# ANZ National Bank Limited
# Disclosure Statement

**FOR THE SIX MONTHS ENDED 31 MARCH 2012** | NUMBER 65 ISSUED MAY 2012

# Disclosure Statement

**For the six months ended 31 March 2012**

## Contents



## Glossary of Terms

In this Disclosure Statement unless the context otherwise requires:

(a) "Bank" means ANZ National Bank Limited;

(b) "Banking Group" means ANZ National Bank Limited and all its controlled entities;

(c) "Immediate Parent Company" means ANZ Holdings (New Zealand) Limited;

(d) "Ultimate Parent Bank" means Australia and New Zealand Banking Group Limited;

(e) "Overseas Banking Group" means the worldwide operations of Australia and New Zealand Banking Group Limited including its controlled entities;

(f) "New Zealand business" means all business, operations, or undertakings conducted in or from New Zealand identified and treated as if it were conducted by a company formed and registered in New Zealand;

(g) "NZ Branch" means the New Zealand business of the Ultimate Parent Bank;

(h) "ANZ New Zealand" means the New Zealand business of the Overseas Banking Group;

(i) "Registered Office" is Level 10, 170-186 Featherston Street, Wellington 6011, New Zealand, which is also the Banking Group's address for service;

(j) "RBNZ" means the Reserve Bank of New Zealand;

(k) "APRA" means the Australian Prudential Regulation Authority;

(l) "the Order" means the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2012; and

(m) Any term or expression which is defined in, or in the manner prescribed by, the Order shall have the meaning given in or prescribed by the Order.

# General Disclosures

This Disclosure Statement has been issued in accordance with the Order.

## Credit Rating Information

The Bank has three credit ratings, which are applicable to its long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars.

On 24 February 2012, Fitch changed the Outlook on the Bank's long-term senior unsecured debt and deposit ratings from negative to stable.

**The Bank's Credit Ratings are:**

| Rating Agency | Current Credit Rating | Qualification |
|---|---|---|
| Standard & Poor's | AA- | Outlook Stable |
| Moody's Investors Service | Aa3 | Outlook Stable |
| Fitch Ratings | AA- | Outlook Stable |

## Guarantors

As at the date of signing of this Disclosure Statement the Bank has debt securities with a carrying value as at 31 March 2012 of $331 million for which the Crown has issued a Guarantee Eligibility Certificate under the New Zealand Wholesale Funding Guarantee Facility ("Crown Wholesale Guarantee"). The Crown closed the Crown Wholesale Guarantee to new debt securities on 30 April 2010. The closure did not affect debt securities previously issued with the benefit of Crown Wholesale Guarantee.

Copies of the Wholesale Deed, and any Guarantee Eligibility Certificate issued by the Crown in respect of the Bank, are available on the Treasury website treasury.govt.nz. The address for service for any demand on the Crown under the Crown Wholesale Guarantee is The Treasurer, New Zealand Debt Management Office, 1 The Terrace, Wellington. Further information on the Crown Wholesale Guarantee is provided in the Disclosure Statement for the year ended 30 September 2011 which is available at no charge:

a) on the Bank's websites anz.co.nz and nationalbank.co.nz; and

b) within two working days of a request, if a request is made at the Registered Office or at any branch of ANZ or The National Bank of New Zealand.

Certain debt securities ("Covered Bonds") issued by the Bank or its wholly owned subsidiary, ANZ National (Int'l) Limited, are guaranteed by the ANZNZ Covered Bond Trust Limited, solely in its capacity as trustee of the ANZNZ Covered Bond Trust (the "Covered Bond Guarantor"). The Covered Bond Guarantor has guaranteed the payment of interest and principal of Covered Bonds with a carrying value as at 31 March 2012 of $1,898 million, pursuant to a guarantee which is secured over a pool of assets. The Covered Bond Guarantor's address for service is Level 10, 141 Willis Street, Wellington, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations payable in New Zealand dollars. The Covered Bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively. Details of the pool of assets that secure this guarantee are provided in Note 7.

Other material obligations of the Bank are not guaranteed.

## Directorate

As at 11 May 2012 there have been no changes to the Directors of ANZ National Bank Limited since 30 September 2011, the balance date of the last full year Disclosure Statement.

Mr P R Marriott has announced his intention to resign as a Director of ANZ National Bank on 31 May 2012.

Sir Dryden Spring has announced his intention to retire as Director and Chairman of ANZ National Bank Limited on 22 June 2012. Mr J F Judge will take over as Chairman on 23 June 2012.

## Auditors

The Banking Group's auditors are KPMG, Chartered Accountants, Level 9, 10 Customhouse Quay, Wellington, New Zealand.

# Income Statement

| $ millions | Note | Unaudited 6 months to 31/03/2012 | Unaudited 6 months to 31/03/2011 | Audited Year to 30/09/2011 |
|---|---|---|---|---|
| Interest income | | **2,995** | 3,162 | 6,179 |
| Interest expense | | **1,649** | 1,899 | 3,620 |
| Net interest income | | **1,346** | 1,263 | 2,559 |
| Net trading gains | | **79** | 140 | 228 |
| Net funds management and insurance income | | **139** | 126 | 265 |
| Other operating income | 2 | **269** | 141 | 361 |
| Share of profit of equity accounted associates and jointly controlled entities | | **1** | 1 | 2 |
| Operating income | | **1,834** | 1,671 | 3,415 |
| Operating expenses | 2 | **863** | 910 | 1,686 |
| Profit before provision for credit impairment and income tax | | **971** | 761 | 1,729 |
| Provision for credit impairment | 6 | **95** | 78 | 178 |
| **Profit before income tax** | | **876** | 683 | 1,551 |
| Income tax expense | | **233** | 192 | 452 |
| **Profit for the period** | | **643** | 491 | 1,099 |

# Statement of Comprehensive Income

| $ millions | Unaudited 6 months to 31/03/2012 | Unaudited 6 months to 31/03/2011 | Audited Year to 30/09/2011 |
|---|---|---|---|
| **Profit for the period** | **643** | 491 | 1,099 |
| Unrealised gains recognised directly in equity | **11** | 7 | 72 |
| Realised gains transferred to income statement | **(7)** | (36) | (38) |
| Actuarial gain / (loss) on defined benefit schemes | **(2)** | 8 | (64) |
| Income tax credit on items recognised directly in equity | **5** | 6 | 11 |
| **Total comprehensive income for the period** | **650** | 476 | 1,080 |

# Statement of Changes in Equity

| $ millions | Ordinary share capital | Available-for-sale revaluation reserve | Cash flow hedging reserve | Retained earnings | Total equity attributable to owners of the parent entity | Non-controlling entities | Total equity |
|---|---|---|---|---|---|---|---|
| **As at 1 October 2010** | 6,943 | 58 | 102 | 3,342 | 10,445 | 1 | 10,446 |
| Profit after income tax attributable to parent | - | - | - | 491 | 491 | - | 491 |
| Valuation gain / (losses) recognised in other comprehensive income | - | 11 | (4) | - | 7 | - | 7 |
| Losses / (gains) transferred to income statement | - | (42) | 6 | - | (36) | - | (36) |
| Actuarial gain on defined benefit schemes | - | - | - | 8 | 8 | - | 8 |
| Income tax credit / (expense) on items recognised directly in equity | - | 8 | - | (2) | 6 | - | 6 |
| Total comprehensive income for the period | - | (23) | 2 | 497 | 476 | - | 476 |
| Ordinary dividend paid | - | - | - | (430) | (430) | - | (430) |
| **As at 31 March 2011 (Unaudited)** | 6,943 | 35 | 104 | 3,409 | 10,491 | 1 | 10,492 |
| **As at 1 October 2010** | 6,943 | 58 | 102 | 3,342 | 10,445 | 1 | 10,446 |
| Profit after income tax attributable to parent | - | - | - | 1,099 | 1,099 | - | 1,099 |
| Valuation gain recognised in other comprehensive income | - | 21 | 51 | - | 72 | - | 72 |
| Losses / (gains) transferred to income statement | - | (42) | 4 | - | (38) | - | (38) |
| Actuarial loss on defined benefit schemes | - | - | - | (64) | (64) | - | (64) |
| Income tax credit / (expense) on items recognised directly in equity | - | 9 | (16) | 18 | 11 | - | 11 |
| Total comprehensive income for the period | - | (12) | 39 | 1,053 | 1,080 | - | 1,080 |
| Ordinary dividend paid | - | - | - | (700) | (700) | - | (700) |
| Movement in non-controlling interests | - | - | - | - | - | (1) | (1) |
| **As at 30 September 2011 (Audited)** | **6,943** | **46** | **141** | **3,695** | **10,825** | **-** | **10,825** |
| Profit after income tax attributable to parent | **-** | **-** | **-** | **643** | **643** | **-** | **643** |
| Valuation gain / (losses) recognised in other comprehensive income | **-** | **26** | **(15)** | **-** | **11** | **-** | **11** |
| Gains transferred to income statement | **-** | **-** | **(7)** | **-** | **(7)** | **-** | **(7)** |
| Actuarial loss on defined benefit schemes | **-** | **-** | **-** | **(2)** | **(2)** | **-** | **(2)** |
| Income tax credit / (expense) on items recognised directly in equity | **-** | **(1)** | **6** | **-** | **5** | **-** | **5** |
| Total comprehensive income for the period | **-** | **25** | **(16)** | **641** | **650** | **-** | **650** |
| Ordinary dividend paid | **-** | **-** | **-** | **(550)** | **(550)** | **-** | **(550)** |
| **As at 31 March 2012 (Unaudited)** | **6,943** | **71** | **125** | **3,786** | **10,925** | **-** | **10,925** |

