject to the slotting approach		4,345	83	3,799	305

Note 39 Capital Adequacy *continued*

Credit risk exposures subject to the standardised approach

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

On-balance sheet exposures subject to the standardised approach

	Consolidated			
Dollars in Millions	Total Exposure at Default after Credit Risk Mitigation Unaudited 30/9/11	Average Risk Weight (%) Unaudited 30/9/11	Risk-Weighted Assets Unaudited 30/9/11	Minimum Pillar One Capital Requirement Unaudited 30/9/11
Corporate	35	89	31	2
Residential mortgages	19	38	7	1
Past due assets	1	120	1	-
Other assets	913	63	575	46
Total on-balance sheet exposures subject to standardised approach	968	63	614	49

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

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

Off-balance sheet exposures subject to the standardised approach

	Consolidated					
Dollars in Millions	Total Exposure or Principal Amount Unaudited 30/9/11	Average Credit Conversion Factor (%) Unaudited 30/9/11	Credit Equivalent Amount Unaudited 30/9/11	Average Risk Weight (%) Unaudited 30/9/11	Risk-Weighted Assets Unaudited 30/9/11	Minimum Pillar One Capital Requirement Unaudited 30/9/11
Total off-balance sheet exposures subject to the standardised approach	13	23	3	102	3	-
Market related contracts subject to the standardised approach						
Foreign exchange contracts	45	N/A	2	100	2	-
Interest rate contracts	3	N/A	-	100	-	-
Total market related contracts subject to the standardised approach	48	N/A	2	100	2	-
Total exposures subject to the standardised approach		N/A	973	64	619	49

Credit risk mitigation

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

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

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

	Consolidated
Dollars in Millions	Corporate (Including Specialised Lending) Unaudited 30/9/11
For portfolios subject to the standardised approach:	
Total value of exposures covered by eligible financial or IRB collateral (after haircutting)	8
For all portfolios:	
Total value of exposures covered by credit derivatives or guarantees	30

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

Note 39 Capital Adequacy *continued*

Residential mortgages by loan-to-valuation ratio

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

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

	Consolidated		
Dollars in Millions	On-balance Sheet Exposures at Default Unaudited 30/9/11	Off-balance Sheet Exposures at Default* Unaudited 30/9/11	Total Exposures at Default Unaudited 30/9/11
LVR Range			
0-59%	**10,999**	**1,353**	**12,352**
60-69%	**4,848**	**405**	**5,253**
70-79%	**7,870**	**625**	**8,495**
80-89%	**1,732**	**56**	**1,788**
Over 90%	**1,930**	**311**	**2,241**
Total exposures at default secured by residential mortgages	**27,379**	**2,750**	**30,129**

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

Reconciliation of mortgage-related amounts

	Consolidated			
Dollars in Millions	On-balance Sheet Exposures Unaudited 30/9/11	On-balance Sheet Exposures at Default Unaudited 30/9/11	Off-balance Sheet Exposures at Default Unaudited 30/9/11	Total Exposures at Default Unaudited 30/9/11
Total exposures at default secured by residential mortgages based on LVR table	**N/A**	**27,379**	**2,750**	**30,129**
Credit risk exposures secured by residential mortgages subject to the IRB approach	**27,379**	**27,379**	**2,750**	**30,129**
Credit risk exposures secured by residential mortgages subject to the standardised approach	**20**	**20**	**-**	**20**
Total exposures secured by residential mortgages	**27,399**	**27,399**	**2,750**	**30,149**

Reconciliation of on-balance sheet mortgage-related exposures from note 39 Capital adequacy to housing loans from note 12 Loans and advances to customers

Loans and advances to customers – housing loans	**27,382**
Add: Partial write offs excluded under the IRB approach	**17**
Total exposures secured by residential mortgages	**27,399**

Operational risk

	Consolidated	
Dollars in Millions	Implied Risk-Weighted Exposure Unaudited 30/9/11	Total Operational Risk Capital Requirement Unaudited 30/9/11
Operational risk	**4,031**	**322**

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

Note 39 Capital Adequacy *continued*

Market risk

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

	Consolidated (30/9/11 Unaudited)			
	Implied Risk-Weighted Exposure		Aggregate Capital Charge	
Dollars in Millions	End of Period	Peak End-of-Day	End of Period	Peak End-of-Day
Interest rate risk	**2,643**	**2,935**	**211**	**235**
Foreign currency risk	**15**	**114**	**1**	**9**
Equity risk	**37**	**38**	**3**	**3**
Total	**2,695**	**3,087**	**215**	**247**

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

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

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

Pillar two capital for other material risks

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

As at 30 September 2011, the Banking Group had an internal capital allocation for Business Risk of $139 million (30 September 2010: $150 million). The assessment of Business Risk covers strategic, reputation and earnings risk.

National Australia Bank Limited capital adequacy

	Ultimate Parent Banking Group		Ultimate Parent Bank	
	Basel II 30/9/11	Basel II 30/9/10	**Basel II 30/9/11**	Basel II 30/9/10
Tier One capital expressed as a percentage of total risk-weighted exposures	**9.70%**	8.91%	**11.45%**	10.75%
Total qualifying capital expressed as a percentage of total risk-weighted exposures	**11.26%**	11.36%	**12.78%**	13.11%

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

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

Under prudential regulations, National Australia Bank Group is required to hold a prudential capital ratio ("PCR") as determined by APRA for both the Level 1 and Level 2 Groups. The PCR is prescribed on a bilateral basis, and is not publicly disclosed. National Australia Bank Limited met the minimum capital adequacy requirements set by APRA as at 30 September 2011.

