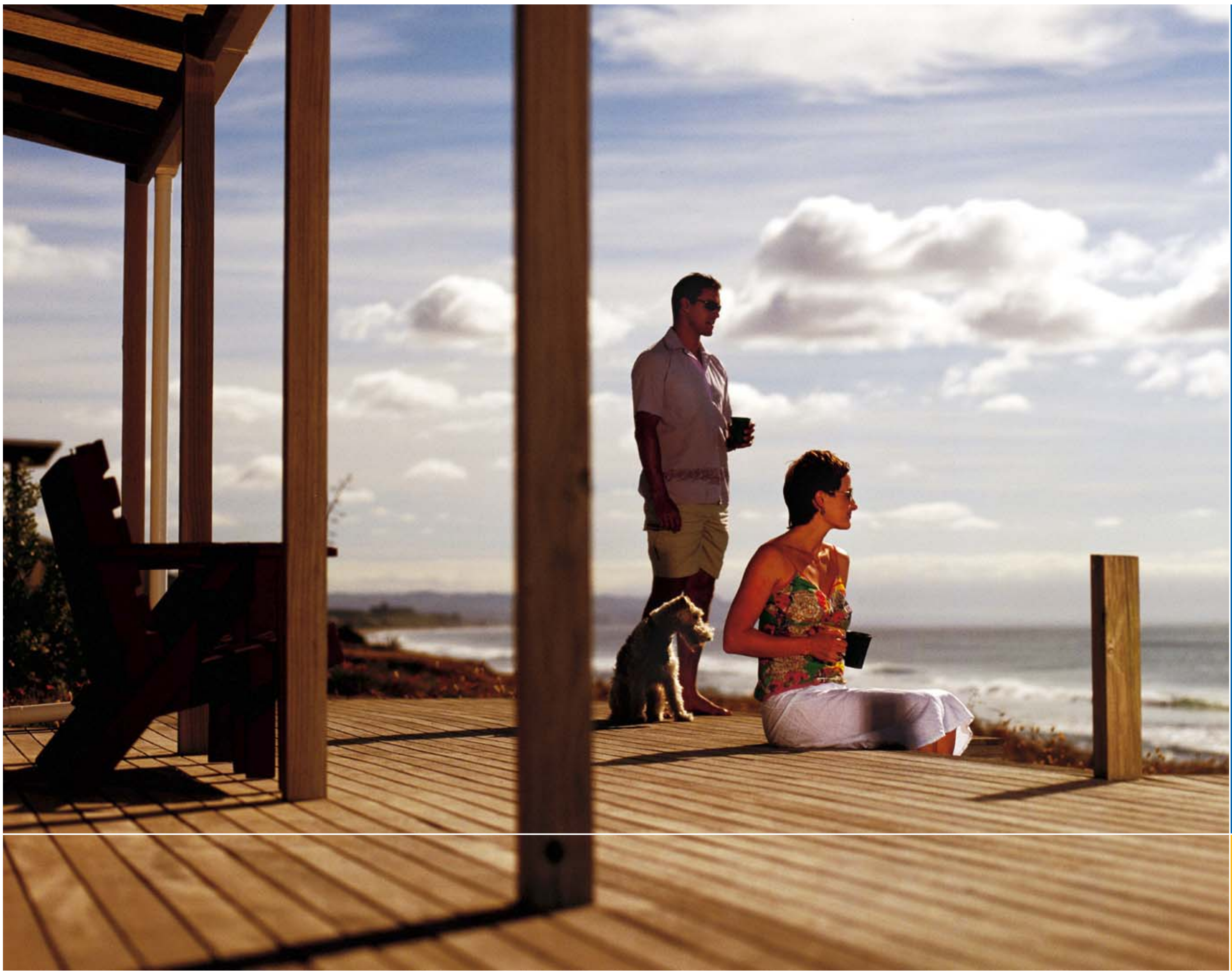
Bank of New Zealand
General Disclosure Statement

For the year ended 30 September 2004



No. 35

Bank of New Zealand

General Disclosure Statement

For the year ended 30 September 2004

This General Disclosure Statement has been issued by Bank of New Zealand for the year ended 30 September 2004 in accordance with the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 1998 (the "Order").

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

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Bank of New Zealand Corporate Information

Address for Service

The name of the Registered Bank is Bank of New Zealand (referred to either by its full name or as the "Bank" or the "Company") and its address for service is Level 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

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, 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

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 Michael Thomas Laing ceased to be a Director on 27 August 2004.

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 and personal affairs and the business affairs of the Bank, then that Director must declare that the conflict of interest exists and leave the meeting for the duration of the Board's discussion and voting on the relevant matter.

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

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

Directors' Benefits

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

Information pertaining to loans to and other transactions with Directors appears in note 27 of these financial statements on page 37.

Auditors

The auditors whose report is referred to in this General Disclosure Statement are KPMG. Their address for service is KPMG Centre, 18 Viaduct Harbour Avenue, Auckland.

Other Material Matters

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

Acquisition and Sale of Controlled Entities

On 1 November 2002, Custom Fleet (NZ) Limited, a wholly owned controlled entity 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 controlled entities. On 29 January 2003, Custom Fleet (Australia) Limited, a wholly owned controlled entity 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 Controlled Entities

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.

Pending Proceedings or Arbitration

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

The Bank's Directors are of the opinion that, with the exception of the below, 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.

Certain members of the Banking Group have received amended tax assessments from the Inland Revenue Department in respect of certain structured finance transactions. The Banking Group is confident that its position in relation to the application of tax law is correct and is disputing the Inland Revenue Department's position. The Banking Group has obtained independent legal opinions that confirm that the transactions complied with New Zealand tax law. Further details in relation to the tax dispute are provided in note 34.

The New Zealand Commerce Commission has publicly notified its intention to prosecute a number of credit and debit card issuers for alleged misleading practices under the Fair Trading Act 1986. The Bank is included in the allegations. This follows an industry-wide investigation into the disclosure of international currency conversion fees on credit and debit card transactions. As at the date of signing of this General Disclosure Statement no proceedings have been served on the Bank and no particular allegations have been made.

Financial Statements

Contents

Historical Summary of Financial Statements

Dollars in Millions	30/9/04	30/9/03	30/9/02	30/9/01	30/9/00
			Consolidated		
Financial performance					
Interest income	**2,525**	2,479	2,413	2,583	2,313
Interest expense	**1,631**	1,611	1,582	1,830	1,648
Net interest income	**894**	868	831	753	665
Provisions for doubtful debts	**51**	13	(15)	12	13
Net interest income after provisions for doubtful debts	**843**	855	846	741	652
Other operating income	**540**	547	528	494	491
Total operating income	**1,383**	1,402	1,374	1,235	1,143
Operating expenses	**758**	650	624	648	630
Operating surplus before tax expense	**625**	752	750	587	513
Tax expense	**154**	204	168	147	124
Net surplus attributable to shareholder of Bank of New Zealand	**471**	548	582	440	389
Ordinary dividend	**323**	295	310	160	240
Net operating surplus retained	**148**	253	272	280	149
Significant statement of financial position items					
Total assets	**39,310**	37,643	35,968	37,847	35,303
Impaired assets	**94**	236	30	47	88
Total liabilities (including subordinated debt)	**36,846**	35,327	33,905	36,056	33,792
Shareholder's equity attributable to members of Bank of New Zealand	**2,464**	2,316	2,063	1,791	1,511

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 controlled entities 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 2004

Dollars in Millions	Note	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
Interest income	2	**2,525**	2,479	**2,351**	2,278
Interest expense	2	**1,631**	1,611	**1,577**	1,547
Net interest income		**894**	868	**774**	731
Provisions for doubtful debts	11	**51**	13	**46**	12
Net interest income after provisions for doubtful debts		**843**	855	**728**	719
Other operating income	3	**540**	547	**697**	739
Total operating income		**1,383**	1,402	**1,425**	1,458
Operating expenses	4	**758**	650	**802**	693
Operating surplus before tax expense		**625**	752	**623**	765
Tax expense	6	**154**	204	**139**	165
Net surplus attributable to shareholder of Bank of New Zealand		**471**	548	**484**	600

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 2004

Dollars in Millions	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
Net surplus attributable to shareholder of Bank of New Zealand	**471**	548	**484**	600
Total recognised revenues and expenses	**471**	548	**484**	600
Distributions to owner during the year:				
Ordinary dividend	**(323)**	(295)	**(323)**	(295)
Movement in equity for the year	**148**	253	**161**	305
Total shareholder's equity at beginning of year	**2,316**	2,063	**2,164**	1,859
Total shareholder's equity at end of year	**2,464**	2,316	**2,325**	2,164

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 2004

Dollars in Millions	Note	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
Assets					
Cash and call balances with central banks		**136**	155	**136**	155
Due from other financial institutions	7	**527**	953	**527**	953
Other money market placements	8	**585**	458	**585**	458
Securities	9	**1,598**	1,831	**1,598**	1,831
Loans and advances to customers	10	**33,967**	31,386	**31,949**	28,837
Amounts due from related parties	27	**181**	144	**644**	143
Investments in controlled entities	13	**-**	-	**3,106**	3,106
Property, plant and equipment	14	**612**	645	**67**	121
Income tax assets	15	**131**	80	**134**	75
Other assets	16	**1,573**	1,991	**1,320**	1,692
Total assets		**39,310**	37,643	**40,066**	37,371
Financed by:					
Liabilities					
Due to other financial institutions	17	**928**	2,538	**928**	2,538
Other money market deposits	18	**8,638**	6,308	**8,638**	6,308
Deposits from customers	19	**18,760**	17,962	**18,760**	17,962
Bonds and notes	20	**529**	560	**529**	560
Amounts due to related parties	27	**4,739**	4,362	**5,718**	4,108
Income tax liabilities	22	**86**	101	**45**	102
Subordinated loans from related parties	23, 27	**905**	1,029	**905**	1,029
Other liabilities	24	**2,261**	2,467	**2,218**	2,600
Total liabilities		**36,846**	35,327	**37,741**	35,207
Shareholder's equity					
Paid in capital (2,470,997,499 shares)		**1,451**	1,451	**1,451**	1,451
Retained earnings		**1,013**	865	**874**	713
Total shareholder's equity		**2,464**	2,316	**2,325**	2,164
Total liabilities and shareholder's equity		**39,310**	37,643	**40,066**	37,371

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 Cash Flows

For the year ended 30 September 2004

		Consolidated		The Company	
Dollars in Millions	Note	**30/9/04**	30/9/03	**30/9/04**	30/9/03
Cash flows from operating activities					
Cash was provided from:					
Dividend income		**-**	1	**220**	250
Interest income		**2,478**	2,446	**2,304**	2,245
Other income		**554**	538	**387**	378
Trading securities and derivative financial instruments*		**597**	1,475	**601**	1,474
Cash was applied to:					
Interest expense		**(1,613)**	(1,615)	**(1,559)**	(1,551)
Operating expenses		**(662)**	(591)	**(720)**	(649)
Taxes and subvention payments		**(220)**	(171)	**(255)**	(155)
Net cash flows from operating activities		**1,134**	2,083	**978**	1,992
Cash flows from investing activities					
Cash was provided from:					
Cash acquired with controlled entities	13	**-**	8	**-**	-
Decrease in due from other financial institutions (term)*		**447**	-	**447**	-
Decrease in other assets*		**152**	-	**158**	-
Decrease in other money market placements		**-**	34	**-**	34
Proceeds from maturity of investment securities		**2,437**	2,332	**2,437**	2,332
Proceeds from sale of available for sale securities		**5**	31	**5**	31
Proceeds from sale of property, plant and equipment		**92**	62	**1**	5
Proceeds from sale of controlled entities	13	**50**	104	**-**	-
Cash was applied to:					
Acquisition of controlled entities	13	**-**	(74)	**-**	-
Increase in due from other financial institutions (term)*		**-**	(16)	**-**	(16)
Increase in investment in controlled entities		**-**	-	**-**	(61)
Increase in loans and advances to customers*		**(2,632)**	(2,415)	**(3,158)**	(2,419)
Increase in other money market placements*		**(127)**	-	**(127)**	-
Increase in other assets*		**-**	(152)	**-**	(173)
Purchase of available for sale securities		**(5)**	(5)	**(5)**	(5)
Purchase of investment securities		**(2,314)**	(2,244)	**(2,314)**	(2,244)
Purchase of property, plant and equipment		**(249)**	(261)	**(25)**	(58)
Net cash flows from investing activities		**(2,144)**	(2,596)	**(2,581)**	(2,574)
Cash flows from financing activities					
Cash was provided from:					
Increase in bonds and notes*		**-**	212	**-**	212
Increase in deposits from customers*		**798**	874	**798**	874
Increase in other money market deposits*		**2,330**	97	**2,330**	97
Increase in other liabilities*		**-**	258	**-**	471
Other related party funding*		**340**	-	**1,109**	-
Cash was applied to:					
Decrease in bonds and notes*		**(31)**	-	**(31)**	-
Decrease in due to other financial institutions (term)*		**(700)**	(528)	**(700)**	(158)
Decrease in other liabilities*		**(342)**	-	**(518)**	-
Decrease in subordinated loans from related parties		**(150)**	-	**(150)**	-
Ordinary dividend		**(323)**	(295)	**(323)**	(295)
Other related party funding*		**-**	(698)	**-**	(1,211)
Net cash flows from financing activities		**1,922**	(80)	**2,515**	(10)
Net increase/(decrease) in cash and cash equivalents		**912**	(593)	**912**	(592)
Cash and cash equivalents at beginning of year		**(983)**	(390)	**(983)**	(391)
Cash and cash equivalents at end of year		**(71)**	(983)	**(71)**	(983)

