# ASB Disclosure Statement

For the nine months ended 31 March 2011

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# Contents

# General Disclosures

(To be read in conjunction with the Financial Statements)

## 31 March 2011

This Disclosure Statement has been issued by ASB Bank Limited in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2011.

## 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 reporting entity is ASB Bank Limited and its subsidiaries (the "Banking Group").

## 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.

## Directors

C.J.S. Pink resigned as Managing Director with effect from 3 November 2010.

A.F. Spring was appointed on 22 October 2010 as an alternate Director for R.M. McEwan during the latter's leave of absence. A.F. Spring ceased to be a Director with effect from 8 November 2010.

B.J. Chapman was appointed as Managing Director with effect from 26 April 2011.

There have been no other changes to Directors since the 30 June 2010 General Disclosure Statement was signed.

## Credit Ratings

As at the date of the signing of this Disclosure Statement, the following ratings were assigned to the Bank's long term New Zealand dollar debt:

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

The table below provides a description of the steps in the rating scales used by the different rating agencies.

| Long Term Credit Rating Definitions | 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.

# General Disclosures (continued)

(To be read in conjunction with the Financial Statements)

## Guarantee Arrangements

As at the signing date of this Disclosure Statement, the material obligations of the Bank are not guaranteed.

## 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.

## Pending Proceedings or Arbitration

The Banking Group is not a party to any pending proceedings or arbitration which are expected to have a material adverse effect on the financial position, or results, of the Bank or the Banking Group.

## Conditions of Registration

Since the signing of the 31 December 2010 General Disclosure Statement, the Conditions of Registration have been amended by the Reserve Bank of New Zealand ("RBNZ") with effect from 31 March 2011.

The amendments to the Conditions of Registration include: a new condition to provide a limit to the issuance of covered bonds; replacement of existing conditions with new conditions on corporate governance; updated conditions on liquidity to reflect the revised date of the RBNZ liquidity policy; removal of the capital floor based on 90% of the Basel I capital calculation; and removal of the text that expired on 31 December 2008.

## Other Material Matters

On 22 February 2011 a significant earthquake struck the Canterbury region. The Bank has advances to customers, branch operations and employees in the region which have been impacted by the earthquake. Management has made estimates of the incurred losses resulting from this event and these estimates are reflected in advances to customers. Assets relating to branch operations have been reviewed as a result of the event and where appropriate, impairment charges have been recorded to write the asset down to the recoverable amount. There are no contingent liabilities that require disclosure as a result of this event.

On 26 March 2011 the Bank announced a $250m investment programme directed at the Canterbury region as a result of the earthquake. This programme includes cash flow relief to existing borrowers and new loan facilities to stimulate growth in the region. As at 31 March 2011 no adjustments had been recorded in the Disclosure Statement for this programme.

# Income Statement

| $ millions<br>**For the period ended** | Note | **Consolidated**<br>**Unaudited**<br>**31-Mar-11**<br>**9 months** | <br>Unaudited<br>31-Mar-10<br>9 months |
|---|---|---|---|
| Interest Income | | **2,911** | 2,949 |
| Interest Expense | | **1,968** | 2,188 |
| **Net Interest Earnings** | | **943** | 761 |
| Other Income | 2 | **254** | 285 |
| **Total Operating Income** | | **1,197** | 1,046 |
| Impairment Losses on Advances | | **80** | 133 |
| **Total Operating Income after Impairment Losses** | | **1,117** | 913 |
| **Total Operating Expenses** | | **524** | 477 |
| Salaries and Other Staff Expenses | | **314** | 270 |
| Building Occupancy and Equipment Expenses | | **82** | 81 |
| Information Technology Expenses | | **56** | 52 |
| Other Expenses | | **72** | 74 |
| **Net Profit before Taxation** | | **593** | 436 |
| Taxation | | **178** | 340 |
| **Net Profit after Taxation** | | **415** | 96 |

These statements are to be read in conjunction with the notes on pages 10 to 14.

