

# ASB Disclosure Statement

For the three months ended 30 September 2012





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# General Disclosures

(To be read in conjunction with the Financial Statements)

## 30 September 2012

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 2) 2012.

### 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 controlled entities (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.

### DIRECTORS

S.R.S. Blair was appointed as a Director of ASB Bank Limited with effect from 1 October 2012.

There have been no other changes to the Directors since the 30 June 2012 Disclosure Statement was signed.

### CREDIT RATINGS

As at the date of the signing of this Disclosure Statement, the following long term ratings were assigned to the Bank by these rating agencies:

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>(c)</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 1, 2, and 3 to each generic rating category from Aaa to Caa, indicating that the counterparty is (1) in the higher end of its letter rating category, (2) in the mid-range and (3) in the lower end.

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

(c) Fitch Ratings applies plus (+) or minus (-) signs to ratings from 'AA' to 'B' to indicate relative standing within the major rating categories.

# General Disclosures (continued)

(To be read in conjunction with the Financial Statements)

## **GUARANTEE ARRANGEMENTS**

### **Covered Bond Guarantee**

On 11 August 2011, the ASB Covered Bond Trust (the "Covered Bond Trust") was established to acquire and hold certain residential mortgage loans ("Mortgage Loans") originated by the Bank. ASB Covered Bond Trustee Limited (the "Covered Bond Guarantor"), solely in its capacity as trustee of the Covered Bond Trust provides guarantees over certain debt securities ("Covered Bonds") issued by the Bank or its subsidiary ASB Finance Limited, acting through its London Branch.

The Covered Bond Guarantor has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the Mortgage Loans, related security and other assets of the Covered Bond Trust. Covered Bonds of \$1,525m were guaranteed as at 30 September 2012. The Covered Bond Guarantor's address for service is Level 10, 141 Willis Street, Wellington, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations payable in New Zealand dollars. As at 30 September 2012, the Covered Bonds issued have been assigned a long term rating of 'AAA' by Fitch Ratings and 'Aaa' by Moody's.

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

### **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 30 June 2012 the Conditions of Registration have been twice amended by the Reserve Bank of New Zealand ("RBNZ") with effect from 1 July 2012 and 31 August 2012 respectively.

The amendments to the Conditions of Registration with effect from 1 July 2012 included the removal of conditions that ceased to apply on or before 30 June 2012, the removal of commencement dates for conditions that came into effect on or before 1 July 2012, and the replacement of the term "registered bank" with "bank". The amendments with effect from 31 August 2012 updated the Conditions of Registration to refer to a revised version of *Capital Adequacy Framework (Internal Models Based Approach) (BS2B)* dated August 2012.

Further amendments have been made with effect from 31 October 2012 to increase the core funding ratio from 70% to 75% effective 1 January 2013. The Bank is only subject to conditions in effect at 30 September 2012, accordingly these amendments are not applicable for the purposes of this Disclosure Statement.

# Income Statement

\$ millions For the period ended	Note	Consolidated	
		Unaudited 30-Sep-12 3 months	Unaudited 30-Sep-11 3 months
Interest Income		858	894
Interest Expense		522	575
<b>Net Interest Earnings</b>		<b>336</b>	<b>319</b>
Other Income	2	102	112
<b>Total Operating Income</b>		<b>438</b>	<b>431</b>
Impairment Losses on Advances	7(b)	10	10
<b>Total Operating Income after Impairment Losses</b>		<b>428</b>	<b>421</b>
<b>Total Operating Expenses</b>		<b>182</b>	<b>181</b>
Salaries and Other Staff Expenses		106	107
Building Occupancy and Equipment Expenses		29	29
Information Technology Expenses		20	19
Other Expenses		27	26
<b>Net Profit before Taxation</b>		<b>246</b>	<b>240</b>
Taxation		69	63
<b>Net Profit after Taxation</b>		<b>177</b>	<b>177</b>

These statements are to be read in conjunction with the notes on pages 9 to 14.

# Statement of Comprehensive Income

\$ millions For the period ended	Consolidated	
	Unaudited 30-Sep-12 3 months	Unaudited 30-Sep-11 3 months
<b>Net Profit after Taxation</b>	<b>177</b>	<b>177</b>
<b>Other Comprehensive Income, Net of Taxation</b>		
Net Change in Available for Sale Reserve	(1)	(15)
Net Change in Cash Flow Hedge Reserve	(7)	51
<b>Total Other Comprehensive Income, Net of Taxation</b>	<b>(8)</b>	<b>36</b>
<b>Total Comprehensive Income</b>	<b>169</b>	<b>213</b>

These statements are to be read in conjunction with the notes on pages 9 to 14.

