Bank of New Zealand
General Disclosure Statement

For the year ended 30 September 2002

Bank of New Zealand

No. 27

Tailored Financial Solutions

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 2002

This General Disclosure Statement has been issued by Bank of New Zealand for the year ended 30 September 2002 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

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

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

Peter John Benedict Duncan
Company Director
B.Ch.E. (Hons.), Grad. Dip. (Bus.) (L.S.E., London).
Australia

Pamela Adrienne Jefferies, O.B.E.
Company Director
F.C.A.
New Zealand

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

Michael Thomas Laing
Company Director
M. Com. (Hons.)., B.Com. (A.G.Econ.).
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 Edwin Gilmour Johnson was appointed as a Director in April 2002 and Mr Michael Thomas Laing and Mr Peter John Benedict Duncan in June 2002. Mr Robert Malcolm Charles Prowse ceased to be a Director in April 2002 and Mr Ross Edward Pinney in August 2002.

Executive Directors

During April 2002 to August 2002 Mr Ross Edward Pinney was appointed as Managing Director and Acting Chief Executive Officer to cover a short period of absence by Mr Peter Leonard Thodey.

Mr Thodey was reappointed as Managing Director in August 2002.

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 25 of these financial statements on page 33.

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 Limited Group. The sale occurred on 1 January 2002 and was for market value as determined by an independent valuation.

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

Acquisition of Subsidiary Companies

On 25 September 2002, Custom Fleet (NZ) Limited's Board of Directors resolved to purchase 100% of the share capital of Hertz Fleetlease Limited. The purchase, which was subject to conditions now satisfied, occurred on 1 November 2002. On the same date the Directors resolved to change the name of Hertz Fleetlease Limited to Custom Service Leasing (New Zealand) Limited.

Financial Statements

Contents

Historical Summary of Financial Statements

Dollars in Millions	Consolidated 30/9/02	30/9/01	30/9/00	30/9/99	30/9/98
Financial performance					
Interest income	**2,419**	2,583	2,313	1,989	2,345
Interest expense	**1,582**	1,830	1,648	1,366	1,663
Net interest income	**837**	753	665	623	682
Impaired asset expense	**(15)**	12	13	22	33
Net interest income after impaired asset expense	**852**	741	652	601	649
Other operating income	**522**	494	491	407	337
Total operating income	**1,374**	1,235	1,143	1,008	986
Operating expenses	**624**	648	630	570	605
Operating surplus before income tax expense	**750**	587	513	438	381
Income tax expense	**168**	147	124	80	93
Net surplus attributable to shareholders of Bank of New Zealand	**582**	440	389	358	288
Dividend on ordinary shares	**310**	160	240	250	120
Net operating surplus retained	**272**	280	149	108	168
Significant statement of financial position items					
Total assets	**35,968**	37,847	35,303	31,007	29,305
Impaired assets	**30**	47	88	112	143
Total liabilities (including subordinated debt)	**33,905**	36,056	33,792	29,645	28,051
Shareholders' equity attributable to members of Bank of New Zealand	**2,063**	1,791	1,511	1,362	1,254

Other than the sale of BNZ Life Insurance Limited, BNZ Investment Management Limited and BNZ Nominees Limited to a controlled entity of National Australia Bank Limited Group on 1 January 2002, 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 2002

		Consolidated		The Company	
Dollars in Millions	Note	30/9/02	30/9/01	30/9/02	30/9/01
Interest income	2	**2,419**	2,583	**2,234**	2,320
Interest expense	2	**1,582**	1,830	**1,546**	1,770
Net interest income		**837**	753	**688**	550
Impaired asset expense	11	**(15)**	12	**(15)**	12
Net interest income after impaired asset expense		**852**	741	**703**	538
Other operating income	3	**522**	494	**667**	542
Total operating income		**1,374**	1,235	**1,370**	1,080
Operating expenses	4	**624**	648	**673**	675
Operating surplus before income tax expense		**750**	587	**697**	405
Income tax expense	6	**168**	147	**141**	101
Net surplus attributable to shareholders of Bank of New Zealand		**582**	440	**556**	304

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 2002

	Consolidated		The Company	
Dollars in Millions	**30/9/02**	30/9/01	**30/9/02**	30/9/01
Total shareholders' equity at beginning of year	**1,791**	1,511	**1,613**	1,426
Net surplus attributable to shareholders of Bank of New Zealand	**582**	440	**556**	304
Total recognised revenues and expenses	**582**	440	**556**	304
Contribution from owners:				
Amalgamation of subsidiary	**-**	-	**-**	43
Distributions to owners during the year:				
Ordinary dividend	**(310)**	(160)	**(310)**	(160)
	(310)	(160)	**(310)**	(117)
Total shareholders' equity at end of year	**2,063**	1,791	**1,859**	1,613
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 2002

Dollars in Millions	Note	Consolidated 30/9/02	Consolidated 30/9/01	The Company 30/9/02	The Company 30/9/01
Assets					
Cash and call balances with central banks		**161**	140	**161**	140
Due from other banks	7	**334**	2,503	**333**	2,503
Securities	8	**3,391**	2,665	**3,391**	2,643
Loans	9,10	**30,048**	29,304	**27,390**	26,664
Amounts due from related parties	25	**225**	192	**291**	239
Investments in subsidiary companies	13	**-**	-	**3,045**	3,045
Property, plant and equipment	14	**180**	241	**100**	82
Income tax assets	15	**106**	137	**82**	103
Other assets	16	**1,523**	2,665	**1,237**	2,366
Total assets		**35,968**	37,847	**36,030**	37,785
Financed by:					
Liabilities					
Due to other banks	17	**1,449**	2,335	**1,449**	2,335
Deposits	18	**24,172**	23,443	**24,172**	23,443
Amounts due to related parties	25	**5,141**	6,387	**5,467**	6,635
Income tax liabilities	20	**87**	106	**99**	100
Subordinated loans from related parties	21	**1,062**	1,087	**1,062**	1,087
Other liabilities	22	**1,994**	2,698	**1,922**	2,572
Total liabilities		**33,905**	36,056	**34,171**	36,172
Shareholders' equity		**2,063**	1,791	**1,859**	1,613
Total liabilities and shareholders' equity		**35,968**	37,847	**36,030**	37,785

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 2002

Dollars in Millions	Consolidated 30/9/02	Consolidated 30/9/01	The Company 30/9/02	The Company 30/9/01
Cash flows from operating activities				
Cash was provided from:				
Dividend income	**-**	-	**220**	88
Interest income	**2,338**	2,567	**2,153**	2,303
Other income	**370**	386	**354**	346
Trading securities and derivative financial instruments *	**-**	705	**-**	699
Cash was applied to:				
Interest expense	**(1,590)**	(1,806)	**(1,554)**	(1,747)
Operating expenses	**(579)**	(576)	**(655)**	(624)
Taxes and subvention payments	**(153)**	(142)	**(121)**	(113)
Trading securities and derivative financial instruments *	**(1,222)**	-	**(1,236)**	-
Net cash flows from operating activities	**(836)**	1,134	**(839)**	952
Cash flows from investing activities				
Cash was provided from:				
Decrease in due from other banks (term) *	**1,686**	-	**1,686**	-
Decrease in other assets *	**727**	486	**759**	535
Proceeds from maturity of investment securities	**1,664**	1,537	**1,664**	1,537
Proceeds from sale of property, plant and equipment	**68**	19	**3**	11
Proceeds from sale of subsidiaries	**75**	-	**-**	-
Cash was applied to:				
Increase in due from other banks (term) *	**-**	(1,297)	**-**	(1,298)
Increase in loans *	**(729)**	(1,610)	**(711)**	(1,556)
Purchase of available for sale securities	**(31)**	-	**(31)**	-
Purchase of investment securities	**(1,584)**	(1,826)	**(1,584)**	(1,826)
Purchase of property, plant and equipment	**(63)**	(77)	**(49)**	(55)
Net cash flows from investing activities	**1,813**	(2,768)	**1,737**	(2,652)
Cash flows from financing activities				
Cash was provided from:				
Increase in deposits *	**763**	4,077	**763**	4,016
Increase in due to other banks (term) *	**-**	939	**-**	939
Increase in other liabilities *	**276**	19	**292**	-
Cash was applied to:				
Decrease in due to other banks (term) *	**(642)**	-	**(642)**	-
Ordinary dividend	**(310)**	(300)	**(310)**	(300)
Other related party funding *	**(1,282)**	(3,226)	**(1,220)**	(3,080)
Net cash flows from financing activities	**(1,195)**	1,509	**(1,117)**	1,575
Net decrease in cash and cash equivalents	**(218)**	(125)	**(219)**	(125)
Cash and cash equivalents at beginning of year	**(172)**	(47)	**(172)**	(47)
Cash and cash equivalents at end of year	**(390)**	(172)	**(391)**	(172)

