ASB Disclosure Statement

For the three months ended 30 September 2017

asb.co.nz

Contents

General Disclosures

(To be read in conjunction with the Financial Statements)

30 September 2017

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

S.R. Peterson joined as an independent director of the Bank on 1 July 2017.

V.A.J. Shortt resigned as a director of the Bank with effect from 31 August 2017.

R.M. Spaans resigned as a director of the Bank with effect from 3 November 2017.

J.L. Freeman will retire as a director of the Bank on 28 February 2018.

There have been no other changes to the Board of Directors since the signing of the 30 June 2017 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	Credit Rating Outlook
Moody's Investors Service Pty Limited ("Moody's")	A1	Stable
Standard & Poor's (Australia) Pty Limited ("S&P")	AA-	Negative
Fitch Australia Pty Limited ("Fitch Ratings")	AA-	Stable

The ratings for S&P and Fitch Ratings have remained unchanged during the 2 years immediately preceding the balance date. On 19 June 2017 Moody's downgraded the long-term credit ratings of the major Australian banks and their strategically important subsidiaries by one notch. As a consequence ASB's long term rating was revised to A1 from Aa3 and the outlook revised to stable from negative.

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.

Auditor

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

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 $4.074 billion were guaranteed as at the signing date of this Disclosure Statement. 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 2017, 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 2017, 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 2017 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. 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. 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 2017 and 30 September 2017.

Non-compliance with conditions of registration

In September 2017, the Bank identified that it had incorrectly calculated the buffer ratio at 31 December 2016, 31 March 2017 and 30 June 2017 due to having applied an incorrect definition of surplus common equity tier one capital in the calculations. The Bank considers this incorrect calculation to have been non-compliant with condition of registration 1B.

The Bank subsequently engaged a professional services firm to undertake an independent review of the Bank's overall compliance with condition of registration 1B.The Bank considers the following review findings are additional instances of historic non-compliance with condition 1B:

- two incorrect provision and expected loss adjustments in the capital adequacy calculation;
- areas where the Bank has used a calculation or position that it uses for internal market risk management purposes and carried that through into the market risk capital calculation; and
- other minor technical calculation errors and qualitative matters.

These calculation errors have now been corrected for the three months ended 30 September 2017. These errors did not cause the Bank to breach any of its required minimum capital ratios, or breach the minimum buffer ratio requirements of condition of registration 1C. The capital ratios previously reported since September 2016 have been restated using all corrected calculations, and are as follows.

Unaudited	Banking Group							
As at	30-Sep-16		31-Dec-16		31-Mar-17		30-Jun-17	
	Reported(1)	Restated	Reported(1)	Restated	Reported	Restated	Reported	Restated
Common equity tier one capital ratio	9.8%	9.5%	9.9%	9.7%	9.7%	9.5%	10.5%	10.2%
Tier one capital ratio	12.2%	11.9%	12.2%	12.0%	11.8%	11.5%	12.6%	12.3%
Total capital ratio	13.0%	12.7%	13.7%	13.5%	13.3%	13.0%	14.1%	13.9%
Buffer ratio	5.0%	4.7%	5.7%	5.2%	5.3%	5.0%	6.1%	5.7%

Unaudited	Bank			
As at	31-Dec-16		30-Jun-17	
	Reported(1)	Restated	Reported	Restated
Common equity tier one capital ratio	9.9%	9.7%	10.5%	10.2%
Tier one capital ratio	12.2%	12.0%	12.6%	12.3%
Total capital ratio	13.7%	13.5%	14.1%	13.8%
Buffer ratio	5.7%	5.2%	6.1%	5.7%

(1) The reported numbers represent the latest published ratios.

Income Statement

$ millions		Banking Group	
		Unaudited	Unaudited
For the three months ended	Note	**30-Sep-17**	30-Sep-16
Interest income		**1,036**	1,002
Interest expense		**543**	541
Net interest earnings		**493**	461
Other income	2	**134**	128
Total operating income		**627**	589
Impairment (recoveries)/losses on advances	5(b)	**(3)**	24
Total operating income after impairment losses		**630**	565
Total operating expenses		**208**	204
Salaries and other staff expenses		**126**	123
Building occupancy and equipment expenses		**29**	30
Information technology expenses		**28**	25
Other expenses		**25**	26
Net profit before taxation		**422**	361
Taxation		**118**	101
Net profit after taxation		**304**	260

Statement of Comprehensive Income

$ millions	Banking Group	
	Unaudited	Unaudited
For the three months ended	**30-Sep-17**	30-Sep-16
Net profit after taxation	**304**	260
Other comprehensive expense, net of taxation		
Items that may be reclassified subsequently to the Income Statement:		
Net change in available-for-sale reserve	**(1)**	(3)
Net change in cash flow hedge reserve	**(2)**	(1)
Total other comprehensive expense, net of taxation	**(3)**	(4)
Total comprehensive income	**301**	256

These statements are to be read in conjunction with the notes on pages 8 to 18.

