

ASB Capital No. 2 Limited Half Year Report

For the six months ended 31 December 2016



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Half Year Report

For the six months ended 31 December 2016

The Directors of ASB Capital No. 2 Limited are pleased to announce an unaudited net profit after tax of \$4,031,000 for the six months ended 31 December 2016 (unaudited of \$5,454,000 for the six months ended 31 December 2015, audited of \$10,570,000 for the year ended 30 June 2016).

On 16 May 2016 the dividend rate on the perpetual preference shares for the period 16 May 2016 to 15 May 2017 was reset to 3.20% per annum including imputation credits payable quarterly in arrears. The rate to 16 May 2016 was 4.34% per annum including imputation credits.

Perpetual preference dividends paid during the period including imputation credits were:

Date Paid	Record Date	Cents per Share
15 August 2016	5 August 2016	0.8000
15 November 2016	7 November 2016	0.8000

The Directors have declared a gross dividend of 0.8000 cents per share including imputation credits. The cash dividend of 0.5760 cents per share will be paid on 15 February 2017 to holders of perpetual preference shares on the register at 5.00pm on 7 February 2017. A supplementary dividend to be calculated after 7 February 2017 will be paid at the same time on perpetual preference shares held by non-residents.



J.E. Raby
Chairman
19 January 2017



N.C. Annett
Director

Directory

Directors

J.E. Raby (Chairman)
B.J. Chapman
K.C. McDonald
N.C. Annett

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Auditor

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Chartered Accountants
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Auckland 1010
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www.pwc.com/nz

Share Registrar

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Level 2
159 Hurstmere Road
Takapuna
Auckland 0622
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Managing Your Shareholding Online

To change your address, update your payment instructions and to view your investment portfolio including transactions, please visit:
www.investorcentre.com/nz

General enquiries can be directed to:

- enquiry@computershare.co.nz
- Private Bag 92119, Auckland 1142
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Please assist our registrar by quoting your CSN or shareholder number.

Statement of Comprehensive Income

\$ thousands For the period ended	Note	Unaudited 31-Dec-16 6 Months	Unaudited 31-Dec-15 6 Months	Audited 30-Jun-16 12 Months
Interest income	2	5,613	7,590	14,709
Total operating income		5,613	7,590	14,709
Operating expenses	2	15	15	28
Total operating expenses		15	15	28
Net profit before taxation		5,598	7,575	14,681
Taxation		1,567	2,121	4,111
Net profit after taxation		4,031	5,454	10,570
Total comprehensive income		4,031	5,454	10,570

Statement of Changes in Equity

\$ thousands	Contributed Capital - Ordinary Shares	Contributed Capital - Preference Shares	Retained Earnings	Total Shareholders' Equity
For the six months ended 31 December 2016				
Unaudited				
Balance at beginning of period	1	350,000	1,030	351,031
Perpetual preference dividends paid	-	-	(4,032)	(4,032)
Total comprehensive income	-	-	4,031	4,031
Balance as at 31 December 2016	1	350,000	1,029	351,030
For the six months ended 31 December 2015				
Unaudited				
Balance at beginning of period	1	350,000	1,397	351,398
Perpetual preference dividends paid	-	-	(5,468)	(5,468)
Total comprehensive income	-	-	5,454	5,454
Balance as at 31 December 2015	1	350,000	1,383	351,384
For the year ended 30 June 2016				
Audited				
Balance at beginning of year	1	350,000	1,397	351,398
Perpetual preference dividends paid	-	-	(10,937)	(10,937)
Total comprehensive income	-	-	10,570	10,570
Balance as at 30 June 2016	1	350,000	1,030	351,031

These statements are to be read in conjunction with the notes on pages 6 to 7 and the Independent Review Report on pages 8 to 9.