# Balance Sheet

| $ millions | Note | Unaudited 31/03/2012 | Unaudited 31/03/2011 | Audited 30/09/2011 |
|---|---|---|---|---|
| **Assets** | | | | |
| Liquid assets | | **2,355** | 1,799 | 2,455 |
| Due from other financial institutions | | **1,958** | 3,257 | 3,685 |
| Trading securities | | **10,904** | 7,373 | 9,466 |
| Derivative financial instruments | | **9,959** | 9,553 | 14,160 |
| Current tax assets | | **76** | 61 | - |
| Available-for-sale assets | | **252** | 793 | 411 |
| Net loans and advances | 4 | **84,467** | 85,369 | 83,610 |
| Investments backing insurance policyholder liabilities | | **165** | 82 | 97 |
| Insurance policy assets | | **231** | 169 | 200 |
| Shares in associates and jointly controlled entities | | **100** | 145 | 100 |
| Other assets | | **935** | 1,621 | 854 |
| Deferred tax assets | | **91** | 228 | 139 |
| Premises and equipment | | **320** | 331 | 325 |
| Goodwill and other intangible assets | | **3,500** | 3,532 | 3,510 |
| **Total assets** | | **115,313** | 114,313 | 119,012 |
| Interest earning and discount bearing assets | | **99,210** | 97,442 | 98,214 |
| **Liabilities** | | | | |
| Due to other financial institutions | | **924** | 1,651 | 2,236 |
| Deposits and other borrowings | 8 | **70,914** | 68,349 | 69,238 |
| Due to Immediate Parent Company | | **555** | 11 | 174 |
| Derivative financial instruments | | **10,318** | 9,795 | 14,174 |
| Current tax liabilities | | **-** | - | 17 |
| Payables and other liabilities | | **2,040** | 2,263 | 2,645 |
| Provisions | | **338** | 377 | 309 |
| Bonds and notes | | **17,562** | 18,948 | 17,406 |
| Loan capital | | **1,737** | 2,427 | 1,988 |
| **Total liabilities** | | **104,388** | 103,821 | 108,187 |
| **Net assets** | | **10,925** | 10,492 | 10,825 |
| **Represented by:** | | | | |
| Share capital | | **6,943** | 6,943 | 6,943 |
| Reserves | | **196** | 139 | 187 |
| Retained earnings | | **3,786** | 3,409 | 3,695 |
| Parent shareholder's equity | | **10,925** | 10,491 | 10,825 |
| Non-controlling interests | | **-** | 1 | - |
| **Total equity** | | **10,925** | 10,492 | 10,825 |
| Interest and discount bearing liabilities | | **86,303** | 86,139 | 85,728 |

# Condensed Cash Flow Statement

| $ millions | Unaudited 6 months to 31/03/2012 | Unaudited 6 months to 31/03/2011 | Audited Year to 30/09/2011 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | **2,964** | 3,088 | 6,074 |
| Interest paid | **(1,659)** | (1,842) | (3,573) |
| Other cash inflows provided by operating activities | **470** | 455 | 913 |
| Other cash outflows used in operating activities | **(1,094)** | (996) | (1,892) |
| Cash flows from operating profits before changes in operating assets and liabilities | **681** | 705 | 1,522 |
| Net changes in operating assets and liabilities | **(3,215)** | (1,327) | 1,712 |
| **Net cash flows provided by / (used in) operating activities** | **(2,534)** | (622) | 3,234 |
| **Cash flows from investing activities** | | | |
| Cash inflows provided by investing activities | **16** | - | 69 |
| Cash outflows used in investing activities | **(38)** | (62) | (119) |
| **Net cash flows used in investing activities** | **(22)** | (62) | (50) |
| **Cash flows from financing activities** | | | |
| Cash inflows provided by financing activities | **2,798** | 3,617 | 4,172 |
| Cash outflows used in financing activities | **(2,426)** | (1,956) | (4,793) |
| **Net cash flows provided by / (used in) financing activities** | **372** | 1,661 | (621) |
| Net increase / (decrease) in cash and cash equivalents | **(2,184)** | 977 | 2,563 |
| Cash and cash equivalents at beginning of the period | **6,140** | 3,577 | 3,577 |
| **Cash and cash equivalents at end of the period** | **3,956** | 4,554 | 6,140 |

# Notes to the Financial Statements

## 1. Significant Accounting Policies

### (i) Reporting entity and statement of compliance

These financial statements are for the Banking Group for the six months ended 31 March 2012. They have been prepared in accordance with the requirements of NZ IAS 34 *Interim Financial Reporting* and the Order, and should be read in conjunction with the Banking Group's financial statements for the year ended 30 September 2011.

### (ii) Basis of measurement

These financial statements have been prepared on a going concern basis in accordance with historical cost concepts except that the following assets and liabilities are stated at their fair value:

- derivative financial instruments, including in the case of fair value hedging, the fair value of any applicable underlying exposure;
- financial instruments held for trading;
- financial assets treated as available-for-sale; and
- financial instruments designated at fair value through profit and loss.

Insurance policy assets are measured using the Margin on Services model, and defined benefit obligations are measured using the Projected Unit Credit method.

### (iii) Changes in accounting policies

The accounting policies adopted by the Banking Group are consistent with those adopted and disclosed in the previous full year Disclosure Statement.

### (iv) Presentation currency and rounding

The amounts contained in the financial statements are presented in millions of New Zealand dollars, unless otherwise stated.

### (v) Comparatives

Certain amounts in the comparative information have been reclassified to ensure consistency with the current period's presentation. This includes reclassifying certain investment assets that relate to the insurance business from due from other financial institutions and available-for-sale assets to investments backing insurance policyholder liabilities to better reflect the purpose for which the assets are held.

### (vi) Principles of consolidation

The financial statements consolidate the financial statements of the Bank and its controlled entities.

## 2. Other Operating Income and Expenses

Other operating income includes fair value gains of $29 million (31/03/2011 $92 million loss; 30/09/2011 $99 million loss) on the revaluation of financial assets and liabilities designated at fair value and on hedging activities. Other operating income excluding these fair value adjustments is $240 million (31/03/2011 $233 million; 30/09/2011 $460 million).

Operating expenses include costs for the six months ended 31 March 2012 of $84 million (31/03/2011 $141 million; 30/09/2011 $162 million) incurred in relation to the planned move to a single banking technology platform which is expected to deliver further operational efficiencies and improved service levels and business outcomes.

# Notes to the Financial Statements

## 3. Segmental Analysis

For segment reporting purposes, the Banking Group is organised into three major business segments – Retail, Commercial and Institutional. Centralised back office and corporate functions support these segments. These segments are consistent with internal reporting provided to the chief operating decision maker, being the Bank's Chief Executive Officer.

Segmental reporting has been updated to reflect minor changes to the Banking Group's structure. Comparative data has been adjusted to be consistent with the current period's segment definitions.

### Retail

Retail provides banking products and services to individuals through separate ANZ and The National Bank of New Zealand branded distribution channels. Personal banking customers have access to a wide range of financial services and products. Retail contains the Banking Group's wealth businesses which include private banking and investment services provided to high net worth individuals, the OnePath wealth management and insurance businesses, and other investment products. This segment also includes other profit centres supporting the Retail segment.

### Commercial

Commercial provides services to Business Banking, Commercial & Agri, and UDC customers. Business Banking services are offered to small enterprises (typically with annual revenues of less than $5 million). Commercial & Agri customers consist of primarily privately owned medium to large enterprises. The Banking Group's relationship with these businesses ranges from simple banking requirements with revenue from deposit and transactional facilities, and cash flow lending, to more complex funding arrangements with revenue sourced from a wider range of products. UDC is principally involved in the financing and leasing of plant, vehicles and equipment, mainly for small and medium sized businesses, as well as investment products.

### Institutional

Institutional provides financial services to large multi-banked corporations, often global, who require sophisticated product and structuring solutions. The Institutional business unit includes the following specialised units:

- Markets – provides foreign exchange, interest rate and commodity trading and sales-related services, origination, underwriting, structuring, risk management and sale of credit and derivative products globally;
- Transaction Banking – provides cash management, trade finance and international payments;
- Global Loans – provides origination, credit analysis, structuring and execution of specific customer transactions.

