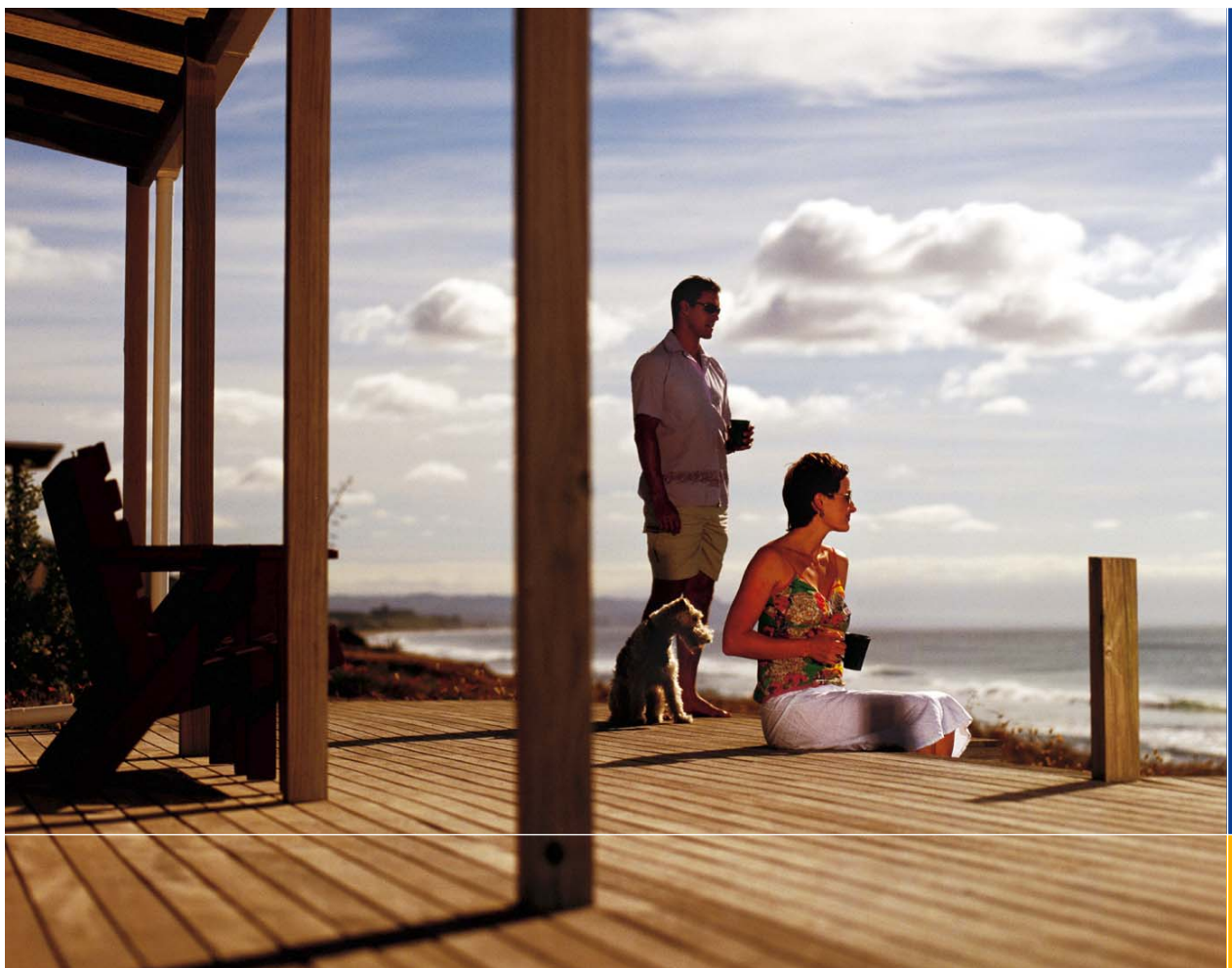
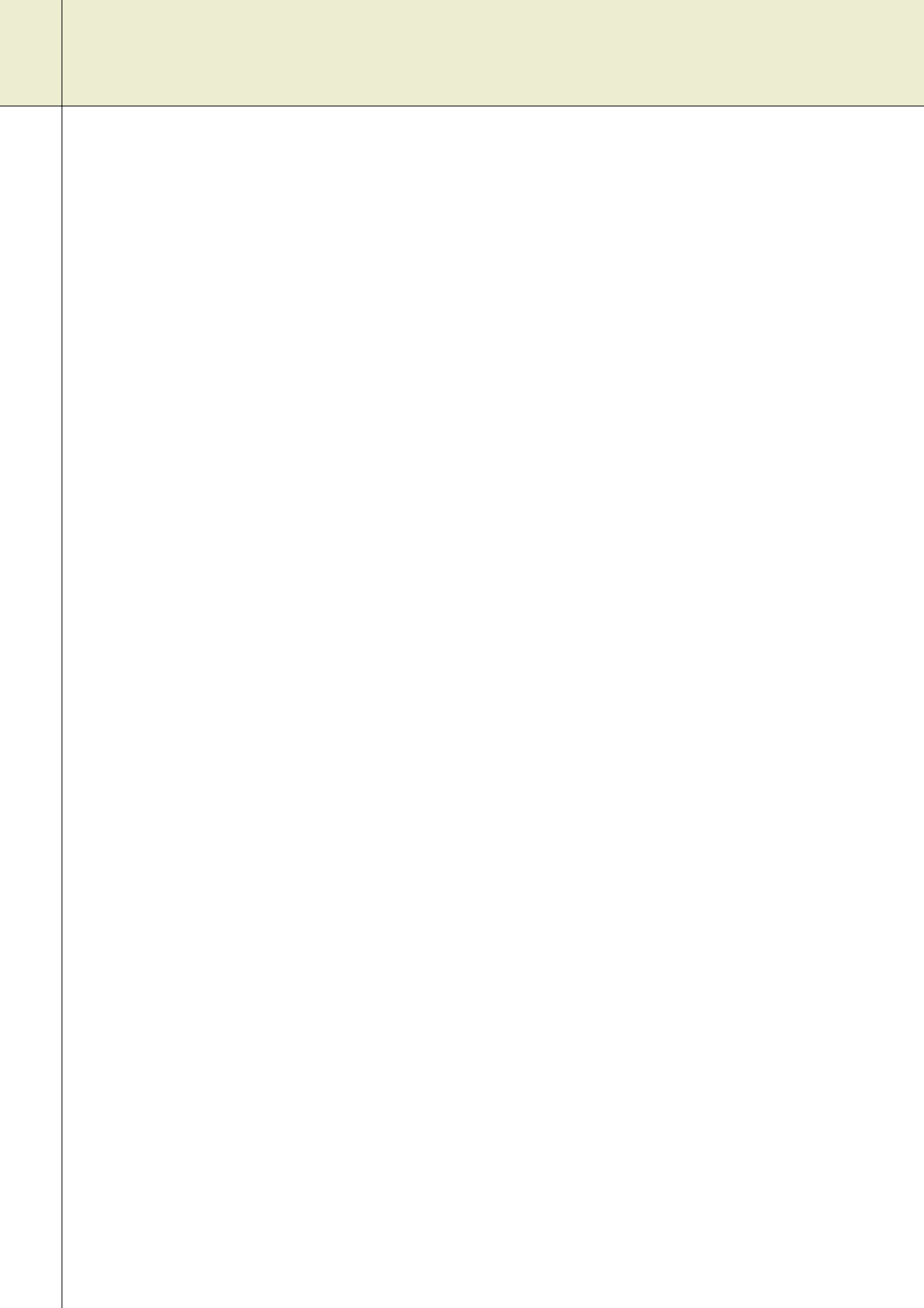


# Bank of New Zealand General Disclosure Statement

For the year ended 30 September 2003





# General Disclosure Statement

For the year ended 30 September 2003

This General Disclosure Statement has been issued by Bank of New Zealand for the year ended 30 September 2003 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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## 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 14, BNZ Tower, 125 Queen Street, Auckland.

## Details of Incorporation

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

## Substantial Security Holders

National Australia Group (NZ) Limited, National Australia Bank Limited and National Equities Limited are the only substantial security holders. There are 2,470,997,499 voting securities of the Bank. National Australia Group (NZ) Limited is the registered and beneficial holder of 2,470,997,499 voting securities. Neither National Australia Bank Limited nor National Equities Limited is the registered or the beneficial holder of any of the voting securities of the Bank but each has a relevant interest in all of such securities by virtue of National Australia Group (NZ) Limited being related to them in terms of section 5(7) of the Securities Amendment Act 1988.

## Guarantors

The material obligations of the Bank are not guaranteed.

## Ultimate Parent Bank and Address for Service

The ultimate parent bank of Bank of New Zealand is National Australia Bank Limited whose address for service is Level 24, 500 Bourke Street, Melbourne, Victoria 3000, Australia.

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

National Australia Bank Limited does not guarantee the obligations of Bank of New Zealand. However, from time to time National Australia Bank Limited may, in its commercial judgement, seek to provide material financial support to Bank of New Zealand. In providing any such support National Australia Bank Limited would act within the constraints imposed by any relevant laws, including the laws of Australia and New Zealand.

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

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

## Director Communications

Communications addressed to the Directors and responsible persons (if any), or any of them, may be sent to Level 14, BNZ Tower, 125 Queen Street, Auckland.

## 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

Bank of New Zealand Managing Director

New Zealand

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

National Australia Bank Limited executive

M. Com. (Hons.), B.Com. (A.G.Econ.).

Australia

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

Queen's Counsel

B.A., LL.B.

New Zealand

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

Company Director

New Zealand

Mr Peter John Benedict Duncan ceased to be a Director on 19 September 2003.

## Executive Directors

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

## Responsible Persons

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

## Policy for Avoiding and Dealing with Conflicts of Interests

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

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

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

## Directors' Benefits

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

Information pertaining to loans to and other transactions with Directors appears in note 25 of these financial statements on page 34.

## 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.

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.

### **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 and Sale of Subsidiary Companies**

On 1 November 2002, Custom Fleet (NZ) Limited, a wholly owned subsidiary of Bank of New Zealand, acquired 100% of the share capital of Custom Service Leasing (New Zealand) Limited, (formerly Hertz Fleetlease Limited).

As at acquisition date Custom Service Leasing (New Zealand) Limited (formerly Hertz Fleetlease Limited) had five wholly owned subsidiaries. On 29 January 2003, Custom Fleet (Australia) Limited, a wholly owned subsidiary of Custom Service Leasing (New Zealand) Limited, was sold to another member of the National Australia Bank Limited Group, at market value supported by an independent valuation.

### **Amalgamation of Subsidiary Companies**

On 28 July 2003, the Directors of Custom Fleet (NZ) Limited, Custom Service Leasing (New Zealand) Limited (formerly Hertz Fleetlease Limited), Capital Equipment Finance Limited, VMS (New Zealand) Limited and Wheel Lease Limited resolved to amalgamate and continue as Custom Fleet (NZ) Limited, effective 31 July 2003.