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

Note 40 Financial Risk Management

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

The Risk Management division which comprises Risk Partners, Risk Retail, Enterprise Risk Insight, Operational Risk and Compliance, Strategic Business Services, Chief Credit Officer, Office of the Chief Risk Officer and Legal Services monitors the Banking Group's risk profile of existing and future business operations. The Risk Management division assists business units in the design and implementation of appropriate risk management policies and strategies, promotes Bank awareness of the need to manage risk, including the development of relevant skills across the Bank, and the achievement of a balance between risk minimisation and reward for risks accepted. Where appropriate the Risk Management division may directly manage certain customer relationships. The Risk Management Committee is the primary management committee responsible to the BNZ Managing Director and CEO and the Board. The Risk Management Committee comprises executive, general, and senior management, with responsibility to lead management in respect of risk matters relating to risk culture, integrated risk governance processes and risk strategy and performance.

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

A separate New Zealand Regional Audit Committee, comprising five independent non-executive Directors of the Bank, assists the Board to fulfil its statutory and fiduciary responsibilities relating to accounting and financial controls, reporting systems and processes of the Banking Group and to oversee the internal audit function.

Audit Committee responsibilities are to:

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

The internal audit function is the responsibility of Internal Audit who report to the New Zealand Regional Audit Committee, the Managing Director and to National Australia Bank Limited Group Audit. Audits are conducted using a risk-based approach to assess key business risks and internal control systems. Both core banking and specialist functions are audited with high risk areas covered regularly.

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

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

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

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

Strategy in using financial instruments

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

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

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

Market risk

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

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

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

Note 40 Financial Risk Management *continued*

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

Foreign currency risk

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

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

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

Net open position

	Consolidated		The Company	
Dollars in Millions	**30/9/11**	30/9/10	**30/9/11**	30/9/10
US dollar	**9**	(20)	**9**	(20)
Australian dollar	**(10)**	(4)	**(10)**	(4)
Japanese yen	**3**	(28)	**3**	(28)
Pound sterling	**(1)**	(1)	**(1)**	(1)
Euro	**(2)**	35	**(2)**	35
Swiss franc	**-**	2	**-**	2
Other	**3**	1	**3**	1

Interest rate risk

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

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

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

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

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

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

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

Note 40 Financial Risk Management *continued*

Interest rate repricing schedule

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

	Consolidated (30/9/11)						
Dollars in Millions	Total	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 year	Over 1 Year and up to 2 Years	Over 2 Years	Non-Interest Sensitive
Assets							
Cash and balances with central banks	1,986	1,859	-	-	-	-	127
Due from other financial institutions	1,567	1,548	-	-	-	-	19
Trading securities	3,935	3,935	-	-	-	-	-
Other money market placements	1,037	1,037	-	-	-	-	-
Available for sale investments	62	29	-	-	-	-	33
Gross loans and advances to customers	57,099	34,729	2,185	4,942	5,411	8,396	1,436
Deductions from loans and advances to customers	(438)	-	-	-	-	(2)	(436)
Derivative financial instruments	6,949	-	-	-	-	-	6,949
Amounts due from related entities	600	560	-	-	-	-	40
All other assets	1,288	-	-	-	-	-	1,288
Total assets	74,085	43,697	2,185	4,942	5,411	8,394	9,456
Liabilities							
Due to central banks and other financial institutions	2,672	2,632	9	19	-	-	12
Other money market deposits	11,789	7,514	3,905	336	18	16	-
Trading liabilities	51	51	-	-	-	-	-
Deposits from customers	31,354	20,043	6,225	1,892	834	636	1,724
Derivative financial instruments	6,051	-	-	-	-	-	6,051
Bonds and notes	12,414	3,157	-	1,298	619	7,340	-
Amounts due to related entities	3,212	3,090	22	-	-	-	100
Subordinated debt	1,272	905	-	-	367	-	-
All other liabilities	921	-	-	-	-	-	921
Total liabilities	69,736	37,392	10,161	3,545	1,838	7,992	8,808
Shareholders' equity							
Total shareholders' equity	4,349	-	-	-	-	-	4,349
Total liabilities and shareholders' equity	74,085	37,392	10,161	3,545	1,838	7,992	13,157
On-balance sheet sensitivity gap	-	6,305	(7,976)	1,397	3,573	402	(3,701)
Derivative financial instruments							
Net balance of derivative financial instruments	-	(6,503)	5,182	(641)	539	1,423	-
Interest sensitivity gap – net	-	(198)	(2,794)	756	4,112	1,825	(3,701)
Interest sensitivity gap – cumulative	-	(198)	(2,992)	(2,236)	1,876	3,701	-

Note 40 Financial Risk Management *continued*

Interest rate repricing schedule *continued*

	Consolidated (30/9/10)						
Dollars in Millions	Total	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-Interest Sensitive
Assets							
Cash and balances with central banks	2,040	1,916	-	-	-	-	124
Due from other financial institutions	1,249	1,157	-	-	-	-	92
Trading securities	3,231	3,231	-	-	-	-	-
Other money market placements	433	433	-	-	-	-	-
Available for sale investments	273	84	-	131	30	-	28
Gross loans and advances to customers	55,377	29,530	3,707	5,060	8,213	7,610	1,257
Deductions from loans and advances to customers	(391)	-	-	-	-	(4)	(387)
Derivative financial instruments	5,650	-	-	-	-	-	5,650
Amounts due from related entities	539	517	-	-	-	-	22
All other assets	1,246	-	-	-	-	-	1,246
Total assets	69,647	36,868	3,707	5,191	8,243	7,606	8,032
Liabilities							
Due to central banks and other financial institutions	1,575	1,507	48	14	-	-	6
Other money market deposits	11,883	6,747	4,682	416	35	3	-
Trading liabilities	31	31	-	-	-	-	-
Deposits from customers	28,663	18,269	5,798	1,840	931	536	1,289
Derivative financial instruments	6,421	-	-	-	-	-	6,421
Bonds and notes	9,772	3,296	67	252	1,341	4,816	-
Amounts due to related entities	5,137	2,786	2,211	-	-	-	140
Subordinated debt	1,278	905	-	-	373	-	-
All other liabilities	885	-	-	-	-	-	885
Total liabilities	65,645	33,541	12,806	2,522	2,680	5,355	8,741
Shareholders' equity							
Total shareholders' equity	4,002	-	-	-	-	-	4,002
Total liabilities and shareholders' equity	69,647	33,541	12,806	2,522	2,680	5,355	12,743
On-balance sheet sensitivity gap	-	3,327	(9,099)	2,669	5,563	2,251	(4,711)
Derivative financial instruments							
Net balance of derivative financial instruments	-	623	2,524	(681)	(3,029)	563	-
Interest sensitivity gap – net	-	3,950	(6,575)	1,988	2,534	2,814	(4,711)
Interest sensitivity gap – cumulative	-	3,950	(2,625)	(637)	1,897	4,711	-

