ASB Disclosure Statement

For the six months ended 31 December 2017

asb.co.nz

Contents

General Disclosures

(To be read in conjunction with the Financial Statements)

31 December 2017

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 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

S.R. Peterson joined as an independent director of the Bank on 1 July 2017.
V.A.J. Shortt resigned as a director of the Bank with effect from 31 August 2017.
R.M. Spaans resigned as a director of the Bank with effect from 3 November 2017.
B.J. Chapman retired as a director of the Bank on 2 February 2018.
J.L. Freeman will retire as a director of the Bank on 28 February 2018.
There have been no other changes to the Board of Directors (the "Board") since the balance date for the 30 June 2017 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	Credit Rating Outlook
Moody's Investors Service Pty Limited ("Moody's")	A1	Stable
Standard & Poor's (Australia) Pty Limited ("S&P")	AA-	Negative
Fitch Australia Pty Limited ("Fitch Ratings")	AA-	Stable

The ratings for S&P and Fitch Ratings have remained unchanged during the 2 years immediately preceding the balance date. On 19 June 2017 Moody's downgraded the long-term credit ratings of the major Australian banks and their strategically important subsidiaries by one notch. As a consequence ASB's long term rating was revised to A1 from Aa3 and the outlook revised to stable from 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 Aa 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 the Banking Group.

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

Since 30 June 2017 there has been no material change in regulations, legislation, or other restrictions of a legally enforceable nature that may materially inhibit the legal ability of CBA to provide material financial support to the Bank. On 25 November 2015, the Australian Prudential Regulation Authority ("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. 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. The Bank understands that CBA expects to be compliant with APRA's requirements by the end of the transition period.

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 $3.861 billion were guaranteed as at the signing date of this Disclosure Statement. 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 31 December 2017, 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 2017, a copy of which is available 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.

Conditions of Registration

The Reserve Bank of New Zealand ("RBNZ") amended the Conditions of Registration effective 1 October 2017, to reflect changes in outsourcing requirements. The amendments also refer to the revised "Outsourcing Policy" (BS11).

There were no other changes to the Conditions of Registration between 30 September 2017 and 31 December 2017.

Non-compliance with conditions of registration

As reported in the Bank's disclosure statement for the three months to 30 September 2017, the Bank identified that it had incorrectly calculated the buffer ratio at 31 December 2016, 31 March 2017 and 30 June 2017 due to having applied an incorrect definition of surplus common equity tier one capital in the calculations. The Bank considers this incorrect calculation to have been non-compliant with condition of registration 1B.

The Bank subsequently engaged a professional services firm to undertake an independent review of the Bank's overall compliance with condition of registration 1B. The Bank considers the following review findings are additional instances of historic non-compliance with condition 1B:

- two incorrect provision and expected loss adjustments in the capital adequacy calculation;
- areas where the Bank has used a calculation or position that it uses for internal market risk management purposes and carried that through into the market risk capital calculation; and
- other minor technical calculation errors and qualitative matters.

These calculation errors have now been corrected. These errors did not cause the Bank to breach any of its required minimum capital ratios, or breach the minimum buffer ratio requirements of condition of registration 1C. The capital ratios previously reported since December 2016 have been restated using all corrected calculations, and are as follows:

Unaudited	Banking Group					
As at	31-Dec-16		31-Mar-17		30-Jun-17	
	Reported(1)	Restated	Reported	Restated	Reported	Restated
Common equity tier one capital ratio	9.9%	9.7%	9.7%	9.5%	10.5%	10.2%
Tier one capital ratio	12.2%	12.0%	11.8%	11.5%	12.6%	12.3%
Total capital ratio	13.7%	13.5%	13.3%	13.0%	14.1%	13.8%
Buffer ratio	5.7%	5.2%	5.3%	5.0%	6.1%	5.7%

Unaudited	Bank			
As at	31-Dec-16		30-Jun-17	
	Reported(1)	Restated	Reported	Restated
Common equity tier one capital ratio	9.9%	9.7%	10.5%	10.2%
Tier one capital ratio	12.2%	12.0%	12.6%	12.3%
Total capital ratio	13.7%	13.5%	14.1%	13.8%
Buffer ratio	5.7%	5.2%	6.1%	5.7%

(1) The reported numbers represent the latest published ratios.

In January 2018 the Bank identified that, due to a database administration error, since April 2017 it had not applied the correct Loss Given Default rate when calculating risk-weighted exposures for a small proportion of rural facilities. The Bank considers this to have been non-compliant with condition of registration 1B. As a result of this error the Bank has restated the total capital ratio for the Banking Group that was reported as at 30 June 2017 to be 13.8% (previously 13.9%). No restatement of any other previously reported capital ratios is required and the error did not cause the Bank to breach any of its required minimum capital ratios. This error has now been corrected.

Auditor

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

Income Statement

$ millions		Banking Group	
		Unaudited	Unaudited
For the six months ended	Note	**31-Dec-17**	31-Dec-16
Interest income		**2,087**	2,014
Interest expense		**1,088**	1,091
Net interest earnings		**999**	923
Other income	2	**275**	267
Total operating income		**1,274**	1,190
Impairment losses on advances	6	**26**	49
Total operating income after impairment losses		**1,248**	1,141
Total operating expenses		**425**	411
Salaries and other staff expenses		**260**	249
Building occupancy and equipment expenses		**57**	60
Information technology expenses		**54**	51
Other expenses		**54**	51
Net profit before taxation		**823**	730
Taxation		**230**	205
Net profit after taxation		**593**	525

Statement of Comprehensive Income

$ millions	Banking Group	
	Unaudited	Unaudited
For the six months ended	**31-Dec-17**	31-Dec-16
Net profit after taxation	**593**	525
Other comprehensive income/(expense), net of taxation		
Items that may be reclassified subsequently to the Income Statement:		
Net change in available-for-sale reserve	**7**	-
Net change in cash flow hedge reserve	**(1)**	70
	6	70
Total other comprehensive income, net of taxation	**6**	70
Total comprehensive income	**599**	595

These statements are to be read in conjunction with the notes on pages 8 to 30 and the Independent Review Report on pages 32 to 33.

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 six months ended 31 December 2017							
Unaudited							
Balance at beginning of period	**4,223**	**26**	**2**	**(86)**	**1**	**3,236**	**7,402**
Net profit after taxation	**-**	**-**	**-**	**-**	**-**	**593**	**593**
Other comprehensive income/(expense)	**-**	**-**	**7**	**(1)**	**-**	**-**	**6**
Total comprehensive income/(expense)	**-**	**-**	**7**	**(1)**	**-**	**593**	**599**
Ordinary dividends paid	**-**	**-**	**-**	**-**	**-**	**(300)**	**(300)**
Perpetual preference dividends paid	**-**	**-**	**-**	**-**	**-**	**(27)**	**(27)**
Balance as at 31 December 2017	**4,223**	**26**	**9**	**(87)**	**1**	**3,502**	**7,674**
For the six months ended 31 December 2016							
Unaudited							
Balance at beginning of period	4,223	28	(7)	(103)	1	2,670	6,812
Net profit after taxation	-	-	-	-	-	525	525
Other comprehensive income	-	-	-	70	-	-	70
Total comprehensive income	-	-	-	70	-	525	595
Transfer from asset revaluation reserve to retained earnings	-	(3)	-	-	-	3	-
Ordinary dividends paid	-	-	-	-	-	(200)	(200)
Perpetual preference dividends paid	-	-	-	-	-	(29)	(29)
Balance as at 31 December 2016	4,223	25	(7)	(33)	1	2,969	7,178

These statements are to be read in conjunction with the notes on pages 8 to 30 and the Independent Review Report on pages 32 to 33.