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

Statement of Cash Flows continued

For the year ended 30 September 2002

	Consolidated		The Company	
Dollars in Millions	30/9/02	30/9/01	30/9/02	30/9/01
Cash and cash equivalents comprise:				
Cash and call balances with central banks	**161**	140	**161**	140
Due from other banks (call)	**18**	501	**17**	501
Due to other banks (call)	**(569)**	(813)	**(569)**	(813)
Total cash and cash equivalents	**(390)**	(172)	**(391)**	(172)
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	**582**	440	**556**	304
Add back:				
Depreciation	**42**	41	**30**	28
Decrease in accrued interest receivable	**-**	36	**-**	35
Decrease in trading securities and derivative financial instruments	**-**	598	**-**	591
Increase in accrued interest payable	**-**	24	**-**	23
Increase in provision for tax	**15**	5	**20**	-
Impaired asset expense	**(15)**	12	**(15)**	12
Impairment losses on property, plant and equipment	**14**	6	**-**	3
Loss on sale of property, plant and equipment	**1**	5	**-**	-
Deduct:				
Decrease in accrued interest payable	**(8)**	-	**(8)**	-
Decrease in operating expenses	**(64)**	(33)	**(62)**	(32)
Decrease in provision for tax	**-**	-	**-**	(12)
Gain on sale of subsidiaries	**(56)**	-	**-**	-
Increase in accrued interest receivable	**(31)**	-	**(31)**	-
Increase in trading securities and derivative financial instruments	**(1,316)**	-	**(1,329)**	-
Net cash flows from operating activities	**(836)**	1,134	**(839)**	952

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.

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 2002

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 13.

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

FRS-15 **Provisions, Contingent Liabilities and Contingent Assets** became applicable for periods ending on or after 31 October 2001. In prior periods, the Banking Group chose to comply with IAS-37 which has substantially the same requirements as FRS-15. The change to FRS-15 has not had any material impact on the consolidated financial statements for the financial year.

The Financial Reporting Standards Board recently issued FRS-3 **Accounting for Property, Plant and Equipment** which is applicable for periods ending on or after 31 March 2002. FRS-3 requires revaluations to be stated at the highest and best use without the deduction of disposal costs. In prior years revaluations were performed on an existing use basis. The change has not had a material effect on the consolidated financial statements.

Comparative amounts

Comparative amounts have been reclassified and where appropriate restated to accord with changes in presentation made in 2002, 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, for the purpose of obtaining the benefits and/or assuming the risks normally associated with ownership.

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 year, 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 financial 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 carried 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 12, 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.
- **Past due assets** are those loans on which payments of principal or interest are contractually past due for 90 days or more and adequate security is held.
- **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 to reflect fair values. The valuations are carried out by independent registered valuers annually for all major buildings and cyclically over three years for all others.

Revaluation increments are credited to the asset revaluation reserve. Revaluation decrements are charged to the revaluation reserve to the extent that they reverse previous revaluation increments and any excess is recognised as an expense.

All other property, plant and equipment acquired since the last revaluation are carried at the lower of cost, less accumulated depreciation or amortisation, 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. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows (excluding costs of disposal) have 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 using the straight line method at the rates appropriate to its estimated useful life to the Banking Group. The following depreciation rates have been applied.

	Straight Line Rates
Buildings	3.3%
Leasehold improvements	Rate based on life of the lease to a maximum of ten years
Furniture and fittings	10%
PC's and related software	33⅓%
Other data processing assets and related software	20%

Gains or losses on the sale of property, plant and equipment, which are determined as the difference between the carrying amount of property, plant and equipment at the time of disposal and the sale proceeds, are treated as either 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

Provisions are recognised when a legal or constructive obligation exists as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Provisions are not discounted to the present value of their expected net future cash flows except where considered material.

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.

Restructuring provisions have been created where a detailed formal plan has been developed (identifying location, function and approximate number of employees concerned, and the expenditure and time frame for implementation) and a valid expectation has been raised in those affected. Restructuring provisions include the cost of staff termination benefits and surplus leased space. Costs related to ongoing activities are not provided for.

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.

Notes to and Forming Part of the Financial Statements continued

Note 1 Principal Accounting Policies continued

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.

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 formerly included the shareholders' interest in trustee companies which acted as trustee and/or manager of a number of investments and trusts. On 1 January 2002, the Banking Group sold its interest in these companies to a controlled entity of National Australia Bank Limited Group.

Prior to the sale these funds and trusts were not included in the consolidated financial statements as the Banking Group did not have either direct or indirect control of the funds and trusts. The Trustee held a right of indemnity against the assets of the applicable funds or trusts for liabilities incurred in their capacity as trustees. As the assets were sufficient to cover liabilities, the liabilities were not included in the financial statements.

Commissions and fees earned in respect of the Banking Group's trust activities to the date of sale are included in the statement of financial performance. The statement of financial performance also includes commissions and fees earned through the marketing of funds management products.

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 formerly conducted life insurance business through its controlled entity BNZ Life Insurance Limited. BNZ Life Insurance Limited was sold to another member of the National Australia Bank Limited Group on 1 January 2002.

The Banking Group's interest in the profits of the life insurance statutory funds has been included in the statement of financial performance to the date of sale. The profits were 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 Inland Revenue Department. 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.

Discontinued operations

Discontinued operations are clearly distinguishable activities of the Banking Group that have been sold or terminated before the earlier of three months after balance date and the date that the financial statements are approved. The discontinued activities have a material effect on the nature and focus of the business, and represent a material reduction in either operating facilities or turnover.

Notes to and Forming Part of the Financial Statements continued

Statement of Financial Performance Notes

Dollars in Millions	Consolidated 30/9/02	Consolidated 30/9/01	The Company 30/9/02	The Company 30/9/01
Note 2 Interest				
Interest income				
Other banks	**42**	107	**42**	107
Loans	**2,188**	2,274	**1,999**	1,985
Impaired assets	**16**	12	**16**	12
Related parties	**6**	9	**10**	36
Other	**4**	-	**4**	-
Securities:				
Trading securities	**107**	128	**107**	127
Available for sale securities	**4**	-	**4**	-
Investment securities	**52**	53	**52**	53
Total interest income	**2,419**	2,583	**2,234**	2,320
Interest expense				
Other banks	**58**	94	**58**	94
Deposits	**957**	1,068	**957**	1,034
Related parties	**194**	448	**203**	458
Subordinated loans from related parties	**70**	79	**70**	79
Other	**303**	141	**258**	105
Total interest expense	**1,582**	1,830	**1,546**	1,770
Note 3 Other Operating Income				
Dividends received from related companies	**-**	-	**220**	88
Life business income	**6**	23	**-**	-
Loan fees	**97**	97	**97**	96
Gain/(loss) on foreign exchange translation	**4**	(3)	**1**	(1)
Money transfer fees	**163**	155	**163**	155
Other fees and commissions	**96**	110	**93**	96
Gain on sale of property, plant and equipment	**2**	1	**-**	-
Gain on sale of subsidiaries	**56**	-	**-**	-
Other income	**4**	4	**-**	-
Trading income:				
Foreign exchange trading	**80**	81	**80**	81
Securities and interest rate related derivatives trading	**14**	26	**13**	27
Total other operating income	**522**	494	**667**	542

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated 30/9/02	Consolidated 30/9/01	The Company 30/9/02	The Company 30/9/01
Note 4 Operating Expenses				
Salaries and other staff expenses	**285**	292	**282**	277
Depreciation	**42**	41	**30**	28
Impairment losses on property, plant and equipment	**14**	6	**-**	3
Life business claims	**2**	6	**-**	-
Loss on sale of property, plant and equipment	**1**	5	**-**	-
Rental on operating leases	**35**	35	**7**	7
Subvention payments to subsidiaries	**-**	-	**84**	73
Other expenses (refer also to table below)	**245**	263	**270**	287
Total operating expenses	**624**	648	**673**	675
Other expenses include (Dollars in Thousands)				
Amortisation of goodwill	**1,303**	1,303	**1,303**	332
Donations	**29**	5	**28**	5
Fees paid to auditors:				
Statutory audit services	**628**	610	**628**	586
Regulatory audit services	**291**	388	**276**	388
Other services – other fees	**205**	364	**162**	223
Remuneration of directors (Dollars in Thousands)				
Fees paid to directors	**247**	365	**247**	219

Note 5 Discontinued Operations

On 1 January 2002, BNZ Investments Limited sold 100% of the share capital of BNZ Investment Management Limited, BNZ Life Insurance Limited and BNZ Nominees Limited. The information below relates to these discontinued operations.

