

# ASB Disclosure Statement

For the six months ended 31 December 2021



# Contents

<b>General Disclosures</b>	<b>2</b>
<b>Income Statement</b>	<b>4</b>
<b>Statement of Comprehensive Income</b>	<b>4</b>
<b>Statement of Changes in Equity</b>	<b>5</b>
<b>Balance Sheet</b>	<b>6</b>
<b>Cash Flow Statement</b>	<b>7</b>
<b>Notes to the Financial Statements</b>	
1 Statement of Accounting Policies	8
2 Other Income	10
3 Financial Assets Pledged as Collateral for Liabilities	10
4 Advances to Customers	11
5 Allowance for Expected Credit Loss	11
6 Credit Quality Information for Advances to Customers	19
7 Impairment Losses on Financial Assets	19
8 Concentrations of Credit Exposures	20
9 Concentration of Credit Exposures to Individual Counterparties	21
10 Deposits and Other Borrowings	21
11 Debt Issues	22
12 Credit and Capital Commitments, and Contingent Liabilities	22
13 Related Party Transactions and Balances	23
14 Fair Value of Financial Instruments	23
15 Capital Adequacy	25
16 Insurance Business, Marketing and Distribution of Insurance Products	33
17 Changes in the Composition of the Banking Group during the Reporting Period	33
18 Financial Reporting by Operating Segments	33
19 Interest Rate Repricing Schedule	35
20 Regulatory Liquidity Ratios	36
21 Qualifying Liquid Assets	37
22 Maturity Analysis for Undiscounted Contractual Cash Flows	38
23 Concentrations of Funding	39
24 Events after the Reporting Period	39
<b>Directors' Statement</b>	<b>40</b>
<b>Independent Review Report</b>	<b>41</b>

# General Disclosures

(To be read in conjunction with the Financial Statements)

## 31 December 2021

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

### Corporate Information

The Bank is a company incorporated under the Companies Act 1993. The registered office of the Bank is Level 2, ASB North Wharf, 12 Jellicoe Street, Auckland Central, Auckland 1010, New Zealand.

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

### Ultimate Parent Bank

The ultimate parent bank of the Bank is Commonwealth Bank of Australia ("CBA"). CBA's registered office and address of service is: Ground Floor, Tower 1, 201 Sussex Street, Sydney, NSW 2000, Australia.

### Changes to Directors

There have been two changes to the composition of the Board of Directors of ASB (the "Board") since the balance date for the 30 June 2021 Disclosure Statement:

- Mr G Walker retired from the Board on 1 September 2021 at which time current director Dame Therese Walsh became Chairman of the Board; and
- Mr G Cross was appointed as a non-executive independent director on 16 August 2021 and resigned on 31 August 2021.

### 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")	A+	Stable
Moody's Investors Service Pty Limited ("Moody's")	A1	Stable

- On 8 April 2020, S&P 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. On 7 June 2021, S&P affirmed ASB's long term issuer default rating at AA- and revised the outlook to stable from negative.
- On 7 April 2020, Fitch Ratings downgraded the long-term credit ratings of the major Australian banks and their subsidiaries by one notch. As a consequence, ASB's long-term credit rating was revised to A+ from AA- and the outlook remained negative. On 29 June 2021, Fitch Ratings affirmed ASB's long term issuer default rating at A+ and revised the outlook to stable from negative.
- The Moody's rating for ASB has remained unchanged during the two years immediately preceding the signing date.

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

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

- (a) Moody's applies numeric modifiers 1, 2, and 3 to each generic rating category from 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 'CCC' to indicate relative standing within the major rating categories.

### Pending Proceedings or Arbitration

Other than the information disclosed in Note 12, 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 is the appointed auditor of the Bank. The auditor's address is PwC Tower, 15 Customs Street West, Auckland 1010, New Zealand.

# General Disclosures

(To be read in conjunction with the Financial Statements)

## Guarantee Arrangements

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

The Covered Bond Guarantor has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the Mortgage Loans, related security and other assets of the Covered Bond Trust. Covered bonds (including accrued interest) of \$3.741 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 16, SAP Tower, 151 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 31 December 2021, the Covered Bonds issued have been assigned a long term rating of 'AAA' by Fitch Ratings and 'Aaa' by Moody's. Further information about this guarantee arrangement is included in the Bank's disclosure statement for the year ended 30 June 2021, a copy of which is available at the internet address [www.asb.co.nz](http://www.asb.co.nz). A printed copy will also be made available, free of charge, upon request.

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

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

Since 30 June 2021, there has been no material change in regulations, legislation, or other restrictions of a legally enforceable nature that may materially inhibit the legal ability of CBA to provide material financial support to the Bank.

In August 2019, the Australian Prudential Regulation Authority ("APRA") confirmed revisions to prudential standard APS 222: *Associations with Related Entities*, which apply from 1 January 2022. The changes reduce the limit of CBA's exposure to the Bank to 25% of CBA's Level 1 Tier 1 Capital (previously 50% of CBA's Level 1 Total Capital), and CBA's aggregate exposure to all related Authorised Deposit-taking Institutions and overseas based equivalents cannot exceed 75% of CBA's Level 1 Tier 1 Capital. Based on enquiries that the Bank has made of CBA, to the best of the Bank's knowledge and belief CBA expects that sufficient capacity exists under the reduced limits to accommodate CBA's exposures to its related entities, including the additional capital requirement for New Zealand banks announced by the Reserve Bank of New Zealand ("RBNZ") on 17 June 2021.

APRA requires CBA to limit its non-equity exposure to the Bank and its subsidiaries to below 5% of CBA's Level 1 Tier 1 Capital. For the purposes of this limit, exposures include all committed, non-intraday, non-equity exposures, including derivatives and off balance sheet exposures, however, excludes equity investments and holdings of capital instruments in the Bank and its subsidiaries. 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. As at 31 December 2021, CBA's non-equity exposures to the Bank are below 5% of CBA's Level 1 Tier 1 Capital.

## Conditions of Registration

The RBNZ amended the Banking Group's Conditions of Registration to:

- incorporate the Banking Prudential Requirements ("BPRs") that came into effect on 1 October 2021, which implement the decisions from the RBNZ's capital review;
- reflect that ASB now calculates its operational risk capital under the standardised approach, effective 1 October 2021; and
- decrease the allowable level of new residential mortgage lending with a high loan-to-value ratio from 20 percent to 10 percent, effective 1 November 2021.

There have been no other changes to Conditions of Registration between 30 June 2021 and 31 December 2021.

## 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.

# Income Statement

\$ millions		Banking Group	
		Unaudited	Unaudited
For the six months ended		31-Dec-21	31-Dec-20
	Note		
Interest income		1,706	1,812
Interest expense		431	687
<b>Net interest income</b>		<b>1,275</b>	1,125
Other income	2	325	291
<b>Total operating income</b>		<b>1,600</b>	1,416
Impairment losses/(recoveries) on financial assets	7	(13)	30
<b>Total operating income after impairment losses/(recoveries)</b>		<b>1,613</b>	1,386
<b>Total operating expenses</b>		<b>554</b>	527
Salaries and other staff expenses		304	302
Building occupancy and equipment expenses		45	57
Information technology expenses		104	95
Other expenses		101	73
<b>Net profit before tax</b>		<b>1,059</b>	859
Tax expense		297	240
<b>Net profit after tax</b>		<b>762</b>	619

# Statement of Comprehensive Income

\$ millions		Banking Group	
		Unaudited	Unaudited
For the six months ended		31-Dec-21	31-Dec-20
<b>Net profit after tax</b>		<b>762</b>	619
<b>Other comprehensive income, net of tax</b>			
<b>Items that will not be reclassified to the Income Statement:</b>			
Net change in asset revaluation reserve		1	-
<b>Items that may be reclassified subsequently to the Income Statement:</b>			
Net change in fair value through other comprehensive income reserve		(2)	31
Net change in cash flow hedge reserve		34	(27)
<b>Total other comprehensive income, net of tax</b>		<b>33</b>	4
<b>Total comprehensive income</b>		<b>795</b>	623

These statements are to be read in conjunction with the notes on pages 8 to 39 and the Independent Review Report on pages 41 to 42.

# Statement of Changes in Equity

Banking Group						
\$ millions	Contributed Capital	Asset Revaluation Reserve	Cash Flow Hedge Reserve	FVOCI Reserve <sup>(1)</sup>	Retained Earnings	Total Shareholders' Equity
<b>For the six months ended 31 December 2021</b>						
<b>Unaudited</b>						
Balance at beginning of the period	6,173	32	(125)	50	3,056	9,186
Net profit after tax	-	-	-	-	762	762
Other comprehensive income/(expense)	-	1	34	(2)	-	33
<b>Total comprehensive income/(expense)</b>	-	1	34	(2)	762	795
Transfer from asset revaluation reserve to retained earnings	-	(10)	-	-	10	-
Ordinary dividends paid	-	-	-	-	(650)	(650)
Perpetual preference dividends paid	-	-	-	-	(15)	(15)
<b>Balance as at 31 December 2021</b>	<b>6,173</b>	<b>23</b>	<b>(91)</b>	<b>48</b>	<b>3,163</b>	<b>9,316</b>
<b>For the six months ended 31 December 2020</b>						
<b>Unaudited</b>						
Balance at beginning of the period	6,173	33	(99)	4	1,764	7,875
Net profit after tax	-	-	-	-	619	619
Other comprehensive income/(expense)	-	-	(27)	31	-	4
<b>Total comprehensive income/(expense)</b>	-	-	(27)	31	619	623
Perpetual preference dividends paid	-	-	-	-	(15)	(15)
<b>Balance as at 31 December 2020</b>	<b>6,173</b>	<b>33</b>	<b>(126)</b>	<b>35</b>	<b>2,368</b>	<b>8,483</b>

(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 8 to 39 and the Independent Review Report on pages 41 to 42.

# Balance Sheet

\$ millions		Banking Group		
As at	Note	Unaudited 31-Dec-21	Unaudited 31-Dec-20	Audited 30-Jun-21
<b>Assets</b>				
Cash and liquid assets		5,444	3,510	2,780
Due from financial institutions		370	551	523
Securities at fair value through other comprehensive income		7,200	8,296	8,013
Derivative assets		615	818	793
Advances to customers	4	102,149	94,870	99,391
Other assets		271	293	292
Property, plant and equipment		378	422	413
Intangible assets		181	187	178
Deferred tax assets		231	270	262
<b>Total assets</b>		<b>116,839</b>	<b>109,217</b>	<b>112,645</b>
<i>Total interest earning and discount bearing assets</i>		<i>115,225</i>	<i>107,442</i>	<i>110,901</i>
<b>Liabilities</b>				
Deposits and other borrowings	10	82,847	76,379	78,031
Due to financial institutions		1,050	760	916
Derivative liabilities		419	772	302
Current tax liabilities		72	27	127
Other liabilities		523	596	582
Provisions		114	142	162
Debt issues:				
At fair value through Income Statement	11	3,931	4,593	6,079
At amortised cost	11	18,567	17,058	16,857
Loan capital		-	407	403
<b>Total liabilities</b>		<b>107,523</b>	<b>100,734</b>	<b>103,459</b>
<b>Shareholders' equity</b>				
Contributed capital - ordinary shares		5,173	5,173	5,173
Reserves		(20)	(58)	(43)
Retained earnings		3,163	2,368	3,056
<b>Ordinary shareholder's equity</b>		<b>8,316</b>	<b>7,483</b>	<b>8,186</b>
Contributed capital - perpetual preference shares		1,000	1,000	1,000
<b>Total shareholders' equity</b>		<b>9,316</b>	<b>8,483</b>	<b>9,186</b>
<b>Total liabilities and shareholders' equity</b>		<b>116,839</b>	<b>109,217</b>	<b>112,645</b>
<i>Total interest and discount bearing liabilities</i>		<i>92,356</i>	<i>88,164</i>	<i>90,270</i>

These statements are to be read in conjunction with the notes on pages 8 to 39 and the Independent Review Report on pages 41 to 42.



