

# **ASB Disclosure Statement**

**For the three months ended  
30 September 2011**



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# General Disclosures

(To be read in conjunction with the Financial Statements)

**30 September 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 (No 3) 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

G. J. Judd resigned as Chairman of ASB Bank Limited with effect from 3 August 2011.

G. R. Walker was appointed as Chairman of ASB Bank Limited with effect from 3 August 2011.

There have been no other changes to Directors since the 30 June 2011 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")	Aa3
Standard & Poor's (Australia) Pty Limited ("S&P")	AA
Fitch Ratings Ltd ("Fitch Ratings")	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 <sup>(a)</sup>	S&P <sup>(b)</sup>	Fitch Ratings <sup>(b)</sup>
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 the Banking Group.

Under the Banking Act 1959 (Australia), the Australian Prudential Regulation Authority ("APRA"), may determine prudential standards which must be complied with by the Commonwealth Bank of Australia. Further, regulations made under the Banking Act 1959 (Australia) may specify prudential requirements which must be observed by the Commonwealth Bank of Australia. These prudential standards and 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 liabilities in Australia in relation to protected accounts; (d) fourth, the ADI's debts to the Reserve Bank of Australia; (e) fifth, the ADI's liabilities under a certified industry support contract; and (f) sixth, the ADI's other liabilities in the order of their priority apart from Section 13A(3).

## 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 30 June 2011 Disclosure Statement, the Conditions of Registration have been amended by the Reserve Bank of New Zealand ("RBNZ") with effect from 30 September 2011.

The amendments to the Conditions of Registration include: updated conditions on insurance business to be consistent with the Insurance (Prudential Supervision) Act 2010; removal of conditions that cease to apply on or before 30 September 2011; and inclusion of the definition "generally accepted accounting practice".

# Income Statement

\$ millions For the period ended	Note	Consolidated	
		Unaudited 30-Sep-11 3 months	Unaudited 30-Sep-10 3 months
Interest Income		902	974
Interest Expense		571	674
<b>Net Interest Earnings</b>		<b>331</b>	<b>300</b>
Other Income	2	99	84
<b>Total Operating Income</b>		<b>430</b>	<b>384</b>
Impairment Losses / (Recoveries) on Advances		10	(1)
<b>Total Operating Income after Impairment Losses</b>		<b>420</b>	<b>385</b>
<b>Total Operating Expenses</b>		<b>180</b>	<b>170</b>
Salaries and Other Staff Expenses		107	105
Building Occupancy and Equipment Expenses		29	27
Information Technology Expenses		19	18
Other Expenses		25	20
<b>Net Profit before Taxation</b>		<b>240</b>	<b>215</b>
Taxation		63	65
<b>Net Profit after Taxation</b>		<b>177</b>	<b>150</b>

These statements are to be read in conjunction with the notes on pages 10 to 17.

# Statement of Comprehensive Income

\$ millions For the period ended	Consolidated	
	Unaudited 30-Sep-11 3 months	Unaudited 30-Sep-10 3 months
<b>Net Profit after Taxation</b>	<b>177</b>	150
<b>Other Comprehensive Income, Net of Taxation</b>		
Net Change in Available for Sale Reserve	(15)	-
Net Change in Cash Flow Hedge Reserve	51	33
<b>Total Other Comprehensive Income, Net of Taxation</b>	<b>36</b>	33
<b>Total Comprehensive Income</b>	<b>213</b>	183

These statements are to be read in conjunction with the notes on pages 10 to 17.