On 31 July 2003, Custom Service Leasing (New Zealand) Limited (formerly Hertz Fleetlease Limited), Capital Equipment Finance Limited, VMS (New Zealand) Limited and Wheel Lease Limited ceased to exist as separate legal entities and Custom Fleet (NZ) Limited as the amalgamated entity assumed all operational and contractual obligations of the above companies from 31 July 2003 onwards.

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.

# Financial Statements

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# Historical Summary of Financial Statements

Dollars in Millions	Consolidated				
	30/9/03	30/9/02	30/9/01	30/9/00	30/9/99
<b>Financial performance</b>					
Interest income	2,493	2,413	2,583	2,313	1,989
Interest expense	1,611	1,582	1,830	1,648	1,366
Net interest income	882	831	753	665	623
Provisions for doubtful debts	13	(15)	12	13	22
Net interest income after provisions for doubtful debts	869	846	741	652	601
Other operating income	519	528	494	491	407
Total operating income	1,388	1,374	1,235	1,143	1,008
Operating expenses	636	624	648	630	570
Operating surplus before tax expense	752	750	587	513	438
Tax expense	204	168	147	124	80
Net surplus attributable to shareholders of Bank of New Zealand	548	582	440	389	358
Ordinary dividend	295	310	160	240	250
Net operating surplus retained	253	272	280	149	108
<b>Significant statement of financial position items</b>					
Total assets	37,643	35,968	37,847	35,303	31,007
Impaired assets	236	30	47	88	112
Total liabilities (including subordinated debt)	35,327	33,905	36,056	33,792	29,645
Shareholders' equity attributable to members of Bank of New Zealand	2,316	2,063	1,791	1,511	1,362

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, and the acquisition of Custom Service Leasing (New Zealand) Limited (formerly Hertz Fleetlease Limited) and its wholly owned subsidiaries on 1 November 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.

In July 2000 the Financial Reporting Standards Board issued FRS-5 **Events After Balance Date** which became effective for periods ending on or after 30 June 2001. The standard requires that dividends proposed or declared after balance date cannot be recognised as a liability as at balance date. The final dividend for the year ended 30 September 2001 was declared on 26 October 2001 and was recognised in the year ended 30 September 2002 in the above table.

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 2003

Dollars in Millions	Note	Consolidated		The Company	
		30/9/03	30/9/02	30/9/03	30/9/02
Interest income	2	2,493	2,413	2,278	2,234
Interest expense	2	1,611	1,582	1,547	1,546
<b>Net interest income</b>		<b>882</b>	831	<b>731</b>	688
Provisions for doubtful debts	11	13	(15)	12	(15)
<b>Net interest income after provisions for doubtful debts</b>		<b>869</b>	846	<b>719</b>	703
Other operating income	3	519	528	725	667
<b>Total operating income</b>		<b>1,388</b>	1,374	<b>1,444</b>	1,370
Operating expenses	4	636	624	679	673
<b>Operating surplus before tax expense</b>		<b>752</b>	750	<b>765</b>	697
Tax expense	6	204	168	165	141
<b>Net surplus attributable to shareholders of Bank of New Zealand</b>		<b>548</b>	582	<b>600</b>	556

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 2003

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
Net surplus attributable to shareholders of Bank of New Zealand	548	582	600	556
<b>Total recognised revenues and expenses</b>	<b>548</b>	<b>582</b>	<b>600</b>	<b>556</b>
<b>Distributions to owners during the year:</b>				
Ordinary dividend	(295)	(310)	(295)	(310)
<b>Movement in equity for the year</b>	<b>253</b>	<b>272</b>	<b>305</b>	<b>246</b>
<b>Total shareholders' equity at beginning of year</b>	<b>2,063</b>	<b>1,791</b>	<b>1,859</b>	<b>1,613</b>
<b>Total shareholders' equity at end of year</b>	<b>2,316</b>	<b>2,063</b>	<b>2,164</b>	<b>1,859</b>
<b>Paid in capital (2,470,997,499 shares)</b>	<b>1,451</b>	<b>1,451</b>	<b>1,451</b>	<b>1,451</b>

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 2003

Dollars in Millions	Note	Consolidated		The Company	
		30/9/03	30/9/02	30/9/03	30/9/02
<b>Assets</b>					
Cash and call balances with central banks		155	161	155	161
Due from other banks	7	628	334	628	333
Securities	8	1,831	3,391	1,831	3,391
Loans	9,10	32,169	30,010	29,620	27,390
Amounts due from related parties	25	144	225	143	291
Investments in subsidiary companies	13	-	-	3,106	3,045
Property, plant and equipment	14	645	254	121	100
Income tax assets	15	80	106	75	82
Other assets	16	1,991	1,487	1,692	1,237
<b>Total assets</b>		<b>37,643</b>	<b>35,968</b>	<b>37,371</b>	<b>36,030</b>
Financed by:					
<b>Liabilities</b>					
Due to other banks	17	1,890	1,449	1,890	1,449
Deposits	18	25,478	24,172	25,478	24,172
Amounts due to related parties	25	4,362	5,141	4,108	5,467
Income tax liabilities	20	101	87	102	99
Subordinated loans from related parties	21,25	1,029	1,062	1,029	1,062
Other liabilities	22	2,467	1,994	2,600	1,922
<b>Total liabilities</b>		<b>35,327</b>	<b>33,905</b>	<b>35,207</b>	<b>34,171</b>
<b>Shareholders' equity</b>		<b>2,316</b>	<b>2,063</b>	<b>2,164</b>	<b>1,859</b>
<b>Total liabilities and shareholders' equity</b>		<b>37,643</b>	<b>35,968</b>	<b>37,371</b>	<b>36,030</b>

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 2003

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Cash flows from operating activities</b>				
<b>Cash was provided from:</b>				
Dividend income	1	-	250	220
Interest income	2,460	2,332	2,245	2,153
Other income	524	394	378	354
Trading securities and derivative financial instruments *	1,475	-	1,474	-
<b>Cash was applied to:</b>				
Interest expense	(1,615)	(1,590)	(1,551)	(1,554)
Operating expenses	(591)	(579)	(649)	(655)
Taxes and subvention payments	(171)	(153)	(155)	(121)
Trading securities and derivative financial instruments *	-	(1,222)	-	(1,236)
Net cash flows from operating activities	2,083	(818)	1,992	(839)
<b>Cash flows from investing activities</b>				
<b>Cash was provided from:</b>				
Cash acquired with subsidiaries	8	-	-	-
Decrease in due from other banks (term) *	-	1,686	-	1,686
Decrease in other assets *	-	726	-	759
Proceeds from available for sale securities	31	-	31	-
Proceeds from maturity of investment securities	2,332	1,664	2,332	1,664
Proceeds from sale of property, plant and equipment	75	68	5	3
Proceeds from sale of subsidiaries	104	75	-	-
<b>Cash was applied to:</b>				
Acquisition of subsidiaries	(74)	-	-	-
Increase in due from other banks (term) *	(159)	-	(159)	-
Increase in investment in subsidiaries	-	-	(61)	-
Increase in loans *	(2,238)	(711)	(2,242)	(711)
Increase in other assets *	(152)	-	(173)	-
Purchase of available for sale securities	(5)	(31)	(5)	(31)
Purchase of investment securities	(2,244)	(1,584)	(2,244)	(1,584)
Purchase of property, plant and equipment	(274)	(98)	(58)	(49)
Net cash flows from investing activities	(2,596)	1,795	(2,574)	1,737
<b>Cash flows from financing activities</b>				
<b>Cash was provided from:</b>				
Increase in deposits *	1,306	763	1,306	763
Increase in other liabilities *	258	276	471	292
<b>Cash was applied to:</b>				
Decrease in due to other banks (term) *	(651)	(642)	(281)	(642)
Ordinary dividend	(295)	(310)	(295)	(310)
Other related party funding *	(698)	(1,282)	(1,211)	(1,220)
Net cash flows from financing activities	(80)	(1,195)	(10)	(1,117)
<b>Net decrease in cash and cash equivalents</b>	<b>(593)</b>	<b>(218)</b>	<b>(592)</b>	<b>(219)</b>
Cash and cash equivalents at beginning of year	(390)	(172)	(391)	(172)
<b>Cash and cash equivalents at end of year</b>	<b>(983)</b>	<b>(390)</b>	<b>(983)</b>	<b>(391)</b>

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

# Statement of Cash Flows continued

For the year ended 30 September 2003

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Cash and cash equivalents comprise:</b>				
Cash and call balances with central banks	155	161	155	161
Due from other banks (call)	153	18	153	17
Due to other banks (call)	(1,291)	(569)	(1,291)	(569)
Total cash and cash equivalents	(983)	(390)	(983)	(391)
<b>Reconciliation of net surplus attributable to shareholders of Bank of New Zealand to net cash flows from operating activities</b>				
Net surplus attributable to shareholders of Bank of New Zealand	548	582	600	556
<b>Add back:</b>				
Depreciation on operating lease assets	110	18	-	-
Depreciation on property, plant and equipment	39	42	30	30
Decrease in accrued interest receivable	20	-	20	-
Decrease in trading securities and derivative financial instruments	1,379	-	1,377	-
Impairment losses on property, plant and equipment	4	14	-	-
Increase in provision for tax	33	15	10	20
Loss on sale of property, plant and equipment	1	1	1	-
Movements in provisions for doubtful debts	13	(15)	12	(15)
<b>Deduct:</b>				
Decrease in accrued interest payable	(4)	(8)	(4)	(8)
Decrease in other operating expenses	(59)	(64)	(54)	(62)
Gain on sale of subsidiaries	(1)	(56)	-	-
Increase in accrued interest receivable	-	(31)	-	(31)
Increase in trading securities and derivative financial instruments	-	(1,316)	-	(1,329)
<b>Net cash flows from operating activities</b>	<b>2,083</b>	<b>(818)</b>	<b>1,992</b>	<b>(839)</b>

## 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 2003

## 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-36 **Accounting for Acquisitions Resulting in Combinations of Entities**, FRS-37 **Consolidating Investments in Subsidiaries** and FRS-38 **Accounting for Investments in Associates** became effective for periods ending on or after 31 December 2002. The adoption of these standards has not had a material impact on the financial statements.

The Financial Reporting Standards Board issued **Consequential Amendments to Financial Reporting Standards** which became effective for periods ending on or after 31 December 2002. The amendments have resulted in a change in format to the statement of movements in equity as well as wording changes to the statement of financial performance.

## Comparative amounts

Comparative amounts have been reclassified and where appropriate restated to accord with changes in presentation made in the financial year, 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. Controlled entities for which the Bank has, by the earlier of three months after the date control is obtained or the date when the annual financial statements are approved, entered into a binding agreement to relinquish control of the acquired entity within one year from the date control is obtained are not consolidated into the Banking Group.

## 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.

## 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, nostro 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 values of trading securities represent the quoted market value of those securities.