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

Statement of Cash Flows continued

For the year ended 30 September 2004

Dollars in Millions	Note	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
Cash and cash equivalents comprise:					
Cash and call balances with central banks		**136**	155	**136**	155
Due from other financial institutions (call)		**174**	153	**174**	153
Due to other financial institutions (call)		**(381)**	(1,291)	**(381)**	(1,291)
Total cash and cash equivalents		**(71)**	(983)	**(71)**	(983)
Reconciliation of net surplus attributable to shareholder of Bank of New Zealand to net cash flows from operating activities					
Net surplus attributable to shareholder of Bank of New Zealand		**471**	548	**484**	600
Add back:					
Decrease in accrued interest receivable		**-**	20	**-**	20
Decrease in trading securities and derivative financial instruments		**507**	1,379	**511**	1,377
Depreciation on operating lease assets	3	**110**	110	**-**	-
Depreciation on other property, plant and equipment	4	**39**	39	**31**	30
Impairment losses on data processing assets	4	**36**	-	**36**	-
Increase in accrued interest payable		**18**	-	**18**	-
Increase in provision for tax		**-**	33	**-**	10
Loss on sale of property, plant and equipment	4	**-**	1	**-**	1
Movements in provisions for doubtful debts	11	**51**	13	**46**	12
Revaluation decrements on property, plant and equipment	4	**-**	4	**-**	-
Write-off of data processing assets	4	**11**	-	**11**	-
Deduct:					
Decrease in accrued interest payable		**-**	(4)	**-**	(4)
Decrease in other operating expenses		**(34)**	(52)	**(40)**	(54)
Decrease in provision for tax		**(66)**	-	**(116)**	-
Gain on sale of controlled entities	13	**-**	(1)	**-**	-
Increase in accrued interest receivable		**(3)**	-	**(3)**	-
Net gain on sale of operating lease assets	3	**(3)**	(7)	**-**	-
Revaluation gain on property, plant and equipment	3	**(3)**	-	**-**	-
Net cash flows from operating activities		**1,134**	2,083	**978**	1,992

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.

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

There have been no material changes in accounting policies during the financial year.

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.

Reclassification of financial information

In order to provide users with an enhanced level of understanding and comparability of the Banking Group's loan portfolio and to prepare for the introduction of International Financial Reporting Standards, certain reclassifications have been made in the current financial year.

Repurchase and reverse repurchase agreements with other financial institutions have been reclassified.

Accordingly, $228 million of repurchase agreements previously disclosed as Deposits from customers as at 30 September 2003 have been reclassified to Due to other financial institutions. Reverse repurchase agreements of $224 million previously disclosed as Loans and advances to customers as at 30 September 2003 have been reclassified to Due from other financial institutions.

Correspondingly, reclassifications have been made within Interest expense from Deposits from customers to Other financial institutions (30 September 2003: $37 million), and Interest income from Loans and advances to customers to Other financial institutions (30 September 2003: $17 million).

Other money market placements have been separately disclosed in the statement of financial position as at 30 September 2004. Comparative balances have been reclassified from Loans and advances to customers (30 September 2003: $458 million). Further detail regarding the nature of these balances is contained within note 8: Other money market placements. Correspondingly, Interest income on Other money market placements has been reclassified from Loans and advances to customers within note 2 (30 September 2003: $24 million).

Other money market deposits have been separately disclosed in the statement of financial position as at 30 September 2004. Comparative balances have been reclassified from Deposits from customers (30 September 2003: $6,308 million). Further detail regarding the nature of these balances is contained within note 18: Other money market deposits. Correspondingly, Interest expense on Other money market deposits has been reclassified from Deposits from customers within note 2 (30 September 2003: $268 million).

Bonds and notes have been separately disclosed in the statement of financial position. Comparative balances have been reclassified from Deposits from customers (30 September 2003: $560 million). Correspondingly, Interest expense on Bonds and notes has been reclassified from Deposits from customers (30 September 2003: $31 million).

Interest income and Other operating income have been restated due to a change in the classification of some lease income from finance to operating leases (30 September 2003: $14 million).

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.

Note 1 Principal Accounting Policies continued

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.

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 financial institutions

Due from other financial institutions includes loans, reverse repurchase agreements, nostro balances, and settlement account balances due from other financial institutions. They are brought to account at the gross value of the outstanding balances.

Other money market placements

Other money market placements include money market placements with non-financial institutions and reverse repurchase agreements with non-financial institutions. They are brought to account at the gross value of the outstanding balances.

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 discounted acceptances 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.

Note 1 Principal Accounting Policies continued

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. The Bank's obligation to repurchase is classified under due to other financial institutions or other money market deposits. 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 due from other financial institutions or other money market placements. The difference between the purchase price and sale price represents interest income and is recognised in the statement of financial performance over the term of the reverse repurchase agreement.

Loans and advances to customers

Loans and advances to customers include overdrafts, credit card lending, bill financing, housing loans, lease finance, other term lending and redeemable preference share 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 and advances to customers. 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 specific provisions 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 the Bank with the assistance of 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** are those loans for which it is probable that the Banking Group will not be able to collect all amounts owing in accordance with the terms of the contract with the counterparty. Non-accrual assets 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.

Note 1 Principal Accounting Policies continued

- **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.

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 advances to customers 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 except where the increment reverses a revaluation decrement previously charged to the statement of financial performance in respect of that class of assets. In these circumstances the revaluation increment is charged to the statement of financial performance. 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.

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 costs 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.

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.

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.

Note 1 Principal Accounting Policies continued

The following depreciation rates have been applied.

	Straight Line Rates
Buildings	$3\frac{1}{3}\%$
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

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 financial institutions

Due to other financial institutions includes deposits, repurchase agreements, vostro balances and settlement account balances due to other financial institutions. They are brought to account at the gross value of the outstanding balances.

Other money market deposits

Other money market deposits include money market deposits with non-financial institutions, repurchase agreements with non-financial institutions, certificates of deposit and commercial paper. They are brought to account at the gross value of the outstanding balances.

Deposits from customers

Deposits from customers include non-interest bearing deposits redeemable at call and interest bearing deposits. They are brought to account at the gross value of the outstanding balances.

Bonds and notes

Bonds and notes issued by the Bank are recorded at cost or at cost adjusted for premium or discount amortisation.

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

Provisions 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.

Note 1 Principal Accounting Policies continued

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. Subordinated debt denominated in foreign currencies is translated at the exchange rate applicable at the end of the financial year.

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

Fees and commissions earned through the marketing of funds management products are included in the statement of financial performance.

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 Banking 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.

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 customer's account.

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 year that the services are provided. When they are charged for services provided over a period, they are recognised as income on an accruals basis.

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.

Dollars in Millions	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
Note 2 Interest				
Interest income				
Other financial institutions	**31**	43	**31**	43
Other money market placements	**26**	24	**26**	24
Loans and advances to customers	**2,365**	2,239	**2,192**	2,046
Impaired assets	**3**	8	**3**	8
Related parties	**4**	7	**4**	7
Other	**2**	10	**1**	2
Securities:				
Trading securities	**50**	95	**50**	95
Investment securities	**44**	53	**44**	53
Total interest income	**2,525**	2,479	**2,351**	2,278
Interest expense				
Other financial institutions	**49**	85	**49**	85
Other money market deposits	**342**	268	**342**	268
Deposits from customers	**733**	709	**733**	709
Bonds and notes	**40**	31	**40**	31
Related parties	**103**	117	**94**	103
Subordinated loans from related parties	**59**	69	**59**	69
Other	**305**	332	**260**	282
Total interest expense	**1,631**	1,611	**1,577**	1,547
Note 3 Other Operating Income				
Dividends received from controlled entities	**-**	1	**220**	250
Loan and advance fees	**79**	80	**79**	80
Gain on foreign exchange translation	**1**	2	**1**	2
Money transfer fees	**170**	177	**170**	177
Other fees and commissions income	**116**	110	**116**	106
Gain on sale of controlled entities (refer to note 5)	**-**	1	**-**	-
Net operating lease income (refer to table below)	**31**	31	**-**	-
Fleet service fee income	**29**	21	**-**	-
Other income	**21**	28	**21**	27
Revaluation gain on property, plant, and equipment	**3**	-	**-**	-
Trading income:				
Foreign exchange trading	**72**	76	**72**	76
Securities and interest rate related derivatives trading	**18**	20	**18**	21
Total other operating income	**540**	547	**697**	739
Net operating lease income comprises:				
Gross operating lease income	**158**	146	**-**	-
Net gain on sale of operating lease assets	**3**	7	**-**	-
	161	153	**-**	-
Deduct:				
Depreciation on motor vehicle operating lease assets	**110**	110	**-**	-
Direct operating lease expenses	**20**	12	**-**	-
Total net operating lease income	**31**	31	**-**	-

Dollars in Millions	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03

Note 4 Operating Expenses

Salaries and other staff expenses	**312**	296	**301**	286
Amortisation of goodwill	**8**	7	**1**	1
Depreciation on leasehold improvements	**1**	1	**-**	-
Depreciation on furniture, fittings and other equipment	**8**	9	**1**	2
Depreciation on data processing assets	**30**	29	**30**	28
Revaluation decrements on property, plant and equipment	**-**	4	**-**	-
Impairment losses on data processing assets	**36**	-	**36**	-
Write-off of data processing assets	**11**	-	**11**	-
Loss on sale of property, plant and equipment	**-**	1	**-**	1
Rental on operating leases	**46**	48	**15**	8
Subvention payments to controlled entities	**-**	-	**72**	77
Other expenses (refer also to table below)	**306**	255	**335**	290
Total operating expenses	**758**	650	**802**	693
Other expenses include (Dollars in Thousands)				
Donations	**38**	6	**38**	6
Fees paid to directors	**376**	320	**352**	305
Fees paid to auditors:				
Statutory audit services	**950**	812	**867**	778
Regulatory audit services	**190**	225	**190**	225
Other services – other fees	**6**	280	**6**	242

Integrated systems implementation project

During the year ended 30 September 2004, the Bank expensed $86 million of costs in relation to a management information software project (30 September 2003: $22 million). This included impairment losses on data processing assets of $36 million and an intercompany charge from National Australia Bank Limited of $27 million. In addition, the Bank paid fees to auditors in respect of the project of $0.023 million for the year ended 30 September 2004 (30 September 2003: $0.262 million) which have been capitalised to property, plant and equipment.

Note 5 Discontinued Operations

On 1 November 2002, Custom Fleet (NZ) Limited, a wholly owned controlled entity 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 was disclosed within discontinued operations during the year ended 30 September 2003. Up until the date of sale the controlled entity 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.

Note 5 Discontinued Operations continued

The information below relates to these discontinued operations.

	Consolidated			
	Discontinued Operations		Continuing Operations	
Dollars in Millions	30/9/04	30/9/03	30/9/04	30/9/03
Financial performance				
Total operating income	-	1	1,383	1,401
Operating expenses	-	-	758	650
Operating surplus before tax expense	-	1	625	751
Tax expense	-	-	154	204
Net surplus attributable to shareholder of Bank of New Zealand	-	1	471	547
Financial position				
Total assets	-	-	39,310	37,643
Total liabilities	-	-	36,846	35,327

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.

