ASB Disclosure Statement and Annual Report

For the year ended 30 June 2018

asb.co.nz

ONE STEP AHEAD

Contents

Consolidated Performance in Brief

For the year ended 30 June	2018	2017 (6)	2016 (6)
Income Statement ($ millions)			
Interest income	**4,188**	4,027	4,048
Interest expense	**2,149**	2,176	2,286
Net interest earnings	**2,039**	1,851	1,762
Other income	**553**	535	464
Total operating income	**2,592**	2,386	2,226
Impairment losses on advances	**80**	69	130
Total operating income after impairment losses	**2,512**	2,317	2,096
Total operating expenses	**879**	834	826
Net profit before taxation	**1,633**	1,483	1,270
Taxation	**456**	414	357
Net profit after taxation ("Statutory Profit")	**1,177**	1,069	913
Reconciliation of statutory profit to cash profit ($ millions)			
Net profit after taxation ("Statutory Profit")	**1,177**	1,069	913
Reconciling items:			
Hedging and IFRS volatility[1]	**(8)**	(26)	11
Notional inter-group charges[2]	**(35)**	(29)	(12)
Reporting structure differences[3]	**(5)**	(7)	(9)
Taxation on reconciling items and prior period adjustments	**14**	18	2
Cash net profit after taxation ("Cash Profit")	**1,143**	1,025	905

As at 30 June	2018	2017 (6)	2016 (6)
Balance Sheet ($ millions)			
Total assets	**95,413**	88,628	81,606
Advances to customers	**82,931**	78,100	72,075
Total liabilities	**87,541**	81,226	74,794
Deposits and other borrowings (excludes repurchase agreements)	**62,419**	58,197	54,702
Performance[4]			
Return on total average equity	**15.0%**	14.4%	14.8%
Return on total average assets	**1.2%**	1.2%	1.1%
Net interest margin	**2.24%**	2.17%	2.31%
Total operating expenses as a percentage of total operating income	**34.6%**	35.9%	37.4%
Capital ratios[5]			
Common equity tier one capital as a percentage of total risk-weighted exposures	**10.6%**	10.2%	9.9%
Tier one capital as a percentage of total risk-weighted exposures	**12.4%**	12.3%	12.3%
Total capital as a percentage of total risk-weighted exposures	**13.9%**	13.8%	13.2%

(1) Hedging and IFRS volatility includes unrealised fair value gains or losses on economic hedges that do not qualify for hedge accounting and also includes unrealised fair value gains or losses on the ineffective portion of economic hedges that do qualify for hedge accounting under IFRS. Fair value gains or losses on all of these economic hedges are excluded from Cash Profit since the asymmetric recognition of the gains or losses does not affect the performance of ASB Bank Limited over the life of the hedge.
(2) This represents the recognition of a notional cost of capital from the ultimate parent and other allocated costs which are not included in Statutory Profit.
(3) Results of certain business units are excluded from Cash Profit for management reporting purposes, but included in Statutory Profit.
(4) These performance metrics are calculated on a Cash Profit basis. Return on total average equity is now included as a performance metric replacing return on ordinary shareholder's equity. This change has been made to better align the metric with the return on equity calculation included in the Reserve Bank of New Zealand Bank Financial Strength Dashboard (which is based on total equity).
(5) Capital ratios were prepared in accordance with the Basel III framework.
(6) Certain comparatives have been restated to ensure consistency with the current period's presentation.

Performance Overview

Continued strength of the New Zealand economy underpins ASB's result

ASB has reported statutory net profit after taxation (NPAT) of $1,177 million for the twelve months ended 30 June 2018. This represents a 10% increase on the prior year.

Cash NPAT was $1,143 million, an increase of 12% on the prior year. Cash NPAT presents ASB's underlying operating results and excludes items that introduce volatility and/or one-off distortions which are not considered representative of ASB's on-going financial performance[(1)].

New Zealand's strong economic performance over the past financial year has underpinned ASB's financial result. Unemployment has remained at low levels, the quality of trade remains high and the housing market is resilient. These conditions have contributed to a 6% increase in lending, supported by a 7% increase in deposits.

Accelerating progress for New Zealand's economy, businesses and home owners

ASB has continued to play a key role in supporting the New Zealand economy. Over the past financial year, the Bank has paid more than $370 million to New Zealand suppliers, employed more than 4,800 New Zealanders and, as one of the country's largest taxpayers, contributed more than $440 million in corporate taxes.

In addition, ASB's strong financial performance has allowed the Bank to retain over two thirds of its profit in New Zealand over the past three years. This allows further strengthening of ASB's balance sheet to support the growth of its business and retail customers, while continuing to invest in enhancing customer experience.

This year ASB provided more than $8 billion of new lending to small business, commercial and rural customers, supporting the economy and helping more than 8,000 businesses to achieve their goals. At the same time, ASB has helped more than 5,000 New Zealanders into their first home with lending to first home buyers in excess of $2 billion.

Progressing New Zealanders' financial wellbeing

ASB's financial advisors and insurance teams continue to help its customers protect and enhance their financial wellbeing by partnering with leading local and global asset managers and insurance providers to provide a broad range of financial solutions to best suit their needs. ASB achieved the largest growth in retail funds under management for the twelve months to 31 March 2018, as measured by FundSource, and the Bank now has more than $14 billion in funds under management. As customers embrace ASB's new digital capabilities, the Bank has seen significant growth in new funds along with an increase in customers making active choices around their KiwiSaver investments. In addition, ASB was once again recognised by Canstar, for providing high quality wealth solutions for customers, achieving 5-star ratings across all funds in the ASB KiwiSaver Scheme.

Supporting New Zealand's communities

Guided by its purpose of accelerating financial progress for all New Zealanders, ASB is committed to making a tangible difference to the communities in which it operates. The Bank has continued to contribute to the financial education of children across New Zealand through the ASB Getwise programme in schools nationwide. Since the programme's launch in 2010, more than 800,000 Kiwi kids have been introduced to the basics of financial literacy. At the same time, the ASB St John in School programme has recently marked the 400,000th pupil being taught critical emergency skills as part of a nationwide programme sponsored by the Bank.

ASB is also conscious of the impact it has on the environment. As the country transitions towards a net zero carbon economy and pushes towards 100% renewable energy generation ASB will continue to play its part and is on track to reduce electricity consumption to 50% below our 2008 levels by 2025.

In addition, ASB is supporting its customers in this transition through initiatives such as ASB's rural environmental compliance loan, which since inception, has provided more than $100 million in zero margin lending to farmers to assist them with cleaning up waterways and in doing so, achieve better environmental outcomes for the benefit of future generations.

Embracing innovation

ASB is committed to making banking simple, seamless and easy for its more than 1.6 million customers and is seeing positive results from its strategic investments in technology and innovation with nearly 60% of all products now being taken up by customers through digital self-service. In 2018, the Bank launched a number of innovative customer solutions such as "Selfie ID", a mobile app pilot that allows new customers to open a bank account in approximately 15 minutes without having to visit a branch, using facial biometrics to confirm their identity. ASB also introduced enhanced functionality to enable customers to manage their term deposits digitally. The Bank continues to see growth in the number of customers leveraging digital channels to re-fix their home loans and re-invest their term deposits, providing convenience and time saving benefits.

At the same time, ASB has continued to invest in upgrading its branch network, opening modern new branches and regional centres in Whangarei, Hamilton and Christchurch featuring the latest new branch designs and customer features.

(1) Items include hedging and IFRS volatility, the notional cost of capital charged by the Commonwealth Bank of Australia (the ultimate parent of ASB) and other material non-recurring items. These items are calculated consistently period on period and do not discriminate between positive and negative adjustments. Refer to the Consolidated Performance in Brief for a reconciliation of the statutory and cash net profit after taxation, and for further information on these items.

Performance Overview (continued)

Key performance elements

ASB's cash net interest margin (NIM) has recovered after a prolonged period of contraction, increasing by 7bps on the prior year. Margins continually fluctuate over the longer term and the recovery in NIM reflects lower costs associated with breaking fixed rate loans and improved lending margins. This was partly offset by lower deposit margins.

ASB's loan impairment expense increased by 16% ($11 million) on the prior year, primarily reflecting an increase in consumer finance provisioning following higher arrears rates and write-offs. While arrears rates increased, they remain at low levels reflecting favourable macroeconomic conditions in New Zealand. The Bank has continued to support its rural customers through a difficult period and has noted an improvement flowing through to lower provision levels.

On a cash basis, ASB's cost to income ratio for the twelve months to 30 June 2018 was 34.6%, an improvement of 130bps. Operating income growth was 9% while operating expenses grew by 5%, driven by investment in technology and regulatory compliance costs. Over the past year, the Bank has hired more than 100 people and made significant investments in technology, including biometrics and facial ID, to deliver critical regulatory programmes such as Financial Crimes Compliance and Anti Money Laundering. In doing so, ASB is broadening and strengthening the ways it protects its customers, business and the New Zealand economy against the growing threat of financial crime.

G.R. Walker
Chairman

V.A.J. Shortt
Managing Director

8 August 2018

Annual Report

The Directors are pleased to present the Annual Report for ASB Bank Limited for the year ended 30 June 2018.

The shareholders of the Bank have agreed to apply the reporting concessions available under section 211(3) of the Companies Act 1993. Accordingly, there is no information required to be included in the Annual Report other than the financial statements for the year ended 30 June 2018 and the Independent Auditor's Report on those financial statements, which are enclosed.

Despite the foregoing, the Directors are pleased to provide on the following pages an overview of the Bank's corporate governance.

G.R. Walker
Chairman

V.A.J. Shortt
Managing Director

8 August 2018

Corporate Governance

The Board of Directors (the "Board") places great importance on the governance of ASB Bank Limited (the "Bank" or "ASB"). Performance and compliance are both essential for good governance.

Reviews of the Board's performance and its policies and practices are carried out regularly. These reviews identify where improvements can be made and assess the quality and effectiveness of the industry and company information made available to the Directors of the Bank (the "Directors").

The principal features of the Bank's corporate governance are as follows:

- The Board Audit and Risk Committee ("BARC") consists only of non-executive directors. The chairman of the BARC must be an independent director other than the chairman of the Board.
- The Managing Director does not participate in deliberations of either the Board or the Appointments and Remuneration Committee affecting her position, remuneration or performance.
- There are established criteria for the appointment of new directors and external consultants are engaged in the search for new independent directors.
- The Bank's Conditions of Registration require that:
  - The Board must have at least five directors;
  - The majority of the directors must be non-executive directors;
  - At least half of the directors must be independent directors;
  - At least half of the independent directors must be ordinarily resident in New Zealand;
  - The chairman of the Board must be independent; and
  - The constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes to be the best interests of the Bank.

  The Bank satisfies those requirements.
- The Bank's Conditions of Registration also require that:
  - No appointment of the chairman of the Board or of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer shall be made unless the Reserve Bank of New Zealand ("RBNZ") has been supplied with the person's curriculum vitae and the RBNZ has advised that it has no objection to the appointment;
  - A substantial proportion of the Bank's business must be conducted in and from New Zealand; and
  - Exposures to connected persons cannot be on more favourable terms than corresponding exposures to non-connected persons.

  The Bank complies with those requirements.
- New directors are invited to participate in an induction programme. All directors regularly consider issues, trends and challenges relevant to the Bank, the financial services industry and the economy.
- Non-executive directors do not participate in any of the Bank's incentive plans.

The Board has adopted a charter and code of ethics for the Directors. The philosophy underlying the Board's approach to corporate governance is consistent with the ethical standards required of all employees of the Bank.

The current chairman of the Board is G.R. Walker.

Committees of the Board

The Board has delegated specific powers and responsibilities to committees of the Board and to management. The decisions made by the Board committees are reported to the full Board. Management always recommends key decisions to the Board for approval.

There are two permanent Board committees – the BARC and the Appointments and Remuneration Committee. Other committees may be formed to carry out specific delegated tasks when required.

An independent director chairs each committee.

Board Audit and Risk Committee

The BARC assists the Board in carrying out its responsibilities concerning financial reporting and control, conformance with legal requirements, the identification and prudent management of risk and the good governance of the Bank in relation to those matters.

All non-executive directors are members of the BARC. The current chairman of the BARC is Dame Therese Walsh.

The role of the BARC is to:

- Assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to financial reporting and control, conformance with legal requirements affecting members of the Bank and its controlled entities (the "Banking Group"), the identification and prudent management of the risks to which members of the Banking Group are or may become subject, and the good governance of the Banking Group in relation to those matters, including the oversight of:
  - the integrity of external financial reporting;
  - financial management;
  - internal control systems;
  - accounting policy and practice;
  - the risk management framework and monitoring compliance with that framework;
  - related party transactions;
  - compliance with applicable laws and standards; and
  - without limiting the generality of the foregoing, compliance with RBNZ standards relating to external financial reporting.

Corporate Governance (continued)

Board Audit and Risk Committee (continued)

- Ensure the quality, credibility and objectivity of the accounting process, financial reporting and regulatory disclosure.
- Oversee and monitor the performance of the internal and external auditor. The Board has approved the application to the Banking Group of the Commonwealth Bank of Australia ("CBA") Group External Auditor Services Policy. That policy relates to the engagement of the external audit firm for non-audit work. The objective of the policy is to avoid prejudice to the independence of the auditor and to prevent undue reliance by the auditor on revenue from the Bank. The policy ensures that the auditor does not:
  - assume the role of management;
  - become an advocate for their own client; or
  - audit work that comprises a direct output of their own professional expertise.

  Under the policy the auditor will not provide the following services:
  - bookkeeping or services relating to accounting records;
  - appraisal or valuation and fairness opinions;
  - advice on deal structuring and related documentation;
  - tax planning and strategic advice;
  - actuarial services;
  - executive recruitment or extensive human resource functions;
  - acting as a broker-dealer, promoter or underwriter; or
  - legal services.
- Provide a structured reporting line for Internal Audit and ensure the objectivity and independence of Internal Audit. The Chief Internal Auditor reports to the BARC through its chairman.
- Consider any CBA group policy relevant to the role of the BARC and, if deemed appropriate, adopt or recommend that the Board adopt (as applicable) the policy as a policy of the Banking Group.
- Act as a formal forum for free and open communication between the Board, the internal and external auditors and management.
- Deal with any other matter which the Board may from time to time delegate to the BARC.

The Credit Approvals Committee ("CAC") is a sub-committee of the BARC. The CAC has the power to approve, note or monitor (as the case requires) on behalf of the BARC, any matter that:

- concerns a current or proposed credit risk exposure of the Banking Group to an individual debtor or group of related debtors; and
- under the Banking Group's Credit Policy or Credit Approval Authorities, either:
  - requires the approval of the BARC (or the Board, where the BARC holds delegated authority to approve the matter on behalf of the Board); or
  - must be noted or monitored by the BARC (or the Board, where the BARC holds delegated authority to note or monitor the matter on behalf of the Board).

For any act or decision, the CAC comprises the chairman of the Board, the chairman of the BARC and one other non-executive director appointed by the BARC.

Appointments and Remuneration Committee

The role of the Appointments and Remuneration Committee is to assist the Board in discharging its responsibilities in relation to:

- the selection, remuneration, education and evaluation of the Directors;
- the selection, remuneration and evaluation of management; and
- policies relating to diversity for the Board and management.

The current members of the Appointments and Remuneration Committee are G.R. Walker (chairman), S.R.S. Blair and S.R. Peterson.

Remuneration for the Bank's executives is determined after taking external advice to ensure competitive remuneration packages are in place to attract and retain competent and high-calibre people.

Incentive payments for executives are directly related to their performance and behaviour, and also depend on the extent to which strategic and operating targets set at the beginning of the financial year are achieved.

Directors' and Officers' Liability Insurance

The Bank has effected liability insurance for the Directors and officers of the Bank and its subsidiaries.

Diversity and Inclusion

The Bank is committed to diversity and inclusion across its business. The Bank's diversity and inclusion priorities are designed to ensure a truly inclusive culture, which fosters and embraces diversity of thought and background.

The Bank's diversity and inclusion priorities are to:

- Have an inclusive culture;
- Foster diversity in leadership;
- Value individuals;
- Enhance its reputation & recognition; and
- Support flexible practices.

The Bank reports annually against these priorities in the Bank's Corporate Responsibility Report.

General Disclosures

(To be read in conjunction with the Financial Statements)

30 June 2018

This Disclosure Statement has been issued by the Bank 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 those controlled entities listed in note 24 to the financial statements.

Ultimate Parent Bank

The ultimate parent bank of the Bank is CBA, its registered office being Ground Floor, Tower 1, 201 Sussex Street, Sydney, NSW 2000, Australia.

Changes to 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.
B.J. Chapman retired as a director of the Bank on 2 February 2018.
J.L. Freeman retired as a director of the Bank on 28 February 2018.
V.A.J. Shortt was appointed as a director of the Bank on 5 March 2018.
A.L. Toevs resigned as a director of the Bank with effect from 6 April 2018.

Persons Having a Significant Interest in the Registered Bank

The Bank's immediate parent, ASB Holdings Limited, holds 100% of the voting shares of the Bank and has the power of appointment of directors. The ultimate parent bank, CBA, has indirect power to appoint directors.

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-	Negative

The rating for S&P has remained unchanged during the 2 years immediately preceding the signing 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. On 7 May 2018 Fitch Ratings affirmed CBA's long-term issuer default rating at AA- and has revised the outlook to negative from stable to reflect CBA's risks in remediating shortcomings in operational risk controls and governance. As a consequence ASB's outlook was aligned with CBA's and revised to negative from stable.

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.

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.

Auditor

PricewaterhouseCoopers New Zealand ("PricewaterhouseCoopers") is the appointed auditor of the Bank. The auditor's address is contained in the Directory.

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 $3.952 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 June 2018, the Covered Bonds issued have been assigned a long term rating of 'AAA' by Fitch Ratings and 'Aaa' by Moody's.

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

CBA does not guarantee the obligations of the Bank or its subsidiaries.

Under the Banking Act 1959 (Commonwealth of Australia) ("Australian Banking Act"), the Australian Prudential Regulation Authority ("APRA"), may determine prudential standards which must be complied with by CBA. Further, regulations made under the Australian Banking Act may specify prudential requirements which must be observed by CBA. These prudential standards and requirements may affect the ability of CBA to provide material financial support to the Bank or its subsidiaries.

Unless APRA provides otherwise, CBA must comply with APRA's prudential standard APS 222: Associations with Related Entities ("APS 222"). The effects of APS 222 include that:

- CBA's exposure to the Bank must not exceed 50% of CBA's level 1 capital base (as defined in APS 222) and its aggregate exposure to all related Authorised Deposit-taking Institutions ("ADI's") (including overseas based equivalents) cannot exceed 150% of that capital base;
- CBA must not enter into cross-default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default by CBA in its obligations;
- CBA must not have unlimited exposures to the Bank (such as providing a general guarantee of the Bank's obligations); and
- CBA's limits on acceptable levels of exposure to the Bank must have regard to the level of exposures that would be approved to third parties of broadly equivalent credit status to the Bank, the impact on CBA's stand-alone capital and liquidity positions, and its ability to continue operating in the event of a failure by the Bank or any other related entity to which it is exposed.

In July 2018, APRA released proposed changes to APS 222. The proposed changes, including the amended standard, are open to consultation and may be implemented from 1 January 2020. If the proposed changes are implemented in full, CBA's exposure to the Bank will reduce to a limit of 25% of CBA's Level 1 Tier 1 capital and CBA's aggregate exposure to all related ADI's and overseas based equivalents will be limited to 75% of CBA's Level 1 Tier 1 capital. CBA expects to be compliant with the revised limits within the implementation timeframe.

In addition, APRA advised CBA in November 2015 that it will be required to reduce its non-equity exposure to the Bank and its subsidiaries to below a limit of 5% of CBA's Level 1 Tier 1 capital over a five-year period commencing on 1 January 2016. For the purposes of this limit, exposures include all committed, non-intraday, non-equity exposures, including derivatives and off balance sheet exposures. APRA has imposed two conditions over the transition period. Firstly, that the percentage excess above the 5% limit as at 30 June 2015 is to reduce by at least one fifth by the end of each calendar year over the transition period. Secondly, that the absolute amount of routine New Zealand non-equity exposure is not to increase from the 30 June 2015 level until CBA is, and expects to remain, below the 5% limit. For the purposes of assessing this exposure, the 5% limit excludes equity investments and holdings of capital instruments in the Bank and its subsidiaries.

CBA expects to be compliant with APRA's requirements to reduce its non-equity exposures to the Bank and its subsidiaries within the transition period.

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.

Under section 13A(3) of the Australian Banking Act, if an ADI (which includes CBA) becomes unable to meet its obligations or suspends payment, the assets of the ADI in Australia are to be available to meet the ADI's liabilities in the following order: (a) first, the ADI's liabilities to APRA, to the extent that APRA has made, or is required to make, payments to depositors under the Australian Government's Financial Claims Scheme ("Scheme"); (b) second, the ADI's debts to APRA for costs incurred by APRA in the administration of the Scheme in respect of that ADI; (c) third, in payment of the ADI's liabilities in Australia in relation to protected accounts; (d) fourth, the ADI's debts to the Reserve Bank of Australia; (e) fifth, the ADI's liabilities under a certified industry support contract; and (f) sixth, the ADI's other liabilities in the order of their priority apart from section 13A(3) of the Australian Banking Act.

The assets of an ADI are taken for the purposes of section 13A(3) of the Australian Banking Act not to include any interest in an asset or part of an asset in a cover pool for which the ADI is the issuing ADI.

Dealings with Directors

There have been no dealings by any Director, or any immediate relative or close business associate of any Director, with any member of the Banking Group, that:

(i) has been entered into on terms other than those which would, in the ordinary course of business of the Banking Group, be given to any other person of like circumstances or means; or
(ii) could otherwise be reasonably likely to influence materially the exercise of that Director's duties.

Refer to note 39 for outstanding balances with Directors.

All Directors are required to disclose to the Board of the Bank all actual or possible conflicts of interest and are expected to abstain from any vote on matters in which he or she has a material personal interest. The Bank maintains a register of Directors' interests.

Directors' details are contained in the Directory. Communications addressed to the Directors should be sent to the Registered Office (refer to the Directory for this address).

Historical Summary of Financial Statements

$ millions	Banking Group				
For the year ended 30 June	**2018**	2017	2016	2015	2014
Income Statement					
Interest income	**4,188**	4,027	4,048	4,106	3,628
Interest expense	**2,149**	2,176	2,286	2,439	2,091
Net interest earnings	**2,039**	1,851	1,762	1,667	1,537
Other income	**553**	535	464	419	435
Total operating income	**2,592**	2,386	2,226	2,086	1,972
Impairment losses on advances	**80**	69	130	89	56
Total operating income after impairment losses	**2,512**	2,317	2,096	1,997	1,916
Total operating expenses	**879**	834	826	805	767
Net profit before taxation	**1,633**	1,483	1,270	1,192	1,149
Taxation	**456**	414	357	333	343
Net profit after taxation	**1,177**	1,069	913	859	806
Dividends Paid					
Ordinary dividends paid	**650**	450	200	1,140	400
Perpetual preference dividends paid	**54**	56	49	26	15
Total dividends paid	**704**	506	249	1,166	415

$ millions	Banking Group				
As at 30 June	**2018**	2017	2016	2015	2014
Balance Sheet					
Total assets	**95,413**	88,628	81,606	75,903	68,380
Individually impaired assets	**474**	368	377	290	218
Total liabilities	**87,541**	81,226	74,794	70,525	63,214
Total shareholders' equity	**7,872**	7,402	6,812	5,378	5,166

The amounts disclosed in this historical summary of financial statements have been taken from the audited financial statements of the Banking Group except that certain comparatives for interest income and other income have been reclassified to ensure consistency with presentation in the current year.

Income Statement

$ millions For the year ended 30 June	Note	Banking Group 2018	2017
Interest income	2	**4,188**	4,027
Interest expense	3	**2,149**	2,176
Net interest earnings		**2,039**	1,851
Other income	4	**553**	535
Total operating income		**2,592**	2,386
Impairment losses on advances	17	**80**	69
Total operating income after impairment losses		**2,512**	2,317
Total operating expenses	5	**879**	834
Salaries and other staff expenses		**531**	502
Building occupancy and equipment expenses		**114**	121
Information technology expenses		**119**	106
Other expenses		**115**	105
Net profit before taxation		**1,633**	1,483
Taxation	7	**456**	414
Net profit after taxation		**1,177**	1,069

Statement of Comprehensive Income

$ millions For the year ended 30 June	Note	Banking Group 2018	2017
Net profit after taxation		**1,177**	1,069
Other comprehensive (expense)/income, net of taxation			
Items that will not be reclassified to the Income Statement:			
Net change in asset revaluation reserve	35	**3**	1
Items that may be reclassified subsequently to the Income Statement:			
Net change in available-for-sale reserve	35	**2**	9
Net change in cash flow hedge reserve	35	**(8)**	17
		(6)	26
Total other comprehensive (expense)/income, net of taxation		**(3)**	27
Total comprehensive income		**1,174**	1,096

These statements are to be read in conjunction with the notes on pages 16 to 79 and the Independent Auditor's Report on pages 87 to 93.

Statement of Changes in Equity

$ millions	Note	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 year ended 30 June 2018								
Balance at beginning of year		**4,223**	**26**	**2**	**(86)**	**1**	**3,236**	**7,402**
Net profit after taxation		**-**	**-**	**-**	**-**	**-**	**1,177**	**1,177**
Other comprehensive income/(expense)		**-**	**3**	**2**	**(8)**	**-**	**-**	**(3)**
Total comprehensive income/(expense)		**-**	**3**	**2**	**(8)**	**-**	**1,177**	**1,174**
Ordinary dividends paid	8	**-**	**-**	**-**	**-**	**-**	**(650)**	**(650)**
Perpetual preference dividends paid	8	**-**	**-**	**-**	**-**	**-**	**(54)**	**(54)**
Balance as at 30 June 2018		**4,223**	**29**	**4**	**(94)**	**1**	**3,709**	**7,872**
For the year ended 30 June 2017								
Balance at beginning of year		4,223	28	(7)	(103)	1	2,670	6,812
Net profit after taxation		-	-	-	-	-	1,069	1,069
Other comprehensive income		-	1	9	17	-	-	27
Total comprehensive income		-	1	9	17	-	1,069	1,096
Transfer from asset revaluation reserve to retained earnings	35	-	(3)	-	-	-	3	-
Ordinary dividends paid	8	-	-	-	-	-	(450)	(450)
Perpetual preference dividends paid	8	-	-	-	-	-	(56)	(56)
Balance as at 30 June 2017		4,223	26	2	(86)	1	3,236	7,402

These statements are to be read in conjunction with the notes on pages 16 to 79 and the Independent Auditor's Report on pages 87 to 93.