Balance Sheet

$ millions		Banking Group		
		Unaudited	Unaudited	Audited
As at	Note	**31-Dec-17**	31-Dec-16	30-Jun-17
Assets				
Cash and liquid assets		**1,331**	2,220	2,568
Due from financial institutions		**572**	1,670	927
Trading securities		**3,303**	1,113	1,316
Derivative assets		**1,196**	1,398	976
Available-for-sale securities		**3,855**	3,812	4,017
Advances to customers	4	**80,370**	76,061	78,100
Other assets		**250**	231	226
Property, plant and equipment		**181**	179	184
Intangible assets		**185**	179	179
Deferred taxation asset		**131**	123	135
Total assets		**91,374**	86,986	88,628
Total interest earning and discount bearing assets		***89,438***	*84,805*	*86,882*
Liabilities				
Deposits and other borrowings	9	**60,833**	56,369	58,226
Due to financial institutions		**843**	798	460
Other liabilities at fair value through Income Statement		**1,593**	169	1,065
Derivative liabilities		**1,095**	1,916	1,508
Current taxation liability		**55**	29	117
Other liabilities		**508**	482	566
Debt issues:				
At fair value through Income Statement	10	**196**	865	407
At amortised cost	10	**17,771**	18,380	18,073
Loan capital		**806**	800	804
Total liabilities		**83,700**	79,808	81,226
Shareholders' equity				
Contributed capital - ordinary shares		**2,673**	2,673	2,673
Reserves		**(51)**	(14)	(57)
Retained earnings		**3,502**	2,969	3,236
Ordinary shareholder's equity		**6,124**	5,628	5,852
Contributed capital - perpetual preference shares		**1,550**	1,550	1,550
Total shareholders' equity		**7,674**	7,178	7,402
Total liabilities and shareholders' equity		**91,374**	86,986	88,628
Total interest and discount bearing liabilities		***77,400***	*73,424*	*75,002*

These statements are to be read in conjunction with the notes on pages 8 to 30 and the Independent Review Report on pages 32 to 33.

Cash Flow Statement

$ millions	Banking Group	
	Unaudited	Unaudited
For the period ended	**31-Dec-17**	31-Dec-16
Cash flows from operating activities		
Net profit before taxation	**823**	730
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	**16**	17
Amortisation of intangible assets	**24**	21
Net change in provisions for impairment losses and bad debts written off	**33**	56
Net change in fair value of financial instruments and hedged items	**30**	(242)
Other movements	**36**	11
Net (increase)/decrease in operating assets:		
Net change in reverse repurchase agreements	**1,117**	(305)
Net change in due from financial institutions	**355**	(539)
Net change in trading securities	**(1,989)**	(321)
Net change in available-for-sale securities	**172**	205
Net change in advances to customers	**(2,341)**	(4,102)
Net change in other assets	**(24)**	(2)
Net increase/(decrease) in operating liabilities:		
Net change in deposits and other borrowings	**2,529**	1,680
Net change in due to financial institutions	**379**	214
Net change in other liabilities at fair value through Income Statement	**527**	(1,168)
Net change in other liabilities	**(54)**	(51)
Net taxation paid	**(291)**	(220)
Net cash flows from operating activities	**1,342**	(4,016)
Cash flows from investing activities		
Cash was provided from:		
Proceeds from sale of property, plant and equipment	**-**	7
Total cash inflows provided from investing activities	**-**	7
Cash was applied to:		
Purchase of property, plant and equipment	**(16)**	(17)
Purchase of intangible assets	**(31)**	(33)
Total cash outflows applied to investing activities	**(47)**	(50)
Net cash flows from investing activities	**(47)**	(43)
Cash flows from financing activities		
Cash was provided from:		
Issue of loan capital (net of issue costs)	**-**	394
Issue of debt securities (net of issue costs)	**4,188**	8,823
Total cash inflows provided from financing activities	**4,188**	9,217
Cash was applied to:		
Dividends paid	**(327)**	(229)
Redemption of issued debt securities	**(5,276)**	(4,417)
Total cash outflows applied to financing activities	**(5,603)**	(4,646)
Net cash flows from financing activities	**(1,415)**	4,571
Summary of movements in cash flows		
Net (decrease)/increase in cash and cash equivalents	**(120)**	512
Add: cash and cash equivalents at beginning of period	**1,412**	948
Cash and cash equivalents at end of period	**1,292**	1,460
Cash and cash equivalents comprise:		
Cash and liquid assets	**1,331**	2,220
Less: reverse repurchase agreements included in cash and liquid assets	**(39)**	(760)
Cash and cash equivalents at end of period	**1,292**	1,460
Additional operating cash flow information		
Interest received as cash	**2,111**	2,042
Interest paid as cash	**(1,107)**	(1,127)
Other income received as cash	**243**	237
Operating expenses paid as cash	**(431)**	(424)

These statements are to be read in conjunction with the notes on pages 8 to 30 and the Independent Review Report on pages 32 to 33.

Notes to the Financial Statements

For the six months ended 31 December 2017

1 Statement of Accounting Policies

The condensed interim financial statements of the Banking Group for the six months ended 31 December 2017 (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 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 2017. These financial statements also comply with IAS 34.

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

All policies have been applied on a basis consistent with that used in the financial year ended 30 June 2017.

Changes to Comparatives

Cash Flow Statement
Certain comparatives have been reclassified in the Cash Flow Statement to ensure consistency with the presentation in the current period. Cash flows in relation to fair value movements of financial instruments and hedged items are now included in operating activities rather than financing activities. The reclassification was made to better reflect the Banking Group's cash flows from financing activities and has no effect on the Balance Sheet or the Income Statement.

The following amounts have been restated for the period ended 31 December 2016:

	Banking Group	
$ millions	**Reported**	**Restated**
Net cash flows from operating activities	(3,779)	(4,016)
Net cash flows from financing activities	4,334	4,571

Other comparatives
Other comparative information has been reclassified or restated to ensure consistency with presentation in the current period. Significant changes have been footnoted throughout the financial statements. These reclassifications and restatements have no impact on net profit after taxation.

