ASB Disclosure Statement

For the three months ended 30 September 2014

Contents

General Disclosures

(To be read in conjunction with the Financial Statements)

30 September 2014

This Disclosure Statement has been issued by ASB Bank Limited (the "Bank") 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 its controlled entities.

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, Australia.

Directors

R.D. Jesudason resigned as a director of the Bank with effect from 31 October 2014.

There have been no other changes to the Board of Directors since the signing of the 30 June 2014 Disclosure Statement.

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-

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.

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. 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.

Covered bonds (including accrued interest) of $2.418 billion were guaranteed as at 30 September 2014. The Covered Bond Guarantor's address for service is Level 35, Vero Centre, 48 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations payable in New Zealand dollars. As at 30 September 2014, the Covered Bonds issued have been assigned a long term rating of 'AAA' by Fitch Ratings and 'Aaa' by Moody's. Further information about this guarantee arrangement is included in the Bank's disclosure statement for the year ended 30 June 2014, a copy of which is available, free of charge, at the internet address www.asb.co.nz. A printed copy will also be made available, free of charge, upon request.

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

Pending Proceedings or Arbitration

The Bank is a party to the legal proceedings described in note 3. If the provision described in that note is inadequate, those proceedings may have a material adverse effect on the financial performance of the Bank for the relevant financial year.

Except as stated above, the Banking Group is not a party to any other pending legal proceedings or arbitration that may have a material adverse effect on the Bank or the Banking Group.

Conditions of Registration

Since 30 June 2014 the Conditions of Registration have been twice amended by the Reserve Bank of New Zealand ("RBNZ") with effect from 1 July 2014 and 1 October 2014 respectively. These minor amendments were made to refer to revised versions of various RBNZ documents and to update certain definitions to refer to the Financial Markets Conduct Act 2013.

Auditor

PricewaterhouseCoopers is the appointed auditor of the Banking Group. The auditor's address is PwC Tower, 188 Quay Street, Auckland 1010, New Zealand.

Income Statement

$ millions		Banking Group	
		Unaudited	Unaudited
For the three months ended	Note	**30-Sep-14**	30-Sep-13
Interest income		**1,002**	886
Interest expense		**582**	506
Net interest earnings		**420**	380
Other income	2	**102**	105
Total operating income		**522**	485
Impairment losses on advances	7(b)	**16**	11
Total operating income after impairment losses		**506**	474
Total operating expenses		**196**	191
Salaries and other staff expenses		**119**	114
Building occupancy and equipment expenses		**32**	34
Information technology expenses		**21**	20
Other expenses		**24**	23
Net profit before taxation		**310**	283
Taxation		**87**	79
Net profit after taxation		**223**	204

These statements are to be read in conjunction with the notes on pages 9 to 19.

Statement of Comprehensive Income

$ millions	Banking Group	
	Unaudited	Unaudited
For the three months ended	**30-Sep-14**	30-Sep-13
Net profit after taxation	**223**	204
Other comprehensive income/(expense), net of taxation		
Items that will not be reclassified to the Income Statement:		
Net change in asset revaluation reserve	**-**	1
	-	1
Items that may be reclassified subsequently to the Income Statement:		
Net change in available-for-sale reserve	**-**	(1)
Net change in cash flow hedge reserve	**(9)**	(3)
	(9)	(4)
Total other comprehensive expense, net of taxation	**(9)**	(3)
Total comprehensive income	**214**	201

These statements are to be read in conjunction with the notes on pages 9 to 19.

Statement of Changes in Equity

$ millions	Contributed Capital	Asset Revaluation Reserve	Available -for-Sale Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Shareholders' Equity
	Banking Group						
For the three months ended 30 September 2014							
Unaudited							
Balance at beginning of period	**2,823**	**25**	**12**	**(5)**	**1**	**2,310**	**5,166**
Net profit after taxation	**-**	**-**	**-**	**-**	**-**	**223**	**223**
Other comprehensive expense	**-**	**-**	**-**	**(9)**	**-**	**-**	**(9)**
Total comprehensive (expense)/income	**-**	**-**	**-**	**(9)**	**-**	**223**	**214**
Ordinary dividends paid	**-**	**-**	**-**	**-**	**-**	**(440)**	**(440)**
Perpetual preference dividends paid	**-**	**-**	**-**	**-**	**-**	**(4)**	**(4)**
Balance as at 30 September 2014	**2,823**	**25**	**12**	**(14)**	**1**	**2,089**	**4,936**
For the three months ended 30 September 2013							
Unaudited							
Balance at beginning of period	3,048	29	11	24	1	1,912	5,025
Net profit after taxation	-	-	-	-	-	204	204
Other comprehensive income/(expense)	-	1	(1)	(3)	-	-	(3)
Total comprehensive income/(expense)	-	1	(1)	(3)	-	204	201
Transfer from asset revaluation reserve to retained earnings	-	(6)	-	-	-	6	-
Ordinary dividends paid	-	-	-	-	-	(20)	(20)
Perpetual preference dividends paid	-	-	-	-	-	(4)	(4)
Balance as at 30 September 2013	3,048	24	10	21	1	2,098	5,202

