

ASB Capital No. 2 Limited Annual Report

For the year ended 30 June 2017



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Annual Report

For the year ended 30 June 2017

The Directors of ASB Capital No. 2 Limited are pleased to announce an audited net profit after tax of \$8,008,000 for the year ended 30 June 2017 (year ended 30 June 2016 \$10,570,000).

On 15 May 2017 the dividend rate on the perpetual preference shares for the period 15 May 2017 to 15 May 2018 was reset to 3.03% per annum including imputation credits payable quarterly in arrears. The rate to 15 May 2017 was 3.20% per annum including imputation credits.

Perpetual preference dividends paid during the year 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
15 February 2017	7 February 2017	0.8000
15 May 2017	5 May 2017	0.8000

The Directors have declared a gross dividend of 0.7575 cents per share including imputation credits. The cash dividend of 0.5454 cents per share will be paid on 15 August 2017 to holders of perpetual preference shares on the register at 5.00pm on 7 August 2017. A supplementary dividend to be calculated after 7 August 2017 will be paid at the same time on perpetual preference shares held by non-residents.



J.E. Raby
Chairman
26 July 2017



C. Bhindi
Director

Directory

Directors

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

Registered Office

Level 2
ASB North Wharf
12 Jellicoe Street
Auckland 1010
New Zealand
Telephone: +64 9 377 8930

Auditor

PricewaterhouseCoopers
Chartered Accountants
PwC Tower
188 Quay Street
Auckland 1010
New Zealand
www.pwc.com/nz

Share Registrar

Computershare Investor Services Limited
Level 2
159 Hurstmere Road
Takapuna
Auckland 0622
New Zealand

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
- +64 9 488 8777

Please assist our registrar by quoting your CSN or shareholder number.

Statement of Comprehensive Income

\$ thousands		2017	2016
For the year ended 30 June	Note		
Interest income	6	11,148	14,709
Total operating income		11,148	14,709
Operating expenses	6	26	28
Total operating expenses		26	28
Net profit before taxation		11,122	14,681
Taxation	2	3,114	4,111
Net profit after taxation		8,008	10,570
Total comprehensive income		8,008	10,570

Statement of Changes in Equity

\$ thousands	Contributed Capital - Ordinary Shares	Contributed Capital - Preference Shares	Retained Earnings	Total Shareholders' Equity
For the year ended 30 June 2017				
Balance at beginning of year	1	350,000	1,030	351,031
Perpetual preference dividends paid	-	-	(8,064)	(8,064)
Total comprehensive income	-	-	8,008	8,008
Balance as at 30 June 2017	1	350,000	974	350,975
For the year ended 30 June 2016				
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 10 and the Independent Auditor's Report on pages 11 to 13.

Balance Sheet

\$ thousands

As at 30 June

	Note	2017	2016
Assets			
Cash and cash equivalents	6	633	895
Interest receivable from related party	6	1,375	1,439
Advance to related party	6	350,000	350,000
Total assets		352,008	352,334
Liabilities			
Current taxation liability		1,016	1,290
Other liabilities		17	13
Total liabilities		1,033	1,303
Shareholders' Equity			
Contributed capital - ordinary shares	3	1	1
Contributed capital - preference shares	3	350,000	350,000
Retained earnings		974	1,030
Total shareholders' equity		350,975	351,031
Total liabilities and shareholders' equity		352,008	352,334

For, and on behalf of, the Board of Directors, who authorised the issue of these financial statements on 26 July 2017.



J.E. Raby
Chairman



C. Bhindi
Director

These statements are to be read in conjunction with the notes on pages 6 to 10 and the Independent Auditor's Report on pages 11 to 13.

Cash Flow Statement

\$ thousands

For the year ended 30 June

Note

2017

2016

Cash flows from operating activities

Cash was provided from:

Interest received

11,212

15,210

Cash was applied to:

Net taxation paid

(3,388)

(4,277)

Operating expenses

(26)

(28)

Net cash flows from operating activities

4

7,798

10,905

Cash flows from financing activities

Cash was applied to:

Perpetual preference dividends paid

(8,060)

(10,936)

Net cash flows from financing activities

(8,060)

(10,936)

Summary of movements in cash flows

Net decrease in cash and cash equivalents

(262)

(31)

Add: cash and cash equivalents at beginning of year

895

926

Cash and cash equivalents at end of year

6

633

895

These statements are to be read in conjunction with the notes on pages 6 to 10 and the Independent Auditor's Report on pages 11 to 13.