2 Other Income

$ millions	**Banking Group**	
	Unaudited	Unaudited
For the six months ended	**31-Dec-17**	31-Dec-16
Net fair value gain/(loss) from:		
Net fair value loss on derivatives not qualifying for hedge accounting	**(1)**	(1)
Hedge ineffectiveness	**4**	16
Total net fair value gain	**3**	**15**
Trading income	**50**	47
Other operating income	**222**	205
Total other income	**275**	267

3 Financial Assets Pledged as Collateral for Liabilities
Unaudited

As at 31 December 2017, no securities were 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 31 December 2017, $393 million included in due from financial institutions had been advanced as cash collateral to counterparties with whom the Banking Group has net derivative liability positions.

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. As at 31 December 2017, the Covered Bond Trust held Mortgage Loans with a carrying value of $5.9 billion and $142 million cash which have been pledged in respect of the Covered Bonds.

4 Advances to Customers

$ millions	Banking Group		
	Unaudited	Unaudited	Audited
As at	**31-Dec-17**	31-Dec-16	30-Jun-17
Residential mortgages	**52,580**	50,230	51,128
Other retail	**5,111**	4,931	5,026
Corporate	**22,967**	21,189	22,241
Loans and other receivables	**80,658**	76,350	78,395
Fair value hedge adjustments	**-**	18	-
Provisions for impairment losses	**(288)**	(307)	(295)
Total advances to customers	**80,370**	76,061	78,100

5 Credit Quality Information for Advances to Customers

	Banking Group			
$ millions	**Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
As at 31 December 2017				
Unaudited				
Past due assets not impaired				
1 to 7 days	**745**	**115**	**164**	**1,024**
8 to 29 days	**582**	**98**	**49**	**729**
30 to 59 days	**205**	**49**	**13**	**267**
60 to 89 days	**80**	**24**	**4**	**108**
90 days and over	**63**	**22**	**1**	**86**
Total past due assets not impaired	**1,675**	**308**	**231**	**2,214**
Individually impaired assets				
Balance at beginning of period	**20**	**6**	**342**	**368**
Additions	**11**	**4**	**241**	**256**
Deletions	**(13)**	**(2)**	**(84)**	**(99)**
Amounts written off	**(1)**	**(1)**	**(5)**	**(7)**
Total individually impaired assets	**17**	**7**	**494**	**518**
Other assets under administration	**28**	**3**	**4**	**35**

Undrawn balances on lending commitments to counterparties within the impaired asset category were $7 million as at 31 December 2017 (31 December 2016 $4 million, 30 June 2017 $4 million).

The facilities that are reported as impaired and past due are collateralised in accordance with the Bank's credit risk management policies.

5 Credit Quality Information for Advances to Customers (continued)

	Banking Group			
$ millions	Residential Mortgages	Other Retail	Corporate	Total
As at 31 December 2016				
Unaudited				
Past due assets not impaired				
1 to 7 days	843	129	143	1,115
8 to 29 days	532	96	43	671
30 to 59 days	162	41	17	220
60 to 89 days	54	16	4	74
90 days and over	52	20	6	78
Total past due assets not impaired	1,643	302	213	2,158
Individually impaired assets				
Balance at beginning of period	34	11	332	377
Additions	13	5	143	161
Deletions	(22)	(6)	(65)	(93)
Amounts written off	(3)	-	(10)	(13)
Total individually impaired assets	22	10	400	432
Other assets under administration	29	3	-	32

	Banking Group			
$ millions	Residential Mortgages	Other Retail	Corporate	Total
As at 30 June 2017				
Audited				
Past due assets not impaired				
1 to 7 days	1,160	183	240	1,583
8 to 29 days	506	92	21	619
30 to 59 days	189	47	10	246
60 to 89 days	55	15	3	73
90 days and over	59	22	15	96
Total past due assets not impaired	1,969	359	289	2,617
Individually impaired assets				
Balance at beginning of year	34	11	332	377
Additions	16	5	159	180
Deletions	(26)	(9)	(135)	(170)
Amounts written off	(4)	(1)	(14)	(19)
Total individually impaired assets	20	6	342	368
Other assets under administration	29	2	-	31

Notes to the Financial Statements

For the six months ended 31 December 2017

6 Provisions for Impairment Losses

$ millions	Banking Group Residential Mortgages	Other Retail	Corporate	Total
As at 31 December 2017				
Unaudited				
Collective provision				
Balance at beginning of period	**31**	**95**	**126**	**252**
(Recovered from)/charged to the Income Statement	**(1)**	**3**	**(16)**	**(14)**
Balance at end of period	**30**	**98**	**110**	**238**
Individually assessed provisions				
Balance at beginning of period	**4**	**3**	**36**	**43**
Add/(less):				
Charged to the Income Statement:				
New and increased provisions	**2**	**1**	**21**	**24**
Write-back of provisions no longer required	**(2)**	**(1)**	**(7)**	**(10)**
Write-offs against individually assessed provisions	**(1)**	**(1)**	**(5)**	**(7)**
Balance at end of period	**3**	**2**	**45**	**50**
Total provisions for impairment losses	**33**	**100**	**155**	**288**
Impairment losses on advances				
Movement in collective provision	**(1)**	**3**	**(16)**	**(14)**
New and increased individually assessed provisions net of write-backs	**-**	**-**	**14**	**14**
Bad debts written off directly to the Income Statement	**-**	**33**	**-**	**33**
Recovery of amounts previously written off	**-**	**(6)**	**(1)**	**(7)**
Total impairment losses on advances	**(1)**	**30**	**(3)**	**26**

$ millions	Banking Group Residential Mortgages	Other Retail	Corporate	Total
As at 31 December 2016				
Unaudited				
Collective provision				
Balance at beginning of period	26	92	141	259
(Recovered from)/charged to the Income Statement	(1)	3	5	7
Balance at end of period	25	95	146	266
Individually assessed provisions				
Balance at beginning of period	7	2	29	38
Add/(less):				
Charged to the Income Statement:				
New and increased provisions	4	3	16	23
Write-back of provisions no longer required	(4)	(1)	(2)	(7)
Write-offs against individually assessed provisions	(3)	-	(10)	(13)
Balance at end of period	4	4	33	41
Total provisions for impairment losses	29	99	179	307
Impairment losses on advances				
Movement in collective provision	(1)	3	5	7
New and increased individually assessed provisions net of write-backs	-	2	14	16
Bad debts written off directly to the Income Statement	-	33	-	33
Recovery of amounts previously written off	-	(6)	(1)	(7)
Total impairment losses on advances	(1)	32	18	49

6 Provisions for Impairment Losses (continued)

$ millions	Banking Group Residential Mortgages	Other Retail	Corporate	Total
As at 30 June 2017				
Audited				
Collective provision				
Balance at beginning of year	26	92	141	259
Charged to/(recovered from) the Income Statement	5	3	(15)	(7)
Balance at end of year	31	95	126	252
Individually assessed provisions				
Balance at beginning of year	7	2	29	38
Add/(less):				
Charged to the Income Statement:				
New and increased provisions	8	4	28	40
Write-back of provisions no longer required	(7)	(2)	(7)	(16)
Write-offs against individually assessed provisions	(4)	(1)	(14)	(19)
Balance at end of year	4	3	36	43
Total provisions for impairment losses	35	98	162	295
Impairment losses on advances				
Movement in collective provision	5	3	(15)	(7)
New and increased individually assessed provisions net of write-backs	1	2	21	24
Bad debts written off directly to the Income Statement	1	68	-	69
Recovery of amounts previously written off	(2)	(12)	(3)	(17)
Total impairment losses on advances	5	61	3	69

7 Concentrations of Credit Exposures

Unaudited

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 *Financial Instruments: Presentation*.