# 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		
<b>For the Three Months Ended 30 September 2012</b>							
<b>Unaudited</b>							
Balance at Beginning of Period	2,798	30	6	41	1	1,311	4,187
Net Profit after Taxation	-	-	-	-	-	177	177
Other Comprehensive Expense	-	-	(1)	(7)	-	-	(8)
<b>Total Comprehensive (Expense) / Income</b>	-	-	(1)	(7)	-	177	169
Ordinary Dividends Paid	-	-	-	-	-	(70)	(70)
Perpetual Preference Dividends Paid	-	-	-	-	-	(4)	(4)
<b>Balance as at 30 September 2012</b>	<b>2,798</b>	<b>30</b>	<b>5</b>	<b>34</b>	<b>1</b>	<b>1,414</b>	<b>4,282</b>
<b>For the Three Months Ended 30 September 2011</b>							
<b>Unaudited</b>							
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 as 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>

These statements are to be read in conjunction with the notes on pages 9 to 14.



# Balance Sheet

\$ millions As at	Note	Consolidated		
		Unaudited 30-Sep-12	Unaudited 30-Sep-11	Audited 30-Jun-12
<b>ASSETS</b>				
Cash and Liquid Assets		1,421	1,846	1,040
Due from Financial Institutions		319	680	136
Assets at Fair Value through Income Statement:				
Trading Securities		1,680	2,699	2,200
Other		-	26	-
Derivative Assets		1,755	2,304	1,905
Available for Sale Securities		3,394	2,561	3,721
Advances to Customers	6	53,958	52,507	53,002
Current Taxation Asset		78	56	35
Other Assets		245	219	1,122
Property, Plant and Equipment		182	158	178
Intangible Assets		154	129	148
Deferred Taxation Asset		48	69	50
<b>Total Assets</b>		<b>63,234</b>	<b>63,254</b>	<b>63,537</b>
<i>Total Interest Earning and Discount Bearing Assets</i>		<i>60,917</i>	<i>60,386</i>	<i>60,233</i>
<b>LIABILITIES</b>				
Deposits and Other Public Borrowings	8	39,565	37,566	39,444
Due to Financial Institutions		6,646	6,585	6,465
Other Liabilities at Fair Value through Income Statement	9	1,057	1,763	1,656
Derivative Liabilities		1,964	1,947	1,905
Other Liabilities		420	487	552
Debt Issues:				
At Fair Value through Income Statement	10	2,292	3,208	2,647
At Amortised Cost	10	6,641	7,244	6,310
Loan Capital		367	638	371
<b>Total Liabilities</b>		<b>58,952</b>	<b>59,438</b>	<b>59,350</b>
<b>SHAREHOLDERS' EQUITY</b>				
Contributed Capital - Ordinary Shares		2,248	2,248	2,248
Reserves		70	43	78
Retained Earnings		1,414	975	1,311
<b>Ordinary Shareholder's Equity</b>		<b>3,732</b>	<b>3,266</b>	<b>3,637</b>
Contributed Capital - Perpetual Preference Shares		550	550	550
<b>Total Shareholders' Equity</b>		<b>4,282</b>	<b>3,816</b>	<b>4,187</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>63,234</b>	<b>63,254</b>	<b>63,537</b>
<i>Total Interest and Discount Bearing Liabilities</i>		<i>54,288</i>	<i>54,736</i>	<i>54,500</i>

These statements are to be read in conjunction with the notes on pages 9 to 14.

