ASB Disclosure Statement and Annual Report

For the year ended 30 June 2016

Contents

Consolidated Performance in Brief

For the year ended 30 June	2016	2015 [6]	2014 [6]
Income Statement ($ millions)			
Interest income	**4,048**	4,106	3,628
Interest expense	**2,286**	2,439	2,091
Net interest earnings	**1,762**	1,667	1,537
Other income	**464**	419	435
Total operating income	**2,226**	2,086	1,972
Impairment losses on advances	**130**	89	56
Total operating income after impairment losses	**2,096**	1,997	1,916
Total operating expenses	**826**	805	767
Net profit before taxation	**1,270**	1,192	1,149
Taxation	**357**	333	343
Net profit after taxation ("Statutory Profit")	**913**	859	806
Reconciliation of statutory profit to cash profit ($ millions)			
Net profit after taxation ("Statutory Profit")	**913**	859	806
Reconciling items:			
Hedging and IFRS volatility[1]	**11**	31	(5)
Notional inter-group charges[2]	**(8)**	(14)	(59)
Reporting structure differences[3]	**(9)**	(10)	(11)
Taxation on reconciling items and prior period adjustments	**1**	(2)	45
Cash net profit after taxation ("Cash Profit")	**908**	864	776

As at 30 June	2016	2015 [6]	2014 [6]
Balance Sheet ($ millions)			
Total assets	**81,606**	75,903	68,380
Advances to customers	**72,075**	65,383	60,664
Total liabilities	**74,794**	70,525	63,214
Deposits and other public borrowings (excludes repurchase agreements)	**54,702**	52,163	44,522
Performance[4]			
Return on ordinary shareholder's equity	**18.1%**	19.1%	17.6%
Return on total average assets	**1.2%**	1.2%	1.1%
Net interest margin	**2.32%**	2.38%	2.24%
Total operating expenses as a percentage of total operating income	**37.3%**	38.4%	40.5%
Capital ratios[5]			
Common equity tier one capital as a percentage of total risk-weighted exposures	**10.0%**	8.8%	10.6%
Tier one capital as a percentage of total risk-weighted exposures	**12.4%**	10.8%	11.7%
Total capital as a percentage of total risk-weighted exposures	**13.3%**	11.8%	12.7%

(1) Hedging and IFRS volatility includes unrealised fair value gains or losses on economic hedges that do not qualify for hedge accounting and also includes unrealised fair value gains or losses on the ineffective portion of economic hedges that do qualify for hedge accounting under IFRS. Fair value gains or losses on all of these economic hedges are excluded from Cash Profit since the asymmetric recognition of the gains or losses does not affect the Bank's performance over the life of the hedge.
(2) This represents the recognition of a notional cost of capital from the ultimate parent and other allocated costs which are not included in Statutory Profit.
(3) Results of certain business units are excluded from Cash Profit for management reporting purposes, but included in Statutory Profit.
(4) These performance metrics are calculated on a Cash Profit basis.
(5) Capital ratios were prepared in accordance with the Basel III framework.
(6) Certain comparatives have been restated to ensure consistency with the current period's presentation.

Performance Overview

Customer focus delivers solid annual result for ASB

ASB today reported statutory net profit after taxation (NPAT) of $913 million for the financial year ended 30 June 2016. This represents a 6% increase on the prior financial year.

Cash NPAT was $908 million, an increase of 5% on the prior financial year. Cash NPAT is the preferred measure of financial performance as it presents ASB's underlying operating results and excludes items that introduce volatility and/or one-off distortions, and are not considered representative of ASB's on-going financial performance.(1)

The performance was a product of sustained growth in key market segments and a focus on providing exceptional experiences for customers. It was a result achieved against the backdrop of a highly competitive market and some significant headwinds in the form of global market volatility and fluctuating commodity prices. Despite this, ASB remained focused on executing its strategy and pursuing initiatives to drive profitable growth across the business.

Customer advances are up 10% reflecting strong lending growth across all key portfolios including business, commercial, rural, personal and home lending. At the same time, deposits have grown 5%.

Cash net interest margin decreased by 6 basis points to 2.32% reflecting a highly competitive environment and the continued popularity of lower-margin fixed rate mortgages.(2)

ASB's loan impairment expense was $130 million, up 46% from the prior financial year as a result of increased provisions, particularly in the dairy sector. ASB has taken a conservative position and has increased provisions in the dairy sector accordingly. The Bank remains confident in the asset quality of its rural book and sees its farming customers responding well and managing their businesses in response to the conditions.

A key pillar of ASB's strategy is around leveraging technology to improve the way the Bank serves its customers through offering simple, seamless and secure mobile and digital experiences. More than three quarters of ASB's personal customers are active on the Bank's digital channels and are accessing an increasing range of banking services through their mobile devices. As a result, ASB has seen sales made through its digital channels more than double over the past two years. ASB's success in offering the best mobile experience has been acknowledged with the Bank being named as first in mobile app banking satisfaction against its competitors.(3)

A prime example of the way ASB is focusing on its customers and building on its long history of innovation is the success of ASB Card Control. ASB Card Control gives customers the ability to manage their ASB Visa cards anywhere, any time through the ASB Mobile app, including the ability for customers to temporarily lock their card if they lose it, turn off ATM withdrawals, set spending limits and more. Since its launch last year, more than 167,000 customers have used Card Control and the service has safeguarded customers from more than $1 million of potential fraud.

A focus on innovation and technology also drives efficiency and ASB continues to transform its business, streamline how it operates and digitise processes. Even with continued significant investments in technology and specialist frontline capability, disciplined cost management and efficiency improvement saw a 110 basis points reduction in the Bank's cost to income ratio to 37.3%.

ASB's achievements over the past financial year would not have been possible without the ambition, passion and commitment of its people nationwide. The Bank has worked hard to maintain a high-performance, supportive culture where different backgrounds and perspectives are recognised and harnessed. The results of the Bank's Kenexa employee engagement survey this year confirmed once again that ASB has one of the most engaged workforces globally.

(1) Items include hedging and IFRS volatility, the notional cost of capital charged by the Commonwealth Bank of Australia (the ultimate parent of ASB Bank Limited) and other material non-recurring items. These items are calculated consistently period on period and do not discriminate between positive and negative adjustments. Refer to the Consolidated Performance in Brief for a reconciliation of the statutory and cash net profit after taxation, and for further information on these items.
(2) Fixed rate prepayment recoveries have been reclassified from other income to net interest earnings to align with market practice. This reclassification has no impact on net profit after taxation.
(3) Retail Market Monitor – June 2016.

Performance Overview (continued)

ASB maintains a strong belief in the importance of making a positive impact on the communities in which it operates. Over the course of the financial year, the Bank contributed more than $12 million in donations, community investments, and sponsorships. Key successes have included the Bank's ongoing partnership with the All Blacks and the completion of the first combined ASB Classic Tennis tournament featuring both women's and men's fields. In addition, the ASB GetWise financial literacy programme for schools passed another milestone recently with 600,000 children having been registered to receive an ASB GetWise session.

ASB's Clever Kash digital moneybox also won a Gold Lion in June at the Cannes Lions International Festivity of Creativity in the Financial Services category.

In addition, ASB was, in December 2015, named New Zealand's Bank of the Year for the third year in a row, and the eleventh time in fourteen years, by London-based magazine The Banker.

G.R. Walker
Chairman

B.J. Chapman
Managing Director

10 August 2016

Annual Report

The Directors are pleased to present the Annual Report for ASB Bank Limited for the year ended 30 June 2016.

The shareholders of the Bank have agreed to apply the reporting concessions available under section 211(3) of the Companies Act 1993. Accordingly, there is no information required to be included in the Annual Report other than the financial statements for the year ended 30 June 2016 and the Independent Auditor's Report on those financial statements, which are enclosed.

Subordinated Notes issued by the Bank are quoted on the NZX Debt Market (NZDX). NZX regulation has granted the Bank a waiver from NZDX Listing Rule 10.4 (which relates to Annual and Half Year Reports). The waiver is conditional upon:

- The Bank's most recent Disclosure Statement (and any supplementary Disclosure Statement) being available on the Bank's website and by contacting the Bank's registered office; and

- A copy of the Bank's most recent Disclosure Statement (and any supplementary Disclosure Statement) being sent to the NZX by way of the market announcement platform and on an ongoing basis no later than it is made publicly available elsewhere.

Despite the foregoing, the Directors are pleased to provide on the following pages an overview of the Bank's corporate governance.

G.R. Walker
Chairman

B.J. Chapman
Managing Director

10 August 2016

Corporate Governance

The Board places great importance on the governance of the Bank. Performance and compliance are both essential for good governance.

Reviews of the Board's performance and its policies and practices are carried out regularly. These reviews identify where improvements can be made and assess the quality and effectiveness of the industry and company information made available to directors.

The principal features of the Bank's corporate governance are as follows:

- The Board Audit and Risk Committee ("BARC") consists only of non-executive directors. The chairperson of the BARC must be an independent director other than the chairperson of the Board.
- The Managing Director does not participate in deliberations of either the Board or the Appointments and Remuneration Committee affecting her position, remuneration or performance.
- There are established criteria for the appointment of new directors and external consultants are engaged in the search for new independent directors.
- The Bank's Conditions of Registration require that:
  - The Board must have at least five directors;
  - The majority of the directors must be non-executive directors;
  - At least half of the directors must be independent directors;
  - At least half of the independent directors must be ordinarily resident in New Zealand;
  - The chairperson of the Board must be independent; and
  - The constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes to be the best interests of the Bank.

  The Bank satisfies those requirements.
- The Bank's Conditions of Registration also require that:
  - No appointment of the chairperson of the Board or of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer shall be made unless the Reserve Bank of New Zealand ("RBNZ") has been supplied with the person's curriculum vitae and the RBNZ has advised that it has no objection to the appointment;
  - A substantial proportion of the Bank's business must be conducted in and from New Zealand; and
  - Exposures to connected persons cannot be on more favourable terms than corresponding exposures to non-connected persons.

  The Bank complies with those requirements.
- New directors are invited to participate in an induction programme. All directors regularly consider issues, trends and challenges relevant to the Bank, the financial services industry and the economy.
- Non-executive directors do not participate in any of the Bank's incentive plans.

The Board has adopted a charter and code of ethics for directors. The philosophy underlying the Board's approach to corporate governance is consistent with the ethical standards required of all employees of the Bank.

The corporate governance policies, practices and processes of the Bank do not materially differ from the Corporate Governance Best Practice Code in the NZX Debt Market Listing Rules, except as follows:

- Directors are not able to take a portion of their remuneration under a performance-based equity security compensation plan. This is because the Bank is a wholly owned subsidiary of CBA.

The current chairman of the Board is Mr G.R. Walker.

COMMITTEES OF THE BOARD

The Board has delegated specific powers and responsibilities to committees of the Board and to management. The decisions made by the Board committees are reported to the full Board. Management always recommends key decisions to the Board for approval.

There are two permanent Board committees – the BARC and the Appointments and Remuneration Committee. Other committees may be formed to carry out specific delegated tasks when required.

An independent director chairs each committee.

Corporate Governance (continued)

BOARD AUDIT AND RISK COMMITTEE

The BARC assists the Board in carrying out its responsibilities concerning financial reporting and control, conformance with legal requirements, the identification and prudent management of risk and the good governance of the Bank in relation to those matters.

All non-executive directors are members of the BARC. The current chairman of the BARC is Mr J.P. Hartley.

The role of the BARC is to:

- Assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to financial reporting and control, conformance with legal requirements affecting members of the Banking Group, the identification and prudent management of the risks to which members of the Banking Group are or may become subject, and the good governance of the Banking Group in relation to those matters, including the oversight of:
  - the integrity of external financial reporting;
  - financial management;
  - internal control systems;
  - accounting policy and practice;
  - the risk management framework and monitoring compliance with that framework;
  - related party transactions;
  - compliance with applicable laws and standards; and
  - without limiting the generality of the foregoing, compliance with RBNZ standards relating to external financial reporting.
- Ensure the quality, credibility and objectivity of the accounting process, financial reporting and regulatory disclosure.
- Oversee and monitor the performance of the internal and external auditor. The Board has approved the application to the Banking Group of the CBA Group External Auditor Services Policy. That policy relates to the engagement of the external audit firm for non-audit work. The objective of the policy is to avoid prejudice to the independence of the auditor and to prevent undue reliance by the auditor on revenue from the Bank. The policy ensures that the auditor does not:
  - assume the role of management;
  - become an advocate for their own client; or
  - audit work that comprises a direct output of their own professional expertise.

  Under the policy the auditor will not provide the following services:
  - bookkeeping or services relating to accounting records;
  - appraisal or valuation and fairness opinions;
  - advice on deal structuring and related documentation;
  - tax planning and strategic advice;
  - actuarial advisory services;
  - executive recruitment or extensive human resource functions;
  - acting as a broker-dealer, promoter or underwriter; or
  - legal services.
- Provide a structured reporting line for Internal Audit and ensure the objectivity and independence of Internal Audit. The Chief Internal Auditor reports to the BARC through its chairperson.
- Consider any CBA group policy relevant to the role of the BARC and, if deemed appropriate, adopt or recommend that the Board adopt (as applicable) the policy as a policy of the Banking Group.
- Act as a formal forum for free and open communication between the Board, the internal and external auditors and management.
- Deal with any other matter which the Board may from time to time delegate to the BARC.

The Credit Approvals Committee ("CAC") is a sub-committee of the BARC. The CAC has the power to approve, note or monitor (as the case requires) on behalf of the BARC, any matter that:

- concerns a current or proposed credit risk exposure of the Banking Group to an individual debtor or group of related debtors; and
- under the Banking Group's Credit Policy or Credit Approval Authorities, either:
  - requires the approval of the BARC (or the Board, where the BARC holds delegated authority to approve the matter on behalf of the Board); or
  - must be noted or monitored by the BARC (or the Board, where the BARC holds delegated authority to note or monitor the matter on behalf of the Board).

For any act or decision, the CAC comprises the chairman of the Board, the chairman of the BARC and any one other member of the BARC who is an executive of CBA.

Corporate Governance (continued)

APPOINTMENTS AND REMUNERATION COMMITTEE

The role of the Appointments and Remuneration Committee is to assist the Board in discharging its responsibilities in relation to:

- the selection, remuneration, education and evaluation of directors;
- the selection, remuneration and evaluation of management; and
- policies relating to diversity for the Board and management.

The current members of the Appointments and Remuneration Committee are G.R. Walker (chairman), V.A.J Shortt and J.L. Freeman.

Remuneration for the Bank's executives is determined after taking external advice to ensure competitive remuneration packages are in place to attract and retain competent and high-calibre people.

Incentive payments for executives are directly related to performance and depend on the extent to which strategic and operating targets set at the beginning of the financial year are achieved.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Bank has effected liability insurance for the directors and officers of the Bank and its subsidiaries.

DIVERSITY AND INCLUSION

The Bank is committed to diversity and inclusion across its business. The Bank's diversity and inclusion priorities are designed to ensure that:

- the Bank's workforce and leadership is more reflective of both the communities in which the Bank operates and its customer base; and
- the Bank has a culture in which diversity is encouraged, understood, respected, valued and leveraged so that talented people can thrive and the Bank's customers and reputation both benefit.

The Bank's diversity and inclusion priorities are:

- Inclusive culture;
- Diversity in leadership;
- Valuing the individual;
- Reputation & recognition; and
- Flexible practices.

As at 30 June 2016, 27% of all senior leadership roles were held by women (30 June 2015 26%). The Bank has a target that 30% of all senior leadership roles will be held by women by 2017. Senior leadership comprises the Bank's executive management and the next two levels of management.

Talent sourcing processes have been reviewed to ensure that support is given to the diversity and inclusion priorities.

General Disclosures

(To be read in conjunction with the Financial Statements)

30 June 2016

This Disclosure Statement has been issued by ASB Bank Limited (the "Bank" or "ASB") in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

Corporate Information

The Bank is a company incorporated under the Companies Act 1955 on 16 August 1988. The registered office of the Bank is Level 2, ASB North Wharf, 12 Jellicoe Street, Auckland Central, Auckland 1010, New Zealand. The Bank was re-registered under the Companies Act 1993 on 30 June 1995.

The "Banking Group" consists of the Bank and those controlled entities listed in note 24 to the financial statements.

Ultimate Parent Bank

The ultimate parent bank of the Bank is the Commonwealth Bank of Australia ("CBA"), its registered office being Ground Floor, Tower 1, 201 Sussex Street, Sydney, NSW 2000, Australia.

Persons Having a Significant Interest in the Registered Bank

The Bank's immediate parent, ASB Holdings Limited, holds 100% of the voting shares of the Bank and has the power of appointment of directors. The ultimate parent bank, CBA, has indirect power to appoint directors.

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:

Rating Agency	Current Long Term Credit Rating
Moody's Investors Service Pty Limited ("Moody's")	Aa3
Standard & Poor's (Australia) Pty Limited ("S&P")	AA-
Fitch Australia Pty Limited ("Fitch Ratings")	AA-

These ratings have remained unchanged during the 2 years immediately preceding the balance date. The outlook from Moody's and Fitch Ratings is stable. On 7 July 2016, S&P revised its rating outlook on the Commonwealth of Australia to negative from stable. As a result of the change in outlook of Australia's sovereign rating, S&P has revised the ratings outlook of major Australian banks and strategically important subsidiaries, including ASB, from stable to negative.

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

Long Term Credit Rating Definitions	Moody's[(a)]	S&P[(b)]	Fitch Ratings[(c)]
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.

Pending Proceedings or Arbitration

The Banking Group is not a party to any pending legal proceedings or arbitration that may have a material adverse effect on the Bank or Banking Group.

Auditor

PricewaterhouseCoopers is the appointed auditor of the Bank. The auditor's address is contained in the Directory.

General Disclosures (continued)

(To be read in conjunction with the Financial Statements)

Guarantee Arrangements

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 (including accrued interest) of $3.163 billion were guaranteed as at 30 June 2016. The amount of the guarantee is limited to the assets of the Covered Bond Trust. There are no material conditions applicable to the guarantee other than non-performance. There are no material legislative or regulatory restrictions in New Zealand which would have the effect of subordinating the claims under the guarantee of any creditors of the Bank on the assets of the Covered Bond Guarantor, to other claims on the Covered Bond Guarantor, in a winding up of the Covered Bond Guarantor.

The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland 1010, 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 June 2016, 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.

Legally Enforceable Restrictions that may Materially Inhibit CBA's Legal Ability to Provide Material Financial Support to the Bank

CBA does not guarantee the obligations of the Bank or its subsidiaries.

Under the Banking Act 1959 (Commonwealth of Australia) ("Australian Banking Act"), the Australian Prudential Regulation Authority ("APRA"), may determine prudential standards which must be complied with by CBA. Further, regulations made under the Australian Banking Act may specify prudential requirements which must be observed by CBA. These prudential standards and requirements may affect the ability of CBA to provide material financial support to the Bank or its subsidiaries.

Unless APRA provides otherwise, CBA must comply with APRA's prudential standard APS 222: Associations with Related Entities ("APS 222"). The effects of APS 222 include that:

- CBA's exposure to the Bank must not exceed 50% of CBA's level 1 capital base (as defined in APS 222) and its aggregate exposure to all related authorised deposit-taking institutions (including overseas based equivalents) cannot exceed 150% of that capital base;
- CBA must not enter into cross-default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default by CBA in its obligations;
- CBA must not have unlimited exposures to the Bank (such as providing a general guarantee of the Bank's obligations);
- When determining limits on acceptable levels of exposure to the Bank, the board of CBA must have regard to the level of exposures that would be approved to third parties of broadly equivalent credit status to the Bank, the impact on CBA's stand-alone capital and liquidity positions, and its ability to continue operating in the event of a failure by the Bank or any other related entity to which it is exposed; and
- CBA also must comply with any other limits on CBA's exposures to related entities, including the Bank, that may be set by APRA. On 25 November 2015, APRA informed CBA that it will be required to reduce its non-equity exposure to the Bank and its subsidiaries to below a limit of five percent of CBA's Level 1 Tier 1 Capital over a five-year period commencing on 1 January 2016. For the purposes of this limit, exposures include all committed, non-intraday, non-equity exposures, including derivatives and off-balance sheet exposures. APRA has imposed two conditions over the transition period. Firstly, that the percentage excess above the five percent limit as at 30 June 2015 is to reduce by at least one fifth by the end of each calendar year over the transition period. Secondly, that the absolute amount of routine New Zealand non-equity exposure is not to increase from the 30 June 2015 level until CBA is, and expects to remain, below the five percent limit. For the purposes of assessing this exposure, the five percent limit excludes equity investments and holdings of capital instruments in the Bank and its subsidiaries.

  APRA confirmed it will allow, on agreeable terms, the Australian parent banks to provide contingent funding support to their New Zealand banking subsidiaries in times of financial stress. At this time, only covered bonds meet the criteria for contingent funding arrangements.

  CBA expect to be compliant with APRA's requirements to reduce its non-equity exposures to the Bank and its subsidiaries within the transition period.

Under section 13A(3) of the Australian Banking Act, if an Authorised Deposit-taking Institution ("ADI") (which includes CBA) becomes unable to meet its obligations or suspends payment, the assets of the ADI in Australia are to be available to meet the ADI's liabilities in the following order: (a) first, the ADI's liabilities to APRA, to the extent that APRA has made, or is required to make, payments to depositors under the Australian Government's Financial Claims Scheme ("Scheme"); (b) second, the ADI's debts to APRA for costs incurred by APRA in the administration of the Scheme in respect of that ADI; (c) third, in payment of the ADI's liabilities in Australia in relation to protected accounts; (d) fourth, the ADI's debts to the Reserve Bank of Australia; (e) fifth, the ADI's liabilities under a certified industry support contract; and (f) sixth, the ADI's other liabilities in the order of their priority apart from section 13A(3) of the Australian Banking Act.

The assets of an ADI are taken for the purposes of section 13A(3) of the Australian Banking Act not to include any interest in an asset or part of an asset in a cover pool for which the ADI is the issuing ADI.

Dealings with Directors

There have been no dealings by any Director, or any immediate relative or close business associate of any Director, with any member of the Banking Group, that:

(i) has been entered into on terms other than those which would, in the ordinary course of business of the Banking Group, be given to any other person of like circumstances or means; or
(ii) could otherwise be reasonably likely to influence materially the exercise of that Director's duties.

Refer to note 39 for outstanding balances with Directors.

All Directors are required to disclose to the Board of the Bank all actual or possible conflicts of interest and are expected to abstain from any vote on matters in which he or she has a material personal interest. The Bank maintains a register of Directors' interests.

Directors' details are contained in the Directory. Communications addressed to the Directors should be sent to the Registered Office (refer to the Directory for this address).

Historical Summary of Financial Statements

$ millions	Banking Group				
For the year ended 30 June	**2016**	2015	2014	2013	2012
Income Statement					
Interest income	**4,048**	4,106	3,628	3,487	3,563
Interest expense	**2,286**	2,439	2,091	2,071	2,243
Net interest earnings	**1,762**	1,667	1,537	1,416	1,320
Other income	**464**	419	435	390	404
Total operating income	**2,226**	2,086	1,972	1,806	1,724
Impairment losses on advances	**130**	89	56	56	47
Total operating income after impairment losses	**2,096**	1,997	1,916	1,750	1,677
Total operating expenses	**826**	805	767	738	730
Net profit before taxation	**1,270**	1,192	1,149	1,012	947
Taxation	**357**	333	343	307	262
Net profit after taxation	**913**	859	806	705	685
Dividends Paid					
Ordinary dividends paid	**200**	1,140	400	90	500
Perpetual preference dividends paid	**49**	26	15	14	16
Total dividends paid	**249**	1,166	415	104	516

$ millions	Banking Group				
As at 30 June	**2016**	2015	2014	2013	2012
Balance Sheet					
Total assets	**81,606**	75,903	68,380	66,570	63,537
Individually impaired assets	**377**	290	218	302	251
Total liabilities	**74,794**	70,525	63,214	61,545	59,350
Total shareholders' equity	**6,812**	5,378	5,166	5,025	4,187

The amounts disclosed in this historical summary of financial statements have been taken from the audited financial statements of the Banking Group. Comparatives for interest income and other income have been reclassified to ensure consistency with presentation in the current year.

Income Statement

$ millions For the year ended 30 June	Note	Banking Group 2016	2015
Interest income	2	**4,048**	4,106
Interest expense	3	**2,286**	2,439
Net interest earnings		**1,762**	1,667
Other income	4	**464**	419
Total operating income		**2,226**	2,086
Impairment losses on advances	17	**130**	89
Total operating income after impairment losses		**2,096**	1,997
Total operating expenses	5	**826**	805
Salaries and other staff expenses		**494**	480
Building occupancy and equipment expenses		**122**	125
Information technology expenses		**96**	86
Other expenses		**114**	114
Net profit before taxation		**1,270**	1,192
Taxation	7	**357**	333
Net profit after taxation		**913**	859

These statements are to be read in conjunction with the notes on pages 18 to 79 and the Independent Auditor's Report on pages 87 to 88.

Statement of Comprehensive Income

$ millions		Banking Group	
For the year ended 30 June	Note	**2016**	2015
Net profit after taxation		**913**	859
Other comprehensive income/(expense), net of taxation			
Items that will not be reclassified to the Income Statement:			
Net change in asset revaluation reserve	35	**1**	5
Items that may be reclassified subsequently to the Income Statement:			
Net change in available-for-sale reserve	35	**(15)**	(4)
Net change in cash flow hedge reserve	35	**(16)**	(82)
		(31)	(86)
Total other comprehensive expense, net of taxation		**(30)**	(81)
Total comprehensive income		**883**	778

These statements are to be read in conjunction with the notes on pages 18 to 79 and the Independent Auditor's Report on pages 87 to 88.

