Bank of New Zealand General Disclosure Statement

For the year ended 30 September 2005

Bank of New Zealand

No. 39

General Disclosure Statement

For the year ended 30 September 2005

This General Disclosure Statement has been issued by Bank of New Zealand for the year ended 30 September 2005 in accordance with the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2005 (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.

Voting Securities and Power to Appoint Directors

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

The ultimate parent company has the power under the Bank's constitution to appoint any person as Director of the Bank or to remove any person from the office of Director, from time to time by giving written notice to the Bank. All appointments of Directors must be approved by the Reserve Bank of New Zealand.

Guarantors

The material obligations of the Bank are not guaranteed.

Insurance Business

The Banking Group does not conduct any Insurance Business, as defined in clause 3(i) of Bank of New Zealand's Conditions of Registration set out on pages 74 and 75.

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.

Pursuant to the Banking Act 1959 (Cth), the Australian Prudential Regulation Authority has issued a legally enforceable prudential standard which restricts associations between an authorised deposit-taking institution (such as National Australia Bank Limited) and its related entities.

Any provision of material financial support to Bank of New Zealand by National Australia Bank Limited would need to comply with the following pertinent requirements of the prudential standard:

1. National Australia Bank Limited should not undertake any third-party dealings with the prime purpose of supporting the business of Bank of New Zealand. National Australia Bank Limited must avoid giving any impression of its support unless there are formal legal arrangements in place providing for such support.
2. National Australia Bank Limited should not hold unlimited exposures to Bank of New Zealand.
3. National Australia Bank Limited should not enter into cross-default clauses whereby a default by Bank of New Zealand on an obligation (whether financial or otherwise) is deemed to trigger a default of National Australia Bank Limited in its obligations.
4. In determining limits on acceptable levels of exposure to Bank of New Zealand, the Board of Directors of National Australia Bank Limited should have regard to the level of exposures which would be approved for unrelated entities of broadly equivalent credit status, and the impact on National Australia Bank Limited's stand-alone capital and liquidity positions, as well as its ability to continue operating, in the event of a failure of any related entity to which National Australia Bank Limited is exposed.
5. National Australia Bank Limited's exposure to Bank of New Zealand cannot exceed 50% of National Australia Bank Limited's stand-alone capital base, and its aggregate exposure to all related authorised deposit-taking institutions cannot exceed 150% of that capital base. Exposures in excess of these limits require the prior approval of the Australian Prudential Regulation Authority.

Ultimate Parent Bank continued

The Australian Prudential Regulation Authority has broad powers under the Banking Act 1959 (Cth) to give legally enforceable directions to National Australia Bank Limited in circumstances, for example, where it considers that National Australia Bank Limited has not complied with prudential standards or that it is in the interests of National Australia Bank Limited's deposit holders to do so. In the event that National Australia Bank Limited becomes unlikely to be able to meet its obligations or is about to suspend payments, the Australian Prudential Regulation Authority has the power to take control of National Australia Bank Limited's business or appoint an administrator to National Australia Bank Limited's affairs.

The priority of the creditors of National Australia Bank Limited in the event that National Australia Bank Limited is unable to meet its obligations is governed by various Australian laws, including the Banking Act 1959 (Cth). That Act provides that the assets of National Australia Bank Limited in Australia are to be available to meet its deposit liabilities in Australia in priority to all other liabilities.

Pending Proceedings or Arbitration

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 35.

The New Zealand Commerce Commission has laid charges against a number of credit and debit card issuers, including the Bank, for alleged misleading practices under the Fair Trading Act 1986. This follows an industry-wide investigation into the disclosure of international currency conversion fees of credit and debit card transactions. Further details in relation to this matter are provided in note 35.

Other Material Matters

BNZ International Funding Limited, a wholly owned controlled entity of Bank of New Zealand was incorporated on 2 June 2005. The purpose of this company is to generate offshore wholesale funding for the Banking Group through the issuance of commercial paper and medium term debt securities. BNZ International Funding Limited commenced trading on 6 October 2005.

The Bank's Directors are of the opinion that there are no other matters relating to the business or affairs of the Registered Bank or the Banking Group which would, if disclosed in this 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.

Directorate and Auditor

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

Directors' details

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

Non-Executive Director, Chairman

Thomas Kirriemuir McDonald
Company Director
M.Com. (Hons.), AFInstD, FNZIM
New Zealand

Directorships:
Advanced Dynamics (New Zealand) Limited; Carter Holt Harvey Limited; Freemans Bay Properties Limited; Gough Holdings Limited (and all subsidiary companies); National Australia Bank Limited; Oceana Gold Holdings (New Zealand) Limited; Oceana Gold Limited; Ports of Auckland Limited; Strategic Value Limited

Executive Director

Peter Leonard Thodey
Managing Director
Bank of New Zealand
New Zealand

Directorships:
BNZ Investment Management Limited; BNZ Life Insurance Limited; National Australia Group (NZ) Limited; National Wealth Management New Zealand Holdings Limited; Visa New Zealand Limited

Non-Executive Director

Ross Edward Pinney
Executive General Manager
Office of the Chief Executive Officer
National Australia Bank Limited
B.Com., M.B.A., F.C.A.
Australia

Directorship:
Pelias Pty Limited

Independent Non-Executive Directors

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

Directorships:
BNZ Investment Management Limited; BNZ Life Insurance Limited; Wairarapa District Health Board

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

Directorships:
Envirowaste Services Limited; FRH Group Pty Limited (Australia); Fulton Hogan Limited; Goldpine Industries Limited; Goldpine Properties Limited; MDC Holdings Limited; MudHouse Wine Company Limited; National Institute of Water & Atmospheric Research Limited; NIWA (USA), Inc; NIWA Vessel Management Limited; Port Otago Limited; Stone Farm Holdings Limited; Stone Farm Olives Limited

Heughan Bassett Rennie, C.B.E., Q.C.
Queen's Counsel
B.A., LL.B.
New Zealand

Directorships:
Harbour Chambers Limited; Hirschfeld Custodian Nominees Limited; M-Co International Limited

John Douglas Storey, O.N.Z.M.
Company Director
New Zealand

Directorships:
Pulse Utilities NZ Limited; Waikato Regional Airport Limited

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

Directorships:
Activa Health Limited; Blossom Bear Limited; Fertility Associates Limited; Fertility Associates Holdings Limited; Fertility Associates Trustee Limited; First Health Limited; Southern Cross Benefits Limited; Southern Cross Healthcare Limited; Southern Cross Health Services Limited; STG Limited

Directorate and Auditor continued

Janine Laurel Smith
Company Director
B.Com.
New Zealand

Directorships:
Academic Coaching Limited; Airways Corporation of New Zealand Limited; Airways International Limited; Aquarius Marketing Limited; Consultants Oceania Limited; The Academic Coaching School Limited; The Career Academy Limited; The Boardroom Practice Limited; The Coaching Academy Limited; Transmission Holdings Limited

New Zealand Regional Audit Committee

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

J D Storey (Chairman)	Independent Non-Executive Director
P A Jefferies	Independent Non-Executive Director
E G Johnson	Independent Non-Executive Director

Responsible Persons

Messrs. McDonald and Thodey, whose occupations, professional qualifications, countries of residence, and directorships 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 28.

Auditor

The auditor whose report is referred to in this General Disclosure Statement is Ernst & Young. Their address for service is Level 14, 41 Shortland Street, Auckland.

KPMG resigned as external auditor of the Banking Group, upon completion of the audit for the 2004 financial year. On 31 January 2005, Ernst & Young was appointed as external auditor of National Australia Bank Limited and the Banking Group for the 2005 financial year.

Financial Statements

Contents

Historical Summary of Financial Statements

Dollars in Millions	Consolidated Year Ended 30/9/05	Year Ended 30/9/04	Year Ended 30/9/03	Year Ended 30/9/02	Year Ended 30/9/01
Financial performance					
Interest income	**3,134**	2,525	2,479	2,413	2,583
Interest expense	**2,173**	1,631	1,611	1,582	1,830
Net interest income	**961**	894	868	831	753
Provisions for doubtful debts	**37**	51	13	(15)	12
Net interest income after provisions for doubtful debts	**924**	843	855	846	741
Other operating income	**516**	540	547	528	494
Total operating income	**1,440**	1,383	1,402	1,374	1,235
Operating expenses	**730**	758	650	624	648
Operating surplus before tax expense	**710**	625	752	750	587
Tax expense	**169**	154	204	168	147
Net surplus attributable to shareholder of Bank of New Zealand	**541**	471	548	582	440
Ordinary dividend	**235**	323	295	310	160
Net operating surplus retained	**306**	148	253	272	280
Significant statement of financial position items					
Total assets	**43,942**	39,310	37,643	35,968	37,847
Impaired assets	**115**	94	236	30	47
Total liabilities (including subordinated debt)	**41,172**	36,846	35,327	33,905	36,056
Shareholder's equity attributable to members of Bank of New Zealand	**2,770**	2,464	2,316	2,063	1,791

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 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 2005

Dollars in Millions	Note	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Interest income	2	**3,134**	2,525	**3,069**	2,376
Interest expense	2	**2,173**	1,631	**2,253**	1,602
Net interest income		**961**	894	**816**	774
Provisions for doubtful debts	10	**37**	51	**34**	46
Net interest income after provisions for doubtful debts		**924**	843	**782**	728
Other operating income	3	**516**	540	**649**	697
Total operating income		**1,440**	1,383	**1,431**	1,425
Operating expenses	4	**730**	758	**733**	802
Operating surplus before tax expense		**710**	625	**698**	623
Tax expense	5	**169**	154	**162**	139
Net surplus attributable to shareholder of Bank of New Zealand		**541**	471	**536**	484

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 2005

	Consolidated		The Company	
Dollars in Millions	**30/9/05**	30/9/04	**30/9/05**	30/9/04
Net surplus attributable to shareholder of Bank of New Zealand	**541**	471	**536**	484
Total recognised revenues and expenses	**541**	471	**536**	484
Distributions to owner during the year:				
Ordinary dividend	**(235)**	(323)	**(235)**	(323)
Movement in equity for the year	**306**	148	**301**	161
Total shareholder's equity at beginning of year	**2,464**	2,316	**2,325**	2,164
Total shareholder's equity at end of year	**2,770**	2,464	**2,626**	2,325

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 2005

Dollars in Millions	Note	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Assets					
Cash and call balances with central banks		**132**	136	**132**	136
Due from other financial institutions	6	**720**	527	**720**	527
Other money market placements	7	**615**	585	**615**	585
Securities	8	**2,235**	1,598	**2,235**	1,598
Loans and advances to customers	9	**37,829**	33,967	**37,320**	31,949
Amounts due from related entities	28	**170**	181	**632**	644
Investments in controlled entities	12	**-**	-	**3,106**	3,106
Property, plant and equipment	13	**592**	612	**61**	67
Income tax assets	14	**156**	131	**169**	134
Other assets	15	**1,493**	1,573	**1,298**	1,320
Total assets		**43,942**	39,310	**46,288**	40,066
Financed by:					
Liabilities					
Due to central banks and other financial institutions	16	**1,685**	928	**1,685**	928
Other money market deposits	17	**8,384**	8,638	**8,384**	8,638
Deposits from customers	18	**20,382**	18,760	**20,382**	18,760
Bonds and notes	19	**583**	529	**583**	529
Amounts due to related entities	28	**7,108**	4,739	**9,660**	5,718
Income tax liabilities	21	**67**	86	**43**	45
Subordinated loans from related entities	22, 28	**905**	905	**905**	905
Other liabilities	23	**2,058**	2,261	**2,020**	2,218
Total liabilities		**41,172**	36,846	**43,662**	37,741
Shareholder's equity					
Contributed equity	24	**1,451**	1,451	**1,451**	1,451
Retained earnings	25	**1,319**	1,013	**1,175**	874
Total shareholder's equity		**2,770**	2,464	**2,626**	2,325
Total liabilities and shareholder's equity		**43,942**	39,310	**46,288**	40,066

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 2005

Dollars in Millions	Note	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Cash flows from operating activities					
Cash was provided from:					
Dividend income		**-**	-	**190**	220
Interest income		**3,079**	2,478	**3,014**	2,329
Other income		**532**	554	**360**	387
Trading securities and derivative financial instruments *		**-**	597	**-**	601
Cash was applied to:					
Interest expense		**(2,117)**	(1,613)	**(2,197)**	(1,584)
Operating expenses		**(668)**	(662)	**(653)**	(648)
Taxes and subvention payments		**(213)**	(220)	**(271)**	(332)
Trading securities and derivative financial instruments*		**(141)**	-	**(141)**	-
Net cash flows from operating activities		**472**	1,134	**302**	973
Cash flows from investing activities					
Cash was provided from:					
Decrease in due from other financial institutions (term)*		**-**	447	**-**	447
Decrease in other assets*		**-**	152	**-**	158
Proceeds from maturity of available for sale securities		**5**	5	**5**	5
Proceeds from maturity of investment securities		**2,612**	2,437	**2,612**	2,437
Proceeds from sale of controlled entities	12	**50**	50	**-**	-
Proceeds from sale of property, plant and equipment		**117**	92	**-**	1
Cash was applied to:					
Increase in due from other financial institutions (term)*		**(276)**	-	**(276)**	-
Increase in loans and advances to customers*		**(3,899)**	(2,632)	**(5,405)**	(3,158)
Increase in other assets*		**(91)**	-	**(92)**	-
Increase in other money market placements*		**(30)**	(127)	**(30)**	(127)
Purchase of available for sale securities		**-**	(5)	**-**	(5)
Purchase of investment securities		**(2,791)**	(2,314)	**(2,791)**	(2,314)
Purchase of property, plant and equipment		**(256)**	(249)	**(21)**	(25)
Net cash flows from investing activities		**(4,559)**	(2,144)	**(5,998)**	(2,581)
Cash flows from financing activities					
Cash was provided from:					
Increase in bonds and notes*		**54**	-	**54**	-
Increase in deposits from customers*		**1,622**	798	**1,622**	798
Increase in other money market deposits*		**-**	2,330	**-**	2,330
Other related entity funding*		**2,380**	340	**3,981**	1,114
Cash was applied to:					
Decrease in bonds and notes*		**-**	(31)	**-**	(31)
Decrease in due to central banks and other financial institutions (term)*		**(147)**	(700)	**(147)**	(700)
Decrease in other liabilities*		**(324)**	(342)	**(316)**	(518)
Decrease in other money market deposits*		**(254)**	-	**(254)**	-
Decrease in subordinated loans from related entities		**-**	(150)	**-**	(150)
Ordinary dividend		**(235)**	(323)	**(235)**	(323)
Net cash flows from financing activities		**3,096**	1,922	**4,705**	2,520
Net (decrease)/increase in cash and cash equivalents		**(991)**	912	**(991)**	912
Cash and cash equivalents at beginning of year		**(71)**	(983)	**(71)**	(983)
Cash and cash equivalents at end of year		**(1,062)**	(71)	**(1,062)**	(71)

