ASB Disclosure Statement

For the three months ended 30 September 2016

Contents

General Disclosures

(To be read in conjunction with the Financial Statements)

30 September 2016

This Disclosure Statement has been issued by ASB Bank Limited (the "Bank" or "ASB") in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

Corporate Information

The Bank is a company incorporated under the Companies Act 1955 on 16 August 1988. The registered office of the Bank is Level 2, ASB North Wharf, 12 Jellicoe Street, Auckland Central, Auckland 1010, New Zealand. The Bank was re-registered under the Companies Act 1993 on 30 June 1995.

The "Banking Group" consists of the Bank and its controlled entities.

Ultimate Parent Bank

The ultimate parent bank of the Bank is the Commonwealth Bank of Australia ("CBA"), its registered office being Ground Floor, Tower 1, 201 Sussex Street, Sydney, NSW, Australia.

Directors

J.P. Hartley resigned as a director of the Bank with effect from 31 August 2016.

There have been no other changes to the Board of Directors since the signing of the 30 June 2016 Disclosure Statement.

Credit Ratings

As at the date of the signing of this Disclosure Statement, the following long term ratings were assigned to the Bank by these rating agencies:

Rating Agency	Current Long Term Credit Rating
Moody's Investors Service Pty Limited ("Moody's")	Aa3
Standard & Poor's (Australia) Pty Limited ("S&P")	AA-
Fitch Australia Pty Limited ("Fitch Ratings")	AA-

These ratings have remained unchanged during the 2 years immediately preceding the balance date. The outlook from Fitch Ratings is stable. On 7 July 2016 S&P, and on 19 August 2016 Moody's, revised their ratings outlook of the major Australian banks and their strategically important subsidiaries, including ASB, from stable to negative.

The table below provides a description of the steps in the rating scales used by the different rating agencies.

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

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

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

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

General Disclosures (continued)

(To be read in conjunction with the Financial Statements)

Guarantee Arrangements

On 11 August 2011, the ASB Covered Bond Trust (the "Covered Bond Trust") was established to acquire and hold certain residential mortgage loans ("Mortgage Loans") originated by the Bank. ASB Covered Bond Trustee Limited (the "Covered Bond Guarantor"), solely in its capacity as trustee of the Covered Bond Trust provides guarantees over certain debt securities ("Covered Bonds") issued by the Bank or its subsidiary ASB Finance Limited, acting through its London Branch.

The Covered Bond Guarantor has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the Mortgage Loans, related security and other assets of the Covered Bond Trust. Covered bonds (including accrued interest) of $3.122 billion were guaranteed as at 30 September 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 30 September 2016, the Covered Bonds issued have been assigned a long term rating of 'AAA' by Fitch Ratings and 'Aaa' by Moody's. Further information about this guarantee arrangement is included in the Bank's disclosure statement for the year ended 30 June 2016, a copy of which is available at the internet address www.asb.co.nz. A printed copy will also be made available, free of charge, upon request.

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

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

Since 30 June 2016 there has been no material change in regulations, legislation, or other restrictions of a legally enforceable nature that may materially inhibit the legal ability of CBA to provide material financial support to the Bank. However, as disclosed in the ASB Disclosure Statement and Annual Report for the year ended 30 June 2016 (page 11), APRA informed CBA that it will be required to reduce its non-equity exposure to the Bank and its subsidiaries to below a limit of five percent of CBA's Level 1 Tier 1 Capital, over a five-year period commencing on 1 January 2016. APRA confirmed it will allow, on agreeable terms, the Australian parent banks to provide contingent funding support to their New Zealand banking subsidiaries in times of financial stress. At this time, only covered bonds meet the criteria for contingent funding arrangements. The Bank understands that CBA expects to be compliant with APRA's requirements by the end of the transition period.

Pending Proceedings or Arbitration

The Banking Group is not a party to any pending legal proceedings or arbitration that may have a material adverse effect on the Bank or the Banking Group.

Conditions of Registration

There were no changes to the Conditions of Registration between 30 June 2016 and 30 September 2016.

