

# Commonwealth Bank of Australia New Zealand Operations

## Disclosure Statement

For the six months ended 31 December 2018



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## Commonwealth Bank of Australia New Zealand Operations

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# General Disclosures

(To be read in conjunction with the Financial Statements)

## 31 December 2018

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

In this Disclosure Statement, reference is made to the following reporting entities:

- Commonwealth Bank of Australia Group (the "Overseas Banking Group") is domiciled in Australia and comprises the Commonwealth Bank of Australia ("Overseas Bank" or "CBA"), the worldwide activities of CBA, and its controlled entities;
- Commonwealth Bank of Australia New Zealand Banking Group (the "NZ Banking Group") refers to the New Zealand banking operations of the Overseas Banking Group, including those entities whose business is required to be reported in the financial statements for the Overseas Banking Group's New Zealand banking business. Controlled entities of the NZ Banking Group as at 30 June 2018 are set out in note 22 of the financial statements of the NZ Banking Group for the year ended 30 June 2018 and changes since 30 June 2018 are set out in note 17 of this Disclosure Statement;
- Commonwealth Bank of Australia New Zealand Life Insurance Group (the "NZ Life Group") referred to all of the New Zealand operations of the Overseas Banking Group that are not included in the NZ Banking Group; and
- Commonwealth Bank of Australia New Zealand Branch (the "Branch") refers to the New Zealand branch of the Overseas Bank and includes all banking business transacted in New Zealand through the Branch.

## General Matters

### 1.0 Address for Service - Branch

Commonwealth Bank of Australia New Zealand Branch  
Level 2  
ASB North Wharf  
12 Jellicoe Street  
Auckland Central  
Auckland 1010  
New Zealand

A copy of the NZ Banking Group and the Overseas Banking Group's most recent published financial statements will be available immediately upon a request being made to the above address. A copy of the NZ Banking Group's financial statements can also be obtained from the Commonwealth Bank of Australia website ([www.commbank.com.au/about-us/our-company/international-branches/new-zealand.html](http://www.commbank.com.au/about-us/our-company/international-branches/new-zealand.html)), and a copy of the Overseas Banking Group's financial statements can be obtained from the Commonwealth Bank of Australia website ([www.commbank.com.au/about-us/investors/shareholders.html](http://www.commbank.com.au/about-us/investors/shareholders.html)).

### 2.0 Address for Service - Overseas Bank

Commonwealth Bank of Australia  
Ground Floor, Tower 1  
201 Sussex Street  
Sydney, NSW 2000  
Australia

The Overseas Bank operates as an Australian public company under the Corporations Act 2001 (Commonwealth of Australia). It has share capital and is governed by a constitution. The Overseas Banking Group provides a wide range of banking, financial and related services including funds management, life and general insurance.

### 3.0 Changes to Directors

A.M. Mohl retired as a director of the CBA Board with effect from 7 November 2018.

B.J. Long retired as a director of the CBA Board with effect from 31 December 2018.

Professor G. Bell was appointed as a director of the CBA Board with effect from 1 January 2019.

P.F. O'Malley was appointed as a director of the CBA Board with effect from 1 January 2019.

There have been no other changes to the Board of Directors of CBA since the balance date for the 30 June 2018 Disclosure Statement.

### 3.1 Directors of the Overseas Bank and the New Zealand Chief Executive Officer of the Branch

#### Directors of the Overseas Bank

C.B. (Catherine) Livingstone AO (Chairman)  
Australia

S.M. (Shirish) Apte  
Singapore

W.M. (Wendy) Stops  
Australia

R.J. (Robert) Whitfield  
Australia

Professor G. (Genevieve) Bell  
Australia

M.P. (Matt) Comyn (Managing Director and Chief Executive Officer)  
Australia

Sir D.H. (David) Higgins  
England

M.L. (Mary) Padbury  
Australia

A.L. (Anne) Templeman-Jones  
Australia

P.F. (Paul) O'Malley  
Australia

#### New Zealand Chief Executive Officer of the Branch

V.A.J. (Vittoria) Shortt  
New Zealand

# General Disclosures (continued)

(To be read in conjunction with the Financial Statements)

## 4.0 Credit Rating of the Overseas Bank

As at the date of the signing of this Disclosure Statement, the following long term credit ratings were assigned to the Overseas Bank by these rating agencies:

Rating Agency	Current Long Term Credit Rating	Credit Rating Outlook
Moody's Investors Service Pty Limited ("Moody's")	Aa3	Stable
Standard & Poor's (Australia) Pty Limited ("S&P")	AA-	Negative
Fitch Australia Pty Limited ("Fitch Ratings")	AA-	Negative

On 19 June 2017 Moody's downgraded the long-term credit ratings of the major Australian banks and their strategically important subsidiaries by one notch. CBA's long term rating was revised to Aa3 from Aa2 and the outlook revised to stable from negative. The rating for S&P has remained unchanged during the 2 years immediately preceding the signing date. On 7 May 2018 Fitch Ratings affirmed CBA's long-term issuer default rating at AA- and has revised the outlook to negative from stable to reflect CBA's risks in remediating shortcomings in operational risk controls and governance.

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

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

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

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

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

## 5.0 Guarantee Arrangements

No material obligations of the Branch are guaranteed as at the date of signing this Disclosure Statement.

## 6.0 Other Material Matters

### *NZ Life Group*

The previous Disclosure Statements of the Commonwealth Bank of Australia New Zealand Operations (CBA NZ Operations) consisted of two parts - the NZ Banking Group and the NZ Life Group. On 2 July 2018, the New Zealand life insurance business was sold to AIA Group Limited and is no longer part of the Overseas Banking Group from that date onwards. The current period activity of the NZ Life Group is immaterial to CBA NZ Operations and as such this Disclosure Statement only presents information relating to the NZ Banking Group.

### *Legally Enforceable Restrictions*

On 25 November 2015, the Australian Prudential Regulation Authority ("APRA") informed CBA that it will be required to reduce its non-equity exposure to ASB Bank Limited ("ASB") and its subsidiaries to below a limit of five percent of CBA's Level 1 Tier 1 Capital over a five-year period commencing on 1 January 2016. APRA confirmed it will allow, on agreeable terms, the Australian parent banks to provide contingent funding support to their New Zealand banking subsidiaries in times of financial stress. At this time, only covered bonds meet the criteria for contingent funding arrangements. CBA expects to be compliant with APRA's requirements by the end of the transition period.

In July 2018, APRA released proposed changes to prudential standard APS 222: Associations with Related Entities. The proposed changes, including the revised standard, were open for consultation until September 2018 and intended to be implemented from 1 January 2020. If the proposed changes are implemented in full, the limit to CBA's exposure to ASB will reduce to 25% of CBA's Level 1 Tier 1 Capital (currently 50% of CBA's Level 1 Total Capital) and CBA's aggregate exposure to all related Authorised Deposit-taking Institutions ("ADI's") and overseas based equivalents will be limited to 75% of CBA's Level 1 Tier 1 Capital. CBA expects to meet the revised limits within the implementation timeframe.

### *Australian Transaction Reports and Analysis Centre Civil Proceedings*

On 20 June 2018 the Federal Court of Australia approved the agreement between CBA and the Australian Transaction Reports and Analysis Centre ("AUSTRAC") to resolve the civil penalty proceedings commenced by AUSTRAC on 3 August 2017 concerning contraventions of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) ("AML/CTF Act"). Accordingly, CBA recognised a civil penalty expense of AUD700 million together with AUSTRAC's legal costs of AUD2.5 million in its financial statements for the year ended 30 June 2018.

CBA has acted to strengthen its financial crime capabilities, and has invested significantly, recognising the crucial role that it plays, including through its Program of Action with coverage across all aspects of financial crime (including AML/CTF, sanctions and anti-bribery and corruption) and all business units.

# General Disclosures (continued)

(To be read in conjunction with the Financial Statements)

## 6.0 Other Material Matters (continued)

### *Australian Transaction Reports and Analysis Centre Civil Proceedings (continued)*

CBA is committed to ensuring that the necessary work is done as quickly as possible and that the Overseas Banking Group works cooperatively with AUSTRAC to continue to develop an AML/CTF compliance function of the highest standard.

The Overseas Banking Group has provided for certain costs of running the Program of Action.

### *Australian Securities and Investments Commission Investigation*

In September 2017, following the commencement of the civil proceedings against CBA by AUSTRAC, Australian Securities and Investments Commission ("ASIC") launched an investigation in relation to the Overseas Banking Group's disclosure in respect of the allegations raised in connection with the AUSTRAC proceedings. ASIC is investigating, among other things, whether the officers and directors at CBA complied with their obligations under the Corporations Act 2001 (Cth). CBA continues to engage with ASIC in respect of the investigation and respond to requests made by ASIC. It is currently not possible to predict the ultimate outcome of this investigation, if any, on the Overseas Banking Group. The Overseas Banking Group has provided for the legal costs expected to be incurred in relation to this investigation.

### *Shareholder Class Actions*

In October 2017 CBA was served with a shareholder class action proceeding filed in the Federal Court of Australia alleging breaches of CBA's continuous disclosure obligations and misleading and deceptive conduct in relation to the subject matter of the civil penalty proceedings brought by AUSTRAC. It is alleged that CBA shareholders who acquired an interest in CBA shares between 1 July 2015 and 3 August 2017 suffered loss caused by the alleged conduct. On 29 June 2018 a similar second shareholder class action in relation to the subject matter of the AUSTRAC civil proceedings was served on CBA on behalf of certain CBA shareholders who acquired an interest in CBA shares between 16 June 2014 and 3 August 2017. The class action lawyers have now filed an application seeking permission to consolidate the two shareholder class actions so they proceed as one court proceedings. It is likely the court will make this order following a court hearing on 6 February 2019. It is currently not possible to determine the ultimate impact of these claims, if any, on CBA. CBA denies the allegations and intends to defend both claims. CBA has provided for legal costs expected to be incurred to defend these claims.

### *Superannuation Class Action*

On 9 October 2018, a class action claim was filed against CBA and Colonial First State Investments Limited ("CFSIL") in the Federal Court of Australia. The claim relates to investment in cash and deposit options (which are cash and deposit products prioritised by CBA) in Colonial First State FirstChoice Superannuation Trust and Commonwealth Essential Super. The main allegation is that members with these options in the funds received lower interest rates on them than they would have, had CFSIL put them in equivalent products with higher interest rates obtainable on the market. It is alleged that CBA was involved in CFSIL's breaches as trustee of the funds and CFSIL's breaches as Responsible Entity of the underlying managed investment schemes. The amount claimed has not been quantified so it is currently not possible to determine the ultimate impact of these claims, if any, on the Overseas Banking Group. Both CBA and CFSIL deny the allegations and intend to defend the claim. CBA and CFSIL served their defense to the claim on 20 December 2018. The Overseas Banking Group has made provision for the legal costs expected to be incurred in the defense of the claim.

### *APRA's Prudential Inquiry into CBA*

On 28 August 2017, APRA announced it would establish an independent prudential inquiry (the "Inquiry") into the Overseas Banking Group with the goal of identifying shortcomings in the governance, culture and accountability frameworks.

