Bank of New Zealand

Disclosure Statement

For the year ended 30 September 2013

No. 71

Disclosure Statement

For the year ended 30 September 2013

This Disclosure Statement has been issued by Bank of New Zealand for the year ended 30 September 2013 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 2) 2013 (the “Order”).

In this Disclosure Statement, unless the context otherwise requires:

a) “Banking Group” means Bank of New Zealand’s financial reporting group, which consists of Bank of New Zealand, all of its wholly owned entities and other entities consolidated for financial reporting purposes; and

b) Words and phrases defined by the Order have the same meanings when used in this 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 4, 80 Queen Street, Auckland 1010, New Zealand.

Nature of Business

The Bank was incorporated on 29 July 1861. The Banking Group provides a broad range of banking and financial products to retail, business, agribusiness, corporate and institutional clients.

Voting Securities and Power to Appoint Directors

National Australia Group (NZ) Limited, National Australia Bank and National Equities Limited are the only holders of a direct or indirect qualifying interest in the 2,870,997,499 voting securities of the Bank. National Australia Group (NZ) Limited is the registered and beneficial holder of 2,870,997,499 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 such securities by virtue of National Australia Group (NZ) Limited being related to them in terms of section 5B(2) 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. Any appointment of a Director is subject to the Reserve Bank of New Zealand confirming it has no objection to that appointment.

Guarantees

Wholesale funding guarantee – Certain debt securities issued by the Bank, or its subsidiary, BNZ International Funding Limited (London Branch), prior to 30 April 2010 are guaranteed by the Crown under the Crown’s wholesale funding guarantee scheme (the “Scheme”). The Scheme was closed to new guarantees on 30 April 2010. The guarantor under the Scheme is Her Majesty the Queen in right of New Zealand acting by and through the Minister of Finance (the “Crown”). The Crown’s address for service is 1 The Terrace, Wellington 6011, New Zealand.

The Crown’s most recent audited financial statements and further information about the Crown guarantees are available from New Zealand Treasury’s website www.treasury.govt.nz.

As at 30 September 2013, the Crown has a AA+ credit rating by Standard & Poor’s and Fitch Ratings, and a Aaa credit rating by Moody’s Investors Service in respect of its long term obligations payable in New Zealand dollars. A summary of the descriptions of the major ratings categories for each credit rating agency is included in the Credit Ratings section on page 91.

The Scheme guarantees certain payment obligations of the Bank in respect of principal and interest (excluding penalty interest) owing under the guaranteed debt securities. The expiry date of the guarantee is the earlier of the maturity date of the guaranteed obligation or five years after the issue date of the guaranteed obligation. There are no limits on the amount of obligations covered by the guarantee eligibility certificates and no special conditions apply.

A guarantee eligibility certificate is issued in respect of each issue of debt securities that is covered by the Crown wholesale funding guarantee. Copies of the guarantee eligibility certificates issued to Bank of New Zealand and information about the Scheme are available from New Zealand Treasury’s website – www.treasury.govt.nz/economy/guarantee/wholesale.

The above information about the Crown’s wholesale funding guarantee is a brief summary only. The full wholesale funding guarantee should be reviewed by any person intending to rely on the guarantee to ensure they understand how it will apply to their circumstances. Any person intending to rely on the wholesale funding guarantee should also search the relevant eligibility certificates.

Covered bond guarantee – Certain debt securities (“Covered Bonds”) issued by the Bank, or its subsidiary, BNZ International Funding Limited (London Branch), are guaranteed by the CBG Trustee Company Limited, solely in its capacity as trustee of the BNZ Covered Bond Trust (the “Covered Bond Guarantor”). The Covered Bond Guarantor’s address for service is Level 10, 141 Willis Street, Wellington, New Zealand.

The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations payable in New Zealand dollars. The Covered Bonds have been assigned a long term rating of Aaa and AAA from Moody’s Investors Service and Fitch Ratings respectively.

The Covered Bond Guarantor has guaranteed the payment of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over a pool of assets (refer to note 11 for further information). There are no material conditions applicable to the guarantee other than non-performance. There are no material legislative or regulatory restrictions in New Zealand which subordinate any claims under the guarantee of any creditors of the Bank on the assets of the Covered Bond Guarantor, to other claims on the Covered Bond Guarantor, on the winding up of the Covered Bond Guarantor.

Other material obligations of the Bank are not guaranteed.

Ultimate Parent Bank

Ultimate Parent Bank and Address for Service

The ultimate parent bank of Bank of New Zealand is National Australia Bank Limited whose address for service is Level 1, 800 Bourke Street, Docklands, Victoria 3008, 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.

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 liabilities to certain governmental agencies and deposit holders in Australia in priority to all other liabilities.

Pending Proceedings or Arbitration

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

In March 2013, a potential representative action against New Zealand banks was announced in relation to certain bank fees. Litigation Lending Services (NZ) Limited is funding the action. In June 2013, it was announced that proceedings had been filed against another New Zealand bank. As at the date of signing of this Disclosure Statement there is no representative action against the Bank.

Other Material Matters

New Zealand's financial system continues to face an international environment where global economic activity is weak, the sovereign debt situation in Europe remains challenging and global growth could be further impacted by a tightening of the United States monetary policy. However, the Bank's Directors are of the opinion that the Bank has a strong liquidity, funding and capital base to manage through this period of uncertainty.

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 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.

Bank of New Zealand Corporate Information *continued*

Directorate and Auditor

Communications addressed to the Directors and responsible persons, or any of them, may be sent to Level 4, 80 Queen Street, Auckland 1010, New Zealand.

Directors

On 5 March 2013, Douglas Alexander McKay was appointed as an Independent Non-Executive Director to the Bank's Board of Directors, and on 1 June 2013 Edwin Gilmour Johnson resigned from the Bank's Board of 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 Disclosure Statement are as follows:

Non-Executive Director, Chairman

John Anthony Waller
Company Director
B.Com., FCA
New Zealand

Directorships:
Alliance Group Limited; BNZ Investments Limited; Donaghys Limited; Fonterra Co-operative Group Limited; Haydn & Rollett Limited; JAW Advisory Limited; National Australia Bank Limited; National Equities Limited; Property For Industry Limited; Sky Network Television Limited. Chair of the Eden Park Trust Board.

Executive Director

Andrew Gregory Thorburn
Managing Director and Chief Executive Officer
Bank of New Zealand
B.Com., M.B.A., S.F. FINSIA
New Zealand

Directorships:
Great Western Bancorporation, Inc; Great Western Bank; National Americas Holdings LLC; National Wealth Management New Zealand Holdings Limited; New Zealand Initiative Limited. Member of the New Zealand Bankers' Association Council.

Independent Non-Executive Directors

Prudence Mary Flacks
Company Director
LL.B., LL.M.
New Zealand

Directorships:
BBull Family Trust Limited; Chorus Limited; Mighty River Power Limited; Mighty River Power LTI Limited; Planboe Limited. Trustee of the Victoria University Foundation.

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

Directorships:
Fertility Associates Limited; Institute of Environmental Science and Research Limited; Tamaki Redevelopment Company Limited. Non-executive board member of the New Zealand Treasury.

Douglas Alexander McKay
Company Director
B.A., A.M.P. Harvard Business School
New Zealand

Directorships:
Chief Executive of Auckland Council; New Zealand Institute of Chartered Accountants; NZ Food Company Holdings Limited; NZ Snack Food Holdings Limited; Wymac Consulting Limited.

Stephen John Moir
Company Director
New Zealand

Directorships:
BNZ Insurance Services Limited; BNZ Life Insurance Limited; Ijap Limited; The Guardians of the New Zealand Superannuation Fund. Chair of the Advisory Board to BNZ Chair of Business in Asia at Victoria University.

Dr Andrew John Pearce
Company Director
B.Sc. (Hons.), M.Sc., Ph.D., FNZIM
New Zealand

Directorships:
Christchurch City Holdings Limited; Focus Genetics Management Limited; Hawke's Bay Regional Investment Company Limited; Seon Pearce & Associates Limited.

Directorate and Auditor *continued*

Non-Executive Directors

Cameron Anthony Clyne
Group Chief Executive Officer
National Australia Bank Limited
B.A.
Australia

Directorships:
Australian Rugby Union Limited; Camel Nominees Pty Limited; Clydesdale Bank Plc; Melcam Pty Limited; National Australia Bank Limited; National Equities Limited; National Australia Group Europe Limited; The Financial Markets Foundation for Children.

Gavin Robin Slater
Group Executive, Personal Banking
National Australia Bank Limited
B.Com
Australia

Diversity

As at 30 September 2013, the proportion of female directors on the Board and female members as the Bank's Officers were 22% and 56% respectively (30 September 2012: 22% and 44%).

For the purpose of this disclosure, the BNZ Executive Team has been treated as Officers.

The Bank has a Diversity Committee to lead the BNZ Diversity agenda, set strategic priorities and oversee performance.

New Zealand Regional Audit Committee

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

Dr Susan Carrel Macken (Chair)	Independent Non-Executive Director
Prudence Mary Flacks	Independent Non-Executive Director
Douglas Alexander McKay	Independent Non-Executive Director
Stephen John Moir	Independent Non-Executive Director
Dr Andrew John Pearce	Independent Non-Executive Director

Responsible Persons

Messrs. John Anthony Waller and Andrew Gregory Thorburn, whose occupations, professional qualifications, countries of residence, and directorships are disclosed on page 4, have been authorised in writing to sign this Disclosure Statement in accordance with section 82 of the Reserve Bank of New Zealand Act 1989, on behalf of the other Directors, being:

Cameron Anthony Clyne
Prudence Mary Flacks
Dr Susan Carrel Macken
Douglas Alexander McKay
Stephen John Moir
Dr Andrew John Pearce
Gavin Robin Slater

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 judgment 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 is disclosed in note 30 of this Disclosure Statement.

Auditor

The auditor whose report is referred to in this Disclosure Statement is Ernst & Young. Their address for service is Level 9 Ernst & Young Building, 2 Takutai Square, Britomart, Auckland 1010, New Zealand.

Financial Statements

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Historical Summary of Financial Statements

Dollars in Millions	**Consolidated 30/9/13**	30/9/12	30/9/11	30/9/10	30/9/09
Income statement					
Interest income	**3,716**	3,693	3,641	3,403	3,982
Interest expense	**2,151**	2,190	2,254	2,122	2,631
Net interest income	**1,565**	1,503	1,387	1,281	1,351
Gains less losses on financial instruments	**(94)**	(233)	120	(18)	(96)
Other operating income	**434**	374	382	379	397
Total operating income	**1,905**	1,644	1,889	1,642	1,652
Operating expenses	**843**	794	775	818	777
Total operating profit before impairment losses on credit exposures and income tax expense	**1,062**	850	1,114	824	875
Impairment losses on credit exposures	**113**	61	152	187	190
Total operating profit before income tax expense	**949**	789	962	637	685
Income tax expense on operating profit	**254**	209	291	202	205
Net profit from continuing activities before New Zealand structured finance transactions	**695**	580	671	435	480
Income tax (credit)/expense on New Zealand structured finance transactions	**-**	-	-	(83)	416
Income tax (credit)/expense interest costs on New Zealand structured finance transactions	**-**	-	-	(84)	245
Net profit/(loss) attributable to shareholders of Bank of New Zealand	**695**	580	671	602	(181)
Dividends					
Ordinary dividend	**110**	25	330	563	217
Perpetual preference dividend	**55**	63	61	57	35
Significant balance sheet items					
Total assets	**75,310**	73,111	74,085	69,647	69,862
Total liabilities	**69,623**	67,834	69,736	65,645	66,117
Ordinary shareholder's equity	**4,777**	4,367	3,439	3,092	3,035
Contributed equity – perpetual preference shareholders	**910**	910	910	910	710
Asset quality					
Individually impaired assets – at amortised cost	**268**	349	466	490	446
Individually impaired assets – at fair value through profit or loss	**136**	110	193	282	191
Impairment losses on credit exposures charged to income statement – at amortised cost	**113**	61	152	187	190
Credit risk adjustments on financial assets charged to income statement – at fair value through profit or loss (including derivatives)	**4**	78	8	39	67

The information presented in the above table has been extracted from audited financial statements that have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS").

Basel III and Basel II regulatory capital ratios

The table below shows the capital adequacy ratios based on the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B") expressed as a percentage of total risk-weighted exposures.

	Consolidated Basel III Unaudited 30/9/13	Basel II Unaudited 30/9/12	Basel II Unaudited 30/9/11	Basel II Unaudited 30/9/10	Basel II Unaudited 30/9/09
Common Equity Tier One capital ratio	**8.87%**	N/A	N/A	N/A	N/A
Tier One capital ratio	**10.68%**	11.26%	8.99%	8.85%	8.08%
Total qualifying capital ratio	**12.61%**	13.29%	11.84%	11.81%	10.88%
Buffer ratio for Common Equity Tier One capital	**4.37%**	N/A	N/A	N/A	N/A

The capital ratios as at 30 September 2013 have been determined in accordance with the RBNZ's Basel III capital adequacy framework effective from 1 January 2013. The capital ratios as at 30 September 2012, 30 September 2011, 30 September 2010 and 30 September 2009 have been determined in accordance with the RBNZ's Basel II capital adequacy framework effective prior to 1 January 2013.

Income Statement

For the year ended 30 September 2013

Dollars in Millions	Note	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Interest income	2	**3,716**	3,693	**4,077**	4,044
Interest expense	2	**2,151**	2,190	**2,590**	2,618
Net interest income		**1,565**	1,503	**1,487**	1,426
Gains less losses on financial instruments	3	**(94)**	(233)	**(94)**	(233)
Other operating income	4	**434**	374	**513**	370
Total operating income		**1,905**	1,644	**1,906**	1,563
Operating expenses	5	**843**	794	**855**	828
Total operating profit before impairment losses on credit exposures and income tax expense		**1,062**	850	**1,051**	735
Impairment losses on credit exposures	12	**113**	61	**113**	61
Total operating profit before income tax expense		**949**	789	**938**	674
Income tax expense on operating profit	7	**254**	209	**229**	177
Net profit attributable to shareholders of Bank of New Zealand		**695**	580	**709**	497

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

Statement of Comprehensive Income

For the year ended 30 September 2013

Dollars in Millions	Note	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Net profit attributable to shareholders of Bank of New Zealand		**695**	580	**709**	497
Other comprehensive (expense)/income, net of taxation:					
Items that will not be reclassified to profit or loss					
Net actuarial gain on defined benefit plan	27	**3**	1	**3**	1
		3	1	**3**	1
Items that may be reclassified subsequently to profit or loss					
Net change in foreign currency translation reserve	26	**-**	(3)	**-**	(4)
Net change in cash flow hedge reserve	26	**(142)**	22	**(142)**	22
Net change in available for sale investments revaluation reserve	26	**19**	16	**20**	16
		(123)	35	**(122)**	34
Total other comprehensive (expense)/income, net of taxation		**(120)**	36	**(119)**	35
Total comprehensive income attributable to shareholders of Bank of New Zealand		**575**	616	**590**	532

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

Statement of Changes in Equity

For the year ended 30 September 2013

Dollars in Millions	Ordinary Capital	Perpetual Preference Capital	Retained Profits	Asset Revaluation Reserve	Foreign Currency Translation Reserve	Available For Sale Investments Revaluation Reserve	Cash Flow Hedge Reserve	Total Share-holders' Equity
				Consolidated (30/9/13)				
Balance at beginning of year	**1,851**	**910**	**2,337**	**2**	**-**	**36**	**141**	**5,277**
Comprehensive income/(expense)								
Net profit attributable to shareholders of Bank of New Zealand	**-**	**-**	**695**	**-**	**-**	**-**	**-**	**695**
Total other comprehensive income/(expense)	**-**	**-**	**3**	**-**	**-**	**19**	**(142)**	**(120)**
Total comprehensive income/(expense)	**-**	**-**	**698**	**-**	**-**	**19**	**(142)**	**575**
Ordinary dividend	**-**	**-**	**(110)**	**-**	**-**	**-**	**-**	**(110)**
Perpetual preference dividend	**-**	**-**	**(55)**	**-**	**-**	**-**	**-**	**(55)**
Balance at end of year	**1,851**	**910**	**2,870**	**2**	**-**	**55**	**(1)**	**5,687**
				Consolidated (30/9/12)				
Balance at beginning of year	1,451	910	1,844	2	3	20	119	4,349
Comprehensive income/(expense)								
Net profit attributable to shareholders of Bank of New Zealand	-	-	580	-	-	-	-	580
Total other comprehensive income/(expense)	-	-	1	-	(3)	16	22	36
Total comprehensive income/(expense)	-	-	581	-	(3)	16	22	616
Proceeds from shares issued	400	-	-	-	-	-	-	400
Ordinary dividend	-	-	(25)	-	-	-	-	(25)
Perpetual preference dividend	-	-	(63)	-	-	-	-	(63)
Balance at end of year	1,851	910	2,337	2	-	36	141	5,277

Dollars in Millions	Ordinary Capital	Perpetual Preference Capital	Retained Profits	Foreign Currency Translation Reserve	Available For Sale Investments Revaluation Reserve	Cash Flow Hedge Reserve	Total Share-holders' Equity
				The Company (30/9/13)			
Balance at beginning of year	**1,851**	**910**	**2,030**	**-**	**36**	**141**	**4,968**
Comprehensive income/(expense)							
Net profit attributable to shareholders of Bank of New Zealand	**-**	**-**	**709**	**-**	**-**	**-**	**709**
Total other comprehensive income/(expense)	**-**	**-**	**3**	**-**	**20**	**(142)**	**(119)**
Total comprehensive income/(expense)	**-**	**-**	**712**	**-**	**20**	**(142)**	**590**
Ordinary dividend	**-**	**-**	**(110)**	**-**	**-**	**-**	**(110)**
Perpetual preference dividend	**-**	**-**	**(55)**	**-**	**-**	**-**	**(55)**
Balance at end of year	**1,851**	**910**	**2,577**	**-**	**56**	**(1)**	**5,393**
				The Company (30/9/12)			
Balance at beginning of year	1,451	910	1,620	4	20	119	4,124
Comprehensive income/(expense)							
Net profit attributable to shareholders of Bank of New Zealand	-	-	497	-	-	-	497
Total other comprehensive income/(expense)	-	-	1	(4)	16	22	35
Total comprehensive income/(expense)	-	-	498	(4)	16	22	532
Proceeds from shares issued	400	-	-	-	-	-	400
Ordinary dividend	-	-	(25)	-	-	-	(25)
Perpetual preference dividend	-	-	(63)	-	-	-	(63)
Balance at end of year	1,851	910	2,030	-	36	141	4,968

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

Balance Sheet

As at 30 September 2013

Dollars in Millions	Note	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Assets					
Cash and liquid assets	8	**1,725**	1,628	**1,725**	1,628
Due from central banks and other institutions	9	**1,516**	2,054	**1,516**	2,054
Trading securities	10	**4,291**	3,610	**4,291**	3,610
Available for sale investments		**67**	50	**67**	50
Derivative financial instruments	14	**4,237**	5,324	**4,237**	5,324
Loans and advances to customers	11	**62,167**	58,919	**62,167**	58,919
Current tax		**77**	121	**108**	157
Amounts due from related entities	30	**391**	288	**10,386**	10,269
Investments in wholly owned entities	15	**-**	-	**3,103**	3,040
Other assets	18	**316**	594	**304**	580
Deferred tax	17	**128**	143	**128**	143
Property, plant and equipment		**212**	214	**70**	54
Goodwill and other intangible assets		**183**	166	**183**	166
Total assets		**75,310**	73,111	**88,285**	85,994
Financed by:					
Liabilities					
Due to central banks and other institutions	19	**1,304**	1,996	**1,304**	1,996
Short term debt securities	20	**5,550**	5,365	**1,720**	1,838
Trading liabilities		**71**	120	**71**	120
Derivative financial instruments	14	**4,907**	5,612	**4,907**	5,612
Deposits from customers	21	**41,823**	37,090	**40,870**	36,434
Bonds and notes	22	**14,210**	13,201	**5,306**	5,430
Amounts due to related entities	30	**245**	2,705	**27,211**	27,864
Other liabilities	23	**608**	840	**598**	827
Subordinated debt	24, 30	**905**	905	**905**	905
Total liabilities		**69,623**	67,834	**82,892**	81,026
Net assets		**5,687**	5,277	**5,393**	4,968
Shareholders' equity					
Contributed equity – ordinary shareholder	25	**1,851**	1,851	**1,851**	1,851
Reserves	26	**56**	179	**55**	177
Retained profits	27	**2,870**	2,337	**2,577**	2,030
Ordinary shareholder's equity		**4,777**	4,367	**4,483**	4,058
Contributed equity – perpetual preference shareholders	25	**910**	910	**910**	910
Total shareholders' equity		**5,687**	5,277	**5,393**	4,968

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

Cash Flow Statement

For the year ended 30 September 2013

Dollars in Millions	Note	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Cash flows from operating activities					
Cash was provided from:					
Dividend income		**3**	3	**24**	3
Interest income		**3,727**	3,673	**4,088**	4,023
Net trading income		**395**	116	**395**	116
Other income		**412**	371	**407**	367
Cash was applied to:					
Interest expense		**(2,156)**	(2,203)	**(2,595)**	(2,626)
Operating expenses		**(760)**	(747)	**(797)**	(798)
Taxes and subvention payments		**(213)**	(234)	**(192)**	(232)
Net cash flows from operating activities before changes in operating assets and liabilities		**1,408**	979	**1,330**	853
Changes in operating assets and liabilities arising from cash flow movements					
Net movement in due from central banks and other institutions (term)*		**(90)**	499	**(90)**	499
Net movement in loans and advances to customers*		**(3,555)**	(2,196)	**(3,555)**	(2,204)
Net movement in other assets		**281**	111	**279**	112
Net movement in trading securities and trading liabilities*		**(738)**	374	**(738)**	374
Net movement in deposits from customers*		**4,734**	3,869	**4,437**	3,608
Net movement in due to central banks and other institutions (term)*		**-**	(260)	**-**	(260)
Net movement in other liabilities		**(216)**	(41)	**(212)**	(41)
Net change in operating assets and liabilities		**416**	2,356	**121**	2,088
Net cash flows from operating activities		**1,824**	3,335	**1,451**	2,941
Cash flows from investing activities					
Cash was provided from:					
Proceeds from sale of available for sale investments		**11**	-	**11**	-
Proceeds on maturity of available for sale investments		**-**	28	**-**	28
Decrease in investments in wholly owned entities		**-**	-	**-**	15
Cash was applied to:					
Acquisition of intangible assets		**(57)**	(46)	**(57)**	(46)
Purchase of property, plant and equipment		**(44)**	(52)	**(38)**	(20)
Net cash flows from investing activities		**(90)**	(70)	**(84)**	(23)
Cash flows from financing activities					
Increase in contributed equity – ordinary shares		**-**	400	**-**	400
Net movement in bonds and notes*		**1,112**	421	**(63)**	686
Net movement in derivative financial instruments*		**(140)**	1,436	**(140)**	1,436
Net movement in short term debt securities*		**184**	(4,561)	**(119)**	7
Net movement in related entity funding*		**(2,564)**	(195)	**(719)**	(4,681)
Net movement in subordinated debt*		**-**	(350)	**-**	(350)
Ordinary dividend	27	**(110)**	(25)	**(110)**	(25)
Perpetual preference dividend	27	**(55)**	(63)	**(55)**	(63)
Net cash flows from financing activities		**(1,573)**	(2,937)	**(1,206)**	(2,590)
Net movement in cash and cash equivalents		**161**	328	**161**	328
Cash and cash equivalents at beginning of year		**1,709**	1,381	**1,709**	1,381
Cash and cash equivalents at end of year		**1,870**	1,709	**1,870**	1,709
Cash and cash equivalents at end of year comprised:					
Cash and liquid assets	8	**1,725**	1,628	**1,725**	1,628
Due from central banks and other institutions classified as cash and cash equivalents	9	**710**	1,338	**710**	1,338
Due to central banks and other institutions classified as cash and cash equivalents	19	**(565)**	(1,257)	**(565)**	(1,257)
Total cash and cash equivalents		**1,870**	1,709	**1,870**	1,709

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

Cash Flow Statement *continued*

For the year ended 30 September 2013

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Reconciliation of net profit attributable to shareholders of Bank of New Zealand to net cash flows from operating activities				
Net profit attributable to shareholders of Bank of New Zealand	**695**	580	**709**	497
Add back non-cash items in net profit:				
Decrease in accrued interest receivable	**11**	-	**11**	-
Depreciation and amortisation expense	**81**	66	**62**	48
Impairment losses on credit exposures	**113**	61	**113**	61
Impairment losses on non-financial assets	**5**	3	**-**	3
Increase in provision for tax	**41**	-	**44**	-
Loss on disposal of property, plant and equipment	**-**	1	**-**	1
Unrealised gains less losses on financial instruments	**489**	349	**489**	349
Deduct non-cash items in net profit:				
Decrease in accrued interest payable	**(5)**	(13)	**(5)**	(8)
Decrease in accrued subvention payments	**-**	-	**(7)**	(22)
Decrease in other liabilities	**(3)**	(31)	**(4)**	(30)
Decrease in provision for tax	**-**	(17)	**-**	(25)
Gain on sale of available for sale investments	**(19)**	-	**(19)**	-
Increase in accrued interest receivable	**-**	(20)	**-**	(21)
Decrease in provision for impairment of wholly owned entities	**-**	-	**(63)**	-
Deduct operating cash flows not included in net profit:				
Net change in operating assets and liabilities	**416**	2,356	**121**	2,088
Net cash flows from operating activities	**1,824**	3,335	**1,451**	2,941

Netting of cash flows

Certain cash flows (as indicated by *) are shown net as these cash flows are either received and disbursed on behalf of customers and counterparties and therefore reflect the activities of these parties rather than those of the Bank; or are received and disbursed in transactions where the turnover is quick, the amounts large and the maturities short.

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

Note 1 Principal Accounting Policies

In these financial statements Bank of New Zealand is referred to as the "Bank" or the "Company". The "Banking Group" means Bank of New Zealand, all of its wholly owned entities listed in note 15 and entities consolidated for financial reporting purposes listed in note 16.

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 Statements (New Zealand Incorporated Registered Banks) Order (No 2) 2013.

Assumptions and estimates

The preparation of the financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. It also requires management to exercise judgement in the process of applying accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the Banking Group.

Assumptions made as at each reporting date (e.g. the calculation of the allowance for impairment losses on credit exposures and fair value adjustments) are based on best estimates at that date. 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. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Statement of compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS").

The following new standards and amendments to standards relevant to the Banking Group have been adopted from 1 October 2012 and have been applied in the preparation of these financial statements:

- NZ IAS 1 Amendments to NZ IAS 1 Presentation of Financial Statements was issued in August 2011 and is effective for periods beginning on or after 1 July 2012. It requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods (reclassification adjustments). Items included in other comprehensive income that may be reclassified into profit or loss in subsequent periods include gains or losses on cash flow hedges. Those that will not be reclassified include defined benefits actuarial gains and losses.

The following new standards and amendments to standards relevant to the Banking Group are not yet effective and have not yet been applied in preparing these financial statements:

- NZ IFRS 9 Financial Instruments (2010) was issued in November 2009 and is applicable for accounting periods beginning on or after 1 January 2015. It is intended to replace New Zealand International Accounting Standard ("NZ IAS") 39 Financial Instruments: Recognition and Measurement. It currently establishes the classification and measurement of financial assets and liabilities. There will also be changes to impairment provisioning and hedge accounting. The Banking Group is in the process of evaluating the potential impact of this standard.
- NZ IFRS 10 Consolidated Financial Statements was issued in June 2011 and is effective for periods beginning on or after 1 January 2013. The standard defines the principle of control, sets out requirements on how to apply the control principles, and establishes control as the basis for determining which entities are consolidated in the financial statements. The impact on the financial statements is not expected to be material.
- NZ IFRS 12 Disclosure of Interests in Other Entities was issued in June 2011 and is effective for periods beginning on or after 1 January 2013. It enhances disclosure relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The impact on the financial statements is not expected to be material.
- NZ IFRS 13 Fair Value Measurement was issued in June 2011 and is effective for periods beginning on or after 1 January 2013. It explains how to measure fair value of assets and liabilities and expands the disclosure requirements for all assets or liabilities carried at fair value. The Banking Group is in the process of evaluating the potential effect of this standard.
- NZ IAS 19 Employee Benefits (amended in July 2010) is effective for periods beginning on or after 1 January 2013. It requires the return on plan assets for defined benefit plans recognised in profit and loss to be calculated based on the rate used to discount the defined benefit, and also revises the definition of short term employee benefits. The impact on the financial statements is not expected to be material.
- NZ IAS 27 Separate Financial Statements (amended in June 2011) is effective for periods beginning on or after 1 January 2013. It removes the disclosure requirements for consolidated financial statements, which are now included in NZ IFRS 10 and NZ IFRS 12. The impact on the financial statements is not expected to be material.
- NZ IAS 28 Investments in Associates and Joint Ventures (amended in June 2011) is effective for periods beginning on or after 1 January 2013. It replaces NZ IAS 28 (2004), as a result of the issue of NZ IFRS 11 Joint Arrangements and NZ IFRS 12, effectively shifting the disclosure requirements to those standards. The impact on the financial statements is not expected to be material.
- An amendment to NZ IAS 32 Financial Instruments: Presentation was issued in February 2012 and is effective for periods beginning on or after 1 January 2014. Its purpose is to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The meaning of current legally enforceable rights of set-off is clarified, as is the application of the current offsetting criteria to some gross settlement systems. There is also a related amendment to IFRS 7 Financial Instruments: Disclosures requiring enhanced disclosures about financial instruments that are offset or subject to netting arrangements which is applicable for annual periods beginning on or after 1 January 2013. The impact on the financial statements is not expected to be material.
- Annual Improvements Project 2011 – amendments include improvements to NZ IAS 32 whereby a clarification is made to the treatment of income tax relating to distributions and transaction costs, which is effective for periods beginning on or after 1 January 2013. NZ IAS 34 has also been amended to clarify the disclosure requirements for segment assets and liabilities in interim financial statements, also effective for periods beginning on or after 1 January 2013. The impact on the financial statements is not expected to be material.

The Banking Group has also considered all other standards issued but not yet effective and determined that they have no material impact on the financial statements.

Note 1 Principal Accounting Policies *continued*

Basis for preparation

The financial statements have been prepared under the historical cost convention, modified by the application of fair value measurements required or allowed by relevant accounting standards.

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.

Reclassification of financial information

Certain comparative balances have been reclassified to align with the presentation used in the current financial year. These reclassifications have no impact on the overall financial performance or financial position for the comparative year.

Principles of consolidation

Entities (including Special Purpose Entities) over which the Bank has the power to govern the financial and operating policies so as to obtain benefits from their activities are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

In assessing whether the Banking Group controls and should consolidate a special purpose entity, management uses their judgment considering the requirements of NZ IAS 27 Consolidated and Separate Financial Statements and New Zealand equivalents to Standing Interpretations Committee 12 Consolidation – Special Purpose Entities having particular regard to whether the Banking Group is able to govern the financial and operating policies of an entity.

The Company records investments in wholly owned entities at cost less any provision for impairment.

Inter-company balances and transactions, including income, expenses and dividends, are eliminated in full.

The financial results of the Bank's consolidated entities have been prepared in accordance with the Bank's accounting policies, which have been consistently applied throughout the Banking Group.

Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of each of the Banking Group's foreign operations are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Disclosure Statement is presented in New Zealand dollars, which is the Bank's functional and presentation currency.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when recognised in other comprehensive income as qualifying cash flow hedges. Translation differences on non-monetary items held at fair value through profit or loss, such as equity securities, are reported as part of the fair value gain or loss. Translation differences on non-monetary items classified as available for sale financial assets are included in other comprehensive income.

iii) Foreign operations

The results and financial position of all of the Banking Group's operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate as at the reporting date;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income, in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and from borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income. To the extent that the hedge is ineffective, such differences are recognised in the income statement. When a foreign operation is sold, such exchange differences are transferred out of reserves and reclassified to the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Fair value measurement

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Where a financial asset or liability is to be stated at fair value, the best evidence is independently quoted market prices in an active market. Where such prices are unavailable, then depending on the circumstances, alternative evidence may be used, including the price of recent transactions, prices for similar instruments or prices obtained utilising component parts (which when aggregated form the price of the whole instrument).

Note 1 Principal Accounting Policies *continued*

Where no active market exists for a particular asset or liability, the Banking Group uses standard market valuation techniques to arrive at the estimated fair value, utilising observable market sourced inputs wherever possible. Depending on the circumstances, the same alternative evidence (as described above) may be used in the valuation techniques. The valuation techniques address factors such as interest rates, liquidity and credit risk.

Fair value asset or liability prices defined above generally represent the present value of all future cash flows including those relating to interest, dividends or other cash flows as appropriate.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Banking Group recognises the profit on initial recognition (i.e. on day one).

Assets

Cash and cash equivalents

Cash and cash equivalents consist of cash and short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value and are held for the purpose of meeting short term cash commitments.

Financial assets

Financial assets comprise items such as Due from central banks and other institutions, Trading securities, Available for sale investments, Derivative financial instruments, Loans and advances to customers and Amounts due from related entities.

Classification of financial assets

Under NZ IAS 39 financial assets are required to be classified as:

- at fair value through profit or loss;
- available for sale;
- held to maturity; or
- loans and receivables.

Items classified at fair value through profit or loss

In accordance with NZ IAS 39, certain financial instruments have been classified at fair value through profit or loss. Items classified at fair value through profit or loss include financial assets held for trading, financial assets designated at fair value through profit or loss and derivative financial instruments.

Purchases and sales of financial assets classified at fair value through profit or loss are recognised on trade date, being the date that the Banking Group is committed to purchase or sell an asset.

Financial assets classified as fair value through profit or loss are initially recognised at fair value, with transaction costs being recognised in the income statement immediately. Subsequently, they are measured at fair value with gains and losses recognised in the income statement as they arise.

Where a financial asset is held at fair value, the movement in fair value attributable to interest rate market movements is either an observable market value or calculated based on changes in observable market interest rates for swaps. The movement in fair value attributable to changes in credit risk is established through a statistical-based calculation to estimate expected losses attributable to adverse movements in credit risk.

Where a financial liability is held at fair value, the movement in fair value attributable to changes in the Bank's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates.

i) Financial assets held for trading

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short term profit taking, or it is a derivative (not in a qualifying hedge relationship). The Banking Group has classified certain public and other debt securities as held for trading.

ii) Financial assets designated at fair value through profit or loss

Upon initial recognition, financial assets may be designated at fair value through profit or loss. This classification can only be used in the following circumstances:

- where designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities (not only financial assets and liabilities) or recognising the gains or losses on them on different bases. Under this criterion the Banking Group has designated certain amounts within Due from central banks and other institutions and Loans and advances to customers. Where derivative financial instruments have been transacted to hedge these amounts, an accounting inconsistency would arise if such amounts were accounted for on an amortised cost basis, as the derivatives are measured at fair value with movements in fair value recognised in the income statement. By designating these amounts at fair value through profit or loss, any fair value movements on the instrument will offset the fair value movements on hedging derivatives in the income statement; or
- those that are part of a group of financial assets, financial liabilities or both, that are managed and their performance is evaluated by management on a fair value basis in accordance with the documented risk management or investment strategy; or
- those that contain one or more embedded derivatives, except if the embedded derivative does not modify significantly the associated cash flows or it is clear with little or no analysis that separation is prohibited.

Once a financial instrument has been designated at fair value through profit or loss upon initial recognition, the Banking Group cannot subsequently change the designation.

Note 1 Principal Accounting Policies *continued*

Available for sale investments

Available for sale investments comprise non-derivative financial assets that are designated as available for sale or are not categorised into any of the categories of: (i) fair value through profit or loss; (ii) held to maturity; or (iii) loans and receivables.

Available for sale investments are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income until sale when the cumulative gain or loss is transferred to the income statement.

Interest income is determined using the effective interest method. Dividends earned whilst holding available for sale investments are recognised in the income statement as other operating income. Impairment losses, and translation differences on monetary items, are recognised in the income statement. Available for sale investments are derecognised when the rights to receive cash flows have expired or the Banking Group has transferred substantially all the risks and rewards of ownership.

Loans and receivables

Loans and receivables represent the fourth classification of financial assets under NZ IAS 39. Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market and which are not classified as available for sale or at fair value through profit or loss. They arise when the Banking Group provides money or services directly to a customer and has no intention of trading the loan.

Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently recorded at amortised cost, using the effective interest method, adjusted for impairment losses, deferred income and unearned future income on lease finance. Under the effective interest method, fee income and costs directly related to the origination of the loan are deferred over the expected life of the assets or, where appropriate, a shorter period. When calculating effective interest rate, the Banking Group estimates cash flows considering all contractual terms of the financial instrument and excluding future credit losses. Unearned future income on lease finance represents interest not yet earned on the Banking Group's lease finance assets and is calculated on an amortised cost basis. Loans and receivables are derecognised when the rights to receive cash flows have expired or the Banking Group has transferred substantially all of the risks and rewards of ownership.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase are classified in the investment or trading portfolios and accounted for accordingly. They are not derecognised from the balance sheet as the Bank retains substantially all the risks and rewards of ownership. The Bank's obligation to repurchase is classified under Due to central banks and other institutions. The difference between the sale and repurchase prices represents interest expense and is recognised in the income statement over the term of the repurchase agreements.

Securities purchased under agreements to resell are recorded as Due from central banks and other institutions. The difference between the purchase and the resale prices are treated as interest and accrued over the life of the agreements using the effective interest method.

Where the Banking Group has accepted collateral arising from secured placements and reverse repurchase agreements, the Banking Group is obliged to return equivalent securities. Securities repledged by the Banking Group are strictly for the purposes of providing collateral for the counterparty. These transactions are conducted under terms that are usual for customary standard lending, and securities borrowing and lending activities.

Securities lent to counterparties are also disclosed in the financial statements.

Impairment of financial assets

The Banking Group assesses at each reporting date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets held at amortised cost is impaired and impairment losses are incurred if, and only if:

- there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the reporting date (a "loss event"); and
- that loss event has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

Financial assets at fair value through profit or loss are not assessed for impairment as their fair value reflects the credit quality of the instrument and changes in fair value are recognised in the income statement.

The Banking Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Banking Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

For Loans and advances to customers the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at either the asset's original effective interest rate or, where the original effective interest rate is not available, at the asset's contractual interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial. The amount of the loss is recognised using an allowance account and the amount of the loss is included in the income statement.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past due status and other relevant factors.

Note 1 Principal Accounting Policies *continued*

These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not currently exist.

In addition, the Banking Group uses its experienced judgment to estimate the amount of an impairment loss. This incorporates amounts calculated to overcome model limitations and systemic risks where appropriate and supported by historical loss experience data. The use of such judgments and reasonable estimates is considered by management to be an essential part of the process and does not impact reliability.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognised using the original effective rate of interest, which was also used to discount the future cash flows for the purpose of measuring the impairment loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised through the income statement.

In the case of equity instruments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognised in other comprehensive income is removed from other comprehensive income and recognised in the income statement. In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as all other financial assets. Reversals of impairment of debt securities classified as available for sale are recognised in the income statement. Reversals of impairment of equity shares classified as available for sale are not recognised in the income statement. Increases in the fair value of equity shares classified as available for sale after impairment are recognised directly in other comprehensive income.

Asset quality

The Banking Group has disclosed, in note 13, certain components of its loan portfolio as impaired assets according to the classifications discussed below:

- **Impaired assets** means any credit exposure for which an impairment loss is required in accordance with NZ IAS 39 paragraphs 58 to 62.

The following categories are also disclosed in note 13, but are not considered to be impaired assets:

- **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.
- **Past due assets** are those loans which are not impaired and for which payments of principal or interest are contractually past due and adequate security is held.

Derivative financial instruments and hedge accounting

All derivatives are recognised in the balance sheet at fair value on trade date and are classified as trading except where they are used as part of an effective hedge relationship. The carrying value of a derivative is remeasured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative.

The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is used as a hedging instrument and, if so, the nature of the item being hedged. The Banking Group designates certain derivatives as either hedges of movements in the fair value of recognised assets and liabilities or firm commitments (fair value hedge) or hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge). Hedge accounting is generally used for derivatives designated in this way, provided certain criteria are met.

The Banking Group documents, at inception of the transaction, the relationship between hedging instruments and hedged items, as well as the Banking Group's risk management objective and strategy for undertaking these hedge transactions. In addition, the documents outline how effectiveness will be measured throughout the life of the hedge relationship and its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value or cash flows of hedged items.

Any derivative that is de-designated as a hedging derivative will be accounted for as trading from the time that it is de-designated, with all subsequent movements in fair value recognised in the income statement.

Note 1 Principal Accounting Policies *continued*

i) Fair value hedge accounting

Subsequent to initial designation, changes in the fair value of derivatives that are designated and qualify for fair value hedge accounting are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement on an effective yield basis over the remaining period to maturity of the hedged item.

ii) Cash flow hedge accounting

The effective portion of changes in fair value of derivatives that are designated and qualify for cash flow hedge accounting are recognised in other comprehensive income, while the gain or loss relating to any ineffective portion is recognised immediately in the income statement. The carrying value of the hedged item is not adjusted.

Amounts accumulated in reserves are transferred to the income statement in the period in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in reserves at that time remains in reserves and is recognised in the income statement when the forecast transaction ultimately affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in reserves is immediately transferred to the income statement.

Embedded derivatives

Certain derivatives embedded in financial instruments, such as the prepayment option embedded in a debt instrument, are only treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are bifurcated and measured at fair value with changes in fair value recognised in the income statement.

Set-off arrangements

For derivative financial instruments on the balance sheet fair value assets are not offset against fair value liabilities.

Leasing

As lessee, the leases entered into by the Banking Group are primarily operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the term of the lease.

Liabilities

Financial liabilities

Financial liabilities comprise items such as Due to central banks and other institutions, Short term debt securities, Trading liabilities, Derivative financial instruments, Deposits from customers, Bonds and notes, Amounts due to related entities and Subordinated debt.

Financial liabilities may be held at fair value through profit or loss or at amortised cost. Items held at fair value through profit or loss comprise both items held for trading and items specifically designated at fair value through profit or loss on initial recognition. A financial liability is classified as held for trading if it is incurred principally for the purpose of selling in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short term profit taking, or it is a derivative (not in a qualifying hedge relationship). The Banking Group has classified short sales of securities as Trading liabilities.

Financial liabilities held at fair value through profit or loss are initially recognised at fair value with transaction costs being recognised immediately in the income statement. Subsequently, they are measured at fair value and any gains and losses are recognised in the income statement as they arise.

Liabilities may be designated at fair value through profit or loss if they meet the following criteria:

- where designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities (not only financial assets and liabilities) or recognising the gains and losses on them on different bases. Under this criterion, the Banking Group has designated certain amounts within Due to central banks and other institutions, Short term debt securities, Deposits from customers, Bonds and notes and Subordinated debt. Where derivative financial instruments have been transacted to hedge these amounts, an accounting inconsistency would arise if such amounts were accounted for on an amortised cost basis, as the derivatives are measured at fair value with movements in fair value recognised in the income statement. By designating these amounts at fair value through profit or loss, any fair value movements on the instrument will offset the fair value movements on hedging derivatives in the income statement; or
- those that are part of a group of financial assets, financial liabilities or both, that are managed and their performance is evaluated by management on a fair value basis in accordance with the documented risk management or investment strategy; or
- those that contain one or more embedded derivatives, except if the embedded derivative does not modify significantly the associated cash flows or it is clear with little or no analysis that separation is prohibited.

Once a financial instrument has been designated at fair value through profit or loss upon initial recognition, the Banking Group cannot subsequently change the designation.

All other financial liabilities, including Deposits from customers, Amounts due to related entities and certain amounts within Due to central banks and other institutions, Short term debt securities, Subordinated debt and Other liabilities are measured at amortised cost using the effective interest method.

Note 1 Principal Accounting Policies *continued*

Employee entitlements

Employee entitlements to long service leave are measured as the present value of expected future payments using an actuarial valuation method based on legal and contractual entitlements and assessments having regard to staff departures, leave utilisation and future salary levels. Expected future payments are discounted using relevant market yields at the reporting date.

Wages and salaries, annual leave and other employee entitlements expected to be paid or settled within 12 months of providing the service are measured at their nominal amounts using remuneration rates that the Banking Group expects to pay when the liabilities are settled.

All other employee entitlements that are not expected to be paid or settled within 12 months of the reporting date are measured at the present value of net future cash flows.

Subordinated debt

Subordinated loans from related entities are recorded at amortised cost.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet, but are disclosed unless the likelihood of payment is remote.

Financial 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 credit rating of the Banking Group as a guarantee provider that enhances the marketability of the paper issued by the counterparty in these circumstances.

The financial guarantee contract is initially recorded at fair value which is equal to the premium received, unless there is evidence to the contrary.

Subsequently, the Banking Group records and measures the financial guarantee contract at the higher of:

- the amount initially recognised less, when appropriate, amortisation of the fee which is recognised over the life of the guarantee; and
- where it is likely the Banking Group will incur a loss as a result of issuing the contract, a liability is recognised for the estimated amount of the loss payable.

Perpetual preference shares

The Bank has issued perpetual non-cumulative preference shares. The perpetual preference shares are non-redeemable and do not create any direct or indirect contractual obligation to deliver cash to the preference shareholders, and as such are classified as equity instruments.

Income tax

Income tax expense is the income tax charge or benefit incurred on the current reporting period’s profit or loss and is the aggregate of the movements in deferred tax taken through the income statement and the amount of income tax payable or recoverable in respect of taxable profit or loss for the period at the applicable tax rate.

Deferred tax assets are the amounts of income tax recoverable in future periods including unused tax losses and unused tax credits carried forward. Deferred tax liabilities are the amounts of income tax payable in future periods. Deferred tax assets and liabilities arise when there is a temporary difference between the tax bases (amount attributable to the asset or liability for tax purposes) of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax assets and liabilities are determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- for a deferred income tax liability arising from the initial recognition of goodwill; and
- where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in wholly owned entities, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Note 1 Principal Accounting Policies *continued*

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in wholly owned entities, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amounts of deferred income tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income and not in the income statement.

Revenue and expense recognition

Net interest income

Net interest income is reflected in the income statement using the effective interest method.

The effective interest method is a method of calculating amortisation using the effective interest rate of a financial asset or financial liability. The effective interest rate is the rate that exactly discounts the estimated stream of future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability.

When calculating the effective interest rate, the cash flows are estimated considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) excluding future credit losses.

The calculation of the effective interest rate includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. Where it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments) are used.

Dividend income

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

Fees and commissions

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis as the service is provided. Fees and commissions not integral to the effective interest rate arising from negotiating, or participating in the negotiation of a transaction with a third party, such as purchase or sale of businesses, are recognised on completion of the underlying transaction.

Funds management and other fiduciary activities

Fees and commissions earned through the marketing of funds management products and other fiduciary activities are included in the income statement as they are earned.

Gains less losses on financial instruments

Gains less losses on financial instruments recognised in the income statement comprises fair value gains and losses from three distinct activities:

- trading financial instruments;
- instruments designated in hedge accounting relationships; and
- other financial instruments designated at fair value through profit or loss.

Trading financial instruments include trading derivatives and trading securities. In general, gains less losses on trading derivatives recognises the full change in fair value of the derivatives inclusive of interest income and expense. However, in cases where the trading derivative is economically offsetting movements in the fair value of an asset or liability designated as being carried at fair value through profit or loss, the interest income and expense attributable to the derivative is recognised within net interest income and not part of the fair value movement of the trading derivative.

Interest income and expense on trading securities are reported within interest income.

Gains less losses on hedging assets, liabilities and derivatives designated in hedge accounting relationships recognise fair value movements on both the hedged item and hedging derivative in a fair value hedge accounting relationship, and hedge ineffectiveness for both fair value and cash flow hedge accounting relationships. Interest income and expense on both hedging instruments and instruments designated at fair value through profit or loss at initial recognition are recognised in net interest income.

Gains less losses on financial assets and liabilities designated at fair value through profit or loss at inception recognises fair value movements excluding interest which is recognised within net interest income.

Gains less losses on financial instruments includes gains and losses on the derecognition of financial instruments held at amortised cost.

Note 1 Principal Accounting Policies *continued*

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 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 either Other assets or Other liabilities.

Cash flows are included in the Cash flow statement on a net basis. The tax component of cash flows for all activities is classified within operating activities.

Share based payments

The Banking Group engages in equity settled share based payment transactions, via its ultimate parent, National Australia Bank Limited, in respect of services received from its employees. The fair value of the services received is measured by reference to the fair value of the shares or performance rights granted on the date of the grant. The cost of the employee services received in respect of the shares or performance rights granted is recognised in the income statement over the period in which the services are received, which is the vesting period.

The grant date fair value of shares is generally determined by reference to the weighted average price of the National Australia Bank Limited shares in the week up to, and including, the date on which the shares are granted. Employee share plans are linked to internal performance, market performance and/or service conditions. The fair value of shares with a market performance condition is determined using a Monte Carlo simulation.

The fair value of the performance rights granted is determined using a simulated version of the Black-Scholes model. The key assumptions and inputs used in the valuation model are the exercise price of the performance rights, the expected volatility of the National Australia Bank Limited share price, the risk-free interest rate and the expected dividend yield on the National Australia Bank Limited shares for the life of the performance rights.

Except for those which include terms related to market conditions, vesting conditions included in the terms of the grant are not taken into account in estimating fair value.

Non-market vesting conditions are taken into account by adjusting the number of shares or performance rights included in the measurement of the cost of employee services so that, ultimately, the amount recognised in the income statement reflects the number of vested shares or performance rights. Where vesting conditions are related to market conditions, the charges for the services received are recognised regardless of whether or not the market related vesting condition is met, provided that the non-market vesting conditions are met.

Income Statement Notes

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Note 2 Interest				
Interest income				
Central banks	**39**	40	**39**	40
Other financial institutions	**11**	12	**11**	12
Non-financial institutions	**17**	20	**17**	20
Trading securities	**111**	120	**111**	120
Loans and advances to customers	**3,519**	3,472	**3,519**	3,471
Individually impaired assets	**11**	16	**11**	16
Related entities	**8**	13	**369**	365
Total interest income	**3,716**	3,693	**4,077**	4,044
Total interest income was derived from financial assets:				
Not at fair value through profit or loss	**2,325**	2,370	**2,686**	2,721
At fair value through profit or loss	**1,391**	1,323	**1,391**	1,323
	3,716	3,693	**4,077**	4,044
Interest expense				
Central banks and other institutions	**24**	24	**24**	24
Short term debt securities	**74**	87	**57**	62
Deposits from customers	**1,264**	1,188	**1,230**	1,165
Bonds and notes	**513**	526	**287**	298
Related entities	**53**	178	**769**	882
Subordinated loans from related entities	**30**	30	**30**	30
Other subordinated debt	**-**	21	**-**	21
Other	**193**	136	**193**	136
Total interest expense	**2,151**	2,190	**2,590**	2,618
Total interest expense was incurred on financial liabilities:				
Not at fair value through profit or loss	**1,499**	1,499	**1,938**	1,927
At fair value through profit or loss	**652**	691	**652**	691
	2,151	2,190	**2,590**	2,618

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Note 3 Gains Less Losses on Financial Instruments				
Trading gains less losses on financial instruments				
Foreign exchange trading gain	**83**	84	**83**	84
Interest rate related trading derivatives	**90**	62	**90**	62
Net loss in the fair value of financial assets and liabilities held for trading	**(6)**	(3)	**(6)**	(3)
Trading gains less losses on financial instruments	**167**	143	**167**	143
Other gains less losses on financial instruments				
Hedge accounting				
Net gain arising from hedging instruments in fair value hedge accounting relationships	**63**	63	**63**	63
Net loss arising from the hedged items attributable to the hedged risk in fair value hedge accounting relationships	**(49)**	(51)	**(49)**	(51)
Ineffectiveness arising from cash flow hedge accounting relationships	**-**	-	**-**	-
	14	12	**14**	12
Other				
Net loss in the fair value of financial assets (refer to table below)	**(49)**	(139)	**(49)**	(139)
Net loss in the fair value of financial liabilities (refer to table below)	**(165)**	(239)	**(165)**	(239)
Net loss attributable to financial liabilities at amortised cost	**(46)**	-	**(46)**	-
Bid/offer adjustment	**1**	2	**1**	2
Net loss attributable to other derivatives used for hedging purposes that do not qualify as designated and effective hedging instruments	**(16)**	(12)	**(16)**	(12)
	(275)	(388)	**(275)**	(388)
Other gains less losses on financial instruments	**(261)**	(376)	**(261)**	(376)
Total gains less losses on financial instruments	**(94)**	(233)	**(94)**	(233)
Net loss in the fair value of financial assets comprised:				
Loss in the fair value of financial assets designated at fair value through profit or loss	**(138)**	(70)	**(138)**	(70)
Credit risk adjustments on financial assets designated at fair value through profit or loss	**(7)**	(78)	**(7)**	(78)
Net gain attributable to other derivatives used for hedging purposes that do not qualify for hedge accounting	**96**	9	**96**	9
	(49)	(139)	**(49)**	(139)
Net loss in the fair value of financial liabilities comprised:*				
Gain/(loss) in the fair value of financial liabilities designated at fair value through profit or loss	**236**	(164)	**236**	(164)
Credit risk adjustments on financial liabilities designated at fair value through profit or loss	**(142)**	(194)	**(142)**	(194)
Net (loss)/gain attributable to other derivatives used for hedging purposes that do not qualify for hedge accounting	**(259)**	119	**(259)**	119
	(165)	(239)	**(165)**	(239)

* All foreign currency gains/(losses) are excluded from this category. Due to the Banking Group's practice of managing all foreign exchange risk centrally, all foreign currency gains/(losses) are included within 'Foreign exchange trading gain' above.

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Note 4 Other Operating Income				
Dividends received from other investments	**3**	3	**24**	3
Money transfer fees	**115**	109	**115**	109
Fees earned on financial assets and liabilities at fair value through profit or loss	**36**	40	**36**	40
Fees earned on financial assets and liabilities at amortised cost	**150**	132	**150**	132
Fees earned on trust and other fiduciary activities	**8**	7	**8**	7
Other income, other fees and commissions income	**122**	83	**180**	79
Total other operating income	**434**	374	**513**	370

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Note 5 Operating Expenses				
Amortisation and depreciation				
Amortisation of other intangible assets	**40**	29	**40**	29
Depreciation on property, plant and equipment	**41**	37	**22**	19
	81	66	**62**	48
Impairment losses				
Impairment losses on other intangible assets	**-**	3	**-**	3
Impairment losses on furniture, fittings and other equipment	**5**	-	**-**	-
	5	3	**-**	3
Personnel expenses				
Share based payments (refer to note 6)	**7**	8	**7**	8
Defined contribution pension expense	**14**	12	**14**	12
Salaries and other staff expenses	**399**	397	**398**	396
	420	417	**419**	416
Other				
Loss on disposal of property, plant and equipment	**2**	1	**2**	1
Loss on disposal of operations and subsidiary	**-**	4	**-**	5
Rental on operating leases (refer to table below)	**61**	58	**9**	7
Subvention payments to controlled entities	**-**	-	**6**	7
Related entity expenses	**59**	58	**163**	172
Other expenses (refer to table below)	**215**	187	**194**	169
	337	308	**374**	361
Total operating expenses	**843**	794	**855**	828

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Rental on operating leases comprised:				
Lease payments				
Minimum lease payments	**62**	59	**10**	8
Sub-lease payments	**(1)**	(1)	**(1)**	(1)
Total rental on operating leases	**61**	58	**9**	7
Personnel expenses include key management personnel remuneration paid or payable which comprised:				
Short term benefits	**8**	8	**8**	8
Termination benefits	**1**	-	**1**	-
Equity compensation benefits	**2**	3	**2**	3
Total key management personnel remuneration paid or payable	**11**	11	**11**	11

Dollars in Thousands	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Other expenses included:				
Fees paid to auditors:				
Audit services	**1,762**	1,962	**1,561**	1,615
Other assurance and risk related services*	**202**	92	**135**	27

* Fees paid to auditors were for assurance services provided in relation to funding activities and operational risk assessment.

Note 6 Share Based Payments Expense

Shares and performance rights (subject to restrictions) are granted to employees of the Banking Group by the ultimate parent, National Australia Bank Limited, as part of the National Australia Bank Group's short term and long term incentives ("STI" and "LTI") to employees. These incentives are an integral part of the Banking Group's remuneration strategy in rewarding an employee's current and future contribution to the Banking Group's performance.

The plans described below involve the provision of equity grants to employees of the Banking Group. The Banking Group reimburses National Australia Bank Limited for the cost of these grants. Details of the share based payments expense and the related entity payables are contained within notes 5 and 30 respectively.

As at 30 September 2013, share based payments expense of $14 million in relation to performance options and rights granted to employees of the Banking Group had not yet been charged by National Australian Bank Limited (30 September 2012: $16 million). This amount is required to be expensed in future periods under NZ IFRS 2 Share-based Payment.

a) National Australia Bank Group New Zealand Staff Share Allocation Plan

This plan provides for the National Australia Bank Limited Board to invite any employee of the Banking Group based in New Zealand to participate in an offer under this plan. Under this plan, funds are provided (if required) to a trustee to subscribe for or purchase fully paid ordinary shares in National Australia Bank Limited on behalf of participating employees.

Year-end share offer

This programme is designed to offer approximately A$1,000 of ordinary shares to each employee when the National Australia Bank Group's performance is on target, as measured against a scorecard of objectives for the National Australia Bank Group for the financial year. These shares are held by the trustee for three years, or until the employee ceases his or her employment.

Under the New Zealand programme, each eligible employee is required to pay NZ$1.00 for the whole parcel of shares offered, or the market price of the parcel, whichever is less. Participating employees receive dividends and may exercise voting rights in respect of the shares, but otherwise cannot transact the shares until the three-year restriction period concludes. If a participating employee leaves the Banking Group prior to the end of the three-year restriction period due to voluntary resignation or dismissal, the trustee will purchase the shares back for the lesser of the market price or the price paid by the employee for the shares.

b) National Australia Bank Group Executive Share Option Plan (No. 2) and Performance Rights Plan

STI Deferral

Each year, the Banking Group's senior executives participate in the STI Deferral offer and receive half of the value of their STI rewards in the form of National Australia Bank performance rights. Employees become eligible for these rights based on their individual or business performance (or both). The deferred award is allocated in two equal tranches with half restricted for 12 months and the remaining half for 24 months. Performance rights are lapsed if the employee ceases employment or fails to pass specific compliance expectations in respect of their performance review. The Board may also, in its discretion, lapse all or part of an employee's performance rights.

Long term incentives

The Banking Group operates an LTI programme primarily targeted at key executive positions. The programme delivers performance rights (instead of shares) aligned to National Australia Bank Limited's share price. Performance options ceased being used following the February 2007 grant.

The plans provide for the National Australia Bank Limited Board to grant performance rights to executives of the Banking Group to subscribe for fully paid ordinary shares in National Australia Bank Limited. Each performance right entitles the holder to subscribe for one fully paid ordinary share in National Australia Bank Limited. The performance rights cannot be transferred and are not quoted on the Australian Securities Exchange. No payment is required from executives at the time of the grant. There are no voting or dividend rights attached to the performance rights.

Performance options and rights granted prior to February 2007 were subject to a performance hurdle based on total shareholder return ("TSR"). Performance options and rights granted since this date are subject to both internal and external conditions as the National Australia Bank Group's Board of Directors consider appropriate and may include conditions relating to the performance of the National Australia Bank Group or the performance and conduct of the employee.

Note 6 Share Based Payments Expense *continued*

b) National Australia Bank Group Executive Share Option Plan (No. 2) and Performance Rights Plan *continued*

The number and weighted average exercise prices of performance options and performance rights were as follows:

	Consolidated			
	Weighted Average Exercise Price A$ 30/9/13	**Number of Options 30/9/13**	Weighted Average Exercise Price A$ 30/9/12	Number of Options 30/9/12
Performance options				
Outstanding at beginning of year	-	-	38.03	834,981
Add: Granted during the year	-	-	-	-
Add: Transferred in during the year	-	-	40.91	2,708
Deduct: Exercised during the year	-	-	-	-
Deduct: Forfeited during the year	-	-	38.05	834,751
Deduct: Transferred out during the year	-	-	34.79	2,938
Outstanding at end of year	-	-	-	-
Exercisable at end of year		-		-
Performance rights				
Outstanding at beginning of year	-	**428,580**	-	646,219
Add: Granted during the year	-	**270,334**	-	221,248
Add: Transferred in during the year	-	**40,200**	-	2,390
Deduct: Exercised during the year	-	**85,529**	-	256,910
Deduct: Forfeited during the year	-	**65,677**	-	177,333
Deduct: Transferred out during the year	-	**37,192**	-	7,034
Outstanding at end of year	-	**550,716**	-	428,580
Exercisable at end of year		**3,655**		2,321

There are no options outstanding as at 30 September 2013 (30 September 2012: nil).

The weighted average price of National Australia Bank Limited shares during the year ended 30 September 2013 was A$28.82 (year ended 30 September 2012: A$24.03).

Fair value of performance rights and options

The following table shows the significant assumptions used as inputs into the grant date fair value calculation of performance rights and options granted during the last two years. In the following table, values have been presented as weighted averages, but the specific values for each grant are used for the fair value calculation. The following table shows a 'no hurdle' value where the grant includes performance rights and options which have non-market based performance hurdles attached. For further details of the fair value methodology, refer to note 1.

	Consolidated	
	30/9/13	30/9/12
Weighted average values		
Contractual life (years)	**4.7**	3.2
Risk-free interest rate (per annum)	**2.66%**	3.07%
Expected volatility of share price	**23.00%**	29.00%
Closing share price on grant date	**A$25.32**	A$24.38
Dividend yield (per annum)	**7.37%**	7.00%
Fair value of performance rights	**A$9.95**	A$12.17
'No hurdle' value of performance rights	**A$23.59**	A$21.03
Expected time to vesting (years)	**3.38**	2.59

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Note 7 Income Tax Expense on Operating Profit				
Income tax on operating profit charged to income statement				
Current tax	**239**	187	**214**	160
Deferred tax	**15**	22	**15**	17
Total income tax on operating profit charged to income statement	**254**	209	**229**	177
Reconciliation of income tax expense on operating profit shown in the income statement with prima facie tax payable on the pre-tax accounting profit				
Total operating profit before income tax expense	**949**	789	**938**	674
Prima facie income tax at 28%	**266**	221	**263**	189
Add/(deduct): Tax effect of amounts which are non-deductible or non-assessable:				
Non-assessable and tax paid income	**(4)**	(7)	**(8)**	(4)
Prior year adjustment	**2**	4	**2**	1
Other accounting movements	**(10)**	(9)	**(28)**	(9)
Total income tax expense on operating profit	**254**	209	**229**	177
Effective tax rate	**26.8%**	26.5%	**24.4%**	26.3%
Income tax charged to other comprehensive income				
Current tax	**2**	2	**2**	2
Deferred tax	**-**	-	**-**	-
Total income tax charged to other comprehensive income	**2**	2	**2**	2

Asset Notes

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Note 8 Cash and Liquid Assets				
Notes and coins	**151**	123	**151**	123
Transaction balances with central banks	**1,527**	1,445	**1,527**	1,445
Transaction balances with other institutions	**47**	60	**47**	60
Total cash and liquid assets	**1,725**	1,628	**1,725**	1,628

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Note 9 Due from Central Banks and Other Institutions				
Loans and advances due from central banks	**318**	303	**318**	303
Loans and advances due from other institutions	**488**	413	**488**	413
Securities purchased under agreements to resell with other financial institutions*	**36**	101	**36**	101
Securities purchased under agreements to resell with non-financial institutions*	**674**	1,237	**674**	1,237
Total due from central banks and other institutions	**1,516**	2,054	**1,516**	2,054

* Classified as cash and cash equivalents in cash flow statement.