Balance Sheet

$ millions		Banking Group	
As at 30 June	Note	**2018**	2017
Assets			
Cash and liquid assets	9	**2,566**	2,568
Due from financial institutions	10	**921**	927
Trading securities	11	**2,344**	1,316
Derivative assets	12	**1,727**	976
Available-for-sale securities	13	**4,142**	4,017
Advances to customers	14	**82,931**	78,100
Other assets	25	**261**	226
Property, plant and equipment		**184**	184
Intangible assets		**193**	179
Deferred taxation asset	27	**144**	135
Total assets		**95,413**	88,628
Total interest earning and discount bearing assets		***92,939***	*86,882*
Liabilities			
Deposits and other borrowings	28	**62,419**	58,226
Due to financial institutions	30	**1,271**	460
Other liabilities at fair value through Income Statement	31	**1,097**	1,065
Derivative liabilities	12	**995**	1,508
Current taxation liability		**136**	117
Other liabilities	29	**616**	566
Debt issues:			
At fair value through Income Statement	32	**148**	407
At amortised cost	32	**20,053**	18,073
Loan capital	33	**806**	804
Total liabilities		**87,541**	81,226
Shareholders' Equity			
Contributed capital - ordinary shares	34	**2,673**	2,673
Reserves	35	**(60)**	(57)
Retained earnings		**3,709**	3,236
Ordinary shareholder's equity		**6,322**	5,852
Contributed capital - perpetual preference shares	34	**1,550**	1,550
Total shareholders' equity		**7,872**	7,402
Total liabilities and shareholders' equity		**95,413**	88,628
Total interest and discount bearing liabilities		***81,006***	*75,002*

For, and on behalf of, the Board of Directors, who authorised these financial statements for issue on 8 August 2018

G.R. Walker
Chairman of Board

Dame Therese Walsh
Chairman of Audit and Risk Committee

These statements are to be read in conjunction with the notes on pages 16 to 79 and the Independent Auditor's Report on pages 87 to 93.

Cash Flow Statement

$ millions	Banking Group	
For the year ended 30 June	2018	2017
Cash flows from operating activities		
Net profit before taxation	1,633	1,483
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	31	34
Amortisation of intangible assets	53	45
Net change in provisions for impairment losses and bad debts written off	93	86
Net change in fair value of financial instruments and hedged items	(48)	(380)
Other movements	83	42
Net (increase)/decrease in operating assets:		
Net change in reverse repurchase agreements	(362)	(701)
Net change in due from financial institutions	6	204
Net change in trading securities	(1,032)	(525)
Net change in available-for-sale securities	(122)	13
Net change in advances to customers	(5,000)	(6,227)
Net change in other assets	(35)	3
Net increase/(decrease) in operating liabilities:		
Net change in deposits and other borrowings	4,057	3,581
Net change in due to financial institutions	770	(109)
Net change in other liabilities at fair value through Income Statement	30	(273)
Net change in other liabilities	48	32
Net taxation paid	(443)	(340)
Net cash flows from operating activities	(238)	(3,032)
Cash flows from investing activities		
Cash was provided from:		
Proceeds from sale of property, plant and equipment	-	7
Total cash inflows provided from investing activities	-	7
Cash was applied to:		
Purchase of property, plant and equipment	(29)	(37)
Purchase of intangible assets	(65)	(57)
Total cash outflows applied to investing activities	(94)	(94)
Net cash flows from investing activities	(94)	(87)
Cash flows from financing activities		
Cash was provided from:		
Issue of loan capital (net of issue costs)	-	394
Issue of debt securities (net of issue costs)	8,834	12,830
Total cash inflows provided from financing activities	8,834	13,224
Cash was applied to:		
Dividends paid	(704)	(506)
Redemption of issued debt securities	(8,162)	(9,135)
Total cash outflows applied to financing activities	(8,866)	(9,641)
Net cash flows from financing activities	(32)	3,583
Summary of movements in cash flows		
Net (decrease)/increase in cash and cash equivalents	(364)	464
Add: cash and cash equivalents at beginning of year	1,412	948
Cash and cash equivalents at end of year	1,048	1,412
Cash and cash equivalents comprise:		
Cash and liquid assets	2,566	2,568
Less: reverse repurchase agreements included in cash and liquid assets	(1,518)	(1,156)
Cash and cash equivalents at end of year	1,048	1,412
Additional operating cash flow information		
Interest received as cash	4,252	4,085
Interest paid as cash	(2,155)	(2,211)
Other income received as cash	493	474
Operating expenses paid as cash	(774)	(747)

These statements are to be read in conjunction with the notes on pages 16 to 79 and the Independent Auditor's Report on pages 87 to 93.

Notes to the Financial Statements

For the year ended 30 June 2018

1 Statement of Accounting Policies

General Accounting Policies

The reporting entity is ASB Bank Limited and its controlled entities (the "Banking Group"). ASB is a company incorporated under the Companies Act 1955 on 16 August 1988 and its registered office is Level 2, ASB North Wharf, 12 Jellicoe Street, Auckland 1010, New Zealand. The Bank was re-registered under the Companies Act 1993 on 30 June 1995.

These financial statements for the year ended 30 June 2018 have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Order.

The Banking Group's financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"), New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards.

New Standards (not yet effective)

The following new standards relevant to the Banking Group have been issued. The Banking Group intends to apply these standards on their effective dates.

- NZ IFRS 9 *Financial Instruments*

  In September 2014, the complete version of NZ IFRS 9 *Financial Instruments* was issued which will replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. The standard covers three broad topics: impairment, classification and measurement and hedging. The Banking Group is required to adopt the standard from 1 July 2018 and does not intend to restate comparative information on initial application of NZ IFRS 9.

  NZ IFRS 9 also significantly amends other standards dealing with financial instruments such as NZ IFRS 7 *Financial Instruments: Disclosures*. Accordingly, the adoption of NZ IFRS 9 will require extensive new disclosures, in particular about credit risk, expected credit loss and hedge accounting.

  Set out below is an overview of the key accounting changes and the Banking Group's transition impact of NZ IFRS 9.

  Impairment

  The adoption of NZ IFRS 9 will have a significant impact on the Banking Group's impairment methodology. The NZ IFRS 9 expected credit loss ("ECL") model is forward-looking and replaces the existing incurred loss approach. The ECL impairment model represents expected credit losses based on forward-looking information.

  The NZ IFRS 9 credit impairment requirements apply to all financial assets measured at amortised cost, lease receivables, debt instruments measured at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

  The ECL model uses a three-stage approach to loss recognition. Financial assets may migrate through these stages based on a change in credit risk since origination:

  Stage 1 – 12 months ECL – "Performing"
  When a financial asset is originated or purchased it is classified as Stage 1 "Performing". A loss allowance is recognised for financial assets in Stage 1 at an amount equal to one year of expected credit losses. Purchased or originated credit impaired assets are excluded from Stage 1.

  Stage 2 – Lifetime ECL – "Underperforming"
  If the credit risk on the financial asset increases significantly since initial recognition and the resulting credit quality is not considered to be low risk, the financial asset is transferred to Stage 2 "Underperforming". A loss allowance is recognised for financial assets in Stage 2 at an amount equal to the full lifetime expected credit losses.

  Stage 3 – Lifetime ECL – "Non-performing"
  If the credit risk of a financial asset increases to the point that it is considered to be credit impaired, the financial asset is classified as Stage 3 "Non-performing". Financial assets in Stage 3 continue to have a loss allowance for the full lifetime expected credit losses. Financial instruments in this Stage are generally individually assessed.

  Interest revenue is recognised on gross carrying amounts for financial assets in Stage 1 and Stage 2, and gross carrying value net of impairment provisions for financial assets in Stage 3.

  Significant increase in credit risk
  A significant increase in credit risk for a financial asset is assessed by comparing the risk of default at reporting date to the corresponding risk of default at origination. In determining what constitutes a significant increase in credit risk the Banking Group has considered reasonable and supportable qualitative and quantitative information. For the majority of portfolios the primary indicator of a significant increase in credit risk is a significant deterioration in the internal credit rating grade of a facility between origination and reporting date. The Banking Group will also use a range of secondary indicators, such as, 30 days past due arrears data.

  ECL measurement and forward-looking information
  ECLs are probability-weighted credit losses estimated by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions. The Banking Group has developed and tested NZ IFRS 9 compliant models for material portfolios. The NZ IFRS 9 models multiply the exposure at balance date by the following credit risk factors to calculate ECL:

  - Probability of default (PD): The estimate of the probability that a debtor defaults;
  - Exposure at default (EAD): The estimate of the proportion of a facility that may be outstanding in the event of a default; and
  - Loss given default (LGD): The estimate of the proportion that is not expected to be recovered following default.

1 Statement of Accounting Policies (continued)

New Standards (not yet effective) (continued)

The Banking Group intends to consider four alternative macroeconomic scenarios to ensure a sufficient representative sample of economic conditions when estimating ECL. These scenarios will include forward-looking macroeconomic factors (e.g. unemployment, interest rates and house prices). The Banking Group's Loan Loss Provisioning Committee ("LLPC") will be responsible for approving the macroeconomic scenarios and their associated probability weightings. Where applicable, management adjustments may be made to account for situations where additional known or expected risks and information has not been considered in the modelling process. The LLPC will be responsible for approving such adjustments.

The Banking Group's loan loss provisions, loan impairment expense and any areas of key judgement will be reported to the BARC.

Reported results and key messages are communicated to the BARC, which has an oversight role and provides challenge of key judgements and assumptions, including the basis of the scenarios adopted.

The Banking Group's opening balance sheet adjustment, based on the forecast economic scenarios, management judgements and assumptions as at 1 July 2018, is an increase in impairment provisions of approximately $74 million. This results in a corresponding decrease of $53 million in shareholders' equity. The increase in impairment provisions under NZ IFRS 9 is mainly driven by the requirement to hold provisions equivalent to lifetime expected losses for all loans that have experienced a significant increase in credit risk since origination and the impact of forward-looking factors on expected credit losses estimates. Under NZ IAS 39, provisions are only held for incurred losses on the portfolio and forward-looking factors are not considered.

Classification and measurement

NZ IFRS 9 requires financial asset debt instruments to be classified on the basis of two criteria:

(a) the business model within which financial assets are managed; and
(b) their contractual cashflow characteristics (whether the cashflows represent 'solely payments of principal and interest' ("SPPI")).

The Banking Group assessed the business model at a portfolio level. Information that is considered in determining the business model includes:

(a) policies and objectives for the relevant portfolio;
(b) how the performance and risks of the portfolio are managed, evaluated and reported to management; and
(c) the frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for such sales.

In assessing whether contractual cashflows are SPPI, the Banking Group considers the contractual terms of the instrument. This includes assessing the contract for any terms that could change the timing of contractual cashflows such they would not be consistent with a basic lending arrangement. In making the assessment, the Banking Group also considers the following primary terms and assesses if the contractual cashflows of the instruments meet the SPPI test:

(a) performance linked features;
(b) non-recourse arrangements;
(c) prepayment and extension terms;
(d) contingent and leverage features; and
(e) features that modify elements of the time value of money.

There are three resulting classifications of financial asset debt instruments under NZ IFRS 9:

- Amortised cost: financial assets with contractual cash flows that comprise SPPI, and which are held in a business model whose objective is to collect their contractual cash flows are measured at amortised cost;
- Fair value through other comprehensive income ("FVOCI"): financial assets with contractual cash flows that comprise SPPI, and which are held in a business model whose objective is to both collect their contractual cash flows and to sell are measured at FVOCI; and
- Fair value through profit or loss ("FVTPL"): financial assets with contractual cash flows that do not represent SPPI, or which are held under a different business model (e.g. one for which the objective is held for trading) are measured at FVTPL. Financial assets can also be designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

The Banking Group's opening balance sheet adjustment as at 1 July 2018 is comprised of the following:

- $4,142 million of available-for-sale securities were reclassified to FVOCI. These securities will continue to be measured at fair value. The amount previously recognised in the available-for-sale reserve that is transferred to another reserve within equity is immaterial.
- $2,344 million of trading securities were reclassified from fair value through Income Statement to FVOCI. These securities will continue to be measured at fair value. The amount previously recognised in retained earnings that is transferred to another reserve within equity is immaterial.
- $1,097 million of other liabilities were previously designated at fair value through Income Statement. These were reclassified to amortised cost, and re-measured accordingly. The amount previously recognised in retained earnings that is adjusted against the carrying value of other liabilities is immaterial.

1 Statement of Accounting Policies (continued)

New Standards (not yet effective) (continued)

Hedge accounting

The NZ IFRS 9 hedge accounting model introduces improvements by more closely aligning accounting with risk management and increases the eligibility of both hedge instruments and hedged items for hedge accounting.

The NZ IFRS 9 hedge accounting requirements also include a new approach for the cost of hedging, which is expected to be the key impact for the Banking Group. It permits the Banking Group to defer changes in the fair value of derivatives attributable to the time value of options, currency basis in cross currency swaps and forward points in forward contracts, within equity. These fair value movements represent the cost of hedging and can be excluded from the hedge accounting relationship whilst still being deferred in a new separate equity reserve, known as the "cost of hedging" reserve.

Adoption of the new hedge accounting model is optional and the current hedge accounting requirements under NZ IAS 39 can continue to apply until the International Accounting Standards Board completes its accounting for dynamic risk management project. The Banking Group will continue applying the NZ IAS 39 hedge accounting requirements. The Banking Group will assess the likely adoption date of the NZ IFRS 9 hedge accounting requirements as the dynamic risk management project progresses.

Based on our initial assessment of the Banking Group's current hedging activities, the reclassification from the cash flow hedge reserve to the cost of hedging reserve is likely to be immaterial, with no impact to retained earnings. This will be reconsidered when the date of initial application is finalised and the impact on NZ IFRS 9 as a result of the dynamic risk management project is known.

- NZ IFRS 15 *Revenue from Contracts with Customers*

  NZ IFRS 15 was issued in July 2014 and replaces NZ IAS 11 *Construction Contracts*, NZ IAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards.

  NZ IFRS 15 requires identification of distinct performance obligations within a contract and an allocation of the transaction price of the contract to those performance obligations. Revenue is recognised as each performance obligation is satisfied. Variable amounts of revenue can only be recognised if it is highly probable that a significant reversal of the variable amount will not be required in future periods.

  The Banking Group is required to adopt the standard from 1 July 2018. Impacts of the adoption of NZ IFRS 15 are not material to the Banking Group's financial statements.

- NZ IFRS 16 *Leases*

  NZ IFRS 16 replaces NZ IAS 17 *Leases* and is required to be adopted by the Banking Group from 1 July 2019. NZ IFRS 16 requires lessees to recognise a right of use asset and liability for future payments arising from a lease contract. Lessees will recognise a finance charge on the liability and a depreciation charge on the asset which could affect the timing of the recognition of expenses on leased assets. A scope exemption will apply to short term and low value leases. This change will mainly impact the properties and car fleet that the Banking Group currently accounts for as operating leases. Finance systems will need to be changed to reflect the new accounting rules and disclosures. The Banking Group is currently assessing the expected impact of adopting this standard and the project efforts are focused on preparing and sourcing information.

Basis of Preparation

The measurement base adopted is that of historical cost as modified by the fair value measurement of available-for-sale financial assets, financial instruments at fair value through Income Statement, derivative contracts, and the revaluation of certain property, plant and equipment.

Critical Accounting Estimates and Judgements

The critical judgements used by management in applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements, apart from those involving estimation, are the designation of financial assets and financial liabilities as at fair value through Income Statement and the assessment of control for consolidation purposes.

Preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Estimates and assumptions are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Banking Group considers the consolidation of structured entities, the valuation of financial instruments, goodwill impairment testing and the provision for impairment losses on advances to customers require significant accounting estimates and management judgement. Refer to (a) for details on consolidation, (f) for valuation of financial instruments, note 26 for goodwill impairment testing and note 15 for details of credit risk management and the basis of the Banking Group's impairment provision model.

Presentation Currency and Rounding

The consolidated financial statements are presented in New Zealand dollars, which is the Bank's functional and presentation currency. All amounts in this Disclosure Statement and the financial statements are presented in millions, unless otherwise stated.

1 Statement of Accounting Policies (continued)

Particular Accounting Policies

The following particular accounting policies have been applied on a consistent basis.

(a) Basis of Consolidation

The consolidated financial statements of the Banking Group include the financial statements of the Bank and all entities where it is determined that there is capacity to control the entity. Control exists when the Banking Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. For purposes of assessing control, the Banking Group acts as a principal when there are no substantial removal rights and when its economic interest is substantial compared to the economic interest of other investors.

Subsidiaries
Subsidiaries are those companies controlled by the Banking Group. The financial statements of subsidiaries are included in the Banking Group's financial statements from the date when the Banking Group obtains control until the date that it loses control.

Assets, liabilities and results of subsidiaries are consolidated in the Banking Group's financial statements. All intra-group balances and transactions have been fully eliminated on consolidation.

Other Controlled Entities
The Banking Group may invest in or establish a structured entity (“SE”) to enable it to undertake specific transactions. SEs include securitisation vehicles, a covered bond trust and other structured finance entities. Where the Banking Group has control of a SE, it is consolidated in the Banking Group's financial statements (refer to notes 22 and 24).

The Banking Group does not consolidate a SE that it does not control. As it can sometimes be difficult to determine whether the Banking Group has control, judgements are made about its exposure or right to variable returns and the ability to affect returns through its power over the SE.

Associates
Associates are those entities in which the Banking Group has significant influence, but not control, over financial and operating policies. The Banking Group has representation on the Boards of Directors of all companies classified as associates. Associates are accounted for under the equity method of accounting.

(b) Segment Reporting

Operating segments are reported based on the Banking Group's organisational and management structures (refer to note 44). Executive management, the Banking Group's chief operating decision maker, review the Banking Group's internal reporting based around these segments in order to assess performance and allocate resources.

The Banking Group operates predominantly within New Zealand. On this basis geographical segment reporting is not applicable.

(c) Foreign Currency Translation

All foreign currency monetary assets and liabilities are converted at the rates of exchange ruling as at balance date. Foreign currency transactions are converted using the exchange rates prevailing at the dates of the transactions. For non-hedging instruments, unrealised gains and losses arising from these revaluations and gains and losses arising from foreign exchange dealings are recognised immediately in the Income Statement. For more information on the treatment of hedging gains and losses refer to (h).

The foreign currency translation reserve ("FCTR") includes historical exchange differences which arose from the translation of foreign currency assets, liabilities and Income Statements of overseas subsidiaries. Gains or losses accumulated in the FCTR are transferred to the Income Statement upon partial or full disposal of the overseas subsidiary.

(d) Revenue Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Banking Group and that the revenue can be reliably measured. The principal sources of revenue are interest income, fees and commissions.

Interest Income and Expense
Financial instruments are classified in the manner described in (f). Some are measured by reference to amortised cost, others by reference to fair value.

For financial instruments measured at amortised cost, the effective interest method is used to measure the interest income or interest expense recognised in the Income Statement.

For financial instruments measured at fair value, interest income or interest expense is recognised under the effective interest method. Refer to (g) for the recognition of revenue relating to derivatives.

Lending Fees
Fees and direct costs relating to loan origination, financing and loan commitments are deferred and amortised to interest income over the life of the loan using the effective interest method. Lending fees not directly related to the origination of a loan are recognised over the period of service.

1 Statement of Accounting Policies (continued)

(d) Revenue Recognition (continued)

Commission, Funds Management Income and Other Fees
When amounts relate to specific transactions or events, they are recognised in the Income Statement when the service is provided to the customer. When they are charged for services provided over a period, they are taken to other income on an accruals basis as the service is provided.

Trading Income
Trading income represents both realised and unrealised gains and losses from changes in the fair value of trading assets, liabilities and derivatives.

Other Income
Dividend income is recorded in the Income Statement when the Banking Group's right to receive the dividend is established. Realised and unrealised gains and losses from re-measurement of financial instruments at fair value through Income Statement are included in other income.

(e) Expense Recognition

Operating lease payments are recognised in the Income Statement on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern of the benefit received. All other expenses are recognised in the Income Statement on an accrual basis other than those disclosed specifically in other sections of note 1.

(f) Financial Instruments

BASIS OF RECOGNITION AND MEASUREMENT
The Banking Group offers an extensive range of financial instruments. Financial instruments are transacted on a commercial basis to derive an interest yield with terms and conditions having due regard to the nature of the transaction and the risks involved. All financial assets measured at fair value are accounted for on a trade date basis. Loans are recognised when cash is advanced to the borrowers. Financial liabilities are recognised when an obligation arises. Financial instruments are classified in one of the following categories at initial recognition: financial assets at fair value through Income Statement, available-for-sale financial assets, loans and receivables, held-to-maturity, financial liabilities at fair value through Income Statement and other financial liabilities.

The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through Income Statement, where transaction costs are expensed as incurred.

Financial assets at fair value through Income Statement, available-for-sale financial assets and financial liabilities at fair value through Income Statement are measured at fair value. Where available, quoted market prices are used as a measure of fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied to liabilities. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that maximise the use of observable market inputs available as at balance date.

If changes in these assumptions to a reasonably possible alternative would result in a significantly different fair value, this has been disclosed.

FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT
Assets in this category are either held for trading or designated on initial recognition and are accounted for and evaluated on a fair value basis. Fair value reporting of these assets reflects the Banking Group's risk management process, which includes utilising natural offsets where possible.

Financial assets in this category include:

Trading Securities
This category includes short and long term public and other debt securities, which are held for trading. The fair value of securities is based on quoted market prices, where available, or calculated using discounted cash flow models based on current market rates.

Derivative Assets
Derivative assets are measured at fair value through Income Statement. Refer to (g) for more details on derivatives.

AVAILABLE-FOR-SALE FINANCIAL ASSETS
Available-for-sale financial assets are debt and equity securities that are not classified as at fair value through Income Statement, or as loans and receivables and are intended to be held for an indefinite period of time, and which may be sold in response to needs for liquidity or changes in interest rates or exchange rates. These are measured at fair value, with changes in fair value recognised in the available-for-sale reserve, until the assets are sold or otherwise disposed of, or until they are impaired. The fair value of securities is based on quoted market prices, where available, or calculated using discounted cash flow models based on current market rates. When fair value hedge accounting is applied, only fair value changes relating to movements in credit spreads are included in the reserve. On disposal the accumulated change in fair value is transferred to the Income Statement and reported in other income. Interest, premiums and discounts are amortised through the Income Statement using the effective interest method.

Impairment charges on available-for-sale equity financial assets are recorded when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgement and the Banking Group evaluates, among other factors, historical price movements and the duration and extent to which the fair value of the investment is less than cost.

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

LOANS AND RECEIVABLES

These are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are measured at amortised cost and interest income is recognised in the Income Statement using the effective interest method.

Amortised cost is the amount at which a financial instrument is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation (using the effective interest method) of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate a shorter period, to the net carrying amount of the financial asset or financial liability.

Financial assets in the loans and receivable category include:

Cash and Liquid Assets

Cash and liquid assets include cash and cash at bank, cash in transit, call deposits with the central bank, money at short call (deposit and settlement accounts with other financial institutions with an original maturity of three months or less), nostro balances, and reverse repurchase agreements.

Due from Financial Institutions

Due from financial institutions is defined by the nature of the counterparty and includes loans and settlement account balances due from other financial institutions.

Advances to Customers

Advances cover all forms of lending to customers, other than those classified as at fair value through Income Statement, and include mortgages, overdrafts, personal loans and credit card balances. They are recognised in the Balance Sheet when cash is advanced to the customer. When fair value hedge accounting is applied to advances to customers, the carrying value at amortised cost is adjusted for changes in fair value related to the hedged risk.

Advances are reported net of provisions for impairment to reflect the estimated recoverable amounts. Refer to (m).

Other Assets

Other assets include the accrual of interest coupons, fees receivable and receivables relating to unsettled transactions. For derivatives any accrued interest is recognised and measured as part of the derivative's fair value.

HELD-TO-MATURITY INVESTMENTS

These are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Banking Group has a positive intention and ability to hold to maturity. They are measured at amortised cost using the effective interest method. The Banking Group has not classified any financial assets as held-to-maturity.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH INCOME STATEMENT

Liabilities in this category are either held for trading or designated on initial recognition and are accounted for and evaluated on a fair value basis. Fair value reporting of these liabilities reflects the Banking Group's risk management process, which includes utilising natural offsets where possible.

Liabilities in this category include:

Other Liabilities at Fair Value through Income Statement

Certain liabilities are designated as at fair value through Income Statement on origination, where those liabilities are managed on a fair value basis, or where designation eliminates or significantly reduces an accounting mismatch. An accounting mismatch could arise from measuring assets or liabilities, or recognising their gains or losses on different bases. These amounts are managed with other assets and liabilities accounted for and evaluated on a fair value basis.

The fair value is calculated using discounted cash flow models. The discount rates applied in this calculation are based on current market rates.

Derivative Liabilities

Derivative liabilities are measured at fair value through Income Statement. Refer to (g) for more details on derivatives.

Debt Issues: At Fair value through Income Statement

This category includes all debt issues that are designated as at fair value through Income Statement and primarily consists of issued paper. Debt issues have been designated as at fair value through Income Statement, where designation eliminates or significantly reduces an accounting mismatch. These amounts are managed with other assets and liabilities accounted for and evaluated on a fair value basis. The fair value is calculated using discounted cash flow models. The discount rates applied in this calculation are based on current market rates.

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

OTHER FINANCIAL LIABILITIES

This category includes all financial liabilities other than those at fair value through Income Statement. Liabilities in this category are measured at amortised cost and interest expense is recognised in the Income Statement using the effective interest method.

Financial liabilities in this category include:

Deposits and Other Borrowings

Deposits and other borrowings cover all forms of funding that are not designated as at fair value through Income Statement or included in debt issues. This includes transactional and savings accounts, term deposits, certificates of deposit, credit balances on cards, foreign currency accounts and repurchase agreements.

Due to Financial Institutions

Due to financial institutions is defined by the nature of the counterparty and includes deposits, vostro balances and settlement account balances due to other financial institutions.

Other Liabilities

Other liabilities include the accrual of interest coupons and fees payable. For derivatives, any accrued interest is recognised and measured as part of the derivative's fair value.

Debt Issues: At Amortised Cost

This category includes all debt issues that are not designated as at fair value through Income Statement and primarily consists of issued paper. When fair value hedge accounting is applied to issued paper, the carrying value at amortised cost is adjusted for changes in fair value related to the hedged risk.

Loan Capital

Loan capital is debt issued by the Banking Group with terms and conditions that qualify for inclusion as capital under RBNZ's prudential standards. Refer to note 42 for further information on regulatory capital. When fair value hedge accounting is applied to fixed rate loan capital, the carrying value at amortised cost is adjusted for changes in fair value related to the hedged risk.

