

**ASB**

# Investor Presentation

.....  
16<sup>th</sup> and 17<sup>th</sup> November, 2010

A member of the CBA Group

**Commonwealth**Bank



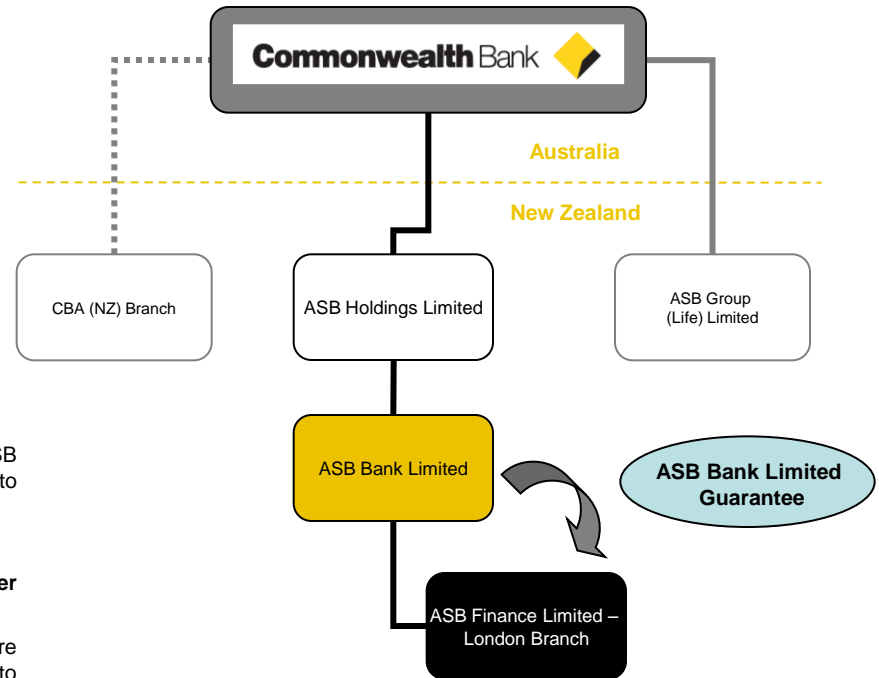
# Who we are...

## ASB – New Zealand’s Best Bank

- Established in 1847
- CBA acquired 75% in 1989
- Wholly owned by CBA since 2000
- Total Assets NZ\$63.56bn as at June 2010
- 4,550 employees
- AA/Aa2 (both stable outlook)
- Tier 1 Capital Ratio 10.9% as at June 2010 (Basel II)
- Leading main bank share in retail banking over 1.1 million customers
- Top major NZ bank in customer satisfaction (source: The Nielsen Company, Consumer Finance Monitor)
- 12.1% of NZ bank branches and 18.6% of Atm's
- UK's Banker Magazine, "Bank of the Year" award for New Zealand for seven consecutive years between 2002-2008.

## ASB Finance Limited

- ASB Finance Limited ("ASB Finance") is a wholly owned subsidiary of ASB Bank Limited ("ASB Bank"), incorporated for the purpose of raising funds from offshore institutional debt markets to fund ASB Bank operations.
- ASB Bank established the ASB Finance Limited – London Branch operation in October 2006.
- ASB Bank Limited has fully guaranteed the debt obligations of ASB Finance Limited under it's ECP, US CP & EMTN programmes.**
- The primary activities of ASB Finance Limited – London Branch is to raise funds from offshore institutional debt markets under approved debt issuance programs and to on-lend those funds to ASB Bank
- Dedicated London based employee, issuing in the name of ASB Finance Limited – London Branch.



Source: Company Data

# Current Operating Environment – Strategic Context

	Key Risk	Description
Macro-economic	Prolonged Recession	<ul style="list-style-type: none"> <li>The economy has entered a second year of growth but pockets of weakness remain. Headline inflation expected to spike in 2011 due to government initiatives (i.e. GST increase, ETS introduction).</li> </ul>
	Delayed Housing Recovery	<ul style="list-style-type: none"> <li>Recovery export led, rather than originally housing led, with a stronger business outlook against more subdued consumer/household sector. Modest decline of 3-4% in the house prices expected due to rental property tax changes, rising interest rates and slowing population growth.</li> </ul>
	Uncertain Impact of Natural Disaster	<ul style="list-style-type: none"> <li>The long term impacts of the Christchurch earthquake are yet to be fully determined. Economic output will be disrupted in short term, but reconstruction will provide a longer-lasting boost.</li> </ul>
Industry Structure	Kiwibank Growth	<ul style="list-style-type: none"> <li>The current government has indicated it will continue to support Kiwibank's growth aspirations through uncalled capital support. Kiwibank continues to grow strongly with ongoing diversification across segments and product lines.</li> </ul>
	Funding Constraints	<ul style="list-style-type: none"> <li>Tough competition to secure deposits continues to drive increased funding costs. While competition for lending is not as intense as banks move to reduce LDR, flat system growth increases challenge.</li> </ul>
	Government Deposit Guarantee	<ul style="list-style-type: none"> <li>Recent collapse of South Canterbury Finance has highlighted the ongoing difficulties experienced in the finance company sector despite the backup of the government Deposit Guarantee scheme. This sector has now largely been hollowed out with few major players remaining.</li> </ul>
Regulation	Liquidity Management	<ul style="list-style-type: none"> <li>New RBNZ Prudential Liquidity Policy, in force from April 2010, requires a core funding ratio of 65% (transitioning to 75% over two years). This has triggered a 'price war' for deposits.</li> </ul>
	Compliance Requirements	<ul style="list-style-type: none"> <li>Financial Advisors Act – Increased educational requirements for advisors may eliminate smaller players. First elements of legislation in force from August 2010, phasing in until July 2011.</li> <li>Anti Money Laundering – Increased compliance requirements / costs. (In consultation process).</li> </ul>