Note 40 Financial Risk Management *continued*

Interest rate repricing schedule *continued*

Dollars in Millions	The Company (30/9/11) Total	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 year	Over 1 Year and up to 2 Years	Over 2 Years	Non-Interest Sensitive
Assets							
Cash and balances with central banks	1,986	1,859	-	-	-	-	127
Due from other financial institutions	1,567	1,548	-	-	-	-	19
Trading securities	3,935	3,935	-	-	-	-	-
Other money market placements	1,037	1,037	-	-	-	-	-
Available for sale investments	62	29	-	-	-	-	33
Gross loans and advances to customers	57,091	34,721	2,185	4,942	5,411	8,396	1,436
Deductions from loans and advances to customers	(438)	-	-	-	-	(2)	(436)
Derivative financial instruments	6,949	-	-	-	-	-	6,949
Amounts due from related entities	9,303	9,133	-	-	-	-	170
All other assets	4,212	-	-	-	-	-	4,212
Total assets	85,704	52,262	2,185	4,942	5,411	8,394	12,510
Liabilities							
Due to central banks and other financial institutions	2,672	2,632	9	19	-	-	12
Other money market deposits	3,694	1,581	1,743	336	18	16	-
Trading liabilities	51	51	-	-	-	-	-
Deposits from customers	30,959	19,802	6,120	1,862	829	622	1,724
Derivative financial instruments	6,051	-	-	-	-	-	6,051
Bonds and notes	4,718	1,536	-	297	558	2,327	-
Amounts due to related entities	31,261	22,684	2,197	1,001	61	5,014	304
Subordinated debt	1,272	905	-	-	367	-	-
All other liabilities	902	-	-	-	-	-	902
Total liabilities	81,580	49,191	10,069	3,515	1,833	7,979	8,993
Shareholders' equity							
Total shareholders' equity	4,124	-	-	-	-	-	4,124
Total liabilities and shareholders' equity	85,704	49,191	10,069	3,515	1,833	7,979	13,117
On-balance sheet sensitivity gap	-	3,071	(7,884)	1,427	3,578	415	(607)
Derivative financial instruments							
Net balance of derivative financial instruments	-	(6,503)	5,182	(641)	539	1,423	-
Interest sensitivity gap – net	-	(3,432)	(2,702)	786	4,117	1,838	(607)
Interest sensitivity gap – cumulative	-	(3,432)	(6,134)	(5,348)	(1,231)	607	-

Note 40 Financial Risk Management *continued*

Interest rate repricing schedule *continued*

	The Company (30/9/10)						
Dollars in Millions	Total	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 year	Over 1 Year and up to 2 Years	Over 2 Years	Non-Interest Sensitive
Assets							
Cash and balances with central banks	2,040	1,916	-	-	-	-	124
Due from other financial institutions	1,249	1,157	-	-	-	-	92
Trading securities	3,231	3,231	-	-	-	-	-
Other money market placements	433	433	-	-	-	-	-
Available for sale investments	273	84	-	131	30	-	28
Gross loans and advances to customers	55,369	29,522	3,707	5,060	8,213	7,610	1,257
Deductions from loans and advances to customers	(391)	-	-	-	-	(4)	(387)
Derivative financial instruments	5,650	-		-	-	-	5,650
Amounts due from related entities	5,144	5,012		-	-	-	132
All other assets	4,126	-		-	-	-	4,126
Total assets	77,124	41,355	3,707	5,191	8,243	7,606	11,022
Liabilities							
Due to central banks and other financial institutions	1,575	1,507	48	14	-	-	6
Other money market deposits	4,605	3,907	516	144	35	3	-
Trading liabilities	31	31	-	-	-	-	-
Deposits from customers	28,571	18,177	5,798	1,840	931	536	1,289
Derivative financial instruments	6,421	-		-	-	-	6,421
Bonds and notes	3,524	588	-	252	284	2,400	-
Amounts due to related entities	26,480	15,908	6,462	272	1,057	2,416	365
Subordinated debt	1,278	905	-	-	373	-	-
All other liabilities	795	-		-	-	-	795
Total liabilities	73,280	41,023	12,824	2,522	2,680	5,355	8,876
Shareholders' equity							
Total shareholders' equity	3,844	-	-	-	-	-	3,844
Total liabilities and shareholders' equity	77,124	41,023	12,824	2,522	2,680	5,355	12,720
On-balance sheet sensitivity gap	-	332	(9,117)	2,669	5,563	2,251	(1,698)
Derivative financial instruments							
Net balance of derivative financial instruments	-	623	2,524	(681)	(3,029)	563	-
Interest sensitivity gap – net	-	955	(6,593)	1,988	2,534	2,814	(1,698)
Interest sensitivity gap – cumulative	-	955	(5,638)	(3,650)	(1,116)	1,698	-