The Banking Group has accepted collateral of New Zealand government securities with a fair value of $681 million as at 30 September 2013 arising from reverse repurchase agreements, which it is permitted to sell or repledge (30 September 2012: $1,316 million).

Government securities with a fair value of $72 million were repledged as at 30 September 2013 (30 September 2012: $443 million). Securities were repledged for periods of less than three months. The Bank's obligation to repurchase is classified under due to central banks and other institutions.

Included in due from central banks and other institutions as at 30 September 2013 was $652 million of collateral posted with counterparties to meet standard derivative trading obligations (30 September 2012: $707 million).

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Note 10 Trading Securities				
Government bonds, notes and securities	**2,033**	2,204	**2,033**	2,204
Semi-government bonds, notes and securities	**435**	724	**435**	724
Corporate and other institutions bonds, notes and securities	**1,823**	682	**1,823**	682
Total trading securities	**4,291**	3,610	**4,291**	3,610

Included in trading securities as at 30 September 2013 were $32 million encumbered through repurchase agreements (30 September 2012: $240 million). These trading securities have not been derecognised from the Bank as the Bank retains substantially all the risks and rewards of ownership. Counterparties have the right to sell or repledge these encumbered securities. The Bank's obligation to repurchase is classified under due to central banks and other institutions. No trading securities were used to secure deposit obligations as at 30 September 2013 (30 September 2012: nil).

Dollars in Millions	Consolidated 30/9/13	30/9/12	The Company 30/9/13	30/9/12
Note 11 Loans and Advances to Customers				
Overdrafts	**2,478**	2,257	**2,478**	2,257
Credit card outstandings	**1,333**	1,344	**1,333**	1,344
Housing loans	**29,495**	28,131	**29,495**	28,131
Other term lending	**28,498**	27,100	**28,498**	27,100
Other lending	**801**	544	**801**	544
Total gross loans and advances to customers	**62,605**	59,376	**62,605**	59,376
Deduct:				
Allowance for impairment losses and credit risk adjustments on individual financial assets (refer to note 12)	**149**	185	**149**	185
Allowance for impairment losses and credit risk adjustments on groups of financial assets (refer to note 12)	**284**	285	**284**	285
Deferred and other unearned future income and expenses	**12**	43	**12**	43
Fair value hedge adjustments	**(7)**	(56)	**(7)**	(56)
Total deductions	**438**	457	**438**	457
Total net loans and advances to customers	**62,167**	58,919	**62,167**	58,919

The BNZ RMBS Trust Series 2008-1 (the "RMBS Trust") provides an in-house residential mortgage-backed securities programme to issue securities as collateral for borrowing from the Reserve Bank of New Zealand ("RBNZ"). As at 30 September 2013, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of $4,470 million held by the RMBS Trust (30 September 2012: $4,468 million). These housing loans have not been derecognised by the Bank for financial reporting purposes as the Bank retains substantially all of the risks and rewards of ownership. The Banking Group had not entered into any repurchase agreements for residential mortgage-backed securities with the RBNZ as at 30 September 2013 (30 September 2012: nil). RBNZ had not accepted any residential mortgage-backed securities as collateral from the Banking Group as at 30 September 2013 (30 September 2012: nil) and, as a result, the securities issued by the RMBS Trust remain unencumbered.

The BNZ Covered Bond Trust (the "Covered Bond Trust") holds certain Bank of New Zealand housing loans, and its trustee provides guarantees of the covered bonds issued by the Bank or BNZ International Funding Limited (London Branch), a wholly owned controlled entity of the Bank. Guarantees provided in relation to the covered bonds issued have a prior claim over the assets of the Covered Bond Trust. As at 30 September 2013, included within the Banking Group's loans and advances to customers were housing loans with a carrying amount of $5,403 million held by the Covered Bond Trust (30 September 2012: $5,400 million). These housing loans have not been derecognised by the Bank for financial reporting purposes as the Bank retains substantially all of the risks and rewards of ownership. The Banking Group had issued debt securities with a face value of $4,307 million that were guaranteed by the Covered Bond Trust as at 30 September 2013 (30 September 2012: $4,275 million). The underlying collateral for the guarantees provided by the Covered Bond Trust comprised housing loans and other assets to the face value of $5,467 million as at 30 September 2013 (30 September 2012: $5,467 million).

Within other lending, $68 million collateral was posted with counterparties to meet standard derivative trading obligations as at 30 September 2013 (30 September 2012: nil).

Further details on the transactions with the RMBS Trust and the Covered Bond Trust are provided in notes 16, 22, 30, 33, 38 and 40.

Note 12 Allowance for Impairment Losses on Credit Exposures

Dollars in Millions	Residential Mortgage Lending 30/9/13	Other Retail Exposures 30/9/13	Corporate Exposures 30/9/13	Total 30/9/13
	Consolidated and The Company			
Allowance for impairment losses on credit exposures				
Allowance for impairment losses on individual financial assets				
Loans and advances to customers				
Balance at beginning of year	**39**	**22**	**71**	**132**
Charge to impairment losses on credit exposures in income statement**	**3**	**28**	**87**	**118**
Amounts written off	**(20)**	**(48)**	**(76)**	**(144)**
Recovery of amounts written off in previous years	**-**	**11**	**-**	**11**
Discount unwind*	**-**	**-**	**(3)**	**(3)**
Balance at end of year	**22**	**13**	**79**	**114**
Allowance for impairment losses on groups of financial assets				
Loans and advances to customers				
Balance at beginning of year	**30**	**49**	**93**	**172**
Charge to impairment losses on credit exposures in income statement**	**(6)**	**(5)**	**6**	**(5)**
Balance at end of year	**24**	**44**	**99**	**167**
Total allowance for impairment losses on credit exposures	**46**	**57**	**178**	**281**

* The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to its present value using the original effective interest rate for the asset. This discount unwinds as interest income over the period the asset is held.

** Classified as impairment losses on credit exposures in the income statement.

Dollars in Millions	Residential Mortgage Lending 30/9/12	Other Retail Exposures 30/9/12	Corporate Exposures 30/9/12	Total 30/9/12
	Consolidated and The Company			
Allowance for impairment losses on credit exposures				
Allowance for impairment losses on individual financial assets				
Loans and advances to customers				
Balance at beginning of year	52	23	95	170
Charge to impairment losses on credit exposures in income statement**	16	43	37	96
Amounts written off	(29)	(54)	(57)	(140)
Recovery of amounts written off in previous years	-	10	-	10
Discount unwind*	-	-	(4)	(4)
Balance at end of year	39	22	71	132
Allowance for impairment losses on groups of financial assets				
Loans and advances to customers				
Balance at beginning of year	40	68	99	207
Charge to impairment losses on credit exposures in income statement**	(10)	(19)	(6)	(35)
Balance at end of year	30	49	93	172
Total allowance for impairment losses on credit exposures	69	71	164	304

* The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to its present value using the original effective interest rate for the asset. This discount unwinds as interest income over the period the asset is held.

** Classified as impairment losses on credit exposures in the income statement.

The above tables only reflect allowances for impairment losses on financial assets held at amortised cost. Credit risk adjustments on financial assets designated at fair value through profit or loss have been incorporated into the carrying value of those assets and charged to the income statement within Gains less losses on financial instruments.

The changes in value of financial assets designated at fair value through profit or loss that is attributable to changes in credit risk have been calculated using a statistical-based calculation that estimates expected losses attributable to adverse movement in credit risks.

Note 12 Allowance for Impairment Losses on Credit Exposures *continued*

Credit risk adjustments on financial assets designated at fair value through profit or loss are analysed in the table below.

	Consolidated and The Company			
Dollars in Millions	Residential Mortgage Lending 30/9/13	Other Retail Exposures 30/9/13	Corporate Exposures 30/9/13	Total 30/9/13
Credit risk adjustments on financial assets designated at fair value through profit or loss				
On individual financial assets				
Loans and advances to customers				
Balance at beginning of year	**-**	**1**	**52**	**53**
Charge to income statement	**-**	**1**	**2**	**3**
Amounts written off	**-**	**(1)**	**(20)**	**(21)**
Balance at end of year	**-**	**1**	**34**	**35**
On groups of financial assets				
Loans and advances to customers				
Balance at beginning of year	**-**	**2**	**111**	**113**
Charge to income statement	**-**	**-**	**4**	**4**
Balance at end of year	**-**	**2**	**115**	**117**
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	**-**	**3**	**149**	**152**
Trading derivative financial instruments				
Balance at beginning of year	**-**	**-**	**9**	**9**
Charge to income statement	**-**	**-**	**(3)**	**(3)**
Balance at end of year	**-**	**-**	**6**	**6**
Total credit risk adjustments on trading derivative financial instruments	**-**	**-**	**6**	**6**

	Consolidated and The Company			
Dollars in Millions	Residential Mortgage Lending 30/9/12	Other Retail Exposures 30/9/12	Corporate Exposures 30/9/12	Total 30/9/12
Credit risk adjustments on financial assets designated at fair value through profit or loss				
On individual financial assets				
Loans and advances to customers				
Balance at beginning of year	-	1	56	57
Charge to income statement	-	-	37	37
Amounts written off	-	-	(41)	(41)
Balance at end of year	-	1	52	53
On groups of financial assets				
Loans and advances to customers				
Balance at beginning of year	-	1	71	72
Charge to income statement	-	1	40	41
Balance at end of year	-	2	111	113
Total credit risk adjustments on loans and advances designated at fair value through profit or loss	-	3	163	166
Trading derivative financial instruments				
Balance at beginning of year	-	-	9	9
Charge to income statement	-	-	-	-
Balance at end of year	-	-	9	9
Total credit risk adjustments on trading derivative financial instruments	-	-	9	9

Note 13 Asset Quality

The Banking Group provides for impairment losses on credit exposures as disclosed in note 12. 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.

	Consolidated and The Company			
Dollars in Millions	Residential Mortgage Lending 30/9/13	Other Retail Exposures 30/9/13	Corporate Exposures 30/9/13	Total 30/9/13
Movements in pre-allowance balances				
Loans and advances to customers				
Individually impaired assets – at amortised cost				
Balance at beginning of year	**99**	**34**	**216**	**349**
Amounts written off	**(20)**	**(48)**	**(76)**	**(144)**
Additions	**91**	**64**	**196**	**351**
Deletions	**(108)**	**(31)**	**(149)**	**(288)**
Balance at end of year	**62**	**19**	**187**	**268**
Allowance for impairment losses on individual financial assets	**22**	**13**	**79**	**114**
Individually impaired assets – at fair value through profit or loss				
Balance at beginning of year	**-**	**1**	**109**	**110**
Amounts written off	**-**	**(1)**	**(20)**	**(21)**
Additions	**-**	**2**	**139**	**141**
Deletions	**-**	**(1)**	**(93)**	**(94)**
Balance at end of year	**-**	**1**	**135**	**136**
Credit risk adjustments on individual financial assets designated at fair value through profit or loss	**-**	**1**	**34**	**35**
Total impaired assets at end of year	**62**	**20**	**322**	**404**
Undrawn lending commitments				
At amortised cost	**-**	**-**	**1**	**1**
At fair value through profit or loss	**-**	**-**	**-**	**-**
Other assets under administration	**14**	**23**	**-**	**37**

	Consolidated and The Company (30/9/12)			
Movements in pre-allowance balances				
Loans and advances to customers				
Individually impaired assets – at amortised cost				
Balance at beginning of year	140	34	292	466
Amounts written off	(29)	(54)	(57)	(140)
Additions	118	79	158	355
Deletions	(130)	(25)	(177)	(332)
Balance at end of year	99	34	216	349
Allowance for impairment losses on individual financial assets	39	22	71	132
Individually impaired assets – at fair value through profit or loss				
Balance at beginning of year	-	1	192	193
Amounts written off	-	-	(41)	(41)
Additions	-	1	116	117
Deletions	-	(1)	(158)	(159)
Balance at end of year	-	1	109	110
Credit risk adjustments on individual financial assets designated at fair value through profit or loss	-	1	52	53
Total impaired assets at end of year	99	35	325	459
Undrawn lending commitments				
At amortised cost	-	-	3	3
At fair value through profit or loss	-	-	1	1
Other assets under administration	13	2	5	20

Included in contingent liabilities in note 35 was $2 million off-balance sheet facilities to counterparties for whom drawn balances were classified as individually impaired as at 30 September 2013 (30 September 2012: $2 million). No allowance for impairment losses on individual off-balance sheet credit related commitments had been made as at 30 September 2013 (30 September 2012: nil).

Note 13 Asset Quality *continued*

Credit quality of financial assets

Dollars in Millions	Consolidated and The Company Residential Mortgage Lending 30/9/13	Other Retail Exposures 30/9/13	Corporate Exposures 30/9/13	Total 30/9/13
Loans and advances to customers				
Asset neither past due nor impaired				
Excellent credit quality	**27,445**	**2,490**	**27,511**	**57,446**
Good credit quality	**841**	**268**	**971**	**2,080**
Moderate credit quality	**768**	**203**	**383**	**1,354**
Total assets neither past due nor impaired	**29,054**	**2,961**	**28,865**	**60,880**
Past due assets not impaired				
1 - 7 days past due	**144**	**57**	**343**	**544**
8 - 29 days past due	**86**	**75**	**88**	**249**
1 - 29 days past due	**230**	**132**	**431**	**793**
30 - 59 days past due	**59**	**19**	**77**	**155**
60 - 89 days past due	**30**	**11**	**59**	**100**
90+ days past due	**60**	**21**	**192**	**273**
Total past due assets not impaired	**379**	**183**	**759**	**1,321**
Impaired assets				
Individually impaired financial assets – at amortised cost	**62**	**19**	**187**	**268**
Individually impaired financial assets – at fair value through profit or loss	**-**	**1**	**135**	**136**
Total impaired assets	**62**	**20**	**322**	**404**
Total gross loans and advances to customers	**29,495**	**3,164**	**29,946**	**62,605**
	Consolidated and The Company (30/9/12)			
Loans and advances to customers				
Asset neither past due nor impaired				
Excellent credit quality	25,781	2,613	25,414	53,808
Good credit quality	883	294	1,101	2,278
Moderate credit quality	926	219	411	1,556
Total assets neither past due nor impaired	27,590	3,126	26,926	57,642
Past due assets not impaired				
1 - 7 days past due	147	58	301	506
8 - 29 days past due	107	71	86	264
1 - 29 days past due	254	129	387	770
30 - 59 days past due	80	23	52	155
60 - 89 days past due	35	9	56	100
90+ days past due	73	27	150	250
Total past due assets not impaired	442	188	645	1,275
Impaired assets				
Individually impaired financial assets – at amortised cost	99	34	216	349
Individually impaired financial assets – at fair value through profit or loss	-	1	109	110
Total impaired assets	99	35	325	459
Total gross loans and advances to customers	28,131	3,349	27,896	59,376

The credit quality of assets that are neither past due nor impaired has been classified using the Banking Group's internal customer rating system and credit monitoring procedures required under internal policies, and in accordance with RBNZ's Basel III capital adequacy framework. Refer to note 40 for further information on the Banking Group's credit risk policies.

Other financial assets not included above are all considered excellent credit quality.

Note 14 Derivative Financial Instruments

Derivative financial instruments are financial instruments whose value is dependent on the value of an underlying financial asset or a combination of assets. The fair value of derivative financial instruments was obtained from quoted market prices, discounted cash flow models or option pricing models as appropriate.

Derivative financial instruments held or issued for trading purposes

The Banking Group maintains trading positions in a variety of derivative financial instruments and acts primarily in the market by satisfying the needs of its customers through foreign exchange, interest rate related services and other market related contracts. In addition, the Banking Group takes positions on its own account within a prescribed limit framework, to manage its exposure to market and credit risks relating to trading activities. It satisfies customer needs and maintains access to market liquidity by quoting bid and offer prices on those instruments and trading with other market makers. All positions held for trading purposes are revalued on a daily basis to reflect market movements and any revaluation profit or loss is recognised immediately in the income statement.

Derivative financial instruments held or issued for purposes other than trading

Fair value hedges

The Banking Group hedges interest rate risk resulting from potential decreases in the fair value of fixed rate assets or an increase in the fair value of term deposits and funding denominated both in local and foreign currencies using interest rate and cross currency interest rate swaps.

Cash flow hedges

The Banking Group hedges a portion of its financial assets' and liabilities' cash flow risk associated with changes in short term interest rates by entering into interest rate and cross currency interest rate swaps.

There were no transactions for which cash flow hedge accounting had to be ceased during the year ended 30 September 2013 (year ended 30 September 2012: nil) as a result of the highly probable cash flows no longer being expected to occur.

The following tables reflect the periods when the hedged cash flows are expected to occur and affect the income statement.

	Consolidated and The Company (30/9/13)					
Dollars in Millions	Less than 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	Over 5 Years
Cash flow hedges						
Cash inflows – assets	**157**	**110**	**84**	**51**	**17**	**-**
Cash outflows – liabilities	**(27)**	**(11)**	**(5)**	**(1)**	**(1)**	**-**
Net cash inflows	**130**	**99**	**79**	**50**	**16**	**-**
	Consolidated and The Company (30/9/12)					
Cash flow hedges						
Cash inflows – assets	202	113	70	47	16	-
Cash outflows – liabilities	(62)	(25)	(9)	(3)	-	-
Net cash inflows	140	88	61	44	16	-

Note 14 Derivative Financial Instruments *continued*

	Consolidated and The Company		
Dollars in Millions	Notional Principal 30/9/13	Fair Value Assets 30/9/13	Fair Value Liabilities 30/9/13
Held for trading - at fair value*			
Foreign exchange rate related contracts			
Spot and forward contracts to purchase foreign exchange	58,504	752	997
Cross currency swaps	46,587	1,074	1,647
Options	6,177	57	57
	111,268	1,883	2,701
Interest rate related contracts			
Forward rate agreements	7,115	1	-
Swaps	242,271	2,258	2,097
Futures**	211,785	-	-
Options	329	2	1
	461,500	2,261	2,098
Other market related contracts			
Commodity derivatives	1,226	1	1
Credit derivatives	191	-	1
	1,417	1	2
Total held for trading - at fair value	574,185	4,145	4,801
Held for hedging - fair value hedges			
Interest rate related contracts			
Swaps	5,033	13	43
Total held for hedging - fair value hedges	5,033	13	43
Held for hedging - cash flow hedges			
Interest rate related contracts			
Swaps	7,545	79	63
Total held for hedging - cash flow hedges	7,545	79	63
Total derivative contracts	586,763	4,237	4,907

* Held for trading derivative financial instruments include some derivatives that are used for hedging purposes that are not in designated hedge accounting relationships.

** The calculation of the notional amount reflects the gross volume of transactions outstanding at the period end and is not indicative of either the market risk or credit risk.

Note 14 Derivative Financial Instruments *continued*

Dollars in Millions	Consolidated and The Company Notional Principal 30/9/12	Fair Value Assets 30/9/12	Fair Value Liabilities 30/9/12
Held for trading - at fair value*			
Foreign exchange rate related contracts			
Spot and forward contracts to purchase foreign exchange	40,729	556	709
Cross currency swaps	41,153	1,092	1,566
Options	2,250	29	29
	84,132	1,677	2,304
Interest rate related contracts			
Forward rate agreements	6,661	-	-
Swaps	184,273	3,397	3,125
Futures**	117,618	-	-
Options	775	3	1
	309,327	3,400	3,126
Other market related contracts			
Commodity derivatives	362	3	3
Credit derivatives	874	6	6
	1,236	9	9
Total held for trading - at fair value	394,695	5,086	5,439
Held for hedging - fair value hedges			
Interest rate related contracts			
Swaps	5,495	19	108
Total held for hedging - fair value hedges	5,495	19	108
Held for hedging - cash flow hedges			
Interest rate related contracts			
Swaps	11,428	219	65
Total held for hedging - cash flow hedges	11,428	219	65
Total derivative contracts	411,618	5,324	5,612

* Held for trading derivative financial instruments include some derivatives that are used for hedging purposes that are not in designated hedge accounting relationships.

** The calculation of the notional amount reflects the gross volume of transactions outstanding at the period end and is not indicative of either the market risk or credit risk.

Credit risk

The maximum exposure to credit risk at any one time is limited to the current fair value of instruments that are favourable to the Banking Group (assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. For information on the Banking Group's risk management policies, refer to note 40.

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Note 15 Investments in Wholly Owned Entities				
Shares in wholly owned entities – at cost	**-**	-	**3,103**	3,103
Deduct: Provision for impairment of wholly owned entities	**-**	-	**-**	63
Total investments in wholly owned entities	**-**	-	**3,103**	3,040

Wholly owned entities of the Bank as at 30 September 2013 were:

Name	Country of Incorporation	Principal Activities
BNZ Agricapital Limited	New Zealand	Investment company
BNZ Corporation Limited	New Zealand	Non-trading
BNZ Equity Investments No.2 Limited	New Zealand	Investment company
BNZ Facilities Management Limited	New Zealand	Facilities management
BNZ International Funding Limited	New Zealand	Funding company
BNZ Investments 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	Non-trading
BNZ Properties Limited	New Zealand	Non-trading
BNZ Investment Services Limited	New Zealand	Investment administration and management

All wholly owned entities listed above have the same reporting date as the Bank.

Movements in wholly owned entities

BNZ Funding Limited and BNZ Equity Investments Limited were de-registered from the Companies Register on 27 September 2012.

BNZ International (Hong Kong) Limited was de-registered from the Hong Kong Companies Registry on 25 June 2013.

On 21 August 2013, the following wholly owned entities amalgamated with BNZ Investments Limited, with BNZ Investments Limited continuing as the amalgamated company:

Name	Country of Incorporation	Principal Activities
BNZ Equipment Limited	New Zealand	Non-trading
BNZ International Limited	New Zealand	Non-trading
BNZI Securities No. 1 Limited	New Zealand	Non-trading
BNZI Securities No. 2 Limited	New Zealand	Non-trading
National Australia Limited	New Zealand	Non-trading
New Zealand Card Services Limited	New Zealand	Non-trading

Note 16 Special Purpose Entities

The following special purpose entities are consolidated for financial reporting purposes:

Name	Country of Domicile	Principal Activities
BNZ Term PIE	New Zealand	Portfolio investment entity
BNZ Cash PIE	New Zealand	Portfolio investment entity
BNZ Covered Bond Trust	New Zealand	Funding structure vehicle
BNZ RMBS Trust Series 2008-1	New Zealand	Funding structure vehicle

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Note 17 Deferred Tax				
Deferred tax assets				
Balance at beginning of year	**143**	165	**143**	160
Tax expense recognised in income statement	**(15)**	(22)	**(15)**	(17)
Balance at end of year	**128**	143	**128**	143
The deferred tax assets were attributable to the following items:				
Employee entitlements	**10**	10	**10**	10
Credit risk adjustments on financial assets designated at fair value through profit or loss	**44**	49	**44**	49
Allowance for impairment losses on credit exposures	**79**	85	**79**	85
Depreciation and amortisation	**(15)**	(10)	**(10)**	(7)
Operating expense provisions	**4**	1	**1**	3
Prepaid pension assets	**(2)**	(1)	**(2)**	(1)
Other	**8**	9	**6**	4
Total deferred tax assets	**128**	143	**128**	143

The recognition of the deferred tax assets relies on management's judgments about the probability and sufficiency of future taxable profits and future reversals of existing taxable temporary differences.

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Note 18 Other Assets				
Accrued interest receivable	**137**	148	**137**	148
Prepaid pension assets	**6**	3	**6**	3
Securities sold – not yet settled	**29**	259	**29**	259
Other assets	**144**	184	**132**	170
Total other assets	**316**	594	**304**	580

Liability Notes

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Note 19 Due to Central Banks and Other Institutions				
Transaction balances with other institutions*	**440**	464	**440**	464
Deposits from central banks	**80**	82	**80**	82
Deposits from other institutions**	**686**	660	**686**	660
Securities sold under agreements to repurchase from other institutions*	**98**	790	**98**	790
Total due to central banks and other institutions	**1,304**	1,996	**1,304**	1,996

* Classified as cash and cash equivalents in cash flow statement.

** Included in deposits from other institutions as at 30 September 2013 were $27 million classified as cash and cash equivalents in the cash flow statement (30 September 2012: $3 million).

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Note 20 Short Term Debt Securities				
Certificates of deposit	**1,720**	1,838	**1,720**	1,838
Commercial paper	**3,830**	3,527	**-**	-
Total short term debt securities	**5,550**	5,365	**1,720**	1,838

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Note 21 Deposits from Customers				
Demand deposits not bearing interest	**2,590**	2,193	**2,590**	2,193
Demand deposits bearing interest	**14,193**	12,536	**13,885**	12,345
Term deposits	**25,040**	22,361	**24,395**	21,896
Total deposits from customers	**41,823**	37,090	**40,870**	36,434

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Note 22 Bonds and Notes				
Registered transferable notes	**5,306**	5,430	**5,306**	5,430
Medium term notes	**8,904**	7,771	**-**	-
Total bonds and notes	**14,210**	13,201	**5,306**	5,430

Details of the terms and conditions of these notes as at 30 September 2013 were as follows:

Issue Currency	Coupon Rate %	Maturity Date	Face Value Issue Currency Millions*	30/9/13 Fair Value NZ $Millions	30/9/12 Fair Value NZ $Millions
Registered transferable notes issued by Bank of New Zealand:					
New Zealand dollar	6.120 (fixed)	15 April 2013	50	**-**	52
New Zealand dollar	8.560 (fixed)	27 May 2013	460	**-**	489
New Zealand dollar	3 month NZD BKBM + 120bp	20 December 2013	215	**216**	216
New Zealand dollar	4.775 (fixed)	20 February 2014**	700	**710**	721
New Zealand dollar	3 month NZD BKBM + 130bp	11 March 2014	399	**402**	402
New Zealand dollar	6.700 (fixed)	31 March 2014	50	**51**	51
New Zealand dollar	3 month NZD BKBM + 110bp	21 October 2014	20	**20**	20
New Zealand dollar	3 month NZD BKBM + 113bp	21 November 2014	20	**20**	20
New Zealand dollar	3 month NZD BKBM + 117bp	12 December 2014	20	**20**	20
New Zealand dollar	3 month NZD BKBM + 120bp	20 January 2015	20	**20**	20
New Zealand dollar	3 month NZD BKBM + 120bp	22 January 2015	300	**305**	302
New Zealand dollar	3 month NZD BKBM + 120bp	16 February 2015	20	**20**	20
New Zealand dollar	3 month NZD BKBM + 117bp	26 March 2015	20	**20**	20
New Zealand dollar	3 month NZD BKBM + 155bp	21 May 2015	199	**204**	202
New Zealand dollar	8.675 (fixed)	27 May 2015	312	**346**	360
New Zealand dollar	3 month NZD BKBM + 118bp	4 June 2015	20	**20**	20
New Zealand dollar	3 month NZD BKBM + 118bp	9 June 2015	20	**20**	20
New Zealand dollar	3 month NZD BKBM + 118bp	15 June 2015	20	**20**	20
New Zealand dollar	6.000 (fixed)	30 June 2015***	175	**184**	188
New Zealand dollar	3 month NZD BKBM + 112bp	3 August 2015	20	**20**	20
New Zealand dollar	6.165 (fixed)	13 August 2015	375	**394**	398
New Zealand dollar	3 month NZD BKBM + 100bp	13 November 2015	20	**20**	-
New Zealand dollar	3 month NZD BKBM + 80bp	21 March 2016	30	**30**	-
New Zealand dollar	3 month NZD BKBM + 80bp	4 April 2016	5	**5**	-
New Zealand dollar	3 month NZD BKBM + 80bp	11 April 2016	5	**5**	-
New Zealand dollar	3 month NZD BKBM + 80bp	18 April 2016	5	**5**	-
New Zealand dollar	3 month NZD BKBM + 70bp	29 April 2016	20	**20**	-
New Zealand dollar	3 month NZD BKBM + 68bp	17 May 2016	5	**5**	-
New Zealand dollar	7.465 (fixed)	27 May 2016	50	**55**	56
New Zealand dollar	5.730 (fixed)	15 July 2016	180	**188**	186
New Zealand dollar	3 month NZD BKBM + 70bp	1 August 2016	20	**20**	-
New Zealand dollar	6.905 (fixed)	15 September 2016	100	**107**	109
New Zealand dollar	6.425 (fixed)	30 June 2017***	240	**260**	275
New Zealand dollar	5.773 (fixed)	19 January 2018***	350	**368**	373
New Zealand dollar	4.680 (fixed)	28 March 2018	100	**98**	-
New Zealand dollar	3 month NZD BKBM + 121bp	28 March 2018	239	**242**	-
New Zealand dollar	3 month NZD BKBM	17 December 2018	144	**143**	135
New Zealand dollar	6.100 (fixed)	20 December 2018	200	**210**	214
New Zealand dollar	3 month NZD BKBM + 127bp	29 March 2019***	300	**309**	294
New Zealand dollar	5.570 (fixed)	25 June 2019	200	**204**	207
				5,306	5,430

* Face value represents current value on issue held by the market.

** These notes are covered by the Crown wholesale funding guarantee scheme. Refer to the Guarantees section on page 2 for further information.

*** These notes are guaranteed by the Trustee of the Covered Bond Trust. Refer to the Guarantees section on page 2 and note 11 for further information.