# Key ASB Financials

# ASB Bank Financial Result

NZDm	Full Year Ended			Half Year Ended		
	Jun-09	Jun-10	FY 10 vs FY 09	Dec-09	Jun-10	2H10 VS 1H10
Net Interest Income	980	1,033	5%	506	527	4%
Other Banking Income	532	392	(26%)	219	173	(21%)
<b>Operating Income</b>	<b>1,512</b>	<b>1,425</b>	<b>(6%)</b>	<b>725</b>	<b>700</b>	<b>(3%)</b>
Operating Expenses	(632)	(659)	(4%)	(319)	(340)	(7%)
<b>Underlying Performance</b>	<b>880</b>	<b>766</b>	<b>(13%)</b>	<b>406</b>	<b>360</b>	<b>(11%)</b>
Impairment Expenses	(238)	(125)	47%	(127)	2	102%
<b>NPBT</b>	<b>642</b>	<b>641</b>	<b>(0%)</b>	<b>278</b>	<b>362</b>	<b>30%</b>
Taxation	(217)	(405)	(86%)	(294)	(111)	62%
<b>Statutory NPAT</b>	<b>425</b>	<b>236</b>	<b>(44%)</b>	<b>(16)</b>	<b>252</b>	<b>Large</b>

## Operating Income down 6%

- Moderate Net Interest Income growth as a result flat balance growth and a falling interest rate environment less improved margin re-pricing on the fixed lending book
- Decline in Other Banking Income driven primarily by reduced fixed rate loan break fee's (- \$102m)

## Operating Expense up 4%

- Higher Staff costs (+4%) driven primarily salary & wage increases (2%) & staff incentives returning to 09 levels

## Loan Impairment Expense (LIE) down 52%

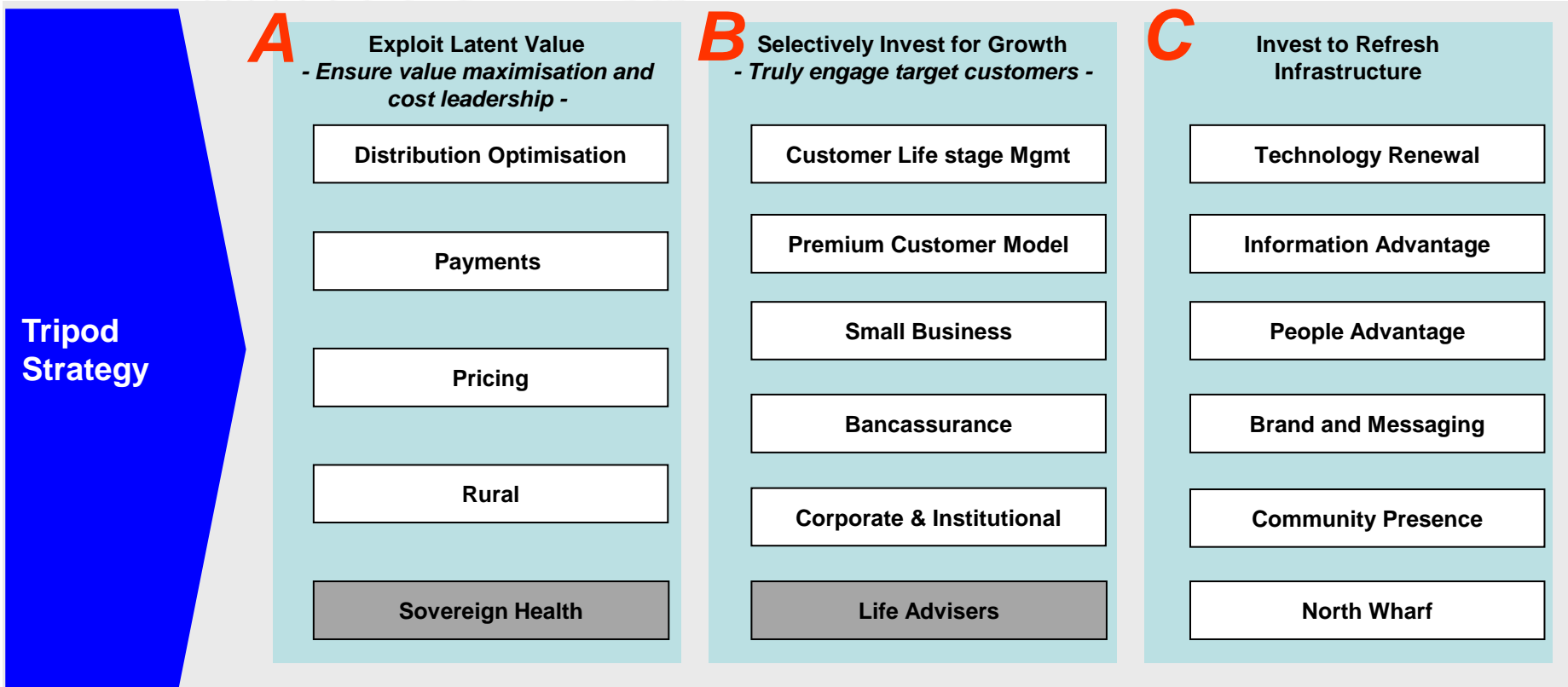
- Reduced LIE in line with improved economic conditions. Arrears rates at similar levels to 09 except Personal Loans
- Model adjustments (-\$30m) re reduced management overlay (-\$11m) & loss emergence period (\$-19m)

