ASB General Disclosure Statement

ANNUAL REPORT 2010

For the year ended

30 June 2010

Contents

Consolidated Performance in Brief

For the year ended 30 June	**2010**	2009	2008	2007	2006
INCOME STATEMENT ($ MILLIONS)					
Interest Income	**3,976**	4,755	4,647	3,816	3,210
Interest Expense	**2,943**	3,775	3,646	2,926	2,406
Net Interest Earnings	**1,033**	980	1,001	890	804
Other Income	**392**	532	364	420	344
Total Operating Income	**1,425**	1,512	1,365	1,310	1,148
Impairment Losses on Advances	**125**	238	40	18	19
Total Operating Income after Impairment Losses	**1,300**	1,274	1,325	1,292	1,129
Total Operating Expenses	**659**	632	588	533	495
Net Profit before Taxation	**641**	642	737	759	634
Taxation	**405**	217	222	227	194
Net Profit after Taxation	**236**	425	515	532	440

As at 30 June	**2010**	2009	2008	2007	2006
BALANCE SHEET ($ MILLIONS)					
Total Assets	**63,557**	65,230	59,350	52,893	44,568
Advances (includes Money Market Advances and Advances to Customers before Collective Provision for Impairment)	**53,810**	53,393	51,145	45,204	39,034
Collective Provision	**201**	178	87	84	79
Individually Assessed Provisions	**60**	83	22	7	1
Total Liabilities	**60,009**	62,072	56,151	49,773	41,879
Deposits (includes Money Market Deposits, Deposits from Customers and Amounts Due to Other Banks)	**56,188**	56,714	53,961	47,781	41,066
SHAREHOLDERS' EQUITY ($ MILLIONS)					
Shareholders' Equity at End of Year	**3,548**	3,158	3,199	3,120	2,689
Dividends: Ordinary	**160**	180	610	825	860
Perpetual Preference	**17**	34	34	31	30
PERFORMANCE					
Return on Ordinary Shareholder's Equity	**7.8%**	14.9%	18.4%	21.3%	21.3%
Return on Total Average Assets	**0.4%**	0.7%	0.9%	1.1%	1.1%
Net Interest Earnings as a Percentage of Total Average Assets	**1.6%**	1.6%	1.8%	1.8%	1.9%
Total Operating Expenses as a Percentage of Total Operating Income	**46.2%**	41.8%	43.1%	40.7%	43.1%
Growth in Total Assets	**-2.6%**	9.9%	12.2%	18.7%	14.9%
CAPITAL RATIOS					
Shareholders' Equity as a Percentage of Total Assets	**5.6%**	4.8%	5.4%	5.9%	6.0%
BASEL II					
Tier One Capital as a Percentage of Total Risk Weighted Exposures	**10.9%**	10.2%	9.4%	N/A	N/A
Total Capital as a Percentage of Total Risk Weighted Exposures	**13.2%**	12.4%	11.8%	N/A	N/A
BASEL I					
Tier One Capital as a Percentage of Total Risk Weighted Exposures	**9.5%**	9.2%	8.6%	9.0%	9.8%
Total Capital as a Percentage of Total Risk Weighted Exposures	**11.8%**	11.4%	11.0%	10.5%	10.6%

> Performance Overview

ASB RETURNS SOLID PERFORMANCE

ASB has maintained sound financial performance through the economic recession, reporting a solid net profit after tax of $428m for the year ended 30 June 2010 (2009: $431m) after taking into account the one-off additional tax charge of $209m and the perpetual dividend payments of $17m. ASB's statutory net profit after tax for the year is $236m.

ASB Chairman Gary Judd QC says, "ASB continues to maintain a strong and stable position in a difficult market."

Key financial highlights

Intense competition for retail deposits and the continued high cost of funding has held the **net interest margin** on interest bearing assets stable at 1.6 percent.

While **total assets** have declined by 2.6 percent to $63.6b over the 12 months, this is largely due to volatility in the derivative instrument market, with **lending** over the same period increasing by 0.8 percent to $53.8b. "ASB led variable lending rates down back in September last year, our continued support of New Zealand homeowners being reflected in an almost 2 percent increase in **home loan balances**. Balances now stand at $38.4b, with the bank's home loan market share remaining steady at 23 percent," says Mr Judd.

As a result of the slump in the commercial property market, debt deleveraging by businesses and a reduction in economic activity as a result of the recession, there has been an overall decline of 7.3 percent in the business lending market across New Zealand. Against this background, ASB's **business lending** fell only marginally by 1.9 percent to $6.8b, increasing ASB's market share by 0.5 percent to 9.3 percent. **Rural lending** remained flat.

Total deposits stood at $56.2b at year end, with **retail deposits** increasing strongly by 5.3 percent to $31.5b. "During a period of intense competition, ASB's strength in customer service and competitive pricing has boosted our pool of domestic retail deposits. We are pleased that our customers have also chosen to support our community partner Term Deposit campaigns, with KidsCan Telethon, St John and Starship all benefiting significantly as a result," adds Chairman Judd.

Loan impairment charges reduced by a substantial 47.5 percent during the 2010 financial year, decreasing down to $125m ($238m in 2009). Impairment charges have thereby halved over the last year and have certainly turned the corner from the market peaks of 2009. "This sizeable reduction reflects both New Zealand's emergence from the current economic cycle and the underlying quality of the ASB loan book," Mr Judd says.

For the 12 month period ordinary dividends totalling $160m were paid to ASB's New Zealand holding company. No ordinary dividends were paid on to parent company Commonwealth Bank of Australia, reflecting CBA's commitment to support and grow its businesses in New Zealand.

Beyond the numbers

ASB continues to look beyond financial success as a measure of performance, focusing on our vision to be world class for our customers, colleagues and community.

Our **customers** continue to benefit from our commitment to deliver top quality service everyday, with independent surveys continuing to rate ASB at the forefront of the banking industry.

ASB's new Financial Help team has now assisted over 1,100 customers to assess and address their financial difficulties, with issues ranging from spending patterns and budgeting to reorganising finances to cater for changing customer needs. The ASB Job Creation Loan also continues to boost New Zealand employment, contributing business loans of more than $105m and a total of 1,281 new jobs having been retained or created.

ASB also created two new online banking services this year – 'Track my Spending, which has seen almost 80,000 active users already having categorized their spending' and 'ASB Business Cash Plan' – both allowing customers to easily monitor their spending. In May 2010 the ASB KiwiSaver Scheme reached $1 billion, making it the single largest KiwiSaver scheme in New Zealand.

For our **colleagues**, ASB and St John again partnered up to launch the largest ever corporate CPR training programme ever undertaken by St John. More than 3,500 ASB colleagues have now been trained in CPR, adding to the 10,000+ free courses offered to the New Zealand public the previous year. In July this year, the success of this ASB/St John Working Together CPR training initiative was acknowledged with the presentation of a Robin Hood Foundation Prime Minister's Social Heroes Award.

Performance Overview (continued)

ASB has also maintained its commitment to keep all jobs here in New Zealand with no offshoring of any roles.

In our **community** ASB is delighted with the success of GetWise, our new school-based financial literacy programme launched in February 2010. The first two terms of the ASB GetWise programme saw huge support from schools around New Zealand for the programme, with almost 30,000 children already having taken part.

Looking forward

Having completed a strategic review of our business in 2009, ASB is now well underway with the delivery of a wide range of initiatives to further strengthen our relationships with customers, colleagues and local communities.

Key initiatives include the decision to upgrade our already market-leading core banking systems by investing over $200m in technology renewal, leveraging the more than $0.5b investment in its systems being made by our parent, CBA; planning for our July 2013 move to a $160m new sustainable ASB head office building based at Auckland's North Wharf in the Wynyard Quarter; and committing to an additional $100m investment in our branch network through the opening of 25 new ASB branches and refurbishment of a further 117 over the next 5 years. Twelve of these new branches are planned to open over the next 12 months. "This very significant investment programme shows ASB's confidence in both our future and the future of New Zealand," says Mr Judd.

G.J. Judd Q.C.
Chairman
ASB Bank Limited

30 August 2010

Annual Report

The Directors are pleased to present the Annual Report for ASB Bank Limited (the "Bank") for the year ended 30 June 2010.

The shareholders of the Bank have agreed to apply the reporting concessions available under section 211(3) of the Companies Act 1993. Accordingly, there is no information required to be included in the Annual Report other than the financial statements for the year ended 30 June 2010 and the audit report on those financial statements, which are enclosed. Despite that agreement, the Directors are pleased to also provide on the following pages an overview of the Bank's corporate governance.

G.J. Judd
Chairman

C.J.S. Pink
Managing Director

30 August 2010

Corporate Governance

The Board places great importance on the governance of the Bank. Performance and compliance are both essential for good governance.

Reviews of the Board's performance and its policies and practices are carried out annually. These reviews identify where improvements can be made, and also assess the quality and effectiveness of the industry and company information made available to Directors.

The principal features of the Bank's corporate governance are:

> The Audit & Risk Committee consists only of non-Executive Directors.

> The Managing Director does not participate in deliberations of either the Board or the Executive Appointments and Remuneration Committee affecting his position, remuneration or performance.

> There is an established criteria for the appointment of new Directors and external consultants are engaged in the search for new independent Directors.

> In terms of Section 74 of the Reserve Bank of New Zealand Act 1989, the Conditions of Registration for the Bank include:

- the Board must have at least two independent Directors;
- the Chairperson must not be an employee of the Bank;
- the Bank's Directors must at all times act in the best interests of the Bank when exercising powers or performing duties as a Director;
- no appointment of any Director, Chief Executive Officer, or Executive who reports or is accountable directly to the Chief Executive Officer shall be made unless the Reserve Bank of New Zealand has been supplied with the person's Curriculum Vitae and the Reserve Bank of New Zealand has advised it has no objection to the appointment;
- a substantial proportion of the Bank's business must be conducted in and from New Zealand; and
- exposures to connected persons cannot be on more favourable terms than corresponding exposures to non-connected persons.

The Bank complies with these requirements.

> New independent Directors are invited to participate in an induction programme. All Directors regularly consider issues, trends and challenges relevant to the Bank, the financial services industry and the economy.

> Non-Executive Directors do not participate in any of the Bank's incentive plans.

The philosophy underlying the approach to corporate governance is consistent with the ethical standards required of all employees of the Bank.

COMMITTEES OF THE BOARD

The Board has delegated specific powers and responsibilities to Board and management committees. The decisions made by all Board committees are advised to the full Board. Management committees always recommend key decisions to the Board for approval.

There are two permanent Board committees – an Audit & Risk committee and an Executive Appointments & Remuneration committee. Other committees are formed to carry out specific delegated tasks when required.

An independent Director chairs each committee.

AUDIT & RISK COMMITTEE

The Board Audit & Risk Committee (the "BARC") assists the Board in carrying out its responsibilities concerning financial reporting and control, conformance with legal requirements, the identification and prudent management of risk and the good governance of the bank in relation to those matters.

All non-Executive Directors are members of the BARC. The Chairman of the BARC is Mr J.P. Hartley.

The Charter of the BARC incorporates a number of requirements to ensure that the BARC is independent and effective.

The responsibilities of the BARC include the following:

Financial Reporting and Internal Control

> Review and if deemed appropriate recommend that the Board adopt external financial reporting prepared by management.

> Review accounting policies to ensure compliance with applicable laws and standards.

> Review the adequacy of internal controls.

> Review assurances by management on the effectiveness of internal controls, compliance with risk management frameworks and disclosures in connection with financial reporting.

Audit

> Advise the Board in connection with any recommendation to the shareholder on the appointment and removal of the external auditor.

> Oversee and appraise the independence, scope and effectiveness of internal audit services. The principal reporting line of the Chief Internal Auditor is to the BARC through the Chairman of the BARC.

> Oversee and appraise the independence, scope and effectiveness of external audit services.

Corporate Governance

AUDIT & RISK COMMITTEE (continued)

The Board has in place policies governing the nature of non-audit work which cannot be undertaken by the Bank's auditor for the Bank or its subsidiaries. There are also procedures in place governing the pre-approval of all non-audit work. The objective of these approvals is to avoid prejudicing the independence of the auditor and to prevent their developing undue reliance on revenue from the Bank.

The policy ensures that the auditor does not:

- assume the role of management;
- become an advocate for their own client; or
- audit work that comprises a direct output of their own professional expertise.

Under the policy the auditor will not provide the following services:

- bookkeeping or services relating to accounting records;
- appraisal or valuation and fairness opinions;
- advice on deal structuring and related documentation;
- tax planning and strategic advice;
- actuarial advisory services;
- executive recruitment or extensive human resource functions;
- acting as a broker-dealer, promoter or underwriter; or
- legal services.

The Bank's external auditor carries out audits across the Commonwealth Bank of Australia Group of companies, including ASB Bank Limited. Commonwealth Bank of Australia requires that the partner managing the external audit is changed within a period of five years.

Risk Management

> Approving and reviewing the Bank's risk management frameworks and policies, including those related to credit risk, market risk and operational risk.

> Reviewing and adjusting where appropriate the bank's credit portfolios according to established parameters, including concentration, duration and expected returns and losses.

> Approving the delegated authority framework for credit approval, review, provisioning and write-offs, and approving individual amounts in excess of such delegations.

> Reviewing market, capital, funding and liquidity risks relative to established parameters.

> Reviewing the Bank's significant operational risk exposures in accordance with established risk appetite.

> Reviewing the amount of capital allocated to all risk types for performance management and regulatory reporting purposes.

EXECUTIVE APPOINTMENTS & REMUNERATION COMMITTEE

The responsibilities of the Executive Appointments & Remuneration Committee include:

> Making recommendations to the Board concerning the appointment and remuneration of the Managing Director.

> Approving appointments to and remuneration of positions that report to the Managing Director.

Members of the Executive Appointments & Remuneration Committee are Messrs G. J. Judd (Chairman), R. M. McEwan and G. R. Walker.

Remuneration for the Bank's Executives is determined after taking external advice to ensure competitive remuneration packages are in place to attract and retain competent and high-calibre people.

Incentive payments for Executives are directly related to performance and depend on the extent to which strategic and operating targets set at the beginning of the financial year are achieved.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Bank has effected liability insurance for the Directors and Officers of the Bank and its subsidiaries.

General Disclosures

(To be read in conjunction with the Financial Statements)

30 June 2010
This General Disclosure Statement has been issued by ASB Bank Limited in accordance with the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008.

Corporate Information
ASB Bank Limited (the "Bank") is a company incorporated under the Companies Act 1955 on 16 August 1988 and is registered under AK398445. The registered office of the Bank is Level 28, ASB Bank Centre, 135 Albert Street, Auckland. The Bank was re-registered under the Companies Act 1993 on 30 June 1995.

The "Banking Group" consists of the Bank and those controlled entities listed in Note 17 to the financial statements.

Ultimate Parent Bank
The ultimate parent bank of ASB Bank Limited is Commonwealth Bank of Australia, its registered office being Ground Floor, Tower 1, 201 Sussex Street, Sydney, NSW, Australia.

Persons Having a Significant Interest in a Registered Bank
The Bank's immediate parent, ASB Holdings Limited, holds 100% of the voting shares of the Bank and has the power of appointment of Directors. The ultimate parent bank, Commonwealth Bank of Australia, has indirect power to appoint Directors.

Credit Ratings
As at the date of the signing of this General Disclosure Statement, the following ratings were assigned to the Bank's long term New Zealand dollar debt by these rating agencies:

Moody's Investors Service, Inc ("Moody's")	Aa2
Standard & Poor's (Australia) Pty Limited ("S&P")	AA

The Moody's rating was raised to Aa2 from Aa3 on 11 May 2007. The S&P rating was raised to AA from AA- on 21 February 2007. The outlook from both agencies is stable and has remained unchanged during the two years preceding the date of the signing of this General Disclosure Statement.

Descriptions of the steps in the ratings scales above are set out on page 81.

Guarantee Arrangements
The Bank is guaranteed under the New Zealand Deposit Guarantee Scheme ("Crown Guarantee").

The New Zealand Wholesale Funding Guarantee Facility was closed on 30 April 2010.

Guarantor Details
The guarantor's name and address for service is: The Crown, 1 The Terrace, Wellington, New Zealand.

Further information about the Crown Guarantee including a copy of the Crown Deed of Guarantee is available on the Treasury's website www.treasury.govt.nz and in the Bank's most recent Supplemental Disclosure Statement. The most recent audited financial statements of the Crown and details of its credit ratings can also be obtained at the Treasury's website www.treasury.govt.nz.

As at the date of the signing of this General Disclosure Statement, the following credit ratings were assigned to the Crown's long term New Zealand dollar debt by these rating agencies:

Fitch Ratings	AAA
Moody's Investors Service, Inc	Aaa
Standard & Poor's (Australia) Pty Limited	AAA

These ratings have remained unchanged in the two years preceding the date of the signing of this General Disclosure Statement.

CROWN GUARANTEE
The Crown Guarantee is provided under section 65ZD of the Public Finance Act 1989 on the terms and conditions of Crown Deeds of Guarantee (Registered Bank) entered into by the Bank and the Crown on 4 November 2008 and 16 December 2009 ("Crown Deeds of Guarantee").

Obligations Guaranteed
As at the date of the signing of this General Disclosure Statement the only material obligations of the Bank that are guaranteed are payment obligations of the Bank in respect of debt securities guaranteed under the Crown Guarantee.

The Crown Guarantee does not extend to obligations of the Bank in respect of subordinated debt securities or to creditors that are Related Parties (as defined in the Crown Deeds of Guarantee) of the Bank or Financial Institutions (as defined in the Crown Deeds of Guarantee). The Crown Guarantee extends to payment obligations of the Bank under debt securities held by:

(a) the trustee of the ASB Cash Fund, on the terms and conditions of a Crown Deed of Nomination (Unit Trust) dated 19 December 2008, as amended by deeds dated 20 November 2009 and 27 November 2009; and
(b) the trustee of the ASB Term Fund, on the terms and conditions of a Crown Deed of Nomination (Unit Trust) dated 19 December 2008, as amended by deeds dated 20 November 2009 and 27 November 2009;

(each such trustee being a "Nominated Beneficiary").

The Crown Guarantee applies for a period commencing at 12.01am on 12 October 2008 and expiring at 12.01am on 12 October 2010 ("Guarantee Period").

Under the Crown Guarantee the Crown absolutely and irrevocably guarantees to each eligible creditor the due and punctual payment by the Bank of:

(i) all money payable to the creditor under relevant debt securities ("Indebtedness") that becomes due and payable during the Guarantee Period;
(ii) if a Default Event (as defined in the Crown Deeds of Guarantee) occurs during the Guarantee Period, all Indebtedness that exists on the date of the Default Event (whether or not that Indebtedness is due and payable during the Guarantee Period); and
(iii) all interest on the amounts referred to in (ii) above accruing after the occurrence of the Default Event.

The Crown undertakes that if the Bank does not pay an amount referred to in (i), (ii) or (iii) above, the Crown will pay that amount to the creditor no later than 14 days after the due date of the Indebtedness if the Indebtedness is not otherwise paid on or before that date.

General Disclosures (continued)

(To be read in conjunction with the Financial Statements)

30 June 2010

Guarantee Arrangements (continued)

The Crown's obligation to pay any amount under the Crown Guarantee is subject to the Crown receiving a notice of claim from the creditor in respect of the relevant Indebtedness and the Crown satisfying itself as to the amount of the Indebtedness and such other matters as the Crown reasonably considers appropriate in order to ascertain the extent of its liability under the Crown Guarantee in respect of that Indebtedness.

The maximum liability of the Crown to each creditor (not being a Nominated Beneficiary) under the Crown Guarantee is one million New Zealand dollars ($1,000,000). For this purpose amounts owed to creditors by the Bank under any Debt Security will be aggregated with other amounts owed to the same creditor by the Bank that are supported by the Crown Guarantee.

The maximum liability of the Crown to each Nominated Beneficiary under the Crown Guarantee is the amount described in the relevant Crown Deed of Nomination (Unit Trust).

The Bank has paid non-refundable fees to the Crown for the Crown Guarantee as follows: (a) $18.3m for the first 12 months of the Guarantee Period; and (b) $18.5m for the second 12 months of the Guarantee Period.

On 13 September 2009 the Crown Retail Deposit Guarantee Scheme Act 2009 ("Act") came into force, providing legislative authority for the extension of the Crown Guarantee. On 16 September 2009 the Minister of Finance gave notice under the Act of (a) the types of entities in respect of which guarantees may be given under the Act and (b) the criteria for entities to satisfy before such guarantees may be given. The extended Crown Retail Deposit Guarantee Scheme (the "Extended Scheme") operates in respect of defaults of institutions that are members of the Extended Scheme which occur during the period 12 October 2010 until 31 December 2011. The Extended Scheme has different terms and conditions from the Crown Guarantee. Institutions covered by the Crown Guarantee are not automatically covered by the Extended Scheme. Interests in collective investment schemes such as the ASB Cash Fund and the ASB Term Fund will not be covered by the Extended Scheme. The Reserve Bank has stated that there is no need for banks to enter into the Extended Scheme. As at the date of this General Disclosure Statement, the Bank has not applied to be covered by the Extended Scheme.

Supplemental Disclosure Statement

The Bank's most recent Supplemental Disclosure Statement containing a copy of the Crown Deeds of Guarantee and the Crown Deeds of Nomination (Unit Trust) (and amendments thereto) is available on the Bank's website www.asb.co.nz. A copy of the Supplemental Disclosure Statement can also be obtained without charge immediately where a request is made during normal working hours at the Bank's Registered Office; or within five working days of a request being made to a branch or agency of the Bank.

Legally Enforceable Restrictions that may Materially Inhibit Commonwealth Bank of Australia's Legal Ability to Provide Material Financial Support to ASB Bank Limited

The Commonwealth Bank of Australia does not guarantee the obligations of ASB Bank Limited or its subsidiaries.

Under the Banking Act 1959 (Australia), the Australian Prudential Regulation Authority ("APRA"), may prescribe prudential requirements by regulation, requiring the Commonwealth Bank of Australia to observe such requirements. These prudential requirements may affect the ability of the Commonwealth Bank of Australia to provide material financial support to ASB Bank Limited or its subsidiaries.

Under section 13A(3) of the Banking Act 1959 of the Commonwealth of Australia, if an Authorised Deposit-taking Institution ("ADI") (which includes a bank) becomes unable to meet its obligations or suspends payment, the assets of the ADI in Australia are to be available to meet the ADI's liabilities in the following order: (a) first, the ADI's liabilities to APRA, to the extent that APRA has made, or is required to make, payments to depositors under the Financial Claims Scheme; (b) second, the ADI's debts to APRA for costs incurred by APRA in the administration of the Scheme in respect of that ADI; (c) third, in payment of the ADI's deposit liabilities in Australia (other than liabilities covered under paragraph (a)); and (d) fourth, the ADI's other liabilities.

Dealings with Directors

Directors' details are contained in the Directory on page 85.

Dr Rick Boven resigned as a Director of ASB Bank Limited with effect from 4 August 2010.

Mr Jim Syme resigned as a Director of ASB Bank Limited with effect from 4 August 2010.

There have been no other changes to Directors since the 31 March 2010 General Short Form Disclosure Statement was signed.

There have been no dealings with Directors or parties related to the Directors on terms other than in the ordinary course of business. Refer to Note 40 of the financial statements for details of outstanding balances with Directors.

All Directors are required to table all possible conflicts of interest at Board of Directors' meetings and are required to abstain from any vote on those proceedings. The Bank complies with all requirements of the Companies Act 1993 in terms of registers and notices for Directors' conflicts of interest.

Communications addressed to the Directors should be sent to:

Level 28, ASB Bank Centre
135 Albert Street
Auckland 1010
New Zealand

Auditor

PricewaterhouseCoopers is the appointed auditor of the Banking Group. The auditor's address is contained in the Directory on page 86.

Historical Summary of Consolidated Financial Statements

$ millions *For the year ended 30 June*	**2010**	2009	2008	2007	2006
INCOME STATEMENT					
Interest Income	**3,976**	4,755	4,647	3,816	3,210
Interest Expense	**2,943**	3,775	3,646	2,926	2,406
Net Interest Earnings	**1,033**	980	1,001	890	804
Other Income	**392**	532	364	420	344
Total Operating Income	**1,425**	1,512	1,365	1,310	1,148
Impairment Losses on Advances	**125**	238	40	18	19
Total Operating Income after Impairment Losses	**1,300**	1,274	1,325	1,292	1,129
Total Operating Expenses	**659**	632	588	533	495
Net Profit before Taxation	**641**	642	737	759	634
Taxation	**405**	217	222	227	194
Net Profit after Taxation	**236**	425	515	532	440
Of which Impaired Asset Expense / (Recovery)	**28**	95	26	8	(1)
DIVIDENDS PAID					
Ordinary Dividends	**160**	180	610	825	860
Perpetual Preference Dividends	**17**	34	34	31	30
Total Dividends	**177**	214	644	856	890

$ millions *As at 30 June*	**2010**	2009	2008	2007	2006
BALANCE SHEET					
Total Assets	**63,557**	65,230	59,350	52,893	44,568
Of which Impaired Assets	**492**	352	30	10	5
Total Liabilities	**60,009**	62,072	56,151	49,773	41,879
Total Shareholders' Equity	**3,548**	3,158	3,199	3,120	2,689

The amounts disclosed in this historical summary of financial statements have been taken from the audited financial statements of the Banking Group, which were prepared in accordance with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS").

Income Statement

$ millions		Consolidated		Parent	
For the year ended 30 June	Note	**2010**	2009	**2010**	2009
Interest Income	2	**3,976**	4,755	**4,173**	5,013
Interest Expense	3	**2,943**	3,775	**3,160**	4,052
Net Interest Earnings		**1,033**	980	**1,013**	961
Other Income	5	**392**	532	**338**	346
Total Operating Income		**1,425**	1,512	**1,351**	1,307
Impairment Losses on Advances	16 (b)	**125**	238	**125**	238
Total Operating Income after Impairment Losses		**1,300**	1,274	**1,226**	1,069
Total Operating Expenses	6	**659**	632	**619**	591
Salaries and Other Staff Expenses		**385**	369	**357**	335
Building Occupancy and Equipment Expenses		**109**	103	**106**	98
Information Technology Expenses		**72**	65	**66**	59
Other Expenses		**93**	95	**90**	99
Net Profit before Taxation		**641**	642	**607**	478
Taxation	8	**405**	217	**395**	65
Net Profit after Taxation		**236**	425	**212**	413

These statements are to be read in conjunction with the notes on pages 15 to 78 and the Auditor's Report on pages 83 to 84.

Statement of Comprehensive Income

$ millions *For the year ended 30 June*	Note	Consolidated **2010**	 2009	Parent **2010**	 2009
Net Profit after Taxation		**236**	425	**212**	413
Other Comprehensive Income, Net of Taxation					
Movement in Asset Revaluation Reserve	30	**(1)**	1	**(1)**	1
Net Change in Available for Sale Reserve	31	**-**	(4)	**-**	(4)
Net Change in Cash Flow Hedge Reserve	32	**332**	(525)	**332**	(525)
Net Change in Investment Hedge	33	**-**	(304)	**-**	-
Currency Translation Differences	33	**-**	305	**-**	-
Total Other Comprehensive Income / (Expense), Net of Taxation		**331**	(527)	**331**	(528)
Total Comprehensive Income / (Expense)		**567**	(102)	**543**	(115)

These statements are to be read in conjunction with the notes on pages 15 to 78 and the Auditor's Report on pages 83 to 84.

Statement of Changes in Equity

$ millions	Note	Contributed Capital	Asset Revaluation Reserve	Available for Sale Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Shareholders' Equity
					Consolidated			
For the year ended 30 June 2010								
Balance at Beginning of Year		**2,798**	**30**	**15**	**(498)**	**1**	**812**	**3,158**
Dividends Paid	9	**-**	**-**	**-**	**-**	**-**	**(177)**	**(177)**
Total Comprehensive (Expense) / Income		**-**	**(1)**	**-**	**332**	**-**	**236**	**567**
Balance as at 30 June 2010		**2,798**	**29**	**15**	**(166)**	**1**	**871**	**3,548**
For the year ended 30 June 2009								
Balance at Beginning of Year		2,523	29	19	27	-	601	3,199
Ordinary Share Capital Issued	29	275	-	-	-	-	-	275
Dividends Paid	9	-	-	-	-	-	(214)	(214)
Total Comprehensive Income / (Expense)		-	1	(4)	(525)	1	425	(102)
Balance as at 30 June 2009		2,798	30	15	(498)	1	812	3,158
					Parent			
For the year ended 30 June 2010								
Balance at Beginning of Year		**2,798**	**26**	**15**	**(498)**	**-**	**732**	**3,073**
Dividends Paid	9	**-**	**-**	**-**	**-**	**-**	**(177)**	**(177)**
Total Comprehensive (Expense) / Income		**-**	**(1)**	**-**	**332**	**-**	**212**	**543**
Balance as at 30 June 2010		**2,798**	**25**	**15**	**(166)**	**-**	**767**	**3,439**
For the year ended 30 June 2009								
Balance at Beginning of Year		2,523	25	19	27	-	533	3,127
Ordinary Share Capital Issued	29	275	-	-	-	-	-	275
Dividends Paid	9	-	-	-	-	-	(214)	(214)
Total Comprehensive Income / (Expense)		-	1	(4)	(525)	-	413	(115)
Balance as at 30 June 2009		2,798	26	15	(498)	-	732	3,073

These statements are to be read in conjunction with the notes on pages 15 to 78 and the Auditor's Report on pages 83 to 84.

Balance Sheet

$ millions		Consolidated		Parent	
As at 30 June	Note	**2010**	2009	**2010**	2009
ASSETS					
Cash and Call Deposits with the Central Bank	10	**1,175**	1,582	**1,175**	1,581
Due from Other Banks	11	**1,021**	1,213	**1,018**	1,210
Money Market Advances	12	**132**	159	**132**	159
Securities	13	**5,166**	6,176	**5,165**	6,063
Derivative Assets	14	**1,951**	2,209	**1,952**	2,210
Advances to Customers	15	**53,477**	53,056	**53,441**	53,006
Due from Controlled Entities and Associates		**-**	-	**5,025**	4,938
Investments in Controlled Entities and Associates	17	**-**	-	**62**	62
Current Taxation Asset		**9**	35	**13**	55
Other Assets	18	**207**	236	**191**	219
Property, Plant and Equipment	19	**136**	154	**124**	142
Investment Property	20	**8**	-	**8**	-
Intangible Assets	21	**116**	119	**64**	66
Deferred Taxation Asset	22	**159**	291	**160**	290
Total Assets		**63,557**	65,230	**68,530**	70,001
Total Interest Earning and Discount Bearing Assets		***60,835***	*62,000*	***65,545***	*66,702*
Financed by:					
LIABILITIES					
Due to Other Banks	24	**6,842**	6,151	**6,842**	6,151
Money Market Deposits	25	**17,863**	20,670	**7,090**	8,348
Derivative Liabilities	14	**2,474**	4,064	**2,474**	4,064
Deposits from Customers	26	**31,483**	29,893	**30,023**	28,976
Due to Controlled Entities and Associates		**-**	-	**17,372**	18,164
Other Liabilities	27	**495**	436	**438**	367
Subordinated Debt	28	**852**	858	**852**	858
Total Liabilities		**60,009**	62,072	**65,091**	66,928
SHAREHOLDERS' EQUITY					
Contributed Capital – Ordinary Shares	29	**2,248**	2,248	**2,248**	2,248
Asset Revaluation Reserve	30	**29**	30	**25**	26
Available for Sale Reserve	31	**15**	15	**15**	15
Cash Flow Hedge Reserve	32	**(166)**	(498)	**(166)**	(498)
Foreign Currency Translation Reserve	33	**1**	1	**-**	-
Retained Earnings	34	**871**	812	**767**	732
Ordinary Shareholders' Equity		**2,998**	2,608	**2,889**	2,523
Contributed Capital – Perpetual Preference Shares	29	**550**	550	**550**	550
Total Shareholders' Equity		**3,548**	3,158	**3,439**	3,073
Total Liabilities and Shareholders' Equity		**63,557**	65,230	**68,530**	70,001
Total Interest and Discount Bearing Liabilities		***55,127***	*55,738*	***59,943***	*60,520*

Signed on behalf of the Board of Directors

G.J. Judd
30 August 2010

J.P. Hartley
30 August 2010

These statements are to be read in conjunction with the notes on pages 15 to 78 and the Auditor's Report on pages 83 to 84.