# Condensed Cash Flow Statement

\$ millions For the period ended	Consolidated	
	Unaudited 30-Sep-12 3 months	Unaudited 30-Sep-11 3 months
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Profit before Taxation	246	240
<b>Reconciliation of Net Profit before Taxation to Net Cash Flows from Operating Activities</b>		
Non-cash Items included in Net Profit before Taxation	17	8
Net Decrease / (Increase) in Operating Assets	211	(752)
Net (Decrease) / Increase in Operating Liabilities	(462)	444
Net Taxation Paid	(108)	(47)
<b>Net Cash Flows from Operating Activities</b>	<b>(96)</b>	<b>(107)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash Inflows Provided by Investing Activities	-	28
Cash Outflows Used in Investing Activities	(29)	(28)
<b>Net Cash Flows from Investing Activities</b>	<b>(29)</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash Outflows Used in Financing Activities	(74)	(344)
<b>Net Cash Flows from Financing Activities</b>	<b>(74)</b>	<b>(344)</b>
<b>SUMMARY OF MOVEMENTS IN CASH FLOWS</b>		
Net Decrease in Cash and Cash Equivalents	(199)	(451)
Add: Cash and Cash Equivalents at Beginning of Period	901	1,703
<b>Cash and Cash Equivalents at End of Period</b>	<b>702</b>	<b>1,252</b>
<b>CASH AND CASH EQUIVALENTS COMPRISE:</b>		
Cash and Liquid Assets	1,421	1,846
Less: Reverse Repurchase Agreements included in Cash and Liquid Assets	(565)	(880)
Add: Cash Equivalents in Due from Financial Institutions	319	680
Less: Cash Equivalents in Due to Financial Institutions	(473)	(394)
<b>Cash and Cash Equivalents at End of Period</b>	<b>702</b>	<b>1,252</b>
<b>ADDITIONAL OPERATING CASH FLOW INFORMATION</b>		
Cash Received as Interest	850	885
Cash Paid as Interest	(518)	(573)
Cash Received as Other Income	109	93
Cash Paid as Operating Expenses	(178)	(189)

These statements are to be read in conjunction with the notes on pages 9 to 14.

# Notes to the Financial Statements

For the three months ended 30 September 2012

## 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-oriented entities and should be read in conjunction with the Disclosure Statement for the year ended 30 June 2012.

There have been no material changes to accounting policies during the three months ended 30 September 2012. All policies have been applied on a basis consistent with that used in the financial year ended 30 June 2012.

### Reclassification of Comparatives

Certain comparatives in the Income Statement have been restated to reclassify interest relating to derivatives which are transacted as economic hedges, but do not qualify for hedge accounting. The reclassification has no impact on Net Profit after Taxation. The following amounts have been restated for the three months ended 30 September 2011:

\$ millions	Reported	Restated
Interest Income	902	894
Interest Expense	571	575
Other Income <sup>(1)</sup>	99	112

(1) The restated amount includes \$1m which has been reclassified from Other Expenses.

The Condensed Cash Flow Statement includes Cash and Cash Equivalents as at 30 September 2011 which have also been restated to conform to the current period's presentation. The following amounts have been restated:

Net Cash Flows from Operating Activities	(618)	(107)
Net Decrease in Cash and Cash Equivalents	(962)	(451)
Add: Cash and Cash Equivalents at Beginning of Period	1,592	1,703
Cash and Cash Equivalents at End of Period	630	1,252

Other comparatives have been reclassified to conform with the current reporting period's presentation.

\$ millions For the period ended	Consolidated	
	Unaudited 30-Sep-12 3 months	Unaudited 30-Sep-11 3 months

## 2. OTHER INCOME

### Net Fair Value Gain / (Loss) from:

Other Derivatives at Fair Value	3	(3)
Financial Instruments Designated as at Fair Value through Income Statement	(1)	(2)
Hedging Ineffectiveness	(1)	-
<b>Total Net Fair Value Gain / (Loss)</b>	<b>1</b>	<b>(5)</b>
Trading Income	12	18
Other Operating Income	89	99
<b>Total Other Income</b>	<b>102</b>	<b>112</b>

## 3. TAXATION

As at 30 September 2012 the Banking Group has tax positions relating to a liquidity funding transaction and certain equity swap transactions that are currently being reviewed by the Inland Revenue Department and are subject to the formal tax dispute resolution process. These tax positions have a potential liability of \$176m plus interest and penalties. The Banking Group has made what it considers to be adequate provisions for these matters based on its assessment of the merits of the arguments and independent advice received.

\$ millions As at	Consolidated Unaudited 30-Sep-12
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## 4. CORE LIQUID ASSETS

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

Cash	12
Call Deposits with the Central Bank	801
Treasury Bills	1,520
New Zealand Government Securities	872
Kauri Bonds	605
Bank Bills	944
Other Liquid Assets	1,722
Residential Mortgage Backed Securities	2,525
<b>Total Core Liquid Assets</b>	<b>9,001</b>

# Notes to the Financial Statements

For the three months ended 30 September 2012

## 5. FINANCIAL ASSETS PLEDGED AS COLLATERAL

The Bank has entered into Credit Support Annexes in respect of certain credit exposures relating to derivative transactions. As at 30 September 2012 \$240m that was included in Due from Financial Institutions had been advanced as collateral with respect to Derivative Liabilities.