## Tax Expense

- Includes settlement of conduit dispute in December 10.

# Strategy

- ASB's Strategy 'tripod' is comprised of three planks and 17 underpinning programmes or initiatives sequenced for delivery over 5 years:

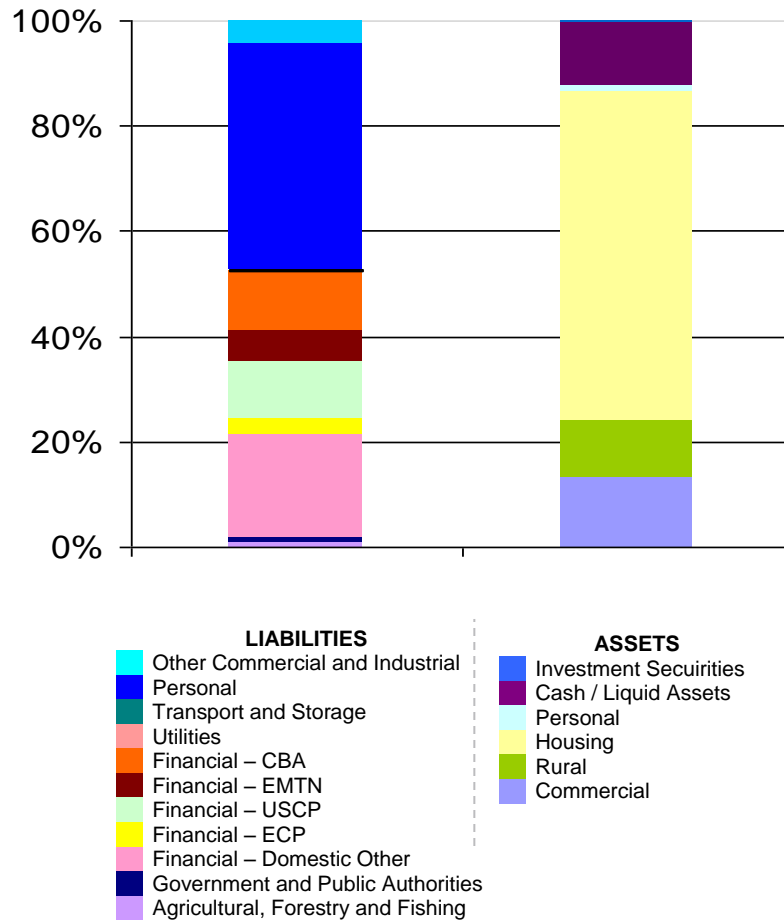


 Sovereign Led initiatives

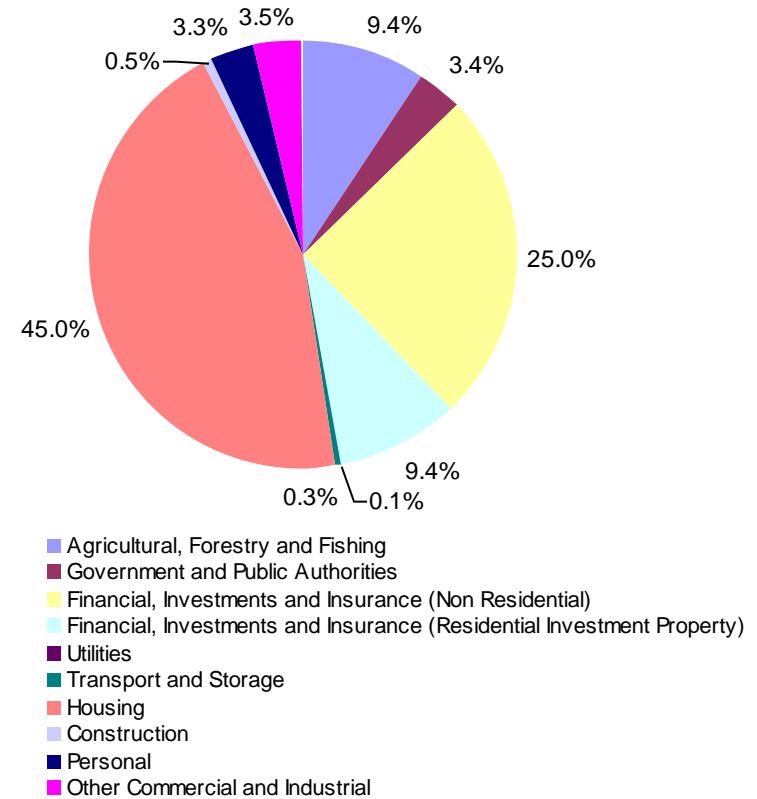
# ASB Asset Quality

# Balance Sheet – Focused on High Quality Assets

## 1 ASB Balance Sheet Composition



## 2 ASB's Credit Exposures



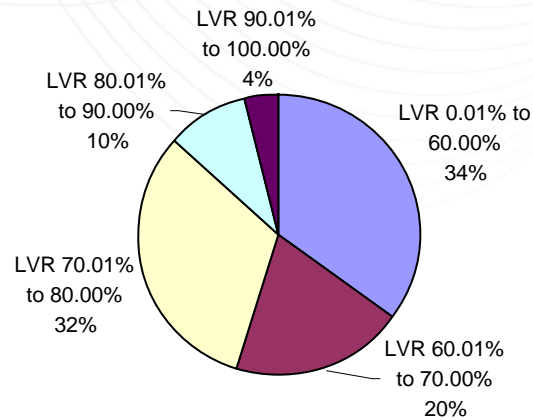