# Cash Flow Statement

\$ millions		Banking Group	
		Unaudited	Unaudited
For the period ended	Note	31-Dec-21	31-Dec-20
<b>Cash flows from operating activities</b>			
Net profit before tax		1,059	859
<b>Reconciliation of net profit before tax to net cash flows from operating activities</b>			
Non-cash items included in net profit before tax:			
Depreciation of property, plant and equipment		40	40
Amortisation of intangible assets		31	31
Net change in allowance for expected credit loss and bad debts written off		(5)	36
Amortisation of loan establishment fees		43	52
Net change in fair value of financial instruments and hedged items		(162)	(230)
Other non-cash items		(17)	2
Net (increase)/decrease in operating assets:			
Net change in reverse repurchase agreements		(46)	380
Net change in due from financial institutions		153	(19)
Net change in securities at fair value through other comprehensive income		557	(986)
Net change in derivative assets		534	(99)
Net change in advances to customers		(2,796)	(4,774)
Net change in other assets		22	28
Net increase/(decrease) in operating liabilities:			
Net change in deposits and other borrowings		4,843	2,048
Net change in due to financial institutions		284	(824)
Net change in derivative liabilities		(61)	390
Net change in other liabilities		(84)	(258)
Net tax paid		(332)	(316)
<b>Net cash flows from operating activities</b>		<b>4,063</b>	<b>(3,640)</b>
<b>Cash flows from investing activities</b>			
Cash was provided from:			
Proceeds from sale of property, plant and equipment		14	-
Total cash inflows provided from investing activities		14	-
Cash was applied to:			
Net change in investment in subsidiaries or associates		(1)	-
Purchase of property, plant and equipment		(8)	(15)
Purchase of intangible assets		(34)	(39)
Total cash outflows applied to investing activities		(43)	(54)
<b>Net cash flows from investing activities</b>		<b>(29)</b>	<b>(54)</b>
<b>Cash flows from financing activities</b>			
Cash was provided from:			
Issue of debt securities (net of issue costs)	11	6,050	5,282
Total cash inflows provided from financing activities		6,050	5,282
Cash was applied to:			
Redemption of debt securities	11	(6,383)	(1,881)
Redemption of loan capital		(400)	-
Payment of lease liabilities		(18)	(19)
Ordinary dividends paid		(650)	-
Perpetual preference dividends paid		(15)	(15)
Total cash outflows applied to financing activities		(7,466)	(1,915)
<b>Net cash flows from financing activities</b>		<b>(1,416)</b>	<b>3,367</b>
<b>Summary of movements in cash flows</b>			
Net increase/(decrease) in cash and cash equivalents		2,618	(327)
Add: cash and cash equivalents at beginning of period		2,652	3,371
<b>Cash and cash equivalents at end of period</b>		<b>5,270</b>	<b>3,044</b>
<b>Cash and cash equivalents comprise:</b>			
Cash and liquid assets		5,444	3,510
Less: reverse repurchase agreements included in cash and liquid assets		(174)	(466)
<b>Cash and cash equivalents at end of period</b>		<b>5,270</b>	<b>3,044</b>
<b>Additional operating cash flow information</b>			
Interest received as cash		1,785	1,928
Interest paid as cash		(431)	(802)

These statements are to be read in conjunction with the notes on pages 8 to 39 and the Independent Review Report on pages 41 to 42.

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 1 Statement of Accounting Policies

The condensed interim financial statements of the Banking Group for the six months ended 31 December 2021 (the "financial statements") have been incorporated in this Disclosure Statement. These financial statements consolidate the financial statements of the Bank and its controlled entities. They have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") as appropriate for for-profit entities, NZ IAS 34 *Interim Financial Reporting* and the Order. These financial statements do not include all the information and disclosures required in the annual financial statements and should therefore be read in conjunction with the Banking Group's financial statements for the year ended 30 June 2021. These financial statements comply with both IAS 34 *Interim Financial Reporting* and NZ IAS 34.

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

All policies have been applied on a basis consistent with that used in the financial year ended 30 June 2021, except as set out below.

### Interest Rate Benchmark Reform – Phase 2 ("IBOR reform Phase 2")

IBOR reform Phase 2 was issued by the External Reporting Board in September 2020. The amendments apply upon the transition from an Interbank Offered Rate ("IBOR") to an alternative risk-free reference rate ("ARR") and apply only to those changes to financial instruments and hedging relationships that are a direct consequence of IBOR reform and where cash flows are amended on an economically equivalent basis. The Banking Group has adopted IBOR reform Phase 2 from 1 July 2021.

The key amendments include the following:

- *A practical expedient for changes in contractual cash flows required by the reform:* the Banking Group does not have to derecognise or adjust the carrying amount of financial instruments for these changes, but instead update the effective interest rate to reflect the change to the alternative benchmark rate;
- *Hedge accounting:* the Banking Group does not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets all the other hedge accounting criteria; and
- *Additional disclosures:* the Banking Group will be required to disclose additional qualitative and quantitative information regarding the impact of IBOR reform on the Banking Group. These disclosures are contained within this note.

### Exposures subject to benchmark reform as at 31 December 2021

The table below provides the Banking Group's exposure to interest rate benchmarks that are subject to IBOR reform and that are yet to transition to an ARR. The table includes financial instruments which contractually reference an IBOR benchmark subject to cessation, and currently mature after the relevant IBOR cessation date.

\$ millions	Gross carrying amount
	USD LIBOR <sup>(1)</sup>
Non-derivative financial assets	77
Non-derivative financial liabilities	44
Loan commitments and guarantees	86
Derivative assets	135
Derivative liabilities	21

(1) USD LIBOR tenors relevant to the Banking Group have a transition date of 30 June 2023.

### IBOR reform programme

The Banking Group is exposed to London Interbank Offered Rates ("LIBORs") through various financial instruments including advances to customers, derivatives and debt issues. Non-cleared derivatives are now subject to the International Swaps and Derivatives Association ("ISDA") Fallbacks Protocol for converting IBORs to risk-free reference rates, including a spread, upon the occurrence of an index cessation event. Cleared derivatives will transition in accordance with the clearing house rulebook. For non-derivative financial instruments, the Banking Group has engaged with counterparties to transition or include appropriate fallback provisions. Fallback provisions comprise contractual clauses that 'trigger' a transition from LIBOR to the respective ARR when LIBOR benchmarks cease.

Transition from IBORs to ARRs exposes the Banking Group to various risks including operational, financial, legal and compliance risks. These risks arise from the need for new products that incorporate ARRs, the engagement of customers and financial instrument counterparties on IBOR related changes, the implementation of the ISDA Protocol as well as the need for different system and process capabilities.

The Banking Group, through its IBOR reform programme, has applied various means of eliminating and managing these risks, while ensuring that customer outcomes are appropriate and any disruption to business is minimised. No material changes have been made to the Banking Group's risk management strategy.

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 1 Statement of Accounting Policies (continued)

### Critical Accounting Estimates and Judgements

Information regarding the critical accounting estimates, assumptions and judgements is provided in the financial statements for the year ended 30 June 2021. These estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered to be reasonable under the circumstances. Actual results could differ from these estimates.

Updated estimates and assumptions in relation to the allowance for expected credit loss are set out in note 5.

### Changes to Comparatives

Comparative information has been restated or reclassified, where appropriate, to ensure consistency with presentation in the current period.

#### Capital Ratios

In February 2021, the Bank identified an issue related to the recognition of income producing real estate ("IPRE") exposures due to an error within the data extract code which sits between the Bank's loan origination system and data warehouse, and within the data warehouse itself. Investigation into the data issue separately identified discrepancies in the Bank's classification methodology for IPRE exposures. As at 31 December 2020, the issues resulted in an understatement of the Bank's and the Banking Group's risk weighted assets ("RWA") by approximately \$3.0 billion (being a 5.1% increase to the overall RWA), an overstatement of the Common Equity Tier 1 ("CET1") ratio by 61bps, an overstatement of the Tier 1 capital ratio by 69bps, an overstatement of the Total capital ratio by 72bps and an overstatement of the Buffer ratio by 72bps. The ratios disclosed in note 15 Capital Adequacy have therefore been restated using corrected calculations. This issue has been remediated.

#### Line Fees

During the period ended 31 December 2021 certain fees where the Banking Group is compensated for providing loan commitments were reclassified from Other income to Interest income, due to consistently high facility drawdown levels.

The change was applied retrospectively and impacted the financial statements of the Banking Group as follows:

##### *Income Statement for the six months ended 31 December 2020:*

- an increase in Interest income of \$15 million;
- a decrease in Other income of \$15 million.

##### *Cash Flow Statement for the six months ended 31 December 2020:*

- an increase in Interest received as cash of \$15 million.

#### Software-as-a-Service ("SaaS") Arrangements

During the year ended 30 June 2021, the Banking Group revised its accounting policy in relation to configuration and customisation costs incurred in implementing SaaS cloud computing arrangements.

The change was applied retrospectively and impacted the financial statements of the Banking Group as follows:

##### *Income Statement for the six months ended 31 December 2020:*

- an increase in Salaries and other staff expenses of \$2 million;
- an increase in Information technology expenses of \$7 million;
- a decrease in Tax expense of \$3 million.

##### *Balance Sheet as at 31 December 2020:*

- a decrease in Intangible assets of \$9 million;
- an increase in Deferred tax assets of \$3 million.

##### *Cash Flow Statement for the six months ended 31 December 2020:*

- a decrease in Purchase of intangible assets of \$9 million;
- a decrease in Net profit before tax of \$9 million.

All comparative restatements or reclassifications are footnoted throughout the financial statements. Other than those described above, restatements and reclassifications have no impact on the previously reported Balance Sheet or Net profit after tax.

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 2 Other Income

Unaudited

\$ millions	Banking Group	
For the six months ended	31-Dec-21	31-Dec-20
Revenue from contracts with customers <sup>(1)</sup>	240	242
Trading income	51	41
<b>Net fair value gain/(loss) from:</b>		
Derivatives not qualifying for hedge accounting	12	12
Hedge ineffectiveness	7	(7)
<b>Total net fair value gain</b>	<b>19</b>	<b>5</b>
Other operating income	15	3
<b>Total other income</b>	<b>325</b>	<b>291</b>

(1) Comparative information has been restated to ensure consistency with presentation in the current period. Refer to the Changes to Comparatives section of note 1 for more information.

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 18:

\$ millions	Banking Group					
	Retail Banking	Business Banking	Corporate Banking	Private Banking, Wealth and Insurance	Other	Total
<b>For the six months ended 31 December 2021</b>						
<b>Revenue from contracts with customers</b>						
Lending fees	7	10	3	-	-	20
Commission and other fees	106	21	10	39	(36)	140
Funds management income	67	5	-	80	(72)	80
<b>Total revenue from contracts with customers</b>	<b>180</b>	<b>36</b>	<b>13</b>	<b>119</b>	<b>(108)</b>	<b>240</b>

\$ millions	Banking Group					
	Retail Banking	Business Banking	Corporate Banking	Private Banking, Wealth and Insurance	Other	Total
<b>For the six months ended 31 December 2020</b>						
<b>Revenue from contracts with customers<sup>(1)</sup></b>						
Lending fees	8	9	3	-	-	20
Commission and other fees	107	28	11	37	(34)	149
Funds management income	61	4	-	73	(65)	73
<b>Total revenue from contracts with customers</b>	<b>176</b>	<b>41</b>	<b>14</b>	<b>110</b>	<b>(99)</b>	<b>242</b>

(1) Certain comparative information has been reclassified to ensure consistency with presentation in the current period. Refer to the Changes to Comparatives section of note 1 for more information.

## 3 Financial Assets Pledged as Collateral for Liabilities

Unaudited

As at 31 December 2021, \$2.2 billion was pledged as collateral under repurchase agreements.

The Bank has entered into credit support annexes in respect of certain credit exposures relating to derivative transactions. As at 31 December 2021, \$230 million included in Due from financial institutions had been advanced as cash collateral to counterparties with whom the Banking Group has net derivative liability positions.

As noted in the General Disclosures, the Covered Bond Guarantor has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the Mortgage Loans, related security and other assets of the Covered Bond Trust. As at 31 December 2021, the Covered Bond Trust held Mortgage Loans with a carrying value of \$5.8 billion and \$152 million cash, which have been pledged in respect of the Covered Bonds.