Note 22 Bonds and Notes *continued*

Issue Currency	Coupon Rate %	Maturity Date	Face Value Issue Currency Millions*	**30/9/13 Fair Value NZ $Millions**	30/9/12 Fair Value NZ $Millions
Medium term notes issued by BNZ International Funding Limited (London Branch):					
Hong Kong dollar	2.190 (fixed)	19 November 2012	150	**-**	24
Hong Kong dollar	2.075 (fixed)	27 November 2012	200	**-**	31
US dollar	3 month USD LIBOR + 80bp	10 December 2012	30	**-**	36
US dollar	3 month USD LIBOR + 78bp	11 December 2012	30	**-**	36
US dollar	3 month USD LIBOR + 90bp	15 May 2013	122	**-**	147
US dollar	3 month USD LIBOR + 100bp	27 August 2013	100	**-**	121
Japanese Yen	3 month JPY LIBOR + 45bp	11 November 2013	2,900	**36**	45
Hong Kong Dollar	3 month HIBOR + 65bp	18 November 2013	100	**16**	16
Japanese Yen	1.715 (fixed)	27 May 2014**	15,000	**188**	239
Japanese Yen	1.445 (fixed)	2 June 2014**	3,000	**38**	48
Hong Kong Dollar	3.030 (fixed)	11 June 2014	100	**16**	16
US Dollar	3 month USD LIBOR + 115bp	6 October 2014	50	**61**	61
Japanese Yen	1.464 (fixed)	3 December 2014	5,000	**63**	79
US Dollar	3 month USD LIBOR + 210bp	3 February 2015	150	**186**	186
Japanese Yen	1.02875 (fixed)	16 February 2015	1,500	**19**	23
Swiss Franc	2.000 (fixed)	18 February 2015	300	**415**	404
Japanese Yen	0.900 (fixed)	23 March 2015	800	**10**	12
Swiss Franc	3 month CHF LIBOR + 110bp	27 March 2015	175	**237**	225
Euro	2.375 (fixed)	7 May 2015***	500	**849**	817
Japanese Yen	3 month JPY LIBOR + 55bp	26 May 2015	500	**6**	8
Japanese Yen	3 month JPY LIBOR + 52bp	29 June 2015	500	**6**	8
US Dollar	3 month USD LIBOR + 125bp	3 August 2015	5	**6**	6
Hong Kong Dollar	3 month HIBOR + 90bp	14 September 2015	240	**38**	37
Japanese Yen	0.400 (fixed)	18 September 2015	1,000	**12**	15
US Dollar	3 month USD LIBOR + 130bp	17 November 2015	10	**12**	12
British Pound	3 month GBP LIBOR + 70bp	29 January 2016	250	**490**	-
US Dollar	3 month USD LIBOR + 65bp	22 April 2016	80	**95**	-
US Dollar	1.0725 (fixed)	30 April 2016	20	**24**	-
Australian Dollar	6.250 (fixed)	14 June 2016***	700	**847**	950
Hong Kong Dollar	3 month HIBOR + 51.6bp	12 July 2016	775	**121**	-
Euro	4.000 (fixed)	8 March 2017	750	**1,359**	1,302
Japanese Yen	1.150 (fixed)	23 March 2017	1,000	**13**	16
US Dollar	3 month USD LIBOR + 150bp	24 May 2017	15	**19**	18
Japanese Yen	3 month JPY LIBOR + 100bp	26 July 2017	11,400	**145**	180
Japanese Yen	1.260 (fixed)	26 July 2017	14,100	**179**	222
Euro	3.125 (fixed)	23 November 2017***	1,000	**1,806**	1,715
Swiss Franc	1.500 (fixed)	22 January 2018	225	**313**	301
Japanese Yen	3 month JPY LIBOR + 27bp	13 March 2018	2,000	**25**	-
US Dollar	3 month USD LIBOR + 80bp	23 April 2018	10	**12**	-
Euro	1.250 (fixed)	23 May 2018	500	**802**	-
US Dollar	3 month USD LIBOR + 45bp	20 August 2018	10	**12**	-
Swiss Franc	1.125 (fixed)	20 September 2019	275	**368**	352
Hong Kong Dollar	3.480 (fixed)	8 September 2020	53	**8**	9
New Zealand Dollar	6.590 (fixed)	30 September 2020	25	**26**	27
New Zealand Dollar	6.590 (fixed)	30 September 2020	25	**26**	27
				8,904	7,771

* Face value represents current value on issue held by the market.

** These notes are covered by the Crown wholesale funding guarantee scheme. Refer to the Guarantees section on page 2 for further information.

*** These notes are guaranteed by the Trustee of the Covered Bond Trust. Refer to the Guarantees section on page 2 and note 11 for further information.

Note 23 Other Liabilities

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Accrued interest payable	**294**	289	**294**	289
Securities purchased – not yet settled	**5**	199	**5**	199
Employee entitlements	**93**	93	**93**	93
Other liabilities	**216**	259	**206**	246
Total other liabilities	**608**	840	**598**	827

Note 24 Subordinated Debt

The following subordinated loans and bonds are expressed to be subordinated to all other indebtedness of the Bank. The subordinated debt constitutes Tier Two capital for RBNZ capital adequacy purposes as follows:

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Tier Two capital				
NAB Capital LLC	**230**	230	**230**	230
National Equities Limited	**675**	675	**675**	675
Total subordinated loans from related entities	**905**	905	**905**	905
Total subordinated debt	**905**	905	**905**	905

Subordinated loans of $190 million as at 30 September 2013 have no fixed maturity and are repayable only at the Bank's option, subject to certain conditions, at any time on seven days' notice. The interest rate is reset every three months based on a margin over the prevailing rate for New Zealand 90-day bank bills.

Subordinated loans of $715 million as at 30 September 2013 have no fixed maturity and are repayable on five years and one day's notice. These are also repayable at the Bank's option, subject to certain conditions at any time on seven days' notice. The interest rate is reset every three months based on a margin over the prevailing rate for New Zealand 90-day bank bills.

Shareholders' Equity Notes

Number of shares in Millions	Consolidated and The Company 30/9/13	30/9/12
Note 25 Contributed Equity		
Issued and paid-up shares		
Ordinary shares, fully paid – balance at beginning of year	**2,871**	2,471
Ordinary shares issued during the year	**-**	400
Ordinary shares, fully paid – balance at end of year	**2,871**	2,871
Perpetual preference shares, fully paid – balance at beginning of year	**910**	910
Perpetual preference shares, fully paid – balance at end of year	**910**	910
Total issued and paid-up shares	**3,781**	3,781

The issued and paid-up capital is included in Tier One capital of the Banking Group and the Registered Bank (refer to note 39).

Ordinary shares

The authorised ordinary share capital of the Company comprises 2,870,997,499 shares, which do not have a par value. All issued shares were fully paid as at the reporting date (30 September 2012: 2,870,997,499 shares). Each of the 2,870,997,499 ordinary shares entitles the shareholder to one vote at any meeting of shareholders.

On 10 May 2012, the Bank issued 400,000,000 ordinary shares ("Shares") to its immediate parent, National Australia Group (NZ) Limited ("NAGNZ"). The Shares were issued at a subscription price at $1.00 each and on the same terms as, and rank equally with all existing ordinary shares in the Bank. This resulted in the Bank's fully paid ordinary shares increasing from 2,470,997,499 shares to 2,870,997,499 shares with effect from 10 May 2012.

Dividends on Shares for the year ended 30 September 2013 were 3.83 cents per share (year ended 30 September 2012: 0.87 cents per share).

Perpetual non-cumulative preference shares

The perpetual non-cumulative preference share capital of the Company comprises 909,730,000 shares, which do not have a par value (30 September 2012: 909,730,000 shares). All issued shares were fully paid as at the reporting date.

Each of the 909,730,000 perpetual non-cumulative preference shares is non-redeemable and carries no voting rights other than in relation to amendments of the rights, privileges, limitations and conditions attaching to these shares.

March 2008 issue

On 28 March 2008, the Bank issued 449,730,000 perpetual non-cumulative preference shares ("2008 BNZ PPS") to BNZ Income Management Limited ("BNZIM"), a subsidiary of the Bank's immediate parent, NAGNZ.

The 2008 BNZ PPS were issued in conjunction with the issue of perpetual non-cumulative shares by BNZ Income Securities Limited ("BNZIS"), a subsidiary of the Bank's ultimate parent. Under the transaction, BNZIS issued 449,730,000 perpetual non-cumulative shares ("BNZIS Shares") to members of the public in New Zealand. On 28 March 2013, National Equities Limited, a subsidiary of the Bank's ultimate parent, purchased all BNZIS Shares not already held by itself, having had earlier exercised its right to call the shares. The proceeds from the issue of the BNZIS Shares remain advanced to BNZIM as a perpetual loan. BNZIM in turn retains its investment of the proceeds of the loan from BNZIS in the 2008 BNZ PPS.

The 2008 BNZ PPS are non-redeemable and carry no voting rights other than in relation to amendments of the rights, privileges, limitations and conditions attaching to the 2008 BNZ PPS. Dividends are payable quarterly in arrears, but are non-cumulative if dividends are not paid for the reasons set out below.

The dividend payable on the 2008 BNZ PPS is determined by reference to the five-year mid-market swap rate plus a margin of 2.20%. The dividend rate was reset at 5.63% p.a. on 26 March 2013, applicable for the period from (and including) 28 March 2013 to (but excluding) 28 March 2018. Dividend rates are to be reset five-yearly on the business day falling two business days before 28 March (or the applicable business day if 28 March is not a business day) in the relevant year. The next dividend reset date is 26 March 2018.

Dividends will not be paid on the 2008 BNZ PPS if any of the following conditions apply: (a) the Directors of the Bank in their sole discretion do not resolve to pay the dividend on the relevant dividend payment date; (b) such a payment would result in any of the Bank's capital ratios ceasing to comply with the RBNZ's then current capital adequacy requirements; (c) the Directors of the Bank are not satisfied that the Bank will be solvent (under the solvency test set out in section 4 of the Companies Act 1993) immediately after payment of the dividend; or (d) (unless the Australian Prudential Regulation Authority ("APRA") otherwise agrees) certain dividend payment conditions apply relating to non-payment of the dividend on the BNZIS Shares payable on the corresponding dividend payment date for the 2008 BNZ PPS (such conditions relating to whether the National Australia Bank Group will still comply with certain APRA capital ratios and have sufficient distributable profits after payment of the relevant dividend on the BNZIS Shares, and to APRA otherwise objecting to the payment of the relevant dividend on the BNZIS Shares).

If the Bank does not pay a dividend on the 2008 BNZ PPS on a scheduled dividend payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its other shares that rank equally with or junior to the 2008 BNZ PPS (other than pro-rata distributions or payments on shares that rank equally with the 2008 BNZ PPS) unless and until it has paid two consecutive dividends in full on the 2008 BNZ PPS or a call option that applies to the BNZIS Shares has been exercised and the BNZIS Shares have been transferred pursuant to such call option.

Dividends on the 2008 BNZ PPS rank for payment:

- before the Bank's ordinary shareholder and holders of 2009A BNZ PPS (refer to December 2009 issue on page 44);
- equally with any other shares issued by the Bank that, by their terms, are expressed to rank equally with the 2008 BNZ PPS; and
- after all other shareholders and creditors of the Bank.

Dividends on the 2008 BNZ PPS for the year ended 30 September 2013 were 5.59 cents per share (year ended 30 September 2012: 7.12 cents per share).

Note 25 Contributed Equity *continued*

In the event of the liquidation of the Bank, the 2008 BNZ PPS rank:

- before the Bank's ordinary shareholder and holders of 2009A BNZ PPS (refer to December 2009 issue below);
- equally with any other shares issued by the Bank that, by their terms, are expressed to rank equally with the 2008 BNZ PPS; and
- after all other shareholders and creditors of the Bank.

June 2009 issue

On 26 June 2009, the Bank issued 260,000,000 perpetual non-cumulative preference shares ("2009 BNZ PPS") to BNZIM.

The 2009 BNZ PPS were issued in conjunction with the issue of perpetual non-cumulative shares by BNZ Income Securities 2 Limited ("BNZIS 2"), a subsidiary of the Bank's ultimate parent. Under the transaction, BNZIS 2 issued 260,000,000 perpetual non-cumulative shares ("BNZIS 2 Shares") to members of the public in New Zealand. These shares are listed on the NZDX. The proceeds from the issue of BNZIS 2 Shares were advanced to BNZIM as a perpetual loan. BNZIM in turn invested the proceeds of the loan from BNZIS 2 in the 2009 BNZ PPS.

The 2009 BNZ PPS are non-redeemable and carry no voting rights other than in relation to amendments of the rights, privileges, limitations and conditions attaching to the 2009 BNZ PPS. Dividends are payable quarterly in arrears, but are non-cumulative if dividends are not paid for the reasons set out below.

The dividend payable on the 2009 BNZ PPS is determined by reference to the five-year mid-market swap rate plus a margin of 4.09% p.a.. The initial rate was set at 9.10% p.a. on 26 May 2009, applicable for the period from (and including) 26 June 2009 to (but excluding) 30 June 2014 (as 28 June 2014 is not a business day). Dividend rates are to be reset five-yearly on the business day falling two business days before 28 June (or the applicable business day if 28 June is not a business day) in the relevant year. The first dividend reset date is 26 June 2014.

Dividends will not be paid on the 2009 BNZ PPS if any of the following conditions apply: (a) the Directors of the Bank in their sole discretion do not resolve to pay the dividend on the relevant dividend payment date; (b) such a payment would result in any of the Bank's capital ratios ceasing to comply with the RBNZ's then current capital adequacy requirements; (c) the Directors of the Bank are not satisfied that the Bank will be solvent (under the solvency test set out in section 4 of the Companies Act 1993) immediately after payment of the dividend; or (d) (unless APRA otherwise agrees) certain dividend payment conditions apply relating to non-payment of the dividend on the BNZIS 2 Shares payable on the corresponding dividend payment date for the 2009 BNZ PPS (such conditions relating to whether the National Australia Bank Group will still comply with certain APRA capital ratios and have sufficient distributable profits after payment of the relevant dividend on the BNZIS 2 Shares, and to APRA otherwise objecting to the payment of the relevant dividend on the BNZIS 2 Shares).

If the Bank does not pay a dividend on the 2009 BNZ PPS on a scheduled dividend payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its other shares that rank equally with or junior to the 2009 BNZ PPS (other than pro-rata distributions or payments on shares that rank equally with the 2009 BNZ PPS) unless and until it has paid two consecutive dividends in full on the 2009 BNZ PPS or a call option that applies to the BNZIS 2 Shares has been exercised and the BNZIS 2 Shares have been transferred pursuant to such call option.

Dividends on the 2009 BNZ PPS rank for payment:

- before the Bank's ordinary shareholder and holders of 2009A BNZ PPS (refer to December 2009 issue below);
- equally with any other shares issued by the Bank that, by their terms, are expressed to rank equally with the 2009 BNZ PPS; and
- after all other shareholders and creditors of the Bank.

Dividends on the 2009 BNZ PPS for the year ended 30 September 2013 were 6.55 cents per share (year ended 30 September 2012: 6.55 cents per share).

In the event of the liquidation of the Bank, the 2009 BNZ PPS rank:

- before the Bank's ordinary shareholder and holders of 2009A BNZ PPS (refer to December 2009 issue below);
- equally with any other shares issued by the Bank that, by their terms, are expressed to rank equally with the 2009 BNZ PPS; and
- after all other shareholders and creditors of the Bank.

December 2009 issue

On 29 December 2009, the Bank issued 200,000,000 perpetual non-cumulative preference shares ("2009A BNZ PPS") to NAGNZ, the Bank's immediate parent and a subsidiary of the Bank's ultimate parent, National Australia Bank Limited ("NAB").

The 2009A BNZ PPS were issued in conjunction with the making of a loan by NAB, acting through its New York branch ("NAB NY"), to NAGNZ. NAGNZ invested the proceeds of the loan in the 2009A BNZ PPS.

The 2009A BNZ PPS are non-redeemable and carry no voting rights other than in relation to amendments of the rights, privileges, limitations and conditions attaching to the 2009A BNZ PPS. Dividends are payable quarterly in arrears, but are non-cumulative if dividends are not paid for the reasons set out below.

The dividend payable on the 2009A BNZ PPS is determined by reference to the seven-year mid-market swap rate plus a margin of 3.50% p.a.. The initial rate was set at 9.25% p.a. on 23 December 2009, applicable for the period from (and including) 29 December 2009 to (but excluding) 28 December 2016. Dividend rates are to be reset seven-yearly on the business day falling two business days before 28 December (or the applicable business day if 28 December is not a business day) in the relevant year. The first dividend reset date is 22 December 2016.

Dividends will not be paid on the 2009A BNZ PPS if any of the following conditions apply: (a) the Directors of the Bank in their sole discretion do not resolve to pay the dividend on the relevant dividend payment date; (b) such a payment would result in the Bank's Tier One capital ratio ceasing to comply with RBNZ's then current capital adequacy requirements; or (c) the Directors of the Bank are not satisfied that the Bank will be solvent (under the solvency test set out in section 4 of the Companies Act 1993) immediately after payment of the dividend.

If the Bank does not pay a dividend on the 2009A BNZ PPS on a scheduled dividend payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its other shares that rank equally with or junior to the 2009A BNZ PPS (other than pro-rata distributions or payments on shares that rank equally with the 2009A BNZ PPS) unless and until it has paid two consecutive dividends in full on the 2009A BNZ PPS.

Note 25 Contributed Equity *continued*

Dividends on the 2009A BNZ PPS rank for payment:

- before the Bank's ordinary shareholder;
- equally with any other shares issued by the Bank that, by their terms, are expressed to rank equally with the 2009A BNZ PPS; and
- after all other shareholders (including the holders of 2008 BNZ PPS and 2009 BNZ PPS) and creditors of the Bank.

Dividends on the 2009A BNZ PPS for the year ended 30 September 2013 were 6.66 cents per share (year ended 30 September 2012: 6.66 cents per share).

In the event of liquidation of the Bank, the 2009A BNZ PPS rank:

- before the Bank's ordinary shareholder;
- equally with any other shares issued by the Bank that, by their terms, are expressed to rank equally with the 2009A BNZ PPS; and
- after all other shareholders (including the holders of the 2008 BNZ PPS and 2009 BNZ PPS) and creditors of the Bank.

	Consolidated		The Company	
Dollars in Millions	**30/9/13**	30/9/12	**30/9/13**	30/9/12
Note 26 Reserves				
Asset revaluation reserve	**2**	2	**-**	-
Foreign currency translation reserve	**-**	-	**-**	-
Available for sale investments revaluation reserve	**55**	36	**56**	36
Cash flow hedge reserve	**(1)**	141	**(1)**	141
Total reserves	**56**	179	**55**	177
Total reserves comprised:				
Asset revaluation reserve				
Balance at beginning of year	**2**	2	**-**	-
Balance at end of year	**2**	2	**-**	-

The asset revaluation reserve includes the gross revaluation increments and any subsequent decrements arising from the revaluation of property, plant and equipment.

	Consolidated		The Company	
Dollars in Millions	**30/9/13**	30/9/12	**30/9/13**	30/9/12
Foreign currency translation reserve				
Balance at beginning of year	**-**	3	**-**	4
Foreign currency translation adjustments	**-**	(3)	**-**	(4)
Current income taxes	**-**	-	**-**	-
Balance at end of year	**-**	-	**-**	-

The foreign currency translation reserve records the foreign currency differences arising from the translation of foreign operations.

	Consolidated		The Company	
Dollars in Millions	**30/9/13**	30/9/12	**30/9/13**	30/9/12
Available for sale investments revaluation reserve				
Balance at beginning of year	**36**	20	**36**	20
Net unrealised gains on revaluation of available for sale investments	**38**	16	**39**	16
Net gains transferred to income statement on disposal	**(19)**	-	**(19)**	-
Balance at end of year	**55**	36	**56**	36

The available for sale investments revaluation reserve records fair value revaluations on available for sale investments required to be recorded in other comprehensive income until being transferred to the income statement upon disposal of the investment.

	Consolidated		The Company	
Dollars in Millions	**30/9/13**	30/9/12	**30/9/13**	30/9/12
Cash flow hedge reserve				
Balance at beginning of year	**141**	119	**141**	119
Change in cash flow hedge reserve				
Transferred to interest income in the income statement	**(391)**	(441)	**(391)**	(441)
Transferred to interest expense in the income statement	**319**	370	**319**	370
Net (losses)/gains from changes in fair value	**(68)**	95	**(68)**	95
Current income taxes	**(2)**	(2)	**(2)**	(2)
Balance at end of year	**(1)**	141	**(1)**	141

The cash flow hedge reserve records the effective portion of fair value revaluations of derivatives designated as cash flow hedge accounting relationships.

Note 27 Retained Profits

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Balance at beginning of year	**2,337**	1,844	**2,030**	1,620
Net profit attributable to shareholders of Bank of New Zealand	**695**	580	**709**	497
Actuarial gain on defined benefit plan				
Gross actuarial gain on defined benefit plan	**3**	1	**3**	1
Deferred tax on actuarial gain on defined benefit plan	**-**	-	**-**	-
Net actuarial gain on defined benefit plan	**3**	1	**3**	1
Ordinary dividend	**(110)**	(25)	**(110)**	(25)
Perpetual preference dividend	**(55)**	(63)	**(55)**	(63)
Balance at end of year	**2,870**	2,337	**2,577**	2,030

Other Notes

Note 28 Imputation Credit Account

The amount of imputation credits available to the Banking Group as at 30 September 2013 was $1,318 million (30 September 2012 :$1,136 million) and the amount of imputation credits available to the Bank as at 30 September 2013 was $951 million (30 September 2012: $791 million).

Note 29 Interest Earning and Discount Bearing Assets and Liabilities and Ranking of Liabilities

Ranking of liabilities

The Bank held no secured deposits from central banks as at 30 September 2013 (30 September 2012: nil).All other deposit liabilities reported in these financial statements by the Banking Group are unsecured and rank equally with the Banking Group's other unsecured liabilities. Included in liabilities are obligations of the Bank under repurchase agreements where the Bank has agreed to repurchase $98 million of government stock (30 September 2012: $790 million). As at 30 September 2013, $126 million (30 September 2012: $117 million) of certain unsecured liabilities rank in priority to general creditors' claims in a winding up of the Bank. Furthermore, certain unsecured liabilities are guaranteed under the Crown wholesale funding guarantee scheme. Further details on the scheme are provided in the guarantees section on page 2. Certain debt securities are guaranteed by the Trustee of the Covered Bond Trust. Further details on the Covered Bond Trust are provided on page 2 and in note 11. Subordinated debt with a carrying value totalling $905 million as at 30 September 2013 (30 September 2012: $905 million) ranks behind the claims of all other creditors in a winding up. No residential mortgage-backed securities were used as collateral securities as at 30 September 2013 (30 September 2012: nil).

	Consolidated		The Company	
Dollars in Millions	**30/9/13**	30/9/12	**30/9/13**	30/9/12
Interest earning and discount bearing assets	**68,525**	65,200	**78,234**	75,025
Interest and discount bearing liabilities	**61,445**	59,120	**74,367**	71,981

Note 30 Related Entity Transactions

The Bank is a wholly owned controlled entity of National Australia Group (NZ) Limited. The ultimate parent bank of Bank of New Zealand is National Australia Bank Limited. During the year ended 30 September 2013, there had been dealings between the Bank and its related entities (including the ultimate parent, other members of the National Australia Bank Group and controlled entities) as well as other related parties (including key management personnel, their close family members and their controlled entities). Details of these transactions are outlined on pages 48 to 50.

Dealings with National Australia Bank Group included on-balance sheet activities such as funding and accepting deposits and other activities such as foreign exchange and forward exchange transactions. National Australia Bank Limited also provides a range of banking services for Bank of New Zealand customers in locations where the Bank's and National Australia Bank Limited's offices were merged in London, Hong Kong, Tokyo, New York and various locations in Australia.

Note 30 Related Entity Transactions *continued*

Related entities

Amounts due from related entities

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Ultimate parent				
Loans outstanding at beginning of year	**19**	334	**19**	330
Net loans issued/(repaid) during the year	**97**	(315)	**97**	(311)
Loans outstanding to ultimate parent at end of year	**116**	19	**116**	19
Controlled entities of ultimate parent				
Loans outstanding at beginning of year	**269**	266	**269**	266
Net loans issued during the year	**6**	3	**6**	3
Loans outstanding to controlled entities of ultimate parent at end of year	**275**	269	**275**	269
Controlled entities of Bank of New Zealand				
Loans outstanding at beginning of year	**-**	-	**9,981**	8,707
Net loans issued during the year	**-**	-	**14**	1,274
Loans outstanding to controlled entities of Bank of New Zealand at end of year	**-**	-	**9,995**	9,981
Total amounts due from related entities	**391**	288	**10,386**	10,269
Interest income on amounts due from related entities comprised:				
Ultimate parent	**-**	5	**-**	5
Controlled entities of ultimate parent	**8**	8	**8**	8
Controlled entities of Bank of New Zealand	**-**	-	**361**	352
Total interest income on amounts due from related entities	**8**	13	**369**	365

No provisions have been recognised in respect of loans provided to related entities. There were no debts with any of the above parties written off or forgiven during the year ended 30 September 2013 (year ended 30 September 2012: nil).

The Banking Group provides banking and other administrative services to members of the National Australia Bank Group operating in New Zealand at arm's length and on normal terms and conditions.

During the financial year there have been dealings between the Company and its controlled entities, and the Banking Group and its related entities. The Company provides a range of services to related entities including the provision of banking facilities. These transactions are normally subject to commercial terms and conditions. The Company provides some accounting administration and banking services to controlled entities for which fees may be charged. Details of dividends received from controlled entities are contained on page 49.

Amounts due to related entities

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Ultimate parent				
Deposits at beginning of year	**2,546**	2,864	**54**	304
Net deposits (repaid)/received during the year	**(2,395)**	(318)	**97**	(250)
Deposits from ultimate parent at end of year	**151**	2,546	**151**	54
Controlled entities of ultimate parent				
Deposits at beginning of year	**159**	348	**159**	348
Net deposits repaid during the year	**(65)**	(189)	**(65)**	(189)
Deposits from controlled entities of ultimate parent at end of year	**94**	159	**94**	159
Controlled entities of Bank of New Zealand				
Deposits at beginning of year	**-**	-	**27,651**	30,609
Net deposits repaid during the year	**-**	-	**(685)**	(2,958)
Deposits from controlled entities of Bank of New Zealand at end of year	**-**	-	**26,966**	27,651
Total amounts due to related entities	**245**	2,705	**27,211**	27,864
Subordinated loans due to related entities (refer to note 24)	**905**	905	**905**	905
Interest expense on amounts due to related entities comprised:				
Ultimate parent	**51**	173	**6**	10
Controlled entities of ultimate parent	**32**	35	**32**	35
Controlled entities of Bank of New Zealand	**-**	-	**760**	867
Total interest expense on amounts due to related entities	**83**	208	**798**	912

Note 30 Related Entity Transactions *continued*

Related entities *continued*

Other transactions with related entities

Dividends paid to the shareholders are disclosed in note 27.

During the year ended 30 September 2013, the Bank received $21 million of dividends from controlled entities (30 September 2012: nil).

During the year ended 30 September 2012, the Bank issued 400,000,000 ordinary shares to National Australia Group (NZ) Limited, the Bank's immediate parent and a subsidiary of the Bank's ultimate parent, National Australia Bank Limited. Refer to note 25 for further details.

During the year ended 30 September 2013, 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 $60 million (year ended 30 September 2012: $66 million).

For the year ended 30 September 2013, no imputation credits from the group imputation credit account (year ended 30 September 2012: nil) were attached to dividends paid by National Wealth Management New Zealand Holdings Limited, a controlled entity of the Bank's ultimate parent.

During the year ended 30 September 2013, the Bank provided services to National Australia Bank Limited in relation to collection services amounting to $1 million (year ended 30 September 2012: $1 million).

During the year ended 30 September 2013, the Bank incurred $38 million of intercompany charges from National Australia Bank Limited in relation to technology costs (year ended 30 September 2012: $44 million). The Bank incurred $21 million of other service charges from National Australia Bank Limited during the year ended 30 September 2013 (year ended 30 September 2012: $14 million).

As at 30 September 2013, unrealised gains on total derivative contracts disclosed in note 14 contained $1,143 million transacted with National Australia Bank Limited (30 September 2012: $1,181 million). As at 30 September 2013, unrealised losses on total derivative contracts disclosed in note 14 contained $1,274 million transacted with National Australia Bank Limited (30 September 2012: $1,198 million).

The net loss attributable to financial liabilities at amortised cost transacted with National Australia Bank Limited within note 3 was $46 million as at 30 September 2013 (30 September 2012: nil).

Commissions received from controlled entities of National Australia Bank Limited for the sale of insurance on behalf of those controlled entities during the year ended 30 September 2013 totalled $18 million (year ended 30 September 2012: $16 million).

The Banking Group recognised an intercompany payable to National Australia Bank Limited in respect of share based payments of $6 million as at 30 September 2013 (30 September 2012: $4 million).

BNZ Cash PIE (the “Fund”) is a Portfolio Investment Entity. The Bank and the Directors of the Bank are the Promoters of the Fund. BNZ Investment Services Limited, a wholly owned controlled entity of the Bank, is the Manager and Issuer of the Fund. The Fund invests solely in debt securities issued by the Bank. Further information is included in notes 16 and 38. The Fund is consolidated as part of the Banking Group for financial reporting purposes.

BNZ Term PIE (the “Term Fund”) is a Portfolio Investment Entity. The Bank and the Directors of the Bank are the Promoters of the Term Fund. BNZ Investment Services Limited, a wholly owned controlled entity of the Bank, is the Manager and Issuer of the Term Fund. The Term Fund invests solely in debt securities issued by the Bank. Further information is included in notes 16 and 38. The Term Fund is consolidated as part of the Banking Group for financial reporting purposes.

The BNZ KiwiSaver Scheme (the “Scheme”) was established on 8 January 2013. The Scheme is a voluntary long-term savings scheme. BNZ Investment Services Limited, a wholly owned controlled entity of the Bank, is the Manager and Issuer of the BNZ KiwiSaver Scheme. The Bank and the Directors of the Bank are the Promoters of the BNZ KiwiSaver Scheme. The BNZ KiwiSaver Scheme currently invests in the BNZ Cash PIE issued by BNZ Investment Services Limited. The Scheme’s banking arrangements are provided by the Bank. As at 30 September 2013, the Scheme held $48 million in the BNZ Cash PIE and transactional bank accounts (30 September 2012: nil). Further information is included in note 38.

The RMBS Trust provides an in-house residential mortgage-backed securities programme. As at 30 September 2013, included in the Bank’s financial statements is an intercompany payable and an intercompany receivable of equal amount of $4,491 million (30 September 2012: $4,491 million). This did not have any impact on the consolidated financial statements of the Banking Group as transactions between the Bank and the RMBS Trust are eliminated on consolidation. Further details on the RMBS Trust are provided in notes 11, 16, 33 and 38.

The Covered Bond Trust holds Bank of New Zealand housing loans and provides guarantees to certain debt securities issued by the Bank or BNZ International Funding Limited, a wholly owned controlled entity of the Bank. As at 30 September 2013, included in the Bank’s financial statements is an intercompany payable and an intercompany receivable of equal amount of $5,467 million (30 September 2012: $5,467 million). This did not have any impact on the consolidated financial statements of the Banking Group as transactions between the Bank and the Covered Bond Trust are eliminated on consolidation. Further details on the Covered Bond Trust are provided in notes 11, 16, 33 and 38.

The Bank guarantees the obligations of BNZ International Funding Limited (“BNZIF”), a wholly owned controlled entity of the Bank, acting through its London Branch, in respect of securities issued by BNZIF (London Branch), to wholesale investors. Refer to note 35 for further details.

The following medium term notes issued by BNZIF (London Branch), were held by National Australia Bank Limited:

			30/9/13		30/9/12	
Issue Currency	Coupon Rate %	Maturity Date	**Face Value Issue Currency $Millions**	**Fair Value NZ $Millions**	Face Value Issue Currency $Millions	Fair Value NZ $Millions
Australian dollar	3 month AUD BBSW + 280bp	15 November 2012	-	-	1,000	1,263
Australian dollar	3 month AUD BBSW + 110bp	28 June 2013	-	-	500	627
US dollar	3 month USD LIBOR + 230bp	14 November 2018	-	-	500	601

As at 30 September 2013, there is an A$750 million standby liquidity facility (30 September 2012: A$1 billion) provided from National Australia Bank Limited for the Banking Group’s liquidity management. Funds will be made available for a term not exceeding 90 days, or at a term to be agreed with the National Australia Bank Limited at the time of usage. Fees for the provision of this facility are charged at 0.33% per annum and 0.10% per annum for the unutilised amount of the limit.

Note 30 Related Entity Transactions *continued*

Key management personnel

Key management personnel are defined as being Directors and general management of the Banking Group. The information relating to key management personnel disclosed below includes transactions with those individuals, their close family members and their controlled entities.

Loans and deposits with non-executive key management personnel of the Banking Group are made in the ordinary course of business on commercial terms and conditions. Loans and deposits with executive key management personnel of the Banking Group are made either:

- on normal terms and conditions; or
- on terms and conditions which apply to other employees in the Banking Group.

All loans made to key management personnel have been made in accordance with the Banking Group's lending policies.

Amounts due from key management personnel

Included in loans and advances to customers were the following amounts due from key management personnel:

	Consolidated		The Company	
Dollars in Millions	30/9/13	30/9/12	30/9/13	30/9/12
Loans outstanding at beginning of year	**9**	8	**9**	8
Net movements in loans during the year	**3**	1	**3**	1
Loans outstanding at end of year	**12**	9	**12**	9
Interest income on amounts due from key management personnel	**-**	-	**-**	-

Interest income on amounts due from key management personnel is shown as nil in the table above as a result of rounding to the nearest million.