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.

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

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

Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes have been used as the basis for disclosing customer industry sectors. The significant categories shown are in line with the level one New Zealand Standard Industry Output Categories ("NZSIOC"), except that Agriculture is shown separately as required by the Order.

The industry and geographical classifications presented in the following table have changed from those previously reported to align disclosure with Reserve Bank statistical reporting requirements.

7 Concentrations of Credit Exposures (continued)

Unaudited

$ millions	Banking Group			
As at 31 December 2017	Financial Assets at Amortised Cost	Financial Assets at Fair Value	Other Credit Exposures	Total Credit Exposures
Concentration by industry				
Agriculture	10,212	-	801	11,013
Forestry and fishing, agriculture services	227	-	68	295
Manufacturing	1,049	11	346	1,406
Electricity, gas, water and waste services	232	32	121	385
Construction	508	-	266	774
Wholesale trade	555	5	306	866
Retail trade and accommodation	1,180	1	337	1,518
Transport, postal and warehousing	578	-	271	849
Financial and insurance services	2,597	6,565	156	9,318
Rental, hiring and real estate services	28,598	-	1,209	29,807
Professional, scientific, technical, administrative and support services	499	1	328	828
Public administration and safety	18	1,738	71	1,827
Education and training	364	-	131	495
Health care and social assistance	1,141	-	379	1,520
Arts, recreation and other services	287	1	121	409
Households	34,143	-	9,825	43,968
All other	85	-	30	115
Total credit exposures by industry	82,273	8,354	14,766	105,393
Concentration by geographic region				
Auckland	40,304	1,889	8,524	50,717
Rest of New Zealand	40,822	3,993	6,068	50,883
Overseas	1,147	2,472	174	3,793
Total credit exposures by geographic region	82,273	8,354	14,766	105,393

8 Concentration of Credit Exposures to Individual Counterparties

Unaudited

There were no balance date aggregate credit exposures to individual counterparties which equalled or exceeded 10% of the Banking Group's equity as at 31 December 2017. There were no peak end-of-day aggregate credit exposures to individual counterparties which equalled or exceeded 10% of the Banking Group's equity for the three months ended 31 December 2017.

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.

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 31 December 2017.

Notes to the Financial Statements

For the six months ended 31 December 2017

9 Deposits and Other Borrowings

$ millions	Banking Group		
	Unaudited	Unaudited	Audited
As at	**31-Dec-17**	31-Dec-16	30-Jun-17
Certificates of deposit	**2,374**	2,621	2,528
Term deposits	**30,664**	25,556	28,767
On demand and short term deposits	**23,134**	24,259	22,865
Deposits not bearing interest	**4,661**	3,933	4,037
Repurchase agreements	**-**	-	29
Total deposits and other borrowings	**60,833**	56,369	58,226

10 Debt Issues

$ millions	Banking Group		
	Unaudited	Unaudited	Audited
As at	**31-Dec-17**	31-Dec-16	30-Jun-17
Debt issues at fair value through Income Statement	**196**	865	407
Debt issues at amortised cost	**17,771**	18,380	18,073
Total debt issues	**17,967**	19,245	18,480
Movement in debt issues			
Balance at beginning of period	**18,480**	15,077	15,077
Issuances during the period	**4,188**	8,823	12,831
Repayments during the period	**(5,276)**	(4,417)	(9,136)
Foreign exchange and fair value movements during the period	**575**	(238)	(292)
Balance at the end of period	**17,967**	19,245	18,480

11 Contingent Liabilities

$ millions	Banking Group Notional Amount		
	Unaudited	Unaudited	Audited
As at	**31-Dec-17**	31-Dec-16	30-Jun-17
Guarantees	**192**	143	166
Standby letters of credit	**126**	130	119
Other credit facilities	**189**	159	172
Total contingent liabilities	**507**	432	457

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.

12 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 and First State Investments (NZ) Limited.

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

During the six months ended 31 December 2017 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 some subsidiaries and related companies for which no compensation has been received. 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.

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 borrowings, debt issues, other assets, other liabilities, derivative assets and derivative liabilities:

$ millions		Banking Group	
	Unaudited	Unaudited	Audited
As at	**31-Dec-17**	31-Dec-16	30-Jun-17
Commonwealth Bank Group	**1,065**	1,193	1,176
NZ Life Group	**249**	233	224
ASB Holdings Limited	**44**	37	25
Superannuation schemes and unit trusts managed by ASB Group Investments Limited	**905**	747	780
Superannuation schemes and unit trusts managed or administered by NZ Life Group	**-**	61	3
Total amounts due to related parties	**2,263**	2,271	2,208
Commonwealth Bank Group	**344**	1,069	533
NZ Life Group	**-**	4	1
Superannuation schemes and unit trusts managed by ASB Group Investments Limited (1)	**13**	9	10
Total amounts due from related parties	**357**	1,082	544

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

For the six months ended 31 December 2017 the interest expense on balances due to the Commonwealth Bank Group was $50 million (31 December 2016 $53 million).

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 financial instruments that are recognised and measured at fair value on a recurring basis.

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 31 December 2017				
Unaudited				
Financial assets				
Trading securities	**2,404**	**899**	**-**	**3,303**
Derivative assets	**-**	**1,196**	**-**	**1,196**
Available-for-sale securities	**3,491**	**364**	**-**	**3,855**
Total financial assets measured at fair value	**5,895**	**2,459**	**-**	**8,354**
Financial liabilities				
Other liabilities at fair value through Income Statement	**-**	**1,593**	**-**	**1,593**
Derivative liabilities	**-**	**1,095**	**-**	**1,095**
Debt issues at fair value through Income Statement	**-**	**196**	**-**	**196**
Total financial liabilities measured at fair value	**-**	**2,884**	**-**	**2,884**
As at 31 December 2016				
Unaudited				
Financial assets				
Trading securities	54	1,059	-	1,113
Derivative assets	-	1,398	-	1,398
Available-for-sale securities	2,665	1,147	-	3,812
Total financial assets measured at fair value	2,719	3,604	-	6,323
Financial liabilities				
Other liabilities at fair value through Income Statement	-	169	-	169
Derivative liabilities	-	1,916	-	1,916
Debt issues at fair value through Income Statement	-	865	-	865
Total financial liabilities measured at fair value	-	2,950	-	2,950
As at 30 June 2017				
Audited				
Financial assets				
Trading securities	514	802	-	1,316
Derivative assets	-	976	-	976
Available-for-sale securities	3,625	392	-	4,017
Total financial assets measured at fair value	4,139	2,170	-	6,309
Financial liabilities				
Other liabilities at fair value through Income Statement	-	1,065	-	1,065
Derivative liabilities	1	1,507	-	1,508
Debt issues at fair value through Income Statement	-	407	-	407
Total financial liabilities measured at fair value	1	2,979	-	2,980

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 existing as at balance date.

