ASB Disclosure Statement and Annual Report

For the year ended 30 June 2019

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ONE STEP ❯ AHEAD

Contents

Consolidated Performance in Brief

For the year ended 30 June	2019	2018 [6]	2017 [6]
Income Statement ($ millions)			
Interest income	**4,352**	4,188	4,027
Interest expense	**2,208**	2,149	2,176
Net interest income	**2,144**	2,039	1,851
Other income	**677**	607	583
Total operating income	**2,821**	2,646	2,434
Impairment losses on financial assets	**108**	80	69
Total operating income after impairment losses	**2,713**	2,566	2,365
Total operating expenses	**967**	933	882
Net profit before tax	**1,746**	1,633	1,483
Tax expense	**472**	456	414
Net profit after tax ("Statutory Profit")	**1,274**	1,177	1,069
Reconciliation of statutory profit to cash profit ($ millions)			
Statutory Profit	**1,274**	1,177	1,069
Reconciling items:			
Hedging and IFRS volatility[1]	**(9)**	(8)	(26)
Notional inter-group charges[2]	**(36)**	(35)	(29)
Reporting structure differences[3]	**(53)**	(5)	(7)
Tax on reconciling items and prior period adjustments	**15**	14	18
Cash net profit after tax ("Cash Profit")	**1,191**	1,143	1,025
Performance[4]			
Return on average total equity	**15.2%**	15.0%	14.4%
Return on average total assets	**1.2%**	1.2%	1.2%
Net interest margin	**2.21%**	2.24%	2.17%
Total operating expenses as a percentage of total operating income	**35.6%**	36.0%	37.3%

As at 30 June	2019	2018 [6]	2017 [6]
Balance Sheet ($ millions)			
Total assets	**98,467**	95,413	88,628
Advances to customers	**87,695**	82,931	78,100
Total liabilities	**90,676**	87,541	81,226
Deposits and other borrowings (excludes repurchase agreements)	**66,216**	62,419	58,197
Capital ratios[5]			
Common equity tier one capital as a percentage of total risk-weighted exposures	**11.4%**	10.6%	10.2%
Tier one capital as a percentage of total risk-weighted exposures	**13.2%**	12.4%	12.3%
Total capital as a percentage of total risk-weighted exposures	**14.0%**	13.9%	13.8%

(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) The results of certain business units and the gain on sale of Paymark Limited 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.

(5) Capital ratios were calculated in accordance with the Basel III framework.

(6) Certain comparatives have been restated to ensure consistency with the current period's presentation.

Performance Overview

ASB invests in keeping Kiwis' finances safe, sound and secure

ASB reported a statutory net profit after taxation (NPAT) of $1,274 million for the year ended 30 June 2019. This represents an 8% increase on the prior year. This included a one-off $46 million gain from the sale of Paymark Limited.

Cash NPAT was $1,191 million, an increase of 4% 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)].

The result was the product of a solid across the board performance. While all parts of the business contributed to the result, growth in underlying profit was more subdued this year, reflecting a backdrop of slowing credit growth in the business and consumer finance sectors.

Safe, sound and secure

ASB is continuing to make significant investments in order to keep its customers and their information safe. This focus on financial crimes prevention and cyber security has contributed to an increase in operating expenses of 4%.

ASB's long-term financial performance is driven partly by its continued focus on investing in and driving efficiency. The Bank's cost efficiency advantage positions it strongly and allows it to be more resilient and remain profitable in the event of an economic downturn.

A resilient, secure and efficient banking sector is important for New Zealand's economy and society. Over the financial year ASB has further strengthened its balance sheet resilience, increasing its Common Equity Tier 1 (CET1) capital by $0.5bn (to $6.4bn), and lifting its CET1 ratio to 11.4% of Risk Weighted Exposures.

Investing in the wellbeing of New Zealand

ASB has a strong heritage of supporting the communities in which it operates. This began when the its founders opened the first ASB branch in 1847, with a focus on helping New Zealand society, and has continually evolved to the significant support that ASB teams and people provide across all its communities today. The Bank is fortunate to have a number of longstanding charitable partners, such as St John, which continues to provide vital services to the community as first responders and through the provision of first aid training to students and other groups.

ASB has also continued to build new relationships with organisations like KidsCan. In June the Bank announced a partnership that will see ASB and KidsCan working with 740 low decile schools to deliver essential items to students who would otherwise go without, ensuring they are fed, warm and healthy, so they can focus on their learning.

Having the opportunity to contribute to the community is important to ASB and its people. Earlier this year ASB launched the ASB Volunteer Hours Programme, which is designed to give its people the opportunity to get directly involved in helping the community. ASB employees are entitled to take 12 paid voluntary hours per year to support community groups. This will deliver approximately 60,000 hours of service to New Zealand annually.

Investing in better customer outcomes

ASB's people are committed to delivering good customer outcomes and experiences that make banking simpler, easier and safer. The Bank has listened to the feedback from some of its stakeholders around sales targets and incentives and has responded accordingly. This includes reviewing how it remunerates and incentivises its people including the removal of sales targets for frontline staff.

New Zealand's current low interest rate environment provides an ideal opportunity for home owners to pay down debt and a big focus for ASB has been on providing its customers with the tools to help them achieve this. ASB Home Central helps the Bank's more than 230,000 home lending customers manage their home loan online and explore options to get mortgage free faster. With more than 930,000 visits over the financial year to adjust repayment options, many customers have saved tens of thousands of dollars over the course of their home loan. As an acknowledgement of the range of tools the Bank has available for its customers as well as the expertise of its home lenders, ASB received Canstar's Bank of the Year – Home Loans award for the second year running. The Bank was also recognised for its work in helping Kiwis into their first homes, winning the Canstar First Home Buyer Award for 2019.

ASB has had a particular focus on working with its rural customers to help them make the most of the current low interest rate environment and historically high commodity prices. This has seen many rural customers focus on paying down debt, and transitioning to more resilient and sustainable business settings.

Customers want their banking experience to be simple and seamless, with the knowledge they are using the most suitable products for their circumstances, as they change over time. The Bank's investment in data and analytics has helped it to become more proactive in the way it engages with customers. Through investing in this capability, more than 217,000 customers took an action in the financial year that resulted in them being better off financially.

(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) decreased by 3bps (to 221bps) on the prior year. The decline in NIM was predominantly driven by higher funding costs and a continued customer preference for fixed rate loans, partly offset by lower costs relating to customers breaking fixed rate loans.

ASB's impairment losses on financial assets (write-offs and funds set aside for bad debts) increased by 35% (to $108 million). Overall, credit quality remains sound, notwithstanding a rise in impairment provisions that have been impacted by a change in accounting standards.

On a cash basis, ASB's cost to income ratio for the year ended 30 June 2019 was 35.6%, an improvement of 40bps on the prior year. Operating income growth was 5% while operating expenses grew by 4%.

ASB has continued to invest significant resources in ensuring it is safe, sound and secure. These investments help to protect the trust that customers and the community have placed in the Bank. At the same time, the Bank is continuing to invest in its digital and innovation capabilities to reengineer processes, enhance its channels and make it easier and simpler for customers to access and manage their finances, however they choose to do so.

G.R. Walker
Chairman

V.A.J. Shortt
Managing Director

7 August 2019

Annual Report

The Directors are pleased to present the Annual Report for ASB Bank Limited (the "Bank") for the year ended 30 June 2019.

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 2019 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

7 August 2019

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. This 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), D.A. Cohen 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 2019

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 its controlled entities listed in note 27 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

R.M. Carr was appointed as an independent director of the Bank on 12 September 2018.

D.A. Cohen was appointed as a non-executive director of the Bank on 11 February 2019.

M.B. Coomer retired as a director of the Bank on 15 May 2019.

S.M. Bartlett was appointed as an independent director of the Bank on 3 June 2019.

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
Standard & Poor's (Australia) Pty Limited ("S&P")	AA-	Stable
Fitch Australia Pty Limited ("Fitch Ratings")	AA-	Negative
Moody's Investors Service Pty Limited ("Moody's")	A1	Stable

- On 9 July 2019, S&P affirmed CBA's long-term issuer default rating at AA- and revised the outlook to stable from negative. As a consequence, ASB's outlook was aligned with CBA's and revised to stable from negative.
- On 7 May 2018, Fitch Ratings affirmed CBA's long-term issuer default rating at AA- and revised the outlook to negative from stable. As a consequence, ASB's outlook was aligned with CBA's and revised to negative from stable.
- The rating for Moody's has remained unchanged during the two years immediately preceding the signing date.

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

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

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

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

General Disclosures (continued)

(To be read in conjunction with the Financial Statements)

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.

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 $3.319 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 2019, 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 prudential standard APS 222: Associations with Related Entities. The proposed changes, including the revised standard, were open for consultation until September 2018 and intended to be implemented from 1 January 2020. If the proposed changes are implemented in full, the limit of CBA's exposure to the Bank will reduce to 25% of CBA's Level 1 Tier 1 Capital (currently 50% of CBA's Level 1 Total 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 meet 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.

The Bank understands that CBA expects to be compliant with APRA's requirements by the end of 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 AD (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: 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"); second, the ADI's debts to APRA for costs incurred by APRA in the administration of the Scheme in respect of that ADI; third, in payment of the ADI's liabilities in Australia in relation to protected accounts; fourth, the ADI's debts to the Reserve Bank of Australia; fifth, the ADI's liabilities under a certified industry support contract; and 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.

General Disclosures (continued)

(To be read in conjunction with the Financial Statements)

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:

- 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
- Could otherwise be reasonably likely to influence materially the exercise of that Director's duties.

Refer to note 41 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).

Other Material Matters

There are no other matters relating to the business or affairs of the Bank or the Banking Group which are not contained elsewhere in this Disclosure Statement, that would if disclosed, materially affect the decision of a person to subscribe for debt securities of which the Bank or any member of the Banking Group is the issuer.

Historical Summary of Financial Statements

$ millions	Banking Group				
For the year ended 30 June	**2019**	2018	2017	2016	2015
Income Statement					
Interest income	**4,352**	4,188	4,027	4,048	4,106
Interest expense	**2,208**	2,149	2,176	2,286	2,439
Net interest income	**2,144**	2,039	1,851	1,762	1,667
Other income	**677**	607	583	509	460
Total operating income	**2,821**	2,646	2,434	2,271	2,127
Impairment losses on financial assets	**108**	80	69	130	89
Total operating income after impairment losses	**2,713**	2,566	2,365	2,141	2,038
Total operating expenses	**967**	933	882	871	846
Net profit before tax	**1,746**	1,633	1,483	1,270	1,192
Tax expense	**472**	456	414	357	333
Net profit after tax	**1,274**	1,177	1,069	913	859
Dividends Paid					
Ordinary dividends paid	**700**	650	450	200	1,140
Perpetual preference dividends paid	**54**	54	56	49	26
Total dividends paid	**754**	704	506	249	1,166

$ millions	Banking Group				
As at 30 June	**2019**	2018	2017	2016	2015
Balance Sheet					
Total assets	**98,467**	95,413	88,628	81,606	75,903
Individually impaired assets	**370**	474	368	377	290
Total liabilities	**90,676**	87,541	81,226	74,794	70,525
Total shareholders' equity	**7,791**	7,872	7,402	6,812	5,378

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, other income and operating expenses have been reclassified to ensure consistency with presentation in the current year.

Income Statement

$ millions For the year ended 30 June	Note	Banking Group 2019	 2018
Interest income	3	**4,352**	4,188
Interest expense	4	**2,208**	2,149
Net interest income		**2,144**	2,039
Other income	5	**677**	607
Total operating income		**2,821**	2,646
Impairment losses on financial assets	20	**108**	80
Total operating income after impairment losses		**2,713**	2,566
Total operating expenses	6	**967**	933
Salaries and other staff expenses		**546**	531
Building occupancy and equipment expenses		**102**	100
Information technology expenses		**155**	133
Other expenses		**164**	169
Net profit before tax		**1,746**	1,633
Tax expense	8	**472**	456
Net profit after tax		**1,274**	1,177

Statement of Comprehensive Income

$ millions For the year ended 30 June	Note	Banking Group 2019	 2018
Net profit after tax		**1,274**	1,177
Other comprehensive (expense)/income, net of tax			
Items that will not be reclassified to the Income Statement:			
Net change in asset revaluation reserve	37	**1**	3
Items that may be reclassified subsequently to the Income Statement:			
Net change in fair value through other comprehensive income reserve	37	**2**	-
Net change in available-for-sale reserve	37	**-**	2
Net change in cash flow hedge reserve	37	**(23)**	(8)
Net change in foreign currency translation reserve	37	**(1)**	-
		(22)	(6)
Total other comprehensive (expense)/income, net of tax		**(21)**	(3)
Total comprehensive income		**1,253**	1,174

These statements are to be read in conjunction with the notes on pages 17 to 96 and the Independent Auditor's Report on pages 104 to 109.

Statement of Changes in Equity

$ millions	Note	Contributed Capital	Asset Revaluation Reserve	Available-for-Sale Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	FVOCI Reserve[(1)]	Retained Earnings	Total Shareholders' Equity
					Banking Group				
For the year ended 30 June 2019									
Balance at 30 June 2018		**4,223**	**29**	**4**	**(94)**	**1**	**-**	**3,709**	**7,872**
Effects of new accounting standards	2	**-**	**-**	**(4)**	**-**	**-**	**4**	**(30)**	**(30)**
Balance at beginning of year		**4,223**	**29**	**-**	**(94)**	**1**	**4**	**3,679**	**7,842**
Net profit after tax		**-**	**-**	**-**	**-**	**-**	**-**	**1,274**	**1,274**
Other comprehensive income/(expense)		**-**	**1**	**-**	**(23)**	**(1)**	**2**	**-**	**(21)**
Total comprehensive income/(expense)		**-**	**1**	**-**	**(23)**	**(1)**	**2**	**1,274**	**1,253**
Redemption of perpetual preference shares	36	**(550)**	**-**	**-**	**-**	**-**	**-**	**-**	**(550)**
Ordinary dividends paid	9	**-**	**-**	**-**	**-**	**-**	**-**	**(700)**	**(700)**
Perpetual preference dividends paid	9	**-**	**-**	**-**	**-**	**-**	**-**	**(54)**	**(54)**
Balance as at 30 June 2019		**3,673**	**30**	**-**	**(117)**	**-**	**6**	**4,199**	**7,791**
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 tax		-	-	-	-	-	-	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	9	-	-	-	-	-	-	(650)	(650)
Perpetual preference dividends paid	9	-	-	-	-	-	-	(54)	(54)
Balance as at 30 June 2018		4,223	29	4	(94)	1	-	3,709	7,872

(1) FVOCI Reserve refers to fair value through other comprehensive income reserve.

These statements are to be read in conjunction with the notes on pages 17 to 96 and the Independent Auditor's Report on pages 104 to 109.

Balance Sheet

$ millions		Banking Group	
As at 30 June	Note	**2019**	2018
Assets			
Cash and liquid assets	10	**2,542**	2,566
Due from financial institutions	11	**518**	921
Trading securities	12	**-**	2,344
Securities at fair value through other comprehensive income	13	**5,690**	-
Derivative assets	14	**1,151**	1,727
Available-for-sale securities	15	**-**	4,142
Advances to customers	16	**87,695**	82,931
Other assets	28	**294**	261
Property, plant and equipment		**197**	184
Intangible assets		**203**	193
Deferred tax assets	29	**177**	144
Total assets		**98,467**	95,413
Total interest earning and discount bearing assets		***96,668***	*92,939*
Liabilities			
Deposits and other borrowings	30	**66,225**	62,419
Due to financial institutions	32	**1,312**	1,271
Other liabilities at fair value through Income Statement	33	**-**	1,097
Derivative liabilities	14	**404**	995
Current tax liabilities		**141**	136
Other liabilities	31	**631**	616
Debt issues:			
At fair value through Income Statement	34	**585**	148
At amortised cost	34	**20,971**	20,053
Loan capital	35	**407**	806
Total liabilities		**90,676**	87,541
Shareholders' Equity			
Contributed capital - ordinary shares	36	**2,673**	2,673
Reserves	37	**(81)**	(60)
Retained earnings		**4,199**	3,709
Ordinary shareholder's equity		**6,791**	6,322
Contributed capital - perpetual preference shares	36	**1,000**	1,550
Total shareholders' equity		**7,791**	7,872
Total liabilities and shareholders' equity		**98,467**	95,413
Total interest and discount bearing liabilities		***83,598***	*81,006*

For, and on behalf of, the Board of Directors, who authorised these financial statements for issue on 7 August 2019

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 17 to 96 and the Independent Auditor's Report on pages 104 to 109.

Cash Flow Statement

$ millions		Banking Group	
For the year ended 30 June	Note	**2019**	2018
Cash flows from operating activities			
Net profit before tax		**1,746**	1,633
Reconciliation of net profit before tax to net cash flows from operating activities			
Non-cash items included in net profit before tax:			
Depreciation of property, plant and equipment		**32**	31
Amortisation of intangible assets		**54**	53
Net change in allowance for expected credit loss and bad debts written off		**127**	93
Amortisation of loan establishment fees		**74**	76
Net change in fair value of financial instruments and hedged items		**71**	72
Other non-cash items		**2**	7
Items classified as investing activities included in net profit before tax:			
Gain on sale from disposal of associate		**(46)**	-
Net (increase)/decrease in operating assets:			
Net change in reverse repurchase agreements		**(28)**	(362)
Net change in due from financial institutions		**1**	6
Net change in trading securities		**-**	(1,032)
Net change in securities at fair value through other comprehensive income		**852**	-
Net change in derivative assets		**696**	94
Net change in available-for-sale securities		**-**	(122)
Net change in advances to customers		**(5,037)**	(5,000)
Net change in other assets		**(1)**	(35)
Net increase/(decrease) in operating liabilities:			
Net change in deposits and other borrowings		**2,701**	4,057
Net change in due to financial institutions		**158**	770
Net change in other liabilities at fair value through Income Statement		**-**	30
Net change in derivative liabilities		**(109)**	(39)
Net change in other liabilities		**8**	48
Net tax paid		**(479)**	(443)
Net cash flows from operating activities		**822**	(63)
Cash flows from investing activities			
Cash was provided from:			
Proceeds from disposal of associate		**48**	-
Total cash inflows provided from investing activities		**48**	-
Cash was applied to:			
Purchase of property, plant and equipment		**(44)**	(29)
Purchase of intangible assets		**(65)**	(65)
Total cash outflows applied to investing activities		**(109)**	(94)
Net cash flows from investing activities		**(61)**	(94)
Cash flows from financing activities			
Cash was provided from:			
Issue of debt securities (net of issue costs)	34	**8,869**	8,837
Total cash inflows provided from financing activities		**8,869**	8,837
Cash was applied to:			
Redemption of debt securities	34	**(7,978)**	(8,340)
Redemption of loan capital	35	**(400)**	-
Redemption of perpetual preference shares	36	**(550)**	-
Ordinary dividends paid	9	**(700)**	(650)
Perpetual preference dividends paid	9	**(54)**	(54)
Total cash outflows applied to financing activities		**(9,682)**	(9,044)
Net cash flows from financing activities		**(813)**	(207)
Summary of movements in cash flows			
Net decrease in cash and cash equivalents		**(52)**	(364)
Add: cash and cash equivalents at beginning of year		**1,048**	1,412
Cash and cash equivalents at end of year		**996**	1,048
Cash and cash equivalents comprise:			
Cash and liquid assets	10	**2,542**	2,566
Less: reverse repurchase agreements included in cash and liquid assets	10	**(1,546)**	(1,518)
Cash and cash equivalents at end of year		**996**	1,048
Additional operating cash flow information			
Interest received as cash		**4,453**	4,252
Interest paid as cash		**(2,215)**	(2,155)
Other operating income received as cash		**554**	547
Operating expenses paid as cash		**(862)**	(828)

These statements are to be read in conjunction with the notes on pages 17 to 96 and the Independent Auditor's Report on pages 104 to 109.