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 4 Advances to Customers

\$ millions As at	Banking Group		
	Unaudited 31-Dec-21	Unaudited 31-Dec-20	Audited 30-Jun-21
Residential mortgages (refer to note 5(a))	71,397	65,795	69,098
Other retail (refer to note 5(b))	3,186	3,532	3,382
Corporate (refer to note 5(c))	28,067	26,147	27,461
<b>Total gross carrying amount of advances to customers</b>	<b>102,650</b>	<b>95,474</b>	<b>99,941</b>
Allowance for expected credit loss (refer to note 5(d))	(501)	(604)	(550)
<b>Total advances to customers</b>	<b>102,149</b>	<b>94,870</b>	<b>99,391</b>

## 5 Allowance for Expected Credit Loss

### Unaudited

Information for the period ended 31 December 2021 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.

Section (e) provides a further explanation of how movements in gross carrying amounts and other factors have contributed to the movement in the Banking Group's allowance for Expected Credit Loss ("ECL").

Section (f) details the basis of inputs and assumptions, including forward looking information, used in the calculation of allowances for ECL.

Information is not presented in respect of other financial assets or credit related contingent liabilities 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 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 and includes the impact of COVID-19 and other management adjustments;
- The effect of any Stage 3 discount unwind is included within other changes in collective allowances and within new and increased individually assessed allowances. This discount unwind is presented in the Income Statement as a reduction in Interest income;
- Other changes in collective allowances includes the impact of changes in future forecast economic assumptions, other changes in models or assumptions, changes in the expected life of existing lending and other changes in the credit quality of existing lending (excluding those related to significant increases in credit risk ("SICR")). This includes the impact of COVID-19 on forecast economic assumptions (described further in section (f)) and management adjustments; 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 for the six months ended 31 December 2021.

They are presented on the following basis:

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

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 5 Allowance for Expected Credit Loss (continued)

Unaudited

### (a) Residential Mortgages

\$ millions	Banking Group				Total
	Collective Allowances			Individually Assessed Allowances	
	Stage 1	Stage 2	Stage 3	Stage 3	
<b>Movement in Allowance for Expected Credit Loss As at 31 December 2021</b>					
Balance at beginning of period	50	41	35	1	127
<b>Charged to/(credited against) the Income Statement</b>					
Changes in allowances due to transfers between ECL Stages					
Stage 1 to Stage 2	(5)	7	-	-	2
Stage 1 to Stage 3	-	-	12	-	12
Stage 2 to Stage 1	5	(12)	-	-	(7)
Stage 2 to Stage 3	-	(2)	8	-	6
Stage 3 to Stage 1	-	-	(1)	-	(1)
Stage 3 to Stage 2	-	1	(11)	-	(10)
Net transfers between collective allowances and individually assessed allowances	-	-	-	-	-
<b>Changes in allowances due to transfers between ECL Stages</b>	-	(6)	8	-	2
Changes in collective allowances due to additions and deletions	4	(2)	(2)	-	-
Changes in collective allowances due to amounts written off	-	-	-	-	-
<b>Total changes in allowances due to movements in gross carrying amounts</b>	4	(8)	6	-	2
Other changes in collective allowances	(11)	(3)	11	-	(3)
New and increased individually assessed allowances	-	-	-	1	1
Write-back of individually assessed allowances no longer required	-	-	-	(1)	(1)
<b>Total charged to/(credited against) the Income Statement</b>	(7)	(11)	17	-	(1)
Amounts written off from individually assessed allowances	-	-	-	-	-
<b>Balance at end of period</b>	43	30	52	1	126

\$ millions	Banking Group				Total
	Collectively Assessed			Individually Assessed	
	Stage 1	Stage 2	Stage 3	Stage 3	
<b>Movement in Gross Carrying Amounts As at 31 December 2021</b>					
Balance at beginning of period	61,456	6,908	703	31	69,098
<b>Changes due to transfers between ECL Stages</b>					
Stage 1 to Stage 2	(1,521)	1,521	-	-	-
Stage 1 to Stage 3	(349)	-	349	-	-
Stage 2 to Stage 1	4,381	(4,381)	-	-	-
Stage 2 to Stage 3	-	(207)	207	-	-
Stage 3 to Stage 1	12	-	(12)	-	-
Stage 3 to Stage 2	-	318	(318)	-	-
Net transfers to/(from) Stage 3 individually assessed	(1)	-	(1)	2	-
<b>Total changes due to transfers between ECL Stages</b>	2,522	(2,749)	225	2	-
<b>Additions and deletions</b>					
Additions	10,486	370	12	-	10,868
Deletions (excluding amounts written off)	(7,691)	(778)	(94)	(6)	(8,569)
<b>Net additions/(deletions)</b>	2,795	(408)	(82)	(6)	2,299
Amounts written off	-	-	-	-	-
<b>Balance at end of period</b>	66,773	3,751	846	27	71,397

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 5 Allowance for Expected Credit Loss (continued)

Unaudited

(b) Other Retail

\$ millions	Banking Group				Total
	Collective Allowances			Individually Assessed Allowances	
	Stage 1	Stage 2	Stage 3	Stage 3	
<b>Movement in Allowance for Expected Credit Loss As at 31 December 2021</b>					
Balance at beginning of period	37	48	33	5	123
<b>Charged to/(credited against) the Income Statement</b>					
Changes in allowances due to transfers between ECL Stages					
Stage 1 to Stage 2	(6)	11	-	-	5
Stage 1 to Stage 3	-	-	5	-	5
Stage 2 to Stage 1	3	(7)	-	-	(4)
Stage 2 to Stage 3	-	(3)	11	-	8
Stage 3 to Stage 1	-	-	(1)	-	(1)
Stage 3 to Stage 2	-	3	(9)	-	(6)
Net transfers between collective allowances and individually assessed allowances	-	-	-	-	-
<b>Changes in allowances due to transfers between ECL Stages</b>	(3)	4	6	-	7
Changes in collective allowances due to additions and deletions	-	(3)	(3)	-	(6)
Changes in collective allowances due to amounts written off	-	(2)	(3)	-	(5)
<b>Total changes in allowances due to movements in gross carrying amounts</b>	(3)	(1)	-	-	(4)
Other changes in collective allowances	12	(18)	-	-	(6)
New and increased individually assessed allowances	-	-	-	2	2
Write-back of individually assessed allowances no longer required	-	-	-	(1)	(1)
<b>Total charged to/(credited against) the Income Statement</b>	9	(19)	-	1	(9)
Amounts written off from individually assessed allowances	-	-	-	(1)	(1)
<b>Balance at end of period</b>	46	29	33	5	113

\$ millions	Banking Group				Total
	Collectively Assessed			Individually Assessed	
	Stage 1	Stage 2	Stage 3	Stage 3	
<b>Movement in Gross Carrying Amounts As at 31 December 2021</b>					
Balance at beginning of period	3,001	322	52	7	3,382
<b>Changes due to transfers between ECL Stages</b>					
Stage 1 to Stage 2	(146)	146	-	-	-
Stage 1 to Stage 3	(13)	-	13	-	-
Stage 2 to Stage 1	163	(163)	-	-	-
Stage 2 to Stage 3	-	(32)	32	-	-
Stage 3 to Stage 1	5	-	(5)	-	-
Stage 3 to Stage 2	-	33	(33)	-	-
Net transfers to/(from) Stage 3 individually assessed	-	-	-	-	-
<b>Total changes due to transfers between ECL Stages</b>	9	(16)	7	-	-
<b>Additions and deletions</b>					
Additions	1,890	48	5	-	1,943
Deletions (excluding amounts written off)	(2,018)	(88)	(14)	-	(2,120)
<b>Net additions/(deletions)</b>	(128)	(40)	(9)	-	(177)
Amounts written off	(2)	(10)	(6)	(1)	(19)
<b>Balance at end of period</b>	2,880	256	44	6	3,186

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 5 Allowance for Expected Credit Loss (continued)

Unaudited

(c) Corporate

\$ millions	Banking Group				Total
	Collective Allowances			Individually Assessed Allowances	
	Stage 1	Stage 2	Stage 3	Stage 3	
<b>Movement in Allowance for Expected Credit Loss As at 31 December 2021</b>					
Balance at beginning of period	56	154	3	87	300
<b>Charged to/(credited against) the Income Statement</b>					
Changes in allowances due to transfers between ECL Stages					
Stage 1 to Stage 2	(4)	14	-	-	10
Stage 1 to Stage 3	-	-	-	-	-
Stage 2 to Stage 1	6	(17)	-	-	(11)
Stage 2 to Stage 3	-	-	1	-	1
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	-	-	-	-
Net transfers between collective allowances and individually assessed allowances	-	1	1	(2)	-
<b>Changes in allowances due to transfers between ECL Stages</b>	2	(2)	2	(2)	-
Changes in collective allowances due to additions and deletions	2	(2)	(2)	-	(2)
Changes in collective allowances due to amounts written off	-	-	-	-	-
<b>Total changes in allowances due to movements in gross carrying amounts</b>	4	(4)	-	(2)	(2)
Other changes in collective allowances	(4)	(14)	-	-	(18)
New and increased individually assessed allowances	-	-	-	19	19
Write-back of individually assessed allowances no longer required	-	-	-	(8)	(8)
<b>Total charged to/(credited against) the Income Statement</b>	-	(18)	-	9	(9)
Amounts written off from individually assessed allowances	-	-	-	(29)	(29)
<b>Balance at end of period</b>	56	136	3	67	262

\$ millions	Banking Group				Total
	Collectively Assessed			Individually Assessed	
	Stage 1	Stage 2	Stage 3	Stage 3	
<b>Movement in Gross Carrying Amounts As at 31 December 2021</b>					
Balance at beginning of period	13,478	13,654	38	291	27,461
<b>Changes due to transfers between ECL Stages</b>					
Stage 1 to Stage 2	(1,811)	1,811	-	-	-
Stage 1 to Stage 3	(4)	-	4	-	-
Stage 2 to Stage 1	3,012	(3,012)	-	-	-
Stage 2 to Stage 3	-	(2)	2	-	-
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	-	-	-	-
Net transfers to/(from) Stage 3 individually assessed	-	17	13	(30)	-
<b>Total changes due to transfers between ECL Stages</b>	1,197	(1,186)	19	(30)	-
<b>Additions and deletions</b>					
Additions	4,222	2,714	7	-	6,943
Deletions (excluding amounts written off)	(3,097)	(3,163)	(19)	(29)	(6,308)
<b>Net additions/(deletions)</b>	1,125	(449)	(12)	(29)	635
Amounts written off	-	-	-	(29)	(29)
<b>Balance at end of period</b>	15,800	12,019	45	203	28,067



# Notes to the Financial Statements

For the six months ended 31 December 2021

## 5 Allowance for Expected Credit Loss (continued)

Unaudited

### (d) Total Advances to Customers

\$ millions		Banking Group			
Movement in Allowance for Expected Credit Loss As at 31 December 2021	Collective Allowances			Individually Assessed Allowances	Total
	Stage 1	Stage 2	Stage 3	Stage 3	
Balance at beginning of period	143	243	71	93	550
<b>Charged to/(credited against) the Income Statement</b>					
Changes in allowances due to transfers between ECL Stages					
Stage 1 to Stage 2	(15)	32	-	-	17
Stage 1 to Stage 3	-	-	17	-	17
Stage 2 to Stage 1	14	(36)	-	-	(22)
Stage 2 to Stage 3	-	(5)	20	-	15
Stage 3 to Stage 1	-	-	(2)	-	(2)
Stage 3 to Stage 2	-	4	(20)	-	(16)
Net transfers between collective allowances and individually assessed allowances	-	1	1	(2)	-
<b>Changes in allowances due to transfers between ECL Stages</b>	(1)	(4)	16	(2)	9
Changes in collective allowances due to additions and deletions	6	(7)	(7)	-	(8)
Changes in collective allowances due to amounts written off	-	(2)	(3)	-	(5)
<b>Total changes in allowances due to movements in gross carrying amounts</b>	5	(13)	6	(2)	(4)
Other changes in collective allowances	(3)	(35)	11	-	(27)
New and increased individually assessed allowances	-	-	-	22	22
Write-back of individually assessed allowances no longer required	-	-	-	(10)	(10)
<b>Total charged to/(credited against) the Income Statement</b>	2	(48)	17	10	(19)
Amounts written off from individually assessed allowances	-	-	-	(30)	(30)
<b>Balance at end of period</b>	145	195	88	73	501