Source: Company Data December 2009





# Focused on Conservative Asset Management

## 1 Loan to Valuation Ratio's for ASB's Home Loan Portfolio

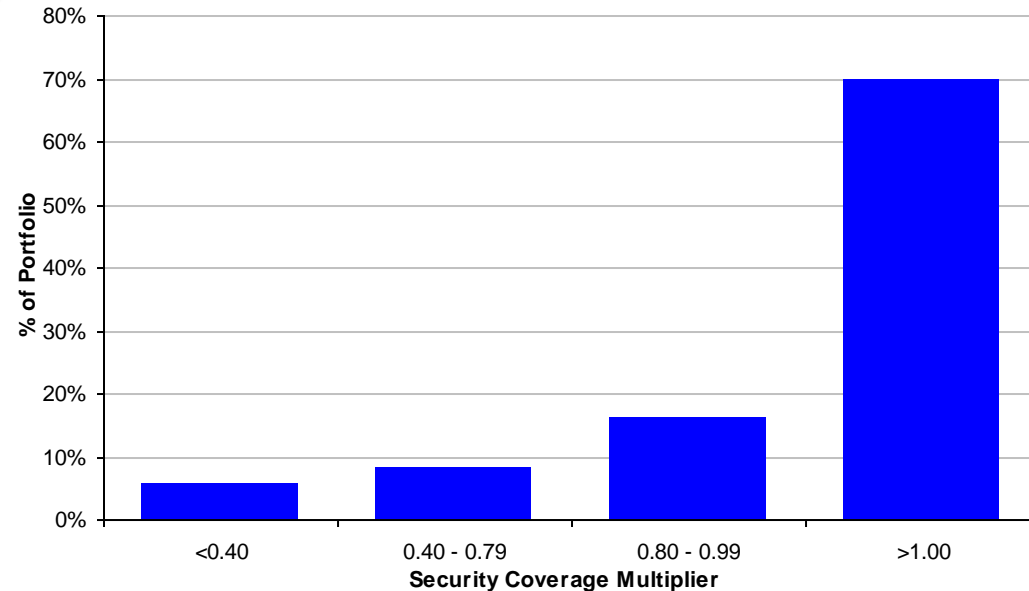


Source: Company Data September 2010

### Note:

- Some mortgages originated via Sovereign Home Loans are covered by Lender Mortgage Insurance (LMI) (Low Doc Loans with an LVR over 70% and other loans with LVR >80%).
- Total home loan book has approximately 0.8% with 100% LMI and 7.2% with top 20% LMI.

