

ASB Disclosure Statement

For the six months ended 31 December 2016



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General Disclosures

(To be read in conjunction with the Financial Statements)

31 December 2016

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
Moody's Investors Service Pty Limited ("Moody's")	Aa3
Standard & Poor's (Australia) Pty Limited ("S&P")	AA-
Fitch Australia Pty Limited ("Fitch Ratings")	AA-

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 ^(a)	S&P ^(b)	Fitch Ratings ^(c)
Highest quality/extremely strong capacity to pay interest and principal	Aaa	AAA	AAA
High quality/very strong	Aa	AA	AA
Upper medium grade/strong	A	A	A
Medium grade (lowest investment grade)/adequate	Baa	BBB	BBB
Predominantly speculative/less near term vulnerability to default	Ba	BB	BB
Speculative, low grade/greater vulnerability	B	B	B
Poor to default/identifiable vulnerability	Caa	CCC	CCC
Highest speculations	Ca	CC	CC
Lowest quality, no interest	C	C	C
In payment default, in arrears - questionable value	-	D	RD & D

(a) Moody's applies numeric modifiers 1, 2, and 3 to each generic rating category from Aa to Caa, indicating that the counterparty is (1) in the higher end of its letter rating category, (2) in the mid-range and (3) in the lower end.

(b) S&P applies plus (+) or minus (-) signs to ratings from 'AA' to 'CCC' to indicate relative standing within the major rating categories.

(c) Fitch Ratings applies plus (+) or minus (-) signs to ratings from 'AA' to 'B' to indicate relative standing within the major rating categories.

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 \$3.812 billion were guaranteed as at 31 December 2016. The amount of the guarantee is limited to the assets of the Covered Bond Trust. There are no material conditions applicable to the guarantee other than non-performance. There are no material legislative or regulatory restrictions in New Zealand which would have the effect of subordinating the claims under the guarantee of any creditors of the Bank on the assets of the Covered Bond Guarantor, to other claims on the Covered Bond Guarantor, in a winding up of the Covered Bond Guarantor.

The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland 1010, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations payable in New Zealand dollars. As at 31 December 2016, 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. 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.

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-Dec-16	Unaudited 31-Dec-15
For the six months ended	Note	
Interest income		2,014
Interest expense		2,078
Net interest earnings		1,091
Other income	2	877
Total operating income		267
Impairment losses on advances	6	234
Total operating income after impairment losses		1,190
Total operating expenses		411
Salaries and other staff expenses		250
Building occupancy and equipment expenses		249
Information technology expenses		60
Other expenses		51
Net profit before taxation		730
Taxation		659
Net profit after taxation		205
		474

These statements are to be read in conjunction with the notes on pages 9 to 30 and the Independent Review Report on pages 32 to 33.

Statement of Comprehensive Income

\$ millions

For the six months ended

Banking Group

Unaudited Unaudited
31-Dec-16 31-Dec-15

Net profit after taxation	525	474
Other comprehensive income/(expense), net of taxation		
Items that may be reclassified subsequently to the Income Statement:		
Net change in available-for-sale reserve	-	(10)
Net change in cash flow hedge reserve	70	(8)
	70	(18)
Total other comprehensive income/(expense), net of taxation	70	(18)
Total comprehensive income	595	456

These statements are to be read in conjunction with the notes on pages 9 to 30 and the Independent Review Report on pages 32 to 33.

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		
For the six months ended 31 December 2016								
Unaudited								
Balance at beginning of period	4,223	28	(7)	(103)	1	2,670	6,812	
Net profit after taxation	-	-	-	-	-	525	525	
Other comprehensive income	-	-	-	70	-	-	70	
Total comprehensive income	-	-	-	70	-	525	595	
Transfer from asset revaluation reserve to retained earnings	-	(3)	-	-	-	3	-	
Ordinary dividends paid	-	-	-	-	-	(200)	(200)	
Perpetual preference dividends paid	-	-	-	-	-	(29)	(29)	
Balance as at 31 December 2016	4,223	25	(7)	(33)	1	2,969	7,178	
For the six months ended 31 December 2015								
Unaudited								
Balance at beginning of period	3,423	27	8	(87)	1	2,006	5,378	
Net profit after taxation	-	-	-	-	-	474	474	
Other comprehensive expense	-	-	(10)	(8)	-	-	(18)	
Total comprehensive (expense)/income	-	-	(10)	(8)	-	474	456	
Perpetual preference dividends paid	-	-	-	-	-	(23)	(23)	
Balance as at 31 December 2015	3,423	27	(2)	(95)	1	2,457	5,811	

These statements are to be read in conjunction with the notes on pages 9 to 30 and the Independent Review Report on pages 32 to 33.

Balance Sheet

\$ millions	Banking Group			
		Unaudited 31-Dec-16	Unaudited 31-Dec-15	Audited 30-Jun-16
As at	Note			
Assets				
Cash and liquid assets		2,220	2,271	1,403
Due from financial institutions		1,670	670	1,131
Trading securities		1,113	343	792
Derivative assets		1,398	1,404	1,451
Available-for-sale securities		3,812	3,427	4,017
Advances to customers	4	76,061	68,684	72,075
Current taxation asset		-	16	-
Other assets		231	239	229
Property, plant and equipment		179	183	187
Intangible assets		179	162	175
Deferred taxation asset		123	124	146
Total assets		86,986	77,523	81,606
<i>Total interest earning and discount bearing assets</i>		<i>84,805</i>	<i>75,136</i>	<i>79,285</i>
Liabilities				
Deposits and other public borrowings	9	56,369	53,585	54,702
Due to financial institutions		798	2,087	580
Other liabilities at fair value through Income Statement		169	815	1,340
Derivative liabilities		1,916	1,521	2,085
Current taxation liability		29	-	40
Other liabilities		482	519	547
Debt issues:				
At fair value through Income Statement	10	865	1,548	1,646
At amortised cost	10	18,380	11,221	13,431
Loan capital		800	416	423
Total liabilities		79,808	71,712	74,794
Shareholders' equity				
Contributed capital - ordinary shares		2,673	2,273	2,673
Reserves		(14)	(69)	(81)
Retained earnings		2,969	2,457	2,670
Ordinary shareholder's equity		5,628	4,661	5,262
Contributed capital - perpetual preference shares		1,550	1,150	1,550
Total shareholders' equity		7,178	5,811	6,812
Total liabilities and shareholders' equity		86,986	77,523	81,606
<i>Total interest and discount bearing liabilities</i>		<i>73,424</i>	<i>66,105</i>	<i>68,440</i>

These statements are to be read in conjunction with the notes on pages 9 to 30 and the Independent Review Report on pages 32 to 33.