\$ millions		Banking Group			
Movement in Gross Carrying Amounts As at 31 December 2021	Collectively Assessed			Individually Assessed	Total
	Stage 1	Stage 2	Stage 3	Stage 3	
Balance at beginning of period	77,935	20,884	793	329	99,941
<b>Changes due to transfers between ECL Stages</b>					
Stage 1 to Stage 2	(3,478)	3,478	-	-	-
Stage 1 to Stage 3	(366)	-	366	-	-
Stage 2 to Stage 1	7,556	(7,556)	-	-	-
Stage 2 to Stage 3	-	(241)	241	-	-
Stage 3 to Stage 1	17	-	(17)	-	-
Stage 3 to Stage 2	-	351	(351)	-	-
Net transfers to/(from) Stage 3 individually assessed	(1)	17	12	(28)	-
<b>Total changes due to transfers between ECL Stages</b>	3,728	(3,951)	251	(28)	-
<b>Additions and deletions</b>					
Additions	16,598	3,132	24	-	19,754
Deletions (excluding amounts written off)	(12,806)	(4,029)	(127)	(35)	(16,997)
<b>Net additions/(deletions)</b>	3,792	(897)	(103)	(35)	2,757
Amounts written off	(2)	(10)	(6)	(30)	(48)
<b>Balance at end of period</b>	85,453	16,026	935	236	102,650

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 5 Allowance for Expected Credit Loss (continued)

### (e) Further Explanation of Movements in Allowance for Expected Credit Loss

COVID-19 continues to have a significant impact on both domestic and global economies, with some of the Banking Group's customers being financially affected by the pandemic.

The following table presents a summary of amounts charged to the Income Statement with respect to the Banking Group's allowance for ECL:

\$ millions	
For the six months ended 31 December 2021	Banking Group
Updates to modelled multiple macroeconomic scenarios and weightings (refer section (f))	22
COVID-19 management adjustments to ECL	(8)
<b>Charged to the Income Statement for collective allowances due to COVID-19 model adjustments</b>	<b>14</b>
Other amounts credited against the Income Statement for collective allowances	(43)
Charged to the Income Statement for individually assessed allowances	10
<b>Total credited against the Income Statement for allowance for ECL</b>	<b>(19)</b>

The ultimate duration and impact of the COVID-19 pandemic on customers and the mitigating effect of government stimulus packages remains uncertain, resulting in continued estimation uncertainty in the current period. Actual credit losses may differ from the Banking Group's current estimate.

Further information specific to each of the Banking Group's portfolios is included below.

#### *Residential Mortgages*

The Banking Group's Residential mortgages allowance for ECL has decreased \$1 million during the period with a decrease in the collective allowances while the individually assessed allowances remained constant.

With respect to the collective allowances, the majority of the movements reflect:

- Updates to multiple macroeconomic scenarios and weights primarily driven by an economy with a rising cash rate and a cooling housing market, resulting in a net increase of \$45 million, presented within Other changes in collective allowances;
- Removal of COVID-19 management adjustments with a net decrease of \$12 million, reflecting current economic conditions and improvements in the portion of the portfolio that previously received COVID-19 support but have not required further support during the most recent COVID-19 restrictions, presented within Other changes in collective allowances;
- A net decrease of \$28 million relating to a model update combined with other management adjustments, presented within Other changes in collective allowances;
- Improvements in quality throughout the period resulting in a decrease of \$8 million, reflecting current economic conditions, presented within Other changes in collective allowances; and
- Net increase of \$2 million primarily due to increased hardship for borrowers impacted by the recent COVID-19 restrictions, presented within changes in Stage.

#### *Other Retail*

The Banking Group's Other retail allowance for ECL has decreased \$10 million during the period with a decrease in the collective allowances while the individually assessed allowances remained constant.

With respect to the collective allowances, the majority of the movements reflect:

- Updates to multiple macroeconomic scenarios and weightings resulting in a net decrease of \$9 million, presented within Other changes in collective allowances;
- Removal of COVID-19 management adjustments with a net decrease of \$3 million, reflecting improvements to the portion of the portfolio which previously received some form of COVID-19 support but have not needed further support during the most recent COVID-19 restrictions, presented within Other changes in collective allowances;
- A model update combined with other minor portfolio improvements, presented as a net increase of \$6 million within Other changes in collective allowances; and
- Reduction in portfolio size of \$177 million and changes in portfolio quality resulting in a net decrease of \$4 million, presented within changes in Stage, Amounts written off and Additions and deletions.

#### *Corporate*

The Banking Group's Corporate allowances for ECL has decreased \$38 million during the period, with decreases in both the collective allowances of \$18 million and the individually assessed allowances of \$20 million.

With respect to the collective allowances, the majority of the movements reflect:

- Updates to multiple macroeconomic scenarios and weightings resulting in a decrease of \$14 million, presented within Other changes in collective allowances; and
- A net increase to the COVID-19 management adjustments of \$7 million for the sectors within the Corporate portfolio identified as having potentially worse or lagged prospects compared to the general economy, including commercial property, discretionary retail trade, entertainment, leisure and tourism. This includes a new adjustment raised for customers impacted by supply chain challenges. The gross carrying amount of transfers from Stage 1 to Stage 2 of \$1.8 billion and from Stage 2 to Stage 1 of \$3.0 billion in this period reflect the impact of these adjustments. There is also a decrease of \$11 million due to general improvements in the underlying portfolio credit quality. These adjustments are presented within transfers between ECL Stages and Other changes in collective allowances.

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 5 Allowance for Expected Credit Loss (continued)

### (e) Further Explanation of Movements in Allowance for Expected Credit Loss (continued)

With respect to the individually assessed allowances there has been a net reduction in gross carrying amount of \$88 million during the period, which has resulted in a \$20 million decrease in these allowances, including amounts written off, new and increased allowances, and the write-back of any allowance for ECL no longer required.

### (f) Basis of Inputs and Assumptions used in the Calculation of Allowance for ECL

The methodology used to estimate expected credit losses is consistent with that applied at 30 June 2021.

The sections below detail the forward looking information the Banking Group has utilised in determining its allowance for ECL and applicable sensitivity analyses.

#### Multiple Macroeconomic Scenarios

The Banking Group continues to use the following four alternative macroeconomic scenarios to reflect an unbiased probability-weighted range of possible future outcomes in estimating ECL, which have been updated to reflect the revised expected impact of economic conditions:

- Central scenario: This scenario considers the Banking Group's base case assumptions (including the credit risk factors outlined below);
- Upside and Downside scenarios: These scenarios are set relative to the Central scenario and reflect more favourable or adverse macroeconomic conditions, which would lead to lower or higher expected credit losses (including a strengthening or deterioration of the credit risk factors outlined below); and
- Severe downside scenario: 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 expected credit losses of any of the four scenarios (including a significant deterioration of the credit risk factors outlined below).

The probability weights assigned to each scenario are based on management's best estimate of their relative likelihood. The same four 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 scenarios as described above.

The table below summarises the weightings the Banking Group has applied to each scenario in determining the allowance for ECL:

As at	Banking Group		
	31-Dec-21	31-Dec-20	30-Jun-21
Upside	5%	5%	5%
Central	52.5%	55%	62.5%
Downside	35%	35%	25%
Severe downside	7.5%	5%	7.5%

The weightings applied to the Central and Downside scenarios have been updated to reflect the revised macroeconomic conditions included in each scenario, together with a refresh of credit risk factors for all scenarios reflecting the continued impact of the COVID-19 pandemic. These updates over the period have worsened the Central scenario's macroeconomic outlook and combined with the ongoing uncertainty regarding the long-term global economic impact has resulted in updated scenario weightings. The updated weightings, movements in credit risk factors and general portfolio movements have resulted in a \$49 million decrease in ECL. This comprises a \$20 million decrease in individually assessed allowances due to improvements or other resolution of the underlying assets, and a \$29 million decrease in collective allowances.

#### Macroeconomic Credit Risk Factors

The central/base case scenario includes credit risk factors which are point in time estimates of forward-looking conditions for each portfolio, for example:

- Retail portfolios: Official cash rate ("OCR"), unemployment rate and house price index; and
- Corporate portfolios: Unemployment rate, business investment index, stock exchange index and exchange rate.

The Banking Group also estimates these same credit risk factors in other economic scenarios, and probability weights those scenarios to calculate the Banking Group's estimated ECL.

Central/base case credit risk factors have been refreshed during the period to reflect the ongoing changes in economic outlook due to the COVID-19 pandemic. Other scenarios reflect a distribution of losses relative to this central/base case and have also been updated. These scenarios represent forecasts used for the purpose of estimating ECL and are created based on judgement to derive relative loss distributions for the series of scenarios. A summary of the assumptions for each scenario is as follows:

- Central (52.5%): The outlook for the next twelve months reflects a combination of stable unemployment (continuing around 4%) due to the ongoing skills and labour shortage as a result of COVID-19 border closures, subdued house price growth (-3% year on year) reflecting a rising interest rate environment coupled with tighter lending conditions, positive business investment (6.3%) and with OCR reaching 2% in the next twelve months. This scenario represents a short to medium term economic impact from 2022 onwards.
- Upside (5%): The outlook for the next twelve months reflects a more positive outlook, with unemployment remaining subdued around 3.8%. House prices continue to grow at rates of 10% per annum and business investment is positive at 10%. Over the longer term house prices continue to grow at 8%, and the OCR continues to increase to 3% by the end of 2023 before stabilising.

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 5 Allowance for Expected Credit Loss (continued)

### (f) Basis of Inputs and Assumptions used in the Calculation of Allowance for ECL (continued)

- Downside (35%): The outlook for the next twelve months reflects a sharper but still relatively short to medium term economic shock with unemployment rising to between 8.5% to 9.5%, house price contraction of 15% and business investment outlook negative (-15%). Should this occur, it is expected to be offset by a supportive low OCR (-0.25%). Over the following 24 months this scenario sees the economic recovery beginning, although unemployment remains high (7.5%), further house price reductions of 10% and relatively stable business investment (3%).
- Severe downside (7.5%): Reflects the sharpest economic shock, which continues over the longer term. In the next twelve months unemployment rises to a peak of 12% to 13%, house prices fall (-25%) and business investment contracts (-30%). Again, this is offset by a supportive low OCR (-0.25%). This negative trend continues through the following 24 months, with house prices retracting a further 15%, unemployment remaining at high levels (12%), further contraction in business investment (-15%) and the OCR dropping to -0.5%, with only moderate improvement in these economic drivers expected over the longer term.

#### *Sensitivity to Macroeconomic Scenarios*

The following table details the increase/(decrease) in the Banking Group's allowance for ECL, assuming a 100% weighting on each scenario and holding all other assumptions constant:

\$ millions As at	Banking Group		
	31-Dec-21	31-Dec-20	30-Jun-21
Upside	(175)	(190)	(180)
Central	(171)	(137)	(170)
Downside	77	174	204
Severe downside	955	479	855

#### *Sensitivity to SICR Assessment*

If an additional 1% of Stage 1 financial assets were assessed as having a SICR at 31 December 2021, with the scenario weightings applied at 31 December 2021 held constant, the Banking Group's allowance for ECL would increase by \$9 million as a result of recognising a loss allowance equal to Stage 2 lifetime ECL (rather than at an amount equal to one year of ECL). Conversely, if 1% of Stage 2 financial assets were assessed as no longer having a SICR, the Banking Group's allowance for ECL would decrease by \$1 million.