## 2 Well Secured Commercial Asset Book

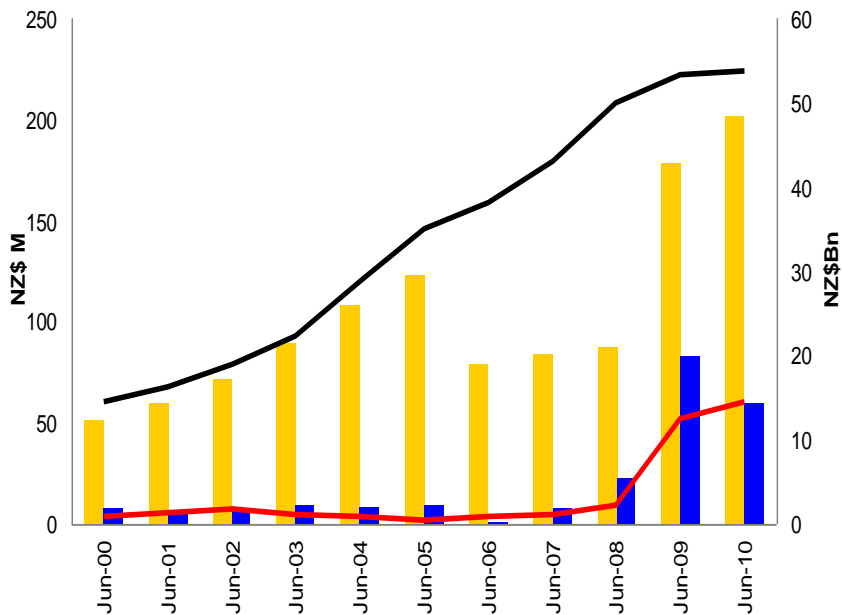


Source: Company data



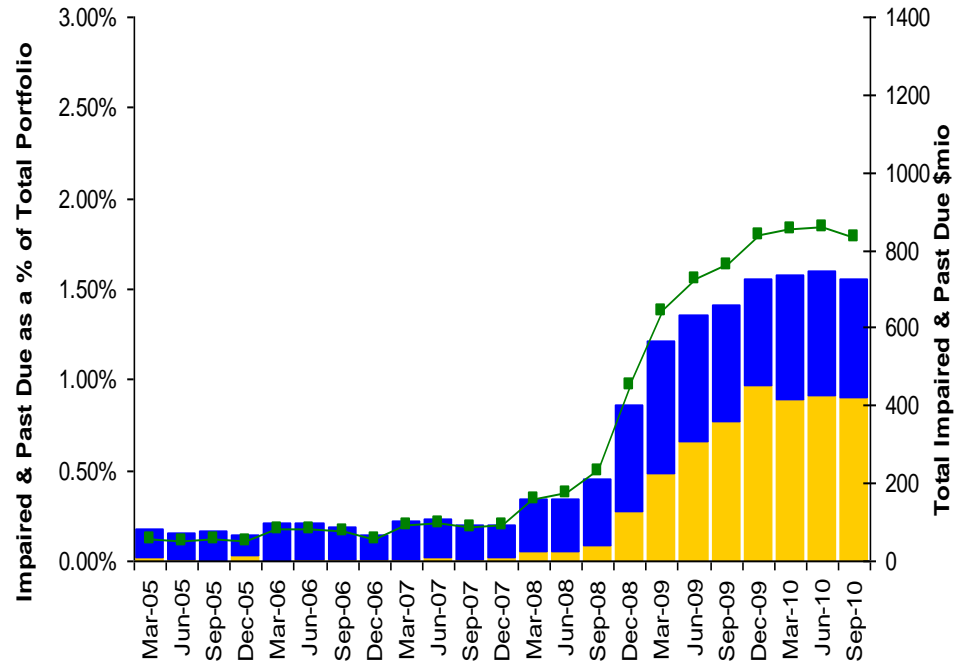
# Focused on Conservative Asset Management

## 1 Provisions/Average Loans and Net Charge Offs



■ General Provisions (LHS)      ■ Specific Provisions (LHS)  
— Gross Loans & Other Receivables (RHS)      — Net Write-Offs (LHS)

## 2 Impaired and Past Due Assets



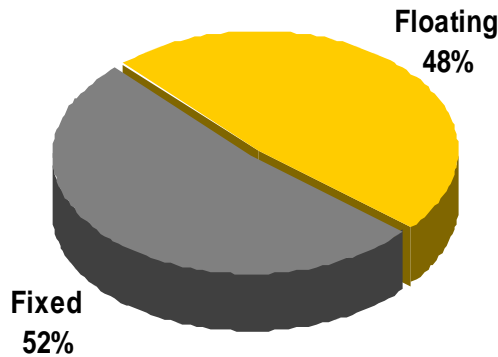
■ % 90Days+ PastDue (LHS)  
■ % Impaired (LHS)  
◆ 90Days+ PastDue and Impaired (\$M) (RHS)