No provisions have been recognised in respect of loans provided to key management personnel. There were no debts written off or forgiven during the year ended 30 September 2013 (year ended 30 September 2012: nil).

Amounts due to key management personnel

Included in deposits from customers were the following amounts due to key management personnel:

	Consolidated		The Company	
Dollars in Millions	30/9/13	30/9/12	30/9/13	30/9/12
Deposits at beginning of year	**1**	1	**1**	1
Net movements in deposits during the year	**2**	-	**2**	-
Deposits at end of year	**3**	1	**3**	1
Interest expense on amounts due to key management personnel	**-**	-	**-**	-

Interest expense on amounts due to key management personnel is shown as nil in the table above as a result of rounding to the nearest million.

Other transactions with key management personnel

The remuneration paid or payable to the Directors and other key management personnel is outlined in note 5.

Note 31 Categories of Financial Assets and Financial Liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For the purposes of this note, carrying amount refers to amounts reflected in the balance sheet. The methodologies and assumptions used in the fair value estimates are described on page 56.

	Consolidated (30/9/13)						
	Classified at Fair Value Through Profit or Loss						
Dollars in Millions	Held for Trading	Designated on Initial Recognition	Hedging	Available For Sale	Loans and Receivables	Total Carrying Amount	Fair Value
Financial assets							
Cash and liquid assets	**-**	**-**	**-**	**-**	**1,725**	**1,725**	**1,725**
Due from central banks and other institutions	**-**	**806**	**-**	**-**	**710**	**1,516**	**1,516**
Trading securities	**4,291**	**-**	**-**	**-**	**-**	**4,291**	**4,291**
Available for sale investments	**-**	**-**	**-**	**67**	**-**	**67**	**67**
Derivative financial instruments	**4,145**	**-**	**92**	**-**	**-**	**4,237**	**4,237**
Loans and advances to customers	**-**	**24,081**	**-**	**-**	**38,086**	**62,167**	**62,155**
Amounts due from related entities	**-**	**-**	**-**	**-**	**391**	**391**	**391**
Other financial assets	**-**	**-**	**-**	**-**	**166**	**166**	**166**
Total financial assets	**8,436**	**24,887**	**92**	**67**	**41,078**	**74,560**	**74,548**
	Consolidated (30/9/12)						
Financial assets							
Cash and liquid assets	-	-	-	-	1,628	1,628	1,628
Due from central banks and other institutions	-	716	-	-	1,338	2,054	2,054
Trading securities	3,610	-	-	-	-	3,610	3,610
Available for sale investments	-	-	-	50	-	50	50
Derivative financial instruments	5,086	-	238	-	-	5,324	5,324
Loans and advances to customers	-	21,903	-	-	37,016	58,919	59,012
Amounts due from related entities	-	-	-	-	288	288	288
Other financial assets	-	-	-	-	407	407	407
Total financial assets	8,696	22,619	238	50	40,677	72,280	72,373
	The Company (30/9/13)						
Financial assets							
Cash and liquid assets	**-**	**-**	**-**	**-**	**1,725**	**1,725**	**1,725**
Due from central banks and other institutions	**-**	**806**	**-**	**-**	**710**	**1,516**	**1,516**
Trading securities	**4,291**	**-**	**-**	**-**	**-**	**4,291**	**4,291**
Available for sale investments	**-**	**-**	**-**	**67**	**-**	**67**	**67**
Derivative financial instruments	**4,145**	**-**	**92**	**-**	**-**	**4,237**	**4,237**
Loans and advances to customers	**-**	**24,081**	**-**	**-**	**38,086**	**62,167**	**62,155**
Amounts due from related entities	**-**	**-**	**-**	**-**	**10,386**	**10,386**	**10,386**
Other financial assets	**-**	**-**	**-**	**-**	**166**	**166**	**166**
Total financial assets	**8,436**	**24,887**	**92**	**67**	**51,073**	**84,555**	**84,543**
	The Company (30/9/12)						
Financial assets							
Cash and liquid assets	-	-	-	-	1,628	1,628	1,628
Due from central banks and other institutions	-	716	-	-	1,338	2,054	2,054
Trading securities	3,610	-	-	-	-	3,610	3,610
Available for sale investments	-	-	-	50	-	50	50
Derivative financial instruments	5,086	-	238	-	-	5,324	5,324
Loans and advances to customers	-	21,903	-	-	37,016	58,919	59,012
Amounts due from related entities	-	-	-	-	10,269	10,269	10,269
Other financial assets	-	-	-	-	407	407	407
Total financial assets	8,696	22,619	238	50	50,658	82,261	82,354

Note 31 Categories of Financial Assets and Financial Liabilities *continued*

Dollars in Millions	Classified at Fair Value Through Profit or Loss Held for Trading	Classified at Fair Value Through Profit or Loss Designated on Initial Recognition	Hedging	At Amortised Cost	Total Carrying Amount	Fair Value
Consolidated (30/9/13)						
Financial liabilities						
Due to central banks and other institutions	**-**	**766**	**-**	**538**	**1,304**	**1,304**
Short term debt securities	**-**	**5,550**	**-**	**-**	**5,550**	**5,550**
Trading liabilities	**71**	**-**	**-**	**-**	**71**	**71**
Derivative financial instruments	**4,801**	**-**	**106**	**-**	**4,907**	**4,907**
Deposits from customers	**-**	**2,469**	**-**	**39,354**	**41,823**	**41,844**
Bonds and notes	**-**	**14,210**	**-**	**-**	**14,210**	**14,210**
Amounts due to related entities	**-**	**-**	**-**	**245**	**245**	**245**
Other financial liabilities	**-**	**-**	**-**	**299**	**299**	**299**
Subordinated debt	**-**	**-**	**-**	**905**	**905**	**905**
Total financial liabilities	**4,872**	**22,995**	**106**	**41,341**	**69,314**	**69,335**
Consolidated (30/9/12)						
Financial liabilities						
Due to central banks and other institutions	-	742	-	1,254	1,996	1,996
Short term debt securities	-	5,365	-	-	5,365	5,365
Trading liabilities	120	-	-	-	120	120
Derivative financial instruments	5,439	-	173	-	5,612	5,612
Deposits from customers	-	1,846	-	35,244	37,090	37,155
Bonds and notes	-	13,201	-	-	13,201	13,201
Amounts due to related entities	-	-	-	2,705	2,705	2,705
Other financial liabilities	-	-	-	488	488	488
Subordinated debt	-	-	-	905	905	905
Total financial liabilities	5,559	21,154	173	40,596	67,482	67,547
The Company (30/9/13)						
Financial liabilities						
Due to central banks and other institutions	**-**	**766**	**-**	**538**	**1,304**	**1,304**
Short term debt securities	**-**	**1,720**	**-**	**-**	**1,720**	**1,720**
Trading liabilities	**71**	**-**	**-**	**-**	**71**	**71**
Derivative financial instruments	**4,801**	**-**	**106**	**-**	**4,907**	**4,907**
Deposits from customers	**-**	**2,469**	**-**	**38,401**	**40,870**	**40,891**
Bonds and notes	**-**	**5,306**	**-**	**-**	**5,306**	**5,306**
Amounts due to related entities	**-**	**-**	**-**	**27,211**	**27,211**	**27,211**
Other financial liabilities	**-**	**-**	**-**	**299**	**299**	**299**
Subordinated debt	**-**	**-**	**-**	**905**	**905**	**905**
Total financial liabilities	**4,872**	**10,261**	**106**	**67,354**	**82,593**	**82,614**
The Company (30/9/12)						
Financial liabilities						
Due to central banks and other institutions	-	742	-	1,254	1,996	1,996
Short term debt securities	-	1,838	-	-	1,838	1,838
Trading liabilities	120	-	-	-	120	120
Derivative financial instruments	5,439	-	173	-	5,612	5,612
Deposits from customers	-	1,846	-	34,588	36,434	36,499
Bonds and notes	-	5,430	-	-	5,430	5,430
Amounts due to related entities	-	-	-	27,864	27,864	27,864
Other financial liabilities	-	-	-	488	488	488
Subordinated debt	-	-	-	905	905	905
Total financial liabilities	5,559	9,856	173	65,099	80,687	80,752

Further information on the fair value of derivative financial instruments is disclosed in note 14.

Note 32 Fair Value of Financial Assets and Financial Liabilities

Difference between carrying amount and contractual amount on financial liabilities designated at fair value through profit or loss on initial recognition

Dollars in Millions	Consolidated (30/9/13) Carrying Amount	Contractual Amount	Higher/ (Lower)	The Company (30/9/13) Carrying Amount	Contractual Amount	Higher/ (Lower)
Due to central banks and other institutions	**766**	**766**	**-**	**766**	**766**	**-**
Short term debt securities	**5,550**	**5,556**	**(6)**	**1,720**	**1,726**	**(6)**
Deposits from customers	**2,469**	**2,464**	**5**	**2,469**	**2,464**	**5**
Bonds and notes	**14,210**	**13,589**	**621**	**5,306**	**5,138**	**168**
	22,995	**22,375**	**620**	**10,261**	**10,094**	**167**
	Consolidated (30/9/12)			**The Company** (30/9/12)		
Due to central banks and other institutions	742	741	1	742	741	1
Short term debt securities	5,365	5,372	(7)	1,838	1,845	(7)
Deposits from customers	1,846	1,840	6	1,846	1,840	6
Bonds and notes	13,201	12,477	724	5,430	5,201	229
	21,154	20,430	724	9,856	9,627	229

Movements in fair value of financial liabilities designated at fair value through profit or loss on initial recognition attributable to changes in credit risk

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12	The Company 30/9/13	The Company 30/9/12
Bonds and notes				
Balance at beginning of year	**71**	(119)	**14**	(4)
Movement during the year	**142**	190	**84**	18
Balance at end of year	**213**	71	**98**	14
Subordinated debt				
Balance at beginning of year	**-**	(4)	**-**	(4)
Movement during the year	**-**	4	**-**	4
Balance at end of year	**-**	-	**-**	-

The movement in fair value attributable to changes in the credit risk of financial liabilities designated at fair value through profit or loss is determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk.

Note 32 Fair Value of Financial Assets and Financial Liabilities *continued*

Hierarchy for fair value measurements

The following tables present a three level fair value hierarchy of the Banking Group's financial assets and financial liabilities which are measured at fair value.

The three levels in the hierarchy are based on the valuation methods and assumptions used in determining the fair values of financial assets and financial liabilities. The levels are as follows:

Level 1. Quoted prices in active markets for identical assets or liabilities.

Level 2. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3. Inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Banking Group did not have any financial assets or financial liabilities measured at fair value that met the criteria of Level 3 classification.

Management uses its judgment in selecting an appropriate valuation technique for financial instruments which are not quoted in an active market.

	Consolidated (30/9/13)			The Company (30/9/13)		
Dollars in Millions	Total	Level 1	Level 2	Total	Level 1	Level 2
Financial assets at fair value						
Held for trading						
Trading securities	4,291	2,033	2,258	4,291	2,033	2,258
Derivative financial instruments	4,145	-	4,145	4,145	-	4,145
	8,436	2,033	6,403	8,436	2,033	6,403
Designated on initial recognition						
Due from central banks and other institutions	806	-	806	806	-	806
Loans and advances to customers	24,081	-	24,081	24,081	-	24,081
	24,887	-	24,887	24,887	-	24,887
Hedging						
Derivative financial instruments	92	-	92	92	-	92
	92	-	92	92	-	92
Available for sale						
Available for sale investments	67	67	-	67	67	-
	67	67	-	67	67	-
Financial liabilities at fair value						
Held for trading						
Trading liabilities	71	71	-	71	71	-
Derivative financial instruments	4,801	-	4,801	4,801	-	4,801
	4,872	71	4,801	4,872	71	4,801
Designated on initial recognition						
Due to central banks and other institutions	766	-	766	766	-	766
Short term debt securities	5,550	-	5,550	1,720	-	1,720
Deposits from customers	2,469	-	2,469	2,469	-	2,469
Bonds and notes	14,210	-	14,210	5,306	-	5,306
	22,995	-	22,995	10,261	-	10,261
Hedging						
Derivative financial instruments	106	-	106	106	-	106
	106	-	106	106	-	106

There were no transfers between Level 1 and 2 in the year.

Note 32 Fair Value of Financial Assets and Financial Liabilities *continued*

Hierarchy for fair value measurements *continued*

	Consolidated (30/9/12)			The Company (30/9/12)		
Dollars in Millions	Total	Level 1	Level 2	Total	Level 1	Level 2
Financial assets at fair value						
Held for trading						
Trading securities	3,610	2,204	1,406	3,610	2,204	1,406
Derivative financial instruments	5,086	-	5,086	5,086	-	5,086
	8,696	2,204	6,492	8,696	2,204	6,492
Designated on initial recognition						
Due from central banks and other institutions	716	-	716	716	-	716
Loans and advances to customers	21,903	-	21,903	21,903	-	21,903
	22,619	-	22,619	22,619	-	22,619
Hedging						
Derivative financial instruments	238	-	238	238	-	238
	238	-	238	238	-	238
Available for sale						
Available for sale investments	50	50	-	50	50	-
	50	50	-	50	50	-
Financial liabilities at fair value						
Held for trading						
Trading liabilities	120	120	-	120	120	-
Derivative financial instruments	5,439	-	5,439	5,439	-	5,439
	5,559	120	5,439	5,559	120	5,439
Designated on initial recognition						
Due to central banks and other institutions	742	-	742	742	-	742
Short term debt securities	5,365	-	5,365	1,838	-	1,838
Deposits from customers	1,846	-	1,846	1,846	-	1,846
Bonds and notes	13,201	-	13,201	5,430	-	5,430
	21,154	-	21,154	9,856	-	9,856
Hedging						
Derivative financial instruments	173	-	173	173	-	173
	173	-	173	173	-	173

There were no transfers between Level 1 and 2 in the year.

Note 32 Fair Value of Financial Assets and Financial Liabilities *continued*

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

Due from central banks and other institutions, Due to central banks and other institutions and Short term debt securities

These assets and liabilities are primarily short term in nature or are receivable or payable on demand. In such cases the carrying amounts approximate their fair value or it has been determined using discounted cash flow models based on observable market prices as appropriate.

Trading securities, Available for sale investments and Trading liabilities

Trading securities include treasury bills, bank bills and bonds, promissory notes, and government and other securities. Trading liabilities include short sales of securities. Available for sale investments include listed equity securities and other securities. These assets and liabilities are recorded at fair value based on quoted closing market prices as at the reporting date. Where quoted market prices are not available, the Banking Group obtains the fair value by means of discounted cash flows and other valuation techniques based on observable market prices. These techniques address factors such as interest rates, credit risk and liquidity.

Loans and advances to customers

The carrying value of loans and advances is net of allowance for impairment losses, credit risk adjustments, unearned and deferred income. Floating rate loans to customers generally reprice within six months, therefore, their fair value is assumed to equate their carrying value. For fixed rate loans, the fair value is estimated by discounting the expected future cash flows based on the maturity of the loans and advances, using current market interest rates of similar types of loans and advances or interest rate swap rates. The differences between estimated fair values of loans and advances and carrying value reflect the difference between observable market interest rates and customer rates on day one and changes in interest rates and creditworthiness of borrowers since loan or advance origination.

Derivative financial instruments

The fair values of trading and hedging derivatives, including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from observable market prices as at the reporting date, discounted cash flow models or option pricing models as appropriate.

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.

Deposits from customers

With respect to Deposits from customers, the fair value of non-interest-bearing, call and variable rate deposits and fixed rate deposits repricing within six months is approximated as the carrying value as at the reporting date. For other fixed rate term deposits, the fair value is estimated by discounting the cash flows based on the maturity of the deposit, using current market interest rates.

Bonds and notes

Bonds and notes are recorded at fair value based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments. This is based on observable market prices as at the reporting date where available, otherwise alternative observable market source data is used. The fair value includes a calculation of the Banking Group's own credit risk based on observable market data.

Subordinated debt

All subordinated loans from related entities reprice every 90 days, therefore, their fair value is considered to approximate their carrying value.

The fair value of other subordinated debt is based on quoted closing market prices as at the reporting date.

Other financial assets/liabilities

These include securities sold/purchased but not yet settled and accrued interest. Securities sold/purchased but not yet settled and the fair value of accrued interest is approximately equal to the carrying amounts on the balance sheet due to the short term nature of the amounts.

Note 33 Transfers of Financial Assets

A financial asset is considered to be transferred when the Bank transfers the contractual rights to receive the cash flows of the asset, or retains the contractual rights to receive the cash flows with a contractual obligation to pay the cash flows to another party.

Transfers of financial assets that have not been derecognised in their entirety

The RMBS Trust provides an in-house residential mortgage-backed securities programme to issue securities as collateral for borrowing from the RBNZ. The housing loans have not been derecognised by the Bank for financial reporting purposes as the Bank retains substantially all of the risks and rewards of ownership. As these housing loans have been legally transferred, the Bank does not retain the legal rights of ownership, but retains a security interest in these assets.

The Covered Bond Trust holds certain Bank of New Zealand housing loans, and its trustee provides guarantees of the covered bonds issued by the Bank or BNZ International Funding Limited (London Branch), a wholly owned controlled entity of the Bank. Guarantees provided in relation to the covered bonds issued have a prior claim over the assets of the Covered Bond Trust. These housing loans have not been derecognised by the Bank for financial reporting purposes as the Bank retains substantially all of the risks and rewards of ownership. As these housing loans have been legally transferred, the Bank does not retain the legal rights of ownership, but retains a security interest in these assets which is secondary to the guarantee provided by the trustee.

Government bonds and securities transferred under the agreements to repurchase have not been derecognised from the balance sheet as the Bank retains substantially all the risks and rewards of ownership. The Bank's obligation to repurchase is classified under Due to central banks and other institutions. Further detail on securities sold under agreements to repurchase are provided in notes 9 and 10. The fair value of these agreements is approximately equal to the carrying amount on the balance sheet due to their short term nature.

The table below presents the carrying value of the transferred assets and the associated liabilities.

	Consolidated and The Company			
Dollars in Millions	**Carrying Amount of Assets 30/9/13**	Carrying Amount of Assets 30/9/12	**Carrying Amount of Associated Liabilities 30/9/13**	Carrying Amount of Associated Liabilities 30/9/12
Housing loans held by RMBS Trust	**4,470**	4,468	**-**	-
Housing loans held by Covered Bond Trust	**5,403**	5,400	**4,623**	4,612
Government bonds and securities	**32**	240	**32**	240
	9,905	10,108	**4,655**	4,852

Transfers of financial assets that have been derecognised in their entirety, but the Bank has continuing involvement

The Bank and the Banking Group have no financial assets which have been derecognised in their entirety, but have continuing involvement.

Note 34 Segment Analysis

Operating segments

An operating segment is a component of an entity engaging in business activities and whose operating results are regularly reviewed by the entity's chief operating decision maker. For each operating segment identified by the Banking Group, financial information is regularly reported to the New Zealand Executive Team for the purposes of evaluation of performance and allocation of resources.

The Banking Group's business is organised into the following operating and reportable segments: Retail and BNZ Partners. Retail provides financial services and products to individual customers and, for management reporting purposes, includes insurance activities carried out by a controlled entity of National Australia Bank Limited that is not part of the Banking Group. BNZ Partners provides financial services and products to business, agribusiness, private banking, corporate and institutional customers.

Revenues and expenses directly associated with each operating segment are included in determining their result. Transactions between operating segments are based on agreed recharges between segments. Segment revenue represents revenue directly attributable to a segment and a portion of the Banking Group's revenue that can be allocated to a segment on a reasonable basis. Segment revenue includes Net interest income and Other operating income, and transfer pricing adjustments to reflect inter-segment funding arrangements.

Segment profit represents operating profit before unrealised fair value gains or losses on financial instruments and income or expenses which are one-off in nature and are not part of the Banking Group's core business operations.

Note 34 Segment Analysis *continued*

Operating segments *continued*

Dollars in Millions	Retail	BNZ Partners	Total Reportable Segments	All Other Segments	Other Adjustments	Total Banking Group
			Consolidated (30/9/13)			
Net interest income	**611**	**848**	**1,459**	**106**	**-**	**1,565**
Other income	**241**	**262**	**503**	**93**	**(256)**	**340**
Total revenue from external customers*	**852**	**1,110**	**1,962**	**199**	**(256)**	**1,905**
Net inter-segment revenue#	**1**	**21**	**22**	**(22)**	**-**	**-**
Total segment revenue	**853**	**1,131**	**1,984**	**177**	**(256)**	**1,905**
Operating expenses	**453**	**344**	**797**	**59**	**(13)**	**843**
Operating profit before impairment losses on credit exposures and income tax expense	**400**	**787**	**1,187**	**118**	**(243)**	**1,062**
Impairment losses on credit exposures	**19**	**93**	**112**	**(13)**	**14**	**113**
Operating profit before income tax expense	**381**	**694**	**1,075**	**131**	**(257)**	**949**
Total income tax expense	**105**	**194**	**299**	**25**	**(70)**	**254**
Net profit attributable to shareholders of Bank of New Zealand	**276**	**500**	**776**	**106**	**(187)**	**695**
Lending assets	**23,413**	**38,491**	**61,904**	**263**	**-**	**62,167**
Deposit liabilities	**21,640**	**18,236**	**39,876**	**1,947**	**-**	**41,823**

* For the year ended 30 September 2013, there were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Banking Group's revenues.

\# Certain inter-segment revenue has been reclassified for the year ended 30 September 2013 to represent the information reported to the New Zealand Executive Team for the purpose of evaluation of performance and allocation of resource. Comparative balances have not been reclassified to reflect this change.

Dollars in Millions	Retail	BNZ Partners	Total Reportable Segments	All Other Segments	Other Adjustments	Total Banking Group
			Consolidated (30/9/12)			
Net interest income	586	838	1,424	79	-	1,503
Other income	245	247	492	89	(440)	141
Total revenue from external customers*	831	1,085	1,916	168	(440)	1,644
Net inter-segment revenue#	1	102	103	(103)	-	-
Total segment revenue	832	1,187	2,019	65	(440)	1,644
Operating expenses	442	343	785	40	(31)	794
Operating profit before impairment losses on credit exposures and income tax expense	390	844	1,234	25	(409)	850
Impairment losses on credit exposures	29	110	139	(41)	(37)	61
Operating profit before income tax expense	361	734	1,095	66	(372)	789
Total income tax expense	93	208	301	16	(108)	209
Net profit attributable to shareholders of Bank of New Zealand	268	526	794	50	(264)	580
Lending assets	22,022	36,553	58,575	344	-	58,919
Deposit liabilities	19,365	16,047	35,412	1,678	-	37,090

* For the year ended 30 September 2012, there were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Banking Group's revenues.

\# Certain inter-segment revenue has been reclassified for the year ended 30 September 2013 to represent the information reported to the New Zealand Executive Team for the purpose of evaluation of performance and allocation of resource. Comparative balances have not been reclassified to reflect this change.

Note 34 Segment Analysis *continued*

Other adjustments

The tables below detail reconciling items comprising Other adjustments in the segment analysis tables presented above.

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12
Other adjustments comprised:		
Total segment revenue		
Eliminations and consolidation adjustments	**(47)**	(64)
Fair value credit risk adjustment	**14**	(37)
Fair value gains or losses on financial instruments	**(223)**	(339)
	(256)	(440)
Operating profit before income tax expense		
Eliminations and consolidation adjustments	**(34)**	(29)
Expenses in relation to disposal of operations and subsidiary	**-**	(4)
Fair value gains or losses on financial instruments	**(223)**	(339)
	(257)	(372)
Income tax expense		
Eliminations and consolidation adjustments	**(8)**	(12)
Expenses in relation to disposal of operations and subsidiary	**-**	(1)
Fair value gains or losses on financial instruments	**(62)**	(95)
	(70)	(108)

Geographical information

The Banking Group has operations primarily in New Zealand. Geographical revenue information is based on the location of the office in which the transactions were booked, whereas for assets, it is based on the location of the assets.

Dollars in Millions	Consolidated 30/9/13	Consolidated 30/9/12
Revenue from external customers		
New Zealand	**1,905**	1,641
Overseas	**-**	3
Total revenue	**1,905**	1,644
Non-current assets*		
New Zealand	**393**	379
Overseas	**2**	1
Total non-current assets	**395**	380

* In accordance with NZ IFRS 8 Operating Segments, Non-current assets do not include financial instruments, deferred tax assets or post-employment benefit assets.

Note 35 Contingent Liabilities and Other 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. Any potential liability arising in respect of these claims cannot be accurately assessed. Where some loss is probable appropriate provisions have been made.

Contingent liabilities and credit related commitments arising in respect of the Banking Group's operations were:

	Consolidated and The Company	
Dollars in Millions	**Notional Amount 30/9/13**	Notional Amount 30/9/12
Contingent liabilities		
Bank guarantees	**59**	59
Standby letters of credit	**323**	322
Documentary letters of credit	**120**	97
Performance related contingencies	**364**	318
Total other contingent liabilities	**866**	796
Credit related commitments		
Revocable commitments to extend credit	**7,107**	6,798
Irrevocable commitments to extend credit	**7,905**	7,547
Total credit related commitments	**15,012**	14,345
Total contingent liabilities and credit related commitments	**15,878**	15,141
Total contingent liabilities and credit related commitments comprised:		
New Zealand		
Agriculture	**452**	447
Forestry and fishing	**111**	100
Mining	**132**	100
Manufacturing	**1,125**	1,284
Electricity, gas and water	**598**	460
Construction	**155**	141
Wholesale and retail trade	**961**	1,045
Accommodation, restaurants, culture and recreation	**243**	251
Transport and storage	**320**	378
Communications	**379**	176
Financial, investment and insurance	**809**	675
Property, business and personal services	**1,022**	1,098
Government, education, health and community services	**1,025**	814
Real estate – mortgage	**1,383**	1,311
Personal lending	**56**	63
Total New Zealand	**8,771**	8,343
Revocable commitments to extend credit	**7,107**	6,798
Total contingent liabilities and credit related commitments	**15,878**	15,141

Contingent liabilities and credit related commitments by geographical location presented in the tables above are based on the geographical location of the office in which the exposures are recognised.

The contingent liabilities and credit related commitments by industry sector presented in the above tables are based on the RBNZ M3 Institutions Standard Statistical Return.

The full notional amount of contingent liabilities and credit related commitments have been disclosed as “on-demand” as they could be payable on demand. The Banking Group expects that not all of the contingent liabilities or commitments will be drawn before their contractual expiry.

Note 35 Contingent Liabilities and Other Commitments *continued*

Contingent liabilities

The maximum exposure to credit risk to the Banking Group for contingent exposures is the notional amount which represents the amount that the Banking Group would have to pay if the contingent liability is called upon.

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

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

Guarantees

The Banking Group provides guarantees in its normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Banking Group to guarantee the performance of a customer to a third party. Guarantees are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. It is the credit 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 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 accrual basis.

Credit related commitments

For commitments to extend credit, the maximum credit exposure to the Banking Group is the full amount of the commitment. Irrevocable commitments to extend credit are agreements to lend to a customer which can be drawn down at any time before the commitments expire as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiry dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments are expected to expire without being drawn down, the total commitment amounts do not necessarily represent future cash requirements.

Revocable commitments to extend credit represent those facilities which can be cancelled at any time at the Bank's discretion without the risk of incurring significant penalty or expense. These facilities are generally on-demand.

For information on the Banking Group's risk management policies, refer to note 40.

Guarantees to wholly owned controlled entities

The Bank guarantees the obligations of BNZ International Funding Limited ("BNZIF"), acting through its London Branch, in respect of securities issued by BNZIF, London Branch to wholesale investors.

The constitution of BNZIF requires funds raised by its London Branch to be on-lent to the Bank on terms and conditions which match the terms and conditions of the original funding, including the same principal amount, currency, term and interest rate basis, and with corresponding redemption events and status (except that funds on-lent to the Bank will not be guaranteed).

As a result, the Bank has recognised its liabilities in relation to BNZIF, London Branch, on its balance sheet under Amounts due to related entities. Consequently, this guarantee has not been recognised as a contingent liability.

Note 35 Contingent Liabilities and Other Commitments *continued*

Other commitments

	Consolidated		The Company	
	30/9/13	30/9/12	**30/9/13**	30/9/12
Capital expenditure commitments *	**4**	5	**1**	4
Land and building operating lease commitments (refer to table below) **	**324**	367	**-**	-
Fleet vehicles operating lease commitments	**12**	9	**12**	9
Total other commitments	**340**	381	**13**	13
Land and buildings operating lease commitments comprised:				
Non-cancellable future minimum lease payments:				
Due within one year	**48**	49	**-**	-
Due within one to five years	**162**	168	**-**	-
Due after five years	**114**	150	**-**	-
Total land and buildings lease commitments	**324**	367	**-**	-

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

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

Note 36 Credit Exposures to Connected Persons and Non-bank Connected Persons

The RBNZ defines Connected Persons to be other members of the National Australia Bank Group and Directors of the Bank. Controlled entities of the Bank are not connected persons. Credit exposures to connected persons have been derived in accordance with the Bank's conditions of registration and RBNZ's Connected Exposures Policy (BS8). The amounts are net of allowance for impairment losses on individual financial assets and exclude advances of a capital nature.

Credit exposures to connected persons have been calculated on a partial bilateral net basis, netting derivative balances. Certain term loans from National Australia Bank Group have also been netted against derivative exposures. There is a limit of 125% of the Banking Group's Tier One capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure.

	Consolidated	
Dollars in Millions	**$ 30/9/13**	**% of Tier One Capital As At 30/9/13**
As at end of year		
Credit exposure to connected persons (on gross basis, before netting)	**2,514**	**47.0%**
Credit exposure to connected persons (amount netted)	**1,274**	**23.8%**
Credit exposure to connected persons (on partial bilateral net basis)	**1,240**	**23.2%**
Credit exposure to non-bank connected persons	**-**	**-**
Peak for the year ended		
Credit exposure to connected persons (on gross basis, before netting)	**2,853**	**53.3%**
Credit exposure to connected persons (amount netted)	**1,229**	**23.0%**
Credit exposure to connected persons (on partial bilateral net basis)	**1,624**	**30.3%**
Credit exposure to non-bank connected persons	**-**	**-**

As at 30 September 2013, the Banking Group's rating-contingent limit was 70% of the Banking Group's Tier One capital. This has not changed during the year. 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 credit exposures to connected persons as set out in the Bank's conditions of registration has been complied with at all times during the year ended 30 September 2013. Aggregate gross exposures to connected persons must not exceed 125% of the Banking Group's Tier One capital.

Where a bank is funding a large loan it is common practice to share the risk of a customer default with other connected banks. These arrangements are called risk lay-off arrangements. As at 30 September 2013, the Banking Group had no contingent credit exposures arising from risk lay-off arrangements with connected persons. There were no allowances for impairment losses on individual financial assets provided against credit exposures to connected persons as at 30 September 2013.

Note 37 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, the central government of any country with a long term credit rating of A- or A3 or above, or its equivalent, and banks with a long term credit rating of A- or A3 or above, or its equivalent. Peak credit exposures to individual counterparties are calculated using the Banking Group's end of period shareholders' equity.

As at 30 September 2013 and for the three months ended 30 September 2013, the Banking Group had no bank or non-bank counterparties that equalled or exceeded 10% of the Banking Group's equity and met the disclosure thresholds described above.

Note 38 Insurance Business, Securitisation, Funds Management, Other Fiduciary Activities, and the Marketing and Distribution of Insurance Products

Funds management

During the year ended 30 September 2013, the Bank marketed the products of AMP Wealth Management New Zealand Limited (previously known as AXA Wealth Management Limited) through its stores and partners network and derived commission from the sale of superannuation and KiwiSaver schemes and unit trusts marketed on behalf of AMP Wealth Management New Zealand Limited. The agreement between the Bank and AMP Wealth Management New Zealand Limited covering the distribution and sale of superannuation schemes and unit trusts expired on 1 November 2012.

