ASB Disclosure Statement and Annual Report

For the year ended 30 June 2022

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Contents

Consolidated Performance in Brief

For the year ended 30 June	2022	2021	2020
Income Statement ($ millions)[(6)]			
Interest income	**3,603**	3,528	4,095
Interest expense	**1,004**	1,141	1,925
Net interest income	**2,599**	2,387	2,170
Other income	**652**	585	579
Total operating income	**3,251**	2,972	2,749
Impairment losses/(recoveries) on financial assets	**41**	(5)	306
Total operating income after impairment losses/(recoveries)	**3,210**	2,977	2,443
Total operating expenses	**1,175**	1,141	1,115
Net profit before tax	**2,035**	1,836	1,328
Tax expense	**564**	515	378
Net profit after tax ("Statutory Profit")	**1,471**	1,321	950
Reconciliation of statutory profit to cash profit ($ millions)			
Statutory Profit	**1,471**	1,321	950
Reconciling items:			
Hedging and IFRS volatility[(1)]	**(49)**	(13)	4
Notional inter-group charges[(2)]	**(13)**	(7)	(11)
Reporting structure differences[(3)]	**(12)**	(15)	17
Tax on reconciling items and prior period adjustments	**21**	10	5
Cash net profit after tax ("Cash Profit")	**1,418**	1,296	965
Performance[(4)]			
Return on average total equity	**14.8%**	15.2%	12.3%
Return on average total assets	**1.2%**	1.2%	0.9%
Net interest margin	**2.22%**	2.22%	2.14%
Total operating expenses as a percentage of total operating income	**37.1%**	39.0%	39.8%

As at 30 June	2022	2021	2020
Balance Sheet ($ millions)			
Total assets	**121,522**	112,645	105,204
Advances to customers	**104,751**	99,391	90,184
Total liabilities	**111,591**	103,459	97,329
Deposits and other borrowings (excludes repurchase agreements)	**80,458**	77,259	74,388
Capital ratios[(5)]			
Common equity Tier 1 capital as a percentage of total risk-weighted exposures	**12.3%**	12.7%	10.8%
Tier 1 capital as a percentage of total risk-weighted exposures	**13.5%**	14.4%	12.5%
Total capital as a percentage of total risk-weighted exposures	**15.0%**	15.1%	13.2%

(1) Hedging and IFRS volatility includes unrealised fair value gains or losses on economic hedges that do not qualify for hedge accounting and also includes unrealised fair value gains or losses on the ineffective portion of economic hedges that do qualify for hedge accounting under IFRS. Fair value gains or losses on all of these economic hedges are excluded from Cash Profit since the asymmetric recognition of the gains or losses does not affect the performance of the Banking Group over the life of the hedge.
(2) This represents the recognition of a notional cost of capital from the ultimate parent and other allocated costs which are not included in Statutory Profit. Comparative information relating to 2021 has been restated due to refinements to group equity rebate methodology being applied retrospectively.
(3) The results of certain business units are excluded from Cash Profit for management reporting purposes but included in Statutory Profit.
(4) These performance metrics are calculated on a Cash Profit basis.
(5) Capital ratios were calculated in accordance with the Basel III framework.
(6) Certain comparatives for interest income and other income have been restated to ensure consistency with presentation in the current year. Refer to the Changes to Comparatives section of note 1 on page 26 for more information.

Performance Overview

ASB reported a Cash Net Profit After Tax (NPAT)[1] of $1,418 million for the 12 months to 30 June 2022. This represents an increase of $122 million or 9% on the year prior, mainly driven by home and business lending growth despite a challenging economic environment. Cash NPAT represents ASB's underlying operating result and excludes items that introduce volatility and/or one-off distortions which are not considered representative of ASB's on-going financial performance.

This result reflects ASB's ongoing focus to help its customers and wider New Zealand navigate these uncertain times, in an environment where interest rates, inflation and the cost of living are now top of mind.

Despite a challenging operating environment, home and business lending each grew 6%, down from 12% and 9% respectively on the prior year, reflecting the slowdown in New Zealand's market and credit setting adjustments to ensure customer affordability now and into the future. ASB's net interest income was $2,589 million, an increase of $206 million or 9% on the prior year. This increase was driven by 8% growth in average interest earning assets and a flat cash net interest margin on the prior year as ASB navigated the impacts of a rising interest rate environment and volatility in swap rates. The Bank removed, rebated or reduced fees saving personal and business customers almost $50 million.

On a cash basis, ASB's cost to income ratio was lower than FY21 at 37.1%, a decrease of 190bps. Operating income grew 8% while operating expenses increased by 3%. The underlying growth in operating expenses was 9% reflecting the substantial investment in enhancing technology platforms, regulatory compliance and customer experience.

ASB's loan impairment expense increased by $46 million as a result of the growth in asset base and the uncertain economic outlook. The Bank has a strong and resilient balance sheet with a CET1 ratio of 12.3% of Risk Weighted Exposures and Total Capital Ratio of 15%.

ASB contributed to the New Zealand economy by employing almost 5,900 people, an increase of 3% on the prior year, and paying more than half a billion dollars in taxes, making us one of New Zealand's largest employers and taxpayers. Over $460 million was paid to New Zealand-based suppliers in the past 12 months.

Caring for our customers

ASB celebrated its 175th birthday in June, marking a long tradition of helping customers get one step ahead. Supporting and innovating for customers remains at the core of what ASB does, and the Bank's purpose of accelerating the financial wellbeing of all New Zealanders has never been more relevant.

ASB has worked to help ease the pressure of the rising cost of living. Initiatives rolled out during the year include ASB's Support Finder which has helped customers access $14.3 million in additional government financial support. ASB's Save the Change tool has also helped its customers save almost $50 million over the past year by rounding up their electronic transactions at the end of every day and moving this small change into a savings account; and the use of behavioural nudges has helped 20,000 customers take actions that made them better off financially.

The Bank doubled its community banker programme to achieve better nationwide reach for customers who need extra face-to-face support with their banking. This is in addition to the priority phone line, a 9am priority hour in most branches for anyone needing extra support and free Better Banking Workshops.

ASB is committed to partnering with its large and small business customers, supporting them with tailored initiatives, such as interest only repayments on facilities where required, affordable finance options, and non-financial support through a series of Backing Business workshops on broader business-related issues.

(1) Cash NPAT reflects ASB's underlying operating results and excludes items that introduce volatility and/or one-off distortions which are not considered representative of the bank's ongoing financial performance. Items include hedging and IFRS volatility, the notional cost of capital charged by the Commonwealth Bank of Australia (the ultimate parent of ASB) and other material non-recurring items. These items are calculated consistently period on period and do not discriminate between positive and negative adjustments. Refer to the Consolidated Performance in Brief for a reconciliation of the statutory and cash net profit after tax, and for further information on these items.

Performance Overview (continued)

Investing for a more sustainable New Zealand

ASB has also reinforced its commitment to helping address one of the most critical challenges facing New Zealand, which is to achieve a more sustainable and resilient economy. The Bank has continued to honour its promise to use the Reserve Bank of New Zealand's Funding for Lending programme (FLP) and has committed $5.7 billion for low-cost lending, passing through the discount to its customers. Nearly 6,000 new home projects have been backed with ASB's highly successful Back My Build initiative, which was closed to new applications in May 2022. This has assisted with New Zealand's housing supply challenges. $1.7 billion was also approved for businesses committing to sustainability strategies or investing in sustainable assets and projects, including $240 million in low-cost rural sustainability lending.

Finally, the Board would like to acknowledge the efforts of ASB people who continue to show tremendous care and commitment in supporting each other, our customers and our communities during these uncertain times.

Dame Therese Walsh
Chair

Vittoria Shortt
Managing Director

10 August 2022

Annual Report

The Directors are pleased to present the Annual Report for ASB Bank Limited (the "Bank") for the year ended 30 June 2022.

The shareholder of the Bank has agreed to apply the reporting concessions available under section 211(3) of the Companies Act 1993. Accordingly, there is no information required to be included in the Annual Report other than the financial statements for the year ended 30 June 2022 and the Independent Auditor's Report on those financial statements, which are enclosed.

Dame Therese Walsh
Chair

Vittoria Shortt
Managing Director

10 August 2022

General Disclosures

(To be read in conjunction with the Financial Statements)

30 June 2022

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

Corporate Information

ASB Bank Limited ("ASB" or 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 listed in note 24 to the financial statements.

Ultimate Parent Bank

The ultimate parent bank of the Bank is Commonwealth Bank of Australia ("CBA"). CBA's registered office and address for service is Commonwealth Bank Place South, Level 1, 11 Harbour Street, Sydney, NSW 2000, Australia.

Persons Having a Significant Interest in the Registered Bank

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

Directors

The details of the directors of the Bank (the "Directors") as at the time this Disclosure Statement was signed, are contained in the Directory which is located at the end of this Annual Report.

Changes to Directors

Mr Gavin Walker retired from the Board on 1 September 2021 at which time current director Dame Therese Walsh became Chair of the Board.

Mr Gregory Cross was appointed as a non-executive independent director of the Board on 16 August 2021 and resigned on 31 August 2021.

Mr Colin MacDonald was appointed as a non-executive independent director of the Board on 2 March 2022.

Ms Victoria (Vic) Crone was appointed as a non-executive independent director of the Board on 12 April 2022.

Communications to Directors

Communications addressed to the Directors should be sent to the Registered Office (refer to the Directory for this address).

Responsible Persons

The Chair of the Board, Dame Therese Walsh, and the Managing Director, Ms Vittoria Shortt, have been authorised in writing to sign this Disclosure Statement in accordance with section 82 of the Reserve Bank of New Zealand Act 1989, on behalf of the other directors, being Dr Rod Carr, Mr Ross Buckley, Mr David Cohen, Mr Simon Blair, Mr Colin MacDonald and Ms Victoria Crone.

Conflicts of Interest

ASB maintains a register of Directors' interests that have been disclosed by Directors in accordance with the Companies Act 1993. Under the Bank's Conflicts Management Policy, disclosure by Directors of actual, potential and perceived conflicts of interests relating to outside business interests is required. Conflicts are managed by either controlling, disclosing or avoiding or a combination of these methods.

Dealings with Directors

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

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

Refer to note 39 for outstanding balances with Directors.

Board Audit Committee and Board Risk and Compliance Committee

There is a Board Audit Committee ("BAC") that covers audit matters. The BAC has seven members, being all members of the Board, other than the Managing Director. The BAC has five non-executive independent directors and two non-executive non-independent directors. There is also a Board Risk and Compliance Committee ("BRCC"), consisting of the same members, that covers risk matters.

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 7 June 2021, S&P affirmed ASB's long-term issuer default rating at AA- and revised the outlook to stable from negative.
- On 12 April 2021, Fitch Ratings affirmed ASB's long-term issuer default rating at A+ and revised the outlook to stable from negative. On 28 March 2022, Fitch Ratings affirmed CBA's long-term issuer default rating at A+ and maintained the stable outlook.
- The Moody's rating for ASB has remained unchanged during the two years immediately preceding the signing date.

General Disclosures

(To be read in conjunction with the Financial Statements)

Credit Ratings (continued)

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

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

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

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

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

Pending Proceedings or Arbitration

Other than the information disclosed in note 37, the Banking Group is not a party to any pending legal proceedings or arbitration that may have a material adverse effect on the Bank or the Banking Group.

Auditor

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

Guarantee Arrangements

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

The Covered Bond Guarantor has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the Mortgage Loans, related security and other assets of the Covered Bond Trust. Covered bonds (including accrued interest) of $3.651 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 Queen Street, Auckland 1010, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations payable in New Zealand dollars. As at 30 June 2022, the Covered Bonds issued have been assigned a long-term rating of 'AAA' by Fitch Ratings and 'Aaa' by Moody's.

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

General Disclosures (continued)

(To be read in conjunction with the Financial Statements)

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

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

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

Unless APRA provides otherwise, CBA must comply with APRA's prudential standard APS 222: *Associations with Related Entities* ("APS 222"). APS 222 contains the following prudential requirements:

- CBA's exposure to the Bank must not exceed 25% (previously 50%) of CBA's Level 1 Tier 1 Capital (as defined in APS 222) and its aggregate exposure to all related Authorised Deposit-taking Institutions ("ADI's") (including overseas based equivalents) cannot exceed 75% of that capital base;
- CBA must not enter into cross-default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default by CBA in its obligations;
- CBA must not have unlimited exposures to the Bank (such as providing a general guarantee of the Bank's obligations); and
- CBA's limits on acceptable levels of exposure to the Bank must have regard to the level of exposures that would be approved to third parties of broadly equivalent credit status to the Bank, the impact on CBA's stand-alone capital and liquidity positions, and its ability to continue operating in the event of a failure by the Bank or any other related entity to which it is exposed.

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 limits to accommodate CBA's exposures to its related entities, including the additional capital requirement for New Zealand banks which was finalised 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 a limit of 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 30 June 2022, CBA's non-equity exposures to the Bank are below 5% of CBA's Level 1 Tier Capital.

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

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

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, which would if disclosed, materially affect the decision of a person to subscribe for debt securities of which the Bank or any member of the Banking Group is the issuer.

Historical Summary of Financial Statements

$ millions For the year ended 30 June	**2022**	2021	Banking Group 2020	2019	2018
Income Statement					
Interest income	**3,603**	3,528	4,095	4,352	4,188
Interest expense	**1,004**	1,141	1,925	2,208	2,149
Net interest income	**2,599**	2,387	2,170	2,144	2,039
Other income	**652**	585	579	677	607
Total operating income	**3,251**	2,972	2,749	2,821	2,646
Impairment losses/(recoveries) on financial assets	**41**	(5)	306	108	80
Total operating income after impairment losses/(recoveries)	**3,210**	2,977	2,443	2,713	2,566
Total operating expenses	**1,175**	1,141	1,115	967	933
Net profit before tax	**2,035**	1,836	1,328	1,746	1,633
Tax expense	**564**	515	378	472	456
Net profit after tax	**1,471**	1,321	950	1,274	1,177
Dividends Paid					
Ordinary dividends paid	**975**	-	3,350	700	650
Perpetual preference dividends paid	**33**	29	35	54	54
Total dividends paid	**1,008**	29	3,385	754	704

$ millions As at 30 June	**2022**	2021	Banking Group 2020	2019	2018
Balance Sheet					
Total assets	**121,522**	112,645	105,204	98,467	95,413
Individually impaired assets	**212**	329	406	370	474
Total liabilities	**111,591**	103,459	97,329	90,676	87,541
Total shareholders' equity	**9,931**	9,186	7,875	7,791	7,872

The amounts disclosed in this historical summary of financial statements have been taken from the audited financial statements of the Banking Group, except that certain comparatives for interest income and other income have been reclassified to ensure consistency with presentation in the current year. Refer to the Changes to Comparatives section of note 1 on page 26 for more information.

Income Statement

$ millions For the year ended 30 June	Note	Banking Group 2022	 2021
Interest income	2	**3,603**	3,528
Interest expense	3	**1,004**	1,141
Net interest income		**2,599**	2,387
Other income	4	**652**	585
Total operating income		**3,251**	2,972
Impairment losses/(recoveries) on financial assets	17	**41**	(5)
Total operating income after impairment losses/(recoveries)		**3,210**	2,977
Total operating expenses	5	**1,175**	1,141
Salaries and other staff expenses		**661**	655
Building occupancy and equipment expenses		**93**	105
Information technology expenses		**213**	206
Other expenses		**208**	175
Net profit before tax		**2,035**	1,836
Tax expense	7	**564**	515
Net profit after tax		**1,471**	1,321

Statement of Comprehensive Income

$ millions For the year ended 30 June	Note	Banking Group 2022	 2021
Net profit after tax		**1,471**	1,321
Other comprehensive income, net of tax			
Items that will not be reclassified to the Income Statement:			
Net change in asset revaluation reserve	35	**-**	(1)
Items that may be reclassified subsequently to the Income Statement:			
Net change in fair value through other comprehensive income reserve	35	**(13)**	46
Net change in cash flow hedge reserve	35	**295**	(26)
		282	20
Total other comprehensive income, net of tax		**282**	19
Total comprehensive income		**1,753**	1,340

These statements are to be read in conjunction with the notes on pages 15 to 94 and the Independent Auditor's Report on pages 102 to 107.

Statement of Changes in Equity

$ millions				Banking Group			
	Note	Contributed Capital	Asset Revaluation Reserve	Cash Flow Hedge Reserve	FVOCI Reserve(1)	Retained Earnings	Total Shareholders' Equity
For the year ended 30 June 2022							
Balance at beginning of year		**6,173**	**32**	**(125)**	**50**	**3,056**	**9,186**
Net profit after tax		**-**	**-**	**-**	**-**	**1,471**	**1,471**
Other comprehensive income/(expense)		**-**	**-**	**295**	**(13)**	**-**	**282**
Total comprehensive income/(expense)		**-**	**-**	**295**	**(13)**	**1,471**	**1,753**
Transfer from asset revaluation reserve to retained earnings	35	**-**	**(12)**	**-**	**-**	**12**	**-**
Ordinary dividends paid	8	**-**	**-**	**-**	**-**	**(975)**	**(975)**
Perpetual preference dividends paid	8	**-**	**-**	**-**	**-**	**(33)**	**(33)**
Balance as at 30 June 2022		**6,173**	**20**	**170**	**37**	**3,531**	**9,931**
For the year ended 30 June 2021							
Balance at beginning of year		6,173	33	(99)	4	1,764	7,875
Net profit after tax		-	-	-	-	1,321	1,321
Other comprehensive income/(expense)		-	(1)	(26)	46	-	19
Total comprehensive income/(expense)		-	(1)	(26)	46	1,321	1,340
Perpetual preference dividends paid	8	-	-	-	-	(29)	(29)
Balance as at 30 June 2021		6,173	32	(125)	50	3,056	9,186

(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 15 to 94 and the Independent Auditor's Report on pages 102 to 107.

Balance Sheet

$ millions		Banking Group	
As at 30 June	Note	**2022**	2021
Assets			
Cash and liquid assets	9	**6,613**	2,780
Due from financial institutions	10	**660**	523
Securities at fair value through other comprehensive income	11	**7,179**	8,013
Derivative assets	12	**1,294**	793
Advances to customers	13	**104,751**	99,391
Other assets	25	**309**	292
Property, plant and equipment	26	**354**	413
Intangible assets		**204**	178
Deferred tax assets	27	**158**	262
Total assets		**121,522**	112,645
Total interest earning and discount bearing assets		***119,341***	*110,901*
Liabilities			
Deposits and other borrowings	28	**84,522**	78,031
Due to financial institutions	29	**1,435**	916
Derivative liabilities	12	**1,143**	302
Current tax liabilities		**202**	127
Other liabilities	30	**588**	582
Provisions	31	**139**	162
Debt issues:			
At fair value through Income Statement	32	**1,300**	6,079
At amortised cost	32	**21,307**	16,857
Loan capital	33	**955**	403
Total liabilities		**111,591**	103,459
Shareholders' Equity			
Contributed capital - ordinary shares	34	**5,173**	5,173
Reserves	35	**227**	(43)
Retained earnings		**3,531**	3,056
Ordinary shareholder's equity		**8,931**	8,186
Contributed capital - perpetual preference shares	34	**1,000**	1,000
Total shareholders' equity		**9,931**	9,186
Total liabilities and shareholders' equity		**121,522**	112,645
Total interest and discount bearing liabilities		***97,423***	*90,270*

For, and on behalf of, the Board of Directors, who authorised these financial statements for issue on 10 August 2022

Dame Therese Walsh
Chair of Board

Ross Buckley
Chair of Board Audit Committee

These statements are to be read in conjunction with the notes on pages 15 to 94 and the Independent Auditor's Report on pages 102 to 107.

Cash Flow Statement

$ millions For the year ended 30 June	Note	Banking Group 2022	 2021
Cash flows from operating activities			
Net profit before tax		**2,035**	1,836
Reconciliation of net profit before tax to net cash flows from operating activities			
Non-cash items included in net profit before tax:			
Depreciation of property, plant and equipment	5	**83**	78
Amortisation of intangible assets	5	**63**	63
Net change in allowance for expected credit loss and bad debts written off		**61**	10
Amortisation of loan establishment fees		**90**	89
Net change in fair value of financial instruments and hedged items		**283**	(225)
Other non-cash items		**63**	138
Items classified as investing activities included in net profit before tax:			
Loss on sale from disposal of subsidiaries or associates		**-**	(3)
Net (increase)/decrease in operating assets:			
Net change in reverse repurchase agreements		**37**	718
Net change in due from financial institutions		**(137)**	9
Net change in securities at fair value through other comprehensive income		**288**	(929)
Net change in derivative assets		**1,633**	(316)
Net change in advances to customers		**(5,511)**	(9,306)
Net change in other assets		**(18)**	36
Net increase/(decrease) in operating liabilities:			
Net change in deposits and other borrowings		**6,278**	3,656
Net change in due to financial institutions		**478**	(740)
Net change in derivative liabilities		**(557)**	628
Net change in other liabilities		**(44)**	(377)
Net tax paid		**(493)**	(488)
Net cash flows from operating activities		**4,632**	(5,123)
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of property, plant and equipment		**16**	-
Total cash inflows provided from investing activities		**16**	-
Cash was applied to:			
Net increase in investment in subsidiaries or associates		**(1)**	(4)
Purchase of property, plant and equipment		**(35)**	(33)
Purchase of intangible assets		**(93)**	(69)
Total cash outflows applied to investing activities		**(129)**	(106)
Net cash flows from investing activities		**(113)**	(106)
Cash flows from financing activities			
Cash was provided from:			
Issue of loan capital (net of issue costs)	33	**943**	-
Issue of debt securities (net of issue costs)	32	**10,642**	12,435
Total cash inflows provided from financing activities		**11,585**	12,435
Cash was applied to:			
Redemption of debt securities	32	**(10,789)**	(7,860)
Redemption of loan capital	33	**(400)**	-
Payments of the principal portion of lease liabilities	36	**(37)**	(36)
Ordinary dividends paid	8	**(975)**	-
Perpetual preference dividends paid	8	**(33)**	(29)
Total cash outflows applied to financing activities		**(12,234)**	(7,925)
Net cash flows from financing activities		**(649)**	4,510
Summary of movements in cash flows			
Net increase/(decrease) in cash and cash equivalents		**3,870**	(719)
Add: cash and cash equivalents at beginning of year		**2,652**	3,371
Cash and cash equivalents at end of year		**6,522**	2,652
Cash and cash equivalents comprise:			
Cash and liquid assets	9	**6,613**	2,780
Less: reverse repurchase agreements included in cash and liquid assets	9	**(91)**	(128)
Cash and cash equivalents at end of year		**6,522**	2,652
Additional operating cash flow information			
Interest received as cash		**3,742**	3,707
Interest paid as cash		**(964)**	(1,203)

These statements are to be read in conjunction with the notes on pages 15 to 94 and the Independent Auditor's Report on pages 102 to 107.

Notes to the Financial Statements

For the year ended 30 June 2022

1 Statement of Accounting Policies

General Accounting Policies

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

These financial statements for the year ended 30 June 2022 have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

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

Basis of Preparation

The measurement base adopted is that of historical cost as modified by the fair value measurement of certain financial instruments and the revaluation of certain property, plant and equipment.

Critical Accounting Estimates and Judgements

Preparation of the financial statements requires the use of management judgement in the application of accounting policies, and the use of management estimates and assumptions that affect the amounts reported. These estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

Allowance for Expected Credit Loss

The Banking Group considers the allowance for expected credit loss ("ECL") on Advances to customers as an area that requires significant management judgement and estimation. Estimation uncertainty remains at a heightened level, including in relation to the COVID-19 pandemic, the impact of rising interest rates and inflationary pressures, increased geopolitical tensions around the world, global supply chain issues and labour shortages.

The impacts of the above have been considered when estimating forward looking information (including updates to macroeconomic scenarios and weightings, and management adjustments).

Refer to note 1(l) and note 14 for details of credit risk management and note 1(l) and note 16 for the basis of the Banking Group's allowance for ECL and how the pandemic continues to impact the allowance for ECL.

Financial instruments

In addition, financial instruments are an area of significant management judgement and estimation. The judgement regarding designation of financial assets and financial liabilities as at fair value through Income Statement, and the basis of valuation are described in note 1(f).

New Standards (effective 1 July 2021)

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 is not required 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 is not required 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.

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.

1 Statement of Accounting Policies (continued)

IBOR Reform Programme (continued)

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.

Exposures subject to benchmark reform as at 30 June 2022

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 **As at 30 June 2022**	**Gross carrying amount**
USD LIBOR[(1)]	
Non-derivative financial assets	**17**
Non-derivative financial liabilities	**48**
Loan commitments and guarantees	**75**
Derivative assets	**367**
Derivative liabilities	**204**

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

New Standards (not yet effective)

The following new standard or amendments relevant to the Banking Group have been issued.

NZ IFRS 9 *Financial Instruments - Hedge accounting*

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

The NZ IFRS 9 hedge accounting requirements also include a new approach for the cost of hedging, which is expected to be the key impact for the Banking Group. Fair value of derivatives attributable to the time value of options, currency basis in cross currency swaps and forward points in forward contracts represents the cost of hedging and will be recognised in a separate equity reserve known as the "cost of hedging" reserve.

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

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

Other amendments to existing standards that are not yet effective are not expected to have a material impact on the Banking Group.

Presentation Currency and Rounding

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.

1 Statement of Accounting Policies (continued)

Particular Accounting Policies

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

(a) Basis of Consolidation

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

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

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

Structured entities
A structured entity ("SE") is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well-defined objective with restrictions around their ongoing activities.

The Banking Group may invest in or establish a SE to enable it to undertake specific transactions. SEs include securitisation vehicles and a covered bond trust.

The Banking Group exercises judgement to assess whether a SE should be consolidated based on the Banking Group’s power over the relevant activities of the entity and the significance of its exposure to variable returns of the SE. Where the Banking Group has control of a SE, it is consolidated in the Banking Group's financial statements (refer to notes 22 and 24). The Banking Group does not consolidate a SE that it does not control.