# Statement of Comprehensive Income

| $ millions<br>For the period ended | Consolidated<br>Unaudited<br>31-Mar-11<br>9 months | <br>Unaudited<br>31-Mar-10<br>9 months |
|---|---|---|
| **Net Profit after Taxation** | **415** | 96 |
| **Other Comprehensive Income, Net of Taxation** | | |
| Movement in Asset Revaluation Reserve | **(1)** | - |
| Net Change in Available for Sale Reserve | **2** | 6 |
| Net Change in Cash Flow Hedge Reserve | **71** | 279 |
| Transfer from Asset Revaluation Reserve to Retained Earnings | **1** | - |
| **Total Other Comprehensive Income, Net of Taxation** | **73** | 285 |
| **Total Comprehensive Income** | **488** | 381 |

These statements are to be read in conjunction with the notes on pages 10 to 14.

# Statement of Changes in Equity

| $ millions | Contributed Capital | Asset Revaluation Reserve | Available for Sale Reserve | Consolidated<br>Cash Flow Hedge Reserve | Foreign Currency Translation Reserve | Retained Earnings | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| **For the period ended 31 March 2011** | | | | | | | |
| **Unaudited** | | | | | | | |
| Balance at Beginning of Period | **2,798** | **29** | **15** | **(166)** | **1** | **871** | **3,548** |
| Ordinary Dividends Paid | **-** | **-** | **-** | **-** | **-** | **(80)** | **(80)** |
| Perpetual Preference Dividends Paid | **-** | **-** | **-** | **-** | **-** | **(14)** | **(14)** |
| Transfer from Asset Revaluation Reserve to Retained Earnings | **-** | **(1)** | **-** | **-** | **-** | **1** | **-** |
| Total Comprehensive Income | **-** | **-** | **2** | **71** | **-** | **415** | **488** |
| **Balance as at 31 March 2011** | **2,798** | **28** | **17** | **(95)** | **1** | **1,193** | **3,942** |
| For the period ended 31 March 2010 | | | | | | | |
| Unaudited | | | | | | | |
| Balance at Beginning of Period | 2,798 | 30 | 15 | (498) | 1 | 812 | 3,158 |
| Ordinary Dividends Paid | - | - | - | - | - | (70) | (70) |
| Perpetual Preference Dividends Paid | - | - | - | - | - | (13) | (13) |
| Total Comprehensive Income | - | - | 6 | 279 | - | 96 | 381 |
| **Balance as at 31 March 2010** | 2,798 | 30 | 21 | (219) | 1 | 825 | 3,456 |

These statements are to be read in conjunction with the notes on pages 10 to 14.

# Balance Sheet

| $ millions<br>As at | Unaudited<br>31-Mar-11 | Consolidated<br>Unaudited<br>31-Mar-10 | Audited<br>30-Jun-10 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and Call Deposits with the Central Bank | **956** | 1,263 | 1,175 |
| Due from Other Banks | **1,561** | 1,520 | 1,021 |
| Money Market Advances | **68** | 501 | 132 |
| Securities | **5,064** | 5,162 | 5,166 |
| Derivative Assets | **2,008** | 1,802 | 1,951 |
| Advances to Customers | **52,808** | 53,532 | 53,477 |
| Current Taxation Asset | **115** | 88 | 9 |
| Other Assets | **222** | 255 | 207 |
| Property, Plant and Equipment | **139** | 137 | 136 |
| Investment Property | **8** | - | 8 |
| Intangible Assets | **115** | 116 | 116 |
| Deferred Taxation Asset | **125** | 205 | 159 |
| **Total Assets** | **63,189** | 64,581 | 63,557 |
| *Total Interest Earning and Discount Bearing Assets* | ***60,287*** | *61,770* | *60,835* |
| Financed by: | | | |
| **LIABILITIES** | | | |
| Due to Other Banks | **6,808** | 7,004 | 6,842 |
| Money Market Deposits | **15,501** | 19,061 | 17,863 |
| Derivative Liabilities | **2,123** | 2,396 | 2,474 |
| Deposits from Customers | **33,429** | 31,369 | 31,483 |
| Other Liabilities | **526** | 431 | 495 |
| Subordinated Debt | **860** | 864 | 852 |
| **Total Liabilities** | **59,247** | 61,125 | 60,009 |
| **SHAREHOLDERS' EQUITY** | | | |
| Contributed Capital – Ordinary Shares | **2,248** | 2,248 | 2,248 |
| Asset Revaluation Reserve | **28** | 30 | 29 |
| Available for Sale Reserve | **17** | 21 | 15 |
| Cash Flow Hedge Reserve | **(95)** | (219) | (166) |
| Foreign Currency Translation Reserve | **1** | 1 | 1 |
| Retained Earnings | **1,193** | 825 | 871 |
| **Ordinary Shareholder's Equity** | **3,392** | 2,906 | 2,998 |
| Contributed Capital – Perpetual Preference Shares | **550** | 550 | 550 |
| **Total Shareholders' Equity** | **3,942** | 3,456 | 3,548 |
| **Total Liabilities and Shareholders' Equity** | **63,189** | 64,581 | 63,557 |
| *Total Interest and Discount Bearing Liabilities* | ***54,533*** | *56,329* | *55,127* |