Notes to the Financial Statements

For the year ended 30 June 2017

1 Statement of Accounting Policies

General 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 financial statements are for the year ended 30 June 2017 and have been prepared in accordance with the requirements of the FMCA.

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

The following new standard relevant to the Company has been issued. The Company does not intend to apply this standard until its effective date.

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

NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

Under NZ IFRS 9 a new expected credit losses model replaces the incurred loss impairment model for financial assets used in NZ IAS 39. There are no changes to classification and measurement rules for financial liabilities. However, for financial liabilities that have been designated at fair value through profit or loss, fair value changes attributable to changes in credit risk must be presented in other comprehensive income.

NZ IFRS 9 relaxes the requirements for hedge effectiveness by removing the 80% to 125% hedge effectiveness threshold. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as that used by management for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for the Company's reporting period beginning on 1 July 2018. The full impact of NZ IFRS 9 is yet to be assessed.

Basis of Preparation

The measurement base adopted is that of historical cost.

Presentation Currency and Rounding

The functional and presentation currency is New Zealand dollars. The amounts contained in these financial statements are presented in thousands, unless otherwise stated.

Particular Accounting Policies

There have been no changes to accounting policies in the year ended 30 June 2017. All policies have been applied on a basis consistent with that used in the year ended 30 June 2016.

- **Revenue Recognition**

Interest income is recognised using the effective interest method.

- **Expense Recognition**

Expenses are recognised on an accruals basis.

- **Taxation**

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

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

Notes to the Financial Statements

For the year ended 30 June 2017

1 Statement of Accounting Policies (continued)

Particular Accounting Policies (continued)

• Financial Instruments

RECOGNITION AND DERECOGNITION

The Company recognises financial assets on the date it becomes a party to the contractual agreement and recognises financial liabilities when an obligation arises.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired. Derecognition also occurs when the rights to receive cash flows from financial assets have been transferred together with substantially all of their risks and rewards. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

CLASSIFICATION AND MEASUREMENT

Financial instruments are classified under the following categories:

Loans and Receivables

Assets in this category are financial assets with fixed and determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value including transaction costs and subsequently measured at amortised cost using the effective interest method. The carrying amounts of these financial assets are reviewed at each balance date to determine if there is any objective basis of impairment. If any such basis exists, the financial asset's recoverable amount is estimated. If the estimated recoverable amount is less than its carrying amount, a provision is made and an impairment loss is recognised in the Statement of Comprehensive Income.

Loans and receivables include:

- *Cash and Cash Equivalents*
Cash and cash equivalents include cash on hand, bank current accounts and short-term investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.
- *Advance to Related Party*
The advance to a related party includes only the principal amount due from that related party.
- *Other Assets*
Other assets include interest receivable.

Other Financial Liabilities

Liabilities in this category are initially recognised at fair value including transaction costs and subsequently measured at amortised cost. Other financial liabilities include dividends payable (unpresented cheques).

Contributed Capital - Preference Shares

Financial instruments are evaluated to determine whether they contain both liability and equity components. Such components are classified separately as financial liabilities or equity instruments in accordance with the economic substance of the contractual agreement.

Contributed capital - preference shares are classified as equity in their entirety, on the basis that they are non-redeemable and dividends are payable at the discretion of the Directors.

• Cash Flow Statement

The Cash Flow Statement has been prepared using the direct method.

• Fair Value Estimates

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

- *Cash and Cash Equivalents*
These assets are short term in nature and their carrying amount is a reasonable approximation of their fair value.
- *Advance to Related Party*
The fair value of the advance to ASB Funding Limited is estimated using the current market price of the perpetual preference shares given their inherent link (refer to notes 6 and 10 for further details of the terms and conditions of the advance). As at 30 June 2017, its fair value was estimated as \$282,123,000 being the amount of the advance multiplied by the NZX quoted price of the perpetual preference shares as at that date (30 June 2016 \$271,561,000). This fair value estimate is a level 2 measure under NZ IFRS 13's fair value hierarchy. 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.
- *Other Assets*
These assets are short term in nature and their carrying amount is a reasonable approximation of their fair value.
- *Other Liabilities*
These liabilities are short term in nature and their carrying amount is a reasonable approximation of their fair value.

• Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Company's Board of Directors.