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 domiciled and incorporated in New Zealand under the Companies Act 1955 on 16 August 1988. 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 2019 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") and comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial reporting standards, as appropriate for for-profit entities. The financial statements also comply with International Financial Reporting Standards.

New Standards (effective 1 July 2018)

The following new standards relevant to the Banking Group have been adopted effective 1 July 2018:

- NZ IFRS 9 *Financial Instruments*

  NZ IFRS 9 replaced NZ IAS 39 *Financial Instruments: Recognition and Measurement*. The standard covers three broad topics: impairment, classification and measurement and hedging.

  As permitted by the transitional provisions of NZ IFRS 9, the Banking Group has elected not to restate comparative information on the initial application of NZ IFRS 9. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in opening retained earnings and the financial assets at fair value through other comprehensive income ("FVOCI") reserve. The consequential amendments to NZ IFRS 7 *Financial Instruments: Disclosures* have only been applied to the current period, and comparative information remains consistent with that presented in the 30 June 2018 Disclosure Statement.

  NZ IFRS 9 also includes an accounting policy choice to continue to apply hedge accounting in accordance with NZ IAS 39, which the Banking Group has elected to do. A reconciliation of presentational and measurement differences from the adoption of NZ IFRS 9 at 1 July 2018 is set out in note 2.

  The key areas of impact from NZ IFRS 9 are:

  - Classification and measurement: requiring asset classification and measurement based upon both business model and contractual cashflow characteristics; and
  - Impairment: introducing an expected credit loss ("ECL") model incorporating forward looking information.

  Specific NZ IFRS 9 accounting policies applied in the current period (as well as the NZ IAS 39 accounting policies applied for the year ended 30 June 2018) are described within each relevant accounting policy section below.

- NZ IFRS 15 *Revenue from Contracts with Customers*

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

  As permitted by the transition provisions of NZ IFRS 15, the Banking Group has recognised the cumulative effect of initially applying NZ IFRS 15 as an adjustment to the opening balance of retained earnings at 1 July 2018. A reconciliation of measurement differences from the adoption of NZ IFRS 15 on 1 July 2018 is set out in note 2.

  The Banking Group's revenue recognition accounting policies applied in the current period (as well as the NZ IAS 18 accounting policies applied for the year ended 30 June 2018) are set out below, and have not been materially impacted by the adoption of NZ IFRS 15.

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 - Hedge accounting*

  The NZ IFRS 9 hedge accounting requirements 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 and will assess the likely adoption date of the NZ IFRS 9 hedge accounting requirements as the dynamic risk management project progresses.

  The initial assessment of the Banking Group's current hedging activities identified that 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.

1 Statement of Accounting Policies (continued)

New Standards (not yet effective) (continued)

- 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 a liability for future payments arising from lease contracts. Lessees will recognise a finance charge on the liability and a depreciation charge on the asset rather than a straight-line lease expense, which may affect the timing of the recognition of expenses on leased assets. This change will mainly impact the properties that the Banking Group currently accounts for as operating leases.

  A scope exemption will be applied to leases of intangible assets, short term leases and low value leases. These will continue to be expensed on a straight-line basis.

  The Banking Group intends to apply the modified retrospective approach whereby the asset on adoption is equal to the liability. The Banking Group's opening balance sheet adjustment comprises the recognition of assets and corresponding liabilities for future payments of $288 million. There is no impact to Retained earnings on adoption of NZ IFRS 16.

Recent Accounting Developments

Interbank offered rates ("IBORs"), such as the London Inter Bank Offered Rate ("LIBOR"), play a critical role in global financial markets, serving as reference rates for derivatives, debt issues, other financial instruments, and as parameters in the valuation of financial instruments. The global regulatory community has initiated various programmes to develop alternative benchmarks within certain jurisdictions. In response to the uncertainty about the long term viability of these benchmark rates, the IASB announced in 2018 that it would establish a project to consider the financial reporting implications of the reform. It is expected to have an impact on various elements of financial instrument accounting, including hedge accounting, loan modifications as well as fair value methodologies and disclosures. In May 2019, the IASB published an Exposure Draft Interest Rate Benchmark Reform which proposed exceptions to specific hedge accounting requirements in NZ IFRS 9 and NZ IAS 39. The IASB expects to issue final guidance later in 2019. The Banking Group is closely monitoring these developments and continues to assess the expected impact.

Basis of Preparation

The measurement base adopted is that of historical cost as modified by the fair value measurement of certain financial instruments, 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. Refer to (f) for classification of financial instruments.

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 valuation of financial instruments and the allowance for ECL on Advances to customers as areas that require significant estimation and management judgement. Refer to (f) for valuation of financial instruments and (m) and notes 17 and 19 for details of credit risk management and the basis of the Banking Group's allowance for ECL.

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 are presented in millions, unless otherwise stated.

Particular Accounting Policies

The following particular accounting policies have been applied on a consistent basis, except where noted below.

(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 substantive compared to the economic interest of other investors.

Subsidiaries

Subsidiaries are those companies and other entities 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.

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 25 and 27).

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.

1 Statement of Accounting Policies (continued)

(a) Basis of Consolidation (Continued)

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 entities 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 46). 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.

(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 instruments which are not subject to hedge accounting, 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 hedge accounting 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

INTEREST INCOME AND EXPENSE
Financial instruments are classified in the manner described in (f).

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. 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.

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

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

OTHER INCOME
Dividends are distributions of profits to holders of equity instruments in proportion to their holdings of a particular class of capital and 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.

REVENUE FROM CONTRACTS WITH CUSTOMERS

Accounting policy effective 1 July 2018

The Banking Group identifies distinct performance obligations within a contract and allocates the transaction price of the contract to those performance obligations. Revenue is recognised as each performance obligation is satisfied. Variable amounts of revenue are only recognised if it is highly probable that a significant reversal of the variable amount will not be required in future periods. Where the transaction price is received before or after the Banking Group has satisfied the performance obligation, a contract liability or contract asset is recognised as appropriate. A description of significant revenue streams is included below:

Lending Fees
Lending fees (for example facility fees and commitment fees) not directly related to the origination of a loan are recognised as the performance obligation is met (which is over the period of service).

Funds Management Income
Funds management fees are recognised as the performance obligation is met (which is over the service period), and only recognised when it is probable that the revenue will be received.

Commission and Other Fees
Commission and other fees which relate to specific transactions or events are recognised when the service is provided. Estimated commission income is recognised when the performance obligation is met, for example when a new customer is introduced to a product.

Accounting policy prior to 1 July 2018

Lending Fees
Lending fees not directly related to the origination of a loan are recognised over the period of service.

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.

1 Statement of Accounting Policies (continued)

(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 except as otherwise described in these accounting policies.

(f) Financial Instruments

Accounting policy effective 1 July 2018

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 borrower. Financial liabilities are recognised when an obligation arises. Derecognition is set out in (l).

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 ("FVTIS"), where transaction costs are expensed as incurred.

FINANCIAL ASSET DEBT INSTRUMENTS
Financial asset debt instruments are classified on the basis of two criteria:

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

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

- Policies and objectives for the relevant portfolio;
- How the performance and risks of the portfolio are managed, evaluated and reported to management; and
- 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 that 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:

- Performance linked features;
- Non-recourse arrangements;
- Prepayment and extension terms;
- Contingent and leverage features; and
- Features that modify elements of the time value of money.

FINANCIAL ASSETS AT 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 subsequently measured at amortised cost. Amounts are reported net of allowances for ECL to reflect the estimated recoverable amounts.

Interest income from these financial assets is recognised in the Income Statement using the effective interest rate method. Impairment gains and losses are presented in Impairment losses on financial assets in the Income Statement.

Financial assets in this 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 include 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 on 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.

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.

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
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 subsequently measured at FVOCI, unless designated as FVTIS.

Changes in fair value are recognised in other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses, which are recognised in the Income Statement. Impairment (if any) is presented in Impairment losses on financial assets in the Income Statement. Interest, premiums and discounts are amortised through interest income in the Income Statement using the effective interest rate method. Foreign exchange gains and losses (if any) are recognised in other income or other expenses, as appropriate.

The fair value 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 OCI.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the Income Statement and recognised in other income or other expenses, as appropriate.

Financial assets in this category include Securities at fair value through other comprehensive income.

FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT
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 subsequently measured at FVTIS. Financial assets can also be designated at FVTIS if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets in this category include Derivative assets. Refer to (g) for more details on derivatives.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH INCOME STATEMENT
Financial liabilities which are held for trading or designated at FVTIS because doing so either eliminates or significantly reduces an accounting mismatch or because they are managed and evaluated on a fair value basis are subsequently measured at FVTIS.

When the Banking Group designates a financial liability as FVTIS, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI and within the FVOCI reserve. Amounts recorded in OCI related to credit risk are not subject to recycling in the Income Statement, but are transferred from the FVOCI reserve to retained earnings when realised. Fair value changes relating to market risk are recognised in other income or other expenses, as appropriate, in the Income Statement.

Financial liabilities in this category include:

Derivative Liabilities
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 FVTIS and primarily consists of issued paper. Debt issues have been designated as at FVTIS, where the Banking Group has economically hedged the foreign exchange and interest rate risk using derivatives but hedge accounting is not applied. Designation eliminates or significantly reduces an accounting mismatch as the derivative is also at FVTIS. 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.

FINANCIAL LIABILITIES AT AMORTISED COST
This category includes all financial liabilities other than those at FVTIS. Liabilities in this category are measured at amortised cost and interest expense is recognised in the Income Statement using the effective interest rate 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.

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

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 44 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.

Accounting policy prior to 1 July 2018

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 borrower. 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 Derivative assets and Trading securities. For further information on the nature of Derivative assets refer to the accounting policies effective from 1 July 2018. Trading securities 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.

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.

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 this category include Cash and liquid assets, Due from financial institutions, Advances to customers and Other assets. For further information on the nature of these financial assets refer to the accounting policies effective from 1 July 2018.

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

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 Debt issues at fair value through Income Statement, Derivative liabilities, and Other liabilities at fair value through Income Statement. For further information on the nature of Derivative liabilities and Debt issues at fair value through Income Statement refer to the accounting policies effective from 1 July 2018.

Other liabilities at fair value through Income Statement include certain liabilities 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.

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, Due to financial institutions, Other liabilities, Debt issues at amortised cost and Loan capital. For further information on the nature of these financial assets refer to the accounting policies effective from 1 July 2018.

(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 on the Balance Sheet at their fair value. Measurement of derivatives at fair value is mandatory under NZ IFRS. 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 net profit. 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 net profit.

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 as lessor 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, where the Banking Group is the lessor, 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 as lessor retains substantially all the risks and rewards of ownership of an asset (or as lessee does not obtain substantially all the risks and rewards) 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 on 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

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:

- Significant financial difficulty of the issuer or obligor; or
- A breach of contract, such as a default or delinquency in interest or principal payments; or
- 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
- The disappearance of an active market for the financial asset because of financial difficulties.

Individually impaired assets are any credit exposures against which an individually assessed allowance has been recorded. From 1 July 2018, individually assessed allowance replaces the previously used terminology "individually assessed provision".

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:

- Who is in receivership, liquidation, bankruptcy, statutory management or any form of administration in New Zealand; or
- Who is in any other equivalent form of voluntary or involuntary administration in an overseas jurisdiction.

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 available actions, such as realising available security; or
- The customer is 90 days or more overdue on a scheduled credit obligation repayment.

This definition of default is consistent with that used for internal credit risk management purposes and regulatory purposes, and has been utilised in the measurement of ECL.

From 1 July 2018, allowance for ECL replaces the previously used terminology "provision for impairment losses".

Accounting policy effective 1 July 2018

IMPAIRMENT

The Banking Group assesses credit impairment of all financial assets measured at amortised cost, debt instruments measured at FVOCI, loan commitments and financial guarantee contracts. Financial assets at FVTIS 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 or other expenses, as appropriate. The ECL model estimates credit losses by incorporating 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 ECL models for material portfolios. The ECL models multiply the exposure at balance date by the following credit risk factors to calculate ECL:

- Probability of default: The estimate of the probability that a debtor defaults (default is defined above);
- Exposure at default: The estimate of the proportion of a facility that may be outstanding in the event of a default. For credit cards the exposure at default calculation takes into account the probability of the amount being drawn down. For other amounts, exposure at default is generally the higher of the drawn balance and the total credit limit; and
- Loss given default: The estimate of the proportion that is not expected to be recovered following default.

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. If credit quality improves in a subsequent period such that the increase in credit risk since origination is no longer considered significant, the exposure is reclassified to Stage 1 and the allowance for ECL reverts to 12 months ECL.

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.

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

1 Statement of Accounting Policies (continued)

(m) Asset Quality (continued)

IMPAIRMENT (continued)
Financial assets are assessed for impairment regularly through the reporting period and at each reporting date. Defaulted exposures with an expected loss in excess of $20,000 are assessed for impairment individually and are included in Stage 3. All other exposures are assessed for impairment collectively, and may be included in either Stage 1, 2 or 3 as appropriate (grouped by shared risk characteristics, such as retail or corporate portfolio types and credit risk rating).

Where exposures are assessed for ECL individually, the allowance for ECL is calculated directly as the difference between the defaulted assets carrying value and the recoverable amount (being the present value of expected future cash flows, including cash flows from the realisation of collateral or guarantees, where applicable).

Significant increase in credit risk
A significant increase in credit risk ("SICR") is assessed by comparing the risk of default at the 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 SICR is a significant deterioration in the internal credit rating grade of a facility between origination and reporting date.

For retail portfolios, the risk of default is assessed using a retail masterscale ("RM") for housing loans, credit cards, other personal facilities and most business lending up to $1 million. The RM has 15 risk grades that are assigned to retail accounts based on their credit quality scores determined through a credit quality scorecard. Risk grades for retail exposures are updated monthly.

For corporate portfolios, the risk of default is assessed using a risk rated probability of default masterscale ("PDM"). The PDM is used in internal credit risk management and includes 23 risk grades that are assigned at a customer level using rating tools reflecting customer specific financial and non-financial information and management's experienced credit judgement. Risk grades for corporate exposures are updated at least annually on the basis of the most recent financial and non-financial information.

Application of the primary SICR indicator uses a sliding threshold such that an exposure with a higher credit quality at origination would need to experience a more significant downgrade compared to a lower credit quality exposure before SICR is triggered. The levels of downgrade required to trigger SICR for each origination grade have been defined for each significant portfolio.

In combination with the SICR assessment detailed above, the Banking Group uses a range of secondary indicators to determine whether a SICR has occurred, such as 30 days past due data.

Financial assets will move back to Stage 1 once they no longer meet the criteria for a SICR.

For corporate Advances to customers with low credit risk at the reporting date, it is presumed that there has been no SICR since origination. Only certain high quality corporate Advances to customers (based on the Banking Group's internal credit rating grades) in government, finance and insurance industries are deemed to be of low credit risk.

Lifetime of an exposure
For exposures in Stage 2 and Stage 3, lifetime expected losses are used to determine the allowance for ECL. The Banking Group considers both the contractual period and behavioural life of a product when estimating the expected lifetime of an exposure.

Forward-looking information
The Banking Group considers four alternative macroeconomic scenarios to ensure a sufficient representative sample of economic conditions when estimating ECL. These scenarios include forward-looking macroeconomic factors (e.g. unemployment, interest rates and house prices), which are further described in note 19. The Banking Group's Loan Loss Provisioning Committee ("LLPC") is 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. This includes but is not limited to information about emerging risk at an industry, geographical location or a particular portfolio segment level. The LLPC is responsible for approving such adjustments.

The Banking Group reports certain credit specific information to the BARC, which has an oversight role and provides challenge of key judgements and assumptions, including the basis of the scenarios adopted. The information reported includes the Banking Group's allowance for ECL, impairment losses on financial assets, areas of key accounting estimates and judgement, reported results and key messages.

Write offs
A loan is written off, either partially or in full, when there is no reasonable expectation of recovery. Events which may indicate there is no longer a reasonable expectation of recovery include:

- For secured lending, when the Banking Group has received proceeds from all available security; and
- For unsecured retail lending, when amounts are at least 90 days past due.

A loan is either written off against an individually assessed allowance, or directly to the Income Statement where no individually assessed allowance is held. Where an individually assessed allowance is less than the amount written off, the excess is written off directly to the Income Statement.

While the Banking Group may write-off financial assets that are still subject to enforcement activity, it will still seek to recover amounts it is legally owed in full. Any recoveries of amounts previously written off are credited directly to the Income Statement.

1 Statement of Accounting Policies (continued)

(m) Asset Quality (continued)

Accounting policy prior to 1 July 2018

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, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate. Short term balances are not discounted.

Interest continues to be accrued on impaired loans based on the revised carrying amounts and using appropriate effective interest rates.

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:

- Significant financial difficulty of the issuer or obligor; or
- A breach of contract, such as a default or delinquency in interest or principal payments; or
- 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
- The disappearance of an active market for the financial asset because of financial difficulties.

The internal rating process also assists management in assessing the requirements of NZ IAS 39 relating to impairment and provisioning of financial assets. The internal rating process for the year ended 30 June 2018 is described in note 17.

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 advances with similar credit risk characteristics 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. The calculations are based on statistical methods of credit risk measurement. 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.

The provisions for impairment take into account current cyclical developments as well as the 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.

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 on 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

1 Statement of Accounting Policies (continued)

(n) Property, Plant and Equipment (continued)

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

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 on 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 in 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 in Operating expenses in the Income Statement.

(p) Income Tax

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.

A deferred tax 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 tax 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 Securities at fair value through other comprehensive income (Available-for-sale financial assets for the 30 June 2018 financial year), 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.

Notes to the Financial Statements

For the year ended 30 June 2019

1 Statement of Accounting Policies (continued)

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

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

The assets and liabilities of these schemes are not included in the financial statements of the Banking Group as the Banking Group does not have control of these 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).

(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.

(s) Provisions

A provision is recognised on 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 tax 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.

Fair Value Estimates

For financial instruments not presented on 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 on 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 on 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 on 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 on 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.

1 Statement of Accounting Policies (continued)

Changes to Comparatives

All reclassifications and restatements have no impact on the previously reported Balance Sheet or Net profit after tax.

Cash Flow Statement

From 1 July 2018, the Banking Group presents the non-cash foreign exchange movement in debt issues within the Reconciliation of net profit before tax to net cash flows from operating activities (in Net change in fair value of financial instruments and hedged items). Comparatives have been restated for consistency, resulting in a $175 million increase in Net cash flows from operating activities and an offsetting $175 million decrease in Net cash flows from financing activities. The decrease in financing activities is represented by a $178 million increase in Redemption of issued debt securities and a $3 million increase in Issue of debt securities. The restatement was made to better reflect the Banking Group's cash flows from financing activities.

The net change in derivative assets and derivative liabilities are disclosed separately within the reconciliation of Net profit before tax to net cash flows from operating activities. Comparatives have been restated for consistency.

