

# ASB Disclosure Statement

For the nine months ended 31 March 2017



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# General Disclosures

(To be read in conjunction with the Financial Statements)

## 31 March 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

J.P. Hartley resigned as a director of the Bank with effect from 31 August 2016.

There have been no other changes to the Board of Directors since the signing of the 30 June 2016 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")	Aa3	Negative
Standard & Poor's (Australia) Pty Limited ("S&P")	AA-	Negative
Fitch Australia Pty Limited ("Fitch Ratings")	AA-	Stable

These ratings have remained unchanged during the 2 years immediately preceding the balance date. The outlook from Fitch Ratings is stable. On 7 July 2016 S&P, and on 19 August 2016 Moody's, revised their ratings outlook of the major Australian banks and their strategically important subsidiaries, including ASB, from stable to negative.

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

Long Term Credit Rating Definitions	Moody's <sup>(a)</sup>	S&P <sup>(b)</sup>	Fitch Ratings <sup>(c)</sup>
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.

# 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 \$3.862 billion were guaranteed as at 31 March 2017. 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 March 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 2016, a copy of which is available at the internet address [www.asb.co.nz](http://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.

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

Since 30 June 2016 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. However, as disclosed in the ASB Disclosure Statement and Annual Report for the year ended 30 June 2016 (page 11), 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.

## 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.

## Conditions of Registration

The Reserve Bank of New Zealand ("RBNZ") amended the Conditions of Registration effective 1 October 2016, to reflect changes to the loan-to-valuation ratios applicable to property and non-property investment residential mortgage lending. The amendments also refer to the revised "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19).

### *Non-compliance with conditions of registration*

In April 2017, the Bank identified that since March 2008 it had not applied the correct facility term in respect of some non-retail committed facilities when calculating risk-weighted exposures for those assets. The Bank considers this to have been non-compliant with condition of registration 1B. The calculation has now been corrected. This matter did not cause the Bank to breach any of its required minimum capital ratios.

The capital ratios previously reported during the 12 month period ended 31 March 2017 and restated using the corrected calculation, are as follows:

	31-Dec-16		30-Sep-16		30-Jun-16	
	Reported	Restated	Reported	Restated	Reported	Restated
Common equity tier one capital ratio	10.0%	9.9%	9.8%	9.8%	10.0%	9.9%
Tier one capital ratio	12.3%	12.2%	12.3%	12.2%	12.4%	12.3%
Total capital ratio	13.8%	13.7%	13.1%	13.0%	13.3%	13.2%
Buffer ratio	5.8%	5.7%	5.1%	5.0%	5.3%	5.2%

The Bank has fully complied with all other capital requirements as set out in the Bank's conditions of registration.

## 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 31-Mar-17	Unaudited 31-Mar-16
<b>For the nine months ended</b>	Note	
Interest income		3,010
Interest expense		1,632
<b>Net interest earnings</b>		<b>1,378</b>
Other income	2	397
<b>Total operating income</b>		<b>1,775</b>
Impairment losses on advances	5(b)	60
<b>Total operating income after impairment losses</b>		<b>1,715</b>
<b>Total operating expenses</b>		<b>615</b>
Salaries and other staff expenses		373
Building occupancy and equipment expenses		89
Information technology expenses		77
Other expenses		76
<b>Net profit before taxation</b>		<b>1,100</b>
Taxation		308
<b>Net profit after taxation</b>		<b>792</b>

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

# Statement of Comprehensive Income

\$ millions

For the nine months ended

Banking Group

Unaudited Unaudited  
31-Mar-17 31-Mar-16

<b>Net profit after taxation</b>	<b>792</b>	694
<b>Other comprehensive income/(expense), net of taxation</b>		
<b>Items that may be reclassified subsequently to the Income Statement:</b>		
Net change in available-for-sale reserve	<b>5</b>	(17)
Net change in cash flow hedge reserve	<b>25</b>	(53)
<b>Total other comprehensive income/(expense), net of taxation</b>	<b>30</b>	(70)
<b>Total comprehensive income</b>	<b>822</b>	624