\$ millions As at	Unaudited 30-Sep-12	Consolidated	
		Unaudited 30-Sep-11	Audited 30-Jun-12
<b>6. ADVANCES TO CUSTOMERS</b>			
Residential Mortgages	37,726	37,422	37,400
Other Retail	4,204	4,037	4,145
Corporate	12,230	11,274	11,668
<b>Loans and Other Receivables</b>	<b>54,160</b>	<b>52,733</b>	<b>53,213</b>
Fair Value Hedge Adjustments	7	7	6
Provisions for Impairment	(209)	(233)	(217)
<b>Total Advances to Customers</b>	<b>53,958</b>	<b>52,507</b>	<b>53,002</b>

\$ millions	Residential Mortgages	Consolidated		
		Other Retail	Corporate	Total

## 7. ASSET QUALITY AND PROVISIONS FOR IMPAIRMENT LOSSES

### (a) Asset Quality and Provisions for Impairment Losses

As at 30 September 2012

Unaudited

Gross Advances Individually Determined to be Impaired	115	14	253	382
Individually Assessed Provisions	31	2	44	77
Collective Provision	43	38	51	132
90 Day Past Due Assets Not Impaired	133	21	8	162

### (b) Impairment Losses / (Recoveries) Charged to the Income Statement

For the Three Months Ended 30 September 2012

Unaudited

Movement in Collective Provision	(1)	(2)	(5)	(8)
Movement in Individually Assessed Provisions	4	-	9	13
Bad Debts Written Off	6	1	-	7
Bad Debts Recovered	(2)	-	-	(2)
<b>Total Impairment Losses / (Recoveries) Charged to the Income Statement</b>	<b>7</b>	<b>(1)</b>	<b>4</b>	<b>10</b>

For the Three Months Ended 30 September 2011

Unaudited

Movement in Collective Provision	-	(2)	1	(1)
Movement in Individually Assessed Provisions	5	2	(5)	2
Bad Debts Written Off	9	1	1	11
Bad Debts Recovered	(2)	-	-	(2)
<b>Total Impairment Losses / (Recoveries) Charged to the Income Statement</b>	<b>12</b>	<b>1</b>	<b>(3)</b>	<b>10</b>

\$ millions As at	Unaudited 30-Sep-12	Consolidated	
		Unaudited 30-Sep-11	Audited 30-Jun-12

## 8. DEPOSITS AND OTHER PUBLIC BORROWINGS

Certificates of Deposit	357	282	324
Term Deposits	22,511	20,981	22,620
On Demand and Short Term Deposits	14,554	13,995	14,235
Deposits Not Bearing Interest	2,143	2,148	2,120
Repurchase Agreements	-	160	145
<b>Total Deposits and Other Public Borrowings</b>	<b>39,565</b>	<b>37,566</b>	<b>39,444</b>

## 9. OTHER LIABILITIES AT FAIR VALUE THROUGH INCOME STATEMENT

Certificates of Deposit	1,057	1,647	1,656
On Demand and Short Term Deposits	-	116	-
<b>Total Other Liabilities at Fair Value through Income Statement</b>	<b>1,057</b>	<b>1,763</b>	<b>1,656</b>

# Notes to the Financial Statements

For the three months ended 30 September 2012

\$ millions As at	Consolidated		
	Unaudited 30-Sep-12	Unaudited 30-Sep-11	Audited 30-Jun-12
<b>10. DEBT ISSUES</b>			
Debt Issues at Fair Value through Income Statement	2,292	3,208	2,647
Debt Issues at Amortised Cost	6,641	7,244	6,310
<b>Total Debt Issues</b>	<b>8,933</b>	<b>10,452</b>	<b>8,957</b>
<b>Movement in Debt Issues</b>			
Balance at Beginning of Period	8,957	10,481	10,481
Issuances During the Period	1,510	2,541	5,443
Repayments During the Period	(1,372)	(2,932)	(6,987)
Foreign Exchange and Fair Value Movements During the Period	(162)	362	20
<b>Balance at End of Period</b>	<b>8,933</b>	<b>10,452</b>	<b>8,957</b>

As at 30 September 2012 Covered Bonds of \$1,525m were issued by the Bank which are carried at Amortised Cost.