### Other

Other includes treasury and back office support functions, none of which constitutes a separately reportable segment.

### Business segment analysis[1]

| $ millions | Retail | Commercial | Institutional | Other[2] | Total |
|---|---|---|---|---|---|
| **Unaudited 6 months to 31/03/2012** | | | | | |
| External revenues | **575** | **1,393** | **399** | **(533)** | **1,834** |
| Intersegment revenues | **107** | **(654)** | **(67)** | **614** | **-** |
| Total revenues | **682** | **739** | **332** | **81** | **1,834** |
| Profit before income tax | **238** | **419** | **237** | **(18)** | **876** |
| **Unaudited 6 months to 31/03/2011** | | | | | |
| External revenues | 644 | 1,495 | 264 | (732) | 1,671 |
| Intersegment revenues | 46 | (751) | 45 | 660 | - |
| Total revenues | 690 | 744 | 309 | (72) | 1,671 |
| Profit before income tax | 243 | 432 | 233 | (225) | 683 |
| **Audited year to 30/09/2011** | | | | | |
| External revenues | 1,225 | 2,895 | 613 | (1,318) | 3,415 |
| Intersegment revenues | 118 | (1,424) | 27 | 1,279 | - |
| Total revenues | 1,343 | 1,471 | 640 | (39) | 3,415 |
| Profit before income tax | 436 | 838 | 491 | (214) | 1,551 |

[1] Intersegment transfers are accounted for and determined on an arm's length or cost recovery basis.

[2] This segment has negative external revenues as this segment incurs funding costs on behalf of the Banking Group and is reimbursed internally.

# Notes to the Financial Statements

## 4. Net Loans and Advances

| $ millions | Note | Unaudited 31/03/2012 | Unaudited 31/03/2011 | Audited 30/09/2011 |
|---|---|---|---|---|
| Overdrafts | | **1,986** | 2,083 | 1,847 |
| Credit card outstandings | | **1,410** | 1,386 | 1,367 |
| Term loans – housing | | **44,340** | 43,948 | 43,636 |
| Term loans – non-housing | | **37,321** | 38,595 | 37,398 |
| Finance lease receivables | | **800** | 749 | 768 |
| Gross loans and advances | | **85,857** | 86,761 | 85,016 |
| Provision for credit impairment | 6 | **(1,119)** | (1,264) | (1,156) |
| Unearned finance income | | **(259)** | (263) | (256) |
| Fair value hedge adjustment | | **(8)** | 153 | 22 |
| Deferred fee revenue and expenses | | **(55)** | (53) | (51) |
| Capitalised brokerage / mortgage origination fees | | **51** | 35 | 35 |
| Total net loans and advances | | **84,467** | 85,369 | 83,610 |

The Bank has sold residential mortgages to the NZ Branch with a net carrying value of $9,303 million as at 31 March 2012 (31/03/2011 $9,987 million, 30/09/2011 $9,931 million). These assets qualify for derecognition as the Bank does not retain a continuing involvement in the transferred assets.

## 5. Impaired Assets, Past Due Assets and Other Assets Under Administration

| $ millions | Retail mortgages | Other retail exposures | Non retail exposures | Total |
|---|---|---|---|---|
| **Unaudited 31/03/2012** | | | | |
| Balance at the beginning of the period | **451** | **61** | **1,194** | **1,706** |
| Transfers from productive | **148** | **61** | **341** | **550** |
| Transfers to productive | **(28)** | **(1)** | **(92)** | **(121)** |
| Assets realised or loans repaid | **(176)** | **(26)** | **(243)** | **(445)** |
| Write offs | **(32)** | **(43)** | **(47)** | **(122)** |
| Total individually impaired assets | **363** | **52** | **1,153** | **1,568** |
| **Unaudited 31/03/2011** | | | | |
| Balance at the beginning of the period | 511 | 81 | 1,403 | 1,995 |
| Transfers from productive | 242 | 71 | 453 | 766 |
| Transfers to productive | (30) | - | (16) | (46) |
| Assets realised or loans repaid | (188) | (30) | (253) | (471) |
| Write offs | (33) | (51) | (96) | (180) |
| Total individually impaired assets | 502 | 71 | 1,491 | 2,064 |
| **Audited 30/09/2011** | | | | |
| Balance at the beginning of the period | 511 | 81 | 1,403 | 1,995 |
| Transfers from productive | 442 | 158 | 774 | 1,374 |
| Transfers to productive | (77) | (1) | (101) | (179) |
| Assets realised or loans repaid | (356) | (71) | (691) | (1,118) |
| Write offs | (69) | (106) | (191) | (366) |
| Total individually impaired assets | 451 | 61 | 1,194 | 1,706 |

# Notes to the Financial Statements

### Credit quality of financial assets that are past due but not impaired

A large portion of retail credit exposures, such as residential mortgages, are generally well secured. That is, the fair value of associated security should be sufficient to ensure that the Banking Group will recover the entire amount owing over the life of the facility and there is reasonable assurance that collection efforts will result in payment of the amounts due in a timely manner.

### Ageing analysis of loans that are past due but not impaired

| $ millions | Retail mortgages | Other retail exposures | Non retail exposures | Total |
|---|---|---|---|---|
| **Unaudited 31/03/2012** | | | | |
| 1 to 5 days | 386 | 145 | 525 | 1,056 |
| 6 to 29 days | 338 | 102 | 77 | 517 |
| 1 to 29 days | 724 | 247 | 602 | 1,573 |
| 30 to 59 days | 180 | 44 | 282 | 506 |
| 60 to 89 days | 44 | 19 | 58 | 121 |
| 90 days or over | 100 | 47 | 128 | 275 |
| | 1,048 | 357 | 1,070 | 2,475 |

### Other assets under administration

Other assets under administration are any loans, not being impaired or 90 days or more past due, where the customer is in any form of voluntary or involuntary administration, including receivership, liquidation, bankruptcy or statutory management.

| $ millions | Retail mortgages | Other retail exposures | Non retail exposures | Total |
|---|---|---|---|---|
| **Unaudited 31/03/2012** | | | | |
| Other assets under administration | - | - | 9 | 9 |
| Undrawn facilities with impaired customers | - | - | 28 | 28 |
| **Unaudited 31/03/2011** | | | | |
| Other assets under administration | - | - | 12 | 12 |
| Undrawn facilities with impaired customers | - | - | 46 | 46 |
| **Audited 30/09/2011** | | | | |
| Other assets under administration | - | - | 6 | 6 |
| Undrawn facilities with impaired customers | - | - | 26 | 26 |

# Notes to the Financial Statements

## 6. Provision for Credit Impairment

| $ millions | Retail mortgages | Other retail exposures | Non retail exposures | Total |
|---|---|---|---|---|
| **Unaudited 31/12/2012** | | | | |
| **Collective provision** | | | | |
| Balance at beginning of the period | **120** | **147** | **395** | **662** |
| Credit to income statement | **(12)** | **(20)** | **(8)** | **(40)** |
| Balance at end of the period | **108** | **127** | **387** | **622** |
| **Individual provision (individually impaired assets)** | | | | |
| Balance at beginning of the period | **148** | **37** | **309** | **494** |
| Charge to income statement | **20** | **26** | **89** | **135** |
| Recoveries of amounts previously written off | **1** | **8** | **5** | **14** |
| Bad debts written off | **(32)** | **(43)** | **(47)** | **(122)** |
| Discount unwind | **(7)** | **(1)** | **(16)** | **(24)** |
| Balance at end of the period | **130** | **27** | **340** | **497** |
| Total provision for credit impairment | **238** | **154** | **727** | **1,119** |
| Collective provision credit | **(12)** | **(20)** | **(8)** | **(40)** |
| Individual provision charge | **20** | **26** | **89** | **135** |
| Total charge to income statement | **8** | **6** | **81** | **95** |
| **Unaudited 31/03/2011** | | | | |
| **Collective provision** | | | | |
| Balance at beginning of the period | 111 | 149 | 533 | 793 |
| Charge / (credit) to income statement | (5) | 1 | (62) | (66) |
| Balance at end of the period | 106 | 150 | 471 | 727 |
| **Individual provision (individually impaired assets)** | | | | |
| Balance at beginning of the period | 207 | 51 | 347 | 605 |
| Charge to income statement | 8 | 38 | 98 | 144 |
| Recoveries of amounts previously written off | - | 9 | 1 | 10 |
| Bad debts written off | (33) | (51) | (96) | (180) |
| Discount unwind | (9) | (1) | (32) | (42) |
| Balance at end of the period | 173 | 46 | 318 | 537 |
| Total provision for credit impairment | 279 | 196 | 789 | 1,264 |
| Collective provision charge / (credit) | (5) | 1 | (62) | (66) |
| Individual provision charge | 8 | 38 | 98 | 144 |
| Total charge to income statement | 3 | 39 | 36 | 78 |
| **Audited 30/09/2011** | | | | |
| **Collective provision** | | | | |
| Balance at beginning of the year | 111 | 149 | 533 | 793 |
| Charge / (credit) to income statement | 9 | (2) | (138) | (131) |
| Balance at end of the year | 120 | 147 | 395 | 662 |
| **Individual provision (individually impaired assets)** | | | | |
| Balance at beginning of the year | 207 | 51 | 347 | 605 |
| Charge to income statement | 24 | 79 | 206 | 309 |
| Recoveries of amounts previously written off | 2 | 17 | 3 | 22 |
| Bad debts written off | (69) | (106) | (191) | (366) |
| Discount unwind | (16) | (4) | (56) | (76) |
| Balance at end of the year | 148 | 37 | 309 | 494 |
| Total provision for credit impairment | 268 | 184 | 704 | 1,156 |
| Collective provision charge / (credit) | 9 | (2) | (138) | (131) |
| Individual provision charge | 24 | 79 | 206 | 309 |
| Total charge to income statement | 33 | 77 | 68 | 178 |