These statements are to be read in conjunction with the notes on pages 9 to 19.

Balance Sheet

$ millions		Banking Group		
		Unaudited	Unaudited	Audited
As at	Note	**30-Sep-14**	30-Sep-13	30-Jun-14
Assets				
Cash and liquid assets		**1,587**	1,665	1,778
Due from financial institutions		**740**	569	310
Trading securities		**983**	1,526	948
Derivative assets		**1,192**	1,056	854
Available-for-sale securities		**2,828**	2,479	2,705
Advances to customers	6	**61,691**	58,641	60,664
Current taxation asset		**3**	56	3
Other assets		**249**	349	695
Property, plant and equipment		**197**	206	201
Intangible assets		**157**	158	161
Deferred taxation asset		**67**	52	61
Total assets		**69,694**	66,757	68,380
Total interest earning and discount bearing assets		***67,853***	*64,850*	*66,438*
Liabilities				
Deposits and other public borrowings	8	**45,502**	42,633	44,667
Due to financial institutions		**4,484**	4,268	4,377
Other liabilities at fair value through Income Statement		**1,253**	1,617	1,223
Derivative liabilities		**696**	1,138	1,058
Other liabilities		**553**	491	575
Debt issues:				
At fair value through Income Statement	9	**1,629**	3,870	1,312
At amortised cost	9	**10,243**	7,538	9,612
Loan capital		**398**	-	390
Total liabilities		**64,758**	61,555	63,214
Shareholders' equity				
Contributed capital - ordinary shares		**2,273**	2,498	2,273
Reserves		**24**	56	33
Retained earnings		**2,089**	2,098	2,310
Ordinary shareholder's equity		**4,386**	4,652	4,616
Contributed capital - perpetual preference shares		**550**	550	550
Total shareholders' equity		**4,936**	5,202	5,166
Total liabilities and shareholders' equity		**69,694**	66,757	68,380
Total interest and discount bearing liabilities		***60,775***	*57,492*	*58,932*

These statements are to be read in conjunction with the notes on pages 9 to 19.

Condensed Cash Flow Statement

$ millions	Banking Group	
	Unaudited	Unaudited
For the three months ended	**30-Sep-14**	30-Sep-13
Cash flows from operating activities		
Net profit before taxation	**310**	283
Reconciliation of net profit before taxation to net cash flows from operating activities		
Non-cash items included in net profit before taxation	**48**	34
Net increase in operating assets	**(79)**	(766)
Net increase in operating liabilities	**1,065**	754
Net taxation paid	**(90)**	(103)
Net cash flows from operating activities	**1,254**	202
Cash flows from investing activities		
Total cash outflows applied to investing activities	**(17)**	(10)
Net cash flows from investing activities	**(17)**	(10)
Cash flows from financing activities		
Cash inflows provided from financing activities	**4**	-
Cash outflows applied to financing activities	**(444)**	(24)
Net cash flows from financing activities	**(440)**	(24)
Summary of movements in cash flows		
Net increase in cash and cash equivalents	**797**	168
Add: cash and cash equivalents at beginning of period	**962**	1,358
Cash and cash equivalents at end of period	**1,759**	1,526
Cash and cash equivalents comprise:		
Cash and liquid assets	**1,587**	1,665
Less: reverse repurchase agreements included in cash and liquid assets	**(145)**	(461)
Add: cash equivalents in due from financial institutions at call	**737**	569
Less: cash equivalents in due to financial institutions at call	**(420)**	(247)
Cash and cash equivalents at end of period	**1,759**	1,526
Additional operating cash flow information		
Interest received as cash	**1,012**	885
Interest paid as cash	**(582)**	(531)
Other income received as cash	**97**	107
Operating expenses paid as cash	**(225)**	(220)

These statements are to be read in conjunction with the notes on pages 9 to 19.