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 2017							
Unaudited							
Balance at beginning of period	**4,223**	**26**	**2**	**(86)**	**1**	**3,236**	**7,402**
Net profit after taxation	**-**	**-**	**-**	**-**	**-**	**304**	**304**
Other comprehensive expense	**-**	**-**	**(1)**	**(2)**	**-**	**-**	**(3)**
Total comprehensive (expense)/income	**-**	**-**	**(1)**	**(2)**	**-**	**304**	**301**
Ordinary dividends paid	**-**	**-**	**-**	**-**	**-**	**(300)**	**(300)**
Perpetual preference dividends paid	**-**	**-**	**-**	**-**	**-**	**(14)**	**(14)**
Balance as at 30 September 2017	**4,223**	**26**	**1**	**(88)**	**1**	**3,226**	**7,389**
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

These statements are to be read in conjunction with the notes on pages 8 to 18.

Balance Sheet

$ millions		Banking Group		
		Unaudited	Unaudited	Audited
As at	Note	**30-Sep-17**	30-Sep-16	30-Jun-17
Assets				
Cash and liquid assets		**1,968**	1,497	2,568
Due from financial institutions		**685**	1,495	927
Trading securities		**1,136**	1,164	1,316
Derivative assets		**1,042**	1,424	976
Available-for-sale securities		**4,132**	3,972	4,017
Advances to customers	4	**79,219**	74,461	78,100
Other assets		**238**	214	226
Property, plant and equipment		**179**	182	184
Intangible assets		**182**	179	179
Deferred taxation asset		**133**	147	135
Total assets		**88,914**	84,735	88,628
Total interest earning and discount bearing assets		***87,149***	*82,488*	*86,882*
Liabilities				
Deposits and other borrowings	7	**59,094**	54,569	58,226
Due to financial institutions		**767**	672	460
Other liabilities at fair value through Income Statement		**1,036**	278	1,065
Derivative liabilities		**1,181**	2,134	1,508
Current taxation liability		**93**	44	117
Other liabilities		**523**	485	566
Debt issues:				
At fair value through Income Statement	8	**277**	1,593	407
At amortised cost	8	**17,748**	17,684	18,073
Loan capital		**806**	423	804
Total liabilities		**81,525**	77,882	81,226
Shareholders' equity				
Contributed capital - ordinary shares		**2,673**	2,673	2,673
Reserves		**(60)**	(85)	(57)
Retained earnings		**3,226**	2,715	3,236
Ordinary shareholder's equity		**5,839**	5,303	5,852
Contributed capital - perpetual preference shares		**1,550**	1,550	1,550
Total shareholders' equity		**7,389**	6,853	7,402
Total liabilities and shareholders' equity		**88,914**	84,735	88,628
Total interest and discount bearing liabilities		***75,522***	*71,235*	*75,002*

These statements are to be read in conjunction with the notes on pages 8 to 18.