# Notes to the Financial Statements

## 7. Financial Assets Pledged as Collateral

| $ millions | Unaudited 31/03/2012 | Unaudited 31/03/2011 | Audited 30/09/2011 |
|---|---|---|---|
| Trading securities encumbered through repurchase agreements | **23** | 396 | 1,219 |
| Residential mortgages pledged as security for covered bonds | **3,831** | - | - |
| Total tangible assets of UDC Finance Limited pledged as collateral for secured stock | **2,105** | 2,164 | 2,007 |
| Total financial assets pledged as collateral | **5,959** | 2,560 | 3,226 |

### ANZNZ Covered Bond Trust

The assets of ANZNZ Covered Bond Trust are made up of certain housing loans and related securities originated by the Bank which are security for the guarantee by ANZNZ Covered Bond Trust Limited as trustee of ANZNZ Covered Bond Trust of issuances of covered bonds by the Bank, or its wholly owned subsidiary ANZ National (Int'l) Limited, from time to time. The assets of ANZNZ Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of ANZNZ Covered Bond Trust (if any) after all prior ranking creditors of ANZNZ Covered Bond Trust have been satisfied.

The assets of ANZNZ Covered Bond Trust do not qualify for derecognition from the Banking Group's financial statements as the Bank retains substantially all of the risks and rewards of the transferred assets.

## 8. Deposits and Other Borrowings

| $ millions | Note | Unaudited 31/03/2012 | Unaudited 31/03/2011 | Audited 30/09/2011 |
|---|---|---|---|---|
| Certificates of deposit | | **2,277** | 2,666 | 2,454 |
| Term deposits | | **33,738** | 35,678 | 33,799 |
| Demand deposits bearing interest | | **23,680** | 20,095 | 21,589 |
| Deposits not bearing interest | | **5,305** | 5,455 | 5,118 |
| Secured debenture stock | 7 | **1,456** | 1,584 | 1,488 |
| Securities sold under agreement to repurchase | | **-** | 10 | - |
| Commercial paper | | **4,458** | 2,861 | 4,790 |
| Total deposits and other borrowings | | **70,914** | 68,349 | 69,238 |

## 9. Related Party Transactions

| $ millions | Unaudited 31/03/2012 | Unaudited 31/03/2011 | Audited 30/09/2011 |
|---|---|---|---|
| Total due from related parties | **2,212** | 3,211 | 3,000 |
| Total due to related parties | **6,839** | 6,063 | 8,427 |

# Notes to the Financial Statements

## 10. Capital Adequacy

### Capital ratios under the Basel II internal models based approach (Unaudited)

| | 31/03/2012 | 31/03/2011 | 30/09/2011 |
|---|---|---|---|
| Tier One Capital | **10.85%** | 9.55% | 10.02% |
| RBNZ minimum Tier One Capital ratio | **4.00%** | 4.00% | 4.00% |
| Total Capital | **13.39%** | 12.87% | 12.74% |
| RBNZ minimum Total Capital ratio | **8.00%** | 8.00% | 8.00% |

| **Capital as at 31 March 2012 (Unaudited)** | **$m** |
|---|---|
| **Tier One Capital** | |
| Ordinary share capital | **6,943** |
| Revenue and similar reserves | **3,339** |
| Current period's profit after tax | **643** |
| **Less deductions from Tier One Capital** | |
| Goodwill | **3,265** |
| Software and other intangible assets | **235** |
| Cash flow hedging reserve | **125** |
| 50% of excess of expected loss over total eligible allowances for impairment | **35** |
| **Total Tier One Capital** | **7,265** |
| **Tier Two Capital** | |
| Upper level – Perpetual subordinated debt | **1,172** |
| Lower level – Term subordinated debt | **565** |
| **Less deductions from Tier Two Capital** | |
| 50% of expected loss to the extent higher than total eligible allowances for impairment | **35** |
| **Total Tier Two Capital** | **1,702** |
| **Total Capital** | **8,967** |

### Total required capital as at 31 March 2012 (Unaudited)

| **$ millions** | Exposure at default | Risk weighted exposure or implied risk weighted exposure[1] | Total capital requirement |
|---|---|---|---|
| Exposures subject to internal ratings based approach | **121,249** | **48,233** | **3,859** |
| Specialised lending exposures subject to slotting approach | **7,508** | **7,497** | **600** |
| Exposures subject to standardised approach | **264** | **250** | **20** |
| Equity exposures | **217** | **922** | **74** |
| Other exposures | **2,721** | **1,072** | **86** |
| Total credit risk | **131,959** | **57,974** | **4,639** |
| Operational risk | **n/a** | **5,000** | **400** |
| Market risk | **n/a** | **4,013** | **321** |
| **Total** | **131,959** | **66,987** | **5,360** |

[1] Total credit risk weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

The Banking Group previously recorded a Supervisory adjustment to the risk weighted exposures of its residential mortgage portfolio as required under the Conditions of Registration applying at the time. Following RBNZ approval of the Bank's mortgage capital model this Supervisory adjustment is no longer required.

# Notes to the Financial Statements

**Bank solo capital adequacy ratios under the Basel I approach (Unaudited)**

| | 31/03/2012 | 31/03/2011 | 30/09/2011 |
|---|---|---|---|
| Tier One Capital | **9.74%** | 9.26% | 9.64% |
| Total Capital | **11.38%** | 11.60% | 11.60% |
| Total risk-weighted exposures ($millions) | **72,708** | 73,202 | 72,923 |
| RBNZ minimum ratios: | | | |
| Tier One Capital | **4.00%** | 4.00% | 4.00% |
| Total Capital | **8.00%** | 8.00% | 8.00% |

Basel I capital adequacy for the Bank has been derived in accordance with the RBNZ document entitled 'Capital Adequacy Framework (Basel I Approach)' ("BS2"), dated October 2010.

## Implementation of the advanced internal ratings based approach to credit risk measurement

The Banking Group adheres to the standards of risk grading and risk quantification as set out for Internal Ratings Based ("IRB") banks in the RBNZ document BS2B.

Under this IRB Framework banks use their own measures for calculating the level of credit risk associated with customers and exposures, by way of the primary components of:

*Probability of Default ("PD"):* An estimate of the level of risk of borrower default graded by way of rating models used both at loan origination and for ongoing monitoring.

*Exposure at Default ("EAD"):* The expected facility exposure at default. Total credit risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration; and

*Loss Given Default ("LGD"):* An estimate of the potential economic loss on a credit exposure, incurred as a consequence of obligor default and expressed as a percentage of the facility's EAD. For Retail Mortgage exposures the Bank is required to apply the downturn LGDs according to loan to value ("LVR") bands as set out in BS2B. For farm lending exposures the Banking Group is required to adopt RBNZ prescribed downturn LVR based LGDs, along with a minimum maturity of 2.5 years and the removal of the firm-size adjustment.

For exposures classified under Specialised Lending, the Banking Group uses slotting tables supplied by the RBNZ rather than internal estimates.

The exceptions to IRB treatment are three minor portfolios where, due to systems constraints, determining these IRB risk estimates is not currently feasible or appropriate. Risk weights for these exposures are calculated under a separate treatment as set out in the RBNZ document entitled 'Capital Adequacy Framework (Standardised Approach)' ("BS2A"), dated October 2010.