	Consolidated			
	Discontinued Operations		Continuing Operations	
Dollars in Millions	30/9/02	30/9/01	30/9/02	30/9/01
Financial performance				
Total operating income	**66**	40	**1,308**	1,195
Operating expenses	**6**	21	**618**	627
Operating surplus before income tax expense	**60**	19	**690**	568
Income tax expense	**-**	4	**168**	143
Net surplus attributable to shareholders of Bank of New Zealand	**60**	15	**522**	425
Financial position				
Total assets	**-**	50	**35,968**	37,797
Total liabilities	**-**	18	**33,905**	36,038

The total operating income from discontinued operations for the year ended 30 September 2002, includes a gain on sale of subsidiaries of $56 million.

Notes to and Forming Part of the Financial Statements continued

Note 6 Income Tax Expense

The information below outlines the reconciliation of the prima facie income tax payable on operating surplus with the income tax expense recognised in the statement of financial performance and the effective tax rate applicable.

	Consolidated		The Company	
Dollars in Millions	30/9/02	30/9/01	30/9/02	30/9/01
Operating surplus before income tax expense	750	587	697	405
Gain on sale of subsidiaries	(56)	-	-	-
	694	587	697	405
Prima facie income tax expense on operating surplus at 33%	229	194	230	134
Prior year adjustments to income tax expense	2	1	2	(4)
Tax effect of permanent differences:				
Non-assessable and tax paid income	(43)	(52)	(73)	(30)
Non-deductible expenses	1	3	-	-
Other	6	1	9	1
Tax expense on operating surplus	195	147	168	101
Effective tax rate	28%	25%	24%	25%
Release of deferred tax liability (refer below)	(27)	-	(27)	-
Total income tax expense	168	147	141	101
Income tax expense comprises:				
Current taxation	168	121	156	94
Deferred taxation	-	26	(15)	7
Total income tax expense	168	147	141	101

Release of deferred tax liability

In March 2002, an amount previously included in the Banking Group's deferred taxation balance was released as a credit to the income tax expense recognised in the statement of financial performance. This portion of the deferred taxation balance is no longer considered to meet the requirements for recognition as a liability as defined by the **Statement of Concepts** issued by the Institute of Chartered Accountants of New Zealand.

Notes to and Forming Part of the Financial Statements continued

Asset Notes

Dollars in Millions	Consolidated 30/9/02	Consolidated 30/9/01	The Company 30/9/02	The Company 30/9/01
Note 7 Due from Other Banks				
Call advances to banks	**18**	501	**17**	501
Term advances to banks	**316**	2,002	**316**	2,002
Total due from other banks	**334**	2,503	**333**	2,503
Note 8 Securities				
Trading securities				
Treasury bills	**229**	219	**229**	219
Government securities	**175**	136	**175**	135
Other securities	**2,003**	1,293	**2,003**	1,272
Total trading securities	**2,407**	1,648	**2,407**	1,626
Available for sale securities				
Other securities	**31**	-	**31**	-
Total available for sale securities	**31**	-	**31**	-
Investment securities				
Treasury bills	**672**	798	**672**	798
Commercial bonds	**36**	69	**36**	69
Other securities	**245**	150	**245**	150
Total investment securities	**953**	1,017	**953**	1,017
Total securities	**3,391**	2,665	**3,391**	2,643
Note 9 Loans				
New Zealand				
Current accounts	**2,899**	2,558	**2,899**	2,558
Term loans	**23,990**	23,204	**23,972**	23,186
Other lending	**456**	811	**415**	788
Total New Zealand	**27,345**	26,573	**27,286**	26,532
Overseas				
Term loans	**2,870**	2,931	**271**	332
Total overseas	**2,870**	2,931	**271**	332
Total gross loans	**30,215**	29,504	**27,557**	26,864
Deduct: Specific provisions for doubtful debts				
New Zealand	**11**	13	**11**	13
Total specific provisions for doubtful debts	**11**	13	**11**	13
General provision for doubtful debts	**156**	187	**156**	187
Total provisions for doubtful debts	**167**	200	**167**	200
Total net loans	**30,048**	29,304	**27,390**	26,664

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated 30/9/02	Consolidated 30/9/01	The Company 30/9/02	The Company 30/9/01
Note 10 Loans by Industry Analysis				
New Zealand				
Government and public authorities	**278**	210	**278**	210
Agriculture, forestry and fishing	**3,567**	3,124	**3,549**	3,106
Financial, investment and insurance	**1,724**	2,286	**1,724**	2,286
Real estate – construction	**155**	165	**155**	165
Real estate – mortgage	**10,982**	10,170	**10,982**	10,170
Personal lending	**1,901**	1,572	**1,901**	1,572
Other commercial and industrial	**8,738**	9,046	**8,697**	9,023
Total New Zealand	**27,345**	26,573	**27,286**	26,532
Overseas				
Agriculture, forestry and fishing	**238**	282	**238**	282
Financial, investment and insurance	**2,599**	2,599	**-**	-
Real estate – mortgage	**32**	19	**32**	19
Personal lending	**1**	9	**1**	9
Other commercial and industrial	**-**	22	**-**	22
Total overseas	**2,870**	2,931	**271**	332
Total gross loans	**30,215**	29,504	**27,557**	26,864
Deduct: Specific provisions for doubtful debts				
Agriculture, forestry and fishing	**1**	1	**1**	1
Personal lending	**8**	4	**8**	4
Other commercial and industrial	**2**	8	**2**	8
Total specific provisions for doubtful debts	**11**	13	**11**	13
General provision for doubtful debts	**156**	187	**156**	187
Total provisions for doubtful debts	**167**	200	**167**	200
Total net loans	**30,048**	29,304	**27,390**	26,664

Notes to and Forming Part of the Financial Statements continued

Note 11 Provisions for Doubtful Debts

Dollars in Millions	Consolidated Non-Accrual Assets 30/9/02	Past Due Assets 30/9/02	Total Assets 30/9/02	Non-Accrual Assets 30/9/01	Past Due Assets 30/9/01	Total Assets 30/9/01
Specific provisions for doubtful debts						
Balance at beginning of year	**10**	**3**	**13**	15	3	18
Transfer from/(to) general provision	**3**	**13**	**16**	(1)	8	7
Bad debts written off	**(10)**	**(17)**	**(27)**	(11)	(12)	(23)
Recovery of bad debts written off in previous years	**2**	**7**	**9**	7	4	11
Balance at end of year	**5**	**6**	**11**	10	3	13
General provision for doubtful debts						
Balance at beginning of year			**187**			182
Transfer to specific provisions			**(16)**			(7)
Charge to statement of financial performance			**(15)**			12
Balance at end of year			**156**			187
Total provisions for doubtful debts			**167**			200

Dollars in Millions	The Company Non-Accrual Assets 30/9/02	Past Due Assets 30/9/02	Total Assets 30/9/02	Non-Accrual Assets 30/9/01	Past Due Assets 30/9/01	Total Assets 30/9/01
Specific provisions for doubtful debts						
Balance at beginning of year	**10**	**3**	**13**	14	3	17
Amalgamation of subsidiary	**-**	**-**	**-**	1	-	1
Adjusted balance at beginning of year	**10**	**3**	**13**	15	3	18
Transfer from/(to) general provision	**3**	**13**	**16**	(1)	8	7
Bad debts written off	**(10)**	**(17)**	**(27)**	(11)	(12)	(23)
Recovery of bad debts written off in previous years	**2**	**7**	**9**	7	4	11
Balance at end of year	**5**	**6**	**11**	10	3	13
General provision for doubtful debts						
Balance at beginning of year			**187**			174
Amalgamation of subsidiary			**-**			8
Adjusted balance at beginning of year			**187**			182
Transfer to specific provisions			**(16)**			(7)
Charge to statement of financial performance			**(15)**			12
Balance at end of year			**156**			187
Total provisions for doubtful debts			**167**			200

Notes to and Forming Part of the Financial Statements continued

Note 12 Asset Quality

The Banking Group provides for doubtful debts as disclosed in note 11. 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.

