

# ASB Disclosure Statement

For the three months ended 30 September 2015



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# General Disclosures

(To be read in conjunction with the Financial Statements)

## 30 September 2015

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, 2000, Australia.

### Directors

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

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

(a) Moody's applies numeric modifiers 1, 2, and 3 to each generic rating category from 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.

Covered bonds (including accrued interest) of \$2.613 billion were guaranteed as at 30 September 2015. 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. 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 30 September 2015, 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](http://www.asb.co.nz). A printed copy will also be made available, free of charge, upon request.

As at the signing date of this Disclosure Statement, other material obligations of the Bank are not guaranteed.

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

Since 30 June 2015 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 2015 (page 11), APRA has advised CBA that it intends to set limits on non-equity exposures by Australian parent banks to their New Zealand banking subsidiaries and branches in ordinary times. APRA will allow the parent banks to provide contingent funding support to their New Zealand banking subsidiaries in times of financial stress, on terms agreeable to APRA. Timing of the change and transition arrangements are yet to be finalised.

## **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**

There have been no changes to the Conditions of Registration since 1 October 2014.

## **Auditor**

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

# Income Statement

\$ millions	Banking Group	
	Unaudited 30-Sep-15	Unaudited 30-Sep-14
<b>For the three months ended</b>	Note	
Interest income		1,034
Interest expense		590
<b>Net interest earnings</b>		<b>417</b>
Other income	2	110
<b>Total operating income</b>		<b>527</b>
Impairment losses on advances	6(b)	16
<b>Total operating income after impairment losses</b>		<b>506</b>
<b>Total operating expenses</b>		<b>196</b>
Salaries and other staff expenses		119
Building occupancy and equipment expenses		32
Information technology expenses		21
Other expenses		24
<b>Net profit before taxation</b>		<b>310</b>
Taxation		87
<b>Net profit after taxation</b>		<b>223</b>

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

# Statement of Comprehensive Income

\$ millions

For the three months ended

Banking Group

Unaudited Unaudited  
30-Sep-15 30-Sep-14

<b>Net profit after taxation</b>	<b>233</b>	<b>223</b>
<b>Other comprehensive income/(expense), net of taxation</b>		
<b>Items that may be reclassified subsequently to the Income Statement:</b>		
Net change in available-for-sale reserve	(4)	-
Net change in cash flow hedge reserve	(23)	(9)
	<b>(27)</b>	<b>(9)</b>
<b>Total other comprehensive expense, net of taxation</b>	<b>(27)</b>	<b>(9)</b>
<b>Total comprehensive income</b>	<b>206</b>	<b>214</b>

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

# Statement of Changes in Equity

\$ millions	Banking Group							Total Shareholders' Equity
	Contributed Capital	Asset Revaluation Reserve	Available -for-Sale Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Retained Earnings		
<b>For the three months ended 30 September 2015</b>								
<b>Unaudited</b>								
Balance at beginning of period	3,423	27	8	(87)	1	2,006	5,378	
Net profit after taxation	-	-	-	-	-	233	233	
Other comprehensive expense	-	-	(4)	(23)	-	-	(27)	
<b>Total comprehensive (expense)/income</b>	-	-	(4)	(23)	-	233	206	
Perpetual preference dividends paid	-	-	-	-	-	(12)	(12)	
<b>Balance as at 30 September 2015</b>	<b>3,423</b>	<b>27</b>	<b>4</b>	<b>(110)</b>	<b>1</b>	<b>2,227</b>	<b>5,572</b>	
<b>For the three months ended 30 September 2014</b>								
<b>Unaudited</b>								
Balance at beginning of period	2,823	25	12	(5)	1	2,310	5,166	
Net profit after taxation	-	-	-	-	-	223	223	
Other comprehensive expense	-	-	-	(9)	-	-	(9)	
<b>Total comprehensive (expense)/income</b>	-	-	-	(9)	-	223	214	
Ordinary dividends paid	-	-	-	-	-	(440)	(440)	
Perpetual preference dividends paid	-	-	-	-	-	(4)	(4)	
<b>Balance as at 30 September 2014</b>	<b>2,823</b>	<b>25</b>	<b>12</b>	<b>(14)</b>	<b>1</b>	<b>2,089</b>	<b>4,936</b>	