# Statement of Changes in Equity

\$ millions	Consolidated					Retained Earnings	Total Shareholders' Equity
	Contributed Capital	Asset Revaluation Reserve	Available for Sale Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve		
For the period ended 30 September 2011							
Unaudited							
Balance at Beginning of Period	2,798	29	27	(50)	1	1,142	3,947
Net Profit after Taxation	-	-	-	-	-	177	177
Other Comprehensive (Expense) / Income	-	-	(15)	51	-	-	36
<b>Total Comprehensive (Expense) / Income</b>	-	-	(15)	51	-	177	213
Ordinary Dividends Paid	-	-	-	-	-	(340)	(340)
Perpetual Preference Dividends Paid	-	-	-	-	-	(4)	(4)
<b>Balance at 30 September 2011</b>	<b>2,798</b>	<b>29</b>	<b>12</b>	<b>1</b>	<b>1</b>	<b>975</b>	<b>3,816</b>
For the period ended 30 September 2010							
Unaudited							
Balance at Beginning of Period	2,798	29	15	(166)	1	871	3,548
Net Profit after Taxation	-	-	-	-	-	150	150
Other Comprehensive Income	-	-	-	33	-	-	33
<b>Total Comprehensive Income</b>	-	-	-	33	-	150	183
Perpetual Preference Dividends Paid	-	-	-	-	-	(5)	(5)
<b>Balance at 30 September 2010</b>	<b>2,798</b>	<b>29</b>	<b>15</b>	<b>(133)</b>	<b>1</b>	<b>1,016</b>	<b>3,726</b>

These statements are to be read in conjunction with the notes on pages 10 to 17.



# Balance Sheet

\$ millions As at	Unaudited 30-Sep-11	Consolidated		Restated Unaudited 30-Jun-10
		Restated Unaudited 30-Sep-10	Restated Unaudited 30-Jun-11	
ASSETS				
Cash and Liquid Assets	1,846	1,053	1,273	1,175
Due from Financial Institutions	680	-	-	-
Assets at Fair Value through Income Statement:				
Trading Securities	2,699	4,073	3,486	5,011
Other	26	2,937	1,528	1,276
Derivative Assets	2,304	2,212	1,760	1,951
Available for Sale Securities	2,561	340	2,013	32
Advances to Customers	52,507	53,459	52,351	53,477
Current Taxation Asset	56	53	69	9
Other Assets	219	250	196	215
Property, Plant and Equipment	158	133	158	136
Intangible Assets	129	114	124	116
Deferred Taxation Asset	69	127	92	159
Total Assets	63,254	64,751	63,050	63,557
Total Interest Earning and Discount Bearing Assets	60,193	61,716	60,519	60,835
LIABILITIES				
Deposits from Customers	37,553	32,424	34,215	32,189
Due to Financial Institutions	6,598	6,610	6,234	6,488
Liabilities at Fair Value through Income Statement	1,763	5,701	4,629	4,907
Derivative Liabilities	1,947	2,633	2,363	2,474
Other Liabilities	487	458	540	499
Debt Issues:				
At Fair Value through Income Statement	3,208	8,482	3,576	8,803
At Amortised Cost	7,244	3,869	6,905	3,801
Subordinated Debt	638	848	641	848
Total Liabilities	59,438	61,025	59,103	60,009
SHAREHOLDERS' EQUITY				
Contributed Capital – Ordinary Shares	2,248	2,248	2,248	2,248
Reserves	43	(88)	7	(121)
Retained Earnings	975	1,016	1,142	871
Ordinary Shareholder's Equity	3,266	3,176	3,397	2,998
Contributed Capital – Perpetual Preference Shares	550	550	550	550
Total Shareholders' Equity	3,816	3,726	3,947	3,548
Total Liabilities and Shareholders' Equity	63,254	64,751	63,050	63,557
Total Interest and Discount Bearing Liabilities	54,861	56,035	54,178	55,127

These statements are to be read in conjunction with the notes on pages 10 to 17.