	Consolidated		The Company	
Dollars in Millions	30/9/04	30/9/03	30/9/04	30/9/03
Operating surplus before tax expense	625	752	623	765
Gain on sale of controlled entities	-	(1)	-	-
	625	751	623	765
Prima facie tax expense on operating surplus at 33%	206	248	206	252
Prior year adjustments to tax expense	2	-	1	(4)
Tax effect of permanent differences:				
Non-assessable and tax paid income	(49)	(46)	(77)	(84)
Non-deductible expenses	3	2	-	-
Deferred tax release on investments	(17)	-	-	-
Other	9	-	9	1
Total tax expense	154	204	139	165
Tax expense comprises:				
Current taxation	217	189	190	166
Deferred taxation	(63)	15	(51)	(1)
Total tax expense	154	204	139	165

Dollars in Millions	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03

Note 7 Due from Other Financial Institutions

Transaction balances with other financial institutions	**118**	50	**118**	50
Securities purchased under agreements to resell with other financial institutions	**130**	224	**130**	224
Loans and advances due from other financial institutions	**279**	679	**279**	679
Total due from other financial institutions	**527**	953	**527**	953
Due from other financial institutions comprise of:				
New Zealand				
Call advances	**172**	152	**172**	152
Term advances	**263**	374	**263**	374
Total New Zealand	**435**	526	**435**	526
Overseas				
Call advances	**2**	1	**2**	1
Term advances	**90**	426	**90**	426
Total overseas	**92**	427	**92**	427
Total due from other financial institutions	**527**	953	**527**	953

Note 8 Other Money Market Placements

Money market placements with non-financial institutions	**528**	458	**528**	458
Securities purchased under agreements to resell with other non-financial institutions	**57**	-	**57**	-
Total other money market placements	**585**	458	**585**	458
Other money market placements comprise of:				
New Zealand				
Government and public authorities	**89**	120	**89**	120
Agriculture, forestry and fishing	**166**	105	**166**	105
Financial, investment and insurance	**86**	76	**86**	76
Other commercial and industrial	**244**	157	**244**	157
Total other money market placements	**585**	458	**585**	458

Dollars in Millions	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
Note 9 Securities				
Trading securities				
Treasury bills	**147**	196	**147**	196
Government securities	**231**	252	**231**	252
Other securities	**376**	460	**376**	460
Total trading securities	**754**	908	**754**	908
Available for sale securities				
Treasury bills	**5**	5	**5**	5
Total available for sale securities	**5**	5	**5**	5
Investment securities				
Treasury bills	**769**	823	**769**	823
Other securities	**70**	95	**70**	95
Total investment securities	**839**	918	**839**	918
Total securities	**1,598**	1,831	**1,598**	1,831
Total securities comprise of:				
New Zealand				
Government and public authorities	**1,171**	1,371	**1,171**	1,371
Agriculture, forestry and fishing	**-**	3	**-**	3
Financial, investment and insurance	**258**	231	**258**	231
Other commercial and industrial	**164**	221	**164**	221
Total New Zealand	**1,593**	1,826	**1,593**	1,826
Overseas				
Government and public authorities	**5**	5	**5**	5
Total overseas	**5**	5	**5**	5
Total securities	**1,598**	1,831	**1,598**	1,831

The concentrations of credit exposure by geographical location presented in the above table are based on geographical location of the office in which the exposures are recognised.

Included in securities of the Bank as at 30 September 2004 were assets of $178 million encumbered through repurchase agreements (30 September 2003: $168 million) and $202 million used to secure deposit obligations (30 September 2003: $416 million).

Dollars in Millions	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
Note 10 Loans and Advances to Customers				
Overdrafts	**1,232**	1,255	**1,232**	1,255
Credit card outstandings	**1,062**	1,041	**1,062**	1,041
Lease finance (refer to table below)	**23**	31	**-**	-
Housing loans	**15,306**	12,977	**15,306**	12,977
Redeemable preference share finance	**1,500**	2,018	**-**	-
Other term lending	**14,941**	14,144	**14,441**	13,644
Other lending	**95**	85	**95**	85
Total gross loans and advances to customers	**34,159**	31,551	**32,136**	29,002
Deduct: Provisions for doubtful debts				
Specific provisions for doubtful debts	**23**	16	**19**	16
General provision for doubtful debts	**169**	149	**168**	149
Total provisions for doubtful debts	**192**	165	**187**	165
Total net loans and advances to customers	**33,967**	31,386	**31,949**	28,837
Loans and advances to customers comprise of:				
New Zealand				
Government and public authorities	**277**	133	**277**	133
Agriculture, forestry and fishing	**4,290**	3,918	**4,290**	3,900
Financial, investment and insurance	**797**	665	**797**	665
Real estate – construction	**202**	189	**202**	189
Real estate – mortgage	**15,275**	12,946	**15,275**	12,946
Personal lending	**1,630**	1,716	**1,630**	1,716
Other commercial and industrial	**9,457**	9,186	**9,434**	9,155
Total New Zealand	**31,928**	28,753	**31,905**	28,704
Overseas				
Agriculture, forestry and fishing	**-**	67	**-**	67
Financial, investment and insurance	**2,200**	2,700	**200**	200
Real estate – mortgage	**31**	31	**31**	31
Total overseas	**2,231**	2,798	**231**	298
Total gross loans and advances to customers	**34,159**	31,551	**32,136**	29,002
Deduct: Specific provisions for doubtful debts				
New Zealand				
Agriculture, forestry and fishing	**9**	6	**9**	6
Real estate – construction	**1**	1	**1**	1
Personal lending	**5**	8	**5**	8
Other commercial and industrial	**8**	1	**4**	1
Total specific provisions for doubtful debts	**23**	16	**19**	16
General provision for doubtful debts	**169**	149	**168**	149
Total provisions for doubtful debts	**192**	165	**187**	165
Total net loans and advances to customers	**33,967**	31,386	**31,949**	28,837
Lease finance				
Loans and advances to customers include lease finance receivables which may be analysed as follows:				
Gross investment in lease finance				
Not later than one year	**10**	23	**-**	-
Later than one year and not later than five years	**16**	10	**-**	-
	26	33	**-**	-
Deduct: Unearned future finance income on lease finance	**3**	2	**-**	-
Net investment in lease finance	**23**	31	**-**	-

Note 11 Provisions for Doubtful Debts

Dollars in Millions	Consolidated Non-Accrual Assets 30/9/04	Past Due Assets 30/9/04	Total 30/9/04	Non-Accrual Assets 30/9/03	Past Due Assets 30/9/03	Total 30/9/03
Specific provisions for doubtful debts						
Balance at beginning of year	**13**	**3**	**16**	5	6	11
Opening balance – acquired controlled entities	**-**	**-**	**-**	1	-	1
Transfer from general provision	**23**	**8**	**31**	11	8	19
Bad debts written off	**(17)**	**(18)**	**(35)**	(6)	(19)	(25)
Recovery of bad debts written off in previous years	**2**	**9**	**11**	2	8	10
Balance at end of year	**21**	**2**	**23**	13	3	16
General provision for doubtful debts						
Balance at beginning of year			**149**			156
Transfer to specific provisions			**(31)**			(19)
Charge to statement of financial performance			**51**			13
Other			**-**			(1)
Balance at end of year			**169**			149
Total provisions for doubtful debts			**192**			165

The Company	Non-Accrual Assets 30/9/04	Past Due Assets 30/9/04	Total 30/9/04	Non-Accrual Assets 30/9/03	Past Due Assets 30/9/03	Total 30/9/03
Specific provisions for doubtful debts						
Balance at beginning of year	**13**	**3**	**16**	5	6	11
Transfer from general provision	**19**	**8**	**27**	11	8	19
Bad debts written off	**(17)**	**(18)**	**(35)**	(5)	(19)	(24)
Recovery of bad debts written off in previous years	**2**	**9**	**11**	2	8	10
Balance at end of year	**17**	**2**	**19**	13	3	16
General provision for doubtful debts						
Balance at beginning of year			**149**			156
Transfer to specific provisions			**(27)**			(19)
Charge to statement of financial performance			**46**			12
Balance at end of year			**168**			149
Total provisions for doubtful debts			**187**			165

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.

The increase in the charge to the statement of financial performance for the year ended 30 September 2004 is primarily due to a change in the discount rate used in the statistically based provisioning model. This change resulted in an increase in the general provision for doubtful debts of $28 million.

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	Non-Accrual Assets 30/9/04	Past Due Assets 30/9/04	Total 30/9/04	Non-Accrual Assets 30/9/03	Past Due Assets 30/9/03	Total 30/9/03
Consolidated						
Movements in pre-provision balances						
Balance at beginning of year	**236**	**45**	**281**	30	298	328
Opening balance – acquired controlled entities	**-**	**-**	**-**	1	-	1
Bad debts written off	**(17)**	**(18)**	**(35)**	(6)	(19)	(25)
(Deletions)/additions	**(125)**	**23**	**(102)**	211	(234)	(23)
Balance at end of year	**94**	**50**	**144**	236	45	281
Interest income recognised on impaired assets during the year	**3**			8		
Interest foregone on impaired assets during the year*	**4**			4		
The Company						
Movements in pre-provision balances						
Balance at beginning of year	**235**	**45**	**280**	30	298	328
Bad debts written off	**(17)**	**(18)**	**(35)**	(5)	(19)	(24)
(Deletions)/additions	**(132)**	**21**	**(111)**	210	(234)	(24)
Balance at end of year	**86**	**48**	**134**	235	45	280
Interest income recognised on impaired assets during the year	**3**			8		
Interest foregone on impaired assets during the year*	**4**			4		

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. In the published General Disclosure Statement for the year ended 30 September 2003, short term / seasonal (overdraft) lending outside of formal arrangements by 90 days or more as at 30 September 2003 was disclosed as $33 million. In the current financial year these facilities have been incorporated into the above table.

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

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

There were no off-balance sheet facilities included in the above end of year balance of non-accrual assets as at 30 September 2004 (30 September 2003: $7 million). No specific provisions have been made against off-balance sheet facilities as at 30 September 2004 (30 September 2003: nil).

Dollars in Millions	Consolidated 30/9/04	30/9/03	The Company 30/9/04	30/9/03

Note 13 Investments in Controlled Entities

Shares in controlled entities unlisted – at cost	**-**	-	**3,169**	3,169
Deduct: Provision for diminution in value	**-**	-	**63**	63
Total investments in controlled entities	**-**	-	**3,106**	3,106

Investments in controlled entities

Controlled entities of the Bank as at 30 September 2004 were:

Name	Country of Incorporation	Principal Activities
Custom Fleet (NZ) Limited	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
BNZ Funding Limited	New Zealand	Non-trading
BNZ International (Hong Kong) Limited	Hong Kong	Investment company
BNZ Capital Guaranteed Growth Fund Limited	New Zealand	Investment company
BNZ Corporation Limited	New Zealand	Non-trading
BNZ Investments Limited	New Zealand	Investment company
BNZ Equipment Limited	New Zealand	Leasing company
BNZ International Limited	New Zealand	Investment company
Amber Liquid Investments Limited (51%)	Cayman Islands	Investment company
BNZ Property Investments Limited	New Zealand	Property company
BNZ Branch Properties Limited	New Zealand	Property company
BNZ Properties (Auckland) Limited	New Zealand	Property company
BNZ Properties Limited	New Zealand	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. 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
Quill Financing Limited (76%)	New Zealand	Non-trading
Peterel Financing Limited	New Zealand	Non-trading

All controlled entities 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.

Note 13 Investments in Controlled Entities continued

Acquisition and amalgamation of controlled entities

On 28 April 2003, Custom Fleet (NZ) Limited a wholly owned controlled entity 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 controlled entities, 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 statements 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 controlled entity 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:

	Consolidated
Dollars in Millions	30/9/03
Cash paid	74
	74
Due from other financial institutions (call)	8
Loans and advances to customers	34
Property, plant and equipment	339
Other assets	26
Goodwill	67
Income tax liabilities	(7)
Other liabilities	(23)
Due to other financial institutions (term)	(370)
	74

Note 13 Investments in Controlled Entities continued

Sale of controlled entities

On 9 June 2004, BNZ Investments Limited sold the voting rights in Income Trust No. 1, a controlled entity of the Banking Group for consideration of $20,000.

On 29 September 2004, BNZ Investments Limited sold 100% of the share capital in Screen Holdings No. 2 Limited to an unrelated party for consideration of $50 million.

The following controlled entities were sold during the year ended 30 September 2003:

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.