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



# Balance Sheet

\$ millions	As at	Note	Banking Group		
			Unaudited 30-Sep-15	Unaudited 30-Sep-14	Audited 30-Jun-15
<b>Assets</b>					
Cash and liquid assets			2,367	1,587	1,799
Due from financial institutions			789	740	1,615
Trading securities			987	983	971
Derivative assets			2,296	1,192	2,102
Available-for-sale securities			3,030	2,828	3,041
Advances to customers		5	66,936	61,691	65,383
Current taxation asset			-	3	-
Other assets			234	249	532
Property, plant and equipment			183	197	189
Intangible assets			161	157	164
Deferred taxation asset			121	67	107
<b>Total assets</b>			<b>77,104</b>	<b>69,694</b>	<b>75,903</b>
<i>Total interest earning and discount bearing assets</i>			<i>73,942</i>	<i>67,853</i>	<i>72,733</i>
<b>Liabilities</b>					
Deposits and other public borrowings		7	53,409	45,502	52,163
Due to financial institutions			2,693	4,484	3,523
Other liabilities at fair value through Income Statement			1,376	1,253	180
Derivative liabilities			1,607	696	1,364
Current taxation liability			21	-	6
Other liabilities			722	553	586
Debt issues:					
At fair value through Income Statement		8	743	1,629	1,213
At amortised cost		8	10,541	10,243	11,076
Loan capital			420	398	414
<b>Total liabilities</b>			<b>71,532</b>	<b>64,758</b>	<b>70,525</b>
<b>Shareholders' equity</b>					
Contributed capital - ordinary shares			2,273	2,273	2,273
Reserves			(78)	24	(51)
Retained earnings			2,227	2,089	2,006
<b>Ordinary shareholder's equity</b>			<b>4,422</b>	<b>4,386</b>	<b>4,228</b>
Contributed capital - perpetual preference shares			1,150	550	1,150
<b>Total shareholders' equity</b>			<b>5,572</b>	<b>4,936</b>	<b>5,378</b>
<b>Total liabilities and shareholders' equity</b>			<b>77,104</b>	<b>69,694</b>	<b>75,903</b>
<i>Total interest and discount bearing liabilities</i>			<i>65,857</i>	<i>60,775</i>	<i>64,369</i>

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

# Condensed Cash Flow Statement

\$ millions	Banking Group	
	Unaudited 30-Sep-15	Unaudited 30-Sep-14
<b>For the three months ended</b>		
<b>Cash flows from operating activities</b>		
Net profit before taxation	324	310
<b>Reconciliation of net profit before taxation to net cash flows from operating activities</b>		
Non-cash items included in net profit before taxation	79	48
Net increase in operating assets <sup>(1)</sup>	(1,011)	(525)
Net increase in operating liabilities <sup>(1)</sup>	1,610	806
Net taxation paid	(80)	(90)
<b>Net cash flows from operating activities</b>	<b>922</b>	<b>549</b>
<b>Cash flows from investing activities</b>		
Total cash outflows applied to investing activities	(14)	(17)
<b>Net cash flows from investing activities</b>	<b>(14)</b>	<b>(17)</b>
<b>Cash flows from financing activities<sup>(1)</sup></b>		
Cash inflows provided from financing activities	617	2,414
Cash outflows applied to financing activities	(1,513)	(2,490)
<b>Net cash flows from financing activities</b>	<b>(896)</b>	<b>(76)</b>
<b>Summary of movements in cash flows<sup>(1)</sup></b>		
Net increase in cash and cash equivalents	12	456
Add: cash and cash equivalents at beginning of period	1,413	986
<b>Cash and cash equivalents at end of period</b>	<b>1,425</b>	<b>1,442</b>
<b>Cash and cash equivalents comprise:</b>		
Cash and liquid assets	2,367	1,587
Less: reverse repurchase agreements included in cash and liquid assets	(942)	(145)
<b>Cash and cash equivalents at end of period</b>	<b>1,425</b>	<b>1,442</b>
<b>Additional operating cash flow information</b>		
Interest received as cash	1,015	1,012
Interest paid as cash	(600)	(548)
Other income received as cash	140	97
Operating expenses paid as cash	(228)	(225)

