

Bank of New Zealand General Disclosure Statement

For the year ended 30 September 2001



2 Feb	OPENING BALANCE	PS	220.00
2 Feb	SUPERMARKET	DD	22.90
4 Feb	INSURANCE	LR	150.00
4 Feb	TAILORED PER	AT	20.00
6 Feb	WITHDRAWAL	PS	15.00
7 Feb	CAFÉ DA560789	AT	100.00
10 Feb	WITHDRAWAL	CQ	129.95
15 Feb	000000		17.90



**OUR VISION ★ TO BE NEW ZEALAND'S FINANCIAL SERVICES PROVIDER OF FIRST CHOICE:
OUR CUSTOMERS' TRUSTED EXPERT ★ DELIVERING LIFETIME TAILORED SOLUTIONS ★ FROM COMMITTED PASSIONATE PEOPLE**

General Disclosure Statement

For the year ended 30 September 2001

This General Disclosure Statement has been issued by Bank of New Zealand for the year ended 30 September 2001 in accordance with the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 1998 (the “Order”).

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

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Bank of New Zealand Corporate Information

Ultimate Parent Bank

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 3, BNZ Centre, 1 Willis Street, Wellington.

Details of Incorporation

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

Substantial Security Holders

National Australia Group (NZ) Limited, National Australia Bank Limited and National Equities Limited are the only substantial security holders. 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 nor National Equities 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 5(7) of the Securities Amendment Act 1988.

Guarantors

The 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 24, 500 Bourke Street, Melbourne, Victoria 3000, 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. However, from time to time National Australia Bank Limited may, in its commercial judgement, seek to provide material financial support to Bank of New Zealand. In providing any such support National Australia Bank Limited would act within the constraints imposed by any relevant laws, including the laws of Australia and New Zealand.

Under the Banking Act 1959 (Australia), the Australian Prudential Regulation Authority may prescribe prudential requirements by regulation, requiring National Australia Bank Limited to observe such requirements. These prudential requirements may affect the ability of National Australia Bank Limited to provide material financial support to Bank of New Zealand.

Section 13A(3) of the Banking Act 1959 (Australia) provides that in the event of a bank (including National Australia Bank Limited) becoming unable to meet its obligations or suspending payment, the assets of the bank in Australia shall be available to meet that bank’s deposit liabilities in Australia in priority to all other liabilities of the bank.

Directorate and Auditors

Director Communications

Communications addressed to the Directors and responsible persons (if any), or any of them, may be sent to Level 3, BNZ Centre, 1 Willis Street, Wellington.

Directors

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

Thomas Kirriemuir McDonald

Chairman

Company Director

M.Com. (Hons).

New Zealand

Peter Leonard Thodey

Managing Director

New Zealand

Pamela Adrienne Jefferies, O.B.E.

Company Director

F.C.A.

New Zealand

Robert Malcolm Charles Prowse

Company Director

B.Com., LL.B.

Australia

Heughan Bassett Rennie, C.B.E., Q.C.

Company Director

B.A., LL.B.

New Zealand

John Douglas Storey, O.N.Z.M.

Company Director

New Zealand

Mr Michael Donald Soden ceased to be a Director of the Bank in June 2001. Mr Francis John Cicutto and Sir Selwyn John Cushing ceased to be Directors of the Bank during October 2001.

Executive Directors

Mr Peter Leonard Thodey is the only executive Director of Bank of New Zealand.

Responsible Persons

Messrs McDonald and Thodey, whose occupations, professional qualifications and countries of residence are disclosed above, have been authorised in writing to sign this Disclosure Statement in accordance with section 82 of the Reserve Bank of New Zealand Act 1989.

Policy for Avoiding and Dealing with Conflicts of Interests

The policy and current practice of the Board of Directors of the Bank for avoiding or dealing with conflicts of interest which may arise from the personal, professional or business interests of the Directors, or any of them, are that, where a Director's judgement could potentially be impaired, because a conflict of interest exists between the Director's business 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 24 of these financial statements on page 32.

Auditors

The auditors whose report is referred to in this General Disclosure Statement are KPMG. Their address for service is KPMG Centre, 9 Princes Street, Auckland.

Pending Proceedings or Arbitration

Various actions, disputes, arbitrations and legal proceedings arising from the normal course of business to which members of the Banking Group are a party, are presently pending.

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

Other Material Matters

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

Amalgamation of BNZ Finance Limited with Bank of New Zealand

On 15 June 2001, Bank of New Zealand's Board of Directors resolved to amalgamate the Bank's wholly owned subsidiary, BNZ Finance Limited, with Bank of New Zealand and continue as Bank of New Zealand, effective 30 June 2001.

BNZ Finance Limited ceased to exist as a separate legal entity and registered bank on 30 June 2001 and Bank of New Zealand as the amalgamated entity assumed all operational and contractual obligations of BNZ Finance Limited from 30 June 2001 onwards.

Sale of Subsidiary Companies

On 26 October 2001, Bank of New Zealand's Board of Directors resolved to sell the Bank's wholly owned subsidiaries BNZ Life Insurance Limited, BNZ Investment Management Limited and BNZ Nominees Limited, to another member of the National Australia Bank Group. The sale, which was subject to conditions now satisfied, will occur on or about 1 January 2002 and will be for market value determined by an independent valuation.

The products of BNZ Life Insurance Limited and BNZ Investment Management Limited will continue to be marketed through Bank of New Zealand branch network.

Financial Statements

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Historical Summary of Financial Statements

Dollars in Millions	Consolidated				
	30/9/01	30/9/00	30/9/99	30/9/98	30/9/97
Financial Performance					
Interest income	2,583	2,313	1,989	2,345	2,159
Interest expense	1,830	1,648	1,366	1,663	1,455
Net interest income	753	665	623	682	704
Impaired asset expense	12	13	22	33	(6)
Net interest income after impaired asset expense	741	652	601	649	710
Other operating income	494	491	407	337	321
Total operating income	1,235	1,143	1,008	986	1,031
Operating expenses	648	630	570	605	572
Operating surplus before income tax expense	587	513	438	381	459
Income tax expense	147	124	80	93	124
Net surplus attributable to shareholders of Bank of New Zealand	440	389	358	288	335
Dividend on ordinary shares	160	240	250	120	270
Net operating surplus retained	280	149	108	168	65
Significant Statement of Financial Position Items					
Total assets	37,847	35,303	31,007	29,305	23,576
Impaired assets	47	88	112	143	125
Total liabilities (including subordinated debt)	36,056	33,792	29,645	28,051	22,480
Shareholders' equity attributable to members of Bank of New Zealand	1,791	1,511	1,362	1,254	1,096

Other than the transfer of the Banking Group's Australian branch operations to National Australia Bank Limited during the year ended 30 September 1997, there have been no material changes in the activities of the Banking Group during the years referred to in this historical summary of financial statements.

The amounts disclosed in this historical summary of financial statements have been taken from the audited financial statements of the Banking Group.

Statement of Financial Performance

For the year ended 30 September 2001

Dollars in Millions	Note	Consolidated		The Company	
		30/9/01	30/9/00	30/9/01	30/9/00
Interest income	2	2,583	2,313	2,320	2,033
Interest expense	2	1,830	1,648	1,770	1,566
Net interest income		753	665	550	467
Impaired asset expense	10	12	13	12	11
Net interest income after impaired asset expense		741	652	538	456
Other operating income	3	494	491	542	620
Total operating income		1,235	1,143	1,080	1,076
Operating expenses	4	648	630	675	656
Operating surplus before income tax expense		587	513	405	420
Income tax expense	5	147	124	101	78
Net surplus attributable to shareholders of Bank of New Zealand		440	389	304	342

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

Statement of Movements in Equity

For the year ended 30 September 2001

Dollars in Millions	Note	Consolidated		The Company	
		30/9/01	30/9/00	30/9/01	30/9/00
Total shareholders' equity at beginning of year		1,511	1,362	1,426	1,324
Net surplus attributable to shareholders of Bank of New Zealand		440	389	304	342
Total recognised revenues and expenses		440	389	304	342
Contribution from owners:					
Amalgamation of subsidiary		-	-	43	-
Distributions to owners during the year:					
Ordinary dividend		(160)	(240)	(160)	(240)
		(160)	(240)	(117)	(240)
Total shareholders' equity at end of year		1,791	1,511	1,613	1,426
Paid in capital (2,470,997,499 shares)		1,451	1,451	1,451	1,451

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

The paid in capital is included in tier one capital of the Banking Group and the Registered Bank.

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

Statement of Financial Position

As at 30 September 2001

Dollars in Millions	Note	Consolidated		The Company	
		30/9/01	30/9/00	30/9/01	30/9/00
Assets					
Cash and call balances with central banks		140	126	140	126
Due from other banks	6	2,503	872	2,503	871
Securities	7	2,665	2,503	2,643	2,475
Loans	8,9	29,304	27,706	26,664	23,726
Amounts due from related parties	24	192	91	239	734
Investments in subsidiary companies	12	-	-	3,045	3,167
Property, plant and equipment	13	233	226	74	63
Income tax assets	14	137	116	103	89
Other assets	15	2,673	3,663	2,374	3,420
Total assets		37,847	35,303	37,785	34,671
Financed by:					
Liabilities					
Due to other banks	16	2,335	923	2,335	923
Deposits	17	23,443	19,366	23,443	18,684
Amounts due to related parties	24	6,387	9,512	6,635	9,733
Income tax liabilities	19	106	80	100	82
Provision for dividend		-	140	-	140
Subordinated loans from related parties	21	1,087	1,086	1,087	1,086
Other liabilities	22	2,698	2,685	2,572	2,597
Total liabilities		36,056	33,792	36,172	33,245
Shareholders' equity		1,791	1,511	1,613	1,426
Total liabilities and shareholders' equity		37,847	35,303	37,785	34,671

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

Statement of Cash Flows

For the year ended 30 September 2001

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Cash flows from operating activities				
Cash was provided from:				
Dividend income	-	-	88	178
Interest income	2,567	2,289	2,303	2,011
Other income	390	451	348	407
Trading securities and derivative financial instruments *	703	21	699	25
Cash was applied to:				
Interest expense	(1,806)	(1,674)	(1,747)	(1,592)
Operating expenses	(578)	(575)	(626)	(629)
Taxes and subvention payments	(142)	(133)	(113)	(88)
Net cash flows from operating activities	1,134	379	952	312
Cash flows from investing activities				
Cash was provided from:				
Decrease in other assets *	480	-	529	-
Proceeds from maturity of investment securities	1,537	1,855	1,537	1,855
Proceeds from sale of property, plant and equipment	19	15	11	-
Cash was applied to:				
Increase in due from other banks (term) *	(1,297)	(234)	(1,298)	(233)
Increase in investments *	-	-	-	(500)
Increase in loans *	(1,610)	(2,013)	(1,556)	(1,503)
Increase in other assets *	-	(1,314)	-	(1,255)
Purchase of property, plant and equipment	(69)	(61)	(47)	(42)
Purchase of investment securities	(1,826)	(1,574)	(1,826)	(1,574)
Net cash flows from investing activities	(2,766)	(3,326)	(2,650)	(3,252)
Cash flows from financing activities				
Cash was provided from:				
Increase in deposits *	4,077	-	4,016	-
Increase in due to other banks (term) *	939	-	939	-
Increase in other liabilities *	19	279	-	267
Increase in subordinated loans from related parties	-	150	-	150
Other related party funding *	-	4,445	-	4,433
Cash was applied to:				
Decrease in deposits *	-	(1,118)	-	(1,103)
Decrease in due to other banks (term) *	-	(155)	-	(155)
Dividend on ordinary shares	(300)	(200)	(300)	(200)
Other related party funding *	(3,226)	-	(3,080)	-
Net cash flows from financing activities	1,509	3,401	1,575	3,392
Net (decrease)/increase in cash and cash equivalents	(123)	454	(123)	452
Cash and cash equivalents at beginning of year	(47)	(439)	(47)	(437)
Effect of exchange rate changes on cash	(2)	(62)	(2)	(62)
Cash and cash equivalents at end of year	(172)	(47)	(172)	(47)

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

Statement of Cash Flows continued

For the year ended 30 September 2001

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Cash and cash equivalents comprise:				
Cash and call balances with central banks	140	126	140	126
Due from other banks (call)	501	167	501	167
Due to other banks (call)	(813)	(340)	(813)	(340)
Total cash and cash equivalents	(172)	(47)	(172)	(47)
Reconciliation of net surplus attributable to shareholders of Bank of New Zealand to net cash flows from operating activities				
Net surplus attributable to shareholders of Bank of New Zealand	440	389	304	342
Add back:				
Depreciation	39	34	26	21
Decrease in accrued interest receivable	36	18	35	20
Decrease in trading securities and derivative financial instruments	598	-	591	-
Increase in accrued interest payable	24	-	23	-
Increase in operating expenses	-	35	-	24
Increase in provision for tax	5	-	-	-
Impaired asset expense	12	13	12	11
Loss on sale of property, plant and equipment	11	4	3	2
Deduct:				
Decrease in accrued interest payable	-	(26)	-	(26)
Decrease in operating expenses	(31)	-	(30)	-
Decrease in provision for tax	-	(9)	(12)	(10)
Increase in trading securities and derivative financial instruments	-	(79)	-	(72)
Net cash flows from operating activities	1,134	379	952	312

Netting of Cash Flows

Certain cash flows are shown net as these cash flows are received and disbursed on behalf of customers and therefore reflect the activities of customers rather than those of the Bank.

