# ASB Disclosure Statement

For the nine months ended 31 March 2016

# Contents

# General Disclosures

(To be read in conjunction with the Financial Statements)

**31 March 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**

T.M. Walsh was appointed as a director of the Bank with effect from 13 October 2015.

D.A.K. Cohen resigned as a director of the Bank with effect from 6 May 2016.

There have been no other changes to the Board of Directors since the signing of the 30 June 2015 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- |

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 Aaa 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 $2.462 billion were guaranteed as at 31 March 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 March 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 2015, 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**

As disclosed previously in the ASB Disclosure Statement and Annual Report for the year ended 30 June 2015 (page 11), APRA advised CBA that it intended to set limits on non-equity exposures by Australian parent banks to their New Zealand banking subsidiaries in ordinary times.

On 25 November 2015, 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. For the purposes of this limit, exposures include all committed, non-intraday, non-equity exposures, including derivatives and off-balance sheet exposures. APRA has imposed two conditions over the transition period. Firstly, that the percentage excess above the five percent limit as at 30 June 2015 is to reduce by at least one fifth by the end of each calendar year over the transition period. Secondly, that the absolute amount of routine New Zealand non-equity exposure is not to increase from the 30 June 2015 level until CBA is, and expects to remain, below the five percent limit. For the purposes of assessing this exposure, the five percent limit excludes equity investments and holdings of capital instruments in the Bank and its subsidiaries.

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.

CBA expect to be compliant with APRA's requirements to reduce its non-equity exposures to the Bank and its subsidiaries within 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") has amended the Conditions of Registration effective 1 November 2015. Certain amendments reflect changes to the high loan-to-valuation speed limits applying to lending secured by Auckland investment properties and lending secured by residential properties outside of Auckland. Other amendments include the requirement for a non-objection notice from the RBNZ in relation to certain capital instruments and updated references to revised versions of various RBNZ documents.

There have been no other changes to the Conditions of Registration since 1 November 2015.

**Auditor**

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

# Income Statement

| $ millions | | Banking Group | |
|---|---|---|---|
| | | **Unaudited** | Unaudited |
| **For the nine months ended** | Note | **31-Mar-16** | 31-Mar-15 |
| Interest income | | **3,022** | 3,056 |
| Interest expense | | **1,751** | 1,812 |
| **Net interest earnings** | | **1,271** | 1,244 |
| Other income | 2 | **382** | 323 |
| **Total operating income** | | **1,653** | 1,567 |
| Impairment losses on advances | 6(b) | **72** | 62 |
| **Total operating income after impairment losses** | | **1,581** | 1,505 |
| **Total operating expenses** | | **616** | 592 |
| Salaries and other staff expenses | | **367** | 355 |
| Building occupancy and equipment expenses | | **91** | 93 |
| Information technology expenses | | **70** | 66 |
| Other expenses | | **88** | 78 |
| **Net profit before taxation** | | **965** | 913 |
| Taxation | | **271** | 256 |
| **Net profit after taxation** | | **694** | 657 |

These statements are to be read in conjunction with the notes on pages 9 to 20.

# Statement of Comprehensive Income

| $ millions | Banking Group | |
|---|---|---|
| | **Unaudited** | Unaudited |
| **For the nine months ended** | **31-Mar-16** | 31-Mar-15 |
| **Net profit after taxation** | **694** | 657 |
| **Other comprehensive expense, net of taxation** | | |
| **Items that may be reclassified subsequently to the Income Statement:** | | |
| Net change in available-for-sale reserve | **(17)** | (2) |
| Net change in cash flow hedge reserve | **(53)** | (53) |
| | **(70)** | (55) |
| **Total other comprehensive expense, net of taxation** | **(70)** | (55) |
| **Total comprehensive income** | **624** | 602 |

These statements are to be read in conjunction with the notes on pages 9 to 20.