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

# Statement of Changes in Equity

\$ millions	Banking Group						Total Shareholders' Equity
	Contributed Capital	Asset Revaluation Reserve	Available-for-Sale Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Retained Earnings	
<b>For the nine months ended 31 March 2017</b>							
<b>Unaudited</b>							
Balance at beginning of period	4,223	28	(7)	(103)	1	2,670	6,812
Net profit after taxation	-	-	-	-	-	792	792
Other comprehensive income	-	-	5	25	-	-	30
<b>Total comprehensive income</b>	-	-	5	25	-	792	822
Transfer from asset revaluation reserve to retained earnings	-	(3)	-	-	-	3	-
Ordinary dividends paid	-	-	-	-	-	(450)	(450)
Perpetual preference dividends paid	-	-	-	-	-	(42)	(42)
<b>Balance as at 31 March 2017</b>	<b>4,223</b>	<b>25</b>	<b>(2)</b>	<b>(78)</b>	<b>1</b>	<b>2,973</b>	<b>7,142</b>
<b>For the nine months ended 31 March 2016</b>							
<b>Unaudited</b>							
Balance at beginning of period	3,423	27	8	(87)	1	2,006	5,378
Net profit after taxation	-	-	-	-	-	694	694
Other comprehensive expense	-	-	(17)	(53)	-	-	(70)
<b>Total comprehensive (expense)/income</b>	-	-	(17)	(53)	-	694	624
Ordinary share capital issued	400	-	-	-	-	-	400
Perpetual preference share capital issued	400	-	-	-	-	-	400
Ordinary dividends paid	-	-	-	-	-	(200)	(200)
Perpetual preference dividends paid	-	-	-	-	-	(34)	(34)
<b>Balance as at 31 March 2016</b>	<b>4,223</b>	<b>27</b>	<b>(9)</b>	<b>(140)</b>	<b>1</b>	<b>2,466</b>	<b>6,568</b>

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

# Balance Sheet

\$ millions	Banking Group				
	As at	Note	Unaudited 31-Mar-17	Unaudited 31-Mar-16	Audited 30-Jun-16
<b>Assets</b>					
Cash and liquid assets			2,869	2,045	1,403
Due from financial institutions			881	1,040	1,131
Trading securities			1,255	1,559	792
Derivative assets			1,232	1,637	1,451
Available-for-sale securities			3,915	3,906	4,017
Advances to customers		4	77,036	69,896	72,075
Current taxation asset			-	57	-
Other assets			238	247	229
Property, plant and equipment			180	180	187
Intangible assets			177	164	175
Deferred taxation asset			136	149	146
<b>Total assets</b>			<b>87,919</b>	<b>80,880</b>	<b>81,606</b>
<i>Total interest earning and discount bearing assets</i>			<i>85,891</i>	<i>78,215</i>	<i>79,285</i>
<b>Liabilities</b>					
Deposits and other public borrowings		7	57,669	54,143	54,702
Due to financial institutions			1,034	2,316	580
Other liabilities at fair value through Income Statement			329	953	1,340
Derivative liabilities			1,636	1,975	2,085
Current taxation liability			2	-	40
Other liabilities			525	534	547
Debt issues:					
At fair value through Income Statement		8	567	1,769	1,646
At amortised cost		8	18,212	12,198	13,431
Loan capital			803	424	423
<b>Total liabilities</b>			<b>80,777</b>	<b>74,312</b>	<b>74,794</b>
<b>Shareholders' equity</b>					
Contributed capital - ordinary shares			2,673	2,673	2,673
Reserves			(54)	(121)	(81)
Retained earnings			2,973	2,466	2,670
<b>Ordinary shareholder's equity</b>			<b>5,592</b>	<b>5,018</b>	<b>5,262</b>
Contributed capital - perpetual preference shares			1,550	1,550	1,550
<b>Total shareholders' equity</b>			<b>7,142</b>	<b>6,568</b>	<b>6,812</b>
<b>Total liabilities and shareholders' equity</b>			<b>87,919</b>	<b>80,880</b>	<b>81,606</b>
<i>Total interest and discount bearing liabilities</i>			<i>74,516</i>	<i>68,039</i>	<i>68,440</i>