Cash and cash equivalents consist of cash and liquid assets used in the day-to-day cash management of the Bank. Previously term amounts due from and to other banks were included in Cash and cash equivalents. This treatment has been discontinued given these amounts are unable to be liquidated within two working days.

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

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

Notes to and Forming Part of the Financial Statements

For the year ended 30 September 2001

Note 1 Principal Accounting Policies

In these financial statements, Bank of New Zealand, the "Parent Entity", is referred to as the "Bank" or the "Company". The "Banking Group" consists of the Bank and those controlled entities listed in note 12.

The financial statements are general purpose financial reports prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 1998.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Although the Banking Group has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. It is not anticipated that such differences would be material.

Historical Cost

The financial statements are based on historical cost and therefore do not reflect changes in the purchasing power of money or current valuations of non-monetary assets, except where indicated.

Currency of Presentation

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

Rounding of Amounts

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

Changes in Accounting Policies

Dividends declared by Directors by a resolution after balance date have previously been treated as a liability as at balance date. The Financial Reporting Standards Board (FRSB) recently issued a new standard, FRS-5 Events after balance date. The dividend declared by Directors on 26 October 2001 is disclosed as a post balance date event in note 40. The implementation of this new accounting policy had the following impact on the financial statements for the current year: provision for dividend is nil as at 30 September 2001 (30 September 2000: \$140 million), and the final dividend declared on 26 October 2001 has not been reflected in the statement of movements in equity.

Comparative Amounts

Comparative amounts have been reclassified and where appropriate restated to accord with changes in presentation made in 2001, except where otherwise stated.

Principles of Consolidation

All entities which are "controlled" by the Bank are included in the consolidated financial statements. Control means the ability or power of the Bank to dominate decision making directly or indirectly in relation to the financial and operating policies of another entity, to enable that other entity to operate with the Bank in pursuing the Bank's objectives.

All inter-entity balances, transactions and profits are eliminated on consolidation. Controlled entities prepare financial statements for consolidation in conformity with the Bank's accounting policies.

Where controlled entities have been acquired or sold during the financial period, their operating results have been included from the date of acquisition or to the date of sale.

Associates are entities over which the Bank exerts significant influence but does not exercise control. Associates are accounted for utilising the cost method with only dividends received or receivable recognised in the statement of financial performance. This method does not differ significantly from accounting for Associates under the equity method.

Foreign Currency Translation

All foreign currency monetary assets and liabilities, are revalued at the rates of exchange ruling at balance date. Unrealised gains and losses arising from these revaluations are recognised immediately in the statement of financial performance. Foreign currency income and expense amounts are translated at average rates of exchange for the year.

Differences arising on the translation of financial statements of all overseas controlled entities and overseas branches are recognised immediately in the statement of financial performance.

It is the Banking Group's policy from a trading risk viewpoint to maintain a substantially matched position in assets and liabilities in foreign currencies and net exposure to exchange risk in this respect is not material.

Notes to and Forming Part of the Financial Statements continued

Note 1 Principal Accounting Policies continued

Assets

Cash Assets

Cash assets are items readily convertible into cash and are generally repayable on demand. Cash assets are brought to account at the face value or the gross value of the outstanding balances where appropriate.

Due from Other Banks

Due from other banks includes loans, nostros balances, and settlement account balances due from other banks. They are brought to account at the gross value of the outstanding balance.

Acceptances

The Banking Group's liability under acceptances is reported in the statement of financial position. The Banking Group has equal and offsetting claims against its customers, which are reported as an asset. The Banking Group's own acceptances discounted are held as part of either the trading securities or loan portfolio depending on whether, at the time of such discount, the intention was to hold acceptances for resale or until maturity respectively.

Trading Securities

Trading securities are public and other debt securities which are purchased for current resale in day to day trading operations. Trading securities are recorded at fair value and unrealised gains or losses in respect of fair value adjustments are recognised immediately in the statement of financial performance.

The fair value of trading securities represents the quoted market value of those securities adjusted for any risk, control or liquidity premium.

Trading securities are recorded on a trade date basis.

Available for Sale Securities

Available for sale securities are public and other debt securities which are purchased with the intention to be held for an indefinite period of time but not necessarily to maturity. Such securities may be sold in response to various factors including significant changes in interest rates, liquidity requirements and regulatory capital considerations.

Available for sale securities are recorded at the lower of aggregate cost or market value. Cost is adjusted for the amortisation of premiums and accretion of discounts to maturity. Unrealised losses in respect of market value adjustments and realised gains and losses on sale of available for sale securities are recognised in the statement of financial performance. The cost of securities sold is calculated on a specific identification basis.

Available for sale securities are recorded on a trade date basis.

Investment Securities

Investment securities are public and other debt securities which are purchased with the positive intent and ability to hold until maturity. Such securities are recorded at original cost adjusted for the amortisation of premiums and accretion of discounts to maturity. Unrealised losses relating to other than temporary diminutions in the value of investment securities are recognised in the statement of financial performance and the recorded values of those securities adjusted accordingly. In those rare instances where an investment security is sold prior to maturity, profits or losses on sales are taken to the statement of financial performance when realised.

Investment securities are recorded on a trade date basis.

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase are retained within the investment, available for sale or trading portfolios and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the statement of financial performance over the term of the repurchase agreement. Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the statement of financial performance over the term of the reverse repurchase agreement.

Notes to and Forming Part of the Financial Statements continued

Note 1 Principal Accounting Policies continued

Loans

Loans include overdrafts, credit card lending, bill financing, housing loans, lease finance, other term lending and redeemable preference shares finance. They are at recoverable amount represented by the gross value of the outstanding balance adjusted for provisions for bad and doubtful debts and unearned income.

Loans to customers made through equity instruments are included in the statement of financial position as *Loans*. Dividends and other distributions received or receivable on such equity instruments are included in the statement of financial performance as part of **Interest income**.

Bad and Doubtful Debts

The provision for bad and doubtful debts provides for losses inherent in loans, and off-balance sheet credit extensions such as letters of credit, guarantees and undrawn commitments to extend credit.

A specific provision is established to cover all identified doubtful debts and is recognised when there is reasonable doubt over the collectability of principal and interest in accordance with the loan agreement. Amounts provided for are determined by specific identification and by estimation of expected losses in relation to loan portfolios where specific identification is impracticable. All bad debts are written off against the provision in the period in which they are classified as irrecoverable.

The Banking Group has adopted a statistically based provisioning methodology for its general provision for doubtful debts. Under this methodology, the Banking Group estimates the level of losses inherent, but not specifically identified, in its existing credit portfolio, based on the historical loss experience of the component exposures.

The operation of the statistically based provisioning methodology is such that when individual loans are classified as non-accrual, specific provisions will be raised by making a transfer from the general provision. The general provision is then re-established based on the remaining portfolio of performing credit exposures.

All loans and off balance sheet credit extensions are subject to continuous management surveillance.

Asset Quality

The Banking Group has disclosed, in note 11, certain components of its loan portfolio as impaired assets according to the classifications discussed below:

- **Non-accrual loans** which consist of:
 - all loans against which a specific provision has been raised;
 - loans which are contractually past due 90 days with security insufficient to cover principal and arrears of interest;
 - restructured loans where the interest rate charged is lower than the Banking Group's average cost of funds;
 - loans not included above, that are maintained on a cash basis because of a significant deterioration in the financial performance or position of the borrower; and
 - impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.
- **Restructured loans** are those loans on which the original contractual terms have been concessionally modified due to the financial difficulties of borrowers, and on which interest continues to be accrued at a rate which is equal to or greater than the Banking Group's average cost of funds at the date of restructuring.
- **Assets acquired through security enforcement** are those assets (primarily real estate) acquired through actual foreclosure or in full or partial satisfaction of loans.

Income Recognition on Non-Accrual Loans

When a loan is classified as non-accrual, income ceases to be recognised in the statement of financial performance on an accruals basis as reasonable doubt exists as to the collectability of interest and principal. Interest charged on non-accrual loans in the current reporting period is reversed against income.

Cash receipts on non-accrual loans which are not contractually past due are recognised in the statement of financial performance as interest income to the extent that the cash receipt represents unaccrued interest.

Cash receipts on non-accrual loans which are contractually past due are applied against the carrying value of the loan if the receipt relates to proceeds from the sale of security or scheduled principal repayments. All other cash receipts in relation to non-accrual loans are recognised as interest income to the extent that the cash receipts represent accrued interest.

Notes to and Forming Part of the Financial Statements continued

Note 1 Principal Accounting Policies continued

Leasing

Finance leases, in which the Banking Group is the lessor, are included in **Loans** and are accounted for using the finance method, whereby income determined on an actuarial basis is taken to account over the term of the lease in proportion to the outstanding investment balance. Where the Banking Group is a lessee, leased assets are capitalised and the corresponding liability is recognised in other liabilities.

Lease rentals receivable and payable on operating leases are recognised in the statement of financial performance in periodic amounts over the effective lease term.

Leveraged Leases with lease terms beginning on or after 1 October 1999, are accounted for as finance leases. Investments in leveraged leases entered into before 1 October, 1999, are recorded at an amount equal to the equity participation and are net of long term debt for which there is no recourse to the lessor in the event of default by the lessee. Income is taken to account on an actuarial basis over the term of each lease. Where a change occurs in estimated lease cash flows during the term of a lease, total lease profit is recalculated and reallocated over the entire lease term. Net of tax income has been grossed up at current rates to reflect the appropriate pre-tax equivalent amount.

Unearned Income

Unearned income on the Banking Group's consumer instalment lending and leasing is calculated on an actuarial basis. The actuarial basis does not differ significantly from a level yield basis.

Shares in Entities

Shares in entities are stated at original cost less any necessary provision for diminution in value, or at Directors' valuation. Unrealised losses relating to diminution in the value of shares in entities are recognised in the statement of financial performance.

Property, Plant and Equipment

All land and buildings are revalued annually by Directors to reflect current market values. Directors' valuations are based on advice received from independent valuers on an existing use basis. Independent valuations are carried out on a three-year cycle on an existing use basis.

Increments arising from property revaluations are credited to the asset revaluation reserve. Revaluation decrements, being reversals of increments previously credited to, and included in the balance of the asset revaluation reserve are charged against that reserve.

All other property, plant and equipment acquired since the last revaluation are carried at the lower of cost, less accumulated depreciation and recoverable amount. If the carrying amount of property, plant and equipment exceeds its recoverable amount, the asset is written down to the lower value. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value unless otherwise stated.

The costs of developing, acquiring and enhancing internal-use software are capitalised and amortised over the estimated useful life of the software, which ranges from three to five years. The cost of developing websites are capitalised and amortised over their useful life, which ranges from three to five years, except for costs incurred during the planning and implementation stages which are expensed as incurred.

With the exception of land, all property, plant and equipment is depreciated or amortised at rates over their estimated useful lives using either diminishing value or straight line as appropriate to the Banking Group. The following depreciation rates have been applied.

	Straight Line Rates	Diminishing Value Rates
Buildings	3.3%	not applicable
Leasehold Improvements	Rate based on life of the lease to a maximum of ten years	20%
Furniture and Fittings	10%	10-25%
PC's and Related Software	33 $\frac{1}{3}$ %	48%
Other Data Processing Equipment and Related Software	20%	25-48%

Profit or loss on the sale of property, plant and equipment, which is determined as the difference between the carrying amount of property, plant and equipment at the time of disposal and the sale proceeds, is treated as operating income or expense. Any asset revaluation reserve amount relating to assets sold is transferred to retained earnings.

Notes to and Forming Part of the Financial Statements continued

Note 1 Principal Accounting Policies continued

Goodwill

Goodwill, representing the excess of the purchase consideration over the fair value of the identifiable net assets acquired on the date of acquisition of a controlled entity, is recognised as an asset. Goodwill is amortised from the date of acquisition by systematic charges on a straight line basis against income over the period in which the benefits are expected to arise, but not exceeding 20 years. The carrying value of goodwill is reviewed at least annually. If the carrying value of goodwill exceeds the value of expected future benefits, the difference is charged to the statement of financial performance.

Liabilities

Due to Other Banks

Due to other banks includes deposits, vostro balances and settlement account balances due to other banks. They are brought to account at the gross value of the outstanding balance.

Deposits

Deposits and other borrowings include non-interest bearing deposits redeemable at call, certificates of deposits, interest bearing deposits, debentures and other funds raised publicly by borrowing corporations. They are brought to account at the gross value of the outstanding balances.

Provisions

Employee Entitlements

Employee entitlements to long service leave are accrued using an actuarial calculation based on legal and contractual entitlements and assessments having regard to staff departures, leave utilisation and future salary increases. This method does not differ significantly from calculating the amount using present value techniques.

The provision for annual leave is accrued based on an employee's total remuneration package.

Restructuring

Provisions for restructuring costs include provisions for expenses incurred but not yet paid and future expenses that will arise as a direct consequence of decisions already made.

Surplus Leased Space

Provision is made for surplus leased space when it is determined that no substantive future benefit will be obtained by the Banking Group from its occupancy. This arises where premises are currently leased under non-cancellable operating leases and either the premises are not occupied, are being sub-leased for lower rentals than the Banking Group pays, or there are no substantive benefits beyond a known future date. The provision is determined on the basis of the present value of net future cash flows.

Subordinated Debt

Subordinated debt issued by the Banking Group is recorded at cost.

Derivative Financial Instruments Held or Issued for Trading Purposes

Trading derivatives include swaps, futures, forward, option and other contingent or exchange traded contracts in the interest rate and foreign exchange markets. Trading derivatives are measured at fair value and the resultant gains and losses are recognised in **Other operating income**. The fair value of trading derivatives is reported on a gross basis as **Other assets** or **Other liabilities** as appropriate.