Notes to the Financial Statements

For the three months ended 30 September 2014

1 Statement of Accounting Policies

The condensed interim financial statements of the Banking Group for the three months ended 30 September 2014 (the "financial statements") have been incorporated in this Disclosure Statement. These financial statements consolidate the financial statements of the Bank and its controlled entities. They have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") as appropriate for profit-oriented entities, NZ IAS 34 *Interim Financial Reporting* and the Order. These interim financial statements do not include all the information and disclosures required in annual financial statements and should therefore be read in conjunction with the Banking Group's financial statements for the year ended 30 June 2014.

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

Amendments to NZ IAS 32 *Financial Instruments: Presentation* have been adopted from 1 July 2014 and have been applied in the preparation of these financial statements. These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of offsetting criteria to settlement systems such as central clearing house systems. The adoption of these amendments did not have an impact on the financial statements.

There have been no material changes to accounting policies during the three months ended 30 September 2014. All policies have been applied on a basis consistent with that used in the financial year ended 30 June 2014.

Certain comparatives have been restated to ensure consistency with the current period's presentation. This includes reclassification of fund management expenses of $2 million from other expenses to offset other income in the Income Statement. This reclassification has no impact on net profit after taxation.

2 Other Income

$ millions	Banking Group	
	Unaudited	Unaudited
For the three months ended	**30-Sep-14**	30-Sep-13
Net fair value gain/(loss) from:		
Other derivatives at fair value	**1**	(1)
Hedge ineffectiveness	**-**	2
Total net fair value gain	**1**	1
Trading income	**12**	14
Other operating income	**89**	90
Total other income	**102**	105

3 Taxation

As at 30 September 2014 the Banking Group had a tax position relating to a liquidity funding transaction that was subject to revised assessments issued by the Inland Revenue Department for the 2008 and 2009 years. The Bank has commenced legal proceedings to challenge those assessments. The tax position has a potential liability of $153 million plus interest and penalties (30 June 2014: potential liability of $153 million plus interest and penalties). The Bank has made what it considers to be adequate provision for this matter based on its assessment of the merits of the arguments and independent advice received.

Notes to the Financial Statements

For the three months ended 30 September 2014

4 Qualifying Liquid Assets

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

	Banking Group						
$ millions	Cash and Liquid Assets	Available for Sale Securities	Trading Securities	Advances to Customers	Deposits and Other Public Borrowings(1)	Other Assets	Total
As at 30 September 2014							
Unaudited							
Cash	178	-	-	-	-	-	178
Call deposits with the central bank	1,250	-	-	-	-	-	1,250
Local authority securities	-	91	83	-	-	2	176
New Zealand government securities	145	612	5	-	(68)	16	710
Corporate bonds	-	349	-	-	-	3	352
Bank bills	-	-	893	-	-	-	893
Kauri bonds	-	1,178	2	-	-	8	1,188
Other securities	-	568	-	-	-	2	570
Residential mortgage-backed securities	-	-	-	2,788	-	-	2,788
Total qualifying liquid assets	1,573	2,798	983	2,788	(68)	31	8,105

(1) Repurchase agreements are combined with the financial assets detailed above for the purposes of managing and reporting liquidity risk.

5 Financial Assets Pledged as Collateral

As at 30 September 2014 New Zealand government securities of $68 million had been pledged as collateral under repurchase agreements.

The Bank has entered into credit support annexes in respect of certain credit exposures relating to certain derivative transactions. As at 30 September 2014 $45 million included in due from financial institutions had been advanced as collateral to offset derivative liabilities.