These statements are to be read in conjunction with the notes on pages 10 to 14.

# Cash Flow Statement

| $ millions<br>**For the period ended** | **Consolidated**<br>**Unaudited**<br>**31-Mar-11**<br>**9 months** | <br>Unaudited<br>31-Mar-10<br>9 months |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Interest Received | **2,904** | 2,975 |
| Other Income | **72** | (368) |
| Interest Paid | **(2,081)** | (2,280) |
| Operating Expenses | **(474)** | (460) |
| Net Taxation Paid | **(266)** | (395) |
| Payments to Related Parties for Tax Related Items | **(15)** | (20) |
| **Cash Flows from Operating Profits before Changes in Operating Assets and Liabilities** | **140** | (548) |
| **Changes in Operating Assets and Liabilities** | | |
| Net Decrease / (Increase) in Money Market Advances | **61** | (357) |
| Net Increase in Due from Other Banks (Term) | **(994)** | (1,272) |
| Net Decrease / (Increase) in Advances to Customers | **578** | (675) |
| Net Decrease in Trading Securities | **1,553** | 455 |
| Net Increase in Customer Deposits | **1,946** | 1,476 |
| Net Decrease in Money Market Deposits | **(2,337)** | (1,634) |
| Net (Decrease) / Increase in Due to Other Banks (Term) | **(373)** | 752 |
| Net Increase in Available for Sale Securities | **(1,481)** | - |
| **Cash Flows from Operating Assets and Liabilities** | **(1,047)** | (1,255) |
| **Net Cash Flows from Operating Activities** | **(907)** | (1,803) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Cash was provided from: | | |
| Net Decrease in Other Securities | **35** | 532 |
| Cash was applied to: | | |
| Purchase of Property, Plant and Equipment | **23** | 10 |
| Purchase of Intangible Assets | **23** | 20 |
| | **46** | 30 |
| **Net Cash Flows from Investing Activities** | **(11)** | 502 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Cash was applied to: | | |
| Dividends Paid | **94** | 83 |
| **Net Cash Flows from Financing Activities** | **(94)** | (83) |
| **SUMMARY OF MOVEMENTS IN CASH FLOWS** | | |
| Net Decrease in Cash and Cash Equivalents | **(1,012)** | (1,384) |
| Add: Cash and Cash Equivalents at Beginning of Period | **1,691** | 2,611 |
| **Cash and Cash Equivalents at End of Period** | **679** | 1,227 |

These statements are to be read in conjunction with the notes on pages 10 to 14.