(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 19.

# Notes to the Financial Statements

For the three months ended 30 September 2015

## 1 Statement of Accounting Policies

The condensed interim financial statements of the Banking Group for the three months ended 30 September 2015 (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 and the financial statements are presented in millions, unless otherwise stated.

There have been no material changes to accounting policies during the three months ended 30 September 2015. 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 \$8 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 Condensed Cash Flow Statement.

## 2 Other Income

\$ millions	Banking Group	
	Unaudited 30-Sep-15	Unaudited 30-Sep-14
<b>For the three months ended</b>		
<b>Net fair value (loss)/gain</b>		
Other derivatives at fair value	(4)	1
Hedge ineffectiveness	(10)	-
<b>Total net fair value (loss)/gain</b>	<b>(14)</b>	<b>1</b>
Trading income	26	20
Other operating income	113	89
<b>Total other income</b>	<b>125</b>	<b>110</b>

## 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.

\$ millions	Banking Group							Total
	Cash and Liquid Assets	Available for Sale Securities	Trading Securities	Advances to Customers	Deposits and Other Public Borrowings <sup>(1)</sup>	Other Assets		
<b>As at 30 September 2015</b>								
<b>Unaudited</b>								
Cash	212	-	-	-	-	-	-	212
Call deposits with the central bank	1,213	-	-	-	-	-	-	1,213
Local authority securities	-	132	71	-	-	1	-	204
New Zealand government securities	942	107	51	-	(153)	3	-	950
Corporate bonds	-	492	-	-	-	5	-	497
Treasury bills	-	82	51	-	-	-	-	133
RBNZ bills	-	-	478	-	-	-	-	478
Bank bills	-	-	140	-	-	-	-	140
Kauri bonds	-	1,559	2	-	-	10	-	1,571
Other securities	-	658	15	-	-	3	-	676
Residential mortgage-backed securities	-	-	-	3,084	-	-	-	3,084
<b>Total qualifying liquid assets</b>	<b>2,367</b>	<b>3,030</b>	<b>808</b>	<b>3,084</b>	<b>(153)</b>	<b>22</b>	<b>-</b>	<b>9,158</b>

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

# Notes to the Financial Statements

For the three months ended 30 September 2015

## 4 Financial Assets Pledged as Collateral

As at 30 September 2015 New Zealand government securities of \$153 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 30 September 2015 \$503 million included in due from financial institutions had been advanced as collateral to offset derivative liabilities.

## 5 Advances to Customers

\$ millions	Banking Group		
	Unaudited 30-Sep-15	Unaudited 30-Sep-14	Audited 30-Jun-15
<b>As at</b>			
Residential mortgages	<b>44,444</b>	41,929	43,666
Other retail	<b>4,635</b>	4,551	4,609
Corporate	<b>18,000</b>	15,432	17,267
<b>Loans and other receivables</b>	<b>67,079</b>	61,912	65,542
Fair value hedge adjustments	<b>89</b>	(18)	71
Provisions for impairment losses	<b>(232)</b>	(203)	(230)
<b>Total advances to customers</b>	<b>66,936</b>	61,691	65,383