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

# Cash Flow Statement

\$ millions	Banking Group	
	Unaudited 31-Mar-17	Unaudited 31-Mar-16
<b>For the nine months ended</b>		
<b>Cash flows from operating activities</b>		
Net profit before taxation	1,100	965
<b>Reconciliation of net profit before taxation to net cash flows from operating activities</b>		
Non-cash items included in net profit before taxation:		
Depreciation of property, plant and equipment	25	27
Amortisation of intangible assets	33	31
Net change in provisions for impairment losses and bad debts written off	71	83
Other movements	22	64
Net (increase)/decrease in operating assets:		
Net increase in reverse repurchase agreements	(1,267)	(367)
Net decrease in due from financial institutions	250	575
Net increase in trading securities	(465)	(593)
Net decrease/(increase) in available-for-sale securities	109	(888)
Net increase in advances to customers	(5,122)	(4,624)
Net (increase)/decrease in other assets	(9)	307
Net increase/(decrease) in operating liabilities:		
Net increase in deposits and other public borrowings	2,958	2,012
Net increase/(decrease) in due to financial institutions	453	(1,202)
Net (decrease)/increase in other liabilities at fair value through Income Statement	(1,009)	770
Net decrease in other liabilities	(8)	(48)
Net taxation paid	(348)	(349)
<b>Net cash flows from operating activities</b>	<b>(3,207)</b>	<b>(3,237)</b>
<b>Cash flows from investing activities</b>		
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	(28)	(22)
Purchase of intangible assets	(44)	(31)
Total cash outflows applied to investing activities	(72)	(53)
<b>Net cash flows from investing activities</b>	<b>(65)</b>	<b>(53)</b>
<b>Cash flows from financing activities</b>		
Cash was provided from:		
Issue of ordinary share capital	-	400
Issue of perpetual preference share capital	-	400
Issue of loan capital (net of issue costs)	394	-
Issue of debt securities (net of issue costs)	11,635	6,904
Total cash inflows provided from financing activities	12,029	7,704
Cash was applied to:		
Dividends paid	(492)	(234)
Redemption of issued debt securities	(8,066)	(4,301)
Total cash outflows applied to financing activities	(8,558)	(4,535)
<b>Net cash flows from financing activities</b>	<b>3,471</b>	<b>3,169</b>
<b>Summary of movements in cash flows</b>		
Net increase/(decrease) in cash and cash equivalents	199	(121)
Add: cash and cash equivalents at beginning of year	948	1,413
<b>Cash and cash equivalents at end of year</b>	<b>1,147</b>	<b>1,292</b>
<b>Cash and cash equivalents comprise:</b>		
Cash and liquid assets	2,869	2,045
Less: reverse repurchase agreements included in cash and liquid assets	(1,722)	(753)
<b>Cash and cash equivalents at end of year</b>	<b>1,147</b>	<b>1,292</b>
<b>Additional operating cash flow information</b>		
Interest received as cash	3,039	3,085
Interest paid as cash	(1,646)	(1,753)
Other income received as cash	357	339
Operating expenses paid as cash	(593)	(553)

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

# Notes to the Financial Statements

For the nine months ended 31 March 2017

## 1 Statement of Accounting Policies

The condensed interim financial statements of the Banking Group for the nine months ended 31 March 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 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 2016.

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.

There have been no material changes to accounting policies during the nine months ended 31 March 2017. All policies have been applied on a basis consistent with that used in the financial year ended 30 June 2016.

Certain comparatives relating to fixed rate prepayment cost recoveries of \$48 million have been reclassified from other income to interest income, to align with market practice. This reclassification has no impact on net profit after taxation.

Other comparative information has been reclassified or restated to ensure consistency with presentation in the current period.

## 2 Other Income

\$ millions	Banking Group	
	Unaudited 31-Mar-17	Unaudited 31-Mar-16
<b>For the nine months ended</b>		
<b>Net fair value gain/(loss)</b>		
Net fair value gain on derivatives not qualifying for hedge accounting	-	1
Hedge ineffectiveness	22	(16)
<b>Total net fair value gain/(loss)</b>	<b>22</b>	<b>(15)</b>
Trading income	70	68
Other operating income	305	281
<b>Total other income</b>	<b>397</b>	<b>334</b>

## 3 Financial Assets Pledged as Collateral for Liabilities

### Unaudited

As at 31 March 2017 New Zealand government securities of \$12 million 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 March 2017, \$830 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 March 2017, the Covered Bond Trust held Mortgage Loans with a carrying value of \$6.1 billion and \$168 million of cash which have been pledged in respect of the Covered Bonds.