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 6 Credit Quality Information for Advances to Customers

Unaudited

\$ millions	Banking Group			
	Residential Mortgages	Other Retail	Corporate	Total
<b>As at 31 December 2021</b>				
<b>Past due assets not individually impaired</b>				
1 to 7 days	1,188	69	158	1,415
8 to 29 days	458	48	19	525
<b>1 to 29 days</b>	<b>1,646</b>	<b>117</b>	<b>177</b>	<b>1,940</b>
30 to 59 days	118	22	12	152
60 to 89 days	36	11	4	51
90 days and over	121	22	6	149
<b>Total past due assets not individually impaired</b>	<b>1,921</b>	<b>172</b>	<b>199</b>	<b>2,292</b>
<b>Other assets under administration</b>	<b>15</b>	<b>2</b>	<b>10</b>	<b>27</b>
<b>Undrawn lending commitments to customers with individually impaired assets</b>	<b>-</b>	<b>1</b>	<b>4</b>	<b>5</b>

## 7 Impairment Losses on Financial Assets

Unaudited

\$ millions	Banking Group			
	Residential Mortgages	Other Retail	Corporate	Total
<b>For the six months ended 31 December 2021</b>				
Impairment losses charged to/ (credited against) the Income Statement for collective allowances	3	(16)	(19)	(32)
Impairment losses charged to the Income Statement for individually assessed allowances	-	-	9	9
Bad debts written off directly to the Income Statement	-	18	-	18
Recovery of amounts previously written off	-	(8)	-	(8)
<b>Total impairment losses/(recoveries) recognised in the Income Statement</b>	<b>3</b>	<b>(6)</b>	<b>(10)</b>	<b>(13)</b>

Impairment losses on other financial assets for the period ended 31 December 2021 are not material to the Banking Group.

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 8 Concentrations of Credit Exposures

### Unaudited

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.

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			
	Financial Assets at Amortised Cost	Financial Assets at Fair Value	Other Credit Exposures	Total Credit Exposures
<b>As at 31 December 2021</b>				
<b>Concentration by industry</b>				
Agriculture	10,377	5	916	11,298
Forestry and Fishing, Agriculture Services	485	2	78	565
Manufacturing	1,012	20	427	1,459
Electricity, Gas, Water and Waste Services	380	86	206	672
Construction	698	-	404	1,102
Wholesale Trade	679	7	579	1,265
Retail Trade and Accommodation	1,626	1	552	2,179
Transport, Postal and Warehousing	800	1	301	1,102
Financial and Insurance Services	6,593	4,352	300	11,245
Rental, Hiring and Real Estate Services	35,395	10	1,586	36,991
Professional, Scientific, Technical, Administrative and Support Services	663	1	409	1,073
Public Administration and Safety	23	3,329	53	3,405
Education and Training	198	-	129	327
Health Care and Social Assistance	864	-	416	1,280
Arts, Recreation and Other Services	371	1	158	530
Households	47,753	-	10,567	58,320
All Other	46	-	27	73
<b>Total credit exposures by industry</b>	<b>107,963</b>	<b>7,815</b>	<b>17,108</b>	<b>132,886</b>
<b>Concentration by geographic region</b>				
Auckland	50,384	1,857	9,492	61,733
Rest of New Zealand	55,596	3,385	7,482	66,463
Overseas	1,983	2,573	134	4,690
<b>Total credit exposures by geographic region</b>	<b>107,963</b>	<b>7,815</b>	<b>17,108</b>	<b>132,886</b>

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 9 Concentration of Credit Exposures to Individual Counterparties

### Unaudited

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 1 ("CET1") capital as at 31 December 2021.

	Banking Group	
	Exposure as at 31-Dec-21	Peak end-of-day exposure over six months to 31-Dec-21
<b>Number of exposures that equals or exceeds 10% of CET1 capital</b>		
<b>Exposures to banks</b>		
With a long-term credit rating of A- or A3 or above, or its equivalent		
10% to less than 15% of CET1 capital	1	2
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
<b>Exposures to non-banks</b>		
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	-	-

## 10 Deposits and Other Borrowings

\$ millions	Banking Group		
	Unaudited 31-Dec-21	Unaudited 31-Dec-20	Audited 30-Jun-21
<b>As at</b>			
Certificates of deposit	2,879	3,722	3,854
Term deposits	25,401	27,914	25,398
On demand and short term deposits	38,864	34,273	36,356
Deposits not bearing interest	13,906	10,470	11,651
Repurchase agreements	1,797	-	772
<b>Total deposits and other borrowings</b>	<b>82,847</b>	<b>76,379</b>	<b>78,031</b>

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 11 Debt Issues

\$ millions	Banking Group		
	Unaudited 31-Dec-21	Unaudited 31-Dec-20	Audited 30-Jun-21
<b>As at</b>			
Debt issues at fair value through Income Statement	3,931	4,593	6,079
Debt issues at amortised cost	18,567	17,058	16,857
<b>Total debt issues</b>	<b>22,498</b>	<b>21,651</b>	<b>22,936</b>
<b>Movement in debt issues</b>			
Balance at beginning of period	22,936	19,408	19,408
Issuances during the period	6,050	5,282	12,435
Repayments during the period	(6,383)	(1,881)	(7,860)
Fair value movements	(250)	(90)	(291)
Foreign exchange and other movements	145	(1,068)	(756)
<b>Balance at the end of period</b>	<b>22,498</b>	<b>21,651</b>	<b>22,936</b>

## 12 Credit and Capital Commitments, and Contingent Liabilities

\$ millions	Banking Group Notional Amount		
	Unaudited 31-Dec-21	Unaudited 31-Dec-20	Audited 30-Jun-21
<b>As at</b>			
<b>Credit and capital commitments</b>			
Lending commitments approved but not yet advanced <sup>(1)</sup>	16,323	15,384	15,758
Capital expenditure commitments	4	4	2
<b>Total credit and capital commitments</b>	<b>16,327</b>	<b>15,388</b>	<b>15,760</b>
<b>Credit related contingent liabilities</b>			
Financial guarantees	219	192	202
Letters of credit	93	83	122
Other credit facilities	473	480	453
<b>Total credit related contingent liabilities</b>	<b>785</b>	<b>755</b>	<b>777</b>

(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.

### Other Contingent Liabilities

Proceedings were served on ASB on 29 September 2021 by plaintiffs seeking to bring a representative action on behalf of a class of plaintiffs against ASB in the High Court of New Zealand, Auckland Registry. These proceedings relate to ASB's variation disclosure obligations under the Credit Contracts and Consumer Finance Act 2003. ASB is defending the claim.

The Banking Group is exposed to this claim and other contingent liabilities in respect of actual and potential claims and proceedings. The Banking Group has identified a number of matters where it is undertaking reviews relating to products and services provided to customers which may require remediation and, in some cases, engagement with regulators.

There are instances where the potential liability of the Banking Group, if any, cannot be accurately assessed until such claims, proceedings or matters are further progressed or because the application of the law is uncertain. An assessment of the Banking Group's likely loss has been made on a case-by-case basis and provision made in the financial statements where required by NZ GAAP. Information relating to any contingent liability or provision is not disclosed where it can be expected to prejudice seriously the interests of the Banking Group.



# Notes to the Financial Statements

For the six months ended 31 December 2021

## 13 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 or 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 six months ended 31 December 2021 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 related companies and entities 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 following balances represent amounts due from and to related parties classified within Cash and liquid assets, Due to financial institutions, Due from financial institutions, Deposits and other borrowings, Debt issues, Other assets, Other liabilities, Derivative assets and Derivative liabilities:

\$ millions As at	Banking Group		
	Unaudited 31-Dec-21	Unaudited 31-Dec-20	Audited 30-Jun-21
Commonwealth Bank Group	555	708	560
Superannuation schemes and managed investment schemes managed by ASB Group Investments Limited	20	19	20
Trade Window Holdings Limited	2	3	2
<b>Total amounts due from related parties</b>	<b>577</b>	<b>730</b>	<b>582</b>
Commonwealth Bank Group	1,403	1,123	989
ASB Holdings Limited	10	23	3
Superannuation schemes and managed investment schemes managed by ASB Group Investments Limited	1,485	2,045	1,873
Trade Window Holdings Limited	9	3	4
<b>Total amounts due to related parties</b>	<b>2,907</b>	<b>3,194</b>	<b>2,869</b>

For the six months ended 31 December 2021, significant related party transactions included interest expense paid to the Commonwealth Bank Group of \$51 million (31 December 2020 \$34 million) and management and administration fees received from schemes managed by ASB Group Investments Limited of \$71 million (31 December 2020 \$64 million). Dividends paid to the shareholder are disclosed in the Statement of Changes in Equity.

## 14 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.

The Banking Group categorises financial assets and financial liabilities at fair value into the fair value hierarchy as required by NZ IFRS 13 *Fair Value Measurement* 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 significant 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.

There were no transfers between levels for recurring fair value measurements for the period ended 31 December 2021.

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 14 Fair Value of Financial Instruments (continued)

### (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 the financial instruments that are recognised and measured at fair value on a recurring basis.

Unaudited				
\$ millions				
Banking Group				
As at 31 December 2021	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Securities at fair value through other comprehensive income	5,366	1,834	-	7,200
Derivative assets	-	615	-	615
<b>Total financial assets measured at fair value</b>	<b>5,366</b>	<b>2,449</b>	<b>-</b>	<b>7,815</b>
<b>Financial liabilities</b>				
Derivative liabilities	1	418	-	419
Debt issues at fair value through Income Statement	-	3,931	-	3,931
<b>Total financial liabilities measured at fair value</b>	<b>1</b>	<b>4,349</b>	<b>-</b>	<b>4,350</b>

Unaudited				
\$ millions				
Banking Group				
As at 31 December 2020	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Securities at fair value through other comprehensive income	6,587	1,709	-	8,296
Derivative assets	-	818	-	818
<b>Total financial assets measured at fair value</b>	<b>6,587</b>	<b>2,527</b>	<b>-</b>	<b>9,114</b>
<b>Financial liabilities</b>				
Derivative liabilities	-	772	-	772
Debt issues at fair value through Income Statement	-	4,593	-	4,593
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>5,365</b>	<b>-</b>	<b>5,365</b>

Audited				
\$ millions				
Banking Group				
As at 30 June 2021	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Securities at fair value through other comprehensive income	6,387	1,626	-	8,013
Derivative assets	1	792	-	793
<b>Total financial assets measured at fair value</b>	<b>6,388</b>	<b>2,418</b>	<b>-</b>	<b>8,806</b>
<b>Financial liabilities</b>				
Derivative liabilities	-	302	-	302
Debt issues at fair value through Income Statement	-	6,079	-	6,079
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>6,381</b>	<b>-</b>	<b>6,381</b>

The Banking Group determines the valuation of financial instruments classified in level 1 and level 2 as follows:

#### *Derivative assets and Derivative liabilities*

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

#### *Securities at fair value through other comprehensive income and Debt issues at fair value through Income Statement*

The fair value is based on quoted market prices, where available, or calculated using discounted cash flow models based on current market rates.

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 14 Fair Value of Financial Instruments (continued)

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

The following table compares the carrying values of financial instruments not measured at fair value with their estimated fair values.

\$ millions	Unaudited 31-Dec-21		Banking Group Unaudited 31-Dec-20		Audited 30-Jun-21	
	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value
<b>As at</b>						
<b>Financial assets</b>						
Cash and liquid assets	5,444	5,444	3,510	3,510	2,780	2,780
Due from financial institutions	370	370	551	551	523	523
Advances to customers	101,126	102,149	95,097	94,870	99,373	99,391
Other financial assets	231	231	251	251	241	241
<b>Total</b>	<b>107,171</b>	<b>108,194</b>	<b>99,409</b>	<b>99,182</b>	<b>102,917</b>	<b>102,935</b>
<b>Financial liabilities</b>						
Deposits and other borrowings	82,848	82,847	76,526	76,379	78,109	78,031
Due to financial institutions	1,050	1,050	760	760	916	916
Other financial liabilities <sup>(1)</sup>	318	318	363	363	361	361
Debt issues at amortised cost	18,722	18,567	17,177	17,058	16,996	16,857
Loan capital	-	-	414	407	407	403
<b>Total</b>	<b>102,938</b>	<b>102,782</b>	<b>95,240</b>	<b>94,967</b>	<b>96,789</b>	<b>96,568</b>

(1) Other financial liabilities exclude the lease liability of \$205 million as at 31 December 2021 (30 June 2021 \$221 million, 31 December 2020 \$233 million) as no fair value disclosure is required in respect of lease liabilities.