\$ millions As at	Unaudited 30-Sep-12		Consolidated Unaudited 30-Sep-11		Audited 30-Jun-12	
	Notional Amount	Credit Equivalent	Notional Amount	Credit Equivalent	Notional Amount	Credit Equivalent
<b>11. CONTINGENT LIABILITIES</b>						
Guarantees	82	82	69	69	75	75
Standby Letters of Credit	140	140	96	96	145	145
Other Credit Facilities	94	44	79	34	90	41
<b>Total</b>	<b>316</b>	<b>266</b>	<b>244</b>	<b>199</b>	<b>310</b>	<b>261</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 required by NZ GAAP. 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-12	
	<b>12. RELATED PARTY TRANSACTIONS AND BALANCES</b>	
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 First State Investments (NZ) Limited group of companies, ASB Group (Life) Limited group of companies, First State Investments (NZ) Limited and Colonial Holding Company Limited (Branch).		
The following balances represent Amounts Due to / from Related Parties classified within Cash and Liquid Assets, Due to / from Financial Institutions, Deposits and Other Public Borrowings, Debt Issues, Other Assets, Other Liabilities and Derivative Assets and Liabilities:		
Commonwealth Bank Group (100% Ultimate Shareholder)		6,594
Commonwealth Bank of Australia New Zealand Life Insurance Group		511
ASB Holdings Limited		134
<b>Total Amounts Due to Related Parties</b>		<b>7,239</b>
Commonwealth Bank Group (100% Ultimate Shareholder)		122
Commonwealth Bank of Australia New Zealand Life Insurance Group		2
<b>Total Amounts Due from Related Parties</b>		<b>124</b>

For the three months ended 30 September 2012 interest charged on balances due to the Commonwealth Bank Group was \$61m (30 September 2011 \$67m).

## 13. 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 actual credit exposure. 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 credit exposure to individual counterparties which exceeded 10% of the Banking Group's equity for the three months ended 30 September 2012. There was no balance date aggregate credit exposure to individual counterparties which exceeded 10% of the Banking Group's Equity as at 30 September 2012.

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 2012.

# Notes to the Financial Statements

For the three months ended 30 September 2012

## 14. CAPITAL ADEQUACY

### Unaudited

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 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 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 Model Approach) (BS2B)* dated August 2012.

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-12
<b>CAPITAL UNDER BASEL II IRB APPROACH</b>	
<b>Tier One Capital</b>	
Tier One Capital (before deductions)	4,114
Less: Deductions from Tier One Capital	239
<b>Total Tier One Capital</b>	<b>3,875</b>
<b>Total Tier Two Capital</b>	<b>499</b>
<b>Total Tier One and Tier Two Capital</b>	<b>4,374</b>
Less: Deductions from Total Capital	85
<b>Total Capital</b>	<b>4,289</b>
<b>BASEL II CAPITAL RATIOS</b>	
<b>Tier One Capital Ratio</b>	<b>11.2%</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	22
Bank	91
Residential Mortgages	1,054
Other Retail	119
Corporate - Small and Medium Enterprises	715
Other Corporate	96
<b>Total Capital Requirements for Credit Risk Subject to IRB Approach by Exposure Class <sup>(1)</sup></b>	<b>2,097</b>
<b>Capital Requirements for Other Credit Risk</b>	
Specialised Lending Subject to the Slotting Approach	26
Exposures Subject to the Standardised Approach	331
<b>Total Capital Requirements for Other Credit Risk <sup>(1)</sup></b>	<b>357</b>
<b>Total Capital Requirements for Credit Risk</b>	<b>2,454</b>
<b>Capital Requirements for Other Risks</b>	
Operational Risk	200
Market Risk	102
<b>Total Capital Requirements for Other Risks</b>	<b>302</b>
<b>TOTAL CAPITAL REQUIREMENTS</b>	<b>2,756</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 2012

## 14. 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. On Balance Sheet and Off Balance Sheet Exposures for which no LVR information is available are included in the greater than 90% range.

LVR Range	Consolidated					Total \$ millions
	0%-60% \$ millions	60.1%-70% \$ millions	70.1%-80% \$ millions	80.1%-90% \$ millions	90.1%-100% \$ millions	
On Balance Sheet Exposures	11,371	7,218	11,830	4,852	2,438	37,709
Off Balance Sheet Exposures	2,339	1,032	1,252	334	591	5,548
Total Value of Exposures	13,710	8,250	13,082	5,186	3,029	43,257
Expressed as a Percentage of Total Exposures	31.7%	19.1%	30.2%	12.0%	7.0%	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	0.6%	0.4%	0.7%	2.0%	0.7%	0.8%
With top 20% LMI	2.6%	3.6%	4.0%	11.4%	9.7%	4.8%

### 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")* and is 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 2012 the Banking Group held actual capital above the regulatory capital requirements (refer to Basel II Capital ratios on page 12).