Statement of Changes in Equity

		Banking Group						
$ millions	Note	Contributed Capital	Asset Revaluation Reserve	Available -for-Sale Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Shareholders' Equity
For the year ended 30 June 2016								
Balance at beginning of year		**3,423**	**27**	**8**	**(87)**	**1**	**2,006**	**5,378**
Net profit after taxation		**-**	**-**	**-**	**-**	**-**	**913**	**913**
Other comprehensive income/(expense)		**-**	**1**	**(15)**	**(16)**	**-**	**-**	**(30)**
Total comprehensive income/(expense)		**-**	**1**	**(15)**	**(16)**	**-**	**913**	**883**
Share capital issued	34	**800**	**-**	**-**	**-**	**-**	**-**	**800**
Ordinary dividends paid	8	**-**	**-**	**-**	**-**	**-**	**(200)**	**(200)**
Perpetual preference dividends paid	8	**-**	**-**	**-**	**-**	**-**	**(49)**	**(49)**
Balance as at 30 June 2016		**4,223**	**28**	**(7)**	**(103)**	**1**	**2,670**	**6,812**
For the year ended 30 June 2015								
Balance at beginning of year		2,823	25	12	(5)	1	2,310	5,166
Net profit after taxation		-	-	-	-	-	859	859
Other comprehensive income/(expense)		-	5	(4)	(82)	-	-	(81)
Total comprehensive income/(expense)		-	5	(4)	(82)	-	859	778
Share capital issued	34	600	-	-	-	-	-	600
Transfer from asset revaluation reserve to retained earnings	35	-	(3)	-	-	-	3	-
Ordinary dividends paid	8	-	-	-	-	-	(1,140)	(1,140)
Perpetual preference dividends paid	8	-	-	-	-	-	(26)	(26)
Balance as at 30 June 2015		3,423	27	8	(87)	1	2,006	5,378

These statements are to be read in conjunction with the notes on pages 18 to 79 and the Independent Auditor's Report on pages 87 to 88.

Balance Sheet

$ millions		Banking Group	
As at 30 June	Note	**2016**	2015
Assets			
Cash and liquid assets	9	**1,403**	1,799
Due from financial institutions	10	**1,131**	1,615
Trading securities	11	**792**	971
Derivative assets	12	**1,451**	2,102
Available-for-sale securities	13	**4,017**	3,041
Advances to customers	14	**72,075**	65,383
Other assets	25	**229**	532
Property, plant and equipment		**187**	189
Intangible assets		**175**	164
Deferred taxation asset	27	**146**	107
Total assets		**81,606**	75,903
Total interest earning and discount bearing assets		***79,285***	*72,733*
Liabilities			
Deposits and other public borrowings	28	**54,702**	52,163
Due to financial institutions	30	**580**	3,523
Other liabilities at fair value through Income Statement	31	**1,340**	180
Derivative liabilities	12	**2,085**	1,364
Current taxation liability		**40**	6
Other liabilities	29	**547**	586
Debt issues:			
At fair value through Income Statement	32	**1,646**	1,213
At amortised cost	32	**13,431**	11,076
Loan capital	33	**423**	414
Total liabilities		**74,794**	70,525
Shareholders' Equity			
Contributed capital - ordinary shares	34	**2,673**	2,273
Reserves	35	**(81)**	(51)
Retained earnings		**2,670**	2,006
Ordinary shareholder's equity		**5,262**	4,228
Contributed capital - perpetual preference shares	34	**1,550**	1,150
Total shareholders' equity		**6,812**	5,378
Total liabilities and shareholders' equity		**81,606**	75,903
Total interest and discount bearing liabilities		***68,440***	*64,369*

For, and on behalf of, the Board of Directors, who authorised these financial statements for issue on 10 August 2016

G.R. Walker
Chairman

J.P. Hartley
Deputy Chairman

These statements are to be read in conjunction with the notes on pages 18 to 79 and the Independent Auditor's Report on pages 87 to 88.

Cash Flow Statement

$ millions For the year ended 30 June	Banking Group 2016	 2015
Cash flows from operating activities		
Net profit before taxation	**1,270**	1,192
Reconciliation of net profit before taxation to net cash flows from operating activities		
Non-cash items included in net profit before taxation:		
Depreciation of property, plant and equipment	**36**	36
Amortisation of intangible assets	**41**	38
Net change in provisions for impairment losses and bad debts written off	**144**	101
Other movements	**76**	76
Net (increase)/decrease in operating assets:		
Net (increase)/decrease in reverse repurchase agreements	**(69)**	405
Net decrease/(increase) in due from financial institutions	**484**	(1,304)
Net decrease/(increase) in trading securities	**174**	(11)
Net increase in available-for-sale securities	**(997)**	(342)
Net increase in advances to customers	**(6,911)**	(4,749)
Net decrease in other assets	**318**	457
Net increase/(decrease) in operating liabilities:		
Net increase in deposits and other public borrowings	**2,629**	7,231
Net decrease in due to financial institutions	**(2,930)**	(924)
Net increase/(decrease) in other liabilities at fair value through Income Statement	**1,157**	(1,038)
Net (decrease)/increase in other liabilities	**(50)**	17
Net taxation paid	**(350)**	(335)
Net cash flows from operating activities	**(4,978)**	850
Cash flows from investing activities		
Cash was applied to:		
Purchase of property, plant and equipment	**(33)**	(26)
Purchase of intangible assets	**(42)**	(49)
Net cash flows from investing activities	**(75)**	(75)
Cash flows from financing activities		
Cash was provided from:		
Issue of ordinary share capital	**400**	-
Issue of perpetual preference share capital	**400**	600
Issue of loan capital (net of issue costs)	**-**	4
Issue of debt securities (net of issue costs)	**10,958**	6,066
Total cash inflows provided from financing activities	**11,758**	6,670
Cash was applied to:		
Dividends paid	**(249)**	(1,166)
Redemption of issued debt securities	**(6,921)**	(5,852)
Total cash outflows applied to financing activities	**(7,170)**	(7,018)
Net cash flows from financing activities	**4,588**	(348)
Summary of movements in cash flows		
Net (decrease)/increase in cash and cash equivalents	**(465)**	427
Add: cash and cash equivalents at beginning of year	**1,413**	986
Cash and cash equivalents at end of year	**948**	1,413
Cash and cash equivalents comprise:		
Cash and liquid assets	**1,403**	1,799
Less: reverse repurchase agreements included in cash and liquid assets	**(455)**	(386)
Cash and cash equivalents at end of year	**948**	1,413
Additional operating cash flow information		
Interest received as cash	**4,108**	4,148
Interest paid as cash	**(2,298)**	(2,364)
Other income received as cash	**473**	425
Operating expenses paid as cash	**(725)**	(729)

These statements are to be read in conjunction with the notes on pages 18 to 79 and the Independent Auditor's Report on pages 87 to 88.

Notes to the Financial Statements

For the year ended 30 June 2016

1 Statement of Accounting Policies

General Accounting Policies

The reporting entity is ASB Bank Limited and its controlled entities (the "Banking Group"). ASB Bank Limited (the "Bank") is a company incorporated under the Companies Act 1955 on 16 August 1988 and its registered office is Level 2, ASB North Wharf, 12 Jellicoe Street, Auckland 1010, New Zealand. The Bank was re-registered under the Companies Act 1993 on 30 June 1995.

These financial statements for the year ended 30 June 2016 have been drawn up in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Order. Effective for annual reporting periods ending 30 September 2015, the Order was amended to remove the requirement to prepare separate (stand-alone) financial statements of the Bank. Accordingly, these financial statements now only include the consolidated financial statements of the Banking Group.

The Banking Group's financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"), New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards.

The following new standards relevant to the Banking Group have been issued. The Banking Group does not intend to apply these standards until their effective dates.

- NZ IFRS 9 *Financial Instruments* addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 *Financial Instruments: Recognition and Measurement* that relates to the classification and measurement of financial instruments.

  NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments that are not held for trading will be measured at fair value with the irrevocable option of presenting gains and losses in other comprehensive income. These accumulated gains and losses in other comprehensive income cannot be transferred to profit or loss upon disposal of the equity instruments. Under NZ IFRS 9 a new expected credit losses model replaces the incurred loss impairment model for financial assets used in NZ IAS 39. There are no changes to classification and measurement rules for financial liabilities. However for financial liabilities that have been designated at fair value through profit or loss, fair value changes attributable to changes in credit risk must be presented in other comprehensive income.

  NZ IFRS 9 relaxes the requirements for hedge effectiveness by removing the 80% to 125% hedge effectiveness threshold. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as that used by management for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for the Banking Group's reporting period beginning on 1 July 2018. The full impact of NZ IFRS 9 is yet to be assessed.
- NZ IFRS 15 *Revenue from Contracts with Customers* addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 *Revenue* and NZ IAS 11 *Construction Contracts* and is applicable to all entities with revenue. It sets out a five-step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration, to which the entity expects to be entitled in exchange for those goods or services. This standard is effective for the Banking Group's reporting period beginning on 1 July 2018. The full impact of NZ IFRS 15 is yet to be assessed.
- NZ IFRS 16 *Leases* replaces the current guidance in NZ IAS 17 Leases. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. NZ IFRS 16 requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting for leases under NZ IFRS 16 is substantially the same under NZ IAS 17. This standard is effective for the Banking Group's reporting period beginning on 1 July 2019. The full impact of NZ IFRS 16 is yet to be assessed.

Basis of Preparation

The measurement base adopted is that of historical cost as modified by the fair value measurement of available-for-sale financial assets, financial instruments at fair value through Income Statement, derivative contracts, and the revaluation of certain property, plant and equipment.

Critical Accounting Estimates and Judgements

The critical judgements used by management in applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements, apart from those involving estimation, are the designation of financial assets and financial liabilities as at fair value through Income Statement and the assessment of control for consolidation purposes.

Preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Estimates and assumptions are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Banking Group considers that tax positions, the valuation of financial instruments, goodwill impairment testing and the provision for impairment losses on advances to customers require significant accounting estimates and management judgement. Refer to (a) for details on consolidation, (f) for valuation of financial instruments, note 26 for goodwill impairment testing, note 15 for details of credit risk management and the basis of the Banking Group's impairment provision model, note 27 for deferred taxation and note 7 for taxation.

Notes to the Financial Statements

For the year ended 30 June 2016

1 Statement of Accounting Policies (continued)

Presentation Currency and Rounding

The functional and presentation currency of the Banking Group is New Zealand dollars. All amounts in this Disclosure Statement and the financial statements are presented in millions, unless otherwise stated.

Particular Accounting Policies

There have been no material changes to accounting policies during the year ended 30 June 2016 and the following particular accounting policies have been applied on a consistent basis.

(a) Basis of Consolidation

The consolidated financial statements of the Banking Group include the financial statements of the Bank and all entities where it is determined that there is capacity to control the entity. Control exists when the Banking Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. For purposes of assessing control, the Banking Group acts as a principal when there are no substantial removal rights and when its economic interest is substantial compared to the economic interest of other investors.

Subsidiaries
Subsidiaries are those companies controlled by the Banking Group. The financial statements of subsidiaries are included in the Banking Group's financial statements from the date when the Banking Group obtains control until the date that it loses control.

Assets, liabilities and results of subsidiaries are consolidated in the Banking Group's financial statements. All intra-group balances and transactions have been fully eliminated on consolidation.

Other Controlled Entities
The Banking Group may invest in or establish a structured entity (“SE”) to enable it to undertake specific transactions. SEs include securitisation vehicles, a covered bond trust and other structured finance entities. Where the Banking Group has control of an SE, it is consolidated in the Banking Group's financial statements (refer to notes 22 and 24).

The Banking Group does not consolidate an SE that it does not control. As it can sometimes be difficult to determine whether the Banking Group has control, judgements are made about its exposure or right to variable returns and the ability to affect returns through its power over the SE.

Associates
Associates are those entities in which the Banking Group has significant influence, but not control, over financial and operating policies. The Banking Group has representation on the Boards of Directors of all companies classified as associates. Associates are accounted for under the equity method of accounting.

(b) Segment Reporting

Operating segments are reported based on the Banking Group's organisational and management structures (refer to note 44). Senior management review the Banking Group's internal reporting based around these segments in order to assess performance and allocate resources.

The Banking Group operates predominantly within New Zealand. On this basis geographical segment reporting is not applicable.

(c) Foreign Currency Translation

All foreign currency monetary assets and liabilities are converted at the rates of exchange ruling as at balance date. Foreign currency transactions are converted using the exchange rates prevailing at the dates of the transactions. For non-hedging instruments, unrealised gains and losses arising from these revaluations and gains and losses arising from foreign exchange dealings are recognised immediately in the Income Statement. For more information on the treatment of hedging gains and losses refer to (h).

The foreign currency translation reserve ("FCTR") includes historical exchange differences which arose from the translation of foreign currency assets, liabilities and Income Statements of overseas subsidiaries. Gains or losses accumulated in the FCTR are transferred to the Income Statement upon partial or full disposal of the overseas subsidiary.

(d) Revenue Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Banking Group and that the revenue can be reliably measured. The principal sources of revenue are interest income, fees and commissions.

Interest Income and Expense
Financial instruments are classified in the manner described in (f). Some are measured by reference to amortised cost, others by reference to fair value.

For financial instruments measured at amortised cost, the effective interest method is used to measure the interest income or interest expense recognised in the Income Statement.

For financial instruments measured at fair value, interest income or interest expense is recognised under the effective interest method. Refer to (g) for the recognition of revenue relating to derivatives.

Lending Fees
Fees and direct costs relating to loan origination, financing and loan commitments are deferred and amortised to interest income over the life of the loan using the effective interest method. Lending fees not directly related to the origination of a loan are recognised over the period of service.

1 Statement of Accounting Policies (continued)

(d) Revenue Recognition (continued)

Commission and Other Fees
When commissions or fees relate to specific transactions or events, they are recognised in the Income Statement when the service is provided to the customer. When they are charged for services provided over a period, they are taken to other income on an accruals basis as the service is provided.

Other Income
Dividend income is recorded in the Income Statement when the Banking Group's right to receive the dividend is established. Realised and unrealised gains and losses from re-measurement of financial instruments at fair value through Income Statement are included in other income.

(e) Expense Recognition

Operating lease payments are recognised in the Income Statement on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern of the benefit received. All other expenses are recognised in the Income Statement on an accrual basis other than those disclosed specifically in other sections of note 1.

(f) Financial Instruments

BASIS OF RECOGNITION AND MEASUREMENT
The Banking Group offers an extensive range of financial instruments. Financial instruments are transacted on a commercial basis to derive an interest yield with terms and conditions having due regard to the nature of the transaction and the risks involved. All financial assets measured at fair value are accounted for on a trade date basis. Loans are recognised when cash is advanced to the borrowers. Financial liabilities are recognised when an obligation arises. Financial instruments are classified in one of the following categories at initial recognition: financial assets at fair value through Income Statement, available-for-sale financial assets, loans and receivables, held-to-maturity, financial liabilities at fair value through Income Statement and other financial liabilities.

The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through Income Statement, where transaction costs are expensed as incurred.

Financial assets at fair value through Income Statement, available-for-sale financial assets and financial liabilities at fair value through Income Statement are measured at fair value. Where available, quoted market prices are used as a measure of fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied to liabilities. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that maximise the use of observable market inputs available as at balance date.

If changes in these assumptions to a reasonably possible alternative would result in a significantly different fair value, this has been disclosed.

FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT
Assets in this category are either held for trading or designated on initial recognition and are accounted for and evaluated on a fair value basis. Fair value reporting of these assets reflects the Banking Group's risk management process, which includes utilising natural offsets where possible.

Financial assets in this category include:

Trading Securities
This category includes short and long term public and other debt securities, which are held for trading. The fair value of securities is based on quoted market prices, where available, or calculated using discounted cash flow models based on current market rates.

Derivative Assets
Derivative assets are measured at fair value through Income Statement. Refer to (g) for more details on derivatives.

AVAILABLE-FOR-SALE FINANCIAL ASSETS
Available-for-sale financial assets are debt and equity securities that are not classified as at fair value through Income Statement, or as loans and receivables and are intended to be held for an indefinite period of time, and which may be sold in response to needs for liquidity or changes in interest rates or exchange rates. These are measured at fair value, with changes in fair value recognised in the available-for-sale reserve, until the assets are sold or otherwise disposed of, or until they are impaired. When fair value hedge accounting is applied, only fair value changes relating to movements in credit spreads are included in the reserve. On disposal the accumulated change in fair value is transferred to the Income Statement and reported in other income. Interest, premiums and discounts are amortised through the Income Statement using the effective interest method.

Impairment charges on available-for-sale equity financial assets are recorded when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgement and the Banking Group evaluates, among other factors, historical price movements and the duration and extent to which the fair value of the investment is less than cost.

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

LOANS AND RECEIVABLES
These are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are measured at amortised cost and interest income is recognised in the Income Statement using the effective interest method.

Amortised cost is the amount at which a financial instrument is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate a shorter period, to the net carrying amount of the financial asset or financial liability.

Financial assets in the loans and receivable category include:

Cash and Liquid Assets
Cash and liquid assets include cash and cash at bank, cash in transit, call deposits with the central bank, money at short call (deposit and settlement accounts with other financial institutions with an original maturity of three months or less), and reverse repurchase agreements.

Due from Financial Institutions
Due from financial institutions is defined by the nature of the counterparty and includes loans, nostro balances and settlement account balances due from other financial institutions.

Advances to Customers
Advances cover all forms of lending to customers, other than those classified as at fair value through Income Statement, and include mortgages, overdrafts, personal loans and credit card balances. They are recognised in the Balance Sheet when cash is advanced to the customer. When fair value hedge accounting is applied to advances to customers, the carrying value at amortised cost is adjusted for changes in fair value related to the hedged risk.

Advances are reported net of provisions for impairment to reflect the estimated recoverable amounts. Refer to (m).

Other Assets
Other assets include the accrual of interest coupons, fees receivable and receivables relating to unsettled transactions. For derivatives any accrued interest is recognised and measured as part of the derivative's fair value.

HELD-TO-MATURITY INVESTMENTS
These are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Banking Group has a positive intention and ability to hold to maturity. They are measured at amortised cost using the effective interest method. The Banking Group has not classified any financial assets as held-to-maturity.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH INCOME STATEMENT
Liabilities in this category are either held for trading or designated on initial recognition and are accounted for and evaluated on a fair value basis. Fair value reporting of these liabilities reflects the Banking Group's risk management process, which includes utilising natural offsets where possible.

Liabilities in this category include:

Other Liabilities at Fair Value through Income Statement
Certain liabilities are designated as at fair value through Income Statement on origination, where those liabilities are managed on a fair value basis, or where designation eliminates or significantly reduces an accounting mismatch. An accounting mismatch could arise from measuring assets or liabilities, or recognising their gains or losses on different bases. These amounts are managed with other assets and liabilities accounted for and evaluated on a fair value basis.

The fair value is calculated using discounted cash flow models. The discount rates applied in this calculation are based on current market rates.

Derivative Liabilities
Derivative liabilities are measured at fair value through Income Statement. Refer to (g) for more details on derivatives.

Debt Issues: At Fair value through Income Statement
This category includes all debt issues that are designated as at fair value through Income Statement and primarily consists of issued paper. Debt issues have been designated as at fair value through Income Statement, where designation eliminates or significantly reduces an accounting mismatch. These amounts are managed with other assets and liabilities accounted for and evaluated on a fair value basis.

OTHER FINANCIAL LIABILITIES
This category includes all financial liabilities other than those designated as at fair value through Income Statement. Liabilities in this category are measured at amortised cost and interest expense is recognised in the Income Statement using the effective interest method.

Notes to the Financial Statements

For the year ended 30 June 2016

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

Financial liabilities in this category include:

Deposits and Other Public Borrowings
Deposits and other public borrowings cover all forms of funding that are not designated as at fair value through Income Statement or included in debt issues. This includes transactional and savings accounts, term deposits, certificates of deposit, credit balances on cards, foreign currency accounts and repurchase agreements.

Due to Financial Institutions
Due to financial institutions is defined by the nature of the counterparty and includes deposits, vostro balances and settlement account balances due to other financial institutions.

Other Liabilities
Other liabilities include the accrual of interest coupons and fees payable. For derivatives, any accrued interest is recognised and measured as part of the derivative's fair value.

Debt Issues: At Amortised Cost
This category includes all debt issues that are not designated as at fair value through Income Statement and primarily consists of issued paper. When fair value hedge accounting is applied to issued paper, the carrying value at amortised cost is adjusted for changes in fair value related to the hedged risk.

Loan Capital
Loan capital is debt issued by the Banking Group with terms and conditions that qualify for inclusion as capital under RBNZ's prudential standards. Refer to note 42 for further information on regulatory capital. When fair value hedge accounting is applied to fixed rate loan capital, the carrying value at amortised cost is adjusted for changes in fair value related to the hedged risk.

(g) Derivative Financial Instruments

Derivative instruments are contracts whose value is derived from one or more underlying variables such as a specified interest rate or an index as defined in the contract. The Banking Group enters into derivative transactions including foreign exchange contracts, forward rate agreements, futures, options, interest rate swaps, currency swaps and combinations of these instruments. The sale of derivatives to customers as risk management products and their use for trading purposes is integral to the Banking Group's financial markets activities. Derivatives are also used to manage the Banking Group's own exposure to market risk.

The Banking Group recognises derivatives in the Balance Sheet at their fair value. Fair values are obtained from market yields and discounted cash flow models or option pricing models as appropriate. Derivative assets are those contracts which have a positive fair value. Derivative liabilities are those contracts which have a negative fair value.

Derivatives are classified either as "Held for hedging" or "Held for trading".

Held for trading derivatives are those entered into in order to meet customers' needs, to undertake market making and positioning activities and for economic hedging without applying hedge accounting. Changes in the fair value of held for trading derivatives are included in other income. Interest income or expense relating to held for trading derivatives entered into for economic hedging are included in interest income or expense depending on the nature of the hedged transaction. Interest income or interest expense relating to held for trading derivatives for purposes other than economic hedging are included in other income.

Held for hedging derivatives are instruments held for risk management purposes, which meet the criteria for hedge accounting as described in (h).

(h) Hedge Accounting

The Banking Group uses derivatives as part of its asset and liability management activities to manage exposures to interest rate and foreign currency, including exposures arising from forecast transactions. The Banking Group applies either cash flow or fair value hedge accounting when transactions meet the specified criteria to obtain hedge accounting treatment.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, and could affect profit or loss. A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

The Banking Group discontinues hedge accounting when it is determined that a hedge has ceased to be highly effective; when the derivative expires, or is sold, terminated, or exercised; when the hedged item matures or is sold or repaid; when a forecast transaction is no longer deemed highly probable; or when the Banking Group elects to revoke the hedge designation.

Cash Flow Hedge Accounting
A fair value gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognised initially in the cash flow hedge reserve. The ineffective portion of changes in fair value are recognised immediately in other income. When the transaction or item that the derivative is hedging (including cash flows from transactions that were only forecast when the derivative hedge was effected) affects income or expense then the associated fair value change on the hedging derivative is simultaneously transferred from the cash flow hedge reserve to the corresponding income or expense line item in the Income Statement.

1 Statement of Accounting Policies (continued)

(h) Hedge Accounting (continued)

When a hedging derivative expires or is sold, the hedge no longer meets the criteria for hedge accounting, or the Banking Group elects to revoke the hedge designation, the cumulative gain or loss on the hedging derivative remains in the cash flow hedge reserve until the forecast transaction occurs and affects income, at which point it is transferred to the corresponding income or expense line. If a forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging derivative previously reported in cash flow hedge reserves is immediately transferred to other income.

Fair Value Hedge Accounting

For qualifying fair value hedges, the change in fair value of the hedging derivative is recognised within other income in the Income Statement. Changes in the fair value of the hedged item which are attributable to the risks hedged with the derivative instrument, are reflected in an adjustment to the carrying value of the hedged item, and are recognised in other income.

If the hedging instrument no longer meets the criteria for hedge accounting, or the Banking Group revokes the hedge designation, the difference between the carrying value of the hedged item at that point and the value at which it would have been carried had the hedge never existed (the "unamortised fair value adjustment"), is maintained as part of the carrying value of the hedged item and amortised to other income based on a recalculated effective interest rate. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in other income.

(i) Leasing

Leases under which the Banking Group transfers substantially all the risks and rewards of ownership of an asset to the lessee or a third party are classified as finance leases. Under a finance lease, the present value of the lease payments including any guaranteed residual value is recognised as a receivable and is reported within advances to customers. The difference between the gross receivable and the present value of the receivable is treated as unearned finance income. Lease income is recognised over the lease term so as to produce a constant periodic rate of return on the net investment in the finance lease.

Leases where the Banking Group retains substantially all the risks and rewards of ownership of an asset are classified as operating leases. Operating lease rental revenue and expense is recognised in the Income Statement on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern of the benefit received. The Banking Group classifies assets leased out under operating leases as property, plant and equipment. The assets are depreciated over their useful lives on a basis consistent with similar assets.

(j) Repurchase and Reverse Repurchase Agreements

Under repurchase agreements, collateral in the form of securities is advanced to a third party and the Banking Group receives cash in exchange. The counterparty is allowed to sell or repledge the collateral advanced under repurchase agreements in the absence of default by the Banking Group, but has an obligation to return the collateral at the maturity of the contract. The Banking Group has determined that it retains substantially all the risks and rewards of these securities and therefore the securities advanced are not derecognised and are retained within the relevant security portfolio and accounted for accordingly. The obligation to repurchase is recorded as deposits and other public borrowings. The difference between the sale and repurchase price represents interest expense and is recognised in the Income Statement over the term of the repurchase agreement.

A reverse repurchase agreement is the same transaction as a repurchase agreement except the Banking Group is receiving the collateral in the form of securities and giving cash in exchange. The Banking Group may sell or re-pledge any collateral received, but has an obligation to return the collateral and the counterparty retains substantially all the risks and rewards of ownership. Consequently the collateral is not recognised by the Banking Group which instead records a separate asset for the cash given. The amount receivable is recorded as cash and liquid assets. The difference between the purchase and sale price represents interest income and is recognised in the Income Statement over the term of the agreement.