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 three months ended	Note	**30-Sep-16**	30-Sep-15
Interest income		**1,002**	1,053
Interest expense		**541**	617
Net interest earnings		**461**	436
Other income	2	**128**	106
Total operating income		**589**	542
Impairment losses on advances	6(b)	**24**	15
Total operating income after impairment losses		**565**	527
Total operating expenses		**204**	203
Salaries and other staff expenses		**123**	121
Building occupancy and equipment expenses		**30**	31
Information technology expenses		**25**	24
Other expenses		**26**	27
Net profit before taxation		**361**	324
Taxation		**101**	91
Net profit after taxation		**260**	233

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

Statement of Comprehensive Income

$ millions	Banking Group	
	Unaudited	Unaudited
For the three months ended	**30-Sep-16**	30-Sep-15
Net profit after taxation	**260**	233
Other comprehensive expense, net of taxation		
Items that may be reclassified subsequently to the Income Statement:		
Net change in available-for-sale reserve	**(3)**	(4)
Net change in cash flow hedge reserve	**(1)**	(23)
	(4)	(27)
Total other comprehensive expense, net of taxation	**(4)**	(27)
Total comprehensive income	**256**	206

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

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 three months ended 30 September 2016							
Unaudited							
Balance at beginning of period	**4,223**	**28**	**(7)**	**(103)**	**1**	**2,670**	**6,812**
Net profit after taxation	**-**	**-**	**-**	**-**	**-**	**260**	**260**
Other comprehensive expense	**-**	**-**	**(3)**	**(1)**	**-**	**-**	**(4)**
Total comprehensive (expense)/income	**-**	**-**	**(3)**	**(1)**	**-**	**260**	**256**
Ordinary dividends paid	**-**	**-**	**-**	**-**	**-**	**(200)**	**(200)**
Perpetual preference dividends paid	**-**	**-**	**-**	**-**	**-**	**(15)**	**(15)**
Balance as at 30 September 2016	**4,223**	**28**	**(10)**	**(104)**	**1**	**2,715**	**6,853**
For the three months ended 30 September 2015							
Unaudited							
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)
Total comprehensive (expense)/income	-	-	(4)	(23)	-	233	206
Perpetual preference dividends paid	-	-	-	-	-	(12)	(12)
Balance as at 30 September 2015	3,423	27	4	(110)	1	2,227	5,572

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

Balance Sheet

$ millions		Banking Group		
		Unaudited	Unaudited	Audited
As at	Note	**30-Sep-16**	30-Sep-15	30-Jun-16
Assets				
Cash and liquid assets		**1,497**	2,367	1,403
Due from financial institutions		**1,495**	789	1,131
Trading securities		**1,164**	987	792
Derivative assets		**1,424**	2,296	1,451
Available-for-sale securities		**3,972**	3,030	4,017
Advances to customers	5	**74,461**	66,936	72,075
Other assets		**214**	234	229
Property, plant and equipment		**182**	183	187
Intangible assets		**179**	161	175
Deferred taxation asset		**147**	121	146
Total assets		**84,735**	77,104	81,606
Total interest earning and discount bearing assets		***82,488***	*73,942*	*79,285*
Liabilities				
Deposits and other public borrowings	7	**54,569**	53,409	54,702
Due to financial institutions		**672**	2,693	580
Other liabilities at fair value through Income Statement		**278**	1,376	1,340
Derivative liabilities		**2,134**	1,607	2,085
Current taxation liability		**44**	21	40
Other liabilities		**485**	722	547
Debt issues:				
At fair value through Income Statement	8	**1,593**	743	1,646
At amortised cost	8	**17,684**	10,541	13,431
Loan capital		**423**	420	423
Total liabilities		**77,882**	71,532	74,794
Shareholders' equity				
Contributed capital - ordinary shares		**2,673**	2,273	2,673
Reserves		**(85)**	(78)	(81)
Retained earnings		**2,715**	2,227	2,670
Ordinary shareholder's equity		**5,303**	4,422	5,262
Contributed capital - perpetual preference shares		**1,550**	1,150	1,550
Total shareholders' equity		**6,853**	5,572	6,812
Total liabilities and shareholders' equity		**84,735**	77,104	81,606
Total interest and discount bearing liabilities		***71,235***	*65,857*	*68,440*