## 15 Capital Adequacy

### Unaudited

The Banking Group is subject to regulation by the RBNZ. The RBNZ has set regulatory capital requirements for New Zealand registered banks, which defines what qualifies as capital and provides methods for 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 RBNZ's capital requirements detailed in their Banking Prudential Requirements ("BPRs"). The Banking Group is accredited by the RBNZ to adopt the internal ratings based ("IRB") approach for calculating regulatory capital requirements.

During the reporting period, the Banking Group has complied with all the RBNZ minimum capital ratios to which it is subject.

In 2017 the RBNZ began a comprehensive review of the capital adequacy framework for locally incorporated registered banks in New Zealand. Final decisions were announced by the RBNZ in December 2019, with requirements published by the RBNZ on 17 June 2021 in 12 BPRs (which came into effect 1 October 2021). The new capital adequacy requirements include the following:

- The risk-weighted assets ("RWA") of counterparties in the Bank and Sovereign asset classes will be calculated under a standardised approach from 1 January 2022;
- The credit RWA of IRB banks will be floored at 85% of the requirement under a standardised approach from 1 January 2022. An increase to the scalar applied to IRB credit risk RWA from 6% to 20% applies from 1 October 2022. Dual reporting of IRB and standardised RWA will be required from 30 September 2022 for IRB banks;
- The buffer ratio has been renamed the prudential capital buffer ("PCB") ratio and increases progressively from 2.5% on 1 July 2022 to 9.0% by 1 July 2028 (for IRB banks). The 9.0% PCB ratio includes a 1.5% countercyclical capital buffer, a 2.0% domestic systemically important banks ("D-SIB") buffer and a 5.5% conservation buffer. A Capital Buffer Response Framework will be introduced, which sets out the three stages of escalating supervisory responses, including distribution restrictions which may be triggered if a bank fails to maintain the required PCB ratio;
- Minimum Additional Tier 1 ("AT1") capital requirements will increase from 1.5% to 2.5% from 1 July 2024;
- Tier 2 capital will remain in the framework and can comprise 2% of the minimum Total Capital ratio; and
- Redeemable perpetual preference shares that are issued by banks will be eligible to qualify as AT1 capital. Existing capital instruments that have conversion features will no longer be eligible under the RBNZ's new capital criteria. The derecognition of non-qualifying AT1 and Tier 2 instruments will commence on 1 January 2022, with these instruments fully derecognised by 1 July 2028.

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 15 Capital Adequacy (continued)

Unaudited

\$ millions

As at 31 December 2021

Banking Group

### Capital under Basel III IRB approach

#### Tier 1 capital

##### CET1 capital

Issued and fully paid-up ordinary share capital	5,173
Retained earnings	3,163
Accumulated other comprehensive income and other disclosed reserves	(43)
Deductions from CET1 capital:	
Goodwill and other intangible assets	(181)
Deferred tax assets	(231)
Cash flow hedge reserve	91
Excess of expected loss over eligible allowance for impairment	(48)
<b>Total CET1 capital</b>	<b>7,924</b>

##### AT1 capital

Perpetual fully paid-up non-cumulative preference shares - classified as equity	1,000
---	-------

<b>Total AT1 capital</b>	<b>1,000</b>
--------------------------	--------------

<b>Total Tier 1 capital</b>	<b>8,924</b>
-----------------------------	--------------

#### Tier 2 capital

Asset revaluation reserve	23
---------------------------	----

<b>Total Tier 2 capital</b>	<b>23</b>
-----------------------------	-----------

<b>Total capital</b>	<b>8,947</b>
----------------------	--------------

As at	Banking Group		Bank	
	31-Dec-21	31-Dec-20	31-Dec-21	31-Dec-20
<b>Capital ratios<sup>(1)</sup></b>				
CET1 capital ratio	12.9%	11.6%	12.9%	11.6%
Tier 1 capital ratio	14.5%	13.2%	14.5%	13.2%
Total capital ratio	14.6%	13.9%	14.5%	13.9%
Prudential capital buffer ratio	6.6%	5.9%	6.5%	5.9%
<b>Minimum ratio requirement</b>				
CET1 capital ratio	4.5%	4.5%	4.5%	4.5%
Tier 1 capital ratio	6.0%	6.0%	6.0%	6.0%
Total capital ratio	8.0%	8.0%	8.0%	8.0%
Prudential capital buffer ratio	2.5%	2.5%	2.5%	2.5%

(1) The December 2020 Capital ratios and Prudential capital buffer ratio have been restated. Refer to the Changes to Comparatives section of note 1 for more information.

\$ millions	Banking Group		
	Total Exposure <sup>(1)</sup>	RWE <sup>(2)</sup>	Capital Requirement
<b>As at 31 December 2021</b>			
<b>Capital requirements</b>			
Total credit risk	136,436	51,216	4,097
Operational risk	N/A	7,257	581
Market risk	N/A	2,992	239
<b>Total capital requirement</b>		<b>61,465</b>	<b>4,917</b>

As at 31 December 2021, the Banking Group held \$4,030m 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.

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 15 Capital Adequacy (continued)

### Capital Structure

#### Ordinary Shares

The total number of ordinary shares issued by the Bank as at 31 December 2021 was 5,148,121,300. All ordinary shares have equal voting rights and share equally in dividends and any profit on winding up, after the obligations to holders of ASB perpetual preference shares ("PPS") are satisfied. Dividends are declared, subject in all cases, to the applicable Directors' resolutions being passed. Ordinary shares qualify as CET1 capital under the RBNZ's regulatory capital standards.

Revised Conditions of Registration for New Zealand incorporated banks from 29 April 2021 restricted dividend payments on ordinary shares up to a maximum of 50% of their earnings for the most recently completed final year and will remain in place until 1 July 2022, at which point the RBNZ intends to remove the restriction entirely, subject to economic conditions.

#### 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 currently qualify as transitional AT1 capital under the RBNZ's existing regulatory capital standards, but will be phased out over the 7 year transition period starting 1 January 2022 under the RBNZ's new capital criteria.

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 any future subsequent scheduled distribution date, subject to RBNZ approval.

If a non-viability trigger event ("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.

The total number of issued PPS as at 31 December 2021 was 10,000,000.

#### Loan Capital

On 30 November 2016, the Bank issued subordinated and unsecured debt securities ("ABBO50 Notes") with a face value of \$400 million. On 15 December 2021, the Bank exercised its option to fully redeem the ABBO50 Notes prior to the scheduled 15 December 2026 maturity date. The ABBO50 Notes were previously recognised as Tier 2 capital by the Bank and classified as financial liabilities under NZ IAS 32.

#### Reserves

Accumulated other comprehensive income and other disclosed reserves in CET1 capital includes the Fair value through other comprehensive income reserve of \$48 million. 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 until the investment is derecognised or impaired. When fair value hedge accounting is applied, only fair value changes relating to movements in credit spreads are included in the reserve.

The Asset revaluation reserve of \$23 million included in Tier 2 capital relates to revaluation gains on land and buildings carried at valuation, except that to the extent the gain reverses a revaluation loss on the same asset previously recognised in the Income Statement, that gain is recognised in the Income Statement.

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 15 Capital Adequacy (continued)

Unaudited

Credit risk exposures subject to the IRB approach by exposure class

As at 31 December 2021		Banking Group			Risk	Minimum
PD Grade	Exposure Weighted PD	Exposure Amount \$ millions	Exposure Weighted LGD	Exposure Weighted Risk Weight	Weighted Exposures <sup>(1)</sup> \$ millions	Capital Requirement \$ millions
<b>Sovereign exposures</b>						
Less than and including 0.03%	0.02%	9,772	5%	1%	82	7
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	-	-	-	-	-	-
<b>Total sovereign exposures</b>	<b>0.02%</b>	<b>9,772</b>	<b>5%</b>	<b>1%</b>	<b>82</b>	<b>7</b>
<b>Bank exposures</b>						
Less than and including 0.03%	0.03%	1,269	60%	20%	272	22
Over 0.03% up to and including 0.05%	0.04%	2,404	60%	24%	609	49
Over 0.05% up to and including 0.07%	0.07%	96	60%	27%	28	2
Over 0.07% up to and including 0.26%	0.16%	6	60%	89%	5	-
Over 0.26% up to and including 99.99%	2.83%	-	29%	85%	-	-
Default PD grade	-	-	-	-	-	-
<b>Total bank exposures</b>	<b>0.04%</b>	<b>3,775</b>	<b>60%</b>	<b>23%</b>	<b>914</b>	<b>73</b>
<b>Exposures secured by residential mortgages</b>						
Less than and including 0.50%	0.34%	30,320	17%	11%	3,537	283
Over 0.50% up to and including 0.85%	0.66%	13,189	19%	21%	2,884	231
Over 0.85% up to and including 3.26%	1.44%	34,057	22%	38%	13,682	1,095
Over 3.26% up to and including 7.76%	5.94%	787	24%	96%	803	64
Over 7.76% up to and including 99.99%	-	-	-	-	-	-
Default PD grade	100.00%	864	22%	209%	1,914	153
<b>Total exposures secured by residential mortgages</b>	<b>2.01%</b>	<b>79,217</b>	<b>19%</b>	<b>27%</b>	<b>22,820</b>	<b>1,826</b>
<b>Other retail exposures</b>						
Less than and including 0.50%	-	-	-	-	-	-
Over 0.50% up to and including 0.85%	0.83%	465	95%	89%	438	35
Over 0.85% up to and including 3.26%	1.59%	2,043	95%	112%	2,417	193
Over 3.26% up to and including 7.76%	3.77%	325	93%	134%	461	37
Over 7.76% up to and including 99.99%	26.96%	40	94%	233%	99	8
Default PD grade	100.00%	21	94%	646%	141	11
<b>Total other retail exposures</b>	<b>2.76%</b>	<b>2,894</b>	<b>94%</b>	<b>116%</b>	<b>3,556</b>	<b>284</b>
<b>Corporate exposures - small and medium enterprises</b>						
Less than and including 0.20%	0.15%	935	32%	21%	211	17
Over 0.20% up to and including 0.50%	0.34%	4,470	25%	28%	1,340	107
Over 0.50% up to and including 1.00%	0.68%	10,818	28%	44%	5,085	407
Over 1.00% up to and including 2.30%	1.41%	5,633	29%	58%	3,486	279
Over 2.30% up to and including 99.99%	7.45%	1,474	30%	97%	1,510	121
Default PD grade	100.00%	222	42%	225%	531	42
<b>Total corporate exposures - small and medium enterprises</b>	<b>2.13%</b>	<b>23,552</b>	<b>28%</b>	<b>49%</b>	<b>12,163</b>	<b>973</b>
<b>Other corporate exposures</b>						
Less than and including 0.20%	0.10%	1,508	49%	30%	473	38
Over 0.20% up to and including 0.50%	0.31%	2,577	38%	43%	1,169	94
Over 0.50% up to and including 1.00%	0.64%	2,094	41%	66%	1,467	117
Over 1.00% up to and including 2.30%	1.41%	556	40%	80%	474	38
Over 2.30% up to and including 99.99%	3.20%	163	32%	103%	177	14
Default PD grade	100.00%	21	51%	308%	68	5
<b>Total other corporate exposures</b>	<b>0.82%</b>	<b>6,919</b>	<b>41%</b>	<b>52%</b>	<b>3,828</b>	<b>306</b>

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

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 15 Capital Adequacy (continued)

### Unaudited

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

\$ millions	Banking Group			
	Undrawn Commitments and Other Off Balance Sheet Contingent Liabilities		Counterparty credit risk on derivatives and securities financing transactions	
As at 31 December 2021	Value	EAD	Value	EAD
Sovereign exposures	2	2	-	-
Bank exposures	65	65	32,321	616
Exposures secured by residential mortgages	9,428	8,999	-	-
Other retail exposures	2,000	1,964	-	-
Corporate exposures - small and medium enterprises	3,313	3,298	1,523	25
Other corporate exposures	2,310	2,302	3,170	71
	17,118	16,630	37,014	712

\$ millions	Banking Group					
	LVR Range					
As at 31 December 2021	0%-60%	60.1%-70%	70.1%-80%	80.1%-90%	>90%	Total
<b>Residential mortgages by loan-to-valuation ratio ("LVR")</b>						
On balance sheet exposures	33,253	15,358	17,835	4,173	1,137	71,756
Off balance sheet exposures	5,836	1,349	1,436	206	207	9,034
<b>Total value of exposures</b>	<b>39,089</b>	<b>16,707</b>	<b>19,271</b>	<b>4,379</b>	<b>1,344</b>	<b>80,790</b>
Expressed as a percentage of total exposures	48.4%	20.7%	23.8%	5.4%	1.7%	100.0%

LVR is calculated as the total exposure amount 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 31 December 2021	
Banking Group	
<b>Reconciliation of mortgage-related amounts</b>	
<b>Residential mortgages in Advances to customers (refer to note 4)<sup>(1)</sup></b>	<b>71,397</b>
Add/(less):	
Off balance sheet exposures	9,034
Exposure at default adjustments	645
Unamortised loan establishment fees and expenses	(286)
<b>Residential mortgages in LVR disclosure</b>	<b>80,790</b>
Add/(less):	
Corporate lending secured on residential mortgages (subject to the Standardised Approach)	(1,557)
Reverse residential mortgages (subject to the Standardised Approach)	(16)
<b>Residential mortgages subject to the IRB approach</b>	<b>79,217</b>

(1) Residential mortgages include loans secured over residential property for owner-occupier and residential property investment.