Equity risk

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

Market risk – Trading

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

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

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

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

Note 40 Financial Risk Management *continued*

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

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

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

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

	Consolidated and The Company							
	As At		Average Value During Year		Minimum Value During Year		Maximum Value During Year	
Dollars in Millions	**30/9/11**	30/9/10	**30/9/11**	30/9/10	**30/9/11**	30/9/10	**30/9/11**	30/9/10
VaR at a 99% confidence level								
Foreign exchange risk	**0.22**	1.53	**0.61**	0.83	**0.07**	0.07	**2.84**	2.60
Interest rate risk	**1.84**	1.73	**2.20**	4.56	**1.16**	1.04	**3.80**	8.74
Volatility risk	**0.17**	0.03	**0.11**	0.11	**0.03**	0.03	**0.27**	0.21
Commodities risk	**-**	-	**-**	-	**-**	-	**-**	-
Credit spread risk	**0.15**	1.07	**0.42**	1.11	**0.12**	0.66	**1.08**	1.51
Diversification benefit	**(0.52)**	(1.29)	**(0.99)**	(1.71)	**(0.09)**	(0.41)	**(4.00)**	(3.51)
Total VaR for physical and derivative positions	**1.86**	3.07	**2.35**	4.90	**1.29**	1.39	**3.99**	9.55

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

Market risk – Non-trading/Banking positions

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

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

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

Interest rate risk in the Banking Book

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

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

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

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

The following measurement approach is used:

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

Note 40 Financial Risk Management *continued*

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

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

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

	Consolidated and The Company	
Dollars in Millions	**30/9/11**	30/9/10
VaR for physical and derivative positions at a 99.0% confidence level		
New Zealand		
As at end of year	**18**	54
Average value during year ended	**30**	24
Minimum value during year ended	**16**	7
Maximum value during year ended	**51**	54

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

	Consolidated and The Company	
Dollars in Millions	**30/9/11**	30/9/10
EaR for physical and derivative positions at a 99.0% confidence level		
New Zealand		
As at end of year	**5**	7
Average value during year ended	**7**	6
Minimum value during year ended	**3**	3
Maximum value during year ended	**15**	9

Liquidity risk

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

The following are types of liquidity risks:

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

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

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

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

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

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

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

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

Note 40 Financial Risk Management *continued*

Maturity profile

The tables on pages 86 to 88 present the Banking Group and the Company's cash flows by remaining contractual maturities as at the reporting date, except Available for sale investments, Trading securities and Trading liabilities, which the Banking Group has the ability to realise at short notice.

The gross cash flows disclosed hereunder are the contractual undiscounted cash flows and therefore will not agree to the carrying values on the balance sheet. Actual cash flows can differ significantly from contractual cash flows as a result of future actions of the Banking Group and its counterparties, such as early repayments or refinancing of term loans. Off-balance sheet exposures are excluded from the tables on page 86 to 88 as contractual cash flows, if any, are contingent in nature. Irrevocable commitments to extend credit can be drawn down at any time before the commitments expire. Details of off-balance sheet exposures are included in note 35. Other assets and other liabilities only include balances which have contractual future cash flows.

	Consolidated (30/9/11)						
Dollars in Millions	Carrying Amount	Gross Cash Inflow/ (Outflow)	On Demand	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years
Assets							
Cash and balances with central banks	1,986	1,986	1,760	226	-	-	-
Due from other financial institutions	1,567	1,567	92	1,475	-	-	-
Trading securities	3,935	3,935	-	3,935	-	-	-
Other money market placements	1,037	1,039	322	717	-	-	-
Available for sale investments	62	62	-	29	33	-	-
Loans and advances to customers	56,661	78,704	5,344	11,494	7,855	20,438	33,573
Amounts due from related entities	600	600	5	542	53	-	-
Other assets	599	599	-	599	-	-	-
Total	66,447	88,492	7,523	19,017	7,941	20,438	33,573
Liabilities							
Due to central banks and other financial institutions	(2,672)	(2,675)	(933)	(1,724)	(18)	-	-
Other money market deposits	(11,789)	(11,825)	(315)	(7,527)	(3,948)	(35)	-
Trading liabilities	(51)	(51)	-	(51)	-	-	-
Deposits from customers	(31,354)	(31,790)	(12,368)	(9,678)	(8,132)	(1,611)	(1)
Bonds and notes	(12,414)	(14,007)	-	(1,230)	(2,071)	(6,860)	(3,846)
Amounts due to related entities	(3,212)	(3,389)	(130)	(535)	(158)	(2,566)	-
Other liabilities	(775)	(775)	-	(775)	-	-	-
Subordinated debt	(1,272)	(1,621)	-	(32)	(32)	(256)	(1,301)
Total	(63,539)	(66,133)	(13,746)	(21,552)	(14,359)	(11,328)	(5,148)
Derivatives							
Derivative financial instruments inflow		86,028	-	31,050	15,931	27,416	11,631
Derivative financial instruments (outflow)		(85,758)	-	(30,872)	(15,812)	(27,622)	(11,452)