	Consolidated					
Dollars in Millions	Non-Accrual Assets 30/9/02	Past Due Assets 30/9/02	Total Assets 30/9/02	Non-Accrual Assets 30/9/01	Past Due Assets 30/9/01	Total Assets 30/9/01
Movements in pre-provision balances						
Balance at beginning of year	**47**	**297**	**344**	88	20	108
Bad debts written off	**(10)**	**(17)**	**(27)**	(11)	(12)	(23)
(Deletions)/additions	**(7)**	**(263)**	**(270)**	(30)	289	259
Balance at end of year	**30**	**17**	**47**	47	297	344
Interest income recognised on impaired assets						
Impaired assets recovered during the year	**16**			12		
Total interest income recognised on impaired assets	**16**			12		
Interest foregone on impaired assets *	**4**			6		

	The Company					
Movements in pre-provision balances						
Balance at beginning of year	**47**	**297**	**344**	85	20	105
Amalgamation of subsidiary	**-**	**-**	**-**	3	-	3
Adjusted balance at beginning of year	**47**	**297**	**344**	88	20	108
Bad debts written off	**(10)**	**(17)**	**(27)**	(11)	(12)	(23)
(Deletions)/additions	**(7)**	**(263)**	**(270)**	(30)	289	259
Balance at end of year	**30**	**17**	**47**	47	297	344
Interest income recognised on impaired assets						
Impaired assets recovered during the year	**16**			12		
Total interest income recognised on impaired assets	**16**			12		
Interest foregone on impaired assets *	**4**			6		

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 $43 million of short term/seasonal (overdraft) lending has been identified as being outside formal arrangements for 90 days or more as at 30 September 2002 (30 September 2001: $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)

There were no off-balance sheet facilities included in the above end of year balance of non-accrual assets as at 30 September 2002 (30 September 2001: nil). No specific provisions have been made against these off-balance sheet facilities as at 30 September 2002 (30 September 2001: nil).

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	The Company 30/9/02	The Company 30/9/01
Note 13 Investments in Subsidiaries		
Unlisted – at cost	**3,108**	3,108
Deduct: Provision for diminution in value	**63**	63
Total investments in subsidiaries	**3,045**	3,045

Subsidiaries of the Bank as at 30 September 2002 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 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	Non-trading
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.

Sale of subsidiary companies

On 1 January 2002, BNZ Investments Limited sold 100% of the share capital of BNZ Investment Management Limited, BNZ Life Insurance Limited and BNZ Nominees Limited to a controlled entity of National Australia Bank Limited Group for consideration of $75 million.

Notes to and Forming Part of the Financial Statements continued

Note 13 Investments in Subsidiaries continued

The operating results of the companies for the three months ended 31 December 2001 have been included in the statement of financial performance of the Banking Group. The sale had the following impact on the Banking Group's financial position.

Dollars in Millions	
Consideration received:	
Cash	75
Total consideration received	75
Net assets of controlled entities sold:	
Amounts due from related parties	6
Securities	5
Property, plant and equipment	4
Other assets	21
Amounts due to related parties	(3)
Income tax liabilities	(3)
Other liabilities	(11)
Net assets of subsidiaries sold	19
Gain on sale of subsidiaries	56

Note 14 Property, Plant and Equipment

	Consolidated		The Company	
Dollars in Millions	**30/9/02**	30/9/01	**30/9/02**	30/9/01
Freehold land				
At valuation	**19**	33	**-**	-
Buildings				
At valuation	**10**	48	**-**	1
Deduct: Accumulated depreciation	**-**	-	**-**	-
Total freehold land and buildings	**29**	81	**-**	1
Leasehold improvements				
At cost	**11**	11	**1**	2
Deduct: Accumulated depreciation	**5**	6	**-**	1
Total leasehold improvements	**6**	5	**1**	1
Furniture, fittings and other equipment				
At cost	**107**	155	**35**	35
At cost – assets under construction	**5**	11	**-**	-
Deduct: Accumulated depreciation	**58**	86	**27**	25
Total furniture, fittings and other equipment	**54**	80	**8**	10
Data processing assets and other equipment				
At cost	**203**	186	**203**	180
At cost – assets under construction	**26**	13	**26**	13
Deduct: Accumulated depreciation	**138**	124	**138**	123
Total data processing assets and other equipment	**91**	75	**91**	70
Total property, plant and equipment	**180**	241	**100**	82

All properties are revalued to reflect fair values. The valuations are carried out by independent registered valuers annually for all major buildings and cyclically over three years for all others. The latest valuation was carried out in July 2002 by DTZ Darroch and TelferYoung Limited, independent registered public valuers.

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated 30/9/02	Consolidated 30/9/01	The Company 30/9/02	The Company 30/9/01
Note 15 Income Tax Assets				
Income tax refund receivable	**22**	34	**2**	2
Future income tax benefit	**84**	103	**80**	101
Total income tax assets	**106**	137	**82**	103
Future income tax benefit comprises:				
Provisions for doubtful debts	**55**	66	**55**	66
Other provisions	**26**	24	**24**	24
Other	**3**	13	**1**	11
Total future income tax benefit	**84**	103	**80**	101
Movements in future income tax benefit				
Balance at beginning of year	**103**	93	**101**	87
Deferred portion of current year income tax expense	**(19)**	10	**(21)**	14
Balance at end of year	**84**	103	**80**	101
Note 16 Other Assets				
Accrued interest receivable	**134**	103	**134**	103
Goodwill	**17**	19	**17**	19
Securities sold – not yet settled	**69**	197	**69**	197
Unrealised gains on derivative financial instruments	**908**	1,178	**900**	1,146
Other assets	**395**	1,168	**117**	901
Total other assets	**1,523**	2,665	**1,237**	2,366

Notes to and Forming Part of the Financial Statements continued

Liability Notes

	Consolidated		The Company	
Dollars in Millions	**30/9/02**	30/9/01	**30/9/02**	30/9/01
Note 17 Due to Other Banks				
New Zealand				
Call deposits	**569**	813	**569**	813
Term deposits	**272**	32	**272**	32
Total New Zealand	**841**	845	**841**	845
Overseas				
Term deposits	**608**	1,490	**608**	1,490
Total overseas	**608**	1,490	**608**	1,490
Total due to other banks	**1,449**	2,335	**1,449**	2,335
Note 18 Deposits				
New Zealand				
Demand deposits not bearing interest	**977**	824	**977**	824
Other demand and short term deposits	**5,986**	5,827	**5,986**	5,827
Certificates of deposit	**2,709**	3,747	**2,709**	3,747
Term deposits	**11,146**	10,212	**11,146**	10,212
Other deposits	**772**	497	**772**	497
Total New Zealand	**21,590**	21,107	**21,590**	21,107
Overseas				
Other demand and short term deposits	**17**	25	**17**	25
Commercial paper	**2,090**	1,713	**2,090**	1,713
Term deposits	**475**	598	**475**	598
Total overseas	**2,582**	2,336	**2,582**	2,336
Total deposits	**24,172**	23,443	**24,172**	23,443

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated 30/9/02	Consolidated 30/9/01	The Company 30/9/02	The Company 30/9/01
Note 19 Concentrations of Funding				
New Zealand				
Government and public authorities	**350**	414	**350**	414
Agriculture, forestry and fishing	**992**	840	**992**	840
Financial, investment and insurance	**3,988**	4,338	**3,988**	4,338
Real estate – construction	**198**	185	**198**	185
Personal deposits	**8,447**	8,221	**8,447**	8,221
Other commercial and industrial	**8,456**	7,954	**8,456**	7,954
Related parties	**100**	233	**426**	481
Total New Zealand	**22,531**	22,185	**22,857**	22,433
Overseas				
Financial, investment and insurance	**2,698**	1,713	**2,698**	1,713
Related parties	**6,103**	7,241	**6,103**	7,241
Other	**492**	2,113	**492**	2,113
Total overseas	**9,293**	11,067	**9,293**	11,067
Total funding	**31,824**	33,252	**32,150**	33,500