# Notes to the Financial Statements

For the nine months ended 31 March 2017

## 4 Advances to Customers

\$ millions	Banking Group		
	Unaudited 31-Mar-17	Unaudited 31-Mar-16	Audited 30-Jun-16
<b>As at</b>			
Residential mortgages	50,641	46,400	47,737
Other retail	4,957	4,762	4,818
Corporate	21,732	18,920	19,769
<b>Loans and other receivables</b>	<b>77,330</b>	<b>70,082</b>	<b>72,324</b>
Fair value hedge adjustments	8	76	48
Provisions for impairment losses	(302)	(262)	(297)
<b>Total advances to customers</b>	<b>77,036</b>	<b>69,896</b>	<b>72,075</b>

## 5 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 31 March 2017

##### Unaudited

Individually impaired assets	22	11	392	425
Individually assessed provisions	4	5	34	43
Collective provision	22	95	142	259
90 day past due assets not impaired	62	18	10	90

#### As at 31 March 2016

##### Unaudited

Individually impaired assets	52	8	227	287
Individually assessed provisions	8	4	23	35
Collective provision	29	95	103	227
90 day past due assets not impaired	71	25	8	104

#### As at 30 June 2016

##### Audited

Individually impaired assets	34	11	332	377
Individually assessed provisions	7	2	29	38
Collective provision	26	92	141	259
90 day past due assets not impaired	53	22	2	77

### (b) Impairment Losses on Advances

#### For the nine months ended 31 March 2017

##### Unaudited

Movement in collective provision	(4)	3	1	-
New and increased individually assessed provisions net of write-backs	1	3	15	19
Bad debts written off directly to the Income Statement	-	52	-	52
Recovery of amounts previously written off	(1)	(9)	(1)	(11)
<b>Total impairment (recoveries)/losses on advances</b>	<b>(4)</b>	<b>49</b>	<b>15</b>	<b>60</b>

#### For the nine months ended 31 March 2016

##### Unaudited

Movement in collective provision	(10)	20	23	33
New and increased individually assessed provisions net of write-backs	4	3	2	9
Bad debts written off directly to the Income Statement	-	41	-	41
Recovery of amounts previously written off	(1)	(9)	(1)	(11)
<b>Total impairment (recoveries)/losses on advances</b>	<b>(7)</b>	<b>55</b>	<b>24</b>	<b>72</b>

# Notes to the Financial Statements

For the nine months ended 31 March 2017

## 6 Concentration of Credit Exposures to Individual Counterparties Unaudited

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

## 7 Deposits and Other Public Borrowings

\$ millions	Banking Group		
	Unaudited 31-Mar-17	Unaudited 31-Mar-16	Audited 30-Jun-16
<b>As at</b>			
Certificates of deposit	2,472	2,318	2,910
Term deposits	27,305	22,691	23,122
On demand and short term deposits	23,786	25,639	25,167
Deposits not bearing interest	4,094	3,483	3,503
Repurchase agreements	12	12	-
<b>Total deposits and other public borrowings</b>	<b>57,669</b>	<b>54,143</b>	<b>54,702</b>

## 8 Debt Issues

\$ millions	Banking Group		
	Unaudited 31-Mar-17	Unaudited 31-Mar-16	Audited 30-Jun-16
<b>As at</b>			
Debt issues at fair value through Income Statement	567	1,769	1,646
Debt issues at amortised cost	18,212	12,198	13,431
<b>Total debt issues</b>	<b>18,779</b>	<b>13,967</b>	<b>15,077</b>
<b>Movement in debt issues</b>			
Balance at beginning of period	15,077	12,289	12,289
Issuances during the period	11,635	6,924	10,971
Repayments during the period	(7,792)	(4,866)	(7,420)
Foreign exchange and fair value movements during the period	(141)	(380)	(763)
<b>Balance at the end of period</b>	<b>18,779</b>	<b>13,967</b>	<b>15,077</b>

## 9 Contingent Liabilities

\$ millions	Banking Group Notional Amount		
	Unaudited 31-Mar-17	Unaudited 31-Mar-16	Audited 30-Jun-16
<b>As at</b>			
Guarantees	154	147	146
Standby letters of credit	141	75	112
Other credit facilities	168	99	150
<b>Total contingent liabilities</b>	<b>463</b>	<b>321</b>	<b>408</b>

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.