Associates
Associates are those entities in which the Banking Group has significant influence, but not control, over financial and operating policies. Associates are accounted for under the equity method of accounting.

(b) Segment Reporting

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

(c) Foreign Currency Translation

All foreign currency monetary assets and liabilities are converted at the rates of exchange ruling as at balance date. Foreign currency transactions are converted using the exchange rates prevailing at the dates of the transactions. For instruments which are not subject to hedge accounting, unrealised gains and losses arising from these revaluations and gains and losses arising from foreign exchange dealings are recognised immediately in the Income Statement. For more information on the treatment of hedge accounting gains and losses refer to note 1(h).

(d) Revenue Recognition

INTEREST INCOME AND EXPENSE

Financial instruments are classified in the manner described in note 1(f).

For financial instruments measured at amortised cost, the effective interest method is used to measure the interest income or interest expense recognised in the Income Statement. Fees and direct costs relating to loan origination, financing and loan commitments are deferred and amortised to interest income over the life of the loan using the effective interest method. Facility and lines fees in relation to commitments made under credit facilities where draw down is assessed as probable are considered an integral part of effective interest rate and recognised in net interest income.

For financial instruments measured at fair value (other than derivatives), interest income or interest expense is recognised under the effective interest method. Refer to note 1(g) for the recognition of revenue relating to derivatives.

TRADING INCOME

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

OTHER INCOME

Dividends are distributions of profits to holders of equity instruments in proportion to their holdings of a particular class of capital. Dividend income is recorded in the Income Statement when the Banking Group's right to receive the dividend is established.

Realised and unrealised gains and losses from re-measurement of financial instruments at fair value through Income Statement (other than those included in trading income above) are included in Other income.

1 Statement of Accounting Policies (continued)

(d) Revenue Recognition (continued)

REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

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

Commission and Other Fees
Commission and other fees which relate to specific transactions or events are recognised when the service is provided. Estimated commission income is recognised when the performance obligation is met.

(e) Expense Recognition

Expenses are recognised in the Income Statement on an accrual basis except as otherwise described in these accounting policies.

(f) Financial Instruments

BASIS OF RECOGNITION AND MEASUREMENT
The Banking Group offers an extensive range of financial instruments. Financial instruments are transacted on a commercial basis to derive an interest yield with terms and conditions having due regard to the nature of the transaction and the risks involved. All financial assets measured at fair value are accounted for on a trade date basis. Loans are recognised when cash is advanced to the borrower. Financial liabilities are recognised when an obligation arises. Derecognition is set out in note 1(k).

All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through Income Statement ("FVTIS"), where transaction costs are expensed as incurred.

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

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

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

- Policies and objectives for the relevant portfolio;
- How the performance and risks of the portfolio are managed, evaluated and reported to management; and
- The frequency, volume and timing of sales in prior periods, sales expectation for future periods, and the reasons for such sales.

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

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

FINANCIAL ASSETS AT AMORTISED COST
Financial assets with contractual cash flows that comprise SPPI, and which are held in a business model whose objective is to collect their contractual cash flows are subsequently measured at amortised cost. Amounts are reported net of allowances for ECL to reflect the estimated recoverable amounts.

Where the Banking Group renegotiates or otherwise modifies the contractual cash flows of financial assets at amortised cost, the Banking Group assesses whether the new terms are substantially different to those under the original agreement. Where terms are substantially different, the Banking Group derecognises the original financial asset, with the renegotiated contract treated as a new financial asset and assessed for impairment in accordance with the Banking Group's accounting policy.

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

FINANCIAL ASSETS AT AMORTISED COST (continued)
Where terms are not substantially different, the financial asset is not derecognised, and is recalculated as the present value of the renegotiated or modified contractual cash flows, discounted at the original effective interest rate, and a gain or loss is recognised in the Income Statement.

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

Financial assets in this category include:

Cash and Liquid Assets
Cash and liquid assets include cash and cash at bank, cash in transit, call deposits with the central bank, money at short call (with an original maturity of three months or less) and reverse repurchase agreements.

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

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

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
Financial assets with contractual cash flows that comprise SPPI, and which are held in a business model whose objective is to both collect their contractual cash flows and to sell are subsequently measured at fair value through other comprehensive income ("FVOCI"), unless designated as FVTIS.

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

The fair value is based on quoted market prices, where available, or calculated using discounted cash flow models based on current market rates. When fair value hedge accounting is applied, only fair value changes relating to movements in credit spreads are included in OCI.

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

Financial assets in this category include Securities at FVOCI.

FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT
Financial assets with contractual cash flows that do not represent SPPI, or which are held under a different business model (e.g. one for which the objective is held for trading) are subsequently measured at FVTIS. Financial assets can also be designated at FVTIS if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets in this category include Derivative assets. Refer to note 1(g) for more details on derivatives.

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

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

Financial liabilities in this category include:

Derivative Liabilities
Refer to note 1(g) for more details on derivatives.

Debt Issues: At Fair Value through Income Statement
This category includes all debt issues that are designated as at FVTIS and primarily consists of issued paper. Debt issues have been designated as at FVTIS, where the Banking Group has economically hedged the foreign exchange and interest rate risk using derivatives, but hedge accounting is not applied. Designation eliminates or significantly reduces an accounting mismatch as the derivative is also at FVTIS. These amounts are managed with financial assets and liabilities accounted for and evaluated on a fair value basis. The fair value is calculated using discounted cash flow models. The discount rates applied in this calculation are based on current market rates.

Notes to the Financial Statements

For the year ended 30 June 2022

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

FINANCIAL LIABILITIES AT AMORTISED COST

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

Financial liabilities in this category include:

Deposits and Other Borrowings

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

Due to Financial Institutions

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

Other Liabilities

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

Debt Issues: At Amortised Cost

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

Loan Capital

Loan capital is debt issued by the Banking Group with terms and conditions that qualify it for inclusion as capital under RBNZ's prudential standards. Refer to note 33 and note 42 for further information on regulatory capital. When fair value hedge accounting is applied to loan capital, the carrying value at amortised cost is adjusted for changes in fair value related to the hedged risk.

(g) Derivative Financial Instruments

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

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

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

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

Held for hedging derivatives are instruments held for the Banking Group's own risk management purposes, which meet the criteria for hedge accounting as described in note 1(h).

(h) Hedge Accounting

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

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

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

For the purposes of determining whether the hedged future cash flows are expected to occur, a forecast transaction is highly probable, a hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, and an accounting hedge relationship should be discontinued because of a failure of the retrospective effectiveness test, the Banking Group assumes that the interest rate benchmark on which the hedged risk or the cash flows of the hedged item or hedging instrument are based is not altered by uncertainties relating to interest rate benchmark reform. In accordance with the *Interest Rate Benchmark Reform Amendments*, the Banking Group will cease to apply this assumption at the earlier of when the uncertainty arising from the reform is no longer present, when the hedging relationship is discontinued, or when the cash flow hedge reserve has been fully transferred to Other income.

1 Statement of Accounting Policies (continued)

(h) Hedge Accounting (continued)

Cash Flow Hedge Accounting

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

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

Fair Value Hedge Accounting

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

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

(i) Repurchase and Reverse Repurchase Agreements

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

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

(j) Offsetting Financial Instruments

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

(k) Derecognition of Financial Instruments

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

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

(l) Asset Quality

DEFINITIONS

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

- Significant financial difficulty of the issuer or obligor; or
- A breach of contract, such as a default or delinquency in interest or principal payments; or
- The Banking Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that it would not otherwise consider; or
- The disappearance of an active market for the financial asset because of financial difficulties.

Individually impaired assets are any credit exposures against which an individually assessed allowance has been recorded.

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

1 Statement of Accounting Policies (continued)

(l) Asset Quality (continued)

DEFINITIONS (continued)

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

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

Default occurs if either of the following takes place:

- The customer is unlikely to repay their credit obligations to the Banking Group in full without recourse by the Banking Group to actions such as realising security; or
- The customer is 90 days or more overdue on a scheduled credit obligation repayment. Relief packages available to customers under the New Zealand government's mortgage repayment deferral scheme, which allowed for repayment deferrals (payment holidays and interest-only periods), ended on 31 March 2021.

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

IMPAIRMENT

The Banking Group assesses credit impairment of all financial assets measured at amortised cost, debt instruments measured at FVOCI, loan commitments and financial guarantee contracts. The ECL model estimates credit losses by incorporating forward-looking information. Financial assets at FVTIS are not assessed for impairment as their fair value reflects the credit quality of the instrument, and changes in fair value are recognised in Other income or Other expenses, as appropriate.

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

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

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

Stage 1 – 12 months ECL – "Performing"

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

Stage 2 – Lifetime ECL – "Underperforming"

If the credit risk on the financial asset increases significantly since initial recognition and the resulting credit quality is not considered to be low risk, the financial asset is transferred to Stage 2 "Underperforming". A loss allowance is recognised for financial assets in Stage 2 at an amount equal to the full lifetime expected credit losses. If credit quality improves in a subsequent period such that the increase in credit risk since origination is no longer considered significant, the exposure is reclassified to Stage 1 and the allowance for ECL reverts to 12 months ECL.

Stage 3 – Lifetime ECL – "Non-performing"

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

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

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

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

1 Statement of Accounting Policies (continued)

(l) Asset Quality (continued)

IMPAIRMENT (continued)

Significant increase in credit risk
A SICR is assessed by comparing the risk of default at the reporting date to the corresponding risk of default at origination. In determining what constitutes a SICR the Banking Group has considered reasonable and supportable qualitative and quantitative information. For the majority of portfolios, the primary indicator of a SICR is a significant deterioration in the internal credit rating grade of a facility between origination and reporting date.

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

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

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

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

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

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

The ECL is calculated based on expected lifetime losses where there has been an assessment of a SICR, or one year of expected losses where there is no SICR. As a consequence, the amount of ECL recognised by the Banking Group is sensitive to SICR judgements by management.

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

Forward-looking information
The Banking Group considers four alternative macroeconomic scenarios to ensure a sufficiently representative sample of economic conditions when estimating ECL. These scenarios include forward-looking macroeconomic factors (e.g. unemployment, interest rates and house prices), which are further described in note 16. The Banking Group's Loan Loss Provisioning Committee ("LLPC") is responsible for approving the macroeconomic scenarios and their associated probability weightings.

Where applicable, management adjustments may be made to account for situations where additional known or expected risks and information has not been considered in the modelling process. This includes but is not limited to information about emerging risk at an industry, geographical location or a particular portfolio segment level. The LLPC is responsible for approving such adjustments.

The BAC has an oversight role and provides challenge of key judgements and assumptions, including updates to macroeconomic scenarios and weightings, and management adjustments. The BAC receives information regarding the Banking Group's allowance for ECL, impairment losses on financial assets, areas of key accounting estimates and judgement, reported results and key messages.

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

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

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

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

(m) Leasing

A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time. The Banking Group's leased assets mainly comprise premises. Where the Banking Group is a lessee, it recognises a right of use asset representing its right to use the leased asset, and a lease liability for future lease payments.

LEASE LIABILITY
The lease liability is initially measured at the net present value of lease payments, which include fixed payments (less any lease incentives receivable) and variable lease payments that are based on an index or a rate.

1 Statement of Accounting Policies (continued)

(m) Leasing (continued)

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined the incremental borrowing rate is used, being the rate that the Banking Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The lease liability is included within Other liabilities and each lease payment is allocated between the liability and interest expense. The interest expense is charged to the Income Statement over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

RIGHT OF USE ASSET
The right of use asset is initially measured at cost comprising the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct cost; and
- An estimate of make-good costs.

The right of use asset is included within Property, plant and equipment and is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Refer to note 1(n) for more details on Property, plant and equipment.

Determining the lease term
Extension options are included in a number of leases and provide operational flexibility. In determining the lease term management considers all facts and circumstances that create an economic incentive to exercise an extension option. An extension option is only included in the lease term if it is assessed as reasonably certain to be exercised. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the control of the Banking Group.

Excluded leases
A scope exemption has been applied to leases of intangible assets, short term leases with a lease term of 12 months or less, and low value leases. These continue to be expensed on a straight-line basis and are not material to the Banking Group.

(n) Property, Plant and Equipment

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

Freehold land and buildings are stated at revalued amounts based on revaluations conducted at least every three years on a rolling basis. The rolling valuations are carried out by independent registered valuers.

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

The cost of leased right of use assets is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The cost or revalued amount of other Property, plant and equipment (excluding land) less the estimated residual value is depreciated over their useful lives on a straight-line basis. The range of useful lives of the major assets are:

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

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

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

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

(o) Intangible Assets

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

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

1 Statement of Accounting Policies (continued)

(o) Intangible Assets (continued)

GOODWILL (continued)

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

For the purposes of impairment testing, goodwill is allocated to cash-generating units ("CGU") or groups of units. A CGU is the smallest identifiable group of assets that generate independent cash inflows. Goodwill is allocated by the Banking Group to CGUs or groups of units based on how goodwill is monitored by management. Gains or losses on the disposal of an entity or CGU include the carrying value of goodwill relating to that entity or CGU. The Banking Group has $10 million of goodwill as at 30 June 2022 (30 June 2021 $10 million).

COMPUTER SOFTWARE

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

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

Software-as-a-service ("SaaS") arrangements are service contracts providing the NZ Banking Group with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are generally recognised as operating expenses when the services are received. Some of these costs incurred are for the development of software code that enhances, modifies or creates additional capability to existing on-premise systems and meets the recognition criteria for an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis.

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

(p) Income Tax

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

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted as at balance date taking advantage of all allowable deductions under current taxation legislation. It also includes any adjustment to tax payable in respect of previous financial years. Where transactions are assessed as having an uncertain tax outcome, provisions are held to reflect those tax uncertainties where appropriate.

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

A deferred tax asset is recognised only to the extent that it is probable that a future taxable profit will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

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

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

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

Where applicable, securitised assets are derecognised in accordance with the derecognition of financial instruments policy as set out in note 1(k).

(r) Contingent Liabilities and Credit Commitments

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

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

Notes to the Financial Statements

For the year ended 30 June 2022

1 Statement of Accounting Policies (continued)

(s) Provisions

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

(t) Cash Flow Statement

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

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

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

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

Changes in cash and cash equivalents related to financing activities reflect cash flows resulting from transactions with shareholders and cash flows relating to debt and loan capital issuances and repayments and payments of lease liabilities.

Fair Value Estimates

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

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

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

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

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

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

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

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

Changes to Comparatives

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

Line Fees

During the year ended 30 June 2022, 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 year ended 30 June 2021

- An increase in Interest income of $33 million;
- A decrease in Other income of $33 million.

Cash Flow Statement for the year ended 30 June 2021

- An increase in interest received as cash of $33 million.

All restatements and reclassifications are footnoted throughout the financial statements. All restatements and reclassifications have no impact on the previously reported Balance Sheet or Net profit after tax.

2 Interest Income

$ millions	Banking Group	
For the year ended 30 June	**2022**	2021
Interest income on financial assets measured at amortised cost		
Cash and liquid assets	**50**	9
Due from financial institutions	**3**	1
Advances to customers[(1)]	**3,458**	3,475
Total interest income on financial assets measured at amortised cost	**3,511**	3,485
Interest income on Securities at fair value through other comprehensive income	**92**	43
Total interest income	**3,603**	3,528

(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.

3 Interest Expense

$ millions	Banking Group	
For the year ended 30 June	**2022**	2021
Deposits and other borrowings:		
Certificates of deposit	**39**	29
Term deposits	**328**	530
On demand and short-term deposits	**179**	289
Repurchase agreements	**23**	1
Due to financial institutions	**6**	1
Debt issues:		
At fair value through Income Statement	**23**	11
At amortised cost	**391**	259
Loan capital	**8**	14
Lease liabilities	**7**	7
Total interest expense	**1,004**	1,141

Total interest expense for financial liabilities that were not at fair value through Income Statement for the year ended 30 June 2022 was $981 million (30 June 2021 $1,130 million).

Notes to the Financial Statements

For the year ended 30 June 2022

4 Other Income

$ millions **For the year ended 30 June**	**Banking Group** **2022**	 **2021**
Revenue from contracts with customers(1)	**473**	478
Trading income	**94**	90
Ineffective portion of hedges		
Fair value hedge ineffectiveness:		
Gain/(loss) on hedged items	**403**	617
Gain/(loss) on hedging instruments	**(398)**	(624)
Cash flow hedge ineffectiveness	**(2)**	4
Total ineffective portion of hedges	**3**	(3)
Other operating income		
Net fair value gain on derivatives not qualifying for hedge accounting	**46**	17
Net fair value gain on financial instruments designated at fair value through Income Statement	**2**	-
Other	**34**	3
Total other operating income	**82**	20
Total other income	**652**	585

(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 44:

$ millions				**Banking Group**		
For the year ended 30 June 2022	**Retail Banking**	**Business Banking**	**Corporate Banking**	**Private Banking, Wealth and Insurance**	**Other**	**Total**
Revenue from contracts with customers						
Lending fees	**14**	**19**	**6**	**-**	**-**	**39**
Commission and other fees	**216**	**42**	**22**	**74**	**(69)**	**285**
Funds management income	**125**	**9**	**-**	**149**	**(134)**	**149**
Total revenue from contracts with customers	**355**	**70**	**28**	**223**	**(203)**	**473**

$ millions				**Banking Group**		
For the year ended 30 June 2021	Retail Banking	Business Banking	Corporate Banking	Private Banking, Wealth and Insurance	Other	Total
Revenue from contracts with customers(1)						
Lending fees	16	18	5	-	-	39
Commission and other fees	211	50	24	69	(65)	289
Funds management income	127	8	-	150	(135)	150
Total revenue from contracts with customers	354	76	29	219	(200)	478

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

Notes to the Financial Statements

For the year ended 30 June 2022

5 Operating Expense Disclosures

$ millions For the year ended 30 June	Banking Group 2022	 2021
Depreciation		
Right of use assets	**42**	42
Buildings	**2**	1
Other property, plant and equipment	**39**	35
Total depreciation	**83**	78
Lease and rent expenses	**12**	15
Amortisation of intangible assets	**63**	63

6 Auditor's Remuneration

$ thousands For the year ended 30 June	Banking Group 2022	 2021
PricewaterhouseCoopers		
Audit and review of financial statements(1)	**2,093**	2,071
Other assurance related services(2)	**1,127**	574
Other services(3)	**47**	-
Total compensation of auditors relating to the Banking Group	**3,267**	2,645
Fees related to funds managed by the Banking Group		
Audit of financial statements	**371**	372
Other assurance related services(2)	**27**	39
Total compensation of auditors	**3,665**	3,056

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

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

(3) The Banking Group incurred fees for other services related to capital benchmarking for the year ended 30 June 2022 (30 June 2021 no fees incurred for other services).

7 Tax Expense

$ millions For the year ended 30 June	Banking Group 2022	 2021
Current tax	**568**	515
Deferred tax (refer to note 27)	**(4)**	-
Total tax expense charged to the Income Statement	**564**	515

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

Net profit before tax	**2,035**	1,836
Tax at the domestic rate of 28%	**570**	514
Tax effect of income not subject to tax	**(7)**	-
Tax effect of expenses not deductible for tax purposes	**1**	1
Total tax expense charged to the Income Statement	**564**	515
Effective tax rate	**27.7%**	28.1%

Notes to the Financial Statements

For the year ended 30 June 2022

8 Dividends

$ millions	Banking Group	
For the year ended 30 June	**2022**	2021
Ordinary dividends paid	**975**	-
Perpetual preference dividends paid	**33**	29
Total dividends paid	**1,008**	29

Dividends on ordinary shares during the year ended 30 June 2022 were $975 million, being 18.94 cents per share (30 June 2021 nil). 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 reported in the Bank's most recent interim or full year financial statements. The restrictions remained in place until removed by the RBNZ from 1 July 2022. Of the ordinary dividends paid during the year ended 30 June 2022, $650 million relates to earnings for the full year to 30 June 2021 and $325 million relates to the earnings for the 31 December 2021 interim period.

Dividends on perpetual preference shares during the year ended 30 June 2022 were:

- $19 million, being 310.16 cents per share on 6 million 2015 perpetual preference shares (30 June 2021 $16 million, 272.53 cents per share); and
- $14 million, being 364.16 cents per share on 4 million 2016 perpetual preference shares (30 June 2021 $13 million, 326.53 cents per share).

On 4 August 2022, the Directors resolved to pay:

- The following quarterly dividends on perpetual preference shares, subject to certain conditions being satisfied:
  - $7 million on 15 September 2022, being 113.42 cents per share on 6 million 2015 perpetual preference shares; and
  - $5 million on 15 September 2022, being 127.04 cents per share on 4 million 2016 perpetual preference shares.
- An ordinary dividend, subject to certain conditions being satisfied, of $400 million on 15 September 2022 being 7.7698 cents per share on 5,148 million ordinary shares.

9 Cash and Liquid Assets

$ millions	Banking Group	
As at 30 June	**2022**	2021
Cash, cash at bank and cash in transit	**129**	117
Call deposits with the central bank	**6,352**	2,478
Money at short call	**41**	57
Reverse repurchase agreements	**91**	128
Total cash and liquid assets	**6,613**	2,780

10 Due from Financial Institutions

As at 30 June 2022, amounts Due from financial institutions of $660 million are due for settlement within 12 months of balance date (30 June 2021 $523 million due within 12 months of balance date).

Cash collateral paid of $608 million is included in Due from financial institutions (30 June 2021 $188 million).

11 Securities at Fair Value through Other Comprehensive Income

$ millions	Banking Group	
As at 30 June	**2022**	2021
Local authority securities	**615**	533
New Zealand Government securities	**2,210**	3,455
Corporate bonds	**253**	268
Bank bills	**368**	360
Kauri bonds	**2,518**	2,162
Bank bonds	**1,215**	1,235
Total securities at fair value through other comprehensive income	**7,179**	8,013
Amounts due for settlement within 12 months	**2,174**	658
Amounts due for settlement over 12 months	**5,005**	7,355
Total securities at fair value through other comprehensive income	**7,179**	8,013

12 Derivative Financial Instruments

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

The Banking Group has entered into credit support annexes ("CSAs") in respect of certain credit exposures relating to derivative transactions. These CSAs compel the Banking Group or the counterparty to collateralise the market value of outstanding derivative transactions. As at 30 June 2022 the Banking Group had advanced $608 million of cash collateral against derivative liabilities and received $412 million of cash collateral against derivative assets (30 June 2021 $188 million and $324 million respectively).

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

$ millions	Banking Group					
As at 30 June	**2022**			2021		
	Notional Amount	**Fair Value Assets**	**Fair Value Liabilities**	Notional Amount	Fair Value Assets	Fair Value Liabilities
Derivative financial instruments						
Held for trading	**91,881**	**274**	**(242)**	139,455	350	(123)
Held for hedging	**95,042**	**1,020**	**(901)**	83,775	443	(179)
Total derivative assets/(liabilities)	**186,923**	**1,294**	**(1,143)**	223,230	793	(302)
Amounts due for settlement within 12 months		**715**	**(97)**		419	(85)
Amounts due for settlement over 12 months		**579**	**(1,046)**		374	(217)
Total derivative assets/(liabilities)		**1,294**	**(1,143)**		793	(302)

(a) Derivative Financial Instruments which are Held for Trading

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

$ millions	Banking Group					
As at 30 June	**2022**			2021		
	Notional Amount	**Fair Value Assets**	**Fair Value Liabilities**	Notional Amount	Fair Value Assets	Fair Value Liabilities
Exchange rate contracts						
Forward contracts	**7,060**	**250**	**(86)**	11,314	225	(67)
Options	**634**	**13**	**(13)**	734	6	(6)
Total exchange rate contracts	**7,694**	**263**	**(99)**	12,048	231	(73)
Interest rate contracts						
Swaps	**83,598**	**10**	**(142)**	122,475	118	(50)
Futures	**579**	**-**	**-**	4,867	1	-
Options	**-**	**-**	**-**	62	-	-
Total interest rate contracts	**84,177**	**10**	**(142)**	127,404	119	(50)
Commodity contracts	**10**	**1**	**(1)**	3	-	-
Total held for trading	**91,881**	**274**	**(242)**	139,455	350	(123)

12 Derivative Financial Instruments (continued)

(b) Information on Derivative Financial Instruments which are Held for Hedging

Hedged Risks

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

Hedge accounting is applied for the following risk categories:

- Interest rate risk, which arises due to a mismatch between fixed and floating interest rates on assets and liabilities; and
- Combined risk, which arises on assets or liabilities with interest rate risk that are denominated in currencies other than New Zealand dollars.

For disclosures of the extent of risk exposures that the Banking Group manages, refer to notes 14 and 45 to 48.

Fair Value Hedges

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

Cash Flow Hedges

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

Hedging Risk Components

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

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

Changes in fair value of the hedged risk component is usually the largest component of the overall change in fair value, excluding credit risk (which is not hedged, and is discussed further in note 14). Hedging the benchmark interest rate risk or spot exchange rate risk components results in other risks, such as credit risk and liquidity risk, being excluded from the hedge accounting relationship.