In addition, Amortisation of loan establishment fees are presented separately from other non-cash items within the reconciliation of Net profit before tax to net cash flows from operating activities. Comparatives have been restated for consistency resulting in a $76 million decrease in other non-cash items, and separate presentation of this amount.

Income Statement

From 1 July 2018, the Banking Group presents costs associated with certain credit card loyalty schemes and outsourced investment management in Other expenses. These were previously in Other income. Comparatives have been restated for consistency, resulting in a $54 million increase in Other income and Other expenses.

Additionally, $14 million of building occupancy and equipment depreciation expenses has been reclassified to information technology depreciation expenses to ensure consistency with presentation in the current period. This has no impact on Total operating expenses.

All other comparative restatements or reclassifications are footnoted throughout the financial statements.

2 New Accounting Standards Adopted on 1 July 2018

The tables below present the impact of transition to NZ IFRS 9 and NZ IFRS 15 on 1 July 2018, showing seperately the reclassification and measurement impacts:

$ millions	Note	Banking Group NZ IAS 39 Measurement Category	NZ IFRS 9 Measurement Category	Carrying Amount at 30 June 2018	NZ IFRS 9 Reclassification	Carrying Amount Post Reclassification	NZ IFRS 9 Measurement Impact	NZ IFRS 15 Measurement Impact	Carrying Amount at 1 July 2018
Assets									
Cash and liquid assets		Loans and receivables	Amortised cost	**2,566**	**-**	**2,566**	**-**	**-**	**2,566**
Due from financial institutions		Loans and receivables	Amortised cost	**921**	**-**	**921**	**-**	**-**	**921**
Trading securities	(a)	FVTIS	FVOCI	**2,344**	**(2,344)**	**-**	**-**	**-**	**-**
Securities at fair value through other comprehensive income	(a), (b)	N/A	FVOCI	**-**	**6,486**	**6,486**	**-**	**-**	**6,486**
Derivative assets		FVTIS	FVTIS - mandated	**1,727**	**-**	**1,727**	**-**	**-**	**1,727**
Available-for-sale securities	(b)	Available-for-sale	N/A	**4,142**	**(4,142)**	**-**	**-**	**-**	**-**
Advances to customers	(c)	Loans and receivables	Amortised cost	**82,931**	**-**	**82,931**	**(72)**	**-**	**82,859**
Other assets	(d)	Loans and receivables	Amortised cost	**261**	**-**	**261**	**-**	**32**	**293**
Property, plant and equipment		N/A	N/A	**184**	**-**	**184**	**-**	**-**	**184**
Intangible assets		N/A	N/A	**193**	**-**	**193**	**-**	**-**	**193**
Deferred tax assets	(c), (d)	N/A	N/A	**144**	**-**	**144**	**21**	**(9)**	**156**
Total assets				**95,413**	**-**	**95,413**	**(51)**	**23**	**95,385**

2 New Accounting Standards Adopted on 1 July 2018 (continued)

				Banking Group					
$ millions	Note	NZ IAS 39 Measurement Category	NZ IFRS 9 Measurement Category	Carrying Amount at 30 June 2018	NZ IFRS 9 Reclassification	Carrying Amount Post Reclassification	NZ IFRS 9 Measurement Impact	NZ IFRS 15 Measurement Impact	Carrying Amount at 1 July 2018
Liabilities									
Deposits and other borrowings	(a)	Amortised cost	Amortised cost	62,419	1,097	63,516	-	-	63,516
Due to financial institutions		Amortised cost	Amortised cost	1,271	-	1,271	-	-	1,271
Other liabilities at fair value through Income Statement	(a)	FVTIS	N/A	1,097	(1,097)	-	-	-	-
Derivative liabilities		FVTIS	FVTIS - mandated	995	-	995	-	-	995
Current tax liabilities		N/A	N/A	136	-	136	-	-	136
Other liabilities	(c)	Amortised cost	Amortised cost	616	-	616	2	-	618
Debt issues:									
At fair value through Income Statement		FVTIS	FVTIS - designated	148	-	148	-	-	148
At amortised cost		Amortised cost	Amortised cost	20,053	-	20,053	-	-	20,053
Loan capital		Amortised cost	Amortised cost	806	-	806	-	-	806
Total liabilities				87,541	-	87,541	2	-	87,543
Shareholders' equity									
Contributed capital - ordinary shares		N/A	N/A	2,673	-	2,673	-	-	2,673
Reserves	(b)	N/A	N/A	(60)	-	(60)	-	-	(60)
Retained earnings	(c), (d)	N/A	N/A	3,709	-	3,709	(53)	23	3,679
Ordinary shareholder's equity				6,322	-	6,322	(53)	23	6,292
Contributed capital - perpetual preference shares		N/A	N/A	1,550	-	1,550	-	-	1,550
Total shareholders' equity				7,872	-	7,872	(53)	23	7,842
Total liabilities and shareholders' equity				95,413	-	95,413	(51)	23	95,385

2 New Accounting Standards Adopted on 1 July 2018 (continued)

(a) Trading securities were previously measured at FVTIS under NZ IAS 39 as they were held for trading purposes. Under the NZ IFRS 9 business model criteria, these securities are now recognised at FVOCI, as the Banking Group's business model is achieved both by collecting contractual cash flows and selling these assets.

Under NZ IAS 39, both Other liabilities at fair value through Income Statement (certain certificates of deposit) and Trading securities were managed on a fair value basis. These liabilities were designated at FVTIS to partially eliminate an accounting mismatch in the Income Statement which would otherwise have arisen if they were measured at amortised cost (as Trading securities were measured at FVTIS). Under NZ IFRS 9 there is no longer an accounting mismatch in the Income Statement, and these liabilities are now measured at amortised cost. As a result, the fair value of Other liabilities at fair value through Income Statement of $1,097 million as at 30 June 2018 was reclassified to Deposits and other borrowings on 1 July 2018.

All reclassifications from FVTIS to another category have been made as required by NZ IFRS 9.

The average interest rate on Trading securities at 30 June 2018 was 1.91%, and the Interest income recognised in the current year on these items was $8 million. The average interest rate on Other liabilities at FVTIS at 30 June 2018 was 2.0%, and the interest expense recognised in the current year on these items was $3 million.

(b) Securities at fair value through other comprehensive income were previously categorised as available for sale under NZ IAS 39. Under NZ IFRS 9 these securities have been recategorised to FVOCI as the Banking Group's business model is achieved both by collecting contractual cash flows and selling these assets. The contractual cash flows of these securities are solely principal and interest. As a result, securities with a fair value of $4,142 million as at 30 June 2018 were reclassified from Available-for-sale securities to Securities at fair value through other comprehensive income, and fair value gains of $4 million were reclassified within Reserves, from the Available-for-sale reserve to the FVOCI reserve on 1 July 2018.

(c) The Banking Group's allowance for ECL as at 1 July 2018 has increased by $74 million, which consists of $72 million for Advances to customers and $2 million for off balance sheet exposures (recognised in Other liabilities). This resulted in a corresponding decrease of $53 million in Retained earnings and an increase in Deferred tax assets of $21 million. The increase in the allowance for ECL under NZ IFRS 9 is mainly driven by the requirement to hold allowances 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 were only held for incurred losses on the portfolio and forward-looking factors were not considered.

The following table reconciles the prior period's closing provision for impairment losses measured in accordance with the NZ IAS 39 incurred loss model to the new allowance for ECL measured in accordance with the NZ IFRS 9 expected loss model on 1 July 2018:

	Banking Group		
$ millions	NZ IAS 39 Provision for Impairment Losses 30 June 2018	NZ IFRS 9 Measurement Impact on Transition	NZ IFRS 9 Allowance for ECL 1 July 2018
Advances to customers	301	72	373
Other liabilities	-	2	2
Total	**301**	**74**	**375**

(d) The transition impact of NZ IFRS 15 is related to the recognition of a contract asset for commission income on insurance policies. The net present value of expected commission income is now recognised at the start of the contract, when the performance obligation has been met. Previously the Banking Group recognised the income over time.

Notes to the Financial Statements

For the year ended 30 June 2019

3 Interest Income

$ millions	Banking Group	
For the year ended 30 June	**2019**	2018
Interest income on financial assets measured at amortised cost		
Cash and liquid assets	**51**	35
Due from financial institutions	**20**	15
Advances to customers	**4,156**	4,010
Total interest income on financial assets measured at amortised cost	**4,227**	4,060
Interest income on financial assets measured at fair value through Income Statement		
Trading securities	**-**	40
Total interest income on financial assets measured at fair value through Income Statement	**-**	40
Securities at fair value through other comprehensive income	**125**	-
Available-for-sale securities	**-**	88
Total interest income	**4,352**	4,188

Total interest income on financial assets that were not at fair value through Income Statement for the year ended 30 June 2018 was $4,148 million.

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

4 Interest Expense

$ millions	Banking Group	
For the year ended 30 June	**2019**	2018
Deposits and other borrowings:		
Certificates of deposit	**75**	56
Term deposits	**1,166**	1,100
On demand and short term deposits	**310**	370
Due to financial institutions	**20**	12
Other liabilities at fair value through Income Statement	**-**	22
Debt issues:		
At fair value through Income Statement	**7**	5
At amortised cost	**594**	547
Loan capital	**36**	37
Total interest expense	**2,208**	2,149

Total interest expense for financial liabilities that were not at fair value through Income Statement for the year ended 30 June 2019 was $2,201 million (30 June 2018 $2,122 million).

Notes to the Financial Statements

For the year ended 30 June 2019

5 Other Income

$ millions For the year ended 30 June	Banking Group 2019	 2018(1)
Revenue from contracts with customers	**526**	495
Trading income	**91**	96
Ineffective portion of hedges		
Fair value hedge ineffectiveness:		
(Loss)/gain on hedged items	**(243)**	14
Gain/(loss) on hedging instruments	**256**	(14)
Cash flow hedge ineffectiveness	**(3)**	9
Total ineffective portion of hedges	**10**	9
Other operating income		
Dividends received	**3**	7
Net gain on sale of associate	**46**	-
Other	**1**	-
Total other operating income	**50**	7
Total other income	**677**	607

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

The portion of Other income relating to revenue from contracts with customers is disaggregated across the following categories, consistent with the segment descriptions detailed in note 46:

$ millions For the year ended 30 June 2019	Retail Banking	Business Banking	Corporate Banking	Banking Group Private Banking, Wealth and Insurance	Other	Total
Revenue from contracts with customers						
Lending fees	**16**	**21**	**27**	**-**	**-**	**64**
Commission and other fees	**241**	**65**	**13**	**76**	**(71)**	**324**
Funds management income	**103**	**7**	**-**	**138**	**(110)**	**138**
Total revenue from contracts with customers	**360**	**93**	**40**	**214**	**(181)**	**526**

$ millions For the year ended 30 June 2018	Retail Banking	Business Banking	Corporate Banking	Banking Group Private Banking, Wealth and Insurance	Other	Total
Revenue from contracts with customers						
Lending fees	16	21	23	-	-	60
Commission and other fees	237	60	13	74	(71)	313
Funds management income	90	6	-	122	(96)	122
Total revenue from contracts with customers	343	87	36	196	(167)	495

Notes to the Financial Statements

For the year ended 30 June 2019

6 Operating Expense Disclosures

$ millions For the year ended 30 June	Banking Group 2019	2018
Depreciation		
Buildings	**12**	12
Computer and office equipment	**20**	19
Total depreciation	**32**	31
Operating lease rentals	**59**	60
Amortisation of intangible assets	**54**	53

7 Auditor's Remuneration

$ thousands For the year ended 30 June	Banking Group 2019	2018
PricewaterhouseCoopers		
Audit and review of financial statements (1)	**1,678**	1,817
Other assurance related services (2)	**1,083**	1,013
Other services (3)	**26**	438
Total compensation of auditors relating to the Banking Group	**2,787**	3,268
Fees related to funds managed by the Banking Group		
Audit of financial statements	**341**	303
Other assurance related services (2)	**37**	37
Total compensation of auditors	**3,165**	3,608

(1) Includes fees for both the audit of the annual financial statements and review of the interim financial statements.

(2) Includes fees for assurance over compliance with regulations, internal controls and audit related agreed upon procedures.

(3) Includes fees for a system data migration review (30 June 2018 model assessment advisory services and risk model reviews).

8 Tax Expense

$ millions For the year ended 30 June	Banking Group 2019	2018
Current tax	**484**	462
Deferred tax (refer to note 29)	**(12)**	(6)
Total tax expense charged to the Income Statement	**472**	456

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

	2019	2018
Net profit before tax	**1,746**	1,633
Tax at the domestic rate of 28%	**489**	457
Tax effect of income not subject to tax	**(13)**	-
Tax effect of expenses not deductible for tax purposes	**1**	1
Tax effect of imputation credit adjustments	**(1)**	(2)
Tax effect of prior period adjustments	**(4)**	-
Total tax expense charged to the Income Statement	**472**	456
Effective tax rate	**27.0%**	27.9%

9 Dividends

$ millions	Banking Group	
For the year ended 30 June	**2019**	2018
Ordinary dividends paid	**700**	650
Perpetual preference dividends paid	**54**	54
Total dividends paid	**754**	704

Dividends on ordinary shares for the year ended 30 June 2019 were $700 million, being 26.43 cents per share (30 June 2018 $650 million, being 24.55 cents per share).

Dividends on perpetual preference shares for the year ended 30 June 2019 were:

- $5 million, being 2.39 cents per share on 200 million 2006 Series 1 perpetual preference shares (30 June 2018 $5 million, 2.42 cents per share);
- $8 million, being 2.20 cents per share on 350 million 2006 Series 2 perpetual preference shares (30 June 2018 $8 million, 2.18 cents per share);
- $23 million, being 393.19 cents per share on 6 million 2015 perpetual preference shares (30 June 2018 $23 million, 389.53 cents per share); and
- $18 million, being 447.49 cents per share on 4 million 2016 perpetual preference shares (30 June 2018 $18 million, 443.53 cents per share).

On 2 August 2019, the Directors resolved to pay:

- The following quarterly dividends on perpetual preference shares, subject to certain conditions being satisfied:
  - $5 million on 16 September 2019, being 91.19 cents per share on 6 million 2015 perpetual preference shares; and
  - $4 million on 16 September 2019, being 104.65 cents per share on 4 million 2016 perpetual preference shares.

- A half yearly dividend, subject to certain conditions being satisfied, of $350 million on 16 September 2019, being 13.22 cents per share on 2,648 million ordinary shares.

10 Cash and Liquid Assets

$ millions	Banking Group	
As at 30 June	**2019**	2018
Cash, cash at bank and cash in transit	**47**	120
Call deposits with the central bank	**913**	873
Money at short call	**36**	55
Reverse repurchase agreements	**1,546**	1,518
Total cash and liquid assets	**2,542**	2,566

11 Due from Financial Institutions

As at 30 June 2019, amounts due from financial institutions of $518 million are due for settlement within 12 months of balance date (30 June 2018 $921 million due within 12 months of balance date).

12 Trading Securities

On adoption of NZ IFRS 9, Trading securities were reclassified to Securities at fair value through other comprehensive income and all matured in the reporting period. Refer to note 2 for further information.

$ millions	Banking Group	
As at 30 June	**2019**	2018
Local authority securities	-	20
New Zealand government securities	-	230
Treasury bills	-	125
RBNZ bills	-	881
Bank bills	-	1,088
Total trading securities	-	2,344
Amounts due for settlement within 12 months	-	2,344
Total trading securities	-	2,344

13 Securities at Fair Value through Other Comprehensive Income

On adoption of NZ IFRS 9, Trading securities and Available-for-sale securities were reclassified to Securities at fair value through other comprehensive income. Refer to note 2 for further information.

$ millions	Banking Group	
As at 30 June	**2019**	2018
Local authority securities	**347**	-
New Zealand government securities	**1,630**	-
Corporate bonds	**79**	-
Treasury bills	**25**	-
Bank bills	**598**	-
Kauri bonds	**1,991**	-
Bank bonds	**1,020**	-
Total securities at fair value through other comprehensive income	**5,690**	-
Amounts due for settlement within 12 months	**1,792**	-
Amounts due for settlement over 12 months	**3,898**	-
Total securities at fair value through other comprehensive income	**5,690**	-

14 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 2019 the Banking Group had advanced $214 million of cash collateral against derivative liabilities and received $764 million of cash collateral against derivative assets (30 June 2018 $417 million and $894 million respectively).

The table below summarises the Banking Group's derivative financial instruments:

$ millions	Banking Group					
As at 30 June	**2019**			2018		
	Notional Amount	**Fair Value Assets**	**Fair Value Liabilities**	Notional Amount	Fair Value Assets	Fair Value Liabilities
Derivative financial instruments						
Held for trading	**90,130**	**301**	**(175)**	78,004	413	(375)
Held for hedging	**84,055**	**850**	**(229)**	75,267	1,314	(620)
Total derivative assets/(liabilities)	**174,185**	**1,151**	**(404)**	153,271	1,727	(995)
Amounts due for settlement within 12 months		**227**	**(179)**		676	(359)
Amounts due for settlement over 12 months		**924**	**(225)**		1,051	(636)
Total derivative assets/(liabilities)		**1,151**	**(404)**		1,727	(995)

Derivative Financial Instruments which are Held for Trading

The following table details the Banking Group's derivative financial instruments which are classified as held for trading:

$ millions	Banking Group					
As at 30 June	**2019**			2018		
	Notional Amount	**Fair Value Assets**	**Fair Value Liabilities**	Notional Amount	Fair Value Assets	Fair Value Liabilities
Exchange rate contracts						
Forward contracts	**5,853**	**32**	**(50)**	5,083	77	(43)
Options	**428**	**3**	**(3)**	314	3	(3)
Total exchange rate contracts	**6,281**	**35**	**(53)**	5,397	80	(46)
Interest rate contracts						
Swaps	**77,001**	**264**	**(121)**	71,202	333	(329)
Futures	**6,815**	**1**	**-**	1,380	-	-
Options	**19**	**-**	**-**	8	-	-
Total interest rate contracts	**83,835**	**265**	**(121)**	72,590	333	(329)
Commodity contracts						
Options purchased and sold	**14**	**1**	**(1)**	17	-	-
Total held for trading	**90,130**	**301**	**(175)**	78,004	413	(375)

14 Derivative Financial Instruments (continued)

Derivative Financial Instruments which are Held for Hedging

Hedged Risks

The Banking Group's risk management strategy specifically with respect to hedge accounting is to minimise Income Statement volatility.

Hedge accounting is applied for the following risk categories:

- Interest rate risk, which arises due to a mismatch between fixed and floating interest rates on assets and liabilities; and
- Foreign currency risk, which arises due to assets or liabilities being denominated in currencies other than New Zealand dollars, which is the functional currency of the Bank.

In certain instances, the Banking Group jointly hedges interest rate risk and foreign currency risk. In these circumstances, information has been presented in a combined interest rate and foreign currency risk categorisation ("Combined risk").

For disclosures of the extent of risk exposures that the Banking Group manages, refer to notes 17 and 47 to 50.

Fair Value Hedges

Fair value hedges protect the Banking Group from changes in fair value due to movements in market interest rates and foreign exchange rates. The Banking Group uses interest rate swaps to swap the fixed interest rate exposure of fixed rate assets and liabilities into variable rate exposure. This is used in respect of certain Securities at fair value through other comprehensive income, Debt issues at amortised cost and Loan capital. For fixed rate liabilities denominated in a foreign currency, the Banking Group uses cross currency swaps to swap the combined foreign currency and fixed interest rate exposure into local currency variable rate exposure. This is used in respect of certain Debt issues at amortised cost.