## 6 Asset Quality and Provisions for Impairment Losses

\$ millions	Banking Group			
	Residential Mortgages	Other Retail	Corporate	Total
<b>(a) Asset Quality and Provisions for Impairment Losses</b>				
<b>As at 30 September 2015</b>				
<b>Unaudited</b>				
Individually impaired assets	<b>46</b>	<b>9</b>	<b>271</b>	<b>326</b>
Individually assessed provisions	<b>7</b>	<b>3</b>	<b>23</b>	<b>33</b>
Collective provision	<b>34</b>	<b>74</b>	<b>91</b>	<b>199</b>
90 day past due assets not impaired	<b>56</b>	<b>19</b>	<b>9</b>	<b>84</b>
<b>As at 30 September 2014</b>				
<b>Unaudited</b>				
Individually impaired assets	47	10	128	185
Individually assessed provisions	10	2	26	38
Collective provision	40	62	63	165
90 day past due assets not impaired	64	20	6	90
<b>As at 30 June 2015</b>				
<b>Audited</b>				
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 three months ended 30 September 2015

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

\$ millions	Banking Group			Total
	Residential Mortgages	Other Retail	Corporate	
<b>(b) Impairment Losses on Advances</b>				
<b>For the three months ended 30 September 2015</b>				
<b>Unaudited</b>				
Movement in collective provision	(5)	(1)	11	5
Movement in individually assessed provisions	-	1	(1)	-
Bad debts written off	-	14	-	14
Bad debts recovered	-	(3)	(1)	(4)
<b>Total impairment (recoveries)/losses on advances</b>	<b>(5)</b>	<b>11</b>	<b>9</b>	<b>15</b>
<b>For the three months ended 30 September 2014</b>				
<b>Unaudited</b>				
Movement in collective provision	2	1	4	7
Movement in individually assessed provisions	1	1	-	2
Bad debts written off	-	10	-	10
Bad debts recovered	-	(3)	-	(3)
<b>Total impairment losses on advances</b>	<b>3</b>	<b>9</b>	<b>4</b>	<b>16</b>

## 7 Deposits and Other Public Borrowings

\$ millions	Banking Group		
	Unaudited 30-Sep-15	Unaudited 30-Sep-14	Audited 30-Jun-15
<b>As at</b>			
Certificates of deposit	2,207	398	2,101
Term deposits	23,912	22,277	24,253
On demand and short term deposits	24,007	20,088	22,885
Deposits not bearing interest	3,130	2,671	2,924
Repurchase agreements	153	68	-
<b>Total deposits and other public borrowings</b>	<b>53,409</b>	<b>45,502</b>	<b>52,163</b>

## 8 Debt Issues

\$ millions	Banking Group		
	Unaudited 30-Sep-15	Unaudited 30-Sep-14	Audited 30-Jun-15
<b>As at</b>			
Debt issues at fair value through Income Statement	743	1,629	1,213
Debt issues at amortised cost	10,541	10,243	11,076
<b>Total debt issues</b>	<b>11,284</b>	<b>11,872</b>	<b>12,289</b>
<b>Movement in debt issues</b>			
Balance at beginning of period	12,289	10,924	10,924
Issuances during the period	617	2,410	6,359
Repayments during the period	(1,959)	(2,126)	(6,130)
Foreign exchange and fair value movements during the period	337	664	1,136
<b>Balance at the end of period</b>	<b>11,284</b>	<b>11,872</b>	<b>12,289</b>