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

Dollars in Millions	Consolidated 30/9/02	Consolidated 30/9/01	The Company 30/9/02	The Company 30/9/01
Note 20 Income Tax Liabilities				
Current income tax liability	**-**	-	**57**	22
Provision for deferred income tax liability	**87**	106	**42**	78
Total income tax liability	**87**	106	**99**	100
Provision for deferred income tax liability comprises:				
Depreciation	**-**	3	**5**	9
Financial instruments	**19**	31	**19**	31
Investments	**50**	33	**-**	-
Other	**18**	39	**18**	38
Total provision for deferred income tax liability	**87**	106	**42**	78
Movements in provision for deferred income tax liability				
Balance at beginning of year	**106**	70	**78**	57
Release of deferred tax liability	**(27)**	-	**(27)**	-
Deferred portion of current year income tax expense	**8**	36	**(9)**	21
Balance at end of year	**87**	106	**42**	78

Notes to and Forming Part of the Financial Statements continued

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:

	Consolidated		The Company	
Dollars in Millions	30/9/02	30/9/01	30/9/02	30/9/01
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	**157**	182	**157**	182
National Equities Limited	**190**	190	**190**	190
	347	372	**347**	372
Total subordinated loans from related parties	**1,062**	1,087	**1,062**	1,087

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 6.8% p.a. as at 30 September 2002 (30 September 2001: 6.9% 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.

Note 22 Other Liabilities

	Consolidated		The Company	
Dollars in Millions	30/9/02	30/9/01	30/9/02	30/9/01
Accrued interest payable	**120**	128	**120**	128
Securities purchased – not yet settled	**66**	417	**66**	417
Short sales of securities	**62**	263	**62**	263
Unrealised losses on derivative financial instruments	**992**	1,390	**980**	1,350
Employee entitlements	**50**	47	**50**	47
Other liabilities	**704**	453	**644**	367
Total other liabilities	**1,994**	2,698	**1,922**	2,572

Notes to and Forming Part of the Financial Statements continued

Other Notes

Dollars in Millions	Consolidated 30/9/02	Consolidated 30/9/01	The Company 30/9/02	The Company 30/9/01
Note 23 Imputation Credit Account				
Balance at beginning of year	**46**	49	**22**	19
Transfers from other group companies	**-**	5	**-**	9
Imputation credits attaching to dividends received during the year	**12**	2	**-**	3
Imputation credits attaching to dividends paid during the year	**(69)**	(56)	**(69)**	(56)
Income tax payments during the year net of refunds	**48**	46	**48**	47
Balance at end of year	**37**	46	**1**	22

Note 24 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 $79 million as at 30 September 2002 (30 September 2001: $60 million) rank in priority to general creditors' claims in a winding up of the Bank. Subordinated loans from related parties totalling $1,062 million as at 30 September 2002 (30 September 2001: $1,087 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 $772 million as at 30 September 2002 (30 September 2001: $497 million).

Dollars in Millions	Consolidated 30/9/02	Consolidated 30/9/01	The Company 30/9/02	The Company 30/9/01
Interest earning and discount bearing assets	**34,135**	34,817	**31,542**	32,202
Interest and discount bearing liabilities	**30,909**	32,691	**31,235**	32,939

Notes to and Forming Part of the Financial Statements continued

Note 25 Related Party Transactions

The Bank is a wholly owned subsidiary of National Australia Bank Limited. During the year ended 30 September 2002 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.

	Consolidated		The Company	
Dollars in Millions	**30/9/02**	30/9/01	**30/9/02**	30/9/01
Amounts due from related parties				
Call	**7**	22	**7**	22
Term	**218**	170	**284**	217
Total amounts due from related parties	**225**	192	**291**	239
Amounts due to related parties				
Call	**581**	55	**679**	89
Term	**4,560**	6,332	**4,788**	6,546
Total amounts due to related parties	**5,141**	6,387	**5,467**	6,635
Subordinated loans from related parties (refer to note 21)	**1,062**	1,087	**1,062**	1,087

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 2002 (30 September 2001: nil).

During the year ended 30 September 2002 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 Limited totalling $142 million (30 September 2001: $125 million).

Details of other related party transactions including dividends, interest income and interest expense are contained in note 2 and note 3.

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 6.20% to 8.10%.

	Consolidated		The Company	
Dollars in Thousands	**30/9/02**	30/9/01	**30/9/02**	30/9/01
Loans to directors				
Loans on normal terms and conditions	**150**	13,284	**150**	13,284
Loans on employee terms and conditions	**171**	457	**171**	457
Total loans to directors	**321**	13,741	**321**	13,741

Notes to and Forming Part of the Financial Statements continued

Note 26 Fair Value of Financial Instruments

Dollars in Millions	Consolidated Carrying Amount 30/9/02	Fair Value 30/9/02	Carrying Amount 30/9/01	Fair Value 30/9/01
Financial assets				
Liquid assets	175	175	115	115
Due from other banks	334	334	2,503	2,503
Securities	3,391	3,392	2,665	2,667
Loans	30,048	30,242	29,304	29,546
Amounts due from related parties	225	225	192	192
Other	250	250	341	341
Total financial assets	34,423	34,618	35,120	35,364
Financial liabilities				
Due to other banks	1,449	1,449	2,335	2,335
Securities	62	62	263	263
Deposits	24,172	24,218	23,443	23,501
Amounts due to related parties	5,141	5,141	6,387	6,387
Subordinated loans from related parties	1,062	1,062	1,087	1,087
Other	66	66	417	417
Total financial liabilities	31,952	31,998	33,932	33,990

	The Company			
Financial assets				
Liquid assets	175	175	115	115
Due from other banks	333	333	2,503	2,503
Securities	3,391	3,392	2,643	2,645
Loans	27,390	27,436	26,664	26,772
Amounts due from related parties	291	291	239	239
Other	69	69	197	197
Total financial assets	31,649	31,696	32,361	32,471
Financial liabilities				
Due to other banks	1,449	1,449	2,335	2,335
Securities	62	62	263	263
Deposits	24,172	24,218	23,443	23,501
Amounts due to related parties	5,467	5,467	6,635	6,635
Subordinated loans from related parties	1,062	1,062	1,087	1,087
Other	66	66	417	417
Total financial liabilities	32,278	32,324	34,180	34,238

The fair value of off-balance sheet derivative financial instruments are disclosed in note 30.

The fair values of classes of financial assets and liabilities that reprice within six months are assumed to equate to carrying value as 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 27 Maturity Profile

Dollars in Millions	Total	3 Months or Less	3 to 12 Months	1 to 5 Years	Over 5 Years
	Consolidated 30/9/02				
Assets					
Cash and balances with central banks	**161**	**161**	**-**	**-**	**-**
Loans, due from other banks and related parties	**30,607**	**10,776**	**1,969**	**7,297**	**10,565**
Securities	**3,391**	**2,384**	**726**	**238**	**43**
	34,159	**13,321**	**2,695**	**7,535**	**10,608**
Liabilities					
Deposits, due to other banks and related parties	**30,762**	**25,507**	**3,386**	**805**	**1,064**
Securities	**62**	**-**	**-**	**-**	**62**
Subordinated loans from related parties	**1,062**	**-**	**-**	**-**	**1,062**
	31,886	**25,507**	**3,386**	**805**	**2,188**
	Consolidated 30/9/01				
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

Notes to and Forming Part of the Financial Statements continued

Note 27 Maturity Profile continued

	The Company 30/9/02				
Dollars in Millions	Total	3 Months or Less	3 to 12 Months	1 to 5 Years	Over 5 Years
Assets					
Cash and balances with central banks	**161**	**161**	**-**	**-**	**-**
Loans, due from other banks and related parties	**28,014**	**10,782**	**1,969**	**4,698**	**10,565**
Securities	**3,391**	**2,384**	**726**	**238**	**43**
	31,566	**13,327**	**2,695**	**4,936**	**10,608**
Liabilities					
Deposits, due to other banks and related parties	**31,088**	**25,833**	**3,386**	**805**	**1,064**
Securities	**62**	**-**	**-**	**-**	**62**
Subordinated loans from related parties	**1,062**	**-**	**-**	**-**	**1,062**
	32,212	**25,833**	**3,386**	**805**	**2,188**