# Statement of Changes in Equity

| $ millions | Contributed Capital | Asset Revaluation Reserve | Available -for-Sale Reserve | Cash Flow Hedge Reserve | Foreign Currency Translation Reserve | Retained Earnings | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| | | | | Banking Group | | | |
| **For the nine months ended 31 March 2016** | | | | | | | |
| **Unaudited** | | | | | | | |
| Balance at beginning of period | **3,423** | **27** | **8** | **(87)** | **1** | **2,006** | **5,378** |
| Net profit after taxation | **-** | **-** | **-** | **-** | **-** | **694** | **694** |
| Other comprehensive expense | **-** | **-** | **(17)** | **(53)** | **-** | **-** | **(70)** |
| **Total comprehensive (expense)/income** | **-** | **-** | **(17)** | **(53)** | **-** | **694** | **624** |
| Ordinary share capital issued | **400** | **-** | **-** | **-** | **-** | **-** | **400** |
| Perpetual preference share capital issued | **400** | **-** | **-** | **-** | **-** | **-** | **400** |
| Ordinary dividends paid | **-** | **-** | **-** | **-** | **-** | **(200)** | **(200)** |
| Perpetual preference dividends paid | **-** | **-** | **-** | **-** | **-** | **(34)** | **(34)** |
| **Balance as at 31 March 2016** | **4,223** | **27** | **(9)** | **(140)** | **1** | **2,466** | **6,568** |
| **For the nine months ended 31 March 2015** | | | | | | | |
| **Unaudited** | | | | | | | |
| Balance at beginning of period | 2,823 | 25 | 12 | (5) | 1 | 2,310 | 5,166 |
| Net profit after taxation | - | - | - | - | - | 657 | 657 |
| Other comprehensive expense | - | - | (2) | (53) | - | - | (55) |
| **Total comprehensive (expense)/income** | - | - | (2) | (53) | - | 657 | 602 |
| Perpetual preference share capital issued | 600 | - | - | - | - | - | 600 |
| Ordinary dividends paid | - | - | - | - | - | (965) | (965) |
| Perpetual preference dividends paid | - | - | - | - | - | (14) | (14) |
| **Balance as at 31 March 2015** | 3,423 | 25 | 10 | (58) | 1 | 1,988 | 5,389 |

These statements are to be read in conjunction with the notes on pages 9 to 20.

# Balance Sheet

| $ millions | | Banking Group | | |
|---|---|---|---|---|
| | | **Unaudited** | Unaudited | Audited |
| **As at** | Note | **31-Mar-16** | 31-Mar-15 | 30-Jun-15 |
| **Assets** | | | | |
| Cash and liquid assets | | **2,045** | 1,592 | 1,799 |
| Due from financial institutions | | **1,040** | 683 | 1,615 |
| Trading securities | | **1,559** | 980 | 971 |
| Derivative assets | | **1,637** | 1,220 | 2,102 |
| Available-for-sale securities | | **3,906** | 3,300 | 3,041 |
| Advances to customers | 5 | **69,896** | 63,821 | 65,383 |
| Current taxation asset | | **57** | 88 | - |
| Other assets | | **247** | 546 | 532 |
| Property, plant and equipment | | **180** | 188 | 189 |
| Intangible assets | | **164** | 161 | 164 |
| Deferred taxation asset | | **149** | 95 | 107 |
| **Total assets** | | **80,880** | 72,674 | 75,903 |
| *Total interest earning and discount bearing assets* | | ***78,215*** | *70,301* | *72,733* |
| **Liabilities** | | | | |
| Deposits and other public borrowings | 7 | **54,143** | 49,893 | 52,163 |
| Due to financial institutions | | **2,316** | 2,768 | 3,523 |
| Other liabilities at fair value through Income Statement | | **953** | 305 | 180 |
| Derivative liabilities | | **1,975** | 1,219 | 1,364 |
| Current taxation liability | | **-** | - | 6 |
| Other liabilities | | **534** | 703 | 586 |
| Debt issues: | | | | |
| At fair value through Income Statement | 8 | **1,769** | 1,568 | 1,213 |
| At amortised cost | 8 | **12,198** | 10,419 | 11,076 |
| Loan capital | | **424** | 410 | 414 |
| **Total liabilities** | | **74,312** | 67,285 | 70,525 |
| **Shareholders' equity** | | | | |
| Contributed capital - ordinary shares | | **2,673** | 2,273 | 2,273 |
| Reserves | | **(121)** | (22) | (51) |
| Retained earnings | | **2,466** | 1,988 | 2,006 |
| **Ordinary shareholder's equity** | | **5,018** | 4,239 | 4,228 |
| Contributed capital - perpetual preference shares | | **1,550** | 1,150 | 1,150 |
| **Total shareholders' equity** | | **6,568** | 5,389 | 5,378 |
| **Total liabilities and shareholders' equity** | | **80,880** | 72,674 | 75,903 |
| *Total interest and discount bearing liabilities* | | ***68,039*** | *62,316* | *64,369* |

These statements are to be read in conjunction with the notes on pages 9 to 20.