Cash Flow Statement

$ millions	Banking Group	
	Unaudited	Unaudited
For the three months ended	**30-Sep-17**	30-Sep-16
Cash flows from operating activities		
Net profit before taxation	**422**	361
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	**8**	9
Amortisation of intangible assets	**12**	10
Net change in provisions for impairment losses and bad debts written off	**1**	28
Net change in fair value of financial instruments and hedged items	**9**	(183)
Other movements	**20**	12
Net (increase)/decrease in operating assets:		
Net change in reverse repurchase agreements	**480**	(42)
Net change in due from financial institutions	**242**	(364)
Net change in trading securities	**178**	(372)
Net change in available-for-sale securities	**(116)**	41
Net change in advances to customers	**(1,139)**	(2,443)
Net change in other assets	**(12)**	15
Net increase/(decrease) in operating liabilities:		
Net change in deposits and other borrowings	**818**	(95)
Net change in due to financial institutions	**309**	99
Net change in other liabilities at fair value through Income Statement	**(30)**	(1,061)
Net change in other liabilities	**(33)**	(48)
Net taxation paid	**(144)**	(96)
Net cash flows from operating activities	**1,025**	(4,129)
Cash flows from investing activities		
Cash was applied to:		
Purchase of property, plant and equipment	**(6)**	(9)
Purchase of intangible assets	**(18)**	(24)
Net cash flows from investing activities	**(24)**	(33)
Cash flows from financing activities		
Cash was provided from:		
Issue of debt securities (net of issue costs)	**2,177**	6,268
Total cash inflows provided from financing activities	**2,177**	6,268
Cash was applied to:		
Dividends paid	**(314)**	(215)
Redemption of issued debt securities	**(2,984)**	(1,839)
Total cash outflows applied to financing activities	**(3,298)**	(2,054)
Net cash flows from financing activities	**(1,121)**	4,214
Summary of movements in cash flows		
Net (decrease)/increase in cash and cash equivalents	**(120)**	52
Add: cash and cash equivalents at beginning of year	**1,412**	948
Cash and cash equivalents at end of year	**1,292**	1,000
Cash and cash equivalents comprise:		
Cash and liquid assets	**1,968**	1,497
Less: reverse repurchase agreements included in cash and liquid assets	**(676)**	(497)
Cash and cash equivalents at end of year	**1,292**	1,000
Additional operating cash flow information		
Interest received as cash	**1,046**	1,014
Interest paid as cash	**(535)**	(531)
Other income received as cash	**130**	121
Operating expenses paid as cash	**(241)**	(245)

These statements are to be read in conjunction with the notes on pages 8 to 18.

Notes to the Financial Statements

For the three months ended 30 September 2017

1 Statement of Accounting Policies

The condensed interim financial statements of the Banking Group for the three months ended 30 September 2017 (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 2017.

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

All other policies have been applied on a basis consistent with that used in the financial year ended 30 June 2017.

Changes to Comparatives

Cash Flow Statement
Certain comparatives have been reclassified in the Cash Flow Statement to ensure consistency with the presentation in the current period. Cash flows in relation to fair value movements of financial instruments and hedged items are now included in operating activities rather than financing activities. The reclassification was made to better reflect the Banking Group's cash flows from financing activities and has no effect on the Balance Sheet or the Income Statement.

The following amounts have been restated for the period ended 30 September 2016:

	Banking Group	
$ millions	**Reported**	**Restated**
Net cash flows from operating activities	(3,949)	(4,129)
Net cash flows from financing activities	4,034	4,214

Other comparatives
Other comparative information has been reclassified or restated to ensure consistency with presentation in the current period. Significant changes have been footnoted throughout the financial statements. These reclassifications have no impact on net profit after taxation.

2 Other Income

$ millions	**Banking Group**	
	Unaudited	Unaudited
For the three months ended	**30-Sep-17**	30-Sep-16
Net fair value gain		
Net fair value loss on derivatives not qualifying for hedge accounting	**-**	(1)
Hedge ineffectiveness	**2**	8
Total net fair value gain	**2**	7
Trading income	**24**	21
Other operating income	**108**	100
Total other income	**134**	128

3 Financial Assets Pledged as Collateral for Liabilities

Unaudited

As at 30 September 2017, 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 2017, $526 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 2017, the Covered Bond Trust held Mortgage Loans with a carrying value of $6.3 billion and $109 million of cash which have been pledged in respect of the Covered Bonds.

Notes to the Financial Statements

For the three months ended 30 September 2017

4 Advances to Customers

$ millions	Banking Group		
	Unaudited	Unaudited	Audited
As at	**30-Sep-17**	30-Sep-16	30-Jun-17
Residential mortgages	**51,808**	49,201	51,128
Other retail	**5,061**	4,873	5,026
Corporate	**22,627**	20,651	22,241
Loans and other receivables	**79,496**	74,725	78,395
Fair value hedge adjustments	**-**	33	-
Provisions for impairment losses	**(277)**	(297)	(295)
Total advances to customers	**79,219**	74,461	78,100