# Notes to the Financial Statements

### Capital requirements by asset class under the IRB approach (Unaudited)

| Unaudited 31/03/2012 | Total exposure or principal amount $m | Exposure at default $m | Exposure-weighted LGD used for the capital calculation % | Exposure-weighted risk weight % | Risk weighted exposure $m | Total capital requirement $m |
|---|---|---|---|---|---|---|
| **On-balance sheet exposures** | | | | | | |
| Corporate | 32,654 | 32,406 | 36 | 64 | 22,221 | 1,779 |
| Sovereign | 8,477 | 8,314 | 5 | 1 | 67 | 6 |
| Bank | 4,859 | 3,695 | 57 | 17 | 659 | 53 |
| Retail mortgages | 42,201 | 42,360 | 21 | 25 | 11,276 | 902 |
| Other retail | 4,320 | 4,410 | 61 | 74 | 3,441 | 275 |
| Total on-balance sheet exposures | 92,511 | 91,185 | 28 | 39 | 37,664 | 3,015 |
| **Off-balance sheet exposures** | | | | | | |
| Corporate | 13,177 | 10,600 | 48 | 46 | 5,229 | 418 |
| Sovereign | 145 | 147 | 5 | 1 | 1 | - |
| Bank | 1,121 | 1,017 | 52 | 12 | 138 | 11 |
| Retail mortgages | 6,504 | 5,628 | 18 | 14 | 808 | 65 |
| Other retail | 4,728 | 4,553 | 74 | 49 | 2,352 | 188 |
| Total off-balance sheet exposures | 25,675 | 21,945 | 46 | 37 | 8,528 | 682 |
| **Market related contracts** | | | | | | |
| Corporate | 72,615 | 2,112 | 60 | 45 | 1,018 | 81 |
| Sovereign | 8,789 | 442 | 5 | 1 | 4 | - |
| Bank | 664,849 | 5,565 | 64 | 17 | 1,019 | 81 |
| Total market related contracts | 746,253 | 8,119 | 60 | 24 | 2,041 | 162 |
| Total credit risk exposures subject to the IRB approach | 864,439 | 121,249 | 34 | 38 | 48,233 | 3,859 |

# Notes to the Financial Statements

### IRB exposures by customer credit rating

| Unaudited 31/03/2012 | Probability of default % | Exposure at default $m | Exposure-weighted LGD used for the capital calculation % | Exposure-weighted risk weight % | Risk weighted exposure $m | Total capital requirement $m |
|---|---|---|---|---|---|---|
| **Corporate** | | | | | | |
| 0 - 2 | 0.05 | 5,239 | 60 | 22 | 1,246 | 100 |
| 3 - 4 | 0.33 | 21,005 | 37 | 40 | 9,009 | 721 |
| 5 | 1.00 | 10,231 | 34 | 60 | 6,463 | 517 |
| 6 | 2.24 | 4,751 | 38 | 85 | 4,300 | 344 |
| 7 - 8 | 8.20 | 2,651 | 40 | 143 | 4,025 | 322 |
| Default | 100.00 | 1,241 | 43 | 260 | 3,425 | 274 |
| Total corporate exposures | 3.85 | 45,118 | 39 | 60 | 28,468 | 2,278 |
| **Sovereign** | | | | | | |
| 0 | 0.01 | 8,874 | 5 | 1 | 72 | 6 |
| 1 - 6 | 0.11 | 29 | 5 | 1 | - | - |
| Total sovereign exposures | 0.01 | 8,903 | 5 | 1 | 72 | 6 |
| **Bank** | | | | | | |
| 0 | 0.03 | 5,822 | 65 | 17 | 1,023 | 82 |
| 1 | 0.03 | 4,054 | 54 | 15 | 663 | 53 |
| 2 - 4 | 0.12 | 387 | 55 | 27 | 110 | 9 |
| 5 - 8 | 1.97 | 14 | 65 | 136 | 20 | 1 |
| Total bank exposures | 0.04 | 10,277 | 60 | 17 | 1,816 | 145 |
| **Retail mortgages** | | | | | | |
| 0 - 3 | 0.20 | 10,279 | 12 | 5 | 528 | 42 |
| 4 | 0.46 | 15,375 | 17 | 13 | 2,112 | 169 |
| 5 | 0.94 | 15,565 | 25 | 30 | 4,911 | 393 |
| 6 | 2.13 | 5,407 | 29 | 60 | 3,438 | 275 |
| 7 - 8 | 5.38 | 706 | 31 | 105 | 784 | 63 |
| Default | 100.00 | 656 | 26 | 45 | 311 | 25 |
| Total retail mortgage exposures | 2.18 | 47,988 | 20 | 24 | 12,084 | 967 |
| **Other retail** | | | | | | |
| 0 - 2 | 0.09 | 21 | 76 | 18 | 4 | - |
| 3 - 4 | 0.30 | 4,255 | 72 | 35 | 1,591 | 128 |
| 5 | 1.11 | 1,975 | 65 | 68 | 1,417 | 113 |
| 6 | 2.67 | 1,481 | 60 | 82 | 1,280 | 102 |
| 7 - 8 | 10.97 | 1,112 | 69 | 119 | 1,401 | 112 |
| Default | 100.00 | 119 | 62 | 79 | 100 | 8 |
| Total other retail exposures | 3.52 | 8,963 | 68 | 61 | 5,793 | 463 |
| Total credit risk exposures subject to the IRB approach | 2.56 | 121,249 | 33 | 38 | 48,233 | 3,859 |

Credit risk exposures subject to the IRB approach have been derived in accordance with BS2B and other relevant correspondence with RBNZ setting out prescribed credit risk estimates.

# Notes to the Financial Statements

### Specialised lending subject to the slotting approach

| Unaudited 31/03/2012 | Exposure at default $m | Risk weight % | Risk weighted exposure $m | Total capital requirement $m |
|---|---|---|---|---|
| **On-balance sheet exposures** | | | | |
| Strong | 1,765 | 70 | 1,310 | 105 |
| Good | 3,372 | 90 | 3,217 | 257 |
| Satisfactory | 1,195 | 115 | 1,456 | 117 |
| Weak | 335 | 250 | 888 | 71 |
| Default | 216 | - | - | - |
| Total on-balance sheet exposures | 6,883 | 94 | 6,871 | 550 |

| | Exposure amount $m | Exposure at default $m | Average risk weight % | Risk weighted exposure $m | Total capital requirement $m |
|---|---|---|---|---|---|
| **Off-balance sheet exposures** | | | | | |
| Undrawn commitments and other off balance sheet exposures | 553 | 546 | 94 | 546 | 44 |
| Market related contracts | 1,602 | 79 | 95 | 80 | 6 |
| Total off-balance sheet exposures | 2,155 | 625 | 94 | 626 | 50 |

Specialised lending exposures subject to the slotting approach have been calculated in accordance with BS2B.

The supervisory categories of specialised lending above are associated with specific risk-weights. These categories broadly correspond to the following external credit assessments using Standard & Poor's rating scale: Strong – BBB- or better; Good – BB+ or BB, Satisfactory – BB- or B+; and Weak – B to C-.

### Credit risk exposures subject to the standardised approach

| Unaudited 31/03/2012 | Exposure at default $m | Risk weight % | Risk weighted exposure $m | Total capital requirement $m |
|---|---|---|---|---|
| **On-balance sheet exposures** | | | | |
| Corporates | 62 | 100 | 66 | 5 |
| Default | 1 | 150 | 1 | - |
| Total on-balance sheet exposures | 63 | 100 | 67 | 5 |

| | Exposure amount $m | Average credit conversion factor % | Exposure at default $m | Average risk weight % | Risk weighted exposure $m | Total capital requirement $m |
|---|---|---|---|---|---|---|
| **Off-balance sheet exposures** | | | | | | |
| Undrawn commitments and other off balance sheet exposures | 482 | 42 | 201 | 86 | 183 | 15 |

Credit exposures subject to the Standardised Approach have been calculated in accordance with BS2A.

### Equity Exposures

| Unaudited 31/03/2012 | Exposure at default $m | Risk weight % | Risk weighted exposure $m | Total capital requirement $m |
|---|---|---|---|---|
| All other equity holdings not deducted from capital | 217 | 400 | 922 | 74 |

Equity exposures have been calculated in accordance with BS2B.

# Notes to the Financial Statements

### Other exposures

| Unaudited 31/03/2012 | Exposure at default $m | Risk weight % | Risk weighted exposure $m | Total capital requirement $m |
|---|---|---|---|---|
| Cash | 196 | - | - | - |
| New Zealand dollar denominated claims on the Crown and the RBNZ | 1,513 | - | - | - |
| Other assets | 1,012 | 100 | 1,072 | 86 |
| Total other IRB credit risk exposures | 2,721 | 37 | 1,072 | 86 |

Other exposures have been calculated in accordance with BS2B.

A risk weight of 100% applies to premises and equipment and all other exposures not otherwise defined in BS2B, except for cash, gold, New Zealand dollar denominated claims on the Crown and the RBNZ, which receive a 0% risk weight.