As at 30 September 2012 internal capital allocations of \$266m had been made for Other Material Risks including strategic risk and fixed asset risk.

## 15. 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.

## 16. 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 2012 Disclosure Statement.

# Notes to the Financial Statements

For the three months ended 30 September 2012

\$ millions	Consolidated					Total
	Retail and Business Banking	Commercial and Rural Banking	Institutional Banking and Markets	Wealth and Insurance	Services and Support	

## 17. FINANCIAL REPORTING BY OPERATING SEGMENTS

For the Three Months Ended 30 September 2012

Unaudited

Net Interest Earnings	198	66	15	2	55	336
Other Income	59	10	14	12	7	102
Total Operating Income	257	76	29	14	62	438
Segment Operating Expenses (excluding Impairment Losses)	47	15	6	12	102	182
Impairment Losses / (Recoveries) on Advances	11	-	1	-	(2)	10
Segment Net Profit / (Loss) before Taxation	199	61	22	2	(38)	246
Taxation	56	17	6	1	(11)	69
Segment Net Profit / (Loss) after Taxation	143	44	16	1	(27)	177
Total Assets	38,440	14,526	4,108	190	5,970	63,234

For the Three Months Ended 30 September 2011

Unaudited

Net Interest Earnings	193	61	16	2	47	319
Other Income	52	9	14	17	20	112
Total Operating Income	245	70	30	19	67	431
Segment Operating Expenses (excluding Impairment Losses)	52	16	5	13	95	181
Impairment Losses / (Recoveries) on Advances	13	(2)	-	-	(1)	10
Segment Net Profit / (Loss) before Taxation	180	56	25	6	(27)	240
Taxation	50	16	7	2	(12)	63
Segment Net Profit / (Loss) after Taxation	130	40	18	4	(15)	177
Total Assets	38,148	13,497	2,423	201	8,985	63,254

**Retail and Business Banking:** The Retail and Business Banking Segment provides services to private individuals and small business customers.

**Commercial and Rural Banking:** The Commercial and Rural Banking Segment provides services to commercial and rural customers.

**Institutional Banking and Markets:** 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 conducted with customers and for trading purposes. That business and those activities form part of the business of ASB Institutional, which is an unincorporated joint undertaking of the Bank and the Commonwealth Bank of Australia.

**Wealth and Insurance:** The Wealth and Insurance Segment provides securities, investment and insurance services to customers.

**Services and Support:** 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. Intersegment charges are eliminated for the purposes of reporting the consolidated Banking Group's results.

The basis of segmentation has changed since the last comparative period as a result of internal restructure. The Commercial and Rural Banking Segment and the Wealth and Insurance Segment are new segments which have resulted from the split of the previous Relationship Banking Segment. The Customers, Markets and Products Segment and the Retail Banking Segment have been merged to the Retail and Business Banking Segment. Institutional Segment has been renamed to Institutional Banking and Markets Segment. Certain income and expense items in the comparative period were reclassified as part of the segment changes.

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 in other countries. On this basis no geographical segment information is provided.

## 18. EVENTS AFTER THE REPORTING PERIOD

On 25 October 2012 the Directors resolved to pay, on 15 November 2012, Perpetual Preference Dividends of \$4m (0.66 cents per share); and repay, on 15 November 2012, the \$370m of loan capital issued in November 2007 to institutional investors.

In addition, on 25 October 2012 the Directors resolved to approve the issue of \$250m of ordinary shares to ASB Holdings Limited on 15 November 2012.

There were no other events subsequent to the reporting period 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 2012:**

- 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 2) 2012; 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



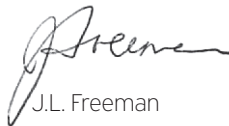
S.R.S. Blair



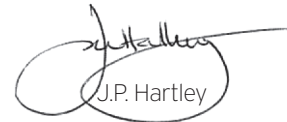
B.J. Chapman



M.B. Coomer



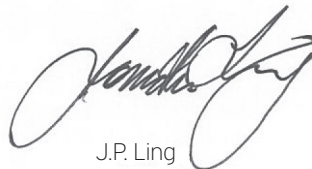
J.L. Freeman



J.P. Hartley



R.D. Jesudason



J.P. Ling



G.L. Mackrell

19 November 2012