(k) Offsetting Financial Instruments

The Banking Group offsets financial assets and financial liabilities and reports the net balance in the Balance Sheet where there is currently a legally enforceable right to set off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(l) Derecognition of Financial Instruments

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired. Derecognition also occurs when the rights to receive cash flows from financial assets have been transferred together with substantially all of their risks and rewards. For those transactions where substantially all the risk and rewards are neither retained nor transferred, the Banking Group derecognises assets when control is no longer retained. When control is retained, the assets are recognised to the extent of the Banking Group's continuing involvement.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

1 Statement of Accounting Policies (continued)

(m) Asset Quality

DEFINITIONS

Individually impaired assets are any credit exposures against which an individually assessed provision has been recorded in accordance with NZ IAS 39.

A past due asset is any credit exposure where a counterparty has failed to make a payment when contractually due, and which is not an impaired asset.

An asset under administration is any credit exposure which is not an impaired asset or a past due asset, but which is to a counterparty:

(a) who is in receivership, liquidation, bankruptcy, statutory management or any form of administration in New Zealand; or

(b) who is in any other equivalent form of voluntary or involuntary administration in an overseas jurisdiction.

PROVISION FOR IMPAIRMENT

Loans and receivables are reviewed at each balance date to determine whether there is objective evidence of impairment. Individually significant assets are reviewed for impairment individually and other assets are reviewed individually or collectively. If there is objective evidence of impairment, the recoverable amount of the asset or group of assets is estimated and provision is made for the difference between the carrying amount and the recoverable amount. The recoverable amounts of advances to customers measured at amortised cost are calculated as the present value of the expected future cash flows. Short term balances are not discounted.

Objective evidence that a financial asset or portfolio of assets is impaired includes, but is not limited to, observable data that comes to the attention of the Banking Group about the following loss events:

(a) significant financial difficulty of the issuer or obligor; or

(b) a breach of contract, such as a default or delinquency in interest or principal payments; or

(c) the Banking Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that it would not otherwise consider; or

(d) the disappearance of an active market for the financial asset because of financial difficulties.

Financial assets at fair value through Income Statement are not assessed for impairment as their fair value reflects the credit quality of the instrument, and changes in fair value are recognised in other income.

Allowances for credit losses on off balance sheet items such as commitments are reported in other liabilities.

Advances to Customers

Advances to customers are presented net of individually assessed and collective provisions for impairment. Provisions are made against the carrying amount of advances that are identified as being impaired based on regular reviews of outstanding balances, to reduce these advances to their recoverable amounts. Collective provisions are maintained to reduce the carrying amount of portfolios of similar advances to their estimated recoverable amounts as at balance date. These provisions include incurred losses not yet specifically identified in the portfolio. The expected future cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the individually assessed and collective provisions are recognised in the Income Statement. When a loan is known to be uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, and the amount of the loss has been determined.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write off, the write-off or provision is reversed through the Income Statement.

(n) Property, Plant and Equipment

Property, plant and equipment other than land and buildings are recognised in the Balance Sheet at cost less accumulated depreciation and impairment losses.

Freehold land and buildings are stated at revalued amounts based on revaluations conducted every three years on a rolling basis. The rolling valuations are carried out by independent registered valuers in June. The valuers are all Associate Members of the New Zealand Institute of Valuers and the major valuation firms used are Jones Lang LaSalle Limited (Auckland), Thayer Todd Valuations Limited (Invercargill) and Telfer Young Waikato Limited (Hamilton).

Changes in valuations of freehold land and buildings are transferred directly to the asset revaluation reserve. Where such a transfer results in a debit balance in the asset revaluation reserve of any individual asset, the loss is recognised in the Income Statement, and any subsequent revaluation gains are written back through the Income Statement to the extent of past losses recognised. Upon sale of freehold land and buildings, any gains held in the asset revaluation reserve are transferred directly to retained earnings.

The cost or revalued amount of property, plant and equipment (excluding land) less the estimated residual value is depreciated over their useful lives on a straight-line basis. The range of useful lives of the major assets are:

• Buildings	10-100	years
• Furniture and fittings	5-10	years
• Computer and office equipment, and operating software	3-8	years
• Other property, plant and equipment	4-18	years

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each balance date.

1 Statement of Accounting Policies (continued)

(n) Property, Plant and Equipment (continued)

Assets are reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. For revalued assets, the write-down is treated in the same way as adjustments arising from revaluations described above. For other assets, the impairment loss is recognised as an expense. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Where the Banking Group expects the carrying amount of assets held within property, plant and equipment to be recovered principally through a sale transaction rather than through continuing use, these assets are classified as held for sale.

(o) Intangible Assets

Intangible assets comprise goodwill acquired in a business combination, and acquired computer software licences as well as certain acquired and internally generated application software.

GOODWILL

Goodwill represents the excess of the purchase consideration over the fair value of the identifiable net assets of a controlled entity at the date of gaining control. It is capitalised and recognised in the Balance Sheet, and has an indefinite life.

The carrying value of goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. If any such indication exists, the asset's recoverable amount is estimated, and an impairment loss is recognised under operating expenses in the Income Statement for the difference between the carrying amount and the recoverable amount. Impairment losses on goodwill are not reversed.

For the purposes of impairment testing, goodwill is allocated to cash-generating units or groups of units. A cash-generating unit is the smallest identifiable group of assets that generate independent cash flows. Goodwill is allocated by the Banking Group to cash-generating units or groups of units based on how goodwill is monitored by management. Gains or losses on the disposal of an entity include the carrying value of goodwill relating to the entity sold.

COMPUTER SOFTWARE

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their expected useful lives on a straight-line basis.

Certain internal and external costs directly incurred in acquiring and developing software are capitalised when specific criteria are met. These intangible assets are amortised over their expected useful lives on a straight-line basis. Computer software costs that do not meet the capitalisation criteria are expensed in the period incurred.

Computer software is subject to the same impairment review process as property, plant and equipment. Any impairment loss is recognised under operating expenses in the Income Statement.

(p) Taxation

Income tax on the net profit for the year comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted as at balance date taking advantage of all allowable deductions under current taxation legislation. It also includes any adjustment to tax payable in respect of previous financial years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted as at balance date.

In accordance with NZ IAS 12 *Income Taxes*, a deferred taxation asset is recognised only to the extent that it is probable (i.e. more likely than not) that a future taxable profit will be available against which the asset can be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current or deferred tax related to fair value measurement of available-for-sale financial assets, cash flow hedges and the revaluation of non-current assets, which is charged or credited to other comprehensive income is subsequently recognised in the Income Statement if and when the deferred gain or loss on the related asset or liability affects the Income Statement.

(q) Securitisation, Funds under Management and Other Fiduciary Activities

ASB Group Investments Limited, a subsidiary of the Banking Group, acts as manager for a number of unit trusts and superannuation schemes.

The assets and liabilities of these trusts and schemes are not included in the financial statements of the Banking Group when the Banking Group does not have control of the trusts and schemes. Fund management income is included in other income.

Securitised assets are derecognised in accordance with the derecognition of financial instruments policy as set out in (l).

1 Statement of Accounting Policies (continued)

(r) Contingent Liabilities and Credit Commitments

Contingent liabilities are possible obligations, whose existence will be confirmed only by uncertain future events, or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised, but are disclosed, unless they are remote.

The Banking Group issues commitments to extend credit, letters of credit, guarantees and other credit facilities. These financial instruments attract fees in line with market prices for similar arrangements. They are not sold or traded. Letters of credit and guarantees generally do not involve cash payments other than in the event of default. The fee pricing is set as part of the broader customer credit process and reflects the probability of default. They are disclosed as contingent liabilities at their face value. The fair values of guarantees are not considered to be material.

(s) Provisions

A provision is recognised in the Balance Sheet when the Banking Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(t) Cash Flow Statement

The Cash Flow Statement has been prepared using the indirect method by which net profit before taxation is adjusted for non-cash transactions and movements in Balance Sheet accounts relating to operating activities.

Cash and cash equivalents include cash and cash at bank, cash in transit and call deposits with the central bank.

Changes in cash and cash equivalents related to operating activities reflect cash flows generated by the Banking Group's operations.

Changes in cash and cash equivalents related to investing activities reflect cash flows relating to investments in controlled entities and associates and other securities, as well as acquisitions and disposals of property, plant and equipment and intangible assets.

Changes in cash and cash equivalents related to financing activities reflect cash flows resulting from transactions with shareholders and cash flows relating to debt and loan capital issuances and repayments.

Fair Value Estimates

For financial instruments not presented in the Banking Group's Balance Sheet at their fair value, fair value is estimated as follows:

Cash and Liquid Assets
These assets are short term in nature and the related carrying value is equivalent to their fair value.

Due from Financial Institutions
Fair value is calculated using discounted cash flow models applying discount rates based on current market interest rates for assets with similar credit, interest rate repricing and maturity profiles.

Advances to Customers
For floating rate advances, the carrying amount in the Balance Sheet is considered a reasonable estimate of their fair value after making allowances for the fair value of impaired and potential problem loans. For fixed rate advances, fair value is estimated using discounted cash flow models applying discount rates based on current market interest rates for advances with similar credit, interest rate repricing and maturity profiles.

Other Assets
Carrying amounts in the Balance Sheet are a reasonable estimate of fair value for these assets.

Deposits and Other Public Borrowings, Due to Financial Institutions and Debt Issues: At Amortised Cost
For non-interest bearing debt, call and variable rate deposits, the carrying amounts in the Balance Sheet are a reasonable estimate of their fair value. For other term deposits and fixed rate issued paper, fair value is estimated using discounted cash flow models applying discount rates based on current market interest rates for similar instruments with similar maturity profiles.

Other Liabilities
Carrying amounts in the Balance Sheet are a reasonable estimate of fair value for these liabilities.

Loan Capital
The estimated fair value of loan capital is based on quoted market rates of publicly traded securities of similar maturity, credit and yield characteristics.

Changes to Comparatives

Effective 1 July 2015, interest relating to certain derivatives transacted as economic hedges has been recorded in net interest earnings. In prior periods, these amounts were included in other income. Accordingly, certain comparatives have been restated to reclassify $36 million from other income to net interest earnings. This presentation more accurately reflects the economic purpose in transacting these derivatives.

In addition, fixed rate prepayment cost recoveries of $7 million have been reclassified from other income to interest income, to align with market practice.

These reclassifications have no impact on net profit after taxation.

Other comparative information has been reclassified or restated to ensure consistency with presentation in the current year. Significant changes have been footnoted throughout the financial statements.

Notes to the Financial Statements

For the year ended 30 June 2016

2 Interest Income

$ millions	Banking Group	
For the year ended 30 June	**2016**	2015
Cash and liquid assets	**51**	62
Due from financial institutions	**9**	5
Trading securities	**25**	53
Available-for-sale securities	**108**	120
Advances to customers	**3,855**	3,866
Total interest income	**4,048**	4,106

Interest income on advances to customers for the year ended 30 June 2016 included interest earned of $23 million on individually impaired assets (30 June 2015 $20 million).

Total interest income for financial assets that are not at fair value through Income Statement is $4,023 million (30 June 2015 $4,053 million).

3 Interest Expense

$ millions	Banking Group	
For the year ended 30 June	**2016**	2015
Deposits and other public borrowings:		
Certificates of deposit	**76**	36
Term deposits	**1,023**	1,048
On demand and short term deposits	**623**	646
Repurchase agreements	**2**	5
Due to financial institutions	**37**	125
Other liabilities at fair value through Income Statement	**25**	23
Derivatives	**-**	3
Debt issues:		
At fair value through Income Statement	**43**	54
At amortised cost	**436**	475
Loan capital	**21**	24
Total interest expense	**2,286**	2,439

Total interest expense for financial liabilities that are not at fair value through Income Statement is $2,218 million (30 June 2015 $2,359 million).

4 Other Income

$ millions For the year ended 30 June	Banking Group 2016	 2015
Lending fees	**55**	52
Commissions and other fees	**233**	232
Funds management income	**85**	74
Trading income	**95**	88
Ineffective portion of hedges		
Fair value hedge ineffectiveness:		
Gain on hedged items	**1**	61
Loss on hedging instruments	**-**	(64)
Cash flow hedge ineffectiveness	**(11)**	(26)
Total ineffective portion of hedges	**(10)**	(29)
Other operating income		
Net loss on disposal of property, plant and equipment	**(6)**	(4)
Dividends received	**2**	3
Net fair value gain/(loss) on derivatives not qualifying for hedge accounting	**2**	(1)
Net fair value loss on financial instruments designated at fair value through Income Statement	**(1)**	-
Other	**9**	4
Total other operating income	**6**	2
Total other income	**464**	419

5 Operating Expense Disclosures

$ millions For the year ended 30 June	Banking Group 2016	 2015
Depreciation		
Buildings	**12**	12
Computer and office equipment, and operating software	**24**	24
Total depreciation	**36**	36
Operating lease rentals	**62**	62
Amortisation of intangible assets	**41**	38

6 Auditor's Remuneration

PricewaterhouseCoopers is the appointed auditor of the Bank.

Audit fees of $1,669,000 were paid to PricewaterhouseCoopers for the audit of the Banking Group during the year ended 30 June 2016 (30 June 2015 $1,632,000). In addition fees of $332,000 were paid during the year for the audit of funds managed by the Banking Group (30 June 2015 $287,000).

During the year ended 30 June 2016, PricewaterhouseCoopers was also paid fees of $292,000 for other services and $76,000 for advisory services (30 June 2015 $286,000 and nil). Other services included reviews of financial information, process and internal controls ($170,000) and reviews for regulatory purposes ($122,000) (30 June 2015 $195,000 and $91,000).

For the year ended 30 June 2016

7 Taxation

$ millions	Banking Group	
For the year ended 30 June	**2016**	2015
Current taxation	**384**	344
Deferred taxation (refer to note 27)	**(27)**	(11)
Total income tax charged to the Income Statement	**357**	333

The taxation expense on the Banking Group's net profit before taxation differs from the theoretical amount that would arise using the domestic rate as follows:

Net profit before taxation	**1,270**	1,192
Tax at the domestic rate of 28%	**356**	334
Tax effect of income not subject to taxation	**-**	(1)
Tax effect of expenses not deductible for taxation purposes	**1**	1
Tax effect of imputation credit adjustments	**(1)**	(1)
Tax effect of prior period adjustments	**1**	-
Total income tax charged to the Income Statement	**357**	333
Weighted average effective tax rate	**28.1%**	28.0%

8 Dividends

$ millions	Banking Group	
For the year ended 30 June	**2016**	2015
Ordinary dividends paid	**200**	1,140
Perpetual preference dividends paid	**49**	26
Total dividends paid	**249**	1,166

Dividends on ordinary shares for the year ended 30 June 2016 were $200 million, 7.55 cents per share (30 June 2015 $1,140 million, 50.71 cents per share).

Dividends on perpetual preference shares for the year ended 30 June 2016 were:

- $7 million, being 3.25 cents per share on 200 million perpetual preference shares (30 June 2015 $7 million, 3.37 cents per share);
- $11 million, being 3.12 cents per share on 350 million perpetual preference shares (30 June 2015 $11 million, 3.33 cents per share);
- $27 million, being 456.46 cents per share on 6 million perpetual preference shares (30 June 2015 $8 million, 127.81 cents per share); and
- $4 million, being 98.80 cents per share on 4 million perpetual preference shares (30 June 2015 nil).

On 4 August 2016, the Directors resolved to pay the following dividends, subject to certain conditions being satisfied:

- $1 million on 15 August 2016, being 0.72 cents per share on 200 million perpetual preference shares;
- $2 million on 15 August 2016, being 0.58 cents per share on 350 million perpetual preference shares;
- $6 million on 15 September 2016, being 105.98 cents per share on 6 million perpetual preference shares;
- $5 million on 15 September 2016, being 119.59 cents per share on 4 million perpetual preference shares; and
- $200 million on 15 September 2016, being 7.55 cents per share on 2,648 million ordinary shares.

Notes to the Financial Statements

For the year ended 30 June 2016

9 Cash and Liquid Assets

$ millions	Banking Group	
As at 30 June	**2016**	2015
Cash, cash at bank and cash in transit	**199**	129
Call deposits with the central bank	**736**	1,259
Money at short call	**13**	25
Reverse repurchase agreements	**455**	386
Total cash and liquid assets	**1,403**	1,799

10 Due from Financial Institutions

As at 30 June 2016 amounts due from financial institutions of $1,131 million are due for settlement within 12 months of balance date (30 June 2015 $1,615 million due within 12 months of balance date).

11 Trading Securities

$ millions	Banking Group	
As at 30 June	**2016**	2015
Local authority securities	**49**	46
New Zealand government securities	**106**	9
Treasury bills	**-**	446
RBNZ bills	**67**	-
Bank bills	**568**	468
Kauri bonds	**2**	2
Total trading securities	**792**	971
Amounts due for settlement within 12 months	**663**	939
Amounts due for settlement over 12 months	**129**	32
Total trading securities	**792**	971

12 Derivative Financial Instruments

Derivative financial instruments are classified as either held for trading or held for hedging. Held for trading derivatives are those entered into in order to meet customers' needs, to undertake market making and positioning activities and for economic hedging without applying hedge accounting. Held for hedging derivatives are instruments held for risk management purposes, which meet the criteria for hedge accounting. Refer to note 1(g) and (h) for an explanation of the Banking Group's accounting policies for derivatives and hedge accounting.

The Banking Group has entered into credit support annexes ("CSAs") in respect of certain credit exposures relating to derivative transactions. These CSAs compel the Banking Group or the counterparty to collateralise the market value of outstanding derivative transactions. As at 30 June 2016 the Banking Group had advanced $1,035 million of cash collateral against derivative liabilities and received $331 million of cash collateral against derivative assets (30 June 2015 $361 million and $797 million respectively).

Hedge Accounting

Cash Flow Hedges

The Banking Group hedges the forecast interest cash flows from floating rate mortgage loans, floating rate deposits, term foreign currency funding and the roll-over of short term fixed rate funding arrangements using cross currency and interest rate swaps. As at 30 June 2016 there were no transactions where cash flow hedge accounting ceased during the year as a result of highly probable cash flows no longer expected to occur (30 June 2015 nil).

Fair value gains and losses deferred in the cash flow hedge reserve will be transferred to the Income Statement over the next one to ten years, as the cash flows under the hedged transactions occur.

Fair Value Hedges

The Banking Group uses interest rate swaps to hedge interest rate risk exposure of a portion of its portfolios of fixed rate mortgage loans and fixed rate bonds. Interest rate swaps and cross currency swaps have also been used to hedge certain fixed rate funding arrangements, included in debt issues held at amortised cost and loan capital.

$ millions	Banking Group					
As at 30 June	2016			2015		
	Notional Amount	Fair Value Assets	Fair Value Liabilities	Notional Amount	Fair Value Assets	Fair Value Liabilities
Held for trading[1]						
Exchange rate contracts						
Forward contracts	**6,021**	**61**	**(186)**	6,843	215	(89)
Swaps	**-**	**-**	**-**	90	16	-
Options	**243**	**4**	**(4)**	315	7	(7)
Total exchange rate contracts	**6,264**	**65**	**(190)**	7,248	238	(96)
Interest rate contracts						
Forward contracts	**4,450**	**1**	**-**	18,274	2	(2)
Swaps	**51,378**	**652**	**(619)**	34,206	540	(506)
Futures	**2,828**	**-**	**-**	1,250	-	-
Options	**499**	**-**	**-**	575	-	-
Total interest rate contracts	**59,155**	**653**	**(619)**	54,305	542	(508)
Commodity contracts						
Options purchased and sold	**10**	**1**	**(1)**	18	2	(2)
Total held for trading	**65,429**	**719**	**(810)**	61,571	782	(606)
Held for hedging						
Designated as cash flow hedges						
Exchange rate contracts						
Swaps	**4,620**	**63**	**(240)**	4,945	594	(24)
Interest rate contracts						
Swaps	**42,353**	**234**	**(508)**	44,129	173	(337)
Total designated as cash flow hedges	**46,973**	**297**	**(748)**	49,074	767	(361)

(1) Comparative information has been restated to ensure consistency with presentation in the current year.

Notes to the Financial Statements

For the year ended 30 June 2016

12 Derivative Financial Instruments (continued)

$ millions	Banking Group					
As at 30 June	**2016**			2015		
	Notional Amount	**Fair Value Assets**	**Fair Value Liabilities**	Notional Amount	Fair Value Assets	Fair Value Liabilities
Designated as fair value hedges						
Exchange rate contracts						
Swaps	**6,392**	**327**	**(275)**	4,919	498	(206)
Interest rate contracts						
Swaps	**13,162**	**108**	**(252)**	15,130	55	(191)
Total designated as fair value hedges	**19,554**	**435**	**(527)**	20,049	553	(397)
Total held for hedging	**66,527**	**732**	**(1,275)**	69,123	1,320	(758)
Total derivative assets/(liabilities)	**131,956**	**1,451**	**(2,085)**	130,694	2,102	(1,364)
Amounts due for settlement within 12 months		**230**	**(655)**		661	(244)
Amounts due for settlement over 12 months		**1,221**	**(1,430)**		1,441	(1,120)
Total derivative assets/(liabilities)		**1,451**	**(2,085)**		2,102	(1,364)

13 Available-for-Sale Securities

$ millions	Banking Group	
As at 30 June	**2016**	2015
Local authority securities	**331**	132
New Zealand government securities	**978**	107
Corporate bonds	**493**	578
Treasury bills	**-**	81
Kauri bonds	**1,687**	1,484
Other securities	**528**	659
Total available-for-sale securities	**4,017**	3,041
Amounts due for settlement within 12 months	**498**	371
Amounts due for settlement over 12 months	**3,519**	2,670
Total available-for-sale securities	**4,017**	3,041

14 Advances to Customers

$ millions	Banking Group	
As at 30 June	**2016**	2015
Loans and other receivables	**72,324**	65,542
Fair value hedge adjustments	**48**	71
Provisions for impairment losses	**(297)**	(230)
Total advances to customers	**72,075**	65,383
Amounts due for settlement within 12 months	**12,081**	10,353
Amounts due for settlement over 12 months	**59,994**	55,030
Total advances to customers	**72,075**	65,383

15 Credit Risk Management Policies

Credit Risk Management

Credit risk is the potential risk of loss arising from the failure of a debtor or counterparty to meet their contractual obligations.

Credit risk principally arises within the Banking Group from its core business in providing lending facilities. Credit risk also arises from the Banking Group assuming contingent liabilities, participating in financial market transactions and assuming underwriting commitments. The Banking Group is selective in targeting credit risk exposures and avoids exposures to high risk areas.

The BARC operates under a charter by which it oversees the Banking Group's credit risk framework, credit management policies and practices. The BARC ensures that the Banking Group has in place and maintains credit policies and portfolio standards designed to achieve portfolio outcomes consistent with the Banking Group's risk/return expectations.

A system of industry limits and a large credit exposure policy assist in the diversification of the credit portfolio. These policies are an important part of portfolio management objectives to create a diversified portfolio avoiding significantly large concentrations of economically related credit risk exposures.

The Banking Group has comprehensive, clearly defined credit policies for the approval and management of all credit risk including risk from other banks and related counterparties. Lending standards and criteria are clearly defined across different business sectors for all Banking Group products and incorporate income/repayment capacity, acceptable terms and security and loan documentation tests.

While the Banking Group applies policies, standards and procedures in governing the credit process, the management of credit risk also relies on the application of judgement and the exercise of good faith and due care by relevant staff within their delegated authority.

Refer to notes 16 to 20 for additional credit risk disclosures.

Collateral

Refer to note 21 for information on the Banking Group's policies and procedures regarding collateral and credit enhancements to mitigate credit risk.

Credit Risk Measurement

The measurement of credit risk utilises analytical tools to calculate both expected and unexpected losses for the credit portfolio. This includes consideration of the probability of default ("PD"), the exposure at the time of default ("EAD") and the loss given default ("LGD") that would likely be experienced as a consequence.

The PD is the estimate of the probability that a client will default within the next 12 months. It reflects a client's ability to generate sufficient cash flows into the future to meet the terms of all its credit contracts with the Banking Group.

EAD is the proportion of a facility that may be outstanding in the event of default. It is calculated as a percentage of the facility limit and is expressed in dollars.

LGD is the proportion of a facility estimated to be lost in the event of default. It is expressed as a percentage. LGD is impacted by the type, level, liquidity and volatility of any collateral held, carrying costs and management expense. Long run LGDs are used for internal estimates of risk and downturn LGDs are used for regulatory capital. LGD is also affected by requirements for certain exposures that the RBNZ may prescribe. For retail mortgages, the Banking Group applies downturn LGDs and higher correlation for high loan-to-valuation ratio ("LVR") lending. For farm lending exposures, the Banking Group applies a prescribed downturn LGD with a presumed maturity of 2.5 years without any firm size adjustment.

The expected loss ("EL") is the product of the PD, EAD and the LGD. An EL will be recorded for every facility including retail.

Asset Quality

Credit risk is divided into the Retail segment and the Corporate segment. A different approach is used in each to determine an overall credit grade based on EL. These ratings equate to each other as follows:

Overall Credit Grade	Retail Grade	Corporate Grade	Banking Group Rating Classification
Low EL	Pool 1	CRR* 1 - 3	Retail facilities with low expected loss. Corporate facilities demonstrating financial condition and capacity to repay that are good to exceptional.
Medium EL	Pool 2	CRR 4 - 6	Retail facilities with moderate expected loss. Corporate facilities demonstrating financial condition and capacity to repay that are acceptable to good.
High EL	Pool 3	CRR 7 - 9	Retail facilities operating outside of agreed arrangements. Corporate facilities that require varying degrees of special attention (not necessarily contractually past due).

*Credit risk rating ("CRR")

These ratings equate to the rating classifications of the RBNZ as follows:

RBNZ Classification	Retail Grade	Corporate Grade	Banking Group Rating Classification
Pass grades	Pool 1 - 2	CRR 1 - 6	Pass grades
Special mention	Past due	CRR 7	Troublesome
Substandard	Past due	CRR 8	Troublesome
Doubtful/non-accrual	Default	CRR 9	Impaired/loss

15 Credit Risk Management Policies (continued)

Retail

The Retail segment comprises housing loans, credit cards, other personal credit facilities and most business lending up to $1 million. These portfolios are managed using statistical origination and account management techniques.