### Credit risk mitigation

As at 31 March 2012, under the IRB approach, the Banking Group had $1,521 million of Corporate exposures covered by guarantees and $nil of Corporate exposures covered by credit derivatives, where the presence of the guarantees or credit derivatives was judged to reduce the underlying credit risk of the exposures. Information on the total value of exposures covered by financial guarantees and eligible financial collateral is not disclosed, as the effect of these guarantees and collateral on the underlying credit risk exposures is not considered to be material.

### Operational risk

The Banking Group uses the Advanced Measurement Approach for determining its regulatory capital requirement for operational risk calculated in accordance with BS2B. As at 31 March 2012 the Banking Group had an implied risk weighted exposure of $5,000 million for operational risk and an operational risk capital requirement of $400 million.

### Market risk

The aggregate market risk exposures below have been calculated in accordance with BS2B.

The peak end-of-day market risk exposures for the period are calculated separately for each category of exposure.

| | Implied risk weighted exposure | | Aggregate capital charge | | |
|---|---|---|---|---|---|
| | As at $m | Peak $m | As at $m | Peak $m | Peak occurred on |
| **Unaudited 31/03/2012** | | | | | |
| Interest rate risk | 3,858 | 4,112 | 309 | 329 | 21/11/2011 |
| Foreign currency risk | 37 | 57 | 3 | 5 | 25/11/2011 |
| Equity risk | 118 | 119 | 9 | 10 | 15/03/2012 |
| | 4,013 | | 321 | | |

### Pillar II capital for other material risks

The Banking Group has an Internal Capital Adequacy Assessment Process ("ICAAP") which complies with the requirements of the Bank's Conditions of Registration.

Under the Banking Group's ICAAP it identifies and measures all "other material risks", which are those material risks that are not explicitly captured in the calculation of the Banking Group's tier one and total capital ratios. The other material risks identified by the Banking Group include business risk, pension risk, insurance risk, funds management risk, lapse risk, premises and equipment risk and capitalised origination fees risk.

The Banking Group's internal capital allocation for these other material risks is $493 million (31/03/2011 $455 million; 30/09/2011 $457 million).

The Banking Group regularly reviews the methodologies used to calculate the economic capital allocated to other material risks. Updated capital methodologies (particularly relating to insurance and funds management risks) were applied in February 2012 and prior periods have been restated accordingly.

# Notes to the Financial Statements

### Retail mortgages by loan-to-valuation ratio ("LVR")

As required by the RBNZ, LVRs are calculated as the current exposure secured by a residential mortgage divided by the Banking Group's valuation of the security property at origination of the exposure. Off balance sheet exposures include undrawn and partially drawn residential mortgage loans as well as commitments to lend. Commitments to lend are formal offers for housing lending which may or may not be accepted by the customer.

| Unaudited 31/03/2012<br>$ millions | On-balance sheet | Off-balance sheet | Total |
|---|---|---|---|
| **LVR range** | | | |
| 0% - 59% | 17,135 | 3,249 | 20,384 |
| 60% - 69% | 6,991 | 935 | 7,926 |
| 70% - 79% | 9,613 | 1,143 | 10,756 |
| Less than 80% | 33,739 | 5,327 | 39,066 |
| 80% - 89% | 5,014 | 893 | 5,907 |
| Over 90% | 3,448 | 284 | 3,732 |
| Total | 42,201 | 6,504 | 48,705 |

### Reconciliation of mortgage related amounts

| $ millions | Note | Unaudited 31/03/2012 |
|---|---|---|
| Term loans – housing | 4 | 44,340 |
| Plus: short term housing loans classified as overdrafts | | 481 |
| Less: housing loans made to corporate customers | | (2,669) |
| Plus: unsettled re-purchases of mortgages from the NZ Branch | | 49 |
| On-balance sheet retail mortgage exposures subject to the IRB approach | | 42,201 |
| Off-balance sheet retail mortgage exposures subject to the IRB approach | | 6,504 |
| Total retail mortgage exposures subject to the IRB approach (as per LVR analysis) | | 48,705 |

### Terms of Ordinary Share Capital

All ordinary shares share equally in dividends and any proceeds available to ordinary shareholders on winding up of the Bank. On a show of hands every member who is present at a meeting in person or by proxy or by representative is entitled to one vote, and upon a poll every member shall have one vote for each share held.

### Terms of Tier Two Capital instruments

Loan capital is subordinated in right of payment in the event of liquidation or wind up to the claims of depositors and all creditors of the Bank. The perpetual subordinated debt qualifies as Upper Level Tier Two Capital for capital adequacy purposes. All other subordinated debt qualifies as Lower Level Tier Two Capital.

# Notes to the Financial Statements

### Loan capital

| $ millions | Unaudited 31/03/2012 |
|---|---|
| AUD 265,740,000 perpetual subordinated floating rate loan | 337 |
| AUD 169,520,000 term subordinated floating rate loan | 215 |
| NZD 350,000,000 term subordinated fixed rate bond | 350 |
| NZD 835,000,000 perpetual subordinated bond | 835 |
| Total loan capital | 1,737 |

**AUD 265,740,000 loan**

This loan has no fixed maturity. Interest is payable half yearly in arrears based on BBSW + 0.95% p.a., with interest payments due 15 March and 15 September.

**AUD 169,520,000 loan**

This loan has an ultimate maturity date of 18 September 2017. The Bank may elect to repay the loan on 17 September each year commencing from 2012 through to 2016. All interest is payable half yearly in arrears, with interest payments due 17 March and 17 September. Interest is based on BBSW + 0.68% p.a. to 17 September 2012 and increases to BBSW + 1.18% p.a. thereafter.

**NZD 350,000,000 bond**

This bond has an ultimate maturity date of 23 July 2017. The Bank may elect to redeem the bond on 23 July 2012. If the bond is not called, the Bank will continue to pay interest to maturity at the five year interest rate swap rate plus 0.62% p.a. Interest is payable half yearly in arrears at the fixed coupon rate of 8.23%.

As at 31 March 2012, these bonds carried an A- rating by Standard & Poor's.

**NZD 835,000,000 bond**

The Bank may elect to redeem the bond on 18 April 2013, 18 April 2018 or any interest payment date subsequent to 18 April 2018. Interest is payable half yearly in arrears on 18 April and 18 October each year, up to and including the Second Call Date and then quarterly thereafter. If the bond is not called at the First Call Date, the coupon rate will reset to the five year interest swap rate plus 2.00%. Should the bond not be called at the Second Call Date, the Coupon Rate from the Second Call Date onwards will be set on a quarterly basis to the three month FRA rate plus 3.00%.

As at 31 March 2012, this bond carried a BBB rating by Standard and Poor's and an A3 rating by Moody's.

Coupon interest of 9.66% may not necessarily be paid on each interest payment date as under the terms of the bonds, the Bank has a general right and in certain specified circumstances an obligation, to defer payment of interest on the bonds.

### Capital adequacy of the Ultimate Parent Bank under the Basel II approach

| | Overseas Banking Group | | | Ultimate Parent Bank (Extended Licensed Entity) | |
|---|---|---|---|---|---|
| | 31/03/2012 | 31/03/2011 | 30/09/2011 | 31/03/2011 | 30/09/2011 |
| Tier One Capital | 11.3% | 10.5% | 10.9% | 11.4% | 11.5% |
| Total Capital | 12.6% | 12.1% | 12.1% | 12.6% | 12.3% |

For calculation of minimum capital requirements under Pillar I of the Basel II Accord, APRA has accredited the Ultimate Parent Bank to use the Advanced Internal Ratings Based ("AIRB") methodology for calculation of credit risk weighted assets and the Advanced Measurement Approach ("AMA") for the operational risk weighted asset equivalent.

Under prudential regulations, the Ultimate Parent Bank is required to hold a minimum Prudential Capital Ratio ("PCR") as determined by APRA. The APRA minimum PCR is at least equal to the levels specified under the Basel II (internal models based) approach. The Ultimate Parent Bank exceeded the minimum capital adequacy requirements set by APRA as at 31 March 2012 and for the comparative prior periods.

The Ultimate Parent Bank is required to publicly disclose Pillar III financial information as at 31 March 2012. The Ultimate Parent Bank's Consolidated Financial Report, Dividend Announcement and Appendix 4E, for the six months ended to 31 March 2012, discloses capital adequacy ratios calculated under the Basel II methodology. The Ultimate Parent Bank also prepares a quarterly Basel II Pillar III disclosure document, the APS 330. All these documents can be accessed at the website anz.com.