# Condensed Cash Flow Statement

\$ millions For the period ended	Consolidated	
	Unaudited 30-Sep-11 3 months	Unaudited 30-Sep-10 3 months
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest Received	893	976
Interest Paid	(648)	(756)
Other Cash Inflows Provided by Operating Activities	84	79
Other Cash Outflows Used in Operating Activities	(239)	(275)
Cash Flows from Operating Profits before Changes in Operating Assets and Liabilities	90	24
Net Changes in Operating Assets and Liabilities	(708)	(586)
<b>Net Cash Flows from Operating Activities</b>	<b>(618)</b>	<b>(562)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash Inflows Provided by Investing Activities	28	-
Cash Outflows Used in Investing Activities	(28)	(20)
<b>Net Cash Flows from Investing Activities</b>	<b>-</b>	<b>(20)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash Inflows Provided by Financing Activities	-	-
Cash Outflows Used in Financing Activities	(344)	(5)
<b>Net Cash Flows from Financing Activities</b>	<b>(344)</b>	<b>(5)</b>
<b>SUMMARY OF MOVEMENTS IN CASH FLOWS</b>		
Net Decrease in Cash and Cash Equivalents	(962)	(587)
Add: Cash and Cash Equivalents at Beginning of Period	1,592	1,691
<b>Cash and Cash Equivalents at End of Period</b>	<b>630</b>	<b>1,104</b>

These statements are to be read in conjunction with the notes on pages 10 to 17.

# Condensed Cash Flow Statement (Continued)

\$ millions For the period ended	Consolidated	
	Unaudited 30-Sep-11 3 months	Unaudited 30-Sep-10 3 months
<b>RECONCILIATION OF NET PROFIT AFTER TAXATION TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Net Profit after Taxation</b>	<b>177</b>	150
Add: Non-cash Items	<b>841</b>	25
Add: Movements in Balance Sheet Items	<b>(1,636)</b>	(737)
<b>Net Cash Flows from Operating Activities</b>	<b>(618)</b>	(562)
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET</b>		
Cash and Liquid Assets	<b>1,846</b>	1,053
Less: Liquid Assets	<b>(923)</b>	-
Add: Call Deposits Due from Financial Institutions	<b>101</b>	491
Add: Call Deposits Due to Financial Institutions	<b>(394)</b>	(440)
<b>Total Cash and Cash Equivalents at End of Period</b>	<b>630</b>	1,104

These statements are to be read in conjunction with the notes on pages 10 to 17.

# Notes to the Financial Statements

For the three months ended 30 September 2011

## 1 Statement of Accounting Policies

The financial statements of the Banking Group incorporated in this Disclosure Statement have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and the New Zealand equivalent to International Accounting Standard 34 *Interim Financial Reporting* as appropriate for profit-orientated entities and should be read in conjunction with the Disclosure Statement for the year ended 30 June 2011.

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

## Designation of Financial Instruments

During the period ended 30 September 2011, new financial instruments in various classes that were formerly designated as at Fair Value through Income Statement were on initial recognition classified as at Amortised Cost. This change closely matches the way these financial instruments are now being managed and no accounting mismatch results from measuring them at Amortised Cost.

These financial instruments include nostro and vostro balances, repurchase and reverse repurchase agreements, Due to and Due From Financial Institutions, Advances to Customers and Deposits from Customers.

## Reclassification of Categories

Various classification changes have been made to the financial statements in order to provide more relevant information to the users of the financial statements and to better align with the way the Bank is managed. As a result of the classification changes, certain comparative periods have been reclassified to conform with the current reporting period's presentation.

The following table and narrative disclose the impact of the reclassification changes:

\$ millions	As Reclassification			
Original Categories	Reported	of Categories	Restated	Revised Categories
<b>As at 30 September 2010 (Unaudited)</b>				
<b>Assets</b>				
Cash and Call Deposits with the Central Bank	1,053	-	<b>1,053</b>	(a) Cash and Liquid Assets
Due from Other Banks	2,393	(2,393)	-	(b) Due from Financial Institutions
Money Market Advances	415	(415)	-	
Securities	4,542	(4,542)	-	
		4,073	<b>4,073</b>	(c) Assets at Fair Value through Income Statement: Trading Securities
		2,937	<b>2,937</b>	(d) Other
		340	<b>340</b>	(e) Available for Sale Securities
Other Assets	242	8	<b>250</b>	Other Assets
Investment Property	8	(8)	-	
<b>Liabilities</b>				
Deposits from Customers	31,728	696	<b>32,424</b>	(f) Deposits from Customers
Due to Other Banks	7,047	(437)	<b>6,610</b>	(g) Due to Financial Institutions
Money Market Deposits	18,311	(18,311)	-	
		5,701	<b>5,701</b>	(h) Liabilities at Fair Value through Income Statement
Other Liabilities	442	16	<b>458</b>	Other Liabilities
		8,482	<b>8,482</b>	(i) Debt Issues: At Fair Value through Income Statement
		3,869	<b>3,869</b>	(j) At Amortised Cost
Subordinated Debt	864	(16)	<b>848</b>	Subordinated Debt
<b>As at 30 June 2011 (Unaudited)</b>				
<b>Assets</b>				
Cash and Call Deposits with the Central Bank	1,273	-	<b>1,273</b>	(a) Cash and Liquid Assets
Due from Other Banks	888	(888)	-	(b) Due from Financial Institutions
Money Market Advances	640	(640)	-	
Securities	5,499	(5,499)	-	
		3,486	<b>3,486</b>	(c) Assets at Fair Value through Income Statement: Trading Securities
		1,528	<b>1,528</b>	(d) Other
		2,013	<b>2,013</b>	(e) Available for Sale Securities
Other Assets	187	9	<b>196</b>	Other Assets
Investment Property	9	(9)	-	
<b>Liabilities</b>				
Deposits from Customers	33,706	509	<b>34,215</b>	(f) Deposits from Customers
Due to Other Banks	6,891	(657)	<b>6,234</b>	(g) Due to Financial Institutions
Money Market Deposits	14,962	(14,962)	-	
		4,629	<b>4,629</b>	(h) Liabilities at Fair Value through Income Statement
Other Liabilities	536	4	<b>540</b>	Other Liabilities
		3,576	<b>3,576</b>	(i) Debt Issues: At Fair Value through Income Statement
		6,905	<b>6,905</b>	(j) At Amortised Cost
Subordinated Debt	645	(4)	<b>641</b>	Subordinated Debt

# Notes to the Financial Statements

For the three months ended 30 September 2011

## 1 Statement of Accounting Policies (Continued)

\$ millions	As Reclassification		Restated	Revised Categories
Original Categories	Reported	of Categories		
As at 30 June 2010 (Unaudited)				
Assets				
Cash and Call Deposits with the Central Bank	1,175	-	1,175	(a) Cash and Liquid Assets
Due from Other Banks	1,021	(1,021)	-	(b) Due from Financial Institutions
Money Market Advances	132	(132)	-	
Securities	5,166	(5,166)	-	
				Assets at Fair Value through Income Statement:
		5,011	5,011	(c) Trading Securities
		1,276	1,276	(d) Other
		32	32	(e) Available for Sale Securities
Other Assets	207	8	215	Other Assets
Investment Property	8	(8)	-	
Liabilities				
Deposits from Customers	31,483	706	32,189	(f) Deposits from Customers
Due to Other Banks	6,842	(354)	6,488	(g) Due to Financial Institutions
Money Market Deposits	17,863	(17,863)	-	
		4,907	4,907	(h) Liabilities at Fair Value through Income Statement
Other Liabilities	495	4	499	Other Liabilities
				Debt Issues:
		8,803	8,803	(i) At Fair Value through Income Statement
		3,801	3,801	(j) At Amortised Cost
Subordinated Debt	852	(4)	848	Subordinated Debt

### Narratives:

- (a) Cash and Call Deposits with Central Bank has been reclassified to Cash and Liquid Assets. Cash and Liquid Assets includes cash at branches, cash at central bank, nostro balances and securities held under reverse repurchase agreements carried at Amortised Cost.
- (b) Due from Other Banks has been reclassified to Due from Financial Institutions and now includes loans and settlement amounts carried at Amortised Cost and defined by the nature of the counterparty.
- (c) Assets at Fair Value through Income Statement: Trading Securities includes securities designated as Held for Trading.
- (d) Assets at Fair Value through Income Statement: Other includes all assets designated as at Fair Value through Income Statement other than securities designated as Held for Trading.
- (e) Available for Sale Securities includes all securities designated as Available for Sale.
- (f) Deposits from Customers has been reclassified and now includes deposits and other public borrowings including certificates of deposits, term deposits, savings deposits, other demand deposits, repurchase agreements and debentures. This category excludes any of these products measured as at Fair Value through Income Statement.
- (g) Due to Other Banks has been reclassified to Due to Other Financial Institutions and now includes deposits, vostro balances and settlement accounts carried at Amortised Cost and defined by the nature of the counterparty.
- (h) Liabilities at Fair Value through Income Statement includes all liabilities designated as at Fair Value through Income Statement, except Debt Issues disclosed below.
- (i) Debt Issues: At Fair Value through Income Statement includes all debt issues designated as at Fair Value through Income Statement.
- (j) Debt Issues: At Amortised Cost includes all debt issues carried at Amortised Cost.