	The Company 30/9/01				
Dollars in Millions	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

Notes to and Forming Part of the Financial Statements continued

Note 28 Interest Rate Repricing Schedule

Consolidated 30/9/02

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	-	161	-	-	-	-	161
Loans, due from other banks and related parties	7.6	30,774	17,617	4,152	8,380	595	30
Provision for doubtful debts	-	(167)	-	-	-	-	(167)
Securities	6.1	3,391	2,384	726	238	43	-
Other assets	-	1,809	-	-	-	-	1,809
Total assets		35,968	20,001	4,878	8,618	638	1,833
Liabilities and equity							
Deposits, due to other banks and related parties	4.1	30,762	26,124	2,971	690	-	977
Other liabilities	-	2,019	-	-	-	-	2,019
Securities	6.1	62	-	-	-	62	-
Subordinated loans from related parties	6.8	1,062	905	-	-	157	-
Shareholders' equity	-	2,063	-	-	-	-	2,063
Total liabilities and equity		35,968	27,029	2,971	690	219	5,059
On-balance sheet gap		-	(7,028)	1,907	7,928	419	(3,226)
Off-balance sheet gap			6,403	(1,384)	(4,590)	(429)	
Total interest rate sensitivity gap			(625)	523	3,338	(10)	

The weighted average interest rate referred to in the table above is the weighted average rate as at 30 September 2002 for the interest sensitive assets and liabilities.

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.

Notes to and Forming Part of the Financial Statements continued

Note 28 Interest Rate Repricing Schedule continued

	The Company 30/9/02						
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	-	161	-	-	-	-	161
Loans, due from other banks and related parties	7.7	28,181	17,524	4,152	6,380	95	30
Provision for doubtful debts		(167)	-	-	-	-	(167)
Securities	6.1	3,391	2,384	726	238	43	-
Other assets	-	4,464	-	-	-	-	4,464
Total assets		36,030	19,908	4,878	6,618	138	4,488
Liabilities and equity							
Deposits, due to other banks and related parties	4.1	31,088	26,450	2,971	690	-	977
Other liabilities	-	1,959	-	-	-	-	1,959
Securities	6.1	62	-	-	-	62	-
Subordinated loans from related parties	6.8	1,062	905	-	-	157	-
Shareholders' equity	-	1,859	-	-	-	-	1,859
Total liabilities and equity		36,030	27,355	2,971	690	219	4,795
On-balance sheet gap		-	(7,447)	1,907	5,928	(81)	(307)
Off-balance sheet gap			3,903	(1,384)	(2,590)	71	
Total interest rate sensitivity gap			(3,544)	523	3,338	(10)	

The weighted average interest rate referred to in the table above is the weighted average rate as at 30 September 2002 for the interest sensitive assets and liabilities.

	The Company 30/9/01						
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.

Notes to and Forming Part of the Financial Statements continued

Note 29 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

	Consolidated		The Company	
Dollars in Millions	**30/9/02**	30/9/01	**30/9/02**	30/9/01
US dollar	**(24)**	(18)	**(24)**	(18)
Australian dollar	**5**	3	**5**	3
Japanese yen	**3**	(8)	**3**	(8)
Great British pound	**(2)**	-	**(2)**	-
Euro	**9**	(2)	**9**	(2)
Other	**-**	1	**-**	1

Note 30 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

	Consolidated					
Dollars in Millions	**Notional Amount 30/9/02**	Notional Amount 30/9/01	**Credit Equivalent 30/9/02**	Credit Equivalent 30/9/01	**Fair Value 30/9/02**	Fair Value 30/9/01
Foreign exchange rate related contracts						
Spot and forward contracts to purchase foreign exchange						
Trading	**22,009**	31,147	**99**	509	**114**	(216)
Other than trading	**5,959**	4,232	**362**	210	**(152)**	100
Total spot and forward contracts to purchase foreign exchange	**27,968**	35,379	**461**	719	**(38)**	(116)
Cross currency swaps						
Trading	**3,595**	3,166	**231**	489	**(110)**	202
Other than trading	**2,771**	3,541	**274**	655	**(77)**	518
Total cross currency swaps	**6,366**	6,707	**505**	1,144	**(187)**	720
Options						
Trading	**4,177**	1,468	**152**	29	**-**	-
Total options	**4,177**	1,468	**152**	29	**-**	-
Total foreign exchange rate related contracts	**38,511**	43,554	**1,118**	1,892	**(225)**	604

The spot and forward contracts to purchase foreign exchange, other than trading (fair value and carrying value loss of $152 million as at 30 September 2002 (30 September 2001: $100 million fair value and carrying value gain)) and the cross currency swaps, other than trading (fair value and carrying value loss of $77 million as at 30 September 2002 (30 September 2001: $518 million fair value and carrying value gain)) are hedges of foreign currency funding. The losses on the foreign exchange contracts and cross currency swaps offset the translation gains on the foreign currency funding.

Notes to and Forming Part of the Financial Statements continued

Note 30 Derivative Financial Instruments continued

Notional principal, estimated credit equivalent and fair value continued

	Consolidated					
Dollars in Millions	**Notional Amount 30/9/02**	Notional Amount 30/9/01	**Credit Equivalent 30/9/02**	Credit Equivalent 30/9/01	**Fair Value 30/9/02**	Fair Value 30/9/01
Interest rate related contracts						
Forward rate agreements						
Trading	**12,350**	7,187	**8**	6	**-**	-
Total forward rate agreements	**12,350**	7,187	**8**	6	**-**	-
Swaps						
Trading	**26,403**	25,855	**398**	427	**(86)**	(123)
Other than trading	**15,474**	12,811	**236**	204	**(148)**	(135)
Total swaps	**41,877**	38,666	**634**	631	**(234)**	(258)
Futures						
Trading	**3,198**	2,183	**-**	-	**(4)**	(3)
Other than trading	**2,801**	4,712	**-**	-	**(13)**	(5)
Total futures	**5,999**	6,895	**-**	-	**(17)**	(8)
Options						
Trading	**798**	1,299	**53**	6	**2**	3
Total options	**798**	1,299	**53**	6	**2**	3
Swaptions						
Trading	**20**	220	**-**	1	**-**	1
Total swaptions	**20**	220	**-**	1	**-**	1
Total interest rate related contracts	**61,044**	54,267	**695**	644	**(249)**	(262)
Other contracts						
Equity options						
Other than trading	**106**	64	**5**	3	**1**	1
Total other contracts	**106**	64	**5**	3	**1**	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 2002 was $84 million net payable (30 September 2001: $73 million net payable). The fair value loss was $64 million as at 30 September 2002 (30 September 2001: $62 million fair value loss) which was calculated as a fair value loss of $148 million (30 September 2001: $135 million fair value loss) adjusted for the recognised net payable of $84 million (30 September 2001: $73 million net payable).

As at 30 September 2002 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 2001: $2,500 million) taken out by subsidiaries of the Bank.

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated 30/9/02	30/9/02	30/9/01	30/9/01
Note 31 Segment Analysis				
Geographical				
Operating income				
New Zealand	**1,359**	**99%**	1,219	99%
Overseas	**15**	**1%**	16	1%
Total operating income	**1,374**	**100%**	1,235	100%
Operating surplus from continuing activities before income tax expense				
New Zealand	**679**	**98%**	556	98%
Overseas	**11**	**2%**	12	2%
Total operating surplus from continuing activities before income tax expense	**690**	**100%**	568	100%
Net surplus attributable to shareholders of Bank of New Zealand				
New Zealand	**575**	**99%**	432	98%
Overseas	**7**	**1%**	8	2%
Total net surplus attributable to shareholders of Bank of New Zealand	**582**	**100%**	440	100%
Assets				
New Zealand	**35,397**	**98%**	36,165	96%
Overseas	**571**	**2%**	1,682	4%
Total assets	**35,968**	**100%**	37,847	100%
Risk weighted exposures				
New Zealand	**25,697**	**99%**	25,533	98%
Overseas	**280**	**1%**	511	2%
Total risk weighted exposures	**25,977**	**100%**	26,044	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 32 Contingent Liabilities and Credit Commitments

Bank of New Zealand and other income tax group members have a joint and several liability for the income tax liability of the income tax group. Bank of New Zealand is not expected to incur any additional tax liability as a result of this joint and several liability.