Notes to the Financial Statements

For the year ended 30 June 2017

2 Taxation

\$ thousands		
For the year ended 30 June	2017	2016

The taxation expense for the year is determined from the net profit before taxation as follows:

Net profit before taxation	11,122	14,681
Tax at the domestic rate of 28%	3,114	4,111
Total income tax charged to the Statement of Comprehensive Income	3,114	4,111

The Company has no deferred tax, therefore income tax comprises current tax only.

The Company is a listed Portfolio Investment Entity ("listed PIE"). The advantage of a listed PIE is that the effective tax rate for dividends paid to individual New Zealand resident investors and trustee investors is capped at 28%.

3 Contributed Capital

\$ thousands		
As at 30 June	2017	2016

Ordinary shares

Balance at beginning of year (1,000 shares)	1	1
Balance at end of year	1	1

Perpetual preference shares

Balance at beginning of year (350,000,000 shares)	350,000	350,000
Balance at end of year	350,000	350,000

All ordinary shares have equal voting rights but do not entitle their holders to any dividends or other distributions or any right to share in the surplus assets of the Company on winding up.

The perpetual preference shares have no fixed term, are non-redeemable and carry limited voting rights. Dividends are paid quarterly in arrears on 15 February, 15 May, 15 August and 15 November, or the business day thereafter, if the Directors determine that the Company will satisfy the Companies Act 1993 solvency test, and have no other reason not to pay the dividend. Dividends are non-cumulative.

The dividend rate on the perpetual preference shares is reset each year on 15 May, or the business day thereafter, with the new rate applying for the 12 month period following that date. The new rate will be the interest rate as at 15 May (or the next business day) for New Zealand dollar denominated swaps with a term of one year, plus a margin of 1.0%, adjusted to a quarterly equivalent rate. The new rate will be inclusive of imputation credits attached.

The Company considers contributed capital and retained earnings to be capital for management purposes. The Company does not have to comply with externally imposed requirements.

Dividends per perpetual preference share inclusive of imputation credits for year ended 30 June 2017 were 3.2000 cents per share (year ended 30 June 2016 4.3400 cents per share).

4 Reconciliation of Net Profit after Taxation to Net Cash Flows from Operating Activities

\$ thousands		
For the year ended 30 June	2017	2016
Net profit after taxation	8,008	10,570
Movement in Balance Sheet items:		
Interest receivable accrued - decrease	64	501
Taxation balances - decrease	(274)	(166)
	(210)	335
Net cash flows from operating activities	7,798	10,905

Notes to the Financial Statements

For the year ended 30 June 2017

5 Imputation Credit Account

Dividends paid by the Company may include imputation credits representing the New Zealand tax already paid by the Company on profits. New Zealand resident shareholders may claim a tax credit to the value of the imputation credits attached to dividends.

The amount of imputation credits available as at 30 June 2017 is \$386k (30 June 2016 \$398k). This figure includes the imputation credits that will arise from the payment of the amount of the provision for income tax, imputation credits that will arise from the receipt of dividends recognised as receivables as at balance date, and imputation debits that will arise from the payment of dividends recognised as payables as at balance date.

The Company expects that future tax payments will generate sufficient imputation credits for the Company to be able to continue to fully impute future dividend payments.

6 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		
For the year ended 30 June	2017	2016
Related Party Balances		
Cash at ASB Bank Limited	633	895
Advance to ASB Funding Limited	350,000	350,000
Interest receivable from ASB Funding Limited	1,375	1,439
Related Party Transactions		
Interest income from ASB Funding Limited	11,142	14,691
Interest income from ASB Bank Limited	6	18
Operating expenses paid to ASB Bank Limited	26	28

The Company has advanced the proceeds of the issue of perpetual preference shares to ASB Funding Limited. Interest is currently receivable quarterly at 3.03% per annum (3.20% per annum for the year ended 15 May 2017). The next interest payment date is 15 August 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 party 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.

The Company's material credit exposure is to ASB Funding Limited.

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 year ended 30 June 2017 (30 June 2016 nil).

7 Remuneration

The Company has no employees. Directors do not receive remuneration.

8 Asset Quality

The assets of the Company are considered to be of sound quality. Advances are reviewed at each balance date to determine whether there is any objective evidence of impairment. As there was no evidence of impairment, bad and doubtful debts have not been provided for in the financial statements. There has been no history of default by ASB Funding Limited.

9 Financial Reporting by Operating Segments

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

Notes to the Financial Statements

For the year ended 30 June 2017

10 Risk Management Policies

The Company is committed to the management of risk. Its risk management strategy is set by the Board of Directors.