13 Fair Value of Financial Instruments (continued)

(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 31-Dec-17		Unaudited 31-Dec-16		Audited 30-Jun-17	
$ millions	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets						
Cash and liquid assets	**1,331**	**1,331**	2,220	2,220	2,568	2,568
Due from financial institutions	**572**	**572**	1,670	1,670	927	927
Advances to customers	**80,387**	**80,370**	76,072	76,061	78,015	78,100
Other assets	**226**	**226**	202	202	206	206
Total	**82,516**	**82,499**	80,164	80,153	81,716	81,801
Financial liabilities						
Deposits and other borrowings	**60,911**	**60,833**	56,449	56,369	58,307	58,226
Due to financial institutions	**843**	**843**	798	798	460	460
Other liabilities	**508**	**508**	482	482	566	566
Debt issues at amortised cost	**17,917**	**17,771**	18,425	18,380	18,155	18,073
Loan capital	**830**	**806**	806	800	825	804
Total	**81,009**	**80,761**	76,960	76,829	78,313	78,129

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 November 2015. 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, except as disclosed on page 3 of this Disclosure Statement, the Banking Group complied with all of the RBNZ capital requirements to which it is subject.

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14 Capital Adequacy (continued)

Unaudited

$ millions **As at 31 December 2017**	**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	**3,502**
Accumulated other comprehensive income and other disclosed reserves	**(78)**
Deductions from common equity tier one capital:	
Goodwill and other intangible assets	**(185)**
Deferred taxation asset	**(131)**
Cash flow hedge reserve	**87**
Excess of expected loss over eligible allowance for impairment	**(155)**
Total common equity tier one capital	**5,713**
Additional tier one capital	
Perpetual fully paid-up non-cumulative preference shares (subject to phase-out)[1]	**110**
Perpetual fully paid-up non-cumulative preference shares	**1,000**
Total additional tier one capital	**1,110**
Total tier one capital	**6,823**
Tier two capital	
Loan capital	**800**
Asset revaluation reserve	**26**
Foreign currency translation reserve	**1**
Total tier two capital	**827**
Total capital	**7,650**

	Banking Group		**Bank**	
As at	**31-Dec-17**	31-Dec-16	**31-Dec-17**	31-Dec-16
Capital ratios				
Common equity tier one capital ratio	**10.6%**	9.7%	**10.5%**	9.7%
Tier one capital ratio	**12.6%**	12.0%	**12.6%**	12.0%
Total capital ratio	**14.1%**	13.5%	**14.1%**	13.5%
Buffer ratio	**6.1%**	5.2%	**6.0%**	5.2%
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%

(1) Perpetual fully paid-up non-cumulative preference shares are subject to phase-out from additional tier one capital, 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.

Notes to the Financial Statements

For the six months ended 31 December 2017

14 Capital Adequacy (continued)

Unaudited

$ millions	Banking Group		
As at 31 December 2017	**Total Exposure[(1)]**	**RWE[(2)]**	**Capital Requirement**
Capital requirements			
Total credit risk	**105,860**	**46,880**	**3,750**
Operational risk	**N/A**	**4,375**	**350**
Market risk	**N/A**	**2,883**	**231**
Total capital requirement		**54,138**	**4,331**

As at 31 December 2017, the Banking Group held $3,319m of capital in excess of its regulatory capital requirements.

(1) Total exposure is after credit risk mitigation.

(2) RWE is risk-weighted exposures or implied risk-weighted exposures.

Capital Structure

Ordinary Shares

The total number of issued ordinary shares as at 31 December 2017 was 2,648,121,300 (31 December 2016 2,648,121,300). 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 which 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 15 November 2017 to 3.30% per annum (the rate to 15 November 2017 was 3.42% per annum). The next dividend reset date is 15 November 2018.

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 15 May 2017 to 3.03% per annum (the rate to 15 May 2017 was 3.20% per annum). The next dividend reset date is 15 May 2018.

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 31 December 2017 was 560,000,000 (31 December 2016 560,000,000).

14 Capital Adequacy (continued)

Unaudited

Capital Structure (continued)

Loan Capital

On 17 April 2014, the Bank issued subordinated and unsecured debt securities ("ASB Notes") with a face value of $400 million. On 30 November 2016, the Bank issued additional subordinated and unsecured debt securities ("ASB Notes 2") with a face value of $400 million. The ASB Notes and ASB Notes 2 (collectively, 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 ASB Notes will mature on 15 June 2024 but subject to certain conditions, the Bank has the right to redeem all or some of the ASB Notes on any interest payment date on or after 15 June 2019 (call option date). The ASB Notes 2 will mature on 15 December 2026 but subject to certain conditions, the Bank has the right to redeem all or some of the ASB Notes 2 on any interest payment date on or after 15 December 2021 (call option date). At any time, the Bank may redeem all the Notes for tax or regulatory reasons. The ASB Notes bear an interest rate of 6.65% and the ASB Notes 2 bear an interest rate of 5.25% fixed for five years, and will be reset if the ASB Notes and the ASB Notes 2 are not redeemed on or before their respective call option dates. 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 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 the Notes; or
- APRA notifies CBA that it believes an exchange of some or all the 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 ASB Notes and ASB Notes 2, the Bank also entered into related agreements with ASB Holdings Limited and CBA on 13 March 2014 and 12 October 2016 respectively. These related agreements include 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.

Reserves

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.