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

Statement of Cash Flows continued

For the year ended 30 September 2005

Dollars in Millions	Note	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Cash and cash equivalents at end of year comprise:					
Cash and call balances with central banks		**132**	136	**132**	136
Due from other financial institutions (call)	6	**91**	174	**91**	174
Due to central banks and other financial institutions (call)	16	**(1,285)**	(381)	**(1,285)**	(381)
Total cash and cash equivalents		**(1,062)**	(71)	**(1,062)**	(71)
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		**541**	471	**536**	484
Add back non-cash items in net surplus:					
Decrease in trading securities and derivative financial instruments		**-**	507	**-**	511
Depreciation on operating lease assets	3	**112**	110	**-**	-
Depreciation on other property, plant and equipment	4	**37**	39	**27**	31
Impairment losses on operating lease assets	3	**4**	-	**-**	-
Impairment losses on other property, plant and equipment	4	**7**	36	**-**	36
Increase in accrued interest payable		**56**	18	**56**	18
Movements in provisions for doubtful debts	10	**37**	51	**34**	46
Write-off of data processing assets	4	**-**	11	**-**	11
Deduct non-cash items in net surplus:					
Decrease in other operating expenses		**(36)**	(34)	**(46)**	(40)
Decrease in accrued subvention payments		**-**	-	**(27)**	(5)
Decrease in provision for tax		**(44)**	(66)	**(37)**	(116)
Increase in accrued interest receivable		**(1)**	(3)	**(1)**	(3)
Increase in trading securities and derivative financial instruments		**(240)**	-	**(240)**	-
Revaluation gain on property, plant and equipment	3	**(2)**	(3)	**-**	-
Deduct investing or financing cash flows included in surplus:					
Net loss/(gain) on sale of operating lease assets	3	**1**	(3)	**-**	-
Net cash flows from operating activities		**472**	1,134	**302**	973

Netting of cash flows

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

Cash and cash equivalents consist of cash and liquid assets used in the day-to-day cash management of the Bank.

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

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

Notes to and Forming Part of the Financial Statements

For the year ended 30 September 2005

Note 1 Principal Accounting Policies

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

The financial statements are general purpose financial reports prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2005.

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.

Interest income and interest expense from related entities in the Company have been restated in note 2 by $25 million for 30 September 2004. The reclassification relates to a related entity transaction which was previously netted against interest expense.

During the financial year, the categorisation of assets and liabilities within notes 30 and 31 has been altered to align with the asset and liability categories in the statement of financial position. This resulted in some numbers within the comparatives being reclassified to more accurately reflect the requirements of FRS-33 Disclosure of Information by Financial Institutions.

The restatement in note 31 does not impact the structural interest rate risk position of the Bank, as the Banking Group applies various operational methodologies and policies for measuring and managing interest rate risk in the trading and non-trading banking books.

Principles of consolidation

All entities which are "controlled" by the Bank are included in the consolidated financial statements. Control means the ability or power of the Bank to dominate decision making directly or indirectly in relation to the financial and operating policies of another entity, for the purpose of obtaining the benefits and/or assuming the risks normally associated with ownership. All inter-entity balances, transactions and profits are eliminated on consolidation. Controlled entities prepare financial statements for consolidation in conformity with the Bank's accounting policies.

Where controlled entities have been acquired or sold during the financial year, their operating results have been included from the date of acquisition or to the date of sale. Controlled entities for which the Bank has, by the earlier of three months after the date control is obtained or the date when the annual financial statements are approved, entered into a binding agreement to relinquish control of the acquired entity within one year from the date control is obtained are not consolidated into the Banking Group.

Foreign currency translation

All foreign currency monetary assets and liabilities are revalued at the rates of exchange ruling as 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.

Note 1 Principal Accounting Policies continued

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.

Trading securities

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

The fair values of trading securities represent the quoted market value of those securities.

Trading securities are recorded on a trade date basis.

Available for sale securities

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

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

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

Investment securities

Investment securities are public and other debt securities which are purchased with the positive intent and ability to hold until maturity. Such securities are recorded at original cost adjusted for the amortisation of premiums, accretion of discounts to maturity and other than temporary diminutions in their value. Unrealised losses relating to other than temporary diminutions in the value of investment securities are recognised in the statement of financial performance and the recorded values of those securities adjusted accordingly. The sale of an investment security would only be considered in those unusual and rare situations when significant unforeseeable changes in circumstance may have caused a change in intent without calling into question the Banking Group's intent and ability to hold other investment securities to maturity in the future (for example, evidence of a significant deterioration in a security issuer's creditworthiness). In any unusual and rare instances where investment securities are sold prior to maturity, profits or losses on sales are taken to the statement of financial performance when realised.

Investment securities are recorded on a trade date basis.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase are retained within the investment, available for sale or trading portfolios and accounted for accordingly. The Bank's obligation to repurchase is classified under Due to central banks and other financial institutions or Other money market deposits. The difference between the sale and repurchase 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 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.

Note 1 Principal Accounting Policies continued

Bad and doubtful debts

The provision for 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.

Specific provisions are 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 year 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 11, 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.
- **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.

The following categories are also disclosed in note 11, but are not considered to be impaired assets:

- **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.
- **Other assets under administration** are those loans which are not impaired or past due, where the customer is in receivership, liquidation, statutory management or any other form of administration in New Zealand, or is in an equivalent form of voluntary or involuntary administration overseas.

Note 1 Principal Accounting Policies continued

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 year 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 software, which ranges from three to five 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.

The following depreciation rates have been applied.

	Straight Line Rates
Buildings	$3^1/_3$%
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	$33^1/_3$%
Other data processing assets and related application software	20% to $33^1/_3$%
Motor vehicles	Rate based on term of the lease, between one and nine years

Notes to and Forming Part of the Financial Statements continued

Note 1 Principal Accounting Policies continued

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

Goodwill

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

Liabilities

Due to central banks and other financial institutions

Due to central banks and 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.

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 subleased 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.

Note 1 Principal Accounting Policies continued

Derivative financial instruments held or issued for trading purposes

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

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

Derivative financial instruments held or issued for purposes other than trading

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

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

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

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

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

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

Trustee and funds management activities

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.

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 recognised in the statement of financial performance as derived unless material. Material 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.

Note 1 Principal Accounting Policies continued

Trading income

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

Fees and commissions

Fees and commissions that relate to specific transactions or events are recognised as income in the financial 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.

Notes to and Forming Part of the Financial Statements continued

Statement of Financial Performance Notes

Dollars in Millions	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Note 2 Interest				
Interest income				
Other financial institutions	**47**	31	**47**	31
Other money market placements	**38**	26	**38**	26
Loans and advances to customers	**2,893**	2,365	**2,799**	2,192
Impaired assets	**5**	3	**5**	3
Related entities	**7**	4	**36**	29
Other	**-**	2	**-**	1
Securities:				
Trading securities	**85**	50	**85**	50
Investment securities	**59**	44	**59**	44
Total interest income	**3,134**	2,525	**3,069**	2,376
Interest expense				
Central banks and other financial institutions	**77**	49	**77**	49
Other money market deposits	**490**	342	**490**	342
Deposits from customers	**946**	733	**946**	733
Bonds and notes	**37**	40	**37**	40
Related entities	**289**	103	**379**	119
Subordinated loans from related entities	**68**	59	**68**	59
Other	**266**	305	**256**	260
Total interest expense	**2,173**	1,631	**2,253**	1,602
Note 3 Other Operating Income				
Dividends received from controlled entities	**-**	-	**190**	220
Dividends received from other investments	**1**	-	**-**	-
Loan and advance fees	**80**	79	**80**	79
Gain on foreign exchange translation	**1**	1	**1**	1
Money transfer fees	**168**	170	**168**	170
Other fees and commissions income	**99**	116	**99**	116
Net operating lease income (refer to table below)	**24**	31	**-**	-
Fleet service fee income	**29**	29	**-**	-
Other income	**13**	21	**12**	21
Revaluation gain on property, plant and equipment	**2**	3	**-**	-
Trading income:				
Foreign exchange trading	**74**	72	**74**	72
Securities and interest rate related derivatives trading	**25**	18	**25**	18
Total other operating income	**516**	540	**649**	697
Net operating lease income comprises:				
Gross operating lease income	**159**	158	**-**	-
Impairment losses on operating lease assets	**(4)**	-	**-**	-
Net (loss)/gain on sale of operating lease assets	**(1)**	3	**-**	-
	154	161	**-**	-
Deduct:				
Depreciation on motor vehicle operating lease assets	**112**	110	**-**	-
Direct operating lease expenses	**18**	20	**-**	-
Total net operating lease income	**24**	31	**-**	-

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Note 4 Operating Expenses				
Salaries and other staff expenses	**332**	312	**323**	301
Amortisation of goodwill	**8**	8	**1**	1
Depreciation on leasehold improvements	**1**	1	**-**	-
Depreciation on furniture, fittings and other equipment	**10**	8	**1**	1
Depreciation on data processing assets	**26**	30	**26**	30
Impairment losses on leasehold improvements	**1**	-	**-**	-
Impairment losses on furniture, fittings and other equipment	**6**	-	**-**	-
Impairment losses on data processing assets	**-**	36	**-**	36
Write-off of data processing assets	**-**	11	**-**	11
Rental on operating leases	**54**	46	**17**	15
Subvention payments to controlled entities	**-**	-	**45**	72
Related entity expenses	**67**	93	**117**	144
Other expenses (refer also to table below)	**225**	213	**203**	191
Total operating expenses	**730**	758	**733**	802
Other expenses include (Dollars in Thousands)				
Donations	**113**	38	**111**	38
Fees paid to directors	**549**	376	**519**	352
Fees paid to auditors:				
Ernst & Young:				
Statutory audit services	**660**	-	**603**	-
Regulatory audit services	**262**	-	**262**	-
Other services – other fees	**135**	-	**135**	-
KPMG:				
Statutory audit services	**(69)**	950	**(69)**	867
Regulatory audit services	**-**	190	**-**	190
Other services – other fees	**-**	6	**-**	6

Prior to being appointed auditor of the Banking Group on 31 January 2005, Ernst & Young held the head lease on some office space located at 125 Queen Street, Auckland (the BNZ Tower). Bank of New Zealand subleases this office space from Ernst & Young. Following the firm's appointment as auditor of Bank of New Zealand and its controlled entities in New Zealand, Ernst & Young is continuing negotiations with the owners of the building to enable Ernst & Young to withdraw from this arm's length commercial relationship.

KPMG statutory audit service fees for the year ended 30 September 2005 represent the release of expenses over-accrued in the prior financial year.

Notes to and Forming Part of the Financial Statements continued

Note 5 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	**30/9/05**	30/9/04	**30/9/05**	30/9/04
Operating surplus before tax expense	**710**	625	**698**	623
Prima facie tax expense on operating surplus at 33%	**234**	206	**230**	206
Prior year adjustments to tax expense	**-**	2	**-**	1
Tax effect of permanent differences:				
Non-assessable and tax paid income	**(34)**	(49)	**(69)**	(77)
Non-deductible expenses	**3**	3	**-**	-
Other	**(1)**	9	**1**	9
Tax expense on operating surplus	**202**	171	**162**	139
Effective tax rate	**28%**	27%	**23%**	22%
Deferred tax release on investments	**(33)**	(17)	**-**	-
Total tax expense	**169**	154	**162**	139
Tax expense comprises:				
Current taxation	**228**	217	**182**	190
Deferred taxation	**(59)**	(63)	**(20)**	(51)
Total tax expense	**169**	154	**162**	139

Asset Notes

Dollars in Millions	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Note 6 Due from Other Financial Institutions				
Transaction balances with other financial institutions	**87**	118	**87**	118
Securities purchased under agreements to resell with other financial institutions	**522**	130	**522**	130
Loans and advances due from other financial institutions	**111**	279	**111**	279
Total due from other financial institutions	**720**	527	**720**	527
Due from other financial institutions comprise of:				
New Zealand				
Call advances	**88**	172	**88**	172
Term advances	**532**	263	**532**	263
Total New Zealand	**620**	435	**620**	435
Overseas				
Call advances	**3**	2	**3**	2
Term advances	**97**	90	**97**	90
Total overseas	**100**	92	**100**	92
Total due from other financial institutions	**720**	527	**720**	527

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.

Dollars in Millions	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Note 7 Other Money Market Placements				
Money market placements with non-financial institutions	**615**	528	**615**	528
Securities purchased under agreements to resell with non-financial institutions	**-**	57	**-**	57
Total other money market placements	**615**	585	**615**	585
Other money market placements comprise of:				
New Zealand				
Government and public authorities	**68**	89	**68**	89
Agriculture, forestry and fishing	**178**	166	**178**	166
Financial, investment and insurance	**88**	86	**88**	86
Other commercial and industrial	**281**	244	**281**	244
Total New Zealand	**615**	585	**615**	585
Total other money market placements	**615**	585	**615**	585

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Note 8 Securities				
Trading securities				
Treasury bills	**179**	147	**179**	147
Government securities	**83**	231	**83**	231
Other securities	**901**	376	**901**	376
Total trading securities	**1,163**	754	**1,163**	754
Available for sale securities				
Treasury bills	**-**	5	**-**	5
Total available for sale securities	**-**	5	**-**	5
Investment securities				
Treasury bills	**1,022**	769	**1,022**	769
Other securities	**50**	70	**50**	70
Total investment securities	**1,072**	839	**1,072**	839
Total securities	**2,235**	1,598	**2,235**	1,598
Total securities comprise of:				
New Zealand				
Government and public authorities	**1,300**	1,171	**1,300**	1,171
Agriculture, forestry and fishing	**100**	-	**100**	-
Financial, investment and insurance	**610**	258	**610**	258
Other commercial and industrial	**220**	164	**220**	164
Total New Zealand	**2,230**	1,593	**2,230**	1,593
Overseas				
Government and public authorities	**5**	5	**5**	5
Total overseas	**5**	5	**5**	5
Total securities	**2,235**	1,598	**2,235**	1,598

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.

As at 30 September 2005, assets of $49 million were encumbered through repurchase agreements (30 September 2004: $178 million) and assets of $268 million were used to secure deposit obligations (30 September 2004: $202 million).