Cash Flow Statement

\$ millions	Banking Group	
	Unaudited 31-Dec-16	Unaudited 31-Dec-15
For the period ended		
Cash flows from operating activities		
Net profit before taxation	730	659
Reconciliation of net profit before taxation to net cash flows from operating activities		
Non-cash items included in net profit before taxation:		
Depreciation of property, plant and equipment	17	18
Amortisation of intangible assets	21	21
Net change in provisions for impairment losses and bad debts written off	56	49
Other movements	6	54
Net (increase)/decrease in operating assets:		
Net increase in reverse repurchase agreements	(305)	(519)
Net (increase)/decrease in due from financial institutions	(539)	945
Net (increase)/decrease in trading securities	(321)	622
Net decrease/(increase) in available-for-sale securities	205	(400)
Net increase in advances to customers	(4,102)	(3,381)
Net (increase)/decrease in other assets	(2)	293
Net increase/(decrease) in operating liabilities:		
Net increase in deposits and other public borrowings	1,680	1,445
Net increase/(decrease) in due to financial institutions	214	(1,435)
Net (decrease)/increase in other liabilities at fair value through Income Statement	(1,168)	632
Net decrease in other liabilities	(51)	(61)
Net taxation paid	(220)	(217)
Net cash flows from operating activities	(3,779)	(1,275)
Cash flows from investing activities		
Cash was provided from:		
Proceeds from sale of property, plant and equipment	7	-
Total cash inflows provided from investing activities	7	-
Cash was applied to:		
Purchase of property, plant and equipment	(17)	(16)
Purchase of intangible assets	(33)	(21)
Net cash flows from investing activities	(43)	(37)
Cash flows from financing activities		
Cash was provided from:		
Issue of loan capital (net of issue costs)	394	-
Issue of debt securities (net of issue costs)	8,823	4,520
Total cash inflows provided from financing activities	9,217	4,520
Cash was applied to:		
Dividends paid	(229)	(23)
Redemption of issued debt securities	(4,654)	(3,232)
Total cash outflows applied to financing activities	(4,883)	(3,255)
Net cash flows from financing activities	4,334	1,265
Summary of movements in cash flows		
Net increase/(decrease) in cash and cash equivalents	512	(47)
Add: cash and cash equivalents at beginning of period	948	1,413
Cash and cash equivalents at end of period	1,460	1,366
Cash and cash equivalents comprise:		
Cash and liquid assets	2,220	2,271
Less: reverse repurchase agreements included in cash and liquid assets	(760)	(905)
Cash and cash equivalents at end of period	1,460	1,366
Additional operating cash flow information		
Interest received as cash	2,042	2,094
Interest paid as cash	(1,127)	(1,197)
Other income received as cash	237	218
Operating expenses paid as cash	(424)	(397)

These statements are to be read in conjunction with the notes on pages 9 to 30 and the Independent Review Report on pages 32 to 33.

Notes to the Financial Statements

For the six months ended 31 December 2016

1 Statement of Accounting Policies

The condensed interim financial statements of the Banking Group for the six months ended 31 December 2016 (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 six months ended 31 December 2016. 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 \$36 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 to ensure consistency with presentation in the current period.

2 Other Income

\$ millions	Banking Group	
	Unaudited 31-Dec-16	Unaudited 31-Dec-15
For the six months ended		
Net fair value gain/(loss) from:		
Net fair value loss on derivatives not qualifying for hedge accounting	(1)	(3)
Hedge ineffectiveness	16	(1)
Total net fair value gain/(loss)	15	(4)
Trading income	47	46
Other operating income	205	192
Total other income	267	234

3 Financial Assets Pledged as Collateral for Liabilities

Unaudited

As at 31 December 2016, no securities were pledged as collateral under repurchase agreements.

The Bank has entered into credit support annexes in respect of certain credit exposures relating to certain derivative transactions. As at 31 December 2016, \$978 million included in due from financial institutions had been advanced as cash collateral to counterparties with whom the Banking Group has net derivative liability positions.

As noted in the General Disclosures, the Covered Bond Guarantor has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the Mortgage Loans, related security and other assets of the Covered Bond Trust. As at 31 December 2016, the Covered Bond Trust held Mortgage Loans with a carrying value of \$5.7 billion and \$179 million cash which have been pledged in respect of the Covered Bonds.

4 Advances to Customers

\$ millions	Banking Group		
	Unaudited 31-Dec-16	Unaudited 31-Dec-15	Audited 30-Jun-16
As at			
Residential mortgages	50,230	45,600	47,737
Other retail	4,931	4,677	4,818
Corporate	21,189	18,593	19,769
Loans and other receivables	76,350	68,870	72,324
Fair value hedge adjustments	18	61	48
Provisions for impairment losses	(307)	(247)	(297)
Total advances to customers	76,061	68,684	72,075

Notes to the Financial Statements

For the six months ended 31 December 2016

5 Credit Quality Information for Advances to Customers

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

Undrawn balances on lending commitments to counterparties within the impaired asset category were \$4 million as at 31 December 2016 (31 December 2015 \$2 million, 30 June 2016 \$2 million).

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

\$ millions	Banking Group			Total
	Residential Mortgages ⁽¹⁾	Other Retail	Corporate	
As at 31 December 2015				
Unaudited				
Past due assets not impaired				
1 to 7 days	904	138	163	1,205
8 to 29 days	544	91	35	670
30 to 59 days	221	42	17	280
60 to 89 days	78	19	4	101
Over 90 days	58	20	9	87
Total past due assets not impaired	1,805	310	228	2,343
Individually impaired assets				
Balance at beginning of period	50	9	231	290
Additions	34	3	58	95
Deletions	(32)	(5)	(49)	(86)
Amounts written off	(4)	(1)	(1)	(6)
Total individually impaired assets	48	6	239	293
Other assets under administration	34	5	1	40

(1) The Residential Mortgages asset class consists of mortgages which are secured by residential properties.

Notes to the Financial Statements

For the six months ended 31 December 2016

5 Credit Quality Information for Advances to Customers (continued)

\$ millions	Banking Group			Total
	Residential Mortgages ⁽¹⁾	Other Retail	Corporate	
As at 30 June 2016				
Audited				
Past due assets not impaired				
1 to 7 days	912	162	217	1,291
8 to 29 days	460	87	54	601
30 to 59 days	194	43	14	251
60 to 89 days	72	16	10	98
Over 90 days	53	22	2	77
Total past due assets not impaired	1,691	330	297	2,318
Individually impaired assets				
Balance at beginning of year	50	9	231	290
Additions	28	8	236	272
Deletions	(38)	(4)	(124)	(166)
Amounts written off	(6)	(2)	(11)	(19)
Total individually impaired assets	34	11	332	377
Other assets under administration	32	6	-	38

(1) The Residential Mortgages asset class consists of mortgages which are secured by residential properties.

6 Provisions for Impairment Losses

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

Notes to the Financial Statements

For the six months ended 31 December 2016

6 Provisions for Impairment Losses (continued)

\$ millions	Banking Group			Total
	Residential Mortgages	Other Retail	Corporate	
As at 31 December 2015				
Unaudited				
Collective provision				
Balance at beginning of period	39	75	80	194
(Recovered from)/charged to Income Statement	(5)	6	19	20
Balance at end of period	34	81	99	214
Individually assessed provisions				
Balance at beginning of period	10	1	25	36
Add/(less):				
Charged to Income Statement:				
New and increased provisions	8	2	10	20
Write-back of provisions no longer required	(6)	-	(11)	(17)
Write-offs against individually assessed provisions	(4)	(1)	(1)	(6)
Balance at end of period	8	2	23	33
Total provisions for impairment losses	42	83	122	247
Impairment losses on advances				
Movement in collective provision	(5)	6	19	20
New and increased individually assessed provisions net of write-backs	2	2	(1)	3
Bad debts written off directly to the Income Statement	-	26	-	26
Recovery of amounts previously written off	(1)	(6)	(1)	(8)
Total impairment losses on advances	(4)	28	17	41

\$ millions	Banking Group			Total
	Residential Mortgages	Other Retail	Corporate	
As at 30 June 2016				
Audited				
Collective provision				
Balance at beginning of year	39	75	80	194
(Recovered from)/charged to Income Statement	(13)	17	61	65
Balance at end of year	26	92	141	259
Individually assessed provisions				
Balance at beginning of year	10	1	25	36
Add/(less):				
Charged to Income Statement:				
New and increased provisions	14	4	28	46
Write-back of provisions no longer required	(11)	(1)	(13)	(25)
Write-offs against individually assessed provisions	(6)	(2)	(11)	(19)
Balance at end of year	7	2	29	38
Total provisions for impairment losses	33	94	170	297
Impairment losses on advances				
Movement in collective provision	(13)	17	61	65
New and increased individually assessed provisions net of write-backs	3	3	15	21
Bad debts written off directly to the Income Statement	-	58	-	58
Recovery of amounts previously written off	(2)	(11)	(1)	(14)
Total impairment losses on advances	(12)	67	75	130

Notes to the Financial Statements

For the six months ended 31 December 2016

7 Concentrations of Credit Exposures Unaudited

The following table presents the maximum exposure to credit risk of financial assets and other credit exposures, before taking account of any collateral held or other credit enhancements unless such credit enhancements meet the offsetting criteria in NZ IAS 32 *Financial Instruments: Presentation*.