The Bank also provides services to a number of clients which include advice on, administration, and management of, investment portfolios.

BNZ Cash PIE (the "Fund") is a Portfolio Investment Entity. The Bank and the Directors of the Bank are the Promoters of the Fund. BNZ Investment Services Limited, a wholly owned controlled entity of the Bank, is the Manager and Issuer of the Fund. The Fund is consolidated as part of the Banking Group for financial reporting purposes.

BNZ Term PIE (the "Term Fund") is a Portfolio Investment Entity. The Bank and the Directors of the Bank are the Promoters of the Term Fund. BNZ Investment Services Limited, a wholly owned controlled entity of the Bank, is the Manager and Issuer of the Term Fund. The Term Fund is consolidated as part of the Banking Group for financial reporting purposes.

BNZ Investment Services Limited (a wholly owned entity of the Bank) established the BNZ KiwiSaver Scheme by a Trust Deed dated 8 January 2013 between it and The New Zealand Guardian Trust Company Limited. The Scheme was registered under the KiwiSaver Act 2006 on 16 January 2013. The Scheme was launched to the public on 25 February 2013.

BNZ Investment Services Limited is the Manager and Issuer of the BNZ KiwiSaver Scheme. The Bank and the Directors of the Bank are the Promoters of the BNZ KiwiSaver Scheme. The BNZ KiwiSaver Scheme currently invests in the BNZ Cash PIE issued by BNZ Investment Services Limited. The Scheme's banking arrangements are provided by the Bank. All arrangements are conducted on arms' length commercial terms.

Investments made in the BNZ KiwiSaver Scheme do not represent deposits or other liabilities of the Bank or any other member of the National Australia Bank Limited group, and are subject to investment risk, including the possible loss of income and principal invested. None of the Bank, or any other member of the National Australia Bank Limited group, the Trustee (The New Zealand Guardian Trust Company Limited), any Director of any of them, the Crown or any other person guarantees (either fully or in part) the performance or returns of the BNZ KiwiSaver Scheme or the repayment of capital.

During the year ended 30 September 2013, the Bank held deposits on behalf of customers of JBWere (NZ) Pty Limited and JBWere (NZ) Nominees Limited. JBWere (NZ) Pty Limited and JBWere (NZ) Nominees Limited, as controlled entities of the ultimate parent, are related parties of the Banking Group, but are not a part of the Banking Group.

The outstanding value of assets related to fund management activities is set out in the table below. The assets shown below for portfolios managed on behalf of customers are not owned by the Banking Group and are, therefore, not included as part of the Banking Group's assets on the balance sheet. The Fund and Term Fund invest solely in debt securities issued by the Banking Group and on consolidation their assets are eliminated against liabilities recorded by the Bank. Unitholders' interests are included as part of the Banking Group's liabilities.

Dollars in Millions	**30/9/13**	30/9/12
Portfolios managed on behalf of customers	**1,582**	1,266
BNZ Cash PIE	**308**	191
BNZ Term PIE	**645**	465

Insurance business

The Banking Group does not conduct any Insurance Business, as defined in clause 3 of Bank of New Zealand's conditions of registration set out on page 93.

Marketing and distribution of insurance products

The Banking Group is involved in marketing insurance products for the following entities: BNZ Life Insurance Limited, AIG Insurance New Zealand Limited ("AIG"), Union Medical Benefits Society Limited ("Unimed"), The National Mutual Life Association of Australasia Limited ("NMLA"), IAG New Zealand Limited, Cigna Life Insurance New Zealand Limited and Zurich Australian Insurance Limited. In addition, all commercial insurance product queries are referred to AON New Zealand by the Banking Group.

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 RBNZ's Capital Adequacy Framework (Internal Models Based Approach) (BS2B).

Securitisation

The Banking Group has arranged the securitisation of certain corporate customers' assets and provides banking services to corporate customers' securitisation vehicles. The Bank services 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 a securitisation vehicle. It may also purchase securities or assets at fair value from entities which conduct securitisation activities. 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 which is normal for arm's length commercial relationships.

During the year ended 30 September 2012, funding to Gough Securities Limited was repaid in full in May 2012 and funding to Speirs Securities Limited was repaid in full in June 2012.

As at 30 September 2013, securitisation arrangements in which the Banking Group is involved to the extent detailed above amounted to $1,244 million (30 September 2012: $1,246 million).

The RMBS Trust provides an in-house residential mortgage-backed securities programme. As at 30 September 2013, included within the Banking Group's loans and advances to customers were housing loans to the value of $4,470 million held by the RMBS Trust (30 September 2012: $4,468 million). These housing loans have not been derecognised by the Bank for financial reporting purposes as the Bank retains substantially all of the risks and rewards of ownership.

Note 38 Insurance Business, Securitisation, Funds Management, Other Fiduciary Activities, and the Marketing and Distribution of Insurance Products *continued*

Securitisation *continued*

The Covered Bond Trust holds certain Bank of New Zealand housing loans and its trustee provides guarantees to certain debt securities issued by the Bank or BNZ International Funding Limited (London Branch), a wholly owned controlled entity of the Bank. Guarantees provided in relation to the covered bonds issued have a prior claim over the assets of the Trust. As at 30 September 2013, included within the Banking Group's loans and advances to customers were housing loans to the value of $5,403 million held by the Covered Bond Trust (30 September 2012: $5,400 million). These housing loans have not been derecognised by the Bank for financial reporting purposes as the Bank retains substantially all of the risks and rewards of ownership.

Further details on the transactions with the RMBS Trust and the Covered Bond Trust are provided in notes 11, 16, 30 and 33.

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 Life Insurance Limited and BNZ Insurance Services 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 internal auditors and management, appropriate contractual agreements and compliance with contractual obligations and regulatory requirements.

The Banking Group's risk review and risk management systems are equally applicable to the marketing and distribution of products by the third party entities identified in the marketing and distribution of insurance products and funds management sections above.

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 the policy is not an obligation of the Bank and that the Bank 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 are subject to the Banking Group's standard risk management policies and procedures.

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 arrangements, 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.

Peak aggregate funding provided to entities

The Bank does not provide any funding to individual unit trusts which the Banking Group distributes on behalf of third parties.

Peak end-of-day aggregate funding (including funding provided by the purchase of securities) provided by the Banking Group to individual affiliated insurance entities and entities involved in securitisation activities, where the Banking Group is involved in the origination of securitised assets, and the marketing or servicing of securitisation schemes, is disclosed in the table below:

			Consolidated			
	Peak End-of-Day Aggregate Amount of Funding During the Year		Peak End-of-Day Aggregate Amount of Funding During the Year Expressed as a Percentage of the Amount of the Entity's Assets at End of Year		Peak End-of-Day Aggregate Amount of Funding During the Year Expressed as a Percentage of the Banking Group's Tier One Capital at End of Year	
Dollars in Thousands	**For the Year Ended 30/9/13**	For the Year Ended 30/9/12	**For the Year Ended 30/9/13**	For the Year Ended 30/9/12	**For the Year Ended 30/9/13**	For the Year Ended 30/9/12
BNZ Life Insurance Limited	**-**	92	**-**	0.1%	**-**	0.0%
Speirs Securities Limited*	**-**	29,000	**-**	-	**-**	0.6%
Gough Securities Limited**	**-**	5,740	**-**	-	**-**	0.1%
Perpetual Trust Limited	**195,000**	195,000	**100%**	100%	**3.6%**	4.0%

* The total assets of Speirs Securities Limited at the date of the peak end-of-day aggregate during the year ended 30 September 2012 were $32 million. The peak exposure represented 90.1% of the entity's assets as at that date. Funding to Speirs Securities Limited was repaid in full in June 2012.

** The total assets of Gough Securities Limited at the date of the peak end-of-day aggregate during the year ended 30 September 2012 were $24 million. The peak exposure represented 24.2% of the entity's assets as at that date. Funding to Gough Securities Limited was repaid in full in May 2012.

The above table has been compiled using gross exposures before risk lay-offs.

Note 39 Capital Adequacy

The RBNZ minimum regulatory capital requirements for banks have been established under the Capital Adequacy Framework (Internal Models Based Approach) and Capital Adequacy Approach (Standardised Approach) based on the international framework developed by the Bank for International Settlements, Committee on Banking Supervision, commonly known as Basel III. These requirements outline how minimum regulatory capital is to be calculated and provide methods for measuring risks incurred by the banks in New Zealand.

RBNZ Capital Adequacy Framework (Internal Models Based Approach)

The Banking Group has calculated its implied Risk-Weighted Exposure and minimum regulatory capital requirements based on the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B") for operational risk and the majority of credit risk portfolios.

Under the Internal Models Based Approach banks use their own models for estimating risk and minimum capital requirements. For credit risk the level of risk associated with customers' exposures is determined by way of the primary components of Probability of Default, Loss Given Default and Exposure at Default. For exposures in the Specialised Lending asset category (including Project Finance, Object Finance, Commodity Finance and Income Producing Real Estate) the Banking Group uses supervisory slotting estimates provided by the RBNZ.

A small number of portfolios of relatively low materiality are subject to the standardised treatment as set out in the RBNZ's Capital Adequacy Framework (Standardised Approach) ("BS2A").

Capital for market risk has been calculated in accordance with the approach specified in BS2B.

The Basel III Framework's objective is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profile of banks. Basel III consists of three pillars - Pillar One covers the capital requirements for banks for credit, operational, and market risks. Pillar Two covers all other material risks that are not already included in Pillar One. Pillar Three relates to market disclosure.

Capital management policies

The Banking Group's primary objectives in relation to the management of capital adequacy are to comply with the requirements set out by the RBNZ, the Banking Group's primary prudential supervisor, to provide a sufficient capital base to cover risks faced by the Bank and to maintain a targeted credit rating to support future business development.

The Bank's conditions of registration require capital adequacy ratios to be calculated in accordance with BS2B dated May 2013. Total regulatory capital is defined as the sum of Common Equity Tier One capital, Additional Tier One capital and Tier Two capital. Tier One capital is defined as the sum of Common Equity Tier One capital and Additional Tier One capital. The Banking Group's Common Equity Tier One capital includes paid up ordinary shares and retained profits less certain deductions, Additional Tier One capital includes perpetual non-cumulative preference shares and Tier Two capital includes revaluation reserves and subordinated loans.

The Banking Group is required under its conditions of registration to maintain a minimum ratio of total eligible or qualifying capital to total risk-weighted assets of 8%, of which a minimum of 4.5% must be held in Common Equity Tier One capital and a minimum of 6% must be held in Tier One capital.

With effect from 1 January 2014, the RBNZ will also require New Zealand incorporated banks, including the Banking Group, to maintain a conservation buffer of 2.5% above the minimum ratios or face restrictions on distributions. The RBNZ also has discretion from 1 January 2014 to apply a countercyclical buffer of common equity which will vary with an indicative range of between 0% and 2.5%, although there is no formal upper limit.

The Banking Group has an Internal Capital Adequacy Assessment Process in place which complies with the requirements set out in the RBNZ's "Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")" ("BS12") as specified under the Bank's conditions of registration. The Banking Group's ICAAP outlines the approach to maintaining capital adequacy, risk appetite and stress testing. The ICAAP considers all material risks consistent with the Banking Group's risk appetite and outlines the capital requirements.

Capital requirements, as detailed in the Banking Group's ICAAP document, are managed by the Bank's Risk Return Management Committee and Asset and Liability Committee under delegated authority from the Board of Directors.

Information on the capital structure of the Banking Group is detailed in notes 24 and 25.

Note 39 Capital Adequacy *continued*

The tables included below and on the following pages detail the capital calculation, capital ratios and risk-weighted assets as at 30 September 2013. During the financial period the Banking Group fully complied with all RBNZ's capital requirements as set out in the Bank's conditions of registration.

Regulatory capital

The following table shows the qualifying capital for the Banking Group.

Dollars in Millions	Consolidated Unaudited 30/9/13
Qualifying capital	
Common Equity Tier One capital	
Contributed equity – ordinary shareholder	**1,851**
Retained profits	**2,870**
Deductions from Common Equity Tier One capital:	
Intangible assets	**183**
Credit value adjustment on liabilities designated at fair value through profit or loss	**(160)**
Prepaid pension assets (net of deferred tax)	**4**
Deferred tax asset	**128**
Total expected loss less total eligible allowances for impairment	**126**
Total Common Equity Tier One capital	**4,440**
Additional Tier One capital	
Contributed equity – perpetual preference shareholders	**910**
Total Additional Tier One capital	**910**
Total Tier One capital	**5,350**
Tier Two capital	
Revaluation reserves	**57**
Subordinated loans from related entities	**905**
Total Tier Two capital	**962**
Total Tier One and Tier Two qualifying capital	**6,312**

Basel III and Basel II regulatory capital ratios

The tables below show the capital adequacy ratios based on BS2B, expressed as a percentage of total risk-weighted exposures.

	Consolidated			
	Basel III Regulatory Minima 30/9/13[1]	**Basel III Unaudited 30/9/13**[1]	Basel II Regulatory Minima 30/9/12[2]	Basel II Unaudited 30/9/12[2]
Common Equity Tier One capital ratio	**4.50%**	**8.87%**	N/A	N/A
Tier One capital ratio	**6.00%**	**10.68%**	4.00%	11.26%
Total qualifying capital ratio	**8.00%**	**12.61%**	8.00%	13.29%
Buffer ratio for Common Equity Tier One capital[3]	**N/A**	**4.37%**	N/A	N/A

1. The capital ratios as at 30 September 2013 have been determined in accordance with the RBNZ's Basel III capital adequacy framework effective from 1 January 2013.
2. The capital ratios as at 30 September 2012 have been determined in accordance with the RBNZ's Basel II capital adequacy framework effective prior to 1 January 2013.
3. As at 30 September 2013 there was no prescribed minimum regulatory buffer ratio. A prescribed minimum regulatory buffer ratio of 2.5% will be effective from 1 January 2014. For further detail, refer to the conditions of registration on page 92.

Note 39 Capital Adequacy *continued*

Registered Bank regulatory capital ratios

The tables below show the capital adequacy ratios based on BS2B, expressed as a percentage of total risk-weighted exposures.

	The Registered Bank	
	Basel III Unaudited 30/9/13[1]	Basel I Unaudited 30/9/12[2]
Common Equity Tier One capital ratio	**8.84%**	N/A
Tier One capital ratio	**10.66%**	9.83%
Total qualifying capital ratio	**12.85%**	11.68%

1. The capital ratios as at 30 September 2013 have been determined in accordance with the RBNZ's Basel III capital adequacy framework (BS2B) effective from 1 January 2013. For the purposes of calculating capital adequacy ratios for the Banking Group (the "Registered Bank") under BS2B, subsidiaries which are both funded exclusively and wholly owned by the Registered Bank are consolidated within the Registered Bank.
2. The capital ratios as at 30 September 2012 have been determined in accordance with the RBNZ's Basel I capital adequacy framework (BS2) effective prior to 1 January 2013. For the purposes of calculating capital adequacy ratios for the Banking Group (the "Registered Bank") under BS2, subsidiaries which are both wholly owned and wholly funded by the Registered Bank are consolidated within the Registered Bank.

Total regulatory capital requirements

	Consolidated		
Dollars in Millions	**Total Exposure at Default Unaudited 30/9/13**	**Risk-Weighted Exposure or Implied Risk-Weighted Exposure Unaudited 30/9/13**	**Total Capital Requirement Unaudited 30/9/13**
Credit risk			
Exposures subject to the internal ratings based approach	**78,409**	**34,742**	**2,780**
Equity exposures	**69**	**208**	**17**
Specialised lending subject to the slotting approach	**6,274**	**5,500**	**440**
Exposures subject to the standardised approach	**1,169**	**545**	**43**
Credit value adjustment subject to BS2B	**N/A**	**837**	**67**
Agribusiness supervisory adjustment[3]	**N/A**	**1,865**	**149**
Total credit risk	**85,921**	**43,697**	**3,496**
Operational risk	**N/A**	**4,375**	**350**
Market risk	**N/A**	**2,000**	**161**
Total	**N/A**	**50,072**	**4,007**

3. The agribusiness supervisory adjustment increases the risk weight of the Banking Group's rural lending portfolio to a minimum specified by the RBNZ.

Advanced Internal Ratings Based approach to credit risk management

The Banking Group's quantitative credit risk measurement is based on the Internal Ratings Based ("IRB") approach (IRB for Retail Credit portfolios and Advanced IRB for Non-retail Credit portfolios) and uses a series of models, to calculate loss estimates for the credit portfolio. This includes consideration of:

- probability of default ("PD") which estimates the probability that a loan or group of loans will become delinquent over the next 12 months;
- exposure at time of default ("EAD") which estimates the amount of outstanding principal, fees and interest owed at the time of default; and
- loss given default ("LGD") which estimates the expected loss in the event of default. It is the percentage of exposure which will be lost after all recovery efforts, including legal expenses, time value of money and recovery expenses.

The above three elements (PD, EAD, LGD) are important inputs in determining the risk-weighted exposure calculations for both on and off-balance sheet exposures, including undrawn portions of credit facilities, committed and contingent exposures. These ratings are also an important input into the credit approval, risk management, internal capital allocation and corporate governance functions of the Banking Group.

Methodologies used to calculate credit risk estimates (PD, EAD and LGD) are in accordance with BS2B and the Bank's conditions of registration. For credit risk estimates on some portfolios, the RBNZ has set prescribed risk estimates required to be used when calculating risk-weighted assets and capital under BS2B. The RBNZ prescribed risk estimates will continue to be used until the Banking Group develops its own internal models for these portfolios.

Controls surrounding credit risk rating systems

The credit risk rating systems cover all methods, processes, controls, data collection and technology that support the assessment of credit risk, the assignment of internal credit risk ratings and the quantification of associated default and loss estimates.

The credit risk rating systems and risk estimate processes are governed by the Banking Group's Credit Risk Committee and are an integral part of reporting to senior management. Management and staff of the credit risk function regularly assess the performance of the rating systems, monitor progress on changes being made to systems and identify any areas for improvement. These systems are subject to rigorous internal review and approval and regular independent review. The annual validation of models is undertaken by specialists who are responsible for overseeing the design, implementation and performance of all rating models in the Banking Group.

The risk-weighted asset amounts presented in the following tables include a scalar of 1.06 as required by the RBNZ in accordance with the Bank's conditions of registration.

Note 39 Capital Adequacy *continued*

Credit risk subject to the Internal Ratings Based ("IRB") approach

The following tables analyse credit risk exposures by asset class split into PD bandings. (The lower the PD banding the less the probability of default over the next 12 months).

	Consolidated					
Dollars in Millions	Weighted Average PD (%) Unaudited 30/9/13	Exposure at Default Unaudited 30/9/13	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 30/9/13	Exposure-Weighted Risk Weight (%) Unaudited 30/9/13	Risk-Weighted Assets Unaudited 30/9/13	Minimum Capital Requirement Unaudited 30/9/13
Corporate						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.07	4,028	44	22	882	71
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.30	11,443	35	43	4,943	395
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.96	9,488	34	67	6,367	509
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.61	6,664	36	92	6,109	489
Exposure-weighted PD grade > 5.0 ≤ 99.99%	10.60	689	39	155	1,064	85
Default PD grade = 100%	100.00	490	45	255	1,250	100
Total corporate exposures	2.64	32,802	36	63	20,615	1,649
Sovereign						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.02	4,160	5	1	46	4
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.44	24	45	73	17	1
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.78	7	45	69	5	-
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.29	5	45	134	7	1
Exposure-weighted PD grade > 5.0 ≤ 99.99%	7.43	-	55	226	1	-
Default PD grade = 100%	-	-	-	-	-	-
Total sovereign exposures	0.02	4,196	5	2	76	6
Bank						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.04	3,987	45	16	653	52
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.15	113	8	8	9	1
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.75	-	60	89	-	-
Exposure-weighted PD grade > 1.5 ≤ 5.0%	3.68	3	61	168	5	-
Exposure-weighted PD grade > 5.0 ≤ 99.99%	5.74	-	61	200	-	-
Default PD grade = 100%	-	-	-	-	-	-
Total bank exposures	0.05	4,103	44	16	667	53
Residential mortgage						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.03	-	10	1	-	-
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.39	2,027	18	14	281	22
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.91	27,652	22	30	8,371	670
Exposure-weighted PD grade > 1.5 ≤ 5.0%	4.92	2,777	21	76	2,120	170
Exposure-weighted PD grade > 5.0 ≤ 99.99%	-	-	-	-	-	-
Default PD grade = 100%	100.00	196	26	224	440	35
Total residential mortgage exposures	1.81	32,652	22	34	11,212	897
Other retail[1]						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.05	912	85	13	119	10
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.24	678	83	39	263	21
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.97	418	83	86	361	29
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.76	361	83	119	428	34
Exposure-weighted PD grade > 5.0 ≤ 99.99%	14.39	169	82	154	259	21
Default PD grade = 100%	100.00	14	78	595	82	7
Total other retail exposures	2.13	2,552	84	59	1,512	122

1. Other retail includes credit cards, current accounts and personal overdrafts.

Note 39 Capital Adequacy *continued*

Credit risk subject to the Internal Ratings Based ("IRB") approach *continued*

	Consolidated					
Dollars in Millions	Weighted Average PD (%) Unaudited 30/9/13	Exposure at Default Unaudited 30/9/13	Exposure-Weighted LGD used for the Capital Calculation (%) Unaudited 30/9/13	Exposure-Weighted Risk Weight (%) Unaudited 30/9/13	Risk-Weighted Assets Unaudited 30/9/13	Minimum Capital Requirement Unaudited 30/9/13
Retail SME[1]						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.07	143	34	7	10	1
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.30	826	28	15	127	10
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.86	531	32	32	169	13
Exposure-weighted PD grade > 1.5 ≤ 5.0%	2.57	473	31	44	208	17
Exposure-weighted PD grade > 5.0 ≤ 99.99%	11.58	87	37	68	59	5
Default PD grade = 100%	100.00	44	44	198	87	7
Total retail SME exposures	3.49	2,104	31	31	660	53
Total[2]						
Exposure-weighted PD grade > 0 ≤ 0.1%	0.04	13,230	35	13	1,710	138
Exposure-weighted PD grade > 0.1 ≤ 0.5%	0.31	15,111	34	37	5,640	450
Exposure-weighted PD grade > 0.5 ≤ 1.5%	0.92	38,096	26	40	15,273	1,221
Exposure-weighted PD grade > 1.5 ≤ 5.0%	3.24	10,283	33	86	8,877	711
Exposure-weighted PD grade > 5.0 ≤ 99.99%	11.37	945	47	146	1,383	111
Default PD grade = 100%	100.00	744	41	250	1,859	149
Total exposures	2.02	78,409	30	44	34,742	2,780

1. SME refers to Small to Medium enterprises.
2. The BS2B credit value adjustment and agribusiness supervisory adjustment have not been included in the above exposures.

The following table analyses the value and exposure at default of on-balance sheet exposures, off-balance sheet exposures and market related contracts under the IRB approach by asset class:

	Consolidated			
Dollars in Millions	Total Exposure Unaudited 30/9/13	Exposure at Default Unaudited 30/9/13	Risk-Weighted Assets Unaudited 30/9/13	Minimum Capital Requirement Unaudited 30/9/13
On-balance sheet exposures				
Corporate	24,402	24,402	15,979	1,278
Sovereign	3,943	3,943	43	3
Bank	2,348	2,348	379	30
Residential mortgage	29,500	29,500	10,368	830
Other retail	1,484	1,484	1,144	92
Retail SME	1,688	1,688	565	45
Total on-balance sheet exposures	63,365	63,365	28,478	2,278
Off-balance sheet exposures				
Corporate	7,927	7,069	3,908	313
Sovereign	39	15	2	-
Bank	842	823	77	6
Residential mortgage	2,558	3,152	844	68
Other retail	3,110	1,068	368	29
Retail SME	456	416	95	8
Total off-balance sheet exposures	14,932	12,543	5,294	424
Market related contracts				
Corporate	129,707	1,331	728	58
Sovereign	9,772	238	31	3
Bank	229,354	932	211	17
Total market related contracts	368,833	2,501	970	78

Note 39 Capital Adequacy *continued*

Credit risk subject to the Internal Ratings Based ("IRB") approach *continued*

	Consolidated			
Dollars in Millions	Total Exposure Unaudited 30/9/13	Exposure at Default Unaudited 30/9/13	Risk-Weighted Assets Unaudited 30/9/13	Minimum Capital Requirement Unaudited 30/9/13
Summary[1]				
Corporate	**162,036**	**32,802**	**20,615**	**1,649**
Sovereign	**13,754**	**4,196**	**76**	**6**
Bank	**232,544**	**4,103**	**667**	**53**
Residential mortgage	**32,058**	**32,652**	**11,212**	**898**
Other retail	**4,594**	**2,552**	**1,512**	**121**
Retail SME	**2,144**	**2,104**	**660**	**53**
Total credit risk exposures subject to the IRB approach	**447,130**	**78,409**	**34,742**	**2,780**

1. The BS2B credit value adjustment and agribusiness supervisory adjustment have not been included in the above exposures.

Equity exposures

The table below shows the capital required to be held as a result of equities held.

	Consolidated			
Dollars in Millions	Exposure at Default Unaudited 30/9/13	Risk Weight (%) Unaudited 30/9/13	Risk-Weighted Exposures Unaudited 30/9/13	Minimum Pillar One Capital Requirement Unaudited 30/9/13
Equity holdings (not deducted from capital) that are publicly traded	**67**	**300**	**201**	**16**
All other equity holdings (not deducted from capital)	**2**	**400**	**7**	**1**
Total equity exposures	**69**	**301**	**208**	**17**

Specialised lending subject to the slotting approach

The tables below show specialised lending exposures for which the supervisory slotting approach has been used and includes Project Finance, Object Finance, Commodity Finance and Income Producing Real Estate exposures.

On-balance sheet exposures subject to the slotting approach

	Consolidated			
Dollars in Millions	Total Exposure at Default after Credit Risk Mitigation Unaudited 30/9/13	Risk Weight (%) Unaudited 30/9/13	Risk-Weighted Assets Unaudited 30/9/13	Minimum Pillar One Capital Requirement Unaudited 30/9/13
Strong	**2,532**	**70**	**1,879**	**150**
Good	**2,220**	**90**	**2,117**	**169**
Satisfactory	**848**	**115**	**1,034**	**83**
Weak	**32**	**250**	**84**	**7**
Default	**208**	**-**	**-**	**-**
Total on-balance sheet exposures subject to the slotting approach	**5,840**	**83**	**5,114**	**409**

The categories of specialised lending above are associated with the risk weight shown. These categories broadly correspond to external credit assessments from Standard & Poor's rating scale: BBB- or better (Strong); BB+ or BB (Good); BB- or B+ (Satisfactory); B to C- (Weak).

The calculated Risk-Weighted Assets reflected above includes the required scalar of 1.06, specified in the Bank's conditions of registration, which is not reflected in the risk weight shown.

Off-balance sheet exposures subject to the slotting approach

	Consolidated				
Dollars in Millions	Total Exposure Unaudited 30/9/13	Exposure at Default Unaudited 30/9/13	Average Risk Weight (%) Unaudited 30/9/13	Risk-Weighted Assets Unaudited 30/9/13	Minimum Pillar One Capital Requirement Unaudited 30/9/13
Off-balance sheet exposures	**134**	**8**	**85**	**7**	**1**
Undrawn commitments	**639**	**403**	**90**	**361**	**29**
Market related contracts	**793**	**23**	**78**	**18**	**1**
Total off-balance sheet exposures subject to the slotting approach	**1,566**	**434**	**89**	**386**	**31**
Total exposures subject to the slotting approach		**6,274**	**83**	**5,500**	**440**

Note 39 Capital Adequacy *continued*

Credit risk exposures subject to the standardised approach

The tables below show credit risk exposures, for which the standardised approach has been used.

On-balance sheet exposures subject to the standardised approach

Dollars in Millions	Consolidated Total Exposure at Default after Credit Risk Mitigation Unaudited 30/9/13	Average Risk Weight (%) Unaudited 30/9/13	Risk-Weighted Assets Unaudited 30/9/13	Minimum Pillar One Capital Requirement Unaudited 30/9/13
Corporate	11	105	12	1
Residential mortgages	3	98	3	-
Past due assets	-	159	-	-
Other assets	1,145	46	527	42
Total on-balance sheet exposures subject to the standardised approach	1,159	47	542	43

Other assets relate to all other non-lending assets (including interest receivables, account receivables, intangibles and cash accounts) not included in the other categories.

Off-balance sheet exposures subject to the standardised approach

Dollars in Millions	Consolidated Total Exposure or Principal Amount Unaudited 30/9/13	Average Credit Conversion Factor (%) Unaudited 30/9/13	Credit Equivalent Amount Unaudited 30/9/13	Average Risk Weight (%) Unaudited 30/9/13	Risk-Weighted Assets Unaudited 30/9/13	Minimum Pillar One Capital Requirement Unaudited 30/9/13
Total off-balance sheet exposures subject to the standardised approach	8	22	2	105	2	-
Market related contracts subject to the standardised approach						
Foreign exchange contracts	30	N/A	1	100	1	-
Interest rate contracts	5,967	N/A	7	2	-	-
Total market related contracts subject to the standardised approach	5,997	N/A	8	102	1	-
Total exposures subject to the standardised approach		N/A	1,169	47	545	43

Credit risk mitigation

The Banking Group assesses the integrity and ability of counterparties to meet their contractual financial obligations for repayment. Collateral security in the form of property or a security interest in personal property is generally taken for business credit except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance (e.g. housing loans) is generally secured against real estate while short term revolving consumer credit is generally unsecured.

The table below shows the total value of exposures covered by eligible financial collateral (after haircutting) for portfolios subject to the standardised approach and total value of exposures covered by credit derivatives and guarantees for all portfolios.

Credit derivatives are held by National Australia Bank Limited on behalf of the Banking Group. No credit derivatives are held directly by the Banking Group. Guarantees are provided by National Australia Bank Limited to the Banking Group.

Dollars in Millions	Consolidated Corporate (Including Specialised Lending) Unaudited 30/9/13
For portfolios subject to the standardised approach:	
Total value of exposures covered by eligible financial or IRB collateral (after haircutting)	3
For all portfolios:	
Total value of exposures covered by credit derivatives or guarantees	-

Note 39 Capital Adequacy *continued*

Residential mortgages by loan-to-valuation ratio

The table below sets out residential mortgages (including loans to businesses) wholly or partly secured by mortgages over residential properties as used to calculate the Banking Group's Pillar One capital requirement by the loan-to-valuation ratio ("LVR").

The LVRs are calculated as the greater of the customer's current loan limit or balance, divided by the Banking Group's valuation of the security at the last credit event for the customer. Where no LVR is available, the exposure is included in the over 90% category.

	Consolidated		
Dollars in Millions	On-balance Sheet Exposures at Default Unaudited 30/9/13	Off-balance Sheet Exposures at Default[1] Unaudited 30/9/13	Total Exposures at Default Unaudited 30/9/13
LVR Range			
0-59%	**9,431**	**1,309**	**10,740**
60-69%	**5,068**	**453**	**5,521**
70-79%	**10,504**	**838**	**11,342**
80-89%	**2,272**	**76**	**2,348**
Over 90%	**2,225**	**476**	**2,701**
Total exposures at default secured by residential mortgages	**29,500**	**3,152**	**32,652**

1. Off-balance sheet items include unutilised limits and loans approved but not yet drawn.

	Consolidated
Dollars in Millions	On-balance Sheet Exposures at Default Unaudited 30/9/13
Reconciliation of exposures secured by residential mortgages to housing loans in note 11 Loans and advances to customers	
Loans and advances to customers – housing loans	**29,495**
Add: Partial write offs excluded under the IRB approach	**5**
Total exposures secured by residential mortgages	**29,500**

Operational risk

	Consolidated	
Dollars in Millions	Implied Risk-Weighted Exposure Unaudited 30/9/13	Total Operational Risk Capital Requirement Unaudited 30/9/13
Operational risk	**4,375**	**350**

The operational risk capital requirement above has been calculated under the Advanced Measurement Approach which the Banking Group uses for determining its regulatory capital for operational risk together with any required regulatory adjustments. The Advanced Measurement Approach is in accordance with BS2B.