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 15 Capital Adequacy (continued)

Unaudited

As at 31 December 2021	Banking Group			
	Total Exposure after Credit Risk Mitigation \$ millions	Risk Weight	Risk Weighted Exposures <sup>(1)</sup> \$ millions	Minimum Capital Requirement \$ millions
<b>On Balance Sheet Exposures Subject to the Slotting Approach</b>				
<b>Specialised lending</b>				
Strong	2,020	70%	1,499	120
Good	1,058	90%	1,009	81
Satisfactory	379	115%	462	37
Weak	118	250%	313	25
Default	1	0%	-	-
	<b>3,576</b>		<b>3,283</b>	<b>263</b>

As at 31 December 2021	Banking Group			
	EAD \$ millions	Average Risk Weight	Risk Weighted Exposures <sup>(1)</sup> \$ millions	Minimum Capital Requirement \$ millions
<b>Off Balance Sheet Exposures Subject to the Slotting Approach</b>				
Undrawn commitments and other off balance sheet exposures	122	101%	130	10

As at 31 December 2021	Banking Group			
	Total Exposure after Credit Risk Mitigation \$ millions	Average Risk Weight	Risk Weighted Exposures <sup>(1)</sup> \$ millions	Minimum Capital Requirement \$ millions
<b>On Balance Sheet Exposures Subject to the Standardised Approach</b>				
Cash	127	-	-	-
Residential mortgages	1,537	39%	628	50
Other assets	3,373	91%	3,269	262
<b>Total balance sheet exposures</b>	<b>5,037</b>		<b>3,897</b>	<b>312</b>

As at 31 December 2021	Banking Group					
	Total Exposure or Principal Amount \$ millions	Average Credit Conversion Factor	Credit Equivalent Amount \$ millions	Average Risk Weight	Risk Weighted Exposures <sup>(1)</sup> \$ millions	Minimum Capital Requirement \$ millions
<b>Off Balance Sheet Exposures and Counterparty Credit Risk for Counterparties Subject to the Standardised Approach</b>						
Counterparty credit risk on derivatives and securities financing transactions						
Foreign exchange contracts	107	N/A	2	84%	2	-
Interest rate contracts <sup>(2)</sup>	175,634	N/A	1,393	2%	30	2
Undrawn commitments	1,203	7%	89	90%	85	7
Other off balance sheet exposures	120	68%	81	84%	72	6
<b>Total off balance sheet exposures and counterparty credit risk for counterparties subject to the standardised approach</b>	<b>177,064</b>		<b>1,565</b>		<b>189</b>	<b>15</b>

As at 31 December 2021	Banking Group			
	Total Exposure \$ millions	Risk Weight	Risk Weighted Exposures <sup>(1)</sup> \$ millions	Minimum Capital Requirement \$ millions
<b>Equity Exposures Subject to the Standardised Approach</b>				
All other equity holdings not deducted from capital	7	400%	30	2

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

(2) The total exposure or principal amount reflects the gross notional value of contracts transacted through a qualifying central counterparty.



# Notes to the Financial Statements

For the six months ended 31 December 2021

## 15 Capital Adequacy (continued)

Unaudited

\$ millions

As at 31 December 2021	Banking Group		
	Total Exposure after Credit Risk Mitigation	Total Risk Weighted Exposures	Capital Requirement
<b>Total credit risk</b>			
Exposures subject to the IRB approach	126,129	43,363	3,469
Specialised lending subject to the slotting approach	3,698	3,413	273
Exposures subject to the standardised approach	6,609	4,116	329
Credit valuation adjustment	-	324	26
<b>Total credit risk</b>	<b>136,436</b>	<b>51,216</b>	<b>4,097</b>

### 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	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	Income-producing real estate.
---------------------	-------------------------------

### Exposures Subject to the Standardised Approach

Secured by residential mortgages	A small non-scored home loan portfolio and SME where group exposure is less than \$1 million that is secured by residential property.
Other assets	SME where group exposure is less than \$1 million and not secured by residential property, personal lending, and all other assets not falling within any other asset class.

### Credit Risk Mitigation

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. Housing loans and 47% of small business loans are generally secured against real estate, whilst credit cards, personal loans and overdrafts are generally unsecured.

As at 31 December 2021, 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.

### Operational Risk

Effective 1 July 2021, the Banking Group has elected to utilise the standardised approach set out in *BPR150: Standardised Operational Risk* to calculate capital requirements for operational risk.

The implied risk-weighted exposure for operational risk as at 31 December 2021 was \$7,257 million.

The total operational risk capital requirement as at 31 December 2021 was \$581 million.

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 15 Capital Adequacy (continued)

### Unaudited

#### Market Risk Capital Charges

The Banking Group's aggregate market risk exposure is derived in accordance with BPR140: *Market Risk*. The peak end-of-day exposure is derived by taking the highest market risk exposure over the six months ended 31 December 2021.

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.

\$ millions	Banking Group			
	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Total
<b>Exposures as at 31 December 2021</b>				
Implied risk-weighted exposure	2,959	33	-	2,992
Aggregate capital charge	236	3	-	239

\$ millions	Banking Group			
	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Total
<b>Peak end-of-day Exposures for the six months ended 31 December 2021</b>				
Implied risk-weighted exposure	4,185	416	-	4,601
Aggregate capital charge	335	33	-	368

#### 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 BPR100: *Capital Adequacy* in accordance with the Bank's Conditions of Registration. The Board is responsible for ensuring that the Banking Group has adequate overall capital in relation to its risk profile.

The Banking Group's ICAAP 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, the Board Risk and Compliance Committee 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. Other material risks considered by the Banking Group include strategic risk, liquidity risk, reputational risk, funding risk, concentration risk, information technology and cyber risk. As at 31 December 2021, internal capital allocations of \$357 million (31 December 2020 \$312 million) had been made for other material risks.

#### 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 traded market risk and Interest Rate Risk in the Banking Book requirements under Pillar 1 of the Basel capital framework.

APRA prudential standards require the ultimate parent banking group to have a minimum CET1 ratio of 4.5%. An additional CET1 capital conservation buffer of 3.5%, inclusive of a domestic systemically important bank requirement of 1% and a countercyclical capital buffer of 0% brings 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](http://www.commbank.com.au)).

As at 31 December 2021 the minimum capital requirements were met (31 December 2020 minimum capital requirements were met).

As at	Ultimate Parent Bank		Ultimate Parent Banking Group	
	31-Dec-21	31-Dec-20	31-Dec-21	31-Dec-20
CET1 capital ratio	12.0%	12.8%	11.8%	12.6%
Tier 1 capital ratio	14.4%	15.3%	14.0%	15.0%
Total capital ratio	18.6%	19.3%	18.0%	18.9%

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 16 Insurance Business, Marketing and Distribution of Insurance Products

### Unaudited

The Banking Group does not conduct any insurance business. However, certain general, travel and life insurance products are marketed and distributed by the Bank for the following entities: IAG New Zealand Limited, Cigna Life Insurance Limited and AIA New Zealand Limited. None of these are affiliated insurance entities.

## 17 Changes in the Composition of the Banking Group during the Reporting Period

### Unaudited

There were no material changes in the composition of the Banking Group for the six months ended 31 December 2021.

## 18 Financial Reporting by Operating Segments

### Unaudited

The Banking Group is organised into four major business segments for segment reporting purposes: Retail Banking, Business Banking, Corporate Banking and Private Banking, Wealth and Insurance. These segments are consistent with internal reporting provided to the chief operating decision maker, being the Bank's Chief Executive Officer.

#### Retail Banking:

The Retail Banking segment provides 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 customers bank wide.

#### 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.

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 18 Financial Reporting by Operating Segments (continued)

Unaudited

\$ millions	Banking Group					Total
	Retail Banking	Business Banking	Corporate Banking	Private Banking, Wealth and Insurance	Other	
<b>Income Statement</b>						
<b>For the six months ended 31 December 2021</b>						
Net interest income	614	499	77	44	41	1,275
Other income/(loss)	194	49	22	127	(67)	325
Total operating income/(loss)	808	548	99	171	(26)	1,600
Impairment losses/(recoveries) on financial assets	(2)	(21)	10	(1)	1	(13)
Segment operating expenses/(benefit) excluding impairment losses	365	171	34	82	(98)	554
Segment net profit before tax	445	398	55	90	71	1,059
Tax expense/(benefit)	124	111	15	25	22	297
Segment net profit after tax	321	287	40	65	49	762
<b>Balance Sheet</b>						
<b>As at 31 December 2021</b>						
Total assets	53,810	41,241	6,894	3,598	11,296	116,839
Total liabilities	43,436	19,865	8,389	5,256	30,577	107,523

\$ millions	Banking Group					Total
	Retail Banking	Business Banking	Corporate Banking	Private Banking, Wealth and Insurance	Other	
<b>Income Statement <sup>(1)</sup></b>						
<b>For the six months ended 31 December 2020</b>						
Net interest income	566	443	66	35	15	1,125
Other income/(loss)	188	54	14	117	(82)	291
Total operating income/(loss)	754	497	80	152	(67)	1,416
Impairment losses/(recoveries) on financial assets	(3)	31	1	(1)	2	30
Segment operating expenses/(benefit) excluding impairment losses	321	147	32	65	(38)	527
Segment net profit/(loss) before tax	436	319	47	88	(31)	859
Tax expense/(benefit)	122	89	13	24	(8)	240
Segment net profit/(loss) after tax	314	230	34	64	(23)	619
<b>Balance Sheet <sup>(1)</sup></b>						
<b>As at 31 December 2020</b>						
Total assets	49,847	38,856	6,223	3,035	11,256	109,217
Total liabilities	40,433	17,893	7,460	5,200	29,748	100,734

(1) Certain comparative information has been restated to ensure consistency with presentation in the current period. Refer to the Changes to Comparatives section of note 1 for more information.

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 19 Interest Rate Repricing Schedule

### Unaudited

The following table represents 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.