# Notes to the Financial Statements

For the nine months ended 31 March 2017

## 10 Related Party Transactions and Balances

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

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 nine months ended 31 March 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 public borrowings, debt issues, other assets, other liabilities, derivative assets and derivative liabilities:

\$ millions	Banking Group		
	Unaudited 31-Mar-17	Unaudited 31-Mar-16	Audited 30-Jun-16
<b>As at</b>			
Commonwealth Bank Group	1,609	2,628	1,325
NZ Life Group	242	286	261
ASB Holdings Limited	7	16	30
Superannuation schemes and unit trusts managed by ASB Group Investments Limited	731	635	656
Superannuation schemes and unit trusts managed or administered by NZ Life Group	17	3	4
<b>Total amounts due to related parties</b>	<b>2,606</b>	<b>3,568</b>	<b>2,276</b>
Commonwealth Bank Group	976	515	602
NZ Life Group	6	11	7
<b>Total amounts due from related parties</b>	<b>982</b>	<b>526</b>	<b>609</b>

For the nine months ended 31 March 2017 interest expense on balances due to the Commonwealth Bank Group was \$80 million (31 March 2016 \$76 million).

## 11 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 tables on the following page 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.

# Notes to the Financial Statements

For the nine months ended 31 March 2017

## 11 Fair Value of Financial Instruments (continued)

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

\$ millions	Banking Group			Total
	Level 1	Level 2	Level 3	
<b>As at 31 March 2017</b>				
<b>Unaudited</b>				
<b>Financial assets</b>				
Trading securities	417	838	-	1,255
Derivative assets	1	1,231	-	1,232
Available-for-sale securities	2,829	1,086	-	3,915
<b>Total financial assets measured at fair value</b>	<b>3,247</b>	<b>3,155</b>	<b>-</b>	<b>6,402</b>
<b>Financial liabilities</b>				
Other liabilities at fair value through Income Statement	-	329	-	329
Derivative liabilities	1	1,635	-	1,636
Debt issues at fair value through Income Statement	-	567	-	567
<b>Total financial liabilities measured at fair value</b>	<b>1</b>	<b>2,531</b>	<b>-</b>	<b>2,532</b>
<b>As at 31 March 2016</b>				
<b>Unaudited</b>				
<b>Financial assets</b>				
Trading securities	1,051	508	-	1,559
Derivative assets	2	1,635	-	1,637
Available-for-sale securities	2,498	1,408	-	3,906
<b>Total financial assets measured at fair value</b>	<b>3,551</b>	<b>3,551</b>	<b>-</b>	<b>7,102</b>
<b>Financial liabilities</b>				
Other liabilities at fair value through Income Statement	-	953	-	953
Derivative liabilities	-	1,975	-	1,975
Debt issues at fair value through Income Statement	-	1,769	-	1,769
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>4,697</b>	<b>-</b>	<b>4,697</b>
<b>As at 30 June 2016</b>				
<b>Audited</b>				
<b>Financial assets</b>				
Trading securities	175	617	-	792
Derivative assets	-	1,451	-	1,451
Available-for-sale securities	2,665	1,352	-	4,017
<b>Total financial assets measured at fair value</b>	<b>2,840</b>	<b>3,420</b>	<b>-</b>	<b>6,260</b>
<b>Financial liabilities</b>				
Other liabilities at fair value through Income Statement	-	1,340	-	1,340
Derivative liabilities	-	2,085	-	2,085
Debt issues at fair value through Income Statement	-	1,646	-	1,646
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>5,071</b>	<b>-</b>	<b>5,071</b>

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.

# Notes to the Financial Statements

For the nine months ended 31 March 2017

## 11 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.

\$ millions	Unaudited 31-Mar-17		Banking Group Unaudited 31-Mar-16		Audited 30-Jun-16	
	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value
<b>Financial assets</b>						
Cash and liquid assets	2,869	2,869	2,045	2,045	1,403	1,403
Due from financial institutions	881	881	1,040	1,040	1,131	1,131
Advances to customers	76,895	77,036	69,934	69,896	72,098	72,075
Other assets	212	212	224	224	210	210
<b>Total</b>	<b>80,857</b>	<b>80,998</b>	<b>73,243</b>	<b>73,205</b>	<b>74,842</b>	<b>74,819</b>
<b>Financial liabilities</b>						
Deposits and other public borrowings	57,757	57,669	54,283	54,143	54,826	54,702
Due to financial institutions	1,034	1,034	2,316	2,316	580	580
Other liabilities	525	525	534	534	547	547
Debt issues at amortised cost	18,264	18,212	12,208	12,198	13,443	13,431
Loan capital	818	803	422	424	420	423
<b>Total</b>	<b>78,398</b>	<b>78,243</b>	<b>69,763</b>	<b>69,615</b>	<b>69,816</b>	<b>69,683</b>