Cash Flow Statement

$ millions *For the year ended 30 June*	Note	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest Received		**4,041**	4,813	**4,236**	5,063
Other Income		**(247)**	660	**(319)**	744
Dividends Received		**2**	2	**20**	22
Interest Paid		**(3,073)**	(3,855)	**(3,066)**	(4,122)
Operating Expenses		**(577)**	(604)	**(534)**	(574)
Net Taxation Paid		**(361)**	(33)	**(360)**	(32)
Payments to Related Parties for Tax Related Items		**(30)**	(153)	**(13)**	(150)
Cash Flows from Operating Profits before Changes in Operating Assets and Liabilities		**(245)**	830	**(36)**	951
Changes in Operating Assets and Liabilities					
Net Decrease in Money Market Advances		**24**	907	**24**	907
Net (Increase) / Decrease in Due from Other Banks (Term)		**(239)**	607	**(235)**	602
Net Increase in Advances to Customers		**(628)**	(3,449)	**(636)**	(3,473)
Net Decrease / (Increase) in Trading Securities		**431**	(2,029)	**431**	(2,266)
Net Increase in Customer Deposits		**1,590**	2,104	**1,048**	1,187
Net (Decrease) / Increase in Money Market Deposits		**(2,778)**	907	**(1,238)**	596
Net Increase in Due to Other Banks (Term)		**608**	493	**608**	493
Cash Flows from Operating Assets and Liabilities		**(992)**	(460)	**2**	(1,954)
Net Cash Flows from Operating Activities	35	**(1,237)**	370	**(34)**	(1,003)
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
Net Decrease / (Increase) in Other Securities		**537**	1,190	**424**	(525)
Cash was applied to:					
Acquisition of Controlled Entities Net of Cash Acquired		**-**	46	**-**	-
Increase in Investments in Controlled Entities and Associates		**-**	-	**14**	58
Purchase of Property, Plant and Equipment		**14**	32	**14**	32
Purchase of Intangible Assets		**29**	37	**27**	34
		43	115	**55**	124
Net Cash Flows from Investing Activities		**494**	1,075	**369**	(649)
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from:					
Issue of Ordinary Share Capital		**-**	275	**-**	275
Movement in Due to Controlled Entities and Associates		**-**	-	**-**	3,096
		-	275	**-**	3,371
Cash was applied to:					
Dividends Paid		**177**	214	**177**	214
Movement in Due to Controlled Entities and Associates		**-**	-	**1,074**	-
		177	214	**1,251**	214
Net Cash Flows from Financing Activities		**(177)**	61	**(1,251)**	3,157
SUMMARY OF MOVEMENTS IN CASH FLOWS					
Net (Decrease) / Increase in Cash and Cash Equivalents		**(920)**	1,506	**(916)**	1,505
Add: Cash and Cash Equivalents at Beginning of Year		**2,611**	1,105	**2,607**	1,102
Cash and Cash Equivalents at End of Year	36	**1,691**	2,611	**1,691**	2,607

These statements are to be read in conjunction with the notes on pages 15 to 78 and the Auditor's Report on pages 83 to 84.

Notes to the Financial Statements

For the year ended 30 June 2010

1 Statement of Accounting Policies

GENERAL ACCOUNTING POLICIES

The reporting entity is ASB Bank Limited and its controlled entities (the "Banking Group"). ASB Bank Limited (the "Bank") is a company incorporated under the Companies Act 1955 on 16 August 1988 and is registered under AK398445. The Bank was re-registered under the Companies Act 1993 on 30 June 1995. These financial statements have been drawn up in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993, and the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008. They were approved for issue by the Directors on 30 August 2010.

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

The Bank's Directors do not have the power to amend the financial statements once issued.

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 the financial statements.

> NZ IFRS 9 *Financial Instruments* replaces part of NZ IAS 39 *Financial Instruments: Recognition and Measurement* and will be mandatory for the Banking Group's financial statements for the year beginning 1 July 2013. It establishes two primary measurement categories for financial assets: amortised cost and fair value, with classification depending on an entity's business model and the contractual cash flow characteristics of the financial asset. The Banking Group is in the process of evaluating the potential effect of this standard.

The following new standards and amendments to standards have been adopted from 1 July 2009 and have been applied in the preparation of these financial statements. Adoption of the standards has not resulted in any change to the Banking Group's reported results or financial position.

> NZ IAS 1 *Presentation of Financial Statements* (Revised) has resulted in presentation of a Statement of Comprehensive Income and a Statement of Changes in Equity. These statements have replaced the Statement of Recognised Income and Expense.

> NZ IAS 27 *Consolidated and Separate Financial Statements* (Revised) changes aspects of accounting for non-controlling interests and clarifies the accounting for changes in a parent's ownership interest in a subsidiary.

> NZ IFRS 3 *Business Combinations* (Revised) will result in certain measurement changes and additional disclosures in the event of a business combination.

> NZ IFRS 7 *Financial Instruments: Disclosures* (Revised) has resulted in additional disclosures concerning fair value measurement and liquidity risk.

> NZ IFRS 8 *Operating Segments* has resulted in changes to the financial and descriptive information disclosed about the Banking Group's reportable segments (refer to Note 44).

Basis of Preparation

The measurement base adopted is that of historical cost as modified by the fair value measurement of Available for Sale Financial Assets, Financial Instruments at Fair Value through Profit or Loss, Derivative contracts, the revaluation of certain Property, Plant and Equipment and Investment Property.

Critical Accounting Estimates and Judgements

The critical judgements used by management in applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements, apart from those involving estimation, are the designation of financial assets and financial liabilities as at fair value through profit or loss.

Preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates, although it is not anticipated that such differences would be material.

Estimates and assumptions are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Banking Group considers that tax positions, the valuation of financial instruments, the Provision for Impairment on Customer Advances and impairment testing of Goodwill require significant accounting estimates and management judgement. Refer to (f) for details of the valuation of financial instruments, Note 16 for details of credit risk management and the basis of the Banking Group's impairment provision model, Note 21 for key assumptions used in testing Goodwill for impairment and Note 22 for Deferred Taxation.

Presentation Currency and Rounding

The functional and presentation currency of the Banking Group is New Zealand dollars. All amounts contained in this General Disclosure Statement and the financial statements are presented in millions of New Zealand dollars, unless otherwise stated.

PARTICULAR ACCOUNTING POLICIES

There have been no material changes to accounting policies in the year ended 30 June 2010. All policies have been applied on a basis consistent with that used in the financial year ended 30 June 2009.

A Glossary of Terms is set out on page 23.

(a) Basis of Consolidation

The Consolidated financial statements include the financial statements of the Bank and all entities where it is determined that there is capacity to control the entity.

Subsidiaries

Subsidiaries are those entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of entities so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the Consolidated financial statements from the date on which control is transferred to the Bank until the date that control ceases.

Notes to the Financial Statements

For the year ended 30 June 2010

1 Statement of Accounting Policies (continued)

(a) Basis of Consolidation (continued)

Assets, liabilities and results of subsidiaries are included in the Consolidated financial statements on the basis of financial statements made up to balance date, using the purchase method. All intra-group balances and transactions have been eliminated in preparing the Consolidated financial statements.

Other Controlled Entities

The Banking Group may invest in or establish special purpose entities ("SPE") to enable it to undertake specific transactions. The main type of specific transactions of these SPE are securitisation vehicles and structured finance entities. Where the Banking Group has established SPE which are controlled by the Banking Group to facilitate transactions undertaken for Banking Group purposes, these are consolidated in the Banking Group's financial statements (refer to Note 17).

The Banking Group does not consolidate SPE that it does not control. As it can sometimes be difficult to determine whether the Banking Group has control of an SPE, judgements are made about its exposure to the risks and rewards, and whether the majority pass to the Banking Group, as well as about the Banking Group's ability to make operational and financial decisions for the SPE in question.

Associates

Associates are those entities in which the Bank has significant influence, but not control, over the financial and operating policies. The Bank has representation on the Boards of Directors of all companies classified as Associates. Associates are accounted for under the equity method of accounting.

(b) Segment Reporting

The Banking Group's primary reporting format is business segments (refer to Note 44). Segments reported are in line with the organisational structure of the Banking Group and take into account the nature of the products and services provided.

The Banking Group operates predominantly within New Zealand. On this basis geographical segment reporting is not applicable.

(c) Foreign Currency Translation

All foreign currency monetary assets and liabilities are converted at the rates of exchange ruling as at balance date. Foreign currency forward, futures, swaps and option positions are valued at fair value as at balance date. Unrealised gains and losses arising from these revaluations and gains and losses arising from foreign exchange dealings are recognised immediately in the Income Statement.

The foreign currency assets and liabilities of overseas subsidiaries are translated into the Bank's presentation currency at the rate of exchange ruling as at balance date. Income Statements are translated at the weighted average rates for the period. All resulting exchange differences are recognised in the Foreign Currency Translation Reserve ("FCTR") as a separate component of equity. Gains or losses accumulated in the FCTR are transferred to the Income Statement upon partial or full disposal of the overseas subsidiary.

(d) Revenue Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Banking Group and that the revenue can be reliably measured. The principal sources of revenue are interest income, fees and commissions.

Interest Income and Expense

Financial instruments are classified in the manner described in (f). Some are measured by reference to amortised cost, others by reference to fair value.

For financial instruments measured at amortised cost, the effective interest method is used to measure the Interest Income or Expense recognised in the Income Statement.

For financial instruments measured at fair value, Interest Income or Expense is recognised on an accrual basis, either daily or on a yield to maturity basis. For Trading Derivatives the full change in the fair value of the derivative (including interest income and expense) is included in Other Income. Refer to (g) for more detail on derivatives.

Lending Fees

Fees and direct costs relating to loan origination, financing or restructuring and to loan commitments are deferred and amortised to Interest Income over the life of the loan using the effective interest method. Lending fees not directly related to the origination of a loan are recognised over the period of service.

Commission and Other Fees

When commissions or fees relate to specific transactions or events, they are recognised in the Income Statement when the service is provided to the customer. When they are charged for services provided over a period, they are taken to Other Income on an accruals basis as the service is provided.

Other Income

Dividend income is recorded in the Income Statement when the Banking Group's right to receive the dividend is established. Realised and unrealised gains and losses from re-measurement of Financial Instruments at Fair Value through Profit or Loss are included in Other Income.

(e) Expense Recognition

Operating lease payments are recognised in the Income Statement on a straight line basis over the term of the lease, unless another systematic basis is more representative of the time pattern of the benefit received. All other expenses are recognised in the Income Statement on an accrual basis.

(f) Financial Instruments

BASIS OF RECOGNITION AND MEASUREMENT

The Bank is a full service financial institution offering an extensive range of financial instruments. Financial instruments are transacted on a commercial basis to derive an interest yield / cost with terms and conditions having due regard to the nature of the transaction and the risks involved. All financial instruments are accounted for on a settlement date basis. They are classified in one of the following categories at initial recognition: Financial Assets at Fair Value through Profit or Loss, Available for Sale Financial Assets, Loans and Receivables, Held to Maturity, Financial Liabilities at Fair Value through Profit or Loss and Other Financial Liabilities.

Notes to the Financial Statements

For the year ended 30 June 2010

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

Some of these categories require measurement at fair value. Where available, quoted market prices are used as a measure of fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied to liabilities. Where the Banking Group has assets and liabilities with offsetting market risk, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies a bid / offer spread adjustment to the net open position as appropriate. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on observable market conditions and risks existing as at balance date.

If changes in these assumptions to a reasonably possible alternative would result in a significantly different fair value this has been disclosed.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Assets in this category are either held for trading or are managed with other assets and liabilities transacted in the Bank's Institutional Banking, Treasury and Markets Division, which are accounted for and evaluated on a fair value basis. Fair value reporting of these assets and liabilities reflects the Banking Group's risk management process, which includes utilising natural offsets where possible and managing the overall risks of the Treasury portfolio on a trading basis.

Assets in this category are measured at fair value and include:

Due from Other Banks

Due from Other Banks is defined by the nature of the counterparty and includes loans, nostro balances and settlement account balances due from other banks. Fair value is calculated on the same basis as for Money Market Advances.

Money Market Advances

Money Market Advances are advances transacted in the Bank's Institutional Banking, Treasury and Markets Division, which are managed with other assets and liabilities accounted for and evaluated on a fair value basis.

Fair value is calculated using discounted cash flow models based on the interest rate repricing and maturity of the Advances. Discount rates applied in this calculation are based on current market interest rates for Advances with similar credit profiles.

Securities

Securities included in this category are short and long term public and other debt securities, which are held for trading, as well as securities designated as at Fair Value through Profit or Loss. The fair value of Securities is based on quoted market prices, where available, or calculated using discounted cash flow models based on current market rates.

Subsequent changes in the fair value of securities which are either held for trading or designated as at Fair Value through Profit or Loss are recognised in Other Income and may include interest income depending on the instrument. Coupon securities exclude interest income, whereas all other securities include interest income.

Derivative Assets

Derivative Assets that do not meet the criteria for hedge accounting are recorded at Fair Value through Profit or Loss. Refer to (g) for more details on derivatives.

AVAILABLE FOR SALE FINANCIAL ASSETS

Available for Sale Financial Assets are measured at fair value, with changes in fair value recognised in Other Comprehensive Income. The Banking Group has classified certain equity investments (in entities over which the Banking Group has neither control nor significant influence) as Available for Sale Financial Assets.

LOANS AND RECEIVABLES

Assets in this category are measured at amortised cost using the effective interest method and include:

Cash and Call Deposits with the Central Bank

Cash and Call Deposits with the Central Bank includes the Bank's overnight settlement account with the Central Bank, and is brought to account at face value.

Advances to Customers

Advances cover all forms of lending to customers, other than those classified as at Fair Value through Profit or Loss, and include mortgages, overdrafts, personal loans and credit card balances. They are recognised in the Balance Sheet when cash is advanced to the customer.

Advances are reported net of Provisions for Impairment to reflect the estimated recoverable amounts. Refer to (m).

Due from Controlled Entities and Associates

This includes all amounts due from Controlled Entities and Associates.

Other Assets

Other Assets include the accrual of interest coupons and fees receivable. For derivatives any accrued interest is recognised and measured as part of the derivative's fair value.

HELD TO MATURITY INVESTMENTS

Assets in this category are measured at amortised cost. The Banking Group has not classified any financial assets as Held to Maturity.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Liabilities in this category are either held for trading or are managed with other assets and liabilities transacted in the Bank's Institutional Banking, Treasury and Markets Division, which are accounted for and evaluated on a fair value basis. Fair value reporting of these assets and liabilities reflects the Banking Group's risk management process, which includes utilising natural offsets where possible and managing the overall risks of the Treasury portfolio on a trading basis.

Liabilities in this category are measured at fair value and include:

Due to Other Banks and Money Market Deposits

Due to Other Banks is defined by the nature of the counterparty and includes deposits, vostro balances and settlement account balances due to other banks. Money Market Deposits are Certificates of Deposit, Issued Paper and other deposits that are transacted in the Bank's Institutional Banking, Treasury and Markets Division.

Notes to the Financial Statements

For the year ended 30 June 2010

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

Certain amounts within Due to Other Banks and Money Market Deposits have been designated as at Fair Value through Profit or Loss, where designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets and liabilities or recognising the gains or losses on them in different bases. These amounts are managed with other assets and liabilities accounted for and evaluated on a fair value basis.

The fair value of Deposits, Certificates of Deposit and Issued Paper is calculated using discounted cash flow models based on the interest rate repricing and maturity of the instruments. The discount rates applied in this calculation are based on current market rates.

Derivative Liabilities

Derivative Liabilities that do not meet the criteria for hedge accounting are recorded at Fair Value through Profit or Loss. Refer to (g) for more details on derivatives.

OTHER FINANCIAL LIABILITIES

This category includes all financial liabilities other than those at Fair Value through Profit or Loss. Liabilities in this category are measured at amortised cost and include:

Due to Other Banks and Money Market Deposits

This represents amounts Due to Other Banks and Money Market Deposits, apart from those designated as at Fair Value through Profit or Loss. When fair value hedge accounting is applied to fixed rate Deposits or Issued Paper, the carrying value at amortised cost is adjusted for changes in fair value related to the hedged risk.

Deposits from Customers

Deposits from Customers cover all forms of funding apart from Money Market Deposits and include transactional and savings accounts, term deposits and credit balances on cards.

Due to Controlled Entities and Associates

This includes all amounts due to Controlled Entities and Associates.

Other Liabilities

Other Liabilities include the accrual of interest coupons and fees payable. For derivatives any accrued interest is recognised and measured as part of the derivative's fair value.

Subordinated Debt

Subordinated Debt is recognised in the Balance Sheet including accrued interest as both components are subordinate to other liabilities. When fair value hedge accounting is applied to fixed rate Subordinated Debt, the carrying value at amortised cost is adjusted for changes in fair value related to the hedged risk.

(g) Derivative Financial Instruments

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. The Banking Group enters into derivative transactions including foreign exchange contracts, forward rate agreements, futures, options, interest rate swaps, currency swaps and combinations of these instruments. The sale of derivatives to customers as risk management products and their use for trading purposes is integral to the Bank's financial markets activities. Derivatives are also used to manage the Bank's own exposure to market risk.

The Banking Group recognises derivatives in the Balance Sheet at their fair value. Fair values are obtained from market yields and discounted cash flow models or option pricing models as appropriate. Derivative Assets are the fair value of derivatives which have a positive fair value. Derivative Liabilities are the fair value of derivatives which have a negative fair value.

Derivatives that do not meet the criteria for hedge accounting under NZ IAS 39 are classified as either derivatives held for trading, or other derivatives at fair value through profit or loss. Derivatives held for trading include those derivatives which are transacted as part of the trading activity of the Bank's Institutional Banking, Treasury and Markets Division. Other derivatives at Fair Value through Profit or Loss include derivatives which are transacted as economic hedges but do not qualify for hedge accounting. Changes in fair value are reflected in the Income Statement immediately when they occur.

(h) Hedge Accounting

The Banking Group uses derivatives as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. The Banking Group applies either Cash Flow or Fair Value Hedge accounting when transactions meet the specified criteria to obtain hedge accounting treatment. The Banking Group has predominantly used Cash Flow Hedge accounting. The Banking Group also uses non-derivative financial instruments to hedge its net investment in foreign operations.

The Banking Group discontinues hedge accounting when it is determined that a hedge has ceased to be highly effective; when the derivative expires, or is sold, terminated, or exercised; when the hedged item matures or is sold or repaid; when a forecast transaction is no longer deemed highly probable; or when the Banking Group elects to revoke the hedge designation.

Cash Flow Hedge Accounting

A fair valuation gain or loss associated with the effective portion of a derivative designated as a Cash Flow Hedge is recognised initially in the Cash Flow Hedge Reserve. The ineffective portion of a fair valuation gain or loss is recognised immediately in the Income Statement. When the transaction or item that the derivative is hedging (including cash flows from transactions that were only forecast when the derivative hedge was effected) affects income or expense then the associated gain or loss on the hedging derivative is simultaneously transferred from the Cash Flow Hedge Reserve to the corresponding income or expense line item in the Income Statement.

Notes to the Financial Statements

For the year ended 30 June 2010

1 Statement of Accounting Policies (continued)

(h) Hedge Accounting (continued)

When a hedging derivative expires or is sold, the hedge no longer meets the criteria for hedge accounting, or the Banking Group elects to revoke the hedge designation, the cumulative gain or loss on the hedging derivative remains in the Cash Flow Hedge Reserve until the forecast transaction occurs and affects income, at which point it is transferred to the corresponding income or expense line. If a forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging derivative previously reported in Cash Flow Hedge Reserves is immediately transferred to Other Income.

Fair Value Hedge Accounting

For qualifying Fair Value Hedges the change in fair value of the hedging derivative is recognised within Other Income in the Income Statement. Those changes in fair value of the hedged item which are attributable to the risks hedged with the derivative instrument are reflected in an adjustment to the carrying value of the hedged item, which is also recognised in Other Income. If the hedging instrument expires or is sold, terminated or exercised, if the hedge no longer meets the criteria for hedge accounting, or the Banking Group revokes the hedge designation, the difference between the carrying value of the hedged item at that point and the value at which it would have been carried had the hedge never existed (the "unamortised fair value adjustment"), is maintained as part of the carrying value of the hedged item and amortised to the Income Statement based on a recalculated effective interest rate.

Net Investment Hedge Accounting

Hedges of Net Investments in foreign operations are accounted for in a similar manner to Cash Flow Hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in a separate component of equity. The gain or loss relating to the ineffective portion is recognised in the Income Statement within Other Income. On disposal of the foreign operation, the gain or loss accumulated in equity is transferred to the Income Statement.

(i) Leasing

Leases under which the Banking Group transfers substantially all the risks and rewards of ownership of an asset to the lessee or a third party are classified as Finance Leases. When assets are held subject to a Finance Lease, the present value of the lease payments including any guaranteed residual value is recognised as a receivable and is reported within Advances to Customers. The difference between the gross receivable and the present value of the receivable is treated as unearned finance income. Lease Income is recognised over the lease term so as to produce a constant periodic rate of return on the net investment in the Finance Lease.

Leases where the Banking Group retains substantially all the risks and rewards of ownership of an asset are classified as Operating Leases. Operating Lease rental revenue and expense is recognised in the Income Statement on a straight line basis over the term of the lease, unless another systematic basis is more representative of the time pattern of the benefit received. The Bank classifies assets leased out under Operating Leases as Property, Plant and Equipment. The assets are depreciated over their useful lives on a basis consistent with similar assets.

(j) Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase are retained within the relevant security portfolio and accounted for accordingly. The obligation to repurchase is recorded as a Money Market Deposit or Due to Other Banks, depending on the counterparty. The difference between the sale and repurchase price represents Interest Expense and is recognised in the Income Statement over the term of the repurchase agreement. Securities held under reverse repurchase agreements are recorded as Money Market Advances or Due from Other Banks, depending on the counterparty. The difference between the purchase and sale price represents Interest Income and is recognised in the Income Statement over the term of the reverse repurchase agreement.

(k) Offsetting Financial Instruments

The Banking Group offsets financial assets and financial liabilities and reports the net balance in the Balance Sheet where there is a legally enforceable right to set off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(l) Derecognition of Financial Instruments

Financial assets are derecognised either when sold, or when the rights to receive cash flows from the financial assets have expired or have been transferred, or when the Banking Group has transferred substantially all the risks and rewards of ownership. In transactions where substantially all the risk and rewards are neither retained nor transferred, the Banking Group derecognises assets when control is no longer retained, or when control is retained the assets are recognised to the extent of the Banking Group's continuing involvement.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

(m) Asset Quality

IMPAIRED ASSETS

Impaired Assets consist of restructured assets, assets acquired through the enforcement of security and other impaired assets.

A restructured asset is any credit exposure which is impaired and for which:

(a) the original terms have been changed to grant the counterparty a concession that would not otherwise have been available, due to the counterparty's difficulties in complying with the original terms;
(b) the revised terms of the facility are not comparable with the terms of new facilities with comparable risks; and
(c) the yield on the asset following restructuring is equal to, or greater than, the Banking Group's average cost of funds, or that a loss is not otherwise expected to be incurred.

Assets acquired through the enforcement of security are those real estate and other assets acquired in full or partial satisfaction of a debt.

Other impaired assets means any credit exposures for which an impairment loss is required in accordance with NZ IAS 39.

OTHER DEFINITIONS

A Past Due Asset is any credit exposure where a counterparty has failed to make a payment when contractually due, and which is not an Impaired Asset. A 90 Day Past Due Asset is any past due asset which has not been operated by the counterparty within its key terms for at least 90 days and which is not an Impaired Asset.

Notes to the Financial Statements

For the year ended 30 June 2010

1 Statement of Accounting Policies (continued)

(m) Asset Quality (continued)

An Asset under Administration is any credit exposure which is not an Impaired Asset or a Past Due Asset, but which is to a counterparty:

(a) who is in receivership, liquidation, bankruptcy, statutory management or any form of administration in New Zealand; or
(b) who is in any other equivalent form of voluntary or involuntary administration in an overseas jurisdiction.

A Renegotiated Asset is any credit exposure that would otherwise be past due or impaired whose terms have been renegotiated.

PROVISION FOR IMPAIRMENT

Loans and Receivables are reviewed at each balance date to determine whether there is any objective evidence of impairment. Individually significant assets are reviewed for impairment individually and other assets are reviewed individually or collectively. If any indication of impairment exists, the recoverable amount of the asset or group of assets is estimated and provision is made for the difference between the carrying amount and the recoverable amount. The recoverable amounts of Advances measured at amortised cost are calculated as the present value of the expected future cash flows discounted at the instrument's original effective interest rate for fixed rate Advances and the current effective interest rate for variable rate Advances. Short term balances are not discounted.

Objective evidence that a financial asset or portfolio of assets is impaired includes, but is not limited to, observable data that comes to the attention of the Banking Group about the following loss events:

(a) significant financial difficulty of the issuer or obligor; or
(b) a breach of contract, such as a default or delinquency in interest or principal payments; or
(c) the Banking Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; or
(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for the financial asset because of financial difficulties.

Financial Assets at Fair Value through Profit or Loss are not assessed for impairment as their fair valuation reflects the credit quality of the instrument, and changes in fair value are recognised in Other Income.

Allowances for credit losses on off balance sheet items such as commitments are reported in Other Liabilities.

Advances to Customers

Advances are presented net of individually assessed and collective provisions for impairment. Provisions are made against the carrying amount of Advances that are identified as being impaired based on regular reviews of outstanding balances, to reduce these Advances to their recoverable amounts. Collective provisions are maintained to reduce the carrying amount of portfolios of similar Advances to their estimated recoverable amounts as at balance date. These provisions include incurred losses not yet specifically identified in the portfolio. The expected future cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the individually assessed and collective provisions are recognised in the Income Statement. When a loan is known to be uncollectible, it is written off against the related provision 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.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write off, the write off or provision is reversed through the Income Statement.

Details of the level of provision for impairment and movements during the year are set out in Note 16.

(n) Controlled Entities and Associates

Controlled Entities and Associates are recognised in the Bank's Balance Sheet at the lower of cost or recoverable amount.

(o) Property, Plant and Equipment

Property, Plant and Equipment other than Land and Buildings are recognised in the Balance Sheet at cost less Accumulated Depreciation and Impairment Losses.

Land and Buildings are revalued annually to reflect current market value. The valuations are carried out by independent registered valuers in May of each year. The valuers are all Associate Members of the New Zealand Institute of Valuers and the major valuers are Jones Lang LaSalle Advisory Limited (Auckland), Perry Heavey & Company Limited (Auckland) and Robisons (Whangarei).

Changes in valuations are transferred directly to the Asset Revaluation Reserve. Where such a transfer results in a debit balance in the Asset Revaluation Reserve of any individual asset the loss is recognised in the Income Statement, and any subsequent revaluation gains are written back through the Income Statement to the extent of past losses written off.

The cost or revalued amount of Property, Plant and Equipment (excluding Land) less the estimated residual value is depreciated over their useful lives on a straight line basis. The range of useful lives of the major assets are:

> Buildings	10-100 years
> Furniture and Fittings	5-25 years
> Computer and Office Equipment, and Operating Software	3-10 years
> Other Property, Plant and Equipment	2-25 years

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each balance date.

Assets are reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. For revalued assets the writedown is treated in the same way as adjustments arising from revaluations described above. For other assets the impairment loss is recognised as an expense. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Notes to the Financial Statements

For the year ended 30 June 2010

1 Statement of Accounting Policies (continued)

(o) Property, Plant and Equipment (continued)

Where the Banking Group expects the carrying amount of assets held within Property, Plant and Equipment to be recovered principally through a sale transaction rather than through continuing use, these assets are classified as Held for Sale.

(p) Investment Property

Properties that are held for long term rental yields or for capital appreciation or both, and that are not occupied by the entities in the Banking Group, are classified as Investment Property. Investment Property comprises land leased out under operating lease arrangements.

Investment Property is recognised only when it is probable that the future economic benefits that are associated with the property will flow to the entity and the cost can be reliably measured.

Investment Property is measured initially at cost, including transaction costs and subsequently at fair value. Gains or losses arising from changes in the fair value are included in the Income Statement. The fair value is determined by an independent valuer.

(q) Intangible Assets

Intangible Assets comprise Goodwill acquired in a business combination, and acquired Computer Software licences as well as certain acquired and internally generated application software.

GOODWILL

Goodwill, representing the excess of the purchase consideration over the fair value of the identifiable net assets of a controlled entity at the date of gaining control, is capitalised and recognised in the Balance Sheet. Goodwill has an indefinite life.

The carrying value of Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. If any such indication exists, the asset's recoverable amount is estimated, and an impairment loss is recognised under Operating Expenses in the Income Statement for the difference between the carrying amount and the recoverable amount. Impairment losses on Goodwill are not reversed.

For the purposes of impairment testing, Goodwill is allocated to cash-generating units or groups of units. A cash-generating unit is the smallest identifiable group of assets that generate independent cash flows. Goodwill is allocated by the Banking Group to cash-generating units or groups of units based on how Goodwill is monitored by management. Gains or losses on the disposal of an entity include the carrying value of goodwill relating to the entity sold.

COMPUTER SOFTWARE

Acquired Computer Software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their expected useful lives (three to four years) on a straight line basis.

The Banking Group generally expenses Computer Software costs in the period incurred. However, some costs associated with developing identifiable and unique software products controlled by the Bank, including employee costs and an appropriate portion of relevant overheads are capitalised and treated as Intangible Assets. These assets are amortised using the straight line method over their useful lives (not exceeding three years).

Computer Software is subject to the same impairment review process as Property, Plant and Equipment. Any impairment loss is recognised under Operating Expenses in the Income Statement.

(r) Taxation

Income tax on the Net Profit for the year comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised in Other Comprehensive Income, in which case it is recognised in Other Comprehensive Income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted as at balance date after taking advantage of all allowable deductions under current taxation legislation and any adjustment to tax payable in respect of previous financial years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted as at balance date.

In accordance with NZ IAS 12 *Income Taxes*, a Deferred Taxation Asset is recognised only to the extent that it is probable (i.e. more likely than not) that a future taxable profit will be available against which the asset can be utilised. Deferred Taxation Assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax related to fair value re-measurement of Available for Sale Financial Assets, Cash Flow Hedges and the revaluation of Non-current Assets, which are charged or credited to Other Comprehensive Income, is also credited or charged directly to Other Comprehensive Income and is subsequently recognised in the Income Statement if and when the deferred gain or loss on the related asset or liability affects profit or loss.