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Note 9 Loans and Advances to Customers				
Overdrafts	**1,601**	1,232	**1,601**	1,232
Credit card outstandings	**1,155**	1,062	**1,155**	1,062
Lease finance (refer to table on page 26)	**31**	26	**14**	-
Housing loans	**18,019**	15,306	**18,019**	15,306
Redeemable preference share finance	**-**	1,500	**-**	-
Other term lending	**17,115**	14,941	**16,615**	14,441
Other lending	**126**	95	**126**	95
Total gross loans and advances to customers	**38,047**	34,162	**37,530**	32,136
Deduct:				
Provisions for doubtful debts	**214**	192	**208**	187
Unearned future finance income on lease finance	**4**	3	**2**	-
Total deductions	**218**	195	**210**	187
Total net loans and advances to customers	**37,829**	33,967	**37,320**	31,949
Loans and advances to customers comprise of:				
New Zealand				
Government and public authorities	**283**	277	**283**	277
Agriculture, forestry and fishing	**5,092**	4,290	**5,092**	4,290
Financial, investment and insurance	**850**	797	**850**	797
Real estate – construction	**241**	202	**241**	202
Real estate – mortgage	**17,984**	15,275	**17,983**	15,275
Personal lending	**1,879**	1,630	**1,879**	1,630
Other commercial and industrial	**10,983**	9,460	**10,967**	9,434
Total New Zealand	**37,312**	31,931	**37,295**	31,905
Overseas				
Financial, investment and insurance	**700**	2,200	**200**	200
Real estate – mortgage	**35**	31	**35**	31
Total overseas	**735**	2,231	**235**	231
Total gross loans and advances to customers	**38,047**	34,162	**37,530**	32,136
Deduct: Specific provisions for doubtful debts				
New Zealand				
Agriculture, forestry and fishing	**26**	9	**26**	9
Real estate – construction	**-**	1	**-**	1
Personal lending	**3**	5	**3**	5
Other commercial and industrial	**10**	8	**4**	4
Total specific provisions for doubtful debts	**39**	23	**33**	19
General provision for doubtful debts	**175**	169	**175**	168
Total provisions for doubtful debts	**214**	192	**208**	187
Deduct: Unearned future finance income on lease finance				
New Zealand				
Other commercial and industrial	**4**	3	**2**	-
Total unearned future finance income on lease finance	**4**	3	**2**	-
Total net loans and advances to customers	**37,829**	33,967	**37,320**	31,949

Notes to and Forming Part of the Financial Statements continued

Note 9 Loans and Advances to Customers continued

Dollars in Millions	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
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	**9**	10	**3**	-
Later than one year and not later than five years	**22**	16	**11**	-
Total gross investment in lease finance	**31**	26	**14**	-
Deduct: Unearned future finance income on lease finance	**4**	3	**2**	-
Net investment in lease finance	**27**	23	**12**	-

Note 10 Provisions For Doubtful Debts

Dollars in Millions	Non-Accrual Assets 30/9/05	Restructured Assets 30/9/05	Other Assets Under Administration 30/9/05	Past Due Assets 30/9/05	Total 30/9/05
			Consolidated		
Specific provisions for doubtful debts					
Balance at beginning of year	**21**	**-**	**-**	**2**	**23**
Transfer from general provision	**21**	**-**	**-**	**9**	**30**
Bad debts written off	**(6)**	**-**	**-**	**(17)**	**(23)**
Recovery of bad debts written off in previous years	**1**	**-**	**-**	**8**	**9**
Balance at end of year	**37**	**-**	**-**	**2**	**39**
General provision for doubtful debts					
Balance at beginning of year					**169**
Transfer to specific provisions					**(30)**
Charge to statement of financial performance					**37**
Other					**(1)**
Balance at end of year					**175**
Total provisions for doubtful debts					**214**
			Consolidated (30/9/04)		
Specific provisions for doubtful debts					
Balance at beginning of year	13	-	-	3	16
Transfer from general provision	23	-	-	8	31
Bad debts written off	(17)	-	-	(18)	(35)
Recovery of bad debts written off in previous years	2	-	-	9	11
Balance at end of year	21	-	-	2	23
General provision for doubtful debts					
Balance at beginning of year					149
Transfer to specific provisions					(31)
Charge to statement of financial performance					51
Balance at end of year					169
Total provisions for doubtful debts					192

Notes to and Forming Part of the Financial Statements continued

Note 10 Provisions For Doubtful Debts continued

	The Company				
Dollars in Millions	Non-Accrual Assets 30/9/05	Restructured Assets 30/9/05	Other Assets Under Administration 30/9/05	Past Due Assets 30/9/05	Total 30/9/05
Specific provisions for doubtful debts					
Balance at beginning of year	**17**	**-**	**-**	**2**	**19**
Transfer from general provision	**18**	**-**	**-**	**9**	**27**
Bad debts written off	**(6)**	**-**	**-**	**(17)**	**(23)**
Recovery of bad debts written off in previous years	**2**	**-**	**-**	**8**	**10**
Balance at end of year	**31**	**-**	**-**	**2**	**33**
General provision for doubtful debts					
Balance at beginning of year					**168**
Transfer to specific provisions					**(27)**
Charge to statement of financial performance					**34**
Balance at end of year					**175**
Total provisions for doubtful debts					**208**

	The Company (30/9/04)				
Specific provisions for doubtful debts					
Balance at beginning of year	13	-	-	3	16
Transfer from general provision	19	-	-	8	27
Bad debts written off	(17)	-	-	(18)	(35)
Recovery of bad debts written off in previous years	2	-	-	9	11
Balance at end of year	17	-	-	2	19
General provision for doubtful debts					
Balance at beginning of year					149
Transfer to specific provisions					(27)
Charge to statement of financial performance					46
Balance at end of year					168
Total provisions for doubtful debts					187

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

Notes to and Forming Part of the Financial Statements continued

Note 11 Asset Quality

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

	Consolidated				
Dollars in Millions	Non-Accrual Assets 30/9/05	Restructured Assets 30/9/05	Other Assets Under Administration 30/9/05	Past Due Assets 30/9/05	Total 30/9/05
Movements in pre-provision balances					
Balance at beginning of year	**94**	**-**	**1**	**50**	**145**
Bad debts written off	**(6)**	**-**	**-**	**(17)**	**(23)**
Additions	**82**	**-**	**3**	**97**	**182**
Deletions	**(55)**	**-**	**(2)**	**(86)**	**(143)**
Balance at end of year	**115**	**-**	**2**	**44**	**161**
Interest income received on impaired assets during the year	**5**	**-**	**-**	**-**	**5**
Interest foregone on impaired assets during the year*	**10**	**-**	**-**	**-**	**10**
	Consolidated (30/9/04)				
Movements in pre-provision balances					
Balance at beginning of year	236	-	2	45	283
Bad debts written off	(17)	-	-	(18)	(35)
Additions	113	-	1	175	289
Deletions	(238)	-	(2)	(152)	(392)
Balance at end of year	94	-	1	50	145
Interest income received on impaired assets during the year	3	-	-	-	3
Interest foregone on impaired assets during the year*	4	-	-	-	4
	The Company (30/9/05)				
Movements in pre-provision balances					
Balance at beginning of year	**86**	**-**	**1**	**48**	**135**
Bad debts written off	**(6)**	**-**	**-**	**(17)**	**(23)**
Additions	**80**	**-**	**3**	**97**	**180**
Deletions	**(53)**	**-**	**(2)**	**(86)**	**(141)**
Balance at end of year	**107**	**-**	**2**	**42**	**151**
Interest income received on impaired assets during the year	**5**	**-**	**-**	**-**	**5**
Interest foregone on impaired assets during the year*	**10**	**-**	**-**	**-**	**10**
	The Company (30/9/04)				
Movements in pre-provision balances					
Balance at beginning of year	235	-	2	45	282
Bad debts written off	(17)	-	-	(18)	(35)
Additions	105	-	1	173	279
Deletions	(237)	-	(2)	(152)	(391)
Balance at end of year	86	-	1	48	135
Interest income received on impaired assets during the year	3	-	-	-	3
Interest foregone on impaired assets during the year*	4	-	-	-	4

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

Note 11 Asset Quality continued

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.

The Banking Group does not have any assets acquired through security enforcement.

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 2005 (30 September 2004: nil). No specific provisions have been made against these off-balance sheet facilities as at 30 September 2005 (30 September 2004: nil).

	Consolidated		The Company	
Dollars in Millions	30/9/05	30/9/04	30/9/05	30/9/04
Note 12 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 2005 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 International Funding Limited	New Zealand	Funding 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
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. 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. They are all 100% owned unless otherwise stated.

Notes to and Forming Part of the Financial Statements continued

Note 12 Investments in Controlled Entities continued

Incorporation of controlled entities

BNZ International Funding Limited, a wholly owned controlled entity of Bank of New Zealand, was incorporated on 2 June 2005, with contributed equity of $100,000.

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.

On 30 June 2005, BNZ International Limited sold the voting rights in Amber Liquid Investments Limited, a controlled entity of the Banking Group, for consideration of $2,550.

On 27 September 2005, BNZ Investments Limited sold 100% of the share capital in Screen Holdings No. 3 Limited to an unrelated party for consideration of $50 million.

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

	Consolidated	
Dollars in Millions	**30/9/05**	30/9/04
Cash proceeds from sale of controlled entities	**50**	50
Impact on net assets		
Cash and call balances with central banks	**500**	500
Loans and advances to customers	**(500)**	(500)
Other assets	**(50)**	(50)
Total impact on net assets	**(50)**	(50)

Dollars in Millions	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Note 13 Property, Plant and Equipment				
Freehold land				
At valuation	**17**	18	**-**	-
Buildings				
At valuation	**4**	6	**-**	-
Total freehold land and buildings	**21**	24	**-**	-
Leasehold improvements				
At cost	**17**	14	**1**	1
Deduct: Accumulated depreciation*	**9**	7	**1**	1
Total leasehold improvements	**8**	7	**-**	-
Furniture, fittings and other equipment				
At cost	**116**	114	**26**	25
At cost – assets under construction	**1**	3	**-**	-
Deduct: Accumulated depreciation*	**74**	64	**23**	22
Total furniture, fittings and other equipment	**43**	53	**3**	3
Data processing assets				
At cost	**259**	265	**258**	265
At cost – assets under construction	**8**	5	**8**	5
Deduct: Accumulated depreciation*	**209**	206	**208**	206
Total data processing assets	**58**	64	**58**	64
Motor vehicles – operating lease assets				
At cost	**613**	585	**-**	-
Deduct: Accumulated depreciation*	**151**	121	**-**	-
Total motor vehicles – operating lease assets	**462**	464	**-**	-
Total property, plant and equipment	**592**	612	**61**	67
* Accumulated depreciation disclosed above includes accumulated impairment losses as follows:				
Leasehold improvements	**1**	-	**-**	-
Furniture, fittings and other equipment	**6**	-	**-**	-
Data processing assets	**36**	36	**36**	36
Motor vehicles – operating lease assets	**4**	-	**-**	-
Total impairment losses	**47**	36	**36**	36

All properties are revalued to reflect fair values. The valuations are performed 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 2005 by Telfer Young (Auckland) Limited and Colliers International New Zealand Limited, independent registered public valuers.

The carrying value of motor vehicle operating lease assets disclosed above includes $11 million of assets held as stock as at 30 September 2005 (30 September 2004: $22 million).

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Note 14 Income Tax Assets				
Income tax receivable	**-**	-	**16**	-
Future income tax benefit	**156**	131	**153**	134
Total income tax assets	**156**	131	**169**	134
Future income tax benefit comprises:				
Provisions for doubtful debts	**71**	63	**69**	61
Other provisions	**25**	24	**25**	23
Depreciation	**-**	-	**3**	6
Other	**60**	44	**56**	44
Total future income tax benefit	**156**	131	**153**	134
Movements in future income tax benefit				
Balance at beginning of year	**131**	80	**134**	75
Deferred portion of current year tax expense	**25**	51	**19**	59
Balance at end of year	**156**	131	**153**	134

Note 15 Other Assets

Dollars in Millions	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Accrued interest receivable	**118**	117	**118**	117
Goodwill (refer to table below)	**61**	69	**14**	15
Securities sold – not yet settled	**51**	228	**51**	228
Unrealised gains on derivative financial instruments	**897**	834	**897**	834
Other assets	**366**	325	**218**	126
Total other assets	**1,493**	1,573	**1,298**	1,320
Goodwill comprises:				
Balance at beginning of year	**69**	77	**15**	16
Amortisation of goodwill	**(8)**	(8)	**(1)**	(1)
Balance at end of year	**61**	69	**14**	15
Goodwill at cost	**93**	93	**26**	26
Accumulated amortisation	**(32)**	(24)	**(12)**	(11)
Balance at end of year	**61**	69	**14**	15

Liability Notes

Dollars in Millions	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Note 16 Due to Central Banks and Other Financial Institutions				
Transaction balances with other financial institutions	**389**	230	**389**	230
Securities sold under agreement to repurchase from other financial institutions	**153**	218	**153**	218
Deposits from central bank	**203**	200	**203**	200
Deposits from other financial institutions	**940**	280	**940**	280
Total due to central banks and other financial institutions	**1,685**	928	**1,685**	928
Due to central banks and other financial institutions comprise of:				
Call balances	**1,285**	381	**1,285**	381
Term balances	**400**	547	**400**	547
Total due to central banks and other financial institutions	**1,685**	928	**1,685**	928
Note 17 Other Money Market Deposits				
Money market deposits from non-financial institutions	**2,889**	2,691	**2,889**	2,691
Certificates of deposit	**3,764**	3,407	**3,764**	3,407
Commercial paper	**1,731**	2,540	**1,731**	2,540
Total other money market deposits	**8,384**	8,638	**8,384**	8,638
Note 18 Deposits from Customers				
Demand deposits not bearing interest	**654**	657	**654**	657
Other demand and short term deposits	**8,227**	7,784	**8,227**	7,784
Term deposits	**11,501**	10,319	**11,501**	10,319
Total deposits from customers	**20,382**	18,760	**20,382**	18,760
Note 19 Bonds and Notes				
Medium term notes	**583**	529	**583**	529
Total bonds and notes	**583**	529	**583**	529

Details of the terms and conditions of these medium term notes issued as at 30 September 2005 were as follows:

Issue Date	Carrying Value $m	Coupon Rate %	Maturity Date
10 July 2001	50	7.50	15 September 2007
19 March 2002	50	7.50	15 September 2007
19 November 2002	4	6.18	19 May 2006
21 February 2003	51	7.50	15 September 2006
14 May 2003	83	7.50	15 September 2009
21 May 2003	51	7.50	15 September 2006
20 August 2003	52	7.50	15 September 2008
11 September 2003	21	7.50	15 September 2009
18 November 2003	22	7.50	15 September 2008
30 April 2004	52	7.50	15 September 2010
28 June 2004	3	6.62	28 June 2007
30 May 2005	101	7.50	15 September 2012
15 September 2005	43	7.50	15 September 2010