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, accretion of discounts to maturity and other than temporary diminutions in their value. 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. The sale of an investment security would only be considered in those unusual and rare situations when significant unforeseeable changes in circumstance may have caused a change in intent without calling into question the Banking Group's intent and ability to hold other investment securities to maturity in the future (for example, evidence of a significant deterioration in a security issuer's creditworthiness). In any unusual and rare instances where investment securities are 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.

## Note 1 Principal Accounting Policies continued

### Loans

Loans include overdrafts, credit card lending, market rate advances, 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.

Unearned income represents interest not yet earned on the Banking Group's consumer instalment lending and leasing and is calculated on an actuarial basis. Interest is recognised as revenue when interest is earned.

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 or by management's determination of probable losses for individual loans that are considered impaired in relation to loan portfolios where specific identification is impracticable. All bad debts are written-off against the specific provision for doubtful debts in the reporting 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 portfolios at balance date.

For retail lending (smaller-balance homogeneous loans), the general provision is assessed at a portfolio level and is based on product loss rates, to make a provision for losses inherent in the portfolio but not yet identified at balance date. These rates are determined by reference to observed historical loss experience for the relevant product types.

In respect of non-retail lending, the amount of the general provision is determined by multiplying the customer's probability of default by the loss given default. The probability of default is determined by the Banking Group's internal customer rating system. Internal ratings are

assigned at the customer level. This system utilises objective, verifiable external data, such as external credit ratings, and is supplemented with an assessment of economic and industry outlooks, conducted by National Australia Bank Limited Group's discrete specialist economics unit. The loss given default is the amount of an individual loan at risk having regard to the level of collateral held against that facility. The level of collateral held is determined on a loan by loan basis, based on the Banking Group's assessment of the loan security's value at the time of loan application and any subsequent valuations.

The operation of the statistically-based provisioning methodology is such that when individual loans are impaired, a specific provision will be raised by making a transfer from the general provision for doubtful debts. The general provision for doubtful debts is then re-established based on the remaining portfolios of credit exposures applying the above methodology.

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

### Asset quality

A loan is considered to be impaired when, based on current information and events, the Banking Group considers it is probable that it will be unable to collect all amounts due, according to the contractual terms of the loan agreement. 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 assets** which consist of:
  - retail loans which are contractually past due 90 days with security insufficient to cover principal and arrears of interest;
  - non-retail loans which are contractually past due and there is sufficient doubt about the ultimate collectability of principal and interest to warrant the cessation of interest accruals; and
  - impaired off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.
- **Restructured loans** are those loans on which the original contractual terms have been formally modified due to the financial difficulties of borrowers, and on which interest continues to be accrued at a rate which is equal to or greater than the Banking Group's average cost of funds at the date of restructuring.
- **Assets acquired through security enforcement** are those assets (primarily real estate) acquired through actual foreclosure or in full or partial satisfaction of loans.



# Notes to and Forming Part of the Financial Statements continued

## Note 1 Principal Accounting Policies continued

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.

### Income recognition on non-accrual assets

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 assets in the current reporting period is reversed against income.

Cash receipts on non-accrual assets 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 assets 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 assets are recognised as interest income to the extent that the cash receipts represent accrued interest.

### 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. Depreciation and the gain on sale of the lease assets are netted against this to show net operating lease income.

### 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

Property intended for sale is held at open market value less the expected cost of disposal. All other 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.

Motor vehicles leased to third parties are classified as property, plant and equipment. The cost of the motor vehicles less expected residual value is depreciated on a straight line basis over the life of the individual leases.

All other property, plant and equipment 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, the 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 ten 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 and property intended for sale all property, plant and equipment is depreciated or amortised using the straight line method, to expected residual value (if applicable), 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, fittings and other equipment	10% to 20%
Personal computers and related application software	33 $\frac{1}{3}$ %
Other data processing assets and related application software	10% to 33 $\frac{1}{3}$ %
Motor vehicles	Rate based on term of the lease, between one and six years

## Note 1 Principal Accounting Policies continued

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.

### 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.

#### Non-lending losses

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

#### 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. A provision for restructuring costs is only made where the Banking Group has made a commitment and entered into an obligation such that there is no realistic alternative but to carry out the restructure and make future payments to settle the obligation.

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

Surplus leased space is an onerous contract and a provision is recognised when the expected economic benefits to be derived from the contract are less than the costs that are unavoidable under the contract. This arises where premises are currently leased under non-cancellable operating leases and either the premises are not occupied, are being 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.

## Note 1 Principal Accounting Policies continued

### Derivative financial instruments held or issued for trading purposes

Trading derivatives include swaps, futures, forwards, options and other contingent or exchange traded contracts in the interest rate, foreign exchange, credit derivatives and commodities 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, credit and liquidity risk, and to facilitate the funding needs of the Banking Group. To achieve this objective, a combination of derivatives including swaps, futures, forwards, options and other contingent or exchange traded contracts in the interest rate and foreign exchange markets may be used.

Hedging derivatives must be effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Accordingly, changes in the fair value of the hedging derivative must be closely correlated with changes in the fair value of the underlying exposure at inception of the hedge and over the term of the hedged exposure. The timing of the impact of the hedging derivatives on the statement of financial performance is consistent with the timing of the impact of the hedged items on the statement of financial performance.

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**.

Interest accruals, premiums and realised settlement amounts arising 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 amounts 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 amounts are 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.

## Note 1 Principal Accounting Policies continued

### Loan related fees and costs

Loan origination fees and direct loan origination costs are recognised in the statement of financial performance as derived unless material. Material loan origination fees and direct loan origination costs are recognised in income as an adjustment of yield using the constant yield method of amortisation.

Direct loan origination fees are expensed as incurred unless material. Material loan origination fees 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 when charged to the customers account.

Direct loan origination costs are expensed as incurred unless material. Material direct loan origination costs are netted against loan origination fees and the net amount recognised in income over the life of the loan as an adjustment of yield.

### 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.

### Fees and commissions

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

### 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.

### 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.

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# Notes to and Forming Part of the Financial Statements continued

## Statement of Financial Performance Notes

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Note 2 Interest</b>				
<b>Interest income</b>				
Other banks	25	42	25	42
Loans	2,295	2,182	2,088	1,999
Impaired assets	8	16	8	16
Related parties	7	6	7	10
Other	10	4	2	4
Securities:				
Trading securities	95	107	95	107
Available for sale securities	-	4	-	4
Investment securities	53	52	53	52
Total interest income	2,493	2,413	2,278	2,234
<b>Interest expense</b>				
Other banks	48	58	48	58
Deposits	1,045	957	1,045	957
Related parties	117	194	103	203
Subordinated loans from related parties	69	70	69	70
Other	332	303	282	258
Total interest expense	1,611	1,582	1,547	1,546
<b>Note 3 Other Operating Income</b>				
Dividends received from related companies	1	-	250	220
Life business income	-	6	-	-
Loan fees	80	84	80	84
Gain on foreign exchange translation	2	4	2	1
Money transfer fees	177	178	177	178
Other fees and commissions	110	93	106	91
Gain on sale of subsidiaries (refer to note 5)	1	56	-	-
Net operating lease income (refer to table below)	17	8	-	-
Fleet service fee income	21	3	-	-
Other income	14	1	13	-
Trading income:				
Foreign exchange trading	76	80	76	80
Securities and interest rate related derivatives trading	20	15	21	13
Total other operating income	519	528	725	667
<b>Net operating lease income comprises:</b>				
Gross operating lease income	132	24	-	-
Gain on sale of operating lease assets	7	2	-	-
	139	26	-	-
<b>Deduct:</b>				
Depreciation on motor vehicle operating lease assets	110	18	-	-
Direct operating lease expenses	12	-	-	-
Total net operating lease income	17	8	-	-

Following the acquisition of Custom Service Leasing (New Zealand) Limited (formerly Hertz Fleetlease Limited) in the financial year, net operating lease income has been included within other operating income. In the published 30 September 2002 General Disclosure Statement, the net operating lease income was included within interest income from loans. In accordance with New Zealand generally accepted accounting practice the comparatives have been reclassified accordingly.

# Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Note 4 Operating Expenses</b>				
Salaries and other staff expenses	296	285	286	282
Depreciation on buildings	-	1	-	-
Depreciation on leasehold improvements	1	1	-	-
Depreciation on furniture, fittings and other equipment	9	11	2	1
Depreciation on data processing assets	29	29	28	29
Impairment losses on property, plant and equipment	4	14	-	-
Life business claims	-	2	-	-
Loss on sale of property, plant and equipment	1	1	1	-
Rental on operating leases	48	35	8	7
Subvention payments to subsidiaries	-	-	77	84
Other expenses (refer also to table below)	248	245	277	270
<b>Total operating expenses</b>	<b>636</b>	<b>624</b>	<b>679</b>	<b>673</b>
<b>Other expenses include</b> (Dollars in Thousands)				
Amortisation of goodwill	7,495	1,303	1,303	1,303
Donations	6	29	6	28
Fees paid to directors	320	247	305	247
Fees paid to auditors:				
Statutory audit services	812	628	778	628
Regulatory audit services	225	291	225	276
Other services – other fees	280	205	242	162

## Integrated systems implementation project

During the year ended 30 September 2003, the Bank expensed \$22 million of costs in relation to the implementation of a management information software project (30 September 2002: nil). In addition to this amount, the Bank paid fees to auditors in respect of the project of \$0.262 million for the year ended 30 September 2003 (30 September 2002: nil) which have been capitalised to property, plant and equipment.

## Note 5 Discontinued Operations

On 1 November 2002, Custom Fleet (NZ) Limited, a wholly owned subsidiary of Bank of New Zealand, acquired 100% of the share capital of Custom Service Leasing (New Zealand) Limited (formerly Hertz Fleetlease Limited). Custom Service Leasing (New Zealand) Limited owned 100% of the share capital of Custom Fleet (Australia) Limited.

The Directors resolved on 22 January 2003 to sell Custom Fleet (Australia) Limited to another member of the National Australia Bank Limited Group. The sale occurred on 29 January 2003 for a gain of \$1.2 million. The gain is disclosed within discontinued operations during the year ended 30 September 2003. Up until the date of sale the subsidiary was not consolidated into the Banking Group's financial statements as, within three months of acquisition, the Directors had resolved to relinquish control of this entity.

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

# Notes to and Forming Part of the Financial Statements continued

## Note 5 Discontinued Operations continued

The information below relates to these discontinued operations.