# Cash Flow Statement (continued)

| $ millions<br>For the period ended | Consolidated<br>Unaudited<br>31-Mar-11<br>9 months | <br>Unaudited<br>31-Mar-10<br>9 months |
|---|---|---|
| **RECONCILIATION OF NET PROFIT AFTER TAXATION TO NET CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net Profit after Taxation | **415** | 96 |
| **Add: Non-cash Items** | | |
| Impairment Losses on Advances | **80** | 133 |
| Depreciation | **20** | 25 |
| Amortisation of Intangible Assets | **24** | 23 |
| Net Gain on Sale of Available for Sale Securities | **-** | (9) |
| | **124** | 172 |
| **Add: Movements in Balance Sheet Items** | | |
| Changes in Operating Assets and Liabilities | **(1,047)** | (1,255) |
| Interest Receivable – (Increase) / Decrease | **(7)** | 26 |
| Interest Payable – Decrease | **(113)** | (93) |
| Other Income Accrued – Increase | **(182)** | (644) |
| Operating Expenses Accrued – Increase / (Decrease) | **4** | (30) |
| Taxation Balances – Increase | **(101)** | (75) |
| | **(1,446)** | (2,071) |
| **Net Cash Flows from Operating Activities** | **(907)** | (1,803) |
| **RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET** | | |
| Cash and Call Deposits with the Central Bank | **956** | 1,263 |
| Call Deposits Due from Other Banks | **268** | 188 |
| Call Deposits Due to Other Banks | **(545)** | (224) |
| **Total Cash and Cash Equivalents at End of Period** | **679** | 1,227 |

These statements are to be read in conjunction with the notes on pages 10 to 14.

# Notes to the Financial Statements

For the nine months ended 31 March 2011

## 1 Statement of Accounting Policies

The financial statements of the Banking Group incorporated in this Disclosure Statement have been prepared in accordance with the New Zealand equivalent to International Accounting Standard 34 *Interim Financial Reporting* and should be read in conjunction with the General Disclosure Statement for the year ended 30 June 2010.

There have been no material changes to accounting policies during the nine months ended 31 March 2011. All policies have been applied on a basis consistent with that used in the financial year ended 30 June 2010.

Due to changes in disclosure requirements, certain comparative periods have been removed as they are no longer required. Certain comparatives have also been reclassified to conform with the current reporting period's presentation.

| $ millions<br>**For the period ended** | **Consolidated<br>Unaudited<br>31-Mar-11<br>9 months** |
|---|---|

## 2 Other Income

| | |
|---|---|
| **Net Fair Value Loss from:** | |
| Trading Securities | **9** |
| Trading Derivatives | **(21)** |
| Other Derivatives | **(24)** |
| Financial Assets Designated as at Fair Value through Profit or Loss | **111** |
| Financial Liabilities Designated as at Fair Value through Profit or Loss | **(92)** |
| Hedging Ineffectiveness | **(2)** |
| **Total Net Fair Value Loss** | **(19)** |
| Other Operating Income | **273** |
| **Total Other Income** | **254** |

| $ millions<br>**As at** | **Consolidated<br>Unaudited<br>31-Mar-11** |
|---|---|

## 3 Core Liquid Assets

The Banking Group holds the following financial assets for the purpose of managing liquidity risk:

| | |
|---|---|
| Cash | **136** |
| Call Deposits with the Central Bank | **820** |
| Treasury Bills | **1,102** |
| New Zealand Government Securities | **1,275** |
| Bank Bills | **1,383** |
| Other Liquid Assets | **1,832** |
| Residential Mortgage Backed Securities | **4,000** |
| **Total Core Liquid Assets** | **10,548** |

## 4 Financial Assets Pledged as Collateral

As at 31 March 2011 Government Securities of $136m and Treasury Bills of $198m had been pledged as collateral under repurchase agreements.

The Bank has entered into Credit Support Annexes ("CSA") in respect of certain credit exposures relating to derivative transactions. As at 31 March 2011 $194m included in Due from Other Banks has been advanced as collateral to offset Derivative Liabilities.