# Cash Flow Statement

| $ millions | Banking Group | |
|---|---|---|
| | Unaudited | Unaudited |
| **For the period ended** | **31-Mar-16** | 31-Mar-15 |
| **Cash flows from operating activities** | | |
| Net profit before taxation | **965** | 913 |
| **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 | **27** | 27 |
| Amortisation of intangible assets | **31** | 28 |
| Net change in provisions for impairment losses and bad debts written off | **83** | 71 |
| Other movements | **64** | 49 |
| Net (increase)/decrease in operating assets: | | |
| Net (increase)/decrease in reverse repurchase agreements | **(367)** | 222 |
| Net decrease/(increase) in due from financial institutions[1] | **575** | (374) |
| Net increase in trading securities | **(593)** | (26) |
| Net increase in available-for-sale securities | **(888)** | (599) |
| Net increase in advances to customers | **(4,624)** | (3,183) |
| Net decrease in other assets | **307** | 445 |
| Net increase/(decrease) in operating liabilities: | | |
| Net increase in deposits and other public borrowings | **2,012** | 5,128 |
| Net decrease in due to financial institutions[1] | **(1,202)** | (1,612) |
| Net increase/(decrease) in other liabilities at fair value through Income Statement | **770** | (914) |
| Net decrease in other liabilities | **(48)** | (24) |
| Net taxation paid | **(349)** | (353) |
| **Net cash flows from operating activities** | **(3,237)** | (202) |
| **Cash flows from investing activities** | | |
| Cash was applied to: | | |
| Purchase of property, plant and equipment | **(22)** | (22) |
| Purchase of intangible assets | **(31)** | (35) |
| **Net cash flows from investing activities** | **(53)** | (57) |
| **Cash flows from financing activities** | | |
| Cash was provided from: | | |
| Issue of ordinary share capital | **400** | - |
| Issue of perpetual preference share capital | **400** | 600 |
| Issue of loan capital (net of issue costs) | **-** | 4 |
| Issue of debt securities (net of issue costs)[1] | **6,904** | 5,306 |
| Total cash inflows provided from financing activities | **7,704** | 5,910 |
| Cash was applied to: | | |
| Dividends paid | **(234)** | (979) |
| Redemption of issued debt securities[1] | **(4,301)** | (4,636) |
| Total cash outflows applied to financing activities | **(4,535)** | (5,615) |
| **Net cash flows from financing activities** | **3,169** | 295 |
| **Summary of movements in cash flows[1]** | | |
| Net (decrease)/increase in cash and cash equivalents | **(121)** | 36 |
| Add: cash and cash equivalents at beginning of period | **1,413** | 986 |
| **Cash and cash equivalents at end of period** | **1,292** | 1,022 |
| **Cash and cash equivalents comprise:** | | |
| Cash and liquid assets | **2,045** | 1,592 |
| Less: reverse repurchase agreements included in cash and liquid assets | **(753)** | (570) |
| **Cash and cash equivalents at end of period** | **1,292** | 1,022 |
| **Additional operating cash flow information** | | |
| Interest received as cash | **3,037** | 3,072 |
| Interest paid as cash | **(1,753)** | (1,766) |
| Other income received as cash | **387** | 304 |
| Operating expenses paid as cash | **(553)** | (559) |

(1) Certain comparatives have been restated to ensure consistency with presentation in the current period. The definition of cash and cash equivalents has changed to exclude deposit and settlement accounts with other financial institutions with original maturities of three months or less, and cash flows from debt issuances and repayments are now classified as financing activities rather than operating activities.

These statements are to be read in conjunction with the notes on pages 9 to 20.

# Notes to the Financial Statements

For the nine months ended 31 March 2016

## 1 Statement of Accounting Policies

The condensed interim financial statements of the Banking Group for the nine months ended 31 March 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 2015.

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

There have been no material changes to accounting policies during the nine months ended 31 March 2016. All policies have been applied on a basis consistent with that used in the financial year ended 30 June 2015.

Effective 1 July 2015, interest relating to certain derivatives transacted as economic hedges has been recorded in net interest earnings. In prior periods, these amounts were included in other income. Accordingly, certain comparatives have been restated to reclassify $27 million from other income to net interest earnings. This presentation more accurately reflects the economic purpose in transacting these derivatives. The reclassification has no impact on net profit after taxation. Other comparative information has been reclassified to ensure consistency with presentation in the current period, including certain comparatives in the Cash Flow Statement.