# Notes to the Financial Statements

For the three months ended 30 September 2015

## 9 Contingent Liabilities

\$ millions	Banking Group Notional Amount		
	Unaudited 30-Sep-15	Unaudited 30-Sep-14	Audited 30-Jun-15
<b>As at</b>			
Guarantees	136	112	124
Standby letters of credit	92	98	123
Other credit facilities	95	82	86
<b>Total contingent liabilities</b>	<b>323</b>	292	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 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 similarly 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 three months ended 30 September 2015 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 certain 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 30-Sep-15	Unaudited 30-Sep-14	Audited 30-Jun-15
<b>As at</b>			
Commonwealth Bank Group	2,794	4,336	3,641
NZ Life Group	324	236	307
ASB Holdings Limited	14	56	12
Superannuation schemes and unit trusts managed by ASB Group Investments Limited	624	451	535
Superannuation schemes and unit trusts managed or administered by NZ Life Group	2	3	3
<b>Total amounts due to related parties</b>	<b>3,758</b>	5,082	4,498
Commonwealth Bank Group	620	376	538
NZ Life Group	-	9	33
ASB Holdings Limited	-	-	3
Superannuation schemes and unit trusts managed by ASB Group Investments Limited	-	3	13
Superannuation schemes and unit trusts managed or administered by NZ Life Group	-	-	1
<b>Total amounts due from related parties</b>	<b>620</b>	388	588

# Notes to the Financial Statements

For the three months ended 30 September 2015

## 10 Related Party Transactions and Balances (continued)

For the three months ended 30 September 2015 interest charged on balances due to the Commonwealth Bank Group was \$21 million (30 September 2014 \$43 million).

## 11 Concentration of Credit Exposures to Individual Counterparties

There was no balance date aggregate credit exposure to individual counterparties which exceeded 10% of the Banking Group's equity as at 30 September 2015. There was no peak end-of-day aggregate credit exposure to individual counterparties which exceeded 10% of the Banking Group's equity for the three months ended 30 September 2015.

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 30 September 2015.

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

# Notes to the Financial Statements

For the three months ended 30 September 2015

## 12 Fair Value of Financial Instruments (continued)

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

\$ millions	Banking Group			Total
	Level 1	Level 2	Level 3	
<b>As at 30 September 2015</b>				
<b>Unaudited</b>				
<b>Financial assets</b>				
Trading securities	761	226	-	987
Derivative assets	-	2,296	-	2,296
Available-for-sale securities	1,748	1,282	-	3,030
<b>Total financial assets measured at fair value</b>	<b>2,509</b>	<b>3,804</b>	<b>-</b>	<b>6,313</b>
<b>Financial liabilities</b>				
Other liabilities at fair value through Income Statement	-	1,376	-	1,376
Derivative liabilities	-	1,607	-	1,607
Debt issues at fair value through Income Statement	-	743	-	743
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>3,726</b>	<b>-</b>	<b>3,726</b>
<b>As at 30 September 2014</b>				
<b>Unaudited</b>				
<b>Financial assets</b>				
Trading securities	5	978	-	983
Derivative assets	-	1,192	-	1,192
Available-for-sale securities	612	2,216	-	2,828
<b>Total financial assets measured at fair value</b>	<b>617</b>	<b>4,386</b>	<b>-</b>	<b>5,003</b>
<b>Financial liabilities</b>				
Other liabilities at fair value through Income Statement	-	1,253	-	1,253
Derivative liabilities	-	696	-	696
Debt issues at fair value through Income Statement	-	1,629	-	1,629
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>3,578</b>	<b>-</b>	<b>3,578</b>
<b>As at 30 June 2015</b>				
<b>Audited</b>				
<b>Financial assets</b>				
Trading securities	456	515	-	971
Derivative assets	-	2,102	-	2,102
Available-for-sale securities	1,672	1,369	-	3,041
<b>Total financial assets measured at fair value</b>	<b>2,128</b>	<b>3,986</b>	<b>-</b>	<b>6,114</b>
<b>Financial liabilities</b>				
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
<b>Total financial liabilities measured at fair value</b>	<b>11</b>	<b>2,746</b>	<b>-</b>	<b>2,757</b>

The Banking Group determines the valuation of financial instruments classified in level 2 as follows:

#### *Derivative Assets and Derivative Liabilities*

The fair values are obtained from market yields and discounted cash flow models or option pricing models as appropriate.

#### *Trading Securities, Available-for-Sale Securities, Other Liabilities at Fair Value through Income Statement and Debt Issues at Fair Value through Income Statement*

The fair values are estimated using present value or other market acceptable valuation techniques, using methods or assumptions that are based on observable market conditions and risks existing as at balance date.