# Notes to the Financial Statements

## 11. Financial Risk Management

### Concentrations of credit risk

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

### Concentrations of credit risk analysis

| Unaudited 31/03/2012 $ millions | Liquid assets and due from other financial institutions | Trading securities and available-for-sale assets | Derivative financial instruments | Net loans and advances | Other financial assets | Credit related commitments | Total |
|---|---|---|---|---|---|---|---|
| **Industry** | | | | | | | |
| Agriculture | - | - | 66 | 16,944 | 99 | 1,989 | 19,098 |
| Forestry, fishing and mining | 37 | - | 6 | 714 | 4 | 343 | 1,104 |
| Business and property services | 15 | - | 49 | 8,424 | 49 | 2,446 | 10,983 |
| Construction | - | - | 2 | 864 | 5 | 1,018 | 1,889 |
| Entertainment, leisure and tourism | - | - | 31 | 1,101 | 6 | 462 | 1,600 |
| Finance and insurance | 2,255 | 4,079 | 8,655 | 761 | 270 | 1,372 | 17,392 |
| Government and local authority[1] | 1,865 | 6,943 | 356 | 1,221 | 251 | 1,225 | 11,861 |
| Manufacturing | 27 | 5 | 106 | 2,967 | 17 | 3,181 | 6,303 |
| Personal lending | - | - | 36 | 46,226 | 270 | 9,637 | 56,169 |
| Retail trade | 22 | 3 | 45 | 1,573 | 9 | 954 | 2,606 |
| Transport and storage | 26 | 57 | 78 | 1,631 | 10 | 617 | 2,419 |
| Wholesale trade | 50 | - | 17 | 1,273 | 7 | 1,418 | 2,765 |
| Other[2] | 16 | 69 | 512 | 2,158 | 15 | 2,048 | 4,818 |
| | 4,313 | 11,156 | 9,959 | 85,857 | 1,012 | 26,710 | 139,007 |
| Provisions for credit impairment | - | - | - | (1,119) | - | - | (1,119) |
| Fair value hedge adjustment | - | - | - | (8) | - | - | (8) |
| Unearned finance income and deferred/capitalised fees | - | - | - | (263) | - | - | (263) |
| Total | 4,313 | 11,156 | 9,959 | 84,467 | 1,012 | 26,710 | 137,617 |
| **Geography** | | | | | | | |
| New Zealand | 4,079 | 9,080 | 3,001 | 82,947 | 904 | 26,710 | 126,721 |
| Overseas | 234 | 2,076 | 6,958 | 1,520 | 108 | - | 10,896 |
| Total | 4,313 | 11,156 | 9,959 | 84,467 | 1,012 | 26,710 | 137,617 |

1 Government and local authority includes exposures to government administration and defence, education and health and community services.

2 Other includes exposures to electricity, gas and water, communications and personal services.

# Notes to the Financial Statements

### Interest rate sensitivity gap

The following table shows the interest rate sensitivity of the Banking Group's assets, liabilities and off balance sheet instruments by disclosing the repricing periods for these instruments (that is, when interest rates applicable to each asset or liability can be changed).

| Unaudited 31/03/2012 $ millions | Total | Less than 3 months | 3 to 6 months | 6 to 12 months | 1 to 2 years | Beyond 2 years | Not bearing interest |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Liquid assets | 2,355 | 2,159 | - | - | - | - | 196 |
| Due from other financial institutions | 1,958 | 1,829 | - | - | - | - | 129 |
| Trading securities | 10,904 | 1,532 | 458 | 212 | 3,569 | 5,133 | - |
| Derivative financial instruments | 9,959 | - | - | - | - | - | 9,959 |
| Available-for-sale assets | 252 | 30 | 3 | 60 | - | 41 | 118 |
| Net loans and advances | 84,467 | 64,792 | 4,043 | 5,557 | 6,275 | 3,352 | 448 |
| Other financial assets | 1,012 | 79 | 48 | 30 | 5 | 3 | 847 |
| Total financial assets | 110,907 | 70,421 | 4,552 | 5,859 | 9,849 | 8,529 | 11,697 |
| **Liabilities** | | | | | | | |
| Due to other financial institutions | 924 | 562 | - | - | - | 95 | 267 |
| Deposits and other borrowings | 70,914 | 45,603 | 11,313 | 5,851 | 1,201 | 1,641 | 5,305 |
| Due to Immediate Parent Company | 555 | 555 | - | - | - | - | - |
| Derivative financial instruments | 10,318 | - | - | - | - | - | 10,318 |
| Payables and other financial liabilities | 1,689 | 45 | - | - | 6 | 132 | 1,506 |
| Bonds and notes | 17,562 | 7,573 | 147 | 1,526 | 2,582 | 5,734 | - |
| Loan capital | 1,737 | - | 902 | - | 835 | - | - |
| Total financial liabilities | 103,699 | 54,338 | 12,362 | 7,377 | 4,624 | 7,602 | 17,396 |
| **Hedging instruments** | - | (1,297) | (2,896) | 3,041 | 216 | 936 | - |
| Interest sensitivity gap | 7,208 | 14,786 | (10,706) | 1,523 | 5,441 | 1,863 | (5,699) |

# Notes to the Financial Statements

## Funding Composition

The Banking Group actively uses balance sheet disciplines to prudently manage its funding mix. The Banking Group employs funding metrics to ensure that an appropriate proportion of its assets are funded from stable sources, including customer liabilities, longer-dated wholesale debt (with remaining terms exceeding one year) and equity.

| $ millions | Unaudited 31/03/2012 |
|---|---|
| **Funding composition** | |
| **Customer deposits**[1] | |
| New Zealand | 56,761 |
| Overseas | 7,418 |
| Total customer deposits | 64,179 |
| **Wholesale funding** | |
| Bonds and notes | 17,562 |
| Loan capital | 1,737 |
| Certificates of deposit | 2,277 |
| Commercial paper | 4,458 |
| Due to parent company | 555 |
| Due to other financial institutions | 924 |
| Total wholesale funding | 27,513 |
| Total funding | 91,692 |
| **Concentrations of funding by industry** | |
| Households | 41,247 |
| Agriculture | 2,449 |
| Forestry, fishing and mining | 571 |
| Manufacturing | 2,371 |
| Entertainment, leisure and tourism | 725 |
| Finance and insurance | 34,715 |
| Retail trade | 819 |
| Wholesale trade | 837 |
| Business and property services | 3,554 |
| Transport and storage | 529 |
| Construction | 728 |
| Government and local authority | 1,812 |
| Other[2] | 1,335 |
| Total funding | 91,692 |
| **Concentrations of funding by geography**[3] | |
| New Zealand | 63,393 |
| Australia | 1,667 |
| United States | 13,457 |
| Europe | 7,912 |
| Other countries | 5,263 |
| Total funding | 91,692 |

1 Represents term deposits, demand deposits bearing interest, deposits not bearing interest and secured debenture stock.

2 Other includes exposures to electricity, gas and water, communications and personal services.

3 Funding of the Banking Group via ANZ National (Int'l) Limited is classified as either from the United States or Europe, as the company conducts overseas funding activities through its London branch.

# Notes to the Financial Statements

### Liquidity portfolio management

The Banking Group holds a diversified portfolio of cash and high quality liquid securities to support liquidity risk management. The size of the Banking Group's liquidity portfolio is based on the amount required to meet its liquidity policy and includes both items classified as cash and cash equivalents and those classified as operating assets in the Statement of Cash Flows.

### Liquidity Portfolio

| $ millions | 31/03/2012 Unaudited |
|---|---|
| Balances with central banks | 1,513 |
| Securities purchased under agreement to resell | 1,256 |
| Certificates of deposit | 368 |
| Government, local body stock and bonds | 6,899 |
| Government treasury bills | 63 |
| Other bonds | 3,727 |
| Total liquidity portfolio | 13,826 |

### Contractual maturity analysis of financial assets and liabilities

The table below presents the Banking Group's financial assets and liabilities within relevant contractual maturity groupings, based on the earliest date on which the Banking Group may be required to realise an asset or settle a liability. The amounts disclosed in the tables represent undiscounted future principal and interest cash flows and may differ to the amounts reported on the balance sheet.

Derivatives (other than those designated in a hedging relationship) and trading portfolio assets and liabilities are included at their fair value, since they will frequently be settled before contractual maturity at fair value.

The contractual maturity analysis for off-balance sheet commitments and contingent liabilities has been prepared using the earliest date at which the Banking Group can be called upon to pay. The liquidity risk of credit related commitments and contingent liabilities may be less than the contract amount, and does not necessarily represent future cash requirements as many of these facilities are expected to be only partially used or to expire unused.