Cash Flow Hedges

Cash flow hedges protect the Banking Group from variability in future interest cash flows due to movements in future interest rates and foreign exchange rates. The Banking Group uses interest rate swaps to swap the variable interest rate exposure of floating rate assets and liabilities into fixed rate exposure. This is used in respect of forecast interest cash flows from floating rate Advances to customers, floating rate Deposits and other borrowings, floating rate Debt issues at amortised cost, and the roll-over of short term fixed rate Debt issues at amortised cost. For floating rate liabilities denominated in a foreign currency, the Banking Group uses cross currency swaps to swap combined foreign currency and variable interest rate exposure into local currency variable rate exposure. This is used in respect of certain Debt issues at amortised cost.

Hedging Risk Components

In some hedging relationships, the Banking Group will only hedge specific risk components of hedged items, such as:

- Benchmark interest rate risk as a component of interest rate risk, such as the Bank Bill Benchmark Rate ("BKBM") component; and
- Spot exchange rate risk as a component of foreign currency risk for foreign currency financial liabilities.

Changes in fair value of the hedged risk component is usually the largest component of the overall change in fair value, excluding credit risk (which is not hedged, and is discussed further in note 17). Hedging the benchmark interest rate risk or spot exchange rate risk components results in other risks, such as credit risk and liquidity risk, being excluded from the hedge accounting relationship.

Hedge Relationships and Ineffectiveness

The Banking Group performs both prospective and retrospective tests to determine the relationship between the hedged item and the hedging instrument, and to assess hedge effectiveness. At inception of the hedge relationship, prospective testing is performed on a matched terms basis. This test checks that the critical terms are matched between the hedging instrument and the hedged item. Retrospective testing occurs on a daily basis using a regression model, which compares the change in the fair value of the hedged item and the change in the fair value of the hedging instrument. For a hedge to be deemed effective, the slope of the regression line should be within a 0.8 and 1.25 range and the regression co-efficient (R squared) of the regression line, which measures the correlation between the variables in the regression, should be within a 0.8 and 1.0 range.

The hedging ratio is established by matching the notional of the derivatives held for hedging purposes with the principal of the portfolio or financial instruments being hedged.

Sources of hedge ineffectiveness may arise for both risk categories due to:

- Differences in discounting between the hedged item and the hedging instrument. Collateralised derivatives are discounted using Overnight Indexed Swaps ("OIS") discount curves, whereas hedged items are discounted using a relevant benchmark rate (for example BKBM or the London Inter Bank Offered Rate ("LIBOR")); and
- Mismatches between the contractual terms of the hedged item and the hedging instrument.

14 Derivative Financial Instruments (continued)

(a) Hedging Instruments

The following table presents information in relation to the Banking Group's hedging instruments:

$ millions	Banking Group		
		Fair Value	
As at 30 June 2019	Notional Amount	Derivative Assets	Derivative Liabilities
Fair value hedges			
Interest rate risk	13,602	40	(43)
Combined risk	14,638	604	(52)
Total designated as fair value hedges	28,240	644	(95)
Cash flow hedges			
Interest rate risk	50,699	98	(114)
Combined risk	5,116	108	(20)
Total designated as cash flow hedges	55,815	206	(134)
Total held for hedging	84,055	850	(229)

$ millions	Banking Group		
	Notional	Fair Value	
As at 30 June 2018	Amount	Assets	Liabilities
Fair value hedges			
Exchange rate contracts			
Swaps	14,434	821	(201)
Interest rate contracts			
Swaps	13,078	62	(207)
Total designated as fair value hedges	27,512	883	(408)
Cash flow hedges(1)			
Exchange rate contracts			
Swaps	5,762	293	-
Interest rate contracts			
Swaps	41,993	138	(212)
Total designated as cash flow hedges	47,755	431	(212)
Total held for hedging	75,267	1,314	(620)

(1) Fair value gains and losses deferred in the cash flow hedge reserve as at 30 June 2018 will be transferred to the Income Statement over the next one to ten years, as the cash flows under the hedged transactions occur.

14 Derivative Financial Instruments (continued)

(a) Hedging Instruments (continued)

The following table presents an analysis of the notional values of the Banking Group's hedging instruments and how they affect the amount and timing of future cash flows:

$ millions	Banking Group			
As at 30 June 2019	Within 1 Year	Between 1-5 Years	Over 5 Years	Total
Fair value hedges				
Interest rate risk	2,114	8,909	2,579	13,602
Combined risk	1,159	7,456	6,023	14,638
Total fair value hedges	3,273	16,365	8,602	28,240
Cash flow hedges				
Interest rate risk	22,982	27,285	432	50,699
Combined risk	3,631	1,485	-	5,116
Total cash flow hedges	26,613	28,770	432	55,815
Total held for hedging	29,886	45,135	9,034	84,055

The average fixed interest rate of hedging instruments used to hedge interest rate risk during the reporting period was 2.20% for fair value hedges and 2.18% for cash flow hedges. The average exchange rates of major currencies where cross currency swaps were used to hedge foreign currency risk against NZD during the reporting period was 0.695 for USD and 0.615 for EUR.

(b) Hedged Items in Fair Value Hedge Accounting Relationships

The following table presents information on the Banking Group's hedged items in fair value hedge accounting relationships:

$ millions		Banking Group			
		Carrying Amount		Accumulated Fair Value Adjustments[1]	
As at 30 June 2019	Risk Categorisation	Assets	Liabilities	Assets	Liabilities
Securities at fair value through other comprehensive income	Interest rate risk	4,633	-	138	-
Debt issues at amortised cost	Interest rate risk	-	(1,636)	-	(49)
Debt issues at amortised cost	Combined risk	-	(14,601)	-	(307)
Loan capital	Interest rate risk	-	(407)	-	(10)
Total		4,633	(16,644)	138	(366)

(1) Represents the accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item. None of these adjustments relate to hedges which have been discontinued.

14 Derivative Financial Instruments (continued)

(c) Hedge Ineffectiveness

The following table presents the changes in value of the Banking Group's hedged items and hedging instruments, together with the hedge ineffectiveness recognised in the Income Statement:

$ millions	Banking Group		
As at 30 June 2019	Change in Value of Hedging Instrument(1)	Change in Value of Hedged Item(2)	Hedge Ineffectiveness(3)
Fair value hedges			
Interest rate risk	89	(88)	1
Combined risk	167	(155)	12
Total	256	(243)	13
Cash flow hedges			
Interest rate risk	(8)	5	(3)
Combined risk	(25)	25	-
Total	(33)	30	(3)

(1) Represents the change in value of the hedged instruments used as the basis for recognising hedge ineffectiveness during the year.

(2) Represents the change in value of the hedged items used as the basis for recognising hedge ineffectiveness during the year. For fair value hedges, the changes in value of the hedged items are recognised in the Income Statement. For cash flow hedges, the changes in value of the hedged cash flows are only used as a basis for recognising ineffectiveness.

(3) Hedge ineffectiveness is recognised within Other income in the Income Statement.

(d) Cash Flow Hedge Reserve

The table below details the movements in the Banking Group's Cash flow hedge reserve during the reporting period, which includes the impact of cash flow hedges on Net profit and Other comprehensive income (excluding hedge ineffectiveness):

$ millions	Banking Group		
As at 30 June 2019	Interest Rate Risk	Combined Risk	Total
Movement in cash flow hedge reserve			
Balance at beginning of year	(10)	(84)	(94)
Net gain/(loss) from changes in fair value(1)	(81)	(85)	(166)
Reclassified to Income Statement(2)			
Interest income	(85)	-	(85)
Interest expense	160	59	219
Deferred tax	2	7	9
Balance at end of year(3)	(14)	(103)	(117)

(1) Represents hedging gains or losses recognised in Other comprehensive income during the reporting period.

(2) No amounts have been reclassified to the Income Statement in respect of forecast transactions no longer expected to occur.

(3) Represents amounts included in the Cash flow hedge reserve for continuing hedges. No amounts included in the reserve relate to adjustments for hedges which have been discontinued.

15 Available-for-Sale Securities

On adoption of NZ IFRS 9, Available-for-sale securities were reclassified to Securities at fair value through other comprehensive income. Refer to note 2 for further information.

$ millions	Banking Group	
As at 30 June	**2019**	2018
Local authority securities	-	243
New Zealand government securities	-	1,103
Corporate bonds[1]	-	63
Kauri bonds	-	1,721
Bank bonds[1]	-	1,012
Total available-for-sale securities	-	4,142
Amounts due for settlement within 12 months	-	1,223
Amounts due for settlement over 12 months	-	2,919
Total available-for-sale securities	-	4,142

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

16 Advances to Customers

$ millions	Banking Group	
As at 30 June	**2019**	2018
Advances to customers (refer to note 19)	**88,105**	83,232
Allowance for expected credit loss (refer to note 19)	**(410)**	(301)
Total advances to customers	**87,695**	82,931
Amounts due for settlement within 12 months	**16,901**	15,565
Amounts due for settlement over 12 months	**70,794**	67,366
Total advances to customers	**87,695**	82,931

17 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 18 to 23 for additional credit risk disclosures.

Collateral

Refer to note 24 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 customer will default within the next 12 months. It reflects a customer'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 and downturn LGDs are used for regulatory capital.

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

17 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 Controls Assurance and Review ("CAR"), an internal unit within the Bank. CAR'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 of Financial Assets

The Banking Group's accounting policies regarding impairment and allowances for ECL are set out in note 1 (m).

18 Credit Quality Information for Advances to Customers

The PD's associated with the credit risk rating grades presented in the table below are consistent with those used for credit risk management purposes, as detailed in note 17.

Credit Risk Rating Grade Classifications	PD (%)
Investment	0 - 0.45
Pass	0.45 - 6.66
Weak	6.66 - 100

Customers that are experiencing hardship or have an individually assessed allowance held against their exposure are included in the weak credit risk rating grade classification.

The following tables present the Banking Group's Advances to customers, lending commitments and credit related contingent liabilities by credit risk rating grade:

$ millions	Banking Group				
	Collectively Assessed			Individually Assessed	
As at 30 June 2019	Stage 1	Stage 2	Stage 3	Stage 3	Total
Advances to customers					
Investment	21,604	1,636	-	-	23,240
Pass	47,639	14,725	-	-	62,364
Weak	362	1,392	377	370	2,501
Total advances to customers	69,605	17,753	377	370	88,105
Lending commitments					
Investment	3,955	87	-	-	4,042
Pass	8,976	1,060	-	-	10,036
Weak	42	41	13	4	100
Total lending commitments	12,973	1,188	13	4	14,178
Total advances to customers and lending commitments	82,578	18,941	390	374	102,283
Allowance for ECL on advances to customers and lending commitments	117	188	36	69	410

$ millions	Banking Group				
	Collectively Assessed			Individually Assessed	
As at 30 June 2019	Stage 1	Stage 2	Stage 3	Stage 3	Total
Credit related contingent liabilities					
Investment	118	-	-	-	118
Pass	334	234	-	-	568
Weak	-	8	2	-	10
Total credit related contingent liabilities	452	242	2	-	696
Allowance for ECL on credit related contingent liabilities	1	1	-	-	2

18 Credit Quality Information for Advances to Customers (continued)

Further information on credit quality is presented below:

$ millions	Banking Group			
As at 30 June 2019	**Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
Past due assets not individually impaired				
1 to 7 days	**796**	**144**	**154**	**1,094**
8 to 29 days	**543**	**93**	**99**	**735**
1 to 29 days	**1,339**	**237**	**253**	**1,829**
30 to 59 days	**221**	**53**	**9**	**283**
60 to 89 days	**66**	**23**	**16**	**105**
90 days and over	**66**	**27**	**2**	**95**
Total past due assets not individually impaired	**1,692**	**340**	**280**	**2,312**
Other assets under administration	**21**	**3**	**-**	**24**
Undrawn lending commitments to customers with individually impaired assets	**-**	**-**	**4**	**4**

$ 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 as at 30 June 2018:				
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
1 to 29 days	1,306	223	275	1,804
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 lending commitments to customers with individually impaired assets	-	1	3	4

The facilities that are reported as impaired and past due are collateralised in accordance with note 24.

19 Allowance for Expected Credit Loss

Information for the year ended 30 June 2019 is presented separately for the following categories of Advances to customers, as prescribed by the Order:

- Residential mortgages, presented in section (a);
- Other retail, presented in section (b); and
- Corporate, presented in section (c).

Information on total Advances to customers is presented in section (d), and is an aggregate of the above asset categorisations.

Information is not presented in respect of other financial assets as the related allowances for ECL are not material to the Banking Group.

Movement in allowance for ECL

The movement in allowance for ECL tables set out on the following pages summarise changes in the Banking Group's allowance for ECL during the year.

They are presented on the following basis:

- Changes in collective allowances due to transfers between ECL Stages include the impact of both the initial transfer and subsequent remeasurement of the allowance for ECL. The remeasurement of transferred amounts occurs in the Stage to which the allowance for ECL has transferred;
- Other changes in collective allowances includes the impact of non-significant changes in the credit quality of existing lending, changes in the expected life of existing lending, changes in future forecast economic assumptions and other changes in models or assumptions; and
- The impact of additions, deletions and transfers between stages on the allowance for ECL will be impacted by the credit quality of the underlying gross carrying amounts.

Movement in gross carrying amount

The movement in gross carrying amount tables set out on the following pages summarise changes in gross carrying amounts to explain changes in the Banking Group's allowance for ECL during the year.

They are presented on the following basis:

- Additions include amounts drawn either from existing or new facilities during the year; and
- Deletions include amounts which have been repaid on facilities during the year.

Section (e) details forward looking information used to calculate the allowance for ECL.

Section (f) presents comparative information for provisions for impairment losses.

19 Allowance for Expected Credit Loss (continued)

(a) Residential Mortgages

$ millions	Banking Group				
Movement in Allowance for Expected Credit Loss	**Collective Allowances**			**Individually Assessed Allowances**	
As at 30 June 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	17	37	6	3	63
(Credited against)/charged to the Income Statement					
Changes in collective allowances due to transfers between ECL stages					
Stage 1 to Stage 2	(4)	13	-	-	9
Stage 1 to Stage 3	-	-	4	-	4
Stage 2 to Stage 1	1	(4)	-	-	(3)
Stage 2 to Stage 3	-	(3)	12	-	9
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	2	(9)	-	(7)
Net transfers to Stage 3 individually assessed allowances	-	-	(1)	-	(1)
Changes in collective allowances due to transfers between ECL stages	(3)	8	6	-	11
Changes in collective allowances due to additions and deletions	3	(3)	(2)	-	(2)
Changes in collective allowances due to amounts written off	-	-	-	-	-
Total changes in collective allowances due to movements in gross carrying amounts	-	5	4	-	9
Other changes in collective allowances	5	(2)	-	-	3
Changes in individually assessed allowances due to transfers from collective allowances	-	-	-	1	1
New and increased individually assessed allowances	-	-	-	7	7
Write-back of individually assessed allowances no longer required	-	-	-	(6)	(6)
Total charged to the Income Statement	5	3	4	2	14
Amounts written off from individually assessed allowances	-	-	-	(2)	(2)
Balance at end of year	22	40	10	3	75

$ millions	Banking Group				
Movement in Gross Carrying Amounts	**Collectively Assessed**			**Individually Assessed**	
As at 30 June 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	46,830	6,933	125	30	53,918
Changes due to transfers between ECL stages					
Stage 1 to Stage 2	(1,328)	1,328	-	-	-
Stage 1 to Stage 3	(128)	-	128	-	-
Stage 2 to Stage 1	921	(921)	-	-	-
Stage 2 to Stage 3	-	(356)	356	-	-
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	248	(248)	-	-
Net transfers (from)/to Stage 3 individually assessed	(3)	3	(12)	12	-
Total changes due to transfers between ECL stages	(538)	302	224	12	-
Additions and deletions					
Additions	14,404	585	4	-	14,993
Deletions (excluding amounts written off)	(10,249)	(1,367)	(80)	(19)	(11,715)
Net additions/(deletions)	4,155	(782)	(76)	(19)	3,278
Amounts written off	-	-	-	(2)	(2)
Balance at end of year	50,447	6,453	273	21	57,194

19 Allowance for Expected Credit Loss (continued)

(b) Other Retail

$ millions	Banking Group				
Movement in Allowance for Expected Credit Loss	**Collective Allowances**			**Individually Assessed Allowances**	
As at 30 June 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	54	36	18	4	112
(Credited against)/charged to the Income Statement					
Changes in collective allowances due to transfers between ECL stages					
Stage 1 to Stage 2	(22)	44	-	-	22
Stage 1 to Stage 3	-	-	5	-	5
Stage 2 to Stage 1	6	(18)	-	-	(12)
Stage 2 to Stage 3	-	(12)	35	-	23
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	4	(14)	-	(10)
Net transfers to/(from) Stage 3 individually assessed allowances	-	-	-	-	-
Changes in collective allowances due to transfers between ECL stages	(16)	18	26	-	28
Changes in collective allowances due to additions and deletions	3	(7)	(6)	-	(10)
Changes in collective allowances due to amounts written off	-	(7)	(15)	-	(22)
Total changes in collective allowances due to movements in gross carrying amounts	(13)	4	5	-	(4)
Other changes in collective allowances	10	(7)	-	-	3
Changes in individually assessed allowances due to transfers from collective allowances	-	-	-	-	-
New and increased individually assessed allowances	-	-	-	3	3
Write-back of individually assessed allowances no longer required	-	-	-	(2)	(2)
Total (credited against)/charged to the Income Statement	(3)	(3)	5	1	-
Amounts written off from individually assessed allowances	-	-	-	(2)	(2)
Balance at end of year	51	33	23	3	110

$ millions	Banking Group				
Movement in Gross Carrying Amounts	**Collectively Assessed**			**Individually Assessed**	
As at 30 June 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	4,773	350	50	12	5,185
Changes due to transfers between ECL stages					
Stage 1 to Stage 2	(506)	506	-	-	-
Stage 1 to Stage 3	(14)	-	14	-	-
Stage 2 to Stage 1	389	(389)	-	-	-
Stage 2 to Stage 3	-	(90)	90	-	-
Stage 3 to Stage 1	4	-	(4)	-	-
Stage 3 to Stage 2	-	37	(37)	-	-
Net transfers (from)/to Stage 3 individually assessed	(3)	(1)	2	2	-
Total changes due to transfers between ECL stages	(130)	63	65	2	-
Additions and deletions					
Additions	4,702	126	19	-	4,847
Deletions (excluding amounts written off)	(4,482)	(159)	(38)	(4)	(4,683)
Net additions/(deletions)	220	(33)	(19)	(4)	164
Amounts written off	(6)	(35)	(31)	(2)	(74)
Balance at end of year	4,857	345	65	8	5,275

19 Allowance for Expected Credit Loss (continued)

(c) Corporate

$ millions	Banking Group				
Movement in Allowance for Expected Credit Loss	**Collective Allowances**			**Individually Assessed Allowances**	
As at 30 June 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	39	113	4	42	198
(Credited against)/charged to the Income Statement					
Changes in collective allowances due to transfers between ECL stages					
Stage 1 to Stage 2	(11)	25	-	-	14
Stage 1 to Stage 3	-	-	-	-	-
Stage 2 to Stage 1	5	(17)	-	-	(12)
Stage 2 to Stage 3	-	(1)	2	-	1
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	1	(1)	-	-
Net transfers to/(from) Stage 3 individually assessed allowances	-	-	-	-	-
Changes in collective allowances due to transfers between ECL stages	(6)	8	1	-	3
Changes in collective allowances due to additions and deletions	6	(10)	(2)	-	(6)
Changes in collective allowances due to amounts written off	-	-	-	-	-
Total changes in collective allowances due to movements in gross carrying amounts	-	(2)	(1)	-	(3)
Other changes in collective allowances	5	4	-	-	9
Changes in individually assessed allowances due to transfers from collective allowances	-	-	-	-	-
New and increased individually assessed allowances[1]	-	-	-	44	44
Write-back of individually assessed allowances no longer required	-	-	-	(9)	(9)
Total charged to/(credited against) the Income Statement	5	2	(1)	35	41
Amounts written off from individually assessed allowances	-	-	-	(14)	(14)
Balance at end of year	44	115	3	63	225

$ millions	Banking Group				
Movement in Gross Carrying Amounts	**Collectively Assessed**			**Individually Assessed**	
As at 30 June 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	12,996	10,651	50	432	24,129
Changes due to transfers between ECL stages					
Stage 1 to Stage 2	(3,007)	3,007	-	-	-
Stage 1 to Stage 3	(4)	-	4	-	-
Stage 2 to Stage 1	2,641	(2,641)	-	-	-
Stage 2 to Stage 3	-	(24)	24	-	-
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	24	(24)	-	-
Net transfers to/(from) Stage 3 individually assessed	1	15	(6)	(10)	-
Total changes due to transfers between ECL stages	(369)	381	(2)	(10)	-
Additions and deletions					
Additions	7,159	3,874	16	-	11,049
Deletions (excluding amounts written off)	(5,485)	(3,951)	(25)	(67)	(9,528)
Net additions/(deletions)	1,674	(77)	(9)	(67)	1,521
Amounts written off	-	-	-	(14)	(14)
Balance at end of year	14,301	10,955	39	341	25,636

(1) Stage 3 individually assessed corporate lending decreased by $91 million during the year, while Stage 3 individually assessed allowances for ECL increased by $21 million. The increase in individually assessed allowances is primarily due to additional allowances raised on individually assessed corporate lending that was included within this Stage at the beginning of the year.