## 2 Other Income

| $ millions | Banking Group | |
|---|---|---|
| | **Unaudited** | Unaudited |
| **For the nine months ended** | **31-Mar-16** | 31-Mar-15 |
| **Net fair value loss** | | |
| Other derivatives at fair value | **1** | 1 |
| Hedge ineffectiveness | **(16)** | (13) |
| **Total net fair value loss** | **(15)** | (12) |
| Trading income | **68** | 64 |
| Other operating income | **329** | 271 |
| **Total other income** | **382** | 323 |

## 3 Qualifying Liquid Assets

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

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

| | Banking Group | | | | | | |
|---|---|---|---|---|---|---|---|
| $ millions | Cash and Liquid Assets | Available for Sale Securities | Trading Securities | Advances to Customers | Deposits and Other Public Borrowings(1) | Other Assets | Total |
| **As at 31 March 2016** | | | | | | | |
| **Unaudited** | | | | | | | |
| Cash | 265 | - | - | - | - | - | 265 |
| Call deposits with the central bank | 1,027 | - | - | - | - | - | 1,027 |
| Local authority securities | 12 | 309 | 80 | - | (12) | 5 | 394 |
| New Zealand government securities | 741 | 726 | - | - | - | 9 | 1,476 |
| Corporate bonds | - | 494 | - | - | - | 5 | 499 |
| Treasury bills | - | 83 | - | - | - | - | 83 |
| RBNZ bills | - | - | 1,049 | - | - | - | 1,049 |
| Bank bills | - | - | 428 | - | - | - | 428 |
| Kauri bonds | - | 1,690 | 2 | - | - | 11 | 1,703 |
| Other securities | - | 604 | - | - | - | 2 | 606 |
| Residential mortgage-backed securities | - | - | - | 3,235 | - | - | 3,235 |
| **Total qualifying liquid assets** | 2,045 | 3,906 | 1,559 | 3,235 | (12) | 32 | 10,765 |

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

# Notes to the Financial Statements

For the nine months ended 31 March 2016

## 4 Financial Assets Pledged as Collateral

As at 31 March 2016 local authority securities of $12 million had been pledged as collateral under repurchase agreements.

The Bank has entered into credit support annexes in respect of certain credit exposures relating to certain derivative transactions. As at 31 March 2016, $702 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.

## 5 Advances to Customers

| $ millions | Banking Group | | |
|---|---|---|---|
| | **Unaudited** | Unaudited | Audited |
| **As at** | **31-Mar-16** | 31-Mar-15 | 30-Jun-15 |
| Residential mortgages | **46,400** | 42,916 | 43,666 |
| Other retail | **4,762** | 4,572 | 4,609 |
| Corporate | **18,920** | 16,527 | 17,267 |
| **Loans and other receivables** | **70,082** | 64,015 | 65,542 |
| Fair value hedge adjustments | **76** | 32 | 71 |
| Provisions for impairment losses | **(262)** | (226) | (230) |
| **Total advances to customers** | **69,896** | 63,821 | 65,383 |

## 6 Asset Quality and Provisions for Impairment Losses

| | Banking Group | | | |
|---|---|---|---|---|
| $ millions | **Residential Mortgages** | **Other Retail** | **Corporate** | **Total** |
| **(a) Asset Quality and Provisions for Impairment Losses** | | | | |
| **As at 31 March 2016** | | | | |
| **Unaudited** | | | | |
| Individually impaired assets | **52** | **8** | **227** | **287** |
| Individually assessed provisions | **8** | **4** | **23** | **35** |
| Collective provision | **29** | **95** | **103** | **227** |
| 90 day past due assets not impaired | **71** | **25** | **8** | **104** |
| **As at 31 March 2015** | | | | |
| **Unaudited** | | | | |
| Individually impaired assets | 52 | 9 | 189 | 250 |
| Individually assessed provisions | 10 | 2 | 28 | 40 |
| Collective provision | 42 | 71 | 73 | 186 |
| 90 day past due assets not impaired | 91 | 21 | 8 | 120 |
| **As at 30 June 2015** | | | | |
| **Audited** | | | | |
| Individually impaired assets | 50 | 9 | 231 | 290 |
| Individually assessed provisions | 10 | 1 | 25 | 36 |
| Collective provision | 39 | 75 | 80 | 194 |
| 90 day past due assets not impaired | 73 | 20 | 7 | 100 |