The disposal of the controlled entities had the following impact on the Banking Group's financial position:

	Consolidated	
Dollars in Millions	**30/9/04**	30/9/03
Cash proceeds from sale of controlled entities	**50**	104
Impact on net assets		
Cash and call balances with central banks	**500**	-
Loans and advances to customers	**(500)**	(100)
Other assets	**(50)**	(3)
Total impact on net assets	**(50)**	(103)
Gain on sale of controlled entities	**-**	1

Dollars in Millions	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03

Note 14 Property, Plant and Equipment

	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
Property intended for sale				
At valuation	-	4	-	-
Total property intended for sale	-	4	-	-
Freehold land				
At valuation	18	18	-	-
Buildings				
At valuation	6	3	-	-
Deduct: Accumulated depreciation	-	-	-	-
Total freehold land and buildings	24	21	-	-
Leasehold improvements				
At cost	14	12	1	1
Deduct: Accumulated depreciation	7	6	1	-
Total leasehold improvements	7	6	-	1
Furniture, fittings and other equipment				
At cost	114	102	25	27
At cost – assets under construction	3	7	-	-
Deduct: Accumulated depreciation	64	58	22	24
Total furniture, fittings and other equipment	53	51	3	3
Data processing assets				
At cost	265	245	265	244
At cost – assets under construction	5	32	5	32
Deduct: Accumulated depreciation*	206	160	206	159
Total data processing assets	64	117	64	117
Motor vehicles – operating lease assets				
At cost	585	534	-	-
Deduct: Accumulated depreciation	121	88	-	-
Total motor vehicles – operating lease assets	464	446	-	-
Total property, plant and equipment	612	645	67	121

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 2004 by Telfer Young (Auckland) Limited, Gribble Churton Taylor Limited, and DTZ New Zealand, independent registered public valuers.

The carrying value of motor vehicle operating lease assets disclosed above includes $22 million of assets held as stock as at 30 September 2004 (30 September 2003: $13 million).

* Accumulated depreciation on data processing assets for the year ended 30 September 2004 includes accumulated impairment losses of $36 million (30 September 2003: nil).

Dollars in Millions	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03

Note 15 Income Tax Assets

Dollars in Millions	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
Future income tax benefit	**131**	80	**134**	75
Total income tax assets	**131**	80	**134**	75
Future income tax benefit comprises:				
Provisions for doubtful debts	**63**	54	**61**	54
Other provisions	**24**	23	**23**	20
Depreciation	**-**	-	**6**	-
Other	**44**	3	**44**	1
Total future income tax benefit	**131**	80	**134**	75
Movements in future income tax benefit				
Balance at beginning of year	**80**	84	**75**	80
Deferred portion of current year tax expense	**51**	(4)	**59**	(5)
Balance at end of year	**131**	80	**134**	75

Note 16 Other Assets

Dollars in Millions	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
Accrued interest receivable	**117**	114	**117**	114
Goodwill (refer to table below)	**69**	77	**15**	16
Securities sold – not yet settled	**228**	35	**228**	35
Unrealised gains on derivative financial instruments	**834**	1,264	**834**	1,270
Other assets	**325**	501	**126**	257
Total other assets	**1,573**	1,991	**1,320**	1,692
Goodwill comprises:				
Balance at beginning of year	**77**	17	**16**	17
Goodwill on acquisition	**-**	67	**-**	-
Amortisation of goodwill	**(8)**	(7)	**(1)**	(1)
Balance at end of year	**69**	77	**15**	16
Goodwill at cost	**93**	93	**26**	26
Accumulated amortisation	**(24)**	(16)	**(11)**	(10)
Balance at end of year	**69**	77	**15**	16

Dollars in Millions	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
Note 17 Due to Other Financial Institutions				
Transaction balances with other financial institutions	**230**	334	**230**	334
Securities sold under agreement to repurchase from other financial institutions	**218**	228	**218**	228
Deposits from central bank	**200**	420	**200**	420
Deposits from other financial institutions	**280**	1,556	**280**	1,556
Total due to other financial institutions	**928**	2,538	**928**	2,538
Due to other financial institutions comprise of:				
Call balances	**381**	1,291	**381**	1,291
Term balances	**547**	1,247	**547**	1,247
Total due to other financial institutions	**928**	2,538	**928**	2,538
Note 18 Other Money Market Deposits				
Money market deposits from non-financial institutions	**2,691**	1,905	**2,691**	1,905
Certificates of deposit	**3,407**	3,288	**3,407**	3,288
Commercial paper	**2,540**	1,115	**2,540**	1,115
Total other money market deposits	**8,638**	6,308	**8,638**	6,308
Note 19 Deposits from Customers				
Demand deposits not bearing interest	**657**	1,064	**657**	1,064
Other demand and short term deposits	**7,784**	7,088	**7,784**	7,088
Term deposits	**10,319**	9,810	**10,319**	9,810
Total deposits from customers	**18,760**	17,962	**18,760**	17,962
Note 20 Bonds and Notes				
Medium term notes	**529**	560	**529**	560
Total bonds and notes	**529**	560	**529**	560

Details of the terms and conditions of these medium term notes are as follows:

Issue Date	Carrying Value $m	Coupon Rate %	Maturity Date
15 September 2000	62	7.50	15 September 2005
2 April 2001	41	7.50	15 September 2005
10 July 2001	52	7.50	15 September 2007
19 March 2002	52	7.50	15 September 2007
19 November 2002	6	6.03	19 May 2005
19 November 2002	4	6.18	19 May 2006
21 February 2003	47	7.50	15 September 2006
14 May 2003	81	7.50	15 September 2009
21 May 2003	47	7.50	15 September 2006
20 August 2003	50	7.50	15 September 2008
11 September 2003	20	7.50	15 September 2009
18 November 2003	21	7.50	15 September 2008
30 April 2004	43	7.50	15 September 2010
28 June 2004	3	6.62	28 June 2007

Note 21 Concentrations of Funding

Dollars in Millions	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
New Zealand				
Government and public authorities	**826**	521	**826**	521
Agriculture, forestry and fishing	**1,083**	912	**1,083**	912
Financial, investment and insurance	**4,137**	6,478	**4,137**	6,478
Real estate – construction	**260**	208	**260**	208
Personal deposits	**9,476**	8,884	**9,476**	8,884
Other commercial and industrial	**10,054**	8,228	**10,053**	8,228
Related parties	**47**	144	**1,027**	144
Total New Zealand	**25,883**	25,375	**26,862**	25,375
Singapore				
Financial, investment and insurance	**86**	590	**86**	590
Related parties	**4,512**	4,001	**4,512**	4,002
Other	**394**	433	**394**	433
Total Singapore	**4,992**	5,024	**4,992**	5,025
Other Overseas				
Financial, investment and insurance	**2,540**	1,114	**2,540**	1,114
Related parties	**1,084**	1,246	**1,084**	991
Total other overseas	**3,624**	2,360	**3,624**	2,105
Total funding	**34,499**	32,759	**35,478**	32,505
Total funding is comprised of:				
Due to other financial institutions	**928**	2,538	**928**	2,538
Other money market deposits	**8,638**	6,308	**8,638**	6,308
Deposits from customers	**18,760**	17,962	**18,760**	17,962
Bonds and notes	**529**	560	**529**	560
Amounts due to related parties	**4,739**	4,362	**5,718**	4,108
Subordinated loans from related parties	**905**	1,029	**905**	1,029
Total funding	**34,499**	32,759	**35,478**	32,505

Dollars in Millions	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
Note 22 Income Tax Liabilities				
Current income tax liability	-	3	1	66
Provision for deferred income tax liability	86	98	44	36
Total income tax liability	86	101	45	102
Provision for deferred income tax liability comprises:				
Depreciation	9	13	-	1
Financial instruments	10	17	10	17
Investments	33	50	-	-
Other	34	18	34	18
Total provision for deferred income tax liability	86	98	44	36
Movements in provision for deferred income tax liability				
Balance at beginning of year	98	87	36	42
Deferred portion of current year tax expense	(12)	11	8	(6)
Balance at end of year	86	98	44	36

Note 23 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 in the table below are denominated in New Zealand dollars with the exception of one loan from NAB Capital LLC, which was denominated in United States dollars. The loan denominated in United States dollars was repaid on 22 January 2004. The loans constitute upper or lower tier two capital for Reserve Bank of New Zealand capital adequacy purposes as follows:

Dollars in Millions	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
Subordinated loans from				
Lower tier two capital				
NAB Capital LLC	230	354	230	354
National Equities Limited	485	485	485	485
	715	839	715	839
Upper tier two capital				
National Equities Limited	190	190	190	190
	190	190	190	190
Total subordinated loans from related parties	905	1,029	905	1,029

The interest rates are reset on the loans 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 7.1% p.a. as at 30 September 2004 (30 September 2003: 6.2% p.a.).

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

Dollars in Millions	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
Note 24 Other Liabilities				
Accrued interest payable	**134**	116	**134**	116
Securities purchased – not yet settled	**215**	82	**215**	82
Short sales of securities	**167**	47	**167**	47
Unrealised losses on derivative financial instruments	**1,482**	1,947	**1,480**	1,947
Employee entitlements	**59**	56	**58**	55
Operating expense provisions (refer to table below)	**21**	22	**19**	16
Other liabilities	**183**	197	**145**	337
Total other liabilities	**2,261**	2,467	**2,218**	2,600
Operating expense provisions comprise of:				
Non-lending losses	**14**	10	**14**	10
Restructuring costs	**1**	5	**-**	2
Surplus lease space	**4**	4	**2**	2
Other	**2**	3	**3**	2
Total operating expense provisions	**21**	22	**19**	16
Movements in operating expense provisions comprise of:				
Non-lending losses				
Balance at beginning of year	**10**	12	**10**	12
Provisions raised	**18**	4	**18**	4
Provisions utilised	**(7)**	(5)	**(7)**	(5)
Provisions released	**(7)**	(1)	**(7)**	(1)
Balance at end of year	**14**	10	**14**	10
Restructuring costs				
Balance at beginning of year	**5**	9	**2**	5
Opening balance – acquired controlled entities	**-**	1	**-**	-
Provisions raised	**-**	3	**-**	3
Provisions utilised	**(3)**	(8)	**(1)**	(6)
Provisions released	**(1)**	-	**(1)**	-
Balance at end of year	**1**	5	**-**	2
Surplus lease space				
Balance at beginning of year	**4**	7	**2**	4
Provisions raised	**1**	-	**-**	-
Provisions utilised	**-**	(3)	**-**	(2)
Provisions released	**(1)**	-	**-**	-
Balance at end of year	**4**	4	**2**	2
Other				
Balance at beginning of year	**3**	6	**2**	5
Provisions raised	**2**	-	**2**	-
Provisions utilised	**-**	(3)	**-**	(3)
Provisions released	**(3)**	-	**(1)**	-
Balance at end of year	**2**	3	**3**	2

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. With the exception of non-lending loss provisions of $4 million and provisions for surplus lease space, operating expense provisions disclosed above are expected to be utilised within the following twelve months. Non-lending loss provisions of $4 million are expected to be utilised before 30 September 2007. Provisions for surplus lease space are expected to be settled over the remaining terms of the leases.

In respect of provisions for non-lending losses, an expected reimbursement of $5 million has been recognised as an asset in the current financial year. This asset is included within the Other assets category in note 16.

Dollars in Millions	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
Note 25 Imputation Credit Account				
Balance at beginning of year	**37**	37	**17**	1
Imputation credits attaching to dividends received during the year	**33**	23	**19**	21
Imputation credits attaching to dividends paid during the year	**(89)**	(79)	**(89)**	(79)
Income tax payments during the year net of refunds	**110**	56	**112**	74
Balance at end of year	**91**	37	**59**	17

The Imputation Credit Account entries reported for The Company include movements for the Bank, one controlled entity, and the Bank's immediate parent company which together form a consolidated imputation group for income tax purposes.

The Consolidated Imputation Credit Account entries reported include movements for the Bank, its controlled entities and the Bank's immediate parent company.

Note 26 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 $75 million as at 30 September 2004 (30 September 2003: $71 million) rank in priority to general creditors' claims in a winding up of the Bank. Subordinated loans from related parties totalling $905 million as at 30 September 2004 (30 September 2003: $1,029 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 $218 million as at 30 September 2004 (30 September 2003: $228 million). The Bank held secured deposits of $200 million as at 30 September 2004 (30 September 2003: $420 million).

Dollars in Millions	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
Interest earning and discount bearing assets	**36,956**	34,708	**35,404**	32,159
Interest and discount bearing liabilities	**34,009**	31,742	**34,988**	31,488

Note 27 Related Party Transactions

The Bank is a wholly owned controlled entity of National Australia Bank Limited. During the year ended 30 September 2004, there have been dealings between the Bank, its controlled entities, 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. The Bank provides some accounting, administration and banking services to controlled entities for nil or nominal value. The Bank leases motor vehicles under operating leases from its controlled entity, Custom Fleet (NZ) Limited. The leases are entered into at arm's length and on normal commercial terms and conditions.