Notes to and Forming Part of the Financial Statements continued

Dollars in Millions	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Note 20 Concentrations of Funding				
New Zealand				
Government and public authorities	**713**	826	**713**	826
Agriculture, forestry and fishing	**1,279**	1,083	**1,279**	1,083
Financial, investment and insurance	**6,467**	4,137	**6,467**	4,137
Real estate – construction	**296**	260	**296**	260
Personal deposits	**10,147**	9,476	**10,147**	9,476
Other commercial and industrial	**9,940**	10,053	**9,940**	10,053
Related entities	**58**	48	**2,655**	1,027
Total New Zealand	**28,900**	25,883	**31,497**	26,862
Singapore				
Financial, investment and insurance	**69**	86	**69**	86
Related entities	**6,859**	4,512	**6,859**	4,512
Other	**392**	394	**392**	394
Total Singapore	**7,320**	4,992	**7,320**	4,992
Other Overseas				
Financial, investment and insurance	**1,731**	2,540	**1,731**	2,540
Related entities	**1,096**	1,084	**1,051**	1,084
Total other overseas	**2,827**	3,624	**2,782**	3,624
Total funding	**39,047**	34,499	**41,599**	35,478
Total funding is comprised of:				
Due to central banks and other financial institutions	**1,685**	928	**1,685**	928
Other money market deposits	**8,384**	8,638	**8,384**	8,638
Deposits from customers	**20,382**	18,760	**20,382**	18,760
Bonds and notes	**583**	529	**583**	529
Amounts due to related entities	**7,108**	4,739	**9,660**	5,718
Subordinated loans from related entities	**905**	905	**905**	905
Total funding	**39,047**	34,499	**41,599**	35,478
Note 21 Income Tax Liabilities				
Current income tax liability	**15**	-	**-**	1
Provision for deferred income tax liability	**52**	86	**43**	44
Total income tax liability	**67**	86	**43**	45
Provision for deferred income tax liability comprises:				
Depreciation expense	**9**	9	**-**	-
Financial instruments	**8**	10	**8**	10
Investments	**-**	33	**-**	-
Other	**35**	34	**35**	34
Total provision for deferred income tax liability	**52**	86	**43**	44
Movements in provision for deferred income tax liability				
Balance at beginning of year	**86**	98	**44**	36
Deferred portion of current year tax expense	**(34)**	(12)	**(1)**	8
Balance at end of year	**52**	86	**43**	44

Note 22 Subordinated Loans from Related Entities

The following subordinated loans have no fixed maturity dates and are expressed to be subordinated to all other indebtedness of the Bank. The loans constitute upper or lower tier two capital for Reserve Bank of New Zealand capital adequacy purposes as follows:

	Consolidated		The Company	
Dollars in Millions	30/9/05	30/9/04	30/9/05	30/9/04
Subordinated loans from				
Lower tier two capital				
NAB Capital LLC	**230**	230	**230**	230
National Equities Limited	**485**	485	**485**	485
	715	715	**715**	715
Upper tier two capital				
National Equities Limited	**190**	190	**190**	190
	190	190	**190**	190
Total subordinated loans from related entities	**905**	905	**905**	905

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 7.7% p.a. as at 30 September 2005 (30 September 2004: 7.1% p.a.).

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

Note 23 Other Liabilities

	Consolidated		The Company	
Dollars in Millions	30/9/05	30/9/04	30/9/05	30/9/04
Accrued interest payable	**190**	134	**190**	134
Securities purchased – not yet settled	**54**	215	**54**	215
Short sales of securities	**245**	167	**245**	167
Unrealised losses on derivative financial instruments	**1,321**	1,482	**1,321**	1,480
Employee entitlements	**64**	59	**63**	58
Operating expense provisions (refer to table below)	**26**	21	**20**	19
Other liabilities	**158**	183	**127**	145
Total other liabilities	**2,058**	2,261	**2,020**	2,218
Operating expense provisions comprise of:				
Non-lending losses	**14**	14	**14**	14
Restructuring costs	**2**	1	**2**	-
Surplus lease space	**4**	4	**1**	2
Other	**6**	2	**3**	3
Total operating expense provisions	**26**	21	**20**	19
Movements in operating expense provisions comprise of:				
Non-lending losses				
Balance at beginning of year	**14**	10	**14**	10
Provisions raised	**13**	18	**13**	18
Provisions utilised	**(11)**	(7)	**(11)**	(7)
Provisions released	**(2)**	(7)	**(2)**	(7)
Balance at end of year	**14**	14	**14**	14

Note 23 Other Liabilities continued

Dollars in Millions	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Restructuring costs				
Balance at beginning of year	**1**	5	**-**	2
Provisions raised	**2**	-	**2**	-
Provisions utilised	**(1)**	(3)	**-**	(1)
Provisions released	**-**	(1)	**-**	(1)
Balance at end of year	**2**	1	**2**	-
Surplus lease space				
Balance at beginning of year	**4**	4	**2**	2
Provisions raised	**1**	1	**-**	-
Provisions utilised	**(1)**	-	**(1)**	-
Provisions released	**-**	(1)	**-**	-
Balance at end of year	**4**	4	**1**	2
Other				
Balance at beginning of year	**2**	3	**3**	2
Provisions raised	**6**	2	**2**	2
Provisions utilised	**(2)**	-	**(2)**	-
Provisions released	**-**	(3)	**-**	(1)
Balance at end of year	**6**	2	**3**	3
Total operating expense provisions	**26**	21	**20**	19

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 $5 million and provisions for surplus lease space, operating expense provisions disclosed above are expected to be utilised within the following 12 months. Non-lending loss provisions of $5 million are expected to be utilised before 30 September 2007 (30 September 2004: $4 million). 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, for the year ended 30 September 2004, an expected reimbursement of $5 million was recognised. This asset was included within Other assets category in note 15. As at 30 September 2005, this had been received.

Notes to and Forming Part of the Financial Statements continued

Other Notes

Dollars in Millions	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Note 24 Contributed Equity				
Issued and paid-up share capital				
Ordinary shares, fully paid – balance at beginning of year	**1,451**	1,451	**1,451**	1,451
Ordinary shares, fully paid – balance at end of year	**1,451**	1,451	**1,451**	1,451

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.

Dollars in Millions	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Note 25 Retained Earnings				
Balance at beginning of year	**1,013**	865	**874**	713
Net surplus attributable to shareholder of Bank of New Zealand	**541**	471	**536**	484
Ordinary dividend	**(235)**	(323)	**(235)**	(323)
Balance at end of year	**1,319**	1,013	**1,175**	874
Note 26 Imputation Credit Account				
Balance at beginning of year	**91**	37	**59**	17
Imputation credits attaching to dividends received during the year	**25**	33	**31**	19
Imputation credits attaching to dividends paid during the year	**(59)**	(89)	**(59)**	(89)
Income tax payments during the year net of refunds	**217**	110	**217**	112
Balance at end of year	**274**	91	**248**	59

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 27 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 $88 million as at 30 September 2005 (30 September 2004: $75 million) rank in priority to general creditors' claims in a winding up of the Bank. Subordinated loans from related entities totalling $905 million as at 30 September 2005 (30 September 2004: $905 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 $153 million as at 30 September 2005 (30 September 2004: $218 million). The Bank held secured deposits of $266 million as at 30 September 2005 (30 September 2004: $200 million).

Dollars in Millions	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Interest earning and discount bearing assets	**41,668**	36,956	**41,623**	35,404
Interest and discount bearing liabilities	**38,638**	34,009	**41,190**	34,988

Notes to and Forming Part of the Financial Statements continued

Note 28 Related Entity Transactions

The Bank is a wholly owned controlled entity of National Australia Bank Limited. During the year ended 30 September 2005, 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.

	Consolidated		The Company	
Dollars in Millions	**30/9/05**	30/9/04	**30/9/05**	30/9/04
Amounts due from related entities				
Call	**57**	29	**73**	27
Term	**113**	152	**559**	617
Total amounts due from related entities	**170**	181	**632**	644
Amounts due to related entities				
Call	**1,641**	65	**4,084**	241
Term	**5,467**	4,674	**5,576**	5,477
Total amounts due to related entities	**7,108**	4,739	**9,660**	5,718
Subordinated loans from related entities (refer to note 22)	**905**	905	**905**	905

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 2005 (30 September 2004: nil).

During the year ended 30 September 2005, 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 $149 million (30 September 2004: $181 million).

During the year ended 30 September 2005, the Bank incurred $36 million of intercompany charges from National Australia Bank Limited in relation to technology costs (30 September 2004: $75 million).

The unrealised gains on derivative financial instruments on contracts with National Australia Bank Limited contained within note 15 were $143 million as at 30 September 2005 (30 September 2004: $134 million). Unrealised losses on derivative financial instruments on contracts with National Australia Bank Limited contained within note 23 were $308 million as at 30 September 2005 (30 September 2004: $450 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 2005 totalled $12 million (30 September 2004: $12 million).

Details of other related entity transactions including dividends, interest income and interest expense are contained in note 2 and note 3. Details of controlled entities sold and incorporated are contained in note 12.

Loans to Directors

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

- on normal commercial terms and conditions; or
- on terms and conditions which apply to other employees in the Banking Group. Interest rates on the loans ranged from 6.5% to 12.2% per annum.

Note 28 Related Entity Transactions continued

Dollars in Thousands	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Loans to Directors				
Loans on normal terms and conditions	**1,729**	1,876	**1,729**	1,876
Loans on employee terms and conditions	**396**	9	**396**	9
Total loans to Directors	**2,125**	1,885	**2,125**	1,885

Note 29 Fair Value of Financial Instruments

Dollars in Millions	Consolidated Carrying Amount 30/9/05	Consolidated Fair Value 30/9/05	Consolidated Carrying Amount 30/9/04	Consolidated Fair Value 30/9/04
Financial assets				
Liquid assets	**60**	**60**	119	119
Due from other financial institutions	**720**	**720**	527	527
Other money market placements	**615**	**615**	585	585
Securities	**2,235**	**2,235**	1,598	1,598
Loans and advances to customers	**37,829**	**37,720**	33,967	33,855
Amounts due from related entities	**170**	**170**	181	181
Other	**131**	**131**	358	358
Total financial assets	**41,760**	**41,651**	37,335	37,223
Financial liabilities				
Due to central banks and other financial institutions	**1,685**	**1,685**	928	928
Other money market deposits	**8,384**	**8,384**	8,638	8,638
Securities	**245**	**245**	167	167
Deposits from customers	**20,382**	**20,384**	18,760	18,757
Bonds and notes	**583**	**589**	529	546
Amounts due to related entities	**7,108**	**7,108**	4,739	4,739
Subordinated loans from related entities	**905**	**905**	905	905
Other	**54**	**54**	215	215
Total financial liabilities	**39,346**	**39,354**	34,881	34,895

	The Company Carrying Amount 30/9/05	The Company Fair Value 30/9/05	The Company Carrying Amount 30/9/04	The Company Fair Value 30/9/04
Financial assets				
Liquid assets	**60**	**60**	119	119
Due from other financial institutions	**720**	**720**	527	527
Other money market placements	**615**	**615**	585	585
Securities	**2,235**	**2,235**	1,598	1,598
Loans and advances to customers	**37,320**	**37,211**	31,949	31,803
Amounts due from related entities	**632**	**632**	644	644
Other	**51**	**51**	228	228
Total financial assets	**41,633**	**41,524**	35,650	35,504
Financial liabilities				
Due to central banks and other financial institutions	**1,685**	**1,685**	928	928
Other money market deposits	**8,384**	**8,384**	8,638	8,638
Securities	**245**	**245**	167	167
Deposits from customers	**20,382**	**20,384**	18,760	18,757
Bonds and notes	**583**	**589**	529	546
Amounts due to related entities	**9,660**	**9,660**	5,718	5,718
Subordinated loans from related entities	**905**	**905**	905	905
Other	**54**	**54**	215	215
Total financial liabilities	**41,898**	**41,906**	35,860	35,874

Note 29 Fair Value of Financial Instruments continued

The fair values of off-balance sheet derivative financial instruments are disclosed in note 33.

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

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

These assets and liabilities are short term in nature and reprice within six months, therefore their carrying value is assumed to be their fair value. Liquid assets comprise cash and call balances with central banks and accrued interest receivable less accrued interest payable.

Securities

Securities comprise of trading, investment and available for sale securities. The fair value is based on quoted market prices.

Loans and advances to customers

Loans and advances to customers comprise of a mixture of floating and fixed rate loans. Floating rate loans to customers reprice within six months, therefore their carrying value is assumed to be their fair value. For fixed rate loans, the fair value is estimated by discounting the cash flows using current market interest rates. Where such loans are considered impaired, the estimated fair value is based on the written down carrying value.

Amounts due from/to related entities

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

Other financial assets

Other financial assets include the fair value of other investments and securities sold not yet settled and is based on quoted closing market prices as at balance date where available. Where quoted market prices do not exist, the fair values are estimated after taking into account the underlying financial position of the investee or quoted market prices for similar instruments.

Deposits from customers

Deposits from customers include a mixture of on call and fixed rate term deposits. Call deposits generally reprice within six months, therefore their carrying value is assumed to be the fair value. For fixed rate term deposits, the fair value is estimated by discounting the cash flows using current market interest rates.

Bonds and notes

The fair values of bonds and notes are calculated on the basis of a discounted cash flow model using a curve appropriate to the remaining maturity of the notes.

Subordinated loans from related entities

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

Other financial liabilities

Other financial liabilities include securities purchased not yet sold. The fair value is based on quoted closing market prices at balance date where available.