Retail facilities are assigned to a PD, EAD and LGD pool based on observed and predicted outcomes for facilities with similar characteristics. The overall credit grading pool is based on the EL that results from the product of PD, EAD and LGD for each facility.

Facilities in the Retail segment become classified for remedial management by centralised units based on delinquency status.

Corporate

Corporate exposures comprise commercial exposures, including bank and government exposures. A CRR is recorded against every corporate facility. Credit risk rated exposures are reviewed at least annually and the CRR reassessed.

PD and LGD are determined using credit assessment tools. The CRR is determined by reference to a matrix where PD and LGD combine to produce a numeric CRR grade which represents a range of EL.

CRRs fall into two categories:

1. Pass – CRR of 1 - 6. These credit facilities qualify for approval of new or increased exposure on normal commercial terms.
2. Troublesome and impaired assets ("TIAs") – CRR of 7 - 9. These credit facilities are not eligible for increases in exposure unless it will protect or improve the Banking Group's position by maximising recovery prospects or to facilitate rehabilitation.

Oversight

Both retail and corporate segments are subject to inspection. Credit processes are reviewed by the relevant Credit Quality Review unit, with an independent overview provided by Credit Portfolio Assessment ("CPA"), an internal unit within the Bank. CPA's processes include a review of compliance with policy, portfolio standards, and application of risk ratings with reports on findings reported to the BARC.

Impairment and Provisioning of Financial Assets

Default occurs if either of the following takes place:

- The customer is unlikely to repay their credit obligations to the Banking Group in full, without recourse by the Banking Group to actions such as realising available security; or
- The customer is 90 days or more overdue on a scheduled credit obligation repayment.

In addition to the credit risk management processes used to manage exposures to credit risk in the credit portfolio, the internal ratings process also assists management in assessing the requirements of NZ IAS 39 relating to impairment and provisioning of financial assets.

Financial assets are assessed at least at each reporting date for impairment. Provisions for impairment are raised where there is objective evidence of impairment and at an amount adequate to cover estimated credit related losses. Credit losses arise primarily from loans, but also from other credit instruments such as bank acceptances, contingent liabilities, guarantees and other financial instruments and assets acquired through security enforcement.

Impairment losses are recognised to reduce the carrying amount of loans and advances to their estimated recoverable amounts. Individually assessed provisions are made against individual financial assets when there is objective evidence that the Banking Group will not be able to collect all amounts due. The amount of the impairment loss is the difference between the carrying amount and the recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate. Interest continues to be accrued on impaired loans based on the revised carrying amounts and using appropriate effective interest rates.

The Banking Group recognises collective provisions for impairment where there is objective evidence that components of a loan portfolio with similar credit risk characteristics contain probable losses as at the balance date that will be individually identified in the future, or where insufficient data exists to reliably determine whether such losses exist. The estimated probable losses are based upon historical patterns of losses. The calculations are based on statistical methods of credit risk measurement.

The provisions for impairment take into account current cyclical developments as well as economic conditions in which the borrowers operate and are subject to management review, experienced judgement, and adjustment where necessary to reflect these and other relevant factors in individual portfolios.

16 Credit Quality Information for Advances to Customers

$ millions	Banking Group			
As at 30 June 2016	Residential Mortgages[1]	Other Retail	Corporate	Total
Neither past due nor impaired				
The credit quality of advances that were neither past due nor impaired can be assessed by reference to the Banking Group's internal rating system:				
Low expected loss	44,900	303	8,608	53,811
Medium expected loss	1,103	4,015	10,263	15,381
High expected loss	9	159	269	437
Total advances neither past due nor impaired	46,012	4,477	19,140	69,629
Past due assets not impaired				
1 to 7 days	912	162	217	1,291
8 to 29 days	460	87	54	601
30 to 59 days	194	43	14	251
60 to 89 days	72	16	10	98
Over 90 days	53	22	2	77
Total past due assets not impaired	1,691	330	297	2,318
Individually impaired assets				
Balance at beginning of year	50	9	231	290
Additions	28	8	236	272
Deletions	(38)	(4)	(124)	(166)
Amounts written off	(6)	(2)	(11)	(19)
Total individually impaired assets	34	11	332	377
Total gross advances to customers	47,737	4,818	19,769	72,324
Other assets under administration	32	6	-	38

Undrawn balances on lending commitments to counterparties within the impaired asset category were $2 million as at 30 June 2016 (30 June 2015 $2 million).

The facilities that are reported as impaired and past due are collateralised in accordance with the Banking Group's credit risk management policies as set out in note 15.

(1) The Residential Mortgages asset class consists of mortgages which are secured by residential properties.

16 Credit Quality Information for Advances to Customers (continued)

$ millions	Banking Group			
As at 30 June 2015	Residential Mortgages	Other Retail	Corporate	Total
Neither past due nor impaired[1]				
Low expected loss	40,482	284	8,697	49,463
Medium expected loss	1,195	3,882	7,799	12,876
High expected loss	11	119	163	293
Total advances neither past due nor impaired	41,688	4,285	16,659	62,632
Past due assets not impaired				
1 to 7 days	999	160	280	1,439
8 to 29 days	579	85	71	735
30 to 59 days	198	36	12	246
60 to 89 days	79	14	7	100
Over 90 days	73	20	7	100
Total past due assets not impaired	1,928	315	377	2,620
Individually impaired assets				
Balance at beginning of year	51	10	157	218
Additions	44	6	162	212
Deletions	(39)	(4)	(75)	(118)
Amounts written off	(6)	(3)	(13)	(22)
Total individually impaired assets	50	9	231	290
Total gross advances to customers	43,666	4,609	17,267	65,542
Other assets under administration	31	3	-	34

(1) Other Retail comparative information has been reclassified to ensure consistency with presentation in the current year.

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For the year ended 30 June 2016

17 Provisions for Impairment Losses

$ millions **As at 30 June 2016**	**Banking Group** **Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
Collective provision				
Balance at beginning of year	**39**	**75**	**80**	**194**
(Recovered from)/charged to Income Statement	**(13)**	**17**	**61**	**65**
Balance at end of year	**26**	**92**	**141**	**259**
Individually assessed provisions				
Balance at beginning of year	**10**	**1**	**25**	**36**
Add/(less):				
Charged to Income Statement:				
New and increased provisions	**14**	**4**	**28**	**46**
Write-back of provisions no longer required	**(11)**	**(1)**	**(13)**	**(25)**
Write-offs against individually assessed provisions	**(6)**	**(2)**	**(11)**	**(19)**
Balance at end of year	**7**	**2**	**29**	**38**
Total provisions for impairment losses	**33**	**94**	**170**	**297**
Impairment losses on advances				
Movement in collective provision	**(13)**	**17**	**61**	**65**
New and increased individually assessed provisions net of write-backs	**3**	**3**	**15**	**21**
Bad debts written off directly to the Income Statement	**-**	**58**	**-**	**58**
Recovery of amounts previously written off	**(2)**	**(11)**	**(1)**	**(14)**
Total impairment losses on advances	**(12)**	**67**	**75**	**130**

$ millions **As at 30 June 2015**	**Banking Group** Residential Mortgages	Other Retail	Corporate	Total
Collective provision				
Balance at beginning of year	38	61	59	158
Charged to Income Statement	1	14	21	36
Balance at end of year	39	75	80	194
Individually assessed provisions				
Balance at beginning of year	11	2	27	40
Add/(less):				
Charged to Income Statement:				
New and increased provisions	19	3	18	40
Write-back of provisions no longer required	(14)	(1)	(7)	(22)
Write-offs against individually assessed provisions	(6)	(3)	(13)	(22)
Balance at end of year	10	1	25	36
Total provisions for impairment losses	49	76	105	230
Impairment losses on advances				
Movement in collective provision	1	14	21	36
New and increased individually assessed provisions net of write-backs	5	2	11	18
Bad debts written off directly to the Income Statement	1	46	-	47
Recovery of amounts previously written off	(2)	(10)	-	(12)
Total impairment losses on advances	5	52	32	89

18 Concentrations of Credit Exposures

The following table presents the maximum exposure to credit risk of financial assets and other credit exposures, before taking account of any collateral held or other credit enhancements unless such credit enhancements meet the offsetting criteria in NZ IAS 32.

For financial assets recognised on the Balance Sheet, the maximum exposure to credit risk equals their carrying values. Other credit exposures include irrevocable lending commitments, guarantees, standby letters of credit and other off balance sheet credit commitments. The maximum exposure to credit risk for guarantees and standby letters of credit is the maximum amount that the Banking Group would have to pay if the facilities were called upon. For irrevocable lending commitments and other credit commitments, the maximum exposure to credit risk is the full amount of the committed facilities.

Investments in associates, taxation assets, property, plant and equipment, intangible assets, and other assets have been excluded from the analysis below, on the basis that any credit exposure is insignificant or nil.

Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes have been used as the basis for disclosing customer industry sectors.

$ millions	Banking Group			
As at 30 June 2016	**Financial Assets at Amortised Cost**	**Financial Assets at Fair Value**	**Other Credit Exposures**	**Total Credit Exposures**
Concentration by industry				
Agriculture	9,775	34	903	10,712
Government and public authorities	240	1,476	283	1,999
Property and business services	6,507	61	871	7,439
Finance, investment and insurance	7,583	4,587	513	12,683
Utilities	128	41	135	304
Transport and storage	443	2	138	583
Housing(1)	43,807	-	7,354	51,161
Construction	660	-	203	863
Personal	1,615	-	2,244	3,859
Health and community services	753	8	263	1,024
Other commercial and industrial	3,098	51	1,302	4,451
Total credit exposures by industry	74,609	6,260	14,209	95,078

(1) The housing sector for financial assets at amortised cost includes advances which are used for the purchase of residential properties that are owner-occupied. Advances which are used for the purchase of investment properties are included in the finance, investment and insurance sector under financial assets at amortised cost.

Concentration by geographic region				
Auckland	43,120	1,984	10,021	55,125
Rest of New Zealand	29,891	1,635	4,179	35,705
Overseas	1,598	2,641	9	4,248
Total credit exposures by geographic region	74,609	6,260	14,209	95,078

18 Concentrations of Credit Exposures (continued)

$ millions	Banking Group			
As at 30 June 2015	Financial Assets at Amortised Cost	Financial Assets at Fair Value	Other Credit Exposures	Total Credit Exposures
Concentration by industry[1]				
Agriculture	8,970	29	1,006	10,005
Government and public authorities	177	832	150	1,159
Property and business services	5,708	36	607	6,351
Finance, investment and insurance	8,410	5,101	437	13,948
Utilities	74	74	104	252
Transport and storage	369	1	99	469
Housing	39,758	-	6,406	46,164
Construction	525	-	178	703
Personal	1,486	-	2,123	3,609
Health and community services	639	4	185	828
Other commercial and industrial	2,681	37	1,105	3,823
Total credit exposures by industry	68,797	6,114	12,400	87,311
Concentration by geographic region[1]				
Auckland	40,288	2,003	8,598	50,889
Rest of New Zealand	27,711	934	3,793	32,438
Overseas	798	3,177	9	3,984
Total credit exposures by geographic region	68,797	6,114	12,400	87,311

(1) Certain comparative information has been reclassified to ensure consistency with presentation in the current year.

19 Concentration of Credit Exposures to Individual Counterparties

There was no balance date aggregate credit exposure to individual counterparties which exceeded 10% of the Banking Group's equity as at 30 June 2016. 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 June 2016.

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, and banks with a long term credit rating of A- or A3 or above, or its equivalent, and connected persons are excluded.

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 June 2016.

20 Credit Exposures to Connected Persons and Non-bank Connected Persons

	Banking Group			
	Peak Exposure for the Year		Balance Date Exposure	
30 June 2016	**$ millions**	**Percentage of Tier One Capital**	**$ millions**	**Percentage of Tier One Capital**
All connected persons*	**1,783**	**28.9%**	**612**	**9.9%**
Non-bank connected persons	**36**	**0.6%**	**9**	**0.1%**

The information on credit exposures to connected persons has been derived in accordance with the RBNZ document *Connected Exposures Policy* (BS8) dated November 2015.

* Credit exposures to connected persons included exposures to the ultimate parent bank, CBA. As at 30 June 2016 this amounted to $602 million.

The basis for calculation is actual credit exposures presented on a gross basis. Exposures are all of a non-capital nature and shown net of any allowances for impairment losses on individual assets and gross of set-offs. Percentages are calculated using the Banking Group's tier one capital as at balance date.

The Banking Group has a contingent exposure to its ultimate parent, CBA, arising from risk lay off arrangements in respect of credit exposures to counterparties. As at 30 June 2016 this amounted to $140 million.

The Banking Group had no individually assessed provisions provided against credit exposures to connected persons as at 30 June 2016.

In accordance with its Conditions of Registration, the Banking Group’s aggregate credit exposures to all connected persons must not exceed its rating contingent limit of 70% of tier one capital. This limit has not changed during the year. Within the overall rating contingent limit, there is a sub-limit of 15% of tier one capital which applies to aggregate credit exposures to non-bank connected persons. Both the rating contingent limit on lending to connected persons and the sub-limit on lending to non-bank connected persons have been complied with at all times, during the year ended 30 June 2016.

21 Maximum Exposure and Effect of Collateral and Other Credit Enhancements

Collateral and Credit Enhancements Held

The Banking Group has policies and procedures in place setting out the circumstances where acceptable and appropriate collateral is to be taken to mitigate credit risk, including valuation parameters.

The general nature and amount of collateral or other credit enhancements taken to mitigate the credit risk of each financial asset class are summarised below.

Cash and Liquid Assets

This Balance Sheet category includes reverse repurchase agreements which are fully collateralised by highly liquid debt securities which have been legally transferred to the Banking Group subject to an agreement to return them for a fixed price. As at 30 June 2016 the Banking Group had not sold securities accepted as collateral under reverse repurchase agreements (30 June 2015 $11m).

Cash and liquid assets include $736 million as at 30 June 2016 (30 June 2015 $1,259 million) deposited with the RBNZ.

Due from Financial Institutions

This balance is short term unsecured lending to other financial institutions. Collateral is not generally sought on these balances.

Trading Securities

These assets are measured at fair value which accounts for the credit risk. As at 30 June 2016 no collateral is held to mitigate the credit risk on these instruments (30 June 2015 nil) and none of these securities are backed by guarantees or other assets (30 June 2015 nil).

Derivative Assets

The Banking Group's use of derivative contracts is outlined in note 12. The Banking Group is exposed to credit risk on derivative contracts, which arises as a result of counterparty credit risk. The Banking Group's exposure to counterparty credit risk is affected by the nature of the trades, the creditworthiness of the counterparty, netting, and collateral arrangements.

Credit risk from derivatives is mitigated where possible through master netting agreements whereby derivative assets and liabilities with the same counterparty can be offset. Banking Group policy requires all netting arrangements to be legally documented (e.g. International Swap and Derivatives Association ("ISDA") Master Agreement). A master netting agreement provides the contractual framework within which dealing activities across a range of over-the-counter products are conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other predetermined events occur.

Depending on the creditworthiness of the counterparty and/or nature of the transaction collateral maybe obtained against derivative assets. Refer to note 12 for detail of collateral received.

Available-for-Sale Securities

These assets are measured at fair value which accounts for the credit risk. As at 30 June 2016 no collateral is held to mitigate the credit risk on these instruments (30 June 2015 nil) and $418 million of these securities are backed by guarantees (30 June 2015 $352 million).

Other Assets

This Balance Sheet category includes interest receivable accrued and other current assets. As at 30 June 2016 no collateral is held on these balances (30 June 2015 nil).

Advances to Customers

The Banking Group assesses the integrity and ability of debtors or counterparties to meet their contracted financial obligations for repayment.

Principal collateral types for advances to customers include:

- mortgages over residential and commercial real estate;
- charges over business assets such as premises, inventory and accounts receivables; and
- guarantees received from third parties.

Specifically, the collateral mitigating credit risk of the key lending portfolios is addressed in the notes and table below.

(i) Residential Mortgages

All home loans are secured by fixed charges over borrowers' residential properties.

(ii) Other Retail Lending

This category includes lending to small and medium sized enterprises where collateral is commonly held, generally in the form of residential property. In some instances other forms of collateral may be obtained, as listed under corporate lending below. Personal lending is considered unsecured for the purposes of this disclosure, although some personal lending may be secured by all obligations mortgages.

21 Maximum Exposure and Effect of Collateral and Other Credit Enhancements (continued)

Advances to Customers (continued)

(iii) Corporate Lending

The Banking Group's main collateral types for corporate lending consists of secured rights over specified assets of the borrower in the form of: commercial property, land rights, cash (usually in the form of a charge over a deposit), guarantees by company directors supporting commercial lending, a charge over a company's assets (including debtors, inventory and work in progress), or a charge over shares. In other instances, a client's facilities may be secured by collateral with value less than carrying amount of credit exposure. These facilities are deemed secured, partially secured or unsecured.

$ millions	Banking Group			
Collateral Held on Advances to Customers - On Balance Sheet:	**Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
As at 30 June 2016				
Maximum Exposure	**47,737**	**4,818**	**19,769**	**72,324**
Collateral Classification				
Secured(1)	**99.9%**	**31.9%**	**63.3%**	**85.4%**
Partially Secured(2)	**0.1%**	**10.1%**	**26.8%**	**8.0%**
Unsecured(3)	**-**	**58.0%**	**9.9%**	**6.6%**
As at 30 June 2015				
Maximum Exposure	43,666	4,609	17,267	65,542
Collateral Classification				
Secured	99.9%	35.7%	65.6%	86.3%
Partially Secured	0.1%	10.3%	25.0%	7.4%
Unsecured	-	54.0%	9.4%	6.3%

Credit Commitments and Contingent Liabilities

The Banking Group applies the same risk management policies for off balance sheet risks as it does for its on balance sheet risks. In the case of credit commitments, customers and other counterparties will be subject to the same credit management policies as loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

$ millions **Collateral Held on Credit Commitments - Off Balance Sheet:**	**Banking Group**
As at 30 June 2016	
Maximum Exposure	**14,209**
Collateral Classification	
Secured	**64.1%**
Partially Secured	**4.3%**
Unsecured	**31.6%**
As at 30 June 2015	
Maximum Exposure	12,400
Collateral Classification	
Secured	62.9%
Partially Secured	3.9%
Unsecured	33.2%

(1) Secured exposures are those that have ≥ 100% security cover after adjusting for collateral haircuts.
(2) Partially secured exposures are those that have 40 - 99.9% security cover after adjusting for collateral haircuts.
(3) Unsecured exposures are those that have < 40% security cover after adjusting for collateral haircuts.

22 Transferred Financial Assets

A financial asset is considered to be transferred if the contractual rights to receive the cash flows of the asset have been transferred, or there is an obligation to pay the cash flows to another party.

Transferred Financial Assets that are Not Derecognised in their Entirety

Residential Mortgage-Backed Securities

During the year ended 30 June 2009 the Banking Group established an in-house residential mortgage-backed securities ("RMBS") facility, which can issue securities that are acceptable as collateral for repurchase agreements with the RBNZ. As at 30 June 2016, Mortgage loans with a carrying value and fair value of $3.8 billion (30 June 2015 $3.8 billion), have been internally securitised through the Medallion NZ Series Trust 2009-1R. These mortgage loans (included within advances to customers), have not been derecognised from the Banking Group's financial statements as the Banking Group retains substantially all the risks and rewards of ownership (funding, liquidity and credit risks remain with the Banking Group). As at 30 June 2016, the Medallion NZ Series Trust 2009-1R had other assets of $328 million representing cash from principal repayments (30 June 2015 $344 million).

Covered Bond Programme

As noted in the General Disclosures, 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. These mortgage loans (included within advances to customers) have not been derecognised from the Banking Group's financial statements as the Banking Group retains substantially all the risks and rewards of ownership (funding, liquidity and credit risks remain with the Banking Group). As at 30 June 2016, the Covered Bond Trust held mortgage loans with a carrying value and fair value of $6.0 billion (30 June 2015 $3.6 billion), and other assets of $151 million representing cash from principal repayments (30 June 2015 $112 million).

Collateral Advanced

Under repurchase agreements, collateral in the form of securities is advanced to a third party and the Banking Group receives cash in exchange. The counterparty is allowed to sell or repledge the collateral advanced under repurchase agreements in the absence of default by the Banking Group but has an obligation to return the collateral at the maturity of the contract. The Banking Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them (funding, liquidity and credit risks remain with the Banking Group). In addition, it recognises a financial liability for cash received which is included in deposits and other public borrowings.

As at 30 June 2016 the Banking Group had no collateral advanced under repurchase agreements (30 June 2015 nil).

Transferred Financial Assets that are Derecognised in their Entirety

As at 30 June 2016 the Banking Group has not derecognised in its entirety any financial assets where it has a continuing involvement (30 June 2015 nil).

23 Imputation Credit Account

Companies may attach imputation credits to dividends paid which represent the New Zealand tax already paid by the company or tax group on profits. New Zealand resident shareholders may claim a tax credit to the value of the imputation credit attached to dividends.

The Bank and some of its subsidiaries have formed an imputation group with other members of the Commonwealth Bank of Australia Group ("ICA Group"). The closing imputation credit account balances presented below represent the imputation credits available to all members of the ICA Group.

The amount of imputation credits available to all members of the ICA Group as at 30 June 2016 is $727 million (30 June 2015 $465 million). This amount includes imputation credits that will arise from the payment of the provision for income tax and from the receipt of dividends recognised as receivables as at the reporting date, and imputation debits that will arise from the payment of dividends recognised as payables as at the reporting date.

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24 Controlled Entities and Associates

Entity Name	%	Nature of Business	Balance Date
Subsidiaries			
Aegis Limited	100	Investment administration and custody	30 June
ASB Finance Limited	100	Finance	30 June
ASB Group Investments Limited	100	Investment administration and management	30 June
ASB Management Services Limited	100	Management, payment services and property investment	30 June
ASB Nominees Limited	100	Nominee company	30 June
ASB Securities Limited	100	Sharebroking	30 June
Bond Investments No 1 Limited	100	Finance	30 June
Bond Investments UK Limited	100	Finance	30 June
Investment Custodial Services Limited	100	Investment custodian	30 June
Mortgage Holding Trust Company Limited	100	Nominee company	30 June
Securitisation Management Services Limited	100	Securitisation management	30 June
All subsidiaries were incorporated in New Zealand.			
Other Controlled Entities			
ASB Cash Fund	-	Portfolio investment entity	30 June
ASB Term Fund	-	Portfolio investment entity	30 June
Medallion NZ Series Trust 2009-1R	-	Securitisation entity	30 June
ASB Covered Bond Trust	-	Guarantor	30 June
Associates			
Cards NZ Limited	19	Financial services	30 September
Paymark Limited	25	EFTPOS settlements	31 March
Payments NZ Limited	19	Payment systems	31 March

Summarised financial information for associates is not provided, as the amounts involved are immaterial.

Changes in Composition of the Banking Group

There were no changes to the composition of the Banking Group during the year.

Comparative Periods

ASB Smart Cards Limited and Kiwi Home Loans (NZ) Limited (both subsidiaries of the Bank) were removed from the New Zealand Companies Register on 20 October 2014 and 1 December 2014 respectively. These removals had no impact on the consolidated financial statements of the Banking Group.

25 Other Assets

$ millions **As at 30 June**	**Banking Group** **2016**	 2015
Interest receivable accrued	**167**	177
Other assets	**62**	355
Total other assets	**229**	532
Amounts due for settlement within 12 months	**217**	518
Amounts due for settlement over 12 months	**12**	14
Total other assets	**229**	532

26 Goodwill

Goodwill of $48 million arose from the purchase of Aegis Limited and ASB Group Investments Limited from fellow subsidiaries of CBA on 1 July 2008. During the year ended 30 June 2016 the Banking Group did not identify any events or circumstances that would indicate that goodwill may be impaired (30 June 2015 none).

Impairment Tests for Goodwill

Goodwill was tested for impairment as at 30 June 2016. Goodwill of $38 million was allocated to Aegis Limited and $10 million was allocated to ASB Group Investments Limited. Both of these subsidiaries are considered to be cash-generating units for the purpose of impairment testing. The operations of the subsidiaries are included within the Wealth and Insurance segment for segment reporting. To assess whether goodwill is impaired, the carrying amount of each cash-generating unit is compared to the recoverable amount, determined based on its value in use.

No impairment losses were recognised against the carrying amount of goodwill for the year ended 30 June 2016 (30 June 2015 nil).

Key Assumptions used in Value in Use Calculations

As at 30 June 2016, value in use for each cash-generating unit was determined by discounting the future cash flows expected to be generated from the continuing use of the unit, based on the following assumptions:

- Cash flows were projected based on management's assessment of product profitability, and forecasted growth in revenues and expenses to support the business covering a three-year period. Cash flows beyond three years were extrapolated based on a view of inflation of 1% (30 June 2015 1%).
- A post-tax discount rate of 11% was applied in determining the recoverable amounts of the cash generating units, in line with the rate used internally by the Banking Group to assess business cases for new products or projects (30 June 2015 12%).

The key assumptions described above may change as economic and market conditions change. The Banking Group estimates that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of either unit to decline significantly below the carrying amount of their allocated goodwill.

27 Deferred Taxation Asset

$ millions **As at 30 June**	**Banking Group** **2016**	 2015
Balance at beginning of year	**107**	61
Recognised in the Income Statement	**27**	11
Recognised in other comprehensive income	**12**	35
Balance at end of year	**146**	107
Deferred taxation relates to:		
Asset revaluation reserve	**(5)**	(5)
Available-for-sale reserve	**3**	(3)
Cash flow hedge reserve	**40**	34
Holiday pay	**11**	10
Provision for impairment losses	**83**	64
Other temporary differences	**14**	7
Total deferred taxation asset	**146**	107
Deferred taxation recognised in the Income Statement:		
Depreciation	**-**	4
Holiday pay	**1**	(1)
Provision for impairment losses	**19**	9
Other temporary differences	**7**	(1)
Total deferred taxation recognised in the Income Statement	**27**	11
Deferred taxation recognised in other comprehensive income:		
Asset revaluation reserve	**-**	1
Available-for-sale reserve	**6**	2
Cash flow hedge reserve	**6**	32
Total deferred taxation recognised in other comprehensive income	**12**	35

As at 30 June 2016 deferred taxation of $76 million is expected to crystallise after more than 12 months (30 June 2015 $56 million).