Dollars in Millions	Consolidated			
	Discontinued Operations		Continuing Operations	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Financial performance</b>				
Total operating income	1	66	1,387	1,308
Operating expenses	-	6	636	618
Operating surplus before tax expense	1	60	751	690
Tax expense	-	-	204	168
Net surplus attributable to shareholders of Bank of New Zealand	1	60	547	522
<b>Financial position</b>				
Total assets	-	-	37,643	35,968
Total liabilities	-	-	35,327	33,905

## Note 6 Tax Expense

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

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
Operating surplus before tax expense	752	750	765	697
Gain on sale of subsidiaries	(1)	(56)	-	-
	751	694	765	697
Prima facie tax expense on operating surplus at 33%	248	229	252	230
Prior year adjustments to tax expense	-	2	(4)	2
Tax effect of permanent differences:				
Non-assessable and tax paid income	(46)	(43)	(84)	(73)
Non-deductible expenses	2	1	-	-
Other	-	6	1	9
Tax expense on operating surplus	204	195	165	168
Effective tax rate	27%	28%	22%	24%
Release of deferred tax liability (refer below)	-	(27)	-	(27)
Total tax expense	204	168	165	141
<b>Tax expense comprises:</b>				
Current taxation	189	168	166	156
Deferred taxation	15	-	(1)	(15)
Total tax expense	204	168	165	141

### 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 tax expense recognised in the statement of financial performance. This portion of the deferred taxation balance was 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		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Note 7 Due from Other Banks</b>				
Call advances to banks	153	18	153	17
Term advances to banks	475	316	475	316
Total due from other banks	628	334	628	333
<b>Note 8 Securities</b>				
<b>Trading securities</b>				
Treasury bills	196	229	196	229
Government securities	252	175	252	175
Other securities	460	2,003	460	2,003
Total trading securities	908	2,407	908	2,407
<b>Available for sale securities</b>				
Other securities	5	31	5	31
Total available for sale securities	5	31	5	31
<b>Investment securities</b>				
Treasury bills	823	672	823	672
Commercial bonds	-	36	-	36
Other securities	95	245	95	245
Total investment securities	918	953	918	953
Total securities	1,831	3,391	1,831	3,391
<b>Note 9 Loans</b>				
<b>New Zealand</b>				
Current accounts	2,754	2,899	2,754	2,899
Term loans	26,340	23,990	26,322	23,972
Other lending	442	418	411	415
Total New Zealand	29,536	27,307	29,487	27,286
<b>Overseas</b>				
Term loans	2,798	2,870	298	271
Total overseas	2,798	2,870	298	271
Total gross loans	32,334	30,177	29,785	27,557
<b>Deduct: Specific provisions for doubtful debts</b>				
<b>New Zealand</b>				
	16	11	16	11
Total specific provisions for doubtful debts	16	11	16	11
General provision for doubtful debts	149	156	149	156
Total provisions for doubtful debts	165	167	165	167
Total net loans	32,169	30,010	29,620	27,390



# Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Note 10 Loans by Industry Analysis</b>				
<b>New Zealand</b>				
Government and public authorities	253	278	253	278
Agriculture, forestry and fishing	4,023	3,567	4,005	3,549
Financial, investment and insurance	1,066	1,724	1,066	1,724
Real estate – construction	189	155	189	155
Real estate – mortgage	12,946	10,982	12,946	10,982
Personal lending	1,716	1,901	1,716	1,901
Other commercial and industrial	9,343	8,700	9,312	8,697
<b>Total New Zealand</b>	<b>29,536</b>	<b>27,307</b>	<b>29,487</b>	<b>27,286</b>
<b>Overseas</b>				
Agriculture, forestry and fishing	67	238	67	238
Financial, investment and insurance	2,700	2,599	200	-
Real estate – mortgage	31	32	31	32
Personal lending	-	1	-	1
<b>Total overseas</b>	<b>2,798</b>	<b>2,870</b>	<b>298</b>	<b>271</b>
<b>Total gross loans</b>	<b>32,334</b>	<b>30,177</b>	<b>29,785</b>	<b>27,557</b>
<b>Deduct: Specific provisions for doubtful debts</b>				
Agriculture, forestry and fishing	6	1	6	1
Real estate – construction	1	-	1	-
Personal lending	8	8	8	8
Other commercial and industrial	1	2	1	2
<b>Total specific provisions for doubtful debts</b>	<b>16</b>	<b>11</b>	<b>16</b>	<b>11</b>
<b>General provision for doubtful debts</b>	<b>149</b>	<b>156</b>	<b>149</b>	<b>156</b>
<b>Total provisions for doubtful debts</b>	<b>165</b>	<b>167</b>	<b>165</b>	<b>167</b>
<b>Total net loans</b>	<b>32,169</b>	<b>30,010</b>	<b>29,620</b>	<b>27,390</b>

# Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated					
	Non-Accrual Assets 30/9/03	Past Due Assets 30/9/03	Total 30/9/03	Non-Accrual Assets 30/9/02	Past Due Assets 30/9/02	Total 30/9/02

## Note 11 Provisions for Doubtful Debts

### Specific provisions for doubtful debts

Balance at beginning of year	5	6	11	10	3	13
Opening balance – acquired subsidiaries	1	-	1	-	-	-
Transfer from general provision	11	8	19	3	13	16
Bad debts written off	(6)	(19)	(25)	(10)	(17)	(27)
Recovery of bad debts written off in previous years	2	8	10	2	7	9
Balance at end of year	13	3	16	5	6	11

### General provision for doubtful debts

Balance at beginning of year			156			187
Transfer to specific provisions			(19)			(16)
Charge to statement of financial performance			13			(15)
Other			(1)			-
Balance at end of year			149			156
Total provisions for doubtful debts			165			167

### The Company

### Specific provisions for doubtful debts

Balance at beginning of year	5	6	11	10	3	13
Transfer from general provision	11	8	19	3	13	16
Bad debts written off	(5)	(19)	(24)	(10)	(17)	(27)
Recovery of bad debts written off in previous years	2	8	10	2	7	9
Balance at end of year	13	3	16	5	6	11

### General provision for doubtful debts

Balance at beginning of year			156			187
Transfer to specific provisions			(19)			(16)
Charge to statement of financial performance			12			(15)
Balance at end of year			149			156
Total provisions for doubtful debts			165			167

Specific provisions are raised against past due assets where the Banking Group expects to incur a loss in relation to particular loan portfolios (where payments of principal or interest are contractually past due between 90 to 180 days), however specific identification of individual provision balances is impracticable.

# 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.

Dollars in Millions	Consolidated					
	Non-Accrual Assets 30/9/03	Past Due Assets 30/9/03	Total 30/9/03	Non-Accrual Assets 30/9/02	Past Due Assets 30/9/02	Total 30/9/02
<b>Movements in pre-provision balances</b>						
Balance at beginning of year	30	255	285	47	297	344
Opening balance – acquired subsidiaries	1	-	1	-	-	-
Bad debts written off	(6)	(19)	(25)	(10)	(17)	(27)
Additions/(deletions)	211	(224)	(13)	(7)	(25)	(32)
Balance at end of year	236	12	248	30	255	285
<b>Interest income recognised on impaired assets</b>						
Impaired assets recovered during the year	8			16		
Total interest income recognised on impaired assets	8			16		
Interest foregone on impaired assets *	4			4		

	The Company					
<b>Movements in pre-provision balances</b>						
Balance at beginning of year	30	255	285	47	297	344
Bad debts written off	(5)	(19)	(24)	(10)	(17)	(27)
Additions/(deletions)	210	(224)	(14)	(7)	(25)	(32)
Balance at end of year	235	12	247	30	255	285
<b>Interest income recognised on impaired assets</b>						
Impaired assets recovered during the year	8			16		
Total interest income recognised on impaired assets	8			16		
Interest foregone on impaired assets *	4			4		

To meet the wishes of the Reserve Bank of New Zealand the Bank has revised its treatment of past due assets. The amount of past due assets as disclosed in the published 30 September 2002 General Disclosure Statement has been revised and the restatement has resulted in an additional \$238 million being reclassified as past due assets as at 30 September 2002.

Past due loans are not necessarily doubtful. Gross amounts for the Banking Group and the Company have been stated without taking into account security available for such loans. A further \$33 million of short term/seasonal (overdraft) lending has been identified as being outside formal arrangements for 90 days or more as at 30 September 2003 (30 September 2002: \$43 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 \$7 million of off-balance sheet facilities included in the above end of year balance of non-accrual assets as at 30 September 2003 (30 September 2002: nil). No specific provisions have been made against these off-balance sheet facilities as at 30 September 2003 (30 September 2002: nil).

# Notes to and Forming Part of the Financial Statements continued

Dollars in Millions

## The Company

30/9/03      30/9/02

### Note 13 Investments in Subsidiaries

Unlisted – at cost

3,169      3,108

**Deduct:** Provision for diminution in value

63      63

Total investments in subsidiaries

3,106      3,045

Subsidiaries of the Bank as at 30 September 2003 were:

Name	Country of Incorporation	Principal Activities
<b>Custom Fleet (NZ) Limited</b>	New Zealand	Motor vehicle fleet leasing and management
BNZ Fleet Limited	New Zealand	Non-trading
Custom Fleetleasing (NZ) Limited	New Zealand	Non-trading
Custom Service Leasing (New Zealand) Limited	New Zealand	Non-trading
Fleetlease (New Zealand) Limited	New Zealand	Non-trading
<b>BNZ Funding Limited</b>	New Zealand	Non-trading
<b>BNZ International (Hong Kong) Limited</b>	Hong Kong	Investment company
<b>BNZ Capital Guaranteed Growth Fund Limited</b>	New Zealand	Investment company
<b>BNZ Corporation Limited</b>	New Zealand	Non-trading
<b>BNZ Investments Limited</b>	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	Non-trading
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
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	Non-trading
<b>Quill Financing Limited (76%)</b>	New Zealand	Non-trading
Peterel Financing Limited	New Zealand	Non-trading

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

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

# Notes to and Forming Part of the Financial Statements continued

## Note 13 Investments in Subsidiaries continued

### Acquisition and amalgamation of subsidiary companies

On 28 April 2003, Custom Fleet (NZ) Limited a wholly owned subsidiary of Bank of New Zealand, acquired 100% of the share capital of BNZ Fleet Limited and Custom Fleetleasing (NZ) Limited.

On 1 November 2002, Custom Fleet (NZ) Limited acquired 100% of the share capital of Custom Service Leasing (New Zealand) Limited, (formerly Hertz Fleetlease Limited). At the date of purchase Custom Service Leasing (New Zealand) Limited had five wholly owned subsidiaries, Capital Equipment Finance Limited, VMS (New Zealand) Limited, Fleetlease (New Zealand) Limited, Wheel Lease Limited and Custom Fleet (Australia) Limited.

In accordance with New Zealand Financial Reporting Standards, the financial results of Custom Fleet (Australia) Limited were not consolidated into the Banking Group's financial statement as, within three months of acquisition, the Directors had resolved to relinquish control of this entity. The Banking Group's investment in Custom Fleet (Australia) Limited is included within Other Assets in the table below.

On 28 July 2003, the Directors of Custom Fleet (NZ) Limited, Custom Service Leasing (New Zealand) Limited (formerly Hertz Fleetlease Limited), Capital Equipment Finance Limited, VMS (New Zealand) Limited and Wheel Lease Limited resolved to amalgamate and continue as Custom Fleet (NZ) Limited. On 31 July 2003, Custom Service Leasing (New Zealand) Limited (formerly Hertz Fleetlease Limited), Capital Equipment Finance Limited, VMS (New Zealand) Limited and Wheel Lease Limited ceased to exist as separate legal entities and Custom Fleet (NZ) Limited as the amalgamated entity assumed all contractual and operational obligations of the above companies from 31 July 2003. On the same date a wholly owned subsidiary of Custom Fleet (NZ) Limited called Custom Service Leasing (New Zealand) Limited was incorporated.