# Notes to the Financial Statements

For the three months ended 30 September 2011

## 2 Other Income

\$ millions For the period ended	Consolidated Unaudited 30-Sep-11 3 months
<b>Net Fair Value Gain from:</b>	
Trading Income	18
Other Derivatives	(15)
Financial Instruments Designated as at Fair Value through Income Statement	(2)
Available for Sale Financial Assets	16
<b>Total Net Fair Value Gain</b>	<b>17</b>
Other Operating Income	82
<b>Total Other Income</b>	<b>99</b>

\$ millions As at	Consolidated Unaudited 30-Sep-11
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## 3 Core Liquid Assets

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

Cash	125
Call Deposits with the Central Bank	798
Treasury Bills	1,514
New Zealand Government Securities	1,418
Bank Bills	1,075
Kauri Bonds	578
Other Liquid Assets	1,431
Residential Mortgage Backed Securities	2,531
<b>Total Core Liquid Assets</b>	<b>9,470</b>

## 4 Financial Assets Pledged as Collateral

As at 30 September 2011 Government Securities of \$72m and Treasury Bills of \$202m 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 30 September 2011 \$147m included in Due from Financial Institutions has been advanced as collateral to offset Derivative Liabilities.

# Notes to the Financial Statements

For the three months ended 30 September 2011

\$ millions	Residential Mortgages	Consolidated		Total
		Other Retail	Corporate	

## 5 Asset Quality and Provisions for Impairment Losses

As at 30 September 2011

Unaudited

Gross Advances Individually Determined to be Impaired	108	15	141	264
Individually Assessed Provisions	36	5	31	72
Collective Provision	61	40	60	161
90 Day Past Due Assets Not Impaired	208	26	13	247

Impairment Losses / (Recoveries) Charged to the Income Statement

Movement in Collective Provision	-	(2)	1	(1)
Movement in Individually Assessed Provisions	5	2	(5)	2

\$ millions As at	Consolidated			
	Unaudited 30-Sep-11 Notional Amount	Credit Equivalent	Unaudited 30-Sep-10 Notional Amount	Credit Equivalent

## 6 Contingent Liabilities

Guarantees	69	69	67	67
Standby Letters of Credit	96	96	98	98
Other Credit Facilities	79	34	88	41
<b>Total Contingent Liabilities</b>	<b>244</b>	<b>199</b>	<b>253</b>	<b>206</b>

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 As at		Consolidated Unaudited 30-Sep-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 to and Due From Financial Institutions, Trading Securities, Deposits from Customers, Subordinated Debt, Other Assets, Other Liabilities and Derivatives:

Commonwealth Bank Group (100% Ultimate Shareholder)	6,631
Commonwealth Bank of Australia New Zealand Life Insurance Group	596
ASB Holdings Limited	121
<b>Total Amounts Due to Related Parties</b>	<b>7,348</b>
Commonwealth Bank Group (100% Ultimate Shareholder)	685
Commonwealth Bank of Australia New Zealand Life Insurance Group	29
<b>Total Amounts Due from Related Parties</b>	<b>714</b>

For the three months ended 30 September 2011 interest charged on balances due to the Commonwealth Bank Group was \$67m (30 September 2010 \$76m).

## 8 Concentration of Credit Exposures to Individual Counterparties

The basis of calculation of the Banking Group's aggregate 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 was no peak end-of-day aggregate concentration of credit exposure to individual counterparties which exceeded 10% of the Banking Group's Equity for the three months ended 30 September 2011. There was no balance date aggregate concentration of credit exposure to individual counterparties which exceeded 10% of the Banking Group's Equity as at 30 September 2011.