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

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

14 Capital Adequacy (continued)

Unaudited

Credit risk exposures subject to the IRB approach by exposure class

As at 31 December 2017	Banking Group					
PD Grade	Weighted Average PD	Exposure Amount $ millions	Exposure Weighted LGD	Exposure Weighted Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Capital Requirement $ millions
Sovereign exposures						
Less than and including 0.03%	0.02%	5,734	49%	6%	350	28
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	-	-	-	-	-	-
Total sovereign exposures	0.02%	5,734	49%	6%	350	28
Bank exposures						
Less than and including 0.03%	0.03%	737	61%	20%	156	12
Over 0.03% up to and including 0.05%	0.04%	2,528	61%	20%	537	43
Over 0.05% up to and including 0.07%	0.07%	286	58%	36%	110	9
Over 0.07% up to and including 0.26%	0.11%	53	61%	43%	24	2
Over 0.26% up to and including 99.99%	0.67%	1	61%	102%	1	-
Default PD grade	-	-	-	-	-	-
Total bank exposures	0.04%	3,605	61%	22%	828	66
Exposures secured by residential mortgages						
Less than and including 0.50%	0.27%	19,250	17%	9%	1,919	154
Over 0.50% up to and including 0.85%	0.65%	19,548	20%	21%	4,306	344
Over 0.85% up to and including 3.26%	1.26%	18,495	23%	39%	7,569	606
Over 3.26% up to and including 7.76%	3.58%	2,013	25%	77%	1,646	132
Over 7.76% up to and including 99.99%	12.69%	1,232	20%	105%	1,376	110
Default PD grade	100.00%	179	23%	284%	539	43
Total exposures secured by residential mortgages	1.35%	60,717	20%	27%	17,355	1,389
Other retail exposures						
Less than and including 0.50%	-	-	-	-	-	-
Over 0.50% up to and including 0.85%	0.83%	536	95%	89%	504	40
Over 0.85% up to and including 3.26%	1.59%	2,127	95%	112%	2,520	202
Over 3.26% up to and including 7.76%	3.77%	326	93%	133%	460	37
Over 7.76% up to and including 99.99%	26.96%	22	94%	233%	53	4
Default PD grade	100.00%	11	94%	1171%	130	10
Total other retail exposures	2.22%	3,022	94%	115%	3,667	293
Corporate exposures - small and medium enterprises						
Less than and including 0.20%	0.14%	612	37%	21%	138	11
Over 0.20% up to and including 0.50%	0.33%	2,740	27%	28%	812	65
Over 0.50% up to and including 1.00%	0.70%	7,794	31%	49%	4,015	321
Over 1.00% up to and including 2.30%	1.52%	7,515	33%	70%	5,593	447
Over 2.30% up to and including 99.99%	5.13%	2,817	32%	101%	3,023	242
Default PD grade	100.00%	543	41%	430%	2,475	198
Total corporate exposures - small and medium enterprises	3.93%	22,021	32%	69%	16,056	1,284
Other corporate exposures						
Less than and including 0.20%	0.11%	776	60%	37%	308	25
Over 0.20% up to and including 0.50%	0.30%	1,994	47%	55%	1,157	93
Over 0.50% up to and including 1.00%	0.66%	1,886	39%	64%	1,284	103
Over 1.00% up to and including 2.30%	1.41%	587	29%	59%	367	29
Over 2.30% up to and including 99.99%	3.32%	82	35%	98%	85	7
Default PD grade	100.00%	8	23%	28%	3	-
Total other corporate exposures	0.73%	5,333	44%	57%	3,204	257

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

14 Capital Adequacy (continued)

Unaudited

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

$ millions	Banking Group			
	Undrawn Commitments and Other Off Balance Sheet Amounts		Market Related Contracts	
As at 31 December 2017	Value	EAD	Principal Amount	EAD
Bank exposures	69	66	141,087	766
Exposures secured by residential mortgages	8,301	7,957	-	-
Other retail exposures	1,989	1,952	-	-
Corporate exposures - small and medium enterprises	2,522	2,516	2,217	73
Other corporate exposures	1,916	1,915	3,397	76
	14,797	14,406	146,701	915

$ millions	Banking Group					
LVR Range	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	21,801	11,743	15,030	2,911	1,289	52,774
Off balance sheet exposures	4,600	1,344	1,646	158	215	7,963
Total value of exposures	26,401	13,087	16,676	3,069	1,504	60,737
Expressed as a percentage of total exposures	43.5%	21.5%	27.4%	5.1%	2.5%	100.0%

LVR is calculated as the current balance divided by the valuation of the security at the date of loan origination. Off balance sheet exposures include commitments to lend. On balance sheet and off balance sheet exposures for which no LVR information is available are included in the greater than 90% range.

$ millions	
As at 31 December 2017	Banking Group
Reconciliation of mortgage-related amounts	
Residential mortgages in advances to customers (refer to note 4)	52,580
Add/(less):	
Off balance sheet exposures	7,963
EAD and other adjustments	356
Unamortised loan establishment fees and expenses	(162)
Residential mortgages in LVR disclosure	60,737

14 Capital Adequacy (continued)

Unaudited

As at 31 December 2017	Banking Group			
Balance Sheet Exposures Subject to the Slotting Approach	Total Exposure after Credit Risk Mitigation $ millions	Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Pillar One Capital Requirement $ millions
Specialised lending				
Strong	41	70%	31	2
Good	145	90%	136	11
Satisfactory	11	115%	14	1
Weak	4	250%	12	1
	201		193	15

As at 31 December 2017	Banking Group			
Off Balance Sheet Exposures Subject to the Slotting Approach	EAD $ millions	Average Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Pillar One Capital Requirement $ millions
Undrawn commitments	12	177%	22	2
Other off balance sheet exposures	6	90%	6	-
	18		28	2

As at 31 December 2017	Banking Group			
Balance Sheet Exposures	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	160	-	-	-
Residential mortgages	14	50%	7	1
Other assets	4,495	100%	4,749	380
Total balance sheet exposures	4,669		4,756	381

As at 31 December 2017	Banking Group					
Off Balance Sheet Exposures Subject to the Standardised Approach	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	1,134	6%	67	95%	67	5
Other off balance sheet exposures	103	100%	102	100%	109	9
Market related contracts	94	0%	2	100%	2	-
Total off balance sheet exposures subject to the standardised approach	1,331		171		178	14

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

14 Capital Adequacy (continued)

Unaudited

$ millions As at 31 December 2017	Banking Group Total Exposure after Credit Risk Mitigation	Total Risk Weighted Exposures	Capital Requirement
Total credit risk			
Exposures subject to the IRB approach	100,432	41,460	3,317
Specialised lending subject to the slotting approach	219	221	17
Exposures subject to the standardised approach	4,840	4,934	395
Credit valuation adjustment	-	257	20
Qualifying central counterparties	369	8	1
Total credit risk	105,860	46,880	3,750

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

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 31 December 2017 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.

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 31 December 2017 was $4,375 million (31 December 2016 $4,375 million).

The total operational risk capital requirement as at 31 December 2017 was $350 million (31 December 2016 $350million).

14 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 31 December 2017.

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.

$ millions	Banking Group			
Exposures as at 31 December 2017	**Interest Rate Risk**	**Foreign Currency Risk**	**Equity Risk**	**Total**
Implied risk-weighted exposure	**2,764**	**119**	**-**	**2,883**
Aggregate capital charge	**221**	**10**	**-**	**231**

$ millions	Banking Group			
Peak Exposures for the six months ended 31 December 2017	**Interest Rate Risk**	**Foreign Currency Risk**	**Equity Risk**	**Total**
Implied risk-weighted exposure	**2,798**	**159**	**-**	**2,957**
Aggregate capital charge	**224**	**13**	**-**	**237**

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 31 December 2017, internal capital allocations of $333 million (31 December 2016 $295 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.