5 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 2017				
Unaudited				
Individually impaired assets	**20**	**6**	**332**	**358**
Individually assessed provisions	**3**	**3**	**32**	**38**
Collective provision	**30**	**94**	**115**	**239**
90 days and over past due assets not impaired	**44**	**23**	**11**	**78**
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 days and over past due assets not impaired	51	22	3	76
As at 30 June 2017				
Audited				
Individually impaired assets	20	6	342	368
Individually assessed provisions	4	3	36	43
Collective provision	31	95	126	252
90 days and over past due assets not impaired	59	22	15	96
(b) Impairment Losses on Advances				
For the three months ended 30 September 2017				
Unaudited				
Movement in collective provision	**(1)**	**(1)**	**(11)**	**(13)**
New and increased individually assessed provisions net of write-backs	**-**	**-**	**(2)**	**(2)**
Bad debts written off directly to the Income Statement	**-**	**16**	**-**	**16**
Recovery of amounts previously written off	**-**	**(3)**	**(1)**	**(4)**
Total impairment (recoveries)/losses on advances	**(1)**	**12**	**(14)**	**(3)**
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

Notes to the Financial Statements

For the three months ended 30 September 2017

6 Concentration of Credit Exposures to Individual Counterparties

Unaudited

There was no balance date aggregate credit exposure to individual counterparties which equalled or exceeded 10% of the Banking Group's equity as at 30 September 2017. There was no peak end-of-day aggregate credit exposure to individual counterparties which equalled or exceeded 10% of the Banking Group's equity for the three months ended 30 September 2017.

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 2017.

7 Deposits and Other Borrowings

$ millions	Banking Group		
	Unaudited	Unaudited	Audited
As at	**30-Sep-17**	30-Sep-16	30-Jun-17
Certificates of deposit	**2,404**	2,861	2,528
Term deposits	**29,597**	23,671	28,767
On demand and short term deposits	**22,890**	24,350	22,865
Deposits not bearing interest	**4,203**	3,687	4,037
Repurchase agreements	**-**	-	29
Total deposits and other borrowings	**59,094**	54,569	58,226

8 Debt Issues

$ millions	Banking Group		
	Unaudited	Unaudited	Audited
As at	**30-Sep-17**	30-Sep-16	30-Jun-17
Debt issues at fair value through Income Statement	**277**	1,593	407
Debt issues at amortised cost	**17,748**	17,684	18,073
Total debt issues	**18,025**	19,277	18,480
Movement in debt issues			
Balance at beginning of period	**18,480**	15,077	15,077
Issuances during the period	**2,177**	6,268	12,831
Repayments during the period	**(2,984)**	(1,839)	(9,136)
Foreign exchange and fair value movements during the period	**352**	(229)	(292)
Balance at the end of period	**18,025**	19,277	18,480

9 Contingent Liabilities

$ millions	Banking Group Notional Amount		
	Unaudited	Unaudited	Audited
As at	**30-Sep-17**	30-Sep-16	30-Jun-17
Guarantees	**174**	139	166
Standby letters of credit	**129**	122	119
Other credit facilities	**186**	157	172
Total contingent liabilities	**489**	418	457

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.

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 and First State Investments (NZ) Limited.

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 2017 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 compensation has been recieved. 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 borrowings, debt issues, other assets, other liabilities, derivative assets and derivative liabilities:

$ millions		Banking Group	
	Unaudited	Unaudited	Audited
As at	**30-Sep-17**	30-Sep-16	30-Jun-17
Commonwealth Bank Group	**1,105**	1,409	1,176
NZ Life Group	**215**	256	224
ASB Holdings Limited	**27**	21	25
Superannuation schemes and unit trusts managed by ASB Group Investments Limited	**786**	641	780
Superannuation schemes and unit trusts managed or administered by NZ Life Group	**-**	3	3
Total amounts due to related parties	**2,133**	2,330	2,208
Commonwealth Bank Group	**641**	880	533
NZ Life Group	**-**	2	1
Superannuation schemes and unit trusts managed by ASB Group Investments Limited (1)	**11**	9	10
Total amounts due from related parties	**652**	891	544

(1) Certain comparative information has been reclassified to ensure consistency with presentation in the current period.

For the three months ended 30 September 2017 interest expense on balances due to the Commonwealth Bank Group was $29 million (30 September 2016 $22 million).