The fair value of a derivative financial instrument represents the present value of future expected cash flows arising from that instrument.

Derivative Financial Instruments Held or Issued for Purposes other than Trading

The principal objective of using derivative financial instruments for purposes other than trading is to maximise the level of net interest income, while maintaining acceptable levels of interest rate and liquidity risk, and to facilitate the funding needs of the Banking Group. To achieve this objective, a combination of derivatives including swaps, futures, forward, option and other contingent or exchange traded contracts in the interest rate and foreign exchange markets may be used.

Hedging derivatives must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Accordingly, changes in the fair value of the hedging derivative must be closely correlated with changes in the fair value of the underlying exposure at inception of the hedge and over the term of the hedged exposure. Hedging derivatives are accounted for in a manner consistent with the accounting treatment of the hedged items.

Notes to and Forming Part of the Financial Statements continued

Note 1 Principal Accounting Policies continued

The net income or expense on derivatives used to manage interest rate exposures is recorded in **Net interest income** on an accruals basis. If a derivative that is used to manage an interest rate exposure is terminated early, any resulting gain or loss is deferred within **Other assets** or **Other liabilities** and amortised to **Net interest income** over the remaining period originally covered by the terminated contract. If the underlying interest rate exposure position ceases to exist, any deferred gain or loss is recognised immediately in **Other operating income**.

Gains or losses on derivatives used to hedge exposures arising from anticipated future transactions are deferred within **Other assets** or **Other liabilities** until such time as the accounting impact of the anticipated transaction is recognised in the financial statements. Such gains or losses only qualify for deferral where there is a high probability of the future transaction materialising. If it becomes apparent that the future transaction will not materialise, any deferred gain or loss is recognised immediately in **Other operating income**.

Interest receivables and payables for interest rate swaps with the same counterparty are reported on a net basis as **Other assets** or **Other liabilities** where a legal right of set-off exists.

Margin deposits for exchange traded derivatives are reported as **Other assets**.

Trustee and Funds Management Activities

The consolidated financial statements include the shareholders' interest in trustee companies which act as trustee and/or manager of a number of investments and trusts. These funds and trusts are not included in the consolidated financial statements as the Banking Group does not have either direct or indirect control of the funds and trusts. The Trustee hold a right of indemnity against the assets of the applicable funds or trusts for liabilities incurred in their capacity as trustees. As the assets are sufficient to cover liabilities, the liabilities are not included in these financial statements.

Commissions and fees earned in respect of the Banking Group's trust activities are included in the statement of financial performance. The statement of financial performance also includes commissions and fees earned from funds management activities undertaken by certain entities within the Banking Group.

Revenue and Expense Recognition

Net Interest Income

Net interest income is reflected in the statement of financial performance when earned on an accruals basis. Interest is accrued on loans and deposits according to the yield associated with the outstanding principal.

Dividend Income

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

Loan Related Fees and Costs

Loan origination fees, if material, are recognised in income over the life of the loan as an adjustment of yield. Commitment fees are deferred, and if the commitment is exercised, recognised in income over the life of the loan as an adjustment of yield or, if unexercised, recognised in income upon expiration of the commitment. Where commitment fees are retrospectively determined and nominal in relation to market interest rates on related loans, commitment fees are recognised in income when charged. Where the likelihood of exercise of the commitment is remote, commitment fees are recognised in income over the commitment period. Loan related administration and service fees are recognised in income over the period of service. Credit card fees are recognised in income over the card usage period.

Direct loan origination costs, if material, are netted against loan origination fees and the net amount recognised in income over the life of the loan as an adjustment of yield. All other loan related costs are expensed as incurred.

Loan origination fees and direct loan origination costs are recognised in income as an adjustment of yield using the constant yield method of amortisation. All other loan related fees are recognised in income using the straight line method of amortisation.

Fees and Commissions

When fees and commissions relate to specific transactions or events they are recognised as income in the period in which they are received. When they are charged for services provided over a period, they are recognised as income on an accruals basis.

Notes to and Forming Part of the Financial Statements continued

Note 1 Principal Accounting Policies continued

Trading Income

Gains and losses realised from the sale of trading securities and unrealised fair value adjustments are reflected in the statement of financial performance. Realised and unrealised gains and losses on trading derivative instruments are reflected in the statement of financial performance.

Life Insurance Business

The Banking Group conducts life insurance business through its controlled entity BNZ Life Insurance Limited. The consolidated financial statements include the shareholders' interest in the life insurance fund of BNZ Life Insurance Limited.

The Banking Group's interest in the profits of the life insurance statutory funds have been included in the statement of financial performance. The profits have been determined in accordance with the **Margin on Services** methodology for the valuation of policy liabilities.

Superannuation

Superannuation expense represents the annual funding determined on an actuarial basis to provide for future obligations. The asset and liabilities of the Banking Group's superannuation scheme are not consolidated as the Banking Group has no control over them.

Income Tax

The Banking Group adopts tax effect accounting using the liability method on a comprehensive basis.

The tax effect of timing differences, which occur where items are claimed for income tax purposes in a period different from that when they are recognised in the financial statements, is included in the provision for deferred income tax or future income tax benefits as applicable at current taxation rates.

The future income tax benefit relating to timing differences and any future income tax benefit relating to tax losses are not carried forward as an asset unless the benefits are virtually certain of being realised.

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 relevant tax authority. In these circumstances, the tax is recognised as part of the cost of the expense or the acquisition of the asset.

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

Cash flows are included in the statement of cash flows on a gross basis. The tax component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Inland Revenue Department are classified as operating cash flows.

Notes to and Forming Part of the Financial Statements continued

Statement of Financial Performance Notes

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Note 2 Interest				
Interest income				
Other banks	107	72	107	72
Loans	2,274	2,084	1,985	1,768
Impaired assets	12	5	12	5
Related parties	9	5	36	42
Securities:				
Trading securities	128	105	127	104
Investment securities	53	42	53	42
Total interest income	2,583	2,313	2,320	2,033
Interest expense				
Other banks	94	53	94	53
Deposits	1,068	935	1,034	894
Related parties	448	489	458	498
Subordinated loans from related parties	79	68	79	68
Other	141	103	105	53
Total interest expense	1,830	1,648	1,770	1,566
Note 3 Other Operating Income				
Dividends received from related companies	-	-	88	178
Life business income	23	23	-	-
Loan fees	97	103	96	102
Loss on foreign exchange translation	(1)	(3)	(1)	(3)
Money transfer fees	155	154	155	154
Other fees and commissions	110	109	96	92
Profit on sale of property, plant and equipment	1	1	-	-
Other income	4	4	-	-
Trading income:				
Foreign exchange trading	102	118	105	116
Securities and interest rate related derivatives trading	3	(18)	3	(19)
Total other operating income	494	491	542	620

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Note 4 Operating Expenses				
Salaries and other staff expenses	292	293	277	277
Depreciation	39	34	26	21
Life business claims	6	7	-	-
Loss on sale of property, plant and equipment	11	4	3	2
Rental on operating leases	35	34	7	7
Subvention payments to subsidiaries	-	-	73	74
Other expenses (refer also to table below)	265	258	289	275
Total operating expenses	648	630	675	656
Other expenses include (Dollars in Thousands)				
Amortisation of goodwill	1,303	1,303	332	-
Donations	5	6	5	5
Fees paid to auditors:				
Audit services	610	563	586	503
Other services	1,640	1,221	1,499	1,125
Remuneration of directors (Dollars in Thousands)				
Fees paid to directors	365	272	219	215
<hr/>				
Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Note 5 Income Tax Expense				
Reconciliation of the prima facie income tax payable on operating surplus with the income tax expense charged in the statement of financial performance				
Operating surplus before income tax expense	587	513	405	420
Prima facie income tax expense on operating surplus at 33%	194	169	134	139
Prior year adjustments to income tax expense	1	-	(4)	-
Tax effect of permanent differences:				
Non-assessable and tax paid income	(52)	(56)	(30)	(63)
Non-deductible expenses	3	9	-	-
Other	1	2	1	2
Total income tax expense	147	124	101	78
Income tax expense comprises:				
Current taxation	121	133	94	107
Deferred taxation	26	(9)	7	(29)
Total income tax expense	147	124	101	78

Notes to and Forming Part of the Financial Statements continued

Asset Notes

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Note 6 Due from Other Banks				
Call advances to banks	501	167	501	167
Term advances to banks	2,002	705	2,002	704
Total due from other banks	2,503	872	2,503	871
Note 7 Securities				
Trading securities				
Treasury bills	219	209	219	209
Government securities	136	119	135	118
Other securities	1,293	1,499	1,272	1,472
Total trading securities	1,648	1,827	1,626	1,799
Investment securities				
Treasury bills	798	477	798	477
Government securities	-	162	-	162
Commercial bonds	69	37	69	37
Other securities	150	-	150	-
Total investment securities	1,017	676	1,017	676
Total securities	2,665	2,503	2,643	2,475
Note 8 Loans				
New Zealand				
Current accounts	2,558	2,383	2,558	2,383
Term loans	21,824	20,310	21,806	18,945
Other lending	2,191	2,242	2,168	2,218
Total New Zealand	26,573	24,935	26,532	23,546
Overseas				
Term loans	2,931	2,971	332	371
Total overseas	2,931	2,971	332	371
Total gross loans	29,504	27,906	26,864	23,917
Deduct: Specific provisions for doubtful debts				
New Zealand	13	18	13	17
Total specific provisions for doubtful debts	13	18	13	17
General provision for doubtful debts	187	182	187	174
Total provisions for doubtful debts	200	200	200	191
Total net loans	29,304	27,706	26,664	23,726

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Note 9 Loans By Industry Analysis				
New Zealand				
Government and public authorities	210	226	210	224
Agriculture, forestry and fishing	3,106	2,836	3,106	2,764
Financial, investment and insurance	2,304	2,325	2,286	2,325
Real estate – construction	165	201	165	155
Real estate – mortgage	10,170	9,307	10,170	9,307
Personal lending	1,572	1,486	1,572	1,475
Other commercial and industrial	9,046	8,554	9,023	7,296
Total New Zealand	26,573	24,935	26,532	23,546
Overseas				
Agriculture, forestry and fishing	282	278	282	278
Financial, investment and insurance	2,599	2,600	-	-
Real estate – mortgage	19	30	19	30
Personal lending	9	5	9	5
Other commercial and industrial	22	58	22	58
Total overseas	2,931	2,971	332	371
Total gross loans	29,504	27,906	26,864	23,917
Deduct: Specific provisions for doubtful debts				
Agriculture, forestry and fishing	1	3	1	3
Personal lending	4	5	4	5
Other commercial and industrial	8	10	8	9
Total specific provisions for doubtful debts	13	18	13	17
General provision for doubtful debts	187	182	187	174
Total provisions for doubtful debts	200	200	200	191
Total net loans	29,304	27,706	26,664	23,726

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated					
	Non-Accrual Assets 30/9/01	Past Due Assets 30/9/01	Total Assets 30/9/01	Non-Accrual Assets 30/9/00	Past Due Assets 30/9/00	Total Assets 30/9/00
Note 10 Provisions for Doubtful Debts						
Specific provisions for doubtful debts						
Balance at beginning of year	15	3	18	25	2	27
Transfer (to)/from general provision	(1)	8	7	(9)	6	(3)
Bad debts written off	(11)	(12)	(23)	(18)	(8)	(26)
Recovery of bad debts written off in previous years	7	4	11	17	3	20
Balance at end of year	10	3	13	15	3	18
General provision for doubtful debts						
Balance at beginning of year			182			166
Transfer (to)/from specific provisions			(7)			3
Charge to statement of financial performance			12			13
Balance at end of year			187			182
Total provisions for doubtful debts			200			200
The Company						
Specific provisions for doubtful debts						
Balance at beginning of year	14	3	17	25	2	27
Amalgamation of subsidiary	1	-	1	-	-	-
Adjusted balance at beginning of year	15	3	18	25	2	27
Transfer (to)/from general provision	(1)	8	7	(10)	6	(4)
Bad debts written off	(11)	(12)	(23)	(18)	(8)	(26)
Recovery of bad debts written off in previous years	7	4	11	17	3	20
Balance at end of year	10	3	13	14	3	17
General provision for doubtful debts						
Balance at beginning of year			174			159
Amalgamation of subsidiary			8			-
Adjusted balance at beginning of year			182			159
Transfer (to)/from specific provisions			(7)			4
Charge to statement of financial performance			12			11
Balance at end of year			187			174
Total provisions for doubtful debts			200			191

Notes to and Forming Part of the Financial Statements continued

Note 11 Asset Quality

The Banking Group provides for doubtful debts as disclosed in note 10. Accordingly, when management determines that recovery of a loan is doubtful, the principal amount and accrued interest on the obligation are written down to estimated net realisable value and interest charges are no longer included in the statement of financial performance.