For financial assets recognised on the Balance Sheet, the maximum exposure to credit risk equals their carrying values. Other credit exposures include irrevocable lending commitments, guarantees, standby letters of credit and other off balance sheet credit commitments. The maximum exposure to credit risk for guarantees and standby letters of credit is the maximum amount that the Banking Group would have to pay if the facilities were called upon. For irrevocable lending commitments and other credit commitments, the maximum exposure to credit risk is the full amount of the committed facilities.

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

Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes have been used as the basis for disclosing customer industry sectors.

\$ millions	Banking Group			
	Financial Assets at Amortised Cost	Financial Assets at Fair Value	Other Credit Exposures	Total Credit Exposures
As at 31 December 2016				
Concentration by industry				
Agriculture	10,117	22	846	10,985
Government and public authorities	294	1,462	281	2,037
Property and business services	7,093	37	951	8,081
Finance, investment and insurance	4,957	4,736	565	10,258
Utilities	194	36	114	344
Transport and storage	489	1	145	635
Housing	50,230	-	7,671	57,901
Construction	637	-	206	843
Personal	1,737	-	2,138	3,875
Health and community services	949	4	328	1,281
Other commercial and industrial	3,254	25	1,427	4,706
Total credit exposures by industry	79,951	6,323	14,672	100,946
Concentration by geographic region				
Auckland	46,927	2,223	10,381	59,531
Rest of New Zealand	30,383	1,577	4,282	36,242
Overseas	2,641	2,523	9	5,173
Total credit exposures by geographic region	79,951	6,323	14,672	100,946

8 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 December 2016. 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 December 2016.

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

The peak end-of-day aggregate concentration of credit exposure to individual counterparties has been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the relevant three-month period and then dividing that amount by the Banking Group's equity as at 31 December 2016.

Notes to the Financial Statements

For the six months ended 31 December 2016

9 Deposits and Other Public Borrowings

\$ millions	Banking Group		
	Unaudited 31-Dec-16	Unaudited 31-Dec-15	Audited 30-Jun-16
As at			
Certificates of deposit	2,621	2,355	2,910
Term deposits	25,556	23,143	23,122
On demand and short term deposits	24,259	24,555	25,167
Deposits not bearing interest	3,933	3,379	3,503
Repurchase agreements	-	153	-
Total deposits and other public borrowings	56,369	53,585	54,702

10 Debt Issues

\$ millions	Banking Group		
	Unaudited 31-Dec-16	Unaudited 31-Dec-15	Audited 30-Jun-16
As at			
Debt issues at fair value through Income Statement	865	1,548	1,646
Debt issues at amortised cost	18,380	11,221	13,431
Total debt issues	19,245	12,769	15,077
Movement in debt issues			
Balance at beginning of period	15,077	12,289	12,289
Issuances during the period	8,823	4,520	10,971
Repayments during the period	(4,417)	(3,700)	(7,420)
Foreign exchange and fair value movements during the period	(238)	(340)	(763)
Balance at the end of period	19,245	12,769	15,077

11 Contingent Liabilities

\$ millions	Banking Group Notional Amount		
	Unaudited 31-Dec-16	Unaudited 31-Dec-15	Audited 30-Jun-16
As at			
Guarantees	143	144	146
Standby letters of credit	130	80	112
Other credit facilities	159	95	150
Total contingent liabilities	432	319	408

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 six months ended 31 December 2016

12 Related Party Transactions and Balances

The Bank is wholly owned by ASB Holdings Limited, a company incorporated in New Zealand. The ultimate parent bank is CBA. The Commonwealth Bank Group refers to CBA and the various companies and other entities owned and controlled by CBA. The Commonwealth Bank of Australia New Zealand Life Insurance Group ("NZ Life Group") includes ASB Group (Life) Limited group of companies, 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 six months ended 31 December 2016 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 payments have been made. 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-Dec-16	Unaudited 31-Dec-15	Audited 30-Jun-16
As at			
Commonwealth Bank Group	1,193	2,714	1,325
NZ Life Group	233	261	261
ASB Holdings Limited	37	23	30
Superannuation schemes and unit trusts managed or administered by ASB Group Investments Limited	747	582	656
Superannuation schemes and unit trusts managed or administered by NZ Life Group	61	4	4
Total amounts due to related parties	2,271	3,584	2,276
Commonwealth Bank Group	1,069	390	602
NZ Life Group	4	9	7
Total amounts due from related parties	1,073	399	609

For the six months ended 31 December 2016 the interest expense on balances due to the Commonwealth Bank Group was \$53 million (31 December 2015 \$58 million).

Notes to the Financial Statements

For the six months ended 31 December 2016

13 Fair Value of Financial Instruments

The Banking Group's financial assets and financial liabilities are measured on an on-going basis either at fair value or amortised cost.

The fair value of a financial instrument is the price that would be received to sell a financial asset, or paid to transfer a financial liability, in an orderly transaction between market participants at the measurement date.

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

A significant number of financial instruments are carried on the Balance Sheet at fair value. The best evidence of fair value is a quoted market price in an active market. Therefore, where possible, fair value is based on quoted market prices. Where a quoted market price for a financial instrument is not available, its fair value is based on present value estimates or other valuation techniques based on current market conditions. These valuation techniques rely on market observable inputs wherever possible, or in a limited number of instances, rely on inputs which are unobservable but are reasonable assumptions based on market conditions.

There are three levels in the hierarchy of fair value measurements which are based on the inputs used to measure fair values:

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities that the Banking Group can access.
- Level 2: where quoted market prices are not available, fair values have been estimated using present value or other valuation techniques using inputs that are observable for the financial asset or financial liability, either directly or indirectly.
- Level 3: fair values are estimated using inputs that are unobservable for the financial asset or financial liability.

The Banking Group considers transfers between levels, if any, to have occurred at the end of the reporting period for which the financial statements are prepared.

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

\$ millions	Banking Group			Total
	Level 1	Level 2	Level 3	
As at 31 December 2016				
Unaudited				
Financial assets				
Trading securities	54	1,059	-	1,113
Derivative assets	-	1,398	-	1,398
Available-for-sale securities	2,665	1,147	-	3,812
Total financial assets measured at fair value	2,719	3,604	-	6,323
Financial liabilities				
Other liabilities at fair value through Income Statement	-	169	-	169
Derivative liabilities	-	1,916	-	1,916
Debt issues at fair value through Income Statement	-	865	-	865
Total financial liabilities measured at fair value	-	2,950	-	2,950
As at 31 December 2015				
Unaudited				
Financial assets				
Trading securities	2	341	-	343
Derivative assets	-	1,404	-	1,404
Available-for-sale securities	2,090	1,337	-	3,427
Total financial assets measured at fair value	2,092	3,082	-	5,174
Financial liabilities				
Other liabilities at fair value through Income Statement	-	815	-	815
Derivative liabilities	1	1,520	-	1,521
Debt issues at fair value through Income Statement	-	1,548	-	1,548
Total financial liabilities measured at fair value	1	3,883	-	3,884

Notes to the Financial Statements

For the six months ended 31 December 2016

13 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	
As at 30 June 2016				
Audited				
Financial assets				
Trading securities	175	617	-	792
Derivative assets	-	1,451	-	1,451
Available-for-sale securities	2,665	1,352	-	4,017
Total financial assets measured at fair value	2,840	3,420	-	6,260
Financial liabilities				
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
Total financial liabilities measured at fair value	-	5,071	-	5,071

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.