The peak end-of-day aggregate concentration of credit exposure to individual counterparties has been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the relevant three month period and then dividing that amount by the Banking Group's Equity as at 30 September 2011.

# Notes to the Financial Statements

For the three months ended 30 September 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 June 2011.

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

\$ millions As at	Consolidated 30-Sep-11
<b>CAPITAL UNDER BASEL II IRB APPROACH</b>	
<b>Tier One Capital</b>	
Tier One Capital (before deductions)	3,784
Less: Deductions from Tier One Capital	232
<b>Total Tier One Capital</b>	<b>3,552</b>
<b>Total Tier Two Capital</b>	<b>650</b>
<b>Total Tier One and Tier Two Capital</b>	<b>4,202</b>
Less: Deductions from Total Capital	103
<b>Total Capital</b>	<b>4,099</b>
<b>BASEL II CAPITAL RATIOS</b>	
<b>Tier One Capital Ratio</b>	<b>10.7%</b>
<b>Minimum Tier One Capital per the Bank's Conditions of Registration</b>	<b>4.0%</b>
<b>Total Capital Ratio</b>	<b>12.4%</b>
<b>Minimum Total Capital per the Bank's Conditions of Registration</b>	<b>8.0%</b>
<b>TOTAL CAPITAL REQUIREMENTS</b>	
<b>Capital Requirements for Credit Risk subject to the IRB approach by Exposure Class</b>	
Sovereign	8
Bank	79
Residential Mortgages	1,081
Other Retail	112
Corporate – Small and Medium Enterprises	654
Other Corporate	50
<b>Total Capital Requirements for Credit Risk subject to IRB approach by Exposure Class <sup>(1)</sup></b>	<b>1,984</b>
<b>Capital Requirements for Other Credit Risk</b>	
Specialised Lending Subject to the Slotting Approach	24
Exposures Subject to the Standardised Approach	321
<b>Total Capital Requirements for Other Credit Risk <sup>(1)</sup></b>	<b>345</b>
<b>Total Capital Requirements for Credit Risk</b>	<b>2,329</b>
<b>Capital Requirements for Other Risks</b>	
Operational Risk	200
Market Risk	124
<b>Total Capital Requirements for Other Risks</b>	<b>324</b>
<b>TOTAL CAPITAL REQUIREMENTS</b>	<b>2,653</b>

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



# Notes to the Financial Statements

For the three months ended 30 September 2011

## 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. 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.

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	11,522	7,113	11,917	3,979	2,870	37,401
Off Balance Sheet Exposures	2,075	891	1,088	230	563	4,847
Total Value of Exposures	13,597	8,004	13,005	4,209	3,433	42,248
Expressed as a Percentage of Total Exposures	32.2%	18.9%	30.8%	10.0%	8.1%	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%	0.5%	0.8%	3.1%	0.7%	1.0%
With top 20% LMI	3.2%	4.7%	5.2%	17.9%	10.5%	6.2%

### 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 30 September 2011 the Banking Group held actual capital above the regulatory capital requirements (refer to Basel II Capital ratios on page 14).

As at 30 September 2011 internal capital allocations of \$253m 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

There have been no changes to the composition of the Banking Group since the 30 June 2011 Disclosure Statement.

# Notes to the Financial Statements

For the three months ended 30 September 2011

\$ millions	Consolidated						Total
	Retail and Business Banking	Commercial and Rural Banking	Institutional Banking and Markets	Strategy, Payments and Products	Wealth Management	Services and Support	