Note 40 Financial Risk Management *continued*

Maturity profile *continued*

Dollars in Millions	Carrying Amount	Gross Cash Inflow/ (Outflow)	On Demand	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years
			Consolidated (30/9/10)				
Assets							
Cash and balances with central banks	2,040	2,040	1,870	170	-	-	-
Due from other financial institutions	1,249	1,249	107	1,142	-	-	-
Trading securities	3,231	3,231	-	3,231	-	-	-
Other money market placements	433	435	234	201	-	-	-
Available for sale investments	273	273	-	51	222	-	-
Loans and advances to customers	54,986	76,775	3,482	15,329	7,588	17,035	33,341
Amounts due from related entities	539	539	485	37	17	-	-
Other assets	439	439	-	439	-	-	-
Total	63,190	84,981	6,178	20,600	7,827	17,035	33,341
Liabilities							
Due to central banks and other financial institutions	(1,575)	(1,576)	(444)	(1,070)	(62)	-	-
Other money market deposits	(11,883)	(11,919)	(597)	(6,394)	(4,887)	(41)	-
Trading liabilities	(31)	(31)	-	(31)	-	-	-
Deposits from customers	(28,663)	(29,069)	(11,103)	(8,617)	(7,682)	(1,667)	-
Bonds and notes	(9,772)	(10,761)	-	(1,225)	(823)	(6,735)	(1,978)
Amounts due to related entities	(5,137)	(5,495)	(135)	(1,437)	(1,078)	(2,845)	-
Other liabilities	(732)	(732)	-	(732)	-	-	-
Subordinated debt	(1,278)	(1,651)	-	(33)	(32)	(256)	(1,330)
Total	(59,071)	(61,234)	(12,279)	(19,539)	(14,564)	(11,544)	(3,308)
Derivatives							
Derivative financial instruments inflow		53,401	-	27,206	12,215	10,421	3,559
Derivative financial instruments (outflow)		(54,992)	-	(27,330)	(12,529)	(11,460)	(3,673)
			The Company (30/9/11)				
Assets							
Cash and balances with central banks	**1,986**	**1,986**	**1,760**	**226**	**-**	**-**	**-**
Due from other financial institutions	**1,567**	**1,567**	**92**	**1,475**	**-**	**-**	**-**
Trading securities	**3,935**	**3,935**	**-**	**3,935**	**-**	**-**	**-**
Other money market placements	**1,037**	**1,039**	**322**	**717**	**-**	**-**	**-**
Available for sale investments	**62**	**62**	**-**	**29**	**33**	**-**	**-**
Loans and advances to customers	**56,653**	**78,696**	**5,344**	**11,494**	**7,855**	**20,430**	**33,573**
Amounts due from related entities	**9,303**	**15,586**	**1**	**1,720**	**282**	**2,168**	**11,415**
Other assets	**597**	**597**	**-**	**597**	**-**	**-**	**-**
Total	**75,140**	**103,468**	**7,519**	**20,193**	**8,170**	**22,598**	**44,988**
Liabilities							
Due to central banks and other financial institutions	**(2,672)**	**(2,675)**	**(933)**	**(1,724)**	**(18)**	**-**	**-**
Other money market deposits	**(3,694)**	**(3,720)**	**(315)**	**(3,093)**	**(277)**	**(35)**	**-**
Trading liabilities	**(51)**	**(51)**	**-**	**(51)**	**-**	**-**	**-**
Deposits from customers	**(30,959)**	**(31,387)**	**(12,222)**	**(9,582)**	**(7,993)**	**(1,589)**	**(1)**
Bonds and notes	**(4,718)**	**(5,349)**	**-**	**(239)**	**(680)**	**(3,836)**	**(594)**
Amounts due to related entities	**(31,261)**	**(38,691)**	**(3,767)**	**(7,053)**	**(5,446)**	**(7,758)**	**(14,667)**
Other liabilities	**(759)**	**(759)**	**-**	**(759)**	**-**	**-**	**-**
Subordinated debt	**(1,272)**	**(1,621)**	**-**	**(32)**	**(32)**	**(256)**	**(1,301)**
Total	**(75,386)**	**(84,253)**	**(17,237)**	**(22,533)**	**(14,446)**	**(13,474)**	**(16,563)**
Derivatives							
Derivative financial instruments inflow		**86,028**	**-**	**31,050**	**15,931**	**27,416**	**11,631**
Derivative financial instruments (outflow)		**(85,758)**	**-**	**(30,872)**	**(15,812)**	**(27,622)**	**(11,452)**

Note 40 Financial Risk Management *continued*

Maturity profile *continued*

	The Company (30/9/10)						
Dollars in Millions	Carrying Amount	Gross Cash Inflow/ (Outflow)	On Demand	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years
Assets							
Cash and balances with central banks	2,040	2,040	1,870	170	-	-	-
Due from other financial institutions	1,249	1,249	107	1,142	-	-	-
Trading securities	3,231	3,231	-	3,231	-	-	-
Other money market placements	433	435	234	201	-	-	-
Available for sale investments	273	273	-	51	222	-	-
Loans and advances to customers	54,978	76,767	3,482	15,329	7,588	17,027	33,341
Amounts due from related entities	5,144	11,513	594	66	155	649	10,049
Other assets	370	370	-	370	-	-	-
Total	67,718	95,878	6,287	20,560	7,965	17,676	43,390
Liabilities							
Due to central banks and other financial institutions	(1,575)	(1,576)	(444)	(1,070)	(62)	-	-
Other money market deposits	(4,605)	(4,630)	(597)	(3,549)	(443)	(41)	-
Trading liabilities	(31)	(31)	-	(31)	-	-	-
Deposits from customers	(28,571)	(28,977)	(11,011)	(8,617)	(7,682)	(1,667)	-
Bonds and notes	(3,524)	(4,078)	-	(127)	(567)	(2,947)	(437)
Amounts due to related entities	(26,480)	(33,691)	(3,417)	(5,487)	(5,915)	(7,282)	(11,590)
Other liabilities	(651)	(651)	-	(651)	-	-	-
Subordinated debt	(1,278)	(1,651)	-	(33)	(32)	(256)	(1,330)
Total	(66,715)	(75,285)	(15,469)	(19,565)	(14,701)	(12,193)	(13,357)
Derivatives							
Derivative financial instruments inflow		53,401	-	27,206	12,215	10,421	3,559
Derivative financial instruments (outflow)		(54,922)	-	(27,330)	(12,529)	(11,460)	(3,673)