(g) Derivative Financial Instruments

Derivative instruments are contracts whose value is derived from one or more underlying variables such as a specified interest rate or an index as defined in the contract. The Banking Group enters into derivative transactions including foreign exchange contracts, forward rate agreements, futures, options, interest rate swaps, currency swaps and combinations of these instruments. The sale of derivatives to customers as risk management products and their use for trading purposes is integral to the Banking Group's financial markets activities. Derivatives are also used to manage the Banking Group's own exposure to market risk.

The Banking Group recognises derivatives in the Balance Sheet at their fair value. Fair values are obtained from market yields and discounted cash flow models or option pricing models as appropriate. Derivative assets are those contracts which have a positive fair value. Derivative liabilities are those contracts which have a negative fair value.

Derivatives are classified either as "Held for hedging" or "Held for trading".

Held for trading derivatives are those entered into in order to meet customers' needs, to undertake market making and positioning activities and for economic hedging without applying hedge accounting. Changes in the fair value of held for trading derivatives are included in other income. Interest income or expense relating to held for trading derivatives entered into for economic hedging are included in interest income or expense depending on the nature of the hedged transaction. Interest income or interest expense relating to held for trading derivatives for purposes other than economic hedging are included in other income.

Held for hedging derivatives are instruments held for the Banking Group's own risk management purposes, which meet the criteria for hedge accounting as described in (h).

(h) Hedge Accounting

The Banking Group uses derivatives as part of its asset and liability management activities to manage exposures to interest rate and foreign currency, including exposures arising from forecast transactions. The Banking Group applies either cash flow or fair value hedge accounting when transactions meet the specified criteria to obtain hedge accounting treatment.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, and could affect profit or loss. A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

The Banking Group discontinues hedge accounting when it is determined that a hedge has ceased to be highly effective; when the derivative expires, or is sold, terminated, or exercised; when the hedged item matures or is sold or repaid; when a forecast transaction is no longer deemed highly probable; or when the Banking Group elects to revoke the hedge designation.

1 Statement of Accounting Policies (continued)

(h) Hedge Accounting (continued)

Cash Flow Hedge Accounting

A fair value gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognised initially in the cash flow hedge reserve. The ineffective portion of changes in fair value are recognised immediately in other income. When the transaction or item that the derivative is hedging (including cash flows from transactions that were only forecast when the derivative hedge was effected) affects income or expense then the associated fair value change on the hedging derivative is simultaneously transferred from the cash flow hedge reserve to the corresponding income or expense line item in the Income Statement.

When a hedging derivative expires or is sold, the hedge no longer meets the criteria for hedge accounting, or the Banking Group elects to revoke the hedge designation, the cumulative gain or loss on the hedging derivative remains in the cash flow hedge reserve until the forecast transaction occurs and affects income, at which point it is transferred to the corresponding income or expense line. If a forecast transaction is no longer expected to occur, the cumulative gain or loss on the hedging derivative previously reported in cash flow hedge reserves is immediately transferred to other income.

Fair Value Hedge Accounting

For qualifying fair value hedges, the change in fair value of the hedging derivative is recognised within other income in the Income Statement. Changes in the fair value of the hedged item which are attributable to the risks hedged with the derivative instrument, are reflected in an adjustment to the carrying value of the hedged item, and are recognised in other income.

If the hedging instrument no longer meets the criteria for hedge accounting, or the Banking Group revokes the hedge designation, the difference between the carrying value of the hedged item at that point and the value at which it would have been carried had the hedge never existed (the "unamortised fair value adjustment"), is maintained as part of the carrying value of the hedged item and amortised to other income based on a recalculated effective interest rate. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in other income.

(i) Leasing

Leases under which the Banking Group transfers substantially all the risks and rewards of ownership of an asset to the lessee or a third party are classified as finance leases. Under a finance lease, the present value of the lease payments including any guaranteed residual value is recognised as a receivable and is reported within advances to customers. The difference between the gross receivable and the present value of the receivable is treated as unearned finance income. Lease income is recognised over the lease term so as to produce a constant periodic rate of return on the net investment in the finance lease.

Leases where the Banking Group retains substantially all the risks and rewards of ownership of an asset are classified as operating leases. Operating lease rental revenue and expense is recognised in the Income Statement on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern of the benefit received. The Banking Group classifies assets leased out under operating leases as property, plant and equipment. The assets are depreciated over their useful lives on a basis consistent with similar assets.

(j) Repurchase and Reverse Repurchase Agreements

Under repurchase agreements, collateral in the form of securities is advanced to a third party and the Banking Group receives cash in exchange. The counterparty is allowed to sell or repledge the collateral advanced under repurchase agreements in the absence of default by the Banking Group, but has an obligation to return the collateral at the maturity of the contract. The Banking Group has determined that it retains substantially all the risks and rewards of these securities and therefore the securities advanced are not derecognised and are retained within the relevant security portfolio and accounted for accordingly. The obligation to repurchase is recorded as deposits and other borrowings. The difference between the sale and repurchase price represents interest expense and is recognised in the Income Statement over the term of the repurchase agreement.

A reverse repurchase agreement is the same transaction as a repurchase agreement except the Banking Group is receiving the collateral in the form of securities and giving cash in exchange. The Banking Group may sell or re-pledge any collateral received, but has an obligation to return the collateral and the counterparty retains substantially all the risks and rewards of ownership. Consequently the collateral is not recognised by the Banking Group which instead records a separate asset for the cash given. The amount receivable is recorded as cash and liquid assets. The difference between the purchase and sale price represents interest income and is recognised in the Income Statement over the term of the agreement.

(k) Offsetting Financial Instruments

The Banking Group offsets financial assets and financial liabilities and reports the net balance in the Balance Sheet where there is currently a legally enforceable right to set off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(l) Derecognition of Financial Instruments

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired. Derecognition also occurs when the rights to receive cash flows from financial assets have been transferred together with substantially all of their risks and rewards. For those transactions where substantially all the risk and rewards are neither retained nor transferred, the Banking Group derecognises assets when control is no longer retained. When control is retained, the assets are recognised to the extent of the Banking Group's continuing involvement.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

1 Statement of Accounting Policies (continued)

(m) Asset Quality

DEFINITIONS

Individually impaired assets are any credit exposures against which an individually assessed provision has been recorded in accordance with NZ IAS 39.

A past due asset is any credit exposure where a counterparty has failed to make a payment when contractually due, and which is not an impaired asset.

An asset under administration is any credit exposure which is not an impaired asset or a past due asset, but which is to a counterparty:

(a) who is in receivership, liquidation, bankruptcy, statutory management or any form of administration in New Zealand; or

(b) who is in any other equivalent form of voluntary or involuntary administration in an overseas jurisdiction.

PROVISION FOR IMPAIRMENT

Loans and receivables are reviewed at each balance date to determine whether there is objective evidence of impairment. Individually significant assets are reviewed for impairment individually and other assets are reviewed individually or collectively. If there is objective evidence of impairment, the recoverable amount of the asset or group of assets is estimated and provision is made for the difference between the carrying amount and the recoverable amount. The recoverable amounts of advances to customers measured at amortised cost are calculated as the present value of the expected future cash flows. Short term balances are not discounted.

Objective evidence that a financial asset or portfolio of assets is impaired includes, but is not limited to, observable data that comes to the attention of the Banking Group about the following loss events:

(a) significant financial difficulty of the issuer or obligor; or

(b) a breach of contract, such as a default or delinquency in interest or principal payments; or

(c) the Banking Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that it would not otherwise consider; or

(d) the disappearance of an active market for the financial asset because of financial difficulties.

Financial assets at fair value through Income Statement are not assessed for impairment as their fair value reflects the credit quality of the instrument, and changes in fair value are recognised in other income.

Allowances for credit losses on off balance sheet items such as commitments are reported in other liabilities.

Advances to Customers

Advances to customers are presented net of individually assessed and collective provisions for impairment. Provisions are made against the carrying amount of advances that are identified as being impaired based on regular reviews of outstanding balances, to reduce these advances to their recoverable amounts. Collective provisions are maintained to reduce the carrying amount of portfolios of similar advances to their estimated recoverable amounts as at balance date. These provisions include incurred losses not yet specifically identified in the portfolio. The expected future cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the individually assessed and collective provisions are recognised in the Income Statement. When a loan is known to be uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, and the amount of the loss has been determined.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write off, the write-off or provision is reversed through the Income Statement.

(n) Property, Plant and Equipment

Property, plant and equipment other than land and buildings are recognised in the Balance Sheet at cost less accumulated depreciation and impairment losses.

Freehold land and buildings are stated at revalued amounts based on revaluations conducted at least every three years on a rolling basis. The rolling valuations are carried out by independent registered valuers in June. The valuers are all Associate Members of the New Zealand Institute of Valuers and the major valuation firms used are Jones Lang LaSalle Limited (Auckland), Telfer Young (Waikato) Limited (Hamilton) and Thayer Todd Valuations Limited (Invercargill).

Changes in valuations of freehold land and buildings are transferred directly to the asset revaluation reserve. Where such a transfer results in a debit balance in the asset revaluation reserve of any individual asset, the loss is recognised in the Income Statement, and any subsequent revaluation gains are written back through the Income Statement to the extent of past losses recognised. Upon sale of freehold land and buildings, any gains held in the asset revaluation reserve are transferred directly to retained earnings.

The cost or revalued amount of property, plant and equipment (excluding land) less the estimated residual value is depreciated over their useful lives on a straight-line basis. The range of useful lives of the major assets are:

• Buildings	10-100	years
• Furniture and fittings	5-10	years
• Computer and office equipment, and operating software	3-8	years
• Other property, plant and equipment	4-18	years

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each balance date.

1 Statement of Accounting Policies (continued)

(n) Property, Plant and Equipment (continued)

Assets are reviewed at least annually to determine whether there is any indication that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount is determined and an asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. For revalued assets, the write-down is treated in the same way as adjustments arising from revaluations described above. For other assets, the impairment loss is recognised within operating expenses in the Income Statement. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Where the Banking Group expects the carrying amount of assets held within property, plant and equipment to be recovered principally through a sale transaction rather than through continuing use, these assets are classified as held for sale.

(o) Intangible Assets

Intangible assets comprise goodwill acquired in a business combination, and acquired computer software licences as well as certain acquired and internally generated application software.

GOODWILL
Goodwill represents the excess of the purchase consideration over the fair value of the identifiable net assets of a controlled entity at the date of gaining control. It is capitalised and recognised in the Balance Sheet, and has an indefinite life.

The carrying value of goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. If any such indication exists, the asset's recoverable amount is estimated, and an impairment loss is recognised under operating expenses in the Income Statement for the difference between the carrying amount and the recoverable amount. Impairment losses on goodwill are not reversed.

For the purposes of impairment testing, goodwill is allocated to cash-generating units or groups of units. A cash-generating unit is the smallest identifiable group of assets that generate independent cash inflows. Goodwill is allocated by the Banking Group to cash-generating units or groups of units based on how goodwill is monitored by management. Gains or losses on the disposal of an entity or cash generating unit include the carrying value of goodwill relating to that entity or cash generating unit.

COMPUTER SOFTWARE
Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their expected useful lives on a straight-line basis.

Certain internal and external costs directly incurred in acquiring and developing software are capitalised when specific criteria are met. These intangible assets are amortised over their expected useful lives on a straight-line basis. Computer software costs that do not meet the capitalisation criteria are expensed in the period incurred.

Computer software is subject to the same impairment review process as property, plant and equipment. Any impairment loss is recognised under operating expenses in the Income Statement.

(p) Taxation

Income tax on the net profit for the year comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted as at balance date taking advantage of all allowable deductions under current taxation legislation. It also includes any adjustment to tax payable in respect of previous financial years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted as at balance date.

In accordance with NZ IAS 12 *Income Taxes*, a deferred taxation asset is recognised only to the extent that it is probable (i.e. more likely than not) that a future taxable profit will be available against which the asset can be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current or deferred tax related to fair value measurement of available-for-sale financial assets, cash flow hedges and the revaluation of non-current assets, which is charged or credited to other comprehensive income is subsequently recognised in the Income Statement if and when the deferred gain or loss on the related asset or liability affects the Income Statement.

(q) Securitisation, Funds under Management and Other Fiduciary Activities

ASB Group Investments Limited, a subsidiary of the Banking Group, acts as manager for a number of managed investment schemes and superannuation schemes.

The assets and liabilities of these trusts and schemes are not included in the financial statements of the Banking Group when the Banking Group does not have control of the trusts and schemes. Fund management income is included in other income.

Securitised assets are derecognised in accordance with the derecognition of financial instruments policy as set out in (l).

1 Statement of Accounting Policies (continued)

(r) Contingent Liabilities and Credit Commitments

Contingent liabilities are possible obligations, whose existence will be confirmed only by uncertain future events, or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised, but are disclosed, unless they are remote.

The Banking Group issues commitments to extend credit, letters of credit, guarantees and other credit facilities. These financial instruments attract fees in line with market prices for similar arrangements. They are not sold or traded. Letters of credit and guarantees generally do not involve cash payments other than in the event of default. The fee pricing is set as part of the broader customer credit process and reflects the probability of default. They are disclosed as contingent liabilities at their face value. The fair values of guarantees are not considered to be material.

(s) Provisions

A provision is recognised in the Balance Sheet when the Banking Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(t) Cash Flow Statement

The Cash Flow Statement has been prepared using the indirect method by which net profit before taxation is adjusted for non-cash transactions and movements in Balance Sheet accounts relating to operating activities.

Cash and cash equivalents include cash and cash at bank, cash in transit, call deposits with the central bank, money at short call and nostro balances.

Changes in cash and cash equivalents related to operating activities reflect cash flows generated by the Banking Group's operations.

Changes in cash and cash equivalents related to investing activities reflect cash flows relating to investments in controlled entities and associates and other securities, as well as acquisitions and disposals of property, plant and equipment and intangible assets.

Changes in cash and cash equivalents related to financing activities reflect cash flows resulting from transactions with shareholders and cash flows relating to debt and loan capital issuances and repayments. The Banking Group adopted the *Disclosure Initiative (Amendments to* NZ IAS 7*)* in the current year, and as a result note 32 includes a reconciliation of the movement in debt issues.

Fair Value Estimates

For financial instruments not presented in the Banking Group's Balance Sheet at their fair value, fair value is estimated as follows:

Cash and Liquid Assets
These assets are short term in nature and the related carrying value is equivalent to their fair value.

Due from Financial Institutions
Fair value is calculated using discounted cash flow models applying discount rates based on current market interest rates for assets with similar credit, interest rate repricing and maturity profiles.

Advances to Customers
For floating rate advances, the carrying amount in the Balance Sheet is considered a reasonable estimate of their fair value after making allowances for the fair value of impaired and potential problem loans. For fixed rate advances, fair value is estimated using discounted cash flow models applying discount rates based on current market interest rates for advances with similar credit, interest rate repricing and maturity profiles.

Other Assets
Carrying amounts in the Balance Sheet are a reasonable estimate of fair value for these assets.

Deposits and Other Borrowings, Due to Financial Institutions and Debt Issues: At Amortised Cost
For non-interest bearing debt, call and variable rate deposits, the carrying amounts in the Balance Sheet are a reasonable estimate of their fair value. For other term deposits and fixed rate issued paper, fair value is estimated using discounted cash flow models applying discount rates based on current market interest rates for similar instruments with similar maturity profiles.

Other Liabilities
Carrying amounts in the Balance Sheet are a reasonable estimate of fair value for these liabilities.

Loan Capital
The estimated fair value of loan capital is based on quoted market rates of publicly traded securities of similar maturity, credit and yield characteristics.

Notes to the Financial Statements

For the year ended 30 June 2018

1 Statement of Accounting Policies (continued)

Changes to Comparatives

Non-compliance with condition of registration 1B

As reported in the Bank's disclosure statement for the six months to 31 December 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 of registration 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. 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.

As reported in the Bank's disclosure statement for the six months to 31 December 2017, the Bank identified that, due to a database administration error, since April 2017 it had not applied the correct Loss Given Default rate when calculating risk-weighted exposures for a small proportion of rural facilities. The Bank considers this to have been non-compliant with condition of registration 1B. This error has now been corrected. The error did not cause the Bank to breach any of its required minimum capital ratios.

The capital ratios previously reported have been restated using all corrected calculations, and are as follows:

Unaudited	**Banking Group**		**Bank**	
As at	**30-Jun-17**		**30-Jun-17**	
	Reported	**Restated**	**Reported**	**Restated**
Common equity tier one capital ratio	10.5%	10.2%	10.5%	10.2%
Tier one capital ratio	12.6%	12.3%	12.6%	12.3%
Total capital ratio	14.1%	13.8%	14.1%	13.8%
Buffer ratio	6.1%	5.7%	6.1%	5.7%

In March 2018 the Bank identified further minor instances of non-compliance with condition of registration 1B. These instances relate to the calculation of capital required for Credit and Market Risk. These findings have been corrected and no restatement of reported capital ratios is required. These errors did not cause the bank to breach any of its required minimum capital ratios.

Non-compliance with condition of registration 13

In December 2017 the Bank engaged a professional services firm to undertake an independent review of its quantitative compliance with condition of registration 13. Their findings identified instances of non-compliance in relation to the following areas: incorrect classification and allocation of funding exposures; incorrect haircuts applied to foreign currency cash and reverse repurchase agreements; and incorrect calculations of contractual outflows and inflows. The maximum impact of these errors to the liquidity ratios during the year were reductions in the: one-week mismatch ratio of 0.14%; one-month mismatch ratio of 0.21%; and core funding ratio of 0.10%. These errors have been corrected and no restatement of reported liquidity ratios is required. These errors did not cause the bank to breach any of its required minimum liquidity ratios.

Other comparatives

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

Notes to the Financial Statements

For the year ended 30 June 2018

2 Interest Income

$ millions For the year ended 30 June	Banking Group 2018	 2017
Cash and liquid assets	**35**	38
Due from financial institutions	**15**	11
Trading securities	**40**	24
Available-for-sale securities	**88**	93
Advances to customers	**4,010**	3,861
Total interest income	**4,188**	4,027

Interest income on advances to customers for the year ended 30 June 2018 included interest earned of $24 million on individually impaired assets (30 June 2017 $24 million).

Total interest income for financial assets that are not at fair value through Income Statement is $4,148 million (30 June 2017 $4,003 million).

3 Interest Expense

$ millions For the year ended 30 June	Banking Group 2018	 2017
Deposits and other borrowings:		
Certificates of deposit	**56**	65
Term deposits	**1,100**	971
On demand and short term deposits	**370**	498
Repurchase agreements	**-**	1
Due to financial institutions	**12**	6
Other liabilities at fair value through Income Statement	**22**	11
Debt issues:		
At fair value through Income Statement	**5**	28
At amortised cost	**547**	566
Loan capital	**37**	30
Total interest expense	**2,149**	2,176

Total interest expense for financial liabilities that are not at fair value through Income Statement is $2,122 million (30 June 2017 $2,137 million).

4 Other Income

$ millions For the year ended 30 June	Banking Group 2018	 2017
Lending fees	**60**	55
Commissions and other fees	**265**	242
Funds management income	**114**	97
Trading income	**96**	94
Ineffective portion of hedges		
Fair value hedge ineffectiveness:		
Gain on hedged items	**14**	84
Loss on hedging instruments	**(14)**	(77)
Cash flow hedge ineffectiveness	**9**	20
Total ineffective portion of hedges	**9**	27
Other operating income		
Net gain on disposal of property, plant and equipment	**-**	2
Dividends received	**7**	5
Net fair value loss on derivatives not qualifying for hedge accounting	**-**	(1)
Net fair value gain on financial instruments designated at fair value through Income Statement	**-**	1
Other	**2**	13
Total other operating income	**9**	20
Total other income	**553**	535

Notes to the Financial Statements

For the year ended 30 June 2018

5 Operating Expense Disclosures

$ millions For the year ended 30 June	Banking Group 2018	 2017
Depreciation		
Buildings	**12**	13
Computer and office equipment, and operating software	**19**	21
Total depreciation	**31**	34
Operating lease rentals	**60**	62
Amortisation of intangible assets	**53**	45

6 Auditor's Remuneration

PricewaterhouseCoopers is the appointed auditor of the Bank.

Fees of $1,817,000 were paid to PricewaterhouseCoopers for the audit and review of the Banking Group during the year ended 30 June 2018 (30 June 2017 $1,651,000).

During the year ended 30 June 2018, PricewaterhouseCoopers was paid fees of $1,013,000 for other assurance related services (30 June 2017 $458,000). Other assurance related services included assurance over compliance with regulations, internal controls and audit related agreed upon procedures (30 June 2017 other assurance related services included reviews of financial information, process and internal controls and reviews for regulatory purposes).

During the year ended 30 June 2018, PricewaterhouseCoopers and network firms were paid fees of $438,000 for other services (30 June 2017 $90,000). Other services included model assessment advisory services and risk model reviews (30 June 2017 other services included project and technology advisory services).

In addition, audit fees of $303,000 and other assurance fees of $37,000 were paid during the year to PricewaterhouseCoopers for funds managed by the Banking Group (30 June 2017 $274,000 and $82,000 respectively).

7 Taxation

$ millions For the year ended 30 June	Banking Group 2018	 2017
Current taxation	**462**	413
Deferred taxation (refer to note 27)	**(6)**	1
Total income tax charged to the Income Statement	**456**	414

The taxation expense on the Banking Group's net profit before taxation differs from the theoretical amount that would arise using the domestic rate as follows:

Net profit before taxation	**1,633**	1,483
Tax at the domestic rate of 28%	**457**	415
Tax effect of income not subject to taxation	**-**	(1)
Tax effect of expenses not deductible for taxation purposes	**1**	1
Tax effect of imputation credit adjustments	**(2)**	(1)
Total income tax charged to the Income Statement	**456**	414
Weighted average effective tax rate	**27.9%**	27.9%

8 Dividends

$ millions	Banking Group	
For the year ended 30 June	**2018**	2017
Ordinary dividends paid	**650**	450
Perpetual preference dividends paid	**54**	56
Total dividends paid	**704**	506

Dividends on ordinary shares for the year ended 30 June 2018 were $650 million, 24.55 cents per share (30 June 2017 $450 million, 16.99 cents per share).

Dividends on perpetual preference shares for the year ended 30 June 2018 were:

- $5 million, being 2.42 cents per share on 200 million 2006 Series 1 perpetual preference shares (30 June 2017 $5 million, 2.67 cents per share);
- $8 million, being 2.18 cents per share on 350 million 2006 Series 2 perpetual preference shares (30 June 2017 $8 million, 2.30 cents per share);
- $23 million, being 389.53 cents per share on 6 million 2015 perpetual preference shares (30 June 2017 $24 million, 406.29 cents per share); and
- $18 million, being 443.53 cents per share on 4 million 2016 perpetual preference shares (30 June 2017 $18 million, 460.29 cents per share).

On 3 August 2018, the Directors resolved to pay:

The following quarterly dividends, subject to certain conditions being satisfied:

- $1 million on 15 August 2018, being 0.59 cents per share on 200 million 2006 Series 1 perpetual preference shares;
- $2 million on 15 August 2018, being 0.55 cents per share on 350 million 2006 Series 2 perpetual preference shares;
- $6 million on 17 September 2018, being 101.98 cents per share on 6 million 2015 perpetual preference shares; and
- $5 million on 17 September 2018, being 115.89 cents per share on 4 million 2016 perpetual preference shares.

A half yearly dividend, subject to certain conditions being satisfied:

- $200 million on 17 September 2018, being 7.55 cents per share on 2,648 million ordinary shares.

9 Cash and Liquid Assets

$ millions	Banking Group	
As at 30 June	**2018**	2017
Cash, cash at bank and cash in transit	**120**	165
Call deposits with the central bank	**873**	1,237
Money at short call	**55**	10
Reverse repurchase agreements	**1,518**	1,156
Total cash and liquid assets	**2,566**	2,568

10 Due from Financial Institutions

As at 30 June 2018 amounts due from financial institutions of $921 million are due for settlement within 12 months of balance date (30 June 2017 $927 million due within 12 months of balance date).

Notes to the Financial Statements

For the year ended 30 June 2018

11 Trading Securities

$ millions	Banking Group	
As at 30 June	**2018**	2017
Local authority securities	**20**	21
New Zealand government securities	**230**	490
Corporate bonds	**-**	14
Treasury bills	**125**	-
RBNZ bills	**881**	-
Bank bills	**1,088**	789
Kauri bonds	**-**	2
Total trading securities	**2,344**	1,316
Amounts due for settlement within 12 months	**2,344**	1,059
Amounts due for settlement over 12 months	**-**	257
Total trading securities	**2,344**	1,316

12 Derivative Financial Instruments

Derivative financial instruments are classified as either held for trading or held for hedging. Held for trading derivatives are those entered into in order to meet customers' needs, to undertake market making and positioning activities and for economic hedging without applying hedge accounting. Held for hedging derivatives are instruments held for risk management purposes, which meet the criteria for hedge accounting. Refer to note 1(g) and (h) for an explanation of the Banking Group's accounting policies for derivatives and hedge accounting.

The Banking Group has entered into credit support annexes ("CSAs") in respect of certain credit exposures relating to derivative transactions. These CSAs compel the Banking Group or the counterparty to collateralise the market value of outstanding derivative transactions. As at 30 June 2018 the Banking Group had advanced $417 million of cash collateral against derivative liabilities and received $894 million of cash collateral against derivative assets (30 June 2017 $872 million and $249 million respectively).

Hedge Accounting

Cash Flow Hedges

The Banking Group hedges the forecast interest cash flows from floating rate mortgage loans, floating rate deposits, term foreign currency funding and the roll-over of short term fixed rate funding arrangements using cross currency swaps and interest rate swaps. As at 30 June 2018 there were no transactions where cash flow hedge accounting ceased during the year as a result of highly probable cash flows no longer expected to occur (30 June 2017 nil).

Fair value gains and losses deferred in the cash flow hedge reserve will be transferred to the Income Statement over the next one to ten years, as the cash flows under the hedged transactions occur.

Fair Value Hedges

The Banking Group uses interest rate swaps to hedge interest rate risk exposure of a portion of its fixed rate bonds. Interest rate swaps and cross currency swaps have also been used to hedge certain fixed rate funding arrangements, included in debt issues held at amortised cost and loan capital.