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

Cash Flow Statement

$ millions	Banking Group	
For the three months ended	**30-Sep-16**	30-Sep-15
Cash flows from operating activities		
Net profit before taxation	**361**	324
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	**9**	9
Amortisation of intangible assets	**10**	10
Net change in provisions for impairment losses and bad debts written off	**28**	19
Other movements	**9**	41
Net (increase)/decrease in operating assets:		
Net increase in reverse repurchase agreements	**(42)**	(556)
Net (increase)/decrease in due from financial institutions	**(364)**	826
Net increase in trading securities	**(372)**	(20)
Net decrease in available-for-sale securities	**41**	6
Net increase in advances to customers	**(2,443)**	(1,565)
Net decrease in other assets	**15**	298
Net increase/(decrease) in operating liabilities:		
Net (decrease)/increase in deposits and other public borrowings	**(95)**	1,172
Net increase/(decrease) in due to financial institutions	**99**	(895)
Net (decrease)/increase in other liabilities at fair value through Income Statement	**(1,061)**	1,193
Net (decrease)/increase in other liabilities	**(48)**	140
Net taxation paid	**(96)**	(80)
Net cash flows from operating activities	**(3,949)**	922
Cash flows from investing activities		
Cash was applied to:		
Purchase of property, plant and equipment	**(9)**	(6)
Purchase of intangible assets	**(24)**	(8)
Net cash flows from investing activities	**(33)**	(14)
Cash flows from financing activities		
Cash was provided from:		
Issue of debt securities (net of issue costs)	**6,269**	617
Total cash inflows provided from financing activities	**6,269**	617
Cash was applied to:		
Dividends paid	**(215)**	(12)
Redemption of issued debt securities	**(2,020)**	(1,501)
Total cash outflows applied to financing activities	**(2,235)**	(1,513)
Net cash flows from financing activities	**4,034**	(896)
Summary of movements in cash flows		
Net increase in cash and cash equivalents	**52**	12
Add: cash and cash equivalents at beginning of year	**948**	1,413
Cash and cash equivalents at end of year	**1,000**	1,425
Cash and cash equivalents comprise:		
Cash and liquid assets	**1,497**	2,367
Less: reverse repurchase agreements included in cash and liquid assets	**(497)**	(942)
Cash and cash equivalents at end of year	**1,000**	1,425
Additional operating cash flow information		
Interest received as cash	**1,014**	1,034
Interest paid as cash	**(531)**	(600)
Other income received as cash	**121**	121
Operating expenses paid as cash	**(245)**	(228)

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 2016

1 Statement of Accounting Policies

The condensed interim financial statements of the Banking Group for the three months ended 30 September 2016 (the "financial statements") have been incorporated in this Disclosure Statement. These financial statements consolidate the financial statements of the Bank and its controlled entities. They have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") as appropriate for profit-oriented entities, NZ IAS 34 *Interim Financial Reporting* and the Order. These interim financial statements do not include all the information and disclosures required in annual financial statements and should therefore be read in conjunction with the Banking Group's financial statements for the year ended 30 June 2016.

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

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

Certain comparatives relating to fixed rate prepayment cost recoveries of $19 million have been reclassified from other income to interest income, to align with market practice. Restated comparatives for subsequent reporting periods are: $36 million and $48 million for the periods ended 31 December 2015 and 31 March 2016 respectively. This reclassification has no impact on net profit after taxation.

Other comparative information has been reclassified or restated to ensure consistency with presentation in the current period.

2 Other Income

$ millions	Banking Group	
	Unaudited	Unaudited
For the three months ended	**30-Sep-16**	30-Sep-15
Net fair value gain/(loss)		
Net fair value loss on derivatives not qualifying for hedge accounting	**(1)**	(4)
Hedge ineffectiveness	**8**	(10)
Total net fair value gain/(loss)	**7**	(14)
Trading income	**21**	26
Other operating income	**100**	94
Total other income	**128**	106

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	Other Assets	Total
As at 30 September 2016						
Unaudited						
Cash	**189**	**-**	**-**	**-**	**-**	**189**
Call deposits with the central bank	**811**	**-**	**-**	**-**	**-**	**811**
Local authority securities	**-**	**332**	**23**	**-**	**5**	**360**
New Zealand government securities	**497**	**1,083**	**53**	**-**	**12**	**1,645**
Corporate bonds	**-**	**496**	**-**	**-**	**5**	**501**
Bank bills	**-**	**-**	**1,086**	**-**	**-**	**1,086**
Kauri bonds	**-**	**1,639**	**2**	**-**	**11**	**1,652**
Other securities	**-**	**422**	**-**	**-**	**1**	**423**
Residential mortgage-backed securities	**-**	**-**	**-**	**3,389**	**-**	**3,389**
Total qualifying liquid assets	**1,497**	**3,972**	**1,164**	**3,389**	**34**	**10,056**

4 Financial Assets Pledged as Collateral for Liabilities

As at 30 September 2016, no securities were pledged as collateral under repurchase agreements.

The Bank has entered into credit support annexes in respect of certain credit exposures relating to certain derivative transactions. As at 30 September 2016, $1,181 million included in due from financial institutions had been advanced as cash collateral to counterparties with whom the Banking Group has net derivative liability positions.