Hedge Relationships and Ineffectiveness

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

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

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

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

12 Derivative Financial Instruments (continued)

(c) Hedging Instruments

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

$ millions	Banking Group					
	2022			2021		
		Fair Value			Fair Value	
As at 30 June	**Notional Amount**	**Derivative Assets**	**Derivative Liabilities**	Notional Amount	Derivative Assets	Derivative Liabilities
Fair value hedges						
Interest rate risk	**14,022**	**1**	**(2)**	15,080	11	(10)
Combined risk	**17,213**	**666**	**(889)**	13,931	401	(149)
Total designated as fair value hedges	**31,235**	**667**	**(891)**	29,011	412	(159)
Cash flow hedges						
Interest rate risk	**58,912**	**5**	**(1)**	53,650	25	(10)
Combined risk	**4,895**	**348**	**(9)**	1,114	6	(10)
Total designated as cash flow hedges	**63,807**	**353**	**(10)**	54,764	31	(20)
Total held for hedging	**95,042**	**1,020**	**(901)**	83,775	443	(179)

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

$ millions	Banking Group			
Notional Amount	**Within**	**Between**	**Over**	
As at 30 June 2022	**1 Year**	**1-5 Years**	**5 Years**	**Total**
Fair value hedges				
Interest rate risk	**2,457**	**9,028**	**2,537**	**14,022**
Combined risk	**1,164**	**9,109**	**6,940**	**17,213**
Total fair value hedges	**3,621**	**18,137**	**9,477**	**31,235**
Cash flow hedges				
Interest rate risk	**16,870**	**41,690**	**352**	**58,912**
Combined risk	**4,847**	**48**	**-**	**4,895**
Total cash flow hedges	**21,717**	**41,738**	**352**	**63,807**
Total held for hedging	**25,338**	**59,875**	**9,829**	**95,042**

$ millions	Banking Group			
Notional Amount	Within	Between	Over	
As at 30 June 2021	1 Year	1-5 Years	5 Years	Total
Fair value hedges				
Interest rate risk	2,616	9,738	2,726	15,080
Combined risk	1,870	6,700	5,361	13,931
Total fair value hedges	4,486	16,438	8,087	29,011
Cash flow hedges				
Interest rate risk	26,430	26,972	248	53,650
Combined risk	136	978	-	1,114
Total cash flow hedges	26,566	27,950	248	54,764
Total held for hedging	31,052	44,388	8,335	83,775

The average fixed interest rate of hedging instruments used to hedge interest rate risk during the reporting period was 2.74% for fair value hedges and 1.74% for cash flow hedges (year ended 30 June 2021 1.82% for fair value hedges and 0.98% for cash flow hedges).

The average exchange rates of major currencies where cross currency swaps were used to hedge foreign currency risk against NZD during the reporting period was 0.684 for USD and 0.598 for EUR (30 June 2021 0.702 for USD and 0.607 for EUR).

12 Derivative Financial Instruments (continued)

(d) Hedged Items in Fair Value Hedge Accounting Relationships

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

$ millions		Banking Group			
		Carrying Amount		Accumulated Fair Value Adjustments(1)	
As at 30 June 2022	**Risk Categorisation**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Securities at fair value through other comprehensive income	Interest rate risk	**6,556**	**-**	**(524)**	**-**
Debt issues at amortised cost	Interest rate risk	**-**	**(2,211)**	**-**	**87**
Debt issues at amortised cost	Combined risk	**-**	**(13,495)**	**-**	**1,054**
Loan capital	Combined risk	**-**	**(955)**	**-**	**6**
Total		**6,556**	**(16,661)**	**(524)**	**1,147**

$ millions		Banking Group			
		Carrying Amount		Accumulated Fair Value Adjustments(1)	
As at 30 June 2021	**Risk Categorisation**	Assets	Liabilities	Assets	Liabilities
Securities at fair value through other comprehensive income	Interest rate risk	7,367	-	(101)	-
Debt issues at amortised cost	Interest rate risk	-	(1,844)	-	(11)
Debt issues at amortised cost	Combined risk	-	(12,682)	-	(316)
Loan capital	Interest rate risk	-	(403)	-	(4)
Total		7,367	(14,929)	(101)	(331)

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

(e) Hedge Ineffectiveness

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

$ millions	Banking Group					
As at 30 June	**2022**			2021		
	Change in Value of Hedging Instrument(1)	**Change in Value of Hedged Item(2)**	**Hedge Ineffectiveness(3)**	Change in Value of Hedging Instrument(1)	Change in Value of Hedged Item(2)	Hedge Ineffectiveness(3)
Fair value hedges						
Interest rate risk	**53**	**(54)**	**(1)**	23	(24)	(1)
Combined risk	**(451)**	**457**	**6**	(647)	641	(6)
Total	**(398)**	**403**	**5**	(624)	617	(7)
Cash flow hedges						
Interest rate risk	**249**	**(249)**	**-**	45	(40)	5
Combined risk	**505**	**(507)**	**(2)**	(201)	200	(1)
Total	**754**	**(756)**	**(2)**	(156)	160	4

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

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

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

12 Derivative Financial Instruments (continued)

(f) Cash Flow Hedge Reserve

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

$ millions	Banking Group					
As at 30 June	2022			2021		
	Interest Rate Risk	Combined Risk	Total	Interest Rate Risk	Combined Risk	Total
Movement in cash flow hedge reserve						
Balance at beginning of year	**15**	**(140)**	**(125)**	(13)	(86)	(99)
Net gain/(loss) from changes in fair value[1]	**242**	**405**	**647**	(115)	(286)	(401)
Reclassified to Income Statement[2]						
Interest income	**(65)**	**-**	**(65)**	(179)	-	(179)
Interest expense	**73**	**99**	**172**	333	86	419
Other income	**-**	**(344)**	**(344)**	-	124	124
Deferred tax	**(70)**	**(45)**	**(115)**	(11)	22	11
Balance at end of year[3]	**195**	**(25)**	**170**	15	(140)	(125)

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

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

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

13 Advances to Customers

$ millions	Banking Group	
As at 30 June	2022	2021
Residential mortgages (refer to note 16(a))	**73,624**	69,098
Other retail (refer to note 16(b))	**3,087**	3,382
Corporate (refer to note 16(c))	**28,589**	27,461
Total gross carrying amount of advances to customers	**105,300**	99,941
Allowance for expected credit loss (refer to note 16(d))	**(549)**	(550)
Total advances to customers	**104,751**	99,391
Amounts due for settlement within 12 months	**19,279**	19,869
Amounts due for settlement over 12 months	**85,472**	79,522
Total advances to customers	**104,751**	99,391

14 Credit Risk Management Policies

Credit Risk Management

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

Credit risk principally arises within the Banking Group from its core business in providing lending facilities. Credit risk also arises from the Banking Group assuming contingent liabilities, participating in financial market transactions and assuming underwriting commitments. The Banking Group is selective in targeting credit risk exposures and avoids exposures to high-risk areas. Credit risk includes the risks associated to the Banking Group lending to customers who could be impacted by either physical or transition risks of climate change.

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

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

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

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

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

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

Refer to notes 15 to 20 for additional credit risk disclosures.

Collateral

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

Credit Risk Measurement

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

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

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

LGD is the proportion of a facility estimated to be lost in the event of default. It is expressed as a percentage. LGD is impacted by the type, level, liquidity and volatility of any collateral held, carrying costs and other expense. Long run LGDs are used for internal estimates of risk and downturn LGDs are used for regulatory capital.

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

14 Credit Risk Management Policies (continued)

Asset Quality

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

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

*Credit risk rating ("CRR")

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

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

Retail

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

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

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

Corporate

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

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

CRRs fall into two categories:

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

Oversight

Both retail and corporate segments are subject to inspection. Credit processes are reviewed by the relevant Credit Quality Review unit, with an overview provided by an assurance function in the Risk Division. Assurance processes include a review of compliance with policy, portfolio standards, and application of risk ratings with reports on findings reported to the BAC or the BRCC.

Impairment of Financial Assets

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

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15 Credit Quality Information for Advances to Customers

With some exceptions, the PD's associated with the credit risk rating grades presented in the tables below are consistent with those used for credit risk management purposes, as detailed in note 14.

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

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

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

$ millions	Banking Group				
	Collectively Assessed			Individually Assessed	
As at 30 June 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Advances to customers					
Investment[1]	**15,446**	**1,693**	**-**	**-**	**17,139**
Pass[1]	**71,531**	**15,193**	**-**	**-**	**86,724**
Weak	**4**	**382**	**839**	**212**	**1,437**
Total advances to customers	**86,981**	**17,268**	**839**	**212**	**105,300**
Lending commitments					
Investment	**6,685**	**234**	**-**	**-**	**6,919**
Pass	**8,050**	**1,300**	**-**	**-**	**9,350**
Weak	**5**	**11**	**13**	**5**	**34**
Total lending commitments	**14,740**	**1,545**	**13**	**5**	**16,303**
Total advances to customers and lending commitments	**101,721**	**18,813**	**852**	**217**	**121,603**
Allowance for ECL on advances to customers and lending commitments	**152**	**213**	**114**	**70**	**549**

(1) Updates to some of the Credit Risk Rating models during the year have resulted in some loans being reclassified without any material change in the associated portfolios underlying credit quality.

$ millions	Banking Group				
	Collectively Assessed			Individually Assessed	
As at 30 June 2021	Stage 1	Stage 2	Stage 3	Stage 3	Total
Advances to customers					
Investment	26,767	4,070	-	-	30,837
Pass	50,735	15,338	-	-	66,073
Weak	433	1,476	793	329	3,031
Total advances to customers	77,935	20,884	793	329	99,941
Lending commitments					
Investment	4,636	286	-	-	4,922
Pass	9,475	1,229	-	-	10,704
Weak	34	59	18	21	132
Total lending commitments	14,145	1,574	18	21	15,758
Total advances to customers and lending commitments	92,080	22,458	811	350	115,699
Allowance for ECL on advances to customers and lending commitments	143	243	71	93	550

15 Credit Quality Information for Advances to Customers (continued)

$ millions	Banking Group				
	Collectively Assessed			Individually Assessed	
As at 30 June 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Credit related contingent liabilities					
Investment	**253**	**23**	**-**	**-**	**276**
Pass	**211**	**405**	**-**	**-**	**616**
Weak	**-**	**16**	**3**	**5**	**24**
Total credit related contingent liabilities	**464**	**444**	**3**	**5**	**916**
Allowance for ECL on credit related contingent liabilities	**1**	**7**	**1**	**-**	**9**

$ millions	Banking Group				
	Collectively Assessed			Individually Assessed	
As at 30 June 2021	Stage 1	Stage 2	Stage 3	Stage 3	Total
Credit related contingent liabilities					
Investment	171	11	-	-	182
Pass	302	258	-	-	560
Weak	-	25	6	4	35
Total credit related contingent liabilities	473	294	6	4	777
Allowance for ECL on credit related contingent liabilities	1	6	1	-	8

Further information on credit quality is presented below:

$ millions	Banking Group			
As at 30 June 2022	**Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
Past due assets not individually impaired				
1 to 7 days	**1,304**	**89**	**214**	**1,607**
8 to 29 days	**437**	**47**	**36**	**520**
1 to 29 days	**1,741**	**136**	**250**	**2,127**
30 to 59 days	**133**	**21**	**5**	**159**
60 to 89 days	**39**	**9**	**-**	**48**
90 days and over	**139**	**20**	**12**	**171**
Total past due assets not individually impaired	**2,052**	**186**	**267**	**2,505**
Other assets under administration	**17**	**1**	**-**	**18**
Undrawn lending commitments to customers with individually impaired assets	**-**	**1**	**4**	**5**

$ millions	Banking Group			
As at 30 June 2021	Residential Mortgages	Other Retail	Corporate	Total
Past due assets not individually impaired				
1 to 7 days	1,037	94	194	1,325
8 to 29 days	432	53	29	514
1 to 29 days	1,469	147	223	1,839
30 to 59 days	145	28	13	186
60 to 89 days	64	10	1	75
90 days and over	124	16	-	140
Total past due assets not individually impaired	1,802	201	237	2,240
Other assets under administration	14	1	10	25
Undrawn lending commitments to customers with individually impaired assets	-	-	21	21

16 Allowance for Expected Credit Loss

Information for the year ended 30 June 2022 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 movements in the Banking Group's allowance for 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 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 SICR). This includes the impact of 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 during the year.

They are presented on the following basis:

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

Notes to the Financial Statements

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16 Allowance for Expected Credit Loss (continued)

(a) Residential Mortgages

$ millions	Banking Group				
Movement in Allowance for Expected Credit Loss	**Collective Allowances**			**Individually Assessed Allowances**	
As at 30 June 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	50	41	35	1	127
Charged to/(credited against) the Income Statement					
Changes in allowances due to transfers between ECL Stages					
Stage 1 to Stage 2	(19)	23	-	-	4
Stage 1 to Stage 3	(2)	-	24	-	22
Stage 2 to Stage 1	11	(20)	-	-	(9)
Stage 2 to Stage 3	-	(4)	15	-	11
Stage 3 to Stage 1	-	-	(1)	-	(1)
Stage 3 to Stage 2	-	3	(24)	-	(21)
Net transfers between collective allowances and individually assessed allowances	-	-	-	-	-
Changes in allowances due to transfers between ECL Stages	(10)	2	14	-	6
Changes in collective allowances due to additions and deletions	12	(1)	(8)	-	3
Changes in collective allowances due to amounts written off	-	-	-	-	-
Total changes in allowances due to movements in gross carrying amounts	2	1	6	-	9
Other changes in collective allowances	(2)	(13)	36	-	21
New and increased individually assessed allowances	-	-	-	1	1
Write-back of individually assessed allowances no longer required	-	-	-	(1)	(1)
Total charged to/(credited against) the Income Statement	-	(12)	42	-	30
Amounts written off from individually assessed allowances	-	-	-	-	-
Balance at end of year	50	29	77	1	157

$ millions	Banking Group				
Movement in Gross Carrying Amounts	**Collectively Assessed**			**Individually Assessed**	
As at 30 June 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	61,456	6,908	703	31	69,098
Changes due to transfers between ECL Stages					
Stage 1 to Stage 2	(4,151)	4,151	-	-	-
Stage 1 to Stage 3	(559)	-	559	-	-
Stage 2 to Stage 1	6,619	(6,619)	-	-	-
Stage 2 to Stage 3	-	(360)	360	-	-
Stage 3 to Stage 1	25	-	(25)	-	-
Stage 3 to Stage 2	-	653	(653)	-	-
Net transfers to/(from) Stage 3 individually assessed	(3)	(3)	3	3	-
Total changes due to transfers between ECL Stages	1,931	(2,178)	244	3	-
Additions and deletions					
Additions	21,220	496	24	1	21,741
Deletions (excluding amounts written off)	(15,839)	(1,151)	(214)	(10)	(17,214)
Net additions/(deletions)	5,381	(655)	(190)	(9)	4,527
Amounts written off	-	-	(1)	-	(1)
Balance at end of year	68,768	4,075	756	25	73,624

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For the year ended 30 June 2022

16 Allowance for Expected Credit Loss (continued)

(a) Residential Mortgages (continued)

$ millions	Banking Group				
Movement in Allowance for Expected Credit Loss	Collective Allowances			Individually Assessed Allowances	
As at 30 June 2021	Stage 1	Stage 2	Stage 3	Stage 3	Total
Balance at beginning of year	56	51	33	4	144
Charged to/(credited against) the Income Statement					
Changes in allowances due to transfers between ECL Stages					
Stage 1 to Stage 2	(8)	15	-	-	7
Stage 1 to Stage 3	-	-	9	-	9
Stage 2 to Stage 1	4	(8)	-	-	(4)
Stage 2 to Stage 3	-	(5)	31	-	26
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	4	(25)	-	(21)
Net transfers between collective allowances and individually assessed allowances	-	-	(1)	1	-
Changes in allowances due to transfers between ECL Stages	(4)	6	14	1	17
Changes in collective allowances due to additions and deletions	7	(3)	(6)	-	(2)
Changes in collective allowances due to amounts written off	-	-	-	-	-
Total changes in allowances due to movements in gross carrying amounts	3	3	8	1	15
Other changes in collective allowances	(9)	(13)	(6)	-	(28)
New and increased individually assessed allowances	-	-	-	3	3
Write-back of individually assessed allowances no longer required	-	-	-	(6)	(6)
Total charged to/(credited against) the Income Statement	(6)	(10)	2	(2)	(16)
Amounts written off from individually assessed allowances	-	-	-	(1)	(1)
Balance at end of year	50	41	35	1	127

$ millions	Banking Group				
Movement in Gross Carrying Amounts	Collectively Assessed			Individually Assessed	
As at 30 June 2021	Stage 1	Stage 2	Stage 3	Stage 3	Total
Balance at beginning of year	54,679	6,446	507	42	61,674
Changes due to transfers between ECL Stages					
Stage 1 to Stage 2	(3,890)	3,890	-	-	-
Stage 1 to Stage 3	(275)	-	275	-	-
Stage 2 to Stage 1	2,583	(2,583)	-	-	-
Stage 2 to Stage 3	-	(672)	672	-	-
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	616	(616)	-	-
Net transfers to/(from) Stage 3 individually assessed	(5)	8	-	(3)	-
Total changes due to transfers between ECL Stages	(1,587)	1,259	331	(3)	-
Additions and deletions					
Additions	21,204	614	10	-	21,828
Deletions (excluding amounts written off)	(12,840)	(1,411)	(145)	(7)	(14,403)
Net additions/(deletions)	8,364	(797)	(135)	(7)	7,425
Amounts written off	-	-	-	(1)	(1)
Balance at end of year	61,456	6,908	703	31	69,098

16 Allowance for Expected Credit Loss (continued)

(b) Other Retail

$ millions	Banking Group				
				Individually Assessed Allowances	
Movement in Allowance for Expected Credit Loss	**Collective Allowances**				
As at 30 June 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	37	48	33	5	123
Charged to/(credited against) the Income Statement					
Changes in allowances due to transfers between ECL Stages					
Stage 1 to Stage 2	(10)	22	-	-	12
Stage 1 to Stage 3	-	-	8	-	8
Stage 2 to Stage 1	12	(22)	-	-	(10)
Stage 2 to Stage 3	-	(8)	30	-	22
Stage 3 to Stage 1	-	-	(1)	-	(1)
Stage 3 to Stage 2	-	5	(17)	-	(12)
Net transfers between collective allowances and individually assessed allowances	-	-	-	-	-
Changes in allowances due to transfers between ECL Stages	2	(3)	20	-	19
Changes in collective allowances due to additions and deletions	(3)	(6)	(8)	-	(17)
Changes in collective allowances due to amounts written off	-	(2)	(7)	-	(9)
Total changes in allowances due to movements in gross carrying amounts	(1)	(11)	5	-	(7)
Other changes in collective allowances	14	(2)	(4)	-	8
New and increased individually assessed allowances	-	-	-	3	3
Write-back of individually assessed allowances no longer required	-	-	-	(1)	(1)
Total charged to/(credited against) the Income Statement	13	(13)	1	2	3
Amounts written off from individually assessed allowances	-	-	-	(2)	(2)
Balance at end of year	50	35	34	5	124

$ millions	Banking Group				
				Individually	
Movement in Gross Carrying Amounts	**Collectively Assessed**			**Assessed**	
As at 30 June 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	3,001	322	52	7	3,382
Changes due to transfers between ECL Stages					
Stage 1 to Stage 2	(367)	367	-	-	-
Stage 1 to Stage 3	(20)	-	20	-	-
Stage 2 to Stage 1	312	(312)	-	-	-
Stage 2 to Stage 3	-	(70)	70	-	-
Stage 3 to Stage 1	6	-	(6)	-	-
Stage 3 to Stage 2	-	55	(55)	-	-
Net transfers to/(from) Stage 3 individually assessed	(1)	-	(1)	2	-
Total changes due to transfers between ECL Stages	(70)	40	28	2	-
Additions and deletions					
Additions	3,292	79	20	3	3,394
Deletions (excluding amounts written off)	(3,453)	(167)	(38)	-	(3,658)
Net deletions	(161)	(88)	(18)	3	(264)
Amounts written off	(2)	(12)	(15)	(2)	(31)
Balance at end of year	2,768	262	47	10	3,087

16 Allowance for Expected Credit Loss (continued)

(b) Other Retail (continued)

$ millions **Movement in Allowance for Expected Credit Loss** **As at 30 June 2021**	**Banking Group** Collective Allowances Stage 1	 Stage 2	 Stage 3	Individually Assessed Allowances Stage 3	 Total
Balance at beginning of year	40	68	40	6	154
Charged to/(credited against) the Income Statement					
Changes in allowances due to transfers between ECL Stages					
Stage 1 to Stage 2	(13)	29	-	-	16
Stage 1 to Stage 3	-	-	8	-	8
Stage 2 to Stage 1	8	(18)	-	-	(10)
Stage 2 to Stage 3	-	(11)	35	-	24
Stage 3 to Stage 1	-	-	(1)	-	(1)
Stage 3 to Stage 2	-	7	(25)	-	(18)
Net transfers between collective allowances and individually assessed allowances	-	-	-	-	-
Changes in allowances due to transfers between ECL Stages	(5)	7	17	-	19
Changes in collective allowances due to additions and deletions	-	(6)	(9)	-	(15)
Changes in collective allowances due to amounts written off	-	(3)	(17)	-	(20)
Total changes in allowances due to movements in gross carrying amounts	(5)	(2)	(9)	-	(16)
Other changes in collective allowances	2	(18)	2	-	(14)
New and increased individually assessed allowances	-	-	-	3	3
Write-back of individually assessed allowances no longer required	-	-	-	(3)	(3)
Total charged to/(credited against) the Income Statement	(3)	(20)	(7)	-	(30)
Amounts written off from individually assessed allowances	-	-	-	(1)	(1)
Balance at end of year	37	48	33	5	123

$ millions **Movement in Gross Carrying Amounts** **As at 30 June 2021**	**Banking Group** Collectively Assessed Stage 1	 Stage 2	 Stage 3	Individually Assessed Stage 3	 Total
Balance at beginning of year	3,095	407	68	10	3,580
Changes due to transfers between ECL Stages					
Stage 1 to Stage 2	(425)	425	-	-	-
Stage 1 to Stage 3	(31)	-	31	-	-
Stage 2 to Stage 1	347	(347)	-	-	-
Stage 2 to Stage 3	-	(88)	88	-	-
Stage 3 to Stage 1	16	-	(16)	-	-
Stage 3 to Stage 2	-	63	(63)	-	-
Net transfers to/(from) Stage 3 individually assessed	(1)	(3)	-	4	-
Total changes due to transfers between ECL Stages	(94)	50	40	4	-
Additions and deletions					
Additions	4,168	27	30	-	4,225
Deletions (excluding amounts written off)	(4,164)	(139)	(54)	(6)	(4,363)
Net additions/(deletions)	4	(112)	(24)	(6)	(138)
Amounts written off	(4)	(23)	(32)	(1)	(60)
Balance at end of year	3,001	322	52	7	3,382

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16 Allowance for Expected Credit Loss (continued)

(c) Corporate

$ millions	Banking Group				
Movement in Allowance for Expected Credit Loss	**Collective Allowances**			**Individually Assessed Allowances**	
As at 30 June 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	56	154	3	87	300
Charged to/(credited against) the Income Statement					
Changes in allowances due to transfers between ECL Stages					
Stage 1 to Stage 2	(10)	31	-	-	21
Stage 1 to Stage 3	-	-	-	-	-
Stage 2 to Stage 1	9	(27)	-	-	(18)
Stage 2 to Stage 3	-	-	1	-	1
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	-	(1)	-	(1)
Net transfers between collective allowances and individually assessed allowances	-	1	1	(2)	-
Changes in allowances due to transfers between ECL Stages	(1)	5	1	(2)	3
Changes in collective allowances due to additions and deletions	3	(5)	(1)	-	(3)
Changes in collective allowances due to amounts written off	-	-	-	-	-
Total changes in allowances due to movements in gross carrying amounts	2	-	-	(2)	-
Other changes in collective allowances	(6)	(5)	-	-	(11)
New and increased individually assessed allowances	-	-	-	23	23
Write-back of individually assessed allowances no longer required	-	-	-	(14)	(14)
Total charged to/(credited against) the Income Statement	(4)	(5)	-	7	(2)
Amounts written off from individually assessed allowances	-	-	-	(30)	(30)
Balance at end of year	52	149	3	64	268

$ millions	Banking Group				
Movement in Gross Carrying Amounts	**Collectively Assessed**			**Individually Assessed**	
As at 30 June 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	13,478	13,654	38	291	27,461
Changes due to transfers between ECL Stages					
Stage 1 to Stage 2	(4,660)	4,660	-	-	-
Stage 1 to Stage 3	(4)	-	4	-	-
Stage 2 to Stage 1	4,664	(4,664)	-	-	-
Stage 2 to Stage 3	-	(2)	2	-	-
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	7	(7)	-	-
Net transfers to/(from) Stage 3 individually assessed	-	21	23	(44)	-
Total changes due to transfers between ECL Stages	-	22	22	(44)	-
Additions and deletions					
Additions	8,318	4,915	23	-	13,256
Deletions (excluding amounts written off)	(6,351)	(5,660)	(47)	(40)	(12,098)
Net additions/(deletions)	1,967	(745)	(24)	(40)	1,158
Amounts written off	-	-	-	(30)	(30)
Balance at end of year	15,445	12,931	36	177	28,589

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For the year ended 30 June 2022

16 Allowance for Expected Credit Loss (continued)

(c) Corporate (continued)

$ millions	Banking Group				
Movement in Allowance for Expected Credit Loss	Collective Allowances			Individually Assessed Allowances	
As at 30 June 2021	Stage 1	Stage 2	Stage 3	Stage 3	Total
Balance at beginning of year	57	147	2	125	331
Charged to/(credited against) the Income Statement					
Changes in allowances due to transfers between ECL Stages					
Stage 1 to Stage 2	(9)	25	-	-	16
Stage 1 to Stage 3	-	-	-	-	-
Stage 2 to Stage 1	11	(28)	-	-	(17)
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	-	2	(5)	3	-
Changes in allowances due to transfers between ECL Stages	2	(1)	(4)	3	-
Changes in collective allowances due to additions and deletions	2	(11)	5	-	(4)
Changes in collective allowances due to amounts written off	-	-	-	-	-
Total changes in allowances due to movements in gross carrying amounts	4	(12)	1	3	(4)
Other changes in collective allowances	(5)	19	-	-	14
New and increased individually assessed allowances	-	-	-	30	30
Write-back of individually assessed allowances no longer required	-	-	-	(39)	(39)
Total charged to/(credited against) the Income Statement	(1)	7	1	(6)	1
Amounts written off from individually assessed allowances	-	-	-	(32)	(32)
Balance at end of year	56	154	3	87	300