Note 30 Maturity Profile

Dollars in Millions	Total	Call	3 Months or Less	3 to 12 Months	1 to 5 Years	Over 5 Years	No Specified Maturity
Consolidated 30/9/05							
Assets							
Cash and call balances with central banks	**132**	**132**	**-**	**-**	**-**	**-**	**-**
Due from other financial institutions	**720**	**91**	**629**	**-**	**-**	**-**	**-**
Other money market placements	**615**	**615**	**-**	**-**	**-**	**-**	**-**
Securities	**2,235**	**-**	**1,337**	**824**	**21**	**53**	**-**
Loans and advances to customers	**37,829**	**4,846**	**6,280**	**2,519**	**6,686**	**17,498**	**-**
Amounts due from related entities	**170**	**57**	**83**	**30**	**-**	**-**	**-**
All other assets	**2,241**	**-**	**-**	**-**	**-**	**-**	**2,241**
Total assets	**43,942**	**5,741**	**8,329**	**3,373**	**6,707**	**17,551**	**2,241**
Liabilities							
Due to central banks and other financial institutions	**1,685**	**1,285**	**395**	**5**	**-**	**-**	**-**
Other money market deposits	**8,384**	**431**	**6,559**	**1,368**	**26**	**-**	**-**
Deposits from customers	**20,382**	**8,880**	**8,349**	**2,895**	**258**	**-**	**-**
Bonds and notes	**583**	**-**	**-**	**106**	**376**	**101**	**-**
Amounts due to related entities	**7,108**	**1,641**	**625**	**500**	**4,065**	**277**	**-**
Securities	**245**	**-**	**-**	**-**	**110**	**135**	**-**
Subordinated loans from related entities	**905**	**-**	**-**	**-**	**-**	**905**	**-**
All other liabilities	**1,880**	**-**	**-**	**-**	**-**	**-**	**1,880**
Total liabilities	**41,172**	**12,237**	**15,928**	**4,874**	**4,835**	**1,418**	**1,880**
Consolidated 30/9/04							
Assets							
Cash and call balances with central banks	136	136	-	-	-	-	-
Due from other financial institutions	527	174	353	-	-	-	-
Other money market placements	585	528	57	-	-	-	-
Securities	1,598	-	999	515	32	52	-
Loans and advances to customers	33,967	4,034	5,661	3,120	6,468	14,684	-
Amounts due from related entities	181	42	139	-	-	-	-
All other assets	2,316	-	-	-	-	-	2,316
Total assets	39,310	4,914	7,209	3,635	6,500	14,736	2,316
Liabilities							
Due to central banks and other financial institutions	928	381	547	-	-	-	-
Other money market deposits	8,638	495	5,616	2,494	33	-	-
Deposits from customers	18,760	8,441	7,565	2,428	326	-	-
Bonds and notes	529	-	-	109	377	43	-
Amounts due to related entities	4,739	988	597	1,361	1,628	165	-
Securities	167	-	-	-	160	7	-
Subordinated loans from related entities	905	-	-	-	-	905	-
All other liabilities	2,180	-	-	-	-	-	2,180
Total liabilities	36,846	10,305	14,325	6,392	2,524	1,120	2,180

Notes to and Forming Part of the Financial Statements continued

Note 30 Maturity Profile continued

Dollars in Millions	Total	Call	3 Months or Less	3 to 12 Months	1 to 5 Years	Over 5 Years	No Specified Maturity
	The Company 30/9/05						
Assets							
Cash and call balances with central banks	**132**	**132**	**-**	**-**	**-**	**-**	**-**
Due from other financial institutions	**720**	**91**	**629**	**-**	**-**	**-**	**-**
Other money market placements	**615**	**615**	**-**	**-**	**-**	**-**	**-**
Securities	**2,235**	**-**	**1,337**	**824**	**21**	**53**	**-**
Loans and advances to customers	**37,320**	**4,846**	**6,279**	**2,517**	**6,180**	**17,498**	**-**
Amounts due from related entities	**632**	**73**	**89**	**469**	**-**	**1**	**-**
All other assets	**4,634**	**-**	**-**	**-**	**-**	**-**	**4,634**
Total assets	**46,288**	**5,757**	**8,334**	**3,810**	**6,201**	**17,552**	**4,634**
Liabilities							
Due to central banks and other financial institutions	**1,685**	**1,285**	**395**	**5**	**-**	**-**	**-**
Other money market deposits	**8,384**	**431**	**6,559**	**1,368**	**26**	**-**	**-**
Deposits from customers	**20,382**	**8,880**	**8,349**	**2,895**	**258**	**-**	**-**
Bonds and notes	**583**	**-**	**-**	**106**	**376**	**101**	**-**
Amounts due to related entities	**9,660**	**4,084**	**722**	**499**	**4,078**	**277**	**-**
Securities	**245**	**-**	**-**	**-**	**110**	**135**	**-**
Subordinated loans from related entities	**905**	**-**	**-**	**-**	**-**	**905**	**-**
All other liabilities	**1,818**	**-**	**-**	**-**	**-**	**-**	**1,818**
Total liabilities	**43,662**	**14,680**	**16,025**	**4,873**	**4,848**	**1,418**	**1,818**
	The Company 30/9/04						
Assets							
Cash and call balances with central banks	136	136	-	-	-	-	-
Due from other financial institutions	527	174	353	-	-	-	-
Other money market placements	585	528	57	-	-	-	-
Securities	1,598	-	999	515	32	52	-
Loans and advances to customers	31,949	4,034	5,643	2,620	4,968	14,684	-
Amounts due from related entities	644	42	602	-	-	-	-
All other assets	4,627	-	-	-	-	-	4,627
Total assets	40,066	4,914	7,654	3,135	5,000	14,736	4,627
Liabilities							
Due to central banks and other financial institutions	928	381	547	-	-	-	-
Other money market deposits	8,638	495	5,616	2,494	33	-	-
Deposits from customers	18,760	8,441	7,565	2,428	326	-	-
Bonds and notes	529	-	-	109	377	43	-
Amounts due to related entities	5,718	1,158	1,406	1,361	1,628	165	-
Securities	167	-	-	-	160	7	-
Subordinated loans from related entities	905	-	-	-	-	905	-
All other liabilities	2,096	-	-	-	-	-	2,096
Total liabilities	37,741	10,475	15,134	6,392	2,524	1,120	2,096

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 30/9/05					
Note 31 Interest Rate Repricing Schedule							
Assets							
Cash and call balances with central banks	-	132	-	-	-	-	132
Due from other financial institutions	5.7	720	720	-	-	-	-
Other money market placements	7.1	615	615	-	-	-	-
Securities	6.7	2,235	1,337	824	21	53	-
Loans and advances to customers	8.0	38,043	16,006	7,068	14,762	92	115
Provisions for doubtful debts	-	(214)	-	-	-	-	(214)
Amounts due from related entities	5.0	170	170	-	-	-	-
Other assets	-	2,241	-	-	-	-	2,241
Total assets		43,942	18,848	7,892	14,783	145	2,274
Liabilities and shareholder's equity							
Due to central banks and other financial institutions	6.1	1,685	1,680	5	-	-	-
Other money market deposits	6.0	8,384	6,990	1,368	26	-	-
Deposits from customers	4.9	20,382	16,600	2,870	258	-	654
Bonds and notes	6.5	583	-	106	376	101	-
Amounts due to related entities	5.8	7,108	6,982	126	-	-	-
Securities	5.8	245	-	-	110	135	-
Subordinated loans from related entities	7.7	905	905	-	-	-	-
Other liabilities	-	1,880	-	-	-	-	1,880
Shareholder's equity	-	2,770	-	-	-	-	2,770
Total liabilities and shareholder's equity		43,942	33,157	4,475	770	236	5,304
On-balance sheet gap		-	(14,309)	3,417	14,013	(91)	(3,030)
Off-balance sheet gap			16,257	(4,940)	(11,239)	(78)	-
Total interest rate sensitivity gap			1,948	(1,523)	2,774	(169)	

The weighted average interest rate referred to in the table above is the weighted average rate as at 30 September 2005 for the interest sensitive assets and liabilities.

Notes to and Forming Part of the Financial Statements continued

Note 31 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
		Consolidated 30/9/04					
Assets							
Cash and call balances with central banks	-	136	-	-	-	-	136
Due from other financial institutions	3.7	527	527	-	-	-	-
Other money market placements	6.3	585	585	-	-	-	-
Securities	6.2	1,598	999	515	32	52	-
Loans and advances to customers	7.9	34,159	16,131	5,413	12,379	142	94
Provisions for doubtful debts	-	(192)	-	-	-	-	(192)
Amounts due from related entities	3.7	181	181	-	-	-	-
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 central banks and other financial institutions	3.9	928	928	-	-	-	-
Other money market deposits	4.9	8,638	6,124	2,490	24	-	-
Deposits from customers	4.0	18,760	15,397	2,400	306	-	657
Bonds and notes	6.6	529	-	109	377	43	-
Amounts due to related entities	3.1	4,739	4,739	-	-	-	-
Securities	6.2	167	-	-	160	7	-
Subordinated loans from related entities	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	28,093	4,999	867	50	5,301
On-balance sheet gap		-	(9,670)	929	11,544	144	(2,947)
Off-balance sheet gap			11,833	(2,792)	(8,969)	(72)	-
Total interest rate sensitivity gap			2,163	(1,863)	2,575	72	

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

Notes to and Forming Part of the Financial Statements continued

Note 31 Interest Rate Repricing Schedule continued

	The Company 30/9/05						
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 call balances with central banks	-	132	-	-	-	-	132
Due from other financial institutions	5.7	720	720	-	-	-	-
Other money market placements	7.1	615	615	-	-	-	-
Securities	6.7	2,235	1,337	824	21	53	-
Loans and advances to customers	8.0	37,528	15,999	7,068	14,262	92	107
Provisions for doubtful debts	-	(208)	-	-	-	-	(208)
Amounts due from related entities	5.0	632	632	-	-	-	-
Other assets	-	4,634	-	-	-	-	4,634
Total assets		46,288	19,303	7,892	14,283	145	4,665
Liabilities and shareholder's equity							
Due to central banks and other financial institutions	6.1	1,685	1,680	5	-	-	-
Other money market deposits	6.0	8,384	6,990	1,368	26	-	-
Deposits from customers	4.9	20,382	16,600	2,870	258	-	654
Bonds and notes	6.5	583	-	106	376	101	-
Amounts due to related entities	5.8	9,660	9,534	126	-	-	-
Securities	5.8	245	-	-	110	135	-
Subordinated loans from related entities	7.7	905	905	-	-	-	-
Other liabilities	-	1,818	-	-	-	-	1,818
Shareholder's equity	-	2,626	-	-	-	-	2,626
Total liabilities and shareholder's equity		46,288	35,709	4,475	770	236	5,098
On-balance sheet gap		-	(16,406)	3,417	13,513	(91)	(433)
Off-balance sheet gap			15,757	(4,940)	(10,739)	(78)	
Total interest rate sensitivity gap			(649)	(1,523)	2,774	(169)	

The weighted average interest rate referred to in the table above is the weighted average rate as at 30 September 2005 for the interest sensitive assets and liabilities.

Notes to and Forming Part of the Financial Statements continued

Note 31 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 call balances with central banks	-	136	-	-	-	-	136
Due from other financial institutions	3.7	527	527	-	-	-	-
Other money market placements	6.3	585	585	-	-	-	-
Securities	6.2	1,598	999	515	32	52	-
Loans and advances to customers	7.9	32,136	15,716	4,863	11,329	142	86
Provisions for doubtful debts	-	(187)	-	-	-	-	(187)
Amounts due from related entities	5.3	644	644	-	-	-	-
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 central banks and other financial institutions	3.9	928	928	-	-	-	-
Other money market deposits	4.9	8,638	6,124	2,490	24	-	-
Deposits from customers	4.0	18,760	15,397	2,400	306	-	657
Bonds and notes	6.6	529	-	109	377	43	-
Amounts due to related entities	3.1	5,718	5,718	-	-	-	-
Securities	6.2	167	-	-	160	7	-
Subordinated loans from related entities	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	29,072	4,999	867	50	5,078
On-balance sheet gap		-	(10,601)	379	10,494	144	(416)
Off-balance sheet gap			10,333	(2,292)	(7,969)	(72)	-
Total interest rate sensitivity gap			(268)	(1,913)	2,525	72	

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

Notes to and Forming Part of the Financial Statements continued

Note 32 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	**30/9/05**	30/9/04	**30/9/05**	30/9/04
US dollar	**1**	(29)	**1**	(29)
Australian dollar	**(13)**	(5)	**(13)**	(5)
Japanese yen	**5**	6	**5**	6
Pound sterling	**(3)**	-	**(3)**	-
Euro	**(1)**	5	**(1)**	5
Swiss Franc	**-**	3	**-**	3
Other	**-**	(1)	**-**	(1)

Note 33 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 30/9/05**	Notional Amount 30/9/04	**Credit Equivalent 30/9/05**	Credit Equivalent 30/9/04	**Fair Value 30/9/05**	Fair Value 30/9/04
Foreign exchange rate related contracts						
Spot and forward contracts to purchase foreign exchange						
Trading	**30,172**	19,192	**806**	778	**(111)**	(93)
Other than trading	**8,072**	8,458	**95**	131	**(231)**	(427)
Total spot and forward contracts to purchase foreign exchange	**38,244**	27,650	**901**	909	**(342)**	(520)
Cross currency swaps						
Trading	**5,712**	4,268	**10**	1	**3**	2
Total cross currency swaps	**5,712**	4,268	**10**	1	**3**	2
Options						
Trading	**883**	987	**23**	32	**-**	-
Total options	**883**	987	**23**	32	**-**	-
Total foreign exchange rate related contracts	**44,839**	32,905	**934**	942	**(339)**	(518)

The Spot and forward contracts to purchase foreign exchange, Other than trading (fair value and carrying value loss of $231 million as at 30 September 2005 (30 September 2004: $427 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.

Notes to and Forming Part of the Financial Statements continued

Note 33 Derivative Financial Instruments continued

Notional principal, estimated credit equivalent and fair value continued

	Consolidated					
Dollars in Millions	**Notional Amount 30/9/05**	Notional Amount 30/9/04	**Credit Equivalent 30/9/05**	Credit Equivalent 30/9/04	**Fair Value 30/9/05**	Fair Value 30/9/04
Interest rate related contracts						
Forward rate agreements						
Trading	**3,100**	11,432	**1**	7	**(1)**	(2)
Other than trading	**4,900**	3,375	**2**	2	**1**	-
Total forward rate agreements	**8,000**	14,807	**3**	9	**-**	(2)
Swaps						
Trading	**65,094**	28,245	**589**	308	**(85)**	(39)
Other than trading	**32,183**	25,543	**267**	198	**97**	(26)
Total swaps	**97,277**	53,788	**856**	506	**12**	(65)
Futures						
Trading	**5,531**	2,796	**-**	-	**3**	(1)
Other than trading	**1,524**	1,979	**-**	-	**-**	(1)
Total futures	**7,055**	4,775	**-**	-	**3**	(2)
Options						
Trading	**690**	305	**8**	4	**(2)**	(2)
Other than trading	**269**	297	**2**	2	**2**	1
Total options	**959**	602	**10**	6	**-**	(1)
Swaptions						
Trading	**488**	-	**1**	-	**(1)**	-
Other than trading	**32**	-	**-**	-	**-**	-
Total swaptions	**520**	-	**1**	-	**(1)**	-
Total interest rate related contracts	**113,811**	73,972	**870**	521	**14**	(70)
Other market related contracts						
Commodities						
Trading	**21**	46	**2**	6	**-**	-
Total commodities	**21**	46	**2**	6	**-**	-
Equity options						
Other than trading	**3**	40	**1**	4	**-**	2
Total equity options	**3**	40	**1**	4	**-**	2
Total other market related contracts	**24**	86	**3**	10	**-**	2

The Other than trading interest rate swaps hedge structural interest rate risk associated with the Bank's statement of financial position. The carrying value of these swaps as at 30 September 2005 was $58 million net payable (30 September 2004: $102 million net payable). The net fair value gain was $155 million as at 30 September 2005 (30 September 2004: $76 million fair value gain) which was calculated as a fair value gain of $97 million (30 September 2004: $26 million fair value loss) adjusted for the recognised net payable of $58 million (30 September 2004: $102 million net payable).