Balance Sheet

\$ thousands As at	Note	Unaudited 31-Dec-16	Unaudited 31-Dec-15	Audited 30-Jun-16
Assets				
Cash and cash equivalents	2	123	186	895
Interest receivable from related party	2	1,440	1,921	1,439
Advance to related party	2	350,000	350,000	350,000
Total assets		351,563	352,107	352,334
Liabilities				
Current taxation liability		517	713	1,290
Other liabilities		16	10	13
Total liabilities		533	723	1,303
Shareholders' Equity				
Contributed capital - ordinary shares		1	1	1
Contributed capital - preference shares		350,000	350,000	350,000
Retained earnings		1,029	1,383	1,030
Total shareholders' equity		351,030	351,384	351,031
Total liabilities and shareholders' equity		351,563	352,107	352,334

For, and on behalf of, the Board of Directors, who authorised the issue of these financial statements on 19 January 2017.



J.E. Raby
Chairman



N.C. Annett
Director

These statements are to be read in conjunction with the notes on pages 6 to 7 and the Independent Review Report on pages 8 to 9.

Cash Flow Statement

\$ thousands For the period ended	Note	Unaudited 31-Dec-16 6 Months	Unaudited 31-Dec-15 6 Months	Audited 30-Jun-16 12 Months
Cash flows from operating activities				
Cash was provided from:				
Interest received		5,612	7,609	15,210
Cash was applied to:				
Net taxation paid		(2,340)	(2,864)	(4,277)
Operating expenses	2	(15)	(15)	(28)
Net cash flows from operating activities		3,257	4,730	10,905
Cash flows from financing activities				
Cash was applied to:				
Dividends paid		(4,029)	(5,470)	(10,936)
Net cash flows from financing activities		(4,029)	(5,470)	(10,936)
Summary of movements in cash flows				
Net decrease in cash and cash equivalents		(772)	(740)	(31)
Add: cash and cash equivalents at beginning of period		895	926	926
Cash and cash equivalents at end of period	2	123	186	895

These statements are to be read in conjunction with the notes on pages 6 to 7 and the Independent Review Report on pages 8 to 9.

Notes to the Financial Statements

For the six months ended 31 December 2016

1 Statement of Accounting Policies

The reporting entity, ASB Capital No. 2 Limited (the "Company"), was incorporated in New Zealand on 18 November 2004 and is registered under the Companies Act 1993. The Company is a wholly owned subsidiary of CBA Funding (NZ) Limited, the ultimate parent of which is the Commonwealth Bank of Australia ("CBA").

ASB Capital No. 2 Limited is a finance company that has issued perpetual preference shares to the New Zealand market and is a reporting entity under the Financial Markets Conduct Act 2013 ("FMCA"). Its perpetual preference shares are listed on the New Zealand Stock Exchange ("NZX") under the code: ASBPB.

These condensed interim financial statements 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 NZX Listing Rules. 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 Company's financial statements for the year ended 30 June 2016.

The functional and presentation currency of the Company is New Zealand dollars. All amounts contained in this Half Year Report are presented in thousands, unless otherwise stated.

There have been no changes to accounting policies during the period ended 31 December 2016. All policies have been applied on a basis consistent with that used in the year ended 30 June 2016.

2 Related Party Transactions and Balances

The Company has conducted financial transactions with fellow subsidiaries of CBA. These transactions were conducted on market terms and conditions, and within the Company's approved policies.

\$ thousands	Unaudited	Unaudited	Audited
For the period ended	31-Dec-16	31-Dec-15	30-Jun-16
	6 Months	6 Months	12 Months
Related Party Balances			
Cash at ASB Bank Limited	123	186	895
Interest receivable from ASB Funding Limited	1,440	1,921	1,439
Advance to ASB Funding Limited	350,000	350,000	350,000
Related Party Transactions			
Interest income from ASB Funding Limited	5,608	7,577	14,691
Interest income from ASB Bank Limited	5	13	18
Operating expenses paid to ASB Bank Limited	15	15	28

The Company has advanced the proceeds of the issue of perpetual preference shares to ASB Funding Limited. Interest is currently receivable quarterly at 3.20% per annum (4.34% per annum for the year ended 16 May 2016). The next interest payment date is 15 February 2017.