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

Note 27 Related Party Transactions continued

Dollars in Millions	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
Amounts due from related parties				
Call	**29**	19	**27**	22
Term	**152**	125	**617**	121
Total amounts due from related parties	**181**	144	**644**	143
Amounts due to related parties				
Call	**65**	118	**241**	132
Term	**4,674**	4,244	**5,477**	3,976
Total amounts due to related parties	**4,739**	4,362	**5,718**	4,108
Subordinated loans from related parties (refer to note 23)	**905**	1,029	**905**	1,029

Dividends paid to the shareholder 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 2004 (30 September 2003: nil).

During the year ended 30 September 2004, the Bank made subvention payments and payments for the use of tax losses and tax credits to its controlled entities and other controlled entities of National Australia Bank Limited totalling $181 million (30 September 2003: $161 million).

During the year ended 30 September 2004, the Bank incurred $75 million of intercompany charges from National Australia Bank Limited in relation to technology costs (30 September 2003: $58 million).

The unrealised gains on derivative financial instruments on contracts with National Australia Bank Limited contained within note 16 were $134 million as at 30 September 2004 (30 September 2003: $265 million). Unrealised losses on derivative financial instruments on contracts with National Australia Bank Limited contained within note 24 were $450 million as at 30 September 2004 (30 September 2003: $573 million).

Commission received from controlled entities of National Australia Bank Limited for the sale of insurance, superannuation and unit trusts on behalf of those controlled entities during the year ended 30 September 2004 totalled $12 million (30 September 2003: $12 million).

Details of other related party transactions including dividends, interest income and interest expense are contained in note 2 and note 3. Details of controlled entities 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 6.0% to 11.4% p.a.

Dollars in Thousands	Consolidated 30/9/04	Consolidated 30/9/03	The Company 30/9/04	The Company 30/9/03
Loans to Directors				
Loans on normal terms and conditions	**1,876**	217	**1,876**	217
Loans on employee terms and conditions	**9**	174	**9**	174
Total loans to directors	**1,885**	391	**1,885**	391

Dollars in Millions	Consolidated Carrying Amount 30/9/04	Fair Value 30/9/04	Carrying Amount 30/9/03	Fair Value 30/9/03

Note 28 Fair Value of Financial Instruments

	Consolidated			
Dollars in Millions	**Carrying Amount 30/9/04**	**Fair Value 30/9/04**	Carrying Amount 30/9/03	Fair Value 30/9/03
Financial assets				
Liquid assets	**119**	**119**	153	153
Due from other financial institutions	**527**	**527**	953	953
Other money market placements	**585**	**585**	458	458
Securities	**1,598**	**1,598**	1,831	1,831
Loans and advances to customers	**33,967**	**33,855**	31,386	31,479
Amounts due from related parties	**181**	**181**	144	144
Other	**358**	**358**	215	215
Total financial assets	**37,335**	**37,223**	35,140	35,233
Financial liabilities				
Due to other financial institutions	**928**	**928**	2,538	2,538
Other money market deposits	**8,638**	**8,638**	6,308	6,308
Securities	**167**	**167**	47	47
Deposits from customers	**18,760**	**18,757**	17,962	17,998
Bonds and notes	**529**	**546**	560	574
Amounts due to related parties	**4,739**	**4,739**	4,362	4,362
Subordinated loans from related parties	**905**	**905**	1,029	1,029
Other	**215**	**215**	82	82
Total financial liabilities	**34,881**	**34,895**	32,888	32,938

	The Company			
Financial assets				
Liquid assets	**119**	**119**	153	153
Due from other financial institutions	**527**	**527**	953	953
Other money market placements	**585**	**585**	458	458
Securities	**1,598**	**1,598**	1,831	1,831
Loans and advances to customers	**31,948**	**31,803**	28,837	28,849
Amounts due from related parties	**644**	**644**	143	143
Other	**228**	**228**	35	35
Total financial assets	**35,650**	**35,504**	32,410	32,422
Financial liabilities				
Due to other financial institutions	**928**	**928**	2,538	2,538
Other money market deposits	**8,638**	**8,638**	6,308	6,308
Securities	**167**	**167**	47	47
Deposits from customers	**18,760**	**18,757**	17,962	17,998
Bonds and notes	**529**	**546**	560	574
Amounts due to related parties	**5,718**	**5,718**	4,108	4,108
Subordinated loans from related parties	**905**	**905**	1,029	1,029
Other	**215**	**215**	82	82
Total financial liabilities	**35,860**	**35,874**	32,634	32,684

The fair values of off-balance sheet derivative financial instruments are disclosed in note 32.

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

Dollars in Millions	Total	3 Months or Less	3 to 12 Months	1 to 5 Years	Over 5 Years	No Specified Maturity
				Consolidated 30/9/04		

Note 29 Maturity Profile

Dollars in Millions	Total	3 Months or Less	3 to 12 Months	1 to 5 Years	Over 5 Years	No Specified Maturity
Consolidated 30/9/04						
Assets						
Cash and call balances with central banks	**136**	**136**	**-**	**-**	**-**	**-**
Due from other financial institutions, other money market placements, loans and advances to customers and due from related parties	**35,260**	**10,988**	**3,120**	**6,468**	**14,684**	**-**
Securities	**1,598**	**999**	**515**	**32**	**52**	**-**
All other assets	**2,316**	**-**	**-**	**-**	**-**	**2,316**
Total assets	**39,310**	**12,123**	**3,635**	**6,500**	**14,736**	**2,316**
Liabilities						
Due to other financial institutions, other money market deposits, deposits from customers and due to related parties	**33,065**	**25,962**	**6,236**	**371**	**496**	**-**
Bonds and notes	**529**	**-**	**109**	**377**	**43**	**-**
Securities	**167**	**-**	**-**	**160**	**7**	**-**
Subordinated loans from related parties	**905**	**-**	**-**	**-**	**905**	**-**
All other liabilities	**2,180**	**-**	**-**	**-**	**-**	**2,180**
Total liabilities	**36,846**	**25,962**	**6,345**	**908**	**1,451**	**2,180**
Consolidated 30/9/03						
Assets						
Cash and call balances with central banks	155	155	-	-	-	-
Due from other financial institutions, other money market placements, loans and advances to customers and due from related parties	32,941	11,151	2,640	6,113	13,037	-
Securities	1,831	1,023	505	205	98	-
All other assets	2,716	-	-	-	-	2,716
Total assets	37,643	12,329	3,145	6,318	13,135	2,716
Liabilities						
Due to other financial institutions, other money market deposits, deposits from customers and due to related parties	31,170	26,523	3,514	515	618	-
Bonds and notes	560	-	103	360	97	-
Securities	47	-	-	-	47	-
Subordinated loans from related parties	1,029	-	124	-	905	-
All other liabilities	2,521	-	-	-	-	2,521
Total liabilities	35,327	26,523	3,741	875	1,667	2,521

Note 29 Maturity Profile continued

Dollars in Millions	Total	3 Months or Less	3 to 12 Months	1 to 5 Years	Over 5 Years	No Specified Maturity
	The Company 30/9/04					
Assets						
Cash and call balances held with central bank	**136**	**136**	**-**	**-**	**-**	**-**
Due from other financial institutions, other money market placements, loans and advances to customers and due from related parties	**33,705**	**11,433**	**2,620**	**4,968**	**14,684**	**-**
Securities	**1,598**	**999**	**515**	**32**	**52**	**-**
All other assets	**4,627**	**-**	**-**	**-**	**-**	**4,627**
Total assets	**40,066**	**12,568**	**3,135**	**5,000**	**14,736**	**4,627**
Liabilities						
Due to other financial institutions, other money market deposits, deposits from customers and due to related parties	**34,044**	**26,941**	**6,236**	**371**	**496**	**-**
Bonds and notes	**529**	**-**	**109**	**377**	**43**	**-**
Securities	**167**	**-**	**-**	**160**	**7**	**-**
Subordinated loans from related parties	**905**	**-**	**-**	**-**	**905**	**-**
All other liabilities	**2,096**	**-**	**-**	**-**	**-**	**2,096**
Total liabilities	**37,741**	**26,941**	**6,345**	**908**	**1,451**	**2,096**
	The Company 30/9/03					
Assets						
Cash and call balances with central banks	155	155	-	-	-	-
Due from other financial institutions, other money market placements, loans and advances to customers and due from related parties	30,391	11,102	2,140	4,612	12,537	-
Securities	1,831	1,023	505	205	98	-
All other assets	4,994	-	-	-	-	4,994
Total assets	37,371	12,280	2,645	4,817	12,635	4,994
Liabilities						
Due to other financial institutions, other money market deposits, deposits from customers and due to related parties	30,916	26,269	3,514	515	618	-
Bonds and notes	560	-	103	360	97	-
Securities	47	-	-	-	47	-
Subordinated loans from related parties	1,029	-	124	-	905	-
All other liabilities	2,655	-	-	-	-	2,655
Total liabilities	35,207	26,269	3,741	875	1,667	2,655

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
		Consolidated 30/9/04					
Note 30 Interest Rate Repricing Schedule							
Assets							
Cash and balances with central banks	-	136	-	-	-	-	136
Due from other financial institutions	3.7	527	527	-	-	-	-
Other money market placements, loans and advances to customers and due from related parties	7.8	34,925	16,897	5,413	12,379	142	94
Provisions for doubtful debts	-	(192)	-	-	-	-	(192)
Securities	6.2	1,598	999	515	32	52	-
Other assets	-	2,316	-	-	-	-	2,316
Total assets		39,310	18,423	5,928	12,411	194	2,354
Liabilities and shareholder's equity							
Due to other financial institutions	3.9	928	928	-	-	-	-
Other money market deposits, deposits from customers and due to related parties	4.1	32,137	28,088	2,834	556	2	657
Bonds and notes	6.6	529	-	106	371	52	-
Securities	6.2	167	-	-	160	7	-
Subordinated loans from related parties	7.1	905	905	-	-	-	-
Other liabilities	-	2,180	-	-	-	-	2,180
Shareholder's equity	-	2,464	-	-	-	-	2,464
Total liabilities and shareholder's equity		39,310	29,921	2,940	1,087	61	5,301
On-balance sheet gap		-	(11,498)	2,988	11,324	133	(2,947)
Off-balance sheet gap			11,833	(2,792)	(8,969)	(72)	-
Total interest rate sensitivity gap			335	196	2,355	61	

The weighted average interest rate referred to in the table above is the weighted average rate as at 30 September 2004 for the interest sensitive assets and liabilities.

Note 30 Interest Rate Repricing Schedule continued

		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
Assets							
Cash and balances with central banks	-	155	-	-	-	-	155
Due from other financial institutions	3.9	953	953	-	-	-	-
Other money market placements, loans and advances to customers and due from related parties	7.3	32,153	16,028	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
Total assets		37,643	18,004	6,309	9,718	677	2,935
Liabilities and shareholder's equity							
Due to other financial institutions	3.5	2,538	2,538	-	-	-	-
Other money market deposits, deposits from customers and due to related parties	3.8	28,632	23,884	3,183	495	6	1,064
Bonds and notes	6.4	560	-	100	360	100	-
Securities	6.0	47	-	-	-	47	-
Subordinated loans from related parties	6.2	1,029	905	124	-	-	-
Other liabilities	-	2,521	-	-	-	-	2,521
Shareholder's equity	-	2,316	-	-	-	-	2,316
Total liabilities and shareholder's equity		37,643	27,327	3,407	855	153	5,901
On-balance sheet gap		-	(9,323)	2,902	8,863	524	(2,966)
Off-balance sheet gap			9,937	(3,038)	(6,383)	(516)	-
Total interest rate sensitivity gap			614	(136)	2,480	8	

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.

Note 30 Interest Rate Repricing Schedule continued

	The Company 30/9/04						
Dollars in Millions	Weighted Average Interest Rate %	Total	3 Months or Less	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Sensitive
Assets							
Cash and balances with central banks	-	136	-	-	-	-	136
Due from other financial institutions	3.7	527	527	-	-	-	-
Other money market placements, loans and advances to customers and due from related parties	7.7	33,365	16,945	4,863	11,329	142	86
Provisions for doubtful debts	-	(187)	-	-	-	-	(187)
Securities	6.2	1,598	999	515	32	52	-
Other assets	-	4,627	-	-	-	-	4,627
Total assets		40,066	18,471	5,378	11,361	194	4,662
Liabilities and shareholder's equity							
Due to other financial institutions	3.9	928	928	-	-	-	-
Other money market deposits, deposits from customers and due to related parties	4.2	33,116	29,167	2,784	506	2	657
Bonds and notes	6.6	529	-	106	371	52	-
Securities	6.2	167	-	-	160	7	-
Subordinated loans from related parties	7.1	905	905	-	-	-	-
Other liabilities	-	2,096	-	-	-	-	2,096
Shareholder's equity	-	2,325	-	-	-	-	2,325
Total liabilities and shareholder's equity		40,066	31,000	2,890	1,037	61	5,078
On-balance sheet gap		-	(12,529)	2,488	10,324	133	(416)
Off-balance sheet gap			10,333	(2,292)	(7,969)	(72)	-
Total interest rate sensitivity gap			(2,196)	196	2,355	61	

The weighted average interest rate referred to in the table above is the weighted average rate as at 30 September 2004 for the interest sensitive assets and liabilities.