6 Advances to Customers

$ millions	Banking Group		
As at	**Unaudited 30-Sep-14**	Unaudited 30-Sep-13	Audited 30-Jun-14
Residential mortgages	**41,929**	40,657	41,624
Other retail	**4,551**	4,371	4,512
Corporate	**15,432**	13,831	14,769
Loans and other receivables	**61,912**	58,859	60,905
Fair value hedge adjustments	**(18)**	(20)	(43)
Provisions for impairment losses	**(203)**	(198)	(198)
Total advances to customers	**61,691**	58,641	60,664

Notes to the Financial Statements

For the three months ended 30 September 2014

7 Asset Quality and Provisions for Impairment Losses

$ millions	Banking Group Residential Mortgages	Other Retail	Corporate	Total
(a) Asset Quality and Provisions for Impairment Losses				
As at 30 September 2014				
Unaudited				
Individually impaired assets	**47**	**10**	**128**	**185**
Individually assessed provisions	**10**	**2**	**26**	**38**
Collective provision	**40**	**62**	**63**	**165**
90 day past due assets not impaired	**64**	**20**	**6**	**90**
As at 30 September 2013				
Unaudited				
Individually impaired assets	81	12	237	330
Individually assessed provisions	17	2	33	52
Collective provision	43	44	59	146
90 day past due assets not impaired	78	16	7	101
As at 30 June 2014				
Audited				
Individually impaired assets	51	10	157	218
Individually assessed provisions	11	2	27	40
Collective provision	38	61	59	158
90 day past due assets not impaired	74	20	7	101

$ millions	Banking Group Residential Mortgages	Other Retail	Corporate	Total
(b) Impairment Losses on Advances				
For the three months ended 30 September 2014				
Unaudited				
Movement in collective provision	**2**	**1**	**4**	**7**
Movement in individually assessed provisions	**1**	**1**	**-**	**2**
Bad debts written off	**-**	**10**	**-**	**10**
Bad debts recovered	**-**	**(3)**	**-**	**(3)**
Total impairment losses on advances	**3**	**9**	**4**	**16**
For the three months ended 30 September 2013				
Unaudited				
Movement in collective provision	(5)	1	1	(3)
Movement in individually assessed provisions	-	1	7	8
Bad debts written off	1	8	-	9
Bad debts recovered	(1)	(2)	-	(3)
Total impairment (recoveries)/losses on advances	(5)	8	8	11

8 Deposits and Other Public Borrowings

$ millions As at	Banking Group **Unaudited 30-Sep-14**	Unaudited 30-Sep-13	Audited 30-Jun-14
Certificates of deposit	**398**	98	227
Term deposits	**22,277**	22,306	21,685
On demand and short term deposits	**20,088**	17,608	19,998
Deposits not bearing interest	**2,671**	2,419	2,612
Repurchase agreements	**68**	202	145
Total deposits and other public borrowings	**45,502**	42,633	44,667

9 Debt Issues

$ millions	Banking Group		
	Unaudited	Unaudited	Audited
As at	30-Sep-14	30-Sep-13	30-Jun-14
Debt issues at fair value through Income Statement	**1,629**	3,870	1,312
Debt issues at amortised cost	**10,243**	7,538	9,612
Total debt issues	**11,872**	11,408	10,924
Movement in debt issues			
Balance at beginning of period	**10,924**	12,085	12,085
Issuances during the period	**2,410**	2,829	9,572
Repayments during the period	**(2,126)**	(3,176)	(10,440)
Foreign exchange and fair value movements during the period	**664**	(330)	(293)
Balance at the end of period	**11,872**	11,408	10,924

10 Contingent Liabilities

$ millions	Banking Group Notional Amount		
	Unaudited	Unaudited	Audited
As at	30-Sep-14	30-Sep-13	30-Jun-14
Guarantees	**112**	112	111
Standby letters of credit	**86**	84	111
Other credit facilities	**127**	112	128
Total contingent liabilities	**325**	308	350

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 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.

In December 2013 the Commerce Commission advised ASB that it intends to issue proceedings against ASB under the Fair Trading Act 1986 in respect of the sale of interest rate swap contracts to rural customers. The Commission has subsequently announced that its investigation is complex, new information is being considered, and it anticipated making further announcement on proceedings later in 2014. As at the date of this Disclosure Statement no such proceedings have been issued. If proceedings are issued against ASB, any impact will be assessed at that time.

Notes to the Financial Statements

For the three months ended 30 September 2014

11 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 Colonial First State Investments (NZ) Limited group of companies, ASB Group (Life) Limited group of companies, First State Investments (NZ) Limited and Colonial Holding Company Limited (Branch).

Certain superannuation schemes, unit and other trusts are managed or administered by controlled subsidiaries of the Bank. The NZ Life Group similarly administers and manages certain superannuation schemes, unit and other trusts. Related party transactions and balances between these schemes and trusts, and the Banking Group are disclosed below.