28 Deposits and Other Public Borrowings

$ millions **As at 30 June**	**Banking Group** **2016**	 2015
Certificates of deposit	**2,910**	2,101
Term deposits	**23,122**	24,253
On demand and short term deposits	**25,167**	22,885
Deposits not bearing interest	**3,503**	2,924
Total deposits and other public borrowings	**54,702**	52,163
Amounts due for settlement within 12 months	**51,865**	49,074
Amounts due for settlement over 12 months	**2,837**	3,089
Total deposits and other public borrowings	**54,702**	52,163

Deposits and other public borrowings are unsecured and rank equally with other unsecured liabilities of the Banking Group. In the unlikely event that the Bank was put into liquidation or ceased to trade, secured creditors and those creditors set out in the Seventh Schedule of the Companies Act 1993 would rank ahead of the claims of unsecured creditors.

29 Other Liabilities

$ millions	Banking Group	
As at 30 June	**2016**	2015
Interest payable accrued	**265**	330
Employee entitlements	**129**	116
Trade accounts payable and other liabilities	**153**	140
Total other liabilities	**547**	586
Amounts due for settlement within 12 months	**541**	576
Amounts due for settlement over 12 months	**6**	10
Total other liabilities	**547**	586

30 Due to Financial Institutions

As at 30 June 2016 amounts due to financial institutions of $580 million are due for settlement within 12 months of balance date (30 June 2015 $3,523 million due within 12 months of balance date).

31 Other Liabilities at Fair Value through Income Statement

$ millions	Banking Group	
As at 30 June	**2016**	2015
Certificates of deposit	**1,340**	169
Trading liabilities	**-**	11
Total other liabilities at fair value through Income Statement	**1,340**	180

As at 30 June 2016 other liabilities at fair value through Income Statement are due for settlement within 12 months of balance date (30 June 2015 within 12 months of balance date).

For the year ended 30 June 2016 no loss was attributable to changes in credit risk for other liabilities at fair value through Income Statement (30 June 2015 nil). All other changes in fair value are attributable to changes in the benchmark interest rate.

32 Debt Issues

$ millions As at 30 June	Banking Group 2016	 2015
Debt issues by programme		
Euro commercial paper	**308**	113
USD commercial paper	**3,356**	2,456
Euro medium term notes	**4,033**	3,893
NZD domestic bonds	**4,182**	3,299
Covered bonds	**3,198**	2,528
Total debt issues	**15,077**	12,289
Short term debt issues by currency		
USD	**3,455**	2,456
GBP	**179**	104
CAD	**-**	9
CHF	**30**	-
Long term debt issues with less than one year to maturity		
USD	**-**	15
AUD	**-**	6
GBP	**567**	691
JPY	**-**	60
NZD	**787**	191
HKD	**155**	21
CHF	**217**	158
Total short term debt issues (amounts due for settlement within 12 months)	**5,390**	3,711
Long term debt issues by currency		
USD	**486**	-
GBP	**614**	1,383
JPY	**98**	-
EUR	**3,678**	2,186
NZD	**3,907**	3,612
HKD	**-**	161
CHF	**904**	1,236
Total long term debt issues (amounts due for settlement over 12 months)	**9,687**	8,578
Total debt issues	**15,077**	12,289
Debt issues at fair value through Income Statement	**1,646**	1,213
Debt issues at amortised cost	**13,431**	11,076
Total debt issues	**15,077**	12,289
Fair value hedge adjustments included in total debt issues	**149**	138

Short Term Debt

The Banking Group's short term borrowings include a Euro Commercial Paper ("ECP") programme under which it may issue commercial paper ("CP") in multiple currencies up to an aggregate of USD7 billion, and a USD CP ("USCP") programme under which it may issue CP in USD up to an aggregate of USD7 billion. CP is issued under these programmes at both fixed and variable interest rates. Interest rate and foreign currency risks associated with the issuances are incorporated within the Banking Group's risk management framework.

The weighted average interest rate on balances outstanding as at 30 June 2016 was 0.61% for CP issued under the ECP programme (30 June 2015 0.56%) and 0.85% for CP issued under the USCP programme (30 June 2015 0.29%).

32 Debt Issues (continued)

Long Term Debt

The Banking Group's long term borrowings include notes issued under a joint Euro Medium Term Note ("EMTN") programme with CBA, the ultimate parent of the Bank. The joint programme limit is USD70 billion. These issuances occur in multiple currencies. Notes issued under this programme have both fixed and variable interest rates.

The Banking Group's long term borrowings also include bonds issued under a Covered Bond programme. The Bank or its subsidiary ASB Finance Limited (acting through its London branch) may issue notes up to a programme limit of EUR7 billion, subject to the regulatory constraint that the assets of the Covered Bond Trust may not exceed 10% of the Banking Group's total assets. The issuances may occur in multiple currencies. Covered Bonds issued under this programme may have both fixed and variable interest rates. These bonds are guaranteed by the Covered Bond Guarantor. Refer to the General Disclosures for further information.

The Banking Group's long term borrowings also include domestic bonds issued into the New Zealand market. The issuances occur in NZD and have both fixed and variable interest rates.

Interest rate and foreign currency risks associated with both short term and long term debt issuances are incorporated within the Banking Group's risk management framework.

The Banking Group has not had any defaults of principal, interest or other breaches with regard to all liabilities during the year ended 30 June 2016 (30 June 2015 nil).

33 Loan Capital

On 17 April 2014, the Bank issued subordinated and unsecured debt securities ("Notes") with a face value of $400 million. The Notes meet the criteria for tier 2 capital designation under the Bank's and CBA's regulatory capital requirements and are classified as financial liabilities under NZ IAS 32. The Notes will mature on 15 June 2024 but subject to certain conditions, the Bank has the right to redeem all or some of the Notes on any interest payment date on or after 15 June 2019 (call option date). At any time, the Bank may redeem all the Notes for tax or regulatory reasons. The Notes bear an interest rate of 6.65% which is fixed for five years and will be reset if the Notes are not redeemed on or before the call option date. Payment of interest is quarterly in arrears and is subject to the Bank remaining solvent and the Banking Group being solvent immediately after such payment is made.

If a non-viability trigger event ("NVTE") occurs, some or all of the Notes will automatically and immediately be exchanged for CBA ordinary shares. A NVTE occurs when, among other circumstances:

- the RBNZ has reasonable grounds to believe that the Bank is insolvent or likely to become insolvent and directs the Bank to convert or write down a class of capital instruments that includes Notes of a specified aggregate amount; or
- APRA notifies CBA that it believes an exchange of some or all Notes is necessary because without it CBA would become non-viable.

If the Notes are not able to be exchanged, or the exchange is not effective, within five business days, the rights of the holders will be terminated.

In conjunction with the issuance of the Notes, the Bank also entered into a related agreement with ASB Holdings Limited and CBA on 13 March 2014. This related agreement includes a requirement for the Bank to issue to ASB Holdings Limited, upon the occurrence of a NVTE, a variable number of shares, for a consideration equivalent to the Notes exchanged into CBA shares.

34 Contributed Capital

$ millions	Banking Group	
As at 30 June	**2016**	2015
Issued and fully paid ordinary share capital		
Balance at beginning of year	**2,273**	2,273
Share capital issued	**400**	-
Balance at end of year	**2,673**	2,273
Issued and fully paid perpetual preference share capital		
Balance at beginning of year	**1,150**	550
Share capital issued	**400**	600
Balance at end of year	**1,550**	1,150
Total contributed capital	**4,223**	3,423

All contributed capital is included in tier one capital for capital adequacy calculation purposes. Refer to note 42 for more information on regulatory capital.

Ordinary Shares

On 30 March 2016, the Bank issued 400,000,000 ordinary shares to ASB Holdings Limited and raised $400 million from the issuance. The ordinary shares qualify as common equity tier one capital under the RBNZ's regulatory capital standards.

The total number of issued ordinary shares as at 30 June 2016 was 2,648,121,300 (30 June 2015 2,248,121,300). All ordinary shares have equal voting rights and share equally in dividends and any profit on winding up, after the obligations to holders of ASB perpetual preference shares ("PPS") are satisfied. Dividends are declared, subject in all cases, to the applicable directors' resolutions being passed.

Perpetual Preference Shares

a) On 16 March 2015, the Bank issued 6,000,000 PPS to ASB Holdings Limited and raised $600 million from the issuance. On 31 March 2016, the Bank issued a further 4,000,000 PPS to ASB Holdings Limited and raised $400 million from the issuance. Both PPS issuances qualify as additional tier one capital under the RBNZ's regulatory capital standards.

The PPS are non-voting and pay discretionary quarterly floating rate dividends. Upon a winding-up, the PPS rank equally with the Bank's other preference shares, above its ordinary shares and below its liabilities. At the option of the Bank, the 6,000,000 and 4,000,000 PPS are redeemable on the initial optional redemption dates of 16 March 2020 and 15 June 2021 respectively or on any subsequent scheduled distribution date, subject to RBNZ approval.

If a non-viability trigger event ("NVTE") occurs, the PPS will be exchanged into a fixed number of ordinary shares of the Bank. A NVTE occurs at the direction of the RBNZ or a statutory manager of the Bank. A NVTE occurs when, among other circumstances, the RBNZ has reasonable grounds to believe that the Bank is insolvent or likely to become insolvent and directs the Bank to exchange the PPS for ordinary shares. If for any reason the exchange for ordinary shares cannot occur, the PPS will be immediately and irrevocably written down, in accordance with the PPS terms.

b) On 15 May 2006 the Bank issued 200,000,000 of 2006 Series 1 PPS and 350,000,000 of 2006 Series 2 PPS to ASB Holdings Limited. ASB Holdings Limited subsequently transferred the PPS by way of novation to its subsidiary ASB Funding Limited.

The 2006 Series 1 and Series 2 PPS were issued as part of transactions with ASB Capital Limited and ASB Capital No. 2 Limited, both of which are subsidiaries of CBA Funding (NZ) Limited, which is ultimately owned by CBA.

Under the transactions, ASB Capital Limited and ASB Capital No. 2 Limited have advanced proceeds received from a public issue of their own PPS to ASB Funding Limited. ASB Funding Limited in turn invested the proceeds in the 2006 Series 1 and Series 2 PPS issued by the Bank. ASB Funding Limited and The New Zealand Guardian Trust Company Limited (the "Trustee") together with ASB Capital Limited and ASB Capital No. 2 Limited respectively are party to Trust Deeds, whereby ASB Funding Limited provides covenants to the Trustee for the benefit of holders of the ASB Capital Limited and ASB Capital No. 2 Limited PPS and grants security over the Bank's PPS in favour of the Trustee.

The 2006 Series 1 and Series 2 PPS are non-redeemable and carry limited voting rights. Dividends are payable quarterly in arrears, are non-cumulative and payable at the discretion of the Directors.

The dividend payable on the 2006 Series 1 PPS is based on the one year swap rate plus a margin of 1.3%. Rates are reset annually on 15 November or the succeeding business day. The rate was reset on 16 November 2015 to 4.00% per annum (the rate to 16 November 2015 was 5.04% per annum). The next dividend reset date is 15 November 2016.

The dividend payable on the 2006 Series 2 PPS is based on the one year swap rate plus a margin of 1.0%. Rates are reset annually on 15 May or the succeeding business day. The rate was reset on 16 May 2016 to 3.20% per annum (the rate to 16 May 2016 was 4.34% per annum). The next dividend reset date is 15 May 2017.

In the event of the liquidation of the Bank, payment of the issue price and cumulative dividends on the PPS ranks:

- before all rights of ordinary shareholders;
- after all rights of holders of shares of the Bank other than ordinary or preference shares; and
- after all rights of creditors of the Bank.

The total number of issued PPS as at 30 June 2016 was 560,000,000 (30 June 2015 556,000,000).

35 Reserves

$ millions	Banking Group	
As at 30 June	**2016**	2015
Asset revaluation reserve		
Balance at beginning of year	**27**	25
Revaluations of land and buildings	**1**	4
Deferred taxation	**-**	1
Transferred to retained earnings	**-**	(3)
Balance at end of year	**28**	27

The asset revaluation reserve relates to revaluation gains on land and buildings carried at valuation, except that to the extent that the gain reverses a revaluation loss on the same asset previously recognised in the Income Statement, the gain is recognised in the Income Statement.

$ millions	2016	2015
Available-for-sale reserve		
Balance at beginning of year	**8**	12
Net loss from changes in fair value	**(21)**	(6)
Deferred taxation	**6**	2
Balance at end of year	**(7)**	8

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale securities until the investment is derecognised or impaired. When fair value hedge accounting is applied, only fair value changes relating to movements in credit spread are included in the reserve.

$ millions	2016	2015
Cash flow hedge reserve		
Balance at beginning of year	**(87)**	(5)
Net loss from changes in fair value	**(179)**	(102)
Transferred to Income Statement:		
Interest income	**(84)**	(22)
Interest expense	**241**	10
Deferred taxation	**6**	32
Balance at end of year	**(103)**	(87)

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of foreign exchange and interest rate derivative contracts related to hedged forecast transactions that have not yet occurred.

$ millions	2016	2015
Foreign currency translation reserve		
Balance at beginning of year	**1**	1
Balance at end of year	**1**	1

The FCTR comprises exchange differences on translation of foreign currency assets and liabilities of an overseas subsidiary.

36 Leasing and Other Commitments

$ millions	Banking Group	
As at 30 June	**2016**	2015
Leasing commitments		
The following non-cancellable operating lease commitments existed as at the end of the financial year:		
Within one year	**53**	54
Between one and two years	**47**	48
Between two and five years	**113**	119
Over five years	**215**	225
Total leasing commitments	**428**	446
Other commitments	**19**	14

The Banking Group leases various premises under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The Banking Group also leases motor vehicles and certain office equipment. Lease expenditure is charged to the Income Statement (refer to note 5).

In February 2010, the Bank entered into an agreement to lease new head office premises for a term of 18 years. The initial lease term is 18 years, commencing 1 July 2013, with a 2.5% fixed annual increase per annum. Subsequent to the initial lease term, the Bank has the right of renewal for two subsequent six year terms, subject to a market review of the lease rate for each renewal period.

The Banking Group has entered into certain sub-leasing arrangements. Sub-leasing income of $1 million for the year ended year ended 30 June 2016 (30 June 2015 $1 million) was included in the Banking Group's Income Statement.

37 Credit and Capital Commitments, and Contingent Liabilities

$ millions	Banking Group Notional Amount	
As at 30 June	**2016**	2015
Credit and capital commitments		
Lending commitments approved but not yet advanced [(1)]	**13,801**	12,067
Capital expenditure commitments	**7**	5
Total credit and capital commitments	**13,808**	12,072
Contingent liabilities		
Guarantees	**146**	124
Standby letters of credit	**112**	123
Other credit facilities	**150**	86
Total	**408**	333

(1) These amounts include irrevocable lending commitments determined in accordance with accounting standards.

The notional amount represents the maximum potential amount that could be lost if a counterparty fails to meet its financial obligations.

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 provision or contingent liability is not disclosed where it can be expected to prejudice seriously the position of the Banking Group.

In June 2013 a group comprising lawyers Andrew Hooker, Slater & Gordon and Litigation Lending Services (NZ) Limited announced that it had issued proceedings against ANZ Bank in relation to exception fees. The group has announced that similar proceedings have been or will be issued against other banks, including ASB. At the date of this Disclosure Statement, no such proceedings have been issued against ASB. If proceedings are issued against ASB, any impact will be assessed at that time.

38 Related Party Transactions and Balances

The Bank is wholly owned by ASB Holdings Limited, a company incorporated in New Zealand. The ultimate parent bank is CBA. The Commonwealth Bank Group refers to CBA and the various companies and other entities owned and controlled by CBA. The Commonwealth Bank of Australia New Zealand Life Insurance Group ("NZ Life Group") includes ASB Group (Life) Limited group of companies, First State Investments (NZ) Limited and up until 7 June 2016, Colonial First State Investments (NZ) Limited group of companies.

Certain superannuation schemes and unit trusts are managed by ASB Group Investments Limited, a wholly owned subsidiary of the Bank. The NZ Life Group similarly administers and manages certain superannuation schemes and unit trusts. Related party transactions and balances between these schemes and trusts, and the Banking Group are disclosed below.

During the year ended 30 June 2016 the Banking Group has entered into, or had in place various financial transactions with members of the Commonwealth Bank Group, and other related parties. The Bank provides administrative functions to certain subsidiaries and related companies for which no payments have been made. In all other cases, arrangements with related parties were conducted on an arm's length basis and on normal commercial terms, and within the Bank's approved policies. Loans to and borrowings from related parties are unsecured.

$ millions		Banking Group	
For the year ended 30 June		**2016**	2015
Related Party Transactions			
Interest income			
Received from Commonwealth Bank Group		**9**	6
		9	6
Interest expense			
Paid to Commonwealth Bank Group		**98**	158
Paid to NZ Life Group		**7**	9
Paid to ASB Holdings Limited		**-**	2
Paid to superannuation schemes and unit trusts managed by ASB Group Investments Limited		**15**	15
		120	184
Other income			
Received from NZ Life Group for administrative services		**12**	11
Received from NZ Life Group for insurance commission		**39**	35
Management and administration fees received from superannuation schemes and unit trusts managed by ASB Group Investments Limited		**61**	53
		112	99
Other expenses			
Paid to NZ Life Group for the origination of mortgages		**2**	2
Paid to NZ Life Group for investment management services		**1**	2
		3	4
Related Party Balances			
Commonwealth Bank Group			
Cash and liquid assets		**194**	79
Due from financial institutions		**235**	162
Derivative assets:	Interest rate contracts	**156**	115
	Exchange rate contracts	**17**	180
Other assets		**-**	2
		602	538
Deposits and other public borrowings		**80**	138
Due to financial institutions		**128**	2,519
Debt issues at amortised cost		**800**	800
Derivative liabilities:	Interest rate contracts	**173**	121
	Exchange rate contracts	**143**	48
	Commodity contracts	**-**	2
Other liabilities		**1**	13
		1,325	3,641

Notes to the Financial Statements

For the year ended 30 June 2016

38 Related Party Transactions and Balances (continued)

$ millions		Banking Group	
For the year ended 30 June		**2016**	2015
Related Party Balances (continued)			
NZ Life Group			
Derivative assets:	Exchange rate contracts	**1**	33
Other assets		**6**	9
		7	42
Deposits and other public borrowings		**231**	305
Derivative liabilities:	Exchange rate contracts	**29**	1
Other liabilities		**1**	1
		261	307
Superannuation schemes and unit trusts managed by ASB Group Investments Limited			
Derivative assets:	Exchange rate contracts	**-**	13
Deposits and other public borrowings		**557**	467
Debt issues at amortised cost		**99**	68
		656	535
Superannuation schemes and unit trusts managed or administered by NZ Life Group			
Derivative assets:	Exchange rate contracts	**-**	1
Deposits and other public borrowings		**3**	3
Derivative liabilities:	Exchange rate contracts	**1**	-
		4	**3**
ASB Holdings Limited			
Other assets		**-**	3
Deposits and other public borrowings		**30**	12
Total related party assets		**609**	597
Total related party liabilities		**2,276**	4,498

Other Transactions and Balances

Commonwealth Bank Group provides guarantees over certain lending offered by the Bank to the value of $140 million (30 June 2015 $151 million).

Net receipts of $49 million were received by the Banking Group from related parties, relating to the utilisation of tax-related items (30 June 2015: net receipts of $42 million).

No provisions for impairment loss have been recognised in respect of loans given to related parties (30 June 2015 nil).

Refer to note 8 for details of dividends paid to shareholders.

Refer to note 34 for details of shares issued to and repurchased from related parties.

Refer to note 43 for further information on funds managed by ASB Group Investments Limited.

39 Key Management Personnel

The executive management and Directors of the Bank are considered to be key management personnel. Their details are set out in the Directory.

$ millions	Banking Group	
For the year ended 30 June	**2016**	2015
Key management compensation		
Short term employee benefits	**14**	13
Other long term benefits	**1**	2
Total key management compensation	**15**	15

$ millions	Banking Group	
As at 30 June	**2016**	2015
Loans to key management personnel	**5**	9
Deposits from key management personnel	**13**	6

Loans made to and deposits held by key management personnel were made in the ordinary course of business on normal commercial terms and conditions, no more favourable than those given to other employees of the Banking Group. Deposits consist of on call, savings, cheque, term investments and cash management balances.

No provisions have been recognised in respect of loans provided to key management personnel. There were no debts written off or forgiven during the year ended 30 June 2016 (30 June 2015 nil).

Interest is received on loans and paid on deposits at market rates. These amounts are not reported due to rounding to the nearest million (30 June 2015 nil).

40 Fair Value of Financial Instruments

The Banking Group's financial assets and financial liabilities are measured on an on-going basis either at fair value or amortised cost.

The fair value of a financial instrument is the price that would be received to sell a financial asset, or paid to transfer a financial liability, in an orderly transaction between market participants at the measurement date.

A significant number of financial instruments are carried on the Balance Sheet at fair value. The best evidence of fair value is a quoted market price in an active market. Therefore, where possible, fair value is based on quoted market prices. Where a quoted market price for a financial instrument is not available, its fair value is based on present value estimates or other valuation techniques based on current market conditions. These valuation techniques rely on market observable inputs wherever possible, or in a limited number of instances, rely on inputs which are unobservable but are reasonable assumptions based on market conditions.

There are three levels in the hierarchy of fair value measurements which are based on the inputs used to measure fair values:

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities that the Banking Group can access.
- Level 2: where quoted market prices are not available, fair values have been estimated using present value or other valuation techniques using inputs that are observable for the financial asset or financial liability, either directly or indirectly.
- Level 3: fair values are estimated using inputs that are unobservable for the financial asset or financial liability.

The Banking Group considers transfers between levels, if any, to have occurred at the end of the reporting period for which the financial statements are prepared.

(a) Fair Value Hierarchy of Financial Instruments Measured at Fair Value

The following tables present an analysis by level in the fair value hierarchy of financial instruments that are recognised and measured at fair value on a recurring basis.

$ millions	Banking Group			
As at 30 June 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Trading securities	**175**	**617**	**-**	**792**
Derivative assets	**-**	**1,451**	**-**	**1,451**
Available-for-sale securities	**2,665**	**1,352**	**-**	**4,017**
Total financial assets measured at fair value	**2,840**	**3,420**	**-**	**6,260**
Financial liabilities				
Other liabilities at fair value through Income Statement	**-**	**1,340**	**-**	**1,340**
Derivative liabilities	**-**	**2,085**	**-**	**2,085**
Debt issues at fair value through Income Statement	**-**	**1,646**	**-**	**1,646**
Total financial liabilities measured at fair value	**-**	**5,071**	**-**	**5,071**

There were no transfers between levels for recurring fair value measurements on 30 June 2016.

$ millions	Banking Group			
As at 30 June 2015	Level 1	Level 2	Level 3	Total
Financial assets				
Trading securities	456	515	-	971
Derivative assets	-	2,102	-	2,102
Available-for-sale securities	1,672	1,369	-	3,041
Total financial assets measured at fair value	2,128	3,986	-	6,114
Financial liabilities				
Other liabilities at fair value through Income Statement	11	169	-	180
Derivative liabilities	-	1,364	-	1,364
Debt issues at fair value through Income Statement	-	1,213	-	1,213
Total financial liabilities measured at fair value	11	2,746	-	2,757

On 30 June 2015, $1,486 million of Kauri bonds classified as trading securities and available-for-sale securities were transferred from level 2 to level 1 on the basis that their fair values were determined using quoted prices in an active market.

40 Fair Value of Financial Instruments (continued)

(b) Fair Value Hierarchy of Financial Instruments Not Measured at Fair Value

The following tables compare the carrying values of financial instruments not measured at fair value with their estimated fair values and analyses them by level in the fair value hierarchy.

$ millions	Banking Group				
	Fair Values				Carrying Value
As at 30 June 2016	**Level 1**	**Level 2**	**Level 3**	**Total**	**Total**
Financial assets					
Cash and liquid assets	**948**	**455**	**-**	**1,403**	**1,403**
Due from financial institutions	**-**	**1,131**	**-**	**1,131**	**1,131**
Advances to customers	**-**	**-**	**72,098**	**72,098**	**72,075**
Other assets	**-**	**210**	**-**	**210**	**210**
Total	**948**	**1,796**	**72,098**	**74,842**	**74,819**
Financial liabilities					
Deposits and other public borrowings	**-**	**54,826**	**-**	**54,826**	**54,702**
Due to financial institutions	**-**	**580**	**-**	**580**	**580**
Other liabilities	**-**	**547**	**-**	**547**	**547**
Debt issues at amortised cost	**-**	**13,443**	**-**	**13,443**	**13,431**
Loan capital	**-**	**420**	**-**	**420**	**423**
Total	**-**	**69,816**	**-**	**69,816**	**69,683**

$ millions	Banking Group				
	Fair Values				Carrying Value
As at 30 June 2015	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Cash and liquid assets	1,413	386	-	1,799	1,799
Due from financial institutions	-	1,615	-	1,615	1,615
Advances to customers	-	-	65,357	65,357	65,383
Other assets	-	513	-	513	513
Total	1,413	2,514	65,357	69,284	69,310
Financial liabilities					
Deposits and other public borrowings	-	52,292	-	52,292	52,163
Due to financial institutions	-	3,522	-	3,522	3,523
Other liabilities	-	586	-	586	586
Debt issues at amortised cost	-	11,107	-	11,107	11,076
Loan capital	-	424	-	424	414
Total	-	67,931	-	67,931	67,762

41 Offsetting Financial Assets and Financial Liabilities

Under NZ IAS 32, financial assets and financial liabilities may be offset on the Balance Sheet only when there is a currently enforceable legal right to offset the respective recognised amounts and an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. The right to offset is a legal right to settle or otherwise eliminate all or a portion of an amount due by applying an amount receivable, generally from the same counterparty, against it.