Note 39 Capital Adequacy *continued*

Market risk

The table below shows market risk end of period and peak end-of-day capital charges.

	Consolidated 30/9/13 Unaudited			
	Implied Risk-Weighted Exposure		Aggregate Capital Charge	
Dollars in Millions	End of Period	Peak End-of-Day	End of Period	Peak End-of-Day
Interest rate risk	**1,887**	**2,214**	**151**	**177**
Foreign exchange risk	**44**	**74**	**4**	**6**
Equity risk	**69**	**82**	**6**	**7**
Total	**2,000**	**2,370**	**161**	**190**

The aggregate market risk exposure above is derived in accordance with BS2B and the Bank's conditions of registration.

For each category of market risk, the Banking Group's end of period aggregate capital charge is the charge as at the end of period reported. The peak end-of-day aggregate capital charge is the maximum over the half year accounting period at the close of each business day.

Equity risk subject to a market risk capital charge as shown above relates to equities owned by the Bank.

Capital for other material risks

The Banking Group actively manages and measures all material risks affecting its operations. These risks go beyond the traditional banking risks of credit, operational and market risk. The measurement and management of all material risks is determined under the Banking Group's ICAAP and includes consideration of all other material risks, additional to those included in determining the minimum regulatory capital requirements under BS2B. Other material risks assessed by the Banking Group include liquidity risk, funding risk, contagion risk, concentration risk, pension risk, life insurance risk, regulatory and compliance risk, strategic positioning risk and stratetig execution risk.

As at 30 September 2013, the Banking Group had an internal capital allocation for Business Risk of $128 million (30 September 2012: $135 million). The assessment of Business Risk covers strategic, reputation and earnings risk.

National Australia Bank Limited capital adequacy

The tables below show the capital adequacy ratios based on BS2B, expressed as a percentage of total risk-weighted exposures.

	Ultimate Parent Banking Group		Ultimate Parent Bank	
	Basel III Unaudited 30/9/13	Basel II Unaudited 30/9/12	**Basel III Unaudited 30/9/13**	Basel II Unaudited 30/9/12
Common Equity Tier One capital ratio	**8.43%**	N/A	**9.46%**	N/A
Tier One capital ratio	**10.35%**	10.27%	**11.51%**	11.94%
Total qualifying capital ratio	**11.80%**	11.67%	**13.02%**	13.30%

The ultimate parent banking group data is the Level 2 capital ratio as published in the National Australia Bank Limited Pillar 3 report and represents the consolidation of the National Australia Banking Group and all its subsidiary entities, other than the non-consolidated subsidiaries as outlined in the Pillar 3 report. The Level 2 Group operates in multiple regulatory jurisdictions and applies a combination of the Basel capital framework and standardised approaches depending on the prescribed prudential requirements within those jurisdictions. Further information on the Basel capital framework methodologies applied across the ultimate parent banking group is outlined in the Pillar 3 report.

The ultimate parent bank of the Banking Group is National Australia Bank Limited which reports under the Advanced approach for credit risk (other than for defined assets that are immaterial in terms of Risk Weighted Assets or are not required to be treated as IRB under the Basel capital framework), and the Advanced Measurement Approach ("AMA") for operational risk. The ultimate parent bank capital ratios represent the Level 1 National Australia Bank Limited capital ratios, which comprises National Australia Bank Limited and its subsidiary entities approved by Australian Prudential Regulation Authority ("APRA") as part of the Extended Licensed Entity.

Under prudential regulations, National Australia Bank Group is required to hold a prudential capital ratio ("PCR") as determined by APRA for both the Level 1 and Level 2 Groups. The PCR is prescribed on a bilateral basis, and is not publicly disclosed. National Australia Bank Limited met the minimum capital adequacy requirements set by APRA as at 30 September 2013.

National Australia Bank Limited is required to publicly disclose risk management and capital adequacy information at the reporting date, as specified in APRA's Pillar 3 Prudential Standard APS 330 Capital Adequacy: Public Disclosure of Prudential Information (APS 330). Updates are provided on a semi-annual and quarterly basis in accordance with the APS 330 reporting requirements. National Australia Bank Limited's Annual Financial Report and Pillar 3 report, incorporating the requirements of APS 330, can be accessed at www.nab.com.

Note 40 Risk Management

Management of risk is a fundamental element of the Banking Group's strategy, with emphasis placed on a proactive rather than reactive approach to activities performed at all levels of its business. Supporting this approach are the policy frameworks and controls originated by the National Australia Bank Group and adopted within the Banking Group. The Banking Group 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 to manage those risks.

The Risk division within the Bank monitors the Banking Group's risk profile of existing and future business operations and assists business units in the design and implementation of appropriate risk management strategies. The Risk division also focuses on the achievement of a balance between risk minimisation and return for risks accepted, promotes awareness of the need to manage risk, including the development of relevant skills across the Bank, and provides oversight of risk management effectiveness. Where appropriate the Risk division may directly manage certain customer relationships.

Governance

The Board is responsible for determining the Banking Group's risk appetite. Accordingly, the Banking Group's Risk Governance Framework is closely aligned to that of the National Australia Bank Group's Risk Governance Framework. The Board is supported by the Banking Group's Board Risk Committee ("BRC") with responsibilities to oversee the implementation and effectiveness of the risk management framework and internal compliance.

The Risk Return Management Committee ("RRMC") is the primary management committee responsible to the BNZ Managing Director and Chief Executive Officer for the effective management of risk.

The Banking Group is regulated by the RBNZ and is also subject to the prudential reporting requirements of APRA as part of the National Australia Bank Group.

Internal audit function

A separate New Zealand Regional Audit Committee ("NZRAC"), comprising five independent non-executive Directors of the Bank, assists the Board to fulfil its statutory and fiduciary responsibilities relating to accounting and financial controls, reporting systems and processes of the Banking Group and to oversee the internal audit function. More specifically 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 internal and external audit function;
- perform an independent overview of the financial information prepared by the Banking Group's management; and
- evaluate the adequacy and effectiveness of the financial control, compliance and other internal control systems and policies of the Bank.

The internal audit function is the responsibility of the Head of Internal Audit who reports to NZRAC, the Managing Director and to National Australia Bank Group Audit. Audits are conducted using a risk-based approach to assess key business risks and internal control systems. Both core banking and specialist functions are audited with high risk areas covered regularly.

External auditor and credit rating agencies

As part of their work in issuing an auditor's independent review report on the Banking Group's six month Disclosure Statement or an auditor's independent audit report on the Banking Group's year end Disclosure Statement, the Banking Group's external auditors, Ernst & Young, may review parts of the Banking Group's risk management framework that impact on significant aspects of the financial systems, but only to the extent necessary to form their independent review or audit opinion.

Credit ratings agencies also conduct periodic reviews of the Banking Group's risk management approach and risk profile.

Management of risk types

Management of major balance sheet risk areas is 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 Banking Group.

Strategy in using financial instruments

By their nature, the Banking Group's activities involve the use of financial instruments. The core activity of the Banking Group is to accept deposits from customers at both fixed and floating rates for various periods, and seek to earn interest margins by investing these funds in high-quality assets. The Banking Group also deals in a range of other financial products including derivatives and foreign exchange contracts where the Bank has deemed it has the expertise in the relevant market and infrastructure to support management processes.

Executing this strategy may result in market risk for the Banking Group, which is the risk of financial loss from unfavourable movements in market variables such as interest or foreign exchange rates. The Banking Group may use financial instruments to mitigate this market risk or selectively position for favourable movements in these market variables. The Board places limits on the level of market risk exposure that can be taken from these activities while a comprehensive governance structure is in place to ensure compliance with the Banking Group's risk appetite. This includes independent risk oversight teams which provide oversight over the Banking Group's market risk exposures and escalate any limit breaches.

The Banking Group's activities are divided into traded market risk and non-traded market risk. The differences between the two, including the measures used to control the level of market risk exposure, are provided further in this note.

Note 40 Risk Management *continued*

Traded market risk

Financial instruments designated as traded market risk include those which:

- are held for short term resale;
- are taken on by the Banking Group with the intention of benefiting in the short term from actual and/or expected differences between their buying and selling prices, or from other price or interest rate variations; or
- arise from broking or supporting customer sales businesses.

The trading activities of the Banking Group are principally carried out by the Fixed Income, Currencies & Commodities business which is part of BNZ Partners.

The types of market risk arising from these activities include interest rate, foreign exchange, commodity, credit spread and volatility risk.

Independent oversight of traded market risk, including compliance with market risk limits, is undertaken by the traded market risk team, which reports through to the Chief Risk Officer. Governance is provided by the Market Risk Committee, which is a subcommittee of the Banking Group's RRMC.

Traded market risk is primarily managed and controlled using a Value at Risk ("VaR") methodology and is subject to the disciplines prescribed in the National Australia Bank Traded Market Risk Policy which is approved by the National Australia Bank Board.

Objectives and limitations of the VaR methodology

VaR is an estimate of potential loss resulting from shifts in interest rates, foreign exchange rates, traded credit spreads, option volatility, and commodity prices. The estimate is calculated on an entire trading portfolio basis, which includes all financial instruments and derivatives.

VaR is calculated using the historical simulation method. This method involves multiple revaluations of the trading books using two years of historical pricing shifts. The pricing data is updated daily so as to have the most recent two-year history of prices. The results are ranked and the loss at the 99th percentile confidence interval identified. The calculation and rate shifts used assume a one-day holding period for all positions.

The use of a VaR methodology has limitations, which include:

- the historical data used to calculate VaR is not always an appropriate proxy for current market conditions. If market volatility or correlation conditions change significantly, losses may occur more frequently and to a greater magnitude than in the VaR measure;
- the VaR methodology assumes that positions are held for one day and may underestimate losses on positions that cannot be hedged or reversed inside that timeframe;
- VaR is calculated on positions at the close of each trading day and does not measure risk on positions taken and closed before the end of each trading session; and
- VaR does not describe the directional bias or size of the positions generating the risk.

VaR estimates are checked against profit/loss via back testing for reasonableness and to assess the continued relevance of the model assumptions.

The following table shows the Banking Group VaR for the trading portfolio, including both physical and derivative positions:

	Consolidated and The Company							
	As At		Average Value During Year		Minimum Value During Year		Maximum Value During Year	
Dollars in Millions	**30/9/13**	30/9/12	**30/9/13**	30/9/12	**30/9/13**	30/9/12	**30/9/13**	30/9/12
VaR at a 99% confidence level								
Foreign exchange risk	**0.36**	0.44	**0.42**	0.59	**0.05**	0.04	**1.93**	1.76
Interest rate risk	**2.28**	1.22	**1.68**	1.36	**0.92**	0.61	**3.08**	2.30
Volatility risk	**0.02**	0.02	**0.03**	0.09	**0.01**	0.01	**0.04**	0.24
Commodities risk	**-**	-	**-**	-	**-**	-	**-**	-
Credit spread risk	**0.74**	0.75	**0.70**	0.61	**0.32**	0.26	**1.07**	1.19
Diversification benefit	**(0.90)**	(0.99)	**(0.96)**	(1.06)	**(0.24)**	(0.14)	**(2.96)**	(2.81)
Total VaR for physical and derivative positions	**2.50**	1.44	**1.87**	1.59	**1.06**	0.78	**3.16**	2.68

VaR is measured individually for foreign exchange, interest rate, volatility, commodities and credit spread risk. The individual risk categories do not sum up to the total risk number due to diversification benefits. Risk limits are applied in these categories separately, and against the total risk position.

Due to the limitations of the measure, VaR is supplemented with stress testing which is reported daily and also by other measures such as foreign exchange limits, basis point sensitivity limits, stop loss limits, and profit/loss referral levels.

Foreign exchange risk

Foreign exchange risk results from exposures to changes in spot prices, forward prices and the volatility of currency rates. Currency risk arises from foreign currency balances and the trading of any foreign currency denominated product.

Foreign exchange limits are in place to control the level of foreign currency exposure run by the Banking Group. This exposure is measured by calculating the net present values position of the products the Banking Group deals in which are denominated in a non-New Zealand dollar currency. This includes foreign currency loans and deposits, foreign currency cash balances and the trading of foreign currency denominated products, such as spot and forward contracts, currency options, foreign currency interest rate derivatives and foreign currency securities.

Note 40 Risk Management *continued*

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 non-derivative assets and liabilities in that currency aggregated with the net expected cash flows from derivative financial instrument 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 the reporting date.

Net open position

	Consolidated and The Company	
Dollars in Millions	**30/9/13**	30/9/12
US dollar	**2**	(28)
Australian dollar	**40**	(9)
Japanese yen	**(4)**	(1)
Pound sterling	**1**	-
Euro	**1**	19
Other	**1**	1

Non-traded market risk

Non-traded market risk includes all market risks which are not designated as traded market risk. This includes predominantly structural interest rate risk such as retail borrowing and lending, and also liquidity and funding risk. Management of this risk is undertaken by BNZ Treasury.

Policies, inclusive of risk appetite and limits, are approved by the National Australia Bank Board.

Independent oversight of the Banking Group's banking activities, including compliance with limits, is undertaken by the non-traded market risk team, which reports through to the Chief Risk Officer. Governance is provided by the Banking Group's Asset and Liability Committee, which is a subcommittee of the Banking Group's RRMC.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, mortgage prepayment speeds and credit spreads. The Banking Group takes an exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Exposure to interest rate risk arises in respect of the following activities: borrowing from and lending to customers; borrowing to fund the Banking Group in both domestic and international wholesale debt markets; trading and investing in money market instruments such as government stock, bank bills, commercial paper; foreign exchange instruments such as foreign exchange contracts; and derivative financial instruments such as swaps, options and futures.

Interest rate risk for non-traded market risk is measured, managed and monitored regionally using VaR and Earnings at Risk ("EaR") limits, complemented by cash flow analysis, stress testing limits, and loss referral levels.

Similar to the methodology applied for traded market risk, VaR is calculated using the historic simulation method. Due to the generally longer holding period for non-traded products, the parameters applied differ. The key parameters for measuring non-traded market risk are as follows:

- 99% confidence level;
- three-month holding period;
- eight years of historical data;
- rate changes are proportional rather than absolute;
- investment term for capital is two years; and
- investment term for core "Non-Interest Bearing" liabilities (the sum of low and non-interest rate bearing liabilities) is five years.

EaR is the amount of the VaR that could accrue as lost net interest income over the next 12 months (the forecast period). VaR and EaR exposures are measured and reported at least monthly and are not to exceed the relevant limit at any time.

The table below shows the aggregate VaR figures for non-traded market risk:

	Consolidated and The Company	
Dollars in Millions	**30/9/13**	30/9/12
VaR for physical and derivative positions at a 99% confidence level		
New Zealand		
As at end of year	**24**	23
Average value during year ended	**26**	23
Minimum value during year ended	**18**	13
Maximum value during year ended	**40**	39

Note 40 Risk Management *continued*

The table below shows the aggregate EaR figures for non-traded market risk:

Dollars in Millions	Consolidated and The Company 30/9/13	30/9/12
EaR for physical and derivative positions at a 99% confidence level		
New Zealand		
As at end of year	**7**	8
Average value during year ended	**7**	8
Minimum value during year ended	**4**	3
Maximum value during year ended	**9**	17

Interest rate repricing schedule

The following tables represent a breakdown of the balance sheet by repricing dates or contractual maturity, whichever is the earlier. As interest rates and yield curves change over time, the Banking Group may be exposed to a loss in earnings due to the characteristics of the assets and their corresponding liability funding. These mismatches are actively managed as part of the overall interest rate risk management process. In managing the structural interest rate risk, the primary objectives are to limit the extent to which net interest income could be impacted from an adverse movement in interest rates and to maximise shareholders' earnings.

	Consolidated (30/9/13)						
Dollars in Millions	Total	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 year	Over 1 Year and up to 2 Years	Over 2 Years	Non-Interest Sensitive
Assets							
Cash and liquid assets	**1,725**	**1,538**	**-**	**-**	**-**	**-**	**187**
Due from central banks and other institutions	**1,516**	**1,516**	**-**	**-**	**-**	**-**	**-**
Trading securities	**4,291**	**4,291**	**-**	**-**	**-**	**-**	**-**
Available for sale investments	**67**	**-**	**-**	**-**	**-**	**-**	**67**
Derivative financial instruments	**4,237**	**-**	**-**	**-**	**-**	**-**	**4,237**
Gross loans and advances to customers	**62,605**	**33,518**	**2,950**	**5,970**	**5,893**	**12,596**	**1,678**
Deductions from loans and advances to customers	**(438)**	**-**	**-**	**-**	**-**	**-**	**(438)**
Amounts due from related entities	**391**	**247**	**6**	**-**	**-**	**-**	**138**
All other assets	**916**	**-**	**-**	**-**	**-**	**-**	**916**
Total assets	**75,310**	**41,110**	**2,956**	**5,970**	**5,893**	**12,596**	**6,785**
Liabilities							
Due to central banks and other institutions	**1,304**	**1,220**	**17**	**34**	**22**	**11**	**-**
Short term debt securities	**5,550**	**5,330**	**220**	**-**	**-**	**-**	**-**
Trading liabilities	**71**	**71**	**-**	**-**	**-**	**-**	**-**
Derivative financial instruments	**4,907**	**-**	**-**	**-**	**-**	**-**	**4,907**
Deposits from customers	**41,823**	**25,305**	**6,574**	**5,303**	**1,045**	**1,006**	**2,590**
Bonds and notes	**14,210**	**3,655**	**760**	**242**	**2,292**	**7,261**	**-**
Amounts due to related entities	**245**	**172**	**-**	**-**	**-**	**-**	**73**
Other liabilities	**608**	**-**	**-**	**-**	**-**	**-**	**608**
Subordinated debt	**905**	**905**	**-**	**-**	**-**	**-**	**-**
Total liabilities	**69,623**	**36,658**	**7,571**	**5,579**	**3,359**	**8,278**	**8,178**
Shareholders' equity							
Total shareholders' equity	**5,687**	**-**	**-**	**-**	**-**	**-**	**5,687**
Total liabilities and shareholders' equity	**75,310**	**36,658**	**7,571**	**5,579**	**3,359**	**8,278**	**13,865**
On-balance sheet sensitivity gap	**-**	**4,452**	**(4,615)**	**391**	**2,534**	**4,318**	**(7,080)**
Derivative financial instruments							
Net balance of derivative financial instruments	**-**	**(3,791)**	**4,510**	**(418)**	**447**	**(748)**	**-**
Interest sensitivity gap – net	**-**	**661**	**(105)**	**(27)**	**2,981**	**3,570**	**(7,080)**
Interest sensitivity gap – cumulative	**-**	**661**	**556**	**529**	**3,510**	**7,080**	**-**

Note 40 Risk Management *continued*

Interest rate repricing schedule *continued*

Dollars in Millions	Total	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-Interest Sensitive
	Consolidated (30/9/12)						
Assets							
Cash and liquid assets	1,628	1,466	-	-	-	-	162
Due from central banks and other institutions	2,054	2,054	-	-	-	-	-
Trading securities	3,610	3,610	-	-	-	-	-
Available for sale investments	50	-	-	-	-	-	50
Derivative financial instruments	5,324	-	-	-	-	-	5,324
Gross loans and advances to customers	59,376	33,720	1,600	4,150	8,203	10,155	1,548
Deductions from loans and advances to customers	(457)	-	-	-	-	(1)	(456)
Amounts due from related entities	288	243	-	-	-	-	45
All other assets	1,238	-	-	-	-	-	1,238
Total assets	73,111	41,093	1,600	4,150	8,203	10,154	7,911
Liabilities							
Due to central banks and other institutions	1,996	1,929	12	20	13	22	-
Short term debt securities	5,365	4,860	505	-	-	-	-
Trading liabilities	120	120	-	-	-	-	-
Derivative financial instruments	5,612	-	-	-	-	-	5,612
Deposits from customers	37,090	23,442	5,862	3,692	679	1,222	2,193
Bonds and notes	13,201	2,654	293	541	1,075	8,638	-
Amounts due to related entities	2,705	2,636	-	-	-	-	69
Other liabilities	840	-	-	-	-	-	840
Subordinated debt	905	905	-	-	-	-	-
Total liabilities	67,834	36,546	6,672	4,253	1,767	9,882	8,714
Shareholders' equity							
Total shareholders' equity	5,277	-	-	-	-	-	5,277
Total liabilities and shareholders' equity	73,111	36,546	6,672	4,253	1,767	9,882	13,991
On-balance sheet sensitivity gap	-	4,547	(5,072)	(103)	6,436	272	(6,080)
Derivative financial instruments							
Net balance of derivative financial instruments	-	(4,708)	4,683	950	(3,084)	2,159	-
Interest sensitivity gap – net	-	(161)	(389)	847	3,352	2,431	(6,080)
Interest sensitivity gap – cumulative	-	(161)	(550)	297	3,649	6,080	-

Note 40 Risk Management *continued*

Interest rate repricing schedule *continued*

	The Company (30/9/13)						
Dollars in Millions	Total	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 year	Over 1 Year and up to 2 Years	Over 2 Years	Non-Interest Sensitive
Assets							
Cash and liquid assets	1,725	1,538	-	-	-	-	187
Due from central banks and other institutions	1,516	1,516	-	-	-	-	-
Trading securities	4,291	4,291	-	-	-	-	-
Available for sale investments	67	-	-	-	-	-	67
Derivative financial instruments	4,237	-	-	-	-	-	4,237
Gross loans and advances to customers	62,605	33,518	2,950	5,970	5,893	12,596	1,678
Deductions from loans and advances to customers	(438)	-	-	-	-	-	(438)
Amounts due from related entities	10,386	8,615	531	816	-	-	424
All other assets	3,896	-	-	-	-	-	3,896
Total assets	88,285	49,478	3,481	6,786	5,893	12,596	10,051
Liabilities							
Due to central banks and other institutions	1,304	1,220	17	34	22	11	-
Short term debt securities	1,720	1,681	39	-	-	-	-
Trading liabilities	71	71	-	-	-	-	-
Derivative financial instruments	4,907	-	-	-	-	-	4,907
Deposits from customers	40,870	24,777	6,417	5,130	1,018	938	2,590
Bonds and notes	5,306	2,133	760	-	923	1,490	-
Amounts due to related entities	27,211	17,878	706	1,057	1,369	5,771	430
Other liabilities	598	-	-	-	-	-	598
Subordinated debt	905	905	-	-	-	-	-
Total liabilities	82,892	48,665	7,939	6,221	3,332	8,210	8,525
Shareholders' equity							
Total shareholders' equity	5,393	-	-	-	-	-	5,393
Total liabilities and shareholders' equity	88,285	48,665	7,939	6,221	3,332	8,210	13,918
On-balance sheet sensitivity gap	-	813	(4,458)	565	2,561	4,386	(3,867)
Derivative financial instruments							
Net balance of derivative financial instruments	-	(3,791)	4,510	(418)	447	(748)	-
Interest sensitivity gap – net	-	(2,978)	52	147	3,008	3,638	(3,867)
Interest sensitivity gap – cumulative	-	(2,978)	(2,926)	(2,779)	229	3,867	-

Note 40 Risk Management *continued*

Interest rate repricing schedule *continued*

	The Company (30/9/12)						
Dollars in Millions	Total	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 year	Over 1 Year and up to 2 Years	Over 2 Years	Non-Interest Sensitive
Assets							
Cash and liquid assets	1,628	1,466	-	-	-	-	162
Due from central banks and other institutions	2,054	2,054	-	-	-	-	-
Trading securities	3,610	3,610	-	-	-	-	-
Available for sale investments	50	-	-	-	-	-	50
Derivative financial instruments	5,324	-	-	-	-	-	5,324
Gross loans and advances to customers	59,376	33,720	1,600	4,150	8,203	10,155	1,548
Deductions from loans and advances to customers	(457)	-	-	-	-	(1)	(456)
Amounts due from related entities	10,269	8,461	1,607	-	-	-	201
All other assets	4,140	-	-	-	-	-	4,140
Total assets	85,994	49,311	3,207	4,150	8,203	10,154	10,969
Liabilities							
Due to central banks and other institutions	1,996	1,929	12	20	13	22	-
Short term debt securities	1,838	1,608	230	-	-	-	-
Trading liabilities	120	120	-	-	-	-	-
Derivative financial instruments	5,612	-	-	-	-	-	5,612
Deposits from customers	36,434	23,085	5,725	3,603	664	1,164	2,193
Bonds and notes	5,430	1,459	293	541	772	2,365	-
Amounts due to related entities	27,864	18,993	1,882	-	303	6,273	413
Other liabilities	827	-	-	-	-	-	827
Subordinated debt	905	905	-	-	-	-	-
Total liabilities	81,026	48,099	8,142	4,164	1,752	9,824	9,045
Shareholders' equity							
Total shareholders' equity	4,968	-	-	-	-	-	4,968
Total liabilities and shareholders' equity	85,994	48,099	8,142	4,164	1,752	9,824	14,013
On-balance sheet sensitivity gap	-	1,212	(4,935)	(14)	6,451	330	(3,044)
Derivative financial instruments							
Net balance of derivative financial instruments	-	(4,708)	4,683	950	(3,084)	2,159	-
Interest sensitivity gap – net	-	(3,496)	(252)	936	3,367	2,489	(3,044)
Interest sensitivity gap – cumulative	-	(3,496)	(3,748)	(2,812)	555	3,044	-

Equity risk

Equity risk results from exposures to changes in prices and volatility of individual equities, equity baskets and equity indices. Management reviews the Banking Group's exposure to any equity risk on a monthly basis.

Liquidity risk

Maintaining adequate liquidity to meet current and future payment obligations at a reasonable cost is a core objective of the Banking Group.

The following are types of liquidity risks:

- Intra-Day: Ability of the Banking Group to meet its intra-day collateral requirements in relation to its clearing and settlement obligations.
- Operational: Ability of the Banking Group to meet its refinancing requirements for a predefined period, e.g. up to 30 days.
- Structural: Liquidity Risk profile of the balance sheet to accommodate the Banking Group's Strategic Plan and risk appetite.

The Banking Group manages liquidity risk through a combination of positive cash flow management, the maintenance of portfolios containing high quality liquid assets and maintenance of a prudent funding strategy. The Banking Group undertakes a conservative approach by imposing internal limits that are in addition to regulatory requirements.

The Banking Group's Board has the ultimate responsibility to monitor and review the adequacy of the Banking Group's liquidity compliance and management framework with the guidance of the Banking Group's BRC. To aid in the fulfilment of its guidance responsibilities the BRC receives recommendations from the Banking Group's RRMC and regular reports on the Banking Group's liquidity management activity, risk limits and sensitivity metrics. The Banking Group's Asset and Liability Committee is responsible for approval, and providing overview, of the execution of the liquidity strategy and escalation of issues to the RRMC.

Note 40 Risk Management *continued*

The Banking Group is subject to RBNZ's liquidity requirements (as set out in the RBNZ's "Liquidity Policy" (BS13/BS13A)) and complies with APRA's prudential standard "Liquidity" (APS210) as a member of the National Australia Bank Group. Consistent with the requirements of RBNZ's Liquidity Policy, liquidity risk is measured and managed in the Banking Group on a cash flow mismatch and also core funding basis to ensure that the Banking Group exceeds RBNZ's specified minimum standards for these metrics.

Similarly, in accordance with the requirements of APS 210, risk is measured and managed in the Banking Group on a cash flow basis. The Banking Group is required to monitor both 'going concern' and 'name crisis' scenarios, and cash flow mismatch limits have been established to limit the Banking Group's exposure.

A three-level contingency plan has been established for the management of an escalated liquidity event where the Banking Group experiences either restricted access to wholesale funding, or a large increase in the withdrawal of funds. The plan identifies triggers at each level, details the actions required, allocates the key tasks to individuals, provides a timeframe and defines a management committee to oversee the action plan.

The ability to realise assets quickly is an important source of liquidity for the Banking Group. The Banking Group holds sizeable balances of high quality assets such as cash and securities that are acceptable under repurchase agreements with the RBNZ to meet these needs.

Maturity profile

The tables on pages 81 to 83 present the Banking Group and the Company's cash flows by remaining contractual maturities as at the reporting date, except Available for sale investments, Trading securities and Trading liabilities, which the Banking Group has the ability to realise at short notice and are presented by expected maturity.

The gross cash flows disclosed hereunder are the contractual undiscounted cash flows and therefore will not agree to the carrying values on the balance sheet. Actual cash flows can differ significantly from contractual cash flows as a result of future actions of the Banking Group and its counterparties, such as early repayments or refinancing of term loans. Off-balance sheet exposures are excluded from the tables on pages 81 to 83 as contractual cash flows, if any, are contingent in nature. Irrevocable commitments to extend credit can be drawn down at any time before the commitments expire. Details of off-balance sheet exposures are included in note 35. Other assets and other liabilities only include balances which have contractual future cash flows.