# Notes to the Financial Statements

For the nine months ended 31 March 2011

| $ millions | Consolidated<br>Residential Mortgages | Other Retail | Corporate | Total |
|---|---|---|---|---|
| **5 Asset Quality and Provisions for Impairment Losses** | | | | |
| **As at 31 March 2011** | | | | |
| **Unaudited** | | | | |
| Gross Advances Individually Determined to be Impaired | **32** | **18** | **297** | **347** |
| Individually Assessed Provisions | **21** | **7** | **57** | **85** |
| Collective Provision | **72** | **56** | **78** | **206** |
| 90 Day Past Due Assets Not Impaired | **316** | **27** | **57** | **400** |
| **Impairment Losses / (Recoveries) Charged to the Income Statement** | | | | |
| Movement in Collective Provision | **12** | **(4)** | **(4)** | **4** |
| Movement in Individually Assessed Provisions | **11** | **5** | **23** | **39** |

| $ millions<br>As at | Consolidated<br>Unaudited<br>31-Mar-11<br>Notional Amount | Credit Equivalent | Unaudited<br>31-Mar-10<br>Notional Amount | Credit Equivalent |
|---|---|---|---|---|
| **6 Contingent Liabilities** | | | | |
| Guarantees | **72** | **72** | 68 | 68 |
| Standby Letters of Credit | **112** | **112** | 99 | 99 |
| Other Credit Facilities | **75** | **34** | 122 | 56 |
| Underwriting and Subunderwriting | **-** | **-** | 2 | 1 |
| **Total Contingent Liabilities** | **259** | **218** | 291 | 224 |

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.

| $ millions<br>As at | Consolidated<br>Unaudited<br>31-Mar-11 |
|---|---|

## 7 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 Commonwealth Bank of Australia ("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.

The following balances represent amounts due from and to related parties classified within Due from / to Other Banks, Money Market Deposits, Deposits from Customers, Subordinated Debt, Other Assets, Other Liabilities and Derivatives:

| | |
|---|---|
| Commonwealth Bank Group (100% Ultimate Shareholder) | **7,387** |
| Commonwealth Bank of Australia New Zealand Life Insurance Group | **623** |
| ASB Holdings Limited | **130** |
| **Total Amounts Due to Related Parties** | **8,140** |
| Commonwealth Bank Group (100% Ultimate Shareholder) | **3** |
| Commonwealth Bank of Australia New Zealand Life Insurance Group | **20** |
| **Total Amounts Due from Related Parties** | **23** |

For the nine months ended 31 March 2011 interest charged on balances due to the Commonwealth Bank Group was $232m (31 March 2010 $183m).

## 8 Concentration of Credit Exposures to Individual Counterparties

The basis of calculation of the Banking Group's concentration of credit exposure to individual counterparties is the greater of actual credit exposures or internal limits. Credit exposures to the central government of any country with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, and connected persons are excluded.

There were no peak or balance date credit exposures to individual counterparties which exceeded 10% of the Banking Group's Shareholders' Equity for the three months ended 31 March 2011.

# Notes to the Financial Statements

For the nine months ended 31 March 2011

## 9 Capital Adequacy

**Unaudited**

The Banking Group is subject to regulation by the RBNZ. 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 Basel Committee has issued a revised framework for the calculation of capital adequacy for banks, commonly known as Basel II and the Banking Group is accredited by the RBNZ to adopt the internal ratings based ("IRB") approach for calculating regulatory capital requirements under Basel II.

The Banking Group must comply with RBNZ minimum capital adequacy ratios under its Conditions of Registration. These conditions 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 October 2010.

During the reporting period the Banking Group complied with all of the RBNZ capital requirements to which it is subject.