The Banking Group enters into netting agreements with counterparties to manage the credit risks associated primarily with over-the-counter derivatives, repurchase and reverse repurchase transactions, securities borrowing and lending transactions. These netting agreements and similar arrangements enable the counterparties to offset liabilities against assets if an event of default or other predetermined event occurs, however they generally do not result in net settlement in the ordinary course of business. Consequently, the Banking Group does not offset its financial assets and liabilities on the Balance Sheet, even if these amounts are subject to enforceable netting arrangements.

The following table identifies the amounts that are covered by enforceable netting and similar arrangements (offsetting arrangements and financial collateral).

	Banking Group					
	Amounts Subject to Enforceable Master Netting Agreements					
$ millions	Gross Amounts(1)	Financial Instruments Not Offset	Financial Collateral	Net Amount	Amounts Not Subject to Enforceable Master Netting Agreements(1)	Carrying Value
Financial instruments as at 30 June 2016						
Derivative assets	**1,428**	**(981)**	**(299)**	**148**	**23**	**1,451**
Reverse repurchase agreements	**455**	**-**	**(455)**	**-**	**-**	**455**
Total financial assets	**1,883**	**(981)**	**(754)**	**148**	**23**	**1,906**
Derivative liabilities	**(2,083)**	**981**	**994**	**(108)**	**(2)**	**(2,085)**
Total financial liabilities	**(2,083)**	**981**	**994**	**(108)**	**(2)**	**(2,085)**
Financial instruments as at 30 June 2015						
Derivative assets	2,087	(928)	(789)	370	15	2,102
Reverse repurchase agreements	386	-	(386)	-	-	386
Total financial assets	2,473	(928)	(1,175)	370	15	2,488
Derivative liabilities	(1,362)	928	353	(81)	(2)	(1,364)
Total financial liabilities	(1,362)	928	353	(81)	(2)	(1,364)

(1) The sum of these amounts is equivalent to the carrying value of the corresponding financial instruments.

Effects of Master Netting Agreements on Financial Instruments

The 'gross amounts' column identifies financial assets and liabilities that are subject to enforceable master netting agreements such as ISDA Master Agreements, global master repurchase agreements and global master securities lending agreements. Under these agreements all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transactions covered by the agreements if an event of default or other predetermined events occur. Financial collateral refers to cash and non-cash collateral obtained to cover the net exposure between counterparties by enabling the collateral to be realised in an event of default or if other predetermined events occur. The 'net amount' column shows the potential effects of the Banking Group's right of offset from master netting agreements. The 'amounts not subject to enforceable master netting agreements' column represents those amounts covered by master netting agreements but have uncertainty on their enforceability under applicable New Zealand legislation.

The net amounts presented in the tables do not represent the Banking Group's actual credit exposure.

42 Capital Adequacy[1]

Regulatory Requirements - Basel III

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 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 in accordance with the RBNZ document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated October 2014. The Banking Group is accredited by the RBNZ to adopt the internal ratings based ("IRB") approach for calculating regulatory capital requirements. The risk-weighted exposure calculation includes the use of IRB models and the credit models described in note 15 (using PD, EAD and LGD). In applying the IRB approach, the RBNZ accreditation and Conditions of Registration require the use of parameters which are more conservative than those calculated using the Bank's own methodologies.

The Banking Group is subject to Basel III capital requirements. The objective of the Basel III framework is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profile of banks. Basel III consists of three pillars: Pillar One covers the capital requirements for banks for credit, operational, and market risks; Pillar Two covers all other material risks not already included in Pillar One; and Pillar Three relates to market disclosure.

Capital Management Policies

The Board of Directors (the "Board") reviews and approves capital policy on an annual basis, with the next review due in May 2017.

The Banking Group's objectives for the management of capital are to comply at all times with the regulatory capital requirements set by the RBNZ, to maintain a strong capital base to cover the inherent risks of the business in excess of that required by credit rating agencies to maintain a strong or very strong credit rating, and to support the future development and growth of the business.

Key attributes of the Banking Group's capital policy and processes relating to regulatory capital are set out below.

Regulatory capital is divided into tier one capital, which comprises common equity tier one capital and additional tier one capital; and tier two capital. Common equity and additional tier one capital primarily consist of shareholders' equity and other capital instruments acceptable to the RBNZ, less intangible and deferred taxation assets, and other prescribed deductions. Tier two capital comprises the asset revaluation reserve, FCTR and subordinated debt securities.

Regulatory capital adequacy ratios are calculated by expressing capital (common equity tier one, additional tier one, tier two or total regulatory capital) as a percentage of risk-weighted exposures. Risk-weighted exposures represent risks associated with the Banking Group's credit risk exposures, as well as operational risk and both traded and non-traded market risk, estimated in accordance with RBNZ banking supervision guidelines.

As a condition of registration, the Banking Group must comply with the following minimum requirements set by the RBNZ:

- Total regulatory capital must not be less than 8% of risk-weighted exposures.
- Tier one capital must not be less than 6% of risk-weighted exposures.
- Common equity tier one capital must not be less than 4.5% of risk-weighted exposures.
- Total regulatory capital must not be less than $30 million.

In addition, the Bank must maintain a minimum capital conservation buffer of 2.5% of risk-weighted exposures otherwise restrictions on the distribution of earnings will be imposed.

The Board has ultimate responsibility for capital adequacy, and minimum capital levels and limits are set at a higher level than required by the RBNZ. The Banking Group actively monitors its capital adequacy, including forecast capital requirements, as part of the Banking Group's internal capital adequacy assessment process (refer to page 66) and reports this on a regular basis to senior management and the Board. The Banking Group uses a mix of capital instruments to reduce single source reliance and to optimise capital efficiency.

Note 34 sets out the capital initiatives that were undertaken to actively manage regulatory capital during the year. The material terms and conditions of loan capital and the ordinary and perpetual preference shares are disclosed in notes 33 and 34.

The capital adequacy tables set out on the following page summarise the composition of regulatory capital and the capital adequacy ratios for the Banking Group for the year ended 30 June 2016. During the current financial year and the comparative year shown, the Banking Group complied with all of the RBNZ capital requirements to which it is subject.

(1) Certain sections of note 42 are subject to review procedures which do not constitute an audit. These sections are clearly labelled as "Unaudited". Refer to page 88 of the Independent Auditor's Report for further information.

Notes to the Financial Statements

For the year ended 30 June 2016

42 Capital Adequacy (continued)

$ millions As at 30 June 2016	Banking Group
Capital under Basel III IRB approach	
Tier one capital	
Common equity tier one capital	
Issued and fully paid-up ordinary share capital	**2,673**
Retained earnings	**2,670**
Accumulated other comprehensive income and other disclosed reserves	**(110)**
Deductions from common equity tier one capital:	
Goodwill and other intangible assets	**(175)**
Deferred taxation asset	**(146)**
Cash flow hedge reserve	**103**
Excess of expected loss over eligible allowance for impairment	**(58)**
Total common equity tier one capital	**4,957**
Additional tier one capital	
Perpetual fully paid-up non-cumulative preference shares (subject to phase-out)[1]	**220**
Perpetual fully paid-up non-cumulative preference shares	**1,000**
Total additional tier one capital	**1,220**
Total tier one capital	**6,177**
Tier two capital	
Loan capital	**400**
Asset revaluation reserve	**28**
Foreign currency translation reserve	**1**
Total tier two capital	**429**
Total capital	**6,606**

Unaudited As at 30 June	Banking Group 2016	 2015	Bank 2016	 2015
Capital ratios				
Common equity tier one capital ratio	**10.0%**	8.8%	**10.0%**	8.8%
Tier one capital ratio	**12.4%**	10.8%	**12.4%**	10.8%
Total capital ratio	**13.3%**	11.8%	**13.3%**	11.7%
Buffer ratio	**5.3%**	3.8%	**5.3%**	3.7%
Minimum ratio requirement				
Common equity tier one capital ratio	**4.5%**	4.5%	**4.5%**	4.5%
Tier one capital ratio	**6.0%**	6.0%	**6.0%**	6.0%
Total capital ratio	**8.0%**	8.0%	**8.0%**	8.0%
Buffer ratio	**2.5%**	2.5%	**2.5%**	2.5%

Unaudited $ millions Capital Requirements as at 30 June 2016	Banking Group Total Exposure[2]	 RWE[3]	 Capital Requirement
Total credit risk	**94,977**	**44,049**	**3,523**
Operational risk	**N/A**	**3,465**	**277**
Market risk	**N/A**	**2,216**	**177**
Total capital requirement		**49,730**	**3,977**

As at 30 June 2016, the Banking Group held $2,629m of capital in excess of its regulatory capital requirements.

(1) This instrument is subject to phase-out from additional tier one capital in accordance with BS2B. The phase-out will take place over five years, with the percentage of the instrument that qualifies as additional tier one capital declining by 20% per calendar year, commencing 1 January 2014 and ending 1 January 2018.
(2) Total exposure is after credit risk mitigation.
(3) RWE is risk-weighted exposures or implied risk-weighted exposures.

42 Capital Adequacy (continued)

Unaudited	Banking Group					
As at 30 June 2016 PD Grade	Weighted Average PD	Exposure Amount $ millions	Exposure Weighted LGD	Exposure Weighted Risk Weight	Risk Weighted Exposures[(1)] $ millions	Minimum Capital Requirement $ millions
Credit risk exposures subject to the IRB approach by exposure class						
Sovereign exposures						
Less than and including 0.03%	0.02%	3,300	42%	8%	296	24
Over 0.03% up to and including 0.05%	-	-	-	-	-	-
Over 0.05% up to and including 0.07%	-	-	-	-	-	-
Over 0.07% up to and including 0.26%	-	-	-	-	-	-
Over 0.26% up to and including 99.99%	-	-	-	-	-	-
Default PD grade	100.00%	-	-	-	-	-
Total sovereign exposures	0.02%	3,300	42%	8%	296	24
Bank exposures						
Less than and including 0.03%	0.03%	1,034	61%	16%	176	14
Over 0.03% up to and including 0.05%	0.04%	2,476	56%	19%	502	40
Over 0.05% up to and including 0.07%	0.07%	406	58%	27%	118	9
Over 0.07% up to and including 0.26%	0.17%	409	23%	17%	74	6
Over 0.26% up to and including 99.99%	1.64%	1	33%	100%	1	-
Default PD grade	100.00%	-	-	-	-	-
Total bank exposures	0.05%	4,326	54%	19%	871	69
Exposures secured by residential mortgages						
Less than and including 0.50%	0.29%	20,611	23%	14%	3,098	248
Over 0.50% up to and including 0.85%	0.62%	22,468	24%	25%	6,047	484
Over 0.85% up to and including 3.26%	1.37%	11,424	25%	45%	5,456	436
Over 3.26% up to and including 7.76%	4.61%	264	26%	98%	274	22
Over 7.76% up to and including 99.99%	19.35%	649	24%	126%	870	70
Default PD grade	100.00%	129	27%	284%	389	31
Total exposures secured by residential mortgages	1.12%	55,545	24%	27%	16,134	1,291
Other retail exposures						
Less than and including 0.50%	-	-	-	-	-	-
Over 0.50% up to and including 0.85%	0.83%	576	95%	89%	541	43
Over 0.85% up to and including 3.26%	1.62%	1,953	95%	112%	2,328	186
Over 3.26% up to and including 7.76%	3.77%	268	92%	132%	377	30
Over 7.76% up to and including 99.99%	26.95%	17	94%	235%	42	3
Default PD grade	100.00%	11	91%	736%	86	7
Total other retail exposures	2.20%	2,825	94%	113%	3,374	269
Corporate exposures - small and medium enterprises						
Less than and including 0.20%	0.16%	361	31%	21%	81	6
Over 0.20% up to and including 0.50%	0.34%	1,690	26%	29%	512	41
Over 0.50% up to and including 1.00%	0.71%	5,919	30%	47%	2,932	235
Over 1.00% up to and including 2.30%	1.56%	7,683	31%	67%	5,479	438
Over 2.30% up to and including 99.99%	5.19%	4,824	34%	106%	5,432	435
Default PD grade	100.00%	345	39%	412%	1,505	120
Total corporate exposures - small and medium enterprises	3.66%	20,822	31%	72%	15,941	1,275
Other corporate exposures						
Less than and including 0.20%	0.11%	975	58%	36%	374	30
Over 0.20% up to and including 0.50%	0.31%	945	55%	66%	659	53
Over 0.50% up to and including 1.00%	0.68%	914	45%	75%	723	58
Over 1.00% up to and including 2.30%	1.35%	209	43%	90%	201	16
Over 2.30% up to and including 99.99%	3.41%	114	47%	125%	152	12
Default PD grade	100.00%	7	60%	86%	6	-
Total other corporate exposures	0.76%	3,164	52%	63%	2,115	169

(1) Risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

42 Capital Adequacy (continued)

Included in the tables on the previous page are the following off balance sheet exposures:

Unaudited $ millions **As at 30 June 2016**	**Banking Group** Undrawn Commitments and Other Off Balance Sheet Amounts Value	EAD	Market Related Contracts Value	EAD
Bank exposures	131	131	126,806	405
Exposures secured by residential mortgages	8,202	7,754	-	-
Other retail exposures	1,934	1,898	-	-
Corporate exposures - small and medium enterprises	2,877	2,877	2,282	122
Other corporate exposures	1,306	1,306	2,650	89
	14,450	13,966	131,738	616

Unaudited $ millions **As at 30 June 2016** **LVR Range**	**Banking Group** 0%-60%	60.1%-70%	70.1%-80%	80.1%-90%	90.1%-100%	Total
Residential mortgages by loan-to-valuation ratio ("LVR")						
On balance sheet exposures	13,068	9,764	18,190	4,790	1,979	47,791
Off balance sheet exposures	3,223	1,635	2,315	285	296	7,754
Total value of exposures	16,291	11,399	20,505	5,075	2,275	55,545
Expressed as a percentage of total exposures	29.4%	20.5%	36.9%	9.1%	4.1%	100.0%

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.

Unaudited $ millions **As at 30 June 2016**	**Banking Group**
Reconciliation of mortgage-related amounts	
Housing loans (refer to note 18)	51,161
Add/(less):	
Housing loans to other retail and corporate customers	(3,424)
Residential mortgages in advances to customers (refer to note 16)	47,737
Add/(less):	
Off balance sheet exposures	7,754
Exposure at default adjustments	223
Unamortised loan establishment fees	(169)
Residential mortgages in LVR disclosure	55,545

42 Capital Adequacy (continued)

Unaudited Balance Sheet Exposures Subject to the Slotting Approach as at 30 June 2016	Banking Group Total Exposure after Credit Risk Mitigation $ millions	Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Pillar One Capital Requirement $ millions
Specialised lending				
Strong	28	70%	21	2
Good	154	90%	147	12
Satisfactory	2	115%	2	-
	184		170	14

Unaudited Off Balance Sheet Exposures Subject to the Slotting Approach as at 30 June 2016	Banking Group EAD $ millions	Average Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Pillar One Capital Requirement $ millions
Undrawn commitments	42	99%	44	4
Other off balance sheet exposures	3	94%	3	-
	45		47	4

Unaudited Balance Sheet Exposures as at 30 June 2016	Banking Group Total Exposure after Credit Risk Mitigation $ millions	Average Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Pillar One Capital Requirement $ millions
Credit risk exposures subject to the standardised approach				
Cash	91	-	-	-
Residential mortgages	16	50%	8	1
Other assets	4,307	100%	4,565	365
Total balance sheet exposures	4,414		4,573	366

Unaudited Off Balance Sheet Exposures Subject to the Standardised Approach as at 30 June 2016	Banking Group Total Exposure or Principal Amount $ millions	Average Credit Conversion Factor	Credit Equivalent Amount $ millions	Average Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Pillar One Capital Requirement $ millions
Undrawn commitments	168	100%	168	97%	173	14
Other off balance sheet exposures	91	100%	91	101%	97	8
Market related contracts	6	100%	6	100%	6	-
Total off balance sheet exposures subject to the standardised approach	265		265		276	22

(1) Risk-weighted exposures include a scalar of 1.06 in accordance with the Bank's Conditions of Registration.

42 Capital Adequacy (continued)

Unaudited $ millions Total Credit Risk as at 30 June 2016	Banking Group Total Exposure after Credit Risk Mitigation	Total Risk Weighted Exposures	Capital Requirement
Exposures subject to the IRB approach	89,982	38,731	3,097
Specialised lending subject to the slotting approach	229	217	18
Exposures subject to the standardised approach	4,679	4,849	388
Credit valuation adjustment	-	250	20
Qualifying central counterparties	87	2	-
Total credit risk	94,977	44,049	3,523

Exposures Subject to the IRB Approach

Sovereign exposures	Exposures to the Crown; RBNZ; specified multilateral development banks; any other sovereign or its central bank.
Bank exposures	Exposures to banks and local authorities.
Secured by residential mortgages	Home lending fully or partially secured by residential property.
Other retail exposures	Personal credit cards.
Corporate exposures	Other corporate exposures - clients where turnover exceeds $50 million; small and medium enterprises ("SME") - clients where turnover is less than $50 million and group exposure exceeds $1 million.

Exposures Subject to the Slotting Approach

Specialised lending	Project finance; income-producing real estate.

Exposures Subject to the Standardised Approach

Secured by residential mortgages	A small non-scored home loan portfolio.
Other assets	SME where group exposure is less than $1 million, other personal lending, and all other assets not falling within any other asset class.

Credit Risk Mitigation

Unaudited

The Banking Group assesses the integrity and ability of debtors or counterparties to meet their contracted financial obligations for repayment. Collateral security in the form of real property or a security interest in personal property is generally taken for business credit except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance (e.g. housing loans) is generally secured against real estate while short term revolving consumer credit is generally unsecured.

As at 30 June 2016 none of the credit risk exposures subject to the standardised approach are covered by eligible financial collateral (i.e. cash, debt securities or equity securities). Across all portfolios, no exposures are covered by credit derivatives. Information on the total value of exposures covered by financial guarantees is not disclosed, as the effect of these guarantees on the underlying credit risk exposures is not considered to be material.

Additional Information about Credit Risk

Unaudited

The RBNZ has accredited the Banking Group to report capital adequacy under the *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B).

Under the internal ratings based approach the measurement of credit risk utilises analytical tools to calculate both expected and unexpected loss probabilities for the credit portfolio. This includes consideration of the PD, the EAD and the LGD that would likely be experienced as a consequence. Refer to note 15 for more information about the Banking Group's credit risk management.

For exposures classified as specialised lending, specifically project finance and income-producing real estate, the Banking Group uses slotting tables supplied by the RBNZ rather than internal estimates.

The Banking Group has a number of portfolios that due to size, systems or other constraints are not yet part of the IRB approach, and are assessed for capital adequacy under the standardised approach - prescribed by the RBNZ under the document *Capital Adequacy Framework (Standardised Approach)* (BS2A). The major portfolio segment in this category relates to exposures to SME which do not meet the corporate criteria, as they are not individually risk rated. The summary table on the top of this page shows the asset types according to their current rating approach.

42 Capital Adequacy (continued)

Unaudited

Additional Information about Credit Risk (continued)

Controls Surrounding Credit Risk Ratings Systems

Credit risk rating systems and policy cover all of the methods, processes, controls, data collection and technology that support the assessment of credit risk, the assignment of credit risk ratings and the quantification of associated default and loss estimates.

The Chief Risk Officer has ultimate responsibility for the on-going review and amendment of credit risk rating models. Risk Management actively participates in the development, selection, implementation and validation of rating models.

Internal Audit regularly reviews the Banking Group's credit risk rating system and its operations, including the operations of the credit function and the estimation of PD, LGD and EAD.

All material aspects of rating and estimation processes must be approved by the BARC. Senior management are required to provide notice to the BARC of material changes or exceptions from established policies that will materially impact the operations of the credit risk rating system.

Senior management are required to have a good understanding of the design and operation of credit risk rating systems, and must approve material differences between established procedure and actual practice.

Refer to note 15 for more details of credit risk management controls.

Operational Risk

The advanced measurement approach has been implemented to determine capital requirements for operational risk.

The implied risk-weighted exposure for operational risk as at 30 June 2016 was $3,465 million (30 June 2015 $3,488 million).

The total operational risk capital requirement as at 30 June 2016 was $277 million (30 June 2015 $279 million).

Advanced Measurement Approach Overview

The Banking Group follows a mathematically determined loss distribution approach to measure operational risk. This involves separate modelling of the frequency and severity of risks at a component level and then aggregating simulated losses from these components into loss distributions for the Banking Group.

The Banking Group's modelling approach is very granular with multiple businesses ("Bu") each considered against the 20 Basel level 2 risk types ("RT"). This approach allows capital to link closely with where the businesses manage their risk, and also allows accurate modelling of both risk and tail event potential.

To capture the best business judgements, the Banking Group allows key risks to be assessed at the exposure level with separate frequency and severity judgements. These exposure level judgements are simulated to provide an annual loss distribution that is shown to the business subject matter experts to ensure their judgements are captured appropriately. These exposure annual loss distributions are aggregated to the business/risk type ("BuRT") level, resulting in an annual loss distribution for the BuRT.

The BuRT level frequency and severity distributions are aggregated using Monte Carlo simulation to produce capital results for the Bank and its businesses.

The operational risk measurement approach integrates the use of the following relevant factors:

Direct inputs:

- Scenario analysis to capture the business judgements (called "quantitative risk assessment").
- Internal loss data (where sufficient data exists).

Indirect inputs:

- External loss data case studies (sourced from external providers) are used in the scenario analysis process.
- Risk indicators (developed and recorded) are used in the scenario analysis process.

Economic Capital Allocation

Outcomes of the operational risk measurement cycle are generated at BuRT level as outlined above. Outcomes include an economic capital requirement based on a 99.95% confidence interval which is calibrated to the Banking Group's overall target debt rating in the market. That data is used as a direct risk type input to the economic capital framework calculations alongside other risk type inputs (e.g. credit, traded and non-traded market, strategic business risk, fixed asset risk).

Insurance

An approach has been developed to model insurance for the purpose of mitigating operational risk. At this stage, insurance modelling and mitigation is not actively used in determining regulatory or economic capital requirements for operational risk.

Insurance modelling will be actively implemented once regulatory approval of the methodology and approach is received.

42 Capital Adequacy (continued)

Unaudited

Market Risk Capital Charges

The Banking Group's aggregate market risk exposure is derived in accordance with the RBNZ documents *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) and *Market Risk Guidance Notes* (BS6). The peak end-of-day exposure is derived by taking the highest market exposure over the six months ended 30 June 2016.

Interest rate risk and foreign exchange risk are calculated on a daily basis. Equity risk is calculated on a monthly basis (on the last working day of the month). For each category, the peak end-of-day market risk exposure may not have occurred at the same time.

Unaudited	Banking Group			
$ millions **Exposures as at 30 June 2016**	**Interest Rate Risk**	**Foreign Currency Risk**	**Equity Risk**	**Total**
Implied risk-weighted exposure	**2,214**	**2**	**-**	**2,216**
Aggregate capital charge	**177**	**-**	**-**	**177**

Unaudited	Banking Group			
$ millions **Peak Exposures for the six months ended 30 June 2016**	**Interest Rate Risk**	**Foreign Currency Risk**	**Equity Risk**	**Total**
Implied risk-weighted exposure	**2,696**	**26**	**-**	**2,722**
Aggregate capital charge	**216**	**2**	**-**	**218**

Capital for Other Material Risks

The Banking Group has an internal capital adequacy assessment process ("ICAAP") which complies with the requirements set out in the RBNZ document *Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")* (BS12) in accordance with the Bank's Conditions of Registration. The Board is responsible for ensuring that the Banking Group has adequate overall capital in relation to its risk profile.

Under RBNZ rules, a bank that is a member of a wider banking group may base its approach on group wide-methodologies. The Banking Group, as a member of the wider CBA banking group, has based its ICAAP processes on that of CBA, after taking account of New Zealand and Bank conditions.

The Banking Group's ICAAP is a documented process to ensure the Banking Group has adequate overall capital in relation to its risk profile. Component parts of the Banking Group's ICAAP are reviewed on a regular basis by senior management and the Board. The Banking Group's ICAAP and ICAAP documents are reviewed annually. Revisions to significant ICAAP processes must be approved by the Board.

The Banking Group's ICAAP includes an assessment of capital required to cover material risks not already captured in the measurement of regulatory capital. As at 30 June 2016 internal capital allocations of $278 million (30 June 2015 $311 million) had been made for other material risks including strategic risk and fixed asset risk.

Capital Adequacy of Ultimate Parent Bank and Ultimate Parent Banking Group

The ultimate parent bank of the Banking Group is CBA. The ultimate parent banking group is CBA and the various companies and other entities owned and controlled by CBA.

The ultimate parent banking group is accredited to use the advanced internal ratings based approach ("AIRB") for credit risk and the advanced measurement approach ("AMA") for operational risk, which have been adopted in the calculation of the ultimate parent banking group's risk-weighted exposures.

The ultimate parent banking group adopted the Basel III measurement of regulatory capital effective from 1 January 2013. The APRA prudential standards require a minimum CET1 ratio of 4.5% which was effective from 1 January 2013. An additional CET1 capital conservation buffer of 3.5%, inclusive of a domestic systemically important bank requirement of 1% and a countercyclical capital buffer of 0%, was effective from 1 January 2016, bringing the CET1 requirement to at least 8%.

The ultimate parent banking group is required to disclose capital adequacy information on a quarterly and a semi-annual basis. This information is made available to users via the ultimate parent bank's website (www.commbank.com.au).

The ultimate parent banking group is required by APRA to hold minimum capital specified under the Basel III (AIRB) approach. As at 30 June 2016 the minimum capital requirements were met (30 June 2015 minimum capital requirements under the Basel III (AIRB) approach were met).