Credit Risk

The material credit risk identified by the Board is the unlikely event of ASB Funding Limited failing to pay interest on the ASB Funding Limited advance. This event could occur if ASB Bank Limited failed to pay a dividend on the ASB Bank perpetual preference shares owned by ASB Funding Limited. The Company manages credit risk by closely monitoring the ability of ASB Funding Limited to satisfy its obligations. To date, there has been no indication that ASB Funding Limited will not be able to make interest payments as they fall due.

Interest Rate Risk

Interest on the advance to ASB Funding Limited resets annually on 15 May (or the business day thereafter) at the interest rate for New Zealand dollar denominated swaps with a term of one year, plus a margin of 1.0%. Cash at ASB Bank Limited is on call. Other financial assets and liabilities are non-interest bearing.

As the interest rate on the advance to ASB Funding Limited matches the rate payable to perpetual preference shareholders, and the timing of interest payments matches the payment of dividends, interest rate risk and liquidity risk are eliminated. On this basis a sensitivity analysis is not required.

Liquidity Risk

The Company has no significant financial liabilities and accordingly it is not exposed to material liquidity risk.

11 Capital Commitments and Contingent Liabilities

The Company had no capital commitments or contingent liabilities as at 30 June 2017 (30 June 2016 nil).

12 Events after the Reporting Period

On 21 July 2017 the Directors declared a gross dividend of 0.7575 cents per share, including imputation credits. The cash dividend of 0.5454 cents per share will be paid on 15 August 2017 to all registered holders of perpetual preference shares at 5.00pm on 7 August 2017.

In accordance with NZ IFRS, the dividend declared on 21 July 2017 is not provided for in the financial statements as at 30 June 2017.

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

Independent Auditor's Report



Independent auditor's report

To the shareholders of ASB Capital No. 2 Limited

The financial statements comprise:

- the balance sheet as at 30 June 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a statement of accounting policies and other explanatory information.

Our opinion

In our opinion, the financial statements of ASB Capital No. 2 Limited (the "Company") present fairly, in all material respects, the financial position of the Company as at 30 June 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Independent Auditor's Report (continued)



Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality is \$556,000 which represents 5% of net profit before taxation.

We chose net profit before taxation as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark. The 5% is based on our professional judgement, noting that it is also within the range of commonly accepted profit-related thresholds.

We have not identified any Key Audit Matters from our audit given the nature of the entity. Refer to the *Key Audit Matters* section of our report.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. The Company has issued perpetual preference shares to the New Zealand market and advanced the proceeds to ASB Funding Limited. ASB Funding Limited has, in turn, invested the same amount in perpetual preference shares issued by ASB Bank Limited. Given the nature of the Company's operations, we determined that there were no Key Audit Matters to communicate in our report.

Information other than the financial statements and auditor's report

The Directors of the Company (the "Directors"), are responsible, on behalf of the Company, for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

Independent Auditor's Report (continued)



In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page2.aspx

This description forms part of our auditor's report.

Who we report to

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

The engagement partner on the audit resulting in this independent auditor's report is Michele Embling.

For and on behalf of:

A handwritten signature in dark ink that reads 'PricewaterhouseCoopers'.

Chartered Accountants
26 July 2017

Auckland

Statutory Information

For the year ended 30 June 2017

Auditor Independence

The Company has an External Auditor Services Policy, which governs the services that may be provided by the external auditor, and protects the independence of the external audit role.

Donations

The Company has not made any donations during the year ended 30 June 2017 (30 June 2016 nil).

Directors' Remuneration

As the Directors of the Company are executives within the CBA group of companies, the Directors did not receive any remuneration or other benefits from the Company during the year ended 30 June 2017 (30 June 2016 nil).

Employee Remuneration

The Company has no employees. Services are provided to the Company by ASB Bank Limited.

Directors

J.E. (Jon) Raby

Jon Raby is the Chief Financial Officer of ASB Bank Limited. Jon joined the ASB Group in March 2012 after 2 years as Chief Financial Officer for CBA's Retail Banking and Enterprise Services Division. Prior to that he was Acting Chief Executive Officer and Chief Financial Officer at Sovereign Assurance Company Limited.

Jon has an extensive background in the financial services industry across New Zealand, Australia, the United Kingdom and South Africa.

B.J. (Barbara) Chapman

Barbara Chapman commenced as the Chief Executive Officer and Managing Director of ASB Bank Limited in April 2011. Since 1994 Barbara has held a number of senior executive roles within ASB Bank Limited and the CBA group of companies, including Head of Retail Banking of ASB Bank Limited, Managing Director and Chief Executive Officer of Sovereign Assurance Company Limited, and Group Executive, Human Resources and Group Services of CBA.