(s) Provisions

A provision is recognised in the Balance Sheet when the Banking Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Notes to the Financial Statements

For the year ended 30 June 2010

1 Statement of Accounting Policies (continued)

(t) Contingent Liabilities and Credit Commitments

The Banking Group is involved in a range of transactions that give rise to contingent and / or future liabilities. The Banking Group discloses a Contingent Liability when it has a possible obligation arising from past events, that will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Banking Group's control. A Contingent Liability is disclosed when a present obligation is not recognised because it is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

The Banking Group issues commitments to extend credit, letters of credit, guarantees and other credit facilities. These financial instruments attract fees in line with market prices for similar arrangements. They are not sold or traded. The items generally do not involve cash payments other than in the event of default. The fee pricing is set as part of the broader customer credit process and reflects the probability of default. They are disclosed as Contingent Liabilities at their face value. The fair values of guarantees are not considered to be material.

(u) Securitisation, Funds under Management and Other Fiduciary Activities

Certain subsidiaries of the Banking Group act as manager for a number of unit trusts and superannuation investment funds.

The assets and liabilities of these trusts and funds are not included in the Consolidated financial statements when the Banking Group does not have direct or indirect control of the trusts and funds. Commissions and fees earned in respect of the activities are included in Total Operating Income.

Securitised assets are derecognised when the right to receive cash flows have expired or the Banking Group has transferred substantially all the risks and rewards of ownership.

(v) Cash Flow Statement

This has been prepared using the direct approach modified by the netting of cash flows associated with Securities, Due from / to Other Banks, Advances, Deposits and Amounts Due from / to Controlled Entities and Associates. This method provides more meaningful disclosure as many cash flows are on behalf of the Banking Group's customers and do not reflect the activities of the Banking Group.

Cash and Cash Equivalents comprises Cash, Cash at Bank, Cash in Transit and Call Deposits Due from / to Other Banks, all of which are used in the day to day cash management of the Banking Group and are subject to an insignificant risk of changes in value.

FAIR VALUE ESTIMATES

For financial instruments not presented in the Banking Group's Balance Sheet at their fair value, fair value is estimated as follows:

Cash and Call Deposits with the Central Bank

These assets are short term in nature and the related carrying value is equivalent to their fair value.

Advances to Customers

For Floating Rate Advances, the carrying amount in the Balance Sheet is considered a reasonable estimate of their fair value after making allowances for the fair value of Impaired and potential problem loans. For Fixed Rate Advances, fair value is estimated using discounted cash flow models based on the interest rate repricing of the Advances. Discount rates applied in this calculation are based on current market interest rates for Advances with similar credit and maturity profiles.

Due from Controlled Entities and Associates

Carrying amounts in the Balance Sheet are a reasonable estimate of fair value for these assets.

Due to Other Banks, Money Market Deposits, Deposits from Customers, Due to Controlled Entities and Associates and Other Liabilities

For Non-interest Bearing Debt, call and variable rate Deposits, the carrying amounts in the Balance Sheet are a reasonable estimate of their fair value. For other term Deposits and fixed rate Issued Paper, fair value is estimated using discounted cash flow models based on the maturity of the instruments. The discount rates applied in this calculation are based on current market interest rates for similar instruments with similar maturity profiles. For all Other Liabilities, the carrying amount in the Balance Sheet is a reasonable estimate of their fair value.

Subordinated Debt

The estimated fair value of Subordinated Debt is based on quoted market rates of publicly traded securities of similar maturity, credit and yield characteristics.

Off Balance Sheet Items

For those off balance sheet items such as Direct Credit Substitutes (including acceptance and endorsement of Bills of Exchange), Trade Related Items and Commitments, no secondary market exists and it is therefore not practical to obtain fair values for those instruments. These items have therefore been excluded from fair value calculations.

COMPARATIVE DATA

During the year the Bank's organisation design has been restructured resulting in changes to internal financial reporting. Business segments in Note 44 have been updated to reflect the new structure. Comparative data for the year ended 30 June 2009 has been restated on the same basis.

Certain other comparative figures have been reclassified to conform with the current year's presentation.

Notes to the Financial Statements

For the year ended 30 June 2010

1 Statement of Accounting Policies (continued)

GLOSSARY OF TERMS

Amortised Cost of Financial Asset or Financial Liability
The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Available for Sale Financial Assets
Non-derivative financial assets intended to be held for an indefinite period of time, and which may be sold in response to needs for liquidity or changes in interest rates or exchange rates. They are recognised on acquisition and subsequently at fair value. Changes in the value of Available for Sale Financial Assets are reported in an Available for Sale Reserve, until the assets are sold or otherwise disposed of, or until they are impaired. On disposal the accumulated change in fair value is transferred to the Income Statement and reported under Other Income. Interest, premiums and discounts are amortised through the Income Statement using the effective interest method.

Cash Flow Hedge
A hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, and could affect profit or loss.

Effective Interest Method
A method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the Interest Income or Expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Banking Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation 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. The Interest Income or Expense is allocated through the life of the instrument and is measured for inclusion in the Income Statement by applying the effective interest rate to its amortised cost.

Fair Value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair Value Hedge
A hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

Financial Instruments at Fair Value through Profit or Loss
All financial assets and financial liabilities held for trading and any financial asset or financial liability that on initial recognition is designated by the Banking Group as at Fair Value through Profit or Loss. Assets and Liabilities in this category are measured at fair value. Gains or losses arising from changes in fair value are recognised in Other Income.

Hedge Effectiveness
The degree to which changes in the fair value or cash flows of the hedged items that are attributable to the hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.

Hedge Ineffectiveness
The amount by which changes in the cash flow of the hedging derivative differ from changes in the cash flow of the hedged item, or the amount by which the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged item. Such gains and losses are recorded in the current year's earnings.

Hedged Item
An asset, liability, firm commitment or highly probable forecast transaction that exposes the Banking Group to risk of changes in fair value or cash flows, and that is designated as being hedged.

Hedging Instrument
A designated derivative, the changes in fair value or cash flows of which are expected to offset changes in the fair value or cash flows of a designated hedged item.

Held to Maturity Investments
Non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Banking Group has a positive intention and ability to hold to maturity. They are measured at amortised cost using the effective interest method.

Impairment Loss
The amount by which the carrying amount of an asset exceeds its recoverable amount.

Loans and Receivables
Non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are measured at amortised cost using the effective interest method.

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions	Consolidated		Parent	
For the year ended 30 June	**2010**	2009	**2010**	2009
2 Interest Income				
Central Bank Deposits	**43**	106	**43**	106
Due from Other Banks	**24**	42	**24**	40
Money Market Advances	**9**	26	**9**	27
Securities	**192**	294	**191**	225
Advances to Customers	**3,708**	4,287	**3,705**	4,281
Controlled Entities and Associates	**-**	-	**201**	334
Total Interest Income	**3,976**	4,755	**4,173**	5,013

Interest Income on Advances to Customers for the year ended 30 June 2010 included interest earned of $18m on Other Individually Impaired Assets and $15m on Restructured Assets (30 June 2009 $20.6m and $0.5m respectively), for both Consolidated and Parent.

	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
3 Interest Expense				
Deposits at Fair Value through Profit or Loss				
Certificates of Deposit	**145**	167	**145**	167
Issued Paper	**119**	422	**6**	21
Term Deposits	**174**	323	**174**	323
Deposits Bearing Interest (on Demand and Short Term)	**112**	104	**112**	105
	550	1,016	**437**	616
Derivative Instruments not in Hedge Relationships	**142**	527	**139**	526
Deposits at Amortised Cost				
Certificates of Deposit	**20**	32	**20**	32
Due to Other Banks	**171**	138	**171**	138
Issued Paper	**101**	72	**66**	66
Term Deposits from Customers	**1,233**	1,246	**1,197**	1,239
Controlled Entities and Associates	**-**	-	**420**	715
Other Interest Bearing Deposits from Customers	**686**	686	**670**	662
	2,211	2,174	**2,544**	2,852
Subordinated Debt	**40**	58	**40**	58
Total Interest Expense	**2,943**	3,775	**3,160**	4,052

4 Discontinued Activities

There were no discontinued activities during the year ended 30 June 2010 (30 June 2009 Nil).

	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
5 Other Income				
Services and Commission Income				
Lending and Credit Facility Related Fee Income	**201**	298	**201**	298
Other Fees Received	**205**	214	**145**	149
Total Services and Commission Income	**406**	512	**346**	447
Services and Commission Expense				
Lending and Credit Facility Related Fee Expense	**(46)**	(44)	**(46)**	(44)
Other Fees Paid	**(11)**	(12)	**(5)**	(6)
Total Services and Commission Expense	**(57)**	(56)	**(51)**	(50)
Net Foreign Exchange Earnings and Commissions	**49**	51	**47**	49
Net Fair Value (Loss) / Gain from:				
Trading Securities	**(2)**	49	**(2)**	49
Trading Derivatives	**(42)**	-	**(42)**	-
Derivatives Transacted as Hedges but not Qualifying for Hedge Accounting	**(6)**	(72)	**(6)**	(72)
Other Derivatives	**(1,125)**	2,362	**(1,128)**	2,464
Financial Assets Designated as at Fair Value through Profit or Loss	**36**	298	**(69)**	459
Financial Liabilities Designated as at Fair Value through Profit or Loss	**1,119**	(2,619)	**1,225**	(2,993)
Available for Sale Financial Assets	**9**	-	**9**	-
Total Net Fair Value (Loss) / Gain	**(11)**	18	**(13)**	(93)
Ineffective Portion of Hedges				
Fair Value Hedge Ineffectiveness:				
Loss on Hedged Items	**(35)**	(52)	**(35)**	(52)
Gain on Hedging Instruments	**41**	48	**41**	48
Cash Flow Hedge Ineffectiveness	**(12)**	13	**(12)**	13
Total Ineffective Portion of Hedges	**(6)**	9	**(6)**	9

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions	Consolidated		Parent	
For the year ended 30 June	**2010**	2009	**2010**	2009
5 Other Income (continued)				
Other Operating Income				
Net Loss on Disposal of Property, Plant and Equipment	**-**	(2)	**-**	(2)
Dividends Received from Controlled Entities and Associates	**2**	1	**20**	21
Other Dividends Received	**-**	1	**-**	1
Writedown Investment in Controlled Entities and Associates	**-**	-	**(14)**	(34)
Other	**9**	(2)	**9**	(2)
Total Other Operating Income	**11**	(2)	**15**	(16)
Total Other Income	**392**	532	**338**	346
6 Operating Expense Disclosures				
Depreciation				
Buildings	**9**	10	**9**	10
Furniture and Fittings	**5**	6	**5**	6
Computer and Office Equipment and Operating Software	**18**	19	**18**	19
Total Depreciation	**32**	35	**32**	35
Operating Lease Rentals	**51**	47	**47**	44
Amortisation of Intangible Assets	**31**	23	**29**	21

7 Auditor's Remuneration

PricewaterhouseCoopers is the appointed auditor of the Banking Group.

Audit Fees of $1,782,000 and fees for other services of $1,001,000 were paid to PricewaterhouseCoopers during the year ended 30 June 2010 (30 June 2009 $1,659,900 and $1,072,000).

Fees for other services for the year ended 30 June 2010 comprised $490,000 for audit-related services relating to funds managed by the Banking Group, $146,000 for assistance with tax compliance and $365,000 for other assurance services primarily relating to internal controls.

8 Taxation

Current Taxation	**419**	258	**411**	105
Deferred Taxation (refer to Note 22)	**(14)**	(41)	**(16)**	(40)
Total Income Tax Charged to the Income Statement	**405**	217	**395**	65

The Taxation Expense on the Banking Group's Net Profit before Taxation differs from the theoretical amount that would arise using the domestic rate as follows:

Net Profit before Taxation	**641**	642	**607**	478
Tax at the Domestic Rate of 30%	**192**	193	**182**	143
Tax Effect of Income not Subject to Taxation	**(8)**	(19)	**(11)**	(126)
Tax Effect of Expenses not Deductible for Taxation Purposes	**4**	2	**6**	7
Tax Effect of Imputation Credit Adjustments	**(1)**	(2)	**(1)**	(2)
Tax Effect of Prior Period Adjustments	**212**	43	**214**	43
Tax Effect of Change to Domestic Rate	**6**	-	**5**	-
Total Income Tax Charged to the Income Statement	**405**	217	**395**	65
Weighted Average Applicable Tax Rate	**63.2%**	33.8%	**65.1%**	13.6%

In May 2010 legislation was passed to reduce the New Zealand corporate tax rate from 30% to 28%, effective for the 2012 income tax year. The tax effect shown is the impact on the value of Deferred Taxation as a result of the reduction in the corporate tax rate from 1 July 2011 (refer to Note 22).

As at 30 June 2010, there are tax positions that are currently being reviewed for which adequate provision has been made.

9 Dividends

Ordinary Dividends	**160**	180	**160**	180
Perpetual Preference Dividends	**17**	34	**17**	34
Total Dividends	**177**	214	**177**	214

Dividends on Ordinary Shares for the year ended 30 June 2010 were $0.07 per share (30 June 2009 $0.09 per share).

Dividends on Perpetual Preference Shares were 3.18 cents per share (30 June 2009 6.13 cents per share).

On 3 August 2010 the Directors resolved to pay, on 16 August 2010, Perpetual Preference Dividends of $5m being 0.82 cents per share.

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions	Consolidated		Parent	
For the year ended 30 June	**2010**	2009	**2010**	2009

10 Cash and Call Deposits with the Central Bank

Cash and Cash at Bank	**76**	108	**76**	107
Cash in Transit	**27**	35	**27**	35
Call Deposits with the Central Bank	**1,072**	1,439	**1,072**	1,439
Total Cash and Call Deposits with the Central Bank	**1,175**	1,582	**1,175**	1,581

11 Due from Other Banks

Amounts Due from Other Banks include collateral accepted under reverse repurchase agreements. The fair value of this collateral which the Bank is permitted to sell or repledge is :

Government Securities Accepted	**121**	2	**121**	2
Other Securities Accepted	**174**	-	**174**	-

No Securities have been repledged.

The Bank has entered into Credit Support Annexes ("CSA") in respect of certain credit exposures relating to derivative transactions. As at 30 June 2010 $402m included in Due from Other Banks (30 June 2009 $1,124m) was advanced as collateral to offset Derivative Liabilities.

Amounts Due from Other Banks are due for settlement within 12 months of balance date.

12 Money Market Advances

No collateral has been accepted for Money Market Advances, which the Banking Group is permitted to sell or repledge (30 June 2009 Nil).

For the year ended 30 June 2010 no loss was attributable to changes in credit risk for Money Market Advances designated at Fair Value through Profit or Loss (30 June 2009 Nil).

The maximum exposure to credit risk for Money Market Advances is represented by their carrying values.

As at 30 June 2010 $27m included in Money Market Advances (30 June 2009 $46m) was advanced as collateral to offset Derivative Liabilities under CSA.

Money Market Advances are due for settlement within 12 months of balance date.

13 Securities

Trading Securities				
Local Authority Securities	**82**	87	**82**	87
New Zealand Government Securities	**750**	509	**750**	509
Treasury Bills	**1,163**	1,829	**1,163**	1,829
Bank Bills	**1,815**	1,918	**1,815**	1,918
Other Securities	**1,201**	1,116	**1,200**	1,116
	5,011	5,459	**5,010**	5,459
Debt Securities Designated as at Fair Value through Profit or Loss	**123**	685	**123**	572
Equity Securities Designated as Available for Sale	**32**	32	**32**	32
Total Securities	**5,166**	6,176	**5,165**	6,063

The fair value of securities pledged as collateral under repurchase agreements or other arrangements:

Government Securities	**145**	-	**145**	-
Other Securities	**-**	313	**-**	313

Amounts Due for Settlement Within 12 Months	**3,642**	5,812	**3,641**	5,812
Amounts Due for Settlement Over 12 Months	**1,524**	364	**1,524**	251
Total Securities	**5,166**	6,176	**5,165**	6,063

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions	Consolidated Notional Amount	Consolidated Fair Value Assets	Consolidated Fair Value Liabilities	Parent Notional Amount	Parent Fair Value Assets	Parent Fair Value Liabilities

14 Derivative Financial Instruments

Derivatives not qualifying for hedge accounting treatment are classified as Held for Trading or at Fair Value through Profit or Loss. Refer to Note 1(g) and (h) for an explanation of the Banking Group's accounting policies for Derivatives.

During the year the Bank adopted a new organisational structure and implemented a new treasury and trading system which has facilitated the separation of treasury activity from trading activity for accounting purposes. Accordingly, derivatives which are transacted for trading activity have been separately disclosed below as Held for Trading derivatives.

The Bank has entered into CSA in respect of certain derivative counterparties. These CSA's compel the Bank or the counterparty to collateralise the market value of outstanding derivative transactions. As at 30 June 2010 the Bank had placed $429m of cash collateral against Derivative Liabilities and taken $19m of collateral against Derivative Assets (30 June 2009 $1,170m and $24m).

HEDGE ACCOUNTING

Cash Flow Hedges

The Banking Group hedges the forecasted interest cash flows from floating rate deposits and the roll-over of short term fixed rate funding arrangements using Cross Currency and Interest Rate Swaps. As at 30 June 2010 there were no transactions where cash flow hedge accounting ceased during the year as a result of highly probable cash flows no longer expected to occur (30 June 2009 Nil).

Fair valuation gains and losses deferred in the Cash Flow Hedge Reserve will be transferred to the Income Statement over the next one to five years, as the cash flows under the hedged transactions occur.

Fair Value Hedges

The Banking Group uses Interest Rate Swaps to hedge interest rate risk exposure of a portion of its portfolio of fixed rate mortgage loans. Interest rate swaps have also been used to hedge certain fixed rate funding arrangements, included in Money Market Deposits and Subordinated Debt.

Net Investment Hedges

The Banking Group previously hedged its net investment in a foreign subsidiary with foreign currency borrowings. Refer to Note 33 for further details.

$ millions	Consolidated Notional Amount	Consolidated Fair Value Assets	Consolidated Fair Value Liabilities	Parent Notional Amount	Parent Fair Value Assets	Parent Fair Value Liabilities
As at 30 June 2010						
HELD FOR TRADING						
Exchange Rate Contracts						
Forward Contracts	6,792	54	(64)	6,792	54	(64)
Options	78	2	(2)	78	2	(2)
Total Exchange Rate Contracts	6,870	56	(66)	6,870	56	(66)
Interest Rate Contracts						
Forward Contracts	450	-	-	450	-	-
Swaps	53,751	1,236	(1,297)	53,751	1,237	(1,297)
Futures	5,496	2	(3)	5,496	2	(3)
Options	643	1	(1)	643	1	(1)
Total Interest Rate Contracts	60,340	1,239	(1,301)	60,340	1,240	(1,301)
Commodity Contracts						
Options Purchased and Sold	24	1	-	24	1	-
Total Held for Trading	67,234	1,296	(1,367)	67,234	1,297	(1,367)
OTHER DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS						
Exchange Rate Contracts						
Forward Contracts	7,706	104	(91)	7,706	104	(91)
Swaps	6,215	122	(245)	6,215	122	(245)
Total Exchange Rate Contracts	13,921	226	(336)	13,921	226	(336)
Interest Rate Contracts						
Forward Contracts	5,200	-	-	5,200	-	-
Swaps	20,997	144	(218)	20,997	144	(218)
Futures	1,365	-	(3)	1,365	-	(3)
Total Interest Rate Contracts	27,562	144	(221)	27,562	144	(221)
Total Other Derivatives at Fair Value through Profit or Loss	41,483	370	(557)	41,483	370	(557)

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For the year ended 30 June 2010

$ millions	Consolidated Notional Amount	Consolidated Fair Value Assets	Consolidated Fair Value Liabilities	Parent Notional Amount	Parent Fair Value Assets	Parent Fair Value Liabilities
14 Derivative Financial Instruments (continued)						
As at 30 June 2010 (continued)						
DESIGNATED AS CASH FLOW HEDGES						
Exchange Rate Contracts						
Swaps	**467**	**-**	**(21)**	**467**	**-**	**(21)**
Interest Rate Contracts						
Swaps	**22,797**	**162**	**(483)**	**22,797**	**162**	**(483)**
Total Designated as Cash Flow Hedges	**23,264**	**162**	**(504)**	**23,264**	**162**	**(504)**
DESIGNATED AS FAIR VALUE HEDGES						
Interest Rate Contracts						
Swaps	**3,516**	**123**	**(46)**	**3,516**	**123**	**(46)**
Total Designated as Fair Value Hedges	**3,516**	**123**	**(46)**	**3,516**	**123**	**(46)**
Total Recognised Derivative Assets / (Liabilities)	**135,497**	**1,951**	**(2,474)**	**135,497**	**1,952**	**(2,474)**
Amounts Due for Settlement Within 12 Months		**474**	**(595)**		**474**	**(595)**
Amounts Due for Settlement Over 12 Months		**1,477**	**(1,879)**		**1,478**	**(1,879)**
Total Recognised Derivative Assets / (Liabilities)		**1,951**	**(2,474)**		**1,952**	**(2,474)**
As at 30 June 2009						
AT FAIR VALUE THROUGH PROFIT OR LOSS						
Exchange Rate Contracts						
Forward Contracts	12,501	104	(688)	12,501	104	(688)
Swaps	7,901	41	(290)	7,901	41	(290)
Options	75	2	(1)	75	2	(1)
Total Exchange Rate Contracts	20,477	147	(979)	20,477	147	(979)
Interest Rate Contracts						
Forward Contracts	5,604	2	(1)	5,604	2	(1)
Swaps	77,687	1,743	(1,997)	77,429	1,744	(1,997)
Futures	14,304	1	(2)	14,304	1	(2)
Options	988	5	(5)	988	5	(5)
Total Interest Rate Contracts	98,583	1,751	(2,005)	98,325	1,752	(2,005)
Commodity Contracts						
Forward Contracts	10	-	-	10	-	-
Total at Fair Value through Profit or Loss	119,070	1,898	(2,984)	118,812	1,899	(2,984)
DESIGNATED AS CASH FLOW HEDGES						
Exchange Rate Contracts						
Swaps	1,386	-	(52)	1,386	-	(52)
Interest Rate Contracts						
Swaps	25,496	203	(964)	25,496	203	(964)
Total Designated as Cash Flow Hedges	26,882	203	(1,016)	26,882	203	(1,016)
DESIGNATED AS FAIR VALUE HEDGES						
Interest Rate Contracts						
Swaps	2,760	108	(64)	2,760	108	(64)
Total Designated as Fair Value Hedges	2,760	108	(64)	2,760	108	(64)
Total Recognised Derivative Assets / (Liabilities)	148,712	2,209	(4,064)	148,454	2,210	(4,064)
Amounts Due for Settlement Within 12 Months		504	(1,848)		505	(1,848)
Amounts Due for Settlement Over 12 Months		1,705	(2,216)		1,705	(2,216)
Total Recognised Derivative Assets / (Liabilities)		2,209	(4,064)		2,210	(4,064)

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions	Consolidated		Parent	
As at 30 June	**2010**	2009	**2010**	2009
15 Advances to Customers				
Loans and Other Receivables	**53,733**	53,266	**53,697**	53,216
Fair Value Hedge Adjustments	**5**	51	**5**	51
Provisions for Impairment	**(261)**	(261)	**(261)**	(261)
Total Advances to Customers	**53,477**	53,056	**53,441**	53,006
Amounts Due for Settlement Within 12 Months	**13,931**	12,229	**13,920**	12,215
Amounts Due for Settlement Over 12 Months	**39,546**	40,827	**39,521**	40,791
Total Advances to Customers	**53,477**	53,056	**53,441**	53,006

During the year ended 30 June 2009 the Bank established an in house residential mortgage backed securities ("RMBS") facility, which can issue securities that are acceptable as collateral for borrowing from the Reserve Bank of New Zealand ("RBNZ"). As at 30 June 2010 housing loans to the value of $4.1b had been internally securitised through the Medallion NZ Series Trust 2009-1R (30 June 2009 $4.1b). The securitised assets remain on the Bank's Balance Sheet and are included in Advances to Customers, as the Banking Group retains a continuing involvement in the transferred assets (funding, liquidity and credit risk remains with the Bank). Refer to Note 43 for more details about the RMBS facility.

As at 30 June 2010 no repurchase agreements with the RBNZ had been undertaken by the Banking Group, and none of the RMBS facility had been utilised (30 June 2009 $200m and $245m respectively).

16 Credit Risk Management and Asset Quality

Credit Risk Management

Credit risk is the potential risk of loss arising from the failure of a debtor or counterparty to meet their contractual obligations.

Credit risk principally arises within the Bank from its core business in providing lending facilities. Credit risk also arises from the Bank assuming contingent liabilities, taking equity participations, participating in financial market transactions and assuming underwriting commitments. The Bank is selective in targeting credit risk exposures and avoids exposures to any high risk area.

The Board Audit and Risk Committee operates under a charter by which it oversees the Bank's credit management policies and practices. The Committee ensures that the Bank has in place and maintains credit policies and portfolio standards designed to achieve portfolio outcomes consistent with the Bank's risk / return expectations. In addition, the Committee reviews and approves the loan loss provisioning levels each quarter.

A system of industry limits and a large credit exposure policy assist in the diversification of the credit portfolio. These policies are an important part of portfolio management objectives to create a diversified portfolio avoiding significantly large concentrations of economically related credit risk exposures.

The Bank has comprehensive, clearly defined credit policies for the approval and management of all credit risk including risk to other bank and related counterparties. Lending standards and criteria are clearly defined into different business sectors for all Bank products and incorporate income / repayment capacity, acceptable terms and security and loan documentation tests.

While the Bank applies policies, standards and procedures in governing the credit process, the management of credit risk also relies on the application of judgement and the exercise of good faith and due care of relevant staff within their delegated authority.

Credit Risk Measurement

The measurement of credit risk utilises analytical tools to calculate both expected and unexpected loss possibilities for the credit portfolio. This includes consideration of the probability of default ("PD"), the exposure at the time of default ("EAD") and the loss given default ("LGD") that would likely be experienced as a consequence.

The PD is the estimate of the probability that a client will default within the next 12 months. It reflects a client's ability to generate sufficient cash flows into the future to meet the terms of all its credit contracts with the Bank.

EAD is the proportion of a facility that may be outstanding in the event of default. It is calculated as a percentage of the facility limit and expressed in dollars.

LGD is the proportion of a facility estimated likely to be lost in the event of default. It is expressed as a percentage. LGD is impacted by the type and level of any collateral held.

The Expected Loss ("EL") is the product of the PD, EAD and the LGD. An EL will be recorded for every facility including those that are retail.

Notes to the Financial Statements

For the year ended 30 June 2010

16 Credit Risk Management and Asset Quality (continued)

Collateral Security
The Bank assesses the integrity and ability of debtors or counterparties to meet their contracted financial obligations for repayment. Collateral security in the form of real 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 Bank has policies and procedures in place setting out the circumstance where acceptable and appropriate collateral is to be taken, including valuation parameters, review frequency and independence of valuation.

Main collateral types include:

1. residential mortgages;
2. charge over properties being financed;
3. cash (usually in the form of a charge over a Term Deposit);
4. guarantees by company directors supporting commercial lending;
5. a security interest in a company's assets, including stock and receivables; and
6. a charge over stock or scrip.

Asset Quality
Credit risk is divided into the Retail segment and the Corporate segment. A different approach is used in each to determine an overall credit grade based on EL. These ratings equate to each other as follows:

Overall Credit Grade	Retail Grade	Corporate Grade	Bank Rating Classification
Low EL	Pool 1	CRR* 1 - 3	Corporate facilities demonstrating financial condition and capacity to repay that are good to exceptional. Retail facilities with low expected loss.
Moderate EL	Pool 2	CRR 4 - 6	Corporate facilities demonstrating financial condition and capacity to repay that are acceptable to good. Retail facilities with moderate expected loss.
High EL	Pool 3	CRR 7 - 9	Corporate facilities that require varying degrees of special attention (not necessarily contractually past due). Retail facilities operating outside of agreed arrangements.

These ratings equate to the rating classifications of the RBNZ as follows:

RBNZ Classification	Retail Grade	Corporate Grade	Banking Rating Classification
Pass Grades	Pool 1 - 2	CRR 1 - 6	Pass Grades
Special Mention	Past Due	CRR 7	Troublesome
Substandard	Past Due	CRR 8	Troublesome
Doubtful / Non-accrual	Default	CRR 9	Impaired / Loss

* Credit Risk Rating ("CRR")

Retail
The Retail segment comprises housing loans, credit cards, other personal credit facilities and most secured business lending up to $1m. These portfolios are managed using statistical origination and account management techniques.

Retail facilities are assigned to a PD, EAD and LGD pool based on observed and predicted outcomes for facilities with similar characteristics. The overall credit grading pool is based on the EL that results from the product of PD, EAD and LGD for each facility.

Facilities in the Retail segment become classified for remedial management by centralised units based on delinquency status.

Retail origination processes are reviewed by the relevant Quality Assurance unit. Credit process overview is provided by the independent Risk Asset Review unit.

Corporate
Corporate exposures comprise commercial exposures, including bank and government exposures. A CRR is recorded against every corporate facility. Credit risk rated exposures are reviewed at least annually and the CRR reassessed.

PD and LGD are determined using individual assessment tools. The CRR is determined by reference to a matrix where PD and LGD combine to produce a numeric CRR grade which represents a range of EL.

CRRs fall into two categories:

1. Pass – CRR of 1 - 6. These credit facilities qualify for approval of new or increased exposure on normal commercial terms.
2. Troublesome and Impaired Assets ("TIAs") – CRR of 7 - 9. These credit facilities are not eligible for increases in exposure unless it will protect or improve the Bank's position by maximising recovery prospects or to facilitate rehabilitation.

The Corporate segment is subject to inspection by the Risk Asset Review unit, which is independent of the originating business units and which reports on its findings to the Board Audit and Risk Committee. Credit processes, including compliance with policy and portfolio standards, and application of risk ratings, are examined, and reported where cases of non-compliance are observed.

Notes to the Financial Statements

For the year ended 30 June 2010

16 **Credit Risk Management and Asset Quality** (continued)

Impairment and Provisioning of Financial Assets

Default is defined as any one of the following:

- A contractual payment is overdue by more than 90 days.
- An approved overdraft limit has been exceeded for more than 90 days.
- The Bank becomes aware that the client will not be able to meet future repayments or service alternative acceptable repayment arrangement's, e.g. the client has been declared bankrupt.
- The Bank has determined that full recovery of both principal and interest is unlikely. This may be the case even if all the terms of the client's credit facilities are currently being met.
- A credit obligation is sold at a material credit related economic loss.

In addition to the credit risk management processes used to manage exposures to credit risk in the credit portfolio, the internal ratings process also assists management in assessing the requirements of NZ IAS 39 relating to impairment and provisioning of financial assets.

Provisions for impairment are raised where there is objective evidence of impairment and at an amount adequate to cover estimated credit related losses. Credit losses arise primarily from loans, but also from other credit instruments such as Bank acceptances, contingent liabilities, guarantees and other financial instruments and assets acquired through security enforcement.