The final report of the Inquiry was released on 1 May 2018 ("Final Report"). The Final Report made a number of findings regarding the complex interplay of organisational and cultural factors within the Overseas Banking Group and the need for enhanced management of non-financial risks. In response to the Final Report, the Overseas Banking Group acknowledged that it will implement all of the recommendations and agreed to adjust its minimum operational risk capital requirements by an additional AUD1 billion (risk weighted assets AUD12.5 billion) until such time as the recommendations are implemented to APRA's satisfaction.

CBA has entered into an Enforceable Undertaking under which CBA's remedial action plan ("Remedial Action Plan") in response to the Final Report would be agreed and monitored regularly by APRA. On 29 June 2018 CBA announced that APRA had endorsed CBA's Remedial Action Plan, which details CBA's response to the 35 recommendations of the Inquiry in the Final Report. The Remedial Action Plan provides a detailed program of change outlining how CBA will improve the way it runs its business, manages risk, and works with regulators. The Remedial Action Plan also provides a comprehensive assurance framework, with Promontory Australia (Sydney) having been appointed as the independent reviewer and which is required to report to APRA on the Overseas Banking Group's progress every 3 months, with the first report being submitted on 28 September 2018 and the second report on 20 December 2018.

The Overseas Banking Group has expensed the costs incurred in relation to the Inquiry.

### *The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*

On 30 November 2017, the Australian Government announced the establishment of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the "Royal Commission"). The former High Court Judge, the Honourable Kenneth Hayne AC QC was appointed as the Commissioner.

The purpose of the Royal Commission was to inquire into the conduct of banks, insurers, superannuation funds and other financial services institutions, and to assess the effectiveness of existing regulatory frameworks and mechanisms for customer redress.

During the course of 2018 the Royal Commission conducted rounds of public hearings, focused on key elements of the financial services industry, including consumer lending, financial advice, lending to small and medium enterprises, superannuation, general and life insurance, and experiences with financial services entities in regional and remote communities.

The Overseas Banking Group engaged openly and transparently with the Royal Commission and has responded to the various requirements of the Royal Commission, including providing requested documents, attending hearings, and preparing submissions. The Overseas Banking Group provided for costs incurred in relation to the conduct of the Royal Commission.

The Commissioner's final report was delivered to the Australian Government on 1 February 2019. The Commissioner's report outlined misconduct findings in relation to the financial services industry including the Overseas Banking Group and policy recommendations that will form the basis of regulatory changes. The Overseas Banking Group is working through the matters raised in the Commissioner's final report.

# General Disclosures (continued)

(To be read in conjunction with the Financial Statements)

## 6.0 Other Material Matters (continued)

### *Australian Securities and Investments Commission Bank Bill Swap Rate*

On 21 June 2018 the Federal Court of Australia approved the agreement between CBA and ASIC to resolve the proceedings concerning alleged market manipulation and unconscionable conduct in respect of the bank bill market. Accordingly, CBA has paid a civil penalty of AUD5 million and a community benefit payment of AUD15 million to Financial Literacy Australia. It also has agreed to pay ASIC's costs of the investigation and legal costs. The Overseas Banking Group has provided for these costs in the prior period.

As part of the settlement CBA also entered into an Enforceable Undertaking with ASIC under which CBA undertook to engage an independent expert to assess changes it has made (and will make) to its policies, procedures, controls systems, training, guidance and framework for the monitoring and supervision of employees and trading in Prime Bank Bills and CBA's Bank Bill Swap Rate ("BBSW") referenced product businesses. On 5 October 2018, CBA appointed Ernst & Young as the independent expert. CBA provided its BBSW Program of remediation to ASIC and Ernst & Young on 21 December 2018.

### *ASIC's Close and Continuing Monitoring Program*

On 28 October 2018 ASIC commenced its first onsite review of CBA as part of its enhanced Close and Continuing Monitoring Program ("CCM Program") of the financial services industry in Australia. ASIC has stated that the CCM Program represents a more intensive supervisory approach by ASIC which includes regularly placing ASIC staff onsite in major financial institutions to closely monitor their governance and compliance with laws.

The first onsite review of CBA as part of the CCM Program took place over seven and a half weeks with up to nine ASIC supervisors onsite.

The focus of the CCM Program is on compliance with financial services laws. ASIC has indicated further onsite reviews will continue to be conducted.

## 7.0 Conditions of Registration

By virtue of an amendment to the conditions of registration on 1 January 2019, the definition of "banking group" was updated with retrospective effect from 2 July 2018 as follows:

- "banking group", with effect from 2 July 2018, means the New Zealand business of the registered bank and its subsidiaries as required to be reported in group financial statements for the group's New Zealand business under section 461B(2) of the Financial Markets Conduct Act 2013.

There were no other changes to conditions of registration between 30 June 2018 and 31 December 2018.

## 8.0 Name and Address for Service of Auditor

PricewaterhouseCoopers New Zealand  
Chartered Accountants  
PwC Tower  
188 Quay Street  
Auckland 1010  
New Zealand



# CBA New Zealand Operations Disclosure Statement

## Statements by the Directors and the New Zealand Chief Executive Officer

**Each Director and the New Zealand Chief Executive Officer believes, after due enquiry, that as at the date on which the Disclosure Statement is signed:**

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

**Each Director and the New Zealand Chief Executive Officer believes, after due enquiry, that for the six months ended 31 December 2018:**

- the Registered Bank has complied with all Conditions of Registration imposed by the Reserve Bank under section 74 of the Reserve Bank of New Zealand Act 1989 that applied during that period; and
- the New Zealand business of the Registered Bank had systems in place to monitor and control adequately the material risks of the Registered Bank's Banking Group, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other material business risks, and that those systems were being properly applied.

**Signed by the New Zealand Chief Executive Officer of the Commonwealth Bank of Australia New Zealand**



V.A.J. Shortt  
22 February 2019

**Signed by or on behalf of all the Directors of the Commonwealth Bank of Australia**



M.P. Comyn  
Managing Director and Chief Executive Officer

For himself and on behalf of each other Director  
22 February 2019

Commonwealth Bank of Australia  
New Zealand Banking Group

Financial Statements

For the six months ended 31 December 2018



# Income Statement

\$ millions	NZ Banking Group	
	Unaudited 31-Dec-18	Unaudited 31-Dec-17
<b>For the six months ended</b>	Note	
Interest income		2,261
Interest expense		1,246
<b>Net interest earnings</b>		1,015
Other income	2	341
<b>Total operating income</b>		1,356
Impairment losses on financial assets	6	44
<b>Total operating income after impairment losses</b>		1,312
<b>Total operating expenses</b>		479
Salaries and other staff expenses		267
Building occupancy and equipment expenses		52
Information technology expenses		73
Other expenses		87
<b>Net profit before taxation</b>		833
Taxation		244
<b>Net profit after taxation</b>		589
Attributable to:		
Parent company shareholders		583
Non-controlling interests		6
<b>Net profit after taxation</b>		589

# Statement of Comprehensive Income

\$ millions	NZ Banking Group	
	Unaudited 31-Dec-18	Unaudited 31-Dec-17
<b>Net profit after taxation</b>		589
<b>Other comprehensive (expense)/income, net of taxation</b>		
<b>Items that may be reclassified subsequently to the Income Statement:</b>		
Net change in fair value through other comprehensive income reserve		(10)
Net change in available-for-sale reserve		-
Net change in cash flow hedge reserve		(17)
Net change in foreign currency translation reserve		(1)
<b>Total other comprehensive (expense)/income, net of taxation</b>		(28)
<b>Total comprehensive income</b>		561
Attributable to:		
Parent company shareholders		555
Non-controlling interests		6
<b>Total comprehensive income</b>		561

These statements are to be read in conjunction with the notes on pages 5 to 35 and the Independent Review Report from 36 to 37.

# Statement of Changes in Equity

\$ millions	Note	NZ Banking Group									Total Shareholders' Equity
		Head Office Contribution	Contributed Capital	Asset Revaluation Reserve	Available-for-Sale Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	FVOCI Reserve <sup>(1)</sup>	Retained Earnings	Non-controlling Interests	
<b>For the six months ended 31 December 2018</b>											
<b>Unaudited</b>											
Balance at 30 June 2018		2,887	667	29	14	(116)	1	-	3,965	550	7,997
Effects of new accounting standards	23	-	-	-	(14)	-	-	14	(30)	-	(30)
Balance at beginning of the period		2,887	667	29	-	(116)	1	14	3,935	550	7,967
Net profit after taxation		-	-	-	-	-	-	-	583	6	589
Other comprehensive expense		-	-	-	-	(17)	(1)	(10)	-	-	(28)
<b>Total comprehensive (expense)/income</b>		-	-	-	-	(17)	(1)	(10)	583	6	561
Ordinary dividends paid		-	-	-	-	-	-	-	(175)	-	(175)
Perpetual preference dividends paid to non-controlling interests		-	-	-	-	-	-	-	-	(6)	(6)
Profit repatriation		-	-	-	-	-	-	-	(6)	-	(6)
<b>Balance as at 31 December 2018</b>		<b>2,887</b>	<b>667</b>	<b>29</b>	<b>-</b>	<b>(133)</b>	<b>-</b>	<b>4</b>	<b>4,337</b>	<b>550</b>	<b>8,341</b>
<b>For the six months ended 31 December 2017</b>											
<b>Unaudited</b>											
Balance at beginning of period		462	667	26	2	(118)	1	-	3,412	550	5,002
Net profit after taxation		-	-	-	-	-	-	-	561	6	567
Other comprehensive income		-	-	-	7	15	-	-	-	-	22
<b>Total comprehensive income</b>		-	-	-	7	15	-	-	561	6	589
Capital injection		2,425	-	-	-	-	-	-	-	-	2,425
Ordinary dividends paid		-	-	-	-	-	-	-	(250)	-	(250)
Perpetual preference dividends paid to non-controlling interests		-	-	-	-	-	-	-	-	(6)	(6)
Profit repatriation		-	-	-	-	-	-	-	(8)	-	(8)
<b>Balance as at 31 December 2017</b>		<b>2,887</b>	<b>667</b>	<b>26</b>	<b>9</b>	<b>(103)</b>	<b>1</b>	<b>-</b>	<b>3,715</b>	<b>550</b>	<b>7,752</b>

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

These statements are to be read in conjunction with the notes on pages 5 to 35 and the Independent Review Report from 36 to 37.