			Consolidated (30/9/13)				
Dollars in Millions	Carrying Amount	Gross Cash Inflow/ (Outflow)	On Demand	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years
Assets							
Cash and liquid assets	**1,725**	**1,725**	**1,725**	**-**	**-**	**-**	**-**
Due from central banks and other institutions	**1,516**	**1,517**	**-**	**1,517**	**-**	**-**	**-**
Trading securities	**4,291**	**4,291**	**-**	**4,291**	**-**	**-**	**-**
Available for sale investments	**67**	**67**	**-**	**11**	**56**	**-**	**-**
Loans and advances to customers	**62,167**	**85,622**	**6,247**	**11,261**	**8,074**	**23,182**	**36,858**
Amounts due from related entities	**391**	**391**	**-**	**364**	**27**	**-**	**-**
Other assets	**220**	**220**	**-**	**220**	**-**	**-**	**-**
Total	**70,377**	**93,833**	**7,972**	**17,664**	**8,157**	**23,182**	**36,858**
Liabilities							
Due to central banks and other institutions	**(1,304)**	**(1,307)**	**(466)**	**(754)**	**(52)**	**(35)**	**-**
Short term debt securities	**(5,550)**	**(5,566)**	**-**	**(4,740)**	**(826)**	**-**	**-**
Trading liabilities	**(71)**	**(71)**	**-**	**(71)**	**-**	**-**	**-**
Deposits from customers	**(41,823)**	**(42,431)**	**(16,783)**	**(11,221)**	**(12,183)**	**(2,243)**	**(1)**
Bonds and notes	**(14,210)**	**(15,137)**	**-**	**(542)**	**(1,716)**	**(11,581)**	**(1,298)**
Amounts due to related entities	**(245)**	**(245)**	**(67)**	**(141)**	**(37)**	**-**	**-**
Other liabilities	**(493)**	**(493)**	**-**	**(493)**	**-**	**-**	**-**
Subordinated debt	**(905)**	**(1,081)**	**-**	**(16)**	**(16)**	**(128)**	**(921)**
Total	**(64,601)**	**(66,331)**	**(17,316)**	**(17,978)**	**(14,830)**	**(13,987)**	**(2,220)**
Derivatives[1]							
Derivative financial instruments inflow		**110,141**	**-**	**44,846**	**25,077**	**33,376**	**6,842**
Derivative financial instruments (outflow)		**(111,829)**	**-**	**(45,056)**	**(25,412)**	**(34,630)**	**(6,731)**

1. Derivative financial instruments includes hedging and trading derivative cash flows.

Note 40 Risk Management *continued*

Maturity profile *continued*

Dollars in Millions	Carrying Amount	Gross Cash Inflow/ (Outflow)	On Demand	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years
			Consolidated (30/9/12)				
Assets							
Cash and liquid assets	1,628	1,628	1,628	-	-	-	-
Due from central banks and other institutions	2,054	2,059	-	2,059	-	-	-
Trading securities	3,610	3,610	-	3,610	-	-	-
Available for sale investments	50	50	-	-	50	-	-
Loans and advances to customers	58,919	81,265	5,944	10,762	7,713	22,261	34,585
Amounts due from related entities	288	288	1	262	25	-	-
Other assets	456	456	-	456	-	-	-
Total	67,005	89,356	7,573	17,149	7,788	22,261	34,585
Liabilities							
Due to central banks and other institutions	(1,996)	(1,996)	(464)	(1,461)	(33)	(38)	-
Short term debt securities	(5,365)	(5,382)	-	(4,395)	(987)	-	-
Trading liabilities	(120)	(120)	-	(120)	-	-	-
Deposits from customers	(37,090)	(37,669)	(14,729)	(11,004)	(9,812)	(2,121)	(3)
Bonds and notes	(13,201)	(14,376)	-	(412)	(1,137)	(9,305)	(3,522)
Amounts due to related entities	(2,705)	(2,819)	(134)	(98)	(95)	(2,492)	-
Other liabilities	(720)	(720)	-	(720)	-	-	-
Subordinated debt	(905)	(1,069)	-	(15)	(15)	(119)	(920)
Total	(62,102)	(64,151)	(15,327)	(18,225)	(12,079)	(14,075)	(4,445)
Derivatives[1]							
Derivative financial instruments inflow		83,467	-	33,801	13,127	28,290	8,249
Derivative financial instruments (outflow)		(84,671)	-	(34,019)	(13,124)	(29,163)	(8,365)
			The Company (30/9/13)				
Assets							
Cash and liquid assets	**1,725**	**1,725**	**1,725**	**-**	**-**	**-**	**-**
Due from central banks and other institutions	**1,516**	**1,517**	**-**	**1,517**	**-**	**-**	**-**
Trading securities	**4,291**	**4,291**	**-**	**4,291**	**-**	**-**	**-**
Available for sale investments	**67**	**67**	**-**	**11**	**56**	**-**	**-**
Loans and advances to customers	**62,167**	**85,622**	**6,247**	**11,261**	**8,074**	**23,182**	**36,858**
Amounts due from related entities	**10,386**	**15,907**	**-**	**469**	**339**	**1,573**	**13,526**
Other assets	**220**	**220**	**-**	**220**	**-**	**-**	**-**
Total	**80,372**	**109,349**	**7,972**	**17,769**	**8,469**	**24,755**	**50,384**
Liabilities							
Due to central banks and other institutions	**(1,304)**	**(1,307)**	**(466)**	**(754)**	**(52)**	**(35)**	**-**
Short term debt securities	**(1,720)**	**(1,734)**	**-**	**(1,693)**	**(41)**	**-**	**-**
Trading liabilities	**(71)**	**(71)**	**-**	**(71)**	**-**	**-**	**-**
Deposits from customers	**(40,870)**	**(41,454)**	**(16,475)**	**(10,997)**	**(11,843)**	**(2,138)**	**(1)**
Bonds and notes	**(5,306)**	**(5,850)**	**-**	**(324)**	**(1,311)**	**(3,353)**	**(862)**
Amounts due to related entities	**(27,211)**	**(33,120)**	**(4,293)**	**(3,534)**	**(1,530)**	**(9,801)**	**(13,962)**
Other liabilities	**(490)**	**(490)**	**-**	**(490)**	**-**	**-**	**-**
Subordinated debt	**(905)**	**(1,081)**	**-**	**(16)**	**(16)**	**(128)**	**(921)**
Total	**(77,877)**	**(85,107)**	**(21,234)**	**(17,879)**	**(14,793)**	**(15,455)**	**(15,746)**
Derivatives[1]							
Derivative financial instruments inflow		**110,141**	**-**	**44,846**	**25,077**	**33,376**	**6,842**
Derivative financial instruments (outflow)		**(111,829)**	**-**	**(45,056)**	**(25,412)**	**(34,630)**	**(6,731)**

1. Derivative financial instruments includes hedging and trading derivative cash flows.

Note 40 Risk Management *continued*

Maturity profile *continued*

Dollars in Millions	The Company (30/9/12)						
	Carrying Amount	Gross Cash Inflow/ (Outflow)	On Demand	3 Months or less	3 to 12 Months	1 to 5 Years	Over 5 Years
Assets							
Cash and liquid assets	1,628	1,628	1,628	-	-	-	-
Due from central banks and other institutions	2,054	2,059	-	2,059	-	-	-
Trading securities	3,610	3,610	-	3,610	-	-	-
Available for sale investments	50	50	-	-	50	-	-
Loans and advances to customers	58,919	81,265	5,944	10,762	7,713	22,261	34,585
Amounts due from related entities	10,269	16,209	-	365	327	1,523	13,994
Other assets	456	456	-	456	-	-	-
Total	76,986	105,277	7,572	17,252	8,090	23,784	48,579
Liabilities							
Due to central banks and other institutions	(1,996)	(1,996)	(464)	(1,461)	(33)	(38)	-
Short term debt securities	(1,838)	(1,853)	-	(1,730)	(123)	-	-
Trading liabilities	(120)	(120)	-	(120)	-	-	-
Deposits from customers	(36,434)	(36,992)	(14,538)	(10,834)	(9,579)	(2,038)	(3)
Bonds and notes	(5,430)	(6,130)	-	(130)	(712)	(4,039)	(1,249)
Amounts due to related entities	(27,864)	(34,397)	(4,003)	(3,170)	(1,676)	(9,281)	(16,267)
Other liabilities	(711)	(711)	-	(711)	-	-	-
Subordinated debt	(905)	(1,069)	-	(15)	(15)	(119)	(920)
Total	(75,298)	(83,268)	(19,005)	(18,171)	(12,138)	(15,515)	(18,439)
Derivatives[1]							
Derivative financial instruments inflow		83,467	-	33,801	13,127	28,290	8,249
Derivative financial instruments (outflow)		(84,671)	-	(34,019)	(13,124)	(29,163)	(8,365)

1. Derivative financial instruments includes hedging and trading derivative cash flows.

Liquidity portfolio management

The table below shows financial assets held by the Banking Group and the Company for the purpose of managing liquidity risk.

Dollars in Millions	Consolidated and The Company 30/9/13	30/9/12
Cash and balances immediately convertible to cash	**1,880**	1,637
Securities purchased under agreements to resell	**710**	1,338
Government bonds, notes and securities	**1,929**	1,521
Semi-government bonds, notes and securities	**435**	724
Corporate and other institution bonds, notes and securities	**1,823**	682
Total liquidity portfolio	**6,777**	5,902

As at 30 September 2013, the Banking Group also held unencumbered residential mortgage-backed securities (“RMBS”) of $4,491 million (30 September 2012: $4,491 million) of which $4,300 million can be sold to RBNZ under agreements to repurchase for liquidity purposes. The Banking Group had not entered into any repurchase agreements for residential mortgage-backed securities with the RBNZ as at 30 September 2013 (30 September 2012: nil).

As at 30 September 2013, there was an A$750 million standby liquidity facility (30 September 2012: A$1 billion), which is reviewed annually, provided from National Australia Bank Limited for the Banking Group’s liquidity management.

Note 40 Risk Management *continued*

Concentrations of funding

The Banking Group and the Company's concentrations of funding is reported by geographical location and industry sector in the table below. The concentrations of funding by geographical location is based on the geographical location of the office in which the funds are recognised. The concentrations of funding by industry sector is based on the categories in the RBNZ M3 Institutions Standard Statistical Return.

	Consolidated		The Company	
Dollars in Millions	**30/9/13**	30/9/12	**30/9/13**	30/9/12
New Zealand				
Agriculture, forestry and fishing	**1,874**	1,666	**1,853**	1,666
Mining	**75**	133	**74**	133
Manufacturing	**1,012**	1,168	**1,009**	1,168
Electricity, gas and water	**221**	123	**221**	123
Construction	**494**	413	**491**	413
Wholesale and retail trade	**1,240**	1,113	**1,240**	1,113
Accommodation, restaurants, culture and recreation	**838**	761	**834**	761
Transport and storage	**412**	432	**412**	432
Communications	**130**	167	**130**	167
Financial, investment and insurance	**13,808**	13,482	**13,695**	13,482
Property, business and personal services	**7,208**	6,029	**7,039**	6,029
Government, education, health and community services	**2,559**	2,358	**2,557**	2,358
Personal deposits	**20,353**	18,629	**19,716**	17,973
Related entities	**1,150**	3,610	**28,116**	28,769
Total New Zealand	**51,374**	50,084	**77,387**	74,587
United Kingdom*				
Financial, investment and insurance	**12,734**	11,298	**-**	-
Total United Kingdom	**12,734**	11,298	**-**	-
Total funding	**64,108**	61,382	**77,387**	74,587
Total funding comprised:				
Due to central banks and other institutions	**1,304**	1,996	**1,304**	1,996
Short term debt securities	**5,550**	5,365	**1,720**	1,838
Trading liabilities	**71**	120	**71**	120
Deposits from customers	**41,823**	37,090	**40,870**	36,434
Bonds and notes	**14,210**	13,201	**5,306**	5,430
Amounts due to related entities	**245**	2,705	**27,211**	27,864
Subordinated debt**	**905**	905	**905**	905
Total funding	**64,108**	61,382	**77,387**	74,587

* This represents the funding activities of BNZ International Funding Limited (London Branch).

** Subordinated debt was $905 million due to related entities as at 30 September 2013 (30 September 2012: $905 million). Refer to note 24 for further information.

Note 40 Risk Management *continued*

Operational and compliance risk

Operational risk is the risk of loss resulting from inadequate or failed processes, people, systems or from external events. The National Australia Bank Group Operational Risk Framework sets out the principles for managing operational risks across the Banking Group.

Compliance risk is the risk of legal or regulatory sanctions resulting from failure to understand and comply with laws, regulations, licence conditions, supervisory requirements, self-regulatory industry codes of conduct, as well as internal policies, procedures, organisational frameworks and standards. The National Australia Bank Group Compliance Framework sets out the principles for managing our compliance risks across the Banking Group.

Effective operational and compliance risk management within the Banking Group is based upon a three lines of defence model. The Banking Group's business units are the first line of defence and are accountable for management of their risks. Oversight is provided by the operational and compliance risk team and divisional Chief Risk Officers who report to the Banking Group's Chief Risk Officer. Assurance is provided by the internal audit function.

The primary roles of the operational and compliance risk function are policy making; advisory and support, including monitoring and oversight; the assessment of new and re-engineered products and processes; business continuity; risk measurement and control; and reporting. The team also provides subject matter expertise and additional assistance to business units and identifies systemic trends across the business.

The Banking Group is accredited by the RBNZ to use the Advanced Measurement Approach ("AMA") for operational risk. As a result, the Bank calculates its operational risk implied risk-weighted exposure and resultant capital requirement as required by the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) ("BS2B").

The Banking Group's quantitative operational risk measurement approach is based on the AMA and uses the factors below to estimate the aggregate loss distribution for total operational risk losses over a 12-month horizon:

- internal loss data;
- relevant external loss data;
- consideration of our business environment and controls; and
- the outputs of a scenario analysis process.

The operational risk calculations are performed on an aggregate Bank-wide basis, and the resultant capital is allocated across major business lines. At present, no adjustment is made to regulatory capital to account for expected losses, or for the mitigating affect of the Bank's marketed insurance programme.

Credit risk

Credit risk is the risk of financial loss resulting from the failure of a customer to settle their financial and contractual obligations to the Banking Group as they fall due.

Administration of the Banking Group's credit policies and procedures is the responsibility of the risk function. All loans are subject to a customer rating which estimates the probability of default. There are monitoring procedures and systems in place to control exposures to individual customer, geographical and industry segments to ensure diversification and asset quality is maintained. Exposure to any one customer is further restricted by sub-limits covering on and off-balance sheet exposures, and daily settlement risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored on a daily basis. Lending authorities are delegated from the National Australia Bank Limited's Principal Board through the Group Chief Credit Officer with approval to sub-delegate to business units. Individual lending authorities are allocated according to demonstrated skills, accreditation, and experience. Consequences are in place for any breaches of these authorities.

The main form of credit risk mitigation utilised by the Banking Group is the taking of collateral against loans and advances provided to customers. The Banking Group evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral taken, if deemed necessary, is based on the Bank's evaluation of the counterparty and on the availability of collateral.

The Banking Group continuously monitors its credit risk to counterparties through the examination of key risk indicators such as irregular or delinquent accounts and early warning signals. In addition, there are specialist units such as Credit Risk Assurance which undertake regular reviews of loan portfolios and Strategic Business Services which has specific responsibility for the management of accounts classified as categorised assets. These processes enable doubtful debts to be identified at the earliest possible time. Impairment provisions are raised for losses that have been identified as at the reporting date in line with the requirements of NZ IAS 39. Recoverable amounts for impaired assets take into account the current market value of collateral held and the realisability of securities.

The following section discloses the Bank's policies and procedures for collateral taken to mitigate credit risk.

Due from central banks and other institutions

Due from central banks and other institutions comprise primarily collateral on securities borrowing and reverse repurchase agreements with financial institutions, which are permitted to be sold or re-pledged. Collateral on securities borrowing and reverse repurchase agreements are collateralised with highly liquid securities of which these are permitted to be sold or re-pledged. The fair values of this collateral are disclosed in note 9.

Balances held with central supervisory banks and other interest bearing assets that are due from other banks are managed based on the counterparty's creditworthiness. The Banking Group will utilise master netting arrangements where possible to reduce its exposure to credit risk.

Note 40 Risk Management *continued*

Credit risk *continued*

Trading securities

The Banking Group has not accepted any collateral for Trading securities. The Banking Group may utilise credit derivatives, guarantees provided by central banks or other forms of credit enhancements or collateral in order to minimise the Banking Group's exposure to credit risk.

Available for sale investments

Available for sale investments are managed based on the counterparty's creditworthiness.

Derivative financial instruments

The Banking Group uses documentation including International Swaps and Derivatives Association ("ISDA") Master Agreements to document derivative activities. Under the ISDA Master Agreements, if a counterparty defaults, all contracts with that counterparty are terminated. They are then settled on a net basis at market rates current at the time of settlement. The Banking Group also executes Credit Support Annexures in conjunction with ISDA Master Agreements.

Gross loans and advances to customers

The majority of Gross loans and advances to customers comprise general lending and line of credit products. The distinction in classification is reflective of the type of lending product. These lending and line of credit products will generally have a significant level of collateralisation depending on the nature of the product.

Credit card outstandings are mostly unsecured. However, where the borrower has provided collateral for other lending, the collateral can also be available to secure any credit card debt.

Housing loans are secured by mortgages over residential properties. Loan-to-valuation ratio ("LVR") thresholds range up to 100% of the market value of the residential properties held as security. Further details on LVR are provided in note 39.

Overdrafts and Other term lending to non-retail customers are mostly secured by acceptable collateral (highly rated investment grade institutional clients may borrow on an unsecured basis). Collateral generally comprises commercial or agricultural properties, business assets, inventories, and in some cases personal assets of the borrower (e.g. residential properties). The Banking Group manages its exposure to these products by completing a credit evaluation to assess the customer's character, industry, business model and capacity to meet their commitments. Collateral provides a secondary source of repayment in the event that a customer cannot meet its contractual repayment obligations.

Amounts due from related entities

There are typically no collateral or other credit enhancements obtained in respect of amounts due from related entities.

Note 40 Risk Management *continued*

Concentrations of credit exposure

The Banking Group and the Company's concentrations of credit exposure is reported by geographical location and industry sector in the table below. The concentrations of credit exposure on financial assets by geographical location is based on the geographical location of the counterparty's tax residency. The concentrations of credit exposure by industry sector is based on the categories in the RBNZ M3 Institutions Standard Statistical Return.

The table below presents the maximum exposure to credit risk of financial assets before taking into account any collateral held or other credit enhancements. Except for derivative financial instruments, the majority of the overseas credit exposures are raised for New Zealand based assets funded in New Zealand dollars for offshore customers. For more information on guarantees and credit related commitments, refer to note 35.

	Consolidated		The Company	
Dollars in Millions	**30/9/13**	30/9/12	**30/9/13**	30/9/12
New Zealand				
Agriculture	**11,576**	10,860	**11,576**	10,860
Forestry and fishing	**554**	515	**554**	515
Mining	**331**	260	**331**	260
Manufacturing	**2,547**	2,215	**2,547**	2,215
Electricity, gas and water	**915**	932	**915**	932
Construction	**771**	661	**771**	661
Wholesale and retail trade	**2,698**	2,549	**2,698**	2,549
Accommodation, restaurants, culture and recreation	**1,131**	1,071	**1,131**	1,071
Transport and storage	**1,118**	951	**1,118**	951
Communications	**342**	355	**342**	355
Financial, investment and insurance	**5,651**	6,043	**5,651**	6,043
Property, business and personal services	**8,325**	8,085	**8,325**	8,085
Government, education, health and community services	**4,123**	4,140	**4,123**	4,140
Real estate – mortgage	**29,000**	27,676	**29,000**	27,676
Personal lending	**1,731**	1,734	**1,731**	1,734
Related entities	**272**	269	**10,264**	10,250
Total New Zealand	**71,085**	68,316	**81,077**	78,297
Overseas				
Agriculture	**3**	4	**3**	4
Forestry and fishing	**-**	2	**-**	2
Electricity, gas and water	**-**	1	**-**	1
Wholesale and retail trade	**9**	7	**9**	7
Accommodation, restaurants, culture and recreation	**8**	1	**8**	1
Transport and storage	**1**	-	**1**	-
Communications	**23**	-	**23**	-
Financial, investment and insurance	**2,776**	3,258	**2,776**	3,258
Property, business and personal services	**11**	15	**11**	15
Real estate – mortgage	**495**	455	**495**	455
Personal lending	**151**	129	**151**	129
Related entities	**119**	19	**122**	19
Total Overseas	**3,596**	3,891	**3,599**	3,891
Total credit exposures	**74,681**	72,207	**84,676**	82,188
Total credit exposures comprised:				
Cash and liquid assets	**1,574**	1,505	**1,574**	1,505
Due from central banks and other institutions	**1,516**	2,054	**1,516**	2,054
Trading securities	**4,291**	3,610	**4,291**	3,610
Available for sale investments	**67**	50	**67**	50
Derivative financial instruments	**4,237**	5,324	**4,237**	5,324
Gross loans and advances to customers	**62,605**	59,376	**62,605**	59,376
Amounts due from related entities	**391**	288	**10,386**	10,269
Total credit exposures	**74,681**	72,207	**84,676**	82,188

Note 40 Risk Management *continued*

Derivatives

The Banking Group maintains strict control limits on net open derivative positions (the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to risk is limited to the current fair value of instruments that are favourable to the Banking Group (assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. The requirement for collateral or other security for these instruments is assessed based on the creditworthiness of the counterparty.

Undrawn credit commitments

Undrawn credit commitments represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Banking Group is potentially exposed to credit risk for undrawn credit commitments for an amount equal to the total amount undrawn. However, the level of credit risk is mitigated through most commitments to extend credit being contingent upon customers maintaining specific credit standards. The Banking Group monitors the term to maturity of all credit commitments, drawn and undrawn, because longer term commitments generally have a greater degree of credit risk than shorter term commitments.

Chartered Accountants

Independent Auditor's Report

To the Shareholders of Bank of New Zealand

Report on the Financial Statements (excluding Supplementary Information Relating to Capital Adequacy)

We have audited pages 8 to 88 of the Disclosure Statement of Bank of New Zealand (the "Bank'') which consists of the financial statements and the supplementary information (excluding the supplementary information relating to capital adequacy disclosed in Note 39) required by Schedules 4, 7, 13 to 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 2) 2013 (the "Order"). The financial statements comprise the balance sheet as at 30 September 2013, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information for both the Bank and the Banking Group. The Banking Group comprises the Bank and the entities it controlled at 30 September 2013 or from time to time during the year.

Directors' Responsibility for the Financial Statements

The directors of the Bank are responsible for the Disclosure Statement, which includes financial statements prepared in accordance with Clause 24 of the Order and generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate. The directors are also responsible for such internal controls as they determine are necessary to enable preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the directors are responsible for including supplementary information in the Disclosure Statement which complies with Schedules 2, 4, 7, 13 to 15 and 17 and Clause 24 of the Order.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements and the supplementary information (excluding the supplementary information relating to capital adequacy) disclosed in accordance with Schedules 4, 7, 13 to 15 and 17 of the Order based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements (excluding the supplementary information relating to capital adequacy) whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the Bank and Banking Group's preparation of the financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and Banking Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Ernst & Young provides other assurance and other risk related services to the Bank and Banking Group. Partners and employees of our firm may deal with the Bank and Banking Group on normal terms within the ordinary course of trading activities of the Bank and Banking Group. These matters have not impaired our independence as auditors of the Bank and Banking Group. We have no other relationship, or interest in the Bank or Banking Group.

Opinion

In our opinion the financial statements on pages 8 to 88 (excluding the supplementary information in Notes 12, 13, 29, 36, 37, 38 and 40):

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of the Bank and Banking Group as at 30 September 2013 and the financial performance and cash flows for the year then ended.

In our opinion, the supplementary information (excluding the supplementary information relating to capital adequacy) prescribed by Schedules 4, 7, 13 to 15 and 17 of the Order:

(i) has been prepared, in all material respects, in accordance with the guidelines issued under section 78(3) of the Reserve Bank of New Zealand Act 1989 or any conditions of registration;

(ii) is in accordance with the books and records of the Bank and Banking Group; and

(iii) fairly states, in all material respects, the matters to which it relates in accordance with those schedules.

Report on Other Legal and Regulatory Requirements (excluding Supplementary Information relating to Capital Adequacy)

We also report in accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993 and clauses 2(d) and 2(e) of Schedule 1 of the Order. In relation to our audit of the financial statements (excluding the supplementary information relating to capital adequacy) for the year ended 30 September 2013:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by the Bank and the Banking Group, as far as appears from our examination of those records.

Building a better
working world

Report on the Supplementary Information Relating to Capital Adequacy

We have reviewed the supplementary information relating to capital adequacy as disclosed in Note 39 of the financial statements of the Bank and Banking Group for the year ended 30 September 2013.

Directors' Responsibility for the Supplementary Information Relating to Capital Adequacy

The directors are responsible for including supplementary information relating to capital adequacy prepared in accordance with Schedule 11 of the Order.

Reviewer's Responsibilities

Our responsibility is to express an opinion on the supplementary information relating to capital adequacy based on our review.

We are responsible for reviewing the disclosures in order to state whether, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the supplementary information relating to capital adequacy is not, in all material respects:

- prepared in accordance with the Bank's conditions of registration;
- prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
- disclosed in accordance with Schedule 11 of the Order;

and for reporting our findings to you.

We conducted our review in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. A review is limited primarily to enquiries of Bank and Banking Group personnel and analytical procedures applied to the financial data, and thus provides less assurance than an audit. We have not performed an audit in respect of the supplementary information relating to capital adequacy, and accordingly, we do not express an audit opinion on the supplementary information relating to capital adequacy.

Statement of review findings

Based on our review procedures, which are not an audit, nothing has come to our attention that causes us to believe that the supplementary information relating to capital adequacy, as required by Schedule 11 of the Order, is not in all material respects:

- prepared in accordance with the Bank's conditions of registration;
- prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
- disclosed in accordance with Schedule 11 of the Order.

Restriction on Distribution or Use

This report is made solely to the Bank's shareholders, as a body, in accordance with Clause 21 of the Order and section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the Bank's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young

6 December 2013
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	Qualification
Standard & Poor's (Australia) Pty Limited	AA-	Outlook Stable
Moody's Investors Service Pty Limited	Aa3	Outlook Stable

During the two-year period ended 30 September 2013, the Standard & Poor's credit rating changed from AA Outlook Stable to AA- on 1 December 2011. This rating change resulted from a global review in the bank rating methodology used by Standard & Poor's, with more emphasis placed on a country's economic strengths as well as the strength of its banking sector.

During the two-year period ended 30 September 2013, there was no change to the Moody's Investors Service credit rating.

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

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

Credit ratings by Standard & Poor's and Fitch Ratings 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 balance date of this Disclosure Statement are as follows:

Conditions of registration that apply on and after 30 June 2013 – 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:
   (a) the Total capital ratio of the banking group is not less than 8 percent;
   (b) the Tier 1 capital ratio of the banking group is not less than 6 percent;
   (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5 percent; and
   (d) the Total capital of the banking group is not less than $30 million; and
   (e) the process in Subpart 2H of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated May 2013 is followed for the recognition and repayment of capital.

   For the purposes of this condition of registration,

   - the scalar referred to in the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated May 2013 is 1.06;
   - "Total capital ratio", "Tier 1 capital ratio", "Common Equity Tier 1 capital ratio", and "Total capital" must be calculated in accordance with the Reserve Bank of New Zealand document: "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated May 2013.

1A. That:
   (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ("ICAAP")" (BS12) dated December 2007;
   (b) under its ICAAP the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated May 2013; and
   (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That the banking group complies with all requirements set out in the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated May 2013.

1C. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:
   (a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit to distributions that corresponds to the banking group's buffer ratio:

Banking group's buffer ratio	Percentage limit to distributions of the bank's earnings
0% - 0.625%	0%
>0.625 - 1.25%	20%
>1.25 - 1.875%	40%
>1.875 - 2.5%	60%

   (b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and
   (c) have the capital plan approved by the Reserve Bank.

   For the purposes of this condition of registration,

   - "buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated May 2012[1].
   - the scalar referred to in the Reserve Bank of New Zealand document "Capital adequacy framework (Internal Models Based Approach)" (BS2B) dated May 2013 is 1.06.

   This condition of registration applies on and after 1 January 2014.

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

   In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

1. The RBNZ has confirmed that the reference to May 2012 was a typographical error and should have referred to May 2013.

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

   For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

   (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

   (b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

   In determining the total amount of the banking group's insurance business:

   (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

   (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

   For the purposes of this condition of registration,

   - "insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance:
   - "insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit rating of the bank[1]	Connected exposure limit (% of the banking group's Tier 1 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 any allowances for impairment) to non-bank connected persons shall not exceed 15 percent of the banking group's tier 1 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 exposures policy" (BS8) dated May 2013.

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 bank complies with the following corporate governance requirements:

   (a) the board of the bank must have at least five directors;

   (b) the majority of the board members must be non-executive directors;

   (c) at least half of the board members must be independent directors;

   (d) an alternate director,—

      (i) for a non-executive director must be non-executive; and

      (ii) for an independent director must be independent;

   (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;

   (f) the chairperson of the board of the bank must be independent; and

   (g) the bank's constitution must 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).

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:

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

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

8. That a person must not be appointed as chairperson of the board of the bank unless:

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

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

[1] This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's.)

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
   (b) the committee must have at least three members;
   (c) every member of the committee must be a non-executive director of the bank;
   (d) the majority of the members of the committee must be independent; and
   (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011.

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.

12. That:
   (a) the business and affairs of the bank are managed by, or under the direction or supervision of, the board of the bank;
   (b) the employment contract of the chief executive officer of the bank or person in an equivalent position (together "CEO") is with the bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the bank; and
   (c) all staff employed by the bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and be accountable (directly or indirectly) to the CEO of the bank.

13. That the bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the bank that are carried on by a person other than the bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the bank or of a service provider to the bank, the following outcomes:
   (a) that the bank's clearing and settlement obligations due on a day can be met on that day;
   (b) that the bank's financial risk positions on a day can be identified on that day;
   (c) that the bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
   (d) that the bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

   For the purposes of this condition of registration, the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006.

14. That the banking group complies with the following quantitative requirements for liquidity-risk management:
   (a) the one-week mismatch ratio of the banking group is not less than zero percent at the end of each business day;
   (b) the one-month mismatch ratio of the banking group is not less than zero percent at the end of each business day; and
   (c) the one-year core funding ratio of the banking group is not less than 75 percent at the end of each business day.

   For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated March 2011 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

15. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:
   (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
   (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
   (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
   (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through contingency funding plan.

16. That no more than 10% of total assets may be beneficially owned by a SPV.

   For the purposes of this condition,
   - "total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets:
   - "SPV" means a person—

   (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
   (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
   (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

   - "covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

17. That –
    (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
    (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
        (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

    For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.
18. That the registered bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the registered bank can-
    (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager –
        (i) all liabilities are frozen in full; and
        (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
    (b) apply a *de minimis* to relevant customer liability accounts;
    (c) apply a partial freeze to the customer liability account balances;
    (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
    (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
    (f) reinstate customers' access to some or all of their residual frozen funds.
19. That the registered bank has an Implementation Plan that-
    (a) is up-to-date; and
    (b) demonstrates that the registered bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS 17).
20. That the registered bank has a compendium of liabilities that-
    (a) at the product-class level lists all liabilities, indicating which are-
        (i) pre-positioned for Open Bank Resolution; and
        (ii) not pre-positioned for Open Bank Resolution;
    (b) is agreed to by the Reserve Bank; and
    (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.
21. That on an annual basis the registered bank tests all the component parts of its OBR solution that demonstrates the registered bank's prepositioning for Open Bank Resolution as specified in their Implementation Plan.

For the purposes of this condition of registration, "*de minimis*", "partial freeze", "customer liability account", "frozen and unfrozen funds", "Implementation Plan", "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank document entitled "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2013.

In these conditions of registration,-

- "banking group" means Bank of New Zealand's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993):
- "generally accepted accounting practice" has the same meaning as in section 2 of the Financial Reporting Act 1993.

Changes in conditions of registration

After the reporting period the following changes were made to the Bank's conditions of registration:

From 1 October 2013, conditions 1, 1A and 1B were updated to refer to a new version of BS2B, which makes minor technical changes to the definition of capital and includes a new version of BS16. The revised BS16 clarifies the information requirements when a registered bank intends to repay a capital instrument and replace it with another.

From 1 October 2013, a new condition 22 applies so that for a loan-to-valuation measurement period, the total of the Bank's qualifying new mortgage lending amounts must not for residential properties with a loan-to-valuation ratio of more than 80%, exceed 10% of the total of the qualifying new mortgage lending amounts arising in the loan-to-valuation measurement period.

From 1 October 2013, a new condition 23 applies so that the Bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the Bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

From 1 October 2013, a new condition 24 applies so that the bank must not permit a borrower to grant a charge in favour of another person over a residential property used as security for a residential mortgage loan unless the sum of the lending secured by the charge and the loan value for the residential mortgage loan would not exceed 80% of the property value of the residential property when the lending secured by the charge is drawn down.

From 1 October 2013, a new condition 25 applies so that the Bank must not provide a residential mortgage loan if the residential property to be mortgaged to the bank as security for the residential mortgage loan is subject to a charge in favour of another person unless the total amount of credit secured by the residential property would not exceed 80% of the property value when the residential mortgage loan is drawn down.

From 1 October 2013, a new condition 26 applies so that the bank must not act as broker or arrange for a member of its banking group to provide a residential mortgage loan.

In conditions of registration 22 to 26,—

"loan-to-valuation ratio", "loan value", "property value", "qualifying new mortgage lending amount" and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated September 2013:

"loan-to-valuation measurement period" means—

(a) six calendar month period ending on the last day of March 2014; and

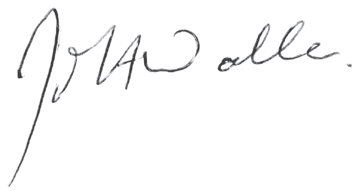
(b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of April 2014.

Directors' Statement

The Directors of Bank of New Zealand (the "Bank") 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 2013:
   (a) the Bank has complied with its conditions of registration applicable during that period;
   (b) credit exposures to connected persons 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, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 6th December 2013 and signed by Messrs. Waller and Thorburn as Directors and as responsible persons on behalf of all the other Directors.



J A Waller
Chairman

A G Thorburn
Managing Director and Chief Executive Officer