19 Allowance for Expected Credit Loss (continued)

(d) Total Advances to Customers

$ millions **Movement in Allowance for Expected Credit Loss** **As at 30 June 2019**	**Banking Group** **Collective Allowances** **Stage 1**	**Stage 2**	**Stage 3**	**Individually Assessed Allowances** **Stage 3**	**Total**
Balance at beginning of year	110	186	28	49	373
(Credited against)/charged to the Income Statement					
Changes in collective allowances due to transfers between ECL stages					
Stage 1 to Stage 2	(37)	82	-	-	45
Stage 1 to Stage 3	-	-	9	-	9
Stage 2 to Stage 1	12	(39)	-	-	(27)
Stage 2 to Stage 3	-	(16)	49	-	33
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	7	(24)	-	(17)
Net transfers to Stage 3 individually assessed allowances	-	-	(1)	-	(1)
Changes in collective allowances due to transfers between ECL stages	(25)	34	33	-	42
Changes in collective allowances due to additions and deletions	12	(20)	(10)	-	(18)
Changes in collective allowances due to amounts written off	-	(7)	(15)	-	(22)
Total changes in collective allowances due to movements in gross carrying amounts	(13)	7	8	-	2
Other changes in collective allowances	20	(5)	-	-	15
Changes in individually assessed allowances due to transfers from collective allowances	-	-	-	1	1
New and increased individually assessed allowances	-	-	-	54	54
Write-back of individually assessed allowances no longer required	-	-	-	(17)	(17)
Total charged to the Income Statement	7	2	8	38	55
Amounts written off from individually assessed allowances	-	-	-	(18)	(18)
Balance at end of year	117	188	36	69	410

$ millions **Movement in Gross Carrying Amounts** **As at 30 June 2019**	**Banking Group** **Collectively Assessed** **Stage 1**	**Stage 2**	**Stage 3**	**Individually Assessed** **Stage 3**	**Total**
Balance at beginning of year	64,599	17,934	225	474	83,232
Changes due to transfers between ECL stages					
Stage 1 to Stage 2	(4,841)	4,841	-	-	-
Stage 1 to Stage 3	(146)	-	146	-	-
Stage 2 to Stage 1	3,951	(3,951)	-	-	-
Stage 2 to Stage 3	-	(470)	470	-	-
Stage 3 to Stage 1	4	-	(4)	-	-
Stage 3 to Stage 2	-	309	(309)	-	-
Net transfers (from)/to Stage 3 individually assessed	(5)	17	(16)	4	-
Total changes due to transfers between ECL stages	(1,037)	746	287	4	-
Additions and deletions					
Additions	26,265	4,585	39	-	30,889
Deletions (excluding amounts written off)	(20,216)	(5,477)	(143)	(90)	(25,926)
Net additions/(deletions)	6,049	(892)	(104)	(90)	4,963
Amounts written off	(6)	(35)	(31)	(18)	(90)
Balance at end of year	69,605	17,753	377	370	88,105

19 Allowance for Expected Credit Loss (continued)

(e) Forward looking information

Credit risk factors used in the calculation of ECL are point-in-time estimates based on current conditions and are adjusted to include the impact of multiple probability-weighted future forecast economic scenarios.

Forward looking credit risk factors are modelled for each significant portfolio based on relevant macroeconomic factors. For example:

- Retail portfolios: Cash rate, unemployment rate and house price index; and
- Corporate portfolios: Unemployment rate, business investment index, stock exchange index and exchange rate.

The Banking Group uses the following four alternative macroeconomic scenarios to reflect an unbiased probability-weighted range of possible future outcomes in estimating ECL:

- Central scenario: This scenario considers the Banking Group's base case assumptions used in business planning (including the factors outlined above);
- Upside and Downside Scenarios: These scenarios are set relative to the Central scenario and are based on macroeconomic conditions which would lead to the lowest and highest impairment losses expected over an approximate 10 year economic cycle (including a strengthening or deterioration of the factors outlined above); and
- Severe Downside: This scenario has been included to account for a potentially severe impact of less likely extremely adverse macroeconomic conditions which would lead to the highest impairment losses expected over a longer horizon such as a 30 year economic cycle (including a significant deterioration of the factors outlined above).

The probability weights assigned to each scenario are based on management's best estimate of their relative likelihood. The same future forecast scenarios and probability weights apply across all portfolios.

The Banking Group's assessment of SICR also incorporates the impact of multiple probability-weighted future forecast economic scenarios on exposures' internal risk grades using the same four forecast macroeconomic scenarios as described above.

There have been no significant changes in estimation techniques or assumptions made during the reporting period.

Assuming a 100% weighting on the central scenario and holding all other assumptions constant, the total allowance for ECL as at 30 June 2019 would be approximately $115 million lower.

(f) Provisions for Impairment Losses for the year ended 30 June 2018

$ 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

20 Impairment Losses on Financial Assets

$ millions	Banking Group			
For the year ended 30 June 2019	**Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
Charged to/(credited against) the Income Statement for collective allowances	**12**	**(1)**	**6**	**17**
Charged to the Income Statement for individually assessed allowances	**2**	**1**	**35**	**38**
Bad debts written off directly to the Income Statement	**-**	**72**	**-**	**72**
Recovery of amounts previously written off	**(2)**	**(14)**	**(3)**	**(19)**
Total impairment losses recognised in the Income Statement	**12**	**58**	**38**	**108**

Impairment losses on other financial assets for the year ended 30 June 2019 are not material to the Banking Group.

Amounts written off during the year still subject to enforcement activity

As at 30 June 2019, the contractual amount outstanding on financial assets that were written off during the year, but which are still subject to enforcement activity, is $73 million.

$ millions	Banking Group			
For the year ended 30 June 2018	Residential Mortgages	Other Retail	Corporate	Total
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

21 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.

Other financial assets have been excluded from the analysis, 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 categorising 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.

$ millions	Banking Group			
As at 30 June 2019	**Financial Assets at Amortised Cost**	**Financial Assets at Fair Value**	**Other Credit Exposures**	**Total Credit Exposures**
Concentration by industry				
Agriculture	10,719	23	787	11,529
Forestry and Fishing, Agriculture Services	475	3	65	543
Manufacturing	1,031	25	356	1,412
Electricity, Gas, Water and Waste Services	298	75	127	500
Construction	623	-	302	925
Wholesale Trade	718	5	470	1,193
Retail Trade and Accommodation	1,499	1	441	1,941
Transport, Postal and Warehousing	848	5	269	1,122
Financial and Insurance Services	3,604	4,384	227	8,215
Rental, Hiring and Real Estate Services	30,678	60	1,125	31,863
Professional, Scientific, Technical, Administrative and Support Services	539	1	372	912
Public Administration and Safety	30	2,246	67	2,343
Education and Training	284	2	107	393
Health Care and Social Assistance	889	9	250	1,148
Arts, Recreation and Other Services	366	1	96	463
Household	38,084	-	9,780	47,864
All Other	70	1	33	104
Total credit exposures by industry	90,755	6,841	14,874	112,470
Concentration by geographic region				
Auckland	44,329	1,880	8,575	54,784
Rest of New Zealand	44,319	1,689	6,098	52,106
Overseas	2,107	3,272	201	5,580
Total credit exposures by geographic region	90,755	6,841	14,874	112,470

21 Concentrations of Credit Exposures (continued)

$ 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

22 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 2019.

	Banking Group	
Number of exposures that are greater than 10% of common equity tier one capital	**Exposure as at 30-Jun-19**	**Peak end-of-day exposure over six months to 30-Jun-19**
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	2	1
Greater than 15% but less than 20% of common equity tier one capital	1	3
Greater than 20% but less than 25% 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	-	-
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	-	-

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

	Banking Group			
	Peak Exposure for the Year		Balance Date Exposure	
30 June 2019	**$ millions**	**Percentage of Tier One Capital**	**$ millions**	**Percentage of Tier One Capital**
All connected persons	**1,526**	**20.6%**	**564**	**7.6%**
Non-bank connected persons	**7**	**0.1%**	**7**	**0.1%**

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 all connected persons include exposures to the ultimate parent bank, CBA. As at 30 June 2019 this amounted to $276 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 2019 this amounted to $139 million.

The Banking Group had no individually assessed allowances held against credit exposures to connected persons as at 30 June 2019.

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 2019.

24 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 2019 the Banking Group had not sold or repledged securities accepted as collateral under reverse repurchase agreements (30 June 2018 nil).

Cash and liquid assets include $913 million as at 30 June 2019 deposited with the RBNZ (30 June 2018 $873 million).

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 were measured at fair value. As at 30 June 2018 no collateral was held to mitigate the credit risk on these instruments and none of these securities were backed by guarantees or other assets.

Securities at Fair Value through Other Comprehensive Income

These assets are measured at fair value. As at 30 June 2019 no collateral is held to mitigate the credit risk on these instruments and $374 million of these securities are backed by guarantees.

Derivative Assets

The Banking Group's use of derivative contracts is outlined in note 14. 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 may be obtained against derivative assets. Refer to note 14 for detail of collateral received.

Available-for-Sale Securities

These assets were measured at fair value. As at 30 June 2018 no collateral was held to mitigate the credit risk on these instruments and $327 million of these securities were backed by guarantees.

Other Assets

This Balance Sheet category includes interest receivable accrued and other current assets. As at 30 June 2019 no collateral is held on these balances (30 June 2018 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
- Personal and corporate guarantees received from third parties.

The collateral mitigating credit risk of key lending portfolios is as follows:

- Residential Mortgages

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

- 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.

- 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, customer 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.

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

Advances to Customers (continued)

For the purposes of the tables below:

- Secured exposures are those that have greater than or equal to 100% security cover after adjusting for collateral haircuts;
- Partially secured exposures are those that have 40 - 99.9% security cover after adjusting for collateral haircuts;
- Unsecured exposures are those that have less than 40% security cover after adjusting for collateral haircuts; and
- The maximum exposure for collateral held on Advances to customers is presented net of any allowance for ECL.

$ millions	Banking Group			
Collateral Held on Advances to Customers - On Balance Sheet	**Residential Mortgages[1]**	**Other Retail**	**Corporate**	**Total**
As at 30 June 2019				
Maximum Exposure	**57,119**	**5,165**	**25,411**	**87,695**
Collateral Classification				
Secured	**100.0%**	**30.7%**	**69.1%**	**86.9%**
Partially Secured	**-**	**7.1%**	**20.2%**	**6.3%**
Unsecured	**-**	**62.2%**	**10.7%**	**6.8%**
As at 30 June 2018				
Maximum Exposure[2]	53,883	5,072	23,976	82,931
Collateral Classification[2]				
Secured	100.0%	29.5%	66.1%	85.8%
Partially Secured	-	8.0%	21.0%	6.6%
Unsecured	-	62.5%	12.9%	7.6%

As at 30 June 2019, 43.2% of the Banking Group's credit impaired Advances to customers were secured, 51.8% were partially secured and 5.0% were unsecured.

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 Advances to customers. 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 2019	
Maximum Exposure	**14,874**
Collateral Classification	
Secured	**67.1%**
Partially Secured	**5.8%**
Unsecured	**27.1%**
As at 30 June 2018	
Maximum Exposure	15,164
Collateral Classification[2]	
Secured	66.4%
Partially Secured	5.1%
Unsecured	28.5%

(1) Refer to note 44 for loan-to-valuation ratios for residential mortgages.

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

25 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 2019, mortgage loans with a carrying value of $5.0 billion (30 June 2018 $5.0 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 2019, the Medallion NZ Series Trust 2009-1R had other assets of $347 million representing cash from principal repayments (30 June 2018 $358 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 2019, the Covered Bond Trust held mortgage loans with a carrying value of $5.1 billion (30 June 2018 $5.1 billion), and other assets of $116 million representing cash from principal repayments (30 June 2018 $137 million). The carrying value of the associated Covered Bond liabilities as at 30 June 2019 is $3.5 billion (30 June 2018 $3.9 billion).

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 Securities at fair value through other comprehensive income (30 June 2018 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, a financial liability is recognised for cash received which is included in Deposits and other borrowings.

As at 30 June 2019 the Banking Group had collateral advanced under repurchase agreements of $9 million (30 June 2018 nil).

Transferred Financial Assets that are Derecognised in their Entirety

As at 30 June 2019 the Banking Group has not derecognised in its entirety any financial assets where it has a continuing involvement (30 June 2018 nil).

26 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 amount of imputation credits available to all members of the ICA Group as at 30 June 2019 is $1,259 million (30 June 2018 $1,075 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.

27 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
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
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			
Payments NZ Limited	19	Payment systems	30 September

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

All companies were incorporated in New Zealand.

Changes in Composition of the Banking Group

On 19 December 2018, Bond Investments UK Limited was amalgamated into Bond Investments No 1 Limited. There was no material impact on the consolidated financial statements of the Banking Group. Bond Investments UK Limited was previously a wholly owned subsidiary of the Bank.

On 11 January 2019, the Bank sold its 25% shareholding in Paymark Limited to Ingenico Group. The sale resulted in a net gain of $46 million. Paymark Limited was previously an associate of the Bank.

On 2 August 2019, Bond Investment No 1 Limited was removed from the New Zealand Companies Register. The removal does not have an impact on the consolidated financial statements of the Banking Group.

28 Other Assets

On adoption of NZ IFRS 15 the Banking Group recognised contract assets of $32 million. Refer to note 2 for further information.

$ millions	Banking Group	
As at 30 June	**2019**	2018
Interest receivable accrued	**186**	186
Contract assets	**32**	-
Other assets	**76**	75
Total other assets	**294**	261
Amounts due for settlement within 12 months	**264**	247
Amounts due for settlement over 12 months	**30**	14
Total other assets	**294**	261

29 Deferred Tax Assets

$ millions	Banking Group	
As at 30 June	**2019**	2018
Balance at 30 June	**144**	135
Effects of new accounting standards	**12**	-
Balance at beginning of year	**156**	135
Recognised in the Income Statement	**12**	6
Recognised in other comprehensive income	**9**	3
Balance at end of year	**177**	144
Deferred tax relates to:		
Asset revaluation reserve	**(3)**	(4)
Available-for-sale reserve	**-**	(2)
Fair value through other comprehensive income reserve	**(3)**	-
Cash flow hedge reserve	**46**	37
Depreciation	**4**	1
Provision for employee entitlements	**12**	13
Allowance for expected credit loss	**116**	84
Other temporary differences	**5**	15
Total deferred tax assets	**177**	144
Deferred tax recognised in the Income Statement:		
Depreciation	**3**	2
Provision for employee entitlements	**(1)**	3
Allowance for expected credit loss	**11**	1
Other temporary differences	**(1)**	-
Total deferred tax recognised in the Income Statement	**12**	6
Deferred tax recognised in other comprehensive income:		
Asset revaluation reserve	**1**	1
Available-for-sale reserve	**-**	(1)
Fair value through other comprehensive income reserve	**(1)**	-
Cash flow hedge reserve	**9**	3
Total deferred tax recognised in other comprehensive income	**9**	3

30 Deposits and Other Borrowings

On adoption of NZ IFRS 9, Other liabilities at fair value through Income Statement were reclassified to Deposits and other borrowings. Refer to note 2 for further information.

$ millions	Banking Group	
As at 30 June	**2019**	2018
Certificates of deposit	**3,377**	2,551
Term deposits	**34,034**	32,268
On demand and short term deposits	**23,275**	22,780
Deposits not bearing interest	**5,530**	4,820
Repurchase agreements	**9**	-
Total deposits and other borrowings	**66,225**	62,419
Amounts due for settlement within 12 months	**64,070**	59,123
Amounts due for settlement over 12 months	**2,155**	3,296
Total deposits and other borrowings	**66,225**	62,419

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.

31 Other Liabilities

On adoption of NZ IFRS 15 the Banking Group reclassified $60 million from Trade accounts payable and other liabilities to Contract liabilities.

$ millions	Banking Group	
As at 30 June	**2019**	2018
Interest payable accrued	**288**	292
Employee entitlements	**128**	138
Contract liabilities	**58**	-
Trade accounts payable and other liabilities	**157**	186
Total other liabilities	**631**	616
Amounts due for settlement within 12 months	**625**	609
Amounts due for settlement over 12 months	**6**	7
Total other liabilities	**631**	616

32 Due to Financial Institutions

As at 30 June 2019 amounts due to financial institutions of $1,312 million are due for settlement within 12 months of balance date (30 June 2018 $1,271 million due within 12 months of balance date).

33 Other Liabilities at Fair Value through Income Statement

On adoption of NZ IFRS 9, Other liabilities at fair value through Income Statement were reclassified to Deposits and other borrowings and all matured in the reporting period. Refer to note 2 for further information.

$ millions	Banking Group	
As at 30 June	**2019**	2018
Certificates of deposit	**-**	1,097
Total other liabilities at fair value through Income Statement	**-**	1,097

As at 30 June 2018 Other liabilities at fair value through Income Statement were due for settlement 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. All other changes in fair value were attributable to changes in the benchmark interest rate.