# Balance Sheet

\$ millions	NZ Banking Group			
	Unaudited 31-Dec-18	Unaudited 31-Dec-17	Audited 30-Jun-18	
<b>As at</b>	Note			
<b>Assets</b>				
Cash and liquid assets		3,538	1,333	2,569
Due from financial institutions		539	777	921
Trading securities	23	-	3,562	2,344
Securities at fair value through other comprehensive income	23	8,472	-	-
Derivative assets		1,286	1,336	1,836
Available-for-sale securities	23	-	6,192	6,849
Advances to customers	4	88,138	83,502	85,728
Other assets		353	274	286
Property, plant and equipment		192	181	184
Intangible assets		464	460	467
Deferred tax assets		174	145	155
<b>Total assets</b>		<b>103,156</b>	<b>97,762</b>	<b>101,339</b>
<i>Total interest earning and discount bearing assets</i>		<i>100,674</i>	<i>95,389</i>	<i>98,456</i>
<b>Liabilities</b>				
Deposits and other borrowings	8	65,591	60,740	62,328
Due to financial institutions		914	1,295	1,212
Other liabilities at fair value through Income Statement	23	-	1,593	1,097
Derivative liabilities		935	1,155	1,115
Current tax liabilities		73	48	125
Other liabilities		572	530	634
Debt issues:				
At fair value through Income Statement	9	214	196	148
At amortised cost	9	19,300	16,971	19,253
Loan capital		7,216	7,482	7,430
<b>Total liabilities</b>		<b>94,815</b>	<b>90,010</b>	<b>93,342</b>
<b>Shareholders' Equity</b>				
Head office contribution		2,887	2,887	2,887
Contributed capital - ordinary shares		667	667	667
Reserves		(100)	(67)	(72)
Retained earnings		4,337	3,715	3,965
<b>Ordinary shareholders' equity</b>		<b>7,791</b>	<b>7,202</b>	<b>7,447</b>
<b>Non-controlling interests</b>		<b>550</b>	<b>550</b>	<b>550</b>
<b>Total shareholders' equity</b>		<b>8,341</b>	<b>7,752</b>	<b>7,997</b>
<b>Total liabilities and shareholders' equity</b>		<b>103,156</b>	<b>97,762</b>	<b>101,339</b>
<i>Total interest and discount bearing liabilities</i>		<i>87,801</i>	<i>83,653</i>	<i>86,694</i>

These statements are to be read in conjunction with the notes on pages 5 to 35 and the Independent Review Report from 36 to 37.

# Cash Flow Statement

\$ millions	NZ Banking Group	
	Unaudited 31-Dec-18	Unaudited 31-Dec-17
<b>For the period ended</b>		
<b>Cash flows from operating activities</b>		
Net profit before taxation	833	788
<b>Reconciliation of net profit before taxation to net cash flows from operating activities</b>		
Non-cash items included in net profit before taxation:		
Depreciation of property, plant and equipment	16	16
Amortisation of intangible assets	25	24
Net change in provisions for impairment losses	55	16
Amortisation of loan establishment fee	41	39
Net change in fair value of financial instruments and hedged items	(11)	46
Other movements	-	(2)
Net (increase)/decrease in operating assets:		
Net change in reverse repurchase agreements	(677)	1,117
Net change in due from financial institutions	200	170
Net change in trading securities	2,344	(1,989)
Net change in securities at fair value through other comprehensive income	(8,415)	-
Net change in derivative assets	512	56
Net change in available-for-sale securities	6,849	(1,758)
Net change in advances to customers	(2,578)	(2,323)
Net change in other assets	(41)	(35)
Net increase/(decrease) in operating liabilities:		
Net change in deposits and other borrowings	3,271	2,515
Net change in due to financial institutions	(298)	123
Net change in other liabilities at fair value through Income Statement	(1,097)	527
Net change in derivative liabilities	(163)	(71)
Net change in other liabilities	(57)	(59)
Net taxation paid	(293)	(274)
<b>Net cash flows from operating activities</b>	<b>516</b>	<b>(1,074)</b>
<b>Cash flows from investing activities</b>		
Cash was provided from:		
Proceeds from sale of property, plant and equipment	-	3
Total cash inflows provided from investing activities	-	3
Cash was applied to:		
Purchase of property, plant and equipment	(24)	(16)
Purchase of intangible assets	(30)	(31)
Total cash outflows applied to investing activities	(54)	(47)
<b>Net cash flows from investing activities</b>	<b>(54)</b>	<b>(44)</b>
<b>Cash flows from financing activities</b>		
Cash was provided from:		
Issue of loan capital (net of issue costs)	-	(6)
Issue of debt securities (net of issue costs)	4,265	4,188
Head office contribution	-	2,425
Total cash inflows provided from financing activities	4,265	6,607
Cash was applied to:		
Ordinary dividends paid	(175)	(250)
Redemption of issued debt securities	(4,254)	(5,353)
Dividends paid to non-controlling interests	(6)	(6)
Total cash outflows applied to financing activities	(4,435)	(5,609)
<b>Net cash flows from financing activities</b>	<b>(170)</b>	<b>998</b>
<b>Summary of movements in cash flows</b>		
Net increase/(decrease) in cash and cash equivalents	292	(120)
Add: cash and cash equivalents at beginning of period	1,051	1,414
<b>Cash and cash equivalents at end of period</b>	<b>1,343</b>	<b>1,294</b>
<b>Cash and cash equivalents comprise:</b>		
Cash and liquid assets	3,538	1,333
Less: reverse repurchase agreements included in cash and liquid assets	(2,195)	(39)
<b>Cash and cash equivalents at end of period</b>	<b>1,343</b>	<b>1,294</b>
<b>Additional operating cash flow information</b>		
Interest received as cash	2,280	2,141
Interest paid as cash	(1,263)	(1,204)
Other income received as cash	284	294
Operating expenses paid as cash	(495)	(463)

These statements are to be read in conjunction with the notes on pages 5 to 35 and the Independent Review Report from 36 to 37.

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 1 Statement of Accounting Policies

The reporting entity is the NZ Banking Group which is an aggregation of the Branch, ASB Holdings Limited, ASB Funding Limited, ASB and its controlled entities, CBA Funding (NZ) Limited and its subsidiaries, CBA NZ Holding Limited and its subsidiary, up until 25 October 2017, CBA USA Funding Limited, and from 1 July 2018, First State Investments (NZ) Limited. The basis of aggregation is an addition of the NZ Banking Group entities' individual financial statements. All transactions and balances between entities within the NZ Banking Group have been fully eliminated.

The condensed interim financial statements of the NZ Banking Group for the six months ended 31 December 2018 (the "financial statements") have been incorporated in this Disclosure Statement. They have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") as appropriate for for-profit entities, NZ IAS 34 *Interim Financial Reporting* and the Order. These financial statements do not include all the information and disclosures required in annual financial statements and should therefore be read in conjunction with the NZ Banking Group's financial statements for the year ended 30 June 2018. These financial statements comply with both IAS 34 *Interim Financial Reporting* and NZ IAS 34.

The financial statements are presented in New Zealand dollars, which is the functional and presentation currency of the entities within the NZ Banking Group. All amounts contained in this Disclosure Statement are presented in millions, unless otherwise stated.

All policies have been applied on a basis consistent with that used in the financial year ended 30 June 2018, except as set out below:

### NZ IFRS 9 *Financial Instruments*

NZ IFRS 9, which replaced NZ IAS 39 *Financial Instruments: Recognition and Measurement*, was adopted on 1 July 2018. The standard covers three broad topics: classification and measurement, impairment, and hedging.

As permitted by the transitional provisions of NZ IFRS 9, the NZ Banking Group has elected not to restate comparative information on initial application of NZ IFRS 9. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in opening retained earnings and the financial assets at fair value through other comprehensive income ("FVOCI") reserve. NZ IFRS 9 also includes an accounting policy choice to continue to apply hedge accounting in accordance with NZ IAS 39, which the NZ Banking Group has currently elected to do.

A reconciliation of presentational and measurement differences from the adoption of NZ IFRS 9 at 1 July 2018 is set out in note 23.

The key areas of impact from NZ IFRS 9 are:

- (a) Classification and measurement: requiring asset classification and measurement based upon both business model and contractual cashflow characteristics; and
- (b) Impairment: introducing an expected credit loss model using forward looking information which replaces the previous incurred loss model.

#### *Classification and measurement*

The NZ Banking Group offers an extensive range of financial instruments. Financial instruments are transacted on a commercial basis to derive an interest yield with terms and conditions having due regard to the nature of the transaction and the risks involved. All financial assets measured at fair value are accounted for on a trade date basis. Loans are recognised when cash is advanced to the borrower. Financial liabilities are recognised when an obligation arises.

#### FINANCIAL ASSET DEBT INSTRUMENTS

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

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

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

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

In assessing whether contractual cashflows are SPPI, the NZ 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 NZ Banking Group also considers the following primary terms and assesses if the contractual cashflows of the instruments meet the SPPI test:

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

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 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.

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

Financial assets in this category include Cash and liquid assets, Due from financial institutions, Advances to customers and Other assets.



# Notes to the Financial Statements

For the six months ended 31 December 2018

## 1 Statement of Accounting Policies (continued)

### FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets with contractual cash flows that comprise SPPI, and which are held in a business model whose objective is to both collect their contractual cash flows and to sell are subsequently measured at FVOCI, unless designated as FVTIS.

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

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.

FVOCI is a new category under NZ IFRS 9, and financial assets in this category include securities at fair value through other comprehensive income.

### FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

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

Financial assets in this category include Derivative assets.

### 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 NZ 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 and Debt issues at FVTIS.

### FINANCIAL LIABILITIES AT AMORTISED COST

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

Financial liabilities in this category include Deposits and other borrowings, Due to financial institutions, Other liabilities, Debt issues at amortised cost and Loan capital. Other liabilities at FVTIS, previously represented by certain certificates of deposit, are now included within Deposits and other borrowings.

### *Impairment*

The adoption of NZ IFRS 9 has had a significant impact on the NZ Banking Group's impairment methodology. The NZ IFRS 9 expected credit loss ("ECL") model is forward-looking. In contrast, the NZ IAS 39 impairment allowance assessment was based on an incurred loss model, and measured on assets where there was objective evidence that loss had been incurred, using information at the reporting date.

The NZ IFRS 9 credit impairment requirements apply to all financial assets measured at amortised cost, lease receivables, debt instruments measured at FVOCI, loan commitments and financial guarantee contracts.

Financial assets at FVTIS are not assessed for impairment as their fair value reflects the credit quality of the instrument, and changes in fair value are recognised in other income or other expenses, as appropriate.

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

#### Stage 1 - 12 months ECL - "Performing"

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

#### Stage 2 - Lifetime ECL - "Underperforming"

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

#### Stage 3 - Lifetime ECL - "Non-performing"

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

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

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 1 Statement of Accounting Policies (continued)

### *Significant increase in credit risk*

When considering a transfer from Stage 1 to Stage 2, a significant increase in credit risk for a financial asset is assessed by comparing the risk of default at reporting date to the corresponding risk of default at origination. In determining what constitutes a significant increase in credit risk, the NZ Banking Group has considered reasonable and supportable qualitative and quantitative information. For the majority of portfolios, the primary indicator of a significant increase in credit risk is a significant deterioration in the internal credit rating grade of a facility between origination and reporting date. The NZ Banking Group also use a range of secondary indicators, such as, 30 days past due arrears data.