Impairment losses are recognised to reduce the carrying amount of loans and advances to their estimated recoverable amounts. Individually assessed provisions are made against individually significant financial assets when there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the impairment / loss is the difference between the carrying amount and the recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral (and cost of recovery), discounted at the original effective interest rate. Interest continues to be accrued on impaired loans based on the revised carrying amounts and using appropriate effective interest rates.

Corporate portfolios are assessed for objective evidence that the financial asset or portfolio of assets is impaired. Impaired assets in the Corporate segment include those facilities where an individually assessed provision for impairment has been raised, the facility is maintained on a cash basis, a loss of principal or interest is anticipated, facilities have been restructured or other assets have been accepted in satisfaction of an outstanding debt.

The Bank recognises collective provisions for impairment where there is objective evidence that components of a loan portfolio with similar credit risk characteristics contain probable losses as at the balance date that will be individually identified in the future, or where insufficient data exists to reliably determine whether such losses exist. The estimated probable losses are based upon historical patterns of losses. The calculations are based on statistical methods of credit risk measurement.

The provisions for impairment take into account current cyclical developments as well as economic conditions in which the borrowers operate and are subject to management review, experienced judgement, and adjustment where necessary to reflect these and other relevant factors in individual portfolios.

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions	Residential Mortgages[2]	Other Retail	Corporate	Total
	Consolidated and Parent[1]			
16 Credit Risk Management and Asset Quality (continued)				
(a) Credit Quality Information for Advances to Customers				
As at 30 June 2010				
Gross Advances to Customers by Credit Quality				
Neither Past Due Nor Impaired	35,158	3,799	11,259	50,216
Past Due Assets	2,426	303	296	3,025
Impaired Assets	186	14	292	492
Total Gross Advances to Customers by Credit Quality	37,770	4,116	11,847	53,733

(1) The Residential Mortgages asset class includes mortgages of $36m which are held by a subsidiary of the Bank. $29m is classified as Neither Past Due Nor Impaired in the Low Expected Loss category. There is $7m in the Past Due Assets category of which $5m is in the Less than 30 Days category.
(2) The Residential Mortgages asset class consists of mortgages which are secured by residential properties.

Neither Past Due Nor Impaired
The credit quality of advances that were neither past due nor impaired can be assessed by reference to the Bank's internal rating system:

$ millions	Residential Mortgages	Other Retail	Corporate	Total
Low Expected Loss	31,627	834	4,582	37,043
Medium Expected Loss	3,531	2,943	5,305	11,779
High Expected Loss	-	22	1,372	1,394
Total Advances Neither Past Due Nor Impaired	35,158	3,799	11,259	50,216
Aging Analysis of Past Due Assets				
Less than 30 Days	1,668	230	206	2,104
30 to 59 Days	303	32	19	354
60 to 89 Days	151	12	35	198
Over 90 Days	304	29	36	369
Total Past Due Assets	2,426	303	296	3,025
90 Day Past Due Assets				
Balance at Beginning of Year	296	46	32	374
Additions / (Deletions)	77	(10)	10	77
Less: Amounts Written Off	69	7	6	82
Balance at End of Year	304	29	36	369

There were no undrawn balances on lending commitments to counterparties within the 90 Day Past Due Assets category as at 30 June 2010 (30 June 2009 Nil).

$ millions	Residential Mortgages	Other Retail	Corporate	Total
IMPAIRED ASSETS				
Restructured Assets				
Balance at Beginning of Year	65	-	-	65
Additions	97	4	-	101
Balance at End of Year	162	4	-	166
Other Individually Impaired Assets				
Balance at Beginning of Year	21	8	258	287
Additions	10	3	77	90
Less: Amounts Written Off	7	1	43	51
Gross Advances Individually Determined to be Impaired	24	10	292	326
Less: Individually Assessed Provisions	15	2	43	60
Net Advances Individually Determined to be Impaired	9	8	249	266
Total Impaired Assets	186	14	292	492

Undrawn balances on lending commitments to counterparties within the Impaired Asset category were $3m as at 30 June 2010 (30 June 2009 $8m).

Interest foregone is the amount of income that would have been recorded if interest accruals on specific loans had not been set to Nil and is estimated based on market rates. Under NZ IFRS interest on impaired assets is no longer reserved and therefore no interest has been foregone.

The facilities that are reported as impaired and past due are collateralised in terms of Bank policy. For further details refer to the Credit Risk Management and Asset Quality policies on pages 29 to 31.

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions	Residential Mortgages	Other Retail	Corporate	Total
	Consolidated and Parent[1]			

16 Credit Risk Management and Asset Quality (continued)

(a) Credit Quality Information for Advances to Customers (continued)

As at 30 June 2010 (continued)

	Residential Mortgages	Other Retail	Corporate	Total
Other Assets Under Administration				
Balance at Beginning of Year	**18**	**6**	**10**	**34**
Additions / (Deletions)	**4**	**(2)**	**1**	**3**
Balance at End of Year	**22**	**4**	**11**	**37**

Undrawn balances on lending commitments to counterparties within the Other Assets Under Administration category were $1m as at 30 June 2010 (30 June 2009 $2m).

As at 30 June 2010 the Banking Group did not have any financial assets, real estate assets or other assets acquired through the enforcement of security (30 June 2009 Nil).

As at 30 June 2009

	Residential Mortgages	Other Retail	Corporate	Total
Gross Advances to Customers by Credit Quality				
Neither Past Due Nor Impaired	34,120	3,681	11,656	49,457
Past Due Assets	2,745	366	346	3,457
Impaired Assets	86	8	258	352
Total Gross Advances to Customers by Credit Quality	36,951	4,055	12,260	53,266

(1) The Residential Mortgages asset class includes mortgages of $50m which are held by a subsidiary of the Bank. $41m is classified as Neither Past Due Nor Impaired, of which $40m is in the Low Expected Loss category and $1m is in the Medium Expected Loss category. There is $9m in the Past Due Assets category of which $7m is in the Less than 30 Days category.

Neither Past Due Nor Impaired

The credit quality of advances that were neither past due nor impaired can be assessed by reference to the Bank's internal rating system:

	Residential Mortgages	Other Retail	Corporate	Total
Low Expected Loss	33,780	474	5,024	39,278
Medium Expected Loss	340	3,186	5,726	9,252
High Expected Loss	-	21	906	927
Total Advances Neither Past Due Nor Impaired	34,120	3,681	11,656	49,457
Aging Analysis of Past Due Assets				
Less than 30 Days	1,948	265	280	2,493
30 to 59 Days	351	35	23	409
60 to 89 Days	150	20	11	181
Over 90 Days	296	46	32	374
Total Past Due Assets	2,745	366	346	3,457
90 day Past Due Assets				
Balance at Beginning of Year	92	22	30	144
Additions	247	31	8	286
Less: Amounts Written Off	43	7	6	56
Balance at End of Year	296	46	32	374
IMPAIRED ASSETS				
Restructured Assets				
Balance at Beginning of Year	-	-	-	-
Additions	65	-	-	65
Balance at End of Year	65	-	-	65
Other Individually Impaired Assets				
Balance at Beginning of Year	8	1	21	30
Additions	22	10	259	291
Less: Amounts Written Off	9	3	22	34
Gross Advances Individually Determined to be Impaired	21	8	258	287
Less: Individually Assessed Provisions	7	1	75	83
Net Advances Individually Determined to be Impaired	14	7	183	204
Total Impaired Assets	86	8	258	352
Other Assets Under Administration				
Balance at Beginning of Year	9	1	5	15
Additions	9	5	5	19
Balance at End of Year	18	6	10	34

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For the year ended 30 June 2010

$ millions	Residential Mortgages	Other Retail	Corporate	Total
	Consolidated and Parent			
16 Credit Risk Management and Asset Quality (continued)				
(b) Provisions for Impairment Losses				
As at 30 June 2010				
Collective Provision				
Balance at Beginning of Year	**38**	**67**	**73**	**178**
Charged to Income Statement	**21**	**(7)**	**9**	**23**
Balance at End of Year	**59**	**60**	**82**	**201**
Individually Assessed Provisions				
Balance at Beginning of Year	**7**	**1**	**75**	**83**
Add / (Less):				
Charged to Income Statement:				
New Provisions	**16**	**2**	**44**	**62**
Amounts Recovered	**(1)**	**-**	**(33)**	**(34)**
Write Offs Against Individually Assessed Provisions	**(7)**	**(1)**	**(43)**	**(51)**
Balance at End of Year	**15**	**2**	**43**	**60**
Total Provisions for Impairment Losses	**74**	**62**	**125**	**261**
Impairment Losses Charged to the Income Statement				
Movement in Collective Provision	**21**	**(7)**	**9**	**23**
Movement in Individually Assessed Provisions	**15**	**2**	**11**	**28**
Bad Debts Written Off	**69**	**7**	**6**	**82**
Bad Debts Recovered	**(6)**	**(1)**	**(1)**	**(8)**
Total Impairment Losses Charged to the Income Statement	**99**	**1**	**25**	**125**
As at 30 June 2009				
Collective Provision				
Balance at Beginning of Year	16	30	41	87
Charged to Income Statement	22	37	32	91
Balance at End of Year	38	67	73	178
Individually Assessed Provisions				
Balance at Beginning of Year	5	1	16	22
Add / (Less):				
Charged to Income Statement:				
New Provisions	11	4	92	107
Amounts Recovered	-	(1)	(11)	(12)
Write Offs Against Individually Assessed Provisions	(9)	(3)	(22)	(34)
Balance at End of Year	7	1	75	83
Total Provisions for Impairment Losses	45	68	148	261
Impairment Losses Charged to the Income Statement				
Movement in Collective Provision	22	37	32	91
Movement in Individually Assessed Provisions	11	3	81	95
Bad Debts Written Off	43	7	6	56
Bad Debts Recovered	(2)	(1)	(1)	(4)
Total Impairment Losses Charged to the Income Statement	74	46	118	238

Notes to the Financial Statements

For the year ended 30 June 2010

16 Credit Risk Management and Asset Quality (continued)

(c) Concentrations of Credit Exposures

The following table presents the maximum exposure to credit risk of financial assets and other credit exposures, before taking account of any collateral held or other credit enhancements unless such credit enhancements meet the offsetting criteria in NZ IAS 32 *Financial Instruments: Presentation*.

For financial assets recognised on the Balance Sheet, the maximum exposure to credit risk equals their carrying values. Other Credit Exposures include irrevocable Lending Commitments, Guarantees, Standby Letters of Credit and other off balance sheet Credit Commitments. The maximum exposure to credit risk for Guarantees and Standby Letters of Credit is the maximum amount that the Banking Group would have to pay if the facilities were called upon. For irrevocable Lending Commitments and other Credit Commitments, the maximum exposure to credit risk is the full amount of the committed facilities.

Investments in Controlled Entities and Associates, Taxation Assets, Property, Plant and Equipment, Intangible Assets, Investment Property and Other Assets have been excluded from the analysis below, on the basis that any credit exposure is insignificant or Nil.

Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes have been used as the basis for disclosing customer industry sectors.

As at 30 June 2010

$ millions	Consolidated Financial Assets at Amortised Cost	Consolidated Financial Assets at Fair Value	Consolidated Other Credit Exposures	Consolidated Total Credit Exposures	Parent Financial Assets at Amortised Cost	Parent Financial Assets at Fair Value	Parent Other Credit Exposures	Parent Total Credit Exposures
Concentration by Industry								
Agricultural, Forestry and Fishing	6,488	360	511	7,359	6,488	360	511	7,359
Government and Public Authorities	378	2,002	271	2,651	378	2,002	271	2,651
Financial, Investments and Insurance	12,738	5,707	1,118	19,563	17,763	5,704	1,175	24,642
Utilities	61	17	5	83	61	17	5	83
Transport and Storage	141	36	35	212	141	36	35	212
Housing (1)	31,394	-	3,827	35,221	31,358	-	3,819	35,177
Construction	312	10	100	422	312	10	100	422
Personal	977	-	1,600	2,577	977	-	1,600	2,577
Other Commercial and Industrial	2,163	138	460	2,761	2,163	138	460	2,761
Total Credit Exposures by Industry	54,652	8,270	7,927	70,849	59,641	8,267	7,976	75,884

(1) The Housing sector for Financial Assets at Amortised Cost includes advances which are used for the purchase of residential properties that are owner-occupied. Advances which are used for the purchase of investment properties are included in the Financial, Investments and Insurance sector under Financial Assets at Amortised Cost.

$ millions	Consolidated Financial Assets at Amortised Cost	Consolidated Financial Assets at Fair Value	Consolidated Other Credit Exposures	Consolidated Total Credit Exposures	Parent Financial Assets at Amortised Cost	Parent Financial Assets at Fair Value	Parent Other Credit Exposures	Parent Total Credit Exposures
Concentration by Geographic Region								
Auckland	33,458	623	5,186	39,267	38,476	621	5,235	44,332
Rest of New Zealand	21,186	4,742	2,725	28,653	21,157	4,742	2,725	28,624
Overseas	8	2,905	16	2,929	8	2,904	16	2,928
Total Credit Exposures by Geographic Region	54,652	8,270	7,927	70,849	59,641	8,267	7,976	75,884

Notes to the Financial Statements

For the year ended 30 June 2010

16 Credit Risk Management and Asset Quality (continued)

(c) Concentrations of Credit Exposures (continued)

As at 30 June 2009

	Consolidated				Parent			
$ millions	Financial Assets at Amortised Cost	Financial Assets at Fair Value	Other Credit Exposures	Total Credit Exposures	Financial Assets at Amortised Cost	Financial Assets at Fair Value	Other Credit Exposures	Total Credit Exposures
Concentration by Industry								
Agricultural, Forestry and Fishing	6,533	96	564	7,193	6,533	96	564	7,193
Government and Public Authorities	468	1,786	232	2,486	468	1,786	232	2,486
Financial, Investments and Insurance	13,557	7,708	1,211	22,476	18,493	7,593	1,268	27,354
Utilities	66	16	6	88	66	16	6	88
Transport and Storage	169	38	29	236	169	38	29	236
Housing	30,325	-	4,042	34,367	30,275	-	4,039	34,314
Construction	325	1	79	405	325	1	79	405
Personal	966	-	1,573	2,539	966	-	1,573	2,539
Other Commercial and Industrial	2,229	112	492	2,833	2,229	112	492	2,833
Total Credit Exposures by Industry	54,638	9,757	8,228	72,623	59,524	9,642	8,282	77,448
Concentration by Geographic Region								
Auckland	33,017	284	5,253	38,554	37,944	282	5,307	43,533
Rest of New Zealand	21,617	4,753	2,972	29,342	21,576	4,640	2,972	29,188
Overseas	4	4,720	3	4,727	4	4,720	3	4,727
Total Credit Exposures by Geographic Region	54,638	9,757	8,228	72,623	59,524	9,642	8,282	77,448

Notes to the Financial Statements

For the year ended 30 June 2010

16 Credit Risk Management and Asset Quality (continued)

(d) Concentration of Credit Exposures to Individual Counterparties

The tables below represent the Banking Group's concentrations of credit exposures to individual counterparties. The basis of calculation is the greater of actual credit exposures or internal limits and excludes credit exposures to the central government of any country with a long term credit rating of A - or A3 or above, or its equivalent. Exposures are shown net of individually assessed provisions and gross of set offs. Percentages are calculated using the Banking Group's Shareholders' Equity as at balance date.

Peak Credit Exposures for the Three Months ended 30 June

Percentage of Shareholders' Equity	Number of Banks 2010	2009
10 - 19	**4**	3
20 - 29	**3**	4
30 - 39	**-**	-
40 - 49	**-**	-
50 - 59	**3**	1
60 - 69	**-**	2

Balance Date Credit Exposures as at 30 June

Percentage of Shareholders' Equity	Number of Banks 2010	2009
10 - 19	**4**	3
20 - 29	**3**	4
30 - 39	**-**	-
40 - 49	**-**	-
50 - 59	**3**	1
60 - 69	**-**	2

Balance Date Credit Exposures as at 30 June

Percentage of Shareholders' Equity	Total Exposure to Banks ($ millions) 2010	2009
10 - 19	**1,795**	1,055
20 - 29	**2,556**	3,226
30 - 39	**-**	-
40 - 49	**-**	-
50 - 59	**5,665**	1,775
60 - 69	**-**	3,890

There were no peak credit exposures to non-banks which exceeded 10% of Shareholders' Equity for the three months ended 30 June 2010 (30 June 2009 Nil). There were no balance date credit exposures to non-banks which exceeded 10% of Shareholders' Equity as at 30 June 2010 (30 June 2009 Nil).

In accordance with the requirements of the RBNZ, the above tables have been compiled using gross exposures and do not include any guarantee or security which the Banking Group may hold in respect of the various counterparty limits.

Exposures in the 50-59% and 60-69% ranges are to the major New Zealand trading banks.

The Bank has entered into CSA with individual bank counterparties in respect of certain credit exposures relating to derivative transactions included in the above tables. If the effect of the CSA's were taken into account, the net credit exposures equalling or exceeding 10% of the Banking Group's Shareholders' Equity as at 30 June 2010 would be as follows:

> Between 10% and 19%: $367m (one Bank).
> Between 20% and 29%: $2,684m (three Banks).
> Exposures to six other bank counterparties would fall below 10% of the Banking Group's Shareholders' Equity.

All of the individual counterparties included in the above tables have an Investment Grade rating (equivalent to BBB- or Baa3 or above).

Notes to the Financial Statements

For the year ended 30 June 2010

	Consolidated			
	Peak Exposure for the Three Months ended		Balance Date Exposure	
	$ millions	Percentage of Tier One Capital	$ millions	Percentage of Tier One Capital

16 Credit Risk Management and Asset Quality (continued)

(e) Credit Exposures to Connected Persons and Non-bank Connected Persons

30 June 2010				
All Connected Persons*	**803**	**23.1%**	**397**	**11.4%**
Non-bank Connected Persons	**114**	**3.3%**	**71**	**2.0%**
30 June 2009				
All Connected Persons*	652	19.2%	333	9.8%
Non-bank Connected Persons	147	4.3%	97	2.9%

The information on Credit Exposures to Connected Persons has been derived in accordance with the RBNZ document entitled *Connected Exposures Policy* (BS8) dated March 2008.

* Credit Exposures to Connected Persons included exposures to the Bank's ultimate parent bank, Commonwealth Bank of Australia ("CBA"). As at 30 June 2010 this amount was $327m (30 June 2009 $236m).

The basis for calculation is actual credit exposures. Exposures are all of a non-capital nature and shown net of any allowances for impairment losses on individual assets and gross of set offs. Percentages are calculated using the Banking Group's Tier One Capital as at balance date.

The Banking Group has a contingent exposure to its ultimate parent, CBA, arising from risk lay off arrangements in respect of credit exposures to counterparties. As at 30 June 2010 this amounted to $189m (30 June 2009 $186m).

The Banking Group has no Individually Assessed Provisions provided against credit exposures to connected persons as at 30 June 2010 (30 June 2009 Nil).

As at 30 June 2010 the Banking Group's rating contingent limit was 75% of Tier One Capital. There have been no changes to the limit since the quarter ended 31 March 2007. Within the overall rating contingent limit, there is a sub-limit of 15% of Tier One Capital which applies to aggregate credit exposures to non-bank connected persons. The rating contingent limit on lending to connected persons as set out in the Bank's Conditions of Registration has been complied with at all times during the year ended 30 June 2010.

Notes to the Financial Statements

For the year ended 30 June 2010

17 Controlled Entities and Associates

	%	Nature of Business	Balance Date
Subsidiaries			
Aegis Limited	100	Investment Administration and Custody	30 June
ASB Finance Limited	100	Finance	30 June
ASB Group Investments Limited	100	Investment Administration and Management	30 June
ASB Management Services Limited	100	Management, Payment Services and Property Investment	30 June
ASB Nominees Limited	100	Nominee Company	30 June
ASB Securities Limited	100	Sharebroking	30 June
ASB Smart Cards Limited	100	Investment Holding Company	30 June
Bond Investments No 1 Limited	100	Finance	30 June
Bond Investments UK Limited	100	Finance	30 June
Investment Custodial Services Limited	100	Investment Custodian	30 June
Jacques Martin New Zealand Limited	100	Investment and Registry Administration	30 June
Kiwi Home Loans (NZ) Limited	100	Lending	30 June
Securitisation Management Services Limited	100	Securitisation Management	30 June
Sinatra Investments Limited	100	Non-trading	30 June

All subsidiaries were incorporated in New Zealand.

	%	Nature of Business	Balance Date
Other Controlled Entities			
ASB Cash Fund	-	Portfolio Investment Entity	30 June
ASB Term Fund	-	Portfolio Investment Entity	30 June
Medallion NZ Series Trust 2009-1R	-	Residential Mortgage Backed Securities	30 June
Mortgage Holding Trust Company Limited	-	Nominee Company	30 June
Associates			
Cards NZ Limited	15	Financial Services	30 September
Paymark Limited	25	EFTPOS settlements	31 March
(formerly Electronic Transaction Services Limited)			
Interchange and Settlement Limited	11	Interchange and Settlement	31 March
Mondex New Zealand Limited	20	Smartcard Operations	31 December

Summarised financial information for Associates is not provided, as the amounts involved are immaterial.

Changes in Composition of the Banking Group

Pago Limited was removed from the register of companies on 26 January 2010.

On 28 June 2010 the following entities were removed from the register of companies: Charter House Investments Limited; McCaig Investments Limited; Stockbridge Holdings Limited; St Giles Investments Limited; Kings Ferry Holdings Limited; Kings Ferry Investments Limited; Hildon Holdings Limited; Hildon Investments Limited.

The removal of these companies had no impact on the Consolidated financial statements of the Banking Group.

Comparative Year

On 1 July 2008 the Bank purchased 100% of the ordinary capital of Aegis Limited, ASB Group Investments Limited, Investment Custodial Services Limited and Jacques Martin New Zealand Limited from fellow subsidiaries of CBA for consideration of $58m. This resulted in recognition of Net Tangible Assets of $10m (Cash of $12m, Taxation Assets of $5m, Property, Plant and Equipment of $1m and Other Receivables of $3m less Other Liabilities of $11m) and Goodwill of $48m in the Banking Group during the year ended 30 June 2009.

From 1 July 2008 Mortgage Holding Trust Company Limited has been considered to be controlled by the Banking Group and included in the Consolidated financial statements of the Banking Group. This did not have any impact on the aggregated results or financial position of the Banking Group. Mortgage Holding Trust Company Limited was previously considered to be controlled by Sovereign Limited, a fellow subsidiary of CBA.

ASB Cash Fund and ASB Term Fund were established on 1 July 2008 and 9 December 2008 respectively. Both Funds are Portfolio Investment Entities ("PIE") managed by ASB Group Investments Limited and considered to be controlled by the Bank. As such they are included in the Banking Group's financial statements as in-substance subsidiaries.

On 4 November 2008 ASB Properties Limited, a 100% owned subsidiary of the Bank amalgamated with fellow subsidiary ASB Management Services Limited to become ASB Management Services Limited. This did not have any impact on the aggregated results or financial position of the Banking Group.

On 13 November 2008 Securitisation Management Services Limited was incorporated as a wholly owned subsidiary of the Bank. This did not have any impact on the aggregated results or financial position of the Banking Group.

Medallion NZ Series Trust 2008-1U and Medallion NZ Series Trust 2009-1R were established on 14 November 2008 and 2 April 2009 respectively to provide an in house RMBS facility that could issue securities that can be used as collateral for borrowing from the RBNZ (refer to Note 43). The Medallion NZ Series Trust 2008-1U programme was unwound on 25 June 2009. The establishment of the facility did not have any impact on the Consolidated financial statements of the Banking Group.

The Banking Group sold its investments in Waterloo & Victoria Limited and Bayswater and Bond Limited on 15 and 18 June 2009 respectively. This did not have any impact on the aggregated results or financial position of the Banking Group.

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions *As at 30 June*	Consolidated 2010	2009	Parent 2010	2009
18 Other Assets				
Interest Receivable Accrued	**151**	170	**151**	170
Other Current Assets	**56**	66	**40**	49
Total Other Assets	**207**	236	**191**	219
Amounts Due for Settlement Within 12 Months	**199**	220	**183**	203
Amounts Due for Settlement Over 12 Months	**8**	16	**8**	16
Total Other Assets	**207**	236	**191**	219

$ millions	Consolidated Land Freehold	Buildings Freehold	Buildings Leasehold	Furniture and Fittings	Computer and Office Equipment	Operating Software	Total
19 Property, Plant and Equipment							
As at 30 June 2010							
Cost / Valuation	**24**	**31**	**98**	**87**	**159**	**20**	**419**
Accumulated Depreciation	**-**	**-**	**(61)**	**(63)**	**(123)**	**(18)**	**(265)**
Opening Net Book Value	**24**	**31**	**37**	**24**	**36**	**2**	**154**
Additions	**-**	**-**	**2**	**2**	**10**	**1**	**15**
Depreciation	**-**	**(1)**	**(8)**	**(5)**	**(16)**	**(2)**	**(32)**
Revaluation	**(3)**	**2**	**-**	**-**	**-**	**-**	**(1)**
Closing Net Book Value	**21**	**32**	**31**	**21**	**30**	**1**	**136**
Cost / Valuation	**21**	**32**	**100**	**86**	**167**	**21**	**427**
Accumulated Depreciation	**-**	**-**	**(69)**	**(65)**	**(137)**	**(20)**	**(291)**
Closing Net Book Value	**21**	**32**	**31**	**21**	**30**	**1**	**136**
As at 30 June 2009							
Cost / Valuation	24	28	92	81	148	20	393
Accumulated Depreciation	-	-	(53)	(57)	(109)	(15)	(234)
Opening Net Book Value	24	28	39	24	39	5	159
Additions	-	1	7	6	15	-	29
Disposals	-	-	-	-	(2)	-	(2)
Depreciation	-	(1)	(9)	(6)	(16)	(3)	(35)
Revaluation	-	3	-	-	-	-	3
Closing Net Book Value	24	31	37	24	36	2	154
Cost / Valuation	24	31	98	87	159	20	419
Accumulated Depreciation	-	-	(61)	(63)	(123)	(18)	(265)
Closing Net Book Value	24	31	37	24	36	2	154

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions	Land Freehold	Buildings Freehold	Buildings Leasehold	Furniture and Fittings	Computer and Office Equipment	Operating Software	Total
	Parent						

19 Property, Plant and Equipment (continued)

	Land Freehold	Buildings Freehold	Buildings Leasehold	Furniture and Fittings	Computer and Office Equipment	Operating Software	Total
As at 30 June 2010							
Cost / Valuation	**21**	**22**	**94**	**84**	**156**	**20**	**397**
Accumulated Depreciation	**-**	**-**	**(57)**	**(60)**	**(120)**	**(18)**	**(255)**
Opening Net Book Value	**21**	**22**	**37**	**24**	**36**	**2**	**142**
Additions	**-**	**-**	**2**	**2**	**10**	**1**	**15**
Depreciation	**-**	**(1)**	**(8)**	**(5)**	**(16)**	**(2)**	**(32)**
Revaluation	**(3)**	**2**	**-**	**-**	**-**	**-**	**(1)**
Closing Net Book Value	**18**	**23**	**31**	**21**	**30**	**1**	**124**
Cost / Valuation	**18**	**23**	**95**	**84**	**165**	**21**	**406**
Accumulated Depreciation	**-**	**-**	**(64)**	**(63)**	**(135)**	**(20)**	**(282)**
Closing Net Book Value	**18**	**23**	**31**	**21**	**30**	**1**	**124**
As at 30 June 2009							
Cost / Valuation	21	20	89	79	148	20	377
Accumulated Depreciation	-	-	(50)	(55)	(109)	(15)	(229)
Opening Net Book Value	21	20	39	24	39	5	148
Additions	-	1	7	6	15	-	29
Disposals	-	-	-	-	(2)	-	(2)
Depreciation	-	(1)	(9)	(6)	(16)	(3)	(35)
Revaluation	-	2	-	-	-	-	2
Closing Net Book Value	21	22	37	24	36	2	142
Cost / Valuation	21	22	94	84	156	20	397
Accumulated Depreciation	-	-	(57)	(60)	(120)	(18)	(255)
Closing Net Book Value	21	22	37	24	36	2	142

Freehold land and buildings are carried at revalued amounts based on market valuations provided by independent, registered, public valuers. The latest market valuations were undertaken in May 2010 and were applied on 30 June 2010. The primary valuation approach has been based upon comparable improved sales and land sales information supported by an income approach, based on market rentals which have been capitalised at a market yield rate derived from improved property transactions. As at 30 June 2010 under the cost model these assets would have been recognised at a carrying amount of $7m and $12m respectively (30 June 2009 $7m and $13m).

Property, Plant and Equipment are non-current assets (not expected to be realised within 12 months of the balance date).

$ millions *As at 30 June*	Consolidated **2010**	2009	Parent **2010**	2009
20 Investment Property				
Balance at Beginning of Year	**-**	-	**-**	-
Net Gain from Changes in Fair Value	**8**	-	**8**	-
Balance at End of Year	**8**	-	**8**	-

The fair value of the Investment Property is based on a valuation by independent valuer Jones Lang LaSalle as at 30 June 2010.

The fair value is determined using a Chance of Change valuation methodology which assesses the likelihood of changing the current zoning to the highest and best use. Based on market evidence a 75% chance of change has been applied. In assessing highest and best use the Hypothetical Subdivision approach has been used. This approach derives the residual land value by deducting the total estimated cost of developing the residential subdivision from the estimated gross realisable income from the hypothetical sale of the individual lots upon expiry of the ground lease, assuming no inflation and a discount rate of 12.5%.

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions	Consolidated		Parent	
As at 30 June	**2010**	2009	**2010**	2009
21 Intangible Assets				
Goodwill	**48**	48	**-**	-
Internally Generated Application Software	**45**	51	**41**	46
External Application Software	**23**	20	**23**	20
Total Intangible Assets	**116**	119	**64**	66
Goodwill				
Balance at Beginning of Year	**48**	-	**-**	-
Additions	**-**	48	**-**	-
Balance at End of Year	**48**	48	**-**	-

Goodwill of $48m arose from the purchase of Aegis Limited and ASB Group Investments Limited from fellow subsidiaries of CBA on 1 July 2008 (refer to Note 17). During the year ended 30 June 2010 the Banking Group did not identify any events or circumstances that would indicate that Goodwill may be impaired (30 June 2009 Nil).

Impairment Tests for Goodwill
Goodwill was tested for impairment as at 30 June 2010. Goodwill of $38m was allocated to Aegis Limited and $10m was allocated to ASB Group Investments Limited, each of which subsidiary is considered to be a cash-generating unit for the purpose of impairment testing. The operations of the subsidiaries are included within the Customers, Markets and Products Segment for Segment Reporting. To assess whether Goodwill is impaired the carrying amount of a cash-generating unit is compared to the recoverable amount, determined based on its value in use.

No impairment losses were recognised against the carrying amount of Goodwill for the year ended 30 June 2010 (30 June 2009 Nil).

Key Assumptions used in Value in Use Calculations
As at 30 June 2010 value in use for each cash-generating unit was determined by discounting the future cash flows expected to be generated from the continuing use of the unit, based on the following assumptions:

> Cash flows were projected based on management's assessment of product profitability, and forecasted growth in revenues and expenses to support the business covering a five year period. Cash flows beyond five years were extrapolated based on a conservative view of growth at a 2% rate of inflation.
> A post-tax discount rate of 11% was applied in determining the recoverable amounts of the investments, in line with the rate used internally by the Banking Group to assess the net present value of business cases for new products or projects.