| $ millions<br>**As at** | **Consolidated**<br>**31-Mar-11** |
|---|---|
| **CAPITAL UNDER BASEL II IRB APPROACH** | |
| **Tier One Capital** | |
| Tier One Capital (before deductions) | **3,880** |
| Less: Deductions from Tier One Capital | **214** |
| **Total Tier One Capital** | **3,666** |
| **Total Tier Two Capital** | **936** |
| Less: Deductions from Total Capital | **101** |
| **Total Capital** | **4,501** |
| **BASEL II CAPITAL RATIOS** | |
| **Tier One Capital Ratio** | **11.1%** |
| **Minimum Tier One Capital per the Bank's Conditions of Registration** | **4.0%** |
| **Total Capital Ratio** | **13.6%** |
| **Minimum Total Capital per the Bank's Conditions of Registration** | **8.0%** |
| **TOTAL CAPITAL REQUIREMENTS** | |
| **Capital Requirements for Credit Risk subject to the IRB approach by Exposure Class** | |
| Sovereign | **11** |
| Bank | **79** |
| Residential Mortgages | **1,113** |
| Other Retail | **114** |
| Corporate – Small and Medium Enterprises | **552** |
| Other Corporate | **66** |
| **Total Capital Requirements for Credit Risk subject to IRB approach by Exposure Class** (1) | **1,935** |
| **Capital Requirements for Other Credit Risk** | |
| Specialised Lending Subject to the Slotting Approach | **30** |
| Exposures Subject to the Standardised Approach | **333** |
| Equity Exposures | **9** |
| **Total Capital Requirements for Other Credit Risk** (1) | **372** |
| **Total Capital Requirements for Credit Risk** | **2,307** |
| **Capital Requirements for Other Risks** | |
| Operational Risk | **200** |
| Market Risk | **136** |
| Total Capital Requirements for Other Risks | **336** |
| **TOTAL CAPITAL REQUIREMENTS** | **2,643** |

(1) A scaler of 1.06 has been applied to the risk weighted exposures from which the capital requirements are derived.

## 9 Capital Adequacy (continued)

**Unaudited**

**RESIDENTIAL MORTGAGES BY LOAN-TO-VALUATION RATIO ("LVR")**

Exposures included in the LVR calculation are residential mortgages subject to the IRB approach, including commitments to lend. The valuation used in the calculation of each LVR is based on the valuation of the associated residential property at the date of loan origination.

Recent changes to the RBNZ disclosure regime have clarified the LVR disclosure requirements resulting in a reallocation of certain exposures across the LVR ranges this quarter. In accordance with RBNZ requirements the 'Exceeds 90%' LVR range now includes On Balance Sheet and Off Balance Sheet Exposures for which no LVR information is available. In prior reporting periods these exposures were allocated across the various ranges based on the LVR profile of On Balance Sheet Exposures.

| LVR Range | Does not Exceed 60% $ millions | Exceeds 60% and not 70% $ millions | Exceeds 70% and not 80% $ millions | Exceeds 80% and not 90% $ millions | Exceeds 90% $ millions | Total $ millions |
|---|---|---|---|---|---|---|
| On Balance Sheet Exposures | **11,836** | **7,306** | **12,191** | **3,807** | **2,317** | **37,457** |
| Off Balance Sheet Exposures | **2,020** | **842** | **1,032** | **186** | **506** | **4,586** |
| Total Value of Exposures | **13,856** | **8,148** | **13,223** | **3,993** | **2,823** | **42,043** |
| Expressed as a Percentage of Total Exposures | **33.0%** | **19.4%** | **31.4%** | **9.5%** | **6.7%** | **100.0%** |

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 | **0.8%** | **0.6%** | **0.9%** | **2.6%** | **0.4%** | **0.9%** |
| With top 20% LMI | **3.4%** | **5.0%** | **5.5%** | **20.0%** | **15.8%** | **6.7%** |

**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 *Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")* (BS12) 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.

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 31 March 2011 the Banking Group held actual capital at significant levels above the regulatory capital requirements (refer to Basel II Capital ratios on page 12).

As at 31 March 2011 internal capital allocations of $282m had been made for Other Material Risks including strategic risk and fixed asset risk.

## 10 Insurance Business, Marketing and Distribution of Insurance Products

The Banking Group 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.

## 11 Changes in the Composition of the Banking Group during the Reporting Period

On 1 October 2010 the Bank acquired 19% of the shares of Payments NZ Limited. Payments NZ Limited owns the governance framework for the New Zealand payments system. The consideration paid for the shares was not material to the Banking Group.

On 10 November 2010 the Bank acquired 100% of the shares of Mortgage Holding Trust Company Limited. This did not have a material impact on the Consolidated Financial Statements of the Banking Group.