(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-Dec-16		Banking Group Unaudited 31-Dec-15		Audited 30-Jun-16	
	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets						
Cash and liquid assets	2,220	2,220	2,271	2,271	1,403	1,403
Due from financial institutions	1,670	1,670	670	670	1,131	1,131
Advances to customers	76,072	76,061	68,730	68,684	72,098	72,075
Other assets	202	202	215	215	210	210
Total	80,164	80,153	71,886	71,840	74,842	74,819
Financial liabilities						
Deposits and other public borrowings	56,449	56,369	53,718	53,585	54,826	54,702
Due to financial institutions	798	798	2,087	2,087	580	580
Other liabilities	482	482	519	519	547	547
Debt issues at amortised cost	18,425	18,380	11,236	11,221	13,443	13,431
Loan capital	806	800	419	416	420	423
Total	76,960	76,829	67,979	67,828	69,816	69,683

Notes to the Financial Statements

For the six months ended 31 December 2016

14 Capital Adequacy

Unaudited

The Banking Group is subject to regulation by the RBNZ. The RBNZ has set minimum regulatory capital requirements for New Zealand registered banks that are consistent with the internationally agreed framework developed by the Basel Committee on Banking Supervision, commonly known as Basel III. These requirements define what is acceptable as capital and provide for methods of measuring the risks incurred by the Banking Group.

The Banking Group must comply with RBNZ minimum capital adequacy ratios under the Bank's conditions of registration. These conditions of registration require capital adequacy ratios for the Banking Group to be calculated in accordance with the RBNZ document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated November 2015. The Banking Group is accredited by the RBNZ to adopt the internal ratings based ("IRB") approach for calculating regulatory capital requirements.

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

\$ millions

As at 31 December 2016

Banking Group

Capital under Basel III IRB approach

Tier one capital

Common equity tier one capital

Issued and fully paid-up ordinary share capital	2,673
Retained earnings	2,969
Accumulated other comprehensive income and other disclosed reserves	(40)
Deductions from common equity tier one capital:	
Goodwill and other intangible assets	(179)
Deferred taxation asset	(123)
Cash flow hedge reserve	33
Excess of expected loss over eligible allowance for impairment	(63)
Total common equity tier one capital	5,270

Additional tier one capital

Perpetual fully paid-up non-cumulative preference shares (subject to phase-out) ⁽¹⁾	220
Perpetual fully paid-up non-cumulative preference shares	1,000
Total additional tier one capital	1,220
Total tier one capital	6,490

Tier two capital

Loan capital	800
Asset revaluation reserve	25
Foreign currency translation reserve	1
Total tier two capital	826

Total capital

7,316

As at	Banking Group		Bank	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
Capital ratios				
Common equity tier one capital ratio	10.0%	9.3%	10.0%	9.3%
Tier one capital ratio	12.3%	11.3%	12.3%	11.3%
Total capital ratio	13.8%	12.2%	13.8%	12.2%
Buffer ratio	5.8%	4.2%	5.8%	4.2%
Minimum ratio requirement				
Common equity tier one capital ratio	4.5%	4.5%	4.5%	4.5%
Tier one capital ratio	6.0%	6.0%	6.0%	6.0%
Total capital ratio	8.0%	8.0%	8.0%	8.0%
Buffer ratio	2.5%	2.5%	2.5%	2.5%

(1) This instrument is subject to phase-out from additional tier one capital with the percentage of the instrument that qualifies as additional tier one capital declining by 20% per calendar year, commencing 1 January 2014 and ending 1 January 2018.

Notes to the Financial Statements

For the six months ended 31 December 2016

14 Capital Adequacy (continued)

Unaudited

\$ millions	Banking Group		
	Total Exposure ⁽¹⁾	RWE ⁽²⁾	Capital Requirement
As at 31 December 2016			
Capital requirements			
Total credit risk	100,782	45,916	3,673
Operational risk	N/A	4,375	350
Market risk	N/A	2,504	200
Total capital requirement		52,795	4,223

As at 31 December 2016, the Banking Group held \$3,093m of capital in excess of its regulatory capital requirements.

(1) Total exposure is after credit risk mitigation.

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

Capital Structure

Ordinary Shares

On 30 March 2016, the Bank issued 400,000,000 ordinary shares to ASB Holdings Limited and raised \$400 million from the issuance. The ordinary shares qualify as common equity tier one capital under the RBNZ's regulatory capital standards.

The total number of issued ordinary shares as at 31 December 2016 was 2,648,121,300 (31 December 2015 2,248,121,300). All ordinary shares have equal voting rights and share equally in dividends and any profit on winding up, after the obligations to holders of ASB perpetual preference shares ("PPS") are satisfied. Dividends are declared, subject in all cases, to the applicable directors' resolutions being passed.

Perpetual Preference Shares

a) On 16 March 2015, the Bank issued 6,000,000 PPS to ASB Holdings Limited and raised \$600 million from the issuance. On 31 March 2016, the Bank issued a further 4,000,000 PPS to ASB Holdings Limited and raised \$400 million from the issuance. Both PPS issuances qualify as additional tier one capital under the RBNZ's regulatory capital standards.

The PPS are non-voting and pay discretionary quarterly floating rate dividends. Upon a winding-up, the PPS rank equally with the Bank's other preference shares, above its ordinary shares and below its liabilities. At the option of the Bank, the 6,000,000 and 4,000,000 PPS are redeemable on the initial optional redemption dates of 16 March 2020 and 15 June 2021 respectively or on any subsequent scheduled distribution date, subject to RBNZ approval.

If a non-viability trigger event ("NVTE") occurs, the PPS will be exchanged into a fixed number of ordinary shares of the Bank. A NVTE occurs at the direction of the RBNZ or a statutory manager of the Bank. A NVTE occurs when, among other circumstances, the RBNZ has reasonable grounds to believe that the Bank is insolvent or likely to become insolvent and directs the Bank to exchange the PPS for ordinary shares. If for any reason the exchange for ordinary shares cannot occur, the PPS will be immediately and irrevocably written down, in accordance with the PPS terms.

b) On 15 May 2006 the Bank issued 200,000,000 of 2006 Series 1 PPS and 350,000,000 of 2006 Series 2 PPS to ASB Holdings Limited. ASB Holdings Limited subsequently transferred the PPS by way of novation to its subsidiary ASB Funding Limited.

The 2006 Series 1 and Series 2 PPS were issued as part of transactions with ASB Capital Limited and ASB Capital No. 2 Limited, both of which are subsidiaries of CBA Funding (NZ) Limited, which is ultimately owned by CBA.

Under the transactions, ASB Capital Limited and ASB Capital No. 2 Limited have advanced proceeds received from a public issue of their own PPS to ASB Funding Limited. ASB Funding Limited in turn invested the proceeds in the 2006 Series 1 and Series 2 PPS issued by the Bank. ASB Funding Limited and The New Zealand Guardian Trust Company Limited (the "Trustee") together with ASB Capital Limited and ASB Capital No. 2 Limited respectively are party to Trust Deeds, whereby ASB Funding Limited provides covenants to the Trustee for the benefit of holders of the ASB Capital Limited and ASB Capital No. 2 Limited PPS and grants security over the Bank's PPS in favour of the Trustee.

The 2006 Series 1 and Series 2 PPS are non-redeemable and carry limited voting rights. Dividends which are payable quarterly in arrears are non-cumulative, and payable at the discretion of the Directors.

The dividend payable on the 2006 Series 1 PPS is based on the one year swap rate plus a margin of 1.3%. Rates are reset annually on 15 November or the succeeding business day. The rate was reset on 15 November 2016 to 3.42% per annum (the rate to 15 November 2016 was 4.00% per annum). The next dividend reset date is 15 November 2017.