\$ millions	Banking Group						Total
	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	
As at 31 December 2021							
<b>Assets</b>							
Cash and liquid assets	5,270	-	-	-	-	174	5,444
Due from financial institutions	370	-	-	-	-	-	370
Securities at fair value through other comprehensive income	886	154	91	2,209	3,860	-	7,200
Derivative assets	-	-	-	-	-	615	615
Advances to customers	42,692	13,704	18,120	15,781	12,088	(236)	102,149
Other financial assets	-	-	-	-	-	231	231
<b>Total financial assets</b>	<b>49,218</b>	<b>13,858</b>	<b>18,211</b>	<b>17,990</b>	<b>15,948</b>	<b>784</b>	<b>116,009</b>
Non-financial assets							830
<b>Total assets</b>							<b>116,839</b>
<b>Liabilities</b>							
Deposits and other borrowings	53,521	8,249	5,372	1,102	697	13,906	82,847
Due to financial institutions	985	-	-	-	-	65	1,050
Derivative liabilities	-	-	-	-	-	419	419
Other financial liabilities	-	-	-	-	-	523	523
Debt issues:							
At fair value through Income Statement	1,188	1,559	1,184	-	-	-	3,931
At amortised cost	2,496	826	-	2,097	13,080	68	18,567
<b>Total financial liabilities</b>	<b>58,190</b>	<b>10,634</b>	<b>6,556</b>	<b>3,199</b>	<b>13,777</b>	<b>14,981</b>	<b>107,337</b>
Non-financial liabilities							186
<b>Total liabilities</b>							<b>107,523</b>
<b>Net derivative notionals</b>	<b>21,434</b>	<b>(12,455)</b>	<b>(8,292)</b>	<b>(10,074)</b>	<b>9,387</b>		
<b>Interest rate sensitivity gap</b>	<b>12,462</b>	<b>(9,231)</b>	<b>3,363</b>	<b>4,717</b>	<b>11,558</b>		

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 20 Regulatory Liquidity Ratios

### Unaudited

#### a) Liquidity and Funding Risk Management Framework and Regulatory Liquidity Ratios

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 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 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 Banking Group 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.

The RBNZ requires banks to obtain a minimum amount of funding from stable sources called core funding. As part of the response to COVID-19, on 2 April 2020 the RBNZ reduced the minimum core funding ratio from 75% to 50% of the Banking Group's total Advances to customers. The RBNZ increased the minimum requirement back to 75% effective 1 January 2022.

The average of these ratios for the quarters ended 31 December 2021 and 30 September 2021 are reflected in the table below.

Average for the three months ended	Banking Group	
	31-Dec-21	30-Sep-21
One-month mismatch ratio	5.5%	5.2%
One-week mismatch ratio	5.1%	4.9%
Core funding ratio	86.8%	84.4%

#### b) Additional RBNZ Facilities

The RBNZ has several facilities that support monetary policy and manage liquidity in the New Zealand banking system. These facilities allow banks to borrow funding from the RBNZ by pledging high quality liquid assets as collateral. The Bank has an in-house residential mortgage-backed securities ("RMBS") facility, which has issued securities that can be used as collateral for borrowing from the RBNZ. As at 31 December 2021 the Bank had internally securitised \$14.0 billion of RMBS through the Medallion NZ Series Trust 2009-1R (30 June 2021 \$11.0 billion, 31 December 2020 \$8.7 billion), of which \$12.8 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 2021 \$10.0 billion, 31 December 2020 \$8.0 billion). While not intended to be used for day-to-day liquidity management, the RMBS form part of the Bank's total qualifying liquid assets (excluding RMBS that have been used as collateral for repurchase agreements with the RBNZ, as set out below). The RBNZ has imposed a tiered cap limiting the amount of RMBS that can be deemed as qualifying liquid assets available for repurchase agreements with the RBNZ, with a maximum limit of 5% of total assets, based upon the Bank's asset encumbrance ratio (30 June 2021 and 31 December 2020 maximum limits of 5% and 4% respectively).

From 26 May 2020, the RBNZ made available a Term Lending Facility ("TLF") for a fixed term of three years at the rate of the OCR, with access to the funds linked to banks' lending under the Business Finance Guarantee Scheme ("BFGS"). The TLF was available until 28 July 2021 in line with the BFGS and the maximum term was extended to five years. The Banking Group has drawn down \$297 million under this facility as at 31 December 2021 (30 June 2021 \$272 million, 31 December 2020 nil).

From 7 December 2020, the RBNZ made available the Funding for Lending Programme ("FLP"). The FLP provides funding to banks at the prevailing OCR for a term of three years, secured by high quality collateral. The size of funding available under the FLP includes an initial allocation of 4% of each banks' eligible loans (as defined by the RBNZ). A conditional additional allocation of up to 2% of eligible loans is also made available, subject to growth in eligible loans, for a total size of up to 6% of eligible loans. The facility is available until 6 June 2022 for the initial allocation and up to 6 December 2022 for the conditional additional allocation. As at 31 December 2021, the Banking Group had utilised \$1.5 billion of this facility (30 June 2021 \$500 million, 31 December 2020 nil).

As at 31 December 2021 \$2.2 billion of the RMBS had been used as collateral for repurchase agreements with the RBNZ (30 June 2021 \$924 million, 31 December 2020 nil).

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 21 Qualifying Liquid Assets

### Unaudited

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 20 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					
	Cash and Liquid Assets	Securities at Fair Value through Other Comprehensive Income	Advances to Customers	Deposits and Other Borrowings <sup>(1)</sup>	Other Assets	Total
<b>As at 31 December 2021</b>						
Cash	234	-	-	-	-	234
Call deposits with the central bank	5,036	-	-	-	-	5,036
Local authority securities	-	620	-	-	4	624
New Zealand government securities	174	2,329	-	-	15	2,518
Corporate bonds	-	255	-	-	1	256
Bank bills	-	619	-	-	-	619
Kauri bonds	-	2,162	-	-	16	2,178
Bank bonds	-	1,215	-	-	7	1,222
Residential mortgage-backed securities <sup>(2)</sup>	-	-	5,842	-	-	5,842
<b>Total qualifying liquid assets</b>	<b>5,444</b>	<b>7,200</b>	<b>5,842</b>	<b>-</b>	<b>43</b>	<b>18,529</b>

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

(2) As at 31 December 2021, \$5,878 million residential mortgage-backed securities held by the Banking Group were eligible for repurchase transactions with the RBNZ.

# Notes to the Financial Statements

For the six months ended 31 December 2021

## 22 Maturity Analysis for Undiscounted Contractual Cash Flows

### Unaudited

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 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.

\$ millions								
	On Demand	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Between 2-5 Years	Over 5 Years	Total	Carrying Value
<b>As at 31 December 2021</b>								
<b>Non-derivative financial liabilities</b>								
Deposits and other borrowings	52,770	21,528	5,417	1,131	2,195	59	83,100	82,847
Due to financial institutions	809	241	-	-	-	-	1,050	1,050
Other financial liabilities	66	227	58	40	85	76	552	523
Debt issues:								
At fair value through Income Statement	-	2,748	1,187	-	-	-	3,935	3,931
At amortised cost	-	1,685	1,001	3,111	7,310	6,428	19,535	18,567
<b>Total non-derivative financial liabilities</b>	<b>53,645</b>	<b>26,429</b>	<b>7,663</b>	<b>4,282</b>	<b>9,590</b>	<b>6,563</b>	<b>108,172</b>	<b>106,918</b>
<b>Derivative financial liabilities</b>								
Inflows from derivatives	-	156	350	460	4,092	4,372	9,430	
Outflows from derivatives	-	(698)	(545)	(879)	(4,950)	(4,830)	(11,902)	
	-	(542)	(195)	(419)	(858)	(458)	(2,472)	
<b>Off balance sheet items</b>								
Lending commitments	13,990	2,333	-	-	-	-	16,323	
Financial guarantees	219	-	-	-	-	-	219	
Other credit related contingent liabilities	566	-	-	-	-	-	566	
<b>Total off balance sheet items</b>	<b>14,775</b>	<b>2,333</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,108</b>	



# Notes to the Financial Statements

For the six months ended 31 December 2021

## 23 Concentrations of Funding

### Unaudited

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 As at	Banking Group 31-Dec-21
<b>Total funding comprises:</b>	
Deposits and other borrowings	82,847
Due to financial institutions	1,050
Debt issues:	
At fair value through Income Statement	3,931
At amortised cost	18,567
<b>Total funding</b>	<b>106,395</b>
<b>Concentration by industry</b>	
Agricultural, Forestry and Fishing	1,491
Manufacturing	1,183
Construction	1,505
Wholesale Trade	969
Retail Trade and Accommodation	1,566
Transport, Postal and Warehousing	455
Information Media and Telecommunications	468
Financial and Insurance Services	32,153
Rental, Hiring and Real Estate Services	5,216
Professional, Scientific, Technical, Administrative and Support Services	6,894
Public Administration and Safety	900
Education and Training	1,790
Health Care and Social Assistance	1,496
Arts, Recreation and Other Services	1,913
Households	47,978
All Other	418
<b>Total funding by industry</b>	<b>106,395</b>
<b>Concentration by geographic region</b>	
New Zealand	79,957
Overseas	26,438
<b>Total funding by geographic region</b>	<b>106,395</b>

## 24 Events after the Reporting Period

### Unaudited

On 3 February 2022, the Directors resolved to pay the following quarterly dividends on perpetual preference shares, subject to certain conditions being satisfied:

- \$5 million on 15 March 2022, being 77.76 cents per share on 6 million 2015 perpetual preference shares; and
- \$4 million on 15 March 2022, being 91.08 cents per share on 4 million 2016 perpetual preference shares.

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

# Directors' Statement

**After due enquiry by the Directors, it is each Director's opinion that for the six months ended 31 December 2021:**

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

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

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

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



Dame Therese Walsh



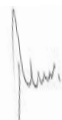
R.J.P. Buckley



V.A.J. Shortt



S.R.S. Blair



R.M. Carr



D.A. Cohen

9 February 2022

# Independent Review Report



## Independent auditor's review report

To the shareholder of ASB Bank Limited

### Report on the Disclosure Statement

#### Our conclusion

We have reviewed the Disclosure Statement for the six months ended 31 December 2021 (the 'Disclosure Statement') of ASB Bank Limited (the 'Bank') and the entities it controlled at 31 December 2021 or from time to time during the period (the 'Banking Group'), which includes the condensed interim financial statements (the 'financial statements') required by Clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the 'Order') and the supplementary information required by Schedules 5, 7, 11, 13, 16 and 18 of the Order.

The financial statements comprise the balance sheet as at 31 December 2021, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the six months ended on that date, and significant accounting policies and other explanatory information.

We have examined the financial statements and supplementary information and based on our review, nothing has come to our attention that causes us to believe that the accompanying:

- a) financial statements of the Banking Group (excluding the supplementary information) have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34) and International Accounting Standard 34 *Interim Financial Reporting* (IAS 34);
- b) supplementary information that is required to be disclosed under Schedules 5, 7, 13, 16 and 18 of the Order, does not fairly state the matters to which it relates in accordance with those schedules; and
- c) supplementary information relating to capital adequacy and regulatory liquidity requirements that is required to be disclosed under Schedule 11 of the Order, is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

#### Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibilities are further described in the *Auditor's responsibilities for the review of the financial statements and supplementary information* section of our report.

We are independent of the Banking Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. In addition to our role as auditor, our firm carries out other services for the Banking Group. These services are audit and assurance services in respect to funds managed by the Banking Group 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. We have also provided benchmarking services in respect of the capital held by the Banking Group. 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. The provision of these other services and these relationships have not impaired our independence as auditor of the Banking Group.

# Independent Review Report (continued)



## **Directors' responsibility for the Disclosure Statement**

The Directors of the Bank (the 'Directors') are responsible on behalf of the Bank for the preparation and fair presentation of the Disclosure Statement, which includes financial statements prepared in accordance with Clause 25 of the Order and for such internal control as the Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of supplementary information in the Disclosure Statement which complies with Schedules 3, 5, 7, 11, 13, 16 and 18 of the Order.

## **Auditor's responsibility for the review of the financial statements and supplementary information**

Our responsibility is to express the following conclusions on the financial statements and supplementary information based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the:

- financial statements (excluding the supplementary information), taken as a whole, have not been prepared, in all material respects, in accordance with NZ IAS 34 and IAS 34;
- supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements), taken as a whole, does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order; and
- supplementary information relating to capital adequacy and regulatory liquidity requirements, taken as a whole, is not, in all material respects disclosed in accordance with Schedule 11 of the Order.

A review in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform 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 International Standards on Auditing (New Zealand) and International Standards on Auditing and consequently do not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on the financial statements and the supplementary information.

## **Who we report to**

This report is made solely to the Bank's shareholder. Our review work has been undertaken so that we might state to the Bank's shareholder those matters which we are required to state to them in our review 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 review procedures, for this report, or for the conclusions we have formed.

The engagement partner on the review resulting in this independent auditor's review report is Karen Shires.

For and on behalf of:

A handwritten signature in black ink, appearing to read 'Karen Shires'.

Chartered Accountants  
9 February 2022

Auckland