The acquisition of the above companies had the following impact on the Banking Group's financial position:

Dollars in Millions

Cash paid	74
Due from other banks (call)	8
Loans	34
Property, plant and equipment	339
Other assets	26
Goodwill	67
Income tax liabilities	(7)
Other liabilities	(23)
Due to other banks (term)	(370)
	<u>74</u>

The purchase consideration was finalised during the year ended 30 September 2003. The carrying amount of acquired assets and liabilities were adjusted subsequent to 1 November 2002, due to additional evidence becoming available which assisted with the estimation of fair values as at the date of acquisition.

### Sale of subsidiary companies

The following subsidiaries were sold during the financial year:

Name	Country of Incorporation	Principal Activities
Custom Fleet (Australia) Limited	Australia	Motor vehicle fleet leasing and management
Iraklis Eleven Limited	New Zealand	Investment company
Screen Holdings Limited	New Zealand	Investment company

The Directors resolved on 22 January 2003 to sell Custom Fleet (Australia) Limited to another member of the National Australia Bank Limited Group. The sale occurred on 29 January 2003 for consideration of \$4 million.

On 22 January 2003, BNZ Investments Limited sold 100% of the share capital in Iraklis Eleven Limited and Screen Holdings Limited to an unrelated party for consideration of \$100 million.

During the year ended 30 September 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. The sale occurred on 1 January 2002.

# Notes to and Forming Part of the Financial Statements continued

## Note 13 Investments in Subsidiaries continued

The disposal of the above companies had the following impact on the Banking Group's financial position:

Dollars in Millions	30/9/03	30/9/02
Cash received	104	75
<b>Net assets of controlled entities sold</b>		
Securities	-	5
Loans	100	-
Amounts due from related parties	-	6
Property, plant and equipment	-	4
Other assets	3	21
Amounts due to related parties	-	(3)
Income tax liabilities	-	(3)
Other liabilities	-	(11)
Net assets of subsidiaries sold	103	19
Gain on sale of subsidiaries	1	56

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Note 14 Property, Plant and Equipment</b>				
<b>Property intended for sale</b>				
At valuation	4	-	-	-
<b>Freehold land</b>				
At valuation	18	19	-	-
<b>Buildings</b>				
At valuation	3	10	-	-
<b>Deduct:</b> Accumulated depreciation	-	-	-	-
Total freehold land and buildings	21	29	-	-
<b>Leasehold improvements</b>				
At cost	12	11	1	1
<b>Deduct:</b> Accumulated depreciation	6	5	-	-
Total leasehold improvements	6	6	1	1
<b>Furniture, fittings and other equipment</b>				
At cost	102	107	27	35
At cost – assets under construction	7	5	-	-
<b>Deduct:</b> Accumulated depreciation	58	58	24	27
Total furniture, fittings and other equipment	51	54	3	8
<b>Data processing assets</b>				
At cost	245	203	244	203
At cost – assets under construction	32	26	32	26
<b>Deduct:</b> Accumulated depreciation	160	138	159	138
Total data processing assets	117	91	117	91
<b>Motor vehicles – operating lease assets</b>				
At cost	534	97	-	-
<b>Deduct:</b> Accumulated depreciation	88	23	-	-
Total motor vehicles – operating lease assets	446	74	-	-
Total property, plant and equipment	645	254	121	100

# Notes to and Forming Part of the Financial Statements continued

## Note 14 Property, Plant and Equipment continued

Properties intended for sale are valued at current market value less the estimated cost of disposal. Market value was determined by independent registered public valuers CB Richard Ellis Limited. All other properties are revalued to reflect fair values. The valuations are by independent registered valuers annually for all major buildings and cyclically over three years for all others. The last valuations were carried out in July 2003 by Telfer Young (Auckland) Limited and Gribble Churton Taylor Limited, independent registered public valuers.

During the financial year motor vehicles leased to third parties were reclassified from loans and other assets to property, plant and equipment.

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Note 15 Income Tax Assets</b>				
Income tax refund receivable	-	22	-	2
Future income tax benefit	80	84	75	80
Total income tax assets	80	106	75	82
<b>Future income tax benefit comprises:</b>				
Provisions for doubtful debts	54	55	54	55
Other provisions	23	26	20	24
Other	3	3	1	1
Total future income tax benefit	80	84	75	80
<b>Movements in future income tax benefit</b>				
Balance at beginning of year	84	103	80	101
Deferred portion of current year tax expense	(4)	(19)	(5)	(21)
Balance at end of year	80	84	75	80
<b>Note 16 Other Assets</b>				
Accrued interest receivable	114	134	114	134
Goodwill	77	17	16	17
Securities sold – not yet settled	35	69	35	69
Unrealised gains on derivative financial instruments	1,264	908	1,270	900
Other assets	501	359	257	117
Total other assets	1,991	1,487	1,692	1,237
<b>Goodwill comprises:</b>				
Balance at beginning of year	17	19	17	19
Goodwill on acquisition	67	-	-	-
Amortisation of goodwill	(7)	(2)	(1)	(2)
Balance at end of year	77	17	16	17
Goodwill at cost	93	26	26	26
Accumulated amortisation	(16)	(9)	(10)	(9)
Balance at end of year	77	17	16	17

# Notes to and Forming Part of the Financial Statements continued

## Liability Notes

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Note 17 Due to Other Banks</b>				
<b>New Zealand</b>				
Call deposits	1,291	569	1,291	569
Term deposits	9	272	9	272
Total New Zealand	1,300	841	1,300	841
<b>Overseas</b>				
Term deposits	590	608	590	608
Total overseas	590	608	590	608
Total due to other banks	1,890	1,449	1,890	1,449
<b>Note 18 Deposits</b>				
<b>New Zealand</b>				
Demand deposits not bearing interest	1,064	977	1,064	977
Other demand and short term deposits	7,077	6,620	7,077	6,620
Certificates of deposit	3,849	2,709	3,849	2,709
Term deposits	11,294	10,512	11,294	10,512
Other deposits	647	772	647	772
Total New Zealand	23,931	21,590	23,931	21,590
<b>Overseas</b>				
Other demand and short term deposits	11	17	11	17
Commercial paper	1,115	2,090	1,115	2,090
Term deposits	421	475	421	475
Total overseas	1,547	2,582	1,547	2,582
Total deposits	25,478	24,172	25,478	24,172



# Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Note 19 Concentrations of Funding</b>				
<b>New Zealand</b>				
Government and public authorities	521	350	521	350
Agriculture, forestry and fishing	912	992	912	992
Financial, investment and insurance	6,478	3,988	6,478	3,988
Real estate – construction	208	198	208	198
Personal deposits	8,884	8,447	8,884	8,447
Other commercial and industrial	8,228	8,456	8,228	8,456
Related parties	144	100	144	426
Total New Zealand	25,375	22,531	25,375	22,857
<b>Overseas</b>				
Financial, investment and insurance	1,704	2,698	1,704	2,698
Related parties	5,247	6,103	4,993	6,103
Other	433	492	433	492
Total overseas	7,384	9,293	7,130	9,293
Total funding	32,759	31,824	32,505	32,150

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

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Note 20 Income Tax Liabilities</b>				
Current income tax liability	3	-	66	57
Provision for deferred income tax liability	98	87	36	42
Total income tax liability	101	87	102	99
<b>Provision for deferred income tax liability comprises:</b>				
Depreciation	13	-	1	5
Financial instruments	17	19	17	19
Investments	50	50	-	-
Other	18	18	18	18
Total provision for deferred income tax liability	98	87	36	42
<b>Movements in provision for deferred income tax liability</b>				
Balance at beginning of year	87	106	42	78
Release of deferred tax liability	-	(27)	-	(27)
Deferred portion of current year tax expense	11	8	(6)	(9)
Balance at end of year	98	87	36	42

# 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 one loan from NAB Capital LLC which is denominated in United States dollars. The loans constitute upper or lower tier two capital for Reserve Bank of New Zealand capital adequacy purposes as follows:

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Subordinated loans from Lower tier two capital</b>				
NAB Capital LLC	354	230	354	230
National Equities Limited	485	485	485	485
	<b>839</b>	<b>715</b>	<b>839</b>	<b>715</b>
<b>Upper tier two capital</b>				
NAB Capital LLC	-	157	-	157
National Equities Limited	190	190	190	190
	<b>190</b>	<b>347</b>	<b>190</b>	<b>347</b>
Total subordinated loans from related parties	<b>1,029</b>	<b>1,062</b>	<b>1,029</b>	<b>1,062</b>

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. 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 6.2% p.a. as at 30 September 2003 (30 September 2002: 6.8% p.a.).

Loans that constitute lower tier two capital are repayable on five years and one day's notice. There is an intention to repay the NAB Capital LLC subordinated loan which is denominated in United States dollars in early 2004. No request to repay the loans has been received. Loans that constitute upper tier two capital can be repaid only at the Bank's option, subject to certain conditions, at any time on seven days' notice.

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Note 22 Other Liabilities</b>				
Accrued interest payable	116	120	116	120
Securities purchased – not yet settled	82	66	82	66
Short sales of securities	47	62	47	62
Unrealised losses on derivative financial instruments	1,947	992	1,947	980
Employee entitlements	56	50	55	50
Operating expense provisions	22	34	16	26
Other liabilities	197	670	337	618
Total other liabilities	<b>2,467</b>	<b>1,994</b>	<b>2,600</b>	<b>1,922</b>
<b>Operating expense provisions comprise:</b>				
Balance at beginning of year	34	48	26	42
Opening balance – acquired subsidiaries	1	-	-	-
Provisions raised	7	17	7	12
Provisions utilised	(19)	(20)	(16)	(17)
Provisions released	(1)	(11)	(1)	(11)
Total operating expense provisions	<b>22</b>	<b>34</b>	<b>16</b>	<b>26</b>

These operating expense provisions represent costs that the Banking Group expects to incur as a result of past events, where the timing of the payment is uncertain. These provisions are expected to be utilised within the following twelve months.

# Notes to and Forming Part of the Financial Statements continued

## Other Notes

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Note 23 Imputation Credit Account</b>				
Balance at beginning of year	37	46	1	22
Imputation credits attaching to dividends received during the year	23	12	21	-
Imputation credits attaching to dividends paid during the year	(79)	(69)	(79)	(69)
Income tax payments during the year net of refunds	56	48	74	48
Balance at end of year	37	37	17	1

## 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 \$71 million as at 30 September 2003 (30 September 2002: \$79 million) rank in priority to general creditors' claims in a winding up of the Bank. Subordinated loans from related parties totalling \$1,029 million as at 30 September 2003 (30 September 2002: \$1,062 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 \$648 million as at 30 September 2003 (30 September 2002: \$772 million).