# Notes to the Financial Statements

For the three months ended 30 September 2015

## 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.

\$ millions	Unaudited 30-Sep-15		Banking Group Unaudited 30-Sep-14		Audited 30-Jun-15	
	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value
<b>Financial assets</b>						
Cash and liquid assets	2,367	2,367	1,587	1,587	1,799	1,799
Due from financial institutions	789	789	740	740	1,615	1,615
Advances to customers	67,044	66,936	61,498	61,691	65,357	65,383
Other assets	210	210	222	222	513	513
<b>Total</b>	<b>70,410</b>	<b>70,302</b>	<b>64,047</b>	<b>64,240</b>	<b>69,284</b>	<b>69,310</b>
<b>Financial liabilities</b>						
Deposits and other public borrowings	53,568	53,409	45,550	45,502	52,292	52,163
Due to financial institutions	2,693	2,693	4,481	4,484	3,522	3,523
Other liabilities	722	722	553	553	586	586
Debt issues at amortised cost	10,576	10,541	10,317	10,243	11,107	11,076
Loan capital	427	420	414	398	424	414
<b>Total</b>	<b>67,986</b>	<b>67,785</b>	<b>61,315</b>	<b>61,180</b>	<b>67,931</b>	<b>67,762</b>

## 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 October 2014. 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

#### Available-for-Sale Reserve

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.

#### Asset Revaluation Reserve

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.

#### Foreign Currency Translation Reserve

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 three months ended 30 September 2015

## 13 Capital Adequacy (continued)

Unaudited

\$ millions

As at 30 September 2015

Banking Group

### Capital under Basel III IRB approach

#### Tier one capital

Common equity tier one capital (before deductions)	4,394
Deductions from common equity tier one capital	(262)
<b>Total common equity tier one capital</b>	<b>4,132</b>
Additional tier one capital (subject to phase-out) <sup>(1)</sup>	330
Additional tier one capital	600
<b>Total additional tier one capital</b>	<b>930</b>
<b>Total tier one capital</b>	<b>5,062</b>

#### Tier two capital

Tier two capital	428
<b>Total tier two capital</b>	<b>428</b>
<b>Total capital</b>	<b>5,490</b>

### Capital requirements

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

Sovereign	10
Bank	79
Residential mortgages	1,226
Other retail	259
Corporate - small and medium enterprises	1,107
Other corporate	140
<b>Total capital requirements for credit risk subject to the IRB approach by exposure class<sup>(2)</sup></b>	<b>2,821</b>

#### Capital requirements for other credit risk

Specialised lending subject to the slotting approach <sup>(2)</sup>	35
Exposures subject to the standardised approach <sup>(2)</sup>	378
Credit valuation adjustment	24
<b>Total capital requirements for other credit risk</b>	<b>437</b>
<b>Total capital requirements for credit risk</b>	<b>3,258</b>

#### Capital requirements for other risks

Operational risk	277
Market risk	137
<b>Total capital requirements for other risks</b>	<b>414</b>
<b>Total capital requirement</b>	<b>3,672</b>

- (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.

# Notes to the Financial Statements

For the three months ended 30 September 2015

## 13 Capital Adequacy (continued)

Unaudited

As at 30 September 2015	Banking Group	
	Capital Ratios	Minimum Ratio Requirement
Common equity tier one capital ratio	9.0%	4.5%
Tier one capital ratio	11.0%	6.0%
Total capital ratio	12.0%	8.0%
Buffer ratio <sup>(1)</sup>	4.0%	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 LVR Range	Banking Group					Total
	0%-60%	60.1%-70%	70.1%-80%	80.1%-90%	90.1%-100%	
<b>Residential mortgages by loan-to-valuation ratio ("LVR")</b>						
On balance sheet exposures	12,118	8,400	16,711	5,033	2,323	44,585
Off balance sheet exposures	2,923	1,349	2,062	324	379	7,037
<b>Total value of exposures</b>	<b>15,041</b>	<b>9,749</b>	<b>18,773</b>	<b>5,357</b>	<b>2,702</b>	<b>51,622</b>
Expressed as a percentage of total exposures	29.1%	18.9%	36.4%	10.4%	5.2%	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 of Directors 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 30 September 2015, internal capital allocations of \$340 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.