The dividend payable on the 2006 Series 2 PPS is based on the one year swap rate plus a margin of 1.0%. Rates are reset annually on 15 May or the succeeding business day. The rate was reset on 16 May 2016 to 3.20% per annum (the rate to 16 May 2016 was 4.34% per annum). The next dividend reset date is 15 May 2017.

In the event of the liquidation of the Bank, payment of the issue price and cumulative dividends on the PPS ranks:

- before all rights of ordinary shareholders;
- after all rights of holders of shares of the Bank other than ordinary or preference shares; and
- after all rights of creditors of the Bank.

The total number of issued PPS as at 31 December 2016 was 560,000,000 (31 December 2015 556,000,000).

Notes to the Financial Statements

For the six months ended 31 December 2016

14 Capital Adequacy (continued)

Unaudited

Capital Structure (continued)

Loan Capital

On 17 April 2014, the Bank issued subordinated and unsecured debt securities ("ASB Notes") with a face value of \$400 million. On 30 November 2016, the Bank issued additional subordinated and unsecured debt securities ("ASB Notes 2") with a face value of \$400 million. The ASB Notes and ASB Notes 2 (collectively, the "Notes"), meet the criteria for tier 2 capital designation under the Bank's and CBA's regulatory capital requirements and are classified as financial liabilities under NZ IAS 32.

The ASB Notes will mature on 15 June 2024 but subject to certain conditions, the Bank has the right to redeem all or some of the ASB Notes on any interest payment date on or after 15 June 2019 (call option date). The ASB Notes 2 will mature on 15 December 2026 but subject to certain conditions, the Bank has the right to redeem all or some of the ASB Notes 2 on any interest payment date on or after 15 December 2021 (call option date). At any time, the Bank may redeem all the Notes for tax or regulatory reasons. The ASB Notes bear an interest rate of 6.65% and the ASB Notes 2 bear an interest rate of 5.25% fixed for five years, and will be reset if the ASB Notes and the ASB Notes 2 are not redeemed on or before their respective call option dates. Payment of interest is quarterly in arrears and is subject to the Bank remaining solvent and the Banking Group being solvent immediately after such payment is made.

If a non-viability trigger event ("NVTE") occurs, some or all of the Notes will automatically and immediately be exchanged for CBA ordinary shares. A NVTE occurs when, among other circumstances:

- the RBNZ has reasonable grounds to believe that the Bank is insolvent or likely to become insolvent and directs the Bank to convert or write down a class of capital instruments that includes the Notes; or
- APRA notifies CBA that it believes an exchange of some or all the Notes is necessary because without it CBA would become non-viable. If the Notes are not able to be exchanged, or the exchange is not effective, within five business days, the rights of the holders will be terminated.

In conjunction with the issuance of the ASB Notes and ASB Notes 2, the Bank also entered into related agreements with ASB Holdings Limited and CBA on 13 March 2014 and 12 October 2016 respectively. These related agreements include a requirement for the Bank to issue to ASB Holdings Limited, upon the occurrence of a NVTE, a variable number of shares, for a consideration equivalent to the Notes exchanged into CBA shares.

Reserves

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

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

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

Notes to the Financial Statements

For the six months ended 31 December 2016

14 Capital Adequacy (continued)

Unaudited

Credit risk exposures subject to the IRB approach by exposure class

As at 31 December 2016	Banking Group					
	Weighted Average PD	Exposure Amount \$ millions	Exposure Weighted LGD	Exposure Weighted Risk Weight	Risk Exposures ⁽¹⁾ \$ millions	Minimum Capital Requirement \$ millions
PD Grade						
Sovereign exposures						
Less than and including 0.03%	0.02%	3,630	45%	7%	276	22
Over 0.03% up to and including 0.05%	-	-	-	-	-	-
Over 0.05% up to and including 0.07%	-	-	-	-	-	-
Over 0.07% up to and including 0.26%	-	-	-	-	-	-
Over 0.26% up to and including 99.99%	-	-	-	-	-	-
Default PD grade	100.00%	-	-	-	-	-
Total sovereign exposures	0.02%	3,630	45%	7%	276	22
Bank exposures						
Less than and including 0.03%	0.03%	970	61%	14%	149	12
Over 0.03% up to and including 0.05%	0.03%	3,481	56%	16%	589	47
Over 0.05% up to and including 0.07%	0.07%	456	58%	29%	138	11
Over 0.07% up to and including 0.26%	0.17%	594	13%	10%	65	5
Over 0.26% up to and including 99.99%	-	-	-	-	-	-
Default PD grade	100.00%	-	-	-	-	-
Total bank exposures	0.05%	5,501	52%	16%	941	75
Exposures secured by residential mortgages						
Less than and including 0.50%	0.34%	29,887	23%	16%	5,179	414
Over 0.50% up to and including 0.85%	0.69%	18,948	25%	30%	5,956	476
Over 0.85% up to and including 3.26%	1.33%	8,591	25%	46%	4,235	339
Over 3.26% up to and including 7.76%	4.14%	135	26%	96%	137	11
Over 7.76% up to and including 99.99%	18.04%	637	24%	129%	871	70
Default PD grade	100.00%	127	28%	303%	408	33
Total exposures secured by residential mortgages	1.02%	58,325	24%	27%	16,786	1,343
Other retail exposures						
Less than and including 0.50%	-	-	-	-	-	-
Over 0.50% up to and including 0.85%	0.83%	562	95%	89%	528	42
Over 0.85% up to and including 3.26%	1.61%	2,019	95%	112%	2,402	192
Over 3.26% up to and including 7.76%	3.77%	293	92%	133%	412	33
Over 7.76% up to and including 99.99%	27.06%	19	94%	237%	47	4
Default PD grade	100.00%	9	95%	811%	78	6
Total other retail exposures	2.15%	2,902	94%	113%	3,467	277
Corporate exposures - small and medium enterprises						
Less than and including 0.20%	0.13%	462	33%	18%	87	7
Over 0.20% up to and including 0.50%	0.34%	2,184	25%	27%	628	50
Over 0.50% up to and including 1.00%	0.70%	5,925	30%	45%	2,833	227
Over 1.00% up to and including 2.30%	1.56%	7,697	32%	68%	5,555	444
Over 2.30% up to and including 99.99%	5.61%	4,962	34%	111%	5,838	467
Default PD grade	100.00%	458	39%	409%	1,988	159
Total corporate exposures - small and medium enterprises	4.18%	21,688	31%	74%	16,929	1,354
Other corporate exposures						
Less than and including 0.20%	0.11%	860	60%	31%	285	23
Over 0.20% up to and including 0.50%	0.31%	1,334	50%	52%	740	59
Over 0.50% up to and including 1.00%	0.64%	1,222	46%	68%	887	71
Over 1.00% up to and including 2.30%	1.42%	220	44%	92%	215	17
Over 2.30% up to and including 99.99%	3.55%	103	40%	115%	125	10
Default PD grade	100.00%	1	59%	-	-	-
Total other corporate exposures	0.55%	3,740	50%	57%	2,252	180

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

Notes to the Financial Statements

For the six months ended 31 December 2016

14 Capital Adequacy (continued)

Unaudited

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

\$ millions	Banking Group			
	Undrawn Commitments and Other Off Balance Sheet Amounts		Market Related Contracts	
As at 31 December 2016	Value	EAD	Value	EAD
Bank exposures	152	152	142,732	477
Exposures secured by residential mortgages	8,428	8,046	-	-
Other retail exposures	1,933	1,897	-	-
Corporate exposures - small and medium enterprises	2,848	2,848	2,378	79
Other corporate exposures	1,447	1,447	2,998	72
	14,808	14,390	148,108	628

\$ millions	Banking Group						
	LVR Range	0%-60%	60.1%-70%	70.1%-80%	80.1%-90%	90.1%-100%	Total
Residential mortgages by loan-to-valuation ratio ("LVR")							
On balance sheet exposures		14,379	10,645	18,826	4,624	1,805	50,279
Off balance sheet exposures		3,490	1,701	2,318	273	264	8,046
Total value of exposures		17,869	12,346	21,144	4,897	2,069	58,325
Expressed as a percentage of total exposures		30.6%	21.2%	36.3%	8.4%	3.5%	100.0%

Exposures included in the LVR calculation are residential mortgages subject to the IRB approach, including commitments to lend. The valuation used in the calculation of each LVR is based on the valuation of the associated residential property at the date of loan origination. On balance sheet and off balance sheet exposures for which no LVR information is available are included in the greater than 90% range.