$ millions	Banking Group					
As at 30 June	**2018**			2017		
	Notional Amount	**Fair Value Assets**	**Fair Value Liabilities**	Notional Amount	Fair Value Assets	Fair Value Liabilities
Held for trading						
Exchange rate contracts						
Forward contracts	**5,083**	**77**	**(43)**	3,677	51	(66)
Options	**314**	**3**	**(3)**	274	3	(3)
Total exchange rate contracts	**5,397**	**80**	**(46)**	3,951	54	(69)
Interest rate contracts						
Swaps	**71,202**	**333**	**(329)**	51,942	404	(390)
Futures	**1,380**	**-**	**-**	2,880	-	-
Options	**8**	**-**	**-**	486	-	-
Total interest rate contracts	**72,590**	**333**	**(329)**	55,308	404	(390)
Commodity contracts						
Options purchased and sold	**17**	**-**	**-**	19	1	(1)
Total held for trading	**78,004**	**413**	**(375)**	59,278	459	(460)

Notes to the Financial Statements

For the year ended 30 June 2018

12 Derivative Financial Instruments (continued)

$ millions	Banking Group					
As at 30 June	**2018**			2017		
	Notional Amount	**Fair Value Assets**	**Fair Value Liabilities**	Notional Amount	Fair Value Assets	Fair Value Liabilities
Held for hedging						
Designated as cash flow hedges						
Exchange rate contracts						
Swaps	**5,762**	**293**	**-**	6,058	10	(195)
Interest rate contracts						
Swaps	**41,993**	**138**	**(212)**	41,420	156	(290)
Total designated as cash flow hedges	**47,755**	**431**	**(212)**	47,478	166	(485)
Designated as fair value hedges						
Exchange rate contracts						
Swaps	**14,434**	**821**	**(201)**	11,416	286	(360)
Interest rate contracts						
Swaps	**13,078**	**62**	**(207)**	10,877	65	(203)
Total designated as fair value hedges	**27,512**	**883**	**(408)**	22,293	351	(563)
Total held for hedging	**75,267**	**1,314**	**(620)**	69,771	517	(1,048)
Total derivative assets/(liabilities)	**153,271**	**1,727**	**(995)**	129,049	976	(1,508)
Amounts due for settlement within 12 months		**676**	**(359)**		168	(422)
Amounts due for settlement over 12 months		**1,051**	**(636)**		808	(1,086)
Total derivative assets/(liabilities)		**1,727**	**(995)**		976	(1,508)

13 Available-for-Sale Securities

$ millions	Banking Group	
As at 30 June	**2018**	2017
Local authority securities	**243**	248
New Zealand government securities	**1,103**	1,266
Corporate bonds	**1,075**	903
Kauri bonds	**1,721**	1,600
Total available-for-sale securities	**4,142**	4,017
Amounts due for settlement within 12 months	**1,223**	1,020
Amounts due for settlement over 12 months	**2,919**	2,997
Total available-for-sale securities	**4,142**	4,017

14 Advances to Customers

$ millions	Banking Group	
As at 30 June	**2018**	2017
Loans and other receivables (refer to note 16)	**83,232**	78,395
Provisions for impairment losses (refer to note 17)	**(301)**	(295)
Total advances to customers	**82,931**	78,100
Amounts due for settlement within 12 months	**15,565**	14,402
Amounts due for settlement over 12 months	**67,366**	63,698
Total advances to customers	**82,931**	78,100

15 Credit Risk Management Policies

Credit Risk Management

Credit risk is the potential risk of loss arising from the failure of a customer or counterparty to meet their contractual obligations. At a portfolio level, credit risk includes concentration risk arising from interdependencies between customers and concentrations of exposures to geographical regions, industry sectors and products/portfolio types.

Credit risk principally arises within the Banking Group from its core business in providing lending facilities. Credit risk also arises from the Banking Group assuming contingent liabilities, participating in financial market transactions and assuming underwriting commitments. The Banking Group is selective in targeting credit risk exposures and avoids exposures to high risk areas.

The BARC operates under a charter by which it oversees the Banking Group's risk appetite statement, credit risk framework, credit approval authorities framework, and credit management policies and practices (including origination, decisioning, verification/fulfilment, and whole of life servicing). The BARC ensures that the Banking Group has in place and maintains credit policies and portfolio standards consistent with responsible lending standards designed to achieve portfolio outcomes consistent with the Banking Group's risk/return expectations. Day-to-day management of credit risk is performed and reported by the Bank's Credit function, with independent monitoring by the Bank's Executive Credit Committee.

A system of industry limits and a large credit exposure policy assist in the diversification of the credit portfolio. These policies are an important part of portfolio management objectives to create a diversified portfolio avoiding significantly large concentrations of economically related credit risk exposures.

The Banking Group has comprehensive, clearly defined credit policies for the approval and management of all credit risk including risk from other banks and related counterparties. Lending standards and criteria are clearly defined across different business sectors for all Banking Group products and incorporate income/repayment capacity, acceptable terms and security and loan documentation tests.

Board approved credit risk policies set credit portfolio concentration limits and standards through the Banking Group's large credit exposure policy, country risk exposure policy, and industry sector concentration policy. Exposure to consumer credit products is managed within limits and standards set in the risk appetite statement and portfolio level risk appetite statements.

The measurement of credit risk is primarily based on a RBNZ accredited advanced internal ratings based approach (albeit some exposures are subject to the standardised approach). The approach uses judgemental assessment supported by analytical tools (including scorecards) to estimate expected and unexpected loss within the credit portfolio.

While the Banking Group applies policies, standards and procedures in governing the credit process, the management of credit risk also relies on the application of judgement and the exercise of good faith and due care by relevant staff within their delegated authority.

Refer to notes 16 to 20 for additional credit risk disclosures.

Collateral

Refer to note 21 for information on the Banking Group's policies and procedures regarding collateral and credit enhancements to mitigate credit risk.

Credit Risk Measurement

The measurement of credit risk utilises analytical tools to calculate both expected and unexpected losses for the credit portfolio. This includes consideration of the probability of default ("PD"), the exposure at the time of default ("EAD") and the loss given default ("LGD") that would likely be experienced as a consequence.

The PD is the estimate of the probability that a client will default within the next 12 months. It reflects a client's ability to generate sufficient cash flows into the future to meet the terms of all its credit contracts with the Banking Group.

EAD is the proportion of a facility that may be outstanding in the event of default. It is calculated as a percentage of the facility limit and is expressed in dollars.

LGD is the proportion of a facility estimated to be lost in the event of default. It is expressed as a percentage. LGD is impacted by the type, level, liquidity and volatility of any collateral held, carrying costs and management expense. Long run LGDs are used for internal estimates of risk. Downturn LGDs are used for regulatory capital. LGD is also affected by requirements for certain exposures that the RBNZ may prescribe. For retail mortgages, the Banking Group applies downturn LGDs and higher correlation factor for high loan-to-valuation ratio ("LVR") lending. For farm lending exposures, the Banking Group applies a prescribed downturn LGD with a presumed maturity of 2.5 years without any firm size adjustment.

The expected loss ("EL") is the product of the PD, EAD and the LGD. An EL will be recorded for every facility including retail.

15 Credit Risk Management Policies (continued)

Asset Quality

Credit risk is divided into the Retail segment and the Corporate segment. A different approach is used in each to determine an overall credit grade based on EL. These ratings equate to each other as follows:

Overall Credit Grade	Retail Grade	Corporate Grade	Banking Group Rating Classification
Low EL	Pool 1	CRR* 1 - 3	Retail facilities with low expected loss. Corporate facilities demonstrating financial condition and capacity to repay that are good to exceptional.
Medium EL	Pool 2	CRR 4 - 6	Retail facilities with moderate expected loss. Corporate facilities demonstrating financial condition and capacity to repay that are acceptable to good.
High EL	Pool 3	CRR 7 - 9	Retail facilities operating outside of agreed arrangements. Corporate facilities that require varying degrees of special attention (not necessarily contractually past due).

*Credit risk rating ("CRR")

These ratings equate to the rating classifications of the RBNZ as follows:

RBNZ Classification	Retail Grade	Corporate Grade	Banking Group Rating Classification
Pass grades	Pool 1 - 2	CRR 1 - 6	Pass grades
Special mention	Past due	CRR 7	Troublesome
Substandard	Past due	CRR 8	Troublesome
Doubtful/non-accrual	Default	CRR 9	Impaired/loss

Retail

The Retail segment comprises housing loans, credit cards, other personal credit facilities and most business lending up to $1 million. These portfolios are managed using statistical origination and account management techniques.

Retail facilities are assigned to a PD, EAD and LGD pool based on observed and predicted outcomes for facilities with similar characteristics. The overall credit grading pool is based on the EL that results from the product of PD, EAD and LGD for each facility.

Facilities in the Retail segment become classified for remedial management by centralised units based on delinquency status.

Corporate

Corporate exposures comprise commercial exposures, including bank and government exposures. A CRR is recorded against every corporate facility. Credit risk rated exposures are reviewed at least annually and the CRR reassessed.

PD and LGD are determined using credit assessment tools. The CRR is determined by reference to a matrix where PD and LGD combine to produce a numeric CRR grade which represents a range of EL.

CRRs fall into two categories:

1. Pass – CRR of 1 - 6. These credit facilities qualify for approval of new or increased exposure on normal commercial terms.
2. Troublesome and impaired assets ("TIAs") – CRR of 7 - 9. These credit facilities are not eligible for increases in exposure unless it will protect or improve the Banking Group's position by maximising recovery prospects or to facilitate rehabilitation.

Oversight

Both retail and corporate segments are subject to inspection. Credit processes are reviewed by the relevant Credit Quality Review unit, with an independent overview provided by Credit Portfolio Assessment ("CPA"), an internal unit within the Bank. CPA's processes include a review of compliance with policy, portfolio standards, and application of risk ratings with reports on findings reported to the BARC.

Impairment and Provisioning of Financial Assets

Default occurs if either of the following takes place:

- The customer is unlikely to repay their credit obligations to the Banking Group in full, without recourse by the Banking Group to actions such as realising available security; or
- The customer is 90 days or more overdue on a scheduled credit obligation repayment.

In addition to the credit risk management processes used to manage exposures to credit risk in the credit portfolio, the internal ratings process also assists management in assessing the requirements of NZ IAS 39 relating to impairment and provisioning of financial assets.

Financial assets are assessed at least at each reporting date for impairment. Provisions for impairment are raised where there is objective evidence of impairment and at an amount adequate to cover estimated credit related losses. Credit losses arise primarily from loans, but also from other credit instruments such as bank acceptances, contingent liabilities, guarantees and other financial instruments and assets acquired through security enforcement.

15 Credit Risk Management Policies (continued)

Impairment and Provisioning of Financial Assets (continued)

Impairment losses are recognised to reduce the carrying amount of loans and advances to their estimated recoverable amounts. Individually assessed provisions are made against individual financial assets when there is objective evidence that the Banking Group will not be able to collect all amounts due. The amount of the impairment loss is the difference between the carrying amount and the recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate. Interest continues to be accrued on impaired loans based on the revised carrying amounts and using appropriate effective interest rates.

The Banking Group recognises collective provisions for impairment where there is objective evidence that components of a loan portfolio with similar credit risk characteristics contain probable losses as at the balance date that will be individually identified in the future, or where insufficient data exists to reliably determine whether such losses exist. The estimated probable losses are based upon historical patterns of losses. The calculations are based on statistical methods of credit risk measurement.

The provisions for impairment take into account current cyclical developments as well as economic conditions in which the borrowers operate and are subject to management review, experienced judgement, and adjustment where necessary to reflect these and other relevant factors in individual portfolios.

16 Credit Quality Information for Advances to Customers

$ millions	Banking Group			
As at 30 June 2018	**Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
Neither past due nor impaired				
The credit quality of advances that were neither past due nor impaired can be assessed by reference to the Banking Group's internal rating system:				
Low expected loss	49,436	326	13,036	62,798
Medium expected loss	2,796	4,356	10,228	17,380
High expected loss	41	177	139	357
Total advances neither past due nor impaired	52,273	4,859	23,403	80,535
Past due assets not impaired				
1 to 7 days	803	130	201	1,134
8 to 29 days	503	93	74	670
30 to 59 days	172	48	4	224
60 to 89 days	67	20	6	93
90 days and over	70	23	9	102
Total past due assets not impaired	1,615	314	294	2,223
Individually impaired assets				
Balance at beginning of year	20	6	342	368
Additions	26	9	265	300
Deletions	(14)	-	(165)	(179)
Amounts written off	(2)	(3)	(10)	(15)
Total individually impaired assets	30	12	432	474
Total gross advances to customers	53,918	5,185	24,129	83,232
Other assets under administration	27	4	1	32

Undrawn balances on lending commitments to counterparties within the impaired asset category were $4 million as at 30 June 2018 (30 June 2017 $4 million).

The facilities that are reported as impaired and past due are collateralised in accordance with the Banking Group's credit risk management policies as set out in note 15.

16 Credit Quality Information for Advances to Customers (continued)

$ millions	Banking Group			
As at 30 June 2017	Residential Mortgages	Other Retail	Corporate	Total
Neither past due nor impaired				
Low expected loss	46,478	329	10,748	57,555
Medium expected loss	2,618	4,156	10,404	17,178
High expected loss	43	176	458	677
Total advances neither past due nor impaired	49,139	4,661	21,610	75,410
Past due assets not impaired				
1 to 7 days	1,160	183	240	1,583
8 to 29 days	506	92	21	619
30 to 59 days	189	47	10	246
60 to 89 days	55	15	3	73
90 days and over	59	22	15	96
Total past due assets not impaired	1,969	359	289	2,617
Individually impaired assets				
Balance at beginning of year	34	11	332	377
Additions	16	5	159	180
Deletions	(26)	(9)	(135)	(170)
Amounts written off	(4)	(1)	(14)	(19)
Total individually impaired assets	20	6	342	368
Total gross advances to customers	51,128	5,026	22,241	78,395
Other assets under administration	29	2	-	31

17 Provisions for Impairment Losses

$ millions	Banking Group			
As at 30 June 2018	**Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
Collective provision				
Balance at beginning of year	**31**	**95**	**126**	**252**
Charged to/(recovered from) Income Statement	**1**	**14**	**(15)**	**-**
Balance at end of year	**32**	**109**	**111**	**252**
Individually assessed provisions				
Balance at beginning of year	**4**	**3**	**36**	**43**
Add/(less):				
Charged to Income Statement:				
New and increased provisions	**6**	**5**	**32**	**43**
Write-back of provisions no longer required	**(5)**	**(1)**	**(16)**	**(22)**
Write-offs against individually assessed provisions	**(2)**	**(3)**	**(10)**	**(15)**
Balance at end of year	**3**	**4**	**42**	**49**
Total provisions for impairment losses	**35**	**113**	**153**	**301**
Impairment losses on advances				
Movement in collective provision	**1**	**14**	**(15)**	**-**
New and increased individually assessed provisions net of write-backs	**1**	**4**	**16**	**21**
Bad debts written off directly to the Income Statement	**1**	**73**	**(2)**	**72**
Recovery of amounts previously written off	**-**	**(12)**	**(1)**	**(13)**
Total impairment losses on advances	**3**	**79**	**(2)**	**80**

$ millions	Banking Group			
As at 30 June 2017	Residential Mortgages	Other Retail	Corporate	Total
Collective provision				
Balance at beginning of year	26	92	141	259
Charged to/(recovered from) Income Statement	5	3	(15)	(7)
Balance at end of year	31	95	126	252
Individually assessed provisions				
Balance at beginning of year	7	2	29	38
Add/(less):				
Charged to Income Statement:				
New and increased provisions	8	4	28	40
Write-back of provisions no longer required	(7)	(2)	(7)	(16)
Write-offs against individually assessed provisions	(4)	(1)	(14)	(19)
Balance at end of year	4	3	36	43
Total provisions for impairment losses	35	98	162	295
Impairment losses on advances				
Movement in collective provision	5	3	(15)	(7)
New and increased individually assessed provisions net of write-backs	1	2	21	24
Bad debts written off directly to the Income Statement	1	68	-	69
Recovery of amounts previously written off	(2)	(12)	(3)	(17)
Total impairment losses on advances	5	61	3	69

18 Concentrations of Credit Exposures

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

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

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

Concentrations of credit arise when a number of customers are engaged in similar business activities or activities within the same geographic region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes have been used as the basis for disclosing customer industry sectors. The significant categories shown are in line with the level one New Zealand Standard Industry Output Categories ("NZSIOC"), except that Agriculture is shown separately as required by the Order. The following table has changed from that previously reported to align disclosure with RBNZ statistical reporting requirements.

$ millions	Banking Group			
As at 30 June 2018	**Financial Assets at Amortised Cost**	**Financial Assets at Fair Value**	**Other Credit Exposures**	**Total Credit Exposures**
Concentration by industry				
Agriculture	10,537	17	992	11,546
Forestry and Fishing, Agriculture Services	329	1	91	421
Manufacturing	1,014	26	291	1,331
Electricity, Gas, Water and Waste Services	300	69	98	467
Construction	540	-	270	810
Wholesale Trade	627	7	380	1,014
Retail Trade and Accommodation	1,321	1	354	1,676
Transport, Postal and Warehousing	765	4	303	1,072
Financial and Insurance Services	4,079	6,224	261	10,564
Rental, Hiring and Real Estate Services	29,341	35	1,295	30,671
Professional, Scientific, Technical, Administrative and Support Services	592	2	300	894
Public Administration and Safety	14	1,817	66	1,897
Education and Training	373	1	118	492
Health Care and Social Assistance	864	7	362	1,233
Arts, Recreation and Other Services	320	1	99	420
Household	35,317	1	9,854	45,172
All Other	85	-	30	115
Total credit exposures by industry	**86,418**	**8,213**	**15,164**	**109,795**
Concentration by geographic region				
Auckland	42,603	2,393	8,552	53,548
Rest of New Zealand	41,785	2,831	6,435	51,051
Overseas	2,030	2,989	177	5,196
Total credit exposures by geographic region	**86,418**	**8,213**	**15,164**	**109,795**

18 Concentrations of Credit Exposures (continued)

$ millions	Banking Group			
As at 30 June 2017	Financial Assets at Amortised Cost	Financial Assets at Fair Value	Other Credit Exposures	Total Credit Exposures
Concentration by industry[1]				
Agriculture	10,173	20	881	11,074
Forestry and Fishing, Agriculture Services	205	1	73	279
Manufacturing	968	19	368	1,355
Electricity, Gas, Water and Waste Services	211	38	103	352
Construction	526	-	235	761
Wholesale Trade	535	9	304	848
Retail Trade and Accommodation	1,151	2	282	1,435
Transport, Postal and Warehousing	518	2	190	710
Financial and Insurance Services	4,081	3,926	149	8,156
Rental, Hiring and Real Estate Services	28,321	35	1,267	29,623
Professional, Scientific, Technical, Administrative and Support Services	525	1	274	800
Public Administration and Safety	17	2,248	65	2,330
Education and Training	332	1	154	487
Health Care and Social Assistance	917	5	321	1,243
Arts, Recreation and Other Services	295	-	81	376
Household	32,737	1	9,707	42,445
All Other	83	1	26	110
Total credit exposures by industry	81,595	6,309	14,480	102,384
Concentration by geographic region[1]				
Auckland	39,753	1,739	8,269	49,761
Rest of New Zealand	39,886	2,312	6,036	48,234
Overseas	1,956	2,258	175	4,389
Total credit exposures by geographic region	81,595	6,309	14,480	102,384

(1) Comparative information has been reclassified to ensure consistency with presentation in the current year.

19 Concentration of Credit Exposures to Individual Counterparties

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 or central bank of any country with a long term credit rating of A- or A3 or above, or its equivalent, and any supranational or quasi-sovereign agency 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 six-month period and then dividing that amount by the Banking Group's common equity tier one capital as at 30 June 2018.

	Banking Group	
Number of exposures that are greater than 10% of common equity tier one capital	**Exposure as at 30-Jun-18**	**Peak end-of-day exposure over six months to 30-Jun-18**
Exposures to banks		
With a long-term credit rating of A- or A3 or above, or its equivalent		
Greater than 10% but less than 15% of common equity tier one capital	-	-
Greater than 15% but less than 20% of common equity tier one capital	-	1
Greater than 20% but less than 25% of common equity tier one capital	1	1
Greater than 25% but less than 30% of common equity tier one capital	1	-
Greater than 30% but less than 35% of common equity tier one capital	-	1
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent		
Greater than 10% but less than 15% of common equity tier one capital	-	1
Exposures to non-banks		
With a long-term credit rating of A- or A3 or above, or its equivalent	-	-
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-

20 Credit Exposures to Connected Persons and Non-bank Connected Persons

	Banking Group			
	Peak Exposure for the Year		Balance Date Exposure	
30 June 2018	**$ millions**	**Percentage of Tier One Capital**	**$ millions**	**Percentage of Tier One Capital**
All connected persons*	**1,219**	**17.7%**	**915**	**13.3%**
Non-bank connected persons	**11**	**0.2%**	**1**	**0.0%**

The information on credit exposures to connected persons has been derived in accordance with the Conditions of Registration and RBNZ document *Connected Exposures Policy* (BS8) dated November 2015.

* Credit exposures to connected persons included exposures to the ultimate parent bank, CBA. As at 30 June 2018 this amounted to $801 million.

The basis for calculation is actual credit exposures presented on a gross basis. Exposures are all of a non-capital nature and shown net of any allowances for impairment losses on individual assets and gross of set-offs. Percentages are calculated using the Banking Group's tier one capital as at balance date.

The Banking Group has a contingent exposure to its ultimate parent, CBA, arising from risk lay off arrangements in respect of credit exposures to counterparties. As at 30 June 2018 this amounted to $138 million.

The Banking Group had no individually assessed provisions provided against credit exposures to connected persons as at 30 June 2018.

In accordance with its Conditions of Registration, the Banking Group's aggregate credit exposures to all connected persons must not exceed its rating contingent limit of 60% of tier one capital. Within the overall rating contingent limit, there is a sub-limit of 15% of tier one capital which applies to aggregate credit exposures to non-bank connected persons. Both the rating contingent limit on lending to connected persons and the sub-limit on lending to non-bank connected persons have been complied with at all times, during the year ended 30 June 2018.

21 Maximum Exposure and Effect of Collateral and Other Credit Enhancements

Collateral and Credit Enhancements Held

The Banking Group has policies and procedures in place setting out the circumstances where acceptable and appropriate collateral is to be taken to mitigate credit risk, including valuation parameters.

The general nature and amount of collateral or other credit enhancements taken to mitigate the credit risk of each financial asset class are summarised below.

Cash and Liquid Assets

This Balance Sheet category includes reverse repurchase agreements which are fully collateralised by highly liquid debt securities which have been legally transferred to the Banking Group subject to an agreement to return them for a fixed price. As at 30 June 2018 the Banking Group had not sold securities accepted as collateral under reverse repurchase agreements (30 June 2017 nil).

Cash and liquid assets include $873 million as at 30 June 2018 (30 June 2017 $1,237 million) deposited with the RBNZ.

Due from Financial Institutions

This balance is short term unsecured lending to other financial institutions. Collateral is not generally sought on these balances.

Trading Securities

These assets are measured at fair value which accounts for the credit risk. As at 30 June 2018 no collateral is held to mitigate the credit risk on these instruments (30 June 2017 nil) and none of these securities are backed by guarantees or other assets (30 June 2017 nil).

Derivative Assets

The Banking Group's use of derivative contracts is outlined in note 12. The Banking Group is exposed to credit risk on derivative contracts, which arises as a result of counterparty credit risk. The Banking Group's exposure to counterparty credit risk is affected by the nature of the trades, the creditworthiness of the counterparty, netting, and collateral arrangements.

Credit risk from derivatives is mitigated where possible through master netting agreements whereby derivative assets and liabilities with the same counterparty can be offset. Banking Group policy requires all netting arrangements to be legally documented (e.g. International Swap and Derivatives Association ("ISDA") Master Agreement). A master netting agreement provides the contractual framework within which dealing activities across a range of over-the-counter products are conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other predetermined events occur.

Depending on the creditworthiness of the counterparty and/or nature of the transaction collateral maybe obtained against derivative assets. Refer to note 12 for detail of collateral received.

Available-for-Sale Securities

These assets are measured at fair value which accounts for the credit risk. As at 30 June 2018 no collateral is held to mitigate the credit risk on these instruments (30 June 2017 nil) and $327 million of these securities are backed by guarantees (30 June 2017 $337 million).

Other Assets

This Balance Sheet category includes interest receivable accrued and other current assets. As at 30 June 2018 no collateral is held on these balances (30 June 2017 nil).

Advances to Customers

The Banking Group assesses the integrity and ability of debtors or counterparties to meet their contracted financial obligations for repayment.

Principal collateral types for advances to customers include:

- mortgages over residential and commercial real estate;
- charges over business assets such as premises, inventory and accounts receivables; and
- guarantees received from third parties.

Specifically, the collateral mitigating credit risk of the key lending portfolios is addressed in the notes and table below.

(i) Residential Mortgages

All home loans are secured by fixed charges over borrowers' residential properties.

(ii) Other Retail Lending

This category includes lending to small and medium sized enterprises where collateral is commonly held, generally in the form of residential property. In some instances other forms of collateral may be obtained, as listed under corporate lending below. Personal lending is considered unsecured for the purposes of this disclosure, although some personal lending may be secured by all obligations mortgages.

21 Maximum Exposure and Effect of Collateral and Other Credit Enhancements (continued)

Advances to Customers (continued)

(iii) Corporate Lending

The Banking Group's main collateral types for corporate lending consists of secured rights over specified assets of the borrower in the form of: commercial property, land rights, cash (usually in the form of a charge over a deposit), guarantees by company directors supporting commercial lending, a charge over a company's assets (including debtors, inventory and work in progress), or a charge over shares. In other instances, client facilities may be secured by collateral with value less than the carrying amount of the credit exposure. These facilities are deemed either secured, partially secured or unsecured.

$ millions	Banking Group			
Collateral Held on Advances to Customers - On Balance Sheet:	**Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
As at 30 June 2018				
Maximum Exposure	**53,918**	**5,185**	**24,129**	**83,232**
Collateral Classification				
Secured(1)	**99.9%**	**29.4%**	**66.0%**	**85.7%**
Partially Secured(2)	**0.1%**	**8.1%**	**21.1%**	**6.7%**
Unsecured(3)	**-**	**62.5%**	**12.9%**	**7.6%**
As at 30 June 2017				
Maximum Exposure	51,128	5,026	22,241	78,395
Collateral Classification				
Secured(1)	100.0%	30.6%	62.2%	84.8%
Partially Secured(2)	-	9.5%	25.9%	8.0%
Unsecured(3)	-	59.9%	11.9%	7.2%

Credit Commitments and Contingent Liabilities

The Banking Group applies the same risk management policies for off balance sheet risks as it does for its on balance sheet risks. In the case of credit commitments, customers and other counterparties will be subject to the same credit management policies as loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

$ millions **Collateral Held on Credit Commitments - Off Balance Sheet:**	**Banking Group**
As at 30 June 2018	
Maximum Exposure	**15,164**
Collateral Classification	
Secured(1)	**65.5%**
Partially Secured(2)	**4.8%**
Unsecured(3)	**29.7%**
As at 30 June 2017	
Maximum Exposure	14,480
Collateral Classification	
Secured(1)	63.9%
Partially Secured(2)	4.4%
Unsecured(3)	31.7%

(1) Secured exposures are those that have ≥ 100% security cover after adjusting for collateral haircuts.
(2) Partially secured exposures are those that have 40 - 99.9% security cover after adjusting for collateral haircuts.
(3) Unsecured exposures are those that have < 40% security cover after adjusting for collateral haircuts.