# Notes to the Financial Statements

For the three months ended 30 September 2015

## 15 Financial Reporting by Operating Segments Unaudited

\$ millions	Banking Group				Total
	Retail and Business Banking	Corporate, Commercial and Rural	Wealth and Insurance	Other	
<b>Income Statement</b>					
<b>For the three months ended 30 September 2015</b>					
Net interest earnings	269	130	3	15	417
Other income/(expense)	75	40	40	(30)	125
Total operating income/(expense)	344	170	43	(15)	542
Impairment losses on advances	5	10	-	-	15
Segment operating expenses (excluding impairment losses)	120	62	22	(1)	203
Segment net profit/(loss) before taxation	219	98	21	(14)	324
Taxation	62	28	6	(5)	91
Segment net profit/(loss) after taxation	157	70	15	(9)	233
<b>Balance Sheet</b>					
<b>As at 30 September 2015</b>					
Total assets	45,229	23,996	194	7,685	77,104
Total liabilities	35,302	14,307	300	21,623	71,532

\$ millions	Banking Group				Total
	Retail and Business Banking	Corporate, Commercial and Rural	Wealth and Insurance	Other	
<b>Income Statement</b>					
<b>For the three months ended 30 September 2014</b>					
Net interest earnings	273	127	3	9	412
Other income/(expense)	57	33	36	(16)	110
Total operating income/(expense)	330	160	39	(7)	522
Impairment losses on advances	13	3	-	-	16
Segment operating expenses (excluding impairment losses)	114	56	21	5	196
Segment net profit/(loss) before taxation	203	101	18	(12)	310
Taxation	57	28	5	(3)	87
Segment net profit/(loss) after taxation	146	73	13	(9)	223
<b>Balance Sheet</b>					
<b>As at 30 September 2014</b>					
Total assets	42,617	21,679	163	5,235	69,694
Total liabilities	31,128	12,554	256	20,820	64,758

# Notes to the Financial Statements

For the three months ended 30 September 2015

## 15 Financial Reporting by Operating Segments (continued)

<b>Retail and Business Banking:</b>	The Retail and Business Banking segment provides services to private individuals and small business customers. In addition, net income is attributed to this segment for the distribution of wealth management products through the retail distribution network.
<b>Corporate, Commercial and Rural:</b>	The Corporate, Commercial and Rural segment provides services to corporate, commercial and rural customers. It also comprises the Bank's financial markets activities, including financial instruments trading and sales of financial instruments to customers.
<b>Wealth and Insurance:</b>	The Wealth and Insurance segment provides securities, investment and insurance services to customers.

### Other primarily includes:

- business units that do not meet the definition of operating segments under NZ IFRS 8 *Operating Segments*, including the Bank's Treasury function and other functions that supply 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 5 November 2015, the Directors resolved to pay the following perpetual preference dividends on 16 November 2015:

- \$2 million being 0.91 cents per share on 200 million perpetual preference shares; and
- \$3 million being 0.78 cents per share on 300 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 three months ended 30 September 2015:**

- 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



D.A.K. Cohen

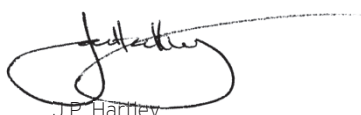


(as agent)

M.B. Coomer



J.L. Freeman



J.P. Hartley



C.M. McDowell



(as agent)

V.A.J. Shortt



R.M. Spaans



T.M. Walsh

6 November 2015