The key assumptions described above may change as economic and market conditions change. The Banking Group estimates that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of either unit to decline below the carrying amount of Goodwill.

Internally Generated Application Software				
Cost	**82**	48	**75**	46
Accumulated Amortisation	**(31)**	(15)	**(29)**	(15)
Opening Net Book Value	**51**	33	**46**	31
Additions	**16**	34	**15**	29
Amortisation	**(22)**	(16)	**(20)**	(14)
Closing Net Book Value	**45**	51	**41**	46
Cost	**98**	82	**90**	75
Accumulated Amortisation	**(53)**	(31)	**(49)**	(29)
Closing Net Book Value	**45**	51	**41**	46
External Application Software				
Cost	**78**	72	**76**	72
Accumulated Amortisation	**(58)**	(49)	**(56)**	(49)
Opening Net Book Value	**20**	23	**20**	23
Additions	**12**	4	**12**	4
Amortisation	**(9)**	(7)	**(9)**	(7)
Closing Net Book Value	**23**	20	**23**	20
Cost	**89**	78	**88**	76
Accumulated Amortisation	**(66)**	(58)	**(65)**	(56)
Closing Net Book Value	**23**	20	**23**	20

No impairment losses have been recognised against the carrying amount of Computer Software for the year ended 30 June 2010 (30 June 2009 Nil).

Intangible Assets are non-current assets.

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For the year ended 30 June 2010

$ millions	Consolidated		Parent	
As at 30 June	**2010**	2009	**2010**	2009
22 Deferred Taxation Asset				
Balance at Beginning of Year	**291**	26	**290**	26
Recognised in the Income Statement	**14**	41	**16**	40
Recognised in Other Comprehensive Income	**(146)**	224	**(146)**	224
Balance at End of Year	**159**	291	**160**	290
Deferred Taxation relates to:				
Asset Revaluation Reserve	**(6)**	(6)	**(5)**	(5)
Cash Flow Hedge Reserve	**68**	214	**68**	214
Depreciation	**(4)**	-	**(4)**	(1)
Holiday Pay	**6**	6	**6**	6
Provision for Impairment Losses	**75**	78	**75**	78
Other Temporary Differences	**20**	(1)	**20**	(2)
Total Deferred Taxation Asset	**159**	291	**160**	290
Deferred Taxation Recognised in the Income Statement:				
Depreciation	**(4)**	(3)	**(3)**	(3)
Provision for Impairment Losses	**(3)**	46	**(3)**	46
Other Temporary Differences	**21**	(2)	**22**	(3)
Total Deferred Taxation Recognised in the Income Statement	**14**	41	**16**	40
Deferred Taxation Recognised in Other Comprehensive Income:				
Asset Revaluation Reserve	**-**	(1)	**-**	(1)
Cash Flow Hedge Reserve	**(146)**	225	**(146)**	225
Total Deferred Taxation Recognised in Other Comprehensive Income	**(146)**	224	**(146)**	224

The reduction in the corporate tax rate from 30% to 28% from the 2012 tax year has been taken into account in calculating the value of Deferred Taxation as at 30 June 2010.

As at 30 June 2010 Deferred Taxation of $79m for Consolidated and $80m for Parent is expected to crystallise after more than 12 months (30 June 2009 $173m Consolidated, $174m Parent).

23 Imputation and Policyholder Credit Accounts

Dividends paid by companies may attach imputation credits representing the New Zealand tax already paid by the company or tax group on profits. New Zealand resident shareholders may claim a tax credit to the value of the imputation credit attached to dividends.

The Bank and some of its subsidiaries have formed an imputation group with other members of the Commonwealth Bank of Australia Group ("ICA Group"). The closing imputation credit account balances presented below represent the imputation credits available to all members of the ICA Group.

Because a member of the ICA Group is a life insurance company, the ICA Group is required to maintain a policyholder credit account ("PCA"). A balance in a PCA can be transferred back to an imputation credit account and is therefore available to shareholders (and shareholders of other ICA Group members). The closing PCA balance for the current and comparative year is Nil and no transactions occurred in either year.

Imputation Credit Account				
Balance at Beginning of Year	**56**	13	**-**	-
Opening Balances of Associates Entering the ICA Group	**-**	5	**-**	-
Net Income Tax Paid	**307**	53	**-**	-
Imputation Credits Attached to Dividends Received	**4**	16	**-**	-
Imputation Credits Attached to Dividends Paid	**(76)**	(31)	**-**	-
Balance at End of Year	**291**	56	**-**	-

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions	Consolidated		Parent	
As at 30 June	**2010**	2009	**2010**	2009
24 Due to Other Banks				
Amounts Due for Settlement Within 12 Months	**704**	2,041	**704**	2,041
Amounts Due for Settlement Over 12 Months	**6,138**	4,110	**6,138**	4,110
Total Due to Other Banks	**6,842**	6,151	**6,842**	6,151

The Bank has entered into CSA in respect of certain credit exposures relating to derivative transactions. As at 30 June 2010 deposits of $19m relating to collateral received were included in Due to Other Banks (30 June 2009 $24m).

As at 30 June 2010 there were no securities sold under repurchase agreements with the RBNZ included in Due to Other Banks (30 June 2009 $200m) (refer to Note 15).

All changes in Fair Value are attributable to changes in the benchmark interest rate. Refer to Note 1(f) for details of the fair valuation methodology.

As at 30 June 2010 the principal at maturity of Amounts Due to Other Banks at Fair Value through Profit or Loss was $354m (30 June 2009 $789m).

$ millions	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
25 Money Market Deposits				
Deposits	**3,056**	3,564	**3,056**	3,564
Certificates of Deposit	**2,203**	3,273	**2,204**	3,273
Issued Paper	**12,604**	13,833	**1,830**	1,511
Total Money Market Deposits	**17,863**	20,670	**7,090**	8,348
Amounts Due for Settlement Within 12 Months	**14,470**	17,271	**6,113**	7,277
Amounts Due for Settlement Over 12 Months	**3,393**	3,399	**977**	1,071
Total Money Market Deposits	**17,863**	20,670	**7,090**	8,348

For the year ended 30 June 2010 a loss of $5m was attributable to changes in credit risk for Money Market Deposits designated as at Fair Value through Profit or Loss (refer to Note 41) (30 June 2009 loss of $8m). All other changes in Fair Value are attributable to changes in the benchmark interest rate.

As at 30 June 2010 the principal at maturity of Money Market Deposits at Fair Value through Profit or Loss was $10,565m (30 June 2009 $11,574m).

The Banking Group has not defaulted on any principal, interest or redemption amounts on its borrowed funds during the year ended 30 June 2010 (30 June 2009 Nil).

$ millions	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
26 Deposits from Customers				
Retail Term Deposits	**18,126**	15,909	**17,134**	15,478
Other Deposits Bearing Interest	**11,443**	12,150	**10,975**	11,664
Deposits Not Bearing Interest	**1,914**	1,834	**1,914**	1,834
Total Deposits from Customers	**31,483**	29,893	**30,023**	28,976
Amounts Due for Settlement Within 12 Months	**30,417**	27,819	**29,008**	26,999
Amounts Due for Settlement Over 12 Months	**1,066**	2,074	**1,015**	1,977
Total Deposits from Customers	**31,483**	29,893	**30,023**	28,976

Deposits from Customers are unsecured and rank equally with other unsecured liabilities of the Banking Group. In the unlikely event that the Bank was put into liquidation or ceased to trade, secured creditors and those creditors set out in the Seventh Schedule of the Companies Act 1993 would rank ahead of the claims of unsecured creditors.

$ millions	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
27 Other Liabilities				
Interest Payable Accrued	**322**	286	**276**	234
Employee Entitlements	**58**	46	**57**	44
Trade Accounts Payable and Other Liabilities	**115**	104	**105**	89
Total Other Liabilities	**495**	436	**438**	367
Amounts Due for Settlement Within 12 Months	**492**	431	**435**	361
Amounts Due for Settlement Over 12 Months	**3**	5	**3**	6
Total Other Liabilities	**495**	436	**438**	367

Notes to the Financial Statements

For the year ended 30 June 2010

28 Subordinated Debt

All Subordinated Debt is subordinate to all other general liabilities of the Bank and is denominated in New Zealand dollars. All issues carried an AA- credit rating from Standard & Poor's (Australia) Pty Limited as at 30 June 2010.

All Subordinated Debt qualifies as Lower Tier Two Capital for Capital Adequacy calculation purposes.

Face Value	Terms	Callable	Maturity
$200m	Issued on 15 June 2006 with coupon rate of 7.03% until 15 June 2011, after which the rate will be reset for the remaining term plus an additional 0.5% per annum.	15 June 2011	15 June 2016
$250m	Issued on 29 June 2007 to the Bank's ultimate parent, CBA. Interest is payable at the bank bill rate reset quarterly plus a margin of 0.25% per annum until 29 June 2012, after which the margin will increase by 0.5% per annum.	29 June 2012	29 June 2017
$370m	Issued on 1 November 2007 with coupon rate of 8.771% until 15 November 2012, after which the rate will be reset for the remaining term plus an additional 0.5% per annum.	15 November 2012	15 November 2017

29 Contributed Capital

$ millions	Consolidated		Parent	
As at 30 June	**2010**	2009	**2010**	2009
Issued and Fully Paid Ordinary Share Capital				
Balance at Beginning of Year	**2,248**	1,973	**2,248**	1,973
Proceeds from Shares Issued	**-**	275	**-**	275
Balance at End of Year	**2,248**	2,248	**2,248**	2,248
Issued and Fully Paid Perpetual Preference Share Capital				
Balance at Beginning of Year	**550**	550	**550**	550
Balance at End of Year	**550**	550	**550**	550
Total Contributed Capital	**2,798**	2,798	**2,798**	2,798

All Contributed Capital is included in Tier One Capital for Capital Adequacy calculation purposes.

Ordinary Shares

No shares were issued during the year ended 30 June 2010 (275,000,000 Ordinary Shares issued on 26 June 2009). The total number of issued Ordinary Shares as at 30 June 2010 was 2,248,121,300 (30 June 2009 2,248,121,300).

All Ordinary Shares have equal voting rights and share equally in dividends and any profit on winding up, after the obligations to holders of ASB Perpetual Preference Shares ("PPS") are satisfied. Dividends are declared subject, in all cases, to the applicable Directors' resolutions being passed.

Perpetual Preference Shares

On 15 May 2006 the Bank issued 200,000,000 2006 Series 1 PPS and 350,000,000 Series 2 PPS to its immediate parent, ASB Holdings Limited. ASB Holdings Limited subsequently transferred the PPS by way of novation to its subsidiary ASB Funding Limited.

The PPS were issued as part of transactions with ASB Capital Limited and ASB Capital No. 2 Limited, both of which are subsidiaries of CBA Funding (NZ) Limited, which is ultimately owned by CBA.

Under the transactions, ASB Capital Limited and ASB Capital No. 2 Limited have advanced proceeds received from a public issue of their own PPS to ASB Funding Limited. ASB Funding Limited in turn invested the proceeds in PPS issued by the Bank. ASB Funding Limited and The New Zealand Guardian Trust Company Limited (the "Trustee") together with ASB Capital Limited and ASB Capital No. 2 Limited respectively are party to Trust Deeds, whereby ASB Funding Limited provides covenants to the Trustee for the benefit of holders of the ASB Capital Limited and ASB Capital No. 2 Limited PPS and grants security over the Bank PPS in favour of the Trustee.

The PPS are non-redeemable and carry limited voting rights. Dividends are payable quarterly in arrears, are non-cumulative and payable at the discretion of the Directors.

The dividend payable on the 2006 Series 1 PPS is based on the one year swap rate plus a margin of 1.3%. Rates are reset annually on 15 November or the succeeding business day. The rate was reset on 16 November 2009 to 4.75% per annum. The next dividend reset date is 15 November 2010.

The dividend payable on the 2006 Series 2 PPS is based on the one year swap rate plus a margin of 1.0%. Rates are reset annually on 15 May or the succeeding business day. The rate was reset on 17 May 2010 to 4.68% per annum. The next dividend reset date is 16 May 2011.

In the event of the liquidation of the Bank payment of the issue price and cumulative dividends on the PPS ranks:

> before all rights of ordinary shareholders;
> after all rights of holders of shares of the Bank other than ordinary or preference shares; and
> after all rights of creditors of the Bank.

The total number of issued PPS as at 30 June 2010 was 550,000,000 (30 June 2009 550,000,000).

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions	Consolidated		Parent	
As at 30 June	**2010**	2009	**2010**	2009
30 Asset Revaluation Reserves				
Balance at Beginning of Year	**30**	29	**26**	25
Revaluations	**(1)**	2	**(1)**	2
Deferred Income Tax	**-**	(1)	**-**	(1)
Balance at End of Year	**29**	30	**25**	26

The Asset Revaluation Reserve relates to revaluation gains on land and buildings carried at valuation, except that to the extent that the gain reverses a revaluation loss on the same asset previously recognised in the Income Statement, the gain is recognised in the Income Statement.

31 Available for Sale Reserve				
Balance at Beginning of Year	**15**	19	**15**	19
Net Gain / (Loss) from Changes in Fair Value	**8**	(4)	**8**	(4)
Transferred to Other Income on Disposal	**(9)**	-	**(9)**	-
Transferred to Other Income for Impairment	**1**	-	**1**	-
Balance at End of Year	**15**	15	**15**	15

The Available for Sale Reserve includes the cumulative net change in the fair value of Available for Sale Financial Assets until the investment is derecognised or impaired.

32 Cash Flow Hedge Reserve				
Balance at Beginning of Year	**(498)**	27	**(498)**	27
Net Loss from Changes in Fair Value	**(278)**	(979)	**(278)**	(979)
Transferred to Profit or Loss:				
Interest Income	**(231)**	(26)	**(231)**	(26)
Interest Expense	**987**	255	**987**	255
Deferred Income Tax	**(146)**	225	**(146)**	225
Balance at End of Year	**(166)**	(498)	**(166)**	(498)

The Cash Flow Hedge Reserve comprises the effective portion of the cumulative net change in the fair value of foreign exchange and interest rate derivative contracts related to hedged forecasted transactions that have not yet occurred.

33 Foreign Currency Translation Reserve				
Balance at Beginning of Year	**1**	-	**-**	-
Currency Translation Differences	**-**	305	**-**	-
Net Investment Hedge	**-**	(419)	**-**	-
Current Income Tax	**-**	115	**-**	-
Balance at End of Year	**1**	1	**-**	-

FCTR comprises exchange differences on translation of foreign currency assets and liabilities of an overseas subsidiary. The Banking Group hedged its net investment in the overseas subsidiary on an after tax basis.

34 Retained Earnings				
Balance at Beginning of Year	**812**	601	**732**	533
Net Profit after Taxation	**236**	425	**212**	413
	1,048	1,026	**944**	946
Less: Ordinary Dividends	**160**	180	**160**	180
Less: Perpetual Preference Dividends	**17**	34	**17**	34
Balance at End of Year	**871**	812	**767**	732

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions	Consolidated		Parent	
As at 30 June	**2010**	2009	**2010**	2009
35 Reconciliation of Net Profit after Taxation to Net Cash Flows from Operating Activities				
Net Profit after Taxation	**236**	425	**212**	413
Add: Non-cash Items				
Impairment Losses on Advances	**125**	238	**125**	238
Depreciation	**32**	35	**32**	35
Amortisation of Intangible Assets	**31**	23	**29**	21
Writedown Investment in Controlled Entities and Associates	**-**	-	**14**	34
Net Loss on Sale of Property, Plant and Equipment	**-**	2	**-**	2
Net Gain on Sale of Available for Sale Securities	**(9)**	-	**(9)**	-
	179	298	**191**	330
Add: Movements in Balance Sheet Items				
Changes in Operating Assets and Liabilities	**(992)**	(460)	**2**	(1,954)
Interest Receivable – Decrease	**65**	58	**63**	50
Interest Payable – (Decrease) / Increase	**(130)**	(80)	**93**	(71)
Other Income Accrued – (Increase) / Decrease	**(625)**	127	**(643)**	385
Operating Expenses Accrued – Increase / (Decrease)	**18**	(29)	**23**	(39)
Taxation Balances – Increase / (Decrease)	**12**	31	**25**	(117)
	(1,652)	(353)	**(437)**	(1,746)
Net Cash Flows from Operating Activities	**(1,237)**	370	**(34)**	(1,003)
36 Reconciliation of Cash and Cash Equivalents to the Balance Sheet				
Cash and Call Deposits with the Central Bank	**1,175**	1,582	**1,175**	1,581
Call Deposits Due from Other Banks	**723**	1,153	**723**	1,150
Call Deposits Due to Other Banks	**(207)**	(124)	**(207)**	(124)
Total Cash and Cash Equivalents at End of Year	**1,691**	2,611	**1,691**	2,607

37 Leasing and Other Commitments

Leasing Commitments

The following non-cancellable operating lease commitments existed as at the end of the financial year:

Within One Year of Balance Date	**43**	43	**39**	39
Between One and Two Years	**37**	37	**33**	33
Between Two and Five Years	**62**	71	**58**	63
Over Five Years	**25**	34	**25**	34
Total Leasing Commitments	**167**	185	**155**	169
Other Commitments	**18**	17	**18**	17

The Bank leases various premises under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The Bank also leases motor vehicles and certain office equipment. Lease expenditure is charged to the Income Statement (refer to Note 6).

The Bank has entered into certain sub-leasing arrangements. Sub-leasing income of $2m for the year ended 30 June 2010 (30 June 2009 $3m) was included in the Income Statement.

Notes to the Financial Statements

For the year ended 30 June 2010

As at 30 June	2010		2009	
$ millions	**Notional Amount**	**Credit Equivalent**	Notional Amount	Credit Equivalent

38 Credit and Capital Commitments, and Contingent Liabilities

	Consolidated			
(a) Credit and Capital Commitments				
Lending Commitments Approved but Not Yet Advanced	**7,633**	**938**	7,965	1,295
Capital Expenditure Commitments	**2**	**2**	3	3
Total Credit and Capital Commitments	**7,635**	**940**	7,968	1,298
	Parent			
Credit and Capital Commitments				
Lending Commitments Approved but Not Yet Advanced	**7,625**	**938**	7,962	1,295
Capital Expenditure Commitments	**2**	**2**	3	3
Total Credit and Capital Commitments	**7,627**	**940**	7,965	1,298
	Consolidated			
(b) Contingent Liabilities				
Guarantees	**67**	**67**	60	60
Standby Letters of Credit	**111**	**111**	91	91
Other Credit Facilities	**116**	**53**	112	49
Total Contingent Liabilities	**294**	**231**	263	200
	Parent			
Contingent Liabilities				
Guarantees	**124**	**124**	117	117
Standby Letters of Credit	**111**	**111**	91	91
Other Credit Facilities	**116**	**53**	112	49
Total Contingent Liabilities	**351**	**288**	320	257

The Parent Bank guarantees certain obligations of its subsidiary ASB Finance Limited. Proceeds of paper issued by ASB Finance Limited are on-lent to the Bank and are included in Due to Controlled Entities and Associates. The Parent Bank also provides a guarantee to the New Zealand Exchange Limited ("NZX") over the obligations of ASB Securities Limited up to $60m.

In previous years the Parent Bank guaranteed cross currency swaps transacted by its former subsidiaries Waterloo & Victoria Limited and Bayswater and Bond Limited. In June 2009 the cross currency swaps were novated to the Parent Bank and the guarantees were terminated.

(c) Other Contingent Liabilities

The Banking Group has other contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the Banking Group's likely loss in respect of these matters has been made on a case by case basis and provision made in the financial statements where appropriate. Information relating to any matter is not disclosed where it can be expected to prejudice seriously the position of the Banking Group.

Commerce Commission

The 30 June 2009 General Disclosure Statement disclosed that the Commerce Commission had issued proceedings against Visa, MasterCard and 11 financial institutions, including the Bank, for alleged price fixing and substantially lessening competition in relation to credit card interchange fees and rules. Similar proceedings were also issued against the same defendants by a number of New Zealand retailers. All such proceedings against the Bank have since been settled.

New Zealand Structured Finance Transactions

On 23 December 2009 the Bank reached a settlement with the New Zealand Inland Revenue Department ("IRD") relating to four structured finance transactions.

The IRD had reviewed certain structured finance transactions undertaken in New Zealand by various financial institutions, and had issued amended assessments which were being disputed by the Bank and other financial institutions.

The Bank has settled the disputed assessments by agreeing to pay $264m, which represents 80% of the full amount of tax and interest in dispute (before taking into account tax already paid and available to the Bank in the relevant tax years). $209m of the settlement amount is included in Taxation expense for the year.

The Bank had received extensive independent tax and legal advice on the matters at issue. In light of recent High Court judgements concerning structured finance transactions undertaken by other financial institutions, the Bank decided to conclude this matter by negotiation with the IRD.

Notes to the Financial Statements

For the year ended 30 June 2010

39 Related Party Transactions and Balances

The Bank is wholly owned by ASB Holdings Limited, a company incorporated in New Zealand. The ultimate parent bank is CBA. The Commonwealth Bank Group refers to CBA and the various companies and other entities owned and controlled by CBA. Commonwealth Bank of Australia New Zealand Life Insurance Group includes Colonial Group and ASB Group (Life) Limited Group of Companies.

During the year ended 30 June 2010 the Banking Group has entered into, or had in place various financial transactions with members of the Commonwealth Bank Group, and other related parties. The Bank provides administrative functions to some subsidiaries and related companies for which no payments have been made. In all other cases, arrangements with related parties were conducted on an arm's length basis and on normal commercial terms, and within the Bank's approved policies. Loans to and borrowings from related parties are unsecured.

Transactions processed during the year ended 30 June 2010 included:

Guarantees
Commonwealth Bank Group provides guarantees over various lending offered by the Bank to the value of $189m (30 June 2009 $186m).

Distribution and Administrative Services
Receipts of $15m (30 June 2009 $17m) were received from the Commonwealth Bank of Australia New Zealand Life Insurance Group for administrative services provided by the Bank. No payments (30 June 2009 $9m) were made to the Commonwealth Bank of Australia New Zealand Life Insurance Group for management expenses incurred on behalf of the Bank.

A payment of $11m (30 June 2009 $14m) was made to the Commonwealth Bank of Australia New Zealand Life Insurance Group, for the origination of mortgages.

No payments (30 June 2009 $3m) were made to the Commonwealth Bank Group for arrangement fees.

Receipts of $31m (30 June 2009 $33m) were received from the Commonwealth Bank of Australia New Zealand Life Insurance Group, for insurance commission and profit share.

Receipts of $8m (30 June 2009 $12m) were received from the Commonwealth Bank of Australia New Zealand Life Insurance Group, for investment management fees.

Controlled subsidiaries of the Banking Group manage and administer a number of Superannuation, Unit and Other Trusts. These trusts hold some of their funds with the Bank. Total deposits held with the Bank as at 30 June 2010 were $1,051m (30 June 2009 $1,211m) and total interest expense related to these deposits for the year ended 30 June 2010 was $32m (30 June 2009 $63m). A member of the Commonwealth Bank of Australia New Zealand Life Insurance Group manages a Unit Trust which held deposits with the Bank of $79m as at 30 June 2010 (30 June 2009 Nil). These deposits are held on normal commercial terms and conditions.

Derivative Transactions
The Bank has in place interest rate swaps with the Commonwealth Bank Group with a face value of $6,065m (30 June 2009 $9,796m), interest rate options with a face value of $162m (30 June 2009 $359m), currency swaps with a face value of $2,251m (30 June 2009 $3,293m), foreign exchange contracts with a face value of $2,584m (30 June 2009 $2,085m), foreign exchange options with a face value of $39m (30 June 2009 $37m), forward commodity contracts with a face value of $5m (30 June 2009 Nil) and no forward rate agreements (30 June 2009 $246m).

The Bank had foreign exchange contracts with the Commonwealth Bank of Australia New Zealand Life Insurance Group with a face value of $1,063m (30 June 2009 $1,379m) and interest rate swaps with a face value of $1,814m (30 June 2009 $1,814m) upon which interest paid amounted to $39m (30 June 2009 $15m).

The Bank had foreign exchange contracts with Trusts managed or administered by Controlled Subsidiaries of the Banking Group with a face value of $789m (30 June 2009 $578m).

Other
Net payments of $30m (30 June 2009 $153m) were made between the Bank and Related Parties, relating to the utilisation of tax related items.

No Provisions for Impairment Loss have been recognised in respect of loans given to related parties (30 June 2009 Nil).

Refer to Note 9 for details of dividends paid to shareholders.

Refer to Note 17 for details of the Bank's interests in Controlled Entities and Associates.

Refer to Note 29 for details of preference shares issued to related parties.

Transactions between the Bank and Controlled Entities
Amounts due from and to Controlled Entities and Associates are disclosed in the Parent Balance Sheet.

Details of interest received from and paid to Controlled Entities and Associates are included in Notes 2 and 3.

Details of Dividends Received from Controlled Entities and Associates are included in Note 5.

Details of guarantees issued by the Bank relating to subsidiary transactions are included in Note 38.

Details of amounts payable and receivable in the Parent Balance Sheet relating to securitisation vehicles are included in Note 43.

The Bank enters into derivative transactions with its subsidiaries in the normal course of business.

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions *As at 30 June*	Consolidated 2010	2009
39 Related Party Transactions and Balances (continued)		
Related Party Balances		
Commonwealth Bank Group		
(100% Ultimate Shareholder)		
Due from Other Banks		
Balance at Beginning of Year	**58**	277
Net Movement	**226**	(219)
Balance at End of Year	**284**	58
Interest Income on Due from Other Banks	**1**	7
Money Market Advances		
Balance at Beginning of Year	**-**	2
Net Movement	**-**	(2)
Balance at End of Year	**-**	-
Derivative Assets / (Liabilities)		
Balance at Beginning of Year	**(334)**	192
Net Movement	**77**	(526)
Balance at End of Year	**(257)**	(334)
Other Assets	**1**	-
Due to Other Banks		
Balance at Beginning of Year	**5,882**	5,517
Net Movement	**738**	365
Balance at End of Year	**6,620**	5,882
Interest Expense on Due to Other Banks	**249**	342
Money Market Deposits		
Balance at Beginning of Year	**373**	-
Net Movement	**(4)**	373
Balance at End of Year	**369**	373
Interest Expense on Money Market Deposits	**16**	7
Deposits from Customers		
Balance at Beginning of Year	**22**	81
Net Movement	**5**	(59)
Balance at End of Year	**27**	22
Subordinated Debt		
Balance at Beginning of Year	**250**	250
Net Movement	**-**	-
Balance at End of Year	**250**	250
Interest Expense on Subordinated Debt	**8**	16
Other Liabilities	**41**	27
Commonwealth Bank of Australia New Zealand Life Insurance Group		
(Subsidiaries of Commonwealth Bank Group)		
Derivative Assets / (Liabilities)		
Balance at Beginning of Year	**(8)**	14
Net Movement	**13**	(22)
Balance at End of Year	**5**	(8)
Other Assets	**4**	4
Deposits from Customers		
Balance at Beginning of Year	**602**	537
Net Movement	**44**	65
Balance at End of Year	**646**	602
Interest Expense on Deposits from Customers	**19**	37
Money Market Deposits		
Balance at Beginning of Year	**30**	30
Net Movement	**-**	-
Balance at End of Year	**30**	30
Other Liabilities	**2**	2

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions *As at 30 June*	Consolidated **2010**	 2009
39 Related Party Transactions and Balances (continued)		
Related Party Balances (continued)		
Trusts Managed or Administered by the Banking Group		
Derivative Assets / (Liabilities)		
Balance at Beginning of Year	**3**	22
Net Movement	**(8)**	(19)
Balance at End of Year	**(5)**	3
ASB Holdings Limited		
(New Zealand Shareholder and Subsidiary of Commonwealth Bank Group)		
Money Market Deposits		
Balance at Beginning of Year	**-**	500
Net Movement	**-**	(500)
Balance at End of Year	**-**	-
Deposits from Customers		
Balance at Beginning of Year	**78**	13
Net Movement	**24**	65
Balance at End of Year	**102**	78
Interest Expense on Deposits from Customers	**2**	30
Other Liabilities	**1**	-

Other assets and liabilities include sundry debtors and creditors and accrued interest.

40 Directors and Key Management Personnel

The executive management of the Banking Group are considered to be Key Management Personnel. Their details are set out in the Directory, together with information about Directors.

Key Management Compensation		
Short Term Employee Benefits	**13**	10
Other Long Term Benefits	**4**	8
Total Key Management Compensation	**17**	18
Loans to Directors and Key Management Personnel		
Balance at Beginning of Year	**6**	8
Adjustment Due to Change in Key Management Personnel	**-**	(1)
Received During the Year	**12**	4
Repaid During the Year	**(8)**	(5)
Balance at End of Year	**10**	6
Interest Income*	**-**	-

All loans were made in the ordinary course of business of the Bank on an arm's length basis and on normal commercial terms and conditions. The interest rates applicable were 5.50% to 19.95% (30 June 2009 5.39% to 19.95%). Terms of repayment range between variable, fixed rates up to five years, and interest only loans, all of which have been in accordance with the Bank's lending policies.

Deposits from Directors and Key Management Personnel		
Balance at Beginning of Year	**3**	7
Adjustment Due to Change in Key Management Personnel	**-**	(2)
Received During the Year	**22**	26
Repaid During the Year	**(21)**	(28)
Balance at End of Year	**4**	3
Interest Expense*	**-**	-

Deposits consist of on call, savings, cheque, term investments and cash management balances, all lodgements being made and conducted on an arm's length basis in the normal course of business and on commercial terms and conditions.

Interest rates are from 0% to 5.40% (30 June 2009 0% to 4.50%), terms of repayment ranging between on call and nine months.

* *Interest is received and paid on Loans and Deposits respectively at market rates, but is reported as Nil in most years, as a result of rounding to the nearest million.*

Notes to the Financial Statements

For the year ended 30 June 2010

41 Fair Value of Financial Instruments

The following tables summarise the carrying amounts and fair values of categories of financial assets and financial liabilities. Refer to Note 1(f) for a description of how fair values are estimated.

	Consolidated							
	At Fair Value through Profit or Loss			Available for Sale	At Amortised Cost			
$ millions	Designated on Initial Recognition	Held for Trading	Hedging and Other Derivatives		Loans and Receivables	Other Financial Assets	Total	Fair Value
As at 30 June 2010								
Financial Assets								
Cash and Call Deposits with the Central Bank	**-**	**-**	**-**	**-**	**1,175**	**-**	**1,175**	**1,175**
Due from Other Banks	**1,021**	**-**	**-**	**-**	**-**	**-**	**1,021**	**1,021**
Money Market Advances	**132**	**-**	**-**	**-**	**-**	**-**	**132**	**132**
Securities	**123**	**5,011**	**-**	**32**	**-**	**-**	**5,166**	**5,166**
Derivative Assets	**-**	**1,296**	**655**	**-**	**-**	**-**	**1,951**	**1,951**
Advances to Customers	**-**	**-**	**-**	**-**	**53,477**	**-**	**53,477**	**53,434**
Other Assets	**-**	**-**	**-**	**-**	**-**	**207**	**207**	**207**
Total Financial Assets	**1,276**	**6,307**	**655**	**32**	**54,652**	**207**	**63,129**	**63,086**
As at 30 June 2009								
Financial Assets								
Cash and Call Deposits with the Central Bank	-	-	-	-	1,582	-	1,582	1,582
Due from Other Banks	1,213	-	-	-	-	-	1,213	1,213
Money Market Advances	159	-	-	-	-	-	159	159
Securities	685	5,459	-	32	-	-	6,176	6,176
Derivative Assets	-	-	2,209	-	-	-	2,209	2,209
Advances to Customers	-	-	-	-	53,056	-	53,056	53,386
Other Assets	-	-	-	-	-	236	236	236
Total Financial Assets	2,057	5,459	2,209	32	54,638	236	64,631	64,961

Off Balance Sheet Items

There are no fair values for Direct Credit Substitutes, Trade and Performance Related Items and Commitments as no secondary market exists.