Liquidity portfolio management

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

	Consolidated		The Company	
Dollars in Millions	**30/9/11**	30/9/10	**30/9/11**	30/9/10
Cash and balances immediately convertible to cash	**2,510**	2,549	**2,510**	2,549
Securities purchased under agreements to resell	**606**	283	**606**	283
Treasury bills	**1,848**	1,195	**1,848**	1,195
Government securities	**173**	374	**173**	374
Semi-government securities	**248**	263	**248**	263
Bank bills	**448**	263	**448**	263
Bank bonds	**124**	476	**124**	476
Promissory notes	**283**	171	**283**	171
Other securities	**50**	29	**50**	29
Total liquidity portfolio	**6,290**	5,603	**6,290**	5,603

As at 30 September 2011, the Banking Group also held unencumbered residential mortgage-backed securities ("RMBS") of $4,491 million (30 September 2010: $4,491 million). The RMBS assets can be purchased under agreements to resell for liquidity purposes. The RBNZ has imposed a cap limiting the amount of RMBS deemed as eligible in the liquidity portfolio to 4% of total assets.

As at 30 September 2011, there was an A$1 billion market rate advance facility (30 September 2010: A$1 billion) provided from National Australia Bank Limited for the Banking Group's liquidity management in the course of its normal trading activities.

Note 40 Financial Risk Management *continued*

Concentrations of funding

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

	Consolidated		The Company	
Dollars in Millions	**30/9/11**	30/9/10	**30/9/11**	30/9/10
New Zealand				
Agriculture, forestry and fishing	**1,651**	1,480	**1,651**	1,480
Mining	**133**	73	**133**	73
Manufacturing	**1,165**	1,372	**1,165**	1,372
Electricity, gas and water	**87**	149	**87**	149
Construction	**381**	349	**381**	349
Wholesale and retail trade	**1,105**	1,028	**1,105**	1,028
Accommodation, restaurants, culture and recreation	**668**	596	**668**	596
Transport and storage	**487**	527	**487**	527
Communications	**156**	107	**156**	107
Financial, investment and insurance	**12,397**	11,175	**12,397**	11,175
Property, business and personal services	**5,083**	4,709	**5,083**	4,709
Government, education, health and community services	**2,876**	1,981	**2,876**	1,981
Personal deposits	**16,280**	14,574	**15,885**	14,482
Related entities	**3,809**	5,767	**31,858**	27,110
Total New Zealand	**46,278**	43,887	**73,932**	65,138
United Kingdom*				
Financial, investment and insurance	**15,791**	13,526	**-**	-
Total United Kingdom	**15,791**	13,526	**-**	-
Singapore				
Financial, investment and insurance	**63**	169	**63**	169
Personal deposits	**253**	418	**253**	418
Property, business and personal services	**20**	33	**20**	33
Related entities	**308**	275	**308**	275
Total Singapore	**644**	895	**644**	895
Total funding	**62,713**	58,308	**74,576**	66,033
Total funding comprised:				
Due to central banks and other financial institutions	**2,672**	1,575	**2,672**	1,575
Other money market deposits	**11,789**	11,883	**3,694**	4,605
Deposits from customers	**31,354**	28,663	**30,959**	28,571
Bonds and notes	**12,414**	9,772	**4,718**	3,524
Amounts due to related entities	**3,212**	5,137	**31,261**	26,480
Subordinated debt**	**1,272**	1,278	**1,272**	1,278
Total funding	**62,713**	58,308	**74,576**	66,033

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

** Included in Subordinated debt was $905 million due to related entities as at 30 September 2011 (30 September 2010: $905 million). Refer to note 25 for further information.

Note 40 Financial Risk Management *continued*

Operational risk

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

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

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

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

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

The Bank is accredited by the RBNZ to use the Advanced Measurement Approach ("AMA") for Operational Risk. As a result, the Bank calculates its operational risk implied risk weighted exposure and resultant capital requirement as required by the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) (BS2B).

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

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

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

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

Credit risk

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

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

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

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

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

At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Banking Group less collateral obtained. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

The Banking Group uses documentation including International Swaps and Derivatives Association ("ISDA") Master Agreements to document derivative activities. Under the ISDA Master Agreements, if a default of counterparty occurs, all contracts with the counterparty are terminated. They are then settled on a net basis at market levels current at the time of default. The Banking Group also executes Credit Support Annexes in conjunction with ISDA Master Agreements.

Note 40 Financial Risk Management *continued*

Credit risk *continued*

The Banking Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a counterparty failed to meet its obligations in accordance with agreed terms, all amounts with the counterparty are terminated and settled on a net basis.

Concentrations of credit exposure

The Banking Group and the Company's concentrations of credit exposure is reported by geographical location and industry sector in the table below. The concentrations of credit exposure on financial assets by geographical location is based on the geographical location of the counterparty's tax residency. The concentrations of credit exposure by industry sector is based on the categories in the RBNZ M3 Institutions Standard Statistical Return.

The table below presents the maximum exposure to credit risk of financial assets before taking into account any collateral held or other credit enhancements. Except for derivative financial instruments, the majority of the overseas credit exposures are raised for New Zealand based assets funded in New Zealand dollars for offshore customers. For more information on guarantees and credit related commitments, refer to note 35.