Dollars in Millions	Consolidated					
	Non-Accrual Assets 30/9/01	Past Due Assets 30/9/01	Total Assets 30/9/01	Non-Accrual Assets 30/9/00	Past Due Assets 30/9/00	Total Assets 30/9/00
Movements in pre-provision balances						
Balance at beginning of year	88	20	108	112	19	131
Bad debts written off	(11)	(12)	(23)	(18)	(8)	(26)
(Deletions)/additions	(30)	289	259	(6)	9	3
Balance at end of year	47	297	344	88	20	108
Interest income recognised on impaired assets						
Impaired assets recovered during the year	12			5		
Total interest income recognised on impaired assets	12			5		
Interest foregone on impaired assets *	6			10		
The Company						
Movements in pre-provision balances						
Balance at beginning of year	85	20	105	109	19	128
Amalgamation of subsidiary	3	-	3	-	-	-
Adjusted balance at beginning of year	88	20	108	109	19	128
Bad debts written off	(11)	(12)	(23)	(18)	(8)	(26)
(Deletions)/additions	(30)	289	259	(6)	9	3
Balance at end of year	47	297	344	85	20	105
Interest income recognised on impaired assets						
Impaired assets recovered during the year	12			5		
Total interest income recognised on impaired assets	12			5		
Interest foregone on impaired assets *	6			10		

Gross amounts for the Banking Group and the Company have been prepared without regard to security available for such loans. Past due loans and restructured loans are not necessarily doubtful. A further \$12 million of short term/seasonal (overdraft) lending has been identified as being outside formal arrangements for 90 days or more as at 30 September 2001 (30 September 2000: \$12 million). The majority of this lending is more than adequately secured to normal bank standards.

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

Off-balance sheet non-accrual assets (Consolidated and The Company)

Included in the above end of year balance of non-accrual assets are off-balance sheet facilities of nil for 30 September 2001 (30 September 2000: \$10 million). No specific provisions have been made against these facilities as at 30 September 2001 (30 September 2000: nil).

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions

Note 12 Investments in Subsidiaries

Unlisted – at cost

Deduct: Provision for diminution in value

Total investments in subsidiaries

The Company	
30/9/01	30/9/00
3,108	3,230
63	63
3,045	3,167

Subsidiaries of the Bank as at 30 September 2001 were:

Name	Country of Incorporation	Principal Activities
Custom Fleet (NZ) Limited	New Zealand	Motor vehicle fleet leasing and management
BNZ Funding Limited	New Zealand	Investment company
BNZ International (Hong Kong) Limited	Hong Kong	Investment company
BNZ Capital Guaranteed Growth Fund Limited	New Zealand	Investment company
BNZ Corporation Limited	New Zealand	Non-trading
BNZ Investments Limited	New Zealand	Investment company
BNZ Equipment Limited	New Zealand	Leasing company
BNZ International Limited	New Zealand	Investment company
Amber Liquid Investments Limited (51%)	Cayman Islands	Investment company
BNZ Investment Management Limited	New Zealand	Investment management
BNZ Life Insurance Limited	New Zealand	Life insurance
BNZ Nominees Limited	New Zealand	Nominee company
BNZ Property Investments Limited	New Zealand	Property company
BNZ Branch Properties Limited	New Zealand	Property company
BNZ Properties (Auckland) Limited	New Zealand	Property company
BNZ Properties Limited	New Zealand	Property company
Flamingo Holdings Incorporated	United States	Non-trading
Maroro Leasing Limited	New Zealand	Non-trading
National Australia Limited	New Zealand	Non-trading
New Zealand Card Services Limited	New Zealand	Non-trading
Iraklis Eleven Limited	New Zealand	Investment company
Screen Holdings Limited	New Zealand	Investment company
Screen Holdings No. 2 Limited	New Zealand	Investment company
Screen Holdings No. 3 Limited	New Zealand	Investment company
Screen Holdings No. 4 Limited	New Zealand	Investment company
Screen Holdings No. 5 Limited	New Zealand	Non-trading
Screen Holdings No. 6 Limited	New Zealand	Non-trading
BNZI Securities No. 1 Limited	New Zealand	Investment company
BNZI Securities No. 2 Limited	New Zealand	Investment company
Quill Financing Limited (76%)	New Zealand	Non-trading
Peterel Financing Limited	New Zealand	Non-trading

All subsidiaries listed above have the same balance date as the Bank, with the exception of Amber Liquid Investments Limited, which has a balance date of 31 December. They are all 100% owned unless otherwise stated.

The consolidated financial statements also include the controlled entity, Income Trust No. 1 (the "Trust"). The Trust was established on 2 June 1999, as a Delaware Business Trust, and has a balance date of 31 December. BNZ Investments Limited is the Trust Sponsor.

Notes to and Forming Part of the Financial Statements continued

Note 12 Investments in Subsidiaries continued**Amalgamation**

On 30 June 2001 the assets and liabilities of BNZ Finance Limited were transferred to the Bank of New Zealand by a short form amalgamation procedure under Part XIII of the Companies Act 1993. The effect of the amalgamation is that BNZ Finance Limited ceased to exist as a separate legal entity and registered bank on 30 June 2001 and Bank of New Zealand as the amalgamated entity assumed all operational and contractual obligations of BNZ Finance Limited from 30 June 2001 onwards. The amalgamation had the following effect on the Company's financial position:

Dollars in Millions

Assets

Loans	1,394
Amounts due from related parties	3
Property, plant and equipment	1
Income tax assets	4
Goodwill	19
Other assets	5
Total assets	1,426

Financed by:

Liabilities

Deposits	743
Amounts due to related parties	480
Income tax liabilities	20
Other liabilities	18
Total liabilities	1,261

Net assets acquired	165
Cost of investment	122
Surplus recognised in statement of movements in equity	43

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00

Note 13 Property, Plant and Equipment**Freehold land**

At valuation	33	36	-	-
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Buildings

At valuation	48	54	1	1
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Deduct: Accumulated depreciation	-	-	-	-
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Total freehold land and buildings	81	90	1	1
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Leasehold improvements

At cost	11	17	2	2
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Deduct: Accumulated depreciation	6	10	1	1
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Total leasehold improvements	5	7	1	1
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Furniture, fittings and other equipment

At cost	166	164	35	33
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Deduct: Accumulated depreciation	86	86	25	23
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Total furniture, fittings and other equipment	80	78	10	10
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Data processing equipment

At cost	189	166	183	160
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Deduct: Accumulated depreciation	122	115	121	109
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Total data processing equipment	67	51	62	51
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Total property, plant and equipment	233	226	74	63
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Notes to and Forming Part of the Financial Statements continued

Note 13 Property, Plant and Equipment continued

All properties are revalued annually. The latest valuation was carried out in July 2001. In determining the valuation of freehold and leasehold land and buildings, the Directors have utilised advice received from Darroch Limited and TelferYoung Limited, independent registered public valuers. All property values have been subjected to further discounting as considered appropriate by the Directors.

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Note 14 Income Tax Assets				
Income tax refund receivable	34	23	2	2
Future income tax benefit	103	93	101	87
Total income tax assets	137	116	103	89
Future income tax benefit comprises:				
Provisions for doubtful debts	66	65	66	63
Other provisions	24	20	24	20
Other	13	8	11	4
Total future income tax benefit	103	93	101	87
Movements in future income tax benefit				
Balance at beginning of year	93	112	87	107
Deferred portion of current year income tax expense	10	(19)	14	(20)
Balance at end of year	103	93	101	87
Note 15 Other Assets				
Accrued interest receivable	103	139	103	132
Goodwill	19	20	19	-
Securities sold – not yet settled	197	166	197	166
Unrealised gains on derivative financial instruments	1,178	1,683	1,146	1,683
Other assets	1,176	1,655	909	1,439
Total other assets	2,673	3,663	2,374	3,420

Notes to and Forming Part of the Financial Statements continued

Liability Notes

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Note 16 Due to Other Banks				
New Zealand				
Call deposits	813	340	813	340
Term deposits	32	1	32	1
Total New Zealand	845	341	845	341
Overseas				
Term deposits	1,490	582	1,490	582
Total overseas	1,490	582	1,490	582
Total due to other banks	2,335	923	2,335	923
Note 17 Deposits				
New Zealand				
Demand deposits not bearing interest	824	773	824	791
Other demand and short term deposits	5,827	4,641	5,827	4,466
Certificates of deposit	3,747	2,872	3,747	2,881
Term deposits	10,212	9,999	10,212	9,466
Other deposits	497	494	497	493
Total New Zealand	21,107	18,779	21,107	18,097
Overseas				
Other demand and short term deposits	25	34	25	34
Commercial paper	1,713	-	1,713	-
Term deposits	598	553	598	553
Total overseas	2,336	587	2,336	587
Total deposits	23,443	19,366	23,443	18,684

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Note 18 Concentrations of Funding				
New Zealand				
Government and public authorities	414	417	414	413
Agriculture, forestry and fishing	840	591	840	587
Financial, investment and insurance	6,051	4,622	6,051	4,636
Real estate – construction	185	165	185	162
Personal deposits	8,221	7,527	8,221	6,904
Other commercial and industrial	7,953	5,798	7,953	5,736
Related parties	233	35	481	256
Total New Zealand	23,897	19,155	24,145	18,694
Overseas				
Related parties	7,241	10,563	7,241	10,563
Other	2,114	1,169	2,114	1,169
Total overseas	9,355	11,732	9,355	11,732
Total funding	33,252	30,887	33,500	30,426

Funding comprises deposits, amounts due to related parties and due to other banks and subordinated loans.

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Note 19 Income Tax Liabilities				
Current income tax liability	-	10	22	25
Provision for deferred income tax liability	106	70	78	57
Total income tax liability	106	80	100	82
Provision for deferred income tax liability comprises:				
Depreciation	3	-	9	4
Financial instruments	31	14	31	14
Other	72	56	38	39
Total provision for deferred income tax liability	106	70	78	57
Movements in provision for deferred income tax liability				
Balance at beginning of year	70	98	57	106
Deferred portion of current year income tax expense	36	(28)	21	(49)
Balance at end of year	106	70	78	57

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Note 20 Imputation Credit Account				
Balance at beginning of year	49	38	19	9
Transfers from other group companies	5	-	9	-
Imputation credits attaching to dividends received during the year	2	7	3	6
Imputation credits attaching to dividends paid during the year	(56)	(42)	(56)	(42)
Income tax payments during the year net of refunds	46	46	47	46
Balance at end of year	46	49	22	19

Note 21 Subordinated Loans from Related Parties

The following subordinated loans have no fixed maturity dates and are expressed to be subordinated to all other indebtedness of the Bank. All loans are denominated in New Zealand dollars except for the upper tier two loan from NAB Capital LLC which is denominated in United States dollars.

The loans constitute upper or lower tier two capital for Reserve Bank of New Zealand capital adequacy purposes as follows:

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Subordinated loans from				
Lower tier two capital				
NAB Capital LLC	230	230	230	230
National Equities Limited	485	485	485	485
	715	715	715	715
Upper tier two capital				
NAB Capital LLC	182	181	182	181
National Equities Limited	190	190	190	190
	372	371	372	371
Total subordinated loans from related parties	1,087	1,086	1,087	1,086

The interest rates are reset on the New Zealand dollar loans every three months based on the prevailing rate for New Zealand 90 day bank bills. Cross currency swaps have been entered into in respect of the United States dollar loan. Interest rates are reset every three months based on a margin over the prevailing rate for New Zealand 90 day bank bills. The effective weighted average interest rate applying on the loans was 6.9% p.a. as at 30 September 2001 (30 September 2000: 7.7% p.a.).

Loans that constitute lower tier two capital are repayable on five years and one day's notice. No request to repay the loans has been received. Loans that constitute upper tier two capital can be repaid only at the Bank's option, subject to certain conditions, at any time on seven days' notice.

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Note 22 Other Liabilities				
Accrued interest payable	128	104	128	93
Securities purchased – not yet settled	417	102	417	102
Short sales of securities	263	216	263	216
Unrealised losses on derivative financial instruments	1,390	1,807	1,350	1,800
Employee entitlements	47	38	47	38
Other liabilities	453	418	367	348
Total other liabilities	2,698	2,685	2,572	2,597

Notes to and Forming Part of the Financial Statements continued

Other Notes

Note 23 Interest Earning and Discount Bearing Assets and Liabilities and Ranking of Liabilities

Ranking of Liabilities

The deposit liabilities reported in these financial statements by the Banking Group are unsecured and rank equally with the Banking Group's other unsecured liabilities. Liabilities totalling \$60 million as at 30 September 2001 (30 September 2000: \$50 million) rank in priority to general creditors' claims in a winding up of the Bank. Subordinated loans from related parties totalling \$1,087 million as at 30 September 2001 (30 September 2000: \$1,086 million) rank behind the claims of general creditors in a winding up. Included in liabilities are obligations of the Bank under repurchase agreements where the Bank has agreed to repurchase Government stock totalling \$497 million as at 30 September 2001 (30 September 2000: \$494 million).

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Interest earning and discount bearing assets	34,817	31,284	32,202	27,912
Interest and discount bearing liabilities	32,691	30,330	32,939	29,851

Note 24 Related Party Transactions

The Bank is a wholly owned subsidiary of National Australia Bank Limited. During the year there have been dealings between the Bank, its subsidiaries, its parent, and other members of the National Australia Bank Limited Group. Dealings include on-balance sheet activities such as funding and accepting deposits and off-balance sheet 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.

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Amounts due from related parties				
Call	22	91	22	91
Term	170	-	217	643
Total amounts due from related parties	192	91	239	734
Amounts due to related parties				
Call	55	2,209	89	2,209
Term	6,332	7,303	6,546	7,524
Total amounts due to related parties	6,387	9,512	6,635	9,733
Subordinated loans from related parties (refer to note 21)	1,087	1,086	1,087	1,086

Dividends paid to shareholders are disclosed in the statement of movements in equity. There were no debts with any of the above parties written off or forgiven during the year ended 30 September 2001 (30 September 2000: nil).