$ millions	Banking Group				
Movement in Gross Carrying Amounts	Collectively Assessed			Individually Assessed	
As at 30 June 2021	Stage 1	Stage 2	Stage 3	Stage 3	Total
Balance at beginning of year	10,449	14,730	26	354	25,559
Changes due to transfers between ECL Stages					
Stage 1 to Stage 2	(4,847)	4,847	-	-	-
Stage 1 to Stage 3	(4)	-	4	-	-
Stage 2 to Stage 1	5,805	(5,805)	-	-	-
Stage 2 to Stage 3	-	(28)	28	-	-
Stage 3 to Stage 1	2	-	(2)	-	-
Stage 3 to Stage 2	-	4	(4)	-	-
Net transfers to/(from) Stage 3 individually assessed	(1)	(8)	(24)	33	-
Total changes due to transfers between ECL Stages	955	(990)	2	33	-
Additions and deletions					
Additions	6,787	4,996	44	-	11,827
Deletions (excluding amounts written off)	(4,713)	(5,082)	(34)	(64)	(9,893)
Net additions/(deletions)	2,074	(86)	10	(64)	1,934
Amounts written off	-	-	-	(32)	(32)
Balance at end of year	13,478	13,654	38	291	27,461

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For the year ended 30 June 2022

16 Allowance for Expected Credit Loss (continued)

(d) Total Advances to Customers

$ millions	Banking Group				
Movement in Allowance for Expected Credit Loss	**Collective Allowances**			**Individually Assessed Allowances**	
As at 30 June 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	143	243	71	93	550
Charged to/(credited against) the Income Statement					
Changes in allowances due to transfers between ECL Stages					
Stage 1 to Stage 2	(39)	76	-	-	37
Stage 1 to Stage 3	(2)	-	32	-	30
Stage 2 to Stage 1	32	(69)	-	-	(37)
Stage 2 to Stage 3	-	(12)	46	-	34
Stage 3 to Stage 1	-	-	(2)	-	(2)
Stage 3 to Stage 2	-	8	(42)	-	(34)
Net transfers between collective allowances and individually assessed allowances	-	1	1	(2)	-
Changes in allowances due to transfers between ECL Stages	(9)	4	35	(2)	28
Changes in collective allowances due to additions and deletions	12	(12)	(17)	-	(17)
Changes in collective allowances due to amounts written off	-	(2)	(7)	-	(9)
Total changes in allowances due to movements in gross carrying amounts	3	(10)	11	(2)	2
Other changes in collective allowances	6	(20)	32	-	18
New and increased individually assessed allowances	-	-	-	27	27
Write-back of individually assessed allowances no longer required	-	-	-	(16)	(16)
Total charged to/(credited against) the Income Statement	9	(30)	43	9	31
Amounts written off from individually assessed allowances	-	-	-	(32)	(32)
Balance at end of year	152	213	114	70	549

$ millions	Banking Group				
Movement in Gross Carrying Amounts	**Collectively Assessed**			**Individually Assessed**	
As at 30 June 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	77,935	20,884	793	329	99,941
Changes due to transfers between ECL Stages					
Stage 1 to Stage 2	(9,178)	9,178	-	-	-
Stage 1 to Stage 3	(583)	-	583	-	-
Stage 2 to Stage 1	11,595	(11,595)	-	-	-
Stage 2 to Stage 3	-	(432)	432	-	-
Stage 3 to Stage 1	31	-	(31)	-	-
Stage 3 to Stage 2	-	715	(715)	-	-
Net transfers to/(from) Stage 3 individually assessed	(4)	18	25	(39)	-
Total changes due to transfers between ECL Stages	1,861	(2,116)	294	(39)	-
Additions and deletions					
Additions	32,830	5,490	67	4	38,391
Deletions (excluding amounts written off)	(25,643)	(6,978)	(299)	(50)	(32,970)
Net additions/(deletions)	7,187	(1,488)	(232)	(46)	5,421
Amounts written off	(2)	(12)	(16)	(32)	(62)
Balance at end of year	86,981	17,268	839	212	105,300

16 Allowance for Expected Credit Loss (continued)

(d) Total Advances to Customers (continued)

$ millions	Banking Group				
Movement in Allowance for Expected Credit Loss	Collective Allowances			Individually Assessed Allowances	
As at 30 June 2021	Stage 1	Stage 2	Stage 3	Stage 3	Total
Balance at beginning of year	153	266	75	135	629
Charged to/(credited against) the Income Statement					
Changes in allowances due to transfers between ECL Stages					
Stage 1 to Stage 2	(30)	69	-	-	39
Stage 1 to Stage 3	-	-	17	-	17
Stage 2 to Stage 1	23	(54)	-	-	(31)
Stage 2 to Stage 3	-	(16)	67	-	51
Stage 3 to Stage 1	-	-	(1)	-	(1)
Stage 3 to Stage 2	-	11	(50)	-	(39)
Net transfers between collective allowances and individually assessed allowances	-	2	(6)	4	-
Changes in allowances due to transfers between ECL Stages	(7)	12	27	4	36
Changes in collective allowances due to additions and deletions	9	(20)	(10)	-	(21)
Changes in collective allowances due to amounts written off	-	(3)	(17)	-	(20)
Total changes in allowances due to movements in gross carrying amounts	2	(11)	-	4	(5)
Other changes in collective allowances	(12)	(12)	(4)	-	(28)
New and increased individually assessed allowances	-	-	-	36	36
Write-back of individually assessed allowances no longer required	-	-	-	(48)	(48)
Total charged to/(credited against) the Income Statement	(10)	(23)	(4)	(8)	(45)
Amounts written off from individually assessed allowances	-	-	-	(34)	(34)
Balance at end of year	143	243	71	93	550

$ millions	Banking Group				
Movement in Gross Carrying Amounts	Collectively Assessed			Individually Assessed	
As at 30 June 2021	Stage 1	Stage 2	Stage 3	Stage 3	Total
Balance at beginning of year	68,223	21,583	601	406	90,813
Changes due to transfers between ECL Stages					
Stage 1 to Stage 2	(9,162)	9,162	-	-	-
Stage 1 to Stage 3	(310)	-	310	-	-
Stage 2 to Stage 1	8,735	(8,735)	-	-	-
Stage 2 to Stage 3	-	(788)	788	-	-
Stage 3 to Stage 1	18	-	(18)	-	-
Stage 3 to Stage 2	-	683	(683)	-	-
Net transfers to/(from) Stage 3 individually assessed	(7)	(3)	(24)	34	-
Total changes due to transfers between ECL Stages	(726)	319	373	34	-
Additions and deletions					
Additions	32,159	5,637	84	-	37,880
Deletions (excluding amounts written off)	(21,717)	(6,632)	(233)	(77)	(28,659)
Net additions/(deletions)	10,442	(995)	(149)	(77)	9,221
Amounts written off	(4)	(23)	(32)	(34)	(93)
Balance at end of year	77,935	20,884	793	329	99,941

16 Allowance for Expected Credit Loss (continued)

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

Estimation uncertainty remains at a heightened level, including in relation to the COVID-19 pandemic, the impact of rising interest rates and inflationary pressures, increased geopolitical tensions around the world, global supply chain issues and labour shortages and some of the Banking Group's customers being financially affected. Actual credit losses may differ from the Banking Group's current estimate.

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

$ millions	Banking Group	
For the year ended 30 June	**2022**	2021
Updates to modelled multiple macroeconomic scenarios and weightings (refer section (f))	**51**	(5)
Management adjustments to ECL[1]	**(9)**	1
Charged to/(credited against) the Income Statement for collective allowances due to model adjustments	**42**	(4)
Other amounts credited against the Income Statement for collective allowances[1]	**(20)**	(33)
Amounts charged to the Income Statement for individually assessed allowances	**9**	(8)
Total charged to/(credited against) the Income Statement for allowance for ECL	**31**	(45)

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

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 in note 16(a) has increased by $30 million during the year, entirely from collective allowances.

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

- A net decrease to management adjustments of $29 million which includes releases related to the portion of the portfolio that previously received COVID-19 support and adjustments now adequately covered by the multiple economic scenarios, within Other changes in collective allowances;
- A net decrease of $13 million due to general improvements in the underlying portfolio credit quality, and a net increase of $9 million for portfolio size and borrowers previously on hardship terms (and treated as impaired). These adjustments are presented within transfers between ECL Stages, Additions and deletions, and Other changes in collective allowances; and
- Updates to multiple macroeconomic scenarios and weightings resulting in an increase of $63 million, within Other changes in collective allowances.

Other Retail

The Banking Group's Other retail allowance for ECL in note 16(b) has increased by $1 million during the year, entirely from collective allowances.

With respect to the collective allowance in the table above, the majority of the movements reflect:

- A net decrease to management adjustments of $1 million which includes releases related to the portion of the portfolio that previously received COVID-19 support and adjustments now adequately covered by the multiple economic scenarios, within Other changes in collective allowances;
- A net increase of $8 million due to a model update, offset by a net decrease of $8 million for portfolio size, write-offs and general improvements in the underlying portfolio credit quality. These adjustments are presented within transfers between ECL Stages, Additions and deletions, and Other changes in collective allowances; and
- Updates to multiple macroeconomic scenarios and weightings resulting in an increase of $2 million, within Other changes in collective allowances.

Corporate

The Banking Group's Corporate allowance for ECL in note 16(c) has decreased by $32 million during the year, with decreases in both the individually assessed allowances of $23 million and the collective allowances of $9 million.

With respect to the individually assessed allowances, there has been a net reduction in gross carrying amount of $114 million during the year, which has resulted in a $23 million decrease in these allowances.

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

- A net increase to management adjustments of $21 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, within transfers between ECL Stages and Other changes in collective allowances;
- A decrease of $16 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; and
- Updates to multiple macroeconomic scenarios and weightings resulted in a decrease of $14 million, within Other changes in collective allowances.

16 Allowance for Expected Credit Loss (continued)

(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 used in business forecasting (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:

	Banking Group	
As at 30 June	**2022**	2021
Upside	**2.5%**	5%
Central	**50%**	62.5%
Downside	**40%**	25%
Severe downside	**7.5%**	7.5%

The weightings applied to the Upside, 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 moderating impact of the COVID-19 pandemic and other economic pressures such as rising interest rates, inflationary pressure, increased geopolitical tensions and global supply chain issues. These updates over the year have worsened the Central scenario's macroeconomic outlook. The updated weightings, movements in credit risk factors and general portfolio movements have resulted in a $1 million decrease in ECL. This comprises a $23 million decrease in individually assessed allowances due to improvements or other resolution of the underlying assets, including write offs and a $22 million increase in collective allowances.

Macroeconomic Credit Risk Factors

The central 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 case credit risk factors have been refreshed during the year to reflect the ongoing changes in economic outlook. Other scenarios reflect a distribution of losses relative to this central 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 material assumptions for each scenario is as follows:

- Central (50%): The outlook for the next twelve months reflects a combination of unemployment increasing to 3.6%, house price reductions of 6.4% reflecting continued softening of the residential property market due to rising interest rates and inflation, growth in business investment of 4.3% and the OCR increasing to 3.5%. This scenario represents one where macroprudential controls bring an inflationary economy under control relatively quickly, with moderate economic impacts.
- Upside (2.5%): The outlook for the next twelve months reflects a more positive outlook, with unemployment at 3%, house prices continuing to grow at rates of 8%, business investment is positive at 10% and the OCR increasing to 3.5% then reducing in subsequent years to 2.25%.

16 Allowance for Expected Credit Loss (continued)

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

- Downside (40%): Reflects a scenario with unemployment rising to 8.5%, a higher OCR at 5.5%, house price contraction of 15% and a negative business outlook with reducing business investment of 15% during the next twelve months. Over the following 24 months this scenario sees the economic recovery beginning with unemployment reducing to 6.5%, the OCR stable at 5.5%, further house price reductions of 10% and relatively stable business investment of 3%.
- Severe downside (7.5%): Reflects the sharpest economic shock, which continues over the longer term. Unemployment rises to a peak of 12%, house prices fall by 25% and business investment contracts 30% in the next twelve months. This is offset by an OCR of negative 0.25%. This negative economic trend continues through the following 24 months, with house prices falling a further 15%, unemployment remains high at 10%, further contraction in business investment of 15% and the OCR dropping to negative 0.5%.

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	Banking Group	
As at 30 June	**2022**	2021
Upside	**(238)**	(180)
Central	**(160)**	(170)
Downside	**68**	204
Severe downside	**786**	855

Sensitivity to SICR Assessment

If an additional 1% of Stage 1 financial assets were assessed as having a SICR at 30 June 2022, with the scenario weightings applied at 30 June 2022 held constant, the Banking Group's allowance for ECL would increase by $9 million (30 June 2021 $8 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 $2 million (30 June 2021 $2 million).

17 Impairment Losses on Financial Assets

$ millions	Banking Group			
For the year ended 30 June 2022	**Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
Impairment losses charged to/(credited against) the Income Statement for collective allowances	**30**	**1**	**(9)**	**22**
Impairment losses charged to/(credited against) the Income Statement for individually assessed allowances	**-**	**2**	**7**	**9**
Bad debts written off directly to the Income Statement	**1**	**29**	**-**	**30**
Recovery of amounts previously written off	**(2)**	**(15)**	**(3)**	**(20)**
Total impairment losses/(recoveries) recognised in the Income Statement	**29**	**17**	**(5)**	**41**

$ millions	Banking Group			
For the year ended 30 June 2021	Residential Mortgages	Other Retail	Corporate	Total
Impairment losses charged to/(credited against) the Income Statement for collective allowances	(16)	(35)	10	(41)
Impairment losses charged to/(credited against) the Income Statement for individually assessed allowances	(1)	1	(8)	(8)
Bad debts written off directly to the Income Statement	-	59	-	59
Recovery of amounts previously written off	(1)	(14)	-	(15)
Total impairment losses/(recoveries) recognised in the Income Statement	(18)	11	2	(5)

Impairment losses on other financial assets for the year ended 30 June 2022 and the year ended 30 June 2021 are immaterial to the Banking Group.

Amounts written off during the year still subject to enforcement activity

As at 30 June 2022, the contractual amount outstanding on financial assets that were written off during the year, but which are still subject to enforcement activity, is $34 million (30 June 2021 $77 million).

18 Concentrations of Credit Exposures

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

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			
As at 30 June 2022	**Financial Assets at Amortised Cost**	**Financial Assets at Fair Value**	**Other Credit Exposures**	**Total Credit Exposures**
Concentration by industry				
Agriculture	10,115	1	894	11,010
Forestry and Fishing, Agriculture Services	387	7	61	455
Manufacturing	1,129	47	346	1,522
Electricity, Gas, Water and Waste Services	404	74	170	648
Construction	751	-	386	1,137
Wholesale Trade	881	18	587	1,486
Retail Trade and Accommodation	1,688	1	588	2,277
Transport, Postal and Warehousing	772	-	267	1,039
Financial and Insurance Services	8,123	5,116	364	13,603
Rental, Hiring and Real Estate Services	35,845	2	1,504	37,351
Professional, Scientific, Technical, Administrative and Support Services	692	3	397	1,092
Public Administration and Safety	72	3,202	46	3,320
Education and Training	175	-	143	318
Health Care and Social Assistance	1,129	-	532	1,661
Arts, Recreation and Other Services	370	2	143	515
Household	49,446	-	10,760	60,206
All Other	45	-	31	76
Total credit exposures by industry	112,024	8,473	17,219	137,716
Concentration by geographic region				
Auckland	51,844	1,752	9,561	63,157
Rest of New Zealand	58,862	3,156	7,501	69,519
Overseas	1,318	3,565	157	5,040
Total credit exposures by geographic region	112,024	8,473	17,219	137,716

Notes to the Financial Statements

For the year ended 30 June 2022

18 Concentrations of Credit Exposures (continued)

$ millions	Banking Group			
As at 30 June 2021	Financial Assets at Amortised Cost	Financial Assets at Fair Value	Other Credit Exposures	Total Credit Exposures
Concentration by industry				
Agriculture	10,327	14	941	11,282
Forestry and Fishing, Agriculture Services	492	3	63	558
Manufacturing	907	21	422	1,350
Electricity, Gas, Water and Waste Services	370	92	192	654
Construction	649	-	376	1,025
Wholesale Trade	646	6	559	1,211
Retail Trade and Accommodation	1,617	2	512	2,131
Transport, Postal and Warehousing	862	2	365	1,229
Financial and Insurance Services	3,871	4,239	243	8,353
Rental, Hiring and Real Estate Services	35,174	36	1,507	36,717
Professional, Scientific, Technical, Administrative and Support Services	674	1	405	1,080
Public Administration and Safety	77	4,389	41	4,507
Education and Training	248	1	85	334
Health Care and Social Assistance	844	-	337	1,181
Arts, Recreation and Other Services	355	-	132	487
Household	45,532	-	10,318	55,850
All Other	49	-	37	86
Total credit exposures by industry	102,694	8,806	16,535	128,035
Concentration by geographic region				
Auckland	49,506	1,752	9,083	60,341
Rest of New Zealand	52,236	4,301	7,318	63,855
Overseas	952	2,753	134	3,839
Total credit exposures by geographic region	102,694	8,806	16,535	128,035

19 Concentration of Credit Exposures to Individual Counterparties

The basis of calculation of the Banking Group's aggregate concentration of credit exposure to individual counterparties is the actual credit exposure. Credit exposures to the central government or central bank of any country with a long-term credit rating of A- or A3 or above, or its equivalent, and any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent, and connected persons are excluded.

The peak end-of-day aggregate concentration of credit exposure to individual counterparties has been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the relevant six-month period and then dividing that amount by the Banking Group's CET1 capital as at 30 June 2022.

	Banking Group	
Number of exposures that equals or exceeds 10% of CET1 capital	**Exposure as at 30-Jun-22**	**Peak end-of-day exposure over six months to 30-Jun-22**
Exposures to banks		
With a long-term credit rating of A- or A3 or above, or its equivalent:		
10% to less than 15% of CET1 capital	-	1
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
Exposures to non-banks		
With a long-term credit rating of A- or A3 or above, or its equivalent	-	-
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent:	-	-

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

	Banking Group			
	Peak end-of-day Exposure over the Year		Balance Date Exposure	
30 June 2022	**$ millions**	**Percentage of Tier 1 Capital**	**$ millions**	**Percentage of Tier 1 Capital**
All connected persons	**1,843**	**19.9%**	**1,555**	**16.8%**
Non-bank connected persons	**7**	**0.1%**	**7**	**0.1%**

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

The basis for calculation is actual credit exposures presented on a gross basis. Exposures are all of a non-capital nature and shown net of any allowances for impairment losses on individual assets. The peak end-of-day credit exposure to connected persons and non-bank connected persons has been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the year and then dividing that amount by the Banking Group's Tier 1 capital as at 30 June 2022.

The Banking Group has a contingent exposure to its ultimate parent, CBA, arising from risk lay off arrangements in respect of credit exposures to counterparties (excluding counterparties that are connected persons) which amounted to $62 million as at 30 June 2022.

The Banking Group had no credit exposures to connected persons that were credit impaired at 30 June 2022.

In accordance with its Conditions of Registration, the Banking Group's aggregate credit exposures to all connected persons must not exceed its rating contingent limit of 60% of Tier 1 capital. Within the overall rating contingent limit, there is a sub-limit of 15% of Tier 1 capital which applies to aggregate credit exposures to non-bank connected persons. Both the rating contingent limit on lending to connected persons and the sub-limit on lending to non-bank connected persons have been complied with at all times during the year ended 30 June 2022.

21 Maximum Exposure and Effect of Collateral and Other Credit Enhancements

Collateral and Credit Enhancements Held

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

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

Cash and Liquid Assets

This Balance Sheet category includes reverse repurchase agreements which are fully collateralised by highly liquid debt securities which have been legally transferred to the Banking Group subject to an agreement to return them for a fixed price. As at 30 June 2022 the Banking Group had not sold or repledged securities accepted as collateral under reverse repurchase agreements (30 June 2021 nil).

Cash and liquid assets include $6,352 million as at 30 June 2022 deposited with the RBNZ (30 June 2021 $2,478 million).

Due from Financial Institutions

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

Securities at Fair Value through Other Comprehensive Income

These assets are measured at fair value. As at 30 June 2022 no collateral is held to mitigate the credit risk on these instruments and a maximum of $349 million of these securities are backed by guarantees (30 June 2021 nil and $299 million respectively).

Derivative Assets

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

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

Depending on the creditworthiness of the counterparty and/or nature of the transaction, collateral may be obtained against derivative assets. Refer to note 12 for details of collateral received.

Other Assets

This Balance Sheet category includes interest receivable accrued and other current assets. As at 30 June 2022 no collateral is held on these balances (30 June 2021 nil).

Advances to Customers

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

Principal collateral types for Advances to customers include:

- Mortgages over residential and commercial real estate;
- Charges over business assets such as premises, inventory and accounts receivable;
- Personal and corporate guarantees received from third parties; and
- The Crown Deed of Indemnity under the New Zealand Government's Business Finance Guarantee Scheme ("BFGS"), whereby the Crown undertakes to indemnify the Bank for up to 80 percent of the shortfall on supported loans issued under the BFGS. As at 30 June 2022 the Banking Group had advanced $258 million to customers under the Scheme (30 June 2021 $298 million). The BFGS concluded on 30 June 2021, with new scheme loans no longer being available.

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

- Residential Mortgages

  All home loans are fully secured by fixed charges over borrowers' residential properties. This portfolio also includes lending to small and medium sized entities which are fully secured by residential property.

- Other Retail Lending

  This category includes lending to small and medium sized enterprises not fully secured by residential mortgages, where collateral is commonly held, generally in the form of residential or commercial property. In some instances, other forms of collateral may be obtained, as listed under corporate lending below. This category also includes personal lending (card lending, personal loans and overdrafts) which are considered unsecured for the purposes of this disclosure, although some personal lending may be secured by all obligations mortgages.

- Corporate Lending

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

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

Advances to Customers (continued)

For the purposes of the tables below:

- Secured exposures are those that have greater than or equal to 100% security cover after adjusting for collateral haircuts;
- Partially secured exposures are those that have 40 – 99.9% security cover after adjusting for collateral haircuts;
- Unsecured exposures are those that have less than 40% security cover after adjusting for collateral haircuts; and
- The maximum exposure for collateral held on Advances to customers is presented net of any allowance for ECL.
- For the purposes of collateral classifications, residential mortgages are classified as fully secured, unless they are non-performing in which case they may be classified as partially secured.

$ millions	Banking Group			
Collateral Held on Advances to Customers - On Balance Sheet	**Residential Mortgages[1]**	**Other Retail**	**Corporate**	**Total**
As at 30 June 2022				
Maximum Exposure	**73,467**	**2,963**	**28,321**	**104,751**
Collateral Classification				
Secured	**100.0%**	**30.1%**	**76.9%**	**91.8%**
Partially Secured	**-**	**4.9%**	**12.4%**	**3.5%**
Unsecured	**-**	**65.0%**	**10.7%**	**4.7%**
As at 30 June 2021				
Maximum Exposure	68,971	3,259	27,161	99,391
Collateral Classification				
Secured	100.0%	27.8%	73.9%	90.5%
Partially Secured	-	6.0%	15.6%	4.5%
Unsecured	-	66.2%	10.5%	5.0%

Collateral Classification - Credit Impaired

As at 30 June 2022, 73.0% of the Banking Group's credit impaired Advances to customers were secured, 13.3% were partially secured and 13.7% were unsecured (30 June 2021 64.2% secured, 23.8% partially secured and 12.0% unsecured).

Credit Commitments and Contingent Liabilities

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

$ millions	
Collateral Held on Credit Commitments - Off Balance Sheet	**Banking Group**
As at 30 June 2022	
Maximum Exposure	**17,219**
Collateral Classification	
Secured	**68.9%**
Partially Secured	**5.6%**
Unsecured	**25.5%**
As at 30 June 2021	
Maximum Exposure	16,535
Collateral Classification	
Secured	68.1%
Partially Secured	6.2%
Unsecured	25.7%

(1) Refer to note 42 for loan-to-valuation ratios for residential mortgages.

22 Transferred Financial Assets

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

Transferred Financial Assets that are Not Derecognised in their Entirety

Residential Mortgage-Backed Securities

During the year ended 30 June 2009 the Banking Group established an in-house residential mortgage-backed securities ("RMBS") facility, which can issue securities that are acceptable as collateral for repurchase agreements with the RBNZ. As at 30 June 2022, mortgage loans with a carrying value of $15.5 billion (30 June 2021 $10.2 billion), have been internally securitised through the Medallion NZ Series Trust 2009-1R. These mortgage loans (included within Advances to customers) have not been derecognised from the Banking Group's financial statements as the Banking Group retains substantially all the risks and rewards of ownership (funding, liquidity and credit risks remain with the Banking Group). As at 30 June 2022, the Medallion NZ Series Trust 2009-1R had other assets of $874 million representing cash from principal repayments (30 June 2021 $799 million).

Covered Bond Programme

As noted in the General Disclosures, the Covered Bond Guarantor has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the mortgage loans, related security and other assets of the Covered Bond Trust. The amount of the guarantee is limited to the assets of the Covered Bond Trust. As at 30 June 2022, Covered Bonds (including accrued interest) of $3.8 billion were guaranteed (30 June 2021 $3.8 billion). The mortgage loans (included within advances to customers) have not been derecognised from the Banking Group's financial statements as the Banking Group retains substantially all the risks and rewards of ownership (funding, liquidity and credit risks remain with the Banking Group). As at 30 June 2022, the Covered Bond Trust held mortgage loans with a carrying value of $5.2 billion (30 June 2021 $5.3 billion), and other assets of $108 million representing cash from principal repayments (30 June 2021 $135 million). The carrying value of the associated Covered Bond liabilities as at 30 June 2022 was $3.5 billion (30 June 2021 $3.9 billion).

Collateral Advanced

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

As at 30 June 2022 the Banking Group had collateral advanced under repurchase agreements of $5,119 million in the form of RMBS (30 June 2021 $924 million in the form of RMBS).