### *ECL measurement and forward-looking information*

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

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

The NZ Banking Group considers four alternative macroeconomic scenarios to ensure a sufficient representative sample of economic conditions when estimating ECL. These scenarios include forward-looking macroeconomic factors (e.g. unemployment, interest rates, house prices, exchange rates, share market growth and other factors specific to the prospects of individual industries). The ASB Loan Loss Provisioning Committee ("LLPC") is responsible for approving significant accounting estimates and judgements relating to: macroeconomic scenarios and their associated probability weightings; credit risk factors; and management adjustments that are made to account for situations where additional known or expected risks and information have not been considered in the modelling process.

The NZ Banking Group's Provisions for Impairment Losses, Impairment Losses on Financial Assets and any areas of key accounting estimates and judgements are reported to the Board Audit and Risk Committee of ASB ("BARC").

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

### **NZ IFRS 15 Revenue from Contracts with Customers**

NZ IFRS 15 replaces NZ IAS 11 *Construction Contracts* and NZ IAS 18 *Revenue* and related interpretations and was adopted from 1 July 2018. NZ IFRS 15 applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards.

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

As permitted by the transition provisions of NZ IFRS 15, the NZ Banking Group has recognised the cumulative effect of initially applying NZ IFRS 15 as an adjustment to the opening balance of retained earnings at 1 July 2018. A reconciliation of measurement differences from the adoption of NZ IFRS 15 on 1 July 2018 is set out in note 23.

The NZ Banking Group's revenue recognition accounting policies are not materially impacted by the adoption of NZ IFRS 15.

### **Changes to Comparatives**

#### *Cash Flow Statement*

From 1 July 2018, the NZ Banking Group now presents the non-cash foreign exchange movement in debt issues within the reconciliation of net profit before taxation to net cash flows from operating activities (in net change in fair value of financial instruments and hedged items). Comparatives have been restated for consistency, resulting in a \$77 million increase in net cash flows from operating activities, and an offsetting \$77million increase in redemption of issued debt securities in financing activities and decrease in net cash flows from financing activities. The restatement was made to better reflect the NZ Banking Group's cash flows from financing activities and has no effect on the Balance Sheet or the Income Statement.

The net change in derivative assets and derivative liabilities are now disclosed separately within the reconciliation of net profit before taxation to net cash flows from operating activities. Comparatives have been restated for consistency with the presentation in the current period.

In addition, amortisation of loan establishment fees are now disclosed separately from other movements within the reconciliation of net profit before taxation to net cash flows from operating activities. Comparatives have been restated for consistency resulting in a \$39 million decrease in other movements, and separate presentation of this amount.

#### *Other comparatives*

From 1 July 2018, the NZ Banking Group presents costs associated with credit card loyalty schemes and outsourced investment management in operating expenses. These were previously presented within other income. Comparatives have been restated for consistency, resulting in a \$27 million increase in other income and other operating expenses.

Additionally, \$7 million of building occupancy and equipment expenses have been reclassified to information technology expenses to ensure consistency with presentation in the current period. This has no impact on the total operating expenses.

Other comparative restatements or classifications are footnoted throughout the financial statements.

All reclassifications and restatements have no impact on net profit after taxation.

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 2 Other Income

Unaudited

\$ millions For the six months ended	NZ Banking Group	
	31-Dec-18	31-Dec-17
<b>Net fair value (loss)/gain from:</b>		
Derivatives not qualifying for hedge accounting	(2)	(1)
Hedge ineffectiveness	10	6
<b>Total net fair value gain</b>	<b>8</b>	<b>5</b>
Trading income	52	58
<b>Other operating income</b>		
Revenue from contracts with customers	277	258
Other	4	7
<b>Total other operating income</b>	<b>281</b>	<b>265</b>
<b>Total other income</b>	<b>341</b>	<b>328</b>

Revenue from contracts with customers is disaggregated across the following categories, and is consistent with the segment descriptions detailed in note 18:

\$ millions For the six months ended 31 December 2018	NZ Banking Group						Other	Total
	Retail Banking	Business Banking	Corporate Banking	Institutional Banking and Markets	Private Banking, Wealth and Insurance			
<b>Revenue from contracts with customers</b>								
Lending fees	9	10	13	11	-	-	43	
Commission and other fees	124	34	4	1	39	(36)	166	
Funds management income	50	3	-	-	68	(53)	68	
<b>Total revenue from contracts with customers</b>	<b>183</b>	<b>47</b>	<b>17</b>	<b>12</b>	<b>107</b>	<b>(89)</b>	<b>277</b>	

\$ millions For the six months ended 31 December 2017	NZ Banking Group						Other	Total
	Retail Banking	Business Banking	Corporate Banking	Institutional Banking and Markets	Private Banking, Wealth and Insurance			
<b>Revenue from contracts with customers</b>								
Lending fees	9	10	11	11	-	-	41	
Commission and other fees	121	30	5	1	37	(35)	159	
Funds management income	43	3	-	-	58	(46)	58	
<b>Total revenue from contracts with customers</b>	<b>173</b>	<b>43</b>	<b>16</b>	<b>12</b>	<b>95</b>	<b>(81)</b>	<b>258</b>	

The amounts included in the table above represent the portion of other income which relates to revenue from contracts with customers, and therefore will not agree to the segment information disclosed in note 18.

## 3 Financial Assets Pledged as Collateral for Liabilities

Unaudited

As at 31 December 2018, no securities were pledged as collateral under repurchase agreements.

The NZ Banking Group has entered into credit support annexes in respect of certain credit exposures relating to derivative transactions. As at 31 December 2018, \$190 million included in Due from financial institutions had been advanced as cash collateral to counterparties with whom the NZ Banking Group has net derivative liability positions.

In addition, the ASB Covered Bond Trust, a controlled entity of ASB holds certain Mortgage Loans originated by ASB. ASB Covered Bond Trustee Limited ("Covered Bond Guarantor"), solely in its capacity as trustee of the Covered Bond Trust provides guarantees over certain debt securities ("Covered Bonds") issued by ASB 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. As at 31 December 2018, the Covered Bond Trust held Mortgage Loans with a carrying value of \$5.8 billion and \$149 million cash which have been pledged in respect of the Covered Bonds.

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 4 Advances to Customers

\$ millions	NZ Banking Group		
	Unaudited 31-Dec-18	Unaudited 31-Dec-17	Audited 30-Jun-18
<b>As at</b>			
Residential mortgages (refer to note 5(a))	55,339	52,580	53,918
Other retail (refer to note 5(b))	5,204	5,111	5,185
Corporate (refer to note 5(c))	27,982	26,110	26,932
<b>Total gross carrying amount of advances to customers</b>	<b>88,525</b>	83,801	86,035
Provisions for impairment losses (refer to note 5(d))	(387)	(299)	(307)
<b>Total advances to customers</b>	<b>88,138</b>	83,502	85,728

## 5 Credit Quality Information for Advances to Customers

### Unaudited

This note is presented separately for each of the following asset categorisations:

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

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

The impact on provisions for impairment losses from the adoption of NZ IFRS 9 is set out in note 23.

### (a) Residential Mortgages

The following table explains the changes in the NZ Banking Group's provisions for impairment losses for residential mortgages between the beginning and the end of the reporting period:

\$ millions	NZ Banking Group				Total
	Stage 1 Collective provision	Stage 2 Collective provision	Stage 3 Collective provision	Stage 3 Individually assessed provisions	
<b>As at 31 December 2018</b>					
<b>Movement in provisions for impairment losses - residential mortgages</b>					
Balance at beginning of period	17	37	6	3	63
(Credited against)/charged to the Income Statement for:					
<b>Transfers between ECL Stages:</b>					
Stage 1 collective provision to Stage 2 collective provision	(2)	7	-	-	5
Stage 1 collective provision to Stage 3 collective provision	-	-	2	-	2
Stage 2 collective provision to Stage 1 collective provision	-	(2)	-	-	(2)
Stage 2 collective provision to Stage 3 collective provision	-	(2)	6	-	4
Stage 3 collective provision to Stage 1 collective provision	-	-	-	-	-
Stage 3 collective provision to Stage 2 collective provision	-	1	(5)	-	(4)
Net transfers to/(from) Stage 3 individually assessed provisions	-	-	-	-	-
<b>Total transfers between ECL Stages</b>	<b>(2)</b>	<b>4</b>	<b>3</b>	<b>-</b>	<b>5</b>
Changes in collective provisions due to additions and deletions	1	(1)	(2)	-	(2)
Changes in collective provisions due to amounts written off	-	-	-	-	-
Other changes in collective provisions <sup>(1)</sup>	3	-	-	-	3
<b>Total charged to the Income Statement for collective provisions</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>-</b>	<b>6</b>
New and increased individually assessed provisions	-	-	-	3	3
Write-back of individually assessed provisions no longer required	-	-	-	(3)	(3)
<b>Total charged to the Income Statement for individually assessed provisions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Amounts written off from individually assessed provisions	-	-	-	(1)	(1)
<b>Balance at end of period</b>	<b>19</b>	<b>40</b>	<b>7</b>	<b>2</b>	<b>68</b>

(1) Includes the impact of non-significant changes in the credit quality of existing residential mortgages, changes in the expected life of existing residential mortgages, changes in future forecast economic assumptions and other changes in models or assumptions.

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 5 Credit Quality Information for Advances to Customers (continued)

### Unaudited

#### (a) Residential mortgages (continued)

The following explains how changes in the gross carrying amounts of residential mortgages during the period have contributed to changes in the provisions for impairment losses of residential mortgages.

#### Stage 1 collective provision

The Stage 1 collective provision increased by \$2 million. This is driven by a \$2 million decrease in the provision due to a net transfer of \$288 million in residential mortgages to other Stages, and a \$1 million increase in the provision due to a net increase of \$1,901 million in residential mortgages as a result of new, increased, decreased and closed lending within this Stage. The remaining \$3 million increase in the provision is due to other changes in collective provisions, primarily non-significant decreases in the credit quality of existing residential mortgages within this Stage, and changes in future forecast economic assumptions.

#### Stage 2 collective provision

The Stage 2 collective provision increased by \$3 million. This is driven by a \$4 million increase in the provision due to a net transfer of \$195 million in residential mortgages from other Stages and a \$1 million decrease in the provision due to a net decrease of \$428 million in residential mortgages as a result of new, increased, decreased and closed lending within this Stage.

#### Stage 3 collective provision

The Stage 3 collective provision increased by \$1 million. This is driven by a \$3 million increase in the provision due to a net transfer of \$89 million in residential mortgages from other Stages and a \$2 million decrease in the provision due to a net decrease of \$40 million in residential mortgages as a result of new, increased, decreased and closed lending within this Stage.

#### Stage 3 individually assessed provisions

Stage 3 individually assessed provisions decreased by \$1 million, driven by an \$8 million decrease in the gross carrying amount of individually assessed residential mortgages.

The table below further details the changes in gross carrying amounts of residential mortgages between the beginning and the end of the reporting period to help explain the impact on the provisions for impairment losses for the same asset category as discussed above.