During the year ended 30 September 2001 the Bank made subvention payments and payments for the use of tax losses and tax credits to its subsidiaries and other subsidiaries of National Australia Bank totalling \$125 million (30 September 2000: \$116 million).

Details of other related party interest income and interest expense are contained in note 2.

Notes to and Forming Part of the Financial Statements continued

Note 24 Related Party Transactions continued**Loans to Directors**

Loans made to non-executive Directors of the Bank and controlled entities are made in the ordinary course of business on commercial terms and conditions. Loans made to executive Directors of the Bank and controlled entities are made either:

- on normal commercial terms and conditions; or
- on terms and conditions which apply to other employees in the Banking Group. Interest rates on the loans ranged from 4.10% to 8.80%.

Dollars in Thousands	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Loans to directors				
Loans on normal terms and conditions	13,284	25,386	13,284	25,386
Loans on employee terms and conditions	457	255	457	255
Total loans to directors	13,741	25,641	13,741	25,641

Notes to and Forming Part of the Financial Statements continued

Note 25 Fair Value of Financial Instruments

Dollars in Millions	Consolidated			
	Carrying Amount 30/9/01	Fair Value 30/9/01	Carrying Amount 30/9/00	Fair Value 30/9/00
Financial assets				
Liquid assets	115	115	161	161
Due from other banks	2,503	2,503	872	872
Securities	2,665	2,667	2,503	2,503
Loans	29,304	29,546	27,706	27,778
Amounts due from related parties	192	192	91	91
Other	341	341	262	262
Total financial assets	35,120	35,364	31,595	31,667
Financial liabilities				
Due to other banks	2,335	2,335	923	923
Securities	263	263	216	216
Deposits	23,443	23,501	19,366	19,378
Amounts due to related parties	6,387	6,387	9,512	9,512
Subordinated loans from related parties	1,087	1,087	1,086	1,086
Other	417	417	102	102
Total financial liabilities	33,932	33,990	31,205	31,217
The Company				
Financial assets				
Liquid assets	115	115	165	165
Due from other banks	2,503	2,503	871	871
Securities	2,643	2,645	2,475	2,475
Loans	26,664	26,772	23,726	23,719
Amounts due from related parties	239	239	734	734
Other	197	197	166	166
Total financial assets	32,361	32,471	28,137	28,130
Financial liabilities				
Due to other banks	2,335	2,335	923	923
Securities	263	263	216	216
Deposits	23,443	23,501	18,684	18,694
Amounts due to related parties	6,635	6,635	9,733	9,733
Subordinated loans from related parties	1,087	1,087	1,086	1,086
Other	417	417	102	102
Total financial liabilities	34,180	34,238	30,744	30,754

The fair value of off-balance sheet derivative financial instruments are disclosed in note 29.

The fair values of classes of financial assets and liabilities that reprice within six months are assumed to equate to carrying value at balance date. The fair values of all other classes of financial assets and liabilities are calculated using discounted cash flow models based on current interest rates for the type and maturity of the loan or deposit.

Notes to and Forming Part of the Financial Statements continued

Note 26 Maturity Profile

Dollars in Millions	Consolidated 30/9/01				
	Total	3 Months or Less	3 to 12 Months	1 to 5 Years	Over 5 Years
Assets					
Cash and balances with central banks	140	140	-	-	-
Loans, due from other banks and related parties	31,999	13,428	1,852	6,779	9,940
Securities	2,665	1,591	656	207	211
	34,804	15,159	2,508	6,986	10,151
Liabilities					
Deposits, due to other banks and related parties	32,165	22,885	6,976	883	1,421
Securities	263	-	57	133	73
Subordinated loans from related parties	1,087	-	-	-	1,087
	33,515	22,885	7,033	1,016	2,581
Consolidated 30/9/00					
Assets					
Cash and balances with central banks	126	126	-	-	-
Loans, due from other banks and related parties	28,669	11,285	1,582	6,575	9,227
Securities	2,503	1,344	682	280	197
	31,298	12,755	2,264	6,855	9,424
Liabilities					
Deposits, due to other banks and related parties	29,801	22,982	4,914	446	1,459
Securities	216	-	-	101	115
Subordinated loans from related parties	1,086	-	-	-	1,086
	31,103	22,982	4,914	547	2,660

Notes to and Forming Part of the Financial Statements continued

Note 26 Maturity Profile continued

Dollars in Millions	The Company 30/9/01				
	Total	3 Months or Less	3 to 12 Months	1 to 5 Years	Over 5 Years
Assets					
Cash and balances with central banks	140	140	-	-	-
Loans, due from other banks and related parties	29,406	13,453	1,852	4,161	9,940
Securities	2,643	1,569	656	207	211
	32,189	15,162	2,508	4,368	10,151
Liabilities					
Deposits, due to other banks and related parties	32,413	23,133	6,976	883	1,421
Securities	263	-	57	133	73
Subordinated loans from related parties	1,087	-	-	-	1,087
	33,763	23,133	7,033	1,016	2,581
The Company 30/9/00					
Assets					
Cash and balances with central banks	126	126	-	-	-
Loans, due from other banks and related parties	25,331	11,870	1,383	2,947	9,131
Securities	2,475	1,333	682	280	180
	27,932	13,329	2,065	3,227	9,311
Liabilities					
Deposits, due to other banks and related parties	29,340	22,670	4,690	367	1,613
Securities	216	-	-	101	115
Subordinated loans from related parties	1,086	-	-	-	1,086
	30,642	22,670	4,690	468	2,814

Notes to and Forming Part of the Financial Statements continued

Note 27 Interest Rate Repricing Schedule

		Consolidated 30/9/01					
Dollars in Millions	Weighted Average Interest Rate %	Total	3 Months or Less	3 to 12 Months	1 to 5 Years	Over 5 Years	Non- Interest Sensitive
Assets							
Cash and balances with central banks	-	140	-	-	-	-	140
Loans, due from other banks and related parties	7.3	32,199	20,204	4,219	7,623	106	47
Provision for doubtful debts		(200)	-	-	-	-	(200)
Securities	5.5	2,665	1,591	656	207	211	-
Other assets	-	3,043	-	-	-	-	3,043
Total assets		37,847	21,795	4,875	7,830	317	3,030
Liabilities and equity							
Deposits, due to other banks and related parties	4.2	32,165	27,304	3,437	540	60	824
Other liabilities	-	2,541	-	-	-	-	2,541
Securities	5.3	263	-	57	133	73	-
Subordinated loans from related parties	6.9	1,087	905	-	-	182	-
Shareholders' equity	-	1,791	-	-	-	-	1,791
Total liabilities and equity		37,847	28,209	3,494	673	315	5,156
On-balance sheet gap		-	(6,414)	1,381	7,157	2	(2,126)
Off-balance sheet gap			6,691	(2,324)	(4,445)	78	
Total interest rate sensitivity gap			277	(943)	2,712	80	

The weighted average interest rate referred to in the table above is the weighted average rate as at 30 September 2001 for the interest sensitive assets and liabilities.

		Consolidated 30/9/00					
Assets							
Cash and balances with central banks	-	126	-	-	-	-	126
Loans, due from other banks and related parties	8.3	28,869	17,709	3,565	7,308	199	88
Provision for doubtful debts		(200)	-	-	-	-	(200)
Securities	6.6	2,503	1,344	682	280	197	-
Other assets	-	4,005	-	-	-	-	4,005
Total assets		35,303	19,053	4,247	7,588	396	4,019
Liabilities and equity							
Deposits, due to other banks and related parties	5.8	29,801	23,624	4,897	498	9	773
Other liabilities	-	2,689	-	-	-	-	2,689
Securities	6.8	216	-	-	101	115	-
Subordinated loans from related parties	7.7	1,086	905	-	-	181	-
Shareholders' equity	-	1,511	-	-	-	-	1,511
Total liabilities and equity		35,303	24,529	4,897	599	305	4,973
On-balance sheet gap		-	(5,476)	(650)	6,989	91	(954)
Off-balance sheet gap			4,512	(547)	(3,955)	(10)	
Total interest rate sensitivity gap			(964)	(1,197)	3,034	81	

The weighted average interest rate referred to in the table above is the weighted average rate as at 30 September 2000 for the interest sensitive assets and liabilities.

Notes to and Forming Part of the Financial Statements continued

Note 27 Interest Rate Repricing Schedule continued

Dollars in Millions	Weighted Average Interest Rate %	The Company 30/9/01					Non-Interest Sensitive
		Total	3 Months or Less	3 to 12 Months	1 to 5 Years	Over 5 Years	
Assets							
Cash and balances with central banks	-	140	-	-	-	-	140
Loans, due from other banks and related parties	7.1	29,606	19,611	4,219	5,623	106	47
Provision for doubtful debts		(200)	-	-	-	-	(200)
Securities	5.5	2,643	1,569	656	207	211	-
Other assets	-	5,596	-	-	-	-	5,596
Total assets		37,785	21,180	4,875	5,830	317	5,583
Liabilities and equity							
Deposits, due to other banks and related parties	4.2	32,413	27,552	3,437	540	60	824
Other liabilities	-	2,409	-	-	-	-	2,409
Securities	5.3	263	-	57	133	73	-
Subordinated loans from related parties	6.9	1,087	905	-	-	182	-
Shareholders' equity	-	1,613	-	-	-	-	1,613
Total liabilities and equity		37,785	28,457	3,494	673	315	4,846
On-balance sheet gap		-	(7,277)	1,381	5,157	2	737
Off-balance sheet gap			4,691	(2,324)	(2,445)	78	
Total interest rate sensitivity gap			(2,586)	(943)	2,712	80	

The weighted average interest rate referred to in the table above is the weighted average rate as at 30 September 2001 for the interest sensitive assets and liabilities.

Dollars in Millions	Weighted Average Interest Rate %	The Company 30/9/00					Non-Interest Sensitive
		Total	3 Months or Less	3 to 12 Months	1 to 5 Years	Over 5 Years	
Assets							
Cash and balances with central banks	-	126	-	-	-	-	126
Loans, due from other banks and related parties	8.1	25,522	17,291	2,882	5,070	194	85
Provision for doubtful debts		(191)	-	-	-	-	(191)
Securities	6.6	2,475	1,333	682	280	180	-
Other assets	-	6,739	-	-	-	-	6,739
Total assets		34,671	18,624	3,564	5,350	374	6,759
Liabilities and equity							
Deposits, due to other banks and related parties	5.8	29,340	23,449	4,674	417	9	791
Other liabilities	-	2,603	-	-	-	-	2,603
Securities	6.8	216	-	-	101	115	-
Subordinated loans from related parties	7.7	1,086	905	-	-	181	-
Shareholders' equity	-	1,426	-	-	-	-	1,426
Total liabilities and equity		34,671	24,354	4,674	518	305	4,820
On-balance sheet gap		-	(5,730)	(1,110)	4,832	69	1,939
Off-balance sheet gap			2,012	(47)	(1,955)	(10)	
Total interest rate sensitivity gap			(3,718)	(1,157)	2,877	59	

The weighted average interest rate referred to in the table above is the weighted average rate as at 30 September 2000 for the interest sensitive assets and liabilities.

Notes to and Forming Part of the Financial Statements continued

Note 28 Foreign Currency Risk

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 on-balance sheet assets and liabilities in that currency aggregated with the net expected cash flows from off-balance sheet 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 balance date.

Net Open Position

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
US dollar	(18)	(3)	(18)	(3)
Australian dollar	3	3	3	3
Japanese yen	(8)	1	(8)	1
Great British pound	-	1	-	1
Euro	(2)	4	(2)	4
Other	1	(1)	1	(1)

Note 29 Derivative Financial Instruments

The Banking Group's credit exposure for derivative financial instruments has been determined in accordance with the Reserve Bank of New Zealand's capital adequacy guidelines, using the **Current Exposure Method**.

Notional Principal, Estimated Credit Equivalent and Fair Value

Dollars in Millions	Consolidated					
	Notional Amount 30/9/01	Notional Amount 30/9/00	Credit Equivalent 30/9/01	Credit Equivalent 30/9/00	Fair Value 30/9/01	Fair Value 30/9/00
Foreign exchange rate related contracts						
Spot and forward contracts to purchase foreign exchange						
Trading	31,147	28,334	509	1,300	(216)	(201)
Other than trading	4,232	3,521	210	564	100	529
Total spot and forward contracts to purchase foreign exchange	35,379	31,855	719	1,864	(116)	328
Cross currency swaps						
Trading	3,166	2,314	489	410	202	141
Other than trading	3,541	2,342	655	845	518	771
Total cross currency swaps	6,707	4,656	1,144	1,255	720	912
Options						
Trading	1,468	1,320	29	35	-	-
Total options	1,468	1,320	29	35	-	-
Total foreign exchange rate related contracts	43,554	37,831	1,892	3,154	604	1,240

The spot and forward contracts to purchase foreign exchange, other than trading (fair value and carrying value of \$100 million as at 30 September 2001 (30 September 2000: \$529 million)) and the cross currency swaps, other than trading (fair value and carrying value of \$518 million as at 30 September 2001 (30 September 2000: \$771 million)) are hedges of foreign currency funding. The gains on the foreign exchange contracts and cross currency swaps offset the losses on the foreign currency funding.