34 Debt Issues

$ millions	Banking Group	
As at 30 June	**2019**	2018
Debt issues by programme		
Euro commercial paper	**215**	148
USD commercial paper	**3,050**	3,214
Euro medium term notes	**8,862**	7,662
USD medium term notes	**2,276**	1,467
NZD domestic bonds	**3,690**	3,790
Covered bonds	**3,463**	3,920
Total debt issues	**21,556**	20,201
Short term debt issues by currency		
USD	**3,265**	3,362
Long term debt issues by currency due for settlement within 12 months		
USD	**-**	317
GBP	**567**	-
EUR	**891**	862
NZD	**457**	1,202
CHF	**232**	676
Total debt issues due for settlement within 12 months	**5,412**	6,419
Long term debt issues by currency due for settlement over 12 months		
USD	**4,699**	3,452
AUD	**133**	109
GBP	**469**	1,057
JPY	**132**	126
EUR	**6,568**	5,496
NZD	**3,233**	2,790
HKD	**195**	147
CHF	**715**	605
Total debt issues due for settlement over 12 months	**16,144**	13,782
Total debt issues	**21,556**	20,201
Debt issues at fair value through Income Statement	**585**	148
Debt issues at amortised cost	**20,971**	20,053
Total debt issues	**21,556**	20,201
Fair value hedge adjustments included in total debt issues	**356**	(52)
Movement in debt issues		
Balance at beginning of year	**20,201**	18,480
Issuances during the year[1]	**8,869**	8,837
Repayments during the year[1]	**(7,978)**	(8,340)
Fair value movements	**408**	(33)
Foreign exchange and other movements[1]	**56**	1,257
Balance at end of year	**21,556**	20,201

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

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 2019 was 2.62% for CP issued under the ECP programme (30 June 2018 1.62%) and 2.66% for CP issued under the USCP programme (30 June 2018 2.41%).

34 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 joint programme limit is USD70 billion. These issuances occur in multiple currencies and 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 a programme limit of USD10 billion. 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 and 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 25 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.

35 Loan Capital

$ millions	Banking Group	
For the year ended 30 June	**2019**	2018
Movement in loan capital		
Balance at beginning of year	**806**	804
Redemption during the year	**(400)**	-
Fair value and other movements	**1**	2
Balance at end of year	**407**	806

- On 17 April 2014, the Bank issued subordinated and unsecured debt securities with a face value of $400 million quoted as ABB030 on the NZX Debt Market (the "ABB030 Notes"). The ABB030 Notes had a maturity date of 15 June 2024 with an option to redeem all or some of the ABB030 Notes on any interest payment date on or after 15 June 2019 (call option date). The ABB030 Notes had an interest rate of 6.65%. Payment of interest was quarterly in arrears and was subject to the Bank and the Banking Group remaining solvent after such payment was made.

  On 17 June 2019, the Bank redeemed all of the ABB030 Notes for their face value of $400 million.

- On 30 November 2016, the Bank issued additional subordinated and unsecured debt securities with a face value of $400 million quoted as ABB050 on the NZX Debt Market (the "ABB050 Notes").

  The ABB050 Notes will mature on 15 December 2026, but subject to certain conditions the Bank has the right to redeem all or some of the ABB050 Notes on any interest payment date on or after 15 December 2021 (call option date). However, at any time, the Bank may redeem the ABB050 Notes for tax or regulatory reasons.

  The ABB050 Notes bear an interest rate of 5.25% fixed for five years, and will be reset if not redeemed on or before their call option date. Payment of interest is quarterly in arrears and is subject to the Bank and the Banking Group being solvent immediately after such payment is made.

  The ABB050 Notes meet the criteria for tier two capital designation under the Bank's and CBA's regulatory capital requirements and are classified as financial liabilities under NZ IAS 32.

  If a non-viability trigger event ("NVTE") occurs, some or all of the ABB050 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 ABB050 Notes; or
  - APRA notifies CBA that it believes an exchange of some or all the ABB050 Notes is necessary because without it CBA would become non-viable. If the ABB050 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 ABB050 Notes, the Bank also entered into a related agreement with ASB Holdings Limited and CBA on 12 October 2016. This related agreement includes 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 ABB050 Notes exchanged into CBA shares.

36 Contributed Capital

	Banking Group			
	Number of shares		$ millions	
As at 30 June	2019	2018	2019	2018
Issued and fully paid ordinary share capital				
Balance at beginning of year	**2,648,121,300**	2,648,121,300	**2,673**	2,673
Balance at end of year	**2,648,121,300**	2,648,121,300	**2,673**	2,673
Issued and fully paid perpetual preference share capital				
Balance at beginning of year	**560,000,000**	560,000,000	**1,550**	1,550
Redemption of perpetual preference shares	**(550,000,000)**	-	**(550)**	-
Balance at end of year	**10,000,000**	560,000,000	**1,000**	1,550
Total contributed capital			**3,673**	4,223

All contributed capital is included in tier one capital for capital adequacy calculation purposes. Refer to note 44 for more information on regulatory capital.

Ordinary Shares

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

- 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.

- 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 were subsidiaries of CBA Funding (NZ) Limited, which is ultimately owned by CBA.

  Under the transactions, ASB Capital Limited and ASB Capital No. 2 Limited had 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 were party to Trust Deeds, whereby ASB Funding Limited provided covenants to the Trustee for the benefit of holders of the ASB Capital Limited and ASB Capital No. 2 Limited PPS and granted security over the Bank's PPS in favour of the Trustee.

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

  On 15 May 2019, the 2006 Series 1 and Series 2 PPS were redeemed for their face value of $550 million. The PPS issued by ASB Capital Limited and ASB Capital No. 2 Limited were also redeemed on the same date. Subsequently on 17 May 2019, ASB Capital Limited and ASB Capital No. 2 Limited were amalgamated into CBA Funding (NZ) Limited.

  Prior to redemption, the dividend payable on the 2006 Series 1 PPS was based on the one year swap rate plus a margin of 1.3%. Rates were reset annually on 15 November or the next business day. The rate was reset on 15 November 2018 to 3.35% per annum (the rate to 15 November 2018 was 3.30% per annum).

  Prior to redemption, the dividend payable on the 2006 Series 2 PPS was based on the one year swap rate plus a margin of 1.0%. Rates were reset annually on 15 May or the next business day. The rate to 15 May 2019 was 3.05% per annum.

37 Reserves

$ millions As at 30 June	Banking Group 2019	 2018
Asset revaluation reserve		
Balance at beginning of year	**29**	26
Revaluations of land and buildings	**-**	2
Deferred tax	**1**	1
Balance at end of year	**30**	29

The asset revaluation reserve relates to revaluation gains on land and buildings carried at valuation. Refer to note 1 (n) for further detail.

Available-for-sale reserve		
Balance at 30 June 2018	**4**	-
Effects of new accounting standards	**(4)**	-
Balance at beginning of year	**-**	2
Net gain from changes in fair value	**-**	3
Deferred tax	**-**	(1)
Balance at end of year	**-**	4

The available-for-sale reserve included 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 was applied, only fair value changes relating to movements in credit spreads were included in the reserve. On transition to NZ IFRS 9, this reserve was reclassified to the fair value through other comprehensive income reserve. Refer to note 2 for further information.

Cash flow hedge reserve		
Balance at beginning of year	**(94)**	(86)
Net loss from changes in fair value	**(166)**	(179)
Reclassified to Income Statement:		
Interest income	**(85)**	(87)
Interest expense	**219**	255
Deferred tax	**9**	3
Balance at end of year	**(117)**	(94)

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
Currency translation differences	**(1)**	-
Balance at end of year	**-**	1

The foreign currency translation reserve previously comprised exchange differences on translation of foreign currency assets and liabilities of an overseas subsidiary.

Fair value through other comprehensive income reserve		
Balance at 30 June 2018	**-**	-
Effects of new accounting standards	**4**	-
Balance at beginning of year	**4**	-
Net gain from changes in fair value	**3**	-
Deferred tax	**(1)**	-
Balance at end of year	**6**	-

The fair value through other comprehensive income reserve includes the cumulative net change in the fair value of securities at fair value through other comprehensive income (excluding impairment gains or losses, interest revenue and foreign exchange gains or losses) until the financial asset 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. On transition to NZ IFRS 9, the available-for-sale reserve was reclassified to this reserve. Refer to note 2 for further information.

38 Leasing and Other Commitments

$ millions	Banking Group	
As at 30 June	**2019**	2018
Leasing commitments		
The following non-cancellable operating lease commitments existed as at the reporting date:		
Within one year	**50**	53
Between one and two years	**43**	46
Between two and five years	**96**	103
Over five years	**140**	160
Total leasing commitments	**329**	362
Other commitments	**15**	14

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 6).

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. 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 $1 million for the year ended 30 June 2019 (30 June 2018 $2 million) was included in the Banking Group's Income Statement.

39 Credit and Capital Commitments, and Contingent Liabilities

$ millions	Banking Group Notional Amount	
As at 30 June	**2019**	2018
Credit and capital commitments		
Lending commitments approved but not yet advanced (1)	**14,178**	14,621
Capital expenditure commitments	**3**	5
Total credit and capital commitments	**14,181**	14,626
Credit related contingent liabilities		
Guarantees	**184**	200
Standby letters of credit	**125**	143
Other credit facilities	**387**	200
Total credit related contingent liabilities	**696**	543

(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.

In addition to the above, the Labour Inspectorate of the Ministry of Business, Innovation, and Employment is undertaking a programme of compliance audits on a number of New Zealand organisations, including the Bank, in respect of the Holidays Act 2003 (the "Holidays Act"). On 18 December 2018, the Bank received the Labour Inspectorate's report of its findings on the Bank's compliance with the Holidays Act.

The report included the Labour Inspectorate's finding that the Bank has not complied with the requirements of the Holidays Act by not including certain incentive payments in the Bank's calculation of gross earnings under the Holidays Act. The Bank's position in relation to the Labour Inspectorate's finding, is that the application of the law is uncertain and yet to be definitively determined. If extrapolated to the Bank's entire workforce, that finding would result in an estimated liability of $31 million in total for the preceding six years' annual holiday payments. The Bank continues to engage with the Labour Inspectorate on the matter.

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.

Notes to the Financial Statements

For the year ended 30 June 2019

40 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.

Certain superannuation schemes and managed investment schemes are managed by ASB Group Investments Limited, a wholly owned subsidiary of the Bank. Related party balances between these schemes, and the Banking Group are disclosed below.

During the year ended 30 June 2019 the Banking Group has entered into, or had in place, various financial transactions with members of the Commonwealth Bank Group and other related parties. The Bank provides administrative functions to some subsidiaries and related companies for which no 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.

The Commonwealth Bank of Australia New Zealand Life Insurance Group ("NZ Life Group") included the ASB Group (Life) Limited group of companies and First State Investments (NZ) Limited. On 2 July 2018, CBA finalised the sale of 100% of its insurance business in New Zealand to AIA Group Limited. From that date the ASB Group (Life) Limited group of companies is no longer considered to be a related party of the Banking Group. On 12 July 2018, ASB Group (Life) Limited was renamed to AIA Sovereign Limited.

$ millions	Banking Group	
For the year ended 30 June	**2019**	2018
Related Party Transactions		
Interest income		
Received from Commonwealth Bank Group	**13**	10
Interest expense		
Paid to Commonwealth Bank Group	**118**	105
Paid to NZ Life Group	**-**	4
Paid to superannuation schemes and managed investment schemes managed by ASB Group Investments Limited	**27**	26
	145	135
Other income		
Fair value gains on hedging derivatives with Commonwealth Bank Group	**80**	-
Received from NZ Life Group for administrative services	**-**	12
Received from NZ Life Group for insurance commission	**-**	44
Fair value gains/(losses) on hedging derivatives with NZ Life Group	**-**	19
Management and administration fees received from superannuation schemes and managed investment schemes managed by ASB Group Investments Limited	**106**	91
	186	166
Other expenses		
Paid to NZ Life Group for the origination of mortgages	**-**	2
Paid to Commonwealth Bank Group for investment management services	**2**	2
	2	4

$ millions	Banking Group	
As at 30 June	**2019**	2018
Related Party Balances		
Commonwealth Bank Group		
Cash and liquid assets	**127**	133
Due from financial institutions	**3**	472
Derivative assets: Interest rate contracts	**2**	74
Exchange rate contracts	**144**	122
	276	801
Deposits and other borrowings	**65**	51
Due to financial institutions	**524**	271
Debt issues at amortised cost	**800**	800
Derivative liabilities: Interest rate contracts	**6**	71
Exchange rate contracts	**39**	6
Other liabilities	**3**	4
	1,437	1,203

40 Related Party Transactions and Balances (continued)

$ millions As at 30 June		Banking Group 2019	2018
Related Party Balances (continued)			
NZ Life Group			
Derivative assets:	Exchange rate contracts	-	4
Deposits and other borrowings		-	185
Other liabilities		-	1
		-	186
Superannuation schemes and managed investment schemes managed by ASB Group Investments Limited			
Other assets		**16**	14
Deposits and other borrowings		**843**	820
Debt issues at amortised cost		**133**	125
		976	945
ASB Holdings Limited			
Deposits and other borrowings		**33**	41
Total related party assets		**292**	819
Total related party liabilities		**2,446**	2,375

Other Transactions and Balances

Commonwealth Bank Group provides guarantees over certain lending offered by the Bank to the value of $139 million (30 June 2018 $138 million).

Net payments of $35 million were made by the Banking Group to related parties, relating to the utilisation of tax-related items (30 June 2018 net receipts of $20 million).

No individually assessed allowance has been recognised in respect of loans given to related parties (30 June 2018 nil).

Refer to note 9 for details of dividends paid to shareholders, note 36 for details of shares issued to and repurchased from related parties and note 45 for further information on superannuation schemes and managed investment schemes managed by ASB Group Investments Limited.

41 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 For the year ended 30 June	Banking Group 2019	2018
Key management compensation		
Short term employee benefits	**13**	13
Share-based payments	**3**	4
Total key management compensation	**16**	17

Executive management of the Bank participate in CBA cash settled share-based payment plans and are awarded a number of Rights that vest provided certain conditions are met (including that the participant remains in employment until the vesting date). The liability as at 30 June 2019 was $7 million (30 June 2018 $8 million).

$ millions As at 30 June	Banking Group 2019	2018
Loans to key management personnel	**11**	6
Deposits from key management personnel	**6**	8

Loans made to and deposits held from 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 individually assessed allowance has 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 2019 (30 June 2018 nil).

Interest is received on loans and paid on deposits at market rates and are rounded to nil (30 June 2018 nil).

42 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.

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

- Level 1 – fair values are based on 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 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Securities at fair value through other comprehensive income	**4,658**	**1,032**	**-**	**5,690**
Derivative assets	**1**	**1,150**	**-**	**1,151**
Total financial assets measured at fair value	**4,659**	**2,182**	**-**	**6,841**
Financial liabilities				
Derivative liabilities	**-**	**404**	**-**	**404**
Debt issues at fair value through Income Statement	**-**	**585**	**-**	**585**
Total financial liabilities measured at fair value	**-**	**989**	**-**	**989**

There were no transfers between levels for recurring fair value measurements for the year ended 30 June 2019.

$ 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 for the year ended 30 June 2018.

42 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 Value				Carrying Value
As at 30 June 2019	**Level 1**	**Level 2**	**Level 3**	**Total**	**Total**
Financial assets					
Cash and liquid assets	**996**	**1,546**	**-**	**2,542**	**2,542**
Due from financial institutions	**-**	**518**	**-**	**518**	**518**
Advances to customers	**-**	**-**	**87,868**	**87,868**	**87,695**
Other financial assets	**-**	**278**	**-**	**278**	**278**
Total	**996**	**2,342**	**87,868**	**91,206**	**91,033**
Financial liabilities					
Deposits and other borrowings	**-**	**66,343**	**-**	**66,343**	**66,225**
Due to financial institutions	**-**	**1,312**	**-**	**1,312**	**1,312**
Other financial liabilities	**-**	**602**	**-**	**602**	**602**
Debt issues at amortised cost	**-**	**21,020**	**-**	**21,020**	**20,971**
Loan capital	**-**	**423**	**-**	**423**	**407**
Total	**-**	**89,700**	**-**	**89,700**	**89,517**

$ millions	Banking Group				
	Fair Value				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 financial 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 financial liabilities (1)	-	587	-	587	587
Debt issues at amortised cost	-	20,141	-	20,141	20,053
Loan capital	-	827	-	827	806
Total	-	85,287	-	85,287	85,136

(1) Certain comparatives have been restated to ensure consistency with the current period's presentation.

43 Offsetting Financial Assets and Financial Liabilities

Financial assets and financial liabilities are 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 2019						
Derivative assets	**1,135**	**(349)**	**(651)**	**135**	**16**	**1,151**
Reverse repurchase agreements	**1,546**	**(9)**	**(1,537)**	**-**	**-**	**1,546**
Total financial assets	**2,681**	**(358)**	**(2,188)**	**135**	**16**	**2,697**
Derivative liabilities	**(402)**	**349**	**32**	**(21)**	**(2)**	**(404)**
Repurchase agreements	**(9)**	**9**	**-**	**-**	**-**	**(9)**
Total financial liabilities	**(411)**	**358**	**32**	**(21)**	**(2)**	**(413)**
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)

(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

In the table above:

- Gross amounts 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;
- Net amount shows the potential effects of the Banking Group's right of offset from master netting agreements; and
- Amounts not subject to enforceable master netting agreements represents those amounts covered by master netting agreements but have uncertainty on their enforceability under applicable New Zealand legislation.

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

44 Capital Adequacy

Certain sections of this note are subject to review procedures which do not constitute an audit. These sections are clearly labelled as "Unaudited". Refer to the Independent Auditor's Report for further information.

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 17 (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 the Banking Group's 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;
- 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
- 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 tax assets, and other prescribed deductions. Tier two capital comprises the asset revaluation reserve 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, calculated 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; and
- 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. These are set at a higher level than required by the RBNZ, which both reduces the risk of breaching the conditions of registration and provides investor confidence.

The Banking Group actively monitors its capital adequacy, and reports this on a regular basis to senior management and the Board. This includes forecasting capital requirements to ensure any future capital requirements can be executed in a timely manner. 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, ordinary shares and perpetual preference shares are disclosed in notes 35 and 36.

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 2019.

During the current financial year and the comparative year shown, notwithstanding the disclosure on page 102 of this Disclosure Statement, the Banking Group complied with all of the RBNZ minimum capital ratios to which it is subject.

44 Capital Adequacy (continued)

RBNZ Capital Review

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 focuses 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.

On 14 December 2018, the RBNZ released a fourth consultation paper titled "How much capital is enough?" (including minimum capital ratios and buffers). The key elements of the RBNZ proposal are as follows:

- A tier one capital ratio requirement for the domestic systemically important banks (D-SIB) of 16%, consisting of a 6% minimum and 10% of prudential buffers;
- An increase in IRB banks' Risk Weighted Assets ("RWA") due to an increase in the scalar that is used in the calculation from 1.06 to 1.2 with an output floor of 85% of the RWA calculated under the standardised approach; and
- Retention of a tier two capital requirement of 2% of RWA. The RBNZ has requested banks to provide their views on whether tier two capital should remain in the capital framework.

The Banking Group responded to this consultation paper in May 2019. The RBNZ is expected to make an announcement with respect to the Capital Review in November 2019 and has indicated an implementation date of April 2020.