# Notes to the Financial Statements

For the nine months ended 31 March 2016

## 6 Asset Quality and Provisions for Impairment Losses (continued)

| $ millions | Banking Group<br>Residential Mortgages | Other Retail | Corporate | Total |
|---|---|---|---|---|
| **(b) Impairment Losses on Advances** | | | | |
| **For the nine months ended 31 March 2016** | | | | |
| **Unaudited** | | | | |
| Movement in collective provision | **(10)** | **20** | **23** | **33** |
| Movement in individually assessed provisions | **4** | **3** | **2** | **9** |
| Bad debts written off | **-** | **41** | **-** | **41** |
| Bad debts recovered | **(1)** | **(9)** | **(1)** | **(11)** |
| **Total impairment (recoveries)/losses on advances** | **(7)** | **55** | **24** | **72** |
| **For the nine months ended 31 March 2015** | | | | |
| **Unaudited** | | | | |
| Movement in collective provision | 4 | 10 | 14 | 28 |
| Movement in individually assessed provisions | 4 | 1 | 3 | 8 |
| Bad debts written off | 1 | 34 | - | 35 |
| Bad debts recovered | (1) | (8) | - | (9) |
| **Total impairment losses on advances** | 8 | 37 | 17 | 62 |

## 7 Deposits and Other Public Borrowings

| $ millions<br>**As at** | Banking Group<br>**Unaudited**<br>**31-Mar-16** | Unaudited<br>31-Mar-15 | Audited<br>30-Jun-15 |
|---|---|---|---|
| Certificates of deposit | **2,318** | 940 | 2,101 |
| Term deposits | **22,691** | 24,091 | 24,253 |
| On demand and short term deposits | **25,639** | 21,906 | 22,885 |
| Deposits not bearing interest | **3,483** | 2,930 | 2,924 |
| Repurchase agreements | **12** | 26 | - |
| **Total deposits and other public borrowings** | **54,143** | 49,893 | 52,163 |

## 8 Debt Issues

| $ millions<br>**As at** | Banking Group<br>**Unaudited**<br>**31-Mar-16** | Unaudited<br>31-Mar-15 | Audited<br>30-Jun-15 |
|---|---|---|---|
| Debt issues at fair value through Income Statement | **1,769** | 1,568 | 1,213 |
| Debt issues at amortised cost | **12,198** | 10,419 | 11,076 |
| **Total debt issues** | **13,967** | 11,987 | 12,289 |
| **Movement in debt issues** | | | |
| Balance at beginning of period | **12,289** | 10,924 | 10,924 |
| Issuances during the period | **6,924** | 5,440 | 6,359 |
| Repayments during the period | **(4,866)** | (4,697) | (6,130) |
| Foreign exchange and fair value movements during the period | **(380)** | 320 | 1,136 |
| **Balance at the end of period** | **13,967** | 11,987 | 12,289 |

# Notes to the Financial Statements

For the nine months ended 31 March 2016

## 9 Contingent Liabilities

| $ millions | Banking Group Notional Amount | | |
|---|---|---|---|
| | **Unaudited** | Unaudited | Audited |
| **As at** | **31-Mar-16** | 31-Mar-15 | 30-Jun-15 |
| Guarantees | **147** | 123 | 124 |
| Standby letters of credit | **75** | 111 | 123 |
| Other credit facilities | **99** | 80 | 86 |
| **Total contingent liabilities** | **321** | 314 | 333 |

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.

In June 2013 a group comprising lawyers Andrew Hooker, Slater & Gordon and Litigation Lending Services (NZ) Limited announced that it had issued proceedings against ANZ Bank in relation to exception fees. The group has announced that similar proceedings have been or will be issued against other banks, including ASB. At the date of this Disclosure Statement, no such proceedings have been issued against ASB. If proceedings are issued against ASB, any impact will be assessed at that time.

## 10 Related Party Transactions and Balances

The Bank is wholly owned by ASB Holdings Limited, a company incorporated in New Zealand. The ultimate parent bank is CBA. The Commonwealth Bank Group refers to CBA and the various companies and other entities owned and controlled by CBA. The Commonwealth Bank of Australia New Zealand Life Insurance Group ("NZ Life Group") includes Colonial First State Investments (NZ) Limited group of companies, ASB Group (Life) Limited group of companies, First State Investments (NZ) Limited and up until 7 October 2014, Colonial Holding Company Limited (Branch).

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 transactions and balances between these schemes and trusts, and the Banking Group are disclosed below.