Source: Company Data

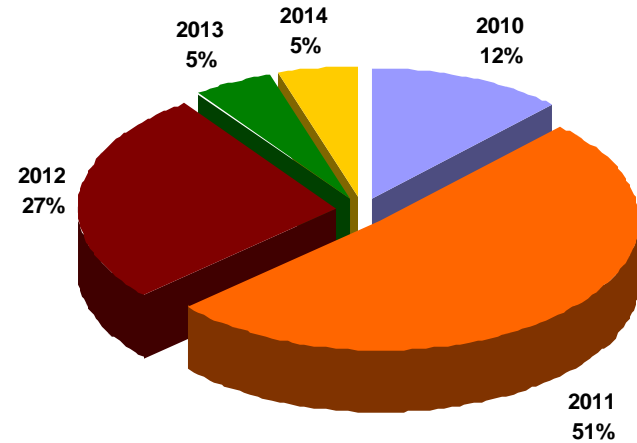


# ASB Loan Structure Overview

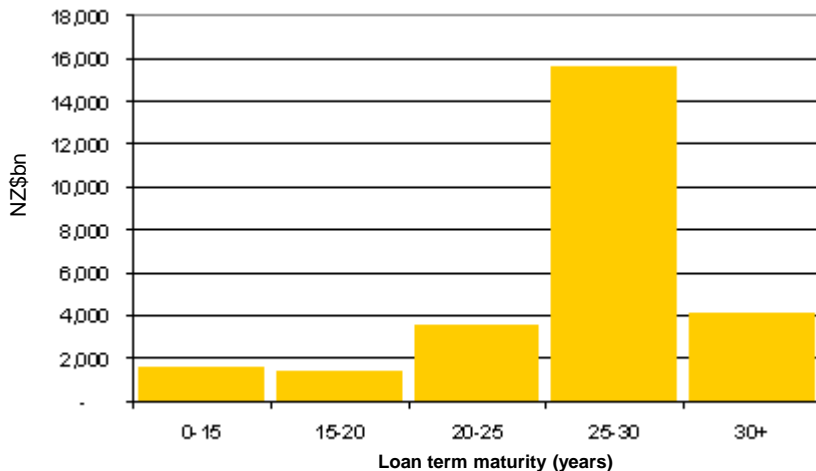
## 1 Structure of Loan portfolio



## 2 Fixed Repricing Profile



## 3 Term Structure of Loan Portfolio



### Legal Differences between the US and New Zealand mortgage markets

- New Zealand law allows banks or creditors to file for Bankruptcy, with banks potentially having recourse on the mortgagor's other financial assets
- No home loans are sold at discount-then-step-up interest pricing
- The consumer pays economic break costs associated with early payments and discharges

Source: Company Data



# Ratings Overview



**Moody's Investors Service**

- “Sizeable retail deposit base and focus to moderate lending growth.”
- “Solid franchise in the Auckland (New Zealand’s largest city) and stable national market shares.”
- “Residential mortgage lending underpinning asset quality.”

Source: Credit Opinion Moody's September 2010

**STANDARD  
& POOR'S**

- “Ownership by Commonwealth Bank of Australia.”
- “Strong local franchise and brand image.”
- “Asset quality supported by a high proportion of typically low-risk residential mortgages.”
- Low-risk traditional retail and commercial banking model.”

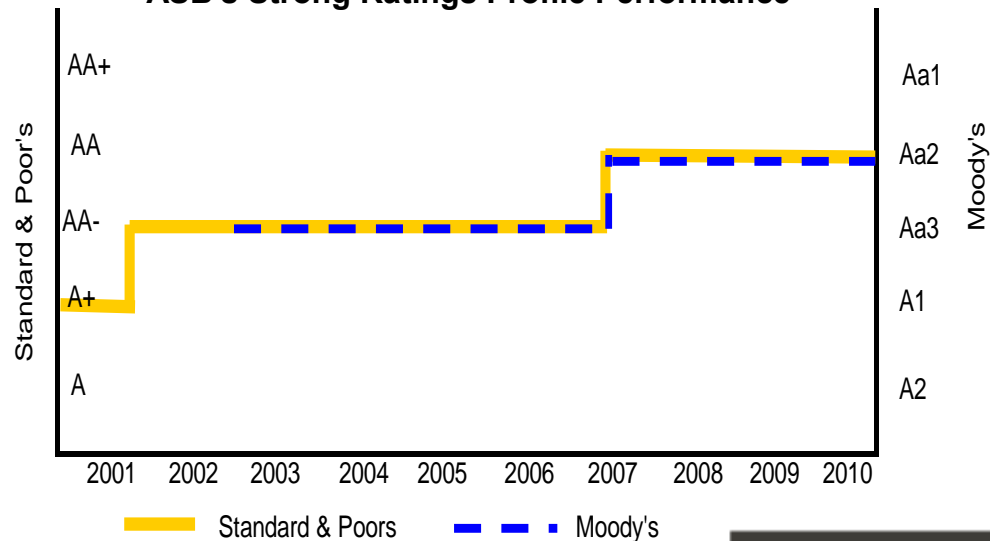
Source: Standard & Poor's September 2010

## Ratings Overview

	ASB		CBA	
	Moody's	S&P	Moody's	S&P
<b>Short term</b>	P-1	A-1+	P-1	A-1+
<b>Long term</b>	Aa2	AA	Aa1	AA
<b>BFS*</b>	C+	B+	B	B+
<b>Outlook</b>	Stable	Stable	Stable	Stable