Transferred Financial Assets that are Derecognised in their Entirety

As at 30 June 2022 the Banking Group has not derecognised in its entirety any financial assets where it has a continuing involvement (30 June 2021 nil).

23 Imputation Credit Account

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

The Bank and some of its subsidiaries have formed an imputation group with other members of the Commonwealth Bank of Australia Group ("ICA Group").

The amount of imputation credits available to all members of the ICA Group as at 30 June 2022 is $1,066 million (30 June 2021 $862 million). This amount includes imputation credits that will arise from provisional tax payable at balance date.

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24 Controlled Entities and Associates

Entity Name	%	Nature of Business	Balance Date
Subsidiaries			
ASB Finance Limited	100	Finance	30 June
ASB Group Investments Limited	100	Investment administration and management	30 June
ASB Management Services Limited	100	Management, payment services and property investment	30 June
ASB Nominees Limited	100	Nominee company	30 June
ASB Securities Limited	100	Sharebroking	30 June
Mortgage Holding Trust Company Limited	100	Nominee company	30 June
Securitisation Management Services Limited	100	Securitisation management	30 June
Other Controlled Entities			
ASB Cash Fund	-	Portfolio investment entity	30 June
ASB Term Fund	-	Portfolio investment entity	30 June
Medallion NZ Series Trust 2009-1R	-	Group funding entity	30 June
ASB Covered Bond Trust	-	Group funding entity	30 June
Associates			
Payments NZ Limited	19	Payment systems	30 September
Trade Window Holdings Limited	22	Digital trade administration platform	31 March

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

All companies were incorporated in New Zealand.

Changes in Composition of the Banking Group

During the year ended 30 June 2022, the Bank acquired further ordinary shares in Trade Window Limited. A new holding company (Trade Window Holdings Limited) was established on 10 September 2021 and the Bank's shareholding was transferred to this company. Trade Window Holdings Limited listed on the New Zealand Exchange ("NZX") in November 2021, via a direct listing.

On 20 July 2022, the Bank invested an additional $1.8 million in Trade Window Holdings Limited. Trade Window Holdings Limited remains an associate of the Banking Group.

There were no other changes in the composition of the Banking Group during the period.

25 Other Assets

$ millions	Banking Group	
As at 30 June	**2022**	2021
Interest receivable accrued	**190**	155
Contract assets	**28**	29
Other assets	**91**	108
Total other assets	**309**	292
Amounts due for settlement within 12 months	**269**	257
Amounts due for settlement over 12 months	**40**	35
Total other assets	**309**	292

26 Property, Plant and Equipment

$ millions	Banking Group			
As at 30 June 2022	**Right of use assets**	**Freehold land and buildings**	**Other property, plant and equipment**	**Total**
Net book value				
Balance at beginning of year	**218**	**45**	**150**	**413**
Additions	**9**	**10**	**23**	**42**
Disposals	**-**	**(15)**	**(1)**	**(16)**
Revaluation	**-**	**(2)**	**-**	**(2)**
Depreciation charge for the year	**(42)**	**(2)**	**(39)**	**(83)**
Balance as at 30 June 2022	**185**	**36**	**133**	**354**

$ millions	Banking Group			
As at 30 June 2021	Right of use assets	Freehold land and buildings	Other property, plant and equipment	Total
Net book value				
Balance at beginning of year	248	47	157	452
Additions	14	3	35	52
Disposals	(1)	-	(1)	(2)
Revaluation	-	(4)	-	(4)
Depreciation charge for the year	(42)	(1)	(35)	(78)
Impairment loss	(1)	-	(6)	(7)
Balance as at 30 June 2021	218	45	150	413

Notes to the Financial Statements

For the year ended 30 June 2022

27 Deferred Tax Assets

$ millions	Banking Group	
As at 30 June	**2022**	**2021**
Balance at beginning of year	**262**	267
Recognised in the Income Statement	**4**	-
Recognised in Other comprehensive income	**(108)**	(5)
Balance at end of year	**158**	262
Deferred tax relates to:		
Asset revaluation reserve	**-**	(2)
Fair value through other comprehensive income reserve	**(14)**	(19)
Cash flow hedge reserve	**(66)**	49
Depreciation	**38**	27
Leases	**7**	6
Provision for employee entitlements	**18**	33
Allowance for expected credit loss	**158**	158
Other temporary differences	**17**	10
Total deferred tax assets	**158**	262
Deferred tax recognised in the Income Statement:		
Depreciation	**11**	8
Leases	**1**	2
Provision for employee entitlements	**(15)**	6
Allowance for expected credit loss	**-**	(20)
Other temporary differences	**7**	4
Total deferred tax recognised in the Income Statement	**4**	-
Deferred tax recognised in Other comprehensive income:		
Asset revaluation reserve	**2**	1
Fair value through other comprehensive income reserve	**5**	(17)
Cash flow hedge reserve	**(115)**	11
Total deferred tax recognised in Other comprehensive income	**(108)**	(5)

28 Deposits and Other Borrowings

$ millions	Banking Group	
As at 30 June	**2022**	2021
Certificates of deposit	**2,886**	3,854
Term deposits	**26,526**	25,398
On demand and short-term deposits	**37,871**	36,356
Deposits not bearing interest	**13,175**	11,651
Repurchase agreements	**4,064**	772
Total deposits and other borrowings	**84,522**	78,031
Amounts due for settlement within 12 months	**78,796**	75,400
Amounts due for settlement over 12 months	**5,726**	2,631
Total deposits and other borrowings	**84,522**	78,031

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

29 Due to Financial Institutions

As at 30 June 2022 amounts Due to financial institutions of $1,435 million are due for settlement within 12 months of balance date (30 June 2021 $916 million due within 12 months of balance date).

Cash collateral received of $412 million is included in Due to financial institutions (30 June 2021 $324 million).

30 Other Liabilities

$ millions	Banking Group	
As at 30 June	**2022**	2021
Interest payable accrued	**182**	118
Salaries, wages and other staff payables	**52**	93
Contract liabilities	**56**	55
Trade accounts payable and other liabilities	**105**	95
Lease liabilities (refer to note 36)	**193**	221
Total other liabilities	**588**	582
Amounts due for settlement within 12 months	**388**	369
Amounts due for settlement over 12 months	**200**	213
Total other liabilities	**588**	582

31 Provisions

$ millions As at 30 June	Banking Group 2022	 2021
Employee entitlements	**48**	42
Compliance, regulation and remediation	**46**	93
Leasing make-good obligations	**16**	16
Other	**29**	11
Total provisions	**139**	162
Estimated amounts due for settlement within 12 months	**126**	127
Estimated amounts due for settlement over 12 months	**13**	35
Total provisions	**139**	162

The following table presents the movement in provisions during the year:

$ millions For the year ended 30 June 2022	Banking Group Compliance, regulation and remediation	 Employee entitlements	 Leasing make-good obligations	 Other	 Total
Balance at beginning of year	**93**	**42**	**16**	**11**	**162**
Additional provisions during the year	**37**	**66**	**1**	**26**	**130**
Amounts utilised during the year	**(15)**	**(59)**	**(1)**	**(4)**	**(79)**
Release of provisions during the year	**(69)**	**(1)**	**-**	**(4)**	**(74)**
Balance at end of year	**46**	**48**	**16**	**29**	**139**

Compliance, regulation and remediation

These provisions are associated with customer remediation and other regulatory or compliance matters. The timing of settlement is dependent on the related compliance, regulation, or remediation outcome. These provisions are calculated based on expected future payments or remediation.

Employee entitlements

This provision comprises annual leave, long service leave and other employee benefits and is calculated based on expected payments. These typically settle within one year. Where the payments are expected to be more than one year in the future, this provision factors in the expected period of service by employees, as well as salary increases. These future obligations are discounted using a market observable rate.

Leasing make-good obligations

This provision is associated with leased premises where, at the end of a lease, the Banking Group is required to return premises to their original condition and remove any fixtures and fittings installed in the leased property. This obligation arises immediately upon installation and the timing of settlement is dependent on the duration of each respective lease.

Other provisions

Other provisions include allowance for ECL on credit commitments, legal fee provisions and provisions for restructuring and other certain costs.

32 Debt Issues

$ millions	Banking Group	
As at 30 June	**2022**	2021
Debt issues by programme		
USD commercial paper	**5,431**	6,079
Euro medium term notes	**6,583**	7,642
USD medium term notes	**4,100**	2,201
NZD domestic bonds	**3,011**	3,144
Covered bonds	**3,482**	3,870
Total debt issues	**22,607**	22,936
Short-term debt issues by currency		
USD	**5,431**	6,079
Long-term debt issues by currency due for settlement within 12 months		
USD	**1,601**	1,065
AUD	**55**	-
EUR	**84**	862
NZD	**800**	790
HKD	**41**	38
Total debt issues due for settlement within 12 months	**8,012**	8,834
Long-term debt issues by currency due for settlement over 12 months		
USD	**3,787**	3,472
AUD	**173**	253
JPY	**29**	32
EUR	**7,200**	6,930
NZD	**2,229**	2,354
HKD	**205**	116
CHF	**972**	945
Total debt issues due for settlement over 12 months	**14,595**	14,102
Total debt issues	**22,607**	22,936
Debt issues at fair value through Income Statement	**1,300**	6,079
Debt issues at amortised cost	**21,307**	16,857
Total debt issues	**22,607**	22,936
Movement in debt issues		
Balance at beginning of year	**22,936**	19,408
Issuances during the year	**10,642**	12,435
Repayments during the year	**(10,789)**	(7,860)
Fair value movements	**(1,468)**	(291)
Foreign exchange and other movements	**1,286**	(756)
Balance at end of year	**22,607**	22,936
Fair value hedge adjustments included in total debt issues	**(1,141)**	327

32 Debt Issues (continued)

Short-Term Debt

The Banking Group's short-term borrowing programmes include a Euro Commercial Paper ("ECP") programme under which it may issue commercial paper ("CP") in multiple currencies up to an aggregate of USD7 billion, and a USD CP ("USCP") programme under which it may issue CP in USD up to an aggregate of USD7 billion. CP is issued under these programmes at both fixed and variable interest rates. There were no outstanding issuances under the ECP programme.

Long-Term Debt

The Banking Group's long-term borrowings include:

- Notes issued under a joint Euro Medium Term Note programme with CBA. The joint programme limit is USD70 billion. These issuances occur in multiple currencies and have both fixed and variable interest rates;
- Notes issued under a US Medium Term Note programme. The programme limit is USD10 billion. Notes issued under this programme are in USD and have both fixed and variable interest rates;
- Bonds issued under a Covered Bond programme. The programme limit is EUR7 billion and is subject to the regulatory constraint that the assets of the Covered Bond Trust may not exceed 10% of the Banking Group's total assets. The issuances may occur in multiple currencies and may have both fixed and variable interest rates. These bonds are guaranteed by the Covered Bond Guarantor. Refer to the General Disclosures and to note 22 for further information; and
- Domestic bonds issued into the New Zealand market. The issuances occur in NZD and have both fixed and variable interest rates.

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

33 Loan Capital

$ millions	Banking Group	
For the year ended 30 June	**2022**	2021
Loan capital by programme		
USD Subordinated Notes	**955**	-
NZD Subordinated Notes	**-**	403
Total loan capital	**955**	403
Loan capital by currency		
USD	**955**	-
NZD	**-**	403
Total loan capital	**955**	403
Movement in loan capital		
Balance at beginning of year	**403**	411
Issuances during the year	**943**	-
Redemption during the year	**(400)**	-
Fair value movements	**(9)**	(8)
Foreign exchange and other movements	**18**	-
Balance at end of year	**955**	403

Subordinated Notes - Tier 2 capital

USD Subordinated Notes

On 17 June 2022, the Bank issued subordinated and unsecured debt securities ("USD Subordinated Notes") under its USD10 billion USMTN Programme. The USD Subordinated Notes are denominated in USD with a face value of USD600 million. The USD Subordinated Notes meet the criteria for Tier 2 capital designation under the RBNZ's prudential standards and are classified as financial liabilities under NZ IAS 32.

Maturity and Redemption

The USD Subordinated Notes will mature on 17 June 2032, but subject to certain conditions, the Bank has the right to redeem all or some of the USD Subordinated Notes on the date falling five years after their issue date (call option date). At any time, subject to certain conditions, the Bank may redeem the USD Subordinated Notes for tax or regulatory reasons.

Interest

The USD Subordinated Notes bear an interest rate of 5.284% per annum fixed for five years. The interest rate will be reset for a further five-year period if the USD Subordinated Notes are not redeemed in full on or before their call option date. Payment of interest is semi-annual in arrears and is subject to the Bank being solvent at the time the payment is due and remaining solvent immediately after such payment is made.

33 Loan Capital (continued)

Subordinated Notes - Tier 2 capital (continued)

NZD Subordinated Notes

On 30 November 2016, the Bank issued subordinated and unsecured debt securities with a face value of $400 million quoted as ABB050 on the NZX Debt Market (the "NZD Subordinated Notes"). The NZD Subordinated Notes had a maturity date of 15 December 2026 with an option (subject to certain conditions) to redeem all or some of the NZD Subordinated Notes on any interest payment date on or after 15 December 2021 (call option date). The NZD Subordinated Notes had an interest rate of 5.25%. Payment of interest was quarterly in arrears and was subject to the Bank remaining solvent and the Banking Group being solvent immediately after such payment was made. The NZD Subordinated Notes met the criteria for Tier 2 capital designation under the RBNZ's prudential standards and were classified as financial liabilities under NZ IAS 32.

On 15 December 2021, the Bank redeemed all of the NZD Subordinated Notes for their face value of $400 million.

34 Contributed Capital

	Banking Group			
	Number of shares		$ millions	
As at 30 June	**2022**	2021	**2022**	2021
Issued and fully paid ordinary share capital				
Balance at beginning of year	**5,148,121,300**	5,148,121,300	**5,173**	5,173
Balance at end of year	**5,148,121,300**	5,148,121,300	**5,173**	5,173
Issued and fully paid perpetual preference share capital				
Balance at beginning of year	**10,000,000**	10,000,000	**1,000**	1,000
Balance at end of year	**10,000,000**	10,000,000	**1,000**	1,000
Total contributed capital			**6,173**	6,173

Contributed capital is included in Tier 1 capital for capital adequacy calculation purposes. Refer to note 42 for more information on regulatory capital.

Ordinary Shares

All ordinary shares have equal voting rights and share equally in dividends and any profit on winding up, after the obligations to holders of ASB perpetual preference shares ("PPS") are satisfied. Dividends are declared, subject in all cases, to the applicable Directors' resolutions being passed.

Perpetual Preference Shares – Additional Tier 1 Capital

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. At 30 June 2022, both PPS issuances qualified as Additional Tier 1 capital ("AT1") under the RBNZ's regulatory capital standard. As required by the transitional phase-out schedule contained in BPR110, 87.5% of the total nominal value will be recognised as AT1 between 1 January 2022 and 31 December 2022 ($875m) and progressively phased out over the next 7 years as a result of the RBNZ capital review, described in note 42.

Redemption

At the option of the Bank, the 6,000,000 and 4,000,000 PPS are redeemable on any scheduled dividend distribution date, subject to RBNZ approval.

Dividends and Ranking

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.

Exchange for Ordinary Shares

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.

35 Reserves

$ millions	Banking Group	
As at 30 June	**2022**	2021
Asset revaluation reserve		
Balance at beginning of year	**32**	33
Revaluations of land and buildings	**(2)**	(2)
Deferred tax	**2**	1
Transferred to retained earnings	**(12)**	-
Balance at end of year	**20**	32

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

$ millions	Banking Group	
As at 30 June	**2022**	2021
Cash flow hedge reserve		
Balance at beginning of year	**(125)**	(99)
Net gain/(loss) from changes in fair value	**647**	(401)
Reclassified to Income Statement:		
Interest income	**(65)**	(179)
Interest expense	**172**	419
Other income	**(344)**	124
Deferred tax	**(115)**	11
Balance at end of year	**170**	(125)

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

$ millions	Banking Group	
As at 30 June	**2022**	2021
Fair value through other comprehensive income reserve		
Balance at beginning of year	**50**	4
Net gain/(loss) from changes in fair value	**(18)**	63
Deferred tax	**5**	(17)
Balance at end of year	**37**	50

The fair value through other comprehensive income reserve includes the cumulative net change in the fair value of Securities at FVOCI (excluding impairment losses or recoveries, interest revenue and foreign exchange gains or losses) until the financial asset is derecognised or impaired. When fair value hedge accounting is applied, only fair value changes relating to movements in credit spreads are included in the reserve.

36 Leasing

The Banking Group leases premises and motor vehicles under arrangements with varying terms and renewal rights. Disclosure of the Banking Group's recognised right of use assets is included in note 26, and related depreciation in note 5. Disclosure of the Banking Group's recognised lease liabilities is included in note 30, and related interest expense in note 3.

The following table presents the movements in lease liabilities during the year:

$ millions	Banking Group	
As at 30 June	**2022**	2021
Balance at beginning of year	**221**	245
New leases during the year	**2**	2
Repayments during the year [1]	**(37)**	(36)
Other movements	**7**	10
Balance at end of year	**193**	221

(1) Repayments during the year represent the principal portion of the lease liability repayments. The total cash outflow in respect of leases (including interest, short term, low value and variable lease payments) was $50 million for the year ended 30 June 2022 (30 June 2021 $50 million).

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36 Leasing (continued)

The following table presents a maturity analysis of the Banking Group's undiscounted lease liabilities:

$ millions	Banking Group	
As at 30 June	**2022**	2021
Less than one year	**42**	40
Between one and two years	**32**	39
Between two and five years	**71**	87
Over five years	**66**	88
Total undiscounted lease liabilities	**211**	254

Significant leasing arrangements

The Banking Group's most significant lease is in respect of its head office premises. This lease was for an initial term of 18 years, which now has 9 years remaining. It is subject to a 2.5% fixed annual increase and at the end of the initial lease term the Bank has the right of renewal for two subsequent six-year terms (subject to a market review of the lease rate for each renewal period). At 30 June 2022 the remaining reasonably certain lease term for this lease is 9 years, and as a result the rights of renewal have not been included in the recognised lease liability (30 June 2021 10 years and rights of renewal not included in the recognised lease liability).

In respect of these head office premises and all other premises leased by the Banking Group, the gross undiscounted cash flows associated with renewals which have not been included in the lease liability is approximately $339 million (30 June 2021 $358 million). It is uncertain whether the Banking Group will exercise these renewals.

The Banking Group had not committed to any leases which had not yet commenced at 30 June 2022 (30 June 2021 one lease with a right of use asset and lease liabilities of $2 million that will be recognised when the asset is available for use).

Sub-leasing arrangements

The Banking Group has also entered into certain sub-leasing arrangements. Sub-leasing income rounded to nil for the year ended 30 June 2022 (30 June 2021 nil).

37 Credit and Capital Commitments, and Contingent Liabilities

$ millions	Banking Group Notional Amount	
As at 30 June	**2022**	2021
Credit and capital commitments		
Lending commitments approved but not yet advanced [(1)]	**16,303**	15,758
Capital expenditure commitments	**2**	2
Total credit and capital commitments	**16,305**	15,760
Credit related contingent liabilities		
Financial guarantees	**256**	202
Letters of credit	**204**	122
Other credit facilities	**456**	453
Total credit related contingent liabilities	**916**	777

(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 (the "Court"). These proceedings relate to ASB's variation disclosure obligations under the Credit Contracts and Consumer Finance Act 2003 (the "Act"). On 29 July 2022, the Court granted leave for the plaintiffs to bring the action against ASB as an opt out representative action on behalf of a class, being customers who had a home or personal loan with ASB between 6 June 2015 and 18 June 2019 and who requested a variation to such loan during such time period. The plaintiffs are seeking a range of relief including that ASB is not entitled to retain costs of borrowing and fees for the period during which the plaintiffs allege that ASB did not provide requisite disclosure under the Act. ASB is defending the proceedings.

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.

These matters include 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 in respect of these matters has been made on a case-by-case basis and provision made in the financial statements where required by NZ GAAP. Information relating to any contingent liability or provision is not disclosed where it can be expected to prejudice seriously the interests of the Banking Group.

38 Related Party Transactions and Balances

The Bank is wholly owned by ASB Holdings Limited, a company incorporated in New Zealand. The ultimate parent bank is CBA. The Commonwealth Bank Group refers to CBA and the various companies and other entities owned and controlled by CBA.

Certain superannuation schemes and managed investment schemes are managed by ASB Group Investments Limited, a wholly owned subsidiary of the Bank. On 11 February 2022, ASB Group Investments Limited sold its management rights of ASB Superannuation Master Trust to Smartshares Limited and recognised a gain on sale of $21 million (included in Other income). On this date ASB Group Investments Limited retired as the Manager of ASB Superannuation Master Trust and Smartshares Limited was appointed as the Manager. ASB Group Investments Limited will provide investment management, fund accounting and administration, investment administration and registry and member services until transition of these services to Smartshares Limited is completed. ASB Superannuation Master Trust remains a related party of the Banking Group for the transition period and will cease to be a related party once transition is completed. Related party transactions and balances between these schemes, and the Banking Group are disclosed below.

During the year ended 30 June 2022 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.

$ millions	Banking Group	
For the year ended 30 June	**2022**	2021
Related Party Transactions		
Interest income		
Received from Commonwealth Bank Group	**3**	-
Interest expense		
Paid to Commonwealth Bank Group	**155**	69
Paid to superannuation schemes and managed investment schemes managed or administered by ASB Group Investments Limited	**13**	16
	168	85
Other income		
Management and administration fees received from superannuation schemes and managed investment schemes managed or administered by ASB Group Investments Limited	**141**	140
Other expenses		
Paid to Commonwealth Bank Group	**6**	5

$ millions	Banking Group	
As at 30 June	**2022**	2021
Related Party Balances		
Commonwealth Bank Group		
Cash and liquid assets	**90**	79
Due from financial institutions	**239**	255
Derivative assets	**650**	226
Other assets	**1**	-
	980	560
Deposits and other borrowings	**12**	8
Due to financial institutions	**615**	30
Debt issues at amortised cost	**800**	800
Derivative liabilities	**712**	150
Other liabilities	**2**	1
	2,141	989

38 Related Party Transactions and Balances (continued)

$ millions	Banking Group	
As at 30 June	**2022**	2021
Related Party Balances (continued)		
Superannuation schemes and managed investment schemes managed or administered by ASB Group Investments Limited		
Other assets	**18**	20
Deposits and other borrowings	**1,358**	1,739
Debt issues at amortised cost	**70**	133
Other liabilities	**-**	1
	1,428	1,873
ASB Holdings Limited		
Deposits and other borrowings	**1**	3
Trade Window Holdings Limited		
Advances to customers	**2**	1
Other assets	**-**	1
	2	2
Deposits and other borrowings	**3**	4
Total related party assets	**1,000**	582
Total related party liabilities	**3,573**	2,869

Other Transactions and Balances

Commonwealth Bank Group provides guarantees over certain lending offered by the Bank to the value of $62 million (30 June 2021 $62 million).

The Banking Group has entered into interest rate derivatives, exchange rate derivatives and commodity contracts with the Commonwealth Bank Group with an aggregate notional principal amount of $710 million, $19,613 million and $5 million respectively (30 June 2021 $67 million, $13,665 million and $2 million). The carrying amount of interest rate derivatives at 30 June 2022 is split between those with a positive fair value recognised as assets $2 million (30 June 2021 nil), and those with a negative fair value of $2 million recognised as liabilities (30 June 2021 $1 million). For exchange rate derivatives, $648 million is recognised as assets (30 June 2021 $225 million) and $709 million is recognised as liabilities (30 June 2021 $149 million). For commodity contracts, the amount recognised is $1 million as liabilities (30 June 2021 $1 million as assets).

Net receipts of $8 million were received by the Banking Group from related parties, relating to tax-related items (30 June 2021 net receipts of $13 million).

No individually assessed allowance has been recognised in respect of loans given to related parties (30 June 2021 nil).

Refer to note 8 for details of dividends paid to the shareholder, note 39 for transactions and amounts with key management personnel and note 43 for further information on superannuation schemes and managed investment schemes managed or administered by ASB Group Investments Limited.

39 Key Management Personnel

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

$ millions	Banking Group	
For the year ended 30 June	**2022**	2021
Key management compensation		
Short term employee benefits	**12**	13
Share-based payments	**2**	3
Total key management compensation	**14**	16

Executive management of the Bank participate in CBA cash settled share-based payment plans and are awarded a number of rights that vest provided certain conditions are met (including that the participant remains in employment until the vesting date). The liability as at 30 June 2022 was $5 million (30 June 2021 $5 million).

The Chief Executive Officer of the Bank participates in CBA equity settled share-based payment plans and is awarded a number of rights or shares that vest provided similar conditions are met (including remaining in employment until the vesting date). Further details are provided in the CBA Remuneration Report within the CBA 2022 Annual Report.

The following table presents information about the equity settled share-based payment plans:

	Banking Group			
	Number of rights or shares		Fair Value ($ millions)	
As at 30 June	**2022**	2021	**2022**	2021
Equity settled rights or shares granted during the year	**18,605**	26,194	**2**	2

The expense recognised on equity settled rights or shares for the year ended 30 June 2022 rounded to $1 million (30 June 2021 rounded to $1 million). 21,082 equity rights or shares have vested during the year (30 June 2021 17,735 equity rights or shares were vested).

$ millions	Banking Group	
As at 30 June	**2022**	2021
Loans to key management personnel and their related parties[(1)]	**15**	19
Deposits from key management personnel and their related parties[(1)]	**8**	22

(1) Includes close family members of key management personnel and entities that are controlled or jointly controlled by key management personnel or their close family members.

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

No individually assessed allowance has been recognised in respect of loans provided to key management personnel. There were no debts written off or forgiven during the year ended 30 June 2022 (30 June 2021 nil).

Interest is received on loans and paid on deposits at market rates. For the year ended 30 June 2022 interest received on loans rounded to $1m (30 June 2021 nil) and interest paid on deposits rounded to nil (30 June 2021 nil).