During the nine months ended 31 March 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** | Unaudited | Audited |
| **As at** | **31-Mar-16** | 31-Mar-15 | 30-Jun-15 |
| Commonwealth Bank Group | **2,628** | 3,234 | 3,641 |
| NZ Life Group | **286** | 296 | 307 |
| ASB Holdings Limited | **16** | 118 | 12 |
| Superannuation schemes and unit trusts managed by ASB Group Investments Limited | **650** | 540 | 535 |
| Superannuation schemes and unit trusts managed or administered by NZ Life Group | **3** | 4 | 3 |
| **Total amounts due to related parties** | **3,583** | 4,192 | 4,498 |
| Commonwealth Bank Group | **515** | 504 | 538 |
| NZ Life Group | **5** | 5 | 33 |
| ASB Holdings Limited | **-** | - | 3 |
| Superannuation schemes and unit trusts managed by ASB Group Investments Limited | **6** | 1 | 13 |
| Superannuation schemes and unit trusts managed or administered by NZ Life Group | **-** | - | 1 |
| **Total amounts due from related parties** | **526** | 510 | 588 |

For the nine months ended 31 March 2016 interest expense on balances due to the Commonwealth Bank Group was $76 million (31 March 2015 $116 million).

The Bank issued ordinary and perpetual preference shares to ASB Holdings Limited on 30 March 2016 and 31 March 2016 respectively, raising $400 million from each issuance. Refer to the Capital Adequacy note for additional information on these issuances.

# Notes to the Financial Statements

For the nine months ended 31 March 2016

## 11 Concentration of Credit Exposures to Individual Counterparties

There was no balance date aggregate credit exposure to individual counterparties which equaled or exceeded 10% of the Banking Group's equity as at 31 March 2016. There was no peak end-of-day aggregate credit exposure to individual counterparties which equaled or exceeded 10% of the Banking Group's equity for the three months ended 31 March 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 March 2016.

## 12 Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

## 12 Fair Value of Financial Instruments (continued)

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

| | Banking Group | | | |
|---|---|---|---|---|
| $ millions | Level 1 | Level 2 | Level 3 | Total |
| **As at 31 March 2016** | | | | |
| **Unaudited** | | | | |
| **Financial assets** | | | | |
| Trading securities | **1,051** | **508** | **-** | **1,559** |
| Derivative assets | **2** | **1,635** | **-** | **1,637** |
| Available-for-sale securities | **2,498** | **1,408** | **-** | **3,906** |
| **Total financial assets measured at fair value** | **3,551** | **3,551** | **-** | **7,102** |
| **Financial liabilities** | | | | |
| Other liabilities at fair value through Income Statement | **-** | **953** | **-** | **953** |
| Derivative liabilities | **-** | **1,975** | **-** | **1,975** |
| Debt issues at fair value through Income Statement | **-** | **1,769** | **-** | **1,769** |
| **Total financial liabilities measured at fair value** | **-** | **4,697** | **-** | **4,697** |
| **As at 31 March 2015** | | | | |
| **Unaudited** | | | | |
| **Financial assets** | | | | |
| Trading securities | 426 | 554 | - | 980 |
| Derivative assets | - | 1,220 | - | 1,220 |
| Available-for-sale securities | 607 | 2,693 | - | 3,300 |
| **Total financial assets measured at fair value** | 1,033 | 4,467 | - | 5,500 |
| **Financial liabilities** | | | | |
| Other liabilities at fair value through Income Statement | - | 305 | - | 305 |
| Derivative liabilities | 1 | 1,218 | - | 1,219 |
| Debt issues at fair value through Income Statement | - | 1,568 | - | 1,568 |
| **Total financial liabilities measured at fair value** | 1 | 3,091 | - | 3,092 |
| **As at 30 June 2015** | | | | |
| **Audited** | | | | |
| **Financial assets** | | | | |
| Trading securities | 456 | 515 | - | 971 |
| Derivative assets | - | 2,102 | - | 2,102 |
| Available-for-sale securities | 1,672 | 1,369 | - | 3,041 |
| **Total financial assets measured at fair value** | 2,128 | 3,986 | - | 6,114 |
| **Financial liabilities** | | | | |
| Other liabilities at fair value through Income Statement | 11 | 169 | - | 180 |
| Derivative liabilities | - | 1,364 | - | 1,364 |
| Debt issues at fair value through Income Statement | - | 1,213 | - | 1,213 |
| **Total financial liabilities measured at fair value** | 11 | 2,746 | - | 2,757 |

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 and risks existing as at balance date.