Notes to the Financial Statements

For the year ended 30 June 2018

22 Transferred Financial Assets

A financial asset is considered to be transferred if the contractual rights to receive the cash flows of the asset have been transferred, or there is an obligation to pay the cash flows to another party.

Transferred Financial Assets that are Not Derecognised in their Entirety

Residential Mortgage-Backed Securities

During the year ended 30 June 2009 the Banking Group established an in-house residential mortgage-backed securities ("RMBS") facility, which can issue securities that are acceptable as collateral for repurchase agreements with the RBNZ. As at 30 June 2018, mortgage loans with a carrying value and fair value of $5.0 billion (30 June 2017 $4.4 billion), have been internally securitised through the Medallion NZ Series Trust 2009-1R. These mortgage loans (included within advances to customers) have not been derecognised from the Banking Group's financial statements as the Banking Group retains substantially all the risks and rewards of ownership (funding, liquidity and credit risks remain with the Banking Group). As at 30 June 2018, the Medallion NZ Series Trust 2009-1R had other assets of $358 million representing cash from principal repayments (30 June 2017 $327 million).

Covered Bond Programme

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. These mortgage loans (included within advances to customers) have not been derecognised from the Banking Group's financial statements as the Banking Group retains substantially all the risks and rewards of ownership (funding, liquidity and credit risks remain with the Banking Group). As at 30 June 2018, the Covered Bond Trust held mortgage loans with a carrying value and fair value of $5.1 billion (30 June 2017 $5.6 billion), and other assets of $137 million representing cash from principal repayments (30 June 2017 $148 million).

Collateral Advanced

Under repurchase agreements, collateral in the form of securities is advanced to a third party and the Banking Group receives cash in exchange. The counterparty is allowed to sell or repledge the collateral advanced under repurchase agreements in the absence of default by the Banking Group but has an obligation to return the collateral at the maturity of the contract. These securities (included within trading securities and/or available-for-sale securities) have not been derecognised from the Banking Group's financial statements as the Banking Group retains substantially all the risks and rewards of ownership (funding, liquidity and credit risks remain with the Banking Group). In addition, it recognises a financial liability for cash received which is included in deposits and other borrowings.

As at 30 June 2018 the Banking Group had no collateral advanced under repurchase agreements (30 June 2017 $29 million).

Transferred Financial Assets that are Derecognised in their Entirety

As at 30 June 2018 the Banking Group has not derecognised in its entirety any financial assets where it has a continuing involvement (30 June 2017 nil).

23 Imputation Credit Account

Companies may attach imputation credits to dividends paid which represent the New Zealand tax already paid by the company or tax group on profits. New Zealand resident shareholders may claim a tax credit to the value of the imputation credit attached to dividends.

The Bank and some of its subsidiaries have formed an imputation group with other members of the Commonwealth Bank of Australia Group ("ICA Group"). The closing imputation credit account balances presented below represent the imputation credits available to all members of the ICA Group.

The amount of imputation credits available to all members of the ICA Group as at 30 June 2018 is $1,075 million (30 June 2017 $936 million). This amount includes imputation credits that will arise from the payment of the provision for income tax and from the receipt of dividends recognised as receivables as at the reporting date, and imputation debits that will arise from the payment of dividends recognised as payables as at the reporting date.

24 Controlled Entities and Associates

Entity Name	%	Nature of Business	Balance Date
Subsidiaries			
Aegis Limited	100	Investment administration and custody	30 June
ASB Finance Limited	100	Finance	30 June
ASB Group Investments Limited	100	Investment administration and management	30 June
ASB Management Services Limited	100	Management, payment services and property investment	30 June
ASB Nominees Limited	100	Nominee company	30 June
ASB Securities Limited	100	Sharebroking	30 June
Bond Investments No 1 Limited	100	Finance	30 June
Bond Investments UK Limited	100	Finance	30 June
Investment Custodial Services Limited	100	Investment custodian	30 June
Mortgage Holding Trust Company Limited	100	Nominee company	30 June
Securitisation Management Services Limited	100	Securitisation management	30 June
All subsidiaries were incorporated in New Zealand.			
Other Controlled Entities			
ASB Cash Fund	-	Portfolio investment entity	30 June
ASB Term Fund	-	Portfolio investment entity	30 June
Medallion NZ Series Trust 2009-1R	-	Securitisation entity	30 June
ASB Covered Bond Trust	-	Guarantor	30 June
Associates			
Paymark Limited	25	EFTPOS settlements	31 March
Payments NZ Limited	19	Payment systems	30 September

Summarised financial information for associates is not provided, as the amounts involved are immaterial.

Changes in Composition of the Banking Group

On 17 January 2018 the Bank entered into an agreement to sell its 25% shareholding in Paymark Limited to Ingenico Group. The investment in the associate is considered held for sale and is measured at the lower of carrying amount and fair value less costs to sell. The transaction is subject to regulatory consents. There were no other changes to the composition of the Banking Group during the year.

Comparative Period

Cards NZ Limited (an associate of the Bank) was removed from the New Zealand Companies Register on 16 August 2016. This removal did not have an impact on the consolidated financial statements of the Banking Group. There were no other changes to the composition of the Banking Group during the year.

25 Other Assets

$ millions	Banking Group	
As at 30 June	**2018**	2017
Interest receivable accrued	**186**	174
Other assets	**75**	52
Total other assets	**261**	226
Amounts due for settlement within 12 months	**247**	211
Amounts due for settlement over 12 months	**14**	15
Total other assets	**261**	226

26 Goodwill

Goodwill of $48 million arose from the purchase of Aegis Limited and ASB Group Investments Limited from fellow subsidiaries of CBA on 1 July 2008. During the year ended 30 June 2018 the Banking Group did not identify any events or circumstances that would indicate that goodwill may be impaired (30 June 2017 none).

Impairment Tests for Goodwill

Goodwill was tested for impairment as at 30 June 2018. Goodwill of $38 million was allocated to Aegis Limited and $10 million was allocated to ASB Group Investments Limited. Both of these subsidiaries are considered to be cash-generating units for the purpose of impairment testing. The operations of the subsidiaries are included within the Private Banking, Wealth and Insurance segment for segment reporting. To assess whether goodwill is impaired, the carrying amount of each cash-generating unit is compared to the recoverable amount, determined based on its value in use.

No impairment losses were recognised against the carrying amount of goodwill for the year ended 30 June 2018 (30 June 2017 nil).

Key Assumptions Used in Value in Use Calculations

As at 30 June 2018, value in use for each cash-generating unit was determined by discounting the future cash flows expected to be generated from the continuing use of the unit, based on the following assumptions:

- cash flows were projected based on management's assessment of product profitability, and forecasted growth in revenues and expenses to support the business covering a three-year period. Cash flows beyond three years were extrapolated based on a view of inflation of 1% (30 June 2017 1%); and
- a post-tax discount rate of 11% was applied in determining the recoverable amounts of the cash generating units (30 June 2017 11%).

The key assumptions described above may change as economic and market conditions change. The Banking Group estimates that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of either unit to decline significantly below the carrying amount of their allocated goodwill.

Notes to the Financial Statements

For the year ended 30 June 2018

27 Deferred Taxation Asset

$ millions	Banking Group	
As at 30 June	2018	2017
Balance at beginning of year	135	146
Recognised in the Income Statement	6	(1)
Recognised in other comprehensive income	3	(10)
Balance at end of year	**144**	**135**
Deferred taxation relates to:		
Asset revaluation reserve	(4)	(5)
Available-for-sale reserve	(2)	(1)
Cash flow hedge reserve	37	34
Depreciation	1	(1)
Provision for employee entitlements	13	10
Provision for impairment losses	84	83
Other temporary differences	15	15
Total deferred taxation asset	**144**	**135**
Deferred taxation recognised in the Income Statement:		
Depreciation	2	(1)
Holiday pay	3	(1)
Provision for impairment losses	1	-
Other temporary differences	-	1
Total deferred taxation recognised in the Income Statement	**6**	**(1)**
Deferred taxation recognised in other comprehensive income:		
Asset revaluation reserve	1	-
Available-for-sale reserve	(1)	(4)
Cash flow hedge reserve	3	(6)
Total deferred taxation recognised in other comprehensive income	**3**	**(10)**

28 Deposits and Other Borrowings

$ millions	Banking Group	
As at 30 June	2018	2017
Certificates of deposit	2,551	2,528
Term deposits	32,268	28,767
On demand and short term deposits	22,780	22,865
Deposits not bearing interest	4,820	4,037
Repurchase agreements	-	29
Total deposits and other borrowings	**62,419**	**58,226**
Amounts due for settlement within 12 months	59,123	55,821
Amounts due for settlement over 12 months	3,296	2,405
Total deposits and other borrowings	**62,419**	**58,226**

Deposits and other borrowings are unsecured and rank equally with other unsecured liabilities of the Banking Group. In the unlikely event that the Bank was put into liquidation or ceased to trade, secured creditors and those creditors set out in Schedule 7 of the Companies Act 1993 would rank ahead of the claims of unsecured creditors.

Notes to the Financial Statements

For the year ended 30 June 2018

29 Other Liabilities

$ millions	Banking Group	
As at 30 June	**2018**	2017
Interest payable accrued	**292**	278
Employee entitlements	**138**	126
Trade accounts payable and other liabilities	**186**	162
Total other liabilities	**616**	566
Amounts due for settlement within 12 months	**609**	563
Amounts due for settlement over 12 months	**7**	3
Total other liabilities	**616**	566

30 Due to Financial Institutions

As at 30 June 2018 amounts due to financial institutions of $1,271 million are due for settlement within 12 months of balance date (30 June 2017 $460 million due within 12 months of balance date).

31 Other Liabilities at Fair Value through Income Statement

$ millions	Banking Group	
As at 30 June	**2018**	2017
Certificates of deposit	**1,097**	1,065
Total other liabilities at fair value through Income Statement	**1,097**	1,065

As at 30 June 2018 other liabilities at fair value through Income Statement are due for settlement within 12 months of balance date (30 June 2017 within 12 months of balance date).

For the year ended 30 June 2018 no gain or loss was attributable to changes in credit risk for other liabilities at fair value through Income Statement (30 June 2017 nil). All other changes in fair value are attributable to changes in the benchmark interest rate.

32 Debt Issues

$ millions	Banking Group	
As at 30 June	**2018**	2017
Debt issues by programme		
Euro commercial paper	**148**	135
USD commercial paper	**3,214**	2,492
Euro medium term notes	**7,662**	7,406
USD medium term notes	**1,467**	-
NZD domestic bonds	**3,790**	4,544
Covered bonds	**3,920**	3,903
Total debt issues	**20,201**	18,480
Short term debt issues by currency		
USD	**3,362**	2,574
GBP	**-**	53
Long term debt issues by currency due for settlement within 12 months		
USD	**317**	136
GBP	**-**	1,155
EUR	**862**	1,246
NZD	**1,202**	1,561
CHF	**676**	-
Total debt issues due for settlement within 12 months	**6,419**	6,725
Long term debt issues by currency due for settlement over 12 months		
USD	**3,452**	1,594
AUD	**109**	-
GBP	**1,057**	792
JPY	**126**	115
EUR	**5,496**	4,487
NZD	**2,790**	3,490
HKD	**147**	36
CHF	**605**	1,241
Total debt issues due for settlement over 12 months	**13,782**	11,755
Total debt issues	**20,201**	18,480
Debt issues at fair value through Income Statement	**148**	407
Debt issues at amortised cost	**20,053**	18,073
Total debt issues	**20,201**	18,480
Fair value hedge adjustments included in total debt issues	**(52)**	(19)
Movement in debt issues		
Balance at beginning of period	**18,480**	15,077
Issuances during the period	**8,834**	12,830
Repayments during the period	**(8,162)**	(9,135)
Foreign exchange and fair value movements during the period	**1,049**	(292)
Balance at the end of period	**20,201**	18,480

Short Term Debt

The Banking Group's short term borrowings include a Euro Commercial Paper ("ECP") programme under which it may issue commercial paper ("CP") in multiple currencies up to an aggregate of USD7 billion, and a USD CP ("USCP") programme under which it may issue CP in USD up to an aggregate of USD7 billion. CP is issued under these programmes at both fixed and variable interest rates.

The weighted average interest rate on balances outstanding as at 30 June 2018 was 1.62% for CP issued under the ECP programme (30 June 2017 0.99%) and 2.41% for CP issued under the USCP programme (30 June 2017 1.44%).

32 Debt Issues (continued)

Long Term Debt

The Banking Group's long term borrowings include:

- notes issued under a joint Euro Medium Term Note programme with CBA, the ultimate parent of the Bank. The joint programme limit is USD70 billion. These issuances occur in multiple currencies. Notes issued under this programme have both fixed and variable interest rates,
- notes issued under a US Medium Term Note programme. The Bank established this debt programme on 9 May 2018, and may issue up to the USD10 billion programme limit. Notes issued under this programme are in USD and have both fixed and variable interest rates,
- bonds issued under a Covered Bond programme. The Bank or its subsidiary ASB Finance Limited (acting through its London branch) may issue notes up to a programme limit of EUR7 billion, subject to the regulatory constraint that the assets of the Covered Bond Trust may not exceed 10% of the Banking Group's total assets. The issuances may occur in multiple currencies. Covered Bonds issued under this programme may have both fixed and variable interest rates. These bonds are guaranteed by the Covered Bond Guarantor. Refer to the General Disclosures and to note 22 for further information, and
- domestic bonds issued into the New Zealand market. The issuances occur in NZD and have both fixed and variable interest rates.

Interest rate and foreign currency risks associated with both short term and long term debt issuances are incorporated within the Banking Group's risk management framework.

33 Loan Capital

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

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

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

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

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

The RBNZ is undertaking a comprehensive review of the capital adequacy framework applying to locally incorporated registered banks. The aim of the review is to identify the most appropriate framework for setting capital requirements for New Zealand banks, taking into account how the current framework has operated and international developments in bank capital requirements.

The Capital Review will focus on the three key components of the current framework:

- the definition of eligible capital instruments;
- the measurement of risk; and
- the minimum capital ratios and buffers.

The RBNZ expects to complete its overall Capital Review in 2018.

34 Contributed Capital

$ millions	Banking Group	
As at 30 June	2018	2017
Issued and fully paid ordinary share capital		
Balance at beginning of year	**2,673**	2,673
Balance at end of year	**2,673**	2,673
Issued and fully paid perpetual preference share capital		
Balance at beginning of year	**1,550**	1,550
Balance at end of year	**1,550**	1,550
Total contributed capital	**4,223**	4,223

All contributed capital is included in tier one capital for capital adequacy calculation purposes. Refer to note 42 for more information on regulatory capital.

Ordinary Shares

The total number of issued ordinary shares as at 30 June 2018 was 2,648,121,300 (30 June 2017 2,648,121,300). All ordinary shares have equal voting rights and share equally in dividends and any profit on winding up, after the obligations to holders of ASB perpetual preference shares ("PPS") are satisfied. Dividends are declared, subject in all cases, to the applicable Directors' resolutions being passed.

Perpetual Preference Shares

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

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

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

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

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

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

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

The dividend payable on the 2006 Series 1 PPS is based on the one year swap rate plus a margin of 1.3%. Rates are reset annually on 15 November or the next business day. The rate was reset on 15 November 2017 to 3.30% per annum (the rate to 15 November 2017 was 3.42% per annum). The next dividend reset date is 15 November 2018.

The dividend payable on the 2006 Series 2 PPS is based on the one year swap rate plus a margin of 1.0%. Rates are reset annually on 15 May or the next business day. The rate was reset on 15 May 2018 to 3.05% per annum (the rate to 15 May 2018 was 3.03% per annum). The next dividend reset date is 15 May 2019.

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

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

The total number of issued PPS as at 30 June 2018 was 560,000,000 (30 June 2017 560,000,000).

35 Reserves

$ millions	Banking Group	
As at 30 June	**2018**	2017
Asset revaluation reserve		
Balance at beginning of year	**26**	28
Revaluations of land and buildings	**2**	1
Deferred taxation	**1**	-
Transferred to retained earnings	**-**	(3)
Balance at end of year	**29**	26

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

Available-for-sale reserve		
Balance at beginning of year	**2**	(7)
Net gain from changes in fair value	**3**	13
Deferred taxation	**(1)**	(4)
Balance at end of year	**4**	2

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale securities until the investment is derecognised or impaired. When fair value hedge accounting is applied, only fair value changes relating to movements in credit spreads are included in the reserve.

Cash flow hedge reserve		
Balance at beginning of year	**(86)**	(103)
Net loss from changes in fair value	**(179)**	(183)
Transferred to Income Statement:		
Interest income	**(87)**	(86)
Interest expense	**255**	292
Deferred taxation	**3**	(6)
Balance at end of year	**(94)**	(86)

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of foreign exchange and interest rate derivative contracts related to hedged forecast transactions that have not yet occurred.

Foreign currency translation reserve		
Balance at beginning of year	**1**	1
Balance at end of year	**1**	1

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

36 Leasing and Other Commitments

$ millions	Banking Group	
As at 30 June	**2018**	2017
Leasing commitments		
The following non-cancellable operating lease commitments existed as at the end of the financial year:		
Within one year	**53**	51
Between one and two years	**46**	45
Between two and five years	**103**	109
Over five years	**160**	192
Total leasing commitments	**362**	397
Other commitments	**14**	13

The Banking Group leases various premises under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The Banking Group also leases motor vehicles and certain office equipment. Lease expenditure is charged to the Income Statement (refer to note 5).

In February 2010, the Bank entered into an agreement to lease new head office premises for a term of 18 years. The initial lease term is 18 years, commencing 1 July 2013, with a 2.5% fixed annual increase per annum. Subsequent to the initial lease term, the Bank has the right of renewal for two subsequent six year terms, subject to a market review of the lease rate for each renewal period.

The Banking Group has entered into certain sub-leasing arrangements. Sub-leasing income of $2 million for the year ended 30 June 2018 (30 June 2017 $2 million) was included in the Banking Group's Income Statement.

37 Credit and Capital Commitments, and Contingent Liabilities

$ millions	Banking Group Notional Amount	
As at 30 June	**2018**	2017
Credit and capital commitments		
Lending commitments approved but not yet advanced (1)	**14,621**	14,023
Capital expenditure commitments	**5**	2
Total credit and capital commitments	**14,626**	14,025
Contingent liabilities		
Guarantees	**200**	166
Standby letters of credit	**143**	119
Other credit facilities	**200**	172
Total	**543**	457

(1) These amounts include irrevocable lending commitments determined in accordance with accounting standards.

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.

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

During the year ended 30 June 2018 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 received. 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.

On 21 September 2017, CBA announced the sale of 100% of its insurance business in Australia and New Zealand to AIA Group Limited. The sale of the New Zealand business was finalised on 2 July 2018 and as a result, from that date the ASB Group (Life) Limited group of companies is no longer considered to be a related party of the Banking Group.

$ millions		Banking Group	
For the year ended 30 June		**2018**	2017[1]
Related Party Transactions			
Interest income			
Received from Commonwealth Bank Group		**10**	12
		10	12
Interest expense			
Paid to Commonwealth Bank Group		**105**	99
Paid to NZ Life Group		**4**	4
Paid to superannuation schemes and managed investment schemes managed by ASB Group Investments Limited		**26**	16
		135	119
Other income			
Fair value gains on hedging derivatives with Commonwealth Bank Group		**-**	6
Received from NZ Life Group for administrative services		**12**	12
Received from NZ Life Group for insurance commission		**44**	42
Fair value gains/(losses) on hedging derivatives with NZ Life Group		**19**	(19)
Management and administration fees received from superannuation schemes and managed investment schemes managed by ASB Group Investments Limited		**91**	69
		166	110
Other expenses			
Paid to NZ Life Group for the origination of mortgages		**2**	2
Paid to Commonwealth Bank Group for investment management services		**2**	2
		4	4
Related Party Balances			
Commonwealth Bank Group			
Cash and liquid assets		**133**	243
Due from financial institutions		**472**	169
Derivative assets:	Interest rate contracts	**74**	96
	Exchange rate contracts	**122**	22
	Commodity contracts	**-**	1
Other assets		**-**	2
		801	533

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

38 Related Party Transactions and Balances (continued)

$ millions For the year ended 30 June		Banking Group 2018	2017(1)
Related Party Balances (continued)			
Commonwealth Bank Group (continued)			
Deposits and other borrowings		**51**	84
Due to financial institutions		**271**	44
Debt issues at amortised cost		**800**	800
Derivative liabilities:	Interest rate contracts	**71**	101
	Exchange rate contracts	**6**	145
Other liabilities		**4**	3
		1,203	1,177
NZ Life Group			
Derivative assets:	Exchange rate contracts	**4**	1
		4	1
Deposits and other borrowings		**185**	212
Derivative liabilities:	Exchange rate contracts	**-**	11
Other liabilities		**1**	1
		186	224
Superannuation schemes and managed investment schemes managed by ASB Group Investments Limited			
Other assets		**14**	10
		14	10
Deposits and other borrowings		**820**	662
Debt issues at amortised cost		**125**	118
		945	780
Superannuation schemes and managed investment schemes managed or administered by NZ Life Group			
Deposits and other borrowings		**-**	3
		-	3
ASB Holdings Limited			
Deposits and other borrowings		**41**	25
		41	**25**
Total related party assets		**819**	544
Total related party liabilities		**2,375**	2,209

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

Other Transactions and Balances

Commonwealth Bank Group provides guarantees over certain lending offered by the Bank to the value of $138 million (30 June 2017 $143 million).

Net receipts of $20 million were received by the Banking Group from related parties, relating to the utilisation of tax-related items (30 June 2017 net receipts of $48 million).

No provisions for impairment loss have been recognised in respect of loans given to related parties (30 June 2017 nil).

Refer to note 8 for details of dividends paid to shareholders.

Refer to note 34 for details of shares issued to and repurchased from related parties.

Refer to note 43 for further information on funds managed by ASB Group Investments Limited.

39 Key Management Personnel

The executive management and Directors of the Bank are considered to be key management personnel. Their details are set out in the Directory.

$ millions	Banking Group	
For the year ended 30 June	**2018**	2017
Key management compensation		
Short term employee benefits	**13**	15
Other long term benefits	**4**	5
Total key management compensation	**17**	20

$ millions	Banking Group	
As at 30 June	**2018**	2017
Loans to key management personnel	**6**	14
Deposits from key management personnel	**8**	12

Loans made to and deposits held by key management personnel were made in the ordinary course of business on normal commercial terms and conditions, no more favourable than those given to other employees of the Banking Group. Deposits consist of on call, savings, cheque, term investments and cash management balances.

No provisions have been recognised in respect of loans provided to key management personnel. There were no debts written off or forgiven during the year ended 30 June 2018 (30 June 2017 nil).

Interest is received on loans and paid on deposits at market rates. These amounts are not reported due to rounding to the nearest million (30 June 2017 nil).

40 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 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; or
- 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.

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

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

$ millions	Banking Group			
As at 30 June 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Trading securities	**1,256**	**1,088**	**-**	**2,344**
Derivative assets	**-**	**1,727**	**-**	**1,727**
Available-for-sale securities	**3,854**	**288**	**-**	**4,142**
Total financial assets measured at fair value	**5,110**	**3,103**	**-**	**8,213**
Financial liabilities				
Other liabilities at fair value through Income Statement	**-**	**1,097**	**-**	**1,097**
Derivative liabilities	**-**	**995**	**-**	**995**
Debt issues at fair value through Income Statement	**-**	**148**	**-**	**148**
Total financial liabilities measured at fair value	**-**	**2,240**	**-**	**2,240**

There were no transfers between levels for recurring fair value measurements on 30 June 2018.

$ millions	Banking Group			
As at 30 June 2017	Level 1	Level 2	Level 3	Total
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

On 30 June 2017, $811 million of Corporate and Local Authority bonds classified as trading securities and available-for-sale securities were transferred from level 2 to level 1 on the basis that their fair values were determined using quoted prices in an active market.

40 Fair Value of Financial Instruments (continued)

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

The following tables compare the carrying values of financial instruments not measured at fair value with their estimated fair values and analyses them by level in the fair value hierarchy.

$ millions	Banking Group				
	Fair Values				Carrying Value
As at 30 June 2018	**Level 1**	**Level 2**	**Level 3**	**Total**	**Total**
Financial assets					
Cash and liquid assets	**1,048**	**1,518**	**-**	**2,566**	**2,566**
Due from financial institutions	**-**	**921**	**-**	**921**	**921**
Advances to customers	**-**	**-**	**82,957**	**82,957**	**82,931**
Other assets	**-**	**237**	**-**	**237**	**237**
Total	**1,048**	**2,676**	**82,957**	**86,681**	**86,655**
Financial liabilities					
Deposits and other borrowings	**-**	**62,461**	**-**	**62,461**	**62,419**
Due to financial institutions	**-**	**1,271**	**-**	**1,271**	**1,271**
Other liabilities	**-**	**616**	**-**	**616**	**616**
Debt issues at amortised cost	**-**	**20,141**	**-**	**20,141**	**20,053**
Loan capital	**-**	**827**	**-**	**827**	**806**
Total	**-**	**85,316**	**-**	**85,316**	**85,165**

$ millions	Banking Group				
	Fair Values				Carrying Value
As at 30 June 2017	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Cash and liquid assets	1,412	1,156	-	2,568	2,568
Due from financial institutions	-	927	-	927	927
Advances to customers	-	-	78,015	78,015	78,100
Other assets	-	206	-	206	206
Total	1,412	2,289	78,015	81,716	81,801
Financial liabilities					
Deposits and other borrowings	-	58,307	-	58,307	58,226
Due to financial institutions	-	460	-	460	460
Other liabilities	-	566	-	566	566
Debt issues at amortised cost	-	18,155	-	18,155	18,073
Loan capital	-	825	-	825	804
Total	-	78,313	-	78,313	78,129

41 Offsetting Financial Assets and Financial Liabilities

Under NZ IAS 32, financial assets and financial liabilities may be offset on the Balance Sheet only when there is a currently enforceable legal right to offset the respective recognised amounts and an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. The right to offset is a legal right to settle or otherwise eliminate all or a portion of an amount due by applying an amount receivable, generally from the same counterparty, against it.