ASB Funding Limited has in turn invested the advanced sum in perpetual preference shares issued by ASB Bank Limited. ASB Funding Limited, New Zealand Guardian Trust Company Limited (the "Trustee") and the Company are parties to a Trust Deed, whereby ASB Funding Limited provides covenants to the Trustee for the benefit of holders of the Company's perpetual preference shares and grants security over ASB Bank Limited perpetual preference shares in favour of the Trustee.

The advance to ASB Funding Limited is repayable only in the event of the liquidation of ASB Funding Limited. However, if ASB Funding Limited receives any amount other than dividends in respect of the ASB Bank Limited perpetual preference shares, ASB Funding Limited is required to pay that amount to the Company in reduction of the advance (unless the Trustee requires it to be paid to the Trustee instead). The full terms of the advance are recorded in the Advance Agreement, a copy of which may be obtained free of charge from the Company's registered office.

PricewaterhouseCoopers is the appointed auditor of the ASB Group of companies. The audit fee is paid by ASB Bank Limited on behalf of the Company. No fees for other services were paid by the Company to PricewaterhouseCoopers during the period ended 31 December 2016 (31 December 2015 nil, 30 June 2016 nil).

Notes to the Financial Statements

For the six months ended 31 December 2016

3 Dividends

Dividends per perpetual preference share inclusive of imputation credits for the six months ended 31 December 2016 were 1.6000 cents per share (six months ended 31 December 2015 2.1700 cents per share, year ended 30 June 2016 4.3400 cents per share).

4 Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, interest receivable from related party and other liabilities approximate their respective fair values.

The fair value of the advance to ASB Funding Limited is estimated using the current market price of the perpetual preference shares as an input given their inherent link (refer to note 2 for further details of the terms and conditions of the advance). As at 31 December 2016, its fair value was estimated as \$245,310,000 being the amount of the advance multiplied by the NZX quoted price of the perpetual preference shares as at that date and adjusted for accrued interest (31 December 2015 \$288,579,000, 30 June 2016 \$271,561,000). This fair value estimate is a level 2 measure under NZ IFRS 13's fair value hierarchy.

5 Contingent Liabilities

The Company has no contingent liabilities as at 31 December 2016 (31 December 2015 nil, 30 June 2016 nil).

6 Financial Reporting by Operating Segments

The Company operates in New Zealand in one industry segment. Its primary business is financial services.

7 Events after the Reporting Period

On 19 January 2017 the Directors declared a gross dividend of 0.8000 cents per share, including imputation credits. The cash dividend of 0.5760 cents per share will be paid on 15 February 2017 to all registered holders of perpetual preference shares at 5.00pm on 7 February 2017.

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

Independent Review Report



Independent Review Report

To the shareholders of ASB Capital No. 2 Limited

Report on the Financial Statements

We have reviewed the accompanying half year financial statements of ASB Capital No. 2 Limited (the “Company”) on pages 3 to 7, which comprise the balance sheet as at 31 December 2016, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the six months then ended, and a statement of accounting policies and selected explanatory notes.

Directors’ Responsibility for the Financial Statements

The Directors are responsible on behalf of the Company, for the preparation and presentation of these half year financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (“NZ IAS 34”) and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a conclusion on the accompanying half year financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (“NZ SRE 2410”). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34. As the auditor of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements 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 these half year financial statements.

We are independent of the Company. Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these half year financial statements of the Company are not prepared, in all material respects, in accordance with NZ IAS 34.

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Independent Review Report (continued)



Independent Review Report

ASB Capital No. 2 Limited

Restriction on Use of our Report

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them 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 Company and the Company's shareholders, as a body, for our review procedures, for this report or for the conclusion we have formed.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script.

Chartered Accountants
19 January 2017

Auckland