Unaudited	Ultimate Parent Bank		Ultimate Parent Banking Group	
As at 30 June	**2016**	2015	**2016**	2015
Common equity tier one capital ratio	**11.0%**	9.6%	**10.6%**	9.1%
Tier one capital ratio	**12.4%**	11.5%	**12.3%**	11.2%
Total capital ratio	**14.5%**	13.1%	**14.3%**	12.7%

43 Securitisation, Funds Management, Other Fiduciary Activities and the Marketing and Distribution of Insurance Products

Securitisation, Funds Management and Other Fiduciary Activities

Securitisation

As at 30 June 2016 the Banking Group had internally securitised $4.2 billion of RMBS through the Medallion NZ Series Trust 2009-1R, of which $4.0 billion of Class A floating rate notes issued by the Medallion NZ Series Trust 2009-1R have been assigned a credit rating of AAA by Fitch Ratings. Refer to note 22 for more information.

Funds Management

The Banking Group markets and distributes funds management products which are issued by a wholly owned subsidiary, ASB Group Investments Limited (refer to note 24). Funds under management distributed by the Banking Group totalled $8,917 million as at 30 June 2016 (30 June 2015 $7,523 million). The Banking Group provides banking services for trusts managed or administered by ASB Group Investments Limited. The Banking Group also sells derivative products to some of the trusts.

Fiduciary Activities

The Banking Group provides limited custodial services relating to holding interest-bearing instruments and equity securities on behalf of clients.

The Banking Group has not provided funding to any entity established, marketed and/or sponsored to conduct trust, custodial, funds management and other fiduciary activities.

Insurance Business, Marketing and Distribution of Insurance Products

The Banking Group does not conduct any insurance business. However, general, travel and life insurance products are marketed by the Banking Group for the following entities: Sovereign Assurance Company Limited (a wholly owned subsidiary of ASB Group (Life) Limited), IAG New Zealand Limited and TOWER Insurance Limited.

The Banking Group has not provided funding to any affiliated insurance entity or group on whose behalf the Banking Group has marketed or distributed insurance products.

Risk Management

The Banking Group has in place policies and procedures to ensure that those activities are conducted in an appropriate manner. Should adverse conditions arise, it is considered that these policies and procedures will minimise the possibility that these conditions will adversely impact the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and auditors.

In addition, the following measures have been taken to manage any risk to the Banking Group in the marketing and distribution of insurance products:

- Brochures for insurance products include disclosures that the Banking Group does not guarantee the insurer, nor the insurer's subsidiaries, nor any of the products issued by the insurer or the insurer's subsidiaries.
- Where the insurance products are subject to the Securities Act 1978, brochures additionally include disclosures that:
  - the policies do not represent deposits or other liabilities of the Banking Group;
  - the policies are subject to investment risk, including possible loss of income and principal; and
  - the Banking Group does not guarantee the capital value or performance of the policies.
- Application forms for insurance products contain acknowledgements to be signed by a purchaser which are consistent with the disclosures for insurance products noted above.

In addition, the following measures have been taken to manage any risk to the Banking Group in the marketing and distribution of funds management products:

- Prospectuses, investment statements and brochures for funds management products include disclosures that:
  - the securities do not represent deposits or other liabilities of the Banking Group;
  - the securities are subject to investment risk including possible loss of income and principal invested; and
  - the Banking Group does not guarantee the capital value or performance of the securities.
- Application forms for funds management products contain acknowledgements to be signed by a purchaser which are consistent with the disclosures for funds management products noted above.

Provision of Financial Services

Financial services (including deposit taking and foreign exchange services) provided by the Banking Group to entities which are involved in trust, custodial, funds management and other fiduciary activities, and to affiliated insurance companies which conduct marketing or distribution of insurance products, or on whose behalf the marketing or distribution of insurance products are conducted, are provided on arm's length terms and conditions. The Banking Group has not purchased any assets from such entities during the year.

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44 Financial Reporting by Operating Segments

	Banking Group				
$ millions	**Retail and Business Banking**	**Corporate, Commercial and Rural**	**Wealth and Insurance**	**Other**	**Total**
Income Statement					
For the year ended 30 June 2016					
Net interest earnings	**1,126**	**545**	**13**	**78**	**1,762**
Other income/(expense)	**242**	**133**	**164**	**(75)**	**464**
Total operating income	**1,368**	**678**	**177**	**3**	**2,226**
Impairment losses on advances	**54**	**76**	**-**	**-**	**130**
Segment operating expenses (excluding impairment losses)	**477**	**249**	**87**	**13**	**826**
Segment net profit/(loss) before taxation	**837**	**353**	**90**	**(10)**	**1,270**
Taxation	**235**	**99**	**25**	**(2)**	**357**
Segment net profit/(loss) after taxation	**602**	**254**	**65**	**(8)**	**913**
Non-cash expenses(1)					
Depreciation and amortisation expense	**46**	**23**	**8**	**-**	**77**
Balance Sheet					
As at 30 June 2016					
Total assets	**48,396**	**25,821**	**184**	**7,205**	**81,606**
Total liabilities	**36,299**	**14,451**	**320**	**23,724**	**74,794**

	Banking Group				
$ millions	Retail and Business Banking	Corporate, Commercial and Rural	Wealth and Insurance	Other	Total
Income Statement(2)					
For the year ended 30 June 2015					
Net interest earnings	1,091	509	13	54	1,667
Other income/(expense)	230	128	149	(88)	419
Total operating income/(expense)	1,321	637	162	(34)	2,086
Impairment losses on advances	56	33	-	-	89
Segment operating expenses (excluding impairment losses)	465	237	86	17	805
Segment net profit/(loss) before taxation	800	367	76	(51)	1,192
Taxation	223	103	21	(14)	333
Segment net profit/(loss) after taxation	577	264	55	(37)	859
Non-cash expenses(1)					
Depreciation and amortisation expense	45	21	8	-	74
Balance Sheet					
As at 30 June 2015					
Total assets	44,420	24,526	185	6,772	75,903
Total liabilities	33,831	15,584	282	20,828	70,525

(1) Non-cash expenses are included in segment operating expenses (excluding impairment losses).
(2) Certain comparative information has been reclassified to ensure consistency with presentation in the current year.

44 Financial Reporting by Operating Segments (continued)

Retail and Business Banking: The Retail and Business Banking segment provides services to private individuals and small business customers. In addition, net income is attributed to this segment for the distribution of wealth management products through the retail distribution network.

Corporate, Commercial and Rural: The Corporate, Commercial and Rural segment provides services to corporate, commercial and rural customers. It also comprises the Bank's financial markets activities, including financial instruments trading and sales of financial instruments to customers.

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

Other primarily includes:

- business units that do not meet the definition of operating segments under NZ IFRS 8 *Operating Segments,* including the Bank's Treasury function and other functions that supply support and services to the segments;
- elimination entries on consolidation of the results, assets and liabilities of the Banking Group's controlled entities in the preparation of the consolidated financial statements of the Banking Group; and
- results of certain business units excluded for management reporting purposes, but included within the consolidated financial statements of the Banking Group for statutory reporting purposes. This includes a portion of the former Institutional Banking and Markets segment which was allocated to CBA during September 2013 as a consequence of disestablishing ASB Institutional (an unincorporated joint venture between the Bank and CBA). In September 2013, the remaining portion of the Institutional Banking and Markets segment was merged with the Commercial and Rural Banking segment to form the Corporate, Commercial and Rural segment.

Operating income in each segment includes transfer pricing adjustments to reflect inter-segment funding arrangements. Inter-segment pricing is determined on an arm's length basis. Inter-segment transactions are eliminated for the purposes of reporting the consolidated Banking Group's results and are included in the Other segment.

The Banking Group operates predominantly in the banking industry within New Zealand. The Banking Group 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.

45 Risk Management Policies

Introduction

The Banking Group is committed to the management of risk to achieve sustainability of service, employment and profits, and therefore takes on controlled amounts of risk when considered appropriate. The risk management framework identifies, assesses, manages and reports risk and risk adjusted returns using an economic equity framework. This is targeted at ensuring that the Banking Group has sufficient capital to enable a strong credit rating relative to the overall market and its peers.

The primary risks are those of credit, market, liquidity/funding, operational, reputation and strategic business risk.

The Banking Group's risk and control functions are the responsibility of the Chief Risk Officer, who reports to the Chief Executive Officer. The Banking Group's risk management strategy is set by the Board through the BARC. All non-executive Directors are members of the BARC (refer to the Directory for details). Formal executive committees are in place governing all primary risk types. The Chief Risk Officer is responsible for the implementation of risk management strategy and all executives have responsibility for the day-to-day management of risk across the Banking Group.

The Banking Group has management structures and information systems to manage individual risks. Risk initiation and monitoring tasks are separated where feasible, and all material information systems are subjected to regular internal audits.

The Banking Group's external auditor also reviews parts of the Banking Group's risk management framework that impact on significant aspects of financial systems, but only to the extent necessary to form their review opinion on the Banking Group's half-year financial statements or audit opinion on the Banking Group's annual financial statements.

The following notes contain information about the risk management framework: notes 15 to 21 (credit risk), notes 46 and 47 (market risk), and notes 48 to 51 (liquidity and funding risk). Operational and strategic business risk are discussed below.

Operational and Strategic Business Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and methodologies, people, systems or external events.

Strategic business risk is defined as the risk of economic gain or loss resulting from changes in the business environment caused by economic, competitive, social trend or regulatory factors.

Each business manager is responsible for the identification and assessment of these risks and for maintaining appropriate internal controls, and is supported by the Banking Group's governance structures, operational risk framework and operational risk policies.

The Banking Group's operational risk measurement methodology combines assessment of individual risk exposures with internal loss data to determine potential losses and calculate operational risk economic capital.

Business Continuity Management

Business continuity management ("BCM") within the Banking Group involves the development, maintenance and testing of action plans to respond to defined risk events. This ensures that business processes continue with minimal adverse impact on customers, staff, products, services and brands.

BCM constitutes an essential component of the Banking Group's risk management process by providing a controlled response to potential operational risks that could have a significant impact on the Banking Group's critical processes and revenue streams. It includes responses to mitigate the impact of risk events or disasters and crisis management plans to respond to crisis events.

A comprehensive BCM programme including plan development, testing and education has been implemented across all business units with critical processes and includes technology disaster recovery planning.

Internal Audit

The Banking Group maintains an independent internal audit function which is ultimately accountable to the Board through the BARC.

The internal audit function provides independent opinions on the effectiveness of risk management systems and the framework of controls and governance processes within the Banking Group's operations. Audits of the Banking Group's operations are undertaken based on an assessment of risk.

The BARC meets on a regular basis to consider the Banking Group's financial reporting, internal control and corporate governance matters. In doing so, the BARC reviews internal audit findings and opinions, and the activities of the internal audit function.

46 Market Risk

Market risk is the potential of an adverse impact on the Banking Group's earnings or capital from changes in interest rates, foreign exchange rates, equity and commodity prices.

The Banking Group distinguishes between two main types of market risk:

- Traded market risk principally arises from the Banking Group's trading book activities within Global Markets.
- Non-traded market risk includes interest rate risk arising from the banking book.

Market Risk Measurement

The Banking Group uses Value-at-Risk ("VaR") as one of the measures of Traded and Non-traded market risk. VaR is a statistical measure of potential loss using historically observed market movements.

VaR is modelled at a 97.5% confidence level. This means that there is a 97.5% probability that any potential loss will not exceed the VaR estimate on any given day.

The VaR measured for Traded market risk uses two years of daily movement in market rates. The VaR measure for Non-traded Banking Book market risk uses six years of daily movement in market rates.

A 1-day holding period is used for trading book positions. A 20-day holding period is used for Interest Rate Risk in the Banking Book.

VaR is driven by historical observations and is not an estimate of the maximum loss that the Banking Group could experience from an extreme market event. As a result of this limitation, management also uses additional controls to measure and manage market risk including stress testing, risk sensitivity and position limits.

Traded Market Risk

Traded Market Risk is generated through the Banking Group's participation in financial markets to service its customers. The Banking Group trades and distributes interest rate, foreign exchange, debt, equity and commodity products, and provides treasury, capital markets and risk management services to its customers.

$ millions **VaR at 97.5% Confidence Level** **As at 30 June**	**Banking Group** **Average VaR** **2016**	2015
Interest rate risk	**0.15**	0.14
Foreign exchange risk	**0.09**	0.11
Diversification benefit	**(0.05)**	(0.05)
Total Traded Market Risk	**0.19**	0.20

Non-traded Market Risk - Interest Rate Risk in the Banking Book

Interest rate risk is the current and prospective impact to the Banking Group's financial condition due to adverse changes in interest rates to which the Banking Group's Balance Sheet is exposed. Activities of the Banking Group result in mismatched assets and liabilities positions which direct that the propensity, timing and quantum of interest rate movements have undesired outcomes over both the short term and long term. The Banking Group engages in maturity transformation activities to manage interest rate risk to achieve stable and sustainable net interest income in the long-term.

The Banking Group measures and manages the impact of interest rate risk in two ways:

(a) Next 12 months' earnings

Interest rate risk from an earnings perspective (earnings risk) is the risk to earnings from potential interest rate movements on net interest income over the next 12 months.

The risk to net interest income over the next 12 months from changes in interest rates is measured on a monthly basis.

Earnings risk is measured through sensitivity analysis, which applies an instantaneous 100 basis point parallel shock in interest rates across the yield curve.

The prospective change to net interest income is measured by using an Asset and Liability Management simulation model which incorporates both existing and anticipated new business in its assessment. Assets and liabilities that reprice directly from observable market rates are measured based on the full extent of the rate shock that is applied. Assets and liabilities that are priced based on Banking Group administered or discretionary interest rates, and that are impacted by customer behaviour, are measured by taking into consideration the historic repricing strategy of the Banking Group and customer behaviour.

46 Market Risk (continued)

(a) Next 12 months' earnings (continued)

The figures in the following table represent the potential unfavourable change to the Banking Group's net interest earnings during the year based on a 100 basis point parallel rate shock.

Net Interest Earnings at Risk	Banking Group	
$ millions	**2016**	2015
Exposure at end of year	**28**	36
Past 12 month exposure - average	**30**	26
Past 12 month exposure - high	**39**	36
Past 12 month exposure - low	**16**	19

(b) Economic Value

Interest rate risk from an economic value perspective is based on a 20-day holding period 97.5% VaR measure.

Measuring the change in the economic value of equity is an assessment of the long term impact to the earnings potential of the Banking Group present valued to the current date. The Banking Group assesses the potential change in its economic value of equity through the application of the VaR methodology. A 20-day holding period 97.5% VaR measure is used to capture the net economic value impact over the remaining term of all Balance Sheet assets and liabilities to adverse changes in interest rates.

Cash flows for discretionary priced products are behaviourally adjusted and repriced at the resultant profile.

The figures in the following table represent the net present value of the expected change in the Banking Group's future earnings in all future periods for the remaining term of all existing assets and liabilities:

Non-Traded Interest Rate VaR at 97.5% Confidence Level	Banking Group	
$ millions	**2016**	2015
Exposure at end of year	**2.4**	3.6
Past 12 month VaR (97.5 percentile) - average	**3.6**	3.2
Past 12 month VaR (97.5 percentile) - high	**8.6**	5.4
Past 12 month VaR (97.5 percentile) - low	**1.8**	2.1

Net Foreign Currency Open Positions

The following table sets out the net foreign currency open positions of the Banking Group as stated in New Zealand dollar equivalents based on spot exchange rates as at balance sheet date:

$ millions	Banking Group	
As at 30 June	**2016**	2015
Net open position		
US Dollar	**-**	(4)
Australian Dollar	**(1)**	-
Total net open position	**(1)**	(4)

47 Interest Rate Repricing Schedule

The following tables include the Banking Group's assets and liabilities at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of derivative financial instruments, which are principally used to reduce the Banking Group's exposure to interest rate movements, are included under the heading "Non-interest Bearing".

$ millions	Banking Group						
As at 30 June 2016	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-interest Bearing	Total
Assets							
Cash and liquid assets	1,191	-	-	-	-	212	1,403
Due from financial institutions	1,130	-	-	-	-	1	1,131
Trading securities	563	101	-	107	21	-	792
Derivative assets	-	-	-	-	-	1,451	1,451
Available-for-sale securities	654	19	131	780	2,433	-	4,017
Advances to customers	33,320	5,503	12,123	14,143	7,066	(80)	72,075
Other assets	-	-	-	-	-	737	737
Total assets	36,858	5,623	12,254	15,030	9,520	2,321	81,606
Liabilities							
Deposits and other public borrowings	35,808	8,377	4,177	1,696	1,141	3,503	54,702
Due to financial institutions	566	-	-	-	-	14	580
Other liabilities at fair value through Income Statement	1,340	-	-	-	-	-	1,340
Derivative liabilities	-	-	-	-	-	2,085	2,085
Other liabilities	-	-	-	-	-	587	587
Debt issues:							
At fair value through Income Statement	1,049	352	245	-	-	-	1,646
At amortised cost	6,611	229	315	1,480	4,654	142	13,431
Loan capital	-	-	-	-	400	23	423
Total liabilities	45,374	8,958	4,737	3,176	6,195	6,354	74,794
Net derivative notionals	13,795	2,148	(7,507)	(10,039)	1,603		
Interest rate sensitivity gap	5,279	(1,187)	10	1,815	4,928	(4,033)	6,812

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47 Interest Rate Repricing Schedule (continued)

$ millions	Banking Group						
As at 30 June 2015	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-interest Bearing	Total
Assets							
Cash and liquid assets	1,670	-	-	-	-	129	1,799
Due from financial institutions	1,615	-	-	-	-	-	1,615
Trading securities	720	219	-	-	32	-	971
Derivative assets	-	-	-	-	-	2,102	2,102
Available-for-sale securities	852	-	127	202	1,860	-	3,041
Advances to customers	29,519	4,254	7,667	15,545	8,451	(53)	65,383
Other assets	-	-	-	-	-	992	992
Total Assets	34,376	4,473	7,794	15,747	10,343	3,170	75,903
Liabilities							
Deposits and other public borrowings	33,158	7,470	5,522	1,781	1,308	2,924	52,163
Due to financial institutions	2,367	11	11	-	-	1,134	3,523
Other liabilities at fair value through Income Statement	180	-	-	-	-	-	180
Derivative liabilities	-	-	-	-	-	1,364	1,364
Other liabilities	-	-	-	-	-	592	592
Debt issues:							
At fair value through Income Statement	949	264	-	-	-	-	1,213
At amortised cost	6,143	250	20	600	3,935	128	11,076
Loan capital	-	-	-	-	400	14	414
Total liabilities	42,797	7,995	5,553	2,381	5,643	6,156	70,525
Net derivative notionals[1]	10,908	3,430	62	(12,633)	(1,767)		
Interest rate sensitivity gap	2,487	(92)	2,303	733	2,933	(2,986)	5,378

(1) Comparative information has been restated to ensure consistency with presentation in the current year.

48 Liquidity and Funding Risk

Liquidity and Funding Risk Management Framework and Policies

Liquidity risk is the risk that the Bank will not be able to access funds to make payments when they are due. Funding risk is the risk that the funding mix of the Bank is such that it will have to pay higher than market rates for its funding or have difficulty raising funds.

The Banking Group has a liquidity and funding policy (the "policy") in place to manage these risks which is approved by the BARC. Day-to-day management of liquidity and funding risks is performed and reported by the Bank's Treasury function, with independent monitoring by the Bank's Market Risk Management. Oversight is provided by ALCO. The policy also requires regular periodic review of liquidity management strategy and contingent funding plans by the Bank's Directors.

The key objectives of the policy are:

- To ensure that cash flow commitments can be met as they fall due under both normal operating, crisis and stress conditions.
- To ensure that the Bank develops and protects a resilient and diversified funding base that is responsive to the Banking Group's needs.
- To ensure that procedures and practices in relation to liquidity and funding risk management are clearly documented and communicated.

Regulatory Supervision

The Bank is subject to the conditions of the RBNZ's liquidity policy as set out in the RBNZ documents *Liquidity Policy* (BS13) and *Liquidity Policy Annex: Liquid Assets* (BS13A). The Bank has the appropriate internal framework and tools for liquidity risk management to ensure compliance with these regulatory requirements, as well as internal targets and limits.

Measuring and Monitoring Liquidity Risk

The Bank monitors liquidity risk primarily by forecasting future daily cash requirements. To provide for any unexpected patterns in cash movements the Bank holds a pool of readily realisable investment assets and deposits with high credit quality counterparties. It also seeks a diverse and stable funding base. Management limits are set to ensure that holdings of liquid assets do not fall below prudent levels. Limits are also set on the level of wholesale and offshore funding, as well as on the amount of wholesale funding that may mature in any period.

The policy also requires the Banking Group to manage liquidity and funding risk within a number of Board approved risk appetite limits. These require that the Bank maintains positive cash flow runoffs for one-week and one-month periods using stressed assumptions, and a strong and stable core funding ratio.

Stress Testing and Contingent Funding Plan

Under the policy, the one-week crisis net cash flow maturity runoff using ASB "name crisis" parameters must be less than qualifying liquid assets held. "Name crisis" is defined as a scenario where the Bank's access to one or more of its funding or related markets is adversely affected by real or perceived issues with the Bank's, or a Bank entity's, name or viability. Qualifying liquid assets are of high credit quality and include short term cash held with the RBNZ or other banks, government securities and other securities that are readily acceptable in repurchase agreements with the RBNZ and other New Zealand banks, prime corporate bonds and short term paper and assets issued by offshore supranationals and highly rated banks. Runoff risk is calculated based on estimates of investor behaviour in a crisis scenario. Funding is weighted to reflect the sensitivity of different classes of investor during the first seven days of a run. In addition, management monitors other stress test scenarios when assessing appropriate liquidity levels.

The policy requires Treasury to develop, maintain and regularly test a Contingent Funding Plan ("CFP"). The CFP is reviewed and approved by the BARC. The plan establishes the policies, responsibilities and plans designed to return the Bank to a robust position within risk tolerance in the event of a liquidity crisis.

Residential Mortgage-Backed Securities ("RMBS") Facility

The Bank has an in-house RMBS facility, which has issued securities that can be used as collateral for borrowing from the RBNZ. As at 30 June 2016 the Bank had internally securitised $4.2 billion of RMBS through the Medallion NZ Series Trust 2009-1R, of which $4.0 billion of Class A floating rate notes have been assigned a credit rating of AAA by Fitch Ratings and are eligible for acceptance by the RBNZ (30 June 2015 $4.2 billion and $4.0 billion). Whilst not intended to be used for day-to-day liquidity management, the RMBS form part of the Bank's total qualifying liquid assets. The RBNZ has imposed a cap of 4% of total assets limiting the amount of RMBS that can be deemed as qualifying liquid assets available for repurchase agreements with the RBNZ (30 June 2015 4%). As at 30 June 2016 none of the RMBS had been used as collateral for repurchase agreements with the RBNZ (30 June 2015 nil). Refer to note 22 for additional information.

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49 Qualifying Liquid Assets

The table below provides details of the qualifying liquid assets held by the Banking Group for the purpose of managing liquidity risk.

If the Bank enters into a repurchase agreement with the RBNZ, the qualifying liquid assets sold under the agreement are subject to a reduction in value ("haircut") in accordance with the RBNZ's Operating Rules. This haircut can range from 1 to 19 percent, depending on the qualifying asset, and reduces the value of the qualifying liquid assets available for liquidity purposes. Other than the residential mortgage-backed securities, the qualifying liquid assets in the table below are not adjusted for this haircut.

$ millions	Banking Group					
As at 30 June 2016	**Cash and Liquid Assets**	**Available -for-Sale Securities**	**Trading Securities**	**Advances to Customers**	**Other Assets**	**Total**
Cash	**212**	**-**	**-**	**-**	**-**	**212**
Call deposits with the central bank	**736**	**-**	**-**	**-**	**-**	**736**
Local authority securities	**-**	**331**	**49**	**-**	**3**	**383**
New Zealand government securities	**455**	**978**	**106**	**-**	**7**	**1,546**
Corporate bonds	**-**	**493**	**-**	**-**	**4**	**497**
RBNZ bills	**-**	**-**	**67**	**-**	**-**	**67**
Bank bills	**-**	**-**	**568**	**-**	**-**	**568**
Kauri bonds	**-**	**1,687**	**2**	**-**	**19**	**1,708**
Other securities	**-**	**528**	**-**	**-**	**1**	**529**
Residential mortgage-backed securities	**-**	**-**	**-**	**3,240**	**-**	**3,240**
Total qualifying liquid assets	**1,403**	**4,017**	**792**	**3,240**	**34**	**9,486**

$ millions	Banking Group					
As at 30 June 2015	Cash and Liquid Assets	Available -for-Sale Securities	Trading Securities	Advances to Customers	Other Assets	Total
Cash	154	-	-	-	-	154
Call deposits with the central bank	1,259	-	-	-	-	1,259
Local authority securities	-	132	46	-	1	179
New Zealand government securities	375	107	9	-	-	491
Corporate bonds	-	578	-	-	7	585
Treasury bills	-	81	446	-	-	527
Bank bills	-	-	468	-	-	468
Kauri bonds	-	1,484	2	-	19	1,505
Other securities	-	659	-	-	3	662
Residential mortgage-backed securities	-	-	-	3,036	-	3,036
Total qualifying liquid assets	1,788	3,041	971	3,036	30	8,866

50 Maturity Analysis for Undiscounted Contractual Cash Flows

The tables on the following pages present the Banking Group's cash flows by remaining contractual maturities as at balance date. The amounts disclosed in the tables are the contractual undiscounted cash flows and include principal and future interest cash flows, and therefore will not agree to the carrying values on the Balance Sheet.

Actual cash flows may differ significantly from the contractual cash flows presented below as a result of future actions of the Banking Group and its counterparties, such as early repayments or refinancing of term loans.

The majority of the longer term advances to customers are housing loans which are likely to be repaid earlier than their contractual terms. Deposits and other public borrowings include substantial customer savings deposits and cheque accounts, which are at call. History demonstrates that such accounts provide a stable source of long term funding for the Bank. It should be noted that the Banking Group does not manage its liquidity risk on the basis of the information below. The management of liquidity risk is set out in note 48.