Note 30 Interest Rate Repricing Schedule continued

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
	The Company 30/9/03						
Assets							
Cash and balances with central banks	-	155	-	-	-	-	155
Due from other financial institutions	3.9	953	953	-	-	-	-
Other money market placements, loans and advances to customers and due from related parties	7.2	29,603	15,979	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
Total assets		37,371	17,955	5,809	8,218	177	5,212
Liabilities and shareholder's equity							
Due to other financial institutions	3.5	2,538	2,538	-	-	-	-
Other money market deposits, deposits from customers and due to related parties	3.8	28,378	23,629	3,183	496	6	1,064
Bonds and other notes	6.4	560	-	100	359	101	-
Securities	6.0	47	-	-	-	47	-
Subordinated loans from related parties	6.2	1,029	905	124	-	-	-
Other liabilities	-	2,655	-	-	-	-	2,655
Shareholder's equity	-	2,164	-	-	-	-	2,164
Total liabilities and shareholder's equity		37,371	27,072	3,407	855	154	5,883
On-balance sheet gap		-	(9,117)	2,402	7,363	23	(671)
Off-balance sheet gap			7,437	(2,538)	(4,883)	(16)	-
Total interest rate sensitivity gap			(1,680)	(136)	2,480	7	

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.

Note 31 Foreign Currency Risk

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

Net open position

	Consolidated		The Company	
Dollars in Millions	**30/9/04**	30/9/03	**30/9/04**	30/9/03
US dollar	**(29)**	(30)	**(29)**	(30)
Australian dollar	**(5)**	3	**(5)**	3
Japanese yen	**6**	-	**6**	-
Great British pound	**-**	1	**-**	1
Euro	**5**	8	**5**	8
Swiss franc	**3**	6	**3**	6
Other	**(1)**	(1)	**(1)**	(1)

Note 32 Derivative Financial Instruments

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

Notional principal, estimated credit equivalent and fair value

	Consolidated					
Dollars in Millions	**Notional Amount 30/9/04**	Notional Amount 30/9/03	**Credit Equivalent 30/9/04**	Credit Equivalent 30/9/03	**Fair Value 30/9/04**	Fair Value 30/9/03
Foreign exchange rate related contracts						
Spot and forward contracts to purchase foreign exchange						
Trading	**19,192**	18,696	**778**	773	**(93)**	197
Other than trading	**8,458**	6,304	**131**	171	**(427)**	(754)
Total spot and forward contracts to purchase foreign exchange	**27,650**	25,000	**909**	944	**(520)**	(557)
Cross currency swaps						
Trading	**4,268**	3,705	**1**	26	**2**	(49)
Total cross currency swaps	**4,268**	3,705	**1**	26	**2**	(49)
Options						
Trading	**987**	4,057	**32**	194	**-**	1
Total options	**987**	4,057	**32**	194	**-**	1
Total foreign exchange rate related contracts	**32,905**	32,762	**942**	1,164	**(518)**	(605)

The spot and forward contracts to purchase foreign exchange, Other than trading (fair value and carrying value loss of $427 million as at 30 September 2004 (30 September 2003: $754 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.

The fair value of the principal exchange leg on cross currency swaps (trading) has been transferred to fair value spot and forward contracts to purchase foreign exchange (trading). A transfer of the credit equivalent has also been made.

Note 32 Derivative Financial Instruments continued

Notional principal, estimated credit equivalent and fair value continued

	Consolidated					
Dollars in Millions	**Notional Amount 30/9/04**	Notional Amount 30/9/03	**Credit Equivalent 30/9/04**	Credit Equivalent 30/9/03	**Fair Value 30/9/04**	Fair Value 30/9/03
Interest rate related contracts						
Forward rate agreements						
Trading	**14,807**	6,299	**9**	2	**(2)**	1
Total forward rate agreements	**14,807**	6,299	**9**	2	**(2)**	1
Swaps						
Trading	**28,245**	26,666	**308**	456	**(39)**	-
Other than trading	**25,543**	22,571	**198**	195	**(26)**	(178)
Total swaps	**53,788**	49,237	**506**	651	**(65)**	(178)
Futures						
Trading	**2,796**	3,947	**-**	-	**(1)**	-
Other than trading	**1,979**	2,862	**-**	-	**(1)**	1
Total futures	**4,775**	6,809	**-**	-	**(2)**	1
Options						
Trading	**602**	545	**6**	2	**(1)**	1
Total options	**602**	545	**6**	2	**(1)**	1
Swaptions						
Trading	**-**	40	**-**	-	**-**	-
Total swaptions	**-**	40	**-**	-	**-**	-
Total interest rate related contracts	**73,972**	62,930	**521**	655	**(70)**	(175)
Other market related contracts						
Commodities						
Trading	**46**	-	**6**	-	**-**	-
Total commodities	**46**	-	**6**	-	**-**	-
Equity options						
Other than trading	**40**	76	**4**	4	**2**	1
Total equity options	**40**	76	**4**	4	**2**	1
Total other market related contracts	**86**	76	**10**	4	**2**	1

The Other than trading interest rate swaps hedge structural interest rate risk associated with the Bank's statements of financial position. The carrying value of these swaps as at 30 September 2004 was $102 million net payable (30 September 2003: $84 million net payable). The net fair value gain was $76 million as at 30 September 2004 (30 September 2003: $94 million fair value loss) which was calculated as a fair value loss of $26 million (30 September 2003: $178 million fair value loss) adjusted for the recognised net payable of $102 million (30 September 2003: $84 million net payable).

As at 30 September 2004, all of the above contracts have been taken out by the Company other than $2,000 million worth of other than trading swaps (30 September 2003: $2,500 million) taken out by controlled entities of the Bank. The fair value loss of those swaps taken out by controlled entities of the Bank was $33 million (30 September 2003: $81 million fair value loss).

	Consolidated			
Dollars in Millions	**30/9/04**	**30/9/04**	30/9/03	30/9/03

Note 33 Segment Analysis

Geographical

Operating income				
New Zealand	**1,376**	**99%**	1,393	99%
Overseas	**7**	**1%**	9	1%
Total operating income	**1,383**	**100%**	1,402	100%
Operating surplus from continuing activities before tax expense				
New Zealand	**620**	**99%**	744	99%
Overseas	**5**	**1%**	7	1%
Total operating surplus from continuing activities before tax expense	**625**	**100%**	751	100%
Net surplus attributable to shareholder of Bank of New Zealand				
New Zealand	**468**	**99%**	543	99%
Overseas	**3**	**1%**	5	1%
Total net surplus attributable to shareholder of Bank of New Zealand	**471**	**100%**	548	100%
Assets				
New Zealand	**39,040**	**99%**	36,993	98%
Overseas	**270**	**1%**	650	2%
Total assets	**39,310**	**100%**	37,643	100%
Risk weighted exposures				
New Zealand	**29,732**	**100%**	28,575	99%
Overseas	**64**	**-**	194	1%
Total risk weighted exposures	**29,796**	**100%**	28,769	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.

Note 34 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. With the exception of the amended assessment from the Inland Revenue Department in relation to structured finance transactions disclosed below, the potential liability arising in respect of these claims cannot be accurately assessed. Where some loss is probable appropriate provisions have been made.

Bank of New Zealand provides a Deed of Indemnity in respect of the performance by BNZ Investment Management Limited, a controlled entity of National Australia Bank Limited Group, of certain Trustee functions in respect of certain unit trusts of which BNZ Investment Management Limited is the manager.

Amended assessment from the Inland Revenue Department – structured finance transactions

The New Zealand Inland Revenue Department (the "IRD") is carrying out an industry wide review of structured finance transactions. A wholly-owned subsidiary of the Bank, BNZ Investments Limited, together with some of its subsidiaries, have received amended tax assessments from the IRD with respect to three structured finance transactions entered into in the 1998 and 1999 income years. The amended assessments are for income tax of approximately $36 million. Interest would be payable on this amount, and the possible application of penalties has yet to be considered by the IRD. In addition, the IRD has also issued amended assessments based on an alternative approach to reassessing the transactions. This alternative approach results in a lower additional tax liability.

The IRD has not yet issued amended assessments for these three disputed transactions for income years after 1999. Notwithstanding that, based on the assessments received to date, the maximum sum of primary tax which the IRD might claim for the years from 2000 to 2004 is approximately $240 million.

The IRD is also reviewing further transactions of a similar nature to the disputed transactions. An estimate for the year ended 30 September 2004 of the maximum sum of primary tax that the IRD might assess for these further transactions is approximately $111 million.

As at 30 September 2004, if the IRD reassessed all structured finance transactions of this nature, the maximum tax liability in dispute is likely to be $387 million. In addition, interest would be payable on this amount of $86 million (net of tax).

The Banking Group is confident that its position in relation to the application of the taxation law is correct and is disputing the IRD's position with respect to these transactions. The Banking Group has obtained legal opinions that confirm that the transactions complied with New Zealand tax law.

The financial effect of the unpaid balance of the amounts owing under the amended assessments has not been brought to account in the General Disclosure Statement for the year ended 30 September 2004. The Banking Group will maintain its existing tax treatment of the transactions until amended tax legislation comes into effect on 1 July 2005.

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

	Consolidated			
Dollars in Millions	**Notional Amount 30/9/04**	**Credit Equivalent 30/9/04**	Notional Amount 30/9/03	Credit Equivalent 30/9/03
Contingent liabilities				
Guarantees	**51**	**51**	71	71
Standby letters of credit	**192**	**192**	177	177
Documentary letters of credit	**93**	**19**	87	17
Performance related contingencies	**168**	**84**	168	84
Guarantees to investors in managed funds	**29**	**29**	30	30
Total other contingent liabilities	**533**	**375**	533	379
Credit related commitments				
Commitments to extend credit	**11,390**	**2,304**	11,300	2,335
Total credit related commitments	**11,390**	**2,304**	11,300	2,335

Note 34 Contingent Liabilities and Credit Commitments continued

Dollars in Millions	The Company			
	Notional Amount 30/9/04	**Credit Equivalent 30/9/04**	Notional Amount 30/9/03	Credit Equivalent 30/9/03
Contingent liabilities				
Guarantees	**51**	**51**	71	71
Standby letters of credit	**192**	**192**	177	177
Documentary letters of credit	**93**	**19**	87	17
Performance related contingencies	**168**	**84**	168	84
Guarantees to investors in managed funds	**29**	**29**	30	30
Unpaid share capital in controlled entities and other companies	**14**	**14**	15	15
Total other contingent liabilities	**547**	**389**	548	394
Credit related commitments				
Commitments to extend credit	**11,390**	**2,304**	11,300	2,335
Total credit related commitments	**11,390**	**2,304**	11,300	2,335

The methodology used to derive Commitments to extend credit has been revised in the current financial year to reflect greater data transparency. Comparative data has been restated.

Contingent liabilities

The maximum credit risk to the Banking Group in the event of non-performance by a counterparty to a financial instrument for commitments to extend credit, letters of credit and financial guarantees written, is represented by the contractual notional principal amount of those instruments. 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 balance sheet assets according to counterparty for capital adequacy purposes. For additional information refer to note 40.

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

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

Guarantees

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

Bank guarantees – a financial guarantee that is an agreement by which the Bank agrees to pay an amount of money on demand on behalf of a customer to a third party during the life of the guarantee;

Standby letters of credit – an obligation of the Bank on behalf of a customer to make payment to a third party in the event that the customer fails to meet an outstanding financial obligation;

Documentary letters of credit – a guarantee that is established to indemnify exporters and importers in their trade transactions where the Bank agrees to make certain trade payments on behalf of a specified customer under specific conditions; and

Performance related contingencies – a guarantee given by the Bank that undertakes to pay a sum of money to a third party where the customer fails to carry out certain terms and conditions of a contract.