As noted in the General Disclosures, the Covered Bond Guarantor has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the Mortgage Loans, related security and other assets of the Covered Bond Trust. As at 30 September 2016, the Covered Bond Trust held Mortgage Loans with a carrying value of $6.2 billion and $158 million cash which have been pledged in respect of the Covered Bonds.

5 Advances to Customers

$ millions	Banking Group		
	Unaudited	Unaudited	Audited
As at	**30-Sep-16**	30-Sep-15	30-Jun-16
Residential mortgages	**49,201**	44,444	47,737
Other retail	**4,873**	4,635	4,818
Corporate	**20,651**	18,000	19,769
Loans and other receivables	**74,725**	67,079	72,324
Fair value hedge adjustments	**33**	89	48
Provisions for impairment losses	**(297)**	(232)	(297)
Total advances to customers	**74,461**	66,936	72,075

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 30 September 2016				
Unaudited				
Individually impaired assets	**28**	**9**	**390**	**427**
Individually assessed provisions	**3**	**4**	**31**	**38**
Collective provision	**24**	**91**	**144**	**259**
90 day past due assets not impaired	**51**	**22**	**3**	**76**
As at 30 September 2015				
Unaudited				
Individually impaired assets	46	9	271	326
Individually assessed provisions	7	3	23	33
Collective provision	34	74	91	199
90 day past due assets not impaired	56	19	9	84
As at 30 June 2016				
Audited				
Individually impaired assets	34	11	332	377
Individually assessed provisions	7	2	29	38
Collective provision	26	92	141	259
90 day past due assets not impaired	53	22	2	77

6 Asset Quality and Provisions for Impairment Losses (continued)

$ millions	Banking Group Residential Mortgages	Other Retail	Corporate	Total
(b) Impairment Losses on Advances				
For the three months ended 30 September 2016				
Unaudited				
Movement in collective provision	**(2)**	**(1)**	**3**	**-**
New and increased individually assessed provisions net of write-backs	**-**	**1**	**12**	**13**
Bad debts written off directly to the Income Statement	**-**	**15**	**-**	**15**
Recovery of amounts previously written off	**-**	**(3)**	**(1)**	**(4)**
Total impairment (recoveries)/losses on advances	**(2)**	**12**	**14**	**24**
For the three months ended 30 September 2015				
Unaudited				
Movement in collective provision	(5)	(1)	11	5
New and increased individually assessed provisions net of write-backs	-	1	(1)	-
Bad debts written off directly to the Income Statement	-	14	-	14
Recovery of amounts previously written off	-	(3)	(1)	(4)
Total impairment (recoveries)/losses on advances	(5)	11	9	15

7 Deposits and Other Public Borrowings

$ millions **As at**	Banking Group **Unaudited 30-Sep-16**	Unaudited 30-Sep-15	Audited 30-Jun-16
Certificates of deposit	**2,861**	2,207	2,910
Term deposits	**23,671**	23,912	23,122
On demand and short term deposits	**24,350**	24,007	25,167
Deposits not bearing interest	**3,687**	3,130	3,503
Repurchase agreements	**-**	153	-
Total deposits and other public borrowings	**54,569**	53,409	54,702

8 Debt Issues

$ millions **As at**	Banking Group **Unaudited 30-Sep-16**	Unaudited 30-Sep-15	Audited 30-Jun-16
Debt issues at fair value through Income Statement	**1,593**	743	1,646
Debt issues at amortised cost	**17,684**	10,541	13,431
Total debt issues	**19,277**	11,284	15,077
Movement in debt issues			
Balance at beginning of period	**15,077**	12,289	12,289
Issuances during the period	**6,268**	617	10,971
Repayments during the period	**(1,839)**	(1,959)	(7,420)
Foreign exchange and fair value movements during the period	**(229)**	337	(763)
Balance at the end of period	**19,277**	11,284	15,077

9 Contingent Liabilities

$ millions	Banking Group Notional Amount		
As at	**Unaudited 30-Sep-16**	Unaudited 30-Sep-15	Audited 30-Jun-16
Guarantees	**139**	136	146
Standby letters of credit	**122**	92	112
Other credit facilities	**157**	95	150
Total contingent liabilities	**418**	323	408

The notional amount represents the maximum potential amount that could be lost if a counterparty fails to meet its financial obligations.