\$ millions	Banking Group
As at 31 December 2016	
Reconciliation of mortgage-related amounts	
Residential mortgages in advances to customers (refer to note 4)	50,230
Add/(less):	
Off balance sheet exposures	8,046
EAD and other adjustments	237
Unamortised loan establishment fees	(188)
Residential mortgages in LVR disclosure	58,325

Notes to the Financial Statements

For the six months ended 31 December 2016

14 Capital Adequacy (continued)

Unaudited

As at 31 December 2016	Banking Group			Minimum Pillar One Capital Requirement \$ millions
	Total Exposure after Credit Risk Mitigation \$ millions	Risk Weight	Risk Weighted Exposures ⁽¹⁾ \$ millions	
Balance Sheet Exposures Subject to the Slotting Approach				
Specialised lending				
Strong	31	70%	23	2
Good	142	90%	136	11
Satisfactory	5	115%	6	-
	178		165	13

As at 31 December 2016	Banking Group			Minimum Pillar One Capital Requirement \$ millions
	EAD \$ millions	Average Risk Weight	Risk Weighted Exposures ⁽¹⁾ \$ millions	
Off Balance Sheet Exposures Subject to the Slotting Approach				
Undrawn commitments	25	94%	25	2
Other off balance sheet exposures	7	94%	7	1
	32		32	3

As at 31 December 2016	Banking Group			Minimum Pillar One Capital Requirement \$ millions
	Total Exposure after Credit Risk Mitigation \$ millions	Average Risk Weight	Risk Weighted Exposures ⁽¹⁾ \$ millions	
Balance Sheet Exposures				
Credit risk exposures subject to the standardised approach				
Cash	51	-	-	-
Residential mortgages	15	50%	8	1
Other assets	4,387	100%	4,650	372
Total balance sheet exposures	4,453		4,658	373

As at 31 December 2016	Banking Group					Minimum Pillar One Capital Requirement \$ millions
	Total Exposure or Principal Amount \$ millions	Average Credit Conversion Factor	Credit Equivalent Amount \$ millions	Average Risk Weight	Risk Weighted Exposures ⁽¹⁾ \$ millions	
Off Balance Sheet Exposures Subject to the Standardised Approach						
Undrawn commitments	110	100%	110	96%	112	9
Other off balance sheet exposures	93	100%	93	99%	98	8
Market related contracts	3	100%	3	100%	3	-
Total off balance sheet exposures subject to the standardised approach	206		206		213	17

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

Notes to the Financial Statements

For the six months ended 31 December 2016

14 Capital Adequacy (continued)

Unaudited

\$ millions	Banking Group		
	Total Exposure after Credit Risk Mitigation	Total Risk Weighted Exposures	Capital Requirement
As at 31 December 2016			
Total credit risk			
Exposures subject to the IRB approach	95,786	40,651	3,251
Specialised lending subject to the slotting approach	210	197	16
Exposures subject to the standardised approach	4,659	4,871	390
Credit valuation adjustment	-	194	16
Qualifying central counterparties	127	3	-
Total credit risk	100,782	45,916	3,673

Exposures Subject to the IRB Approach

Sovereign exposures	Exposures to the Crown; RBNZ; specified multilateral development banks; any other sovereign or its central bank.
Bank exposures	Exposures to banks and local authorities.
Secured by residential mortgages	Home lending fully or partially secured by residential property.
Other retail exposures	Personal credit cards.
Corporate exposures	Other corporate exposures - clients where turnover exceeds \$50 million; small and medium enterprises ("SME") - clients where turnover is less than \$50 million and group exposure exceeds \$1 million.

Exposures Subject to the Slotting Approach

Specialised lending	Project finance; income-producing real estate.
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Exposures Subject to the Standardised Approach

Secured by residential mortgages	A small non-scored home loan portfolio.
Other assets	SME where group exposure is less than \$1 million, other personal lending, and all other assets not falling within any other asset class.

Credit Risk Mitigation

The Banking Group assesses the integrity and ability of debtors or counterparties to meet their contracted financial obligations for repayment. Collateral security in the form of real property or a security interest in personal property is generally taken for business credit except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance (e.g. housing loans) is generally secured against real estate while short term revolving consumer credit is generally unsecured.

As at 31 December 2016 none of the credit risk exposures subject to the standardised approach are covered by eligible financial collateral (i.e. cash, debt securities or equity securities). Across all portfolios, no exposures are covered by credit derivatives. Information on the total value of exposures covered by financial guarantees is not disclosed, as the effect of these guarantees on the underlying credit risk exposures is not considered to be material.

Operational Risk

The advanced measurement approach has been implemented to determine capital requirements for operational risk.

The implied risk-weighted exposure for operational risk as at 31 December 2016 was \$4,375 million (31 December 2015 \$3,460 million).

The total operational risk capital requirement as at 31 December 2016 was \$350 million (31 December 2015 \$277million).

Notes to the Financial Statements

For the six months ended 31 December 2016

14 Capital Adequacy (continued)

Unaudited

Market Risk Capital Charges

The Banking Group's aggregate market risk exposure is derived in accordance with the RBNZ documents *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) and *Market Risk Guidance Notes* (BS6). The peak end-of-day exposure is derived by taking the highest market exposure over the six months ended 31 December 2016.

Interest rate risk and foreign exchange risk are calculated on a daily basis. Equity risk is calculated on a monthly basis (on the last working day of the month). For each category, the peak end-of-day market risk exposure may not have occurred at the same time.

\$ millions	Banking Group			
	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Total
Exposures as at 31 December 2016				
Implied risk-weighted exposure	2,487	17	-	2,504
Aggregate capital charge	199	1	-	200

\$ millions	Banking Group			
	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Total
Peak Exposures for the six months ended 31 December 2016				
Implied risk-weighted exposure	2,907	57	-	2,964
Aggregate capital charge	233	5	-	238

Capital for Other Material Risks

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

Under RBNZ rules, a bank that is a member of a wider banking group may base its approach on group wide methodologies. The Banking Group, as a member of the wider CBA banking group, has based its ICAAP processes on that of CBA, after taking account of New Zealand and Bank conditions.

The Banking Group's ICAAP is a documented process to ensure the Banking Group has adequate overall capital in relation to its risk profile. Component parts of the Banking Group's ICAAP are reviewed on a regular basis by senior management and the Board. The Banking Group's ICAAP and ICAAP documents are reviewed annually. Revisions to significant ICAAP processes must be approved by the Board.

The Banking Group's ICAAP includes an assessment of capital required to cover material risks not already captured in the measurement of regulatory capital. As at 31 December 2016, internal capital allocations of \$295 million (31 December 2015 \$353 million) had been made for other material risks including strategic risk and fixed asset risk.

Capital Adequacy of Ultimate Parent Bank and Ultimate Parent Banking Group

The ultimate parent bank of the Banking Group is CBA. The ultimate parent banking group is CBA and the various companies and other entities owned and controlled by CBA.