Notes to and Forming Part of the Financial Statements continued

Note 29 Derivative Financial Instruments continued

Notional Principal, Estimated Credit Equivalent and Fair Value continued

Dollars in Millions	Consolidated					
	Notional Amount 30/9/01	Notional Amount 30/9/00	Credit Equivalent 30/9/01	Credit Equivalent 30/9/00	Fair Value 30/9/01	Fair Value 30/9/00
Interest rate related contracts						
Forward rate agreements						
Trading	7,187	3,843	6	2	-	-
Other than trading	-	370	-	-	-	-
Total forward rate agreements	7,187	4,213	6	2	-	-
Swaps						
Trading	25,855	25,203	427	276	(123)	(60)
Other than trading	12,811	12,212	204	73	(135)	(122)
Total swaps	38,666	37,415	631	349	(258)	(182)
Futures						
Trading	2,183	3,298	-	-	(3)	1
Other than trading	4,712	839	-	-	(5)	1
Total futures	6,895	4,137	-	-	(8)	2
Options						
Trading	1,299	2,486	6	10	3	2
Total options	1,299	2,486	6	10	3	2
Swaptions						
Trading	220	90	1	1	1	1
Total swaptions	220	90	1	1	1	1
Total interest rate related contracts	54,267	48,341	644	362	(262)	(177)
Other contracts						
Equity options						
Other than trading	64	-	3	-	1	-
Total other contracts	64	-	3	-	1	-

The **other than trading** interest rate swaps hedge structural interest rate risk associated with the Bank's statement of financial position. The carrying value of these swaps as at 30 September 2001 was \$73 million net payable (30 September 2000: \$23 million net payable). The unrecognised fair value loss as at 30 September 2001 of \$62 million (30 September 2000: \$99 million fair value loss) which is calculated as the fair value loss of \$135 million (30 September 2000: \$122 million fair value loss) adjusted for the recognised net payable of \$73 million (30 September 2000: \$23 million net payable) partially offsets the net unrecognised fair value gain on the Bank's on-balance sheet financial instruments. The fair value of on-balance sheet financial instruments are disclosed in note 25.

As at 30 September 2001 all of the above contracts have been taken out by the Company other than \$2,500 million worth of other than trading swaps (30 September 2000: \$3,150 million) taken out by subsidiaries of the Bank.

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated			
	30/9/01 \$	30/9/01 %	30/9/00 \$	30/9/00 %
Note 30 Segment Analysis				
Geographical				
Operating income				
New Zealand	1,219	99	1,127	99
Overseas	16	1	16	1
Total operating income	1,235	100	1,143	100
Operating surplus from continuing activities before income tax expense				
New Zealand	575	98	501	98
Overseas	12	2	12	2
Total operating surplus from continuing activities before income tax expense	587	100	513	100
Net surplus attributable to shareholders of Bank of New Zealand				
New Zealand	432	98	381	98
Overseas	8	2	8	2
Total net surplus attributable to shareholders of Bank of New Zealand	440	100	389	100
Assets				
New Zealand	36,165	96	34,018	96
Overseas	1,682	4	1,285	4
Total assets	37,847	100	35,303	100
Risk weighted exposures				
New Zealand	25,533	98	23,381	98
Overseas	511	2	489	2
Total risk weighted exposures	26,044	100	23,870	100

Assets and income are based on office of domicile. Intersegmental pricing is based on commercial terms. The Banking Group operates predominantly in the banking and finance industry.

Notes to and Forming Part of the Financial Statements continued

Note 31 Contingent Liabilities and Credit Commitments

On 1 October 2000 National Australia Group (NZ) Limited and BNZ Branch Properties Limited joined the income tax group of Bank of New Zealand. Bank of New Zealand and other income tax group members have a joint and several liability of 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. The aggregate potential liability arising in respect of these claims cannot be accurately assessed. Where some loss is probable appropriate provisions have been made. The Banking Group does not consider that the outcome of any claims made either individually or in aggregate are likely to have material effects on its operations or financial position.

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

Dollars in Millions	Consolidated			
	Notional Amount 30/9/01	Credit Equivalent 30/9/01	Notional Amount 30/9/00	Credit Equivalent 30/9/00
Contingent liabilities				
Guarantees	93	93	112	112
Standby letters of credit	199	199	219	219
Documentary letters of credit	79	16	150	30
Performance related contingencies	169	85	158	79
Guarantees to investors in managed funds	30	30	26	26
Other contingent liabilities	-	-	32	32
Total contingent liabilities	570	423	697	498
Credit related commitments				
Outright forward purchases and forward deposits	240	240	86	86
Commitments to extend credit	3,940	104	3,913	227
Total credit related commitments	4,180	344	3,999	313
The Company				
Contingent liabilities				
Guarantees	93	93	110	110
Standby letters of credit	199	199	219	219
Documentary letters of credit	79	16	150	30
Performance related contingencies	169	85	158	79
Guarantees to investors in managed funds	30	30	26	26
Unpaid share capital in subsidiaries and other companies	15	15	17	17
Other contingent liabilities	-	-	32	32
Total contingent liabilities	585	438	712	513
Credit related commitments				
Outright forward purchases and forward deposits	240	240	86	86
Commitments to extend credit	3,940	104	3,781	161
Total credit related commitments	4,180	344	3,867	247

The notional amount represents the maximum credit risk. The credit equivalent amount records the estimated potential loss if the counterparty were to default, and is determined in accordance with the Reserve Bank of New Zealand's risk weighted capital adequacy guidelines. These credit equivalents are then weighted in the same manner as the statement of financial position assets according to counterparty for capital adequacy purposes. For additional information refer to note 37.

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

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Note 32 Capital Expenditure Commitments				
Land and buildings				
Due within one year	3	-	-	-
Data processing and other equipment				
Due within one year	14	16	14	16
Furniture and fittings				
Due within one year	7	6	-	-
Total capital expenditure commitments	24	22	14	16

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

Dollars in Millions	Consolidated		The Company	
	30/9/01	30/9/00	30/9/01	30/9/00
Note 33 Lease Commitments				
Operating lease commitments				
Land and buildings				
Due within one year	32	33	1	3
Due within one to two years	25	27	2	2
Due within two to five years	42	52	3	3
Due after five years	60	66	3	2
Total operating lease commitments	159	178	9	10
Figures include liabilities taken up for surplus leased space.				
Finance lease commitments (included under other liabilities)				
Data processing and other equipment				
Due within one year	-	-	-	1
Total finance lease commitments	-	-	-	1

Notes to and Forming Part of the Financial Statements continued

Note 34 Credit Exposures to Connected Persons and Non-Bank Connected Persons

The Reserve Bank of New Zealand defines **Connected Persons** to be other members of the National Australia Bank Limited Group. Subsidiary companies of the Bank are not connected persons. Peak credit exposures to connected persons are calculated using the Banking Group's end of period tier one capital.

Dollars in Millions	Consolidated			
	As At 30/9/01	As At 30/9/00	Peak for 3 Months Ended 30/9/01	Peak for 3 Months Ended 30/9/00
Credit exposure to connected persons	752	885	1,006	908
Credit exposure to connected persons expressed as a percentage of tier one capital of the Banking Group	42.4%	59.4%	56.8%	60.9%

The Banking Group does not have any credit exposures to non-bank connected persons. Credit exposures are based on actual exposures rather than internal limits, and are net of specific provisions and gross of set-offs.

Where a bank is funding a large loan it is common practice to share the risk of a customer default with the connected banks. These arrangements are called risk lay-off arrangements. As at 30 September 2001 the Banking Group had a contingent credit exposure of \$267 million (30 September 2000: \$468 million) arising from risk lay-off arrangements with connected persons.

There were no specific provisions against credit exposures to connected persons as at 30 September 2001 (30 September 2000: nil). The Bank has at all times managed its exposure to connected persons based on the Reserve Bank of New Zealand's 75% limit.

Notes to and Forming Part of the Financial Statements continued

Note 35 Concentrations of Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties

The Banking Group's disclosure of concentration of credit exposure to individual counterparties and groups of closely related counterparties is based on actual credit exposures. Peak credit exposures to individual counterparties are calculated using the Banking Group's end of period shareholders' equity.

Consolidated				
Peak End-of-Day Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties				
Percentage of Shareholders' Equity %	Number of Non-Banks		Number of Banks	
	For the 3 Months Ended 30/9/01	For the 3 Months Ended 30/9/00	For the 3 Months Ended 30/9/01	For the 3 Months Ended 30/9/00
	10 - 19	7	4	12
20 - 29	2	4	4	3
30 - 39	1	1	2	5
40 - 49	-	1	1	2
50 - 59	-	-	2	1
60 - 69	-	1	3	2
70 - 79	-	-	-	-
80 - 89	-	-	1	-

Consolidated				
Balance Date Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties				
Percentage of Shareholders' Equity %	Number of Non-Banks		Number of Banks	
	As At 30/9/01	As At 30/9/00	As At 30/9/01	As At 30/9/00
	10 - 19	6	7	5
20 - 29	3	1	4	-
30 - 39	-	1	-	3
40 - 49	-	1	-	-
50 - 59	-	-	1	-
60 - 69	-	1	-	-

Where the Banking Group is making large loans it is common practice to share the risk of a customer default with other connected banks or enter into other risk lay-off arrangements. The above tables have been compiled using gross exposures before risk lay-offs.

Note 36 Securitisation, Funds Management and Other Fiduciary Activities**Funds Management**

The Bank and BNZ Investment Management Limited provide discretionary funds management services to a number of unit trusts, superannuation schemes and private clients.

BNZ Investment Management Limited is trustee of registered superannuation schemes.

BNZ Life Insurance Limited issues term life insurance contracts and administers all policyholder funds as required by the Life Insurance Act 1908.

BNZ Investment Management Limited is responsible for keeping the register of unitholders for the 15 unit trusts for which that company is manager.

The Bank derives commission and fee income from the sale and management of superannuation, unit trust and life insurance products referred to above.

Notes to and Forming Part of the Financial Statements continued

Note 36 Securitisation, Funds Management and Other Fiduciary Activities continued

Custodial Services

BNZ Nominees Limited provides non-discretionary custodial services primarily in respect of assets that are beneficially owned by clients for whom the Bank and BNZ Investment Management Limited provide funds management services.

Securitisation

The Banking Group has not securitised any of its assets. The Banking Group has arranged the securitisation of certain customers' assets and provides banking services to customers' securitisation vehicles.

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 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 auditors, management and trustees, appropriate contractual agreements and compliance with contractual obligations and regulatory requirements. Other than Capital Guaranteed Growth Notes with a value of \$27 million (30 September 2000: \$19 million), and registered superannuation schemes with a value of \$3 million as at 30 September 2001 (30 September 2000: \$7 million) 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 proposals have been provided on arms 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 arms length terms and conditions.

Funds Under Management

The aggregate values of assets subject to funds management and other fiduciary activities were:

Dollars in Millions	30/9/01	30/9/00
Discretionary funds management	2,264	2,481
Capital Guaranteed Growth Notes	27	19
Term life insurance policyholders' funds	7	8

Peak Aggregate Funding Provided to Entities

Peak end-of-day aggregate amount of funding (including funding provided by the purchase of units in certain managed funds) provided by the Banking Group during the three months ended 30 September 2001 to unit trusts which the Banking Group provided discretionary funds management services was \$15 million representing 0.8% of the Banking Group's tier one capital as at the end of the period (30 September 2000: \$15 million, 1.0%).

Details of funding (including funding provided by the purchase of securities) provided by the Banking Group to individual unit trusts for which the Banking Group provides discretionary funds management services are disclosed in the table below:

	Peak End-of-Day Aggregate Amount of Funding During the Period		Peak End-of-Day Aggregate Amount of Funding During the Period Expressed As A Percentage of Amount of Securities Issued As At End-of-Period	
	Dollars in Millions			
	For the 3 Months Ended 30/9/01	For the 3 Months Ended 30/9/00	For the 3 Months Ended 30/9/01	For the 3 Months Ended 30/9/00
BNZ International Bond Trust	8	8	4.1%	4.5%
BNZ International Equity Trust	4	4	2.7%	2.9%
BNZ Mortgage Investment Fund	3	3	1.1%	1.1%

Notes to and Forming Part of the Financial Statements continued

Note 37 Capital Adequacy**Calculation of the Capital Ratio of the Registered Bank**

For the purposes of calculating capital adequacy ratios for the Bank (the "Registered Bank"), as set out in the tables below, subsidiaries which are both wholly owned and wholly funded by the Registered Bank are consolidated with the Registered Bank. In this context, wholly funded by the Registered Bank means that there are no liabilities (including off-balance sheet obligations) to anyone other than:

- a) the Registered Bank;
- b) the Department of Inland Revenue; and
- c) trade creditors, where aggregate exposure to trade creditors does not exceed 5% of the subsidiary's shareholders' equity.

Wholly owned by the Registered Bank means that all equity issued by the subsidiary is held by the Registered Bank.

The current minimum standard ratio of total qualifying capital expressed as a percentage of total risk weighted exposures specified by the Reserve Bank of New Zealand is 8.0%.