40 Fair Value of Financial Instruments

The Banking Group's financial assets and financial liabilities are measured on an on-going basis either at fair value or amortised cost.

The fair value of a financial instrument is the price that would be received to sell a financial asset, or paid to transfer a financial liability, in an orderly transaction between market participants at the measurement date.

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

- Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities that the Banking Group can access;
- Level 2 – where quoted market prices are not available, fair values have been estimated using present value or other valuation techniques using inputs that are observable for the financial asset or financial liability, either directly or indirectly; or
- Level 3 – fair values are estimated using 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.

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

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

$ millions		Banking Group		
As at 30 June 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Securities at fair value through other comprehensive income	**5,578**	**1,601**	**-**	**7,179**
Derivative assets	**-**	**1,294**	**-**	**1,294**
Total financial assets measured at fair value	**5,578**	**2,895**	**-**	**8,473**
Financial liabilities				
Derivative liabilities	**-**	**1,143**	**-**	**1,143**
Debt issues at fair value through Income Statement	**-**	**1,300**	**-**	**1,300**
Total financial liabilities measured at fair value	**-**	**2,443**	**-**	**2,443**

There were no transfers between levels for recurring fair value measurements for the year ended 30 June 2022.

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

There were no transfers between levels for recurring fair value measurements for the year ended 30 June 2021.

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40 Fair Value of Financial Instruments (continued)

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

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

$ millions	Banking Group				
		Fair Value			Carrying Value
As at 30 June 2022	**Level 1**	**Level 2**	**Level 3**	**Total**	**Total**
Financial assets					
Cash and liquid assets	**6,522**	**91**	**-**	**6,613**	**6,613**
Due from financial institutions	**-**	**660**	**-**	**660**	**660**
Advances to customers	**-**	**-**	**102,932**	**102,932**	**104,751**
Other financial assets	**-**	**262**	**-**	**262**	**262**
Total	**6,522**	**1,013**	**102,932**	**110,467**	**112,286**
Financial liabilities					
Deposits and other borrowings	**-**	**84,433**	**-**	**84,433**	**84,522**
Due to financial institutions	**-**	**1,435**	**-**	**1,435**	**1,435**
Other financial liabilities[1]	**-**	**395**	**-**	**395**	**395**
Debt issues at amortised cost	**-**	**21,219**	**-**	**21,219**	**21,307**
Loan capital	**-**	**955**	**-**	**955**	**955**
Total	**-**	**108,437**	**-**	**108,437**	**108,614**

$ millions	Banking Group				
		Fair Value			Carrying Value
As at 30 June 2021	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Cash and liquid assets	2,652	128	-	2,780	2,780
Due from financial institutions	-	523	-	523	523
Advances to customers	-	-	99,373	99,373	99,391
Other financial assets	-	241	-	241	241
Total	2,652	892	99,373	102,917	102,935
Financial liabilities					
Deposits and other borrowings	-	78,109	-	78,109	78,031
Due to financial institutions	-	916	-	916	916
Other financial liabilities[1]	-	361	-	361	361
Debt issues at amortised cost	-	16,996	-	16,996	16,857
Loan capital	-	407	-	407	403
Total	-	96,789	-	96,789	96,568

(1) Other financial liabilities exclude the lease liability of $193 million as no fair value disclosure is required in respect of lease liabilities (30 June 2021 $221 million).

41 Offsetting Financial Assets and Financial Liabilities

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

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

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

	Banking Group					
	Amounts Subject to Enforceable Master Netting Agreements					
$ millions	Gross Amounts[1]	Financial Instruments Not Offset	Financial Collateral	Net Amount	Amounts Not Subject to Enforceable Master Netting Agreements[1]	Total Balance Sheet Amount
Financial instruments as at 30 June 2022						
Derivative assets	**1,265**	**(762)**	**(363)**	**140**	**29**	**1,294**
Reverse repurchase agreements	**91**	**-**	**(91)**	**-**	**-**	**91**
Total financial assets	**1,356**	**(762)**	**(454)**	**140**	**29**	**1,385**
Derivative liabilities	**(1,043)**	**762**	**156**	**(125)**	**(100)**	**(1,143)**
Repurchase agreements	**(4,064)**	**-**	**4,064**	**-**	**-**	**(4,064)**
Total financial liabilities	**(5,107)**	**762**	**4,220**	**(125)**	**(100)**	**(5,207)**
Financial instruments as at 30 June 2021						
Derivative assets	751	(258)	(321)	172	42	793
Reverse repurchase agreements	128	-	(128)	-	-	128
Total financial assets	879	(258)	(449)	172	42	921
Derivative liabilities	(284)	258	-	(26)	(18)	(302)
Repurchase agreements	(772)	-	772	-	-	(772)
Total financial liabilities	(1,056)	258	772	(26)	(18)	(1,074)

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

Effects of Master Netting Agreements on Financial Instruments

In the table above:

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

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

42 Capital Adequacy

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

Regulatory Requirements - Basel III

The Banking Group is subject to regulation by the RBNZ. The RBNZ has set regulatory capital requirements for New Zealand registered banks, which are based on the internationally agreed framework developed by the Basel Committee on banking supervision, commonly known as Basel III. These requirements define what qualifies as capital and provides methods of measuring the risks incurred by the Banking Group.

Basel III consists of three pillars:

- Pillar One covers the capital requirements for banks for credit, operational, and market risks;
- Pillar Two covers all other material risks not already included in Pillar One; and
- Pillar Three relates to market disclosure.

The Banking Group must comply with RBNZ minimum capital adequacy ratios under the Bank's Conditions of Registration. These Conditions of Registration require capital adequacy ratios for the Banking Group to be calculated in accordance with the RBNZ's capital requirements detailed in their Banking Prudential Requirements ("BPRs"). The Banking Group has been accredited by the RBNZ to adopt the internal ratings based ("IRB") approach for calculating regulatory capital. The risk-weighted exposure calculation includes the use of IRB models and the credit models described in note 14 (using PD, EAD and LGD). In applying the IRB approach, the RBNZ accreditation and Conditions of Registration require the use of parameters which are more conservative than those calculated using the Bank's own methodologies.

Finalised regulatory capital requirements were 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 are calculated under a standardised approach from 1 January 2022;
- The credit RWA of IRB banks is floored at 85% of the requirement under a standardised approach from 1 January 2022. Dual reporting of IRB and standardised RWA will be required for reporting dates from 30 September 2022 for IRB banks;
- An increase to the scalar applied to IRB credit risk RWA from 6% to 20% applies from 1 October 2022;
- The buffer ratio has been renamed the prudential capital buffer ("PCB") and increases progressively from 2.5% on 1 July 2022 to 9.0% by 1 July 2028 (for IRB banks). The 9.0% PCB 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 has been introduced, which sets out three stages of escalating supervisory responses, including distribution restrictions which may be triggered if a bank fails to maintain the required PCB;
- 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 has also commenced from 1 January 2022, phased out at 12.5% per annum, with these instruments fully derecognised by 1 July 2028.

Capital Management Policies

The Board reviews and approves the Banking Group's capital policy on an annual basis.

The Banking Group's objectives for the management of capital are to:

- Comply at all times with the regulatory capital requirements set by the RBNZ;
- Maintain a strong capital base to cover the inherent risks of the business in excess of that required by credit rating agencies to maintain a strong or very strong credit rating; and
- Support the future development and growth of the business.

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

Regulatory capital is divided into Tier 1 capital, comprising CET1 capital and AT1 capital, and Tier 2 capital.

CET1 and AT1 capital primarily consist of shareholders' equity and qualifying Tier 1 capital instruments as per BPR110: *Capital Definitions*, less intangible and deferred tax assets, and other prescribed deductions. Tier 2 capital as per BPR110: *Capital Definitions,* comprises the asset revaluation reserve and subordinated debt securities.

Regulatory capital adequacy ratios are calculated by expressing capital (CET1, AT1, Tier 2 or total regulatory capital) as a percentage of risk-weighted exposures. Risk-weighted exposures represent risks associated with the Banking Group's credit risk exposures, as well as operational risk and both traded and non-traded market risk, calculated in accordance with RBNZ's BPRs.

As a condition of registration, the Banking Group must comply with the following minimum requirements set by the RBNZ for year ended 30 June 2022:

- Total regulatory capital must not be less than 8% of risk-weighted exposures;
- Tier 1 capital must not be less than 6% of risk-weighted exposures;
- CET1 capital must not be less than 4.5% of risk-weighted exposures; and
- Total regulatory capital must not be less than $30 million.

In addition, if the prudential buffer ratio of the Banking Group is more than 2.5%, the Bank must limit aggregate distributions, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to no more than 50% of the bank's earnings.

The Board has ultimate responsibility for capital adequacy and setting minimum capital levels and limits. These are set at a higher level than required by the RBNZ, which both reduces the risk of breaching the conditions of registration and provides a buffer for unexpected losses.

42 Capital Adequacy (continued)

Capital Management Policies (continued)

The Banking Group actively monitors its capital adequacy and reports this on a regular basis to senior management and the Board. This includes forecasting capital requirements to ensure any future capital requirements can be executed in a timely manner. The Banking Group uses a mix of capital instruments to reduce single source reliance and to optimise the Banking Group's mix of capital.

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

The capital adequacy tables set out below summarise the composition of regulatory capital and the capital adequacy ratios for the Banking Group for the year ended 30 June 2022.

During the current financial year and the comparative year shown, the Banking Group complied with all of the RBNZ minimum capital ratios to which it is subject.

$ millions **As at 30 June 2022**	**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	**3,531**
Accumulated other comprehensive income and other disclosed reserves	**207**
Deductions from CET1 capital:	
Goodwill and other intangible assets	**(204)**
Deferred tax assets	**(158)**
Cash flow hedge reserve	**(170)**
Total CET1 capital	**8,379**
AT1 capital	
Perpetual fully paid-up non-cumulative preference shares - classified as equity	**875**
Total AT1 capital	**875**
Total Tier 1 capital	**9,254**
Tier 2 capital	
Loan capital	**965**
Asset revaluation reserve	**20**
Eligible impairment allowance in excess of expected loss	**28**
Total Tier 2 capital	**1,013**
Total capital	**10,267**

Unaudited	**Banking Group**		**Bank**	
As at 30 June	**2022**	**2021[(1)]**	**2022**	**2021[(1)]**
Capital ratios				
CET1 capital ratio	**12.3%**	12.7%	**12.2%**	12.7%
Tier 1 capital ratio	**13.5%**	14.4%	**13.5%**	14.4%
Total capital ratio	**15.0%**	15.1%	**15.0%**	15.1%
Prudential capital buffer ratio	**7.0%**	7.1%	**7.0%**	7.1%
Minimum ratio requirement				
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) ASB identified immaterial calculation misstatements related to capital adequacy calculations in the reporting period, which have been corrected by 30 June 2022. These misstatements understated the previously reported 30 June 2021 RWA by $7 million and did not impact the disclosed capital ratios at 30 June 2021.

42 Capital Adequacy (continued)

Unaudited $ millions Capital Requirements as at 30 June 2022	Banking Group Total Exposure[1]	RWE[2]	Capital Requirement
Total credit risk	142,009	58,302	4,664
Operational risk	N/A	7,481	599
Market risk	N/A	2,518	201
Total capital requirement		**68,301**	**5,464**

As at 30 June 2022, the Banking Group held $4,803 million 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.

Unaudited As at 30 June 2022 PD Grade	Weighted Average PD	Exposure Amount $ millions	Banking Group Exposure Weighted LGD	Exposure Weighted Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Capital Requirement $ millions
Credit risk exposures subject to the IRB approach by exposure class						
Exposures secured by residential mortgages						
Less than and including 0.50%	0.34%	31,513	16%	11%	3,626	290
Over 0.50% up to and including 0.85%	0.66%	13,612	19%	20%	2,904	232
Over 0.85% up to and including 3.26%	1.43%	35,256	21%	37%	13,747	1,100
Over 3.26% up to and including 7.76%	5.94%	706	23%	91%	681	54
Over 7.76% up to and including 99.99%	-	-	-	-	-	-
Default PD grade	100.00%	771	22%	185%	1,509	121
Total exposures secured by residential mortgages	**1.85%**	**81,858**	**19%**	**26%**	**22,467**	**1,797**
Other retail exposures						
Less than and including 0.50%	0.34%	845	74%	42%	375	30
Over 0.50% up to and including 0.85%	0.65%	369	74%	62%	241	19
Over 0.85% up to and including 3.26%	1.29%	719	74%	81%	621	50
Over 3.26% up to and including 7.76%	3.29%	197	74%	105%	219	18
Over 7.76% up to and including 99.99%	-	-	-	-	-	-
Default PD grade	100.00%	18	74%	277%	54	4
Total other retail exposures	**1.83%**	**2,148**	**74%**	**66%**	**1,510**	**121**
Corporate exposures - small and medium enterprises						
Less than and including 0.20%	0.14%	858	30%	20%	183	15
Over 0.20% up to and including 0.50%	0.33%	4,462	24%	27%	1,281	102
Over 0.50% up to and including 1.00%	0.67%	10,922	27%	42%	4,810	385
Over 1.00% up to and including 2.30%	1.43%	5,416	28%	56%	3,242	259
Over 2.30% up to and including 99.99%	7.30%	1,407	29%	92%	1,372	110
Default PD grade	100.00%	221	43%	213%	497	40
Total corporate exposures - small and medium enterprises	**2.10%**	**23,286**	**27%**	**46%**	**11,385**	**911**
Other corporate exposures						
Less than and including 0.20%	0.08%	2,258	51%	27%	643	51
Over 0.20% up to and including 0.50%	0.31%	2,305	38%	43%	1,057	84
Over 0.50% up to and including 1.00%	0.65%	2,493	39%	63%	1,676	134
Over 1.00% up to and including 2.30%	1.30%	540	39%	76%	434	35
Over 2.30% up to and including 99.99%	3.10%	181	37%	110%	212	17
Default PD grade	100.00%	17	55%	189%	34	3
Total other corporate exposures	**0.71%**	**7,794**	**42%**	**49%**	**4,056**	**324**

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

42 Capital Adequacy (continued)

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

Unaudited	**Banking Group**			
	Undrawn Commitments and Other Off Balance Sheet Contingent Liabilities		**Counterparty Credit Risk on Derivatives and Securities Financing Transactions**	
$ millions				
As at 30 June 2022	**Value**	**EAD**	**Value**	**EAD**
Exposures secured by residential mortgages	9,519	9,430	-	-
Other retail exposures	1,999	1,242	-	-
Corporate exposures - small and medium enterprises	2,835	2,792	1,506	27
Other corporate exposures	2,311	2,151	3,552	110
	16,664	15,615	5,058	137

Unaudited	**Banking Group**					
$ millions						
LVR Range						
As at 30 June 2022	**0%-60%**	**60.1%-70%**	**70.1%-80%**	**80.1%-90%**	**>90%**	**Total**
Residential mortgages by loan-to-valuation ratio ("LVR")						
On balance sheet exposures	35,811	15,616	17,450	4,027	1,091	73,995
Off balance sheet exposures	6,324	1,368	1,453	228	228	9,601
Total value of exposures	42,135	16,984	18,903	4,255	1,319	83,596
Expressed as a percentage of total exposures	50.4%	20.3%	22.6%	5.1%	1.6%	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 30 June 2022	**Banking Group**
Reconciliation of mortgage-related amounts	
Residential mortgages in Advances to customers (refer to note 16)[1]	73,624
Add/(less):	
Off balance sheet exposures	9,601
Exposure at default adjustments	673
Unamortised loan establishment fees and expenses	(302)
Residential mortgages in LVR disclosure	83,596
Add/(less):	
Corporate lending secured by residential mortgages (subject to the Standardised Approach)	(1,724)
Residential mortgages (subject to the Standardised Approach)	(14)
Residential mortgages subject to the IRB approach	81,858

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

42 Capital Adequacy (continued)

Unaudited On Balance Sheet Exposures Subject to the Slotting Approach as at 30 June 2022	Banking Group Total Exposure after Credit Risk Mitigation $ millions	Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Capital Requirement $ millions
Specialised lending				
Strong	1,548	70%	1,149	92
Good	1,602	90%	1,528	122
Satisfactory	274	115%	334	27
Weak	15	250%	40	3
Default	1	-	-	-
	3,440		3,051	244

Unaudited Off Balance Sheet Exposures Subject to the Slotting Approach as at 30 June 2022	Banking Group EAD $ millions	Average Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Capital Requirement $ millions
Undrawn commitments and other off-balance sheet exposures	91	88%	85	7

Unaudited On Balance Sheet Exposures Subject to the Standardised Approach as at 30 June 2022	Banking Group Total Exposure after Credit Risk Mitigation $ millions	Average Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Capital Requirement $ millions
Cash and gold bullion	111	-	-	-
Sovereigns and central banks	10,222	-	-	-
Multilateral development banks and other international organisations	2,537	4%	120	10
Public sector entities	32	20%	7	1
Banks	1,970	42%	885	71
Corporate	1,562	99%	1,633	131
Residential mortgages	1,559	38%	633	50
Past due assets	10	111%	12	1
Other assets	1,782	77%	1,457	116
Total balance sheet exposures	19,785		4,747	380

(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 year ended 30 June 2022

42 Capital Adequacy (continued)

Unaudited Off Balance Sheet Exposures and Counterparty Credit Risk for Counterparties Subject to the Standardised Approach as at 30 June 2022	Banking Group Total Exposure or Principal Amount $ millions	Average Credit Conversion Factor	Credit Equivalent Amount $ millions	Average Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Capital Requirement $ millions
Total off balance sheet exposures subject to the standardised approach	1,309	51%	664	77%	543	43
Counterparty credit risk on derivatives and securities financing transactions						
Foreign exchange contracts	27,404	N/A	570	32%	193	15
Interest rate contracts	167,124	N/A	2,357	3%	84	7
Other	2,417	N/A	11	20%	2	-
Total off balance sheet exposures and counterparty credit risk for counterparties subject to the standardised approach	**198,254**		**3,602**		**822**	**65**

Unaudited Equity Exposures Subject to the Standardised Approach as at 30 June 2022	Banking Group Total Exposure $ millions	Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Capital Requirement $ millions
All equity holdings not deducted from capital	5	400%	21	2

Unaudited $ millions Total Credit Risk as at 30 June 2022	Banking Group Total Exposure after Credit Risk Mitigation	Total Risk Weighted Exposures	Capital Requirement
Exposures subject to the IRB approach	115,086	39,418	3,153
Specialised lending subject to the slotting approach	3,531	3,136	251
Exposures subject to the standardised approach	23,392	5,590	447
Credit valuation adjustment	-	312	25
Total credit risk (excluding standardised floor impact)	**142,009**	**48,456**	**3,876**
Standardised floor impact [2]	-	9,846	788
Total credit risk (including standardised floor impact)	**142,009**	**58,302**	**4,664**

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

(2) The standardised output floor relates to exposures subject to the IRB approach and exposures subject to the slotting approach.

42 Capital Adequacy (continued)

Exposures Subject to the IRB Approach	
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	
Sovereign and central banks	Exposures to the Crown; RBNZ; any other sovereign or its central bank.
Multilateral development banks and other international organisations	Specified multilateral development banks.
Public sector entities	Exposures to local authorities.
Banks	Exposures to banks.
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

Unaudited

The Banking Group assesses the integrity and ability of debtors or counterparties to meet their contracted financial obligations for repayment. Collateral security in the form of real property or a security interest in personal property is generally taken for business credit except for major government, bank and corporate counterparties of strong financial standing. Housing loans and some small business loans are secured against residential real estate, whilst credit cards, personal loans and overdrafts are generally unsecured.

Information of the credit risk exposures subject to the standardised approach covered by eligible financial collateral (i.e. cash, debt securities or equity securities) is disclosed in the table below. 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.

Unaudited	**Banking Group**	
$ millions **30 June 2022**	**For portfolios subject to the standardised approach: total value of exposures covered by eligible financial collateral (after haircutting)**	**For all portfolios: total value of exposures covered by guarantees or credit derivatives**
Total exposures		
Sovereign	**2,404**	-
Bank	**423**	-
Corporate (including specialised lending)	**59**	-
Residential mortgage	**3**	-
Other	**1**	-

Additional Information about Credit Risk

Unaudited

The RBNZ has accredited the Banking Group to report capital adequacy under BPR133: *IRB Credit Risk RWAs*.

Under the internal ratings-based approach the measurement of credit risk utilises analytical tools to calculate both expected and unexpected loss probabilities for the credit portfolio. This includes consideration of the PD, the EAD and the LGD that would likely be experienced as a consequence. Refer to note 14 for more information about the Banking Group's credit risk management.

For exposures classified as specialised lending, the Banking Group uses risk weight percentages supplied by the RBNZ rather than internal estimates.

For exposures classified as sovereign and central banks, multilateral development banks and other international organisations, public sector entities and banks, the RBNZ require these to be measured under the standardised approach as per BPR131: *Standardised credit RWAs*.

The Banking Group also has a number of portfolios that due to size, systems or other constraints are not yet part of the IRB approach and are assessed for capital adequacy under the standardised approach - prescribed by the RBNZ under the document BPR131: *Standardised Credit Risk RWAs*. The major portfolio segments in this category relate to personal lending exposures and small business lending that does not meet the corporate criteria, as they are not individually risk rated. The summary table at the top of this page shows the approach for calculating risk weights for different asset types.

42 Capital Adequacy (continued)

Unaudited

Controls Surrounding Credit Risk Ratings Systems

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

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

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

All material aspects of rating and estimation processes must be approved by the BRCC. Senior management are required to:

- Provide notice to the BRCC of material changes or exceptions from established policies that will materially impact the operations of the credit risk rating system;
- Have a good understanding of the design and operation of credit risk rating systems; and
- Approve material differences between established procedure and actual practice.

Refer to note 14 for more details of credit risk management controls.

Operational Risk

Effective 1 July 2021, the Banking Group 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 30 June 2022 was $7,481 million.

The total operational risk capital requirement as at 30 June 2022 was $599 million.

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 exposure over the six months ended 30 June 2022.

Unaudited	**Banking Group**			
$ millions **Exposures as at 30 June 2022**	**Interest Rate Risk**	**Foreign Currency Risk**	**Equity Risk**	**Total**
Implied risk-weighted exposure	**2,480**	**38**	**-**	**2,518**
Aggregate capital charge	**198**	**3**	**-**	**201**

Unaudited	**Banking Group**			
$ millions **Peak end-of-day Exposures for the six months ended 30 June 2022**	**Interest Rate Risk**	**Foreign Currency Risk**	**Equity Risk**	**Total**
Implied risk-weighted exposure	**3,303**	**42**	**3**	**3,348**
Aggregate capital charge	**264**	**3**	**-**	**267**

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, Part D* in accordance with the Bank's Conditions of Registration. These guidelines require the Board to be responsible for ensuring that the Banking Group has adequate overall capital in relation to it's risk profile.

The Banking Group's ICAAP is approved by the Board. Underlying component parts of the Banking Group's ICAAP are reviewed on a regular basis by senior management, the BRCC and the Board. Significant revisions to ICAAP component parts are also Board approved.

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 business risk, liquidity risk, reputational risk, funding risk, concentration risk, information technology and cyber risk. As at 30 June 2022 internal capital allocations of $363 million (30 June 2021 $314 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 its traded market risk and Interest Rate Risk in the Banking Book requirements under Pillar 1 of the Basel capital framework.

42 Capital Adequacy (continued)

Capital Adequacy of Ultimate Parent Bank and Ultimate Parent Banking Group (continued)

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).

As at 30 June 2022 the minimum capital requirements were met (30 June 2021 minimum capital requirements were met).

Unaudited	Ultimate Parent Bank		Ultimate Parent Banking Group	
As at 30 June	2022	2021	2022	2021
CET1 capital ratio	**11.8%**	13.3%	**11.5%**	13.1%
Tier 1 capital ratio	**14.1%**	16.1%	**13.6%**	15.7%
Total capital ratio	**18.4%**	20.3%	**17.6%**	19.8%

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

Insurance Business

The Banking Group does not conduct any insurance business.

The Banking Group's involvement in Securitisation, Funds Management, Other Fiduciary Activities and Marketing and Distribution of Insurance Products

Securitisation
As at 30 June 2022 the Banking Group had internally securitised $16.4 billion of RMBS through the Medallion NZ Series Trust 2009-1R (30 June 2021 $11.0 billion), of which $15.0 billion of Class A floating rate notes issued by the Medallion NZ Series Trust 2009-1R have been assigned a credit rating of AAA by Fitch Ratings (30 June 2021 $10.0 billion). Refer to note 22 for more information.

Funds Management
The Banking Group markets and distributes managed fund products which are managed and issued by a wholly owned subsidiary, ASB Group Investments Limited (refer to note 24). Funds under management distributed by the Banking Group totalled $19,980 million as at 30 June 2022 of which $1,634 million relates to ASB Superannuation Master Trust of which ASB Group Investments Limited was the manager until 11 February 2022 and continues to provide investment management services for a transition period (30 June 2021 $21,750 million).

As at 30 June 2022 $1,494 million of funds under management were invested in related party products or securities (30 June 2021 $2,079 million).

Other Fiduciary Activities
The Banking Group provides custodial services relating to holding interest-bearing instruments and equity securities on behalf of clients. Funds under custodial arrangements totalled $821 million as at 30 June 2022 (30 June 2021 $939 million).

Marketing and Distribution of Insurance Products
Certain general, travel and life insurance products are marketed and distributed by the Banking Group for the following entities: IAG New Zealand Limited, Cigna Life Insurance New Zealand Limited and AIA New Zealand Limited. None of these are affiliated insurance entities.

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

Provision of Financial Services
Financial services (including deposit taking and foreign exchange services) provided by the Banking Group during the year to entities which are involved in the above activities are provided on arm's length terms and conditions and at fair value. The Banking Group has not purchased any assets from such entities during the year.

44 Financial Reporting by Operating Segments

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 executive management and the Banking Group's chief operating decision maker.

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 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.