The Banking Group does not manage its liquidity risk on the basis of the information below.

| Unaudited 31/03/2012 $ millions | Total | At call | Less than 3 months | 3 to 12 months | 1 to 5 years | Beyond 5 years | No maturity specified |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Liquid assets | 2,355 | 2,012 | 343 | - | - | - | - |
| Due from other financial institutions | 1,960 | 509 | 1,451 | - | - | - | - |
| Trading securities | 11,806 | - | 412 | 1,036 | 9,184 | 1,174 | - |
| Derivative financial assets (trading) | 8,655 | - | 8,655 | - | - | - | - |
| Available-for-sale assets | 262 | - | 31 | 64 | 49 | - | 118 |
| Net loans and advances | 114,878 | - | 11,769 | 20,683 | 34,603 | 47,823 | - |
| Other financial assets | 660 | - | 560 | 78 | 18 | 1 | 3 |
| Total financial assets | 140,576 | 2,521 | 23,221 | 21,861 | 43,854 | 48,998 | 121 |
| **Financial liabilities** | | | | | | | |
| Due to other financial institutions | 948 | 560 | 258 | 4 | 20 | 106 | - |
| Deposits and other borrowings | 72,175 | 28,612 | 22,255 | 18,159 | 3,139 | 10 | - |
| Due to Immediate Parent Company | 560 | - | 560 | - | - | - | - |
| Derivative financial liabilities (trading) | 9,349 | - | 9,349 | - | - | - | - |
| Other financial liabilities | 1,192 | - | 980 | 7 | 78 | 127 | - |
| Bonds and notes | 18,735 | - | 2,782 | 2,427 | 12,514 | 1,012 | - |
| Loan capital | 2,726 | - | 35 | 104 | 691 | 724 | 1,172 |
| Total financial liabilities | 105,685 | 29,172 | 36,219 | 20,701 | 16,442 | 1,979 | 1,172 |
| Net financial assets / (liabilities) | 34,891 | (26,651) | (12,998) | 1,160 | 27,412 | 47,019 | (1,051) |
| **Derivative financial instruments used for balance sheet management** | | | | | | | |
| – gross inflows | 17,522 | - | 2,197 | 3,891 | 10,971 | 463 | - |
| – gross outflows | (16,953) | - | (2,316) | (3,684) | (10,497) | (456) | - |
| Net financial assets / (liabilities) after balance sheet management | 35,460 | (26,651) | (13,117) | 1,367 | 27,886 | 47,026 | (1,051) |

# Notes to the Financial Statements

**Contractual maturity of off-balance sheet commitments and contingent liabilities**

| $ millions | Total | Less than 1 year | Beyond 1 year |
|---|---|---|---|
| **Unaudited 31/03/2012** | | | |
| Non-credit related commitments | 237 | 89 | 148 |
| Credit related commitments | 23,978 | 23,978 | - |
| Contingent liabilities | 2,732 | 2,732 | - |
| Total | 26,947 | 26,799 | 148 |

## 12. Concentrations of Credit Risk to Individual Counterparties

The Banking Group measures its concentration of credit risk in respect to bank counterparties on the basis of approved exposures, and in respect to non bank counterparties on the basis of limits.

For the six months ended 31 March 2012 there were no individual counterparties (excluding connected parties, governments and banks with long term credit ratings of A- or above) where the Banking Group's period end or peak end-of-day credit exposure equalled or exceeded 10% of the Banking Group's equity (as at the end of the period).

## 13. Insurance business

The Banking Group conducts insurance business through companies in the OnePath Insurance Holdings (NZ) Limited group. The aggregate amount of insurance business in this group comprises assets totalling $525 million (31/03/2011: $353 million; 30/09/2011 $438 million), which is 0.5% (31/03/2011: 0.3%; 30/09/2011 0.4%) of the total consolidated assets of the Banking Group.

## 14. Credit Related Commitments and Contingent Liabilities

| | Face or contract value | | |
|---|---|---|---|
| $ millions | **Unaudited 31/03/2012** | Unaudited 31/03/2011 | Audited 30/09/2011 |
| **Credit related commitments** | | | |
| Commitments with certain drawdown due within one year | **904** | 567 | 527 |
| Commitments to provide financial services | **23,074** | 22,030 | 22,526 |
| Total credit related commitments | **23,978** | 22,597 | 23,053 |
| **Contingent liabilities** | | | |
| Financial guarantees | **1,752** | 1,888 | 1,753 |
| Standby letters of credit | **55** | 68 | 60 |
| Transaction related contingent items | **829** | 957 | 882 |
| Trade related contingent liabilities | **96** | 60 | 110 |
| Total contingent liabilities | **2,732** | 2,973 | 2,805 |

The Banking Group guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties, including its Ultimate Parent Bank. To reflect the risk associated with these transactions, they are subjected to the same credit origination, portfolio management and collateral requirements as for customers that apply for loans. The contract amount represents the maximum potential amount that could be lost if the counterparty fails to meet its financial obligations. As the facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

### Other contingent liabilities

The Banking Group has other contingent liabilities in respect of actual and possible claims and court 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 where deemed necessary.

# Directors' Statement

As at the date on which this Disclosure Statement is signed, after due enquiry, each Director believes that:

(i) The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2012; and

(ii) The Disclosure Statement is not false or misleading.

Over the six months ended 31 March 2012, after due enquiry, each Director believes that:

(i) ANZ National Bank Limited has complied with all Conditions of Registration that applied during that period;

(ii) Credit exposures to connected persons were not contrary to the interests of the Banking Group;

(iii) ANZ National Bank Limited had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

**This Disclosure Statement is dated, and has been signed by or on behalf of all Directors of the Bank on, 11 May 2012. On that date, the Directors of the Bank were:**

**A J Carter**

**S C Elliott**

**N M T Geary, CBE**

**D D Hisco**

**J F Judge**

**P R Marriott**

**M R P Smith, OBE**

**Sir Dryden Spring, Kt**

KPMG

# Independent Auditors' Review Report

**To the Shareholder of ANZ National Bank Limited**

We have reviewed pages 3 to 25 of the interim financial statements of ANZ National Bank Limited (the 'Bank') and its subsidiary companies (the 'Banking Group') prepared and disclosed in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2012 (the 'Order') and the supplementary information prescribed in Schedules 3, 5, 7, 11, 13, 16 and 18 of the Order. The interim financial statements, and supplementary information, provide information about the past financial performance and cash flows of the Banking Group and its financial position as at 31 March 2012.

**Directors' responsibilities**

The Directors of ANZ National Bank Limited are responsible for the preparation and presentation of the Disclosure Statement, which includes interim financial statements prepared in accordance with Clause 25 of the Order which give a true and fair view of the financial position of the Banking Group as at 31 March 2012 and its financial performance and cash flows for the six months ended on that date. The Directors are also responsible for such internal controls as they determine are necessary to enable the preparation of the Disclosure Statement that is free from material misstatement whether due to fraud or error.

They are also responsible for the preparation of supplementary information in the Disclosure Statement which fairly states the matters to which it relates in accordance with Schedules 3, 5, 7, 11, 13, 16 and 18 of the Order.

**Reviewers' responsibilities**

We are responsible for reviewing the interim financial statements and the supplementary information, disclosed in accordance with Clause 25, Schedules 3, 5, 7, 11, 13, 16 and 18 of the Order and presented to us by the Directors.

We are responsible for reviewing the interim financial statements (excluding the supplementary information) in order to report to you whether, in our opinion on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the interim financial statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34 ("NZ IAS 34"): Interim Financial Reporting and do not present a true and fair view of the financial position of the Banking Group as at 31 March 2012 and its financial performance and cash flows for the six months ended on that date.

We are responsible for reviewing the supplementary information (excluding the supplementary information relating to capital adequacy) in order to report to you whether, in our opinion on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order.

We are responsible for reviewing the supplementary information relating to capital adequacy in order to state whether, on the basis of the procedures described below, anything has come to our attention that cause us to believe that the information disclosed in accordance with Schedule 11 is not in all material respects prepared in accordance with the Bank's Conditions of Registration and with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand and disclosed in accordance with Schedule 11 of the Order.

We have performed our review in accordance with the review engagement standard RS-1 Statement of Review Engagement Standards issued by the External Reporting Board. A review is limited primarily to enquiries of Banking Group personnel and analytical review procedures applied to the financial data, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

KPMG has also provided other audit related services to the Banking Group. In addition, certain partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. These matters have not impaired our independence as auditors of the Banking Group. We have no other relationship with, or interest in, the Banking Group.

**Review Opinion**

We have examined the interim financial statements including the supplementary information and based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

(a) the interim financial statements (excluding the supplementary information) have not been prepared, in all material respects, in accordance with NZ IAS 34: Interim Financial Reporting and do not present a true and fair view of the financial position of the Banking Group as at 31 March 2012 and its financial performance and cash flows for the six months ended on that date;

(b) the supplementary information prescribed by Schedules 5, 7, 13, 16 and 18 of the Order does not fairly state the matters to which it relates in accordance with those Schedules; and

(c) the supplementary information relating to Capital Adequacy as required by Schedule 11 of the Order, is not in all material respects prepared in accordance with the Bank's Conditions of Registration, with the Reserve Bank of New Zealand document Capital Adequacy Framework (Internal Models Based Approach) (BS2B), and with the Banking Group's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand, and disclosed in accordance with Schedule 11 of the Order.

Our review was completed on 11 May 2012 and our review opinion is expressed as at that date.

KPMG

Wellington

ANZ National Bank Limited ANZ12772 05/12