There have been no other changes to the composition of the Banking Group since the 30 June 2010 Annual Report.

| $ millions | Retail Banking | Relationship Banking | Institutional | Consolidated<br>Customers, Markets and Products | Services and Support | Total |
|---|---|---|---|---|---|---|

## 12 Financial Reporting by Operating Segments

| $ millions | Retail Banking | Relationship Banking | Institutional | Customers, Markets and Products | Services and Support | Total |
|---|---|---|---|---|---|---|
| **For the period ended 31 March 2011** | | | | | | |
| **Unaudited** | | | | | | |
| Net Interest Earnings | **463** | **189** | **46** | **73** | **172** | **943** |
| Other Income | **130** | **31** | **48** | **40** | **5** | **254** |
| Total Operating Income | **593** | **220** | **94** | **113** | **177** | **1,197** |
| Segment Operating Income / (Expense) from External Customers | **943** | **531** | **26** | **383** | **(686)** | **1,197** |
| Segment Operating (Expense) / Income from Operating Segments | **(350)** | **(311)** | **68** | **(270)** | **863** | **-** |
| Segment Operating Expenses (excluding Impairment Losses) | **138** | **48** | **13** | **48** | **277** | **524** |
| Impairment Losses on Advances | **41** | **16** | **1** | **13** | **9** | **80** |
| Segment Net Profit / (Loss) before Taxation | **414** | **156** | **80** | **52** | **(109)** | **593** |
| Taxation | **124** | **47** | **24** | **16** | **(33)** | **178** |
| Segment Net Profit / (Loss) after Taxation | **290** | **109** | **56** | **36** | **(76)** | **415** |
| For the period ended 31 March 2010 | | | | | | |
| Unaudited | | | | | | |
| Net Interest Earnings | 396 | 159 | 59 | 64 | 83 | 761 |
| Other Income | 144 | 32 | 42 | 37 | 30 | 285 |
| Total Operating Income | 540 | 191 | 101 | 101 | 113 | 1,046 |
| Segment Operating Income / (Expense) from External Customers | 1,078 | 540 | (133) | 399 | (838) | 1,046 |
| Segment Operating (Expense) / Income from Operating Segments | (538) | (349) | 234 | (298) | 951 | - |
| Segment Operating Expenses (excluding Impairment Losses) | 133 | 48 | 12 | 39 | 245 | 477 |
| Impairment Losses / (Recoveries) on Advances | 76 | 44 | 7 | 11 | (5) | 133 |
| Segment Net Profit / (Loss) before Taxation | 331 | 99 | 82 | 51 | (127) | 436 |
| Taxation | 99 | 30 | 25 | 15 | 171 | 340 |
| Segment Net Profit / (Loss) after Taxation | 232 | 69 | 57 | 36 | (298) | 96 |

**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:** The Institutional Segment comprises the Bank's Corporate and Institutional business and Financial Markets activities, including financial instruments trading and foreign currency transactions.

**Customers, Markets and Products:** The Customers, Markets and Products Segment develops and manufactures products and services that are distributed by the segments above.

**Services and Support:** The Services and Support Segment supplies strategic support and services to other Segments. This segment also includes the Bank's Treasury division.

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 basis of segmentation has changed since the last annual report as a result of internal restructure. The Bank's Treasury division has moved from the previous Institutional Banking, Treasury and Markets Segment to the Services and Support Segment.

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.

## 13 Events after the Balance Sheet Date

On 15 April 2011 Ordinary Dividends of $200m (8.90 cents per share) were paid pursuant to Directors' resolution dated 29 March 2011.

On 16 May 2011 Perpetual Preference Dividends of $5m (0.83 cents per share) were paid pursuant to Directors' resolution dated 29 March 2011.

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

# Directors' Statement

**After due enquiry by the Directors it is each Director's opinion that for the nine months ended 31 March 2011:**

- 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 Statements (New Zealand Incorporated Registered Banks) Order 2011; 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

B.J. Chapman

D.M. Elder

J.P. Hartley

J.P. Ling

G.L. Mackrell

R M McEwan by his agent

R.M. McEwan

I.M. Narev

G.R. Walker by his agent

G.R. Walker

19 May 2011

# Notes

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