Notes to the Financial Statements

For the year ended 30 June 2010

	Consolidated					
	At Fair Value through Profit or Loss			At Amortised Cost		
$ millions	Designated on Initial Recognition	Held for Trading	Hedging and Other Derivatives		Total	Fair Value

41 Fair Value of Financial Instruments (continued)

As at 30 June 2010						
Financial Liabilities						
Due to Other Banks	**354**	**-**	**-**	**6,488**	**6,842**	**6,661**
Money Market Deposits	**13,356**	**-**	**-**	**4,507**	**17,863**	**17,847**
Derivative Liabilities	**-**	**1,367**	**1,107**	**-**	**2,474**	**2,474**
Deposits from Customers	**-**	**-**	**-**	**31,483**	**31,483**	**31,523**
Other Liabilities	**-**	**-**	**-**	**495**	**495**	**495**
Subordinated Debt	**-**	**-**	**-**	**852**	**852**	**842**
Total Financial Liabilities	**13,710**	**1,367**	**1,107**	**43,825**	**60,009**	**59,842**
As at 30 June 2009						
Financial Liabilities						
Due to Other Banks	789	-	-	5,362	6,151	5,948
Money Market Deposits	16,284	-	-	4,386	20,670	20,569
Derivative Liabilities	-	-	4,064	-	4,064	4,064
Deposits from Customers	-	-	-	29,893	29,893	30,014
Other Liabilities	-	-	-	436	436	436
Subordinated Debt	-	-	-	858	858	813
Total Financial Liabilities	17,073	-	4,064	40,935	62,072	61,844

Notes to the Financial Statements

For the year ended 30 June 2010

	Parent							
	At Fair Value through Profit or Loss			Available for Sale	At Amortised Cost			
$ millions	Designated on Initial Recognition	Held for Trading	Hedging and Other Derivatives		Loans and Receivables	Other Financial Assets	Total	Fair Value

41 Fair Value of Financial Instruments (continued)

As at 30 June 2010								
Financial Assets								
Cash and Call Deposits with the Central Bank	**-**	**-**	**-**	**-**	**1,175**	**-**	**1,175**	**1,175**
Due from Other Banks	**1,018**	**-**	**-**	**-**	**-**	**-**	**1,018**	**1,018**
Money Market Advances	**132**	**-**	**-**	**-**	**-**	**-**	**132**	**132**
Securities	**123**	**5,010**	**-**	**32**	**-**	**-**	**5,165**	**5,165**
Derivative Assets	**-**	**1,297**	**655**	**-**	**-**	**-**	**1,952**	**1,952**
Advances to Customers	**-**	**-**	**-**	**-**	**53,441**	**-**	**53,441**	**53,398**
Due from Controlled Entities and Associates	**-**	**-**	**-**	**-**	**4,748**	**277**	**5,025**	**5,025**
Other Assets	**-**	**-**	**-**	**-**	**-**	**191**	**191**	**191**
Total Financial Assets	**1,273**	**6,307**	**655**	**32**	**59,364**	**468**	**68,099**	**68,056**
As at 30 June 2009								
Financial Assets								
Cash and Call Deposits with the Central Bank	-	-	-	-	1,581	-	1,581	1,581
Due from Other Banks	1,210	-	-	-	-	-	1,210	1,210
Money Market Advances	159	-	-	-	-	-	159	159
Securities	572	5,459	-	32	-	-	6,063	6,063
Derivative Assets	-	-	2,210	-	-	-	2,210	2,210
Advances to Customers	-	-	-	-	53,006	-	53,006	53,335
Due from Controlled Entities and Associates	-	-	-	-	4,869	69	4,938	4,938
Other Assets	-	-	-	-	-	219	219	219
Total Financial Assets	1,941	5,459	2,210	32	59,456	288	69,386	69,715

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions	Parent					
	At Fair Value through Profit or Loss			At Amortised Cost		
	Designated on Initial Recognition	Held for Trading	Hedging and Other Derivatives		Total	Fair Value

41 Fair Value of Financial Instruments (continued)

As at 30 June 2010						
Financial Liabilities						
Due to Other Banks	**354**	**-**	**-**	**6,488**	**6,842**	**6,661**
Money Market Deposits	**4,886**	**-**	**-**	**2,204**	**7,090**	**7,102**
Derivative Liabilities	**-**	**1,367**	**1,107**	**-**	**2,474**	**2,474**
Deposits from Customers	**-**	**-**	**-**	**30,023**	**30,023**	**30,063**
Due to Controlled Entities and Associates	**8,915**	**-**	**-**	**8,457**	**17,372**	**17,343**
Other Liabilities	**-**	**-**	**-**	**438**	**438**	**438**
Subordinated Debt	**-**	**-**	**-**	**852**	**852**	**842**
Total Financial Liabilities	**14,155**	**1,367**	**1,107**	**48,462**	**65,091**	**64,923**
As at 30 June 2009						
Financial Liabilities						
Due to Other Banks	789	-	-	5,362	6,151	5,948
Money Market Deposits	6,373	-	-	1,975	8,348	8,344
Derivative Liabilities	-	-	4,064	-	4,064	4,064
Deposits from Customers	-	-	-	28,976	28,976	29,097
Due to Controlled Entities and Associates	9,902	-	-	8,262	18,164	18,067
Other Liabilities	-	-	-	367	367	367
Subordinated Debt	-	-	-	858	858	813
Total Financial Liabilities	17,064	-	4,064	45,800	66,928	66,700

Notes to the Financial Statements

For the year ended 30 June 2010

41 Fair Value of Financial Instruments (continued)

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: fair values are determined using quoted market prices where an active market exists.

Level 2: where quoted market prices are not available fair values have been estimated using present value or other valuation techniques based primarily on inputs from observable market data as at balance date. These valuation techniques rely on market observable inputs.

Level 3: fair values are estimated using inputs that are not based on observable market data.

	Consolidated				Parent			
$ millions	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
As at 30 June 2010								
Financial Assets								
Due from Other Banks	-	1,021	-	1,021	-	1,018	-	1,018
Money Market Advances	-	132	-	132	-	132	-	132
Securities:								
Trading Securities	1,925	3,004	82	5,011	1,925	3,003	82	5,010
Other Securities Designated at Fair Value through Profit or Loss	-	123	-	123	-	123	-	123
Available for Sale	27	5	-	32	27	5	-	32
Derivative Assets	2	1,949	-	1,951	2	1,950	-	1,952
Total Financial Assets	1,954	6,234	82	8,270	1,954	6,231	82	8,267
Financial Liabilities								
Due to Other Banks	-	354	-	354	-	354	-	354
Money Market Deposits	-	13,356	-	13,356	-	4,886	-	4,886
Derivative Liabilities	6	2,468	-	2,474	6	2,468	-	2,474
Due to Controlled Entities and Associates	-	-	-	-	-	8,915	-	8,915
Total Financial Liabilities	6	16,178	-	16,184	6	16,623	-	16,629

Movements in Level 3: Trading Securities	
Balance at Beginning of Year	87
Trading Gains	5
Interest Income transferred to Income Statement	(2)
Purchases	8
Sales and Maturities	(16)
Balance at End of Year	82

Notes to the Financial Statements

For the year ended 30 June 2010

42 Capital Adequacy

Unaudited

Regulatory Requirements - Basel II

The Banking Group is subject to regulation by the RBNZ. The RBNZ has set minimum regulatory capital requirements for New Zealand registered banks that are consistent with the internationally agreed framework developed by the Basel Committee on Banking Supervision. These requirements define what is acceptable as capital and provide for methods of measuring the risks incurred by the Banking Group.

The Banking Group must comply with RBNZ minimum capital adequacy ratios under the Bank's Conditions of Registration. These Conditions of Registration require capital adequacy ratios for the Banking Group to be calculated under the Basel II framework in accordance with the RBNZ document *Capital Adequacy Framework (Internal Models Approach)* (BS2B) dated March 2008.

The Banking Group has been accredited by the RBNZ to adopt the internal ratings based approach for calculating regulatory capital requirements under Basel II since the first quarter of 2008. The objective of the Basel II Framework is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profile of banks. Basel II 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 not already included in Pillar One, and Pillar Three relates to market disclosure.

Key elements of the framework are:

> The risk weighted exposure calculation includes the use of RBNZ accredited internal ratings based ("IRB") models, including the credit models described in Note 16 (using PD, EAD and LGD). In applying the IRB approach, the RBNZ accreditation and Conditions of Registration require the use of parameters which are more conservative than those calculated using the Bank's own methodologies.

> A reduction in regulatory qualifying capital by the inclusion of a deduction representing the excess of expected loss using RBNZ parameters over the Banking Group's Provisions for Impairment Loss. This is deducted 50% from Tier One and 50% from Total Capital.

Capital Management Policies

The Board of Directors reviews and approves capital management policies on an annual basis with the next review due in August 2010.

The Banking Group's objectives for the management of capital are to comply at all times with the regulatory capital requirements set by the RBNZ, to maintain a strong capital base to cover the inherent risks of the business in excess of that required by credit rating agencies to maintain a strong or very strong credit grading, and to support the future development and growth of the business.

Capital management policies are organised into three functional areas, being Capital Adequacy (ensuring sufficient capital base), Capital Performance (monitoring risk / return and shareholders' value), and Capital Execution. Key attributes of the Banking Group's Capital Adequacy policy and processes relating to regulatory capital are set out below.

Regulatory capital is divided into Tier One and Tier Two Capital. Tier One Capital primarily consists of Shareholders' Equity and other capital instruments acceptable to the RBNZ, less Intangible Assets and other prescribed deductions. Tier Two Capital consists of two levels with Upper Tier Two Capital comprising Asset Revaluation Reserves and FCTR, and Lower Tier Two Capital comprising Subordinated Debt. Tier Two Capital also includes other hybrid and debt instruments acceptable to the RBNZ and is subject to prescribed deductions. The tangible element of investments in subsidiaries that are not wholly owned or funded is deducted from the sum of Tier One and Tier Two Capital to arrive at Total Regulatory Capital.

Regulatory capital adequacy ratios are calculated by expressing capital (Tier One, Tier Two or Total Regulatory Capital) as a percentage of risk weighted exposures. Risk weighted exposures represent risks associated with the Banking Group's Credit Risk Exposures, as well as operational risk and both traded and non-traded market risk, estimated in accordance with RBNZ banking supervision guidelines.

As a Condition of Registration, the Banking Group must comply with the following minimum requirements set by the RBNZ:

> Total Regulatory Capital must not be less than 8% of risk weighted exposures.

> Tier One Capital must not be less than 4% of risk weighted exposures.

> Capital must not be less than NZ$30m.

The Board of Directors has ultimate responsibility for capital adequacy, and approves capital policy and minimum capital levels and limits. These are set at a higher level than required by the regulator, which both reduces the risk of breaching the Conditions of Registration and provides investor confidence. The Banking Group actively monitors its capital adequacy using an internal capital adequacy process (refer to page 64) and reports this on a regular basis to senior management and the Board. This includes forecasting capital requirements so that any capital requirements can be executed in a timely manner. The Banking Group considers other stakeholders' requirements when managing capital, and uses a mix of capital instruments to reduce single source reliance and to optimise capital efficiency.

The following significant capital initiatives were undertaken during the year ended 30 June 2010 to actively manage the Banking Group's capital:

Tier One Capital

> No ordinary shares were issued during the year ended 30 June 2010 (30 June 2009 275,000,000 ordinary shares issued).

> Retained Earnings increased by $59m after payment of dividends during the year ended 30 June 2010 (30 June 2009 $211m earnings retained after payment of dividends).

Tier Two Capital

> No Subordinated Debt was issued or repaid during the year ended 30 June 2010 (30 June 2009 Nil).

Deductions from Total Capital

> There was no significant change in deductions from Total Capital for investments in subsidiaries not wholly owned or funded.

The Capital Adequacy tables set out on the following page summarise the composition of regulatory capital and the capital adequacy ratios for the Banking Group for the year ended 30 June 2010. During the current financial year and the comparative year shown, the Banking Group complied with all of the RBNZ capital requirements to which it is subject. The Banking Group is holding surplus regulatory capital to the increased internal policy minimums.

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For the year ended 30 June 2010

$ millions	Consolidated	
As at 30 June	**2010**	2009
42 Capital Adequacy (continued)		
Unaudited		
CAPITAL UNDER BASEL II IRB APPROACH		
Tier One Capital		
Issued and Fully Paid-up Ordinary Share Capital	**2,248**	2,248
Perpetual Fully Paid-up Non-cumulative Preference Shares	**550**	550
Revenue and Similar Reserves	**827**	616
Current Year's Movement in Retained Earnings	**59**	211
	3,684	3,625
Less: Deductions from Tier One Capital		
Intangible Assets	**116**	119
Credit Risk Adjustment on Liabilities Designated as at Fair Value through Profit or Loss	**(3)**	1
Excess of Expected Loss over Eligible Allowance for Impairment	**94**	108
	207	228
Total Tier One Capital	**3,477**	3,397
Tier Two Capital		
Upper Tier Two Capital		
Asset Revaluation Reserve	**29**	30
Foreign Currency Translation Reserve	**1**	1
Lower Tier Two Capital		
Term Subordinated Debt	**820**	820
Total Tier Two Capital	**850**	851
Less: Deduction from Total Capital		
Excess of Expected Loss over Eligible Allowance for Impairment	**94**	108
Total Capital	**4,233**	4,140
BASEL II CAPITAL RATIOS		
Tier One Capital Expressed as a Percentage of Total Risk Weighted Exposures	**10.9%**	10.2%
Minimum Tier One Capital per the Bank's Conditions of Registration	**4.0%**	4.0%
Total Capital Expressed as a Percentage of Total Risk Weighted Exposures	**13.2%**	12.4%
Minimum Total Capital per the Bank's Conditions of Registration	**8.0%**	8.0%

$ millions	Consolidated					
As at 30 June	**2010**			2009		
	Total Exposure(1)	**RWE(2)**	**Capital Requirement**	Total Exposure(1)	RWE(2)	Capital Requirement
TOTAL CAPITAL REQUIREMENTS						
Total Credit Risk	**72,823**	**26,699**	**2,134**	74,646	27,777	2,222
Operational Risk	**N/A**	**2,105**	**168**	N/A	2,026	162
Market Risk	**N/A**	**1,798**	**144**	N/A	2,029	162
Supervisory Adjustment(3)	**N/A**	**1,387**	**111**	N/A	1,528	122
Total Capital Requirement		**31,989**	**2,557**		33,360	2,668

(1) Total Exposure is after Credit Risk Mitigation.
(2) "RWE" is Risk Weighted Exposures or Implied Risk Weighted Exposures.
(3) The Supervisory Adjustment comprises an adjustment of 15% of risk weighted exposures secured by residential mortgages and 12.5 times the greater of: zero; and 90% of adjusted Basel I Capital, less adjusted Basel II Capital per the Bank's Conditions of Registration.

$ millions	Consolidated		Parent	
As at 30 June	**2010**	2009	**2010**	2009
BASEL I CAPITAL RATIOS				
Total Risk Weighted Exposures	**37,440**	38,108	**38,449**	39,022
Tier One Capital Ratio	**9.5%**	9.2%	**9.2%**	8.9%
Total Capital Ratio	**11.8%**	11.4%	**11.3%**	11.1%

Notes to the Financial Statements

For the year ended 30 June 2010

42 Capital Adequacy (continued)

Unaudited

As at 30 June 2010

	Consolidated					
PD Grade	Weighted Average PD	Exposure Amount $ millions	Exposure Weighted LGD	Exposure Weighted Risk Weight	Risk Weighted Assets[1] $ millions	Minimum Capital Requirement $ millions
CREDIT RISK EXPOSURES SUBJECT TO THE INTERNAL MODELS APPROACH BY EXPOSURE CLASS						
Sovereign Exposures						
Less than and including 0.03%	0.01%	3,554	6%	1%	26	2
Over 0.03% up to and including 0.05%	0.04%	334	62%	18%	62	5
Over 0.05% up to and including 0.07%	0.06%	5	29%	8%	-	-
Over 0.07% up to and including 0.26%	0.08%	174	57%	23%	42	3
Over 0.26% up to and including 99.99%	0.77%	79	65%	81%	68	5
Default PD Grade	-	-	-	-	-	-
Total Sovereign Exposures	0.03%	4,146	14%	5%	198	15
Bank Exposures						
Less than and including 0.03%	0.03%	-	65%	37%	-	-
Over 0.03% up to and including 0.05%	0.04%	5,174	50%	13%	740	59
Over 0.05% up to and including 0.07%	0.06%	992	49%	24%	248	20
Over 0.07% up to and including 0.26%	0.08%	551	68%	33%	193	15
Over 0.26% up to and including 99.99%	2.18%	202	46%	114%	244	20
Default PD Grade	-	-	-	-	-	-
Total Bank Exposures	0.11%	6,919	51%	19%	1,425	114
Exposures Secured by Residential Mortgages						
Less than and including 0.50%	0.27%	32,124	23%	11%	3,715	297
Over 0.50% up to and including 0.85%	0.60%	2,915	23%	20%	630	50
Over 0.85% up to and including 3.26%	2.41%	4,392	23%	50%	2,317	185
Over 3.26% up to and including 7.76%	4.92%	332	29%	93%	329	26
Over 7.76% up to and including 99.99%	17.94%	2,194	25%	121%	2,807	225
Default PD Grade	100.00%	345	28%	-	-	-
Total Exposures Secured by Residential Mortgages	2.28%	42,302	23%	22%	9,798	783
Other Retail Exposures						
Less than and including 0.50%	0.35%	747	82%	48%	380	32
Over 0.50% up to and including 0.85%	0.59%	581	84%	66%	408	33
Over 0.85% up to and including 3.26%	1.20%	217	85%	93%	215	17
Over 3.26% up to and including 7.76%	3.47%	138	86%	122%	179	14
Over 7.76% up to and including 99.99%	15.07%	16	86%	170%	29	2
Default PD Grade	-	-	-	-	-	-
Total Other Retail Exposures	0.93%	1,699	84%	67%	1,211	98
Corporate Exposures – Small and Medium Enterprises						
Less than and including 0.20%	0.06%	453	32%	12%	58	5
Over 0.20% up to and including 0.50%	0.27%	2,030	31%	28%	604	48
Over 0.50% up to and including 1.00%	0.78%	3,724	30%	45%	1,772	142
Over 1.00% up to and including 2.30%	2.11%	3,982	30%	62%	2,637	211
Over 2.30% up to and including 99.99%	14.66%	1,996	31%	116%	2,444	196
Default PD Grade	100.00%	407	34%	309%	1,332	107
Total Corporate Exposures – Small and Medium Enterprises	6.50%	12,592	31%	66%	8,847	709
Other Corporate Exposures						
Less than and including 0.20%	0.09%	38	64%	26%	10	-
Over 0.20% up to and including 0.50%	0.28%	289	57%	49%	149	12
Over 0.50% up to and including 1.00%	0.64%	242	44%	61%	156	12
Over 1.00% up to and including 2.30%	1.66%	79	38%	77%	64	5
Over 2.30% up to and including 99.99%	7.44%	136	37%	132%	190	15
Default PD Grade	-	-	-	-	-	-
Total Other Corporate Exposures	1.76%	784	48%	69%	569	44

(1) Risk weighted assets include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

Notes to the Financial Statements

For the year ended 30 June 2010

42 Capital Adequacy (continued)

Unaudited

As at 30 June 2010

Included in the tables on the previous page are the following Off Balance Sheet Exposures:

	Consolidated			
	Undrawn Commitments and Other Off Balance Sheet Amounts		Market Related Contracts	
$ millions	Value	EAD	Value	EAD
Sovereign Exposures	274	274	1,447	86
Bank Exposures	7	7	125,122	2,737
Exposures Secured by Residential Mortgages	4,459	4,459	-	-
Other Retail Exposures	1,012	1,012	-	-
Corporate Exposures – Small and Medium Enterprises	1,313	1,313	5,820	89
Other Corporate Exposures	366	366	371	12
	7,431	7,431	132,760	2,924

	Consolidated					
LVR Range	0%-60% $ millions	60.1%-70% $ millions	70.1%-80% $ millions	80.1%-90% $ millions	90.1%-100% $ millions	Total $ millions
RESIDENTIAL MORTGAGES BY LOAN-TO-VALUATION RATIO (“LVR”)						
Value of Exposures	14,282	8,421	13,799	4,132	1,669	42,302
Expressed as a Percentage of Total Exposures	33.8%	19.9%	32.6%	9.8%	3.9%	100%

Exposures included in the LVR calculation are residential mortgages subject to the IRB approach, including commitments to lend.

Certain loans within the above table are insured by third parties. This Lender’s Mortgage Insurance (“LMI”) has not been taken into account in classifying the above exposures by LVR range.

Percentage of Exposures:						
With 100% LMI	0.7%	0.6%	0.9%	1.3%	0.1%	0.8%
With top 20% LMI	3.6%	5.3%	5.9%	21.4%	25.0%	7.3%

	Consolidated			
Balance Sheet Exposures Subject to the Slotting Approach	Total Exposure after Credit Risk Mitigation $ millions	Risk Weight	Risk Weighted Exposure $ millions [(1)]	Minimum Pillar One Capital Requirement $ millions
SPECIALISED LENDING				
Strong	109	70%	80	6
Good	183	90%	175	14
Satisfactory	-	115%	-	-
Weak	68	250%	180	15
	360		435	35

	Consolidated			
Off Balance Sheet Exposures Subject to the Slotting Approach	EAD $ millions	Average Risk Weight	Risk Weighted Exposure $ millions	Minimum Pillar One Capital Requirement $ millions
Undrawn Commitments	5	86%	4	-
Derivatives	1	95%	1	-
Other Off Balance Sheet Exposures	4	90%	4	-
	10		9	-

(1) Risk weighted exposures include a scalar of 1.06 in accordance with the Bank’s Conditions of Registration.

Notes to the Financial Statements

For the year ended 30 June 2010

42 Capital Adequacy (continued)

Unaudited

As at 30 June 2010

Balance Sheet Exposures	Consolidated Total Exposure after Credit Risk Mitigation $ millions	Average Risk Weight	Risk Weighted Exposure $ millions	Minimum Pillar One Capital Requirement $ millions
CREDIT RISK EXPOSURES SUBJECT TO THE STANDARDISED APPROACH				
Cash and Gold Bullion	75	0%	-	-
Residential Mortgages	36	44%	17	1
Other Assets	3,772	100%	3,998	320
Total Balance Sheet Exposures	3,883		4,015	321

	Consolidated Total Exposure or Principal Amount $ millions	Average Credit Conversion Factor	Credit Equivalent Amount $ millions	Average Risk Weight	Risk Weighted Exposure $ millions	Minimum Pillar One Capital Requirement $ millions
Total Off Balance Sheet Exposures Subject to the Standardised Approach	96	100%	96	89%	90	7

	Consolidated Total Exposure $ millions	Risk Weight	Risk Weighted Exposure $ millions	Minimum Pillar One Capital Requirement $ millions
EQUITY EXPOSURES				
Equity Holdings (not deducted from Capital) – Publicly Traded	32	300%	102	8

$ millions	Consolidated Total Exposure after Credit Mitigation	Total Risk Weighted Exposure	Capital Requirement
TOTAL CREDIT RISK			
Exposures Subject to the Internal Models Approach	68,442	22,048	1,763
Specialised Lending Subject to the Slotting Approach	370	444	35
Exposures Subject to the Standardised Approach	3,979	4,105	328
Equity Exposures	32	102	8
Total Credit Risk	72,823	26,699	2,134

Exposures Subject to the Internal Models Approach	
Sovereign Exposures	Exposures to the Crown, Local Authorities, and their trading entities; RBNZ; Any other Sovereign and its central bank.
Bank Exposures	Banks and Securities firms.
Secured by Residential Mortgages	Home Lending fully or partially secured by Residential Property.
Other Retail	Personal credit cards.
Corporate	Other Corporate Exposures – clients where turnover exceeds $50m; Small and Medium Enterprises – clients where turnover is less than $50m and group exposure exceeds $1m.
Exposures Subject to the Slotting Approach	
Specialised Lending	Project finance; Income producing real estate.
Exposures Subject to the Standardised Approach	
Secured by Residential Mortgages	A small non-scored Home Loan portfolio that is being wound down.
Other Assets	Small and Medium Enterprises where group exposure is less than $1m, other personal lending, and all other assets not falling within any other asset class.
Equity Exposures	Shares in publicly listed companies.

Notes to the Financial Statements

For the year ended 30 June 2010

42 Capital Adequacy (continued)

Unaudited

CREDIT RISK MITIGATION

The Banking Group assesses the integrity and ability of debtors or counterparties to meet their contracted financial obligations for repayment. Collateral security in the form of real 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.

As at 30 June 2010 none of the credit risk exposures subject to the Standardised Approach are covered by eligible financial collateral (i.e. cash, debt securities or equity securities). Across all portfolios, no exposures are covered by credit derivatives. Information on the total value of exposures covered by financial guarantees is not disclosed, as the effect of these guarantees on the underlying credit risk exposures is not considered to be material.

ADDITIONAL INFORMATION ABOUT CREDIT RISK

The RBNZ has accredited the Banking Group to report capital adequacy under the *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated March 2008.

Under the internal ratings based approach the measurement of credit risk utilises analytical tools to calculate both expected and unexpected loss probabilities for the credit portfolio. This includes consideration of the PD, the EAD and the LGD that would likely be experienced as a consequence. Refer to Note 16 for more information about the Banking Group's credit risk management.

For exposures classified as Specialised Lending, specifically project finance and income producing real estate, the Banking Group uses slotting tables supplied by the RBNZ rather than internal estimates.

Methodologies used to calculate credit risk estimates have been prescribed by the RBNZ in some portfolios and these are greater than those calculated by the Banking Group according to its own internal methodologies and history of losses.

The Banking Group has a number of portfolios that due to size, systems or other constraints are not yet part of the IRB approach, and are assessed for Capital Adequacy under the Standardised Approach – prescribed by the RBNZ under the document *Capital Adequacy Framework (Standardised Approach)* (BS2A). The major portfolio segment in this category relates to exposures to Small and Medium Enterprises ("SME") which do not meet the corporate criteria, as they are not individually risk rated. The summary table on the bottom of page 61 shows the asset types according to their current rating approach.

Controls Surrounding Credit Risk Ratings Systems

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

The Chief Risk Officer has ultimate responsibility for the ongoing review and amendment of credit risk rating models. Risk Management actively participates in the development, selection, implementation and validation of rating models.

Internal Audit regularly reviews the Banking Group's credit risk rating system and its operations, including the operations of the credit function and the estimation of PD, LGD and EAD.

All material aspects of rating and estimation processes must be approved by the Board Audit and Risk Committee. Senior management are required to provide notice to the Board Audit and Risk Committee of material changes or exceptions from established policies that will materially impact the operations of the credit risk rating system.

Senior management are required to have a good understanding of the design and operation of credit risk rating systems, and must approve material differences between established procedure and actual practice.

Refer to Note 16 for more details of credit risk management controls.

Notes to the Financial Statements

For the year ended 30 June 2010

42 Capital Adequacy (continued)

Unaudited

OPERATIONAL RISK

As at 30 June 2010

The Advanced Measurement Approach has been implemented to determine capital requirements for Operational Risk.

The Implied Risk Weighted Exposure for Operational Risk as at 30 June 2010 was $2,105m (30 June 2009 $2,026m).

The Total Operational Risk Capital Requirement as at 30 June 2010 was $168m (30 June 2009 $162m).

Advanced Measurement Approach Overview

The Banking Group follows a mathematically determined loss distribution approach to measure Operational Risk. This involves separate modelling of the frequency and severity of risks at a component level and then aggregating simulated losses from these components into loss distributions for the Banking Group and for its parts.

The Banking Group's modelling approach is very granular with multiple businesses ("Bu") each considered against the 20 Basel level 2 risk types ("RT"). This approach allows capital to link closely with where the businesses manage their risk, and also allows accurate modelling of both risk and tail event potential.

To capture the best business judgements, the Banking Group allows key risks to be assessed at the exposure level with separate frequency and severity judgements. These exposure level judgements are simulated to provide an annual loss distribution that is shown to the business subject matter experts to ensure their judgements are captured appropriately. These exposure annual loss distributions are aggregated to the Business / Risk Type ("BuRT") level, resulting in an annual loss distribution for the BuRT.

The BuRT level frequency and severity distributions are aggregated using Monte Carlo simulation to produce capital results for the Bank and its businesses.

The Operational Risk measurement approach integrates the use of the following relevant factors:

Direct inputs:

> Scenario Analysis to capture the business judgements (called Quantitative Risk Assessment).
> Internal Loss Data (where sufficient data exists).

Indirect inputs:

> External Loss Data (sourced from external providers) case studies are used in the scenario analysis process.
> Risk Indicators (developed and recorded) are used in the scenario analysis process.

Economic Capital Allocation

Outcomes of the Operational Risk measurement cycle are generated at BuRT level as outlined above. Outcomes include an economic capital requirement based on a 99.95% confidence interval which is calibrated to the Banking Group's overall target debt rating in the market. That data is used as a direct risk type input to the Economic Capital framework calculations alongside other risk type inputs (e.g. Credit, traded and non-traded market, strategic business risk, fixed asset risk). A primary outcome of the Economic Capital Framework process is to allocate the risk to the Banking Group's lines of business for risk adjusted performance measures.

Insurance

An approach has been developed to model insurance for the purpose of mitigating Operational Risk. At this stage, insurance modelling and mitigation is not actively used in determining regulatory or economic capital requirements for operational risk.

Insurance modelling will be actively implemented once regulatory approval of the methodology and approach is received.

Notes to the Financial Statements

For the year ended 30 June 2010

42 Capital Adequacy (continued)

Unaudited

MARKET RISK CAPITAL CHARGES

Market Risk Exposures have been prepared on the basis of actual exposures derived in accordance with the process prescribed by the RBNZ under the document *Market Risk Guidance Notes* (BS6). The Market Risk methodology is intended to attribute a dollar value amount to the market risk to which a registered bank is exposed.

Exposures as at 30 June	Consolidated 2010			Consolidated 2009		
$ millions	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Interest Rate Risk	Foreign Currency Risk	Equity Risk
Implied Risk Weighted Exposure	**1,765**	**1**	**32**	1,977	8	44
Aggregate Capital Charge	**141**	**0**	**3**	158	1	3
Aggregate Capital Charge as a % of Balance Date Equity	**4.0%**	**0.0%**	**0.1%**	5.0%	0.0%	0.1%

Peak Exposures for Three Months ended 30 June	Consolidated 2010			Consolidated 2009		
$ millions	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Interest Rate Risk	Foreign Currency Risk	Equity Risk
Implied Risk Weighted Exposure	**2,810**	**29**	**38**	2,820	25	51
Aggregate Capital Charge	**225**	**2**	**3**	226	2	4
Aggregate Capital Charge as a % of Balance Date Equity	**6.3%**	**0.1%**	**0.1%**	7.1%	0.1%	0.1%

PILLAR 2 CAPITAL FOR OTHER MATERIAL RISKS

The Banking Group has an Internal Capital Adequacy Assessment Process ("ICAAP") which complies with the requirements set out in the RBNZ document BS12 *Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")* in accordance with the Bank's Conditions of Registration. The Board of Directors is responsible for ensuring that the Banking Group has adequate overall capital in relation to its risk profile.