\$ millions	NZ Banking Group				Total
	Stage 1 Collectively assessed	Stage 2 Collectively assessed	Stage 3 Collectively assessed	Stage 3 Individually assessed	
<b>As at 31 December 2018</b>					
<b>Movement in gross carrying amounts of residential mortgages</b>					
Balance at beginning of period	46,830	6,933	125	30	53,918
Changes due to transfer between ECL stages:					
Stage 1 collectively assessed to Stage 2 collectively assessed	(653)	653	-	-	-
Stage 1 collectively assessed to Stage 3 collectively assessed	(54)	-	54	-	-
Stage 2 collectively assessed to Stage 1 collectively assessed	419	(419)	-	-	-
Stage 2 collectively assessed to Stage 3 collectively assessed	-	(171)	171	-	-
Stage 3 collectively assessed to Stage 1 collectively assessed	-	-	-	-	-
Stage 3 collectively assessed to Stage 2 collectively assessed	-	131	(131)	-	-
Net transfers to/(from) Stage 3 individually assessed	-	1	(5)	4	-
<b>Total changes due to transfer between ECL stages</b>	<b>(288)</b>	<b>195</b>	<b>89</b>	<b>4</b>	<b>-</b>
Additions <sup>(1)</sup>	7,235	305	2	-	7,542
Deletions (excluding amounts written off) <sup>(2)</sup>	(5,334)	(733)	(42)	(11)	(6,120)
<b>Net additions/(deletions)</b>	<b>1,901</b>	<b>(428)</b>	<b>(40)</b>	<b>(11)</b>	<b>1,422</b>
Amounts written off	-	-	-	(1)	(1)
<b>Balance at end of period</b>	<b>48,443</b>	<b>6,700</b>	<b>174</b>	<b>22</b>	<b>55,339</b>

(1) Additions include amounts drawn either from existing or new facilities during the reporting period.

(2) Deletions include amounts which have been repaid on facilities during the reporting period.

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 5 Credit Quality Information for Advances to Customers (continued)

### Unaudited

#### (b) Other Retail

The following table explains the changes in the NZ Banking Group's provisions for impairment losses for other retail Advances to customers between the beginning and the end of the reporting period:

\$ millions	NZ Banking Group				Total
	Stage 1 Collective provision	Stage 2 Collective provision	Stage 3 Collective provision	Stage 3 Individually assessed provisions	
<b>As at 31 December 2018</b>					
<b>Movement in provisions for impairment losses - other retail Advances to customers</b>					
Balance at beginning of period	54	36	18	4	112
(Credited against)/charged to the Income Statement for:					
<b>Transfers between ECL Stages:</b>					
Stage 1 collective provision to Stage 2 collective provision	(11)	22	-	-	11
Stage 1 collective provision to Stage 3 collective provision	-	-	3	-	3
Stage 2 collective provision to Stage 1 collective provision	3	(9)	-	-	(6)
Stage 2 collective provision to Stage 3 collective provision	-	(5)	13	-	8
Stage 3 collective provision to Stage 1 collective provision	-	-	-	-	-
Stage 3 collective provision to Stage 2 collective provision	-	2	(7)	-	(5)
Net transfers to/(from) Stage 3 individually assessed provisions	-	-	-	-	-
<b>Total transfers between ECL Stages</b>	<b>(8)</b>	<b>10</b>	<b>9</b>	<b>-</b>	<b>11</b>
Changes in collective provisions due to additions and deletions	1	(4)	(3)	-	(6)
Changes in collective provisions due to amounts written off	-	(3)	(7)	-	(10)
Other changes in collective provisions <sup>(1)</sup>	5	(3)	-	-	2
<b>Total credited against the Income Statement for collective provisions</b>	<b>(2)</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>(3)</b>
New and increased individually assessed provisions	-	-	-	1	1
Write-back of individually assessed provisions no longer required	-	-	-	(1)	(1)
<b>Total charged to the Income Statement for individually assessed provisions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Amounts written off from individually assessed provisions	-	-	-	(1)	(1)
<b>Balance at end of period</b>	<b>52</b>	<b>36</b>	<b>17</b>	<b>3</b>	<b>108</b>

(1) Includes the impact of changes in non-significant credit quality of existing other retail Advances to customers, changes in the expected life of existing other retail Advances to customers, changes in future forecast economic assumptions and other changes in models or assumptions.

The following explains how changes in the gross carrying amounts of other retail Advances to customers during the period have contributed to changes in the provisions for impairment losses of other retail Advances to customers.

#### Stage 1 collective provision

The Stage 1 collective provision decreased by \$2 million. This is driven by an \$8 million decrease in the provision due to a net transfer of \$61 million in other retail Advances to customers to other Stages, and a \$1 million increase in the provision due to a net increase of \$94 million in other retail Advances to customers as a result of new, increased, decreased and closed lending within this Stage. The remaining \$5 million increase in the provision is due to other changes in collective provisions, primarily non-significant decreases in the credit quality of existing other retail Advances to customers within this Stage.

#### Stage 2 collective provision

The Stage 2 collective provision is consistent with that at the beginning of the period. However, within this Stage there is a \$10 million increase in the provision due to a net transfer of \$34 million in other retail Advances to customers from other Stages, a \$4 million decrease in the provision due to a net decrease of \$24 million in other retail Advances to customers as a result of new, increased, decreased and closed lending within this Stage, and a \$3 million decrease due to the release of collective provisions associated with \$19 million in other retail Advances to customers written off. The remaining \$3 million decrease in the provision is due to other changes in collective provisions, primarily non-significant improvements in the credit quality of existing other retail Advances to customers within this Stage.

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 5 Credit Quality Information for Advances to Customers (continued)

### Unaudited

#### (b) Other Retail (continued)

##### Stage 3 collective provision

The Stage 3 collective provision decreased by \$1 million. This is driven by a \$9 million increase in the provision due to a net transfer of \$25 million in other retail Advances to customers from other Stages, a \$3 million decrease in the provision due to a net decrease of \$10 million in other retail Advances to customers as a result of new, increased, decreased and closed lending within this Stage and a \$7 million release of collective provisions associated with \$14 million in other retail Advances to customers written off.

##### Stage 3 individually assessed provisions

Stage 3 individually assessed provisions decreased by \$1 million, driven by a \$3 million decrease in the gross carrying amount of individually assessed other retail Advances to customers.

The table below further details the changes in gross carrying amounts of other retail Advances to customers between the beginning and the end of the reporting period to help explain the impact on the provisions for impairment losses for the same asset category as discussed above.

\$ millions	NZ Banking Group				Total
	Stage 1 Collectively assessed	Stage 2 Collectively assessed	Stage 3 Collectively assessed	Stage 3 Individually assessed	
<b>As at 31 December 2018</b>					
<b>Movement in gross carrying amounts of other retail Advances to customers</b>					
Balance at beginning of period	4,773	350	50	12	5,185
Changes due to transfer between ECL stages:					
Stage 1 collectively assessed to Stage 2 collectively assessed	(246)	246	-	-	-
Stage 1 collectively assessed to Stage 3 collectively assessed	(6)	-	6	-	-
Stage 2 collectively assessed to Stage 1 collectively assessed	193	(193)	-	-	-
Stage 2 collectively assessed to Stage 3 collectively assessed	-	(36)	36	-	-
Stage 3 collectively assessed to Stage 1 collectively assessed	-	-	-	-	-
Stage 3 collectively assessed to Stage 2 collectively assessed	-	17	(17)	-	-
Net transfers (from)/to Stage 3 individually assessed	(2)	-	-	2	-
<b>Total changes due to transfer between ECL stages</b>	<b>(61)</b>	<b>34</b>	<b>25</b>	<b>2</b>	<b>-</b>
Additions <sup>(1)</sup>	2,348	62	9	-	2,419
Deletions (excluding amounts written off) <sup>(2)</sup>	(2,254)	(86)	(19)	(4)	(2,363)
<b>Net additions/(deletions)</b>	<b>94</b>	<b>(24)</b>	<b>(10)</b>	<b>(4)</b>	<b>56</b>
Amounts written off	(3)	(19)	(14)	(1)	(37)
<b>Balance at end of period</b>	<b>4,803</b>	<b>341</b>	<b>51</b>	<b>9</b>	<b>5,204</b>

(1) Additions include amounts drawn either from existing or new facilities during the reporting period.

(2) Deletions include amounts which have been repaid on facilities during the reporting period.

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 5 Credit Quality Information for Advances to Customers (continued)

### Unaudited

#### (c) Corporate

The following table explains the changes in the NZ Banking Group's provisions for impairment losses for corporate Advances to customers between the beginning and the end of the reporting period:

\$ millions	NZ Banking Group				Total
	Stage 1 Collective provision	Stage 2 Collective provision	Stage 3 Collective provision	Stage 3 Individually assessed provisions	
<b>As at 31 December 2018</b>					
<b>Movement in provisions for impairment losses - corporate Advances to customers</b>					
Balance at beginning of period	45	113	4	42	204
(Credited against)/charged to the Income Statement for:					
<b>Transfers between ECL Stages:</b>					
Stage 1 collective provision to Stage 2 collective provision	(3)	11	-	-	8
Stage 1 collective provision to Stage 3 collective provision	-	-	-	-	-
Stage 2 collective provision to Stage 1 collective provision	3	(9)	-	-	(6)
Stage 2 collective provision to Stage 3 collective provision	-	(1)	1	-	-
Stage 3 collective provision to Stage 1 collective provision	-	-	-	-	-
Stage 3 collective provision to Stage 2 collective provision	-	-	-	-	-
Net transfers to/(from) Stage 3 individually assessed provisions	-	-	-	-	-
<b>Total transfers between ECL Stages</b>	-	1	1	-	2
Changes in collective provisions due to additions and deletions	(1)	(3)	(1)	-	(5)
Changes in collective provisions due to amounts written off	-	-	-	-	-
Other changes in collective provisions <sup>(1)</sup>	(1)	2	-	-	1
<b>Total credited against the Income Statement for collective provisions</b>	(2)	-	-	-	(2)
New and increased individually assessed provisions	-	-	-	23	23
Write-back of individually assessed provisions no longer required	-	-	-	(5)	(5)
<b>Total charged to the Income Statement for individually assessed provisions</b>	-	-	-	18	18
Amounts written off from individually assessed provisions	-	-	-	(9)	(9)
<b>Balance at end of period</b>	<b>43</b>	<b>113</b>	<b>4</b>	<b>51</b>	<b>211</b>

(1) Includes the impact of non-significant changes in the credit quality of existing corporate Advances to customers, changes in the expected life of existing corporate Advances to customers, changes in future forecast economic assumptions and other changes in models or assumptions.

The following explains how changes in the gross carrying amounts of corporate Advances to customers during the period have contributed to changes in the provisions for impairment losses of corporate Advances to customers.

#### Stage 1 collective provision

The Stage 1 collective provision decreased by \$2 million. This is driven by a \$1 million decrease in the provision associated with a net increase of \$942 million in corporate Advances to customers as a result of new, increased, decreased and closed lending within this Stage (reflecting differences in credit quality between the gross carrying amount of additions and deletions during the reporting period). The remaining \$1 million decrease in the provision is due to other changes in collective provisions, primarily non-significant improvements in the credit quality of existing corporate Advances to customers within this Stage.