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
Interest earning and discount bearing assets	34,708	34,097	32,159	31,542
Interest and discount bearing liabilities	31,742	30,909	31,488	31,235

## Note 25 Related Party Transactions

The Bank is a wholly owned subsidiary of National Australia Bank Limited. During the year ended 30 September 2003 there have been dealings between the Bank, its subsidiaries, its parent, and other members of the National Australia Bank Limited Group. Dealings include on-balance sheet activities such as funding and accepting deposits and off-balance sheet activities such as foreign exchange and forward exchange transactions.

National Australia Bank Limited also provides a range of banking services for Bank of New Zealand customers in locations where the Bank's and National Australia Bank Limited's offices were merged in London, Hong Kong, Tokyo, New York and various locations in Australia. These transactions are subject to normal commercial terms and conditions.

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Amounts due from related parties</b>				
Call	19	7	22	7
Term	125	218	121	284
Total amounts due from related parties	144	225	143	291
<b>Amounts due to related parties</b>				
Call	118	581	132	679
Term	4,244	4,560	3,976	4,788
Total amounts due to related parties	4,362	5,141	4,108	5,467
Subordinated loans from related parties (refer to note 21)	1,029	1,062	1,029	1,062

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 2003 (30 September 2002: nil).

During the year ended 30 September 2003 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 \$161 million (30 September 2002: \$142 million).

During the year ended 30 September 2003 the Bank incurred \$40 million of intercompany charges from National Australia Bank Limited in relation to management information software costs (30 September 2002: nil).

Details of other related party transactions including dividends, interest income and interest expense are contained in note 2 and note 3. Details of subsidiaries sold are contained in note 13.

### 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 that are no more favourable than those that apply to employees of the Banking Group. Interest rates on the loans ranged from 7.74% to 8.25% p.a.

Dollars in Thousands	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Loans to Directors</b>				
Loans on normal terms and conditions	217	150	217	150
Loans on employee terms and conditions	174	171	174	171
Total loans to directors	391	321	391	321

# Notes to and Forming Part of the Financial Statements continued

## Note 26 Fair Value of Financial Instruments

Dollars in Millions	Consolidated			
	Carrying Amount 30/9/03	Fair Value 30/9/03	Carrying Amount 30/9/02	Fair Value 30/9/02
<b>Financial assets</b>				
Liquid assets	153	153	175	175
Due from other banks	628	628	334	334
Securities	1,831	1,831	3,391	3,392
Loans	32,169	32,356	30,010	30,204
Amounts due from related parties	144	144	225	225
Other	215	215	324	324
<b>Total financial assets</b>	<b>35,140</b>	<b>35,327</b>	<b>34,459</b>	<b>34,654</b>
<b>Financial liabilities</b>				
Due to other banks	1,890	1,890	1,449	1,449
Securities	47	47	62	62
Deposits	25,478	25,514	24,172	24,218
Amounts due to related parties	4,362	4,362	5,141	5,141
Subordinated loans from related parties	1,029	1,029	1,062	1,062
Other	82	82	66	66
<b>Total financial liabilities</b>	<b>32,888</b>	<b>32,924</b>	<b>31,952</b>	<b>31,998</b>
<b>The Company</b>				
<b>Financial assets</b>				
Liquid assets	153	153	175	175
Due from other banks	628	628	333	333
Securities	1,831	1,831	3,391	3,392
Loans	29,620	29,632	27,390	27,436
Amounts due from related parties	143	143	291	291
Other	35	35	69	69
<b>Total financial assets</b>	<b>32,410</b>	<b>32,422</b>	<b>31,649</b>	<b>31,696</b>
<b>Financial liabilities</b>				
Due to other banks	1,890	1,890	1,449	1,449
Securities	47	47	62	62
Deposits	25,478	25,514	24,172	24,218
Amounts due to related parties	4,108	4,108	5,467	5,467
Subordinated loans from related parties	1,029	1,029	1,062	1,062
Other	82	82	66	66
<b>Total financial liabilities</b>	<b>32,634</b>	<b>32,670</b>	<b>32,278</b>	<b>32,324</b>

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.

## Note 27 Maturity Profile

Dollars in Millions	Consolidated 30/9/03				
	Total	3 Months or Less	3 to 12 Months	1 to 5 Years	Over 5 Years
<b>Assets</b>					
Cash and balances with central banks	155	155	-	-	-
Loans, due from other banks and related parties	32,941	11,151	2,640	6,113	13,037
Securities	1,831	1,023	505	205	98
	<b>34,927</b>	<b>12,329</b>	<b>3,145</b>	<b>6,318</b>	<b>13,135</b>
<b>Liabilities</b>					
Deposits, due to other banks and related parties	31,730	26,523	3,617	875	715
Securities	47	-	-	-	47
Subordinated loans from related parties	1,029	-	124	-	905
	<b>32,806</b>	<b>26,523</b>	<b>3,741</b>	<b>875</b>	<b>1,667</b>
Consolidated 30/9/02					
<b>Assets</b>					
Cash and balances with central banks	161	161	-	-	-
Loans, due from other banks and related parties	30,569	10,776	1,969	7,259	10,565
Securities	3,391	2,384	726	238	43
	<b>34,121</b>	<b>13,321</b>	<b>2,695</b>	<b>7,497</b>	<b>10,608</b>
<b>Liabilities</b>					
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
	<b>31,886</b>	<b>25,507</b>	<b>3,386</b>	<b>805</b>	<b>2,188</b>

# Notes to and Forming Part of the Financial Statements continued

## Note 27 Maturity Profile continued

Dollars in Millions	The Company 30/9/03				
	Total	3 Months or Less	3 to 12 Months	1 to 5 Years	Over 5 Years
<b>Assets</b>					
Cash and balances with central banks	155	155	-	-	-
Loans, due from other banks and related parties	30,391	11,102	2,140	4,612	12,537
Securities	1,831	1,023	505	205	98
	<b>32,377</b>	<b>12,280</b>	<b>2,645</b>	<b>4,817</b>	<b>12,635</b>
<b>Liabilities</b>					
Deposits, due to other banks and related parties	31,476	26,269	3,617	875	715
Securities	47	-	-	-	47
Subordinated loans from related parties	1,029	-	124	-	905
	<b>32,552</b>	<b>26,269</b>	<b>3,741</b>	<b>875</b>	<b>1,667</b>
<b>The Company 30/9/02</b>					
<b>Assets</b>					
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
	<b>31,566</b>	<b>13,327</b>	<b>2,695</b>	<b>4,936</b>	<b>10,608</b>
<b>Liabilities</b>					
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
	<b>32,212</b>	<b>25,833</b>	<b>3,386</b>	<b>805</b>	<b>2,188</b>

# Notes to and Forming Part of the Financial Statements continued

## Note 28 Interest Rate Repricing Schedule

Consolidated 30/9/03							
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
<b>Assets</b>							
Cash and balances with central banks	-	155	-	-	-	-	155
Loans, due from other banks and related parties	7.2	33,106	16,981	5,804	9,513	579	229
Provisions for doubtful debts		(165)	-	-	-	-	(165)
Securities	5.3	1,831	1,023	505	205	98	-
Other assets	-	2,716	-	-	-	-	2,716
<b>Total assets</b>		<b>37,643</b>	<b>18,004</b>	<b>6,309</b>	<b>9,718</b>	<b>677</b>	<b>2,935</b>
<b>Liabilities and equity</b>							
Deposits, due to other banks and related parties	3.8	31,730	26,421	3,283	855	107	1,064
Other liabilities	-	2,521	-	-	-	-	2,521
Securities	6.0	47	-	-	-	47	-
Subordinated loans from related parties	6.2	1,029	905	124	-	-	-
Shareholders' equity	-	2,316	-	-	-	-	2,316
<b>Total liabilities and equity</b>		<b>37,643</b>	<b>27,326</b>	<b>3,407</b>	<b>855</b>	<b>154</b>	<b>5,901</b>
<b>On-balance sheet gap</b>		-	(9,322)	2,902	8,863	523	(2,966)
Off-balance sheet gap			9,937	(3,038)	(6,383)	(516)	
<b>Total interest rate sensitivity gap</b>			<b>615</b>	<b>(136)</b>	<b>2,480</b>	<b>7</b>	

The weighted average interest rate referred to in the table above is the weighted average rate as at 30 September 2003 for the interest sensitive assets and liabilities.

Consolidated 30/9/02							
<b>Assets</b>							
Cash and balances with central banks	-	161	-	-	-	-	161
Loans, due from other banks and related parties	7.6	30,736	17,579	4,152	8,380	595	30
Provisions for doubtful debts		(167)	-	-	-	-	(167)
Securities	6.1	3,391	2,384	726	238	43	-
Other assets	-	1,847	-	-	-	-	1,847
<b>Total assets</b>		<b>35,968</b>	<b>19,963</b>	<b>4,878</b>	<b>8,618</b>	<b>638</b>	<b>1,871</b>
<b>Liabilities and equity</b>							
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
<b>Total liabilities and equity</b>		<b>35,968</b>	<b>27,029</b>	<b>2,971</b>	<b>690</b>	<b>219</b>	<b>5,059</b>
<b>On-balance sheet gap</b>		-	(7,066)	1,907	7,928	419	(3,188)
Off-balance sheet gap			6,403	(1,384)	(4,590)	(429)	
<b>Total interest rate sensitivity gap</b>			<b>(663)</b>	<b>523</b>	<b>3,338</b>	<b>(10)</b>	

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.



# Notes to and Forming Part of the Financial Statements continued

## Note 28 Interest Rate Repricing Schedule continued

Dollars in Millions	Weighted Average Interest Rate %	The Company 30/9/03					Non-Interest Sensitive
		Total	3 Months or Less	3 to 12 Months	1 to 5 Years	Over 5 Years	
<b>Assets</b>							
Cash and balances with central banks	-	155	-	-	-	-	155
Loans, due from other banks and related parties	7.2	30,556	16,932	5,304	8,013	79	228
Provisions for doubtful debts	-	(165)	-	-	-	-	(165)
Securities	5.3	1,831	1,023	505	205	98	-
Other assets	-	4,994	-	-	-	-	4,994
<b>Total assets</b>		<b>37,371</b>	<b>17,955</b>	<b>5,809</b>	<b>8,218</b>	<b>177</b>	<b>5,212</b>
<b>Liabilities and equity</b>							
Deposits, due to other banks and related parties	3.8	31,476	26,167	3,283	855	107	1,064
Other liabilities	-	2,655	-	-	-	-	2,655
Securities	6.0	47	-	-	-	47	-
Subordinate loans from related parties	6.2	1,029	905	124	-	-	-
Shareholders' equity	-	2,164	-	-	-	-	2,164
<b>Total liabilities and equity</b>		<b>37,371</b>	<b>27,072</b>	<b>3,407</b>	<b>855</b>	<b>154</b>	<b>5,883</b>
<b>On-balance sheet gap</b>		<b>-</b>	<b>(9,117)</b>	<b>2,402</b>	<b>7,363</b>	<b>23</b>	<b>(671)</b>
Off-balance sheet gap			7,437	(2,538)	(4,883)	(16)	
<b>Total interest rate sensitivity gap</b>			<b>(1,680)</b>	<b>(136)</b>	<b>2,480</b>	<b>7</b>	

The weighted average interest rate referred to in the table above is the weighted average rate as at 30 September 2003 for the interest sensitive assets and liabilities.