The Banking Group enters into netting agreements with counterparties to manage the credit risks associated primarily with over-the-counter derivatives, repurchase and reverse repurchase transactions, securities borrowing and lending transactions. These netting agreements and similar arrangements enable the counterparties to offset liabilities against assets if an event of default or other predetermined event occurs, however they generally do not result in net settlement in the ordinary course of business. Consequently, the Banking Group does not offset its financial assets and liabilities on the Balance Sheet, even if these amounts are subject to enforceable netting arrangements.

The following table identifies the amounts that are covered by enforceable netting and similar arrangements (offsetting arrangements and financial collateral).

	Banking Group					
	Amounts Subject to Enforceable Master Netting Agreements					
$ millions	Gross Amounts[1]	Financial Instruments Not Offset	Financial Collateral	Net Amount	Amounts Not Subject to Enforceable Master Netting Agreements[1]	Carrying Value
Financial instruments as at 30 June 2018						
Derivative assets	**1,717**	**(647)**	**(889)**	**181**	**10**	**1,727**
Reverse repurchase agreements	**1,518**	**-**	**(1,518)**	**-**	**-**	**1,518**
Total financial assets	**3,235**	**(647)**	**(2,407)**	**181**	**10**	**3,245**
Derivative liabilities	**(994)**	**647**	**309**	**(38)**	**(1)**	**(995)**
Total financial liabilities	**(994)**	**647**	**309**	**(38)**	**(1)**	**(995)**
Financial instruments as at 30 June 2017						
Derivative assets	965	(648)	(234)	83	11	976
Reverse repurchase agreements	1,156	(29)	(1,127)	-	-	1,156
Total financial assets	2,121	(677)	(1,361)	83	11	2,132
Derivative liabilities	(1,507)	648	783	(76)	(1)	(1,508)
Repurchase agreements	(29)	29	-	-	-	(29)
Total financial liabilities	(1,536)	677	783	(76)	(1)	(1,537)

(1) The sum of these amounts is equivalent to the carrying value of the corresponding financial instruments.

Effects of Master Netting Agreements on Financial Instruments

The 'gross amounts' column identifies financial assets and liabilities that are subject to enforceable master netting agreements such as ISDA Master Agreements, global master repurchase agreements and global master securities lending agreements. Under these agreements all outstanding transactions with the same counterparty can be offset and close-out netting applied across all outstanding transactions covered by the agreements if an event of default or other predetermined events occur. Financial collateral refers to cash and non-cash collateral obtained to cover the net exposure between counterparties by enabling the collateral to be realised in an event of default or if other predetermined events occur. The 'net amount' column shows the potential effects of the Banking Group's right of offset from master netting agreements. The 'amounts not subject to enforceable master netting agreements' column represents those amounts covered by master netting agreements but have uncertainty on their enforceability under applicable New Zealand legislation.

The net amounts presented in the tables do not represent the Banking Group's actual credit exposure.

42 Capital Adequacy[1]

Regulatory Requirements - Basel III

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. 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. The risk-weighted exposure calculation includes the use of IRB models and the credit models described in note 15 (using PD, EAD and LGD). In applying the IRB approach, the RBNZ accreditation and Conditions of Registration require the use of parameters which are more conservative than those calculated using the Bank's own methodologies.

The Banking Group is subject to Basel III capital requirements. The objective of the Basel III framework is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profile of banks. Basel III consists of three pillars: Pillar One covers the capital requirements for banks for credit, operational, and market risks; Pillar Two covers all other material risks not already included in Pillar One; and Pillar Three relates to market disclosure.

Capital Management Policies

The Board reviews and approves capital policy on an annual basis.

The Banking Group’s objectives for the management of capital are to comply at all times with the regulatory capital requirements set by the RBNZ, to maintain a strong capital base to cover the inherent risks of the business in excess of that required by credit rating agencies to maintain a strong or very strong credit rating, and to support the future development and growth of the business.

Key attributes of the Banking Group's capital policy and processes relating to regulatory capital are set out below.

Regulatory capital is divided into tier one capital, which comprises common equity tier one capital and additional tier one capital; and tier two capital. Common equity and additional tier one capital primarily consist of shareholders' equity and other capital instruments acceptable to the RBNZ, less intangible and deferred taxation assets, and other prescribed deductions. Tier two capital comprises the asset revaluation reserve, FCTR and subordinated debt securities.

Regulatory capital adequacy ratios are calculated by expressing capital (common equity tier one, additional tier one, tier two or total regulatory capital) as a percentage of risk-weighted exposures. Risk-weighted exposures represent risks associated with the Banking Group's credit risk exposures, as well as operational risk and both traded and non-traded market risk, estimated in accordance with RBNZ banking supervision guidelines.

As a condition of registration, the Banking Group must comply with the following minimum requirements set by the RBNZ:

- Total regulatory capital must not be less than 8% of risk-weighted exposures.
- Tier one capital must not be less than 6% of risk-weighted exposures.
- Common equity tier one capital must not be less than 4.5% of risk-weighted exposures.
- Total regulatory capital must not be less than $30 million.

In addition, the Bank must maintain a minimum capital conservation buffer of 2.5% of risk-weighted exposures otherwise restrictions on the distribution of earnings will be imposed.

The Board has ultimate responsibility for capital adequacy, and minimum capital levels and limits are set at a higher level than required by the RBNZ. The Banking Group actively monitors its capital adequacy, including forecast capital requirements, as part of the Banking Group’s internal capital adequacy assessment process (refer to page 66) and reports this on a regular basis to senior management and the Board. The Banking Group uses a mix of capital instruments to reduce single source reliance and to optimise capital efficiency.

The material terms and conditions of loan capital and the ordinary and perpetual preference shares are disclosed in notes 33 and 34.

The capital adequacy tables set out on the following page summarise the composition of regulatory capital and the capital adequacy ratios for the Banking Group for the year ended 30 June 2018. During the current financial year and the comparative year shown, the Banking Group complied with all of the RBNZ minimum capital ratios to which it is subject.

(1) Certain sections of note 42 are subject to review procedures which do not constitute an audit. These sections are clearly labelled as “Unaudited”. Refer to page 87 of the Independent Auditor's Report for further information.

42 Capital Adequacy (continued)

$ millions As at 30 June 2018	Banking Group
Capital under Basel III IRB approach	
Tier one capital	
Common equity tier one capital	
Issued and fully paid-up ordinary share capital	**2,673**
Retained earnings	**3,709**
Accumulated other comprehensive income and other disclosed reserves	**(90)**
Deductions from common equity tier one capital:	
Goodwill and other intangible assets	**(193)**
Deferred taxation asset	**(144)**
Cash flow hedge reserve	**94**
Excess of expected loss over eligible allowance for impairment	**(159)**
Total common equity tier one capital	**5,890**
Additional tier one capital	
Perpetual fully paid-up non-cumulative preference shares - classified as equity	**1,000**
Total additional tier one capital	**1,000**
Total tier one capital	**6,890**
Tier two capital	
Loan capital	**800**
Asset revaluation reserve	**29**
Foreign currency translation reserve	**1**
Total tier two capital	**830**
Total capital	**7,720**

Unaudited	Banking Group		Bank	
As at 30 June	2018	2017	2018	2017
Capital ratios[1]				
Common equity tier one capital ratio	**10.6%**	10.2%	**10.5%**	10.2%
Tier one capital ratio	**12.4%**	12.3%	**12.3%**	12.3%
Total capital ratio	**13.9%**	13.8%	**13.8%**	13.8%
Buffer ratio	**5.9%**	5.7%	**5.8%**	5.7%
Minimum ratio requirement				
Common equity tier one capital ratio	**4.5%**	4.5%	**4.5%**	4.5%
Tier one capital ratio	**6.0%**	6.0%	**6.0%**	6.0%
Total capital ratio	**8.0%**	8.0%	**8.0%**	8.0%
Buffer ratio	**2.5%**	2.5%	**2.5%**	2.5%

Unaudited $ millions Capital Requirements as at 30 June 2018	Banking Group Total Exposure[2]	RWE[3]	Capital Requirement
Total credit risk	**108,834**	**48,681**	**3,895**
Operational risk	**N/A**	**4,375**	**350**
Market risk	**N/A**	**2,626**	**210**
Total capital requirement		**55,682**	**4,455**

As at 30 June 2018, the Banking Group held $3,265m of capital in excess of its regulatory capital requirements.

(1) Certain comparative information has been restated to ensure consistency with presentation in the current period.
(2) Total exposure is after credit risk mitigation.
(3) RWE is risk-weighted exposures or implied risk-weighted exposures.

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For the year ended 30 June 2018

42 Capital Adequacy (continued)

Unaudited As at 30 June 2018 PD Grade	Banking Group Weighted Average PD	Exposure Amount $ millions	Exposure Weighted LGD	Exposure Weighted Risk Weight	Risk Weighted Exposures[(1)] $ millions	Minimum Capital Requirement $ millions
Credit risk exposures subject to the IRB approach by exposure class						
Sovereign exposures						
Less than and including 0.03%	0.02%	4,486	46%	6%	279	22
Over 0.03% up to and including 0.05%	-	-	-	-	-	-
Over 0.05% up to and including 0.07%	-	-	-	-	-	-
Over 0.07% up to and including 0.26%	-	-	-	-	-	-
Over 0.26% up to and including 99.99%	-	-	-	-	-	-
Default PD grade	-	-	-	-	-	-
Total sovereign exposures	0.02%	4,486	46%	6%	279	22
Bank exposures						
Less than and including 0.03%	0.03%	819	61%	26%	224	18
Over 0.03% up to and including 0.05%	0.04%	3,396	61%	22%	797	64
Over 0.05% up to and including 0.07%	0.07%	362	59%	36%	139	11
Over 0.07% up to and including 0.26%	0.14%	72	61%	54%	42	3
Over 0.26% up to and including 99.99%	0.68%	1	61%	103%	1	-
Default PD grade	-	-	-	-	-	-
Total bank exposures	0.04%	4,650	61%	24%	1,203	96
Exposures secured by residential mortgages						
Less than and including 0.50%	0.27%	19,892	17%	9%	1,985	159
Over 0.50% up to and including 0.85%	0.65%	20,241	20%	21%	4,523	362
Over 0.85% up to and including 3.26%	1.26%	18,726	24%	40%	7,867	629
Over 3.26% up to and including 7.76%	3.58%	2,093	25%	80%	1,770	142
Over 7.76% up to and including 99.99%	12.72%	1,235	20%	106%	1,384	111
Default PD grade	100.00%	200	24%	278%	590	47
Total exposures secured by residential mortgages	1.37%	62,387	20%	27%	18,119	1,450
Other retail exposures						
Less than and including 0.50%	-	-	-	-	-	-
Over 0.50% up to and including 0.85%	0.83%	524	95%	89%	492	39
Over 0.85% up to and including 3.26%	1.59%	2,167	95%	112%	2,566	205
Over 3.26% up to and including 7.76%	3.77%	339	93%	133%	478	38
Over 7.76% up to and including 99.99%	26.96%	23	94%	233%	56	5
Default PD grade	100.00%	9	94%	1173%	111	9
Total other retail exposures	2.18%	3,062	95%	114%	3,703	296
Corporate exposures - small and medium enterprises						
Less than and including 0.20%	0.15%	733	31%	19%	144	12
Over 0.20% up to and including 0.50%	0.34%	2,939	26%	28%	881	71
Over 0.50% up to and including 1.00%	0.70%	7,893	32%	50%	4,157	333
Over 1.00% up to and including 2.30%	1.51%	7,956	33%	71%	5,974	478
Over 2.30% up to and including 99.99%	5.12%	2,722	33%	101%	2,914	233
Default PD grade	100.00%	471	41%	416%	2,080	166
Total corporate exposures - small and medium enterprises	3.51%	22,714	32%	67%	16,150	1,293
Other corporate exposures						
Less than and including 0.20%	0.11%	756	60%	37%	298	24
Over 0.20% up to and including 0.50%	0.29%	2,091	46%	54%	1,203	96
Over 0.50% up to and including 1.00%	0.66%	2,077	40%	64%	1,403	112
Over 1.00% up to and including 2.30%	1.36%	749	35%	72%	572	46
Over 2.30% up to and including 99.99%	3.50%	65	33%	98%	67	5
Default PD grade	100.00%	8	23%	-	-	-
Total other corporate exposures	0.71%	5,746	44%	58%	3,543	283

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

Notes to the Financial Statements

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42 Capital Adequacy (continued)

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

Unaudited	**Banking Group**			
$ millions	**Undrawn Commitments and Other Off Balance Sheet Amounts**		**Market Related Contracts**	
As at 30 June 2018	**Value**	**EAD**	**Principal Amount**	**EAD**
Bank exposures	**130**	**127**	**147,286**	**1,273**
Exposures secured by residential mortgages	**8,459**	**8,097**	**-**	**-**
Other retail exposures	**2,051**	**2,013**	**-**	**-**
Corporate exposures - small and medium enterprises	**2,690**	**2,684**	**1,853**	**67**
Other corporate exposures	**1,691**	**1,690**	**3,972**	**101**
	15,021	**14,611**	**153,111**	**1,441**

Unaudited $ millions **As at 30 June 2018**	**Banking Group**					
LVR Range	**0%-60%**	**60.1%-70%**	**70.1%-80%**	**80.1%-90%**	**>90%**	**Total**
Residential mortgages by loan-to-valuation ratio ("LVR")						
On balance sheet exposures	**23,201**	**12,208**	**14,809**	**2,906**	**1,180**	**54,304**
Off balance sheet exposures	**4,796**	**1,353**	**1,584**	**166**	**205**	**8,104**
Total value of exposures	**27,997**	**13,561**	**16,393**	**3,072**	**1,385**	**62,408**
Expressed as a percentage of total exposures	**44.9%**	**21.7%**	**26.3%**	**4.9%**	**2.2%**	**100.0%**

LVR is calculated as the current balance divided by the valuation of the security at the date of loan origination. Off balance sheet exposures include commitments to lend. On balance sheet and off balance sheet exposures for which no LVR information is available are included in the greater than 90% range.

Unaudited $ millions **As at 30 June 2018**	**Banking Group**
Reconciliation of mortgage-related amounts	
Residential mortgages in advances to customers (refer to note 16)	**53,918**
Add/(less):	
Off balance sheet exposures	**8,104**
Exposure at default adjustments	**548**
Unamortised loan establishment fees and expenses	**(162)**
Residential mortgages in LVR disclosure	**62,408**

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For the year ended 30 June 2018

42 Capital Adequacy (continued)

Unaudited	Banking Group			
Balance Sheet Exposures Subject to the Slotting Approach as at 30 June 2018	Total Exposure after Credit Risk Mitigation $ millions	Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Capital Requirement $ millions
Specialised lending				
Strong	108	70%	80	6
Good	148	90%	141	11
Satisfactory	10	115%	12	1
Weak	4	250%	12	1
	270		245	19

Unaudited	Banking Group			
Off Balance Sheet Exposures Subject to the Slotting Approach as at 30 June 2018	EAD $ millions	Average Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Capital Requirement $ millions
Undrawn commitments	13	167%	23	2
Other off balance sheet exposures	4	70%	3	-
	17		26	2

Unaudited	Banking Group			
Balance Sheet Exposures Subject to the Standardised Approach as at 30 June 2018	Total Exposure after Credit Risk Mitigation $ millions	Average Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Capital Requirement $ millions
Cash	120	-	-	-
Residential mortgages	13	50%	7	1
Other assets	4,628	99%	4,874	390
Total balance sheet exposures	4,761		4,881	391

Unaudited	Banking Group					
Off Balance Sheet Exposures Subject to the Standardised Approach as at 30 June 2018	Total Exposure or Principal Amount $ millions	Average Credit Conversion Factor	Credit Equivalent Amount $ millions	Average Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Capital Requirement $ millions
Undrawn commitments	1,206	6%	69	95%	69	6
Other off balance sheet exposures	108	100%	108	100%	115	9
Market related contracts	91	-	2	100%	2	-
Total off balance sheet exposures subject to the standardised approach	1,405		179		186	15

Unaudited	Banking Group			
Equity Exposures Subject to the Standardised Approach as at 30 June 2018	Total exposure $ millions	Risk weight	Risk weighted exposures[1] $ millions	Minimum Capital Requirement $ millions
All equity holdings not deducted from capital	-	400%	1	-

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

42 Capital Adequacy (continued)

Unaudited $ millions **Total Credit Risk as at 30 June 2018**	**Banking Group** **Total Exposure after Credit Risk Mitigation**	**Total Risk Weighted Exposures**	**Capital Requirement**
Exposures subject to the IRB approach	103,045	42,997	3,440
Specialised lending subject to the slotting approach	287	271	21
Exposures subject to the standardised approach	4,940	5,068	406
Credit valuation adjustment	-	333	27
Qualifying central counterparties	562	12	1
Total credit risk	**108,834**	**48,681**	**3,895**

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

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

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

Credit Risk Mitigation

Unaudited

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

As at 30 June 2018 none of the credit risk exposures subject to the standardised approach are covered by eligible financial collateral (i.e. cash, debt securities or equity securities). Across all portfolios, no exposures are covered by credit derivatives. Information on the total value of exposures covered by financial guarantees is not disclosed, as the effect of these guarantees on the underlying credit risk exposures is not considered to be material.

Additional Information about Credit Risk

Unaudited

The RBNZ has accredited the Banking Group to report capital adequacy under the *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B).

Under the internal ratings based approach the measurement of credit risk utilises analytical tools to calculate both expected and unexpected loss probabilities for the credit portfolio. This includes consideration of the PD, the EAD and the LGD that would likely be experienced as a consequence. Refer to note 15 for more information about the Banking Group's credit risk management.

For exposures classified as specialised lending, specifically project finance and income-producing real estate, the Banking Group uses slotting tables supplied by the RBNZ rather than internal estimates.

The Banking Group has a number of portfolios that due to size, systems or other constraints are not yet part of the IRB approach, and are assessed for capital adequacy under the standardised approach - prescribed by the RBNZ under the document *Capital Adequacy Framework (Standardised Approach)* (BS2A). The major portfolio segment in this category relates to exposures to SME which do not meet the corporate criteria, as they are not individually risk rated. The summary table on the top of this page shows the asset types according to their current rating approach.

42 Capital Adequacy (continued)

Unaudited

Additional Information about Credit Risk (continued)

Controls Surrounding Credit Risk Ratings Systems

Credit risk rating systems and policy cover all of the methods, processes, controls, data collection and technology that support the assessment of credit risk, the assignment of credit risk ratings and the quantification of associated default and loss estimates.

The Chief Risk Officer has ultimate responsibility for the on-going review and amendment of credit risk rating models. Risk Management actively participates in the development, selection, implementation and validation of rating models.

Internal Audit regularly reviews the Banking Group's credit risk rating system and its operations, including the operations of the credit function and the estimation of PD, LGD and EAD.

All material aspects of rating and estimation processes must be approved by the BARC. Senior management are required to provide notice to the BARC of material changes or exceptions from established policies that will materially impact the operations of the credit risk rating system.

Senior management are required to have a good understanding of the design and operation of credit risk rating systems, and must approve material differences between established procedure and actual practice.

Refer to note 15 for more details of credit risk management controls.

Operational Risk

The Banking Group uses the Advanced Measurement Approach together with any required regulatory adjustments to determine capital requirements for operational risk.

The implied risk-weighted exposure for operational risk as at 30 June 2018 was $4,375 million.

The total operational risk capital requirement as at 30 June 2018 was $350 million.

Advanced Measurement Approach Overview

The Banking Group follows a mathematically determined loss distribution approach to measure operational risk. This involves separate modelling of the frequency and severity of risks at a component level and then aggregating simulated losses from these components into loss distributions for the Banking Group.

The Banking Group's modelling approach is very granular with multiple businesses ("Bu") each considered against the 20 Basel level 2 risk types ("RT"). This approach allows capital to link closely with where the businesses manage their risk, and also allows accurate modelling of both risk and tail event potential.

To capture the best business judgements, the Banking Group allows key risks to be assessed at the exposure level with separate frequency and severity judgements. These exposure level judgements are simulated to provide an annual loss distribution that is shown to the business subject matter experts to ensure their judgements are captured appropriately. These exposure annual loss distributions are aggregated to the business/risk type ("BuRT") level, resulting in an annual loss distribution for the BuRT.

The BuRT level frequency and severity distributions are aggregated using Monte Carlo simulation to produce capital results for the Bank and its businesses.

The operational risk measurement approach integrates the use of the following relevant factors:

Direct inputs:

- Scenario analysis to capture the business judgements (called "quantitative risk assessment").
- Internal loss data (where sufficient data exists).

Indirect inputs:

- External loss data case studies (sourced from external providers) are used in the scenario analysis process.
- Risk indicators (developed and recorded) are used in the scenario analysis process.

Economic Capital Allocation

Outcomes of the operational risk measurement cycle are generated at BuRT level as outlined above. Outcomes include an economic capital requirement based on a 99.95% confidence interval which is calibrated to the Banking Group's overall target debt rating in the market. That data is used as a direct risk type input to the economic capital framework calculations alongside other risk type inputs (e.g. credit, traded and non-traded market, strategic business risk, fixed asset risk).

42 Capital Adequacy (continued)

Unaudited

Market Risk Capital Charges

The Banking Group's aggregate market risk exposure is derived in accordance with the RBNZ documents *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) and *Market Risk Guidance Notes* (BS6). The peak end-of-day exposure is derived by taking the highest market exposure over the six months ended 30 June 2018.

Interest rate risk, foreign exchange risk and equity risk are calculated on a daily basis. For each category, the peak end-of-day market risk exposure may not have occurred at the same time.

Unaudited $ millions Exposures as at 30 June 2018	Banking Group Interest Rate Risk	 Foreign Currency Risk	 Equity Risk	 Total
Implied risk-weighted exposure	**2,548**	**78**	**-**	**2,626**
Aggregate capital charge	**204**	**6**	**-**	**210**

Unaudited $ millions Peak Exposures for the six months ended 30 June 2018	Banking Group Interest Rate Risk	 Foreign Currency Risk	 Equity Risk	 Total
Implied risk-weighted exposure	**3,113**	**205**	**-**	**3,318**
Aggregate capital charge	**249**	**16**	**-**	**265**

Capital for Other Material Risks

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

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

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

The Banking Group's ICAAP includes an assessment of capital required to cover material risks not already captured in the measurement of regulatory capital. As at 30 June 2018 internal capital allocations of $329 million (30 June 2017 $294 million) had been made for other material risks including strategic risk and fixed asset risk.

Capital Adequacy of Ultimate Parent Bank and Ultimate Parent Banking Group

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

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

APRA prudential standards require a minimum CET1 ratio of 4.5%. An additional CET1 capital conservation buffer of 3.5%, inclusive of a domestic systemically important bank requirement of 1% and a countercyclical capital buffer of 0%, was effective from 1 January 2016, bringing the CET1 requirement to at least 8% as specified under Basel III.

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

The ultimate parent banking group is required by APRA to hold minimum capital. As at 30 June 2018 the minimum capital requirements were met (30 June 2017 minimum capital requirements were met).

Unaudited As at 30 June	Ultimate Parent Bank 2018	 2017	Ultimate Parent Banking Group 2018	 2017
Common equity tier one capital ratio	**10.8%**	10.7%	**10.1%**	10.1%
Tier one capital ratio	**12.8%**	12.4%	**12.3%**	12.1%
Total capital ratio	**15.6%**	14.5%	**15.0%**	14.2%

43 Securitisation, Funds Management, Other Fiduciary Activities and the Marketing and Distribution of Insurance Products

Securitisation, Funds Management and Other Fiduciary Activities

Securitisation

As at 30 June 2018 the Banking Group had internally securitised $5.3 billion of RMBS through the Medallion NZ Series Trust 2009-1R (30 June 2017 $4.7 billion), of which $5.0 billion of Class A floating rate notes issued by the Medallion NZ Series Trust 2009-1R have been assigned a credit rating of AAA by Fitch Ratings (30 June 2017 $4.5 billion). Refer to note 22 for more information.

Funds Management

The Banking Group markets and distributes funds management products which are issued by a wholly owned subsidiary, ASB Group Investments Limited (refer to note 24). Funds under management distributed by the Banking Group totalled $14,234 million as at 30 June 2018 (30 June 2017 $10,730 million). As at 30 June 2018 $1,034 million of funds under management were invested in related party products or securities (30 June 2017 $928 million).

Fiduciary Activities

The Banking Group provides custodial services relating to holding interest-bearing instruments and equity securities on behalf of clients. Funds under custodial arrangements totalled $14,607 million as at 30 June 2018 (30 June 2017 $13,866 million).

Insurance Business

The Banking Group does not conduct any insurance business.

Marketing and Distribution of Insurance Products

As at 30 June 2018, general, travel and life insurance products are marketed and distributed by the Banking Group for Sovereign Assurance Company Limited (a wholly owned subsidiary of ASB Group (Life) Limited), IAG New Zealand Limited and Cigna Life Insurance New Zealand Limited.

Risk Management

The Banking Group has frameworks, policies and procedures in place to ensure that the marketing and distribution of insurance products are conducted in an appropriate manner. These include disclosure of information regarding products (including rates, terms and conditions), and formal and regular review of products and processes. These policies and procedures are designed to minimise the risk of the insurance activities being conducted in a way that will adversely impact the Banking Group.

Provision of Financial Services

Financial services (including deposit taking and foreign exchange services) provided by the Banking Group during the year to entities which are involved in trust, custodial, funds management and other fiduciary activities, and to affiliated insurance companies which conduct marketing or distribution of insurance products, or on whose behalf the marketing or distribution of insurance products are conducted, are provided on arm's length terms and conditions and at fair value. The Banking Group has not purchased any assets from such entities during the year.

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For the year ended 30 June 2018

44 Financial Reporting by Operating Segments

$ millions	Retail Banking	Business Banking	Banking Group Private Banking, Wealth and Insurance	Other	Total
Income Statement					
For the year ended 30 June 2018					
Net interest earnings	**1,020**	**843**	**54**	**122**	**2,039**
Other income/(loss)	**267**	**145**	**210**	**(69)**	**553**
Total operating income	**1,287**	**988**	**264**	**53**	**2,592**
Impairment losses/(recoveries) on advances	**76**	**5**	**-**	**(1)**	**80**
Segment operating expenses (excluding impairment losses)	**401**	**333**	**122**	**23**	**879**
Segment net profit before taxation	**810**	**650**	**142**	**31**	**1,633**
Taxation	**227**	**182**	**40**	**7**	**456**
Segment net profit after taxation	**583**	**468**	**102**	**24**	**1,177**
Non-cash expenses(1)					
Depreciation and amortisation expense	**47**	**27**	**10**	**-**	**84**
Balance Sheet					
As at 30 June 2018					
Total assets	**42,464**	**39,963**	**2,393**	**10,593**	**95,413**
Total liabilities	**33,918**	**20,610**	**4,169**	**28,844**	**87,541**

$ millions	Retail Banking	Business Banking	Banking Group Private Banking, Wealth and Insurance	Other	Total
Income Statement(2)					
For the year ended 30 June 2017					
Net interest earnings	926	762	44	119	1,851
Other income/(loss)	250	139	184	(38)	535
Total operating income	1,176	901	228	81	2,386
Impairment losses on advances	61	8	-	-	69
Segment operating expenses (excluding impairment losses)	389	325	110	10	834
Segment net profit before taxation	726	568	118	71	1,483
Taxation	203	159	33	19	414
Segment net profit after taxation	523	409	85	52	1,069
Non-cash expenses(1)(2)					
Depreciation and amortisation expense	45	25	9	-	79
Balance Sheet(2)					
As at 30 June 2017					
Total assets	40,723	37,417	2,051	8,437	88,628
Total liabilities	32,208	18,945	3,540	26,533	81,226

(1) Non-cash expenses are included in segment operating expenses (excluding impairment losses).
(2) 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 June 2018 follows reporting to the Chief Operating Decision Maker at that date. Comparative information has been reclassified to ensure consistency with presentation in the current period.