Under RBNZ rules, a bank that is a member of a wider banking group may base its approach on group wide methodologies. The Banking Group, as a member of the wider CBA banking group, has based its ICAAP processes on that of CBA, after taking account of New Zealand and Bank conditions.

The Banking Group's ICAAP is a documented process that describes not only the risk appetite and tolerances of the Banking Group, but also the levels of capital held against these risks, including credit, market, operational, strategic, and fixed asset risks. As at 30 June 2010 and during the comparative periods shown the Banking Group held actual capital at significant levels above the regulatory capital requirements (refer to Basel II Capital ratios on page 58).

The Banking Group's ICAAP is reviewed on a regular basis by senior management before annual approval by the Board, and the process includes consideration of stress tests and future strategic requirements.

As at 30 June 2010 internal capital allocations of $238m (30 June 2009 $204m) had been made for Other Material Risks including strategic risk and fixed asset risk.

CAPITAL ADEQUACY OF ULTIMATE PARENT BANK

The Ultimate Parent Bank of ASB Bank Limited is CBA. The Ultimate Parent Banking Group is CBA and the various companies and other entities owned and controlled by CBA.

In December 2007 the APRA granted "advanced" Basel II accreditation to the Ultimate Parent Banking Group. As a result of the accreditation, the advanced internal ratings based approach ("AIRB") for credit risk and the advanced measurement approaches ("AMA") for operational risk have been adopted in the calculation of the Ultimate Parent Banking Group's risk weighted exposures from 1 January 2008. Under New Zealand regulations, this methodology is referred to as the Basel II (internal models based) approach.

The Ultimate Parent Banking Group was also granted advanced accreditation for interest rate risk in the banking book ("IRRBB") in June 2008, with the accreditation taking effect from 1 July 2008.

Under the advanced accreditation the Ultimate Parent Banking Group is required to disclose additional information on a quarterly and a semi-annual basis. This information is made available to users via CBA's website (www.commbank.com.au), with the aim of allowing the market to better assess the Ultimate Parent Banking Group's risk and reward assessment process.

The Ultimate Parent Banking Group's capital ratios throughout the year ended 30 June 2010 and comparatives year shown exceeded both APRA minimum capital adequacy requirements. As at 30 June 2010 Tier One Capital was 9.15% of total risk weighted assets and Total Capital was 11.49% of total risk weighted assets (30 June 2009 8.07% and 10.42% respectively).

Notes to the Financial Statements

For the year ended 30 June 2010

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

Securitisation, Funds Management and Other Fiduciary Activities

The Bank and certain subsidiaries provide limited custodial services relating to holding interest bearing instruments and equity securities on behalf of clients.

The Bank has in place an in house RMBS facility, which can issue securities that are eligible for use as collateral for borrowing from RBNZ. As at 30 June 2010 the Bank had internally securitised $4.1b of RMBS through the Medallion NZ Series Trust 2009-1R, of which $4.0b Class A floating rate notes issued by the Medallion NZ Series Trust 2009-1R have been assigned a credit rating of AAA by Fitch Ratings. The securitised assets remain on the Bank's Balance Sheet, as the Banking Group retains a continuing involvement in the transferred assets (funding, liquidity and credit risk remains with the Bank). A payable and receivable of equal amount totalling $4.1b has been recognised in the Parent's financial statements. The transaction does not have any impact on the Consolidated financial statements of the Banking Group.

The Bank markets and distributes Funds Management products which are issued by its wholly owned subsidiary ASB Group Investments Limited (refer to Note 17). Funds Under Management distributed by the Bank totalled $2,661m as at 30 June 2010 (30 June 2009 $2,092m). The Bank provides banking services for trusts managed or administered by ASB Group Investments Limited. The Bank also sells financial assets to some of the trusts.

Funds Under Management issued by ASB Group Investments Limited and distributed by ASB Group (Life) Limited, a fellow subsidiary of CBA, totalled $2,208m as at 30 June 2010 (30 June 2009 $2,360m).

Insurance Business, Marketing and Distribution of Insurance Products

The Bank does not conduct any insurance business. However, general and life insurance products are marketed through the Bank's branch network. The life insurance products are underwritten by Sovereign Assurance Company Limited, a wholly owned subsidiary of ASB Group (Life) Limited.

The Banking Group has not provided any funding to entities which conduct any of the following activities: trust, custodial, funds management or other fiduciary activities established, marketed and/or sponsored by a member of the Banking Group; origination of securitised assets; marketing or servicing of securitisation schemes; marketing and distribution of insurance products.

Risk Management

The Bank and subsidiaries participating in the activities identified above have in place policies and procedures to ensure that those activities are conducted in an appropriate manner. Should adverse conditions arise, it is considered that these policies and procedures will minimise the possibility that these conditions will adversely impact the Bank. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and auditors.

In addition, the following measures have been taken to manage any risk to the Bank of marketing and distributing insurance products:

- Investment statements, prospectuses and brochures for insurance products include disclosures that the Bank and its subsidiaries do not guarantee the insurer, nor the insurer's subsidiaries, nor any of the products issued by the insurer or the insurer's subsidiaries.
- Where the insurance products are subject to the Securities Act 1978, investment statements, prospectuses and brochures additionally include disclosures that:
  - the policies do not represent deposits or other liabilities of the Bank or its subsidiaries;
  - the policies are subject to investment risk, including possible loss of income and principal; and
  - the Bank and its subsidiaries do not guarantee the capital value or performance of the policies.
- Application forms for insurance products contain acknowledgements to be signed by a purchaser which are consistent with the disclosures for insurance products noted above.

In addition, the following measures have been taken to manage any risk to the Bank of marketing and distributing fund management products:

- Prospectuses, investment statements and brochures for funds management products include disclosures:
  - that the securities do not represent deposits or other liabilities of the Bank;
  - that the securities are subject to investment risk including possible loss of income and principal invested; and
  - that the Bank does not guarantee the capital value or performance of the securities.
- Application forms for funds management products contain acknowledgements to be signed by a purchaser which are consistent with the disclosures for funds management products noted above.

Provision of Financial Services

Financial services (including deposit taking and foreign exchange services) provided by the Bank to entities which are involved in trust, custodial, funds management and other fiduciary activities, and to affiliated insurance companies which conduct marketing or distribution of insurance products, or on whose behalf the marketing or distribution of insurance products are conducted, are provided on arm's length terms and conditions and at fair value. Any assets purchased from such entities have been purchased on an arm's length basis and at fair value.

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions	Retail Banking	Relationship Banking	Consolidated Institutional Banking, Treasury and Markets	Customers, Markets and Products	Services and Support	Total
44 Financial Reporting by Operating Segments						
For the year ended 30 June 2010						
Income Statement						
Net Interest Earnings	**538**	**216**	**190**	**86**	**3**	**1,033**
Other Income	**192**	**42**	**48**	**51**	**59**	**392**
Total Operating Income	**730**	**258**	**238**	**137**	**62**	**1,425**
Segment Operating Income / (Expense) from External Customers	**1,400**	**709**	**(1,297)**	**531**	**82**	**1,425**
Segment Operating (Expense) / Income from Operating Segments	**(670)**	**(451)**	**1,535**	**(394)**	**(20)**	**-**
Segment Operating Expenses (excluding Impairment Losses)	**180**	**66**	**18**	**56**	**339**	**659**
Segment Net Profit / (Loss) before Taxation	**470**	**144**	**231**	**66**	**(270)**	**641**
Taxation	**141**	**43**	**287**	**19**	**(85)**	**405**
Segment Net Profit / (Loss) after Taxation	**329**	**101**	**(56)**	**47**	**(185)**	**236**
Non-cash Expenses						
Depreciation and Amortisation Expense	**19**	**5**	**2**	**2**	**35**	**63**
Impairment Losses / (Recoveries) on Advances	**80**	**48**	**(11)**	**15**	**(7)**	**125**
Balance Sheet						
Total Assets	**30,679**	**14,593**	**10,612**	**7,305**	**368**	**63,557**
Total Liabilities	**23,582**	**6,179**	**30,097**	**58**	**93**	**60,009**
For the year ended 30 June 2009						
Income Statement						
Net Interest Earnings	500	206	223	48	3	980
Other Income	200	41	167	45	79	532
Total Operating Income	700	247	390	93	82	1,512
Segment Operating Income / (Expense) from External Customers	1,419	868	(1,498)	628	95	1,512
Segment Operating (Expense) / Income from Operating Segments	(719)	(621)	1,888	(535)	(13)	-
Segment Operating Expenses (excluding Impairment Losses)	194	69	20	65	284	632
Segment Net Profit / (Loss) before Taxation	386	79	339	20	(182)	642
Taxation	116	19	131	6	(55)	217
Segment Net Profit / (Loss) after Taxation	270	60	208	14	(127)	425
Non-cash Expenses						
Depreciation and Amortisation Expense	17	5	1	1	34	58
Impairment Losses / (Recoveries) on Advances	120	99	31	8	(20)	238
Balance Sheet						
Total Assets	30,134	14,692	12,969	7,069	366	65,230
Total Liabilities	22,872	5,928	33,172	38	62	62,072

Retail Banking: The Retail Banking Segment provides services to business banking, small business customers and private individuals. Its range of products includes loans and deposits, current accounts and credit cards.

Relationship Banking: The Relationship Banking Segment provides services to commercial, business, rural and Premium Banking customers.

Institutional Banking, Treasury and Markets: The Institutional Banking, Treasury and Markets Segment comprises the Bank's Corporate and Institutional business, Financial Markets activities and Treasury function. Financial Markets includes all financial instruments trading and sales. The Treasury function includes the funding and balance sheet management activities of the Bank.

Customers, Markets and Products: The Customers, Markets and Products Segment develops and manufactures products and services that are distributed by the Retail and Relationship Banking Segments.

Services and Support: The Services and Support Segment supplies strategic support and services to other Segments.

Operating Income in each segment includes transfer pricing adjustments to reflect intersegment funding arrangements. Intersegment pricing is determined on an arm's length basis. Charges are eliminated at the Parent Bank level.

The Bank operates predominantly in the banking industry within New Zealand. The Bank has very limited exposure to risks associated with operating in different economic environments or political conditions. On this basis no geographical segment information is provided.

Notes to the Financial Statements

For the year ended 30 June 2010

45 Risk Management Policies

Introduction

The Bank is committed to the management of risk to achieve sustainability of service, employment and profits, and therefore takes on controlled amounts of risk when considered appropriate. The risk management framework identifies, assesses, manages and reports risk and risk adjusted returns using an economic equity framework. This is targeted at ensuring that the Bank has sufficient capital to enable a strong credit rating relative to the overall market and its peers.

The primary risks are those of credit, market (interest rate, price, foreign exchange), liquidity / funding, operational and strategic business risk.

The Bank's risk and control functions are the responsibility of the Chief Risk Officer, who reports to the Chief Executive Officer. The Bank's risk management strategy is set by the Board of Directors through the Board Audit and Risk Committee. All non-Executive Directors are members of the Board Audit and Risk Committee (refer to the Directory for details). A formal executive committee is in place governing all risk types (Credit, Market, Operational and Strategic). The Chief Risk Officer is responsible for implementation of risk management strategy and all Executives have responsibility for the day to day management of risk across the Bank.

The Bank has management structures and information systems to manage individual risks. Risk initiation and monitoring tasks are separated where feasible, and all material systems are subjected to regular internal audit. Periodic reviews of all risk management systems are undertaken by internal audit.

The Bank's external auditor also reviews parts of the Bank's risk management framework that impact on significant aspects of the financial systems, but only to the extent necessary to form their review on the Bank's six monthly results or audit opinion on the Bank's annual results. The following sections describe the risk management framework components.

CREDIT RISK

Credit risk is the potential risk for loss arising from failure of a debtor or counterparty to meet their contractual obligations.

Refer to Note 16 for detailed disclosures on the Bank's credit risk management policies.

MARKET RISK

Market risk is the risk that movements in the level or volatility of market rates and prices will affect the Bank's income or the value of its holdings of financial instruments.

Market risk arises from repricing and maturity mismatches between assets and liabilities, differences in their respective interest rates and how they respond to changing rates, both on and off balance sheet, as well as from controlled trading undertaken in pursuit of profit. The Bank is exposed to diverse financial markets including interest rates, foreign currencies, equities and commodities, and transacts in both physical and derivative instruments.

The Board sets limits on the value of market risk from market price movements that may be accepted. Specific limits are set for discretionary trading activities, and for the Treasury Division for the Bank's balance sheet management activities. Adherence to limits is monitored by an independent risk unit under the Bank's Chief Risk Officer.

For the purposes of market risk management, the Bank makes a distinction between traded and non-traded market risks. Traded market risk covers market risk arising from discretionary trading activity. Non-traded market risk covers market risks related to balance sheet management on customer loan and deposit activities, which is predominantly interest rate risk.

The Bank uses Value-at-Risk ("VaR") models as the principal measure of market risk in both the traded and non-traded portfolios. Due to inherent limitations in VaR, for example the VaR model cannot encompass all possible outcomes, tests covering a variety of stress scenarios are regularly performed to simulate the effect of extreme market conditions.

Details of the Bank's policies for management of market risk are set out below.

Traded Market Risk

For trading activities VaR is used to capture interest rate, exchange rate, volatility, equity and commodities risk. VaR is calculated using a historic simulation model with 520 days of data over a one day holding period, at a 97.5% confidence interval.

The model does not capture VaR due to credit spread changes. In addition, as VaR does not produce a maximum loss, stress testing of the trading book is carried out and reported on a daily basis. Stress tests capture a range of scenarios that are based on a statistical approach incorporating the observed volatility of market risk factors, the perceived magnitude of extreme volatility and the perceived liquidity of the market.

The following table provides a summary of VaR by risk type for the trading book.

VaR at 97.5% confidence level	**Average VaR**	
$ millions	**2010**	2009
Interest Rate Risk	**1.09**	0.60
Exchange Rate Risk	**0.23**	0.22
Diversification Benefit	**(0.16)**	(0.09)
Total Market Risk	**1.16**	0.73

For the year ended 30 June 2010

45 Risk Management Policies (continued)

Non-traded Market Risk – Interest Rate Risk in the Banking Book

The Bank's objective for managing non-traded market risk is set out in the Board approved Non-traded Market Risk Policy, and is to deliver consistent and enhanced net interest earnings over time, within market value sensitivity limits (being the non-traded market risk VaR). Oversight and strategic direction is provided by the Executive Leadership Team Risk and Control Committee which meets monthly. On a day to day basis, interest rate risk is measured and monitored by an independent risk team, and managed within the Bank's Treasury Division.

Interest rate risk arises from the structure and characteristics of the Bank's assets, liabilities and equity and their respective interest rates. Determining reprice gap profiles is a core function in identifying risk, and Treasury PV01 limits provide day to day risk measures. In addition to this, regular simulation of Banking Group activity and analysis of expected maximum changes in market value as a percentage of capital provide key risk sensitivity management information and incorporate other non-gap risk causes of interest rate risk including basis risk and optionality. These simulations are measured against earnings and value sensitivity limits.

Regular simulation of future net interest earnings are estimated employing existing interest rates, current and forecast Balance Sheets, and rate shocks of 1, 2, and 3% above and below current levels. Market Value sensitivity is modelled using a Historical Simulation VaR model. The Bank manages the known and assumed repricing characteristics of its assets and liabilities as well as future commitments to put the Banking Group in a position to benefit from anticipated interest rate movements and to limit the risk of adverse interest rate movements.

The Bank reduces interest rate risk by seeking to match the repricing characteristics of its assets and liabilities, by changing the mix of assets and liabilities through marketing and pricing initiatives, by buying and selling long term securities, and through the use of derivatives such as interest rate swaps, forward rate agreements and futures contracts.

Where derivative transactions are used, cash flow hedges are used to manage the risk of the potential for a change in interest rates to change net interest earnings, in the current reporting period and in future years, and fair value hedges are used to manage the risk of potential for a change in interest rates to cause a fluctuation in the fair value of financial instruments.

The earnings sensitivity to interest rate changes must be such that expected net interest earnings under different interest rate scenarios remain within a set percentage of the central forecast and, similarly, value sensitivity to expected maximum market value changes remain within a set percentage of capital. These limits are set by the Board of Directors and are monitored by the Risk and Control Committee monthly. The methods of calculating exposures under these limits are discussed in more detail below.

(a) Next 12 Months' Net Interest Earnings

The risk to the net interest earnings ("NIE") of the Banking Book over the next 12 months for a change in interest rates is measured on a monthly basis. Risk is measured assuming an immediate 1% parallel movement in interest rates across the whole yield curve. Potential variations in NIE are measured using a simulation model that takes into account the projected change in balance sheet asset and liability levels and mix. Assets and liabilities with pricing directly based on market rates are repriced based on the full extent of the rate shock that is applied. Risk on the other assets and liabilities (those priced at the discretion of the Banking Group) is measured by taking into account both the manner in which the products have repriced in the past, and the full 1% change in price.

The figures in the following table express current and historic exposure of a 1% parallel shock to NIE as a percentage of average forecast NIE for a 12 month period.

Percentage of NIE	**2010**	2009
Exposure at End of Year	**0.92%**	0.68%
Past 12 Months Exposure – Average	**0.42%**	1.32%
Past 12 Months Exposure – High	**0.97%**	2.62%
Past 12 Months Exposure – Low	**0.11%**	0.43%

(b) Market Value Sensitivity – VaR

Some of the Bank's customer loan and deposit assets and liabilities have interest rate risk that is not fully captured within a measure of risk to the next 12 months' earnings. To measure this longer term market value sensitivity, the Bank utilises a VaR analysis. This analysis measures the potential change in the net present value of cash flows of customer and hedging assets and liabilities. Cash flows for fixed rate products are included on a contractual basis. Cash flows for products repriced at the discretion of the Bank are based on the expected repricing characteristics of those products.

Total cash flows are revalued under a range of possible interest rate scenarios using a historical simulation VaR methodology. The interest rate scenarios are based on actual interest rate movements that have occurred over a six year historical observation period. The measured VaR exposure is an estimate to a 97.5% confidence level (one tail) of the potential loss that could occur if the balance sheet positions were to be held unchanged for a one month holding period. For example, VaR exposure of $1m means that in 97.5 cases out of 100, the expected net present value will not decrease by more than $1m given the historical movement in interest rates.

The figures in the following table represent the net present value of the expected change in the Bank's customer and hedging activity future earnings due to interest rate change calculated to a 97.5% percentile basis for the remaining term of all existing Banking Book assets and liabilities.

$ millions	**2010**	2009
Exposure at End of Year	**0.5**	0.7
Past 12 Months VaR (97.5 percentile) – Average	**2.5**	1.7
Past 12 Months VaR (97.5 percentile) – High	**6.6**	4.7
Past 12 Months VaR (97.5 percentile) – Low	**0.3**	0.4

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For the year ended 30 June 2010

$ millions	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Consolidated Between 2-5 Years	Over 5 Years	Non-interest Bearing	Total

45 Risk Management Policies (continued)

Interest Rate Repricing Schedule

The following tables include the Banking Group's assets and liabilities at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of derivative financial instruments, which are principally used to reduce the Banking Group's exposure to interest rate movements, are included under the heading "Non-interest Bearing".

$ millions	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Between 2-5 Years	Over 5 Years	Non-interest Bearing	Total
As at 30 June 2010							
Assets							
Cash and Call Deposits with the Central Bank	**1,072**	**-**	**-**	**-**	**-**	**103**	**1,175**
Due from Other Banks	**1,021**	**-**	**-**	**-**	**-**	**-**	**1,021**
Money Market Advances	**132**	**-**	**-**	**-**	**-**	**-**	**132**
Securities	**3,320**	**324**	**818**	**623**	**49**	**32**	**5,166**
Derivative Assets	**-**	**-**	**-**	**-**	**-**	**1,951**	**1,951**
Advances to Customers	**35,256**	**6,583**	**8,548**	**3,344**	**7**	**(261)**	**53,477**
Other Assets	**-**	**-**	**-**	**-**	**-**	**635**	**635**
Total Assets	**40,801**	**6,907**	**9,366**	**3,967**	**56**	**2,460**	**63,557**
Liabilities							
Due to Other Banks	**6,840**	**2**	**-**	**-**	**-**	**-**	**6,842**
Money Market Deposits	**15,411**	**509**	**547**	**1,322**	**74**	**-**	**17,863**
Derivative Liabilities	**-**	**-**	**-**	**-**	**-**	**2,474**	**2,474**
Deposits from Customers	**23,523**	**4,979**	**587**	**480**	**-**	**1,914**	**31,483**
Other Liabilities	**-**	**-**	**-**	**-**	**-**	**495**	**495**
Subordinated Debt	**250**	**200**	**-**	**370**	**-**	**32**	**852**
Total Liabilities	**46,024**	**5,690**	**1,134**	**2,172**	**74**	**4,915**	**60,009**
Lending Commitments	**(62)**	**153**	**355**	**154**	**4**		
Net Derivative Notional Principals	**6,340**	**(671)**	**(6,777)**	**1,012**	**96**		
As at 30 June 2009							
Assets							
Cash and Call Deposits with the Central Bank	1,439	-	-	-	-	143	1,582
Due from Other Banks	1,213	-	-	-	-	-	1,213
Money Market Advances	159	-	-	-	-	-	159
Securities	4,738	57	812	453	73	43	6,176
Derivative Assets	-	-	-	-	-	2,209	2,209
Advances to Customers	30,350	6,572	8,361	8,024	10	(261)	53,056
Other Assets	-	-	-	-	-	835	835
Total Assets	37,899	6,629	9,173	8,477	83	2,969	65,230
Liabilities							
Due to Other Banks	5,951	200	-	-	-	-	6,151
Money Market Deposits	17,559	910	925	975	301	-	20,670
Derivative Liabilities	-	-	-	-	-	4,064	4,064
Deposits from Customers	22,601	3,382	1,660	416	-	1,834	29,893
Other Liabilities	-	-	-	-	-	436	436
Subordinated Debt	250	-	200	370	-	38	858
Total Liabilities	46,361	4,492	2,785	1,761	301	6,372	62,072
Lending Commitments	(100)	128	402	349	36		
Net Derivative Notional Principals	11,587	(2,306)	(4,768)	(4,632)	119		

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Parent Between 2-5 Years	Over 5 Years	Non-interest Bearing	Total

45 Risk Management Policies (continued)

Interest Rate Repricing Schedule (continued)

$ millions	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Between 2-5 Years	Over 5 Years	Non-interest Bearing	Total
As at 30 June 2010							
Assets							
Cash and Call Deposits with the Central Bank	**1,072**	**-**	**-**	**-**	**-**	**103**	**1,175**
Due from Other Banks	**1,018**	**-**	**-**	**-**	**-**	**-**	**1,018**
Money Market Advances	**132**	**-**	**-**	**-**	**-**	**-**	**132**
Securities	**3,319**	**324**	**818**	**623**	**49**	**32**	**5,165**
Derivative Assets	**-**	**-**	**-**	**-**	**-**	**1,952**	**1,952**
Advances to Customers	**35,234**	**6,578**	**8,543**	**3,340**	**7**	**(261)**	**53,441**
Due from Controlled Entities and Associates	**4,748**	**-**	**-**	**-**	**-**	**277**	**5,025**
Other Assets	**-**	**-**	**-**	**-**	**-**	**622**	**622**
Total Assets	**45,523**	**6,902**	**9,361**	**3,963**	**56**	**2,725**	**68,530**
Liabilities							
Due to Other Banks	**6,840**	**2**	**-**	**-**	**-**	**-**	**6,842**
Money Market Deposits	**5,669**	**466**	**2**	**877**	**76**	**-**	**7,090**
Derivative Liabilities	**-**	**-**	**-**	**-**	**-**	**2,474**	**2,474**
Deposits from Customers	**22,372**	**4,721**	**563**	**453**	**-**	**1,914**	**30,023**
Due to Controlled Entities and Associates	**15,865**	**230**	**456**	**499**	**-**	**322**	**17,372**
Other Liabilities	**-**	**-**	**-**	**-**	**-**	**438**	**438**
Subordinated Debt	**250**	**200**	**-**	**370**	**-**	**32**	**852**
Total Liabilities	**50,996**	**5,619**	**1,021**	**2,199**	**76**	**5,180**	**65,091**
Lending Commitments	**(62)**	**153**	**355**	**154**	**4**		
Net Derivative Notional Principals	**7,237**	**(881)**	**(7,117)**	**665**	**96**		
As at 30 June 2009							
Assets							
Cash and Call Deposits with the Central Bank	1,439	-	-	-	-	142	1,581
Due from Other Banks	1,210	-	-	-	-	-	1,210
Money Market Advances	159	-	-	-	-	-	159
Securities	4,720	48	783	385	84	43	6,063
Derivative Assets	-	-	-	-	-	2,210	2,210
Advances to Customers	30,315	6,566	8,357	8,019	10	(261)	53,006
Due from Controlled Entities and Associates	4,773	9	29	57	-	70	4,938
Other Assets	-	-	-	-	-	834	834
Total Assets	42,616	6,623	9,169	8,461	94	3,038	70,001
Liabilities							
Due to Other Banks	5,951	200	-	-	-	-	6,151
Money Market Deposits	6,558	401	812	276	301	-	8,348
Derivative Liabilities	-	-	-	-	-	4,064	4,064
Deposits from Customers	21,684	3,382	1,660	416	-	1,834	28,976
Due to Controlled Entities and Associates	16,710	482	152	677	-	143	18,164
Other Liabilities	-	-	-	-	-	367	367
Subordinated Debt	250	-	200	370	-	38	858
Total Liabilities	51,153	4,465	2,824	1,739	301	6,446	66,928
Lending Commitments	(100)	128	402	349	36		
Net Derivative Notional Principals	11,574	(2,302)	(4,765)	(4,626)	119		

Notes to the Financial Statements

For the year ended 30 June 2010

45 Risk Management Policies (continued)

Price Risk
Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all instruments of a specific type traded in the market.

Price risk is controlled by ensuring a diverse range of investments, limits on counterparty exposure and restrictions on types of instruments.

Foreign Exchange Risk
Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates.

Foreign exchange mismatches can arise from the day to day purchase and sale of foreign currency, from trading positions taken, from deposit and lending activity in foreign currencies and from offshore funding by the Bank.

The Bank monitors and manages this risk through its Treasury and Markets Division. Foreign exchange exposures are reported daily. Limits based on VaR and outright positions, both intra-day and overnight, are set to ensure that the maximum exposure to losses from an adverse movement in exchange rates is known to agreed statistical confidence levels.

Adherence to limits is monitored by an independent risk unit reporting to the Bank's Chief Risk Officer.

Material Foreign Currency Balances
Material assets and liabilities denominated in foreign currencies recognised in these financial statements, and Net Open Positions are presented in the table below:

		Consolidated			Parent		
	Exchange Rate	Assets NZ $m	Liabilities NZ $m	Net Open Positions NZ $m	Assets NZ $m	Liabilities NZ $m	Net Open Positions NZ $m
As at 30 June 2010							
US Dollar	**0.6927**	**352**	**7,819**	**(4)**	**352**	**7,820**	**(4)**
Australian Dollar	**0.8137**	**28**	**2,648**	**(2)**	**28**	**2,648**	**(2)**
Sterling	**0.4601**	**5**	**1,262**	**(2)**	**5**	**1,260**	**(2)**
Japanese Yen	**61.3361**	**11**	**189**	**-**	**647**	**825**	**-**
Euro	**0.5671**	**144**	**1,670**	**(1)**	**144**	**1,673**	**(1)**
Canadian	**0.7296**	**1**	**92**	**-**	**1**	**92**	**-**
Hong Kong Dollar	**5.3929**	**4**	**9**	**-**	**4**	**9**	**-**
Norwegian Kroner	**4.4885**	**-**	**5**	**-**	**-**	**5**	**-**
Singapore Dollar	**0.9702**	**2**	**4**	**-**	**2**	**4**	**-**
Swiss Franc	**0.7495**	**1**	**835**	**-**	**1**	**836**	**-**
As at 30 June 2009							
US Dollar	0.6516	1,003	7,888	-	1,003	7,866	-
Australian Dollar	0.8050	62	2,858	7	62	2,857	7
Sterling	0.3918	6	1,358	1	6	1,357	1
Japanese Yen	62.3976	10	719	(1)	635	1,344	(1)
Euro	0.4619	471	2,385	(1)	471	2,388	(1)
Canadian Dollar	0.7536	136	78	-	136	78	-
Swiss Franc	0.7048	-	1,231	(2)	-	1,233	(2)

Differences between total monetary assets and total monetary liabilities in individual currencies are covered by contracts with other parties and / or are controlled within internal policy limits.

Equity Risk
Equity risk results from the change in market prices of equity investments held by the Bank. This is presently not a material risk to the Bank. A formal equity risk policy approved by the Board Audit and Risk Committee is in place.

For the year ended 30 June 2010

45 Risk Management Policies (continued)

LIQUIDITY / FUNDING RISK

Liquidity Risk Management Framework and Policies

Liquidity Risk is the risk that the Bank will not be able to access funds to make payments when they are due. Funding Risk is the risk that the funding mix of the Bank is such that the Bank will have to pay higher than market rates for its funding or have difficulty raising funds.

The Bank has a Liquidity and Funding policy (the "policy") in place to manage these risks which is approved by the ASB Board Audit and Risk Committee. Day to day management of liquidity and funding risks is performed and reported by the Bank's Treasury area, with independent monitoring by the Bank's Market Risk Team. Oversight is provided by the Bank's Executive Leadership Team. The policy also requires regular periodic review of liquidity management strategy and contingent funding plans by the Bank's Directors.

The key objectives of the policy are:

> To ensure that cash flow commitments can be met as they fall due under both normal operating, crisis and stress conditions.
> To ensure that the Bank develops and protects a resilient and diversified funding base that is responsive to the banks needs.
> To ensure that procedures and practices in relation to liquidity and funding risk management are clearly documented and communicated.

Regulatory Changes

The RBNZ has issued a revised document *Liquidity Policy* (BS13) under which the Bank must comply with new Conditions of Registration regarding liquidity risk management with effect from 1 April 2010. These conditions are set out on pages 79 to 81. The Bank has the appropriate internal framework and tools for liquidity risk management to ensure compliance with the new regulatory requirements, as well as revised internal targets and limits.

Measuring and Monitoring Liquidity Risk

The Bank monitors liquidity risk primarily by forecasting future daily cash requirements. To provide for any unexpected patterns in cash movements the Bank holds a pool of readily realisable investment assets and deposits with high credit quality counterparties. It also seeks a diverse and stable funding base. Management limits are set to ensure that holdings of liquid assets do not fall below prudent levels. These limits are also set on the level of inter-bank and offshore funding, as well as on the amount of wholesale funding that may mature in any period.