#### Stage 2 collective provision

The Stage 2 collective provision is consistent with that at the beginning of the period. However, within this Stage there is a \$1 million increase in the provision associated with a net transfer of \$3 million in corporate Advances to customers to other Stages, and a \$3 million decrease in the provision which is related to a net increase of \$182 million in corporate Advances to customers as a result of new, increased, decreased and closed lending within this Stage. Differences in credit quality between the gross carrying amount of additions, deletions and transfers to and from this Stage have contributed to the impact on the provision. The remaining \$2 million increase in the provision is due to other changes in collective provisions, primarily non-significant decreases in the credit quality of existing corporate Advances to customers within this Stage, and changes in the expected life of existing corporate Advances to customers.



# Notes to the Financial Statements

For the six months ended 31 December 2018

## 5 Credit Quality Information for Advances to Customers (continued)

### Unaudited

#### (c) Corporate (continued)

#### Stage 3 collective provision

The Stage 3 collective provision is consistent with that at the beginning of the period. However, within this Stage there is a \$1 million increase in the provision due to a net transfer of \$5 million in corporate Advances to customers from other Stages, and a \$1 million decrease in the provision due to a net decrease of \$12 million in corporate Advances to customers as a result of new, increased, decreased and closed lending within this Stage.

#### Stage 3 individually assessed provisions

Stage 3 individually assessed provisions increased by \$9 million, which is associated with a \$69 million decrease in the gross carrying amount of individually impaired corporate Advances to customers. The increase in individually assessed provisions is primarily due to an increase in provisions raised on individually impaired corporate Advances to customers included within this category at the beginning of the reporting period.

The table below further details the changes in gross carrying amounts of corporate Advances to customers between the beginning and the end of the reporting period to help explain the impact on changes in the provisions for impairment losses for the same asset category as discussed above.

\$ millions	NZ Banking Group				Total
	Stage 1 Collectively assessed	Stage 2 Collectively assessed	Stage 3 Collectively assessed	Stage 3 Individually assessed	
<b>As at 31 December 2018</b>					
<b>Movement in gross carrying amounts of corporate Advances to customers</b>					
Balance at beginning of period	15,799	10,651	50	432	26,932
Changes due to transfer between ECL stages:					
Stage 1 collectively assessed to Stage 2 collectively assessed	(1,070)	1,070	-	-	-
Stage 1 collectively assessed to Stage 3 collectively assessed	(3)	-	3	-	-
Stage 2 collectively assessed to Stage 1 collectively assessed	1,078	(1,078)	-	-	-
Stage 2 collectively assessed to Stage 3 collectively assessed	-	(19)	19	-	-
Stage 3 collectively assessed to Stage 1 collectively assessed	-	-	-	-	-
Stage 3 collectively assessed to Stage 2 collectively assessed	-	15	(15)	-	-
Net transfers to/(from) Stage 3 individually assessed	-	9	(2)	(7)	-
<b>Total changes due to transfer between ECL stages</b>	<b>5</b>	<b>(3)</b>	<b>5</b>	<b>(7)</b>	<b>-</b>
Additions <sup>(1)</sup>	4,360	2,109	4	-	6,473
Deletions (excluding amounts written off) <sup>(2)</sup>	(3,418)	(1,927)	(16)	(53)	(5,414)
<b>Net additions/(deletions)</b>	<b>942</b>	<b>182</b>	<b>(12)</b>	<b>(53)</b>	<b>1,059</b>
Amounts written off	-	-	-	(9)	(9)
<b>Balance at end of period</b>	<b>16,746</b>	<b>10,830</b>	<b>43</b>	<b>363</b>	<b>27,982</b>

(1) Additions include amounts drawn either from existing or new facilities during the reporting period.

(2) Deletions include amounts which have been repaid on facilities during the reporting period.

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 5 Credit Quality Information for Advances to Customers (continued)

Unaudited

### (d) Total Advances to Customers

The following table explains the changes in the NZ Banking Group's provisions for impairment losses for total Advances to customers between the beginning and the end of the reporting period:

\$ millions	NZ Banking Group				Total
	Stage 1 Collective provision	Stage 2 Collective provision	Stage 3 Collective provision	Stage 3 Individually assessed provisions	
<b>As at 31 December 2018</b>					
<b>Movement in provisions for impairment losses - total Advances to customers</b>					
Balance at beginning of period	116	186	28	49	379
(Credited against)/charged to the Income Statement for:					
<b>Transfers between ECL Stages:</b>					
Stage 1 collective provision to Stage 2 collective provision	(16)	40	-	-	24
Stage 1 collective provision to Stage 3 collective provision	-	-	5	-	5
Stage 2 collective provision to Stage 1 collective provision	6	(20)	-	-	(14)
Stage 2 collective provision to Stage 3 collective provision	-	(8)	20	-	12
Stage 3 collective provision to Stage 1 collective provision	-	-	-	-	-
Stage 3 collective provision to Stage 2 collective provision	-	3	(12)	-	(9)
Net transfers to/(from) Stage 3 individually assessed provisions	-	-	-	-	-
<b>Total transfers between ECL Stages</b>	<b>(10)</b>	<b>15</b>	<b>13</b>	<b>-</b>	<b>18</b>
Changes in collective provisions due to additions and deletions	1	(8)	(6)	-	(13)
Changes in collective provisions due to amounts written off	-	(3)	(7)	-	(10)
Other changes in collective provisions <sup>(1)</sup>	7	(1)	-	-	6
<b>Total (credited against)/charged to the Income Statement for collective provisions</b>	<b>(2)</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>1</b>
New and increased individually assessed provisions	-	-	-	27	27
Write-back of individually assessed provisions no longer required	-	-	-	(9)	(9)
<b>Total charged to the Income Statement for individually assessed provisions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18</b>	<b>18</b>
Amounts written off from individually assessed provisions	-	-	-	(11)	(11)
<b>Balance at end of period</b>	<b>114</b>	<b>189</b>	<b>28</b>	<b>56</b>	<b>387</b>

(1) Includes the impact of non-significant changes in the credit quality of existing Advances to customers, changes in the expected life of existing Advances to customers, changes in future forecast economic assumptions and other changes in models or assumptions.

Explanations of how changes in the gross carrying amounts of total Advances to customers have contributed to changes in the provisions for impairment losses for total Advances to customers are included in sections (a), (b) and (c).

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 5 Credit Quality Information for Advances to Customers (continued)

Unaudited

### (d) Total Advances to Customers (continued)

The table below further details the changes in gross carrying amounts of total Advances to customers between the beginning and the end of the reporting period to help explain the impact on changes in the provisions for impairment losses for total Advances to customers.

\$ millions	NZ Banking Group				Total
	Stage 1 Collectively assessed	Stage 2 Collectively assessed	Stage 3 Collectively assessed	Stage 3 Individually assessed	
<b>As at 31 December 2018</b>					
<b>Movement in gross carrying amounts of total Advances to customers</b>					
Balance at beginning of period	67,402	17,934	225	474	86,035
Changes due to transfer between ECL stages:					
Stage 1 collectively assessed to Stage 2 collectively assessed	(1,969)	1,969	-	-	-
Stage 1 collectively assessed to Stage 3 collectively assessed	(63)	-	63	-	-
Stage 2 collectively assessed to Stage 1 collectively assessed	1,690	(1,690)	-	-	-
Stage 2 collectively assessed to Stage 3 collectively assessed	-	(226)	226	-	-
Stage 3 collectively assessed to Stage 1 collectively assessed	-	-	-	-	-
Stage 3 collectively assessed to Stage 2 collectively assessed	-	163	(163)	-	-
Net transfers (from)/to Stage 3 individually assessed	(2)	10	(7)	(1)	-
<b>Total changes due to transfer between ECL Stages</b>	<b>(344)</b>	<b>226</b>	<b>119</b>	<b>(1)</b>	<b>-</b>
Additions <sup>(1)</sup>	13,943	2,476	15	-	16,434
Deletions (excluding amounts written off) <sup>(2)</sup>	(11,006)	(2,746)	(77)	(68)	(13,897)
<b>Net additions/(deletions)</b>	<b>2,937</b>	<b>(270)</b>	<b>(62)</b>	<b>(68)</b>	<b>2,537</b>
Amounts written off	(3)	(19)	(14)	(11)	(47)
<b>Balance at end of period</b>	<b>69,992</b>	<b>17,871</b>	<b>268</b>	<b>394</b>	<b>88,525</b>

(1) Additions include amounts drawn either from existing or new facilities during the reporting period.

(2) Deletions include amounts which have been repaid on facilities during the reporting period.

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 5 Credit Quality Information for Advances to Customers (continued)

Unaudited

### (e) Past due assets not individually impaired

\$ millions	NZ Banking Group			Total
	Residential Mortgages	Other Retail	Corporate	
<b>As at 31 December 2018</b>				
1 to 7 days	1,038	167	299	1,504
8 to 29 days	550	95	78	723
1 to 29 days	1,588	262	377	2,227
30 to 59 days	201	50	7	258
60 to 89 days	68	22	3	93
90 days and over	58	23	7	88
<b>Total past due assets not individually impaired</b>	<b>1,915</b>	<b>357</b>	<b>394</b>	<b>2,666</b>

### (f) Other credit quality information

\$ millions	NZ Banking Group			Total
	Residential Mortgages	Other Retail	Corporate	
<b>As at 31 December 2018</b>				
<b>Other assets under administration</b>	<b>24</b>	<b>4</b>	<b>-</b>	<b>28</b>

Undrawn balances on lending commitments to counterparties within the Stage 3 individually assessed asset category were \$5 million as at 31 December 2018.

## 6 Impairment losses on financial assets

Unaudited

\$ millions	NZ Banking Group			Total
	Residential Mortgages	Other Retail	Corporate	
<b>For the six months ended 31 December 2018</b>				
Charged to/(credited against) the Income Statement for collective provisions	6	(3)	(2)	1
Charged to the Income Statement for individually assessed provisions	-	-	18	18
Bad debts written off directly to the Income Statement	-	36	-	36
Recovery of amounts previously written off	(1)	(8)	(2)	(11)
<b>Total impairment losses recognised in the Income Statement</b>	<b>5</b>	<b>25</b>	<b>14</b>	<b>44</b>

Impairment losses on other financial assets are not material to the NZ Banking Group.

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 7 Concentrations of Credit Exposures Unaudited

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

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

Other financial assets have been excluded from the analysis, on the basis that any credit exposure is insignificant or nil.

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

Australian and New Zealand Standard Industrial Classification ("ANZSIC") codes have been used as the basis for categorising customer industry sectors. The significant categories shown are in line with the level one New Zealand Standard Industry Output Categories ("NZSIOC"), except that Agriculture is shown separately as required by the Order.