44 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 a 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.

45 Risk Management Policies

Introduction

The Banking Group is committed to the management of risk to achieve sustainability of service, employment and profits, and therefore takes on controlled amounts of risk when considered appropriate. The risk management framework identifies, assesses, manages and reports risk and risk adjusted returns using an economic equity framework. This is targeted at ensuring that the Banking Group has sufficient capital to enable a strong credit rating relative to the overall market and its peers.

The primary risks are those of credit, market, liquidity/funding, operational and compliance, strategic, and reputational risk.

The Banking Group's risk and control functions are the responsibility of the Chief Risk Officer, who reports to the Chief Executive Officer. The Banking Group’s risk management strategy is set by the Board through the BARC. All non-executive Directors are members of the BARC (refer to the Directory for details). Formal executive committees are in place governing all primary risk types. The Chief Risk Officer is responsible for the implementation of risk management strategy and all executives have responsibility for the day-to-day management of risk across the Banking Group.

The Banking Group has management structures and information systems to manage individual risks. Risk initiation and monitoring tasks are separated where feasible, and all material information systems are subjected to regular internal audits.

The Banking Group’s external auditor also reviews parts of the Banking Group’s risk management framework that impact on significant aspects of financial systems, but only to the extent necessary to form their review opinion on the Banking Group’s half-year financial statements or audit opinion on the Banking Group’s annual financial statements.

The following notes contain information about the risk management framework: notes 15 to 21 (credit risk), notes 46 and 47 (market risk), and notes 48 to 51 (liquidity and funding risk). Operational and compliance, strategic, and reputational risks are discussed below.

Operational and Compliance Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal, regulatory, fraud, business continuity and technology risks but excludes strategic and reputational risks.

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that ASB may incur as a result of its failure to comply with its compliance obligations. Compliance obligations are formal requirements that may arise from various sources including but not limited to: relevant laws, regulations, legislation, industry standards, rules, codes or guidelines.

The Banking Group’s operational and compliance risk measurement methodology combines assessment of individual risk exposures with internal loss data to determine potential losses and calculate operational risk economic capital.

Each business manager is responsible for the identification and assessment of these risks and for maintaining appropriate internal controls, and is supported by the Banking Group's governance structures, operational risk management framework and compliance risk management policy.

BARC approved limits with respect to operational and compliance risk are set via the operational risk management framework. The compliance risk management policy sets standards with respect to the understanding of obligations, establishing policies and procedures, managing non-compliance, monitoring and reporting.

Strategic Risk

Strategic risk is the risk of economic loss resulting from changes in the business environment (caused by macroeconomic conditions, competitive forces at work, technology, regulatory conditions or social trends) or internal weaknesses, such as a poorly implemented or flawed strategy.

Strategic risk is managed by the Bank’s Executive Leadership Team in accordance with the Banking Group’s risk appetite statement.

Board approved principles with respect to strategic risk are set via the Board’s consideration of ASB’s strategic plans and the most significant risks (current and emerging) arising from these.

Strategic risk is measured using judgemental assessments and an internal profit simulation model.

Reputational Risk

Reputational risk arises from negative perception on the part of customers, the general public, counterparties, shareholders, investors, debt holders, market analysts, regulators and other relevant stakeholders of the Banking Group. Potential adverse reputational impacts are an outcome of all other material risks.

Reputational risk is managed by the Bank’s Executive Leadership Team with support from Operational & Business Risk Forum in accordance with the Banking Group’s risk appetite statement, operational risk management framework, and code of conduct.

In addition, ASB sets out clear behavioural standards (e.g. as set out in the risk appetite statement and the code of conduct) and ASB’s leadership framework that support ASB’s vision and values.

45 Risk Management Policies (continued)

Business Continuity Management

Business continuity management ("BCM") within the Banking Group involves the development, maintenance and testing of action plans to respond to defined risk events. This ensures that business processes continue with minimal adverse impact on customers, staff, products, services and brands.

BCM constitutes an essential component of the Banking Group's risk management process by providing a controlled response to potential operational risks that could have a significant impact on the Banking Group's critical processes and revenue streams. It includes responses to mitigate the impact of risk events or disasters and crisis management plans to respond to crisis events.

A comprehensive BCM programme including plan development, testing and education has been implemented across all business units with critical processes and includes technology disaster recovery planning.

Internal Audit

The Banking Group maintains an independent internal audit function which is ultimately accountable to the Board through the BARC.

The internal audit function provides independent opinions on the effectiveness of risk management systems and the framework of controls and governance processes within the Banking Group's operations. Audits of the Banking Group's operations are undertaken based on an assessment of risk.

The BARC meets on a regular basis to consider the Banking Group's financial reporting, internal control and corporate governance matters. In doing so, the BARC reviews internal audit findings and opinions, and the activities of the internal audit function.

46 Market Risk

Market risk is the risk that market rates and prices will change and that this may have an adverse effect on the profitability and/or net worth of the Banking Group. This includes changes in interest rates, foreign exchange rates, equity and commodity prices and credit spreads.

Market risk is managed by the Bank's Asset and Liability Committee and Market Risk Committee in accordance with the Banking Group's market risk policy which is approved by the BARC.

The market risk policy framework sets limits through the Banking Group's risk appetite statement, market risk policy, trading book standard, banking book standard, global markets dealing manual, and treasury dealing manual.

Measurement approaches for underlying market risks include value at risk (VaR – 1 day and 20 day), stress tests, net interest earnings at risk, present value of one basis point movement in credit spreads; and present value of one basis point movement in interest rates.

The Banking Group distinguishes between two main types of market risk:

- Traded market risk principally arises from the Banking Group's trading book activities within Global Markets.
- Non-traded market risk includes interest rate risk arising from the banking book.

Market Risk Measurement

The Banking Group uses Value-at-Risk ("VaR") as one of the measures of Traded and Non-traded market risk. VaR is a statistical measure of potential loss using historically observed market movements.

VaR is modelled at a 97.5% confidence level. This means that there is a 97.5% probability that any potential loss will not exceed the VaR estimate on any given day.

The VaR measured for Traded market risk uses two years of daily movement in market rates. The VaR measure for Non-traded Banking Book market risk uses six years of daily movement in market rates.

A 1-day holding period is used for trading book positions. A 20-day holding period is used for Interest Rate Risk in the Banking Book.

VaR is driven by historical observations and is not an estimate of the maximum loss that the Banking Group could experience from an extreme market event. As a result of this limitation, management also uses additional controls to measure and manage market risk including stress testing, risk sensitivity and position limits.

Traded Market Risk

Traded market risk is generated through the Banking Group's participation in financial markets to service its customers. The Banking Group trades and distributes interest rate, foreign exchange, debt, equity and commodity products, and provides treasury, capital markets and risk management services to its customers.

$ millions	Banking Group	
VaR at 97.5% Confidence Level	**Average VaR**	
As at 30 June	**2018**	2017
Interest rate risk	**0.27**	0.18
Foreign exchange risk	**0.05**	0.09
Diversification benefit	**(0.04)**	(0.06)
Total Traded Market Risk	**0.28**	0.21

46 Market Risk (continued)

Non-traded Market Risk - Interest Rate Risk in the Banking Book

Interest rate risk is the current and prospective impact to the Banking Group's financial condition due to adverse changes in interest rates to which the Banking Group's Balance Sheet is exposed. Activities of the Banking Group result in mismatched assets and liabilities positions which direct that the frequency, timing and quantum of interest rate movements have undesired outcomes over both the short term and long term. The Banking Group engages in maturity transformation activities to manage interest rate risk to achieve stable and sustainable net interest income in the long-term.

The Banking Group measures and manages the impact of interest rate risk in two ways:

(a) Next 12 months' earnings

Interest rate risk from an earnings perspective (earnings risk) is the risk to earnings from potential interest rate movements on net interest income over the next 12 months.

The risk to net interest income over the next 12 months from changes in interest rates is measured on a daily basis.

Earnings risk is measured through sensitivity analysis, which applies an instantaneous 100 basis point parallel shock in interest rates across the yield curve.

The prospective change to net interest income is measured by using an Asset and Liability Management simulation model which incorporates both existing and anticipated new business in its assessment. Assets and liabilities that reprice directly from observable market rates are measured based on the full extent of the rate shock that is applied. Assets and liabilities that are priced based on Banking Group administered interest rates, and that are impacted by customer behaviour, are measured by taking into consideration the historic repricing strategy of the Banking Group and customer behaviour.

The figures in the following table represent the potential unfavourable change to the Banking Group's net interest earnings during the year based on a 100 basis point parallel rate shock.

$ millions	Banking Group	
Net Interest Earnings at Risk	**2018**	2017[1]
Exposure at end of year	**4.1**	5.0
Past 12 month exposure - average	**11.0**	3.8
Past 12 month exposure - high	**25.1**	15.4
Past 12 month exposure - low	**0.1**	-

(b) Economic Value

Interest rate risk from an economic value perspective is based on a 20-day holding period 97.5% VaR measure.

Measuring the change in the economic value of equity is an assessment of the long term impact to the earnings potential of the Banking Group present valued to the current date. The Banking Group assesses the potential change in its economic value of equity through the application of the VaR methodology on a daily basis. A 20-day holding period 97.5% VaR measure is used to capture the net economic value impact over the remaining term of all Balance Sheet assets and liabilities to adverse changes in interest rates.

Cash flows for discretionary priced products are behaviourally adjusted and repriced at the resultant profile.

The figures in the following table represent the net present value of the expected change in the Banking Group's future earnings in all future periods for the remaining term of all existing assets and liabilities:

$ millions	Banking Group	
Non-traded Interest Rate VaR at 97.5% Confidence Level	**2018**	2017[1]
Exposure at end of year	**4.3**	6.4
Past 12 month VaR (97.5 percentile) - average	**7.0**	8.5
Past 12 month VaR (97.5 percentile) - high	**10.0**	12.5
Past 12 month VaR (97.5 percentile) - low	**3.5**	5.1

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

46 Market Risk (continued)

Net Foreign Currency Open Positions

The following table sets out the net foreign currency open positions of the Banking Group as stated in New Zealand dollar equivalents based on spot exchange rates as at balance sheet date:

$ millions	Banking Group	
As at 30 June	2018	2017
Net open position		
US Dollar	(6)	-
Swiss Franc	-	(1)
Total net open position	(6)	(1)

47 Interest Rate Repricing Schedule

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

$ millions	Banking Group						
As at 30 June 2018	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-interest Bearing	Total
Assets							
Cash and liquid assets	2,454	-	-	-	-	112	2,566
Due from financial institutions	921	-	-	-	-	-	921
Trading securities	2,044	50	250	-	-	-	2,344
Derivative assets	-	-	-	-	-	1,727	1,727
Available-for-sale securities	394	51	1,083	990	1,624	-	4,142
Advances to customers	37,665	8,212	14,895	15,980	6,326	(147)	82,931
All other assets	-	-	-	-	-	782	782
Total assets	43,478	8,313	16,228	16,970	7,950	2,474	95,413
Liabilities							
Deposits and other borrowings	37,418	10,051	6,834	2,316	980	4,820	62,419
Due to financial institutions	1,247	-	-	-	-	24	1,271
Other liabilities at fair value through Income Statement	1,097	-	-	-	-	-	1,097
Derivative liabilities	-	-	-	-	-	995	995
All other liabilities	-	-	-	-	-	752	752
Debt issues:							
At fair value through Income Statement	148	-	-	-	-	-	148
At amortised cost	8,010	1,157	571	1,325	9,052	(62)	20,053
Loan capital	-	-	400	-	400	6	806
Total liabilities	47,920	11,208	7,805	3,641	10,432	6,535	87,541
Net derivative notionals	11,483	278	(9,462)	(11,048)	8,749	-	-
Interest rate sensitivity gap	7,041	(2,617)	(1,039)	2,281	6,267	(4,061)	7,872

47 Interest Rate Repricing Schedule (continued)

$ millions	Banking Group						
As at 30 June 2017	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-interest Bearing	Total
Assets							
Cash and liquid assets	2,400	-	-	-	-	168	2,568
Due from financial institutions	927	-	-	-	-	-	927
Trading securities	804	255	-	257	-	-	1,316
Derivative assets	-	-	-	-	-	976	976
Available-for-sale securities	495	340	323	1,237	1,622	-	4,017
Advances to customers	34,051	6,338	13,375	14,826	9,632	(122)	78,100
All other assets	-	-	-	-	-	724	724
Total Assets	38,677	6,933	13,698	16,320	11,254	1,746	88,628
Liabilities							
Deposits and other borrowings	36,780	10,758	4,173	1,624	854	4,037	58,226
Due to financial institutions	441	-	-	-	-	19	460
Other liabilities at fair value through Income Statement	1,025	40	-	-	-	-	1,065
Derivative liabilities	-	-	-	-	-	1,508	1,508
All other liabilities	-	-	-	-	-	683	683
Debt issues:							
At fair value through Income Statement	325	82	-	-	-	-	407
At amortised cost	8,613	675	-	1,872	6,940	(27)	18,073
Loan capital	-	-	-	400	400	4	804
Total liabilities	47,184	11,555	4,173	3,896	8,194	6,224	81,226
Net derivative notionals	19,052	(3,272)	(7,154)	(10,596)	1,970	-	-
Interest rate sensitivity gap	10,545	(7,894)	2,371	1,828	5,030	(4,478)	7,402

48 Liquidity and Funding Risk

(a) Liquidity and Funding Risk Management Framework and Policies

Liquidity risk is the risk of not being able to meet financial obligations as they fall due (funding liquidity risk), and that liquidity in financial markets, such as the market for debt securities, may reduce significantly (market liquidity risk).

Funding risk contributes to overall liquidity risk and is the risk of over-reliance on a funding source to the extent that a change in that funding source could increase overall funding costs or cause difficulty in raising funds.

The Banking Group has a liquidity risk management policy and strategy (the "policy") and contingency funding plan ("CFP") in place to manage these risks which is approved by the BARC. Day-to-day management of liquidity and funding risks is performed and reported by the Bank's Treasury function, with independent monitoring by the Bank's Market Risk Committee with oversight provided by the Asset and Liability Committee ("ALCO"). The policy also requires regular periodic review of liquidity management strategy and CFP by the Bank's Directors.

The key objectives of the policy are:

- To ensure that cash flow commitments can be met as they fall due under both normal operating, crisis and stress conditions.
- To ensure that the Bank develops and protects a resilient and diversified funding base that is responsive to the Banking Group's needs.
- To ensure that procedures and practices in relation to liquidity and funding risk management are clearly documented and communicated.

Regulatory Supervision

The Bank is subject to the conditions of the RBNZ's liquidity policy as set out in the RBNZ documents *Liquidity Policy* (BS13) and *Liquidity Policy Annex: Liquid Assets* (BS13A). The Bank has the appropriate internal framework and tools for liquidity risk management to ensure compliance with these regulatory requirements, as well as internal targets and limits.

Measuring and Monitoring Liquidity Risk

The Bank monitors liquidity risk primarily by forecasting future cash requirements. To provide for any unexpected patterns in cash movements the Bank holds a pool of readily realisable investment assets and deposits with high credit quality counterparties. The Bank also seeks a diverse and stable funding base avoiding undue maturity, source or investor concentrations. Management limits are set to reduce liquidity risks through limiting the level of wholesale and offshore funding, as well as on the amount of wholesale funding that may mature in any period. The Bank ensures sufficient holding of high quality liquid assets which are acceptable under repurchase agreements with the RBNZ or other market participants.

BARC approved liquidity risk limits define a quantitative tolerance for liquidity risk that meets the requirements of the relevant regulators. These limits are consistent with the risk appetite statement and the liquidity risk management policy and strategy. These require that the Bank maintains positive cash flow runoffs for one-week and one-month periods using stressed assumptions, in addition to a strong and stable core funding ratio. The liquidity management standard, liquid asset strategy and the annual wholesale funding plan are approved by ALCO.

The policy requires Treasury to develop, maintain and regularly test a CFP. The CFP is reviewed and approved by the BARC. The CFP establishes policies, responsibilities and plans which are designed to return the Bank to a robust position within risk tolerance in the event of a liquidity crisis.

Residential Mortgage-Backed Securities Facility

The Bank has an in-house RMBS facility, which has issued securities that can be used as collateral for borrowing from the RBNZ. As at 30 June 2018 the Bank had internally securitised $5.3 billion of RMBS through the Medallion NZ Series Trust 2009-1R, of which $5.0 billion of Class A floating rate notes have been assigned a credit rating of AAA by Fitch Ratings and are eligible for acceptance by the RBNZ (30 June 2017 $4.7 billion and $4.5 billion respectively). While not intended to be used for day-to-day liquidity management, the RMBS form part of the Bank's total qualifying liquid assets. The RBNZ has imposed a cap of 4% of total assets limiting the amount of RMBS that can be deemed as qualifying liquid assets available for repurchase agreements with the RBNZ (30 June 2017 4%). As at 30 June 2018 none of the RMBS had been used as collateral for repurchase agreements with the RBNZ (30 June 2017 nil). Refer to note 22 for additional information.

(b) Liquidity and Funding Risk Management Framework and Regulatory Liquidity Ratios (unaudited)

The Bank calculates liquidity ratios in accordance with BS13. The BS13 ratios are calculated daily and are a key component of the Bank's liquidity management framework. Quarterly, average ratios are produced in line with the Order and are reflected in the table below:

Unaudited	Banking Group	
Average for the three months ended	30-Jun-18	31-Mar-18
One-month mismatch ratio	5.2%	5.0%
One-week mismatch ratio	4.6%	4.6%
Core funding ratio	85.2%	85.3%

49 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 table below does not adjust the qualifying liquid assets for this haircut.

$ millions	Banking Group						
As at 30 June 2018	**Cash and Liquid Assets**	**Available -for-Sale Securities**	**Trading Securities**	**Advances to Customers**	**Deposits and Other Borrowings(1)**	**Other Assets**	**Total**
Cash	**175**	**-**	**-**	**-**	**-**	**-**	**175**
Call deposits with the central bank	**873**	**-**	**-**	**-**	**-**	**-**	**873**
Local authority securities	**-**	**243**	**20**	**-**	**-**	**2**	**265**
New Zealand government securities	**1,518**	**1,103**	**230**	**-**	**-**	**14**	**2,865**
Corporate bonds	**-**	**1,075**	**-**	**-**	**-**	**7**	**1,082**
Treasury bills	**-**	**-**	**125**	**-**	**-**	**-**	**125**
RBNZ bills	**-**	**-**	**881**	**-**	**-**	**-**	**881**
Bank bills	**-**	**-**	**1,088**	**-**	**-**	**-**	**1,088**
Kauri bonds	**-**	**1,721**	**-**	**-**	**-**	**19**	**1,740**
Residential mortgage-backed securities	**-**	**-**	**-**	**3,817**	**-**	**-**	**3,817**
Total qualifying liquid assets	**2,566**	**4,142**	**2,344**	**3,817**	**-**	**42**	**12,911**

$ millions	Banking Group						
As at 30 June 2017	Cash and Liquid Assets	Available -for-Sale Securities	Trading Securities	Advances to Customers	Deposits and Other Borrowings(1)	Other Assets	Total
Cash	175	-	-	-	-	-	175
Call deposits with the central bank	1,237	-	-	-	-	-	1,237
Local authority securities	-	248	21	-	-	3	272
New Zealand government securities	1,156	1,266	490	-	(29)	15	2,898
Corporate bonds	-	903	14	-	-	5	922
Bank bills	-	-	789	-	-	-	789
Kauri bonds	-	1,600	2	-	-	18	1,620
Residential mortgage-backed securities	-	-	-	3,545	-	-	3,545
Total qualifying liquid assets	2,568	4,017	1,316	3,545	(29)	41	11,458

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

Notes to the Financial Statements

For the year ended 30 June 2018

50 Maturity Analysis for Undiscounted Contractual Cash Flows

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

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

Deposits and other borrowings include substantial customer savings and cheque deposits, which are at call. History demonstrates that such accounts provide a stable source of long term funding for the Bank. It should be noted that the Banking Group does not manage its liquidity risk on the basis of the information below. The management of liquidity risk is set out in note 48.

$ millions				Banking Group				
As at 30 June 2018	**On Demand**	**Within 6 Months**	**Between 6-12 Months**	**Between 1-2 Years**	**Between 2-5 Years**	**Over 5 Years**	**Total**	**Carrying Value**
Non-derivative financial liabilities								
Deposits and other borrowings	27,617	24,939	6,910	2,364	1,013	-	62,843	62,419
Due to financial institutions	1,140	132	-	-	-	-	1,272	1,271
Other liabilities at fair value through Income Statement	-	1,106	-	-	-	-	1,106	1,097
Other liabilities	100	506	3	7	-	-	616	616
Debt issues:								
At fair value through Income Statement	-	149	-	-	-	-	149	148
At amortised cost	-	4,137	2,391	2,442	7,967	4,136	21,073	20,053
Loan capital	-	24	24	48	143	854	1,093	806
Total non-derivative financial liabilities	28,857	30,993	9,328	4,861	9,123	4,990	88,152	86,410
Derivative financial liabilities								
Inflows from derivatives	-	1,318	749	434	1,255	1,274	5,030	
Outflows from derivatives	-	(1,971)	(908)	(612)	(1,449)	(1,401)	(6,341)	
	-	(653)	(159)	(178)	(194)	(127)	(1,311)	
Off balance sheet items								
Lending commitments	12,756	1,865	-	-	-	-	14,621	
Guarantees	-	200	-	-	-	-	200	
Other contingent liabilities	-	343	-	-	-	-	343	
Total off balance sheet items	12,756	2,408	-	-	-	-	15,164	

50 Maturity Analysis for Undiscounted Contractual Cash Flows (continued)

$ millions	Banking Group							
As at 30 June 2017	On Demand	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Between 2-5 Years	Over 5 Years	Total	Carrying Value
Non-derivative financial liabilities								
Deposits and other borrowings	26,902	25,109	4,092	1,600	871	-	58,574	58,226
Due to financial institutions	437	23	-	-	-	-	460	460
Other liabilities at fair value through Income Statement	-	1,075	-	-	-	-	1,075	1,065
Other liabilities	75	477	9	5	-	-	566	566
Debt issues:								
At fair value through Income Statement	-	408	-	-	-	-	408	407
At amortised cost	-	4,741	1,830	3,130	6,580	2,619	18,900	18,073
Loan capital	-	24	24	48	144	877	1,117	804
Total non-derivative financial liabilities	27,414	31,857	5,955	4,783	7,595	3,496	81,100	79,601
Derivative financial liabilities								
Inflows from derivatives	-	3,644	1,905	1,744	5,000	2,310	14,603	
Outflows from derivatives	-	(4,420)	(2,185)	(2,165)	(5,577)	(2,515)	(16,862)	
	-	(776)	(280)	(421)	(577)	(205)	(2,259)	
Off balance sheet items								
Lending commitments	12,450	1,573	-	-	-	-	14,023	
Guarantees	-	166	-	-	-	-	166	
Other contingent liabilities	-	291	-	-	-	-	291	
Total off balance sheet items	12,450	2,030	-	-	-	-	14,480	

51 Concentrations of Funding

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

ANZSIC codes have been used as the basis for disclosing industry sectors. The significant categories shown are in line with the NZSIOC.

The industry and geographical classifications presented in the following table have changed from those previously reported to align disclosure with RBNZ statistical reporting requirements.

$ millions	Banking Group	
As at 30 June	**2018**	2017
Total funding comprises:		
Deposits and other borrowings	**62,419**	58,226
Due to financial institutions	**1,271**	460
Other liabilities at fair value through Income Statement	**1,097**	1,065
Debt issues:		
At fair value through Income Statement	**148**	407
At amortised cost	**20,053**	18,073
Loan capital	**806**	804
Total funding	**85,794**	79,035
Concentration by industry(1)		
Agricultural, Forestry and Fishing	**1,052**	909
Manufacturing	**627**	605
Construction	**633**	580
Wholesale Trade	**584**	569
Retail Trade and Accommodation	**807**	747
Transport, Postal and Warehousing	**684**	757
Information Media and Telecommunications	**267**	310
Financial and Insurance Services	**28,902**	25,803
Rental, Hiring and Real Estate Services	**3,039**	2,741
Professional, Scientific, Technical, Administrative and Support Services	**4,494**	4,443
Public Administration and Safety	**855**	731
Education and Training	**1,530**	1,389
Health Care and Social Assistance	**909**	738
Arts, Recreation and Other Services	**1,623**	1,580
Households	**39,522**	36,866
All Other	**266**	267
Total funding by industry	**85,794**	79,035
Concentration by geographic region(1)		
New Zealand	**61,580**	58,101
Overseas	**24,214**	20,934
Total funding by geographic region	**85,794**	79,035

(1) Comparative information has been reclassified to ensure consistency with presentation in the current year.

52 Events after the Reporting Period

Refer to note 8 for details of perpetual preference and ordinary dividends declared after the reporting period.

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

Additional Disclosures

(To be read in conjunction with the Financial Statements)

Conditions of Registration for ASB Bank Limited

These conditions apply on and after 1 January 2018.

The registration of ASB Bank Limited ("the bank") as a registered bank is subject to the following conditions:

1. That:

   (a) the Total capital ratio of the banking group is not less than 8%;

   (b) the Tier 1 capital ratio of the banking group is not less than 6%;

   (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;

   (d) the Total capital of the banking group is not less than $30 million;

   (e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and

   (f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document "*Application requirements for capital recognition or repayment and notification requirements in respect of capital*" (BS16) dated November 2015 in respect of regulatory capital instruments.