The policy also requires the Bank to manage liquidity and funding risk within a number of risk appetite limits. These require that the Bank maintain positive cash flow runoffs for specified periods using stressed assumptions, and a strong and stable core funding ratio. These key limits are:

> One week crisis net cash flow maturity runoff must be positive by greater than $1.5bn.
> One month net cash flow maturity runoff must be positive by greater than $1bn.
> Core funding ratio where at least 67.5% of funding must meet the definition of stable core funding.

Stress Testing and Contingent Funding Plan

Under the policy the one week crisis net cashflow maturity runoff using ASB "name crisis" parameters must be less than qualifying liquid assets held. "Name crisis" is defined as a scenario where the Bank's access to one or more of its funding or related markets is adversely affected by real or perceived issues with the Bank's, or a Bank entity's, name or viability. Qualifying liquid assets are of high credit quality and include short term cash held with the RBNZ or other banks, government securities and other securities that are readily acceptable in repurchase agreements with the RBNZ and other New Zealand banks, prime corporate bonds and short term paper and assets issued by offshore supranationals and highly rated banks. Run Off Risk is calculated based on estimates of investor behaviour in a crisis scenario. Funding is weighted to reflect the sensitivity of different classes of investor during the first five days of a run.

The policy requires Treasury to develop, maintain and regularly test a Contingent Funding Plan ("CFP"). The CFP is reviewed and agreed by the Market Risk team. The plan establishes the policies, responsibilities and plans designed to return the Bank to a robust position within risk tolerance in the event of a liquidity crisis.

RMBS Facility

The Bank has an in house RMBS facility, which can issue securities that can be used as collateral for borrowing from the RBNZ. As at 30 June 2010 the Bank had internally securitised $4.1b of RMBS through the Medallion NZ Series Trust 2009-1R, of which $4.0b of Class A floating rate notes have been assigned a credit rating of AAA by Fitch Ratings and are eligible for acceptance by the RBNZ. Whilst not intended to be used for day to day liquidity management, the RMBS form part of the Bank's Total Core Liquid Assets. As at 30 June 2010 none of RMBS had been used as collateral for repurchase agreements with the RBNZ (refer to Notes 15 and 24).

The table below shows the key liquidity measures as at the end of the financial year.

$ millions	Consolidated	
As at 30 June	**2010**	2009
CORE LIQUID ASSETS		
Qualifying Liquid Assets		
Cash	**103**	143
Call Deposits with the Central Bank	**1,072**	1,439
Treasury Bills	**1,163**	1,829
New Zealand Government Securities	**750**	509
Bank Bills	**1,815**	1,918
Other Qualifying Liquid Assets	**1,520**	1,308
Total Qualifying Liquid Assets	**6,423**	7,146
Residential Mortgage Backed Securities	**4,000**	3,755
Total Core Liquid Assets	**10,423**	10,901
Total Qualifying Liquid Assets Expressed as a Percentage of Total Funding	**11.26%**	12.41%

For the year ended 30 June 2010

$ millions	At Call	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Between 2-5 Years	Over 5 Years	Total	Carrying Value
				Consolidated				

45 Risk Management Policies (continued)

Maturity Analysis for Undiscounted Contractual Cash Flows

The tables on the following pages present the Banking Group's cash flows by remaining contractual maturities as at balance date. The amounts disclosed in the tables are the contractual undiscounted cash flows and include principal and future interest cash flows, and therefore will not agree to the carrying values on the Balance Sheet.

Actual cash flows may differ significantly from the contractual cash flows presented below as a result of future actions of the Banking Group and its counterparties, such as early repayments or refinancing of term loans.

The majority of the longer term Advances to Customers are housing loans which are likely to be repaid earlier than their contractual terms. Deposits from customers include substantial customer savings deposits and cheque accounts, which are at call. History demonstrates that such accounts provide a stable source of long term funding for the Bank. It should be noted that the Banking Group does not manage its liquidity risk on the basis of the information below. The management of liquidity risk is set out on page 72.

$ millions	At Call	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Between 2-5 Years	Over 5 Years	Total	Carrying Value
As at 30 June 2010								
Non-derivative Financial Assets								
Cash and Call Deposits with the Central Bank	1,175	-	-	-	-	-	1,175	1,175
Due from Other Banks	723	299	-	-	-	-	1,022	1,021
Money Market Advances	125	9	-	-	-	-	134	132
Securities	-	3,350	344	885	654	164	5,397	5,166
Advances to Customers	1,317	12,297	1,994	5,107	10,956	49,625	81,296	53,477
Other Assets	-	7	38	2	8	1	56	207
Total Non-derivative Financial Assets	3,340	15,962	2,376	5,994	11,618	49,790	89,080	61,178
Derivative Financial Assets								
Inflows from Derivatives	-	1,269	273	889	346	47	2,824	
Outflows from Derivatives	-	(1,012)	(195)	(776)	(208)	(3)	(2,194)	
	-	257	78	113	138	44	630	
Non-derivative Financial Liabilities								
Due to Other Banks	207	546	51	197	4,943	1,441	7,385	6,842
Money Market Deposits	2,412	8,494	3,310	2,129	1,512	7	17,864	17,863
Deposits from Customers	12,837	12,719	5,013	615	494	-	31,678	31,483
Other Liabilities	36	102	35	-	-	-	173	495
Subordinated Debt	-	13	212	282	388	-	895	852
Total Non-derivative Financial Liabilities	15,492	21,874	8,621	3,223	7,337	1,448	57,995	57,535
Derivative Financial Liabilities								
Inflows from Derivatives	-	404	44	1,411	2,406	4	4,269	
Outflows from Derivatives	-	(712)	(142)	(1,714)	(2,667)	(48)	(5,283)	
	-	(308)	(98)	(303)	(261)	(44)	(1,014)	
Off Balance Sheet Items								
Lending Commitments	6,910	131	183	290	97	22	7,633	
Guarantees	53	3	2	2	2	5	67	
Other Contingent Liabilities	213	4	4	5	1	-	227	
	7,176	138	189	297	100	27	7,927	

Notes to the Financial Statements

For the year ended 30 June 2010

45 Risk Management Policies (continued)

Maturity Analysis for Undiscounted Contractual Cash Flows (continued)

As at 30 June 2009

$ millions	At Call	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Between 2-5 Years	Over 5 Years	Total	Carrying Value
				Consolidated				
Non-derivative Financial Assets								
Cash and Call Deposits with the Central Bank	1,582	-	-	-	-	-	1,582	1,582
Due from Other Banks	1,153	62	-	-	-	-	1,215	1,213
Money Market Advances	86	73	-	-	-	-	159	159
Securities	-	4,800	102	837	440	263	6,442	6,176
Advances to Customers	1,454	10,730	1,977	5,513	11,487	55,572	86,733	53,056
Other Assets	-	8	42	3	13	-	66	236
Total Non-derivative Financial Assets	4,275	15,673	2,121	6,353	11,940	55,835	96,197	62,422
Derivative Financial Assets								
Inflows from Derivatives	-	720	925	610	558	-	2,813	
Outflows from Derivatives	-	(184)	(918)	(609)	(560)	-	(2,271)	
	-	536	7	1	(2)	-	542	
Non-derivative Financial Liabilities								
Due to Other Banks	124	518	250	539	3,081	2,377	6,889	6,151
Money Market Deposits	1,748	13,361	1,967	1,277	2,370	12	20,735	20,670
Deposits from Customers	13,419	10,700	3,922	1,729	434	-	30,204	29,893
Other Liabilities	34	22	92	-	2	-	150	436
Subordinated Debt	-	16	16	257	657	-	946	858
Total Non-derivative Financial Liabilities	15,325	24,617	6,247	3,802	6,544	2,389	58,924	58,008
Derivative Financial Liabilities								
Inflows from Derivatives	-	746	1,595	939	3,558	-	6,838	
Outflows from Derivatives	-	(2,218)	(1,684)	(992)	(3,699)	-	(8,593)	
	-	(1,472)	(89)	(53)	(141)	-	(1,755)	

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions	At Call	Within 6 Months	Between 6-12 Months	Parent Between 1-2 Years	Between 2-5 Years	Over 5 Years	Total	Carrying Value

45 Risk Management Policies (continued)

Maturity Analysis for Undiscounted Contractual Cash Flows (continued)

As at 30 June 2010

$ millions	At Call	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Between 2-5 Years	Over 5 Years	Total	Carrying Value
Non-derivative Financial Assets								
Cash and Call Deposits with the Central Bank	1,175	-	-	-	-	-	1,175	1,175
Due from Other Banks	723	296	-	-	-	-	1,019	1,018
Money Market Advances	125	9	-	-	-	-	134	132
Securities	-	3,350	345	886	653	165	5,399	5,165
Advances to Customers	1,317	12,296	1,993	5,104	10,953	49,566	81,229	53,441
Due from Controlled Entities and Associates	4,100	930	-	-	-	-	5,030	5,025
Other Assets	-	7	22	2	8	1	40	191
Total Non-derivative Financial Assets	7,440	16,888	2,360	5,992	11,614	49,732	94,026	66,147
Derivative Financial Assets								
Inflows from Derivatives	-	1,269	273	889	346	47	2,824	
Outflows from Derivatives	-	(1,012)	(195)	(776)	(208)	(3)	(2,194)	
	-	257	78	113	138	44	630	
Non-derivative Financial Liabilities								
Due to Other Banks	207	546	51	197	4,943	1,441	7,385	6,842
Money Market Deposits	2,412	3,081	611	100	795	59	7,058	7,090
Deposits from Customers	12,369	12,029	4,753	590	466	-	30,207	30,023
Due to Controlled Entities and Associates	4,652	7,070	2,963	2,067	748	-	17,500	17,372
Other Liabilities	36	92	34	-	-	-	162	438
Subordinated Debt	-	13	212	282	388	-	895	852
Total Non-derivative Financial Liabilities	19,676	22,831	8,624	3,236	7,340	1,500	63,207	62,617
Derivative Financial Liabilities								
Inflows from Derivatives	-	404	44	1,411	2,406	4	4,269	
Outflows from Derivatives	-	(712)	(142)	(1,714)	(2,667)	(48)	(5,283)	
	-	(308)	(98)	(303)	(261)	(44)	(1,014)	
Off Balance Sheet Items								
Lending Commitments	6,902	131	183	290	97	22	7,625	
Guarantees	110	3	2	2	2	5	124	
Other Contingent Liabilities	213	4	4	5	1	-	227	
	7,225	138	189	297	100	27	7,976	

Notes to the Financial Statements

For the year ended 30 June 2010

				Parent				
$ millions	At Call	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Between 2-5 Years	Over 5 Years	Total	Carrying Value

45 Risk Management Policies (continued)

Maturity Analysis for Undiscounted Contractual Cash Flows (continued)

As at 30 June 2009

$ millions	At Call	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Between 2-5 Years	Over 5 Years	Total	Carrying Value
Non-derivative Financial Assets								
Cash and Call Deposits with the Central Bank	1,581	-	-	-	-	-	1,581	1,581
Due from Other Banks	1,151	62	-	-	-	-	1,213	1,210
Money Market Advances	86	73	-	-	-	-	159	159
Securities	-	4,685	102	837	440	263	6,327	6,063
Advances to Customers	1,454	10,721	1,971	5,505	11,478	55,524	86,653	53,006
Due from Controlled Entities and Associates	4,178	764	-	-	-	-	4,942	4,938
Other Assets	-	8	25	3	13	-	49	219
Total Non-derivative Financial Assets	8,450	16,313	2,098	6,345	11,931	55,787	100,924	67,176
Derivative Financial Assets								
Inflows from Derivatives	-	720	925	610	558	-	2,813	
Outflows from Derivatives	-	(184)	(918)	(609)	(560)	-	(2,271)	
	-	536	7	1	(2)	-	542	
Non-derivative Financial Liabilities								
Due to Other Banks	125	1,764	238	1,364	887	2,376	6,754	6,151
Money Market Deposits	1,748	4,785	254	989	613	12	8,401	8,348
Deposits from Customers	12,932	10,489	3,792	1,636	426	-	29,275	28,976
Due to Controlled Entities and Associates	4,253	9,213	1,718	301	1,761	-	17,246	18,164
Other Liabilities	34	22	75	-	2	-	133	367
Subordinated Debt	-	16	16	257	657	-	946	858
Total Non-derivative Financial Liabilities	19,092	26,289	6,093	4,547	4,346	2,388	62,755	62,864
Derivative Financial Liabilities								
Inflows from Derivatives	-	746	1,595	939	3,558	-	6,838	
Outflows from Derivatives	-	(2,218)	(1,684)	(992)	(3,699)	-	(8,593)	
	-	(1,472)	(89)	(53)	(141)	-	(1,755)	

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions	Consolidated		Parent	
As at 30 June	**2010**	2009	**2010**	2009

45 Risk Management Policies (continued)

Concentrations of Funding

The following tables present the Banking Group's Concentrations of Funding, which are reported by industry and geographic region. Total Funding comprises Due to Other Banks, Money Market Deposits, Deposits from Customers and Subordinated Debt and is presented at its carrying value. Parent funding also includes Deposits from Controlled Entities and Associates.

ANZSIC codes have been used as the basis for disclosing industry sectors.

Total Funding comprises:				
Due to Other Banks	**6,842**	6,151	**6,842**	6,151
Money Market Deposits	**17,863**	20,670	**7,090**	8,348
Deposits from Customers	**31,483**	29,893	**30,023**	28,976
Due to Controlled Entities and Associates	**-**	-	**17,372**	18,164
Subordinated Debt	**852**	858	**852**	858
Total Funding	**57,040**	57,572	**62,179**	62,497
	Concentration by Industry			
Agricultural, Forestry and Fishing	**561**	592	**561**	592
Government and Public Authorities	**512**	466	**512**	466
Financial, Investments and Insurance	**28,823**	30,698	**33,962**	35,623
Utilities	**70**	88	**70**	88
Transport and Storage	**102**	88	**102**	88
Personal	**24,558**	23,369	**24,558**	23,369
Other Commercial and Industrial	**2,414**	2,271	**2,414**	2,271
Total Funding by Industry	**57,040**	57,572	**62,179**	62,497
	Concentration by Geographic Region			
New Zealand	**38,939**	36,813	**44,015**	41,680
Overseas	**18,101**	20,759	**18,164**	20,817
Total Funding by Geographic Region	**57,040**	57,572	**62,179**	62,497

Notes to the Financial Statements

For the year ended 30 June 2010

45 Risk Management Policies (continued)

OPERATIONAL AND STRATEGIC BUSINESS RISK

Operational Risk is defined as the risk of economic gain or loss resulting from inadequate or failed internal processes and methodologies, people, systems or external events.

Strategic Business Risk is defined as the risk of economic gain or loss resulting from changes in the business environment caused by economic, competitive, social trend or regulatory factors.

Each business manager is responsible for the identification and assessment of these risks and for maintaining appropriate internal controls, and is supported by the Bank's governance structures, operational risk framework and operational risk policies.

The Bank's operational risk measurement methodology combines expert assessment of individual risk exposures with internal loss data to determine potential losses and calculate operational risk economic capital.

Business Continuity Management

Business Continuity Management ("BCM") within the Bank involves the development, maintenance and testing of action plans to respond to defined risk events. This ensures that business processes continue with minimal adverse impact on customers, staff, products, services and brands.

BCM constitutes an essential component of the Bank's risk management process by providing a controlled response to potential operational risks that could have a significant impact on the Bank's critical processes and revenue streams. It includes both cost effective responses to mitigate the impact of risk events or disasters and crisis management plans to respond to crisis events.

A comprehensive BCM programme including plan development, testing and education has been implemented across all business units and includes technology disaster recovery planning.

INTERNAL AUDIT

The Bank maintains an independent Internal Audit function which is ultimately accountable to the Board of Directors through the Board Audit and Risk Committee.

Internal Audit provides independent opinions on the effectiveness of risk management systems, the framework of controls and governance processes within the Bank's operations. Operational, compliance and systems audits of all areas of the Bank's operations are undertaken based on an assessment of risk.

The Board Audit and Risk Committee meets on a regular basis to consider the Bank's financial reporting, internal control and corporate governance issues. It reviews the interim and annual financial statements, the activities of the internal and external auditors and monitors the relationship between management and the external auditors.

46 Events after the Balance Sheet Date

Refer to Note 9 for details of Perpetual Preference Dividends declared after the balance sheet date.

There were no other events subsequent to the balance sheet date which would materially affect the financial statements.

Additional Disclosures

(To be read in conjunction with the Financial Statements)

Conditions of Registration as from 30 March 2010 – ASB Bank Limited

The registration of ASB Bank Limited (the "Bank") as a registered bank is subject to the following conditions:

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

   (a) the total capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated March 2008 is not less than 8%;

   (b) the Tier One Capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated March 2008 is not less than 4%; and

   (c) the capital of the Banking Group calculated in accordance with the Reserve Bank of New Zealand document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated March 2008 is not less than $30m.

   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 March 2008 is 1.06.

   For the purposes of this Condition of Registration, the supervisory adjustment referred to in the Reserve Bank of New Zealand document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated March 2008 is the sum of:

   (a) 15% of risk weighted exposures secured by residential mortgages as defined in the Reserve Bank of New Zealand document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated March 2008; and

   (b) 12.5 times the greater of: zero; and 90% of adjusted Basel I capital, less adjusted Basel II capital; where:

      (i) "Adjusted Basel I Capital" means 8% of total risk weighted exposures, plus deductions from Tier One Capital, plus deductions from total capital, all calculated in accordance with the Reserve Bank of New Zealand document *Capital Adequacy Framework (Basel I Approach)* (BS2) dated March 2008;

      (ii) "Adjusted Basel II Capital" means 8% of total Basel II risk weighted exposures plus deductions from Tier One Capital, plus deductions from total capital, less any amount included in Tier Two Capital arising from the excess of eligible allowances for impairment over EL (expected losses), all calculated in accordance with the Reserve Bank of New Zealand document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated March 2008; and

      (iii) "Total Basel II Risk Weighted Exposures" means scalar x (risk weighted on and off balance sheet credit exposures) + 12.5 x total capital charge for market risk exposure + 12.5 x total capital requirement for operational risk + 15% of risk weighted exposures secured by residential mortgages as defined in the Reserve Bank of New Zealand document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated March 2008.

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 Tier One and total capital ratios under the requirements set out in the document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated March 2008; 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 March 2008.

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

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

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

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

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

         – the total consolidated assets of the group headed by that entity;

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

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

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

Additional Disclosures

(To be read in conjunction with the Financial Statements)

Conditions of Registration as from 30 March 2010 – ASB Bank Limited (continued)

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

4. That 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	Connected Exposure Limit (Percentage of the Banking Group's Tier One Capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

Within the rating contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the Banking Group's Tier One Capital.

For the purposes of this Condition of Registration, compliance with the rating contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled *Connected Exposure Policy* (BS8) dated March 2008.

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

6. That the Board of the Registered Bank contains at least two independent Directors. In this context an independent Director is a Director who is not an employee of the Registered Bank, and who is not a director, trustee or employee of any holding company of the Registered Bank, or any other entity capable of controlling or significantly influencing the Registered Bank.

7. That the chairperson of the Bank's Board is not an employee of the Registered Bank.

8. That the Bank's constitution does not include any provision permitting a Director, when exercising powers or performing duties as a Director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).

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

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

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

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

11. That the Bank 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.

   Until 31 December 2008, functions provided to the Bank by Electronic Transaction Services Limited and Interchange and Settlement Limited are not covered by this condition.

12. (a) That the business and affairs of the Bank are managed by, or under the direction or supervision of, the Board of the Bank.

   (b) That 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.

   (c) That all staff employed by the Bank will 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 Banking Group complies with the following quantitative requirements for liquidity risk management with effect from 1 April 2010:

   (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 65 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 20 October 2009 and *Liquidity Policy Annex: Liquid Assets* (BS13A) dated March 2010.

Additional Disclosures

(To be read in conjunction with the Financial Statements)

Conditions of Registration as from 30 March 2010 – ASB Bank Limited (continued)

14. That, with effect from 1 April 2010, the Registered Bank has an internal framework for liquidity risk management that is adequate in the Registered 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 prepare the Bank to manage stress through a contingency funding plan.

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

Changes in Conditions of Registration
There have been no changes to the Bank's Conditions of Registration since the 31 March 2010 General Short Form Disclosure Statement was signed.

Descriptions of major credit ratings categories used by ratings agencies

Long Term Debt Ratings	Moody's[a]	S&P[b]	Fitch Ratings[b]
Highest quality / Extremely strong capacity to pay interest and principal	Aaa	AAA	AAA
High quality / Very strong	Aa	AA	AA
Upper medium grade / Strong	A	A	A
Medium grade (lowest investment grade) / Adequate	Baa	BBB	BBB
Predominantly speculative / Less near term vulnerability to default	Ba	BB	BB
Speculative, low grade / Greater vulnerability	B	B	B
Poor to default / Identifiable vulnerability	Caa	CCC	CCC
Highest speculations	Ca	CC	CC
Lowest quality, no interest	C	C	C
In payment default, in arrears – questionable value	-	D	RD & D

(a) Moody's applies numeric modifiers to each generic rating category from Aa to B, indicating that the counterparty is (1) in the higher end of its letter rating category, (2) in mid-range, (3) in lower end.

(b) S&P and Fitch Ratings apply plus (+) or minus (-) signs to ratings from 'AA' to 'CCC' to indicate relative standing within the major rating categories.

Directors' Statement

After due enquiry by the Directors it is each Director's opinion that for the year ended 30 June 2010:

– the Bank complied with the Conditions imposed by the Reserve Bank of New Zealand under section 74 of the Reserve Bank of New Zealand Act 1989;

– credit exposures to connected persons were not contrary to the interests of the Banking Group; and

– the Bank had systems in place to adequately monitor and control the Banking Group's credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other material business risks and that those systems are being properly applied.

After due enquiry by the Directors it is each Director's opinion that as at the date of this disclosure statement:

– the disclosure statement contains all the information required by the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008; and

– the disclosure statement is not false or misleading.

The disclosure statement is signed by or on behalf of all the Directors.

G.J. Judd	C.J.S. Pink	D.M. Elder
IM Narev by his agent I.M. Narev	J.P. Hartley	G.L. Mackrell
R.M. McEwan	G.R. Walker	J.P. Ling

30 August 2010

PRICEWATERHOUSECOOPERS

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Auditor's Report

To the shareholder of ASB Bank Limited

We have examined pages 10 to 78 of the General Disclosure Statement which consists of the financial statements and the supplementary information required by Schedules 4 to 9 and Clause 17 of Schedule 3 of the Registered Bank Disclosure Statement (Full and Half-Year – New Zealand Incorporated Registered Banks) Order 2008 (the "Order"). The financial statements provide information about the past financial performance and cash flows of ASB Bank Limited (the "Registered Bank") and its subsidiaries (together, the "Banking Group") for the year ended 30 June 2010 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 15 to 23 and the requirements of the Order.

This report is made solely to the Bank's shareholder in accordance with Section 205(1) of the Companies Act 1993 and Clause 19 of the Order. Our audit and review have been undertaken so that we might state to the Bank's shareholder 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 shareholder for our audit or review procedures, for this report or for the statements we have made.

Directors' Responsibilities

The Directors of ASB Bank Limited (the "Directors") are responsible for the preparation and presentation of a General Disclosure Statement, which includes financial statements which present a true and fair view of the financial position of the Registered Bank and the Banking Group as at 30 June 2010 and their financial performance and cash flows for the year ended on that date. The Directors are also responsible for the preparation and presentation of supplementary information which complies with Schedules 3 to 9 of the Order.

Auditor's Responsibilities

We are responsible for expressing an independent opinion on the financial statements and the supplementary information disclosed in accordance with Schedules 4 and 6 to 9 and Clause 17 of Schedule 3 of the Order and presented to us by the Directors.

In respect of the financial statements (excluding the supplementary information required by Schedules 4 and 6 to 9 and Clause 17 of Schedule 3 of the Order), we are responsible for auditing these financial statements in order to state whether these financial statements give a true and fair view of the matters to which they relate, and for reporting our findings to you.

In respect of the supplementary information (excluding the capital adequacy information disclosed in Note 42), we are responsible for auditing this supplementary information in order to state whether, on the basis of the procedures described below, the disclosures are fairly stated in accordance with Schedules 4 and 6 to 9 and Clause 17 of Schedule 3 of the Order, and for reporting our findings to you.

Reviewer's Responsibilities

We are responsible for reviewing the supplementary information relating to capital adequacy disclosed in accordance with Schedule 5B of the Order.

In respect of the supplementary information relating to capital adequacy disclosed in Note 42, 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 is not, in all material respects:

(a) prepared in accordance with the Registered Bank's Conditions of Registration;
(b) prepared in accordance with the Registered Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
(c) disclosed in accordance with Schedule 5B of the Order.

and for reporting our findings to you.

Auditor's Report

PRICEWATERHOUSECOOPERS

Auditor's Report
ASB Bank Limited

Basis of Audit Opinion

An audit of the financial statements includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements (excluding the supplementary information relating to Capital Adequacy disclosed in Note 42). It also includes assessing:

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
(b) whether the accounting policies are appropriate to the circumstances of the Registered Bank and the Banking Group, consistently applied and adequately disclosed.

We conducted our audit of the financial statements (excluding the supplementary information relating to Capital Adequacy disclosed in Note 42) in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Basis of Review Opinion

Our examination of the supplementary information relating to Capital Adequacy disclosed in Note 42 has been conducted in accordance with review engagement standard RS-1 Statement of Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. A review is limited primarily to enquiries of Registered Bank and Banking Group personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit on the supplementary information relating to Capital Adequacy disclosed in Note 42 and, accordingly, we do not express an audit opinion on that supplementary information.

We carry out other assignments on behalf of the Registered Bank and the Banking Group in the area of taxation and other assurance services. In addition, certain partners and employees of our firm may deal with the Registered Bank and the Banking Group on normal terms within the ordinary course of trading activities of the Registered Bank and the Banking Group. We have no other interests in the Registered Bank or the Banking Group.

Unqualified Audit Opinion

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

In our opinion:

(a) proper accounting records have been kept by the Registered Bank as far as appears from our examination of those records;
(b) the financial statements on pages 10 to 78 (excluding the supplementary information disclosed in Notes 16, 42, 43 and 45):
    (i) comply with generally accepted accounting practice in New Zealand;
    (ii) comply with International Financial Reporting Standards; and
    (iii) give a true and fair view of the financial position of the Registered Bank and the Banking Group as at 30 June 2010 and their financial performance and cash flows for the year ended on that date.
(c) the supplementary information disclosed in Notes 16, 43 and 45, prescribed by Schedules 4 and 6 to 9 and Clause 17 of Schedule 3 of the Order, fairly states the matters to which it relates in accordance with those Schedules.

Unqualified Review Opinion

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 disclosed in Note 42, as required by Schedule 5B of the Order, is not in all material respects:

(a) prepared in accordance with the Registered Bank's Conditions of Registration;
(b) prepared in accordance with the Registered Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
(c) disclosed in accordance with Schedule 5B of the Order.

Our work was completed on 30 August 2010 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants

Auckland

Directory

INDEPENDENT DIRECTORS

G.J. (Gary) Judd Q.C. (Chairman)
LL.B (Hons), F.Inst.D.
Barrister
Auckland, New Zealand
External Directorship:
ASB Group (Life) Limited (Chairman)

D.M. (Don) Elder
B.E. (Hons), D.Phil.
Chief Executive Officer
Christchurch, New Zealand
External Directorships:
ASB Group (Life) Limited, Biodiesel New Zealand Limited, Bras D'or Investments Limited, Coal Bed Methane Limited, CO2CRC Management Pty Limited, CO2CRC Pilot Project Limited, Coal Association of New Zealand Incorporated, Coal New Zealand International Limited, Coal New Zealand Limited, CoalCorp Insurance Services Limited, Innovative Carbon Technologies Pty Limited, Solid Energy Land Holdings Limited, Solid Energy Renewable Fuels Limited, Spring Creek Mine Limited, Spring Creek Mine Holdings Limited, Spring Creek Mining Company, Waikato Mining and Contracting Limited, World Coal Institute

J.P. (Jon) Hartley
B.A. (Hons), F.C.A., A.C.A., F.A.I.C.D.
Adviser
Wellington, New Zealand
External Directorships:
ASB Group (Life) Limited, Mighty River Power Limited, Mission Residential Care Limited, Trango Capital Limited, VisionFund Cambodia Limited, VisionFund International Limited

G.R. (Gavin) Walker
B.C.A.
Director
Auckland, New Zealand
External Directorships:
ASB Group (Life) Limited, Lion Nathan National Foods Limited, Lion Nathan Nominees Limited, Walker Consulting Group Limited

J.P. (Jonathan) Ling
B.Eng., M.B.A., F.A.I.C.D.
Director
Auckland, New Zealand
External Directorships:
ASB Group (Life) Limited, Fletcher Building Limited, Fletcher Building Finance Limited

SHAREHOLDER REPRESENTATIVES

I.M. (Ian) Narev
B.A., LL.B (Hons) (Auck); LL.M (Cantab); LL.M (NYU)
Bank Executive
Sydney, Australia
External Directorship:
ASB Group (Life) Limited

R.M. (Ross) McEwan
B.B.S.
Bank Executive
Sydney, Australia
External Directorships:
AHL Holdings Pty Limited, AHL Investments Pty Limited, ASB Group (Life) Limited, Aussie Home Loans Pty Limited, McEwan Trustees Limited, McSmith Properties Limited

G.L. (Garry) Mackrell
B.Sc., B.Econ. (Hons), M.Com.
Company Director
Sydney, Australia
External Directorships:
ASB Funding Limited, ASB Group (Life) Limited, ASB Holdings Limited, Bank of Hangzhou Co. Limited, Bank of Western Australia Limited, PT Bank Commonwealth, Bell View Park Stud Pty Limited

EXECUTIVE DIRECTOR

C.J.S. (Charles) Pink (Managing Director and Chief Executive Officer)
M.A., F.C.I.B., M.B.A.
Bank Executive
Auckland, New Zealand
External Directorships:
ASB Funding Limited, ASB Group (Life) Limited,
ASB Holdings Limited, Sovereign Assurance Company Limited

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Directory

AUDIT AND RISK COMMITTEE

J.P. (Jon) Hartley (Chairman)
D.M. (Don) Elder
G.J. (Gary) Judd
J.P. (Jonathan) Ling
G.L. (Garry) Mackrell
R.M. (Ross) McEwan
I.M. (Ian) Narev
G.R. (Gavin) Walker

EXECUTIVE MANAGEMENT

C.J.S. (Charles) Pink	Managing Director and Chief Executive Officer
J.S. (John) Barclay	Chief Human Resources Officer
S.R. (Shayne) Bryant	Chief Financial Officer
G.T. (Graeme) Edwards	General Counsel and Company Secretary
K.D. (Kerry) Francis	Chief Executive Corporate and Institutional Banking
R.D. (Russell) Jones	Chief Operations Officer
K.C. (Kevin) McDonald	Chief Risk Officer
C. (Catherine) McGrath	Chief Executive Customers, Markets and Products
S.B. (Stewart) McRobie	Chief Executive Relationship Banking
I. (Ian) Park	Chief Executive Retail Banking
L.A. (Linley) Wood	Chief Community Partnership Officer

INTERNAL AUDITOR

J.H. (Jai) Somaratne — Chief Internal Auditor

AUDITOR

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Notes

Notes

ASB Bank Limited 6031 1302 0610

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24 HOURS. 7 DAYS A WEEK