## 12 Fair Value of Financial Instruments (continued)

### (b) Fair Value of Financial Instruments Not Measured at Fair Value

The following table compares the carrying values of financial instruments not measured at fair value with their estimated fair values.

| | Banking Group | | | | | |
|---|---|---|---|---|---|---|
| | **Unaudited 31-Mar-16** | | Unaudited 31-Mar-15 | | Audited 30-Jun-15 | |
| $ millions | **Fair Value** | **Carrying Value** | Fair Value | Carrying Value | Fair Value | Carrying Value |
| **Financial assets** | | | | | | |
| Cash and liquid assets | **2,045** | **2,045** | 1,592 | 1,592 | 1,799 | 1,799 |
| Due from financial institutions | **1,040** | **1,040** | 683 | 683 | 1,615 | 1,615 |
| Advances to customers | **69,934** | **69,896** | 63,639 | 63,821 | 65,357 | 65,383 |
| Other assets | **224** | **224** | 523 | 523 | 513 | 513 |
| **Total** | **73,243** | **73,205** | 66,437 | 66,619 | 69,284 | 69,310 |
| **Financial liabilities** | | | | | | |
| Deposits and other public borrowings | **54,283** | **54,143** | 49,988 | 49,893 | 52,292 | 52,163 |
| Due to financial institutions | **2,316** | **2,316** | 2,765 | 2,768 | 3,522 | 3,523 |
| Other liabilities | **534** | **534** | 703 | 703 | 586 | 586 |
| Debt issues at amortised cost | **12,208** | **12,198** | 10,466 | 10,419 | 11,107 | 11,076 |
| Loan capital | **422** | **424** | 423 | 410 | 424 | 414 |
| **Total** | **69,763** | **69,615** | 64,345 | 64,193 | 67,931 | 67,762 |

## 13 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.

### Capital Structure

The following tier one capital initiatives were undertaken during the reporting period:

a) 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. These ordinary shares have equal voting rights and share equally in dividends and profit on winding up, after the obligations to holders of the perpetual preference shares are satisfied. Dividends are declared, subject in all cases, to the applicable directors' resolutions being passed.

b) On 31 March 2016, the Bank issued 4,000,000 perpetual preference shares ("PPS") to ASB Holdings Limited and raised $400 million from the issuance. The PPS 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 PPS are redeemable on the optional redemption date of 31 March 2021 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.

**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 that the gain reverses a revaluation loss on the same asset previously in the Income Statement, the 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.

## 13 Capital Adequacy (continued)

**Unaudited**

| $ millions<br>As at 31 March 2016 | Banking Group |
|---|---|
| **Capital under Basel III IRB approach** | |
| **Tier one capital** | |
| Common equity tier one capital (before deductions) | 4,990 |
| Deductions from common equity tier one capital | (247) |
| **Total common equity tier one capital** | 4,743 |
| Additional tier one capital (subject to phase-out)[1] | 220 |
| Additional tier one capital | 1,000 |
| **Total additional tier one capital** | 1,220 |
| **Total tier one capital** | 5,963 |
| **Tier two capital** | |
| Tier two capital | 428 |
| **Total tier two capital** | 428 |
| **Total capital** | 6,391 |
| **Capital requirements** | |
| **Capital requirements for credit risk subject to the IRB approach by exposure class** | |
| Sovereign | 27 |
| Bank | 66 |
| Residential mortgages | 1,216 |
| Other retail | 264 |
| Corporate - small and medium enterprises | 1,174 |
| Other corporate | 185 |
| **Total capital requirements for credit risk subject to the IRB approach by exposure class[2]** | 2,932 |
| **Capital requirements for other credit risk** | |
| Specialised lending subject to the slotting approach[2] | 21 |
| Exposures subject to the standardised approach[2] | 393 |
| Credit valuation adjustment | 18 |
| **Total capital requirements for other credit risk** | 432 |
| **Total capital requirements for credit risk** | 3,364 |
| **Capital requirements for other risks** | |
| Operational risk | 277 |
| Market risk | 180 |
| **Total capital requirements for other risks** | 457 |
| **Total capital requirement** | 3,821 |

As at 31 March 2016, the Banking Group held $2,570m of capital in excess of its regulatory capital requirements.

(1) Perpetual fully paid-up non-cumulative preference shares are subject to phase-out from additional tier one capital in accordance with BS2B. The phase-out will take place over five years, with the percentage of the shares that qualify as additional tier one capital declining by 20% per calendar year, commencing 1 January 2014 and ending 1 January 2018.

(2) In accordance with the Bank's Conditions of Registration, a scalar of 1.06 has been applied to the risk-weighted exposures from which the capital requirements are derived.