As at 30 September 2005, all of the above contracts have been taken out by the Company other than $500 million worth of Other than trading swaps (30 September 2004: $2,000 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 $9 million (30 September 2004: $33 million fair value loss).

	Consolidated			
Dollars in Millions	30/9/05 $	30/9/05 %	30/9/04 $	30/9/04 %

Note 34 Segment Analysis

Geographical

	30/9/05 $	30/9/05 %	30/9/04 $	30/9/04 %
Operating income				
New Zealand	**1,433**	**100**	1,376	99
Overseas	**7**	**-**	7	1
Total operating income	**1,440**	**100**	1,383	100
Operating surplus from continuing activities before tax expense				
New Zealand	**705**	**99**	620	99
Overseas	**5**	**1**	5	1
Total operating surplus from continuing activities before tax expense	**710**	**100**	625	100
Net surplus attributable to shareholder of Bank of New Zealand				
New Zealand	**538**	**99**	468	99
Overseas	**3**	**1**	3	1
Total net surplus attributable to shareholder of Bank of New Zealand	**541**	**100**	471	100
Assets				
New Zealand	**43,695**	**99**	39,040	99
Overseas	**247**	**1**	270	1
Total assets	**43,942**	**100**	39,310	100
Risk weighted exposures				
New Zealand	**34,336**	**100**	29,732	100
Overseas	**53**	**-**	64	-
Total risk weighted exposures	**34,389**	**100**	29,796	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 35 Contingent Liabilities and Credit Commitments

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

Contingent liabilities and credit commitments exist in respect of commitments to extend credit, letters of credit and financial guarantees, as well as claims, potential claims and court proceedings against entities in the Banking Group. 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 assessments from the Inland Revenue Department – structured finance transactions

The Inland Revenue Department (the "IRD") is carrying out a review of certain structured finance transactions in the banking industry.

The Bank and one of its wholly-owned controlled entities have received amended tax assessments for the 1998 and 1999 tax years from the IRD with respect to certain structured finance transactions. The amended assessments are for income tax of approximately $47 million. Interest will be payable on this amount, and the possible application of penalties has yet to be considered by the IRD.

The IRD has also issued Notices of Proposed Adjustments in respect of these and similar structured finance transactions for the 2000, 2001 and 2002 tax years. These notices do not create a tax obligation for the Bank, but advise of the IRD's intention to issue amended assessments for those years.

All of the Bank's structured finance transactions that are the subject of the IRD's review had either matured or been terminated by 30 June 2005.

If the IRD issues amended assessments for all transactions for years up to 30 September 2005, the maximum sum of primary tax which the IRD might claim for all years is approximately $416 million. In addition, as at 30 September 2005, interest of $117 million (net of tax) would be payable.

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 transactions are similar to transactions undertaken by other New Zealand banks.

The financial effect of the unpaid balance of the amounts owing under the amended assessments has not been brought to account in the financial statements for the year ended 30 September 2005.

Commerce Commission

In November 2004, the New Zealand Commerce Commission 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 was included in those allegations. That followed an industry-wide investigation into the disclosure of international currency conversion fees on credit and debit card transactions.

In February 2005, charges were laid against a number of card issuers, including the Bank, in relation to this matter. The Bank is defending these charges. As at the date of signing of this General Disclosure Statement, the possible liability the Bank may face cannot be reliably measured. No provision has been made in relation to this matter in the General Disclosure Statement for the year ended 30 September 2005.

Notes to and Forming Part of the Financial Statements continued

Note 35 Contingent Liabilities and Credit Commitments continued

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

	Consolidated			
Dollars in Millions	**Notional Amount 30/9/05**	**Credit Equivalent 30/9/05**	Notional Amount 30/9/04	Credit Equivalent 30/9/04
Contingent liabilities				
Guarantees	**52**	**52**	51	51
Standby letters of credit	**226**	**226**	192	192
Documentary letters of credit	**57**	**11**	93	19
Performance related contingencies	**239**	**120**	168	84
Guarantees to investors in managed funds	**34**	**34**	29	29
Total other contingent liabilities	**608**	**443**	533	375
Credit related commitments				
Commitments to extend credit	**12,779**	**3,025**	11,390	2,304
Total credit related commitments	**12,779**	**3,025**	11,390	2,304

	The Company			
Contingent liabilities				
Guarantees	**52**	**52**	51	51
Standby letters of credit	**226**	**226**	192	192
Documentary letters of credit	**57**	**11**	93	19
Performance related contingencies	**239**	**120**	168	84
Guarantees to investors in managed funds	**34**	**34**	29	29
Unpaid share capital in controlled entities and other companies	**14**	**14**	14	14
Total other contingent liabilities	**622**	**457**	547	389
Credit related commitments				
Commitments to extend credit	**12,824**	**3,047**	11,390	2,304
Total credit related commitments	**12,824**	**3,047**	11,390	2,304

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 41.

The Banking Group uses the same credit policies and assessment criteria in making commitments and conditional obligations for off-balance sheet risks 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.

Note 35 Contingent Liabilities and Credit Commitments continued

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.

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 2005, the Bank guaranteed Capital Guaranteed Growth Notes with a value of $34 million (30 September 2004: $28 million). The deposits are due to mature in May 2007. The Bank also guarantees the return of a registered superannuation scheme with a nil value as at 30 September 2005 (30 September 2004: $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	**30/9/05**	30/9/04	**30/9/05**	30/9/04
Note 36 Capital Expenditure Commitments				
Furniture and fittings				
Due within one year	**3**	10	**-**	-
Data processing assets and other equipment				
Due within one year	**4**	4	**4**	4
Motor vehicles				
Due within one year	**27**	28	**-**	-
Total capital expenditure commitments	**34**	42	**4**	4

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

Dollars in Millions	Consolidated 30/9/05	Consolidated 30/9/04	The Company 30/9/05	The Company 30/9/04
Note 37 Lease Commitments				
Operating lease commitments				
Land and buildings*				
Due within one year	**42**	41	**1**	2
Due within one to two years	**33**	33	**1**	2
Due within two to five years	**36**	40	**1**	1
Due after five years	**14**	12	**1**	1
Total land and buildings	**125**	126	**4**	6
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	**1**	2	**-**	-
Total operating lease commitments	**126**	128	**4**	6

* Figures include liabilities taken up for surplus leased space.

Note 38 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. 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 reported in the table below are on a gross basis.

Dollars in Millions	Consolidated As At 30/9/05	As At 30/9/04	Peak for the 3 Months Ended 30/9/05	Peak for the 3 Months Ended 30/9/04
Credit exposure to connected persons	**556**	470	**556**	653
Credit exposure to connected persons expressed as a percentage of tier one capital of the Banking Group at end of period	**20.8%**	19.9%	**20.8%**	27.6%
Credit exposure to non-bank connected persons	**-**	-	**-**	-
Credit exposure to non-bank connected persons as a percentage of tier one capital of the Banking Group at end of period	**0.0%**	0.0%	**0.0%**	0.0%

As at 30 September 2005, the Banking Group's rating-contingent limit was 70% of the Banking Group's tier one capital. There were no changes to this limit during the three months ended 30 September 2005. Within the overall rating-contingent limit, there is a sublimit of 15% of tier one capital which applies to aggregate credit exposures to non-bank connected persons.

The rating-contingent limit on lending to connected persons as set out in the Bank's Conditions of Registration has been complied with at all times during the three months ended 30 September 2005.

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 2005, the Banking Group had no contingent credit exposure (30 September 2004: $300 million) arising from risk lay-off arrangements with connected persons. There were no specific provisions against credit exposures to connected persons as at 30 September 2005 (30 September 2004: nil).

Note 39 Concentrations of Credit Exposures to Individual Counterparties and Groups of Closely Related Counterparties

The Banking Group's disclosure of concentrations of credit exposures to individual counterparties and groups of closely related counterparties is based on actual credit exposures and excludes credit exposures to connected persons 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 30/9/05**	For the 3 Months Ended 30/9/04	**For the 3 Months Ended 30/9/05**	For the 3 Months Ended 30/9/04
10 - 19	**1**	3	**2**	3
20 - 29	**2**	3	**3**	2
30 - 39	**-**	-	**-**	-
40 - 49	**-**	-	**-**	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 30/9/05**	As At 30/9/04	**As At 30/9/05**	As At 30/9/04
10 - 19	**1**	3	**3**	1
20 - 29	**2**	3	**-**	-
30 - 39	**-**	-	**-**	-
40 - 49	**-**	-	**-**	1

Large exposure credit ratings

	Consolidated			
Dollars in Millions	**As At 30/9/05 $**	**As At 30/9/05 %**	As At 30/9/04 $	As At 30/9/04 %
Non-banks				
Exposures of investment grade credit rating	**1,137**	**67**	2,236	89
Exposures that are unrated or that do not meet a specified ratings criterion	**564**	**33**	283	11
Total non-banks exposures	**1,701**	**100**	2,519	100
Banks				
Exposures of investment grade credit rating	**938**	**100**	1,273	100
Total banks exposures	**938**	**100**	1,273	100

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 40 Securitisation, Funds Management, Other Fiduciary Activities, and the Marketing and Distribution of Insurance Products

Funds management

The Bank markets the products of BNZ Investment Management Limited, a controlled entity of National Australia Bank Limited, through its branch network.

The Banking Group derives commission from the sale of superannuation and unit trusts marketed on behalf of BNZ Investment Management Limited.

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

Marketing and distribution of insurance products

The Banking Group is involved in marketing insurance products for the following entities: BNZ Life Insurance Limited, American Home Assurance Company (Australia Branch), American Express International Inc. on behalf of International SOS (HK) Limited, The National Mutual Life Association of Australasia Limited (AXA), IAG New Zealand Limited, Aon Risk Services Australia Limited, Cigna Life Insurance New Zealand Limited, PMI Mortgage Insurance Limited and Zurich Australian Insurance Limited.

All of these entities are unrelated to the Banking Group, with the exception of BNZ Life Insurance Limited, a controlled entity of National Australia Bank Limited, which is an Affiliated Insurance Entity as defined in the Reserve Bank of New Zealand Capital Adequacy Framework (BS2).

The Banking Group derives commission income from the sale of insurance products marketed on behalf of the above-named entities, with the exception of American Home Assurance Company (Australia Branch), Aon Risk Services Australia Limited and PMI Mortgage Insurance Limited.

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

As at 30 September 2005, securitisation arrangements in which the Banking Group has been involved to the extent detailed above amounted to $577 million (30 September 2004: $573 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.

The Bank's risk review and risk management systems are equally applicable to the marketing and distribution of insurance products by the third party entities identified in the Marketing and Distribution of Insurance Products section above.

Note 40 Securitisation, Funds Management, Other Fiduciary Activities, and the Marketing and Distribution of Insurance Products continued

Risk management continued

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

- disclaimers on policies, application forms and other collateral relating to insurance products expressly state that policy is not an obligation of Bank of New Zealand and that Bank of New Zealand does not guarantee the obligations of the insurer;
- the risks under policies issued by BNZ Life Insurance Limited are substantially reinsured; and
- the introduction of new policies and changes to existing policies marketed or distributed by the Banking Group is subject to the Banking Group's standard risk management policies and processes. Other than Capital Guaranteed Growth Notes with a value of $34 million (30 September 2004: $28 million), and registered superannuation schemes with a nil value as at 30 September 2005 (30 September 2004: $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, and to affiliated insurance entities which conduct marketing and distribution of insurance products, or on whose behalf the marketing and distribution of insurance products are conducted, have been provided on arm's length terms and conditions and at fair value. Assets purchased from any such entities by any member of the Banking Group have been purchased on arm's length terms and conditions and at fair value.

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	**30/9/05**	30/9/04
Discretionary funds management	**2,532**	2,468
Capital Guaranteed Growth Notes	**34**	28
Term life insurance policyholders' funds	**3**	3

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 2005 (30 September 2004: nil).

Peak end of day aggregate funding (including funding provided by the purchase of securities of affiliated insurance entities) provided by the Banking Group to individual affiliated insurance entities is disclosed in the table below:

	Consolidated					
	Peak End-of-Day Aggregate Amount of Funding During the Period Dollars in Thousands		Peak End of Day Aggregate Amount of Funding during the Period Expressed as a Percentage of the Amount of the Entity's Assets at End of Period		Peak End of Day Aggregate Amount of Funding during the Period Expressed as a Percentage of the Banking Group's Tier One Capital at End of Period	
	For the 3 Months Ended 30/9/05	For the 3 Months Ended 30/9/04	**For the 3 Months Ended 30/9/05**	For the 3 Months Ended 30/9/04	**For the 3 Months Ended 30/9/05**	For the 3 Months Ended 30/9/04
BNZ Life Insurance Limited	**1,993**	-	**4.8%**	0.0%	**0.1%**	0.0%

Note 41 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.