K.C. (Kevin) McDonald

Kevin McDonald is the Chief Risk Officer of ASB Bank Limited, responsible for credit, market, operational, and regulatory risk. Kevin joined the ASB Group in January 2010 after 5 years as Chief Risk Officer of RBS International, Jersey.

Kevin has over 30 years experience in the banking industry, including positions with the UK Financial Services Authority and the Barclays Bank Group.

C. (Chandrakant) Bhindi

Chandrakant Bhindi is the General Manager Treasury of ASB Bank Limited. Chandrakant joined the ASB Group in February 2017 after 7 years with CBA, where he held the positions of Head of the Financial Institutions Group for Australia and New Zealand and Global Head of the Diversified Financials Sector.

Chandrakant has over 20 years broad commercial and corporate finance experience, including senior positions with Credit Suisse and Westpac Banking Corporation.

Directors' Interests entered during the accounting period

N.C. Annett

ASB Capital Limited	Directorship ceased 23 June 2017
ASB Capital No. 2 Limited	Directorship ceased 23 June 2017

C. Bhindi

ASB Capital Limited	Directorship commenced 23 June 2017
ASB Capital No. 2 Limited	Directorship commenced 23 June 2017

Distribution of Perpetual Preference Shareholders

Size of Holding	No. of Holders as at 16 June 2017	Perpetual Preference Shares as at 16 June 2017	% of Issues Perpetual Preference Shares as at 16 June 2017
1 - 9,999	380	2,155,566	0.62
10,000 - 49, 999	2,266	48,740,707	13.93
50,000 - 99,999	625	37,674,798	10.76
100,000 - 499,999	403	62,259,934	17.79
500,000+	49	199,168,995	56.90
Total	3,723	350,000,000	100.00

Statutory Information

For the year ended 30 June 2017

Credit Rating

In a release by S&P Global Ratings ("S&P") dated 21 May 2017, which incorporated a review of hybrid and non-deferrable subordinated debt instruments issued by the four major Australian banks and their banking subsidiaries, as a result of the review, S&P credit rating of the Company's perpetual preference shares was downgraded from BBB to BBB-.

NZX Limited ("NZX")

The Company's perpetual preference shares are listed on the NZX. NZX has not exercised against the Company any disciplinary actions under Listing Rule 5.4.2.

NZX has not granted any waivers to the Company as at year ended 30 June 2017.

Corporate Governance Statement

The Board has adopted a code of corporate governance which is reviewed annually.

Some of the main features of the Company's corporate governance are:

- The Board is responsible for the overall corporate governance of the Company.
- There are established criteria for the appointment of new Directors, including ensuring that new Directors can contribute to the ongoing effectiveness of the Board.
- The Board may delegate certain powers to a committee of Directors. Given the size of the Company and the nature of the business of the Company, the Board has not established an audit committee or remuneration committee to date.
- The Board is committed to the management of risk. The Company's risk management strategy is set by the Board.

Financial Products Trading Policy

The Board has adopted a Financial Products Trading Policy and Guidelines to address the insider trading prohibitions in the FMCA. Before trading in any perpetual preference shares of the Company, Directors must comply with this policy and the related guidelines.

Disclosure Policies

The Company has adopted a Relevant Interests Disclosure Policy to ensure compliance by directors and senior managers of the Company with their disclosure obligations under the FMCA and the NZX Main Board/Debt Market Listing Rules (the "Rules"), and a Continuous Disclosure Policy in relation to the Company's continuous disclosure obligations under the FMCA and the Rules.

Code of Ethics

The code of corporate governance adopted by the Board includes a code of ethics which establishes how the Directors observe and foster high ethical standards, act in good faith, and ensure that the Company complies with all relevant laws and regulations.

Shareholder Relations

The Company engages with its shareholders in the following ways:

- Announcements are made to the Market on the Company's page on the NZX website (www.nzx.com). These announcements include events such as the declaration of dividends and the annual reset of the dividend rate by the Company.
- Comprehensive information relating to the Company is disclosed to shareholders in the Company's annual and half-year reports.
- A summary of information relating to the Company is provided to new shareholders in the Company by the Company's Share Registrar following the acquisition of shares by those shareholders.
- When the Company's dividend rate is reset annually, the new dividend rate and the basis of calculating that rate are included in a note on the first dividend statement following the date of reset.