Risk Weighted Capital

Dollars in Millions	Consolidated		The Registered Bank	
	30/9/01	30/9/00	30/9/01	30/9/00
Qualifying capital				
Tier one capital				
Paid in capital	1,451	1,451	1,451	1,451
Retained earnings	340	60	399	80
Deductions from tier one capital:				
Goodwill	19	20	19	-
Total tier one capital	1,772	1,491	1,831	1,531
Upper tier two capital				
Subordinated loans from related parties	372	371	372	371
Total upper tier two capital	372	371	372	371
Lower tier two capital				
Subordinated loans from related parties	715	715	715	715
Total lower tier two capital	715	715	715	715
Total tier two capital	1,087	1,086	1,087	1,086
Total tier one and tier two capital	2,859	2,577	2,918	2,617
Deduct: Investment in subsidiaries not wholly owned or wholly funded	-	-	22	145
Total qualifying capital	2,859	2,577	2,896	2,472
Total risk weighted exposures	26,044	23,870	26,148	23,148
Risk based adjusted capital ratios				
Total tier one capital expressed as a percentage of total risk weighted exposures	6.80%	6.25%	7.00%	6.61%
Total qualifying capital expressed as a percentage of total risk weighted exposures	10.98%	10.80%	11.08%	10.68%

Notes to and Forming Part of the Financial Statements continued

Note 37 Capital Adequacy continued**Calculation of Balance Sheet Exposures**

Dollars in Millions	Consolidated		
	Principal Amount 30/9/01	Risk Weighting 30/9/01	Risk Weighted Exposure 30/9/01
Cash and claims on qualifying central banks and governments with maturity within one year	374	0%	-
Claims on qualifying governments with maturity over one year	1,550	10%	155
Claims on banks and New Zealand local authorities	5,689	20%	1,138
Loans secured by residential mortgages	10,306	50%	5,153
All other assets	19,928	100%	19,928
Adjustments	-	-	(1,835)
Total assets	37,847		24,539

Calculation of Off-Balance Sheet Exposures

Dollars in Millions	Principal Amount 30/9/01	Credit Conversion Factor 30/9/01	Credit Equivalent Amount 30/9/01	Average Counterparty Risk Weight 30/9/01	Risk Weighted Exposure 30/9/01
Direct credit substitutes	292	100%	292	100%	292
Commitments with certain drawdown	240	100%	240	91%	219
Transaction related contingent liabilities	169	50%	85	100%	85
Short term, self liquidating trade related contingencies	79	20%	16	100%	16
Commitments for financial services:					
Maturity is greater than one year	208	50%	104	100%	104
Maturity is less than one year or can be cancelled at any time	3,732	0%	-	0%	-
Market related contracts: *					
Foreign exchange contracts	42,820	-	1,892	31%	590
Interest rate contracts	53,551	-	644	31%	198
Other	64	-	3	20%	1
Total off-balance sheet items	101,155		3,276		1,505
Total risk weighted exposures					26,044

* Market related contracts differ to the amounts disclosed in note 29 due to options written by the Bank.

Notes to and Forming Part of the Financial Statements continued

Note 37 Capital Adequacy continued**Calculation of Balance Sheet Exposures**

Dollars in Millions	Consolidated		
	Principal Amount 30/9/00	Risk Weighting 30/9/00	Risk Weighted Exposure 30/9/00
Cash and claims on qualifying central banks and governments with maturity within one year	386	0%	-
Claims on qualifying governments with maturity over one year	1,671	10%	167
Claims on banks and New Zealand local authorities	4,485	20%	897
Loans secured by residential mortgages	9,657	50%	4,829
All other assets	19,104	100%	19,104
Adjustments	-	-	(2,924)
Total assets	35,303		22,073

Calculation of Off-Balance Sheet Exposures

Dollars in Millions	Principal Amount	Credit Conversion Factor	Credit Equivalent Amount	Average Counterparty Risk Weight	Risk Weighted Exposure
	30/9/00	30/9/00	30/9/00	30/9/00	30/9/00
Direct credit substitutes	331	100%	331	100%	331
Asset sales with recourse	32	100%	32	10%	3
Commitments with certain drawdown	86	100%	86	100%	86
Transaction related contingent liabilities	158	50%	79	100%	79
Short term, self liquidating trade related contingencies	150	20%	30	100%	30
Commitments for financial services:					
Maturity is greater than one year	453	50%	227	98%	223
Maturity is less than one year or can be cancelled at any time	3,460	0%	-	0%	-
Market related contracts: *					
Foreign exchange contracts	37,165	-	3,161	29%	922
Interest rate contracts	47,240	-	403	31%	123
Total off-balance sheet items	89,075		4,349		1,797
Total risk weighted exposures					23,870

* Market related contracts differ to the amounts disclosed in note 29 due to options written by the Bank.

Notes to and Forming Part of the Financial Statements continued

Note 37 Capital Adequacy continued**Calculation of Balance Sheet Exposures**

Dollars in Millions	The Registered Bank		
	Principal Amount 30/9/01	Risk Weighting 30/9/01	Risk Weighted Exposure 30/9/01
Cash and claims on qualifying central banks and governments with maturity within one year	374	0%	-
Claims on qualifying governments with maturity over one year	1,550	10%	155
Claims on banks and New Zealand local authorities	5,667	20%	1,133
Loans secured by residential mortgages	10,306	50%	5,153
All other assets	20,038	100%	20,038
Adjustments	-	-	(1,835)
Total assets	37,935		24,644

Calculation of Off-Balance Sheet Exposures

Dollars in Millions	Principal Amount 30/9/01	Credit Conversion Factor 30/9/01	Credit Equivalent Amount 30/9/01	Average Counterparty Risk Weight 30/9/01	Risk Weighted Exposure 30/9/01
Direct credit substitutes	302	100%	302	97%	294
Commitments with certain drawdown	240	100%	240	91%	219
Transaction related contingent liabilities	169	50%	85	100%	85
Short term, self liquidating trade related contingencies	79	20%	16	100%	16
Commitments for financial services:					
Maturity is greater than one year	208	50%	104	100%	104
Maturity is less than one year or can be cancelled at any time	3,732	0%	-	0%	-
Market related contracts: *					
Foreign exchange contracts	42,820	-	1,892	31%	590
Interest rate contracts	51,051	-	632	31%	195
Other	64	-	3	20%	1
Total off-balance sheet items	98,665		3,274		1,504
Total risk weighted exposures					26,148

* Market related contracts differ to the amounts disclosed in note 29 due to options written by the Bank.

Notes to and Forming Part of the Financial Statements continued

Note 37 Capital Adequacy continued**Calculation of Balance Sheet Exposures**

Dollars in Millions	The Registered Bank		
	Principal Amount 30/9/00	Risk Weighting 30/9/00	Risk Weighted Exposure 30/9/00
Cash and claims on qualifying central banks and governments with maturity within one year	386	0%	-
Claims on qualifying governments with maturity over one year	1,671	10%	167
Claims on banks and New Zealand local authorities	4,448	20%	890
Loans secured by residential mortgages	9,449	50%	4,725
All other assets	18,537	100%	18,537
Adjustments	-	-	(2,904)
Total assets	34,491		21,415

Calculation of Off-Balance Sheet Exposures

Dollars in Millions	Principal Amount 30/9/00	Credit Conversion Factor 30/9/00	Credit Equivalent Amount 30/9/00	Average Counterparty Risk Weight 30/9/00	Risk Weighted Exposure 30/9/00
	Direct credit substitutes	339	100%	339	98%
Asset sales with recourse	32	100%	32	10%	3
Commitments with certain drawdown	86	100%	86	100%	86
Transaction related contingent liabilities	158	50%	79	100%	79
Short term, self liquidating trade related contingencies	150	20%	30	100%	30
Commitments for financial services:					
Maturity is greater than one year	321	50%	161	100%	161
Maturity is less than one year or can be cancelled at any time	3,460	0%	-	0%	-
Market related contracts: *					
Foreign exchange contracts	37,165	-	3,161	29%	922
Interest rate contracts	45,420	-	397	30%	121
Total off-balance sheet items	87,131		4,285		1,733
Total risk weighted exposures					23,148

* Market related contracts differ to the amounts disclosed in note 29 due to options written by the Bank.

Notes to and Forming Part of the Financial Statements continued

Note 37 Capital Adequacy continued

In determining risk values, all off-balance sheet items are initially converted to **credit equivalent amounts** using appropriate credit conversion factors. The credit equivalent amounts for off-balance sheet items along with the on-balance sheet assets are then multiplied by appropriate 'risk weights' in order to determine risk values. The risk weights are based on the relative credit risk of the counterparty and range from 0% for categories such as claims on, or guaranteed by, the New Zealand government, up to a 100% for categories such as consumer and corporate loans. Residential mortgages are subject to a 50% risk weight. The Banking Group uses the **Current Exposure Method** under the Reserve Bank of New Zealand's capital adequacy guidelines, to calculate the **credit equivalent** of derivative financial instruments.

National Australia Bank Limited's Risk Based Adjusted Capital Ratio

	30/9/01	30/9/00
Total tier one capital expressed as a percentage of total risk weighted exposures	7.5%	6.6%
Total qualifying capital expressed as a percentage of total risk weighted exposures	10.2%	9.3%

National Australia Bank Limited is required under the Australian Prudential Regulation Authority's Prudential Standards APS 110, APS 111 and APS 112 to hold minimum levels of capital in accordance with the framework established by the Basle Committee on Banking Supervision. As at 30 September 2001, National Australia Bank Limited met the above minimum capital requirements.

Note 38 Nature and Review of Risk Management Systems

Management of risk is an essential element of the Bank's strategy with emphasis placed on a pro-active rather than re-active approach. This is done within a common policy framework and controls set by National Australia Bank Limited Group ("NAB Group") designed to achieve a standardisation of risk reward practices across the NAB Group. The Bank is responsible for the identification and quantification of the particular risks it is exposed to and for the implementation of appropriate policies and procedures.

Risk Management Division (which comprises Credit Bureau, Global Internal Audit and Legal Services) and the Risk Management Unit located within Wholesale Financial Services monitor the Bank's risk profile in existing and future business operations. Risk Management Division assists business units in the design and implementation of appropriate risk management policies and strategies and also promotes Bank awareness of the need to manage risk and the achievement of a balance between risk minimisation and reward for risks accepted. There is a Risk Policy Committee, comprising senior management, with responsibility to ensure the risks associated with product development and new or changed processes are adequately identified and managed.

The Bank is subject also to the prudential reporting requirements of the Australian Prudential Regulation Authority and as part of this process the risk profile and risk weighted balance sheet is reported to them on a quarterly basis.

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

A separate Bank of New Zealand Audit Committee, comprising two Directors of the Bank, assists Directors to fulfil their statutory and fiduciary responsibilities relating to accounting practices and internal control systems of the Bank and to oversee the internal audit function.

Audit Committee responsibilities are to:

- present formal reports to the Bank's Board of Directors on its activities;
- liaise with the Bank's Board of Directors, the Principal Board Audit Committee, external and internal auditors, and management;
- oversee and appraise the independence, quality, cost effectiveness and extent of the audit function;
- perform an independent overview of the Bank's operating control frameworks, including local external regulatory reporting;
- determine the adequacy and effectiveness of the Bank's internal control systems and evaluate the operation thereof; and
- review and endorse the Chief Executive Officer's annual attestation statement in accordance with Australian Prudential Regulation Authority requirements.

Notes to and Forming Part of the Financial Statements continued

Note 38 Nature and Review of Risk Management Systems continued

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

The Bank's external auditors, KPMG, conduct six-monthly reviews and a credit rating agency conducts annual reviews of the Bank's risk management systems and risk profile.

Major balance sheet risk areas and their management are outlined below, but many other types of risk, for example, environmental, payment systems, computer systems frauds, legislative compliance and business continuity/disaster recovery, are routinely managed by the Bank.

Market Risk

Market risk recognises the potential change in earnings as a result of movement in interest rates, asset prices and foreign exchange rates and the level of concentration and volatility in any or all of these markets. The Risk Management Unit located in the Wholesale Financial Services and the Bank's Asset and Liability Committee have responsibility for management of market risk. The Bank operates under risk limits approved by the National Australia Bank Limited's Board covering both balance sheet exposure and transaction exposure which are monitored on a regular basis. Limits are in place for the management of trading positions and interest rate mismatch assumed in the normal course of business.

Equity Risk

Equity risk is the risk of loss arising from changes in the price of equity instruments. Equity risk arises principally from the investment activities of BNZ Life Insurance Limited. BNZ Life Insurance Limited has in place an investment policy and portfolio limits which achieve diversification and mitigate the overall level of equity risk. Management review BNZ Life Insurance Limited's portfolio performance and compliance monthly.

Currency Risk

Currency risk is the risk to the Banking Group arising from adverse changes in foreign currency exchange rates. Foreign currency exposures and risks arise from foreign exchange trading activities as well as from loans and deposits undertaken in foreign currencies. Foreign exchange trading comprises spot and forward purchases and sales of foreign currencies as well as trading in foreign currency options and futures.

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. Trading is conducted within a context of trading limits and is monitored daily by staff independent of the traders and specific procedures are in place for exposures to be reported to the senior management and, where appropriate, to the Board of Directors.

Interest Rate Risk

Interest rate risk is the risk of loss to the Banking Group arising from adverse changes in interest rates. The Banking Group is exposed to interest rate risk in respect to the following activities: borrowing from and lending to customers; trading and investing in money market instruments such as government stock, bank bills, commercial paper; foreign exchange instruments such as foreign exchange contracts; and off-balance sheet 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.

Exposure to interest rate risk is measured primarily through analysis of repricing maturities of the Banking Group's assets, liabilities and off-balance sheet instruments. The trading positions are managed separately from the funding portfolio. Trading positions are revalued daily and the revaluation impact is reflected in the statement of financial performance. 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 senior management and, where appropriate, the Board of Directors.

Notes to and Forming Part of the Financial Statements continued

Note 38 Nature and Review of Risk Management Systems continued

Liquidity Risk

Liquidity risk arises from the mismatch in the final maturity of on-balance sheet assets and liabilities, plus the settlement characteristics of off-balance sheet activities. There are established NAB Group policies to ensure that all obligations are met in a timely and cost efficient manner. These include a diversified range of funding sources and standards to ensure suitable liquefiable assets exceed maturing liabilities. The Bank monitors its liquidity daily.