The ultimate parent banking group is accredited to use the advanced internal ratings based approach ("AIRB") for credit risk and the advanced measurement approach ("AMA") for operational risk, which have been adopted in the calculation of the ultimate parent banking group's risk-weighted exposures.

The ultimate parent banking group adopted the Basel III measurement of regulatory capital effective from 1 January 2013. The APRA prudential standards require a minimum CET1 ratio of 4.5% which was effective from 1 January 2013. An additional CET1 capital conservation buffer of 3.5%, inclusive of a domestic systemically important bank requirement of 1% and a countercyclical capital buffer of 0%, was effective from 1 January 2016, bringing the CET1 requirement to at least 8%.

The ultimate parent banking group is required to disclose capital adequacy information on a quarterly and a semi-annual basis. This information is made available to users via the ultimate parent bank's website (www.commbank.com.au).

The ultimate parent banking group is required by APRA to hold minimum capital specified under the Basel III (AIRB) approach. As at 31 December 2016 the minimum capital requirements were met (31 December 2015 minimum capital requirements under the Basel III (AIRB) approach were met).

As at	Ultimate Parent Bank		Ultimate Parent Banking Group	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
Common equity tier one capital ratio	10.3%	10.7%	9.9%	10.2%
Tier one capital ratio	11.6%	12.6%	11.5%	12.2%
Total capital ratio	13.7%	14.5%	13.7%	14.1%

Notes to the Financial Statements

For the six months ended 31 December 2016

15 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.

16 Financial Reporting by Operating Segments Unaudited

\$ millions	Banking Group				Total
	Retail and Business Banking	Corporate, Commercial and Rural	Wealth and Insurance	Other	
Income Statement					
For the six months ended 31 December 2016					
Net interest earnings	575	292	5	51	923
Other income/(expense)	127	73	87	(20)	267
Total operating income	702	365	92	31	1,190
Impairment losses on advances	29	20	-	-	49
Segment operating expenses (excluding impairment losses)	245	125	41	-	411
Segment net profit before taxation	428	220	51	31	730
Taxation	119	61	14	11	205
Segment net profit after taxation	309	159	37	20	525
Balance Sheet					
As at 31 December 2016					
Total assets	50,859	28,903	144	7,080	86,986
Total liabilities	37,517	16,523	342	25,426	79,808

\$ millions	Banking Group				Total
	Retail and Business Banking	Corporate, Commercial and Rural	Wealth and Insurance	Other	
Income Statement					
For the six months ended 31 December 2015					
Net interest earnings	570	276	6	25	877
Other income/(expense)	122	67	81	(36)	234
Total operating income/(expense)	692	343	87	(11)	1,111
Impairment losses on advances	23	18	-	-	41
Segment operating expenses (excluding impairment losses)	239	125	44	3	411
Segment net profit/(loss) before taxation	430	200	43	(14)	659
Taxation	121	56	12	(4)	185
Segment net profit/(loss) after taxation	309	144	31	(10)	474
Balance Sheet					
As at 31 December 2015					
Total assets	46,362	24,597	172	6,392	77,523
Total liabilities	35,656	14,178	326	21,552	71,712

Notes to the Financial Statements

For the six months ended 31 December 2016

16 Financial Reporting by Operating Segments (continued)

Unaudited

Retail and Business Banking:

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

Corporate, Commercial and Rural:

The Corporate, Commercial and Rural segment provides services to corporate, commercial and rural customers. It also comprises the Bank's financial markets activities, including financial instruments trading and sales of financial instruments to customers.

Wealth and Insurance:

The Wealth and Insurance segment provides securities, investment and insurance services to customers.

Other primarily includes:

- business units that do not meet the definition of operating segments under NZ IFRS 8 *Operating Segments*, including the Bank's Treasury function and other functions that supply 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.

17 Qualifying Liquid Assets

Unaudited

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

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

\$ millions	Banking Group					
	Cash and Liquid Assets	Available for Sale Securities	Trading Securities	Advances to Customers	Other Assets	Total
As at 31 December 2016						
Cash	212	-	-	-	-	212
Call deposits with the central bank	1,248	-	-	-	-	1,248
Local authority securities	-	321	21	-	3	345
New Zealand government securities	760	1,061	53	-	9	1,883
Corporate bonds	-	475	-	-	4	479
Bank bills	-	-	1,037	-	-	1,037
Kauri bonds	-	1,603	2	-	19	1,624
Floating rate notes	-	352	-	-	1	353
Residential mortgage-backed securities	-	-	-	3,481	-	3,481
Total qualifying liquid assets	2,220	3,812	1,113	3,481	36	10,662

Notes to the Financial Statements

For the six months ended 31 December 2016

18 Interest Rate Repricing Schedule Unaudited

The following tables include the Banking Group's assets and liabilities at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of derivative financial instruments, which are principally used to reduce the Banking Group's exposure to interest rate movements, are included under the heading "Non-interest Bearing".

\$ millions	Banking Group						Non-interest Bearing	Total
	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Over 2 Years		
As at 31 December 2016								
Assets								
Cash and liquid assets	2,048	-	-	-	-	172	2,220	
Due from financial institutions	1,669	-	-	-	-	1	1,670	
Trading securities	988	49	2	-	74	-	1,113	
Derivative assets	-	-	-	-	-	1,398	1,398	
Available-for-sale securities	528	30	448	455	2,351	-	3,812	
Advances to customers	33,033	6,732	12,050	15,290	9,058	(102)	76,061	
Other assets	-	-	-	-	-	712	712	
Total assets	38,266	6,811	12,500	15,745	11,483	2,181	86,986	
Liabilities								
Deposits and other public borrowings	35,561	8,443	5,529	1,934	969	3,933	56,369	
Due to financial institutions	781	-	-	-	-	17	798	
Other liabilities at fair value through Income Statement	169	-	-	-	-	-	169	
Derivative liabilities	-	-	-	-	-	1,916	1,916	
Other liabilities	-	-	-	-	-	511	511	
Debt issues:								
At fair value through Income Statement	865	-	-	-	-	-	865	
At amortised cost	9,289	315	1,452	1,287	6,030	7	18,380	
Loan capital	-	-	-	-	800	-	800	
Total liabilities	46,665	8,758	6,981	3,221	7,799	6,384	79,808	
Net derivative notionals	13,969	(2,145)	(2,213)	(11,055)	1,444	-	-	
Interest rate sensitivity gap	5,570	(4,092)	3,306	1,469	5,128	(4,203)	7,178	

Notes to the Financial Statements

For the six months ended 31 December 2016

19 Maturity Analysis for Undiscounted Contractual Cash Flows Unaudited

The tables below present the Banking Group's cash flows by remaining contractual maturities as at balance date. The amounts disclosed in the tables are the contractual undiscounted cash flows and include principal and future interest cash flows, and therefore will not agree to the carrying values on the Balance Sheet.

Actual cash flows may differ significantly from the contractual cash flows presented below as a result of future actions of the Banking Group and its counterparties, such as early repayments or refinancing of term loans.

The majority of the longer term advances to customers are housing loans which are likely to be repaid earlier than their contractual terms. Deposits and other public borrowings include substantial customer savings deposits and cheque accounts, which are at call. History demonstrates that such accounts provide a stable source of long term funding for the Banking Group. It should be noted that the Banking Group does not manage its liquidity risk on the basis of the information below.