APRA prudential standards require a minimum CET1 ratio of 4.5%. 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. As at 31 December 2017 the minimum capital requirements were met (31 December 2016 minimum capital requirements were met).

	Ultimate Parent Bank		Ultimate Parent Banking Group	
As at	**31-Dec-17**	31-Dec-16	**31-Dec-17**	31-Dec-16
Common equity tier one capital ratio	**11.1%**	10.3%	**10.4%**	9.9%
Tier one capital ratio	**12.8%**	11.6%	**12.4%**	11.5%
Total capital ratio	**15.2%**	13.7%	**14.8%**	13.7%

15 Insurance Business, Marketing and Distribution of Insurance Products

Unaudited

The Banking Group does not conduct any insurance business. However, certain general, travel and life insurance products are marketed and distributed by the Bank 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.

16 Financial Reporting by Operating Segments

Unaudited

	Banking Group				
$ millions	Retail Banking	Business Banking	Private Banking, Wealth and Insurance	Other	Total
Income Statement					
For the six months ended 31 December 2017					
Net interest earnings	**499**	**412**	**25**	**63**	**999**
Other income/(loss)	**133**	**73**	**103**	**(34)**	**275**
Total operating income	**632**	**485**	**128**	**29**	**1,274**
Impairment losses/(recoveries) on advances	**31**	**(5)**	**-**	**-**	**26**
Segment operating expenses (excluding impairment losses)	**197**	**165**	**61**	**2**	**425**
Segment net profit before taxation	**404**	**325**	**67**	**27**	**823**
Taxation	**113**	**91**	**19**	**7**	**230**
Segment net profit after taxation	**291**	**234**	**48**	**20**	**593**
Balance Sheet					
As at 31 December 2017					
Total assets	**41,661**	**38,426**	**2,246**	**9,041**	**91,374**
Total liabilities	**33,261**	**20,022**	**3,979**	**26,438**	**83,700**

	Banking Group				
$ millions	Retail Banking	Business Banking	Private Banking, Wealth and Insurance	Other	Total
Income Statement(1)					
For the six months ended 31 December 2016					
Net interest earnings	465	378	22	58	923
Other income/(loss)	125	69	90	(17)	267
Total operating income	590	447	112	41	1,190
Impairment losses on advances	26	23	-	-	49
Segment operating expenses (excluding impairment losses)	195	162	55	(1)	411
Segment net profit before taxation	369	262	57	42	730
Taxation	103	73	16	13	205
Segment net profit after taxation	266	189	41	29	525
Balance Sheet(1)					
As at 31 December 2016					
Total assets	40,344	37,682	1,895	7,065	86,986
Total liabilities	31,581	19,734	3,068	25,425	79,808

(1) The basis of segmentation has changed from 1 July 2017. Private Banking has been merged into the Wealth and Insurance segment and Business Banking has been merged into the Corporate Commercial and Rural segment. Both Private Banking and Business Banking were previously reported under the Retail and Business Banking segment. As a result of this restructure, the Retail and Business Banking segment has been renamed Retail Banking, the Corporate, Commercial and Rural segment has been renamed Business Banking, and the Wealth and Insurance segment has been renamed Private Banking, Wealth and Insurance. The basis of segmentation disclosed at 31 December 2017 follows reporting to the Chief Operating Decision Maker at that date.

Notes to the Financial Statements

For the six months ended 31 December 2017

16 Financial Reporting by Operating Segments (continued)

Unaudited

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

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

Private Banking, Wealth and Insurance: The Private Banking, Wealth and Insurance segment provides securities, investment and insurance services to customers, and a personalised banking service to high net worth individuals.

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.

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.

17 Qualifying Liquid Assets

Unaudited

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 31 December 2017	**Cash and Liquid Assets**	**Available for Sale Securities**	**Trading Securities**	**Advances to Customers**	**Other Assets**	**Total**
Cash	163	-	-	-	-	163
Call deposits with the central bank	1,129	-	-	-	-	1,129
Local authority securities	-	222	21	-	2	245
New Zealand government securities	39	984	233	-	14	1,270
Corporate bonds	-	967	-	-	6	973
Treasury bills	-	-	62	-	-	62
RBNZ bills	-	-	2,062	-	-	2,062
Bank bills	-	-	899	-	-	899
Kauri bonds	-	1,682	26	-	20	1,728
Residential mortgage-backed securities	-	-	-	3,645	-	3,645
Total qualifying liquid assets	**1,331**	**3,855**	**3,303**	**3,645**	**42**	**12,176**

18 Interest Rate Repricing Schedule

Unaudited

The following tables include the Banking Group's assets and liabilities at their carrying amounts. The repricing gaps are based upon contractual repricing. 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 31 December 2017	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	1,211	-	-	-	-	120	1,331
Due from financial institutions	572	-	-	-	-	-	572
Trading securities	2,987	13	49	254	-	-	3,303
Derivative assets	-	-	-	-	-	1,196	1,196
Available-for-sale securities	685	-	128	1,104	1,938	-	3,855
Advances to customers	34,765	7,753	15,102	14,949	7,928	(127)	80,370
Other assets	-	-	-	-	-	747	747
Total assets	40,220	7,766	15,279	16,307	9,866	1,936	91,374
Liabilities							
Deposits and other borrowings	38,334	10,336	4,581	2,037	884	4,661	60,833
Due to financial institutions	822	-	-	-	-	21	843
Other liabilities at fair value through Income Statement	1,355	238	-	-	-	-	1,593
Derivative liabilities	-	-	-	-	-	1,095	1,095
Other liabilities	-	-	-	-	-	563	563
Debt issues:							
At fair value through Income Statement	57	-	139	-	-	-	196
At amortised cost	6,969	-	1,380	602	8,866	(46)	17,771
Loan capital	-	-	-	400	400	6	806
Total liabilities	47,537	10,574	6,100	3,039	10,150	6,300	83,700
Net derivative notionals	10,715	(4,643)	(791)	(10,737)	5,456	-	-
Interest rate sensitivity gap	3,398	(7,451)	8,388	2,531	5,172	(4,364)	7,674

19 Maturity Analysis for Undiscounted Contractual Cash Flows

Unaudited

The tables below 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 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 Banking Group. It should be noted that the Banking Group does not manage its liquidity risk on the basis of the information below.