## 13 Capital Adequacy (continued)

**Unaudited**

| As at 31 March 2016 | Banking Group Capital Ratios | Minimum Ratio Requirement |
|---|---|---|
| Common equity tier one capital ratio | **9.9%** | 4.5% |
| Tier one capital ratio | **12.5%** | 6.0% |
| Total capital ratio | **13.4%** | 8.0% |
| Buffer ratio[1] | **5.4%** | 2.5% |

(1) The Bank is subject to a minimum capital conservation buffer of 2.5% of risk-weighted exposures. This imposes constraints on the Bank's ability to distribute earnings should the buffer ratio fall below the minimum.

| $ 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 | **12,679** | **9,162** | **17,663** | **4,872** | **2,091** | **46,467** |
| Off balance sheet exposures | **3,096** | **1,468** | **2,186** | **277** | **295** | **7,322** |
| **Total value of exposures** | **15,775** | **10,630** | **19,849** | **5,149** | **2,386** | **53,789** |
| Expressed as a percentage of total exposures | **29.3%** | **19.8%** | **36.9%** | **9.6%** | **4.4%** | **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.

### Capital for Other Material Risks

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

The Banking Group's ICAAP is a documented process that describes not only the risk appetite and tolerances of the Banking Group, but also the levels of capital held against these risks, including credit, market, operational, strategic, and fixed asset risks.

As at 31 March 2016, internal capital allocations of $278 million had been made for other material risks including strategic risk and fixed asset risk.

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

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.

## 15 Financial Reporting by Operating Segments

**Unaudited**

| $ millions | Banking Group | | | | |
|---|---|---|---|---|---|
| | Retail and Business Banking | Corporate, Commercial and Rural | Wealth and Insurance | Other | Total |
| **Income Statement** | | | | | |
| **For the nine months ended 31 March 2016** | | | | | |
| Net interest earnings | **810** | **400** | **10** | **51** | **1,271** |
| Other income/(expense) | **220** | **107** | **120** | **(65)** | **382** |
| Total operating income/(expense) | **1,030** | **507** | **130** | **(14)** | **1,653** |
| Impairment losses on advances | **46** | **26** | **-** | **-** | **72** |
| Segment operating expenses (excluding impairment losses) | **355** | **185** | **65** | **11** | **616** |
| Segment net profit/(loss) before taxation | **629** | **296** | **65** | **(25)** | **965** |
| Taxation | **177** | **83** | **18** | **(7)** | **271** |
| Segment net profit/(loss) after taxation | **452** | **213** | **47** | **(18)** | **694** |
| **Balance Sheet** | | | | | |
| **As at 31 March 2016** | | | | | |
| Total assets | **47,121** | **25,235** | **182** | **8,342** | **80,880** |
| Total liabilities | **35,920** | **14,810** | **326** | **23,256** | **74,312** |

| $ millions | Banking Group | | | | |
|---|---|---|---|---|---|
| | Retail and Business Banking | Corporate, Commercial and Rural | Wealth and Insurance | Other | Total |
| **Income Statement** | | | | | |
| **For the nine months ended 31 March 2015** | | | | | |
| Net interest earnings | 814 | 382 | 10 | 38 | 1,244 |
| Other income/(expense) | 176 | 97 | 110 | (60) | 323 |
| Total operating income/(expense) | 990 | 479 | 120 | (22) | 1,567 |
| Impairment losses on advances | 45 | 17 | - | - | 62 |
| Segment operating expenses (excluding impairment losses) | 342 | 176 | 64 | 10 | 592 |
| Segment net profit/(loss) before taxation | 603 | 286 | 56 | (32) | 913 |
| Taxation | 169 | 80 | 16 | (9) | 256 |
| Segment net profit/(loss) after taxation | 434 | 206 | 40 | (23) | 657 |
| **Balance Sheet** | | | | | |
| **As at 31 March 2015** | | | | | |
| Total assets | 43,733 | 22,493 | 168 | 6,280 | 72,674 |
| Total liabilities | 32,930 | 13,759 | 271 | 20,325 | 67,285 |

## 15 Financial Reporting by Operating Segments (continued)

**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 strategic 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.

## 16 Events after the Reporting Period

On 12 May 2016 the Directors resolved to pay perpetual preference dividends of:

- $1 million on 16 May 2016, being 0.72 cents per share on 200 million Series 1 perpetual preference shares;
- $3 million on 16 May 2016, being 0.78 cents per share on 350 million Series 2 perpetual preference shares;
- $6 million on 15 June 2016, being 106.60 cents per share on 6 million perpetual preference shares; and
- $4 million on 15 June 2016, being 98.80 cents per share on 4 million perpetual preference shares.

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

# Directors' Statement

**After due enquiry by the Directors, it is each Director's opinion that for the nine months ended 31 March 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 by his agent

B.J. Chapman

M.B. Coomer

J.L. Freeman by her agent

J.P. Hartley

C.M. McDowell

V.A.J. Shortt

R.M. Spaans

T.M. Walsh

12 May 2016