\* Bank Financial Strength

### ASB's Strong Ratings Profile Performance



Source: Bloomberg



# Capital and Funding

# ASB's Capital Position

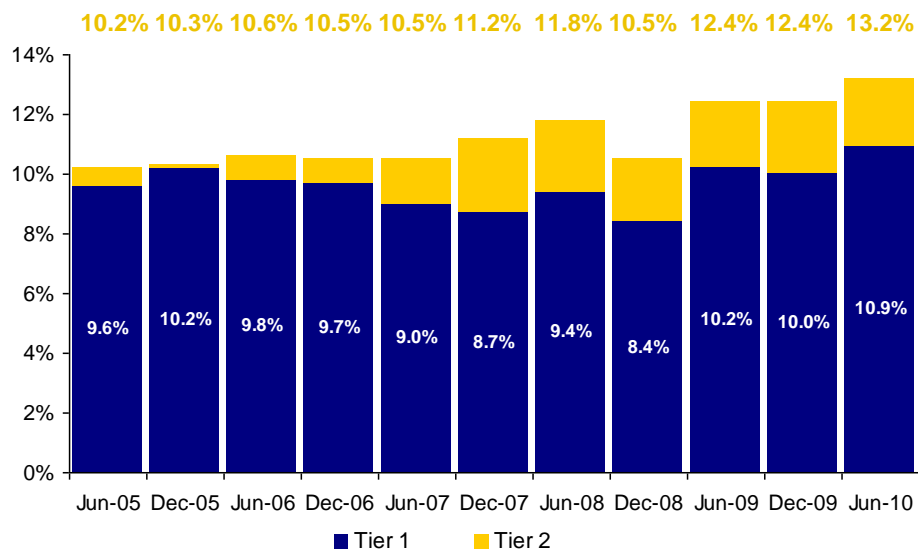
## Tier 1

- Tier 1 Capital ratio of 10.9% as at June 2010, exceeds regulatory minimum of 4%

## Total Capital

- Total Capital of 13.2%, significantly above 8% regulatory minimum

## Historical Capital Position



Capital ratios using Basel II methodology.

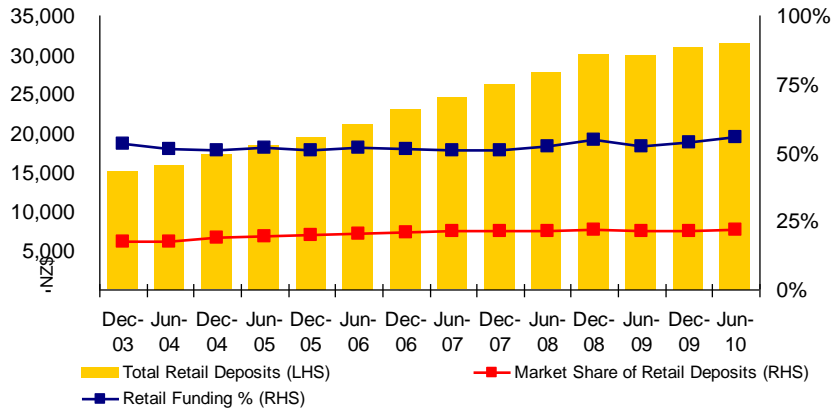
## ASB Capital Breakdown Snapshot

	Jun 2010	Dec 2009	Jun 2009
<b>Tier 1</b>	<b>NZ\$bn</b>	<b>NZ\$bn</b>	<b>NZ\$bn</b>
Paid in Capital	2.2	2.2	2.2
Perpetual Pref. Shares	0.6	0.6	0.6
Revenue & Reserves & Retained earnings	0.9	0.8	0.8
Less deductions	(0.2)	(0.2)	(0.2)
	3.5 (10.9%)	3.4 (10.0%)	3.4 (10.2%)
<b>Tier 2</b>	<b>NZ\$bn</b>	<b>NZ\$bn</b>	<b>NZ\$bn</b>
Subordinated Debt	0.8	0.8	0.8
Less deductions	(0.1)	(0.1)	(0.1)
<b>Total Capital</b>	<b>4.2</b>	<b>4.1</b>	<b>4.1</b>
<b>Total Capital %</b>	<b>13.2%</b>	<b>12.4%</b>	<b>12.4%</b>