## 12 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.

# Notes to the Financial Statements

For the nine months ended 31 March 2017

## 12 Capital Adequacy (continued)

Unaudited

\$ millions

As at 31 March 2017

Banking Group

### Capital under Basel III IRB approach

#### Tier one capital

Common equity tier one capital (before deductions)	5,566
Deductions from common equity tier one capital	(315)

<b>Total common equity tier one capital</b>	<b>5,251</b>
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Additional tier one capital (subject to phase-out) <sup>(1)</sup>	110
Additional tier one capital	1,000

<b>Total additional tier one capital</b>	<b>1,110</b>
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<b>Total tier one capital</b>	<b>6,361</b>
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<b>Total tier two capital</b>	<b>826</b>
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<b>Total capital</b>	<b>7,187</b>
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### Capital requirements

#### Capital requirements for credit risk subject to the IRB approach by exposure class

Sovereign	21
Bank	65
Residential mortgages	1,421
Other retail	282
Corporate - small and medium enterprises	1,317
Other corporate	271
<b>Total capital requirements for credit risk subject to the IRB approach by exposure class</b>	<b>3,377</b>

#### Capital requirements for other credit risk

Specialised lending subject to the slotting approach	16
Exposures subject to the standardised approach	379
Credit valuation adjustment	19

<b>Total capital requirements for other credit risk</b>	<b>414</b>
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<b>Total capital requirements for credit risk<sup>(2)</sup></b>	<b>3,791</b>
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#### Capital requirements for other risks

Operational risk	350
Market risk	175

<b>Total capital requirements for other risks</b>	<b>525</b>
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<b>Total capital requirement</b>	<b>4,316</b>
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As at 31 March 2017, the Banking Group held \$2,871m of capital in excess of its regulatory capital requirements.

- (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.
- (2) In accordance with the Bank's Conditions of Registration, the capital requirement is derived by applying a 1.06 scalar to all credit risk weighted exposures, with the exception of the credit valuation adjustment.

# Notes to the Financial Statements

For the nine months ended 31 March 2017

## 12 Capital Adequacy (continued)

Unaudited

As at 31 March 2017	Banking Group	
	Capital Ratios	Minimum Ratio Requirement
Common equity tier one capital ratio	9.7%	4.5%
Tier one capital ratio	11.8%	6.0%
Total capital ratio	13.3%	8.0%
Buffer ratio	5.3%	2.5%

\$ millions	Banking Group					Total
	LVR Range	0%-60%	60.1%-70%	70.1%-80%	80.1%-90%	
<b>Residential mortgages by loan-to-valuation ratio ("LVR")</b>						
On balance sheet exposures	19,276	11,164	15,678	3,185	1,487	50,790
Off balance sheet exposures	4,278	1,395	1,791	179	235	7,878
<b>Total value of exposures</b>	<b>23,554</b>	<b>12,559</b>	<b>17,469</b>	<b>3,364</b>	<b>1,722</b>	<b>58,668</b>
Expressed as a percentage of total exposures	40.1%	21.5%	29.8%	5.7%	2.9%	100.0%

As at 31 March 2017, LVR was calculated as the current balance divided by the valuation of the security at the date of loan origination in line with recent approval from the RBNZ. Previously LVR was calculated using the origination balance at the date of loan origination divided by 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 is responsible for ensuring that the Banking Group has adequate overall capital in relation to its risk profile.

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 March 2017, internal capital allocations of \$294 million had been made for other material risks including strategic risk and fixed asset risk.

## 13 Insurance Business, Marketing and Distribution of Insurance Products

Unaudited

The Banking Group does not conduct any insurance business. However, certain general 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.