\$ millions	Banking Group						Total	Carrying Value
	On Demand	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Between 2-5 Years	Over 5 Years		
As at 31 December 2016								
Non-derivative financial assets								
Cash and liquid assets	1,460	763	-	-	-	-	2,223	2,220
Due from financial institutions	983	687	-	-	-	-	1,670	1,670
Trading securities	-	1,047	3	2	72	-	1,124	1,113
Available-for-sale securities	-	302	638	690	2,253	267	4,150	3,812
Advances to customers	1,010	10,978	4,567	9,183	18,513	64,772	109,023	76,061
Other assets	-	202	-	-	-	-	202	202
Total non-derivative financial assets	3,453	13,979	5,208	9,875	20,838	65,039	118,392	85,078
Derivative financial assets								
Inflows from derivatives	-	3,513	2,458	1,914	3,230	866	11,981	
Outflows from derivatives	-	(2,840)	(2,301)	(1,688)	(3,093)	(904)	(10,826)	
	-	673	157	226	137	(38)	1,155	
Non-derivative financial liabilities								
Deposits and other public borrowings	28,192	19,959	5,594	1,977	1,001	-	56,723	56,369
Due to financial institutions	798	-	-	-	-	-	798	798
Other liabilities at fair value through Income Statement	-	171	-	-	-	-	171	169
Other liabilities	77	359	46	-	-	-	482	482
Debt issues:								
At fair value through Income Statement	-	866	-	-	-	-	866	865
At amortised cost	-	3,857	4,153	2,866	6,002	2,272	19,150	18,380
Loan capital	-	24	24	48	48	1,010	1,154	800
Total non-derivative financial liabilities	29,067	25,236	9,817	4,891	7,051	3,282	79,344	77,863
Derivative financial liabilities								
Inflows from derivatives	-	1,146	1,975	1,981	3,944	1,476	10,522	
Outflows from derivatives	-	(2,091)	(2,305)	(2,548)	(4,624)	(1,712)	(13,280)	
	-	(945)	(330)	(567)	(680)	(236)	(2,758)	
Off balance sheet items								
Lending commitments	12,713	1,527	-	-	-	-	14,240	
Guarantees	-	143	-	-	-	-	143	
Other contingent liabilities	-	289	-	-	-	-	289	
Total off balance sheet items	12,713	1,959	-	-	-	-	14,672	

Notes to the Financial Statements

For the six months ended 31 December 2016

20 Concentrations of Funding Unaudited

The following tables present the Banking Group's concentrations of funding, which are reported by industry and geographic region.

ANZSIC codes have been used as the basis for disclosing industry sectors.

\$ millions As at	Banking Group 31-Dec-16
Total funding comprises:	
Deposits and other public borrowings	56,369
Due to financial institutions	798
Other liabilities at fair value through Income Statement	169
Debt issues:	
At fair value through Income Statement	865
At amortised cost	18,380
Loan capital	800
Total funding	77,381
Concentration by industry	
Agricultural, forestry and fishing	746
Government and public authorities	1,587
Property and business services	6,340
Finance and insurance	24,930
Utilities	232
Transport and storage	629
Personal	38,423
Other commercial and industrial	4,494
Total funding by industry	77,381
Concentration by geographic region	
New Zealand	58,406
Overseas	18,975
Total funding by geographic region	77,381

21 Events after the Reporting Period Unaudited

On 3 February 2017 the Directors resolved to pay the following dividends, subject to certain conditions being satisfied:

- \$1 million on 15 February 2017, being 0.62 cents per share on 200 million 2006 Series 1 perpetual preference shares;
- \$2 million on 15 February 2017, being 0.58 cents per share on 350 million 2006 Series 2 perpetual preference shares;
- \$6 million on 15 March 2017, being 98.18 cents per share on 6 million 2015 perpetual preference shares;
- \$4 million on 15 March 2017, being 111.49 cents per share on 4 million 2016 perpetual preference shares; and
- \$250 million on 15 March 2017, being 9.44 cents per share on 2,648 million ordinary shares.

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

Directors' Statement

After due enquiry by the Directors, it is each Director's opinion that for the six months ended 31 December 2016:

- the Bank complied with the Conditions of Registration imposed by the Reserve Bank of New Zealand under section 74 of the Reserve Bank of New Zealand Act 1989;
- credit exposures to connected persons were not contrary to the interests of the Banking Group; and
- the Bank had systems in place to adequately monitor and control the Banking Group's credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other material business risks and that those systems are being properly applied.

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

- the Disclosure Statement contains all the information required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended); and
- the Disclosure Statement is not false or misleading.

The Disclosure Statement is signed by or on behalf of all the Directors.

G.R. Walker

S.R.S. Blair

B.J. Chapman

as agent for
M.B. Coomer

J.L. Freeman

C.M. McDowell

V.A.J. Shortt

as agent for
R.M. Spaans

A.L. Toevs

T.M. Walsh

15 February 2017

Independent Review Report



Independent Review Report to the shareholder of ASB Bank Limited

Report on the Financial Statements

We have reviewed pages 4 to 30 of the half year Disclosure Statement of ASB Bank Limited (the “Bank”), which includes the financial statements required by Clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the “Order”) and the supplementary information required by Schedules 5, 7, 11, 13, 16 and 18 of the Order. The financial statements comprise the balance sheet as at 31 December 2016, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the six months then ended, and the notes to the financial statements that include the statement of accounting policies and selected explanatory information for the Banking Group. The Banking Group comprises the Bank and the entities it controlled at 31 December 2016 or from time to time during the period.

Directors’ Responsibility for the Financial Statements

The Directors of the Bank (the “Directors”) are responsible on behalf of the Bank, for the preparation and fair presentation of the half year Disclosure Statement, which includes financial statements prepared in accordance with Clause 25 of the Order and for such internal controls as the Directors determine are necessary to enable the preparation of the half year Disclosure Statement that is free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible, on behalf of the Bank, for including information in the half year Disclosure Statement which complies with Schedules 3, 5, 7, 11, 13, 16 and 18 of the Order.

Our Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements and the supplementary information, disclosed in accordance with Clause 25 and Schedules 5, 7, 11, 13, 16 and 18 of the Order, presented by the Directors based on our review.

Our responsibility is to express a conclusion on the financial statements (excluding the supplementary information) whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the financial statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* (“NZ IAS 34”).

Our responsibility is to express a conclusion on the supplementary information (excluding the supplementary information relating to capital adequacy) whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order.

Our responsibility is to express a conclusion on the supplementary information relating to capital adequacy whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects:

- a) prepared in accordance with the Bank’s Conditions of Registration;
- b) prepared in accordance with the Bank’s internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
- c) disclosed in accordance with Schedule 11 of the Order.

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Independent Review Report (continued)



Independent Review Report

ASB Bank Limited

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410: *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410"). As the auditor of the Bank, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on this half year Disclosure Statement.

We are independent of the Bank and the Banking Group. We carry out other assignments on behalf of the Bank and the Banking Group for audit-related services relating to funds managed by the Banking Group and for other assurance and advisory services. In addition, certain partners and employees of our firm may deal with the Bank and the Banking Group on normal terms within the ordinary course of trading activities of the Bank and the Banking Group. These matters have not impaired our independence. We have no other interests in the Bank or the Banking Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that:

- a) the financial statements on pages 4 to 30 (excluding the supplementary information) have not been prepared in all material respects, in accordance with NZ IAS 34; and
- b) the supplementary information prescribed by Schedules 5, 7, 13, 16 and 18 of the Order, does not fairly state the matters to which it relates in accordance with those Schedules; and
- c) the supplementary information relating to capital adequacy prescribed by Schedule 11 of the Order is not, in all material respects:
 - i. prepared in accordance with the Bank's Conditions of Registration;
 - ii. prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
 - iii. disclosed in accordance with Schedule 11 of the Order.

Restriction on Use of our Report

This report is made solely to the Bank's shareholder. Our review work has been undertaken so that we might state to the Bank's shareholder those matters which we are required to state to 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 Bank and the Bank's shareholder for our review procedures, for this report, or for the conclusions we have formed.

A stylized, handwritten signature of 'PricewaterhouseCoopers' in a cursive script.

Chartered Accountants
15 February 2017

Auckland