44 Capital Adequacy (continued)

$ millions As at 30 June 2019	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	**4,199**
Accumulated other comprehensive income and other disclosed reserves	**(111)**
Deductions from common equity tier one capital:	
Goodwill and other intangible assets	**(203)**
Deferred tax assets	**(177)**
Cash flow hedge reserve	**117**
Excess of expected loss over eligible allowance for impairment	**(94)**
Total common equity tier one capital	**6,404**
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	**7,404**
Tier two capital	
Loan capital	**400**
Asset revaluation reserve	**30**
Total tier two capital	**430**
Total capital	**7,834**

Unaudited As at 30 June	Banking Group 2019	Banking Group 2018	Bank 2019	Bank 2018
Capital ratios				
Common equity tier one capital ratio	**11.4%**	10.6%	**11.4%**	10.5%
Tier one capital ratio	**13.2%**	12.4%	**13.1%**	12.3%
Total capital ratio	**14.0%**	13.9%	**13.9%**	13.8%
Buffer ratio	**6.0%**	5.9%	**5.9%**	5.8%
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 2019	Banking Group Total Exposure[1]	 RWE[2]	 Capital Requirement
Total credit risk	**113,094**	**48,861**	**3,909**
Operational risk	**N/A**	**4,375**	**350**
Market risk	**N/A**	**2,837**	**227**
Total capital requirement		**56,073**	**4,486**

As at 30 June 2019, the Banking Group held $3,348m of capital in excess of its regulatory capital requirements.

(1) Total exposure is after credit risk mitigation.

(2) RWE is risk-weighted exposures or implied risk-weighted exposures.

44 Capital Adequacy (continued)

Unaudited As at 30 June 2019 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%	3,991	42%	7%	303	24
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%	3,991	42%	7%	303	24
Bank exposures						
Less than and including 0.03%	0.03%	1,071	60%	29%	333	27
Over 0.03% up to and including 0.05%	0.04%	2,556	61%	26%	694	56
Over 0.05% up to and including 0.07%	0.07%	262	61%	33%	93	7
Over 0.07% up to and including 0.26%	0.15%	21	61%	54%	12	1
Over 0.26% up to and including 99.99%	1.90%	2	61%	128%	3	-
Default PD grade	-	-	-	-	-	-
Total bank exposures	0.04%	3,912	61%	27%	1,135	91
Exposures secured by residential mortgages						
Less than and including 0.50%	0.27%	20,933	17%	9%	2,060	165
Over 0.50% up to and including 0.85%	0.65%	21,418	20%	21%	4,759	381
Over 0.85% up to and including 3.26%	1.25%	19,542	23%	39%	8,036	643
Over 3.26% up to and including 7.76%	3.58%	2,248	25%	79%	1,892	151
Over 7.76% up to and including 99.99%	12.58%	1,213	19%	100%	1,285	103
Default PD grade	100.00%	297	24%	286%	900	72
Total exposures secured by residential mortgages	1.48%	65,651	20%	27%	18,932	1,515
Other retail exposures						
Less than and including 0.50%	-	-	-	-	-	-
Over 0.50% up to and including 0.85%	0.83%	494	95%	89%	465	37
Over 0.85% up to and including 3.26%	1.59%	2,221	95%	112%	2,629	210
Over 3.26% up to and including 7.76%	3.77%	359	93%	134%	508	41
Over 7.76% up to and including 99.99%	26.96%	26	94%	233%	63	5
Default PD grade	100.00%	11	94%	1172%	137	11
Total other retail exposures	2.28%	3,111	94%	115%	3,802	304
Corporate exposures - small and medium enterprises						
Less than and including 0.20%	0.15%	549	38%	22%	126	10
Over 0.20% up to and including 0.50%	0.34%	3,268	26%	28%	984	79
Over 0.50% up to and including 1.00%	0.69%	9,561	31%	49%	4,955	396
Over 1.00% up to and including 2.30%	1.47%	7,534	32%	67%	5,325	426
Over 2.30% up to and including 99.99%	6.94%	2,539	32%	105%	2,822	226
Default PD grade	100.00%	364	41%	313%	1,209	97
Total corporate exposures - small and medium enterprises	3.06%	23,815	31%	61%	15,421	1,234
Other corporate exposures						
Less than and including 0.20%	0.11%	1,129	52%	27%	327	26
Over 0.20% up to and including 0.50%	0.29%	1,767	42%	48%	891	71
Over 0.50% up to and including 1.00%	0.64%	2,065	35%	56%	1,233	99
Over 1.00% up to and including 2.30%	1.58%	849	40%	86%	770	62
Over 2.30% up to and including 99.99%	9.52%	69	45%	185%	136	11
Default PD grade	100.00%	13	21%	267%	38	3
Total other corporate exposures	0.90%	5,892	41%	54%	3,395	272

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

44 Capital Adequacy (continued)

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

Unaudited $ millions As at 30 June 2019	Banking Group Undrawn Commitments and Other Off Balance Sheet Amounts Value	 EAD	 Market Related Contracts Principal Amount	 EAD
Bank exposures	122	122	168,611	1,639
Exposures secured by residential mortgages	8,443	8,060	-	-
Other retail exposures	2,066	2,028	-	-
Corporate exposures - small and medium enterprises	2,507	2,497	2,140	92
Other corporate exposures	1,570	1,569	3,331	98
	14,708	14,276	174,082	1,829

Unaudited $ millions As at 30 June 2019 LVR Range	 0%-60%	 60.1%-70%	 Banking Group 70.1%-80%	 80.1%-90%	 >90%	 Total
Residential mortgages by loan-to-valuation ratio ("LVR")						
On balance sheet exposures	25,095	12,689	15,408	3,177	1,235	57,604
Off balance sheet exposures	4,921	1,286	1,452	176	231	8,066
Total value of exposures	30,016	13,975	16,860	3,353	1,466	65,670
Expressed as a percentage of total exposures	45.7%	21.3%	25.7%	5.1%	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 2019	 Banking Group
Reconciliation of mortgage-related amounts	
Residential mortgages in Advances to customers (refer to note 19)	57,194
Add/(less):	
Off balance sheet exposures	8,066
Exposure at default adjustments	578
Unamortised loan establishment fees and expenses	(168)
Residential mortgages in LVR disclosure	65,670
Add/(less):	
Residential mortgages subject to the Standardised Approach	(19)
Residential mortgages subject to the IRB approach	65,651

44 Capital Adequacy (continued)

Unaudited Balance Sheet Exposures Subject to the Slotting Approach as at 30 June 2019	Banking Group Total Exposure after Credit Risk Mitigation $ millions	Risk Weight	Risk Weighted Exposures(1) $ millions	Minimum Capital Requirement $ millions
Specialised lending				
Strong	117	70%	87	7
Good	150	90%	143	11
Satisfactory	6	115%	8	1
Weak	1	250%	2	-
	274		240	19

Unaudited Off Balance Sheet Exposures Subject to the Slotting Approach as at 30 June 2019	Banking Group EAD $ millions	Average Risk Weight	Risk Weighted Exposures(1) $ millions	Minimum Capital Requirement $ millions
Undrawn commitments	8	149%	13	1
Other off balance sheet exposures	3	90%	2	-
	11		15	1

Unaudited Balance Sheet Exposures Subject to the Standardised Approach as at 30 June 2019	Banking Group Total Exposure after Credit Risk Mitigation $ millions	Average Risk Weight	Risk Weighted Exposures(1) $ millions	Minimum Capital Requirement $ millions
Cash	107	-	-	-
Residential mortgages	13	50%	7	1
Other assets	4,730	99%	4,982	399
Total balance sheet exposures	4,850		4,989	400

Unaudited Off Balance Sheet Exposures Subject to the Standardised Approach as at 30 June 2019	Total Exposure or Principal Amount $ millions	Average Credit Conversion Factor	Banking Group Credit Equivalent Amount $ millions	Average Risk Weight	Risk Weighted Exposures(1) $ millions	Minimum Capital Requirement $ millions
Market related contracts						
- Foreign exchange contracts	78	N/A	1	112%	1	-
- Interest rate contracts	17	N/A	-	112%	-	-
- Other over the counter contracts	-	N/A	-	-	-	-
Undrawn commitments	1,099	7%	80	96%	82	6
Other off balance sheet exposures	111	100%	111	100%	118	9
Total off balance sheet exposures subject to the standardised approach	1,305		192		201	15

Unaudited Equity Exposures Subject to the Standardised Approach as at 30 June 2019	Banking Group 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.

44 Capital Adequacy (continued)

Unaudited $ millions **Total Credit Risk as at 30 June 2019**	Banking Group Total Exposure after Credit Risk Mitigation	Total Risk Weighted Exposures	Capital Requirement
Exposures subject to the IRB approach	106,372	42,988	3,440
Specialised lending subject to the slotting approach	285	255	20
Exposures subject to the standardised approach	5,042	5,191	415
Credit valuation adjustment	-	397	32
Qualifying central counterparties	1,395	30	2
Total credit risk	113,094	48,861	3,909

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, 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 2019 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 17 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 and personal lending exposures. The summary table on the top of this page shows the asset types according to their current rating approach.

44 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;
- Have a good understanding of the design and operation of credit risk rating systems; and
- Approve material differences between established procedure and actual practice.

Refer to note 17 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 2019 was $4,375 million.

The total operational risk capital requirement as at 30 June 2019 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; and
- Internal loss data.

Indirect inputs used in the scenario analysis process:

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

Economic Capital Allocation

Operational risk economic capital is allocated across businesses units based on an internal capital allocation methodology which reflects the risk within those businesses.

Notes to the Financial Statements

For the year ended 30 June 2019

44 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 2019.

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 2019**	**Banking Group** **Interest Rate Risk**	**Foreign Currency Risk**	**Equity Risk**	**Total**
Implied risk-weighted exposure	**2,542**	**295**	**-**	**2,837**
Aggregate capital charge	**203**	**24**	**-**	**227**

Unaudited $ millions **Peak end-of-day Exposures for the six months ended 30 June 2019**	**Banking Group** **Interest Rate Risk**	**Foreign Currency Risk**	**Equity Risk**	**Total**
Implied risk-weighted exposure	**2,890**	**295**	**1**	**3,186**
Aggregate capital charge	**231**	**24**	**-**	**255**

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 and significant revisions to 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 2019 internal capital allocations of $315 million (30 June 2018 $329 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 predominantly accredited to use the Advanced Internal Ratings Based Approach for credit risk and the Advanced Measurement Approach for operational risk. The ultimate parent banking group is also required to assess its traded market risk and Interest Rate Risk in the Banking Book requirements under Pillar 1 of the Basel capital framework.

APRA prudential standards require a minimum CET1 ratio of 4.5%, effective from 1 January 2013. 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 2019 the minimum capital requirements were met (30 June 2018 minimum capital requirements were met).

Unaudited **As at 30 June**	**Ultimate Parent Bank** **2019**	2018[1]	**Ultimate Parent Banking Group** **2019**	2018
Common equity tier one capital ratio	**11.2%**	10.8%	**10.7%**	10.1%
Tier one capital ratio	**13.1%**	12.8%	**12.7%**	12.3%
Total capital ratio	**16.1%**	15.5%	**15.5%**	15.0%

(1) Comparative information has been restated to conform to the current year.

45 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 2019 the Banking Group had internally securitised $5.3 billion of RMBS through the Medallion NZ Series Trust 2009-1R (30 June 2018 $5.3 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 2018 $5.0 billion). Refer to note 25 for more information.

Funds Management

The Banking Group markets and distributes managed fund products which are issued by a wholly owned subsidiary, ASB Group Investments Limited (refer to note 27). Funds under management distributed by the Banking Group totalled $16,452 million as at 30 June 2019 (30 June 2018 $14,234 million). As at 30 June 2019 $1,020 million of funds under management were invested in related party products or securities (30 June 2018 $1,034 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 $17,061 million as at 30 June 2019 (30 June 2018 $14,607 million).

Insurance Business

The Banking Group does not conduct any insurance business.

Marketing and Distribution of Insurance Products

Certain general, travel and life insurance products are marketed and distributed by the Bank for the following entities: IAG New Zealand Limited, Cigna Life Insurance New Zealand Limited and Sovereign Assurance Company Limited (a wholly owned subsidiary of AIA Sovereign Limited, refer to note 40).

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.

46 Financial Reporting by Operating Segments

$ millions	Banking Group Retail Banking	Business Banking	Corporate Banking	Private Banking, Wealth and Insurance	Other	Total
Income Statement						
For the year ended 30 June 2019						
Net interest income	1,063	795	110	63	113	2,144
Other income/(loss)	397	123	46	227	(116)	677
Total operating income/(expense)	1,460	918	156	290	(3)	2,821
Impairment losses/(recoveries) on financial assets	62	39	7	1	(1)	108
Segment operating expenses (excluding impairment losses)	551	304	54	127	(69)	967
Segment net profit before tax	847	575	95	162	67	1,746
Tax expense	237	161	27	45	2	472
Segment net profit after tax	610	414	68	117	65	1,274
Non-cash expenses[(1)]						
Depreciation and amortisation expense	55	15	9	7	-	86
Balance Sheet						
As at 30 June 2019						
Total assets	44,662	36,923	5,822	2,680	8,380	98,467
Total liabilities	35,447	14,679	6,644	4,679	29,227	90,676

$ millions	Banking Group Retail Banking	Business Banking	Corporate Banking	Private Banking, Wealth and Insurance	Other	Total
Income Statement[(2)]						
For the year ended 30 June 2018						
Net interest income	1,022	748	93	54	122	2,039
Other income/(loss)	380	115	48	209	(145)	607
Total operating income/(expense)	1,402	863	141	263	(23)	2,646
Impairment losses/(recoveries) on financial assets	76	4	1	-	(1)	80
Segment operating expenses (excluding impairment losses)	517	290	56	123	(53)	933
Segment net profit before tax	809	569	84	140	31	1,633
Tax expense	227	159	24	39	7	456
Segment net profit after tax	582	410	60	101	24	1,177
Non-cash expenses[(1)(2)]						
Depreciation and amortisation expense	51	16	12	5	-	84
Balance Sheet[(2)]						
As at 30 June 2018						
Total assets	42,446	34,845	5,625	2,392	10,105	95,413
Total liabilities	33,918	14,316	6,294	4,169	28,844	87,541

(1) Non-cash expenses are included in segment operating expenses (excluding impairment losses).

(2) From November 2018, Business banking and Corporate banking are reported separately to the Chief Operating Decision Maker. Comparatives have been restated to ensure consistency with presentation in the current period.

46 Financial Reporting by Operating Segments (continued)

Retail Banking:	The Retail Banking segment provides a range of services to personal customers. 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 commercial, rural and small business customers.
Corporate Banking:	The Corporate Banking segment provides services to corporate customers and transactional banking services for non-retail customers. It also comprises the Bank's financial markets activities, including financial instruments trading and sales of financial instruments to bank wide 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.

47 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.

This note contains information on Operational and compliance, strategic, and reputational risks and the following notes contain information about the risk management framework:

- Note 17 (credit risk);
- Notes 48 and 49 (market risk); and
- Notes 50 to 53 (liquidity and funding risk).

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, on a regular basis, 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. The Executive Leadership Team assess strategic risk at least annually and monitor strategic execution risk at least quarterly.

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 (both current and emerging) arising from these.

Strategic risk is measured using an internal profit simulation model on a regular basis as a part of the Banking Group's ICAAP process, as set out in note 44.

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 the Non-financial Risk Committee (previously known as the Operational & Business Risk Forum) in accordance with the Banking Group's risk appetite statement, operational risk management framework, and code of conduct. The Non-financial Risk Committee meets on a monthly basis.

The Bank sets out clear behavioural standards, as outlined in the risk appetite statement and the code of conduct, and the Bank's leadership framework supports the Bank's vision and values.

47 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 regularly and are 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.

48 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; and
- 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 market risk metrics 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 and is assessed on a daily basis. 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	**2019**	2018
Interest rate risk	**0.23**	0.27
Foreign exchange risk	**0.06**	0.05
Diversification benefit	**(0.05)**	(0.04)
Total Traded Market Risk	**0.24**	0.28

48 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 where interest rate movements can result in earnings volatility over 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:

- **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	**2019**	2018
Exposure at end of year	**2.3**	4.1
Past 12 month exposure - average	**7.4**	11.0
Past 12 month exposure - high	**21.2**	25.1
Past 12 month exposure - low	**0.1**	0.1

- **Economic Value**

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

  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	**2019**	2018
Exposure at end of year	**7.3**	4.3
Past 12 month VaR (97.5 percentile) - average	**5.1**	7.0
Past 12 month VaR (97.5 percentile) - high	**8.8**	10.0
Past 12 month VaR (97.5 percentile) - low	**2.5**	3.5

48 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 As at 30 June	Banking Group 2019	 2018
Net open position		
US Dollar	**(3)**	(6)
Total net open position	**(3)**	(6)

49 Interest Rate Repricing Schedule

The following tables represent a breakdown of the Banking Group's assets and liabilities by their 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". The Banking Group does not manage its interest rate risk on the basis of the information below. The management of interest rate risk is set out in note 48.

$ millions	Banking Group						
As at 30 June 2019	**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	2,511	-	-	-	-	31	2,542
Due from financial institutions	515	-	-	-	-	3	518
Securities at fair value through other comprehensive income	999	65	1,078	846	2,702	-	5,690
Derivative assets	-	-	-	-	-	1,151	1,151
Advances to customers	39,220	10,305	15,827	15,523	7,077	(257)	87,695
Other financial assets	-	-	-	-	-	278	278
Total financial assets	43,245	10,370	16,905	16,369	9,779	1,206	97,874
Non-financial assets							593
Total assets							98,467
Liabilities							
Deposits and other borrowings	39,069	13,740	5,731	1,166	989	5,530	66,225
Due to financial institutions	1,293	-	-	-	-	19	1,312
Derivative liabilities	-	-	-	-	-	404	404
Other financial liabilities	-	-	-	-	-	602	602
Debt issues:							
At fair value through Income Statement	222	363	-	-	-	-	585
At amortised cost	6,697	42	1,277	2,123	10,486	346	20,971
Loan capital	-	-	-	-	400	7	407
Total financial liabilities	47,281	14,145	7,008	3,289	11,875	6,908	90,506
Non-financial liabilities							170
Total liabilities							90,676
Net derivative notionals	12,280	(2,237)	(7,113)	(11,436)	8,508		
Interest rate sensitivity gap	8,244	(6,012)	2,784	1,644	6,412		

49 Interest Rate Repricing Schedule (continued)

$ 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
Other financial assets(1)	-	-	-	-	-	237	237
Total financial assets	43,478	8,313	16,228	16,970	7,950	1,929	94,868
Non-financial assets(1)							545
Total assets							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
Other financial liabilities (1)	-	-	-	-	-	587	587
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 financial liabilities	47,920	11,208	7,805	3,641	10,432	6,370	87,376
Non-financial liabilities (1)							165
Total liabilities							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		

(1) Certain comparatives have been restated to ensure consistency with the current period's presentation.

50 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 and that liquidity in financial markets, such as the market for debt securities, may reduce significantly.

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 contingency funding plan ("CFP") and a liquidity risk management policy and strategy ("LRMPS") in place to manage these risks. The BARC approves any substantive changes to the CFP and approves the LRMPS annually.

The key objectives of the LRMPS 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; and
- To ensure that procedures and practices in relation to liquidity and funding risk management are clearly documented and communicated.

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.

Day-to-day management of liquidity and funding risks is documented in the liquidity management standard, liquid asset portfolio strategy and the annual wholesale funding plan which are approved by the Asset and Liability Committee. Liquidity and funding risk management is performed and reported by Treasury, with independent monitoring by the Market Risk Committee with oversight provided by the Asset and Liability Committee.

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 of 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.