# Notes to the Financial Statements

For the nine months ended 31 March 2017

## 14 Financial Reporting by Operating Segments Unaudited

\$ millions	Banking Group				Total
	Retail and Business Banking	Corporate, Commercial and Rural	Wealth and Insurance	Other	
<b>Income Statement</b>					
<b>For the nine months ended 31 March 2017</b>					
Net interest earnings	855	439	7	77	1,378
Other income/(expense)	191	109	130	(33)	397
Total operating income	1,046	548	137	44	1,775
Impairment losses on advances	43	17	-	-	60
Segment operating expenses (excluding impairment losses)	367	184	62	2	615
Segment net profit before taxation	636	347	75	42	1,100
Taxation	178	97	21	12	308
Segment net profit after taxation	458	250	54	30	792
<b>Balance Sheet</b>					
<b>As at 31 March 2017</b>					
Total assets	51,178	28,250	170	8,321	87,919
Total liabilities	38,184	16,107	365	26,121	80,777

\$ millions	Banking Group				Total
	Retail and Business Banking	Corporate, Commercial and Rural	Wealth and Insurance	Other	
<b>Income Statement</b>					
<b>For the nine months ended 31 March 2016</b>					
Net interest earnings	850	414	8	47	1,319
Other income/(expense)	180	99	121	(66)	334
Total operating income/(expense)	1,030	513	129	(19)	1,653
Impairment losses on advances	46	26	-	-	72
Segment operating expenses (excluding impairment losses)	355	185	65	11	616
Segment net profit/(loss) before taxation	629	302	64	(30)	965
Taxation	177	85	18	(9)	271
Segment net profit/(loss) after taxation	452	217	46	(21)	694
<b>Balance Sheet</b>					
<b>As at 31 March 2016</b>					
Total assets	47,121	25,235	182	8,342	80,880
Total liabilities	35,920	14,810	326	23,256	74,312

# Notes to the Financial Statements

For the nine months ended 31 March 2017

## 14 Financial Reporting by Operating Segments (continued)

<b>Retail and Business Banking:</b>	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.
<b>Corporate, Commercial and Rural:</b>	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.
<b>Wealth and Insurance:</b>	The Wealth and Insurance segment provides securities, investment and insurance services to customers.

### Other primarily includes:

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

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

The Banking Group operates predominantly in the banking industry within New Zealand. The Banking Group has very limited exposure to risks associated with operating in different economic environments or political conditions in other countries. On this basis no geographical segment information is provided.

## 15 Qualifying Liquid Assets

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

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

\$ millions	Banking Group						Total
	Cash and Liquid Assets	Available -for- Sale Securities	Trading Securities	Advances to Customers	Deposits and Other Public Borrowings <sup>(1)</sup>	Other Assets	
<b>As at 31 March 2017</b>							
<b>Unaudited</b>							
Cash	192	-	-	-	-	-	192
Call deposits with the central bank	955	-	-	-	-	-	955
Local authority securities	-	247	21	-	-	5	273
New Zealand government securities	1,722	1,270	415	-	(12)	17	3,412
Corporate bonds	-	478	-	-	-	5	483
Bank bills	-	-	817	-	-	-	817
Kauri bonds	-	1,559	2	-	-	11	1,572
Floating rate notes	-	361	-	-	-	1	362
Residential mortgage-backed securities	-	-	-	3,517	-	-	3,517
<b>Total qualifying liquid assets</b>	<b>2,869</b>	<b>3,915</b>	<b>1,255</b>	<b>3,517</b>	<b>(12)</b>	<b>39</b>	<b>11,583</b>

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

# Notes to the Financial Statements

For the nine months ended 31 March 2017

## **16 Events after the Reporting Period** **Unaudited**

On 12 May 2017, the Directors resolved to pay the following perpetual preference dividends on 15 May 2017, subject to certain conditions being satisfied:

- \$1 million, being 0.62 cents per share on 200 million 2006 Series 1 perpetual preference shares; and
- \$2 million, being 0.58 cents per share on 350 million 2006 Series 2 perpetual preference shares.

On 16 May 2017, the Directors resolved to pay the following perpetual preference dividends on 15 June 2017, subject to certain conditions being satisfied:

- \$6 million, being 99.09 cents per share on 6 million 2015 perpetual preference shares; and
- \$5 million, being 112.70 cents per share on 4 million 2016 perpetual preference 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 nine months ended 31 March 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



B.J. Chapman



M.B. Coomer



J.L. Freeman



C.M. McDowell



V.A.J. Shortt

BY HER AGENT  
G.R. WALKER



R.M. Spaans



A.L. Toevs



T.M. Walsh

16 May 2017