The Bank's Asset and Liability Committee is responsible for managing structural interest rate and foreign exchange exposures in the non-treasury balance sheet. Management of liquidity risk is on a Banking Group basis. The management and monitoring of such risks is performed within NAB Group policy guidelines.

Operational Risk

Operational risk is the potential risk of financial loss arising from the performance of operational business processes and activities. To enhance the Bank's ability to identify, assess and manage operational risks, a systematic framework and methodology for operational risk management has been developed and implemented. Risk Management is responsible for the overview and administration of the methodology and process discipline. This ensures a consistent application of the methodology together with its ongoing review in line with the changes occurring within the Bank and the banking industry.

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 Bank as they fall due.

Administration of the Bank's lending is the responsibility of Credit Bureau, an independent unit which disseminates credit policies and procedures. Monitoring procedures and systems are in place to control exposures to individual customers and industries to ensure asset quality is maintained. Lending authority is delegated from the National Australia Bank Limited's Board through the Bank's Board to both Credit Bureau and lending management.

The Bank is essentially a cash flow lender, that is, its interest when extending credit is the integrity, capacity and willingness of the borrower to generate sufficient sustainable cash flow from which to service and repay the debt. In addition, the Bank will usually take security as an insurance against unforeseen contingencies which may prevent the borrower from fulfilling its intention to repay. In general, the Bank will seek liquid and marketable securities and will prefer a priority security to a subordinated one.

The Bank continuously monitors its credit risk to counterparties through daily examination of irregular or delinquent accounts. This enables doubtful debts to be identified at the earliest possible time. When doubtful debts are identified the Bank immediately makes an estimation of the potential losses and establishes a specific provision for that loss.

Periodic bad and doubtful debt returns are also prepared for management overview and management is required to approve all provisioning and write offs.

Notes to and Forming Part of the Financial Statements continued

Note 39 Exposures to Market Risk

Aggregate market risk exposures are derived in accordance with the methods described in clauses 1(a), 8(a) and 11(a) of the Eighth Schedule to the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 1998.

Dollars in Millions	Consolidated			
	As At 30/9/01	As At 30/9/00	Peak for 3 Months Ended 30/9/01	Peak for 3 Months Ended 30/9/00
Interest rate exposures				
Aggregate interest rate exposures	53	62	79	70
Aggregate interest rate exposures expressed as a percentage of the Banking Group's equity	3.0%	4.1%	4.4%	4.6%
Foreign currency exposures				
Aggregate foreign currency exposures	2	1	3	3
Aggregate foreign currency exposures expressed as a percentage of the Banking Group's equity	0.1%	0.1%	0.2%	0.2%
Equity exposures				
Aggregate equity exposures	2	1	2	1
Aggregate equity exposures expressed as a percentage of the Banking Group's equity	0.1%	0.1%	0.1%	0.1%

The Banking Group's equity has been calculated as at the end of the relevant period.

Note 40 Subsequent Events

Subsequent to balance date, on 26 October 2001, the Directors declared a dividend of \$150 million. In accordance with the change in accounting policy (refer to Note 1 Principal Accounting Policies), the dividend has not been recognised in these financial statements.

On 26 October 2001, Bank of New Zealand's Board of Directors resolved to sell the Bank's wholly owned subsidiaries BNZ Life Insurance Limited, BNZ Investment Management Limited and BNZ Nominees Limited, to another member of the National Australia Bank Group. The sale, which was subject to conditions now satisfied, will occur on or about 1 January 2002 and will be for market value determined by an independent valuation.

The products of BNZ Life Insurance Limited and BNZ Investment Management Limited will continue to be marketed through Bank of New Zealand branch network.

Note 41 Auditor's Independence

By virtue of Australian Securities and Investments Commission's Class Order 98/2000 dated 30 September 1998 and amended on 8 February 2000, the auditors of the National Australia Bank Limited and its controlled entities, KPMG, have been exempted from compliance with sections 324(1) and 324(2) of the Corporations Act 2001. The Class Order exemption applies in that members and associates of KPMG (other than those engaged on the audit of the National Australia Bank Limited and/or controlled entities) may be indebted to National Australia Bank Limited and its controlled entities provided that:

- 1 such indebtedness does not exceed AUD \$5,000; or
- 2 section 324(3) applies to the relevant indebtedness; or
- 3 the indebtedness arose upon ordinary commercial terms as to the rate of interest, the terms of repayment of principal and payment of interest, the security to be provided and otherwise, and it related to a financial arrangement between the relevant member and the National Australia Bank Limited and/or its controlled entities prior to the member becoming a member of KPMG where the arrangement was not entered into in connection with becoming a member of KPMG.

Credit Rating

Credit Rating

Bank of New Zealand has a credit rating applicable to its long term senior unsecured obligations payable in New Zealand, in New Zealand dollars. The credit rating was given by Standard & Poor's (Australia) Pty Limited. The current rating is AA, it is unqualified and no changes have been made to it in the two years preceding 30 September 2001.

The following is a description of the major rating categories in Standard & Poor's (Australia) Pty Limited's credit rating scales for the rating of long term senior unsecured obligations.

Long Term Credit Rating	Description of Grade
AAA	Extremely strong capacity to pay interest and repay principal in a timely manner.
AA	Very strong capacity to pay interest and repay principal in a timely manner.
A	Strong capacity to pay interest and repay principal in a timely manner.
BBB	Adequate capacity to pay interest and repay principal in a timely manner.
BB	A degree of speculation exists with respect to the ability of an organisation with this credit rating to pay interest and repay principal in a timely manner.
B	Organisations rated B are more vulnerable to adverse business, financial or economic conditions than entities in higher rating categories. Adverse business, financial or economic conditions are likely to impair the borrower's capacity or willingness to meet debt service commitments in a timely manner.
CCC	Organisations rated CCC have a currently identifiable vulnerability to default and are dependent on favourable business, financial and economic conditions to meet debt service commitments in a timely manner. In the event of adverse business, financial or economic conditions they are likely to default.
CC	Organisations rated CC are currently vulnerable to non-payment of interest and principal.
C	Organisations rated C have filed a bankruptcy petition or taken similar action, but payment of obligations are being continued.
D	D rated organisations are in default.

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 date of this General Disclosure Statement are as follows:

Conditions of Registration, to apply to Bank of New Zealand from 1 January 1999

The registration of Bank of New Zealand as a Registered Bank is subject to the following conditions:

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

- Capital of the Banking Group is not less than 8 percent of risk weighted exposures.
- Tier one capital of the Banking Group is not less than 4 percent of risk weighted exposures.
- Capital of the Banking Group is not less than NZ\$15 million.

For the purposes of this condition of registration, capital, tier one capital and risk weighted exposures shall be calculated in accordance with the Reserve Bank of New Zealand document entitled **Capital Adequacy Framework** (BS2) dated 8 July 1998.

2. That the business of the Banking Group consists of, or substantially consists of, the borrowing and lending of money, or the provision of other financial services, or both.

3. That aggregate credit exposures (net of specific provisions and gross of set-offs) of the Banking Group to all connected persons do not exceed 75 percent of the Banking Group's tier one capital and that, within this limit, aggregate credit exposures (net of specific provisions and gross of set-offs) to non-bank connected persons do not exceed 15 percent of the Banking Group's tier one capital. For the purposes of this condition of registration:

- i) Tier one capital shall be calculated in accordance with the Reserve Bank of New Zealand document entitled **Capital Adequacy Framework** (BS2) dated 8 July 1998.
- ii) An owner means any person who has a substantial interest in the Registered Bank.
- iii) Connected person means any person, other than a government of a country which is a member of the Organisation for Economic Co-operation and Development, which is:
 - a) an owner; or
 - b) an entity in which an owner has a substantial interest (other than the Registered Bank and entities in which the Registered Bank itself has a substantial interest); or

- c) a person which has a substantial interest in an owner.
- iv) A person has a substantial interest in an entity if that person:
 - a) holds (whether directly or indirectly) more than 20 percent of the issued securities of an entity, other than securities that carry no right to participate beyond a specified amount in a distribution of either profits or capital; or
 - b) is entitled to receive (whether directly or indirectly) more than 20 percent of every dividend (or, in the case of an entity which is not a company, distributions of a similar nature) paid on securities issued by the entity, other than securities that carry no right to participate beyond a specified amount in a distribution of either profits or capital; or
 - c) is in a position to exercise, or control the exercise of, more than 20 percent of the maximum number of votes that can be exercised at a meeting of an entity or the owners of the entity; or
 - d) controls or significantly influences the composition of the board of the entity, or if the entity does not have a board of directors, the body which has the power to manage or direct or supervise the management of, the business and affairs of the company.
- v) In determining whether a person has a substantial interest in an entity, sections 7 and 8 of the Companies Act 1993 shall apply with all necessary modifications.
- vi) Non-bank connected person means any connected person other than a bank or an entity in which a bank has a substantial interest.
- vii) Credit exposure means the amount of the maximum loss that a party to a contract could incur as a result of the counterparty to that contract failing to discharge its obligations, without taking into account the value of collateral, guarantees, indemnities, other support arrangements, and any potential recoveries, and excluding contingent exposures arising as a result of risk lay-offs to a bank owner, where the maximum loss in relation to:
 - a) a market related contract means the credit equivalent amount of the contract determined in accordance with the Reserve Bank of New Zealand document entitled **Capital Adequacy Framework** (BS2) dated 8 July 1998;
 - b) any other contract means the full value of the contract; provided that a financial liability may not be offset against any such loss, even though to do so would accord with generally accepted accounting practice as defined in the Financial Reporting Act 1993.

Conditions of Registration continued

- viii) Securities shall have the same meaning as in the Reserve Bank of New Zealand Act 1989.
- ix) For the purposes of this condition of registration the term person includes a corporation sole, a company or other body corporate (whether incorporated in New Zealand or elsewhere), an unincorporated body of persons and a public body.
4. That the Board of the Registered Bank contains at least two independent Directors. In this context an independent Director is a Director who is not an employee of the Registered Bank, and who is not a Director, Trustee or employee of any holding company of the Registered Bank, or any other entity capable of controlling or significantly influencing the Registered Bank.
5. That the Chairperson of the Bank's Board is not an employee of the Registered Bank.
6. That the Bank's constitution does not permit the Bank's Directors to act in the interests of any holding company of the Registered Bank, where to do so would conflict with the interests of the Bank in New Zealand, to the detriment of creditors.
7. That a substantial proportion of the Bank's business is conducted in and from New Zealand.

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

Directors' Statement

The Directors of Bank of New Zealand 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 2001:
 - a) the Bank has complied with its conditions of registration which are set out on pages 56 and 57;
 - b) credit exposures to connected persons (refer to note 34 on page 43) 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 and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated at Auckland this 10th day of December 2001 and signed by Messrs McDonald and Thodey as Directors and as responsible persons on behalf of all the other Directors.



T K McDonald
Chairman



P L Thodey
Managing Director

Auditor's Report



To the Shareholders of Bank of New Zealand

We have audited the financial statements including supplementary information on pages 7 to 54. The financial statements and supplementary information provide information about the past financial performance and financial position of Bank of New Zealand (the "Registered Bank") and its subsidiary companies (the "Banking Group") as at 30 September 2001. The supplementary information is disclosed in accordance with clauses 12(3) and 12(4) of the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 1998 (the "Order"). This information is stated in accordance with the accounting policies set out on pages 12 to 18.

Directors' Responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Registered Bank and Banking Group as at 30 September 2001 and the results of their operations and cash flows for the year ended on that date.

They are also responsible for the preparation of supplementary information which:

- gives a true and fair view, in accordance with clause 12(3) of the Order, of the matters to which it relates; and
- complies with Schedules 7 and 8 of the Order, in accordance with clause 12(4) of the Order.

Auditors' Responsibilities

It is our responsibility to express an independent opinion on the financial statements and supplementary information presented by the Directors and report our opinion to you in accordance with clause 15(1) of the Order.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements and supplementary information. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements and supplementary information; and
- whether the accounting policies are appropriate to the circumstances of the Registered Bank and Banking Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements and supplementary information are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and supplementary information.

Our firm carried out other assignments for the Registered Bank and Banking Group in the area of accounting advice, taxation and consultancy projects. In addition to this, partners and employees of our firm may deal with the Registered Bank and Banking Group on normal terms within the ordinary course of trading activities of the Registered Bank and Banking Group. There are, however, certain restrictions on borrowings which the partners and employees of our firm can have with the Registered Bank and Banking Group. The firm has no other interest in the Registered Bank or Banking Group.

Auditor's Report continued

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Registered Bank and Banking Group as far as appears from our examination of those records; and
- the financial statements on pages 7 to 54:
 - comply with New Zealand generally accepted accounting practice; and
 - give a true and fair view of the financial position of the Registered Bank and Banking Group as at 30 September 2001 and the results of their operations and cash flows for the year ended on that date; and
- the supplementary information disclosed in accordance with clause 12(3) of the Order:
 - has been prepared in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank Act 1989 and any conditions of registration;
 - is in accordance with the books and records of the Registered Bank and Banking Group; and
 - gives a true and fair view of the matters to which it relates; and
- the supplementary information disclosed in accordance with clause 12(4) of the Order complies with Schedules 7 and 8 of the Order.

Our audit was completed on 10 December 2001 and our unqualified opinion is expressed as at that date.



Auckland



Bank of New Zealand

Tailored Financial Solutions

A member of the National Australia Bank Group



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