11 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 2017

11 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 2017				
Unaudited				
Financial assets				
Trading securities	**588**	**548**	**-**	**1,136**
Derivative assets	**-**	**1,042**	**-**	**1,042**
Available-for-sale securities	**3,760**	**372**	**-**	**4,132**
Total financial assets measured at fair value	**4,348**	**1,962**	**-**	**6,310**
Financial liabilities				
Other liabilities at fair value through Income Statement	**-**	**1,036**	**-**	**1,036**
Derivative liabilities	**-**	**1,181**	**-**	**1,181**
Debt issues at fair value through Income Statement	**-**	**277**	**-**	**277**
Total financial liabilities measured at fair value	**-**	**2,494**	**-**	**2,494**
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 June 2017				
Audited				
Financial assets				
Trading securities	514	802	-	1,316
Derivative assets	-	976	-	976
Available-for-sale securities	3,625	392	-	4,017
Total financial assets measured at fair value	4,139	2,170	-	6,309
Financial liabilities				
Other liabilities at fair value through Income Statement	-	1,065	-	1,065
Derivative liabilities	1	1,507	-	1,508
Debt issues at fair value through Income Statement	-	407	-	407
Total financial liabilities measured at fair value	1	2,979	-	2,980

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.

11 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-17		Unaudited 30-Sep-16		Audited 30-Jun-17	
$ millions	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets						
Cash and liquid assets	**1,968**	**1,968**	1,497	1,497	2,568	2,568
Due from financial institutions	**685**	**685**	1,495	1,495	927	927
Advances to customers	**79,192**	**79,219**	74,412	74,461	78,015	78,100
Other assets	**214**	**214**	189	189	206	206
Total	**82,059**	**82,086**	77,593	77,642	81,716	81,801
Financial liabilities						
Deposits and other borrowings	**59,178**	**59,094**	54,666	54,569	58,307	58,226
Due to financial institutions	**767**	**767**	672	672	460	460
Other liabilities	**523**	**523**	485	485	566	566
Debt issues at amortised cost	**17,837**	**17,748**	17,730	17,684	18,155	18,073
Loan capital	**834**	**806**	421	423	825	804
Total	**79,139**	**78,938**	73,974	73,833	78,313	78,129

12 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, except as disclosed on page 3 of this Disclosure Statement, the Banking Group complied with all of the RBNZ capital requirements to which it is subject.

12 Capital Adequacy (continued)

Unaudited

$ millions As at 30 September 2017	Banking Group
Capital under Basel III IRB approach	
Tier one capital	
Common equity tier one capital (before deductions)	5,812
Deductions from common equity tier one capital	(388)
Total common equity tier one capital	5,424
Additional tier one capital (subject to phase-out)(1)	110
Additional tier one capital	1,000
Total additional tier one capital	1,110
Total tier one capital	6,534
Total tier two capital	827
Total capital	7,361
Capital requirements	
Capital requirements for credit risk subject to the IRB approach by exposure class	
Sovereign	20
Bank	65
Residential mortgages	1,387
Other retail	290
Corporate - small and medium enterprises	1,240
Other corporate	252
Total capital requirements for credit risk subject to the IRB approach by exposure class	3,254
Capital requirements for other credit risk	
Specialised lending subject to the slotting approach	16
Exposures subject to the standardised approach	401
Qualifying central counterparties	1
Credit valuation adjustment	18
Total capital requirements for other credit risk	436
Total capital requirements for credit risk(2)	3,690
Capital requirements for other risks	
Operational risk	350
Market risk	219
Total capital requirements for other risks	569
Total capital requirement	4,259

As at 30 September 2017, the Banking Group held $3,102m 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, the capital requirement is derived by applying a 1.06 scalar to all credit risk weighted exposures, with the exception of the credit valuation adjustment.

12 Capital Adequacy (continued)

Unaudited

As at 30 September 2017	Banking Group Capital Ratios	Minimum Ratio Requirement
Common equity tier one capital ratio	**10.2%**	4.5%
Tier one capital ratio	**12.3%**	6.0%
Total capital ratio	**13.8%**	8.0%
Buffer ratio	**5.7%**	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	**20,981**	**11,551**	**15,128**	**2,940**	**1,383**	**51,983**
Off balance sheet exposures	**4,519**	**1,381**	**1,688**	**166**	**225**	**7,979**
Total value of exposures	**25,500**	**12,932**	**16,816**	**3,106**	**1,608**	**59,962**
Expressed as a percentage of total exposures	**42.5%**	**21.6%**	**28.0%**	**5.2%**	**2.7%**	**100.0%**

As at 30 September 2017, LVR was calculated as the current balance divided by the valuation of the security at the date of loan origination in line with recent approval from the RBNZ. 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 2017, internal capital allocations of $335 million had been made for other material risks including strategic risk and fixed asset risk.