The following balances represent amounts due to and from related parties classified within cash and liquid assets, due to and due from financial institutions, deposits and other public borrowings, debt issues, other assets, other liabilities, derivative assets and derivative liabilities:

$ millions	Banking Group		
	Unaudited	Unaudited	Audited
As at	**30-Sep-14**	30-Sep-13	30-Jun-14
Commonwealth Bank Group	**4,336**	4,526	4,431
NZ Life Group	**236**	474	401
ASB Holdings Limited	**56**	46	33
Superannuation schemes and unit trusts managed or administered by controlled subsidiaries of the Bank	**872**	673	886
Superannuation schemes and unit trusts managed or administered by NZ Life Group	**3**	6	4
Total amounts due to related parties	**5,503**	5,725	5,755
Commonwealth Bank Group	**376**	268	160
NZ Life Group	**9**	6	1
Superannuation schemes and unit trusts managed or administered by controlled subsidiaries of the Bank	**3**	-	1
Total amounts due from related parties	**388**	274	162

For the three months ended 30 September 2014 interest charged on balances due to the Commonwealth Bank Group was $43 million (30 September 2013 $34 million).

12 Concentration of Credit Exposures to Individual Counterparties

The basis of calculation of the Banking Group's aggregate concentration of credit exposure to individual counterparties is the actual credit exposure. Credit exposures to the central government of any country with a long term credit rating of A- or A3 or above, or its equivalent, banks with a long term credit rating of A- or A3 or above, or its equivalent, and connected persons are excluded.

There was no peak end-of-day aggregate credit exposure to individual counterparties which exceeded 10% of the Banking Group's equity for the three months ended 30 September 2014. There was no balance date aggregate credit exposure to individual counterparties which exceeded 10% of the Banking Group's equity as at 30 September 2014.

The peak end-of-day aggregate concentration of credit exposure to individual counterparties has been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the relevant three-month period and then dividing that amount by the Banking Group's equity as at 30 September 2014.

Notes to the Financial Statements

For the three months ended 30 September 2014

13 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) Fair Value Hierarchy of Financial Instruments Measured at Fair Value

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.

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

	Banking Group			
$ millions	Level 1	Level 2	Level 3	Total
As at 30 September 2014				
Unaudited				
Financial assets				
Trading securities	**5**	**978**	**-**	**983**
Derivative assets	**-**	**1,192**	**-**	**1,192**
Available-for-sale securities	**612**	**2,216**	**-**	**2,828**
Total financial assets measured at fair value	**617**	**4,386**	**-**	**5,003**
Financial liabilities				
Other liabilities at fair value through Income Statement	**-**	**1,253**	**-**	**1,253**
Derivative liabilities	**-**	**696**	**-**	**696**
Debt issues at fair value through Income Statement	**-**	**1,629**	**-**	**1,629**
Total financial liabilities measured at fair value	**-**	**3,578**	**-**	**3,578**
As at 30 September 2013				
Unaudited				
Financial assets				
Trading securities	212	1,314	-	1,526
Derivative assets	-	1,056	-	1,056
Available-for-sale securities	882	1,597	-	2,479
Total financial assets measured at fair value	1,094	3,967	-	5,061
Financial liabilities				
Other liabilities at fair value through Income Statement	-	1,617	-	1,617
Derivative liabilities	-	1,138	-	1,138
Debt issues at fair value through Income Statement	-	3,870	-	3,870
Total financial liabilities measured at fair value	-	6,625	-	6,625

13 Fair Value of Financial Instruments (continued)

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

	Banking Group			
$ millions	Level 1	Level 2	Level 3	Total
As at 30 June 2014				
Audited				
Financial assets				
Trading securities	16	932	-	948
Derivative assets	-	854	-	854
Available-for-sale securities	615	2,090	-	2,705
Total financial assets measured at fair value	631	3,876	-	4,507
Financial liabilities				
Other liabilities at fair value through Income Statement	6	1,217	-	1,223
Derivative liabilities	-	1,058	-	1,058
Debt issues at fair value through Income Statement	-	1,312	-	1,312
Total financial liabilities measured at fair value	6	3,587	-	3,593

The Banking Group determines the valuation of financial instruments classified in level 2 as follows:

Derivative Assets and Derivative Liabilities
The fair values are obtained from market yields and discounted cash flow models or option pricing models as appropriate.