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 2019 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 2018 $5.3 billion and $5.0 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 2018 4%). As at 30 June 2019 none of the RMBS had been used as collateral for repurchase agreements with the RBNZ (30 June 2018 nil). Refer to note 25 for additional information.

50 Liquidity and Funding Risk (continued)

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. The average three month ratios are produced in line with the Order and are reflected in the table below.

RBNZ requires banks to hold minimum amounts of liquid assets to help ensure that they are effectively managing their liquidity risks. The mismatch ratio is a measure of a bank's liquid assets, adjusted for expected cash inflows and outflows during a one-week or one-month period of stress. The Bank must maintain its one-week and one-month mismatch ratios above zero on a daily basis, with the mismatch ratio representing surplus liquidity as a portion of total funding of the Bank.

RBNZ requires banks to get a minimum amount of funding from stable sources called core funding. The Bank must maintain its core funding above 75% of the Bank's total Advances to customers on a daily basis.

Unaudited	Banking Group	
Average for the three months ended	**30-Jun-19**	**31-Mar-19**
One-month mismatch ratio	**5.5%**	5.4%
One-week mismatch ratio	**5.2%**	5.1%
Core funding ratio	**87.2%**	86.4%

51 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 and Guidelines. 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 2019	**Cash and Liquid Assets**	**Securities at Fair Value through Other Comprehensive Income**	**Advances to Customers**	**Deposits and Other Borrowings[1]**	**Other Assets**	**Total**
Cash	**83**	**-**	**-**	**-**	**-**	**83**
Call deposits with the central bank	**913**	**-**	**-**	**-**	**-**	**913**
Local authority securities	**-**	**347**	**-**	**-**	**3**	**350**
New Zealand government securities	**1,546**	**1,630**	**-**	**(9)**	**12**	**3,179**
Corporate bonds	**-**	**79**	**-**	**-**	**-**	**79**
Treasury bills	**-**	**25**	**-**	**-**	**-**	**25**
Bank bills	**-**	**598**	**-**	**-**	**-**	**598**
Kauri bonds	**-**	**1,991**	**-**	**-**	**16**	**2,007**
Bank bonds	**-**	**1,020**	**-**	**-**	**5**	**1,025**
Residential mortgage-backed securities	**-**	**-**	**3,939**	**-**	**-**	**3,939**
Total qualifying liquid assets	**2,542**	**5,690**	**3,939**	**(9)**	**36**	**12,198**

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

51 Qualifying Liquid Assets (continued)

$ 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[2]	-	63	-	-	-	-	63
Treasury bills	-	-	125	-	-	-	125
RBNZ bills	-	-	881	-	-	-	881
Bank bills	-	-	1,088	-	-	-	1,088
Kauri bonds	-	1,721	-	-	-	19	1,740
Bank bonds[2]	-	1,012	-	-	-	7	1,019
Residential mortgage-backed securities	-	-	-	3,817	-	-	3,817
Total qualifying liquid assets	2,566	4,142	2,344	3,817	-	42	12,911

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

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

52 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 reporting date. The amounts disclosed in the tables are the contractual undiscounted cash flows and include principal and future interest cash flows, and therefore may 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 Banking Group. 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 50.

$ millions	Banking Group							
As at 30 June 2019	**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	28,806	29,788	5,785	1,199	972	55	66,605	66,225
Due to financial institutions	976	337	-	-	-	-	1,313	1,312
Other financial liabilities	58	530	8	4	2	-	602	602
Debt issues:								
At fair value through Income Statement	-	594	-	-	-	-	594	585
At amortised cost	-	1,835	3,353	3,234	8,817	4,684	21,923	20,971
Loan capital	-	11	11	21	63	426	532	407
Total non-derivative financial liabilities	29,840	33,095	9,157	4,458	9,854	5,165	91,569	90,102
Derivative financial liabilities								
Inflows from derivatives	-	401	1,082	1,748	1,301	1,379	5,911	
Outflows from derivatives	-	(1,064)	(1,311)	(2,000)	(1,509)	(1,480)	(7,364)	
	-	(663)	(229)	(252)	(208)	(101)	(1,453)	
Off balance sheet items								
Lending commitments	12,692	1,486	-	-	-	-	14,178	
Guarantees	-	184	-	-	-	-	184	
Other credit related contingent liabilities	-	512	-	-	-	-	512	
Total off balance sheet items	12,692	2,182	-	-	-	-	14,874	

52 Maturity Analysis for Undiscounted Contractual Cash Flows (continued)

$ millions 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
				Banking Group				
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 financial liabilities(1)	81	496	3	7	-	-	587	587
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	28,838	30,983	9,328	4,861	9,123	4,990	88,123	86,381
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 credit related contingent liabilities	-	343	-	-	-	-	343	
Total off balance sheet items	12,756	2,408	-	-	-	-	15,164	

(1) Certain comparatives have been restated to ensure consistency with the current period's presentation.

53 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 categorising industry sectors. The significant categories shown are in line with the NZSIOC.

$ millions	Banking Group	
As at 30 June	**2019**	2018
Total funding comprises:		
Deposits and other borrowings	**66,225**	62,419
Due to financial institutions	**1,312**	1,271
Other liabilities at fair value through Income Statement	**-**	1,097
Debt issues:		
At fair value through Income Statement	**585**	148
At amortised cost	**20,971**	20,053
Loan capital	**407**	806
Total funding	**89,500**	85,794
Concentration by industry		
Agricultural, Forestry and Fishing	**1,214**	1,052
Manufacturing	**717**	627
Construction	**796**	633
Wholesale Trade	**630**	584
Retail Trade and Accommodation	**871**	807
Transport, Postal and Warehousing	**620**	684
Information Media and Telecommunications	**287**	267
Financial and Insurance Services	**30,200**	28,902
Rental, Hiring and Real Estate Services	**3,778**	3,039
Professional, Scientific, Technical, Administrative and Support Services	**4,912**	4,494
Public Administration and Safety	**713**	855
Education and Training	**1,573**	1,530
Health Care and Social Assistance	**879**	909
Arts, Recreation and Other Services	**1,799**	1,623
Households	**40,108**	39,522
All Other	**403**	266
Total funding by industry	**89,500**	85,794
Concentration by geographic region		
New Zealand	**63,686**	61,580
Overseas	**25,814**	24,214
Total funding by geographic region	**89,500**	85,794

54 Events after the Reporting Period

Refer to note 9 for details of perpetual preference and ordinary dividends declared after the reporting period.

Refer to note 27 for details of the removal of Bond Investments No 1 Limited from the New Zealand Companies Register 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

The following conditions of registration were applicable as at 30 June 2019 and came into effect on 1 January 2019.

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", and "Common Equity Tier 1 capital ratio" 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;
   - "Total capital" has the same meaning as in Part 2 of 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 bank complies with the minimum requirements set out in the following sections of the Reserve Bank of New Zealand document *"Capital Adequacy Framework (Internal Models Based Approach)"* (BS2B) dated November 2015:

   (a) The model approval requirements in section 1.3A;

   (b) The compendium requirements in section 1.3B;

   (c) The minimum requirements for the IRB approach in sections 4.217 to 4.324 (that is, Subpart 4C of BS2B); and

   (d) The minimum requirements for using the AMA approach for operational risk set out in sections 8.4 to 8.34.

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.

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,

- "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.

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

(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.)

   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;

Additional Disclosures (continued)

(To be read in conjunction with the Financial Statements)

Conditions of Registration for ASB Bank Limited (continued)

(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).

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.

Conditions of Registration for ASB Bank Limited (continued)

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.

    For the purposes of this condition of registration, 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 October 2018.

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.

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 70%, 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 20% 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.

Additional Disclosures (continued)

(To be read in conjunction with the Financial Statements)

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 2019:

"loan-to-valuation measurement period" means:

- The three calendar month period ending on the last day of March 2019; 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 2019.

Changes to Conditions of Registration since the previous Disclosure Statement

The RBNZ amended the Conditions of Registration on 1 January 2019 to reflect changes to the loan-to-valuation applicable to residential mortgage lending. This amendment refers to revised version of the RBNZ Banking Supervision Handbook document *Framework for Restrictions on High-LVR Residential Mortgage Lending* (BS19). The amendment also details specific sections of the RBNZ Banking Supervision Handbook document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) to be complied with.

As at 30 June 2019, there have been no other changes to the Conditions of Registration.

Non-compliance with Conditions of Registration 1B

- In September 2018, the Bank identified that the ratings for 18 obligors had not been reviewed at least annually as required by condition of registration 1B. A review of the 18 ratings was undertaken immediately. There was no impact on previously disclosed risk weighted assets or capital ratios as a result of that review.
- In February 2019, the Bank identified an instance of non-compliance with condition of registration 1B. This related to the calculation of capital required for credit risk where an exposure was excluded in the risk weighted asset calculation process. This error was applicable to the December 2018 reporting period only. This finding has been corrected and no restatement of previously reported capital ratios is required. This error did not cause the Bank to breach any of its minimum capital ratio requirements.
- In June 2019, the Bank identified minor instances of non-compliance with condition of registration 1B relating to the Bank's solo capital ratio calculation. These findings have been corrected and no restatement of previously reported capital ratios is required. The Banking Group's capital ratio calculations were not impacted.
- In July 2019, the Bank identified an obligor that had not been reviewed at least annually as required by condition of registration 1B and became overdue a rating review in June 2019. A review of that rating was undertaken immediately. There was no impact on risk weighted assets or capital ratios as a result of that review.

Directors' Statement

After due enquiry by the Directors, it is each Director's opinion that for the year ended 30 June 2019:

- 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 102 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	Dame Therese Walsh	V.A.J. Shortt
S.M. Bartlett	S.R.S. Blair	R.M. Carr
D.A. Cohen	S.R. Peterson	

7 August 2019

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 2019 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; and
- 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 2019;
- 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 17 to 23, 44, 45 and 47 to 53):
  (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 2019, 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 the balance sheet and notes 17 to 23, 44, 45 and 47 to 53:
  (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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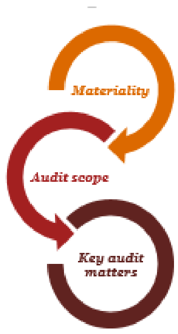
Basis for opinion

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 $87 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 two key audit matters:

- Allowance for expected credit losses on the Bank's advances to customers
- Operation of financial reporting Information Technology (IT) systems and controls.

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 financial reporting 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
Allowance for expected credit losses on the Bank's advances to customers (2019: $410 million, 2018: $301 million) NZ IFRS 9 *Financial Instruments* was adopted by the Bank for the financial year beginning 1 July 2018. Allowances for expected credit loss (ECL) of advances to customers that exceed specific thresholds are individually assessed by management. These allowances 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 advances to customers. During the financial year ended 30 June 2019 the majority of the Bank's individually assessed allowances for specific advances related primarily to commercial and rural advances to customers, classified as corporate exposures in note 19(c). If an individually assessed advance to customer is not impaired, it is then included in a group of advances to customers with similar risk characteristics and, along with those advances to customers below the specific thresholds referred above, is collectively assessed on a portfolio basis using models developed by management. NZ IFRS 9 introduces an ECL impairment model which takes into account forward-looking information reflecting potential future economic events. The Bank developed new models which are reliant on data as well as a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk. We considered this a key audit matter due to the subjective judgements made by the Bank in determining when to recognise allowances for expected credit losses including: · Models used to calculate ECLs (ECL models) are inherently complex and judgement is applied in determining the appropriate construct of model to be applied; and · A number of assumptions are made by the Bank concerning the values of inputs to the ECL models and how inputs correlate with one another. *Relevant references in the financial statements* Refer notes 1(m) and 19 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 on a sample basis: · Identification of impaired advances to customers; · Review and approval of forward looking information used in ECL models; · Reliability and accuracy of critical data elements used in ECL models; and · Review and approval of ECL model adjustments and the allowance for ECL by the Bank's Loan Loss Provisioning Committee (LLPC). In addition to controls testing, we along with PwC actuarial experts, performed the following audit procedures, amongst others on a sample basis: · Examined management's individually assessed allowance calculations 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; · Assessed the ECL model methodology applied against general market practice and the results of model monitoring performed; · Considered the Bank's judgements including the reasonableness of forward-looking information incorporated into the ECL models by assessing the forecasts, assumptions and probability weightings applied in the multiple economic scenarios against market information or other evidence; · Agreed a sample of data used as inputs to the ECL models to relevant source documentation; and · Assessed the appropriateness of model adjustments identified by the Bank by agreeing to internal and external supporting information as appropriate and performing sensitivity analysis. We also assessed the appropriateness of the Bank's disclosures against the requirements of NZ IFRS. From the procedures performed 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 applications controls relevant to our audit, we performed alternative or additional audit procedures.

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 Annual Report and 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 12, 97 to 103 and 110 to 112. 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, as a whole, and the supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 44 and 50(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/assurance-standards/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

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 44 and 50(b)) for the year ended 30 June 2019:

(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 44 and 50(b) of the financial statements of the Banking Group for the year ended 30 June 2019.

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 44 and 50(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.

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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 44 and 50(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 44 and 50(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 44 and 50(b).

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 of funds managed by the Banking Group, a system data migration review 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
7 August 2019

Directory

As at the signing date of this Disclosure Statement

INDEPENDENT DIRECTORS

G.R. (Gavin) Walker ONZM (Chairman)
B.C.A, CFInstD
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 not-for-profit organisations including the New Zealand Rugby Union and the Arts Foundation.

S.M. (Scott) Bartlett
Auckland, New Zealand
External Directorships: Kordia Limited, Kordia New Zealand Limited.

Scott was appointed as a Director of the Bank on 3 June 2019.

Scott is the CEO of Kordia Group, a state-owned enterprise and leading provider of mission-critical technology and cyber security services to government and corporate customers throughout New Zealand, Australia and the wider Pacific region. In addition, Scott currently sits on the Council at the University of Waikato, a role he took on in late 2018.

Scott has held various leadership roles in the telecommunications and technology industries, including CEO of Orcon, and CEO of Quik Internet. Previously, he sat on the Boards of the Pacific Telecommunications Council and C.O.D.E (Centre of Digital Excellence) at the University of Auckland Business School. Scott was also a Director of the New Zealand Telecommunications Forum (TCF) and the Number Administration Deed (NAD), and a councillor for Internet NZ.

R.M. (Rod) Carr
BCom (Hons), LLB (Hons), MBA, MA, PhD
Christchurch, New Zealand
External Directorships: Waingawa Forest Corporation Limited, JRC (NZ) Limited, Joint Research Consultants (NZ) Limited.

Dr Carr was appointed as a Director of the Bank on 12 September 2018.

Dr Carr was Vice-Chancellor at the University of Canterbury from 2009 and retired from that position in January 2019. Previously, he was Managing Director of Jade Software Corporation Ltd and had a distinguished career in the banking sector, which included roles as Acting Governor of the Reserve Bank and Chair of the Board of the Reserve Bank.

Dr Carr holds a PhD in Insurance and Risk Management and a Master of Arts in Applied Economics and Managerial Science from The Wharton School, University of Pennsylvania; an MBA in Money and Financial Markets from Columbia University, New York; and undergraduate honours degrees in Law and in Economics from the University of Otago.

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 within the ANZ Banking Group.

Dame Therese Walsh DNZM
B.C.A, F.C.A
Wellington, New Zealand
External Directorships: Air New Zealand Limited, Television New Zealand Limited, Contact Energy Limited, Therese Walsh Consulting Limited, On Being Bold Limited.

Dame Therese Walsh was appointed as a Director of the Bank on 13 October 2015.

Dame Therese is Chairman of TVNZ Ltd, Chairman elect of Air New Zealand Ltd, and a Director of Contact Energy Ltd. She is also 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 NZRU and the NZ Government to deliver the Rugby World Cup Tournament in 2011. She has also held a number of Government advisory roles, 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.

Directory (continued)

As at the signing date of this Disclosure Statement

NON-EXECUTIVE DIRECTORS

S.R. (Simon) Blair

B.A. (Hons), GradDip.B.A., M.Sc.
Auckland, New Zealand
External Directorships: BoCommlife Insurance Company Limited and BUPA Chile S.A.

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, Sovereign Assurance Company Limited, and The British United Provident Association Limited.

D.A. (David) Cohen

B.A., LLB, FAPI
Sydney, Australia
External Directorships: nil

David was appointed as a Director of the Bank on 11 February 2019.

David Cohen is the Commonwealth Bank's Deputy Chief Executive Officer. He commenced in this role in November 2018. David also chairs the Board of Commissioners of PT Bank Commonwealth, CBA's retail and business banking operation based in Jakarta, Indonesia. David is responsible for the Group's core customer relations functions, Group Customer Relations, Group Customer Advocacy, and oversees the Group's Mergers and Acquisitions team and the International Financial Services business. In addition to his business responsibilities, David also supports the Chief Executive Officer on Group wide initiatives to build a better bank for the future with a focus on building and enhancing our engagement with government, regulators, industry and community groups. He is a member of the CBA Executive Leadership Team.

Prior to this role David was the CBA Group Chief Risk Officer, a position he commenced in July 2016. In that role he was responsible for effective risk management across all risk types and risk governance across the CBA Group. David joined Commonwealth Bank in 2008 as Group General Counsel and was responsible for advising the CEO and the Board on legal matters, and leading the CBA Group's legal team. In 2011 he took on responsibility for Human Resources and from 2012 he led the Corporate Affairs function with responsibility for government affairs, communications, sustainability and corporate governance. Prior to joining Commonwealth Bank, David had been General Counsel of AMP since 2003. Before joining AMP he was a partner with law firm Allens Arthur Robinson for 12 years.

EXECUTIVE DIRECTOR

V.A.J. (Vittoria) Shortt (Chief Executive Officer and Managing Director)

BMS, F.C.A
Auckland, New Zealand
External Directorships: 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 joined the Commonwealth Bank in 2002 and gained experience in leadership roles across the retail banking businesses of CBA and Bankwest, including customer-facing, operations and strategy roles such as the Commonwealth Bank'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.

Vittoria is a member of New Zealand Global Women and holds a Bachelor of Management Studies majoring in Accounting and Finance from Waikato University in New Zealand. She is also a Fellow Chartered Accountant with the Institute of Chartered Accountants, Australia and New Zealand.

Directory (continued)

As at the signing date of this Disclosure Statement

AUDIT AND RISK COMMITTEE	Dame Therese Walsh DNZM (Chairman) S.M. (Scott) Bartlett S.R. (Simon) Blair R.M. (Rod) Carr D.A. (David) Cohen S.R. (Susan) Peterson G.R. (Gavin) Walker	
EXECUTIVE MANAGEMENT	V. (Vittoria) Shortt	Chief Executive Officer
	N. (Nigel) Annett	Executive General Manager Corporate Banking
	A. (Adam) Boyd	Executive General Manager Private Banking, Wealth and Insurance
	D. (David) Bullock	Executive General Manager Technology & Operations
	T. (Tim) Deane	Executive General Manager Business Banking
	C. (Carl) Ferguson	Chief Risk Officer
	L. (Lohit) Kalburgi	Executive General Manager Corporate Strategy
	J. (Jeanette) Kehoe-Perkinson	Executive General Manager People
	J. (Jon) Raby	Chief Financial Officer
	C. (Craig) Sims	Executive General Manager Retail Banking
	S. (Simon) Tong	Executive General Manager Digital, Data and Brand; and Executive General Manager Business Services (Acting)
INTERNAL AUDITOR	P. (Paula) Steed	Chief Internal Auditor
AUDITOR	PricewaterhouseCoopers New Zealand 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	