13 Insurance Business, Marketing and Distribution of Insurance Products

Unaudited

The Banking Group does not conduct any insurance business. However, certain general, travel 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 2017

14 Financial Reporting by Operating Segments

Unaudited

$ millions	Retail Banking	Business Banking	Private Banking, Wealth and Insurance	Other	Total
	Banking Group				
Income Statement					
For the three months ended 30 September 2017					
Net interest earnings	**246**	**204**	**12**	**31**	**493**
Other income/(expense)	**64**	**35**	**51**	**(16)**	**134**
Total operating income	**310**	**239**	**63**	**15**	**627**
Impairment losses/(recoveries) on advances	**12**	**(15)**	**-**	**-**	**(3)**
Segment operating expenses (excluding impairment losses)	**95**	**80**	**29**	**4**	**208**
Segment net profit before taxation	**203**	**174**	**34**	**11**	**422**
Taxation	**57**	**49**	**10**	**2**	**118**
Segment net profit after taxation	**146**	**125**	**24**	**9**	**304**
Balance Sheet					
As at 30 September 2017					
Total assets	**41,073**	**36,448**	**2,181**	**9,212**	**88,914**
Total liabilities	**32,689**	**17,844**	**3,732**	**27,260**	**81,525**

$ millions	Retail Banking	Business Banking	Private Banking, Wealth and Insurance	Other	Total
	Banking Group				
Income Statement(1)					
For the three months ended 30 September 2016					
Net interest earnings	233	187	11	30	461
Other income/(expense)	60	31	45	(8)	128
Total operating income	293	218	56	22	589
Impairment losses on advances	8	15	-	1	24
Segment operating expenses (excluding impairment losses)	96	80	27	1	204
Segment net profit before taxation	189	123	29	20	361
Taxation	53	34	8	6	101
Segment net profit after taxation	136	89	21	14	260
Balance Sheet(1)					
As at 30 September 2016					
Total assets	39,600	34,967	1,828	8,340	84,735
Total liabilities	30,985	16,834	3,063	27,000	77,882

(1) The basis of segmentation has changed from 1 July 2017. Private Banking has been merged into the Wealth and Insurance segment and Business Banking has been merged into the Corporate Commercial and Rural segment. Both Private Banking and Business Banking were previously reported under the Retail and Business Banking segment. As a result of this restructure, the Retail and Business Banking segment has been renamed Retail Banking, the Corporate, Commercial and Rural segment has been renamed Business Banking, and the Wealth and Insurance segment has been renamed Private Banking, Wealth and Insurance. The basis of segmentation disclosed at 30 September 2017 follows reporting to the Chief Operating Decision Maker at that date.

14 Financial Reporting by Operating Segments (continued)

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

Business Banking: The Business Banking segment provides services to corporate, commercial, rural and small business customers. It also comprises the Bank's financial markets activities, including financial instruments trading and sales of financial instruments to customers.

Private Banking, Wealth and Insurance: The Private Banking, Wealth and Insurance segment provides securities, investment and insurance services to customers, and an exclusive personalised banking service to high net worth individuals.

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.

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.

15 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 2017						
Unaudited						
Cash	129	-	-	-	-	129
Call deposits with the central bank	1,162	-	-	-	-	1,162
Local authority securities	-	230	21	-	5	256
New Zealand government securities	652	1,263	487	-	17	2,419
Corporate bonds	-	974	-	-	7	981
Treasury bills	25	-	-	-	-	25
RBNZ bills	-	-	54	-	-	54
Bank bills	-	-	548	-	-	548
Kauri bonds	-	1,665	26	-	12	1,703
Residential mortgage-backed securities	-	-	-	3,557	-	3,557
Total qualifying liquid assets	1,968	4,132	1,136	3,557	41	10,834

Notes to the Financial Statements

For the three months ended 30 September 2017

16 Events after the Reporting Period

Unaudited

On 7 November 2017, the Directors resolved to pay the following perpetual preference dividends on 15 November 2017, subject to certain conditions being satisfied:

- $1 million, being 0.62 cents per share on 200 million 2006 Series 1 perpetual preference shares; and
- $2 million, being 0.55 cents per share on 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 2017:

- 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, except as disclosed on page 3 of this Disclosure Statement;
- 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	S.R. Peterson
A.L. Toevs	T.M. Walsh	

28 November 2017