## 12 Financial Reporting by Operating Segments

For the period ended

30 September 2011

Unaudited

Net Interest Earnings	166	61	16	25	4	59	331
Other Income	45	5	14	11	14	10	99
Total Operating Income	211	66	30	36	18	69	430
Segment Operating Income / (Expense) from External Customers	305	152	111	112	11	(261)	430
Segment Operating (Expense) / Income from Operating Segments	(94)	(86)	(81)	(76)	7	330	-
Segment Operating Expenses (excluding Impairment Losses)	49	14	5	9	7	96	180
Impairment Losses / (Recoveries) on Advances	12	(2)	-	1	-	(1)	10
Segment Net Profit / (Loss) before Taxation	150	54	25	26	11	(26)	240
Taxation	42	15	7	7	3	(11)	63
Segment Net Profit / (Loss) after Taxation	108	39	18	19	8	(15)	177
Total Assets	30,741	13,473	2,421	6,726	824	9,069	63,254

For the period ended

30 September 2010

Unaudited

Net Interest Earnings	151	58	14	22	4	51	300
Other Income	42	5	15	15	14	(7)	84
Total Operating Income	193	63	29	37	18	44	384
Segment Operating Income / (Expense) from External Customers	323	177	22	130	13	(281)	384
Segment Operating (Expense) / Income from Operating Segments	(130)	(114)	7	(93)	5	325	-
Segment Operating Expenses (excluding Impairment Losses)	45	12	4	7	8	94	170
Impairment Losses / (Recoveries) on Advances	2	3	(4)	1	-	(3)	(1)
Segment Net Profit / (Loss) before Taxation	146	48	29	29	10	(47)	215
Taxation	44	14	9	9	3	(14)	65
Segment Net Profit / (Loss) after Taxation	102	34	20	20	7	(33)	150
Total Assets	30,542	13,791	2,353	7,277	844	9,944	64,751

# Notes to the Financial Statements

For the three months ended 30 September 2011

## 12 Financial Reporting by Operating Segments (Continued)

<b>Retail and Business Banking:</b>	The Retail and Business Banking Segment provides services to small business customers and private individuals. Its range of products includes loans and deposits, current accounts and credit cards.
<b>Commercial and Rural Banking:</b>	The Commercial and Rural Banking Segment provides services to commercial and rural customers.
<b>Institutional Banking and Markets:</b>	The Institutional Banking and Markets Segment comprises the Bank's Corporate and Institutional business and Financial Markets activities, including financial instruments trading and foreign currency transactions.
<b>Wealth Management:</b>	The Wealth Management Segment provides services to securities, investment services and Premium Banking customers.
<b>Strategy, Payments and Products:</b>	The Strategy, Payments and Products Segment develops and manufactures products and services that are distributed by the segments above.
<b>Services and Support:</b>	The Services and Support Segment supplies strategic support and services to other Segments. This segment also includes the Bank's Treasury function.

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 Commercial and Rural Banking Segment and the Wealth Management Segment are new segments which have resulted from the split of the previous Relationship Banking 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 26 October 2011 the Directors resolved to pay, on 15 November 2011, Perpetual Preference Dividends of \$4m (0.75 cents per share).

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

# Directors' Statement

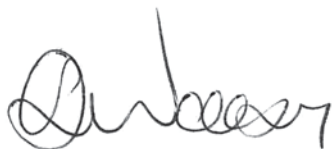
**After due enquiry by the Directors it is each Director's opinion that for the three months ended 30 September 2011:**

- 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 (No 3) 2011; and
- the Disclosure Statement is not false or misleading.

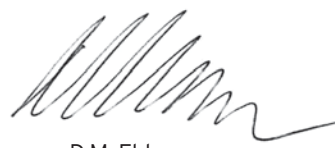
**The Disclosure Statement is signed by or on behalf of all the Directors.**



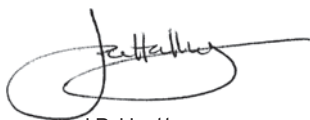
G.R. Walker



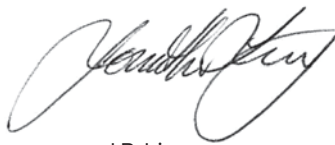
B.J. Chapman



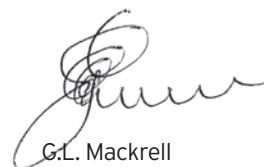
D.M. Elder



J.P. Hartley



J.P. Ling



G.L. Mackrell



R.M. McEwan



I.M. Narev

9 November 2011