Trading Securities, Available-for-Sale Securities, Other Liabilities at Fair Value through Income Statement and Debt Issues at Fair Value through Income Statement
The fair values are estimated using present value or other market acceptable valuation techniques, using methods or assumptions that are based on observable market conditions and risks existing as at balance date.

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

The following table compares the carrying values of financial instruments not measured at fair value with their estimated fair values.

	Banking Group					
	Unaudited 30-Sep-14		Unaudited 30-Sep-13		Audited 30-Jun-14	
$ millions	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets						
Cash and liquid assets	**1,587**	**1,587**	1,665	1,665	1,778	1,778
Due from financial institutions	**740**	**740**	569	569	310	310
Advances to customers	**61,498**	**61,691**	58,508	58,641	60,469	60,664
Other assets	**222**	**222**	320	320	675	675
Total	**64,047**	**64,240**	61,062	61,195	63,232	63,427
Financial liabilities						
Deposits and other public borrowings	**45,550**	**45,502**	42,682	42,633	44,705	44,667
Due to financial institutions	**4,481**	**4,484**	4,250	4,268	4,372	4,377
Other liabilities	**553**	**553**	491	491	575	575
Debt issues at amortised cost	**10,317**	**10,243**	7,610	7,538	9,673	9,612
Loan capital	**414**	**398**	-	-	403	390
Total	**61,315**	**61,180**	55,033	54,930	59,728	59,621

Notes to the Financial Statements

For the three months ended 30 September 2014

14 Capital Adequacy

Unaudited

The Banking Group is subject to regulation by the RBNZ. The RBNZ has set minimum regulatory capital requirements for New Zealand registered banks that are consistent with the internationally agreed framework developed by the Basel Committee on Banking Supervision, commonly known as Basel III. 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 July 2014. The Banking Group is accredited by the RBNZ to adopt the internal ratings based ("IRB") approach for calculating regulatory capital requirements.

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

$ millions **As at 30 September 2014**	**Banking Group**
Capital under Basel III IRB approach	
Tier one capital	
Common equity tier one capital (before deductions)	4,360
Deductions from common equity tier one capital	(341)
Total common equity tier one capital	4,019
Additional tier one capital(1)	440
Total additional tier one capital	440
Total tier one capital	4,459
Tier two capital	
Tier two capital	426
Total tier two capital	426
Total capital	4,885
Capital requirements	
Capital requirements for credit risk subject to the IRB approach by exposure class	
Sovereign	8
Bank	84
Residential mortgages	1,175
Other retail	238
Corporate - small and medium enterprises	851
Other corporate	74
Total capital requirements for credit risk subject to the IRB approach by exposure class(2)	2,430
Capital requirements for other credit risk	
Specialised lending subject to the slotting approach(2)	27
Exposures subject to the standardised approach(2)	367
Credit valuation adjustment	23
Total capital requirements for other credit risk	417
Total capital requirements for credit risk	2,847
Capital requirements for other risks	
Operational risk	277
Market risk	145
Total capital requirements for other risks	422
Total capital requirement	3,269

(1) Perpetual fully paid-up non-cumulative preference shares are 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 shares that qualify as additional tier one capital declining by 20% per calendar year, commencing 1 January 2014 and ending 1 January 2018.

(2) In accordance with the Bank's Conditions of Registration, a scalar of 1.06 has been applied to the risk-weighted exposures from which the capital requirements are derived.

Notes to the Financial Statements

For the three months ended 30 September 2014

14 Capital Adequacy (continued)

Unaudited

As at 30 September 2014	Banking Group Capital Ratios	Banking Group Minimum Ratio Requirement
Common equity tier one capital ratio	**9.8%**	4.5%
Tier one capital ratio	**10.9%**	6.0%
Total capital ratio	**12.0%**	8.0%
Buffer ratio[1]	**4.0%**	2.5%

Capital Structure

Available-for-Sale Reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale financial assets until the investment is derecognised or impaired.

Asset Revaluation Reserve

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 in the Income Statement, the gain is recognised in the Income Satement.

Foreign Currency Translation Reserve

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

(1) Effective 1 January 2014, the Bank became subject to a minimum capital conservation buffer of 2.5% of risk-weighted exposures. This imposes constraints on the Bank's ability to distribute earnings should the buffer ratio fall below the minimum.