The Banking Group has other contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision made in the financial statements where required by NZ GAAP. Information relating to any provision or contingent liability is not disclosed where it can be expected to prejudice seriously the position of the Banking Group.

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 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. In October 2016, ANZ announced that the proceedings against it had been settled, with ANZ making a contribution to the plaintiffs' costs. Andrew Hooker has since been reported as saying that he will still be taking action against Kiwibank, Westpac and BNZ. 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 ASB Group (Life) Limited group of companies, First State Investments (NZ) Limited and Colonial First State Investments (NZ) Limited group of companies up until their date of deregistration on 7 June 2016.

Certain superannuation schemes and unit trusts are managed by ASB Group Investments Limited, a wholly owned subsidiary of the Bank. The NZ Life Group also administers and manages certain superannuation schemes and unit trusts. Related party balances between these schemes and trusts, and the Banking Group are disclosed below.

During the three months ended 30 September 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		
As at	**Unaudited 30-Sep-16**	Unaudited 30-Sep-15	Audited 30-Jun-16
Commonwealth Bank Group	**1,409**	2,794	1,325
NZ Life Group	**256**	324	261
ASB Holdings Limited	**21**	14	30
Superannuation schemes and unit trusts managed by ASB Group Investments Limited	**641**	624	656
Superannuation schemes and unit trusts managed or administered by NZ Life Group	**3**	2	4
Total amounts due to related parties	**2,330**	3,758	2,276
Commonwealth Bank Group	**880**	620	602
NZ Life Group	**2**	-	7
Total amounts due from related parties	**882**	620	609

For the three months ended 30 September 2016 interest expense on balances due to the Commonwealth Bank Group was $22 million (30 September 2015 $21 million).

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 30 September 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 30 September 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 30 September 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.

Notes to the Financial Statements

For the three months ended 30 September 2016

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 30 September 2016				
Unaudited				
Financial assets				
Trading securities	**55**	**1,109**	**-**	**1,164**
Derivative assets	**-**	**1,424**	**-**	**1,424**
Available-for-sale securities	**2,722**	**1,250**	**-**	**3,972**
Total financial assets measured at fair value	**2,777**	**3,783**	**-**	**6,560**
Financial liabilities				
Other liabilities at fair value through Income Statement	**-**	**278**	**-**	**278**
Derivative liabilities	**1**	**2,133**	**-**	**2,134**
Debt issues at fair value through Income Statement	**-**	**1,593**	**-**	**1,593**
Total financial liabilities measured at fair value	**1**	**4,004**	**-**	**4,005**
As at 30 September 2015				
Unaudited				
Financial assets				
Trading securities	761	226	-	987
Derivative assets	-	2,296	-	2,296
Available-for-sale securities	1,748	1,282	-	3,030
Total financial assets measured at fair value	2,509	3,804	-	6,313
Financial liabilities				
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
Total financial liabilities measured at fair value	-	3,726	-	3,726
As at 30 June 2016				
Audited				
Financial assets				
Trading securities	175	617	-	792
Derivative assets	-	1,451	-	1,451
Available-for-sale securities	2,665	1,352	-	4,017
Total financial assets measured at fair value	2,840	3,420	-	6,260
Financial liabilities				
Other liabilities at fair value through Income Statement	-	1,340	-	1,340
Derivative liabilities	-	2,085	-	2,085
Debt issues at fair value through Income Statement	-	1,646	-	1,646
Total financial liabilities measured at fair value	-	5,071	-	5,071

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

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

Trading Securities, Available-for-Sale Securities, Other Liabilities at Fair Value through Income Statement and Debt Issues at Fair Value through Income Statement
The fair values are estimated using present value or other market acceptable valuation techniques, using methods or assumptions that are based on observable market conditions existing as at balance date.

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 30-Sep-16		Unaudited 30-Sep-15		Audited 30-Jun-16	
$ millions	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets						
Cash and liquid assets	**1,497**	**1,497**	2,367	2,367	1,403	1,403
Due from financial institutions	**1,495**	**1,495**	789	789	1,131	1,131
Advances to customers	**74,412**	**74,461**	67,044	66,936	72,098	72,075
Other assets	**189**	**189**	210	210	210	210
Total	**77,593**	**77,642**	70,410	70,302	74,842	74,819
Financial liabilities						
Deposits and other public borrowings	**54,666**	**54,569**	53,568	53,409	54,826	54,702
Due to financial institutions	**672**	**672**	2,693	2,693	580	580
Other liabilities	**485**	**485**	722	722	547	547
Debt issues at amortised cost	**17,730**	**17,684**	10,576	10,541	13,443	13,431
Loan capital	**421**	**423**	427	420	420	423
Total	**73,974**	**73,833**	67,986	67,785	69,816	69,683

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.