	Consolidated		The Company	
Dollars in Millions	**30/9/11**	30/9/10	**30/9/11**	30/9/10
New Zealand				
Agriculture	**9,880**	9,296	**9,872**	9,288
Forestry and fishing	**549**	596	**549**	596
Mining	**193**	161	**193**	161
Manufacturing	**2,297**	2,287	**2,297**	2,287
Electricity, gas and water	**1,005**	857	**1,005**	857
Construction	**595**	570	**595**	570
Wholesale and retail trade	**2,445**	2,200	**2,445**	2,200
Accommodation, restaurants, culture and recreation	**939**	924	**939**	924
Transport and storage	**911**	936	**911**	936
Communications	**220**	174	**220**	174
Financial, investment and insurance	**4,579**	4,195	**4,579**	4,195
Property, business and personal services	**8,142**	7,987	**8,142**	7,987
Government, education, health and community services	**6,310**	5,778	**6,310**	5,778
Real estate – mortgage	**26,940**	25,842	**26,940**	25,842
Personal lending	**1,875**	1,778	**1,875**	1,778
Related entities	**266**	209	**8,973**	4,825
Total New Zealand	**67,146**	63,790	**75,845**	68,398
Overseas				
Agriculture	**3**	3	**3**	3
Forestry and fishing	**2**	2	**2**	2
Manufacturing	**-**	1	**-**	1
Electricity, gas and water	**-**	1	**-**	1
Wholesale and retail trade	**11**	11	**11**	11
Accommodation, restaurants, culture and recreation	**2**	4	**2**	4
Transport and storage	**1**	2	**1**	2
Communications	**-**	16	**-**	16
Financial, investment and insurance	**4,955**	3,827	**4,955**	3,827
Property, business and personal services	**122**	4	**122**	4
Government, education, health and community services*	**65**	237	**65**	237
Real estate – mortgage	**442**	420	**442**	420
Personal lending	**27**	24	**27**	24
Related entities	**334**	330	**330**	319
Total Overseas	**5,964**	4,882	**5,960**	4,871
Total credit exposures	**73,110**	68,672	**81,805**	73,269
Total credit exposures comprised:				
Balances with central banks	**1,861**	1,920	**1,861**	1,920
Due from other financial institutions	**1,567**	1,249	**1,567**	1,249
Trading securities	**3,935**	3,231	**3,935**	3,231
Other money market placements	**1,037**	433	**1,037**	433
Available for sale investments	**62**	273	**62**	273
Gross loans and advances to customers	**57,099**	55,377	**57,091**	55,369
Derivative financial instruments	**6,949**	5,650	**6,949**	5,650
Amounts due from related entities	**600**	539	**9,303**	5,144
Total credit exposures	**73,110**	68,672	**81,805**	73,269

* Includes balances with Supranationals.

Note 40 Financial Risk Management *continued*

Derivatives

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

Undrawn credit commitments

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

ERNST & YOUNG

Chartered Accountants

Independent Auditor's Report

To the Shareholders of Bank of New Zealand

Report on the Disclosure Statement (excluding supplementary information relating to Capital Adequacy)

We have audited the Disclosure Statement (excluding the supplementary information relating to Capital Adequacy disclosed in note 39 (the "Capital Adequacy Information")) of Bank of New Zealand (the "Bank'') and its subsidiaries (the "Banking Group") on pages 8 to 92. The Disclosure Statement comprises the financial statements and the supplementary information. The financial statements comprise the balance sheet of the Bank and the Banking Group as at 30 September 2011, the income statement and statements of comprehensive income, changes in equity and cash flows of the Bank and the Banking Group for the year then ended, and a summary of significant accounting policies and other explanatory information. The supplementary information comprises the information that is required to be disclosed under the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2011 (the "Order").

This report is made solely to the Bank's shareholders in accordance with Clause 20 of the Order and section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the Bank's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholders, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Disclosure Statement

The directors of the Bank are responsible for the preparation of the Disclosure Statement, which includes financial statements prepared in accordance with Clause 24 of the Order, generally accepted accounting practice in New Zealand and International Financial Reporting Standards and that give a true and fair view of the matters to which they relate. The directors are also responsible for such internal controls as they determine are necessary to enable the preparation of the Disclosure Statement that is free from material misstatement, whether due to fraud or error.

The directors are responsible for the preparation and fair presentation of supplementary information, in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order.

Auditor's Responsibility

Our responsibility is to express an opinion on the Disclosure Statement on pages 8 to 92 (excluding the Capital Adequacy Information), disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order and presented to us by the directors. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Disclosure Statement (excluding the Capital Adequacy Information) is free from material misstatement.

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

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

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

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

Opinion

In our opinion the Disclosure Statement of the Bank and the Banking Group on pages 8 to 92 (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 11, 13, 14 ,15 and 17):

- complies with generally accepted accounting practice in New Zealand;
- complies with International Financial Reporting Standards; and
- gives a true and fair view of the financial position of the Bank and Banking Group as at 30 September 2011 and of their financial performance and cash flows for the year then ended.

Opinion on supplementary information (excluding Capital Adequacy Information)

In our opinion, the supplementary information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14 ,15 and 17 of the Order, and is included within notes 13, 14, 30, 36, 37, 38 and 40 of the Disclosure Statement:

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

Report on Other Legal and Regulatory Requirements (excluding Capital Adequacy Information)

Report on Other Legal and Regulatory Requirements (excluding Capital Adequacy Information)
In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, and clauses 2(d) and 2(e) of Schedule 1 of the Order, we report that:

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

Report on the Supplementary Information Relating to Capital Adequacy
We have reviewed the supplementary information relating to capital adequacy as disclosed in note 39 of the Disclosure Statement (the "Capital Adequacy Information") for the year ended 30 September 2011.

This report is made solely to the Bank's shareholders in accordance with Clause 20 of the Order. Our review has been undertaken so that we might state to the Bank's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholders, for our review work, for this report, or for our findings.