From 1 July 2022, internal reporting will be updated, and the Private Banking, Wealth and Insurance segment (excluding the retail broking business) will be consolidated into the Retail Banking segment and renamed to Personal Banking. The retail broking business will be consolidated into the Corporate Banking segment.

44 Financial Reporting by Operating Segments (continued)

	Banking Group					
$ millions	**Retail Banking**	**Business Banking**	**Corporate Banking**	**Private Banking, Wealth and Insurance**	**Other**	**Total**
Income Statement						
For the year ended 30 June 2022						
Net interest income	**1,253**	**1,031**	**168**	**97**	**50**	**2,599**
Other income/(loss)	**382**	**100**	**42**	**241**	**(113)**	**652**
Total operating income/(loss)	**1,635**	**1,131**	**210**	**338**	**(63)**	**3,251**
Impairment losses/(recoveries) on financial assets	**28**	**(4)**	**14**	**1**	**2**	**41**
Segment operating expenses/(benefit) excluding impairment losses	**754**	**348**	**69**	**171**	**(167)**	**1,175**
Segment net profit before tax	**853**	**787**	**127**	**166**	**102**	**2,035**
Tax expense	**239**	**220**	**36**	**47**	**22**	**564**
Segment net profit after tax	**614**	**567**	**91**	**119**	**80**	**1,471**
Non-cash expenses[1]						
Depreciation and amortisation expense	**64**	**15**	**13**	**12**	**42**	**146**
Balance Sheet						
As at 30 June 2022						
Total assets	**55,429**	**41,455**	**7,156**	**3,852**	**13,630**	**121,522**
Total liabilities	**43,964**	**19,171**	**7,949**	**5,268**	**35,239**	**111,591**

	Banking Group					
$ millions	Retail Banking	Business Banking	Corporate Banking	Private Banking, Wealth and Insurance	Other	Total
Income Statement						
For the year ended 30 June 2021						
Net interest income[2]	1,197	928	140	77	45	2,387
Other income/(loss)[2]	378	104	38	238	(173)	585
Total operating income/(loss)	1,575	1,032	178	315	(128)	2,972
Impairment losses/(recoveries) on financial assets	(3)	2	(5)	1	-	(5)
Segment operating expenses/(benefit) excluding impairment losses[2]	678	305	65	137	(44)	1,141
Segment net profit/(loss) before tax	900	725	118	177	(84)	1,836
Tax expense/(benefit)[2]	252	203	33	50	(23)	515
Segment net profit/(loss) after tax	648	522	85	127	(61)	1,321
Non-cash expenses[1]						
Depreciation and amortisation expense	54	19	14	11	43	141
Balance Sheet						
As at 30 June 2021						
Total assets	52,388	40,307	6,384	3,367	10,199	112,645
Total liabilities	41,113	18,381	7,857	4,859	31,249	103,459

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

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

45 Risk Management Policies

Introduction

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

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

The Chief Risk Officer, who reports to the Chief Executive Officer, is responsible for the implementation of the Banking Group's Risk Management Framework. This includes the development and deployment of appropriate risk frameworks that allow for conscious exposures to risk within the Board approved appetite. All executives have responsibility for the day-to-day management of risk across the Banking Group, including the implementation of the Banking Group's Risk Management Framework. The Banking Group's Risk Management Framework is set and approved by the Board through the BRCC. All non-executive Directors are members of the BRCC. Formal executive committees are in place governing all material risk types.

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

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

This note contains information on operational and compliance, strategic, and reputational risks and further information about the Banking Group's Risk Management Framework as it applied to credit risk, market risk and liquidity risk can be found in the financial statement notes listed below:

- Note 14 (credit risk);
- Notes 46 and 47 (market risk); and
- Notes 48 to 51 (liquidity and funding risk).

Operational and Compliance Risk

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

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

The Banking Group's Risk Appetite Statement specifies key business outcomes, expectations and metrics with respect to operational risk and compliance risk which define the Banking Group's risk appetite and shape risk culture.

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

Each business manager is responsible for the identification and assessment of these risks, on a regular basis, and for maintaining appropriate internal controls, and is supported by the Banking Group's governance structures, Operational Risk Management Framework and Compliance Management Framework.

BRCC approved limits with respect to operational risk are set via the Operational Risk Management Framework. The Compliance Management Framework sets standards with respect to the understanding of obligations, establishing policies and procedures, managing non-compliance, monitoring and reporting.

Strategic Risk

Strategic risk is a risk which affects or is created by strategic choices, which could meaningfully impact business outcomes and objectives.

The BRCC approved Strategic Risk Management Policy outlines the requirements for how the Banking Group assesses, monitors and responds to Strategic Risks by operating enterprise level:

- Strategy setting processes that identify and assess emerging trends in the external and internal operating environment; and
- Strategy monitoring and review processes.

Strategic risk is managed by the Bank's Executive Leadership Team in accordance with the Banking Group's Risk Appetite Statement. The Executive Leadership Team assess strategic risk at least annually and monitor strategic execution risk at least quarterly.

Environmental and Social risk ("E&S") is recognised as a material strategic risk in the Banking Group's Risk Management Framework. This acknowledges that E&S risks, which include the physical and transition risks of climate change, represent drivers of material financial, non-financial and strategic risk to the Banking Group.

Reputational Risk

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

Reputational risk is managed by the Bank's Executive Risk Committee with support from the Non-Financial Risk Committee in accordance with the Banking Group's Risk Appetite Statement, Operational Risk Management Framework, Compliance Management Framework and Code of Conduct. The Executive Risk Committee meets on a monthly basis.

The Bank sets out clear behavioural standards, as outlined in the Banking Group's Risk Appetite Statement and the Code of Conduct, and the Bank's leadership framework supports the Bank's purpose and values.

45 Risk Management Policies (continued)

Business Continuity Management

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

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

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

Internal Audit

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

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

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

46 Market Risk

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

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

The market risk framework outlines the limit setting framework through the Banking Group's Risk Appetite Statement, Market Risk Policy, Trading Book Standard, Banking Book Standard, Global Markets Dealing Manual and the Treasury Non-Traded Market Risk Mandate.

Measurement approaches for the underlying market risks include Value-at-Risk ("VaR"), Market Value Sensitivity ("MVS"), stress testing and sensitivity analysis.

The Banking Group makes a distinction between traded and non-traded market risk for the purposes of risk management, measurement and reporting. Traded market risk principally arises from the Banking Group's trading book activities within Global Markets. Non-traded market risk includes interest rate risk that arises from banking book activities.

Market Risk Measurement

The Banking Group uses VaR as one of the measures of traded market risk. VaR measures the potential loss using historically observed market volatility and correlation between different markets. The VaR measured for traded market risk uses two years of daily movement in market rates. The Banking Group uses MVS as one of the measures of non-traded banking book market risk. MVS is like VaR, except it uses six-years of daily movements in market rates and a longer holding period.

VaR is modelled at a 99% confidence level over a 10-day holding period for trading book positions. MVS is modelled at a 99% confidence level over a 20-day holding period to measure the interest rate risk in the banking book.

VaR and MVS are calculated utilising historical observations and are not estimates of the maximum loss that the Banking Group could experience from an extreme market event. As a result of this limitation, management also uses additional market risk metrics to measure and manage market risk including stress testing, risk sensitivity and position limits.

Traded Market Risk

Traded market risk is assessed daily and is generated through the Banking Group's participation in financial markets to service its customers as well as an appetite to take positions to benefit from changes in interest rates and foreign exchange rates.

$ millions	Banking Group			
VaR at 99% Confidence Level 30 June 2022	**As at**	**High for year**	**Low for year**	**Average for year**
Foreign exchange risk	**0.32**	**1.62**	**0.01**	**0.26**
Interest rate risk	**1.36**	**3.13**	**0.31**	**1.31**
Diversification benefit	**(0.22)**	**N/A**	**N/A**	**(0.29)**
Total Traded Market Risk	**1.46**	**3.80**	**0.28**	**1.28**

$ millions	Banking Group			
VaR at 99% Confidence Level 30 June 2021(1)	As at	High for year	Low for year	Average for year
Foreign exchange risk	0.28	1.50	0.02	0.42
Interest rate risk	0.60	27.96	0.55	3.74
Diversification benefit	(0.28)	N/A	N/A	(0.38)
Total Traded Market Risk	0.60	27.59	0.55	3.77

(1) For FY21, interest rate VaR was elevated because of the low interest rate environment and significant proportional movements over the period. In February 2021, CBA received approval from APRA to change the VaR methodology for traded market risk to move from a hybrid proportional shift approach to an absolute shock approach. This change was implemented by CBA and the Banking Group at the time.

46 Market Risk (continued)

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

Non-traded market risk is the current and prospective impact to the Banking Group's financial condition because of adverse changes in interest rates to which the Banking Group's Balance Sheet is exposed. The maturity transformation activities of the Banking Group can create mismatches in the repricing terms of asset and liability positions. These mismatches may have undesired earnings and value outcomes depending on interest rate movements. The Banking Group's objective is to manage interest rate risk to achieve stable and sustainable net interest income over the long term.

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

- **Next 12 months' earnings**

  Interest rate risk from an earnings perspective ("Earnings Risk") is the impact based on changes to the net interest income over the next 12 months. This is measured daily.

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

  The prospective change to net interest income is measured by using an Asset and Liability Management simulation model which incorporates both existing and anticipated new business in its assessment. Assets and liabilities that reprice directly from observable market rates are measured based on the full extent of the rate shock that is applied. Assets and liabilities that are priced based on Banking Group administered interest rates, and that are impacted by customer behaviour, are measured by taking into consideration the historic repricing strategy of the Banking Group and customer behaviour. This analysis does not consider management actions that may be taken to mitigate the unfavourable impact of falling interest rates.

  The table below outlines the potential unfavourable change to the Banking Group's net interest earnings during the year based on a 100-basis point parallel rate shock.

$ millions	Banking Group	
Net Interest Earnings at Risk	**2022**	**2021**
Exposure at end of year	**225.0**	316.9
Past 12-month exposure - average	**294.2**	286.8
Past 12-month exposure - high	**339.6**	350.9
Past 12-month exposure - low	**207.9**	180.8

- **Economic Value**

  Interest rate risk from an economic value perspective is based on a 20-day, 99% MVS measure. Measuring the change in the economic value of equity is an assessment of the long-term impact to the earnings potential of the Banking Group present valued to the current date. The Banking Group assesses the potential change in its economic value of equity through the application of MVS methodology. A 20-day 99% MVS measure is used to capture the net economic value for all Balance Sheet assets and liabilities from adverse changes in interest rates.

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

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

$ millions	Banking Group	
MVS at 99% Confidence Level	2022	2021
Exposure at end of year	**23.1**	6.7
Past 12-month MVS (99 percentile) - average	**15.6**	6.5
Past 12-month MVS (99 percentile) - high	**27.7**	10.3
Past 12-month MVS (99 percentile) - low	**6.6**	3.2

46 Market Risk (continued)

Net Foreign Currency Open Positions

The table below outlines the net open foreign currency positions of the Banking Group stated in New Zealand dollar equivalents based on the balance sheet date spot exchange rates:

$ millions	Banking Group	
As at 30 June	**2022**	2021
Net open foreign currency position		
Australian Dollar	**1**	7
Canadian Dollar	**-**	(6)
Hong Kong Dollar	**1**	-
Japanese Yen	**5**	-
US Dollar	**(6)**	(2)
Total net open position	**1**	(1)

47 Interest Rate Repricing Schedule

The following tables represent a breakdown of the Banking Group's assets and liabilities by their contractual repricing. The carrying amounts of derivative financial instruments, which are principally used to reduce the Banking Group's exposure to interest rate movements, are included under the heading "Non-interest Bearing". The Banking Group does not manage its interest rate risk on the basis of the information below. The management of interest rate risk is set out in note 46.

$ millions	Banking Group						
As at 30 June 2022	**Up to 3 Months**	**Over 3 Months and up to 6 Months**	**Over 6 Months and up to 1 Year**	**Over 1 Year and up to 2 Years**	**Over 2 Years**	**Non-interest Bearing**	**Total**
Assets							
Cash and liquid assets	6,484	-	-	-	-	129	6,613
Due from financial institutions	660	-	-	-	-	-	660
Securities at fair value through other comprehensive income	574	139	1,571	1,518	3,377	-	7,179
Derivative assets	-	-	-	-	-	1,294	1,294
Advances to customers	44,342	8,241	18,355	20,705	13,375	(267)	104,751
Other financial assets	-	-	-	-	-	262	262
Total financial assets	52,060	8,380	19,926	22,223	16,752	1,418	120,759
Non-financial assets							763
Total assets							121,522
Liabilities							
Deposits and other borrowings	54,447	8,907	6,067	1,115	811	13,175	84,522
Due to financial institutions	1,357	-	-	-	-	78	1,435
Derivative liabilities	-	-	-	-	-	1,143	1,143
Other financial liabilities	-	-	-	-	-	588	588
Debt issues:							
At fair value through Income Statement	1,300	-	-	-	-	-	1,300
At amortised cost	5,921	-	838	3,019	12,680	(1,151)	21,307
Loan capital	-	-	-	-	961	(6)	955
Total financial liabilities	63,025	8,907	6,905	4,134	14,452	13,827	111,250
Non-financial liabilities							341
Total liabilities							111,591
Net derivative notionals	18,605	(1,498)	(11,702)	(11,390)	5,985		
Interest rate sensitivity gap	7,640	(2,025)	1,319	6,699	8,285		

47 Interest Rate Repricing Schedule (continued)

$ millions	Banking Group						
As at 30 June 2021	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-interest Bearing	Total
Assets							
Cash and liquid assets	2,663	-	-	-	-	117	2,780
Due from financial institutions	523	-	-	-	-	-	523
Securities at fair value through other comprehensive income	565	80	157	1,775	5,436	-	8,013
Derivative assets	-	-	-	-	-	793	793
Advances to customers	43,368	13,978	25,414	10,213	6,729	(311)	99,391
Other financial assets	-	-	-	-	-	241	241
Total financial assets	47,119	14,058	25,571	11,988	12,165	840	111,741
Non-financial assets							904
Total assets							112,645
Liabilities							
Deposits and other borrowings	50,877	8,972	4,401	1,348	782	11,651	78,031
Due to financial institutions	871	-	-	-	-	45	916
Derivative liabilities	-	-	-	-	-	302	302
Other financial liabilities	-	-	-	-	-	582	582
Debt issues:							
At fair value through Income Statement	2,434	2,390	1,255	-	-	-	6,079
At amortised cost	3,254	47	1,131	745	11,363	317	16,857
Loan capital	-	400	-	-	-	3	403
Total financial liabilities	57,436	11,809	6,787	2,093	12,145	12,900	103,170
Non-financial liabilities							289
Total liabilities							103,459
Net derivative notionals	26,707	(18,134)	(11,077)	(8,620)	11,124		
Interest rate sensitivity gap	16,390	(15,885)	7,707	1,275	11,144		

48 Liquidity and Funding Risk

a) Liquidity and Funding Risk Management Framework and Policies

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

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

The Banking Group has a Board approved liquidity policy and contingency funding plan ("CFP") in place to manage these risks. Senior management set an annual wholesale funding plan to manage debt refinancing and issuance requirements. The BRCC approves any substantive changes to the CFP and approves the liquidity policy annually.

The key objectives of the liquidity policy are:

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

The CFP establishes policies, responsibilities and plans which are designed to return the Bank to a robust position within risk tolerance in the event of a liquidity crisis.

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

Regulatory Supervision

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

Measuring and Monitoring Liquidity Risk

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

BRCC approved liquidity risk limits define a quantitative tolerance for liquidity risk that are more conservative than the requirements of the relevant regulators. These limits are consistent with the risk appetite statement and the liquidity policy. These require that the Bank maintains positive cash flow runoffs for one-week and one-month periods using stressed assumptions, in addition to a strong and stable core funding ratio.

RBNZ Liquidity 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 RMBS facility, which has issued securities that can be used as collateral for borrowing from the RBNZ. As at 30 June 2022 the Bank had internally securitised $16.4 billion of RMBS through the Medallion NZ Series Trust 2009-1R (30 June 2021 $11.0 billion), of which $15.0 billion of Class A floating rate notes have been assigned a credit rating of AAA by Fitch Ratings and are eligible for acceptance by the RBNZ (30 June 2021 $10.0 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. 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 maximum limit of 5%).

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 $264 million under this facility as at 30 June 2022 (30 June 2021 $272 million).

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 was available until 6 June 2022 for the initial allocation and is available until 6 December 2022 for the conditional additional allocation. As at 30 June 2022, the Banking Group had utilised $3,800 million of this facility (30 June 2021 $500 million).

As at 30 June 2022 $5,119 million of the RMBS had been used as collateral for repurchase agreements with the RBNZ (30 June 2021 $924 million). Refer to note 22 for additional information.

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

The Bank calculates liquidity ratios in accordance with BS13. The BS13 ratios are calculated daily and are a key component of the Bank's liquidity management framework.

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.

48 Liquidity and Funding Risk (continued)

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

The RBNZ requires banks to obtain a minimum amount of funding from stable sources called the core funding ratio.

The average of these ratios for the quarter ended 30 June 2022 and 31 March 2022 are reflected in the table below.

Unaudited	Banking Group	
Average for the three months ended	**30-Jun-22**	31-Mar-22
One-month mismatch ratio	**5.9%**	5.4%
One-week mismatch ratio	**5.5%**	4.8%
Core funding ratio	**88.3%**	87.6%

49 Qualifying Liquid Assets

The table below provides details of the qualifying liquid assets held by the Banking Group for the purpose of managing liquidity risk.

When 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					
As at 30 June 2022	**Cash and Liquid Assets**	**Securities at Fair Value through Other Comprehensive Income**	**Advances to Customers**	**Deposits and Other Borrowings[1]**	**Other Assets**	**Total**
Cash	**170**	**-**	**-**	**-**	**-**	**170**
Call deposits with the central bank	**6,352**	**-**	**-**	**-**	**-**	**6,352**
Local authority securities	**-**	**615**	**-**	**-**	**3**	**618**
New Zealand Government securities	**71**	**2,210**	**-**	**-**	**34**	**2,315**
Corporate bonds	**-**	**253**	**-**	**-**	**2**	**255**
Treasury bills	**20**	**-**	**-**	**-**	**-**	**20**
Bank bills	**-**	**368**	**-**	**-**	**-**	**368**
Kauri bonds	**-**	**2,518**	**-**	**-**	**20**	**2,538**
Bank bonds	**-**	**1,215**	**-**	**-**	**8**	**1,223**
Residential mortgage-backed securities[2]	**-**	**-**	**6,075**	**-**	**-**	**6,075**
Total qualifying liquid assets	**6,613**	**7,179**	**6,075**	**-**	**67**	**19,934**

$ millions	Banking Group					
As at 30 June 2021	Cash and Liquid Assets	Securities at Fair Value through Other Comprehensive Income	Advances to Customers	Deposits and Other Borrowings[1]	Other Assets	Total
Cash	174	-	-	-	-	174
Call deposits with the central bank	2,478	-	-	-	-	2,478
Local authority securities	-	533	-	-	3	536
New Zealand Government securities	118	3,455	-	-	16	3,589
Corporate bonds	-	268	-	-	1	269
Treasury bills	10	-	-	-	-	10
Bank bills	-	360	-	-	-	360
Kauri bonds	-	2,162	-	-	16	2,178
Bank bonds	-	1,235	-	-	7	1,242
Residential mortgage-backed securities[2]	-	-	5,632	-	-	5,632
Total qualifying liquid assets	2,780	8,013	5,632	-	43	16,468

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

(2) As at 30 June 2022, $6,007 million of the $6,075 million residential mortgage-backed securities held by the Banking Group were eligible for repurchase transactions with the RBNZ (30 June 2021 $5,624 million eligible for repurchase).

50 Maturity Analysis for Undiscounted Contractual Cash Flows

The following tables present the Banking Group's cash flows by remaining contractual maturities for financial liabilities as at 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. The management of liquidity risk is set out in note 48.

$ millions				Banking Group				
As at 30 June 2022	**On Demand**	**Within 6 Months**	**Between 6-12 Months**	**Between 1-2 Years**	**Between 2-5 Years**	**Over 5 Years**	**Total**	**Carrying Value**
Non-derivative financial liabilities								
Deposits and other borrowings	**51,046**	**21,895**	**6,136**	**1,669**	**4,150**	**59**	**84,955**	**84,522**
Due to financial institutions	**998**	**437**	**-**	**-**	**-**	**-**	**1,435**	**1,435**
Other financial liabilities	**56**	**302**	**38**	**45**	**98**	**67**	**606**	**588**
Debt issues:								
At fair value through Income Statement	**-**	**1,302**	**-**	**-**	**-**	**-**	**1,302**	**1,300**
At amortised cost	**-**	**5,204**	**1,836**	**3,308**	**6,787**	**6,591**	**23,726**	**21,307**
Loan capital	**-**	**24**	**25**	**51**	**153**	**964**	**1,217**	**955**
Total non-derivative financial liabilities	**52,100**	**29,164**	**8,035**	**5,073**	**11,188**	**7,681**	**113,241**	**110,107**
Derivative financial liabilities								
Inflows from derivatives	**-**	**369**	**270**	**1,387**	**2,992**	**5,522**	**10,540**	
Outflows from derivatives	**-**	**(1,174)**	**(705)**	**(2,138)**	**(4,133)**	**(6,056)**	**(14,206)**	
	-	**(805)**	**(435)**	**(751)**	**(1,141)**	**(534)**	**(3,666)**	
Off balance sheet items								
Lending commitments	**13,943**	**2,360**	**-**	**-**	**-**	**-**	**16,303**	
Financial guarantees	**256**	**-**	**-**	**-**	**-**	**-**	**256**	
Other credit related contingent liabilities	**660**	**-**	**-**	**-**	**-**	**-**	**660**	
Total off balance sheet items	**14,859**	**2,360**	**-**	**-**	**-**	**-**	**17,219**	

$ millions				Banking Group				
As at 30 June 2021	On Demand	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Between 2-5 Years	Over 5 Years	Total	Carrying Value
Non-derivative financial liabilities								
Deposits and other borrowings	48,007	23,090	4,438	1,379	1,253	59	78,226	78,031
Due to financial institutions	916	-	-	-	-	-	916	916
Other financial liabilities	70	267	39	59	91	89	615	582
Debt issues:								
At fair value through Income Statement	-	4,826	1,257	-	-	-	6,083	6,079
At amortised cost	-	1,222	1,735	2,588	7,210	4,627	17,382	16,857
Loan capital	-	11	11	21	63	411	517	403
Total non-derivative financial liabilities	48,993	29,416	7,480	4,047	8,617	5,186	103,739	102,868
Derivative financial liabilities								
Inflows from derivatives	-	119	88	1,751	2,650	2,247	6,855	
Outflows from derivatives	-	(678)	(215)	(1,956)	(3,099)	(2,423)	(8,371)	
	-	(559)	(127)	(205)	(449)	(176)	(1,516)	
Off balance sheet items								
Lending commitments	13,724	2,034	-	-	-	-	15,758	
Financial guarantees	202	-	-	-	-	-	202	
Other credit related contingent liabilities	575	-	-	-	-	-	575	
Total off balance sheet items	14,501	2,034	-	-	-	-	16,535	

Notes to the Financial Statements

For the year ended 30 June 2022

51 Concentrations of Funding

The following tables present the Banking Group's concentrations of funding, which are reported by industry and geographic region. ANZSIC codes have been used as the basis for categorising industry sectors. The significant categories shown are in line with the NZSIOC.

$ millions	Banking Group	
As at 30 June	**2022**	2021
Total funding comprises:		
Deposits and other borrowings	**84,522**	78,031
Due to financial institutions	**1,435**	916
Debt issues:		
At fair value through Income Statement	**1,300**	6,079
At amortised cost	**21,307**	16,857
Loan capital	**955**	403
Total funding	**109,519**	102,286
Concentration by industry		
Agricultural, Forestry and Fishing	**1,496**	1,281
Manufacturing	**1,087**	1,034
Construction	**1,285**	1,156
Wholesale Trade	**922**	888
Retail Trade and Accommodation	**1,295**	1,231
Transport, Postal and Warehousing	**671**	528
Information Media and Telecommunications	**493**	419
Financial and Insurance Services	**35,505**	32,552
Rental, Hiring and Real Estate Services	**4,944**	4,801
Professional, Scientific, Technical, Administrative and Support Services	**7,183**	6,697
Public Administration and Safety	**816**	1,098
Education and Training	**1,824**	1,784
Health Care and Social Assistance	**1,402**	1,106
Arts, Recreation and Other Services	**1,910**	1,839
Households	**48,256**	45,444
All Other	**430**	428
Total funding by industry	**109,519**	102,286
Concentration by geographic region		
New Zealand	**79,726**	74,929
Overseas	**29,793**	27,357
Total funding by geographic region	**109,519**	102,286

52 Events after the Reporting Period

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

Refer to note 37 for an update on the proceedings served on 29 September 2021 in the High Court of New Zealand, Auckland Registry.

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

Additional Disclosures

(To be read in conjunction with the Financial Statements)

Conditions of Registration for ASB Bank Limited

The following conditions were applicable as at 30 June 2022 and came into effect on 23 June 2022.

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

1. That:

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

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

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

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

   For the purposes of this condition of registration,

   - "Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Subpart B2 of BPR100: *Capital Adequacy*, except that in the formulae for calculating the ratios, the term "total capital requirement for operational risk" included in "total RWA equivalents" has the same meaning as in BPR150: *Standardised Operational Risk*;
   - "Total capital" has the same meaning as in BPR110: *Capital Definitions*.