$ millions	Banking Group							
As at 31 December 2017	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	1,292	39	-	-	-	-	1,331	1,331
Due from financial institutions	396	176	-	-	-	-	572	572
Trading securities	-	3,020	53	247	-	-	3,320	3,303
Available-for-sale securities	-	511	205	1,199	1,847	391	4,153	3,855
Advances to customers	1,061	12,568	5,020	9,317	20,704	59,168	107,838	80,370
Other assets	-	226	-	-	-	-	226	226
Total non-derivative financial assets	2,749	16,540	5,278	10,763	22,551	59,559	117,440	89,657
Derivative financial assets								
Inflows from derivatives	-	2,443	2,476	846	4,992	3,059	13,816	
Outflows from derivatives	-	(2,036)	(2,305)	(893)	(5,068)	(3,116)	(13,418)	
	-	407	171	(47)	(76)	(57)	398	
Non-derivative financial liabilities								
Deposits and other borrowings	27,795	25,776	4,639	2,080	914	-	61,204	60,833
Due to financial institutions	843	-	-	-	-	-	843	843
Other liabilities at fair value through Income Statement	-	1,608	-	-	-	-	1,608	1,593
Other liabilities	80	411	10	7	-	-	508	508
Debt issues:								
At fair value through Income Statement	-	58	141	-	-	-	199	196
At amortised cost	-	3,053	2,756	1,467	7,932	3,517	18,725	17,771
Loan capital	-	24	24	48	144	865	1,105	806
Total non-derivative financial liabilities	28,718	30,930	7,570	3,602	8,990	4,382	84,192	82,550
Derivative financial liabilities								
Inflows from derivatives	-	1,366	1,209	974	2,385	1,997	7,931	
Outflows from derivatives	-	(1,986)	(1,443)	(1,153)	(2,633)	(2,155)	(9,370)	
	-	(620)	(234)	(179)	(248)	(158)	(1,439)	
Off balance sheet items								
Lending commitments	12,554	1,705	-	-	-	-	14,259	
Guarantees	-	192	-	-	-	-	192	
Other contingent liabilities	-	315	-	-	-	-	315	
Total off balance sheet items	12,554	2,212	-	-	-	-	14,766	

20 Concentrations of Funding

Unaudited

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. The significant categories shown are in line with the NZSIOC.

The industry and geographical classifications presented in the following table have changed from those previously reported to align disclosure with Reserve Bank statistical reporting requirements.

$ millions **As at**	**Banking Group** **31-Dec-17**
Total funding comprises:	
Deposits and other borrowings	**60,833**
Due to financial institutions	**843**
Other liabilities at fair value through Income Statement	**1,593**
Debt issues:	
At fair value through Income Statement	**196**
At amortised cost	**17,771**
Loan capital	**806**
Total funding	**82,042**
Concentration by industry	
Agricultural, forestry and fishing	**1,026**
Manufacturing	**671**
Construction	**719**
Wholesale trade	**560**
Retail trade and accommodation	**1,189**
Transport, postal and warehousing	**659**
Information media and telecommunications	**281**
Financial and insurance services	**26,504**
Rental, hiring and real estate services	**2,859**
Professional, scientific, technical, administrative and support services	**4,312**
Public administration and safety	**623**
Education and training	**1,402**
Health care and social assistance	**924**
Arts, recreation and other services	**1,659**
Households	**38,332**
All other	**322**
Total funding by industry	**82,042**
Concentration by geographic region	
New Zealand	**60,429**
Overseas	**21,613**
Total funding by geographic region	**82,042**

21 Events after the Reporting Period

Unaudited

On 17 January 2018 the Bank entered into an agreement to sell its 25% shareholding in Paymark Limited to Ingenico Group. The investment in the associate is considered held for sale and is measured at the lower of carrying amount and fair value less costs to sell. The transaction is subject to regulatory consents.

On 2 February 2018 the Directors resolved to pay the following quarterly dividends, where applicable, subject to certain conditions being satisfied:

- $1 million on 15 February 2018, being 0.59 cents per share on 200 million 2006 Series 1 perpetual preference shares;
- $2 million on 15 February 2018, being 0.55 cents per share on 350 million 2006 Series 2 perpetual preference shares;
- $6 million on 15 March 2018, being 95.16 cents per share on 6 million 2015 perpetual preference shares;
- $4 million on 15 March 2018, being 108.47 cents per share on 4 million 2016 perpetual preference shares; and
- $350 million on 15 March 2018, being 13.22 cents per share on 2,648 million ordinary shares.

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 six months ended 31 December 2017:

- 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, except as disclosed on page 3 of this Disclosure Statement;
- 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

T.M. Walsh

M.B. Coomer

J.L. Freeman

S.R. Peterson

A.L. Toevs

7 February 2018

Independent Review Report

To the shareholder of ASB Bank Limited

Report on the Half Year Disclosure Statement

We have reviewed pages 4 to 30 of the Disclosure Statement for the six months ended 31 December 2017 (the "Half Year Disclosure Statement") of ASB Bank Limited (the "Bank" or "ASB") and the entities it controlled at 31 December 2017 or from time to time during the period (the "Banking Group"), which includes the interim financial statements required by Clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information required by Schedules 5, 7, 11, 13, 16 and 18 of the Order. The financial statements comprise the balance sheet as at 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the six months then ended, and the notes to the financial statements that include the statement of accounting policies and selected explanatory information for the Banking Group.

Directors' Responsibility for the Half Year Disclosure Statement

The Directors of the Bank (the "Directors") are responsible on behalf of the Bank for the preparation and fair presentation of the Half Year Disclosure Statement, which includes financial statements prepared in accordance with Clause 25 of the Order and for such internal controls as the Directors determine are necessary to enable the preparation of the Half Year Disclosure Statement that is 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 Half Year Disclosure Statement which complies with Schedules 3, 5, 7, 11, 13, 16 and 18 of the Order.

Our Responsibility

Our responsibility is to express a conclusion on:

- the accompanying financial statements and the supplementary information, disclosed in accordance with Clause 25 and Schedules 5, 7, 11, 13, 16 and 18 of the Order, presented by the Directors based on our review.
- the financial statements (excluding the supplementary information) whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the financial statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* (NZ IAS 34) and International Accounting Standard 34: *Interim Financial Reporting* (IAS 34).
- the supplementary information (excluding the supplementary information relating to capital adequacy) whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order.
- the supplementary information relating to capital adequacy whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects:
    - a) prepared in accordance with the Bank's Conditions of Registration;
    - b) 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
    - c) disclosed in accordance with Schedule 11 of the Order.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

Independent Review Report (continued)

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

A review 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 this Half Year Disclosure Statement.

We are independent of the Bank and the Banking Group. Our firm carries out other assignments for the Bank and the Banking Group with respect to assurance over compliance with regulations and internal controls where the Bank or Banking Group acts as a service organisation, audit related agreed upon procedure engagements and an IFRS 9 scenario testing advisory engagement. 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 as auditor of the Bank and the Banking Group. We have no other interests in the Bank or the Banking Group.

Conclusion

We have examined the financial statements and supplementary information and based on our review, nothing has come to our attention that causes us to believe that:

a) the financial statements on pages 4 to 30 (excluding the supplementary information) have not been prepared in all material respects, in accordance with NZ IAS 34 and IAS 34;

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

c) the supplementary information relating to capital adequacy prescribed 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 review 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 our review 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 review procedures, for this report, or for the conclusions we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants Auckland
7 February 2018