13 Capital Adequacy (continued)

Unaudited

$ millions As at 30 September 2016	Banking Group
Capital under Basel III IRB approach	
Tier one capital	
Common equity tier one capital (before deductions)	5,274
Deductions from common equity tier one capital	(304)
Total common equity tier one capital	4,970
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	6,190
Tier two capital	
Tier two capital	429
Total tier two capital	429
Total capital	6,619
Capital requirements	
Capital requirements for credit risk subject to the IRB approach by exposure class	
Sovereign	23
Bank	77
Residential mortgages	1,310
Other retail	273
Corporate - small and medium enterprises	1,341
Other corporate	172
Total capital requirements for credit risk subject to the IRB approach by exposure class(2)	3,196
Capital requirements for other credit risk	
Specialised lending subject to the slotting approach(2)	16
Exposures subject to the standardised approach(2)	388
Credit valuation adjustment	21
Total capital requirements for other credit risk	425
Total capital requirements for credit risk	3,621
Capital requirements for other risks	
Operational risk	277
Market risk	143
Total capital requirements for other risks	420
Total capital requirement	4,041

As at 30 September 2016, the Banking Group held $2,578m 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, 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 2016

13 Capital Adequacy (continued)

Unaudited

As at 30 September 2016	Banking Group Capital Ratios	Banking Group Minimum Ratio Requirement
Common equity tier one capital ratio	**9.8%**	4.5%
Tier one capital ratio	**12.3%**	6.0%
Total capital ratio	**13.1%**	8.0%
Buffer ratio	**5.1%**	2.5%

$ 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	**13,664**	**10,316**	**18,655**	**4,724**	**1,890**	**49,249**
Off balance sheet exposures	**3,340**	**1,673**	**2,294**	**273**	**277**	**7,857**
Total value of exposures	**17,004**	**11,989**	**20,949**	**4,997**	**2,167**	**57,106**
Expressed as a percentage of total exposures	**29.7%**	**21.0%**	**36.7%**	**8.8%**	**3.8%**	**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 includes an assessment of capital required to cover material risks not already captured in the measurement of regulatory capital. As at 30 September 2016, internal capital allocations of $295 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 2016

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 three months ended 30 September 2016					
Net interest earnings	**290**	**145**	**3**	**23**	**461**
Other income/(expense)	**62**	**32**	**42**	**(8)**	**128**
Total operating income	**352**	**177**	**45**	**15**	**589**
Impairment losses on advances	**10**	**14**	**-**	**-**	**24**
Segment operating expenses (excluding impairment losses)	**120**	**62**	**20**	**2**	**204**
Segment net profit before taxation	**222**	**101**	**25**	**13**	**361**
Taxation	**62**	**28**	**7**	**4**	**101**
Segment net profit after taxation	**160**	**73**	**18**	**9**	**260**
Balance Sheet					
As at 30 September 2016					
Total assets	**49,814**	**26,406**	**162**	**8,353**	**84,735**
Total liabilities	**36,796**	**13,743**	**343**	**27,000**	**77,882**

$ millions	Banking Group				
	Retail and Business Banking	Corporate, Commercial and Rural	Wealth and Insurance	Other	Total
Income Statement					
For the three months ended 30 September 2015					
Net interest earnings	286	136	3	11	436
Other income/(expense)	60	36	40	(30)	106
Total operating income/(expense)	346	172	43	(19)	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	221	100	21	(18)	324
Taxation	62	28	6	(5)	91
Segment net profit/(loss) after taxation	159	72	15	(13)	233
Balance Sheet					
As at 30 September 2015					
Total assets	45,229	23,996	194	7,685	77,104
Total liabilities	35,302	14,307	300	21,623	71,532

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 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 11 October 2016, the Directors resolved to pay the following perpetual preference dividends on 15 November 2016, subject to certain conditions being satisfied:

- $1 million, being 0.72 cents per share on the 200 million 2006 Series 1 perpetual preference shares; and
- $2 million, being 0.58 cents per share on the 350 million 2006 Series 2 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 2016:

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

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

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

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

G.R. Walker

S.R.S. Blair

B.J. Chapman

M.B. Coomer

J.L. Freeman

C.M. McDowell

V.A.J. Shortt

R.M. Spaans

A.L. Toevs

T.M. Walsh

15 November 2016