   For the purposes of this condition of registration,

   - the scalar referred to in the Reserve Bank of New Zealand document "*Capital Adequacy Framework (Internal Models Based Approach)*" (BS2B) dated November 2015 is 1.06;
   - "Total capital ratio", "Tier 1 capital ratio", "Common Equity Tier 1 capital ratio", and "Total capital" must be calculated in accordance with the Reserve Bank of New Zealand document *"Capital Adequacy Framework (Internal Models Based Approach)"* (BS2B) dated November 2015;
   - an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document *"Capital Adequacy Framework (Internal Models Based Approach)"* (BS2B) dated November 2015;
   - a Tier 2 capital instrument is an instrument that meets the requirements of subsection 2.16(a) or (c) of the Reserve Bank of New Zealand document *"Capital Adequacy Framework (Internal Models Based Approach)"* (BS2B) dated November 2015.

1A. That:

   (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document *"Guidelines on a bank's internal capital adequacy assessment process" ('ICAAP')* (BS12) dated December 2007;

   (b) under its ICAAP the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document *"Capital Adequacy Framework (Internal Models Based Approach)"* (BS2B) dated November 2015; and

   (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That the banking group complies with all requirements set out in the Reserve Bank of New Zealand document *"Capital Adequacy Framework (Internal Models Based Approach)"* (BS2B) dated November 2015.

1C. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:

   (a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit to distributions that corresponds to the banking group's buffer ratio:

Banking group's buffer ratio	Percentage limit to distributions of the bank's earnings
0% - 0.625%	0%
>0.625% - 1.25%	20%
>1.25% - 1.875%	40%
>1.875% - 2.5%	60%

   (b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and

   (c) have the capital plan approved by the Reserve Bank.

   For the purposes of this condition of registration,

   - "buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document *"Capital Adequacy Framework (Internal Models Based Approach)"* (BS2B) dated November 2015.
   - the scalar referred to in the Reserve Bank of New Zealand document *"Capital Adequacy Framework (Internal Models Based Approach)"* (BS2B) dated November 2015 is 1.06.

Conditions of Registration for ASB Bank Limited (continued)

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

   In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

   For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

   (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

   (b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

   In determining the total amount of the banking group's insurance business:

   (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

   (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

   For the purposes of this condition of registration,

   - "insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance.
   - "insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating contingent limit outlined in the following matrix:

Credit rating of the bank(1)	Connected exposure limit (% of the Banking Group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

   Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the banking group's Tier 1 capital.

   For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected exposures policy" (BS8) dated November 2015.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the bank complies with the following corporate governance requirements:

   (a) the board of the bank must have at least five directors;

   (b) the majority of the board members must be non-executive directors;

   (c) at least half of the board members must be independent directors;

   (d) an alternate director,

      (i) for a non-executive director must be non-executive; and

      (ii) for an independent director must be independent;

   (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;

   (f) the chairperson of the board of the bank must be independent; and

   (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

(1) This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's.)

Conditions of Registration for ASB Bank Limited (continued)

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled *"Corporate Governance"* (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:

   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

   (b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the bank unless:

   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

   (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:

   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;

   (b) the committee must have at least three members;

   (c) every member of the committee must be a non-executive director of the bank;

   (d) the majority of the members of the committee must be independent; and

   (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled *"Corporate Governance"* (BS14) dated July 2014.

10. That a substantial proportion of the bank's business is conducted in and from New Zealand.

11. That the bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the bank that are carried on by a person other than the bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the bank or of a service provider to the bank, the following outcomes:

    (a) that the bank's clearing and settlement obligations due on a day can be met on that day;

    (b) that the bank's financial risk positions on a day can be identified on that day;

    (c) that the bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and

    (d) that the bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

    This condition ceases to apply in respect of an existing outsourcing arrangement on the earlier of either 1 October 2022 or when the existing outsourcing arrangement becomes compliant with condition 24, from which point in time condition 24 will apply to that outsourcing arrangement.

    For the purposes of this condition of registration:

    - the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled *"Outsourcing Policy"* (BS11) dated January 2006; and
    - the term "existing outsourcing arrangement" is defined in the Reserve Bank of New Zealand document entitled *"Outsourcing Policy"* (BS11) dated September 2017.

12. That:

    (a) the business and affairs of the bank are managed by, or under the direction or supervision of, the board of the bank;

    (b) the employment contract of the chief executive officer of the bank or person in an equivalent position (together "CEO") is with the bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the bank; and

    (c) all staff employed by the bank will have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and be accountable (directly or indirectly) to the CEO of the bank.

13. That the banking group complies with the following quantitative requirements for liquidity-risk management:

    (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;

    (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and

    (c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

Additional Disclosures (continued)

(To be read in conjunction with the Financial Statements)

Conditions of Registration for ASB Bank Limited (continued)

For the purposes of this condition of registration, except to the extent modified by condition of registration 13A, the bank must calculate the banking group's one-week mismatch ratio, one-month mismatch ratio and one-year core funding ratio in accordance with the Reserve Bank of New Zealand documents entitled *"Liquidity Policy"* (BS13) dated January 2018 and *"Liquidity Policy Annex: Liquid Assets"* (BS13A) dated December 2011.

13A. That when calculating the banking group's one-year core funding ratio for the purposes of condition of registration 13, the bank must use the following formula instead of the formula in paragraph 39 of the Reserve Bank of New Zealand document entitled *Liquidity Policy* (BS13) dated January 2018:

One year core funding dollar amount =

all funding with residual maturity longer than one year, including subordinated debt and related party funding;

plus 50 per cent of any tradable debt securities issued by the bank with original maturity of two years or more and with residual maturity at the reporting date of more than six months and not more than one year;

plus non-market funding that is withdrawable at sight or with residual maturity less than or equal to one year, applying the percentages in Table 2 to such funding falling within each size band;

plus Tier 1 capital.

14. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:

(a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;

(b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

(c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and

(d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

15. That no more than 10% of total assets may be beneficially owned by a SPV.

For the purposes of this condition,

- "total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets;
- "SPV" means a person:
  (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
  (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
  (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond;
- "covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

16. That:

(a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:

(i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and

(ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document *Significant Acquisitions Policy* (BS15) dated December 2011; and

(b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:

(i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;

(ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document *"Significant Acquisitions Policy"* (BS15) dated December 2011; and

(iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document *"Significant Acquisitions Policy"* (BS15) dated December 2011.

Additional Disclosures (continued)

(To be read in conjunction with the Financial Statements)

Conditions of Registration for ASB Bank Limited (continued)

17. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can:
    - (a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager
        - (i) all liabilities are frozen in full; and
        - (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
    - (b) apply a de minimis to relevant customer liability accounts;
    - (c) apply a partial freeze to the customer liability account balances;
    - (d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
    - (e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
    - (f) reinstate customers' access to some or all of their residual frozen funds.

    For the purposes of this condition of registration, "de minimis", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document *"Open Bank Resolution (OBR) Pre-positioning Requirements Policy"* (BS17) dated September 2013.

18. That the bank has an Implementation Plan that:
    - (a) is up-to-date; and
    - (b) demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: *"Open Bank Resolution Pre-positioning Requirements Policy"* (BS17) dated September 2013.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document *"Open Bank Resolution (OBR) Pre-positioning Requirements Policy"* (BS17) dated September 2013.

19. That the bank has a compendium of liabilities that:
    - (a) at the product-class level lists all liabilities, indicating which are:
        - (i) pre-positioned for Open Bank Resolution; and
        - (ii) not pre-positioned for Open Bank Resolution;
    - (b) is agreed to by the Reserve Bank; and
    - (c) if the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

    For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document *"Open Bank Resolution (OBR) Pre-positioning Requirements Policy"* (BS17) dated September 2013.

20. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document *"Open Bank Resolution (OBR) Pre-positioning Requirements Policy"* (BS17) dated September 2013.

21. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 65%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

22. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 15% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

23. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

24. That the bank must comply with the Reserve Bank of New Zealand document *"Outsourcing Policy"* (BS11) dated September 2017.

Conditions of Registration for ASB Bank Limited (continued)

In these conditions of registration:

"banking group" means ASB Bank Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 21 to 23,

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled *"Framework for Restrictions on High-LVR Residential Mortgage Lending"* (BS19) dated January 2018:

"loan-to-valuation measurement period" means:

- the three calendar month period ending on the last day of March 2018; and
- thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of April 2018.

Changes to Conditions of Registration

The RBNZ amended the Conditions of Registration effective 1 October 2017, to reflect changes in the outsourcing requirements and further amended the Conditions of Registration effective 1 January 2018, to reflect changes in, the liquidity requirements and the loan-to-valuation ratios applicable to property and non-property investment residential mortgage lending. These amendments refer to the following revised respective banking standards *"Outsourcing Policy"* (BS11), *"Liquidity Policy"* (BS13) and *"Framework for Restrictions on High-LVR Residential Mortgage Lending"* (BS19).

As at 30 June 2018, there have been no other changes to the Conditions of Registration.

Non-compliance with Conditions of Registration

The Bank complied with the Conditions of Registration imposed by the RBNZ under section 74 of the Reserve Bank of New Zealand Act 1989, except as disclosed on page 27 of this Disclosure Statement.

Directors' Statement

After due enquiry by the Directors, it is each Director's opinion that for the year ended 30 June 2018:

- 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 27 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 all Directors.

G.R. Walker

S.R.S. Blair

V.A.J. Shortt

M.B. Coomer

Dame Therese Walsh

S.R. Peterson

8 August 2018

Independent auditor's report

To the shareholder of ASB Bank Limited

This report is for the Banking Group, comprising ASB Bank Limited (the 'Bank') and the entities it controlled at 30 June 2018 or from time to time during the financial year.

This report includes our:

- audit opinion on the financial statements prepared in accordance with Clause 24 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the 'Order'), New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS');
- audit opinion on the supplementary information prepared in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order;
- audit opinion on other legal and regulatory requirements in accordance with Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order;
- review conclusion on the supplementary information relating to capital adequacy and regulatory liquidity requirements prepared in accordance with Schedule 11 of the Order.

Report on the audit of the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

We have audited the Banking Group's financial statements required by Clause 24 of the Order and supplementary information required by Schedules 4, 7, 13, 14, 15 and 17 of the Order which comprises:

- the balance sheet as at 30 June 2018;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended;
- the notes to the financial statements, which include a statement of accounting policies; and
- the supplementary information required by Schedules 4, 7, 13, 14, 15 and 17 of the Order.

Our opinion

In our opinion:

- the Banking Group's financial statements (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 11, 13, 14, 15 and 17 of the Order and within notes 15 to 20, 42, 43 and 45 to 51):
  - (i) comply with generally accepted accounting practice in New Zealand;
  - (ii) comply with NZ IFRS and IFRS; and
  - (iii) give a true and fair view of the financial position of the Banking Group as at 30 June 2018, and its financial performance and cash flows for the year then ended.
- the supplementary information disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order and included within Notes 15 to 20, 42, 43 and 45 to 51:
  - (i) has been prepared, in all material respects, in accordance with the guidelines issued under section 78(3) of the Reserve Bank of New Zealand Act 1989 or any conditions of registration;
  - (ii) is in accordance with the books and records of the Banking Group; and
  - (iii) fairly states, in all material respects, the matters to which it relates in accordance with those Schedules.

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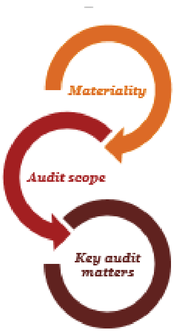
Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

The overall Banking Group materiality is $82 million, which represents approximately 5% of net profit before taxation.

We chose net profit before taxation as the benchmark because, in our view, it is the benchmark against which the performance of the Banking Group is most commonly measured by users, and is a generally accepted benchmark. The 5% is based on our professional judgement, noting that it is also within the range of commonly accepted profit-related thresholds.

We have determined that there are three key audit matters:

- Provision for impairment losses on the Bank's advances to customers
- Operation of financial reporting Information Technology (IT) systems and controls
- NZ IFRS 9 *Financial Instruments* expected credit loss.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Banking Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Banking Group, the accounting processes and controls, and the industry in which the Banking Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matter	How our audit addressed the key audit matter
Provision for impairment losses on the Bank's advances to customers (2018: $301 million, 2017: $295 million)	
We considered this a key audit matter due to the subjective judgements made by management in determining when to recognise impairment provisions against advances to customers and in estimating the size of such provisions. Provisions for the impairment of loans that exceed specific thresholds are individually assessed by management. These provisions are established based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Bank in respect of those loans. During the financial year ended 30 June 2018 the majority of the Bank's individually assessed provisions for specific advances related primarily to commercial and rural loans, classified as corporate exposures in note 17. If an individually assessed loan is not impaired, it is then included in a group of loans with similar risk characteristics and, along with those loans below the specific thresholds referred above, is collectively assessed on a portfolio basis using models developed by management. These models use assumptions in their calculations which are based on the Bank's historical loss experience including both the frequency of defaults and the losses incurred where loans have defaulted. Adjustments or overlays to the provisions are applied by management to take account of emerging trends and where models may fail to fully capture all risks in the loan portfolio. An example of an overlay is one which allows for the impact of the current macroeconomic environment (such as residential mortgages or lending in the rural sector). These overlays require significant judgement. *Relevant references in the financial statements* Refer notes 1(m) and 17 for further information.	We developed an understanding of the controls relevant to our audit over the following areas and assessed whether they were appropriately designed and were operating effectively throughout the year: • identification of impaired advances to customers; • reliability and integrity of credit information maintained in the Bank's systems; • transfer of data from the underlying source systems to the impairment provisioning models; and • management's assessment of the integrity of these models. For a selection of **individually assessed provisions** for specific advances, we: • examined management's impairment calculation by assessing key judgements (in particular the amount and, where appropriate, the timing of recoveries) made by management in the context of the borrowers' circumstances based on the detailed loan and counterparty information known by the Bank; and • compared key inputs and estimates (such as valuation of collateral held) to external information where available. To test the **collectively assessed provisions**, we, together with our independent actuarial experts: • tested the completeness and accuracy of key data being transferred between the Bank's systems and management's collective provisioning models; • compared management's key assumptions, such as EADs, PDs and LGDs to supporting evidence and market practices; and • compared the modelled calculations to our own calculated expectations on a sample basis. To assess the adjustments or **overlays to the provisions**, we: • considered the potential for impairment to be affected by events not captured by management's models, and • challenged management to provide objective evidence that the overlays were appropriate. The Bank's approach to calculating the provision for impairment losses was consistent with prior periods and we had no material matters to report.

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Operation of financial reporting Information Technology (IT) systems and controls

We focused on this area because the Banking Group's operations and financial reporting processes are heavily dependent on IT systems, including automated accounting procedures, IT dependent manual controls and controls preventing unauthorised access to systems and data.

The Banking Group's controls over IT systems include:

- the framework of governance over IT systems;
- program development and change management;
- access to process, data and IT operations (including cyber security);
- governance over generic and privileged user accounts; and
- application controls over specific business processes.

Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting.

We also carried out tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls.

Where we noted design or operating effectiveness matters relating to IT systems and application controls relevant to our audit, we performed alternative or additional audit procedures.

NZ IFRS 9 Financial Instruments expected credit loss

NZ IFRS 9 *Financial Instruments* (NZ IFRS 9) is to be adopted by the Bank for the financial year beginning 1 July 2018. In periods prior to adoption, New Zealand Accounting Standards require disclosure of known or reasonably estimable information that the application of the new standard will have on the Bank's 2019 financial statements.

NZ IFRS 9 introduces an expected credit loss ('ECL') impairment model which takes into account forward-looking information reflecting potential future economic events. This has resulted in the Bank developing new models which are reliant on large volumes of data, as well as a number of significant estimates at adoption including the impact of multiple economic scenarios.

We considered this a key audit matter because:

- the models used to calculate ECLs are inherently complex and judgement is applied in determining the correct form of model to be applied,
- judgement is applied in determining the most appropriate information and datasets to be used as inputs to the models, and,
- there are a number of key assumptions made by the Bank as inputs to the models (e.g. statistical assumptions used to determine forward looking loan probability of default and discount rates).

Relevant references in the financial statements

Refer note 1 for further information.

To assess the assumptions used to develop the models and, more broadly, the NZ IFRS 9 framework implemented by the Bank, we along with our independent modelling experts, performed the following audit procedures, amongst others:

- Assessed the methodology and approach taken by the Bank against the requirements of the new accounting standard.
- Considered the impact of the estimation uncertainty associated with the Banks assumptions and judgements.
- Assessed the reasonableness of forward looking information incorporated for portfolio segments with emerging risk by validating against relevant supporting evidence including internal and external data, and used PwC actuarial experts to challenge forward looking forecasts and the multiple-economic scenarios and weightings applied.
- Considered the integrity of data used as input into the models including the transfer of data from source systems and the impairment provisioning models by selecting key inputs used in the model and agreeing to supporting documentation.
- Considered disclosure of the ECL transitional impact in the financial statements.

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Information other than the financial statements, supplementary information and auditor's report

The Directors of the Bank (the 'Directors') are responsible, on behalf of the Bank, for the other information in the Disclosure Statement and Annual Report. The other information comprises the information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order and is included on pages 1 to 11, 80 to 86 and 94 to 95. Our opinion on the financial statements and supplementary information does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements and supplementary information, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

The Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the financial statements in accordance with Clause 24 of the Order, NZ IFRS and IFRS and that give a true and fair view of the matters to which they relate. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible for the preparation and fair presentation of the supplementary information in the Disclosure Statement which complies with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order.

In preparing the financial statements, the Directors are responsible for assessing the Banking Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Banking Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

Our objectives are to obtain reasonable assurance about whether the financial statements and the supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 42 and 48(b)) disclosed in accordance with Clause 24 and Schedules 4, 7, 13, 14, 15 and 17 of the Order, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

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Report on other legal and regulatory requirements (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

We also report in accordance with the requirements of Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 42 and 48(b)) for the year ended 30 June 2018:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Banking Group as far as appears from an examination of those records.

Report on the review of the supplementary information relating to capital adequacy and regulatory liquidity requirements

We have examined the supplementary information relating to capital adequacy and regulatory liquidity requirements required by Schedule 11 of the Order as disclosed in notes 42 and 48(b) of the financial statements of the Banking Group for the year ended 30 June 2018.

Our conclusion

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 42 and 48(b), is not in all material respects disclosed in accordance with Schedule 11 of the Order.

This conclusion is to be read in the context of what we say in the remainder of this report.

Basis for our conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). Our responsibilities under this standard are further described in the *Auditor's responsibilities for the review of the supplementary information relating to capital adequacy and regulatory liquidity requirements* section of our report.

Responsibilities of the Directors for the supplementary information relating to capital adequacy and regulatory liquidity requirements

The Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 11 of the Order. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of the supplementary information relating to capital adequacy and regulatory liquidity requirements that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the supplementary information relating to capital adequacy and regulatory liquidity requirements

Our responsibility is to express a conclusion, whether, based on our review, the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 42 and 48(b), is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

A review of the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 42 and 48(b) in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with ISAs NZ and ISAs. Accordingly we do not express an audit opinion on the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 42 and 48(b).

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Auditor independence

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Banking Group. These services are audit and assurance services in respect to funds managed by the Banking Group, advisory services over model assessments and risk model reviews and other assurance and audit-related services. Other assurance and audit-related services include assurance over compliance with regulations, internal controls and audit-related agreed upon procedure engagements. In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. These matters have not impaired our independence as auditor of the Banking Group.

Who we report to

This report is made solely to the Bank's shareholder. Our work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholder, for our work, for this report or for the opinions and conclusion we have formed.

The engagement partner on the engagement resulting in this independent auditor's report is Karen Shires.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants Auckland
8 August 2018

PwC

Directory

As at the signing date of this Disclosure Statement

INDEPENDENT DIRECTORS

G.R. (Gavin) Walker ONZM (Chairman)

B.C.A.
Auckland, New Zealand
External Directorships: Australian Investment Exchange Limited, Commonwealth Securities Limited, Lion Pty Limited, Walker Consulting Group Limited.

Gavin was appointed as Chairman of the Bank on 1 August 2011.

Gavin is a former investment banker with 25 years' experience having worked in Australia and New Zealand in the capacity of Chief Executive Officer, Bankers Trust. Today he serves on the following boards: Chairman of ASB and Commonwealth Securities, both owned by CBA, Chairman of Kirin Holdings (Japan) International Advisory Board and Independent Director on the Lion Pty Limited Board.

Until recently, Gavin was Chairman of Sovereign Assurance Company Limited, Chairman of the UFB Steering Committee (charged with monitoring the rollout of ultra-fast broadband throughout New Zealand by 2019), and Guardian/Chair of the New Zealand Superannuation Fund. He has held former leadership/director roles in non-for-profit organisations including the New Zealand Rugby Union and the Arts Foundation.

M.B. (Michael) Coomer

B.Eng. (Electrical)
Singapore
External Directorships: DC123 Pty Limited, Volare Investment Pte Limited, MyFuture Online Pte Limited.

Michael was appointed as a Director of the Bank on 15 May 2012.

Michael has his own investment company which focuses primarily in Asian-based Fintech, Data Analytics and Social Media engagement in numerous countries. Michael has held a number of senior global roles in the IT and Financial Services Industry during his more than 40-year career. His experience includes two years as Executive Vice-President, Asia Pacific for Electronic Data Systems (an HP Company), and Group Executive, Business and Technology Services for Westpac Australia, a role he held for five years between 2002 and 2007. His other previous experience includes six years as Chief Information Officer of National Australia Bank in Melbourne from 1994 to 2000.

S.R. (Susan) Peterson

B.Com, LLB, CMInstD
Auckland, New Zealand
External Directorships: Xero Limited, Trustpower Limited, Property For Industry Limited, P.F.I. Property No. 1 Limited, Vista Group International Limited, Organic Initiative Limited.

Susan was appointed as a Director of the Bank on 1 July 2017.

Susan is a member of the New Zealand Markets Disciplinary Tribunal and a trustee on the Board of Global Women. She was previously a Ministerial Appointee to The National Advisory Council for the Employment of Women, and previously served on the Boards of IHC, The NZ Merino Company Limited, Wynyard Group Limited, and OnePath Life (New Zealand) Limited among others. From 2000 to 2013 Susan held various senior management positions with ANZ Banking Group.

Dame Therese Walsh

B.C.A, F.C.A
Wellington, New Zealand
External Directorships: Therese Walsh Consulting Limited, On Being Bold Limited, Air New Zealand Limited, Television New Zealand Limited.

Dame Therese Walsh was appointed as a Director of the Bank on 13 October 2015.

Therese is a member of the Government's Major Events Investment Panel. She is a trustee of Wellington Regional Stadium Trust, Pro-Chancellor of Victoria University, and a member of the board of Antarctica NZ. Previously she was the Head of NZ for the ICC Cricket World Cup 2015, and the Chief Operating Officer for Rugby New Zealand 2011 Limited, the company established by the New Zealand Rugby Union and the NZ Government to deliver the Rugby World Cup Tournament in 2011. She has also been a director of NZX Limited, NZ Cricket and Save the Children NZ, was the Chief Financial Officer at the New Zealand Rugby Union, and held a senior role with KPMG.

NON-EXECUTIVE DIRECTORS

S.R.S. (Simon) Blair

B.A. (Hons), GradDip.B.A., M.Sc.
Auckland, New Zealand
External Directorships: BoCommlife Insurance Company Limited and The British United Provident Association Limited.

Simon was appointed as a Director of the Bank on 1 October 2012.

Simon's career has been spent in the health care and financial services industries. Prior to his appointment as a Director he worked at CBA for ten years with over five years as Group Executive, International Financial Services. During this period he was also the Group Executive responsible for BankWest. Prior to his Group Executive appointment he was Managing Director and CEO of Sovereign Assurance Company Limited for three years. Before joining CBA Simon was Chief Operating Officer of Medibank Private in Australia and had been CEO of Australia's largest hospital group. Simon has also been CEO of two other large healthcare companies in New Zealand and Australia and previously held executive roles with both the World Bank and the IFC based in Washington DC. His previous board appointments include Bank of Hangzhou Co. Limited, and Sovereign Assurance Company Limited.

Directory (continued)

As at the signing date of this Disclosure Statement

EXECUTIVE DIRECTOR

V.A.J. (Vittoria) Shortt (Chief Executive Officer and Managing Director)
BMS, C.A.
Auckland, New Zealand
External Directorships: ASB Capital Limited, ASB Capital No. 2 Limited, ASB Funding Limited, ASB Holdings Limited.

Vittoria was appointed as Chief Executive Officer of the Bank in February 2018 and Managing Director of the Bank in March 2018.

Vittoria Shortt joined CBA in 2002 and gained experience in leadership roles across the retail banking business of CBA and Bankwest, including customer-facing, operations and strategy roles such as CBA's Chief Marketing Officer and Chief Executive Retail Bankwest. In 2015 Vittoria was appointed the Group Executive, Marketing and Strategy. In this role Vittoria was responsible for CBA's Corporate Strategy, Mergers and Acquisitions, Advanced Analytics, Customer Advocacy and Marketing. Vittoria's career initially began in New Zealand, working in Corporate Finance and Mergers and Acquisitions with Deloitte and Carter Holt Harvey.

AUDIT AND RISK COMMITTEE	Dame Therese Walsh (Chairman) S.R.S. (Simon) Blair M.B. (Michael) Coomer S.R. (Susan) Peterson G.R. (Gavin) Walker	
EXECUTIVE MANAGEMENT	V.A.J. (Vittoria) Shortt	Chief Executive Officer
	A.J. (Adam) Boyd	Executive General Manager Private Banking, Wealth and Insurance
	G.T. (Graeme) Edwards	General Counsel and Executive General Manager Business Services
	S.B. (Simon) Tong	Executive General Manager Digital, Data and Brand; and Executive General Manager Corporate Strategy (Acting)
	N.C. (Nigel) Annett	Executive General Manager Business Banking (Acting)
	C.R. (Carl) Ferguson	Chief Risk Officer
	C. (Claire) McKinnon	Executive General Manager Retail Banking (Acting)
	J.E. (Jon) Raby	Chief Financial Officer
	J.E. (Jeanette) Kehoe-Perkinson	Executive General Manager People
	D.R. (Dave) Freeman	Executive General Manager Technology (Acting)
	G.A. (Grant) Wilson	Executive General Manager Operations (Acting)
INTERNAL AUDITOR	D. (David) Sutton	Chief Internal Auditor (Acting)
AUDITOR	PricewaterhouseCoopers Chartered Accountants PwC Tower 188 Quay Street Auckland 1010 New Zealand www.pwc.co.nz	
ULTIMATE SHAREHOLDER (Ordinary Shares)	Commonwealth Bank of Australia Ground Floor, Tower 1 201 Sussex Street Sydney, NSW Australia www.commbank.com.au	
REGISTERED OFFICE	Level 2 ASB North Wharf 12 Jellicoe Street Auckland 1010 New Zealand www.asb.co.nz	

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