Dollars in Millions	Weighted Average Interest Rate %	The Company 30/9/02					Non-Interest Sensitive
		Total	3 Months or Less	3 to 12 Months	1 to 5 Years	Over 5 Years	
<b>Assets</b>							
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
Provisions for doubtful debts	-	(167)	-	-	-	-	(167)
Securities	6.1	3,391	2,384	726	238	43	-
Other assets	-	4,464	-	-	-	-	4,464
<b>Total assets</b>		<b>36,030</b>	<b>19,908</b>	<b>4,878</b>	<b>6,618</b>	<b>138</b>	<b>4,488</b>
<b>Liabilities and equity</b>							
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
<b>Total liabilities and equity</b>		<b>36,030</b>	<b>27,355</b>	<b>2,971</b>	<b>690</b>	<b>219</b>	<b>4,795</b>
<b>On-balance sheet gap</b>		<b>-</b>	<b>(7,447)</b>	<b>1,907</b>	<b>5,928</b>	<b>(81)</b>	<b>(307)</b>
Off-balance sheet gap			3,903	(1,384)	(2,590)	71	
<b>Total interest rate sensitivity gap</b>			<b>(3,544)</b>	<b>523</b>	<b>3,338</b>	<b>(10)</b>	

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.

# 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

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
US dollar	(30)	(24)	(30)	(24)
Australian dollar	3	5	3	5
Japanese yen	-	3	-	3
Great British pound	1	(2)	1	(2)
Euro	8	9	8	9
Other	5	-	5	-

## 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

Dollars in Millions	Notional Amount 30/9/03	Notional Amount 30/9/02	Consolidated		Fair Value 30/9/03	Fair Value 30/9/02
			Credit Equivalent 30/9/03	Credit Equivalent 30/9/02		
<b>Foreign exchange rate related contracts</b>						
<b>Spot and forward contracts to purchase foreign exchange</b>						
Trading	18,696	22,009	602	99	514	114
Other than trading	6,304	8,730	171	636	(754)	(229)
Total spot and forward contracts to purchase foreign exchange	25,000	30,739	773	735	(240)	(115)
<b>Cross currency swaps</b>						
Trading	3,705	3,595	197	231	(366)	(110)
Total cross currency swaps	3,705	3,595	197	231	(366)	(110)
<b>Options</b>						
Trading	4,057	4,177	194	152	1	-
Total options	4,057	4,177	194	152	1	-
Total foreign exchange rate related contracts	32,762	38,511	1,164	1,118	(605)	(225)

The spot and forward contracts to purchase foreign exchange, other than trading (fair value and carrying value loss of \$754 million as at 30 September 2003 (30 September 2002: \$229 million fair value and carrying value loss)) are hedges of foreign currency funding. The losses on the foreign exchange contracts 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

Dollars in Millions	Consolidated					
	Notional Amount 30/9/03	Notional Amount 30/9/02	Credit Equivalent 30/9/03	Credit Equivalent 30/9/02	Fair Value 30/9/03	Fair Value 30/9/02
<b>Interest rate related contracts</b>						
<b>Forward rate agreements</b>						
Trading	6,299	12,350	2	8	1	-
Total forward rate agreements	6,299	12,350	2	8	1	-
<b>Swaps</b>						
Trading	26,666	26,403	492	398	(80)	(86)
Other than trading	22,571	15,474	159	236	(290)	(300)
Total swaps	49,237	41,877	651	634	(370)	(386)
<b>Futures</b>						
Trading	3,947	3,198	-	-	-	(4)
Other than trading	2,862	2,801	-	-	1	(13)
Total futures	6,809	5,999	-	-	1	(17)
<b>Options</b>						
Trading	545	798	2	53	1	2
Total options	545	798	2	53	1	2
<b>Swaptions</b>						
Trading	40	20	-	-	-	-
Total swaptions	40	20	-	-	-	-
Total interest rate related contracts	62,930	61,044	655	695	(367)	(401)
<b>Other contracts</b>						
<b>Equity options</b>						
Other than trading	76	106	4	5	1	1
Total other contracts	76	106	4	5	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 2003 was \$97 million net payable (30 September 2002: \$88 million net payable). The net fair value loss was \$193 million as at 30 September 2003 (30 September 2002: \$212 million fair value loss) which was calculated as a fair value loss of \$290 million (30 September 2002: \$300 million fair value loss) adjusted for the recognised net payable of \$97 million (30 September 2002: \$88 million net payable).

As at 30 September 2003 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 2002: \$2,500 million) taken out by subsidiaries of the Bank. The fair value loss of those swaps taken out by subsidiaries of the Bank was \$175 million (30 September 2002: \$148 million fair value loss).

# Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated			
	30/9/03	30/9/03	30/9/02	30/9/02
<b>Note 31 Segment Analysis</b>				
<b>Geographical</b>				
<b>Operating income</b>				
New Zealand	1,379	99%	1,359	99%
Overseas	9	1%	15	1%
Total operating income	1,388	100%	1,374	100%
<b>Operating surplus from continuing activities before tax expense</b>				
New Zealand	744	99%	679	98%
Overseas	7	1%	11	2%
Total operating surplus from continuing activities before tax expense	751	100%	690	100%
<b>Net surplus attributable to shareholders of Bank of New Zealand</b>				
New Zealand	543	99%	575	99%
Overseas	5	1%	7	1%
Total net surplus attributable to shareholders of Bank of New Zealand	548	100%	582	100%
<b>Assets</b>				
New Zealand	36,993	98%	35,278	98%
Overseas	650	2%	690	2%
Total assets	37,643	100%	35,968	100%
<b>Risk weighted exposures</b>				
New Zealand	26,544	99%	25,697	99%
Overseas	194	1%	280	1%
Total risk weighted exposures	26,738	100%	25,977	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 of the income tax liability of the income tax group. Bank of New Zealand is not expected to incur any additional tax liability as a result of this joint and several liability.

Contingent liabilities and credit commitments exist in respect of commitments to extend credit, letters of credit and financial guarantees, as well as claims, potential claims and court proceedings against entities in the Banking Group. The aggregate potential liability arising in respect of these claims cannot be accurately assessed. Where some loss is probable appropriate provisions have been made. The Banking Group does not consider that the outcome of any claims made either individually or in aggregate are likely to have material effects on its operations or financial position.

BNZ Investments Limited made certain warranties under the conditions of sale of BNZ Investment Management Limited, BNZ Life Insurance Limited and BNZ Nominees Limited. The warranties were 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:

Dollars in Millions	Consolidated			
	Notional Amount 30/9/03	Credit Equivalent 30/9/03	Notional Amount 30/9/02	Credit Equivalent 30/9/02
<b>Contingent liabilities</b>				
Guarantees	71	71	652	652
Standby letters of credit	177	177	198	198
Documentary letters of credit	87	17	81	16
Performance related contingencies	168	84	153	77
Guarantees to investors in managed funds	30	30	30	30
Other contingent liabilities including legal cases	-	-	96	96
Total contingent liabilities	533	379	1,210	1,069
<b>Credit related commitments</b>				
Commitments to extend credit	4,469	19	4,473	195
Total credit related commitments	4,469	19	4,473	195
<b>The Company</b>				
<b>Contingent liabilities</b>				
Guarantees	71	71	281	281
Standby letters of credit	177	177	198	198
Documentary letters of credit	87	17	81	16
Performance related contingencies	168	84	153	77
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	548	394	811	670
<b>Credit related commitments</b>				
Commitments to extend credit	4,469	19	4,844	195
Total credit related commitments	4,469	19	4,844	195

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.

# Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Note 33 Capital Expenditure Commitments</b>				
<b>Furniture and fittings</b>				
Due within one year	6	4	-	-
<b>Data processing assets and other equipment</b>				
Due within one year	3	8	3	8
<b>Motor vehicles</b>				
Due within one year	32	6	-	-
Total capital expenditure commitments	41	18	3	8

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

Dollars in Millions	Consolidated		The Company	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Note 34 Lease Commitments</b>				
<b>Operating lease commitments</b>				
<b>Land and buildings *</b>				
Due within one year	29	36	1	2
Due within one to two years	22	31	1	1
Due within two to five years	35	59	2	2
Due after five years	52	52	1	1
Total land and buildings	138	178	5	6
<b>Data processing assets and other equipment</b>				
Due within one year	1	-	-	-
Total data processing assets and other equipment	1	-	-	-
Total operating lease commitments	139	178	5	6

\* Figures include liabilities taken up for surplus leased space.

## 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 and Directors of the Bank. Subsidiary companies of the Bank are not connected persons. Peak credit exposures to connected persons are calculated using the Banking Group's end of period tier one capital.

Dollars in Millions	Consolidated			
	As at 30/9/03	As at 30/9/02	Peak for 3 Months Ended 30/9/03	Peak for 3 Months Ended 30/9/02
Credit exposure to connected persons	528	660	1,034	682
Credit exposure to connected persons expressed as a percentage of tier one capital of the Banking Group	23.9%	32.3%	46.8%	33.3%

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 of a non-capital nature and net of specific provisions. Credit exposures to connected persons have been included in the above table on a gross basis.

# Notes to and Forming Part of the Financial Statements continued

## Note 35 Credit Exposures to Connected Persons and Non-Bank Connected Persons continued

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 2003 the Banking Group had a contingent credit exposure of \$377 million (30 September 2002: \$492 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 2003 (30 September 2002: nil). The Bank has at all times managed its exposure to connected persons based on the Reserve Bank of New Zealand's rating contingent limit of 75%. The ratings contingent limit became applicable on 1 July 2003 following changes to the Bank's conditions of registration.

## 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.

Percentage of 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	
	For the 3 Months Ended 30/9/03	For the 3 Months Ended 30/9/02	For the 3 Months Ended 30/9/03	For the 3 Months Ended 30/9/02
10 - 19	5	5	5	8
20 - 29	3	4	2	1
30 - 39	-	-	2	2
40 - 49	-	-	1	2
50 - 59	-	-	-	1

Percentage of Shareholders' Equity %	Consolidated			
	Balance Date Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties			
	Number of Non-Banks		Number of Banks	
	As at 30/9/03	As at 30/9/02	As at 30/9/03	As at 30/9/02
10 - 19	3	4	1	2
20 - 29	3	4	-	-
30 - 39	-	-	-	2
40 - 49	-	-	1	1

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

## Note 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 clients.

### Securitisation

The Banking Group has not securitised any of its own assets. The Banking Group has arranged the securitisation of certain customers' assets and provides banking services to customers' securitisation vehicles. The Bank services unrelated securitisation schemes and seconds staff to entities which market and service securitisation activities. It provides interest rate derivatives to securitisation schemes and leases premises to an unrelated securitisation vehicle. All transactions have taken place on arm's length terms and conditions.

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

As at 30 September 2003 securitisation schemes in which the Banking Group have been involved to the extent detailed above amounted to \$496 million (30 September 2002: \$204 million).