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

Note 34 Contingent Liabilities and Credit Commitments continued

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

Guarantees to investors in managed funds

The Bank guarantees the obligations of BNZ Capital Guaranteed Growth Fund Limited in respect of the return of a capital protected deposit. As at 30 September 2004, the Bank guaranteed Capital Guaranteed Growth Notes with a value of $28 million (30 September 2003: $29 million). The deposits are due to mature in May 2007. The Bank also guarantees the return of a registered superannuation scheme with a value of $1 million as at 30 September 2004 (30 September 2003: $1 million).

Unpaid share capital in controlled entities and other companies

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

	Consolidated		The Company	
Dollars in Millions	30/9/04	30/9/03	30/9/04	30/9/03
Note 35 Capital Expenditure Commitments				
Furniture and fittings				
Due within one year	**10**	6	**-**	-
Data processing assets and other equipment				
Due within one year	**4**	3	**4**	3
Motor vehicles				
Due within one year	**28**	32	**-**	-
Total capital expenditure commitments	**42**	41	**4**	3

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

	Consolidated		The Company	
Dollars in Millions	30/9/04	30/9/03	30/9/04	30/9/03
Note 36 Lease Commitments				
Operating lease commitments				
Land and buildings *				
Due within one year	**41**	37	**2**	1
Due within one to two years	**33**	30	**2**	1
Due within two to five years	**40**	49	**1**	2
Due after five years	**12**	19	**1**	1
Total land and buildings	**126**	135	**6**	5
Data processing assets and other equipment				
Due within one year	**1**	1	**-**	-
Due within one to two years	**1**	-	**-**	-
Total data processing assets and other equipment	**2**	1	**-**	-
Total operating lease commitments	**128**	136	**6**	5

* Figures include liabilities taken up for surplus leased space.

Note 37 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. Controlled entities of the Bank are not connected persons. Peak credit exposures to connected persons are calculated using the Banking Group's end of period tier one capital.

	Consolidated			
Dollars in Millions	**As at 30/9/04**	As at 30/9/03	**Peak for 3 Months Ended 30/9/04**	Peak for 3 Months Ended 30/9/03
Credit exposure to connected persons	**470**	528	**653**	1,034
Credit exposure to connected persons expressed as a percentage of tier one capital of the Banking Group	**19.9%**	23.9%	**27.6%**	46.8%
Credit exposures to non-bank connected persons	**-**	-	**-**	-
Credit exposures to non-bank connected persons expressed as a percentage of tier one capital of the Banking Group	**0.0%**	0.0%	**0.0%**	0.0%

The ratings contingent limit on lending to connected persons as set out in the Bank's Conditions of Registration has been complied with at all times during the quarter.

From 1 July 2003 to 12 March 2004 the Banking Group's ratings contingent limit was 75% of tier one capital. On 12 March 2004, the limit was reduced to 70% of tier one capital following a credit rating downgrade of the Bank's long term senior unsecured New Zealand dollar obligations payable in New Zealand. The downgrade was the result of a revision in the credit rating of the Bank's parent, National Australia Bank Limited. Within the overall rating-contingent limit, there is a sub-limit of 15% of tier one capital which applies to aggregate credit exposures to non-bank connected persons.

Credit exposures to connected persons are based on actual credit exposures rather than internal limits, net of specific provisions and exclude advances of a capital nature. Credit exposures to connected persons have been included in the above table on a gross basis. There were no specific provisions against credit exposures to connected persons as at 30 September 2004 (30 September 2003: nil).

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 2004, the Banking Group had a contingent credit exposure of $300 million (30 September 2003: $377 million) arising from risk lay-off arrangements with connected persons.

Note 38 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, and excludes credit exposures to connected persons and OECD governments. Peak credit exposures to individual counterparties are calculated using the Banking Group's end of period shareholder's equity.

	Consolidated			
	Peak End of Day Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties			
	Number of Non-Banks		Number of Banks	
Percentage of Shareholder's Equity %	**For the 3 Months Ended 30/9/04**	For the 3 Months Ended 30/9/03	**For the 3 Months Ended 30/9/04**	For the 3 Months Ended 30/9/03
10 - 19	**3**	5	**3**	5
20 - 29	**3**	3	**2**	2
30 - 39	**-**	-	**-**	2
40 - 49	**-**	-	**1**	1

	Consolidated			
	Balance Date Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties			
	Number of Non-Banks		Number of Banks	
Percentage of Shareholder's Equity %	**As at 30/9/04**	As at 30/9/03	**As at 30/9/04**	As at 30/9/03
10 - 19	**3**	3	**1**	1
20 - 29	**3**	3	**-**	-
30 - 39	**-**	-	**-**	-
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 39 Securitisation, Funds Management and Other Fiduciary Activities

Funds management

The Bank markets the products of BNZ Investment Management Limited and BNZ Life Insurance Limited through its branch network. BNZ Investment Management Limited and BNZ Life Insurance Limited are controlled entities of National Australia Bank Limited.

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 arrangements and seconds staff to entities which market and service securitisation activities. It provides interest rate derivatives to securitisation arrangements 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 on which is normal for arm's length commercial relationships.

As at 30 September 2004, securitisation arrangements in which the Banking Group has been involved to the extent detailed above amounted to $573 million (30 September 2003: $496 million).

Financial services provided by the Banking Group have been at 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 $28 million (30 September 2003: $29 million), and registered superannuation schemes with a value of $1 million as at 30 September 2004 (30 September 2003: $1 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	**30/9/04**	30/9/03
Discretionary funds management	**2,468**	2,437
Capital Guaranteed Growth Notes	**28**	29
Term life insurance policyholders' funds	**3**	5

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 2004 (30 September 2003: nil).

Note 40 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, controlled entities which are both wholly owned and wholly funded by the Registered Bank are consolidated with the Registered Bank. In this context, wholly funded by the Registered Bank means that there are no liabilities (including off-balance sheet obligations) to anyone other than:

a) the Registered Bank;

b) the Department of Inland Revenue; and

c) trade creditors, where aggregate exposure to trade creditors does not exceed 5% of the controlled entity's shareholder's equity.

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

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

Risk weighted capital

	Consolidated		The Registered Bank	
Dollars in Millions	**30/9/04**	30/9/03	**30/9/04**	30/9/03
Qualifying capital				
Tier one capital				
Paid in capital	**1,451**	1,451	**1,451**	1,451
Retained earnings	**1,013**	865	**1,020**	935
Deductions from tier one capital:				
Advances of a capital nature to connected parties	**30**	30	**30**	30
Goodwill	**69**	77	**15**	16
Total tier one capital	**2,365**	2,209	**2,426**	2,340
Upper tier two capital				
Subordinated loans from related parties	**190**	190	**190**	190
Total upper tier two capital	**190**	190	**190**	190
Lower tier two capital				
Subordinated loans from related parties	**715**	839	**715**	839
Total lower tier two capital	**715**	839	**715**	839
Total tier two capital	**905**	1,029	**905**	1,029
Total tier one and tier two capital	**3,270**	3,238	**3,331**	3,369
Deduct: Investment in subsidiaries not wholly owned or wholly funded	**-**	-	**63**	63
Total qualifying capital	**3,270**	3,238	**3,268**	3,306
Total risk weighted exposures*	**29,796**	28,769	**29,913**	28,937
Regulatory capital ratios				
Total tier one capital of the Banking Group expressed as a percentage of total risk weighted exposures*	**7.94%**	7.68%	**8.11%**	8.09%
Total qualifying capital of the Banking Group expressed as a percentage of total risk weighted exposures*	**10.97%**	11.26%	**10.93%**	11.42%

* The methodology used to derive commitments for financial services contained within risk weighted exposures has been revised to reflect greater data transparency. In the published General Disclosure Statement for the year ended 30 September 2003 the total tier one capital of the Banking Group expressed as a percentage of total risk weighted exposures was 8.26% (Registered Bank: 8.70%) and the total qualifying capital of the Banking Group expressed as a percentage of risk weighted exposures was 12.11% (Registered Bank: 12.29%).

Note 40 Capital Adequacy continued

Calculation of balance sheet exposures

Dollars in Millions	Consolidated Principal Amount 30/9/04	Risk Weighting 30/9/04	Risk Weighted Exposure 30/9/04
Cash and claims on qualifying central banks and governments			
with maturity within one year	1,515	0%	-
Claims on qualifying governments with maturity over one year	551	10%	55
Claims on banks and New Zealand local authorities	2,038	20%	408
Loans secured by residential mortgages	15,403	50%	7,702
All other assets	19,803	100%	19,803
Adjustments	-	-	(932)
Total assets	39,310		27,036

Calculation of off-balance sheet exposures

Dollars in Millions	Principal Amount 30/9/04	Credit Conversion Factor 30/9/04	Credit Equivalent Amount 30/9/04	Average Counterparty Risk Weight 30/9/04	Risk Weighted Exposure 30/9/04
Direct credit substitutes	243	100%	243	100%	243
Transaction related contingent liabilities	168	50%	84	100%	84
Short term, self liquidating trade related contingencies	93	20%	19	100%	19
Commitments for financial services:					
Maturity is greater than one year	4,607	50%	2,304	87%	2,003
Maturity is less than one year or can be cancelled at any time	6,783	0%	-	-	-
Market related contracts:*					
Foreign exchange contracts	32,410	-	942	28%	267
Interest rate contracts	73,662	-	517	27%	142
Other	63	-	10	30%	2
Total off-balance sheet items	118,029		4,119		2,760
Total risk weighted exposures					29,796

* Market related contracts differ to the amounts disclosed in note 32 due to options written by the Bank.

Note 40 Capital Adequacy continued

Calculation of balance sheet exposures

	Consolidated		
Dollars in Millions	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)
Total assets	37,643		25,883

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	4,671	50%	2,335	88%	2,050
Maturity is less than one year or can be cancelled at any time	6,629	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
Total off-balance sheet items	105,320		4,507		2,886
Total risk weighted exposures					28,769

* The methodology used to derive commitments for financial services has been revised in the current financial year to reflect greater data transparency. Comparative data has been restated.

** Market related contracts differ to the amounts disclosed in note 32 due to options written by the Bank.

Note 40 Capital Adequacy continued

Calculation of balance sheet exposures

	The Registered Bank		
Dollars in Millions	Principal Amount 30/9/04	Risk Weighting 30/9/04	Risk Weighted Exposure 30/9/04
Cash and claims on qualifying central banks and governments			
with maturity within one year	1,515	0%	-
Claims on qualifying governments with maturity over one year	551	10%	55
Claims on banks and New Zealand local authorities	2,038	20%	408
Loans secured by residential mortgages	15,403	50%	7,702
All other assets	19,867	100%	19,867
Adjustments	-	-	(837)
Total assets	39,374		27,155

Calculation of off-balance sheet exposures

Dollars in Millions	Principal Amount 30/9/04	Credit Conversion Factor 30/9/04	Credit Equivalent Amount 30/9/04	Average Counterparty Risk Weight 30/9/04	Risk Weighted Exposure 30/9/04
Direct credit substitutes	243	100%	243	100%	243
Transaction related contingent liabilities	168	50%	84	100%	84
Short term, self liquidating trade related contingencies	93	20%	19	100%	19
Commitments for financial services:					
Maturity is greater than one year	4,607	50%	2,304	87%	2,003
Maturity is less than one year or can be cancelled at any time	6,783	-	-	-	-
Market related contracts:*					
Foreign exchange contracts	32,410	-	942	28%	267
Interest rate contracts	71,662	-	507	28%	140
Other	63	-	10	30%	2
Total off-balance sheet items	116,029		4,109		2,758
Total risk weighted exposures					29,913

* Market related contracts differ to the amounts disclosed in note 32 due to options written by the Bank.

Note 40 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)
Total assets	37,814		26,054

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	4,671	50%	2,335	88%	2,050
Maturity is less than one year or can be cancelled at any time	6,629	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
Total off-balance sheet items	102,820		4,495		2,883
Total risk weighted exposures					28,937

* The methodology used to derive commitments for financial services has been revised in the current financial year to reflect greater data transparency. Comparative data has been restated.

** Market related contracts differ to the amounts disclosed in note 32 due to options written by the Bank.

Note 40 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

	30/9/04	30/9/03
Total tier one capital expressed as a percentage of total risk weighted exposures	**7.3%**	7.8%
Total qualifying capital expressed as a percentage of total risk weighted exposures	**10.6%**	9.7%

National Australia Bank Limited is required under the Australian Prudential Regulation Authority's (the "APRA") 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 2004, National Australia Bank Limited met the minimum capital requirements. The total capital ratio as at 30 September 2004 reflects the APRA-imposed requirement for the National Australia Bank Limited's internal target for capital to rise to 10.0% of risk-weighted assets. This requirement is contained within the APRA's Report into Irregular Currency Options Trading at the National Australia Bank Limited. A copy of the APRA report is available on the National Australia Bank Limited's Group website at www.nabgroup.com.