\$ millions	NZ Banking Group			
	Financial Assets at Amortised Cost	Financial Assets at Fair Value	Other Credit Exposures	Total Credit Exposures
<b>As at 31 December 2018</b>				
<b>Concentration by industry</b>				
Agriculture	10,681	18	781	11,480
Forestry and Fishing, Agriculture Services	443	2	64	509
Manufacturing	1,372	33	692	2,097
Electricity, Gas, Water and Waste Services	384	70	351	805
Construction	558	-	296	854
Wholesale Trade	962	11	423	1,396
Retail Trade and Accommodation	1,427	1	422	1,850
Transport, Postal and Warehousing	888	4	405	1,297
Financial and Insurance Services	4,952	5,029	179	10,160
Rental, Hiring and Real Estate Services	30,913	40	1,573	32,526
Professional, Scientific, Technical, Administrative and Support Services	487	1	368	856
Public Administration and Safety	12	4,540	288	4,840
Education and Training	412	1	126	539
Health Care and Social Assistance	1,450	6	383	1,839
Arts, Recreation and Other Services	394	1	183	578
Household	36,637	-	9,871	46,508
All other	243	1	165	409
<b>Total credit exposures by industry</b>	<b>92,215</b>	<b>9,758</b>	<b>16,570</b>	<b>118,543</b>
<b>Concentration by geographic region</b>				
Auckland	45,631	1,815	9,812	57,258
Rest of New Zealand	44,134	1,958	6,592	52,684
Overseas	2,450	5,985	166	8,601
<b>Total credit exposures by geographic region</b>	<b>92,215</b>	<b>9,758</b>	<b>16,570</b>	<b>118,543</b>

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 8 Deposits and Other Borrowings

\$ millions	NZ Banking Group		
	Unaudited 31-Dec-18	Unaudited 31-Dec-17	Audited 30-Jun-18
<b>As at</b>			
Certificates of deposit	3,628	2,374	2,551
Term deposits	33,107	30,664	32,268
On demand and short term deposits	23,479	23,041	22,689
Deposits not bearing interest	5,377	4,661	4,820
<b>Total deposits and other borrowings</b>	<b>65,591</b>	<b>60,740</b>	<b>62,328</b>

As at 31 December 2018 the Branch did not have any retail deposits (deposits with natural persons, excluding deposits with an outstanding balance which exceeds \$250,000).

## 9 Debt Issues

\$ millions	NZ Banking Group		
	Unaudited 31-Dec-18	Unaudited 31-Dec-17	Audited 30-Jun-18
<b>As at</b>			
Debt issues at fair value through Income Statement	214	196	148
Debt issues at amortised cost	19,300	16,971	19,253
<b>Total debt issues</b>	<b>19,514</b>	<b>17,167</b>	<b>19,401</b>
<b>Movement in debt issues</b>			
Balance at beginning of period	19,401	17,680	17,680
Issuances during the period <sup>(1)</sup>	4,265	4,188	8,837
Repayments during the period <sup>(1)</sup>	(4,254)	(5,353)	(8,340)
Foreign exchange and fair value movements during the period <sup>(1)</sup>	102	652	1,224
<b>Balance at end of period</b>	<b>19,514</b>	<b>17,167</b>	<b>19,401</b>

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

Debt issues at amortised cost include a series of bonds quoted as ABB070 on the NZX Debt Market that mature on 7 September 2023 (the "Bonds"). NZX Regulation has granted ASB a waiver from the requirement in Rule 5.2.3 (as modified by NZX Regulation's Ruling on Rule 5.2.3 issued on 29 September 2015) for the Bonds to be held by at least 100 members of the public holding at least 25% of the Bonds issued (the "Spread"). The effect of this waiver is that the Bonds may not be widely held and there may be reduced liquidity in the Bonds. If there is a material reduction in the Spread of the Bonds, ASB will notify NZX as appropriate.

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 10 Contingent Liabilities

\$ millions	NZ Banking Group Notional Amount		
	Unaudited 31-Dec-18	Unaudited 31-Dec-17	Audited 30-Jun-18
<b>As at</b>			
Guarantees	173	192	200
Standby letters of credit	132	126	144
Other credit facilities	223	193	200
<b>Total credit related contingent liabilities</b>	<b>528</b>	<b>511</b>	<b>544</b>

The notional amount represents the maximum potential amount that could be lost if a counterparty fails to meet its financial obligations.

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

- has not complied with the requirements of the Holidays Act by not including certain incentive payments in ASB's calculation of gross earnings under the Holidays Act; and
- has not fully complied with some other requirements of the Holidays Act.

ASB's position in relation to the Labour Inspectorate's finding in a) above, is that the application of the law is uncertain and yet to be definitively determined. If extrapolated to ASB's entire workforce, that finding would result in an estimated liability of \$31 million in total for the preceding six years' annual holiday payments. ASB will continue to engage with the Labour Inspectorate on the matter.

ASB is considering the other findings in the report. As a result, it is not practicable to reliably estimate the financial effects (if any) of those findings at this stage, however ASB expects that they will not be material. ASB will work with the Labour Inspectorate in 2019 to progress an appropriate resolution of those matters.

The NZ Banking Group has other contingent liabilities in respect of undrawn lending commitments and actual and potential claims and proceedings. An assessment of the NZ Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision made in the financial statements where required by NZ GAAP.

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 11 Related Party Transactions and Balances

During the six months ended 31 December 2018 the NZ Banking Group has entered into, or had in place various financial transactions with members of the Overseas Banking Group, and other related parties. ASB provides administrative functions to some subsidiaries and related companies for which no compensation has been received. Loans to and borrowings from related parties are unsecured.

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

The Commonwealth Bank of Australia New Zealand Life Insurance Group ("NZ Life Group") included the ASB Group (Life) Limited group of companies and First State Investments (NZ) Limited ("FSI"). On 2 July 2018, CBA finalised the sale of 100% of its insurance business in New Zealand to AIA Group Limited. From that date the ASB Group (Life) Limited group of companies is no longer considered to be a related party of the NZ Banking Group. On 12 July 2018, ASB Group Life (Limited) was renamed to AIA Sovereign Limited. From 1 July 2018, FSI is aggregated into the NZ Banking Group.

The following balances represent amounts due to and from related parties classified within Cash and liquid assets, Due to financial institutions, Due to financial institutions, Deposits and other borrowings, Debt issues, Other assets, Other liabilities, Derivative assets and Derivative liabilities:

\$ millions	NZ Banking Group		
	Unaudited 31-Dec-18	Unaudited 31-Dec-17	Audited 30-Jun-18
<b>As at</b>			
<b>Amounts due to related parties</b>			
Overseas Banking Group	630	730	412
NZ Life Group	-	249	186
Superannuation schemes and managed investment schemes managed by a subsidiary of ASB <sup>(1)</sup>	940	912	949
<b>Total amounts due to related parties</b>	<b>1,570</b>	<b>1,891</b>	<b>1,547</b>
<b>Amounts due from related parties</b>			
Overseas Banking Group	827	693	914
NZ Life Group	-	-	4
Superannuation schemes and managed investment schemes managed by a subsidiary of ASB	15	13	14
<b>Total amounts due from related parties</b>	<b>842</b>	<b>706</b>	<b>932</b>

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

For the six months ended 31 December 2018 significant related party transactions included interest charged on balances due to the Overseas Banking Group of \$43 million (31 December 2017 \$46 million) and management and administration fees received from schemes managed by a subsidiary of ASB of \$51 million (31 December 2017 \$43 million). Ordinary dividends paid to the Overseas Bank are disclosed in the Statement of Changes in Equity.



# Notes to the Financial Statements

For the six months ended 31 December 2018

## 12 Fair Value of Financial Instruments

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

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

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

The NZ Banking Group categorises financial assets and financial liabilities at fair value into fair value hierarchy as required by NZ IFRS 13 *Fair Value Measurement* based on the observability of inputs used to measure fair values:

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

The NZ Banking Group considers transfers between levels, if any, to have occurred at the end of the reporting period for which the financial statements are prepared.

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

\$ millions	NZ Banking Group			Total
	Level 1	Level 2	Level 3	
<b>As at 31 December 2018</b>				
<b>Unaudited</b>				
<b>Financial assets</b>				
Securities at fair value through other comprehensive income	7,565	907	-	8,472
Derivative assets	1	1,285	-	1,286
<b>Total financial assets measured at fair value</b>	<b>7,566</b>	<b>2,192</b>	<b>-</b>	<b>9,758</b>
<b>Financial liabilities</b>				
Derivative liabilities	-	935	-	935
Debt issues at fair value through Income Statement	-	214	-	214
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>1,149</b>	<b>-</b>	<b>1,149</b>
<b>As at 31 December 2017</b>				
<b>Unaudited</b>				
<b>Financial assets</b>				
Trading securities	2,663	899	-	3,562
Derivative assets	-	1,336	-	1,336
Available-for-sale securities	5,828	364	-	6,192
<b>Total financial assets measured at fair value</b>	<b>8,491</b>	<b>2,599</b>	<b>-</b>	<b>11,090</b>
<b>Financial liabilities</b>				
Other liabilities at fair value through Income Statement	-	1,593	-	1,593
Derivative liabilities	-	1,155	-	1,155
Debt issues at fair value through Income Statement	-	196	-	196
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>2,944</b>	<b>-</b>	<b>2,944</b>

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 12 Fair Value of Financial Instruments (continued)

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

\$ millions	NZ Banking Group			Total
	Level 1	Level 2	Level 3	
<b>As at 30 June 2018</b>				
<b>Audited</b>				
<b>Financial assets</b>				
Trading securities	1,256	1,088	-	2,344
Derivative assets	-	1,836	-	1,836
Available-for-sale securities	6,561	288	-	6,849
<b>Total financial assets measured at fair value</b>	<b>7,817</b>	<b>3,212</b>	<b>-</b>	<b>11,029</b>
<b>Financial liabilities</b>				
Other liabilities at fair value through Income Statement	-	1,097	-	1,097
Derivative liabilities	-	1,115	-	1,115
Debt issues at fair value through Income Statement	-	148	-	148
<b>Total financial liabilities measured at fair value</b>	<b>-</b>	<b>2,360</b>	<b>-</b>	<b>2,360</b>

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

#### *Derivative Assets and Derivative Liabilities*

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

#### *Securities at fair value through other comprehensive income, Trading securities, Available-for-sale securities, Other liabilities at fair value through Income Statement and Debt issues at fair value through Income Statement*

The fair value is based on quoted market prices where applicable or calculated using discounted cash flow models. This discount rates applied in this calculation are based on current market rates.

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

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

\$ millions	NZ Banking Group					
	Unaudited 31-Dec-18		Unaudited 31-Dec-17		Audited 30-Jun-18	
	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value
<b>Financial assets</b>						
Cash and liquid assets	3,538	3,538	1,333	1,333	2,569	2,569
Due from financial institutions	539	539	777	777	921	921
Advances to customers	88,252	88,138	83,522	83,502	85,758	85,728
Other financial assets	327	327	250	250	260	260
<b>Total</b>	<b>92,656</b>	<b>92,542</b>	<b>85,882</b>	<b>85,862</b>	<b>89,508</b>	<b>89,478</b>
<b>Financial liabilities</b>						
Deposits and other borrowings	65,669	65,591	60,818	60,740	62,369	62,328
Due to financial institutions	914	914	1,295	1,295	1,212	1,212
Other financial liabilities <sup>(1)</sup>	547	547	503	503	606	606
Debt issues at amortised cost	19,312	19,300	17,117	16,971	19,341	19,253
Loan capital	7,285	7,216	7,651	7,482	7,447	7,430
<b>Total</b>	<b>93,727</b>	<b>93,568</b>	<b>87,384</b>	<b>86,991</b>	<b>90,975</b>	<b>90,829</b>

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

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 13 Market Risk Capital Charges

### Unaudited

The NZ Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank of New Zealand ("RBNZ") document *Capital Adequacy Framework (Standardised Approach)* (BS2A) and *Market Risk Guidance Notes* (BS6). The peak end-of-day exposure is derived by taking the highest market exposure over the six months ended 31 December 2018.