Regulatory capital

	Consolidated		The Registered Bank	
Dollars in Millions	**30/9/05**	30/9/04	**30/9/05**	30/9/04
Qualifying capital				
Tier one capital				
Paid in capital	**1,451**	1,451	**1,451**	1,451
Retained earnings	**1,319**	1,013	**1,331**	1,020
Deductions from tier one capital:				
Advances of a capital nature to connected parties	**30**	30	**30**	30
Goodwill	**61**	69	**14**	15
Total tier one capital	**2,679**	2,365	**2,738**	2,426
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**	715	**715**	715
Total lower tier two capital	**715**	715	**715**	715
Total tier two capital	**905**	905	**905**	905
Total tier one and tier two capital	**3,584**	3,270	**3,643**	3,331
Deduct: Investment in controlled entities not wholly owned or wholly funded	**-**	-	**68**	63
Total qualifying capital	**3,584**	3,270	**3,575**	3,268
Total risk weighted exposures	**34,389**	29,796	**34,457**	29,913
Regulatory capital ratios				
Total tier one capital expressed as a percentage of total risk weighted exposures	**7.79%**	7.94%	**7.95%**	8.11%
Minimum percentage of tier one capital to risk weighted exposures permitted under Bank of New Zealand's Conditions of Registration	**4.00%**	4.00%	**4.00%**	4.00%
Total qualifying capital expressed as a percentage of total risk weighted exposures	**10.42%**	10.97%	**10.38%**	10.93%
Minimum percentage of qualifying capital to risk weighted exposures permitted under Bank of New Zealand's Conditions of Registration	**8.00%**	8.00%	**8.00%**	8.00%

Note 41 Capital Adequacy continued

Calculation of balance sheet exposures

Dollars in Millions	Principal Amount 30/9/05	Risk Weighting 30/9/05	Risk Weighted Exposure 30/9/05
	Consolidated		
Cash and claims on qualifying central banks and governments with maturity within one year	1,953	0%	-
Claims on qualifying governments with maturity over one year	63	10%	6
Claims on banks and New Zealand local authorities	1,315	20%	263
Loans secured by residential mortgages	18,107	50%	9,054
Other	21,516	100%	21,516
Non-risk weighted assets	988	0%	-
Total assets	43,942		30,839

Calculation of off-balance sheet exposures

Dollars in Millions	Principal Amount 30/9/05	Credit Conversion Factor 30/9/05	Credit Equivalent Amount 30/9/05	Average Counterparty Risk Weight 30/9/05	Risk Weighted Exposure 30/9/05
Direct credit substitutes	278	100%	278	100%	278
Commitments with certain drawdown	34	100%	34	100%	34
Transaction related contingent liabilities	239	50%	120	100%	120
Short term, self liquidating trade related contingencies	57	20%	11	100%	11
Commitments for financial services:					
Maturity is greater than one year	6,049	50%	3,025	88%	2,655
Maturity is less than one year or can be cancelled at any time	6,730	0%	-	-	-
Market related contracts:*					
Foreign exchange contracts	44,397	-	934	28%	260
Interest rate contracts	112,720	-	862	22%	191
Other	14	-	3	34%	1
Total off-balance sheet items	170,518		5,267		3,550
Total risk weighted exposures					34,389

* 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. Market related contracts differ to the amounts disclosed in note 33 due to options written by the Bank.

Note 41 Capital Adequacy continued

Calculation of balance sheet exposures

	Consolidated		
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
Other	18,871	100%	18,871
Non-risk weighted assets	932	0%	-
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	20%	2
Total off-balance sheet items	118,029		4,119		2,760
Total risk weighted exposures					29,796

* 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. Market related contracts differ to the amounts disclosed in note 33 due to options written by the Bank.

Notes to and Forming Part of the Financial Statements continued

Note 41 Capital Adequacy continued

Calculation of balance sheet exposures

Dollars in Millions	The Registered Bank Principal Amount 30/9/05	Risk Weighting 30/9/05	Risk Weighted Exposure 30/9/05
Cash and claims on qualifying central banks and governments with maturity within one year	1,953	0%	-
Claims on qualifying governments with maturity over one year	63	10%	6
Claims on banks and New Zealand local authorities	1,315	20%	263
Loans secured by residential mortgages	18,107	50%	9,054
Other	21,591	100%	21,591
Non-risk weighted assets	941	0%	-
Total assets	43,970		30,914

Calculation of off-balance sheet exposures

Dollars in Millions	Principal Amount 30/9/05	Credit Conversion Factor 30/9/05	Credit Equivalent Amount 30/9/05	Average Counterparty Risk Weight 30/9/05	Risk Weighted Exposure 30/9/05
Direct credit substitutes	278	100%	278	100%	278
Commitments with certain drawdown	4	100%	4	100%	4
Transaction related contingent liabilities	239	50%	120	100%	120
Short term, self liquidating trade related contingencies	57	20%	11	100%	11
Commitments for financial services:					
Maturity is greater than one year	6,094	50%	3,047	88%	2,678
Maturity is less than one year or can be cancelled at any time	6,730	0%	-	-	-
Market related contracts:*					
Foreign exchange contracts	44,397	-	934	28%	260
Interest rate contracts	112,220	-	859	22%	191
Other	14	-	3	34%	1
Total off-balance sheet items	170,033		5,256		3,543
Total risk weighted exposures					34,457

* 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. Market related contracts differ to the amounts disclosed in note 33 due to options written by the Bank.

Note 41 Capital Adequacy continued

Calculation of balance sheet exposures

Dollars in Millions	The Registered Bank 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
Other	18,990	100%	18,990
Non-risk weighted assets	877	0%	-
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	0%	-	-	-
Market related contracts:*					
Foreign exchange contracts	32,410	-	942	28%	267
Interest rate contracts	71,662	-	507	28%	140
Other	63	-	10	20%	2
Total off-balance sheet items	116,029		4,109		2,758
Total risk weighted exposures					29,913

* 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. Market related contracts differ to the amounts disclosed in note 33 due to options written by the Bank.

Note 41 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 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

	30/9/05	30/9/04
Total tier one capital expressed as a percentage of total risk weighted exposures	**7.9%**	7.3%
Total qualifying capital expressed as a percentage of total risk weighted exposures	**10.5%**	10.6%

National Australia Bank Limited is required under the Australian Prudential Regulation Authority's ("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 2005, National Australia Bank Limited met the minimum capital requirements. The total capital ratio as at 30 September 2005 reflects the APRA-imposed requirement for the National Australia Bank Limited's minimum regulatory 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 Group website at www.nabgroup.com.

Note 42 Nature and Review of Risk Management Systems

Management of risk is an essential element of the Bank's strategy, with emphasis placed on a pro-active rather than re-active approach. This is done 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.

The Risk Management Division (which comprises Credit Decisioning, Credit Portfolio Management and Policy, Risk Asset Review, Specialised Business Services, Regulatory Relations, Non-Traded Market Risk, Operational Risk and Compliance, Internal Audit) and the Market Risk Unit located within Corporate and Institutional Banking monitor the Bank's risk profile in existing and future business operations.

Risk is managed on the basis of:

- Individual lines of business – embed the risk management framework into standard operating procedures and monitor risk management performance.
- Risk Management – monitor and report on risk outcomes, exercise approval authorities and develop and implement the risk management framework, policies, systems, processes and tools.
- Internal Audit – reviews effectiveness of risk management processes, confirms compliance and recommends improvements/enforces corrective action as necessary.

Specific Committees are in place to oversee certain Risk areas, including in relation to Operational Risk and Compliance, Market Risk, Asset and Liability Management and Credit Risk Management. There is also an overarching Risk Management Committee, comprising senior management, which ensures the risks associated with new products and new or changed processes are adequately identified and managed. This Committee also undertakes oversight of the overall risk profile of the Bank. In addition, similar oversight is undertaken by the Bank's Board Risk Committee.

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.

Internal audit

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

Note 42 Nature and Review of Risk Management Systems continued

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.

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 financial information prepared by the Companies' management; and
- evaluate the adequacy and effectiveness of the financial control, compliance and other internal control systems and policies of the Bank.

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, Ernst & Young, 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. Credit rating agencies conduct 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 fraud, 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 borrowing from and lending to customers, underwriting, market making, specialist and proprietary trading and investing activities. The Traded 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. For traded market risk, the Bank operates under a framework of risk limits including Value at Risk ("VaR") which is approved by the Board of Directors and implemented and monitored by the Traded Market Risk Unit. VaR is the potential loss in value of the Bank'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 100 chance that trading losses in a single day will exceed the reported VaR. Additional controls include daily profit and loss referral levels and stress testing. Stress testing measures 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.

With effect from 1 April 2005 the newly created Non-Traded Market Risk Unit has responsibility for reporting and monitoring the market risk within the banking book (previously this responsibility resided with Balance Sheet Management). The change strengthens the risk governance framework and is designed to provide appropriate segregation of duties and a more consistent level of oversight across the Bank's traded and non-traded market risk management businesses. Risk measures will continue to be regularly reported to the Bank's Asset and Liability Committee who have responsibility for management of market risk within the banking book.

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.

Note 42 Nature and Review of Risk Management Systems continued

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. Trading positions are revalued daily and the revaluation impact is reflected in the statement of financial performance. Trading limits are implemented and monitored by the Traded Market Risk Unit.

Interest rate risk

Interest rate risks primarily result from exposures to changes in the level and shape 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 of 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 in the banking book. 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 VaR frameworks. For both Earnings at Risk and VaR the Bank has adopted the National Australia Bank Limited group calculation methodology, using a three-month holding period and a 97.5% confidence interval. The VaR and Earnings at Risk limits are calibrated to allow approximately 2.2% and 0.8% of shareholder's equity at risk, respectively.

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 statement of financial performance. Trading limits are implemented and monitored by the Traded Market Risk Unit.

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's 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 and compliance

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.

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

Note 42 Nature and Review of Risk Management Systems continued

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 Risk Management. Within this independent unit four credit teams operate (Credit Decisioning, Credit Portfolio Management and Policy, Risk Asset Review and Specialised Business Services) and these teams have the responsibility for managing the Credit Risk framework, including disseminating credit policies and procedures.

All loans are subjected to a Credit Risk Rating. Monitoring procedures and systems are in place to control exposures to individual and customers and industries and to ensure asset quality is maintained. Lending authority is delegated from the National Australia Bank Limited's Board through the Bank's Board to Risk Management and then to the business units. Individual lending authorities are then allocated according to demonstrated skills and experience.

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

The Bank continuously monitors its credit risk to counterparties through daily examination of irregular or delinquent accounts. The specialist unit, Risk Asset Review, undertakes regular reviews of loan portfolios. Specialised Business Services 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 43 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 2005. Peak exposures to market risk have been calculated using the Banking Group's end of period shareholder's equity.

	Consolidated			
Dollars in Millions	**As At 30/9/05**	As At 30/9/04	**Peak for the 3 Months Ended 30/9/05**	Peak for the 3 Months Ended 30/9/04
Interest rate exposures				
Aggregate interest rate exposures	**124**	84	**130**	87
Aggregate interest rate exposures expressed as a percentage of the Banking Group's equity at end of period	**4.5%**	3.4%	**4.7%**	3.5%
Foreign currency exposures				
Aggregate foreign currency exposures	**1**	3	**6**	6
Aggregate foreign currency exposures expressed as a percentage of the Banking Group's equity at end of period	**0.0%**	0.1%	**0.2%**	0.3%
Equity exposures				
Aggregate equity exposures	-	1	-	1
Aggregate equity exposures expressed as a percentage of the Banking Group's equity at end of period	**0.0%**	0.0%	**0.0%**	0.0%

During the financial year ended 30 September 2005, the Banking Group identified that the interest rate market risk exposures reported in previous reporting periods had been overstated. As a result, the calculation model was reviewed and interest rate market risk exposures were recalculated. The comparative amounts have been restated in the above table.

A table showing the restatement of comparative amounts for each quarter from 31 December 2002 was published in the General Disclosure Statement for the six months ended 31 March 2005.

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

Bank of New Zealand has adopted New Zealand equivalents to International Financial Reporting Standards ("NZIFRS", or International Accounting Standards and interpretations) 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 ending 31 December 2005. Comparative financial information prepared in compliance with NZIFRS will be required for the year commencing 1 October 2004. Comparative information is not required for NZ IAS 32 Financial Instruments: Disclosure and Presentation, NZ IAS 39 Financial Instruments: Recognition and Measurement and NZ IFRS 4 Insurance Contracts. The Bank continues to evaluate the areas impacted by the adoption of NZIFRS.

During the year ended 30 September 2005, a dedicated project team (working in conjunction with National Australia Bank Limited Group) has been working on specific areas of change required under NZIFRS. A programme board is monitoring the Banking Group's implementation. Dedicated workstreams have evaluated the impact of specific accounting standards and managed the necessary changes to processes and systems. These changes are now substantially complete. NZIFRS data has been collected during the year ended 30 September 2005 for use as comparative information.

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.

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

- those concerning presentation and disclosure of items in the financial statements; and
- those concerning recognition and measurement of items in the financial statements.

Any recognition and measurement adjustments that arise as a result of the transitional process will be recognised in either retained earnings or an appropriate equity reserve at the date of transition. They will affect reported profit or equity for periods after that date.

The transitional process to NZIFRS must comply with the requirements of NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards. Under the NZIFRS transitional rules, several one-off exemptions are available. The exemptions recognise some of the practical difficulties that arise in making the transition to NZIFRS 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 controlled entities and businesses acquired throughout the Banking Group's history.

Upon transition to NZIFRS, a number of the Banking Group's accounting policies will alter. Based on New Zealand equivalents to IFRS as currently issued, the areas of most significant impact and the known estimable transitional differences from application of NZIFRS are summarised below. The quantified impacts of the application of relevant NZIFRS on total equity as discussed below have been presented in tables at the end of this note. The transitional adjustments are best estimates as at the reporting date and are subject to change. The actual impacts of the transition to NZIFRS may differ materially from that described below, due to ongoing work being undertaken by the Banking Group or potential amendments to NZIFRS or interpretative guidance thereon.

Transitional changes as at 1 October 2004

Post-employment benefits

Under NZ GAAP, the Banking Group did not recognise pension obligations relating to a defined benefit surplus on the statement of financial position. NZ IAS 19 Employee Benefits requires recognition of an asset on the balance sheet on transition. Subsequent to the date of transition, the Banking Group has elected to recognise full actuarial gains and losses directly in retained earnings, with other movements in the surplus being reflected in the income statement. The initial adjustment to recognise the asset on the Banking Group's balance sheet of $64 million will be against opening retained earnings based on valuation of the scheme under NZ IAS 19. A deferred tax adjustment of $21 million will also be recognised on transition. For the NZIFRS comparative year ended 30 September 2005, the estimated pension expense calculated in accordance with NZ IAS 19 was $25 million with a corresponding tax credit of $8 million. Additionally, there was an actuarial loss of $3 million with an associated deferred tax adjustment of $1 million.

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

Share-based payments including tax adjustments

NZIFRS requires the Banking Group to recognise an expense in respect of all share-based remuneration (including performance options, performance rights and shares issued to employees) determined with reference to the fair value of the equity instrument issued. Under NZ GAAP, the Banking Group did not recognise an expense for options or performance rights issued to staff by its ultimate parent, National Australia Bank Limited. Under NZIFRS, the fair value of the performance options and performance rights at grant date will be expensed over their expected vesting period on a straight line basis. Shares issued under the National Australia Bank Limited Group staff share scheme will be recognised as an expense when issued.