Directors' Responsibility for the Capital Adequacy Information
The directors are responsible for the preparation of supplementary information relating to Capital Adequacy that is required to be disclosed under Schedule 11 of the Order and prepared in accordance with the Bank's Conditions of Registration and with the Bank's internal models for credit risk and operational risk, as accredited by the Reserve Bank of New Zealand and described in note 39 of the Disclosure Statement.

Reviewer's Responsibilities
Our responsibility is to express an opinion on the Capital Adequacy Information based on our review. We conducted our review in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants.

We are responsible for reviewing the disclosures in order to state whether, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the Capital Adequacy Information is not, in all material respects:

- prepared in accordance with the Bank's Conditions of Registration;
- prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
- disclosed in accordance with Schedule 11 of the Order;

and for reporting our findings to you.

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

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

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

Statement of review findings
Based on our review procedures, which are not an audit, nothing has come to our attention that causes us to believe that the Capital Adequacy Information is not in all material respects:

- prepared in accordance with the Bank's Conditions of Registration;
- prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
- disclosed in accordance with Schedule 11 of the Order.

Ernst + Young

7 December 2011
Auckland

Credit Ratings

Bank of New Zealand has the following credit ratings applicable to its long term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

Rating Agency	Current Credit Rating	Qualification
Standard & Poor's (Australia) Pty Limited	AA-	Outlook Stable
Moody's Investors Service, Inc	Aa3	Outlook Stable

During the two-year period ended 30 September 2011, there was no change to the Standard & Poor's credit rating. Subsequent to the reporting date, the Standard & Poor's credit rating changed from AA Outlook Stable to AA- Outlook Stable on 1 December 2011. This has resulted from a global review in bank rating methodology by Standard & Poor's, with more emphasis placed on a country's economic strengths as well as the strength of its banking industry.

During the two-year period ended 30 September 2011, the Moody's Investors Service credit rating changed from Aa2 to Aa3 on 27 May 2011.

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

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

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

Conditions of Registration

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

Conditions of registration as from 30 September 2011 – 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 June 2011 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 June 2011 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 June 2011 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 June 2011 is 1.06.

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 June 2011; 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 June 2011.

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

   In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

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

   For the purposes of this condition of registration, the Banking Group's insurance business is the sum of the following amounts for entities in the Banking Group:

   (a) If the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

   (b) If the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

   In determining the total amount of the Banking Group's insurance business:

   (a) All amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

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

   For the purposes of this condition of registration,

   - "insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance;
   - "insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

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

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.)

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 June 2011.

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.

5A. Before and on 31 March 2012, that the Bank complies with the following corporate governance requirements:
   (a) the board of the Bank must contain at least two independent directors. In this context an independent director is a director who is not an employee of the Bank, and who is not a director, trustee or employee of any holding company of the Bank, or any other entity capable of controlling or significantly influencing the Bank;
   (b) the chairperson of the Bank's board must not be an employee of the Bank; and
   (c) the Bank's constitution must 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).

6. On and after 1 April 2012, that the Bank complies with the following corporate governance requirements:
   (a) the board of the Bank must have at least five directors;
   (b) the majority of the board members must be non-executive directors;
   (c) at least half of the board members must be independent directors;
   (d) an alternate director,—
      (i) for a non-executive director must be non-executive; and
      (ii) for an independent director must be independent;
   (e) at least half of the independent directors of the Bank must be ordinarily resident in New Zealand;
   (f) the chairperson of the board of the Bank must be independent; and
   (g) the Bank's constitution must 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).

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the Bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

8. On and after 1 April 2012, that a person must not be appointed as chairperson of the board of the Bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

9. On and after 1 April 2012, that the Bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
   (a) the mandate of the committee must include: ensuring the integrity of the Bank's financial controls, reporting systems and internal audit standards;
   (b) the committee must have at least three members;
   (c) every member of the committee must be a non-executive director of the Bank;
   (d) the majority of the members of the committee must be independent; and
   (e) the chairperson of the committee must be independent and must not be the chairperson of the Bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011.

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 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:
    (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 70 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 2011 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated March 2010.

15. That the Bank has an internal framework for liquidity risk management that is adequate in the 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 contingency funding plan.

16. That no more than 10% of total assets may be beneficially owned by a SPV.

    For the purposes of this condition,—

    - "total assets" means all assets of the Banking Group plus any assets held by any SPV that are not included in the Banking Group's assets:
    - "SPV" means a person—
      (a) to whom any member of the Banking Group has sold, assigned, or otherwise transferred any asset;
      (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
      (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the Banking Group under a covered bond:
    - "covered bond" means a debt security issued by any member of the Banking Group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

    In these conditions of registration,

    - "banking group" means Bank of New Zealand's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993);
    - "generally accepted accounting practice" has the same meaning as in section 2 of the Financial Reporting Act 1993.

Changes in conditions of registration

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

- On 30 September 2011, the insurance business condition was updated to incorporate a new definition based on the Insurance (Prudential Supervision) Act 2010; and
- On 1 July 2011, the liquidity risk management condition was updated to require a one year core funding ratio of not less than 70%.

Directors' Statement

The Directors of Bank of New Zealand (the "Bank") state that each Director of the Bank believes, after due enquiry, that:

1. as at the date on which the Disclosure Statement is signed:
   (a) the Disclosure Statement contains all the information that is required by the Order; and
   (b) the Disclosure Statement is not false or misleading; and
2. during the year ended 30 September 2011:
   (a) the Bank has complied with its conditions of registration applicable during that period;
   (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
   (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 7th December 2011 and signed by Messrs. Waller and Thorburn as Directors and as responsible persons on behalf of all the other Directors.

J A Waller
Chairman

A G Thorburn
Managing Director and Chief Executive Officer