Financial services provided by the Banking Group have been on arm's length terms and conditions and at fair value and assets purchased from entities which conduct the activities have been purchased at fair value and on arm's length terms and conditions.

### Risk management

The Banking Group has in place policies and procedures to ensure that the activities identified above are conducted in an appropriate manner. Should adverse investment or liquidity conditions arise it is considered that the Banking Group's policies and procedures, combined with those of BNZ 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 \$29 million (30 September 2002: \$28 million), and registered superannuation schemes with a value of \$1 million as at 30 September 2003 (30 September 2002: \$2 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 arm's length terms and conditions and were at fair value. Assets purchased from any such entities by any member of the Banking Group have been purchased on arm's length terms and conditions.

### 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	30/9/03	30/9/02
Discretionary funds management	2,437	2,583
Capital Guaranteed Growth Notes	29	28
Term life insurance policyholders' funds	5	6



# 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

The Bank does not provide any funding to individual unit trusts to which the Banking Group previously provided discretionary funds management services. The Bank did not provide any funding to securitisation entities during the three months ended 30 September 2003 (30 September 2002: nil).

## 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:

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

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

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

### Risk weighted capital

Dollars in Millions	Consolidated		The Registered Bank	
	30/9/03	30/9/02	30/9/03	30/9/02
<b>Qualifying capital</b>				
<b>Tier one capital</b>				
Paid in capital	1,451	1,451	1,451	1,451
Retained earnings	865	612	935	699
Deductions from tier one capital:				
Advances of a capital nature to connected parties	30	-	30	-
Goodwill	77	17	16	17
Total tier one capital	2,209	2,046	2,340	2,133
<b>Upper tier two capital</b>				
Subordinated loans from related parties	190	347	190	347
Total upper tier two capital	190	347	190	347
<b>Lower tier two capital</b>				
Subordinated loans from related parties	839	715	839	715
Total lower tier two capital	839	715	839	715
Total tier two capital	1,029	1,062	1,029	1,062
Total tier one and tier two capital	3,238	3,108	3,369	3,195
<b>Deduct:</b> Investment in subsidiaries not wholly owned or wholly funded	-	-	63	5
Total qualifying capital	3,238	3,108	3,306	3,190
Total risk weighted exposures	26,738	25,977	26,906	26,208
<b>Risk based adjusted capital ratios</b>				
Total tier one capital expressed as a percentage of total risk weighted exposures	8.26%	7.88%	8.70%	8.14%
Total qualifying capital expressed as a percentage of total risk weighted exposures	12.11%	11.96%	12.29%	12.17%

## Note 38 Capital Adequacy continued

### Calculation of balance sheet exposures

Dollars in Millions	Consolidated		
	Principal Amount 30/9/03	Risk Weighting 30/9/03	Risk Weighted Exposure 30/9/03
Cash and claims on qualifying central banks and governments with maturity within one year	1,236	0%	-
Claims on qualifying governments with maturity over one year	696	10%	70
Claims on banks and New Zealand local authorities	2,498	20%	500
Loans secured by residential mortgages	13,065	50%	6,533
All other assets	20,148	100%	20,148
Adjustments	-	-	(1,368)
<b>Total assets</b>	<b>37,643</b>		<b>25,883</b>

### Calculation of off-balance sheet exposures

Dollars in Millions	Principal Amount 30/9/03	Credit Conversion Factor 30/9/03	Credit Equivalent Amount 30/9/03	Average Counterparty Risk Weight 30/9/03	Risk Weighted Exposure 30/9/03
Direct credit substitutes	248	100%	248	100%	248
Transaction related contingent liabilities	168	50%	84	100%	84
Short term, self liquidating trade related contingencies	87	20%	17	100%	17
Commitments for financial services:					
Maturity is greater than one year	38	50%	19	100%	19
Maturity is less than one year or can be cancelled at any time	4,431	0%	-	0%	-
Market related contracts: *					
Foreign exchange contracts	30,733	-	1,164	25%	290
Interest rate contracts	62,708	-	655	30%	196
Other	76	-	4	20%	1
<b>Total off-balance sheet items</b>	<b>98,489</b>		<b>2,191</b>		<b>855</b>
<b>Total risk weighted exposures</b>					<b>26,738</b>

\* 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	Consolidated		
	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	3,998	20%	800
Loans secured by residential mortgages	11,150	50%	5,575
All other assets	18,724	100%	18,724
Adjustments	-	-	(921)
<b>Total assets</b>	<b>35,968</b>		<b>24,346</b>

### 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
<b>Total off-balance sheet items</b>	<b>102,839</b>		<b>2,958</b>		<b>1,631</b>
<b>Total risk weighted exposures</b>					<b>25,977</b>

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

## Note 38 Capital Adequacy continued

### Calculation of balance sheet exposures

Dollars in Millions	The Registered Bank		
	Principal Amount 30/9/03	Risk Weighting 30/9/03	Risk Weighted Exposure 30/9/03
Cash and claims on qualifying central banks and governments with maturity within one year	1,236	0%	-
Claims on qualifying governments with maturity over one year	696	10%	70
Claims on banks and New Zealand local authorities	2,498	20%	500
Loans secured by residential mortgages	13,065	50%	6,533
All other assets	20,319	100%	20,319
Adjustments	-	-	(1,368)
<b>Total assets</b>	<b>37,814</b>		<b>26,054</b>

### Calculation of off-balance sheet exposures

Dollars in Millions	Principal Amount 30/9/03	Credit Conversion Factor 30/9/03	Credit Equivalent Amount 30/9/03	Average Counterparty Risk Weight 30/9/03	Risk Weighted Exposure 30/9/03
Direct credit substitutes	248	100%	248	100%	248
Transaction related contingent liabilities	168	50%	84	100%	84
Short term, self liquidating trade related contingencies	87	20%	17	100%	17
Commitments for financial services:					
Maturity is greater than one year	38	50%	19	100%	19
Maturity is less than one year or can be cancelled at any time	4,431	0%	-	0%	-
Market related contracts: *					
Foreign exchange contracts	30,733	-	1,164	25%	290
Interest rate contracts	60,208	-	643	30%	193
Other	76	-	4	19%	1
<b>Total off-balance sheet items</b>	<b>95,989</b>		<b>2,179</b>		<b>852</b>
<b>Total risk weighted exposures</b>					<b>26,906</b>

\* 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	The Registered Bank		
	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)
<b>Total assets</b>	<b>36,202</b>		<b>24,579</b>

### 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
<b>Total off-balance sheet items</b>	<b>100,339</b>		<b>2,945</b>		<b>1,629</b>
<b>Total risk weighted exposures</b>					<b>26,208</b>

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

## 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

	30/9/03	30/9/02
Total tier one capital expressed as a percentage of total risk weighted exposures	7.8%	7.8%
Total qualifying capital expressed as a percentage of total risk weighted exposures	9.7%	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 Basel Committee on Banking Supervision. As at 30 September 2003, National Australia Bank Limited met the 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 Corporate and Institutional Banking 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 Management 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 the New Zealand Regional 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 New Zealand Regional 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.

## 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.

As part of their work in issuing a review on the Bank's six monthly results or an audit opinion on the Bank's annual results the Bank's external auditors, KPMG, may review parts of the Bank's risk management framework that impact on significant aspects of the financial systems but only to the extent necessary to form their review or audit opinion. A credit rating agency conducts annual reviews of the Bank's risk management approach 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 within Corporate and Institutional Banking has responsibility for reporting and monitoring the market risk resulting from the trading activities of the Markets division. The Bank's Asset and Liability Committee have responsibility for management of market risk within the banking book. 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 banks interest rate risk. The Bank's Asset and Liability Committee has responsibility for managing 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.

## 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.

Dollars in Millions	Consolidated			
	As At 30/9/03	As At 30/9/02	Peak for 3 Months Ended 30/9/03	Peak for 3 Months Ended 30/9/02
<b>Interest rate exposures</b>				
Aggregate interest rate exposures	114	63	127	86
Aggregate interest rate exposures expressed as a percentage of the Banking Group's equity	4.9%	3.1%	5.5%	4.2%
<b>Foreign currency exposures</b>				
Aggregate foreign currency exposures	2	2	4	4
Aggregate foreign currency exposures expressed as a percentage of the Banking Group's equity	0.1%	0.1%	0.2%	0.2%
<b>Equity exposures</b>				
Aggregate equity exposures	-	-	-	-
Aggregate equity exposures expressed as a percentage of the Banking Group's equity	0.0%	0.0%	0.0%	0.0%

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

## Note 41 Subsequent Event

Subsequent to period end, on 12 December 2003, the Directors declared a final dividend of \$134 million (30 September 2002: \$135 million) subject to certain conditions being met. 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.



## To the Shareholder of Bank of New Zealand

We have audited the financial statements including supplementary information on pages 7 to 55. 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 2003. 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 2003 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 areas of accounting and taxation advice. 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.



## 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 55:
  - 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 2003 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 12 December 2003 and our unqualified opinion is expressed as at that date.

A handwritten signature in blue ink that reads 'KPMG'.

Auckland

## 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, and the rating outlook stable. On 18 December 2001, the rating outlook changed from stable to negative, and on 16 January 2003 from negative to stable. These changes were the result of revisions 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 as from 1 July 2003 – Bank of New Zealand

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

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

**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 July 2003.

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities, where the term material is based on Generally Accepted Accounting Practice, as defined in the Financial Reporting Act 1993;

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

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

- ii) In measuring the size of the Banking Group’s insurance business:

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

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

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

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

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

4. That aggregate **credit exposures** (of a non-capital nature and net of specific provisions) of the Banking Group to all **connected persons** does not exceed the rating-contingent limit outlined in the following matrix:

Credit rating	Connected exposure limit (percentage of the Banking Group’s tier one capital)
AA / Aa2 and above	75
AA- / Aa3	70
A+ / A1	60
A / A2	40
A- / A3	30
BBB+ / Baa1 and below	15

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of specific provisions) to non-bank connected persons shall not exceed 15 percent of the Banking Group’s tier one capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled “Connected Exposure Policy” (BS8) dated July 2003.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the Board of the Registered Bank contains at least two independent Directors. In this context an independent Director is a Director who is not an employee of the Registered Bank, and who is not a director, trustee or employee of any holding company of the Registered Bank, or any other entity capable of controlling or significantly influencing the Registered Bank.
7. That the Chairperson of the Bank's Board is not an employee of the Registered Bank.
8. That the Bank's constitution does not 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 or its creditors.
9. 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

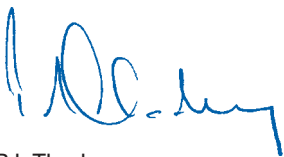
The Directors of Bank of New Zealand state that each Director of the Bank believes, after due enquiry, that:

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 2003:
  - a) the Bank has complied with its conditions of registration which are set out on pages 59 and 60;
  - 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 12<sup>th</sup> day of December 2003 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







**Bank of New Zealand**

Tailored Financial Solutions

A member of the National Australia Bank Group



**National**

Tailored Financial Solutions