Contingent liabilities and credit commitments exist in respect of commitments to extend credit, letters of credit and financial guarantees, as well as claims, potential claims and court proceedings against entities in the Banking Group. 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.

BNZ Investments Limited has made certain warranties under the conditions of sale of BNZ Investment Management Limited, BNZ Life Insurance Limited and BNZ Nominees Limited. The warranties are valid for a period of 18 months up until 1 July 2003. Bank of New Zealand continues to provide a Deed of Indemnity in respect of the performance by BNZ Investment Management Limited of certain Trustee functions in respect of certain unit trusts of which BNZ Investment Management Limited is the manager.

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

	Consolidated			
Dollars in Millions	**Notional Amount 30/9/02**	**Credit Equivalent 30/9/02**	Notional Amount 30/9/01	Credit Equivalent 30/9/01
Contingent liabilities				
Guarantees	**652**	**652**	93	93
Standby letters of credit	**198**	**198**	199	199
Documentary letters of credit	**81**	**16**	79	16
Performance related contingencies	**153**	**77**	169	85
Guarantees to investors in managed funds	**30**	**30**	30	30
Other contingent liabilities including legal cases	**96**	**96**	-	-
Total contingent liabilities	**1,210**	**1,069**	570	423
Credit related commitments				
Outright forward purchases and forward deposits	**-**	**-**	240	240
Commitments to extend credit	**4,473**	**195**	3,940	104
Total credit related commitments	**4,473**	**195**	4,180	344

	The Company			
Contingent liabilities				
Guarantees	**281**	**281**	93	93
Standby letters of credit	**198**	**198**	199	199
Documentary letters of credit	**81**	**16**	79	16
Performance related contingencies	**153**	**77**	169	85
Guarantees to investors in managed funds	**30**	**30**	30	30
Unpaid share capital in subsidiaries and other companies	**15**	**15**	15	15
Other contingent liabilities including legal cases	**53**	**53**	-	-
Total contingent liabilities	**811**	**670**	585	438
Credit related commitments				
Outright forward purchases and forward deposits	**-**	**-**	240	240
Commitments to extend credit	**4,844**	**195**	3,940	104
Total credit related commitments	**4,844**	**195**	4,180	344

Note 32 Contingent Liabilities and Credit Commitments continued

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 38.

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

	Consolidated		The Company	
Dollars in Millions	**30/9/02**	30/9/01	**30/9/02**	30/9/01
Note 33 Capital Expenditure Commitments				
Land and buildings				
Due within one year	**-**	3	**-**	-
Furniture and fittings				
Due within one year	**4**	7	**-**	-
Data processing assets and other equipment				
Due within one year	**8**	14	**8**	14
Total capital expenditure commitments	**12**	24	**8**	14

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

	Consolidated		The Company	
Dollars in Millions	**30/9/02**	30/9/01	**30/9/02**	30/9/01
Note 34 Lease Commitments				
Operating lease commitments				
Land and buildings				
Due within one year	**36**	32	**2**	1
Due within one to two years	**31**	25	**1**	2
Due within two to five years	**59**	42	**2**	3
Due after five years	**52**	60	**1**	3
Total operating lease commitments	**178**	159	**6**	9
Figures include liabilities taken up for surplus leased space.				
Finance lease commitments (included under other liabilities)				
Data processing assets and other equipment				
Due within one year	**-**	-	**-**	-
Total finance lease commitments	**-**	-	**-**	-

Notes to and Forming Part of the Financial Statements continued

Note 35 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.

	Consolidated			
Dollars in Millions	**As at 30/9/02**	As at 30/9/01	**Peak for 3 Months Ended 30/9/02**	Peak for 3 Months Ended 30/9/01
Credit exposure to connected persons	**660**	752	**682**	1,006
Credit exposure to connected persons expressed as a percentage of tier one capital of the Banking Group	**32.3%**	42.4%	**33.3%**	56.8%

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 2002 the Banking Group had a contingent credit exposure of $192 million (30 September 2001: $267 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 2002 (30 September 2001: 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 36 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			
	Number of Non-Banks		Number of Banks	
Percentage of Shareholders' Equity %	**For the 3 Months Ended 30/9/02**	For the 3 Months Ended 30/9/01	**For the 3 Months Ended 30/9/02**	For the 3 Months Ended 30/9/01
10 - 19	**5**	7	**8**	12
20 - 29	**4**	2	**1**	4
30 - 39	**-**	1	**2**	2
40 - 49	**-**	-	**2**	1
50 - 59	**-**	-	**1**	2
60 - 69	**-**	-	**-**	3
70 - 79	**-**	-	**-**	-
80 - 89	**-**	-	**-**	1

	Consolidated			
	Balance Date Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties			
	Number of Non-Banks		Number of Banks	
Percentage of Shareholders' Equity %	**As at 30/9/02**	As at 30/9/01	**As at 30/9/02**	As at 30/9/01
10 - 19	**4**	6	**2**	5
20 - 29	**4**	3	**-**	4
30 - 39	**-**	-	**2**	-
40 - 49	**-**	-	**1**	-
50 - 59	**-**	-	**-**	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.

Notes to and Forming Part of the Financial Statements continued

Note 37 Securitisation, Funds Management and Other Fiduciary Activities

Funds management

On 1 January 2002, BNZ Investments Limited sold 100% of the share capital in BNZ Investment Management Limited and BNZ Life Insurance Limited to a controlled entity of National Australia Bank Limited Group.

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

Bank of New Zealand derives commission from the sale of superannuation and unit trusts marketed on behalf of BNZ Investment Management Limited and life insurance products marketed on behalf of BNZ Life Insurance Limited.

The Bank provides discretionary funds management services to a number of private clients.

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 the Banking Group's policies and procedures, combined with those of BNZ Investment Management Limited and BNZ Life Insurance Limited will minimise the possibility that those conditions will adversely impact the Banking Group. The policies and procedures referred to include comprehensive and prominent disclosure of information regarding products, formal and regular review of operations and policies by 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 $28 million (30 September 2001: $27 million), and registered superannuation schemes with a value of $2 million as at 30 September 2002 (30 September 2001: $3 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 Bank distributes the funds management and life insurance products of BNZ Investment Management Limited and BNZ Life Insurance Limited, controlled entities of National Australia Bank Limited Group, through its branch network.

Dollars in Millions	**30/9/02**	30/9/01
Discretionary funds management	**2,583**	2,264
Capital Guaranteed Growth Notes	**28**	27
Term life insurance policyholders' funds	**6**	7

Notes to and Forming Part of the Financial Statements continued

Note 37 Securitisation, Funds Management and Other Fiduciary Activities continued

Peak aggregate funding provided to entities

As a result of the sale of BNZ Investment Management Limited and BNZ Life Insurance Limited there was no peak end of day aggregate amount of funding provided by the Banking Group during the three months ended 30 September 2002 to unit trusts for which the Banking Group provided discretionary funds management services. This represented 0.0% of the Banking Group's tier one capital as at the end of the period (30 September 2001: $15 million, 0.8%).

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 previously provided discretionary funds management services are disclosed in the table below:

	Peak End of Day Aggregate Amount of Funding During the Period Dollars in Millions		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	
	For the 3 Months Ended 30/9/02	For the 3 Months Ended 30/9/01	**For the 3 Months Ended 30/9/02**	For the 3 Months Ended 30/9/01
BNZ International Bond Trust	**-**	8	**0.0%**	4.1%
BNZ International Equity Trust	**-**	4	**0.0%**	2.7%
BNZ Mortgage Investment Fund	**-**	3	**0.0%**	1.1%

Notes to and Forming Part of the Financial Statements continued

Note 38 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

	Consolidated		The Registered Bank	
Dollars in Millions	**30/9/02**	30/9/01	**30/9/02**	30/9/01
Qualifying capital				
Tier one capital				
Paid in capital	**1,451**	1,451	**1,451**	1,451
Retained earnings	**612**	340	**699**	399
Deductions from tier one capital:				
Goodwill	**17**	19	**17**	19
Total tier one capital	**2,046**	1,772	**2,133**	1,831
Upper tier two capital				
Subordinated loans from related parties	**347**	372	**347**	372
Total upper tier two capital	**347**	372	**347**	372
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	**1,062**	1,087	**1,062**	1,087
Total tier one and tier two capital	**3,108**	2,859	**3,195**	2,918
Deduct: Investment in subsidiaries not wholly owned or wholly funded	**-**	-	**5**	22
Total qualifying capital	**3,108**	2,859	**3,190**	2,896
Total risk weighted exposures	**25,977**	26,044	**26,208**	26,148
Risk based adjusted capital ratios				
Total tier one capital expressed as a percentage of total risk weighted exposures	**7.88%**	6.80%	**8.14%**	7.00%
Total qualifying capital expressed as a percentage of total risk weighted exposures	**11.96%**	10.98%	**12.17%**	11.08%