Upon transition to NZIFRS, the Banking Group is expected to recognise a $2 million debit to opening retained earnings in respect of performance options and performance rights granted from 7 November 2002 that remain unvested as at 1 January 2005, with the corresponding amount being recorded on the balance sheet against amounts due to related entities. For the NZIFRS comparative year ended 30 September 2005, the expense for share-based payments was estimated as $3 million.

Other deferred tax adjustments

The Banking Group will be required to adopt a balance sheet approach to determining deferred tax items, based upon a comparison of carrying amounts of assets and liabilities with their tax base. This method will identify a broader range of differences than those that arise under the current tax effect accounting standard. Consequently, the Banking Group will be required to recognise additional levels of deferred tax assets and liabilities. This change is estimated to result in a $3 million transitional adjustment being credited to the Banking Group's opening retained earnings as at 1 October 2004.

Foreign currency translation

Under NZ GAAP, the Banking Group treats its foreign operations as integrated operations and translates the balances using the temporal method. Under the temporal method, non-monetary assets were translated using the spot exchange rate applicable on the dates the items were first recognised in the financial statements. Under NZIFRS, non-monetary assets are required to be translated using the spot exchange rates which apply as at balance date. The Banking Group has elected to set all Foreign Currency Reserves to nil balances upon transition to NZIFRS.

Translation differences in relation to foreign controlled entities subsequent to transition to NZIFRS will be recorded in a Foreign Currency Translation Reserve. The gain or loss recognised in the income statement on a future disposal of a foreign controlled entity will include any translation differences that arose after 1 October 2004. This change has resulted in a $4 million transitional adjustment being debited to opening retained earnings as at 1 October 2004. Foreign currency translation adjustments of $1 million pre-tax have been reversed in the comparative year from the income statement. The net foreign currency translation reserve as at 30 September 2005 was nil.

Intangible assets and impairment (including goodwill)

Upon transition to NZIFRS, goodwill will no longer be amortised. Instead, goodwill will be tested for impairment annually as at each reporting date to ensure its carrying amount does not exceed its recoverable value. If an impairment loss is identified it will be recognised immediately in the income statement.

This change in policy may result in increased volatility of future earnings where impairment losses are incurred. Under NZ GAAP, $8 million of goodwill was amortised in the year ended 30 September 2005. This amount has been reversed in the NZIFRS comparative year. No impairment of goodwill was identified under NZIFRS.

Other finite intangibles will be amortised on a systematic basis that best reflects the expected pattern of consumption of the assets' benefits over their respective useful lives. In addition, application software assets will be reclassified from Property, plant and equipment to Intangible assets upon transition.

Asset revaluation reserve

Under NZ GAAP, the Banking Group carried all land and buildings at revalued amounts with valuation increments and decrements for a class of asset offset against one another. Revaluation increments were credited to an asset revaluation reserve and revaluation decrements were charged to the revaluation reserve to the extent that they reversed previous revaluation increments. Any excess was recognised as an expense. In contrast, NZ IAS 16 Property, Plant and Equipment requires that valuation increments and decrements are accounted for on an asset by asset basis.

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

Upon transition to NZIFRS, the Banking Group has elected to use NZ GAAP valuations as the deemed cost as permitted under NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards. The previous NZ GAAP revalued amounts for land and buildings were considered broadly comparable to the fair value as at 1 October 2004.

For the comparative year, an asset revaluation reserve of $2 million credit was created during the year ended 30 September 2005 with a corresponding $3 million decrease in the income statement.

Transitional changes as at 1 October 2005

The following transitional changes relate to the application of NZ IAS 32 Financial Instruments: Disclosure and Presentation, NZ IAS 39 Financial Instruments: Recognition and Measurement and NZ IFRS 4 Insurance Contracts and will occur on 1 October 2005. No comparative adjustments are required for the 2005 financial year.

Recognition of derivative financial instruments and hedging

The Banking Group will be required to recognise all derivative financial instruments at fair value on the balance sheet, 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 (attributable to the hedged risk) and the hedging instrument will be recognised directly in the income statement. Fair value changes on hedging instruments in cash flow hedges will be deferred in an equity reserve and then transferred to the income statement at the time the cash flows occur. Hedge ineffectiveness will be recognised in the income statement immediately.

It should be noted that the underlying economics and risk of the Banking Group will not alter. 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 activities the treatment of trading derivatives is not likely to be affected by hedge accounting. In certain circumstances, derivatives currently accounted for within a hedging relationship under NZ GAAP have been reclassified to trading derivatives upon transition to NZIFRS.

In certain circumstances, the Banking Group will seek to minimise the impact of the fair value measurement requirements by designating both the item that is subject to an economic hedge and the accompanying derivative instrument as at "fair value through profit and loss". Both the underlying item and the derivative instrument are recognised at fair value in the balance sheet and movements in fair value are recognised immediately in the income statement. The effect of this will be to reflect the economic substance of the transaction and reduce income statement volatility.

As at 1 October 2005, the Banking Group will recognise the following adjustments attributable to derivative financial instruments and hedging:

- initial recognition of non-hedging derivatives at fair value will increase assets by $26 million, increase income tax liabilities by $9 million and increase retained earnings by $17 million;
- initial recognition of derivatives designated within a fair value hedge will increase assets by $94 million and liabilities by $30 million. There will be a corresponding increase in retained earnings of $64 million;
- where the Banking Group has designated a financial asset or liability within a fair value hedge, an adjustment is required to remeasure those financial assets or liabilities at fair value. A decrease in assets of $49 million and a corresponding decrease in retained earnings of $49 million will arise;
- initial recognition of derivatives designated within a cash flow hedge relationship will increase liabilities by $8 million with a corresponding impact in the cash flow hedge reserve of $5 million and a decrease in retained earnings of $3 million;
- where the Banking Group has designated a financial asset or liability as at "fair value through profit and loss" an adjustment is required to remeasure those financial assets or liabilities at fair value. This will result in an increase in assets of $34 million and a decrease in liabilities of $12 million prior to credit adjustments with a corresponding increase in retained earnings of $46 million; and
- upon transition to NZIFRS, the Banking Group released fees deferred under NZ GAAP on derivatives of $18 million through retained earnings. Income tax liabilities decreased by $6 million with a decrease in retained earnings of $12 million.

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

Loan provisioning

Under NZ IAS 39 Financial Instruments: Recognition and Measurement, the Banking Group is not able to recognise loan impairment (currently referred to as provisions for bad and doubtful debts) until objective evidence is available that a loss event has occurred.

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.

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 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.

The impact of NZIFRS on the Banking Group's current methodology for calculating the provisions for bad and doubtful debts is still being evaluated.

Revenue recognition

Under NZ GAAP, loan origination fee revenue was either recognised immediately in the statement of financial performance or deferred in the statement of financial position 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 NZIFRS. Revenue that is deferred must be amortised on an effective interest rate basis. NZIFRS also requires deferral of related costs where these are both direct and incremental to the origination of the loan.

As at 1 October 2005, assets will decrease by $21 million to re-recognise fee revenue and costs previously recorded in the income statement. Correspondingly, liabilities will decrease by $6 million and retained earnings by $15 million.

Valuation of financial instruments using bid and offer prices

NZ IAS 39 requires that in valuing financial instruments at fair value, the appropriate quoted market price to be used is usually the bid or offer price. Under NZ GAAP, all financial instruments of the Banking Group measured at fair value and transacted in an active market are valued at the mid price. Under NZ IAS 39, it is acceptable to continue to use the mid price where there is an offsetting market risk position. Consequently, where there is no offsetting market risk position, an adjustment is required to remeasure those assets and liabilities at either the bid or offer price instead of the mid price.

As at 1 October 2005, the Banking Group will adjust the carrying value of financial assets and liabilities to value them on a bid or offer basis where required under NZIFRS. This will result in the recognition of a liability of $3 million with a corresponding increase in assets of $1 million and a decrease in retained earnings of $2 million.

Derecognition of financial assets and liabilities

NZIFRS contains more specific and stringent requirements prior to the Banking Group being able to derecognise financial assets and liabilities from the balance sheet. Furthermore, the Banking Group will be required to review and consider the extent to which it retains the risks and rewards of ownership of a financial asset or whether the obligation specified within the contract will be discharged, cancelled or expired prior to the derecognition of a financial liability.

As at 1 October 2005, this will result in the Banking Group re-recognising $6 million of customer related financial liabilities on the balance sheet with a corresponding decrease in deferred tax liabilities of $2 million and a decrease in retained earnings of $4 million.

Reclassifications

As at 1 October 2005, the Banking Group has reclassified items on the balance sheet including some securities previously classified as investment securities into trading securities. Trading securities are required to be held at fair value whereas investment securities were recorded at original cost adjusted for the amortisation of premiums, accretion of discounts to maturity and other temporary diminutions in value. This reclassification resulted in an increase in retained earnings of $5 million with a corresponding increase in assets.

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

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.

Reconciliation of total equity as at 30 September 2005

Dollars in Millions	Consolidated	The Company
Total equity reported under NZ GAAP as at 30 September 2005	2,770	2,464
Tax effected impact on retained earnings:		
Defined benefit pension plan	24	24
Reverse amortisation of goodwill	8	1
Recognition of share-based payments	(5)	(5)
Recognition of other deferred tax adjustments	3	3
Reversal of land and building revaluation increments	(3)	-
Reversal of foreign currency translation on overseas operations	(5)	(1)
	22	22
Tax effected impact on other reserves:		
Tax effected impact on asset revaluation reserve	2	-
Tax effected impact on foreign currency translation reserve	-	1
	2	1
Total equity under NZIFRS as at 30 September 2005	2,794	2,487
Total equity (pre-collective impairment) as measured under NZIFRS as at 30 September 2005 as above	2,794	2,487
NZIFRS adjustments to total equity for 1 October 2005:		
Tax effected impact on retained earnings:		
Recognition of fair value hedge derivatives	64	64
Ineffective portion of cash flow hedges	(3)	(3)
Recognition of non-hedging derivatives	17	17
Fair value hedge adjustment to underlying hedged item	(49)	(49)
Release of deferred fees on derivatives	(12)	(12)
Adjustments to assets and liabilities recorded at "fair value through profit and loss"	46	46
Valuation of financial instruments at bid offer valuation	(2)	(2)
Revenue recognition – effective yield	(15)	(15)
Re-recognition of customer related liabilities	(4)	(4)
Revaluation of securities reclassified from investing to trading	5	5
	47	47
Tax effected impact on cash flow hedge reserve:		
Recognition of cash flow hedging derivatives within cash flow hedge reserve	5	5
Total equity under NZIFRS as at 1 October 2005 (pre-collective impairment)	2,846	2,539

Note 45 Subsequent Events

Subsequent to balance date, on 9 December 2005, the Directors declared a final dividend of $160 million (30 September 2004: $160 million) subject to certain conditions being met. In accordance with FRS-5 Events After Balance Date, the dividend has not been recognised in these financial statements.

In November 2005, National Australia Bank Limited announced that it was undertaking a process to seek expressions of interest for its wholly owned fleet leasing and management business. This includes Custom Fleet (NZ) Limited, a wholly owned controlled entity of the Banking Group. As at the date of this General Disclosure Statement, no firm decision had been made to sell the business and any decision will be made at the conclusion of this process.

Auditor's Report

ERNST & YOUNG ■ Chartered Accountants

To the Shareholder of Bank of New Zealand

We have audited the financial statements and the supplementary information on pages 8 to 70. The financial statements and supplementary information provide information about the past financial performance of Bank of New Zealand (the "Registered Bank") and its subsidiaries (the "Banking Group") and their financial position as at 30 September 2005. 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 2005 (the "Order"). This information is stated in accordance with the accounting policies set out on pages 13 to 19.

Directors' responsibilities

The directors are responsible for the preparation of:

- financial statements in accordance with clause 12(1) of the Order which give a true and fair view of the financial position of the Registered Bank and Banking Group as at 30 September 2005 and of their financial performance and cash flows for the year ended on that date;
- supplementary information in accordance with clause 12(3) of the Order which gives a true and fair view of the matters to which it relates; and
- supplementary information in accordance with clause 12(4) of the Order which complies with Schedules 7 and 8 of the Order.

Auditor's responsibilities

In accordance with clause 15(1) of the Order, 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.

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 generally accepted auditing standards in 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 give 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.

Ernst & Young provides expatriate taxation advice to the Registered Bank and Banking Group. Other than the matters referred to in note 4 of the financial statements, Ernst & Young has no relationship with, or interest in, the Registered Bank or Banking Group.

Auditor's Report continued

Unqualified Opinion

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

In our opinion:

- proper accounting records have been kept by the Registered Bank and Banking Group as far as appears from our examination of those records; and
- the financial statements on pages 8 to 70:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the financial position of the Registered Bank and Banking Group as at 30 September 2005 and their financial performance and cash flows for the year ended on that date.
- the supplementary information included within the financial statements has been prepared in accordance with:
  - the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any Conditions of Registration; and
  - the books and records of the Registered Bank and Banking Group.
- the supplementary information included within the financial statements and disclosed in accordance with clause 12(3) of the Order gives a true and fair view of the matters to which it relates; and
- the supplementary information included within the financial statements and disclosed in accordance with clause 12(4) of the Order complies with Schedules 7 and 8 of the Order.

Our audit was completed on 9 December 2005 and our unqualified opinion is expressed as at that date.

Ernst & Young

Auckland

Credit Ratings

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

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

During the two-year period ended 30 September 2005, the Standard & Poor's ratings outlook changed from AA stable to AA negative on 30 January 2004 and from AA negative to AA- stable on 12 March 2004. These changes were the result of revisions in the credit rating of the Bank's parent, National Australia Bank Limited.

The Moody's Investor Services credit rating was first issued on 23 August 2005 and no changes were made to that rating during the period ended 30 September 2005.

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

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

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

Conditions of Registration

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

Conditions of Registration as from 20 October 2005 – 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 March 2005.

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 March 2005.

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.

Conditions of Registration continued

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.
11. That the Bank will not, without first obtaining the written approval of the Reserve Bank, revoke the constitution of BNZ International Funding Limited or alter the constitution of BNZ International Funding Limited if such alteration would delete or amend or negate the effect of clause 2.2 of the constitution.

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).

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 2005:

a) the Bank has complied with its Conditions of Registration applicable during that year (subject to the note on page 26 of the General Short Form Disclosure Statement for the three months ended 31 December 2004);

b) credit exposures to connected persons (refer to note 38 on page 53) 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 9th day of December 2005 and signed by Messrs. McDonald and Thodey as Directors and as responsible persons on behalf of all the other Directors.

T K McDonald
Chairman

P L Thodey
Managing Director

Bank of New Zealand

A member of the National Australia Bank Group

National