$ millions 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	11,240	7,707	14,612	5,692	2,863	42,114
Off balance sheet exposures	2,587	1,225	1,836	290	318	6,256
Total value of exposures	13,827	8,932	16,448	5,982	3,181	48,370
Expressed as a percentage of total exposures	**28.5%**	**18.5%**	**34.0%**	**12.4%**	**6.6%**	**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.

Capital for Other Material Risks

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

The Banking Group's ICAAP is a documented process that describes not only the risk appetite and tolerances of the Banking Group, but also the levels of capital held against these risks, including credit, market, operational, strategic, and fixed asset risks. As at 30 September 2014, the Banking Group held actual capital at significant levels above the regulatory capital requirements (refer to Basel III capital ratios above).

As at 30 September 2014, internal capital allocations of $304 million had been made for other material risks including strategic risk and fixed asset risk.

Notes to the Financial Statements

For the three months ended 30 September 2014

15 Insurance Business, Marketing and Distribution of Insurance Products

The Banking Group does not conduct any insurance business. However, general and life insurance products are marketed through the Bank's retail network. The life insurance products are underwritten by Sovereign Assurance Company Limited, a wholly owned subsidiary of ASB Group (Life) Limited.

16 Changes in the Composition of the Banking Group during the Reporting Period

There were no changes to the composition of the Banking Group during the reporting period. ASB Smart Cards Limited (a subsidiary of the Bank) was removed from the New Zealand Companies Register on 20 October 2014. This removal had no impact on the consolidated financial statements of the Banking Group.

17 Financial Reporting by Operating Segments

Unaudited

	Banking Group				
$ millions	Retail and Business Banking	Corporate, Commercial and Rural	Wealth and Insurance	Other	Total
Income Statement					
For the three months ended 30 September 2014					
Net interest earnings	**270**	**135**	**3**	**12**	**420**
Other income/(expense)	**56**	**24**	**36**	**(14)**	**102**
Total operating income/(expense)	**326**	**159**	**39**	**(2)**	**522**
Impairment losses on advances	**13**	**3**	**-**	**-**	**16**
Segment operating expenses (excluding impairment losses)	**114**	**56**	**21**	**5**	**196**
Segment net profit/(loss) before taxation	**199**	**100**	**18**	**(7)**	**310**
Taxation	**55**	**28**	**5**	**(1)**	**87**
Segment net profit/(loss) after taxation	**144**	**72**	**13**	**(6)**	**223**
Balance Sheet					
As at 30 September 2014					
Total assets	**42,617**	**21,679**	**163**	**5,235**	**69,694**
Total liabilities	**31,128**	**12,554**	**256**	**20,820**	**64,758**

	Banking Group				
$ millions	Retail and Business Banking	Corporate, Commercial and Rural	Wealth and Insurance	Other	Total
Income Statement					
For the three months ended 30 September 2013					
Net interest earnings	257	110	3	10	380
Other income/(expense)	54	27	32	(8)	105
Total operating income	311	137	35	2	485
Impairment losses on advances	2	9	-	-	11
Segment operating expenses (excluding impairment losses)	111	54	22	4	191
Segment net profit/(loss) before taxation	198	74	13	(2)	283
Taxation	55	20	3	1	79
Segment net profit/(loss) after taxation	143	54	10	(3)	204
Balance Sheet					
As at 30 September 2013					
Total assets	41,384	20,853	186	4,334	66,757
Total liabilities	29,038	12,409	298	19,810	61,555

Notes to the Financial Statements

For the three months ended 30 September 2014

17 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 strategic 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 has been allocated to CBA as a consequence of disestablishing ASB Institutional (an unincorporated joint venture between the Bank and CBA). The remaining portion of the Institutional Banking and Markets segment has been 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.

18 Events after the Reporting Period

On 29 October 2014 the Directors resolved to pay perpetual preference dividends of $4 million, being 0.81 cents per share, on 17 November 2014.

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

Directors' Statement

After due enquiry by the Directors, it is each Director's opinion that for the three months ended 30 September 2014:

- the Bank 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 Bank had systems in place to adequately monitor and control the Banking Group's credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other material business risks and that those systems are being properly applied.

After due enquiry by the Directors, it is each Director's opinion that as at the date of this Disclosure Statement:

- the Disclosure Statement contains all the information required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 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 | For J.L. Freeman | J.P. Hartley

C.M. McDowell

5 November 2014