1A. That:

   (a) The bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in Part D of BPR100: *Capital Adequacy*;

   (b) Under its ICAAP the bank identifies and measures its "other material risks" defined in Part D of BPR100: *Capital Adequacy*; and

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

1B. That the bank must:

   (a) Comply with the minimum requirements for using the IRB approach set out in BPR134: *IRB Minimum System Requirements*;

   (b) Comply with the minimum qualitative requirements for using the AMA approach for operational risk set out in subpart B1 of BPR151: *AMA Operational Risk*;

   (c) Follow the process in Part E of BPR120: *Capital Adequacy Process Requirements* for obtaining Reserve Bank approval for any changes to any IRB
   credit risk model;

   (d) Maintain a compendium of approved models in accordance with the requirements of section E1.5 of BPR120: *Capital Adequacy Process requirements*.

1C. That, if the Prudential Capital Buffer (PCB) ratio of the banking group is 2.5% or less, the bank must:

   (a) According to the following table, limit the aggregate distributions of the bank's earnings, other than discretionary payments payable to the holders of Additional Tier 1 capital instruments, to the percentage limit on distributions that corresponds to the banking group's PCB ratio:

Banking group's PCB ratio	Percentage limit to distributions of the bank's earnings	Capital Buffer Response Framework stage
0% - 0.5%	0%	Stage 3
>0.5% - 1%	30%	Stage 2
>1% - 2%	50%	Stage 1
>2% - 2.5%	50%	None

   (b) Comply with the Capital Buffer Response Framework requirements as set out in Part D of BPR120: *Capital Adequacy Process Requirements*.

   For the purposes of this condition of registration,

   - "Prudential capital buffer ratio", "distributions", and "earnings" have the same meaning as in Subpart B2 of BPR100: *Capital Adequacy*, except that in the formula for calculating the prudential capital buffer ratio, the term "total capital requirement for operational risk" included in "total RWA equivalents" has the same meaning as in BPR150: *Standardised Operational Risk*;
   - An Additional Tier 1 capital instrument is an instrument that meets the requirements of B2.2(2)(a), (c) or (d) of BPR110: *Capital Definitions*.

1CA. That the bank must not make any distribution on a transitional AT1 capital instrument on or after the date on which on any conversion or write-off provision in the terms and conditions of the instrument is triggered due to either a loss absorption trigger event or a non-viability trigger event.

   For the purposes of this condition of registration, "transitional AT1 capital instrument" has the meaning given in section A2.3 of BPR110: *Capital Definitions* and "loss absorption trigger event" and "non-viability trigger event" have the meanings given in sub-section C2.2(3) of BPR120: *Capital Adequacy Requirements*.

Additional Disclosures (continued)

(To be read in conjunction with the Financial Statements)

Conditions of Registration for ASB Bank Limited (continued)

1D. That, if the prudential buffer ratio of the banking group is more than 2.5%, the bank must limit aggregate distributions, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to no more than 50% of the bank's earnings.

For the purposes of this condition of registration,

- "Prudential capital buffer ratio", "distributions" and "earnings" have the same meaning as in Subpart B2 of BPR100: *Capital Adequacy*, except that in the formula for calculating the prudential capital buffer ratio, the term "total capital requirement for operational risk" included in "total RWA equivalents" has the same meaning as in BPR150: *Standardised Operational Risk*;
- An Additional Tier 1 capital instrument is an instrument that meets the requirements of B2.2(2)(a), (c) or (d) of BPR110: *Capital Definitions*;
- The bank must not make any individual dividend payment contributing to aggregate distributions for a financial year until it has completed its interim financial accounts for the first six months of its financial year or its annual financial accounts for its full financial year and must not make any such dividend payment less than six months after any previous such dividend payment.

1E. That:

(a) The bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued on or after 1 July 2021 in the calculation of its capital ratios unless it has completed the notification requirements in Part B of BPR120: *Capital Adequacy Process Requirements* in respect of the instrument; and;

(b) The bank meets the requirements of Part C of BPR120: *Capital Adequacy Process Requirements* in respect of regulatory capital instruments.

For the purposes of this condition of registration,

- An Additional Tier 1 capital instrument is an instrument that meets the requirements is an instrument that meets the requirements of subsection B3.2(2)(a) or (c) of BPR110: *Capital Definitions*.
- A Tier 2 capital instrument is an instrument that meets the requirements of subsection B3.2(2)(a) or (c) of BPR110: *Capital Definitions*.

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

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

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

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

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

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

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

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

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

For the purposes of this condition of registration,

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

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

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

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

Additional Disclosures (continued)

(To be read in conjunction with the Financial Statements)

Conditions of Registration for ASB Bank Limited (continued)

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

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "*Connected exposures policy*" (BS8) dated October 2021.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
6. That the bank complies with the following corporate governance requirements:
   (a) The board of the bank must have at least five directors;
   (b) The majority of the board members must be non-executive directors;
   (c) At least half of the board members must be independent directors;
   (d) An alternate director,
      (i) For a non-executive director must be non-executive; and
      (ii) For an independent director must be independent;
   (e) At least half of the independent directors of the bank must be ordinarily resident in New Zealand;
   (f) The chairperson of the board of the bank must be independent; and
   (g) The bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the RBNZ document entitled *"Corporate Governance"* (BS14) dated July 2014.
7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:
   (a) The RBNZ has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) The RBNZ has advised that it has no objection to that appointment.
8. That a person must not be appointed as chairperson of the board of the bank unless:
   (a) The RBNZ has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) The RBNZ has advised that it has no objection to that appointment.
9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
   (a) The mandate of the committee must include ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
   (b) The committee must have at least three members;
   (c) Every member of the committee must be a non-executive director of the bank;
   (d) The majority of the members of the committee must be independent; and
   (e) The chairperson of the committee must be independent and must not be the chairperson of the bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the RBNZ document entitled *"Corporate Governance"* (BS14) dated July 2014.
10. That a substantial proportion of the bank's business is conducted in and from New Zealand.
11. That the bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the bank that are carried on by a person other than the bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the bank or of a service provider to the bank, the following outcomes:
   (a) That the bank's clearing and settlement obligations due on a day can be met on that day;
   (b) That the bank's financial risk positions on a day can be identified on that day;
   (c) That the bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
   (d) That the bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

   This condition ceases to apply in respect of an existing outsourcing arrangement on the earlier of either 1 October 2023 or when the existing outsourcing arrangement becomes compliant with condition 21, from which point in time condition 21 will apply to that outsourcing arrangement.

   For the purposes of this condition of registration:

   (a) The term "legal and practical ability to control and execute" is explained in the RBNZ document entitled "*Outsourcing Policy*" (BS11) dated January 2006; and
   (b) The term "existing outsourcing arrangement" is defined in the RBNZ document entitled "*Outsourcing Policy*" (BS11) dated June 2022.

Additional Disclosures (continued)

(To be read in conjunction with the Financial Statements)

Conditions of Registration for ASB Bank Limited (continued)

12. That:

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

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

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

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

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

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

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

   For the purposes of this condition of registration, the bank must calculate the banking group's one-week mismatch ratio, one-month mismatch ratio and one-year core funding ratio in accordance with the RBNZ documents entitled *"Liquidity Policy"* (BS13) dated May 2021 and *"Liquidity Policy Annex: Liquid Assets"* (BS13A) dated May 2021.

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

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

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

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

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

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

   For the purposes of this condition,

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

16. That:

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

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

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

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

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

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

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

Conditions of Registration for ASB Bank Limited (continued)

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

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

    For the purposes of this condition of registration, "de minimis", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the RBNZ document *"Open Bank Resolution (OBR) Pre-positioning Requirements Policy"* (BS17) dated June 2022.
18. That the bank has an Implementation Plan that:
    - (a) Is up to date; and
    - (b) Demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the RBNZ document: *"Open Bank Resolution Pre-positioning Requirements Policy"* (BS17) dated June 2022.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the RBNZ document *"Open Bank Resolution (OBR) Pre-positioning Requirements Policy"* (BS17) dated June 2022.
19. That the bank has a compendium of liabilities that:
    - (a) At the product-class level lists all liabilities, indicating which are:
        - (i) Pre-positioned for Open Bank Resolution; and
        - (ii) Not pre-positioned for Open Bank Resolution;
    - (b) Is agreed to by the RBNZ; and
    - (c) If the RBNZ's agreement is conditional, meets the RBNZ's conditions.

    For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the RBNZ document *"Open Bank Resolution (OBR) Pre-positioning Requirements Policy"* (BS17) dated June 2022.
20. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the RBNZ document *"Open Bank Resolution (OBR) Pre-positioning Requirements Policy"* (BS17) dated June 2022.
21. That the bank must comply with the RBNZ document *"Outsourcing Policy"* (BS11) dated June 2022.
22. That, for a loan-to-valuation measurement period ending on or after 31 July 2021, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
23. That, for a loan-to-valuation measurement period ending on or before 31 December 2021, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
24. That, for a loan-to-valuation measurement period ending on or after 31 January 2022, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
25. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration:

- "Banking group" means ASB Bank Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of part 7 of that Act.
- "Generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

Additional Disclosures (continued)

(To be read in conjunction with the Financial Statements)

Conditions of Registration for ASB Bank Limited (continued)

In these conditions of registration, the version dates of the Reserve Bank of New Zealand Banking Prudential Requirement (BPR) documents that are referred to in the capital adequacy conditions 1 to 1E, or are referred to in turn by those documents or by Banking Supervision Handbook (BS) documents, are:

BPR document	Version date
BPR100: *Capital adequacy*	1 October 2021
BPR110: *Capital definitions*	1 October 2021
BPR120: *Capital adequacy process requirements*	1 July 2021
BPR130: *Credit risk RWAs overview*	1 July 2021
BPR131: *Standardised credit risk RWAs*	1 October 2021
BPR132: *Credit risk mitigation*	1 October 2021
BPR133: *IRB credit risk RWAs*	1 October 2021
BPR134: *IRB minimum system requirements*	1 July 2021
BPR140: *Market risk exposure*	1 October 2021
BPR150: *Standardised operational risk*	1 July 2021
BPR151: *AMA operational risk*	1 July 2021
BPR160: *Insurance, securitisation, and loan transfers*	1 July 2021
BPR001: *Glossary*	1 July 2021

In conditions of registration 22 to 25:

- "Loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the RBNZ document entitled "*Framework for Restrictions on High-LVR Residential Mortgage Lending*" (BS19) dated October 2021:
- "Loan-to-valuation measurement period" means a period of three calendar months ending on the last day of the third calendar month.

Changes to Conditions of Registration since the previous Disclosure Statement

The RBNZ amended the Conditions of Registration effective 1 July 2021 to reflect:

- ASB moving to calculate operational risk capital under the standardised approach;
- The continued requirement for ASB to meet the qualitative requirements of the Advanced Measurement Approach; and
- The new processes for issuing Tier 2 instruments under new rules contained within the Banking Prudential Requirements (BPRs).

The RBNZ further amended the Conditions of Registration on 1 October 2021 to:

- Replace all references to BS2A and BS2B with the new equivalent BPR references;
- Incorporate the adjustments necessary to bring into effect the new BPRs including:
  - Transitional AT1 and Transitional Tier 2 instruments should be included in measures of AT1 capital, Tier 1 capital, Tier 2 capital and total capital.
  - A new set of dividend restrictions will apply during banks' transition to higher capital ratios. For the period end 30 June 2022, where a bank's Prudential Capital Buffer (PCB) ratio is 2.5% or less, the bank will have further percentage limits on dividends between 0% to 50% of the bank's earnings.
  - Where a bank fails to maintain the full PCB ratio, the bank will be subject to a supervisory response from the Reserve Bank. However, a failure by a bank to maintain the full PCB ratio will not be deemed to be a breach of that bank's conditions of registration.
- Introduce tightening of Loan-to-Value ratio (LVR) restrictions to take effect on 1 November 2021. Condition 24 was amended to adjust the 'speed limit' on high LVR owner-occupier lending to 10 percent of lending above 80 percent LVR, from 20 percent.

The RBNZ further amended the Conditions of Registration on 1 January 2022 to increase the Core Funding Ratio minimum requirement from 50% to 75%.

The RBNZ further amended the Conditions of Registration on 23 June 2022, to make reference to the new versions of the Outsourcing Policy (BS11) and the Open Bank Resolution Policy (BS17), which in turn, incorporate a change in definition of "Business Day".

As at 30 June 2022, there have been no other changes to the Conditions of Registration.

Directors' Statement

After due enquiry by the Directors, each Director believes that for the year ended 30 June 2022:

- The Bank complied in all material respects with each Condition of Registration imposed by the Reserve Bank of New Zealand under section 74 of the Reserve Bank of New Zealand Act 1989 that applied during the period;
- 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 were being properly applied.

After due enquiry by the Directors, each Director believes 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 Dame Therese Walsh and Ms Vittoria Shortt as Directors and as responsible persons on behalf of all the other Directors.

Dame Therese Walsh
Chair

Vittoria Shortt
Managing Director

10 August 2022

Independent auditor's report

To the shareholder of ASB Bank Limited

This report is for the Banking Group, comprising ASB Bank Limited (the 'Bank') and the entities it controlled at 30 June 2022 or from time to time during the financial year.

This report includes our:

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

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

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

- the balance sheet as at 30 June 2022;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended;
- the notes to the financial statements, which include a statement of accounting policies; and
- the supplementary information required by Schedules 4, 7, 13, 14, 15 and 17 of the Order.

Our opinion

In our opinion:

- the Banking Group's financial statements (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 11, 13, 14, 15 and 17 of the Order and within notes 14 to 20, 42, 43 and 45 to 50):
  - (i) comply with generally accepted accounting practice in New Zealand;
  - (ii) comply with NZ IFRS and IFRS; and
  - (iii) give a true and fair view of the financial position of the Banking Group as at 30 June 2022, and its financial performance and cash flows for the year then ended.
- the supplementary information disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order and included within the balance sheet and notes 14 to 20, 42, 43 and 45 to 50:
  - (i) has been prepared, in all material respects, in accordance with the guidelines issued under section 78(3) of the Reserve Bank of New Zealand Act 1989 or any conditions of registration;
  - (ii) is in accordance with the books and records of the Banking Group; and
  - (iii) fairly states, in all material respects, the matters to which it relates in accordance with those Schedules.

Basis for opinion

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

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

PricewaterhouseCoopers, PwC Tower, 15 Customs Street West, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, pwc.co.nz

Independence

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Banking Group. These services are audit and assurance services in respect of funds managed by the Banking Group, and other assurance and audit related services. Other assurance and audit related services include: assurance over compliance with regulations, internal controls and capital adequacy 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. These matters have not impaired our independence as auditor of the Banking Group.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Allowance for expected credit losses on the Bank's advances to customers (2022: $549 million, 2021: $550 million) NZ IFRS 9 *Financial Instruments* requires an allowance for expected credit losses (ECL) to be recognised against the value of the Bank's lending assets, the measurement of which is required to incorporate reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The Bank utilises complex models to calculate ECL on a collective basis. These models incorporate internal and external data as well as a number of assumptions such as the probability of default, loss given default and exposure at default, as well as the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk. Individually assessed allowances are recognised by the Bank for assets that are known to be impaired at the reporting date and exceed specific monetary thresholds. These allowances are measured using probability weighted scenarios, which consider a range of reasonably possible outcomes in terms of estimated future cash repayments and proceeds expected to be recovered from the realisation of the value of collateral held by the Bank in respect of those loans. We considered this a key audit matter due to the inherent estimation uncertainty in its determination, specifically due to the subjectivity and extent of judgement made by the Bank in recognising allowances for ECL including: • models used to calculate ECL (ECL models) are inherently complex and judgement is applied in determining the appropriate construct of each model; • a number of assumptions are made by the Bank concerning the inputs to the ECL models and how inputs correlate with one another;	We developed an understanding of the controls relevant to our audit over the Bank's allowance for ECL and assessed whether they were appropriately designed and were operating effectively throughout the year on a sample basis, including: • completeness of loan and product data used in the ECL calculations; and • review and approval of forward looking assumptions, post-model adjustments and the ECL allowances by the Bank's Loan Loss Provisioning Committee. In addition to controls testing we, along with PwC credit risk modelling experts and PwC economics experts, performed the following substantive procedures, amongst others, on a sample basis: • assessed the ongoing appropriateness of the ECL model methodology applied by the Bank, with particular consideration to the results of model monitoring performed, including back-testing of observed losses against predicted losses; • assessed the appropriateness of certain forward looking assumptions incorporated into the ECL models, including the macroeconomic scenarios developed, underlying forecasts and probability weightings applied; • tested the completeness and accuracy of a sample of critical data elements used as inputs to the ECL models to relevant source documentation;

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Key audit matter	How our audit addressed the key audit matter
• determining the need for and quantifying post-model adjustments; and • determining the valuation of individually assessed allowances for impaired non-retail borrowers. Additional subjectivity and judgement has been introduced into the measurement of ECL due to the heightened uncertainty associated with the COVID-19 pandemic, the impact of rising interest rates and inflationary pressures, increased geopolitical tensions around the world, global supply chain issues and labour shortages. Specifically, this includes judgements regarding the impact of these factors to internal credit ratings, the valuation of collateral held as security, forward-looking information including macroeconomic scenarios and their associated weightings, and the use of model adjustments and overlays in the calculation of ECL. *Relevant references in the financial statements* Refer to notes 1(l) and 14 to 16 for further information.	• assessed the appropriateness of certain model adjustments and overlays identified by the Bank against internal and/or external supporting information; • considered the impact of events occurring subsequent to balance date on the allowance for ECL; and • tested individually assessed allowances by assessing the appropriateness of expected cash repayment forecasts for each borrower and other significant judgements, against supporting information. Where applicable, we considered the competency, capabilities, objectivity and nature of the work of certain experts of the Bank who assisted in the development of significant assumptions used in determining the allowance. We also assessed the reasonableness of the disclosures against the requirements of NZ IFRS.
Operation of financial reporting Information Technology (IT) systems and controls We considered this area a key audit matter because the Banking Group's operations and financial reporting processes are heavily dependent on IT systems for the processing and recording of a significant volume of transactions. In particular, in common with all banks, access rights to technology are important because they are intended to ensure that changes to applications and data are appropriately authorised. Ensuring that only appropriate staff have access to IT systems, that the level of access itself is appropriate, and that access is periodically monitored, are key controls in mitigating the potential for fraud or error as a result of a change to an application or underlying data. The Banking Group's controls over IT systems are intended to ensure that: • new systems or changes to existing systems operate as intended and are authorised; • access to process transactions or change data is appropriate and maintains an intended segregation of duties; • the use of privileged access to systems and data is restricted and monitored; and • IT processing is approved and where issues arise they are resolved.	For material financial statement transactions and balances we developed an understanding of the business processes, IT systems used to generate and support those transactions and balances, associated IT application controls and IT dependencies in manual controls. Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting. This involved assessing, where relevant to the audit: • change management: the processes and controls used to develop, test and authorise changes to the functionality and configurations within systems; • system development: the project disciplines which ensure that significant developments or implementations are appropriately tested before implementation and that data is converted and transferred completely and accurately; • security: the access controls designed to enforce segregation of duties, govern the use of generic and privileged accounts or ensure that data is only changed through authorised means; and • IT operations: the controls over IT operations used to ensure that any issues that arise are managed appropriately.

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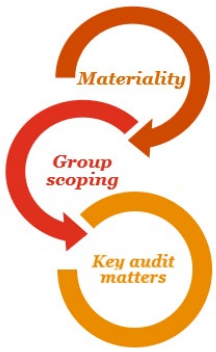
Key audit matter	How our audit addressed the key audit matter
	Within the scope of our audit where technology services are provided by a third party, we considered: ● assurance reports from the third party's auditor on the design and operating effectiveness of controls; and ● managements monitoring controls over the third party; or ● Where an assurance report was not available we tested retrospective review controls operated by management over the third party service.

Our audit approach

Overview



The overall Banking Group materiality is $101 million, which represents approximately 5% of net profit before tax.

We chose net profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Banking Group is most commonly measured by users, and is a generally accepted benchmark.

Full scope audits were performed for two of 12 entities in the Banking Group based on their financial significance. Specified audit and analytical review procedures were performed on the remaining entities.

As reported above, we have two key audit matters, being:

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

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

How we tailored our group audit scope

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

The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).

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

The Directors of the Bank (the 'Directors') are responsible, on behalf of the Bank, for the other information in the ASB Disclosure Statement and Annual Report. The other information comprises the Annual Report and the information required to be included in a disclosure statement in accordance with Schedule 2 of the Order and is included on pages 1 to 10, 95 to 101 and 108 to 109. Our opinion on the financial statements (excluding capital adequacy and regulatory liquidity requirements) and supplementary information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

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

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

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

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

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

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

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

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

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

This description forms part of our auditor's report.

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

We also report in accordance with the requirements of Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 42 and 48(b)) for the year ended 30 June 2022:

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

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

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

We have examined the supplementary information relating to capital adequacy and regulatory liquidity requirements required by Schedule 11 of the Order as disclosed in notes 42 and 48(b) of the financial statements of the Banking Group for the year ended 30 June 2022.

Our conclusion

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 42 and 48(b), is not, in all material respects disclosed in accordance with Schedule 11 of the Order.

This conclusion is to be read in the context of what we say in the remainder of this report.

Basis for our conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibilities under this standard are further described in the *Auditor's responsibilities for the review of the supplementary information relating to capital adequacy and regulatory liquidity requirements* section of our report.

Responsibilities of the Directors for the supplementary information relating to capital adequacy and regulatory liquidity requirements

The Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 11 of the Order. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of the supplementary information relating to capital adequacy and regulatory liquidity requirements that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the supplementary information relating to capital adequacy and regulatory liquidity requirements

Our responsibility is to express a conclusion, whether, based on our review, the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 42 and 48(b), is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

A review of the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 42 and 48(b) in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with ISAs (NZ) and ISAs. Accordingly we do not express an audit opinion on the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 42 and 48(b).

Who we report to

This report is made solely to the Bank's shareholder. Our work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholder, for our work, for this report or for the opinions and conclusion we have formed.

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
10 August 2022

Auckland

PwC

Directory

As at the signing date of this Disclosure Statement

DIRECTORS

Name	**Dame Therese Walsh DNZM**
Position	Chair and Independent Non-Executive Director
Primary occupation	Company director
Country of residence	New Zealand
Other company directorships	Air New Zealand Limited, Therese Walsh Consulting Limited, On Being Bold Limited
Qualifications	BCA, FCA, CMInstD

Name	**V.A.J. (Vittoria) Shortt**
Position	Managing Director
Primary occupation	Chief Executive Officer ASB Bank Limited
Country of residence	New Zealand
Other company directorships	ASB Holdings Limited
Qualifications	BMS, FCA

Name	**Dr R.M. (Rod) Carr**
Position	Independent Non-Executive Director
Primary occupation	Company director
Country of residence	New Zealand
Other company directorships	Waingawa Forest Corporation Limited, JRC (NZ) Limited, Otakaro Limited
Qualifications	BCom (Hons), LLB (Hons), MBA, MA, PhD

Name	**C.A. (Colin) MacDonald QSO**
Position	Independent Non-Executive Director
Primary occupation	Company director
Country of residence	New Zealand
Other company directorships	The Network for Learning Limited, Education Payroll Limited
Qualifications	BSc, CPEng, MInstD

Name	**S.R.S. (Simon) Blair**
Position	Non-Executive Director
Primary occupation	Company director
Country of residence	New Zealand
Other company directorships	BUPA Chile S.A.
Qualifications	BA (Hons), GradDipBA, MSc

Name	**D.A.K. (David) Cohen**
Position	Non-Executive Director
Primary occupation	Deputy Chief Executive Officer Commonwealth Bank of Australia
Country of residence	Australia
Other company directorships	PT Bank Commonwealth, Superannuation and Investments HoldCo Pty Limited
Qualifications	BA, LLB, FAPI

Name	**R.J.P. (Ross) Buckley**
Position	Independent Non-Executive Director
Primary occupation	Company director
Country of residence	New Zealand
Other company directorships	Stride Property Limited, Stride Investment Management Limited, Stride Holdings Limited, Investore Property Limited, Service Foods Limited
Qualifications	BBS, FCA, FCPA, CMInstD

Name	**V.H. (Vic) Crone**
Position	Independent Non-Executive Director
Primary occupation	Company director
Country of residence	New Zealand
Other company directorships	Contact Energy Limited, True North Seville Limited
Qualifications	MCA

Directory (continued)

As at the signing date of this Disclosure Statement

BOARD AUDIT COMMITTEE	R.J.P. (Ross) Buckley (Chair) S.R.S. (Simon) Blair Dr R.M. (Rod) Carr D.A.K. (David) Cohen V.H. (Vic) Crone C.A. (Colin) MacDonald Dame Therese Walsh DNZM	
BOARD RISK AND COMPLIANCE COMMITTEE	Dr R.M. (Rod) Carr (Chair) S.R.S. (Simon) Blair R.J.P. (Ross) Buckley D.A.K. (David) Cohen V.H. (Vic) Crone C.A. (Colin) MacDonald Dame Therese Walsh DNZM	
EXECUTIVE MANAGEMENT	V.A.J. (Vittoria) Shortt	Chief Executive Officer
	N.C. (Nigel) Annett	Executive General Manager Corporate Banking
	S.C. (Stephen) Bendall	General Counsel and Executive General Manager Business Services
	A.J. (Adam) Boyd	Executive General Manager Personal Banking
	D. (David) Bullock	Executive General Manager Technology & Operations
	T.H. (Tim) Deane	Executive General Manager Business Banking
	C.R. (Carl) Ferguson	Chief Risk Officer
	L. (Lohit) Kalburgi	Chief Transformation Officer
	J.E. (Jon) Raby	Chief Financial Officer
INTERNAL AUDITOR	M.J. (Melanie) Toft	Chief Internal Auditor
AUDITOR	PricewaterhouseCoopers New Zealand Chartered Accountants PwC Tower 15 Customs Street West Auckland 1010 New Zealand www.pwc.co.nz	
ULTIMATE SHAREHOLDER (Ordinary Shares)	Commonwealth Bank of Australia Commonwealth Bank Place South Level 1 11 Harbour Street Sydney, NSW 2000 Australia www.commbank.com.au	
REGISTERED OFFICE	Level 2 ASB North Wharf 12 Jellicoe Street Auckland 1010 New Zealand www.asb.co.nz	