$ millions	Banking Group							
As at 30 June 2016	On Demand	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Between 2-5 Years	Over 5 Years	Total	Carrying Value
Non-derivative financial assets								
Cash and liquid assets	948	457	-	-	-	-	1,405	1,403
Due from financial institutions	1,044	87	-	-	-	-	1,131	1,131
Trading securities	-	672	2	104	21	-	799	792
Available-for-sale securities	-	348	299	1,130	2,220	320	4,317	4,017
Advances to customers	1,078	9,927	4,511	8,651	17,344	62,054	103,565	72,075
Other assets	-	210	-	-	-	-	210	210
Total non-derivative financial assets	3,070	11,701	4,812	9,885	19,585	62,374	111,427	79,628
Derivative financial assets								
Inflows from derivatives	-	1,367	503	1,672	2,707	13	6,262	
Outflows from derivatives	-	(587)	(426)	(1,546)	(2,393)	(13)	(4,965)	
	-	780	77	126	314	-	1,297	
Non-derivative financial liabilities								
Deposits and other public borrowings	28,670	19,238	4,234	1,744	1,182	-	55,068	54,702
Due to financial institutions	500	80	-	-	-	-	580	580
Other liabilities at fair value through Income Statement	-	1,353	-	-	-	-	1,353	1,340
Other liabilities	72	393	82	-	-	-	547	547
Debt issues:								
At fair value through Income Statement	-	1,405	247	-	-	-	1,652	1,646
At amortised cost	-	2,587	1,382	3,037	6,068	866	13,940	13,431
Loan capital	-	13	13	26	414	-	466	423
Total non-derivative financial liabilities	29,242	25,069	5,958	4,807	7,664	866	73,606	72,669
Derivative financial liabilities								
Inflows from derivatives	-	2,281	1,097	1,552	3,248	131	8,309	
Outflows from derivatives	-	(3,475)	(1,433)	(1,929)	(3,815)	(144)	(10,796)	
	-	(1,194)	(336)	(377)	(567)	(13)	(2,487)	
Off balance sheet items								
Lending commitments	12,451	1,350	-	-	-	-	13,801	
Guarantees	-	146	-	-	-	-	146	
Other contingent liabilities	-	262	-	-	-	-	262	
Total off balance sheet items	12,451	1,758	-	-	-	-	14,209	

50 Maturity Analysis for Undiscounted Contractual Cash Flows (continued)

$ millions				Banking Group				
As at 30 June 2015	On Demand	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Between 2-5 Years	Over 5 Years	Total	Carrying Value
Non-derivative financial assets								
Cash and liquid assets	1,413	389	-	-	-	-	1,802	1,799
Due from financial institutions	430	1,190	-	-	-	-	1,620	1,615
Trading securities	-	927	26	1	23	8	985	971
Available-for-sale securities	-	235	266	606	2,169	150	3,426	3,041
Advances to customers	1,199	8,919	3,651	8,300	16,868	61,546	100,483	65,383
Other assets	-	513	-	-	-	-	513	513
Total non-derivative financial assets	3,042	12,173	3,943	8,907	19,060	61,704	108,829	73,322
Derivative financial assets								
Inflows from derivatives	-	3,287	326	1,472	4,998	-	10,083	
Outflows from derivatives	-	(2,211)	(321)	(1,345)	(4,462)	-	(8,339)	
	-	1,076	5	127	536	-	1,744	
Non-derivative financial liabilities								
Deposits and other public borrowings	25,809	18,070	5,631	1,863	1,381	-	52,754	52,163
Due to financial institutions	2,102	45	1,392	-	-	-	3,539	3,523
Other liabilities at fair value through Income Statement	-	181	-	-	-	-	181	180
Other liabilities	19	553	4	10	-	-	586	586
Debt issues:								
At fair value through Income Statement	-	1,214	-	-	-	-	1,214	1,213
At amortised cost	-	2,373	342	2,131	5,956	871	11,673	11,076
Loan capital	-	13	13	26	440	-	492	414
Total non-derivative financial liabilities	27,930	22,449	7,382	4,030	7,777	871	70,439	69,155
Derivative financial liabilities								
Inflows from derivatives	-	1,281	638	861	1,638	5	4,423	
Outflows from derivatives	-	(2,013)	(797)	(1,094)	(1,958)	(5)	(5,867)	
	-	(732)	(159)	(233)	(320)	-	(1,444)	
Off balance sheet items								
Lending commitments	11,043	1,024	-	-	-	-	12,067	
Guarantees	-	124	-	-	-	-	124	
Other contingent liabilities	-	209	-	-	-	-	209	
Total off balance sheet items	11,043	1,357	-	-	-	-	12,400	

51 Concentrations of Funding

The following tables present the Banking Group's concentrations of funding, which are reported by industry and geographic region.

ANZSIC codes have been used as the basis for disclosing industry sectors.

$ millions	Banking Group	
As at 30 June	**2016**	2015
Total funding comprises:		
Deposits and other public borrowings	**54,702**	52,163
Due to financial institutions	**580**	3,523
Other liabilities at fair value through Income Statement	**1,340**	180
Debt issues:		
At fair value through Income Statement	**1,646**	1,213
At amortised cost	**13,431**	11,076
Loan capital	**423**	414
Total funding	**72,122**	68,569
Concentration by industry		
Agricultural, forestry and fishing	**741**	835
Government and public authorities	**1,512**	2,006
Property and business services	**6,256**	5,397
Finance and insurance	**21,369**	20,545
Utilities	**207**	362
Transport and storage	**937**	800
Personal	**37,031**	34,557
Other commercial and industrial	**4,069**	4,067
Total funding by industry	**72,122**	68,569
Concentration by geographic region		
New Zealand	**57,224**	54,052
Overseas	**14,898**	14,517
Total funding by geographic region	**72,122**	68,569

52 Events after the Reporting Period

Refer to note 8 for details of perpetual preference and ordinary dividends declared after the reporting period.

There were no other events subsequent to the reporting period which would materially affect the financial statements.

Additional Disclosures

(To be read in conjunction with the Financial Statements)

Conditions of Registration for ASB Bank Limited, applicable on and after 1 November 2015.

The registration of ASB Bank Limited (the "Bank") as a registered bank is subject to the following conditions:

1. That:

   (a) the Total capital ratio of the Banking Group is not less than 8%;

   (b) the Tier One capital ratio of the Banking Group is not less than 6%;

   (c) the Common Equity Tier One capital ratio of the Banking Group is not less than 4.5%;

   (d) the Total capital of the Banking Group is not less than $30 million;

   (e) the Bank must not include the amount of an Additional Tier One capital instrument or Tier Two capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and

   (f) the Bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document *Application requirements for capital recognition or repayment and notification requirements in respect of capital* (BS16) dated November 2015 in respect of regulatory capital instruments.

   For the purposes of this condition of registration:

   - the scalar referred to in the Reserve Bank of New Zealand document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated November 2015 is 1.06;
   - "Total capital ratio", "Tier One capital ratio", "Common Equity Tier One capital ratio", and "Total capital" must be calculated in accordance with the Reserve Bank of New Zealand document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated November 2015;
   - an Additional Tier One capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated November 2015; and
   - a Tier Two capital instrument is an instrument that meets the requirements of subsection 2.16(a) or (c) of the Reserve Bank of New Zealand document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated November 2015.

1A. That:

   (a) the Bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document *Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")* (BS12) dated December 2007;

   (b) under its ICAAP the Bank identifies and measures its "other material risks" defined as all material risks of the Banking Group that are not explicitly captured in the calculation of Common Equity Tier One capital ratio, the Tier One capital ratio and the Total capital ratio under the requirements set out in the document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated November 2015; and

   (c) the Bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That the Banking Group complies with all requirements set out in the Reserve Bank of New Zealand document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated November 2015.

1C. That, if the buffer ratio of the Banking Group is 2.5% or less, the Bank must:

   (a) according to the following table, limit the aggregate distributions of the Bank's earnings to the percentage limit to distributions that corresponds to the Banking Group's buffer ratio:

Banking Group's buffer ratio	Percentage limit to distributions of the Bank's earnings
0% - 0.625%	0%
>0.625% - 1.25%	20%
>1.25% - 1.875%	40%
>1.875% - 2.5%	60%

   (b) prepare a capital plan to restore the Banking Group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and

   (c) have the capital plan approved by the Reserve Bank.

   For the purposes of this condition of registration:

   - "buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated November 2015; and
   - the scalar referred to in the Reserve Bank of New Zealand document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated November 2015 is 1.06.

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

   In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

Conditions of Registration for ASB Bank Limited, applicable on and after 1 November 2015 (continued)

3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the Banking Group's insurance business is the sum of the following amounts for entities in the Banking Group:

(a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

(b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the Banking Group's insurance business:

(a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

(b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration:

- "insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance; and
- "insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the Banking Group to all connected persons do not exceed the rating contingent limit outlined in the following matrix:

Credit Rating of the Bank(1)	Connected Exposure Limit (Percentage of the Banking Group's Tier One Capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the Banking Group's Tier One Capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated November 2015.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the Bank complies with the following corporate governance requirements:

(a) the Board of the Bank must have at least five directors;

(b) the majority of the Board members must be non-executive directors;

(c) at least half of the Board members must be independent directors;

(d) an alternate director:

(i) for a non-executive director must be non-executive; and

(ii) for an independent director must be independent;

(e) at least half of the independent directors of the Bank must be ordinarily resident in New Zealand;

(f) the chairperson of the Board of the Bank must be independent; and

(g) the Bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled *Corporate Governance* (BS14) dated July 2014.

(1) This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's.)

Additional Disclosures

(To be read in conjunction with the Financial Statements)

Conditions of Registration for ASB Bank Limited, applicable on and after 1 November 2015 (continued)

7. That no appointment of any Director, Chief Executive Officer, or Executive who reports or is accountable directly to the Chief Executive Officer is made in respect of the Bank unless:

    (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

    (b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the Board of the Bank unless:

    (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

    (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the Bank has a Board audit committee, or other separate Board committee covering audit matters, that meets the following requirements:

    (a) the mandate of the committee must include: ensuring the integrity of the Bank's financial controls, reporting systems and internal audit standards;

    (b) the committee must have at least three members;

    (c) every member of the committee must be a non-executive director of the Bank;

    (d) the majority of the members of the committee must be independent; and

    (e) the chairperson of the committee must be independent and must not be the chairperson of the Bank.

    For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled *Corporate Governance* (BS14) dated July 2014.

10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.

11. That the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried on by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the Bank or of a service provider to the Bank, the following outcomes:

    (a) that the Bank's clearing and settlement obligations due on a day can be met on that day;

    (b) that the Bank's financial risk positions on a day can be identified on that day;

    (c) that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and

    (d) that the Bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

    For the purposes of this condition of registration, the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled *Outsourcing Policy* (BS11) dated January 2006.

12. That:

    (a) the business and affairs of the Bank are managed by, or under the direction or supervision of, the Board of the Bank;

    (b) the employment contract of the Chief Executive Officer of the Bank or person in an equivalent position (together "CEO") is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the Board of the Bank; and

    (c) all staff employed by the Bank will have their remuneration determined by (or under the delegated authority of) the Board or the CEO of the Bank and be accountable (directly or indirectly) to the CEO of the Bank.

13. That the Banking Group complies with the following quantitative requirements for liquidity-risk management:

    (a) the one-week mismatch ratio of the Banking Group is not less than 0% at the end of each business day;

    (b) the one-month mismatch ratio of the Banking Group is not less than 0% at the end of each business day; and

    (c) the one-year core funding ratio of the Banking Group is not less than 75% at the end of each business day.

    For the purposes of this condition of registration, except to the extent modified by condition of registration 13A, the Bank must calculate the Banking Group's one-week mismatch ratio, one-month mismatch ratio and one-year core funding ratio in accordance with the Reserve Bank of New Zealand documents entitled *Liquidity Policy* (BS13) dated July 2014 and *Liquidity Policy Annex: Liquid Assets* (BS13A) dated December 2011.

Additional Disclosures

(To be read in conjunction with the Financial Statements)

Conditions of Registration for ASB Bank Limited, applicable on and after 1 November 2015 (continued)

13A. That when calculating the Banking Group's one-year core funding ratio for the purposes of condition of registration 13, the Bank must use the following formula instead of the formula in paragraph 39 of the Reserve Bank of New Zealand document entitled *Liquidity Policy* (BS13) dated July 2014:

One year core funding dollar amount =

all funding with residual maturity longer than 1 year, including subordinated debt and related party funding;

\+ 50% of any tradable debt securities issued by the Bank with original maturity of 2 years or more and with residual maturity at the reporting date of more than 6 months and not more than 1 year;

\+ 50% of the amount of any term deposits placed with the Bank by Commonwealth Bank of Australia before 1 January 2010, having original maturity of 2 years or more, and having residual maturity at the reporting date of more than 6 months and not more than 1 year;

\+ non-market funding that is withdrawable at sight or with residual maturity less than or equal to 1 year, applying the percentages in Table 2 to such funding falling with each size band;

\+ Tier One capital.

14. That the Bank has an internal framework for liquidity risk management that is adequate in the Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:

(a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;

(b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

(c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and

(d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

15. That no more than 10% of total assets may be beneficially owned by a SPV.

For the purpose of this condition:

- "total assets" means all assets of the Banking Group plus any assets held by any SPV that are not included in the Banking Group's assets;
- "SPV" means a person:
  - (a) to whom any member of the Banking Group has sold, assigned, or otherwise transferred any asset;
  - (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
  - (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the Banking Group under a covered bond:
- "covered bond" means a debt security issued by any member of the Banking Group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

16. That:

(a) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:

(i) the Bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and

(ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the Bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document *Significant Acquisitions Policy* (BS15) dated December 2011; and

(b) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:

(i) the Bank has notified the Reserve Bank in writing of the intended acquisition or business combination;

(ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the Bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document *Significant Acquisitions Policy* (BS15) dated December 2011; and

(iii) the Reserve Bank has given the Bank a notice of non-objection to the significant acquisition or business combination.

For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document *Significant Acquisitions Policy* (BS15) dated December 2011.

Additional Disclosures

(To be read in conjunction with the Financial Statements)

Conditions of Registration for ASB Bank Limited, applicable on and after 1 November 2015 (continued)

17. That the Bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the Bank can:

    (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager:

        (i) all liabilities are frozen in full; and

        (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;

    (b) apply a de minimis to relevant customer liability accounts;

    (c) apply a partial freeze to the customer liability account balances;

    (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;

    (e) maintain a full freeze on liabilities not pre-positioned for Open Bank Resolution; and

    (f) reinstate customers' access to some or all of their residual frozen funds.

    For the purposes of this condition of registration, "de minimis", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

18. That the Bank has an implementation plan that:

    (a) is up-to-date; and

    (b) demonstrates that the Registered Bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document *Open Bank Resolution (OBR) Pre-positioning Requirements Policy* (BS17) dated September 2013.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document *Open Bank Resolution (OBR) Pre-positioning Requirements Policy* (BS17) dated September 2013.

19. That the Bank has a compendium of liabilities that:

    (a) at the product-class level lists all liabilities, indicating which are:

        (i) pre-positioned for Open Bank Resolution; and

        (ii) not pre-positioned for Open Bank Resolution;

    (b) is agreed to by the Reserve Bank; and

    (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

    For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document *Open Bank Resolution (OBR) Pre-positioning Requirements Policy* (BS17) dated September 2013.

20. That on an annual basis the Bank tests all the component parts of its Open Bank Resolution solution that demonstrates the Bank's prepositioning for Open Bank Resolution as specified in the Bank's Implementation Plan.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document *Open Bank Resolution (OBR) Pre-positioning Requirements Policy* (BS17) dated September 2013.

21. That, for a loan-to-valuation measurement period, the total of the Bank's qualifying new mortgage lending amount in respect of APIL with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of APIL arising in the loan-to-valuation measurement period.

22. That, for a loan-to-valuation measurement period, the total of the Bank's qualifying new mortgage lending amount in respect of ANPIL with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of ANPIL arising in the loan-to-valuation measurement period.

23. That, for a loan-to-valuation measurement period, the total of the Bank's qualifying new mortgage lending amount in respect of non-Auckland loans with a loan-to-valuation ratio of more than 80%, must not exceed 15% of the total of the qualifying new mortgage lending amount in respect of non-Auckland loans arising in the loan-to-valuation measurement period.

24. That the Bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the Bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

Additional Disclosures

(To be read in conjunction with the Financial Statements)

Conditions of Registration for ASB Bank Limited, applicable on and after 1 November 2015 (continued)

In these Conditions of Registration:

"Bank" means ASB Bank Limited (as reporting entity).

"Banking Group" means ASB Bank Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 21 to 24:

"ANPIL", "APIL", "loan-to-valuation ratio", "non-Auckland loan", "qualifying new mortgage lending amount in respect of [...]" and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled *Framework for Restrictions on High-LVR Residential Mortgage Lending* (BS19) dated November 2015:

"Loan-to-valuation measurement period" means:

- the six calendar month period ending on the last day of April 2016; and
- thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of May 2016.

Changes to Conditions of Registration

Since 30 June 2015 the Conditions of Registration have been amended by the RBNZ with effect from 1 November 2015. Certain amendments were made to reflect changes to the high loan-to-valuation speed limits applying to lending secured by Auckland investment properties and lending secured by residential properties outside of Auckland. Other amendments included the requirement for a non-objection notice from the RBNZ in relation to certain capital instruments and updated references to revised versions of various RBNZ documents.

As at 30 June 2016, there have been no other changes to the Conditions of Registration.

Directors' Statement

After due enquiry by the Directors, it is each Director's opinion that for the year ended 30 June 2016:

- the Banking Group complied with the Conditions of Registration 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 Banking Group 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 2014 (as amended); 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 (by his agent)

J.L. Freeman

J.P. Hartley

C.M. McDowell

V.A.J. Shortt

R.M. Spaans (by his agent)

A.L. Toevs (by his agent)

T.M. Walsh

10 August 2016

Independent Auditor's Report
To the shareholder of ASB Bank Limited

Report on the Financial Statements (excluding the Supplementary Information Relating to Capital Adequacy)

We have audited pages 13 to 79 of the full year Disclosure Statement of ASB Bank Limited (the "Bank"), which includes the financial statements required by Clause 24 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information required by Schedules 4, 7, 13, 14, 15 and 17 of the Order. The financial statements comprise the balance sheet as at 30 June 2016, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information for the Banking Group. The Banking Group comprises the Bank and the entities it controlled at 30 June 2016 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements (excluding the Supplementary Information Relating to Capital Adequacy)

The Directors of the Bank (the "Directors") are responsible on behalf of the Bank, for the Disclosure Statement, which includes financial statements prepared in accordance with Clause 24 of the Order and generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate. The Directors are also responsible, on behalf of the Bank, for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible on behalf of the Bank, for including information in the Disclosure Statement which complies with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order.

Auditor's Responsibility (excluding the Supplementary Information Relating to Capital Adequacy)

Our responsibility is to express an opinion on the financial statements and the supplementary information disclosed in accordance with Clause 24 and Schedules 4, 7, 13, 14, 15 and 17 of the Order based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the Banking Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banking Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We are independent of the Bank and the Banking Group. We carry out other assignments on behalf of the Bank and the Banking Group for audit-related services relating to funds managed by the Banking Group and for other assurance and advisory services. In addition, certain partners and employees of our firm may deal with the Bank and the Banking Group on normal terms within the ordinary course of trading activities of the Bank and the Banking Group. These matters have not impaired our independence. We have no other interests in the Bank or the Banking Group.

Opinion

In our opinion, the financial statements on pages 13 to 79 (excluding the supplementary information included in the balance sheet and Notes 15 to 20, 42, 43 and 45 to 51):

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Banking Group as at 30 June 2016, and its financial performance and cash flows for the year then ended.

In our opinion, the supplementary information prescribed by Schedules 4, 7, 13, 14, 15 and 17 of the Order fairly states, in all material respects, the matters to which it relates in accordance with those Schedules.

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Independent Auditor's Report

ASB Bank Limited

Report on Other Legal and Regulatory Requirements (excluding the Supplementary Information Relating to Capital Adequacy)

We also report in accordance with the requirements of Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the financial statements (excluding the supplementary information relating to capital adequacy disclosed in Note 42) for the year ended 30 June 2016:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Banking Group as far as appears from an examination of those records.

Report on the Supplementary Information Relating to Capital Adequacy

We have reviewed the supplementary information relating to capital adequacy required by Schedule 11 of the Order as disclosed in Note 42 of the financial statements of the Banking Group for the year ended 30 June 2016.

Directors' Responsibility for the Supplementary Information Relating to Capital Adequacy

The Directors are responsible on behalf of the Bank, for the preparation of the supplementary information relating to capital adequacy that is prepared in accordance with the Bank's conditions of registration and the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand and is disclosed in accordance with Schedule 11 of the Order.

Auditor's Responsibility for the Supplementary Information Relating to Capital Adequacy

Our responsibility is to express an opinion on the supplementary information relating to capital adequacy, disclosed in Note 42, based on our review.

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity ("NZ SRE 2410"). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the supplementary information relating to capital adequacy, disclosed in Note 42, is not, in all material respects:

(i) prepared in accordance with the Bank's conditions of registration;

(ii) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and

(iii) disclosed in accordance with Schedule 11 of the Order.

As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the supplementary information in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the supplementary information relating to capital adequacy.

Opinion

Based on our review procedures, which are not an audit, nothing has come to our attention that causes us to believe that the supplementary information relating to capital adequacy disclosed in Note 42, as required by Schedule 11 of the Order, is not in all material respects:

(i) prepared in accordance with the Bank's conditions of registration;

(ii) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and

(iii) disclosed in accordance with Schedule 11 of the Order.

Restriction on Use of our Report

This report is made solely to the Bank's shareholder. Our work has been undertaken so that we might state to the Bank's shareholder those matters which we are required to state to the Bank's shareholder in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholder, for our audit work, for this report, or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
10 August 2016

Auckland

Directory

INDEPENDENT DIRECTORS

G.R. (Gavin) Walker (Chairman)
B.C.A.
Director
Auckland, New Zealand
External Directorships:
Australian Investment Exchange Limited, Commonwealth Securities Limited, Great Northern Developments Limited, Lion Pty Limited, Lion Nathan Nominees Limited, Sovereign Assurance Company Limited, Walker Consulting Group Limited

J.P. (Jon) Hartley (Deputy Chairman)
B.A. (Hons), F.C.A., A.C.A., F.A.I.C.D.
Director
Wellington, New Zealand
External Directorships:
Chorus Limited, Mission Foods Limited, Mission Residential Care Limited, Sovereign Assurance Company Limited, VisionFund International Limited, VisionFund Myanmar Limited

M.B. (Michael) Coomer
B.Eng. (Electrical)
Director
Singapore
External Directorships:
DC123 Pty Limited, Volare Investment Pte Limited, MyFuture Online Pte Limited

J.L. (Jane) Freeman
B.Com
Director
Auckland, New Zealand
External Directorships:
Delegat's Group Limited, Jane Freeman Consulting Limited, Foodstuffs North Island Limited, Kiwi Property Group Limited

C.M. (Catherine) McDowell
B.A. (Hons), MDP, Dip. Management
Director
Cambridge, New Zealand
External Directorships:
National Provident Fund, The Institute of Directors in New Zealand Limited, Annuitas Management Limited, Todd Family Office Limited, Courtenay Nominees Limited

R.M. (Michael) Spaans
GradDip (Fin)
Director, Farmer
Te Aroha, New Zealand
External Directorships:
Fonterra Co-operative Group Limited, DairyNZ Limited, Shoof International Limited, Spaans Farms Limited, Spaans Advisory Services Limited, Dexcel Holdings Limited

T.M. (Therese) Walsh
B.C.A, F.C.A
Director
Wellington, New Zealand
External Directorships:
Therese Walsh Consulting Limited, Air New Zealand Limited, NZX Limited, Television New Zealand Limited

SHAREHOLDER REPRESENTATIVES

S.R.S. (Simon) Blair
B.A. (Hons), GradDip.B.A., M.Sc.
Bank Executive
London, United Kingdom
External Directorships:
Bank of Hangzhou Co. Limited, BoCommlife Insurance Company Limited, Sovereign Assurance Company Limited, The British United Provident Association Limited

V.A.J. (Vittoria) Shortt
BMS, C.A.
Bank Executive
Sydney, Australia
External Directorships:
None

A.L. (Alden) Toevs
Ph.D.
Bank Executive
Sydney, Australia
External Directorships:
None

EXECUTIVE DIRECTOR

B.J. (Barbara) Chapman
(Managing Director and Chief Executive Officer)
B.Comm
Bank Executive
Auckland, New Zealand
External Directorships:
ASB Capital Limited, ASB Capital No. 2 Limited, ASB Funding Limited, ASB Holdings Limited, Sovereign Assurance Company Limited, Banking Ombudsman Scheme Limited

Directory (continued)

AUDIT AND RISK COMMITTEE

J.P. (Jon) Hartley (Chairman)
S.R.S. (Simon) Blair
M.B. (Michael) Coomer
J.L. (Jane) Freeman
C.M. (Catherine) McDowell
V.A.J. (Vittoria) Shortt
R.M. (Michael) Spaans
A.L. (Alden) Toevs
G.R. (Gavin) Walker
Dame T.M. (Therese) Walsh

EXECUTIVE MANAGEMENT

B.J. (Barbara) Chapman	Chief Executive Officer
R.P. (Roger) Beaumont	Executive General Manager Marketing and Communications
A.J.(Adam) Boyd	Executive General Manager Wealth and Insurance
G.T. (Graeme) Edwards	General Counsel and Company Secretary
R.D. (Russell) Jones	Executive General Manager Technology and Innovation
S.T. (Steipo) Jurkovich	Executive General Manager Corporate, Commercial and Rural
K.C. (Kevin) McDonald	Chief Risk Officer
I. (Ian) Park	Executive General Manager Retail and Business Banking
J.E. (Jon) Raby	Chief Financial Officer
L.A. (Linley) Wood	Executive General Manager Operations

INTERNAL AUDITOR

C.M. (Christopher) de Wit — Chief Internal Auditor

AUDITOR

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