Note 41 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 reactive approach. This is done under a policy framework, and controls, originated by National Australia Bank Limited and adopted within the Bank. The Bank is responsible for the identification and quantification of the particular risks to which it is exposed and ensuring that appropriate policies and procedures are in place.

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 National Australia Bank Limited 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 independent 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.

Note 41 Nature and Review of Risk Management Systems continued

Audit Committee responsibilities are to:

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

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 for changes in the market value of the Bank's trading and investing positions. Such positions result from underwriting, market making, specialist and proprietary trading and investing activities. 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 a Value at Risk ("VaR") limit which is approved by the National Australia Bank Limited's Board and adopted by the Bank, with trading risk limits approved, implemented and monitored by the market risk division. Both balance sheet exposure and transaction exposure are monitored on a regular basis against limits in place.

Equity risk

Equity price risks result from exposures to changes in prices and volatilities of individual equities, equity baskets and equity indices. Management reviews the Bank's exposure to equity risk on a monthly basis.

Currency risk

Currency rate risks result from exposures to changes in spot prices, forward prices and the volatilities of currency rates. Foreign currency exposures arise from foreign currency balances and the trading of any foreign currency denominated product, for example spot and forward contracts, currency options, foreign currency loans and deposits, foreign currency interest rate derivatives and foreign currency securities.

Trading positions arise as a consequence of executing transactions for customers, acting as a price maker for other institutions in the inter-bank market and at the Banking Group's own initiative as principal in order to benefit from anticipating movements in exchange rates. Foreign exchange limits are in place to control the net present valued position across all currencies. VaR is the potential loss in value of Bank of New Zealand's trading positions due to adverse market movements over a defined time horizon with a specified confidence interval. The Bank uses a 99% confidence interval and a one day time horizon. This means that there is a 1 in a 100 chance that daily trading net revenues will fall below the expected daily trading net revenues by an amount at least as large as the reported VaR. Additional controls include daily profit and loss referral levels and 30 day rolling loss referral levels. Scenario analyses and stress tests are performed daily. These measure the potential effects of various market events including, but not limited to, widening of credit spreads, increases in market volatilities and significant moves in selected markets, on the Bank's trading net revenues. These controls are monitored and reported daily, independently of Markets Division, to regional and global management. In addition, there is regular reporting of market risk data to the Board of Directors.

Note 41 Nature and Review of Risk Management Systems continued

Interest rate risk

Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, mortgage prepayment speeds and credit spreads. The Banking Group 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.

The Bank's Asset and Liability Committee has responsibility for managing interest rate risk. 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 using both Earnings at Risk and Economic Value frameworks. The trading positions are managed separately from the retail bank's interest rate risk. Trading positions are revalued daily and the revaluation impact is reflected in the statements 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.

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. The Bank has formally adopted National Australia Bank Limited 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's Asset and Liability Committee is responsible for managing liquidity risk. The management and monitoring of liquidity risk is performed daily within 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.

Note 41 Nature and Review of Risk Management Systems continued

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.

Note 42 Exposures to Market Risk

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

	Consolidated			
Dollars in Millions	**As at 30/9/04**	As at 30/9/03	**Peak for 3 Months Ended 30/9/04**	Peak for 3 Months Ended 30/9/03
Interest rate exposures				
Aggregate interest rate exposures	**145**	114	**148**	127
Aggregate interest rate exposures expressed as a percentage of the Banking Group's equity	**5.9%**	4.9%	**6.1%**	5.5%
Foreign currency exposures				
Aggregate foreign currency exposures	**3**	2	**6**	4
Aggregate foreign currency exposures expressed as a percentage of the Banking Group's equity	**0.1%**	0.1%	**0.3%**	0.2%
Equity exposures				
Aggregate equity exposures	**1**	-	**1**	-
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 43 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 external auditor of National Australia Bank Limited and its controlled entities, KPMG has been exempted from compliance with certain requirements of sections 324(1) and 324(2) of the Corporations Act 2001 (Cth). The Class Order exemption applies to allow members of KPMG and bodies corporate in which a member of KPMG is a substantial shareholder (other than those members and bodies corporate in which a member of KPMG is a substantial shareholder engaged on the audit of National Australia Bank Limited and/or controlled entities) to be indebted to National Australia Bank Limited and its controlled entities provided that certain conditions are met, including the following:

1. such indebtedness does not exceed AUD$5,000; or
2. section 324(3) of the Corporations Act 2001 (Cth) 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.

Note 44 Transition to New Zealand Equivalents to International Financial Reporting Standards

Bank of New Zealand will adopt New Zealand equivalents to International Financial Reporting Standards ("IFRS", or International Accounting Standards "IAS") from 1 October 2005. The adoption of the standards will be first reflected in Bank of New Zealand's General Short Form Disclosure Statement for the three months ended 31 December 2005. Comparative financial information prepared in compliance with IFRS will be required for the year commencing 1 October 2004. Comparative information is not required for exposure draft NZ IAS 32 Financial Instruments: Disclosure and Presentation, pending standard NZ IAS 39 Financial Instruments: Recognition and Measurement and pending standard NZ IFRS 4 Insurance Contracts. The Bank continues to evaluate the areas impacted by the adoption of IFRS.

During the year a dedicated project team (working in conjunction with National Australia Bank Limited Group) has been established to work on specific areas of change required under IFRS. The project team has been divided into various workstreams which focus on areas which will require significant effort to implement. The approach adopted by the team is to document the differences between the Banking Group's current accounting policies and IAS. IFRS project management have set out detailed plans for the move to the new standards, including the identification of implementation methodologies and the specification of IT requirements.

New Zealand equivalents to IFRS frequently require application of fair value measurement techniques. This will potentially introduce greater volatility to the Banking Group's financial performance. In particular, hedge accounting and loan loss provisioning will be major areas of activity affected by the proposed changes. It is not possible to estimate reliably the quantitative impact of the changes upon the Banking Group's financial performance and financial position at this time.

Upon transition to IFRS a number of the Banking Group's accounting policies will be altered. The areas of most significant impact are outlined below:

Recognition of derivative financial instruments and hedging

The Banking Group will be required to recognise all derivative financial instruments at fair value on the statement of financial position, irrespective of whether the instrument is used in a hedging relationship or otherwise.

Where fair value hedges are achieved fair value changes on both the hedged item and the hedging instrument will be recognised directly in the statement of financial performance. Fair value changes on hedging instruments in cash flow hedges will be deferred in an equity reserve and then transferred to the statement of financial performance at the time the cash flows occur.

It should be noted that the underlying economics and risk of the Banking Group will not change. The change affects the manner by which the Banking Group will account for the way it mitigates its interest rate risk. In accounting for hedges, the Banking Group will most likely use a hybrid of approaches with a predominance of fair value hedging. All hedging arrangements will be subject to stringent effectiveness testing and where an arrangement fails the effectiveness tests, hedge accounting cannot be applied. This raises the potential for volatility in financial performance.

Whilst hedge accounting rules may alter the accounting for the Banking Group's interest rate risk management process, the treatment of trading derivatives is not likely to be affected by hedge accounting.

In certain circumstances the Banking Group will seek to minimise the impact of the fair value measurement requirements by recognising both the item that is subject to an economic hedge and the accompanying derivative instrument at fair value in the statement of financial performance.

Loan provisioning

Under pending standard NZ IAS 39 Financial Instruments: Recognition and Measurement the Banking Group is not able to recognise a provision for bad and doubtful debts until objective evidence is available that a loss event has occurred. It is expected that the current general provision for doubtful debts will reduce and the statement of financial performance will more closely reflect actual bad debts written off in the current reporting period or shortly thereafter.

NZ IAS 39 adopts a two-stepped approach to impairment. Initially individually significant loans are assessed for impairment. Individually significant loans that are adjudged not to be impaired are then placed into portfolios of assets with similar risk profiles and subjected to a collective assessment of impairment. Smaller loans will not be individually assessed, but collectively impairment tested in portfolios based upon similar risk profiles.

Note 44 Transition to New Zealand Equivalents to International Financial Reporting Standards continued

Under the new rules the provision is calculated as the difference between the carrying amount and the present value of future expected cash flows discounted at the loan's original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience. Historical loss experience is to be adjusted to accommodate the effects of current conditions. The Banking Group is able to apply a statistical methodology.

Based on the above, in the future the Banking Group's provision for loan impairment will be comprised of an individual charge for specifically identified loans and a charge for loans that have been collectively assessed for impairment.

This change does not require comparatives for the 2005 financial year.

Taxation

The Banking Group will be required to adopt a balance sheet approach to determining deferred tax items. This approach is based upon a comparison of carrying amounts of assets and liabilities with their tax base, thereby identifying a broader range of differences than those that arise under the current tax effect accounting standard. Consequently, it is expected that the Banking Group may be required to recognise additional levels of deferred tax assets and liabilities.

Post-employment benefits

At present the Banking Group does not recognise pension obligations relating to a defined benefit surplus on the statement of financial position. Pending standard NZ IAS 19 Employee Benefits will require recognition of an asset on transition, with any subsequent periodic movements in the surplus reflected in the statement of financial performance, thereby introducing volatility. The initial adjustment to recognise the asset on the Banking Group's statement of financial position will be against opening retained earnings based on valuation of the scheme under NZ IAS 19.

Revenue recognition

At present loan origination fee revenue is either recognised up-front or deferred in the balance sheet and amortised on a straight line/constant yield basis over the life of the loan. It is likely that a greater volume of fees will be deferred and amortised over the period of the loan under IFRS. Revenue that is deferred must be amortised on an effective interest rate basis. Whilst some revenue classification changes may arise, where the level of business remains constant it is not expected to materially affect annual income recognition.

Goodwill

The amortisation of goodwill acquired in a business combination is prohibited under the rules contained in pending standard NZ IFRS 3 Business Combinations. Instead, goodwill recognised within the Banking Group will be subject to an annual impairment test and where impairment is identified it must be recognised immediately in the statement of financial performance.

Transitional policy changes

On the date of transition, the Group will need to effect two types of changes:

- those concerning presentation and disclosure of items in the financial statements, for example, the format of the statement of financial performance and statement of financial position; and
- those concerning recognition and measurement of items in the financial statements.

Any adjustments that arise as a result of the transitional process will be recognised in either retained earnings or the appropriate equity reserve. No transitional adjustments will impact the income statement for the first period under IFRS.

Under the New Zealand IFRS transitional rules, several one-off exemptions are available. The exemptions recognise some of the practical difficulties that arise in making the transition to IFRS equivalent reporting standards. The Banking Group will elect to apply a number of these exemptions, including the exemption which allows no change in the acquisition accounting for all subsidiaries and businesses acquired throughout the Banking Group's history.

Capital implications

The full implications for the Banking Group's capital adequacy are dependent on rules currently being developed by the Reserve Bank of New Zealand.

KPMG

To the Shareholder of Bank of New Zealand

We have audited the financial statements including supplementary information on pages 7 to 64. 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 controlled entities (the "Banking Group") as at 30 September 2004. 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 2004 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. 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 relationship with, or interest in, the Registered Bank or Banking Group.

KPMG

Unqualified Opinion

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

In our opinion:

- proper accounting records have been kept by the Registered Bank and Banking Group as far as appears from our examination of those records; and
- the financial statements on pages 7 to 64:
  - 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 2004 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 30 November 2004 and our unqualified opinion is expressed as at that date.

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 is stable. Over the preceding two years the ratings outlook changed from AA negative to AA stable on 16 January 2003, and from AA stable to AA negative on 30 January 2004. On 12 March 2004, the rating changed from AA negative to AA- stable. These changes were the result of revisions in the credit rating 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.

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 2004 – 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 2004.

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 disapplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;

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

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

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

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

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

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

4. That aggregate **credit exposures** (of a non-capital nature and net of specific provisions) of the Banking Group to all **connected persons** do 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 include any provision permitting a Director, when exercising powers or performing duties as a Director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).*

9. That no appointment of any Director, Chief Executive Officer, or executive who reports or is accountable directly to the Chief Executive Officer, shall be made in respect of the Bank unless:

i) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

ii) the Reserve Bank has advised that it has no objection to that appointment.

10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.

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

* Note: On 27 October 2004, clause 11.5 of the Bank's constitution was amended to read:

"A Director may not, when exercising powers or performing duties as a Director, act other than in what he / she believes is the best interests of the Company."

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 2004:

a) the Bank has complied with its Conditions of Registration which are set out on pages 68 and 69 (subject to the note on page 69);

b) credit exposures to connected persons (refer to note 37 on page 51) 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 30th day of November 2004 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