Source: Company Data – June 2010

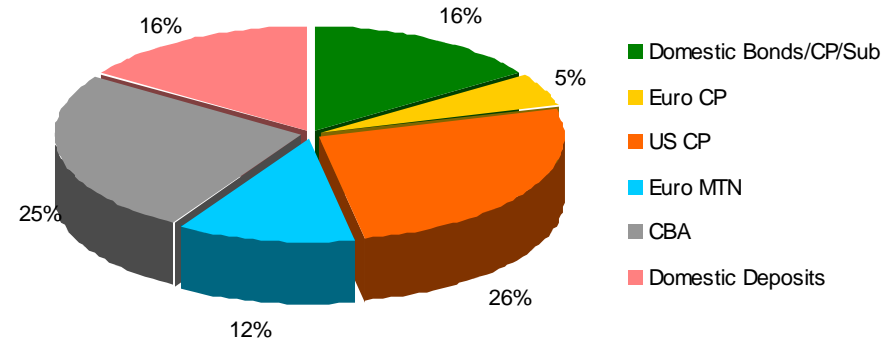
# ASB's Offshore Funding Programmes

## 1 Retail Funding

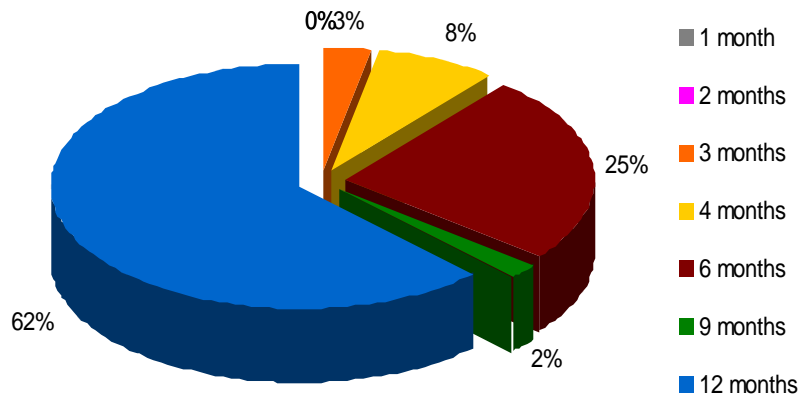


Source: Company Data / RBNZ Statistics

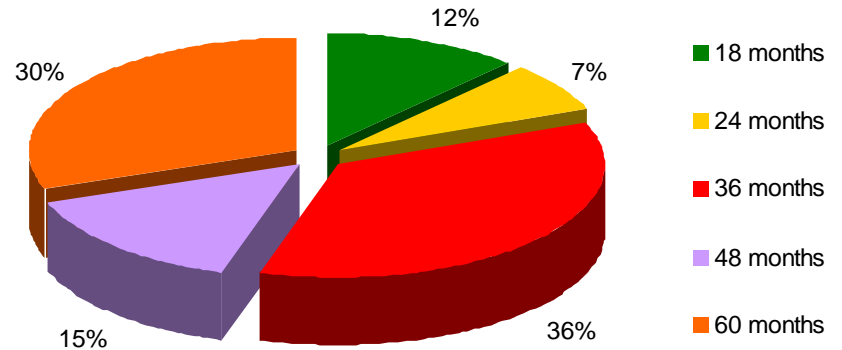
## 2 Wholesale funding



## 3 Offshore CP



## 4 Euro MTN



# Funding Objectives & Strategies



# ASB Funding Objectives and Strategies

- Coordinated issuance strategy with CBA
- Ongoing focus on domestic retail funding
- Commitment to all offshore funding programmes
- Increase name recognition in all offshore markets where ASB participates
- Early adopter of RBNZ Core Funding Ratio target
- Increase focus on new investors and new funding sources

# Funding Sources

## North America

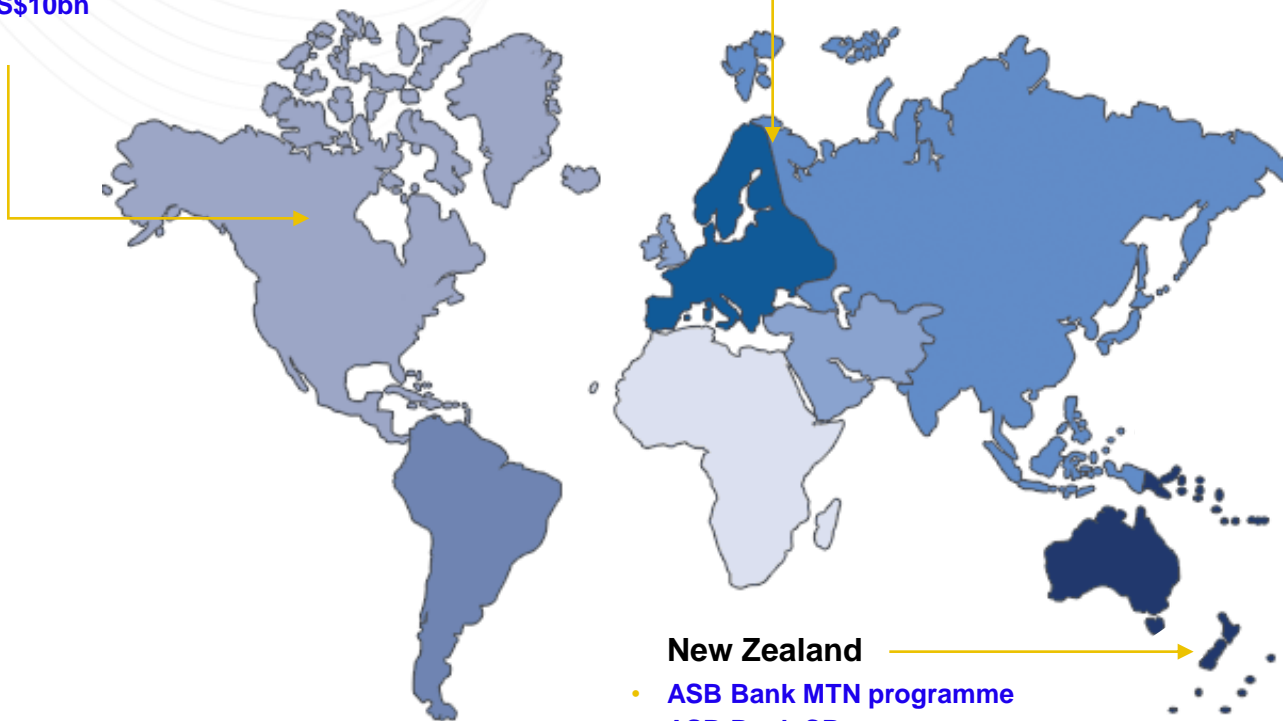
- ASB Bank & ASB Finance USCP programme US\$7bn
- ASB Finance Extendible programme US\$10bn

## Europe & Asia

- CBA & ASB Finance EMTN Programme US\$70bn
- ASB Finance ECP US\$7bn

## New Zealand

- ASB Bank MTN programme
- ASB Bank CP
- Retail Deposit base



# Key Funding Contacts

## ASB Bank Limited

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# Disclaimer

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