Notes to and Forming Part of the Financial Statements continued

Note 38 Capital Adequacy continued

Calculation of balance sheet exposures

Dollars in Millions	Principal Amount 30/9/02	Risk Weighting 30/9/02	Risk Weighted Exposure 30/9/02
	Consolidated		
Cash and claims on qualifying central banks and governments			
with maturity within one year	414	0%	-
Claims on qualifying governments with maturity over one year	1,682	10%	168
Claims on banks and New Zealand local authorities	3,998	20%	800
Loans secured by residential mortgages	11,150	50%	5,575
All other assets	18,724	100%	18,724
Adjustments	-	-	(921)
Total assets	35,968		24,346

Calculation of off-balance sheet exposures

Dollars in Millions	Principal Amount 30/9/02	Credit Conversion Factor 30/9/02	Credit Equivalent Amount 30/9/02	Average Counterparty Risk Weight 30/9/02	Risk Weighted Exposure 30/9/02
Direct credit substitutes	850	100%	850	100%	850
Asset sales with recourse	50	100%	50	10%	5
Transaction related contingent liabilities	153	50%	77	100%	77
Short term, self liquidating trade related contingencies	81	20%	16	100%	16
Commitments for financial services:					
Maturity is greater than one year	390	50%	195	90%	176
Maturity is less than one year or can be cancelled at any time	4,083	0%	-	0%	-
Market related contracts: *					
Foreign exchange contracts	36,431	-	1,119	28%	312
Interest rate contracts	60,695	-	646	30%	194
Other	106	-	5	20%	1
Total off-balance sheet items	102,839		2,958		1,631
Total risk weighted exposures					25,977

* Market related contracts differ to the amounts disclosed in note 30 due to options written by the Bank.

Notes to and Forming Part of the Financial Statements continued

Note 38 Capital Adequacy continued

Calculation of balance sheet exposures

Dollars in Millions	Principal Amount 30/9/01	Risk Weighting 30/9/01	Risk Weighted Exposure 30/9/01
	Consolidated		
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 30 due to options written by the Bank.

Notes to and Forming Part of the Financial Statements continued

Note 38 Capital Adequacy continued

Calculation of balance sheet exposures

	The Registered Bank		
Dollars in Millions	Principal Amount 30/9/02	Risk Weighting 30/9/02	Risk Weighted Exposure 30/9/02
Cash and claims on qualifying central banks and governments with maturity within one year	414	0%	-
Claims on qualifying governments with maturity over one year	1,682	10%	168
Claims on banks and New Zealand local authorities	3,999	20%	800
Loans secured by residential mortgages	11,150	50%	5,575
All other assets	18,957	100%	18,957
Adjustments	-	-	(921)
Total assets	36,202		24,579

Calculation of off-balance sheet exposures

Dollars in Millions	Principal Amount 30/9/02	Credit Conversion Factor 30/9/02	Credit Equivalent Amount 30/9/02	Average Counterparty Risk Weight 30/9/02	Risk Weighted Exposure 30/9/02
Direct credit substitutes	850	100%	850	100%	850
Asset sales with recourse	50	100%	50	10%	5
Transaction related contingent liabilities	153	50%	77	100%	77
Short term, self liquidating trade related contingencies	81	20%	16	100%	16
Commitments for financial services:					
Maturity is greater than one year	390	50%	195	90%	176
Maturity is less than one year or can be cancelled at any time	4,083	0%	-	0%	-
Market related contracts: *					
Foreign exchange contracts	36,431	-	1,119	28%	312
Interest rate contracts	58,195	-	633	30%	192
Other	106	-	5	21%	1
Total off-balance sheet items	100,339		2,945		1,629
Total risk weighted exposures					26,208

* Market related contracts differ to the amounts disclosed in note 30 due to options written by the Bank.

Notes to and Forming Part of the Financial Statements continued

Note 38 Capital Adequacy continued

Calculation of balance sheet exposures

	The Registered Bank		
Dollars in Millions	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 30 due to options written by the Bank.

Notes to and Forming Part of the Financial Statements continued

Note 38 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

	30/9/02	30/9/01
Total tier one capital expressed as a percentage of total risk weighted exposures	**7.8%**	7.5%
Total qualifying capital expressed as a percentage of total risk weighted exposures	**10.2%**	10.2%

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 2002, National Australia Bank Limited met the above minimum capital requirements.

Note 39 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 Risk Management, Internal Audit, Legal Services, Regulatory Compliance and Operational Risk) and the Market Risk 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 Internal Audit who report to Bank of New Zealand's Audit Committee, the Managing Director and to NAB 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 three 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 39 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 Market Risk Unit located in the Wholesale Financial Services has responsibility for reporting and monitoring the market risk resulting from the trading activities of the Markets division 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. Management reviews the Bank's exposure to equity risk on a monthly basis.

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 retail bank interest rate risk. 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 39 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 risk of loss resulting from inadequate or failed processes, people, systems or from external events. 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.

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

- a central, independent Operational Risk function which liaises directly with the business;
- business unit responsibility for their own operational risks; and
- an independent Internal Audit function.

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

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 Risk Management, an independent unit which disseminates credit policies and procedures. All loans are subjected to a Credit Risk Rating and there are monitoring procedures and systems 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 Risk Management and then to the business units. Individual lending authorities are then allocated according to demonstrated skills and experience.

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. When it is considered appropriate, the Bank will 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. In addition, there are specialist units such as Risk Asset Review which undertakes regular reviews of loan portfolios and Credit Restructuring which has specific responsibility for the management of accounts classified by the Bank as impaired. These processes help enable 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 40 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.

	Consolidated			
Dollars in Millions	**As At 30/9/02**	As At 30/9/01	**Peak for 3 Months Ended 30/9/02**	Peak for 3 Months Ended 30/9/01
Interest rate exposures				
Aggregate interest rate exposures	**63**	53	**86**	79
Aggregate interest rate exposures expressed as a percentage of the Banking Group's equity	**3.1%**	3.0%	**4.2%**	4.4%
Foreign currency exposures				
Aggregate foreign currency exposures	**2**	2	**4**	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	**-**	2
Aggregate equity exposures expressed as a percentage of the Banking Group's equity	**0.0%**	0.1%	**0.0%**	0.1%

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

Note 41 Subsequent Events

On 25 September 2002, Custom Fleet (NZ) Limited's Board of Directors resolved to purchase 100% of the share capital of Hertz Fleetlease Limited. The purchase, which was subject to conditions now satisfied, occurred on 1 November 2002. On the same date the Directors resolved to change the name of Hertz Fleetlease Limited to Custom Service Leasing (New Zealand) Limited.

Subsequent to balance date, on 25 October 2002, the Directors declared a final dividend of $135 million. In accordance with FRS-5 **Events after balance date**, the dividend has not been recognised in these financial statements.

Note 42 Auditors' 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.

Auditors' Report

KPMG

To the Shareholders of Bank of New Zealand

We have audited the financial statements including supplementary information on pages 7 to 56. 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 2002. 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 2002 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. These matters have not impaired our independence. The firm has no other interest in the Registered Bank or Banking Group.

Auditor's Report continued

KPMG

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 56:
  - 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 2002 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 6 December 2002 and our unqualified opinion is expressed as at that date.

KPMG

Auckland

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 2002. On 18 December 2001, the rating outlook was changed from stable to negative as a result of a change in the rating outlook of the Bank's parent, National Australia Bank Limited.

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.

viii) Securities shall have the same meaning as in the Reserve Bank of New Zealand Act 1989.

Conditions of Registration continued

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 Chairman 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 2002:

a) the Bank has complied with its conditions of registration which are set out on pages 60 and 61;

b) credit exposures to connected persons (refer to note 35 on page 44) 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 6th day of December 2002 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