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

\$ millions	NZ Banking Group			
	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Total
<b>Exposures as at 31 December 2018</b>				
Implied risk-weighted exposure	2,018	258	-	2,276
Notional capital charge	161	21	-	182
\$ millions	NZ Banking Group			
	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Total
<b>Peak exposures for the six months ended 31 December 2018</b>				
Implied risk-weighted exposure	3,718	358	-	4,076
Notional capital charge	297	29	-	326

## 14 Residential mortgages by loan-to-valuation ratio ("LVR")

### Unaudited

\$ millions	NZ Banking Group					Total	
	LVR Range	0%-60%	60.1%-70%	70.1%-80%	80.1%-90%		>90%
<b>As at 31 December 2018</b>							
Value of exposures		29,116	13,729	16,477	3,152	1,389	63,863
Expressed as a percentage of total exposures		45.6%	21.5%	25.8%	4.9%	2.2%	100.0%

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

\$ millions	NZ Banking Group
<b>As at 31 December 2018</b>	
<b>Reconciliation of mortgage-related amounts</b>	
<b>Residential mortgages in advances to customers (refer to note 4)</b>	<b>55,339</b>
Add/(less):	
Off balance sheet exposures	8,119
Exposure at default adjustments	567
Unamortised loan establishment fees and expenses	(162)
<b>Residential mortgages in LVR disclosure</b>	<b>63,863</b>

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 15 Overseas Bank and Overseas Banking Group Unaudited

### Capital Adequacy

The Overseas Banking Group is accredited to use the Advanced Internal Ratings Based Approach ("AIRB") for credit risk and the Advanced Measurement Approach ("AMA") for operational risk, which have been adopted in the calculation of the Overseas Banking Group's risk weighted exposures.

The ultimate parent banking group adopted the Basel III measurement of regulatory capital effective from 1 January 2013. The APRA prudential standards require a minimum CET1 ratio of 4.5% which was effective from 1 January 2013. An additional CET1 capital conservation buffer of 3.5%, inclusive of a domestic systemically important bank requirement of 1% and a countercyclical capital buffer of 0%, was effective from 1 January 2016, bringing the CET1 requirement to at least 8% as specified under Basel III.

The Overseas Banking Group is required to disclose capital adequacy information quarterly. This information is made available to users via the Overseas Bank's website ([www.commbank.com.au](http://www.commbank.com.au)).

The Overseas Banking Group is required by APRA to hold minimum capital specified under the Basel III (AIRB) approach. As at 31 December 2018 the minimum capital requirements were met.

As at	Overseas Bank		Overseas Banking Group	
	31-Dec-18	31-Dec-17 <sup>(1)</sup>	31-Dec-18	31-Dec-17 <sup>(1)</sup>
<b>Capital ratios</b>				
Common equity tier one capital ratio	<b>11.3%</b>	11.0%	<b>10.8%</b>	10.4%
Tier one capital ratio	<b>13.3%</b>	12.7%	<b>12.9%</b>	12.3%
Total capital ratio	<b>16.3%</b>	15.2%	<b>15.8%</b>	14.7%

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

### Overseas Banking Group

#### Asset quality

##### As at 31 December 2018

Total gross individually impaired assets	<b>AUD3,560 million</b>
Total individually impaired assets as a % of total assets	<b>0.4%</b>
Total individually assessed provisions	<b>AUD920 million</b>
Total individually assessed provisions as a % of total gross individually impaired assets	<b>25.8%</b>
Total collective provision	<b>AUD3,814 million</b>

#### Profitability

Net profit after taxation for the six months ended 31 December 2018	<b>AUD4,599 million</b>
Net profit after taxation as a % of average total assets for the year ended 31 December 2018	<b>0.9%</b>

#### Size

##### As at 31 December 2018

Total assets	<b>AUD980,430 million</b>
% change in total assets from previous 31 December	<b>1.9%</b>

#### Total liabilities of the Branch net of amounts due to related parties

The total liabilities of the Branch net of amounts due to related parties were \$6,465 million as at 31 December 2018 (31 December 2017 \$6,720 million, 30 June 2018 \$6,669 million).

# Notes to the Financial Statements

For the six months ended 31 December 2018

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

The NZ Banking Group does not conduct any insurance business. However, certain general, travel and life insurance products are marketed and distributed by ASB for the following entities: IAG New Zealand Limited, Cigna Life Insurance Limited and Sovereign Assurance Company Limited (a wholly owned subsidiary of AIA Sovereign Limited, refer to note 11).

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

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

On 17 January 2018, ASB entered into an agreement to sell its 25% shareholding in Paymark Limited to Ingenico Group. ASB's investment in Paymark Limited is considered held for sale as at 31 December 2018 and is measured at the lower of carrying amount and fair value less costs to sell. Subsequent to the reporting date, on 11 January 2019 the sale was completed, resulting in an estimated gain on sale of \$44 million which is not recognised in this reporting period.

From 1 July 2018, FSI is aggregated into the NZ Banking Group (previously part of the NZ Life Group). This has no impact on the financial statements of the NZ Banking Group. Comparatives have been restated. On 13 August 2018, FSI retired as manager of First State Investments Global Listed Infrastructure Fund. It is the intention of the NZ Banking Group that FSI be wound up prior to 30 June 2019.

There were no other changes in the composition of the NZ Banking Group for the six months ended 31 December 2018.

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 18 Financial Reporting by Operating Segments

Unaudited

\$ millions	NZ Banking Group						Total
	Retail Banking	Business Banking	Corporate Banking	Institutional Banking and Markets	Private Banking, Wealth and Insurance	Other	
<b>Income Statement</b>							
<b>For the six months ended 31 December 2018</b>							
Net interest earnings	533	390	56	5	31	-	1,015
Other income/(loss)	201	64	24	21	113	(82)	341
Total operating income/(expense)	734	454	80	26	144	(82)	1,356
Impairment losses/(recoveries) on financial assets	30	17	(2)	(1)	-	-	44
Segment operating expenses/(income) (excluding impairment)	270	148	28	7	63	(37)	479
Segment net profit/(loss) before taxation	434	289	54	20	81	(45)	833
Taxation	121	81	15	6	23	(2)	244
Segment net profit/(loss) after taxation	313	208	39	14	58	(43)	589
<b>Balance Sheet</b>							
<b>As at 31 December 2018</b>							
Total assets	43,618	35,929	5,082	3,029	2,487	13,011	103,156
Total liabilities	34,914	14,845	6,207	1,992	4,303	32,554	94,815

\$ millions	NZ Banking Group						Total
	Retail Banking	Business Banking	Corporate Banking	Institutional Banking and Markets	Private Banking, Wealth and Insurance	Other	
<b>Income Statement<sup>(1)</sup></b>							
<b>For the six months ended 31 December 2017</b>							
Net interest earnings	499	366	46	5	25	(14)	927
Other income/(loss)	190	57	26	27	102	(74)	328
Total operating income/(expense)	689	423	72	32	127	(88)	1,255
Impairment losses/(recoveries) on financial assets	31	(5)	-	(16)	-	(1)	9
Segment operating expenses/(income) (excluding impairment)	255	145	28	7	61	(38)	458
Segment net profit/(loss) before taxation	403	283	44	41	66	(49)	788
Taxation	113	79	12	12	19	(14)	221
Segment net profit/(loss) after taxation	290	204	32	29	47	(35)	567
<b>Balance Sheet<sup>(1)</sup></b>							
<b>As at 31 December 2017</b>							
Total assets	41,917	33,520	4,906	3,201	2,246	11,972	97,762
Total liabilities	33,259	13,856	6,166	1,692	3,980	31,057	90,010

(1) From November 2018, Business banking and Corporate banking are reported separately to the Chief Operating Decision Maker. Comparatives have been restated.

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 18 Financial Reporting by Operating Segments (continued)

### Unaudited

#### Retail Banking:

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

#### Business Banking:

The Business Banking segment provides services to 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 ASB's financial markets activities, including financial instruments trading and sales of financial instruments to bank wide customers.

#### Institutional Banking and Markets:

Institutional Banking and Markets services the NZ Banking Group's sophisticated corporate, institutional and government clients using a relationship management model based on industry expertise and local insights. The New Zealand operations are part of CBA Institutional Banking and Markets' international operations.

#### 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 NZ Banking Group'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 NZ Banking Group's controlled entities in the preparation of the consolidated financial statements of the NZ Banking Group; and
- results of certain business units excluded for management reporting purposes, but included within the consolidated financial statements of the NZ Banking Group for statutory reporting purposes.

Operating income in each segment includes transfer pricing adjustments to reflect inter-segment funding arrangements. Inter-segment pricing is determined on an arm's length basis. Inter-segment transactions are eliminated for the purposes of reporting the consolidated NZ Banking Group's results and are included in the Other segment.

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 19 Interest Rate Repricing Schedule Unaudited

The following table represents a breakdown of the NZ Banking Group's assets and liabilities by their contractual repricing. The carrying amounts of derivative financial instruments, which are principally used to reduce the NZ Banking Group's exposure to interest rate movements, are included under the heading "Non-interest Bearing".

\$ millions	NZ Banking Group						Non-interest Bearing	Total
	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years			
<b>As at 31 December 2018</b>								
<b>Assets</b>								
Cash and liquid assets	3,285	-	-	-	-	253	3,538	
Due from financial institutions	539	-	-	-	-	-	539	
Securities at fair value through other comprehensive income	2,311	193	31	1,050	4,887	-	8,472	
Derivative assets	-	-	-	-	-	1,286	1,286	
Advances to customers	40,075	8,240	19,430	14,973	5,660	(240)	88,138	
Other financial assets	-	-	-	-	-	327	327	
<b>Total financial assets</b>	<b>46,210</b>	<b>8,433</b>	<b>19,461</b>	<b>16,023</b>	<b>10,547</b>	<b>1,626</b>	<b>102,300</b>	
Non-financial assets							856	
<b>Total assets</b>							<b>103,156</b>	
<b>Liabilities</b>								
Deposits and other borrowings	40,422	10,825	6,472	1,474	1,021	5,377	65,591	
Due to financial institutions	886	-	-	-	-	28	914	
Derivative liabilities	-	-	-	-	-	935	935	
Other financial liabilities	-	-	-	-	-	547	547	
Debt issues:								
At fair value through Income Statement	-	214	-	-	-	-	214	
At amortised cost	7,105	378	43	1,804	9,952	18	19,300	
Loan capital	6,405	400	-	-	400	11	7,216	
<b>Total financial liabilities</b>	<b>54,818</b>	<b>11,817</b>	<b>6,515</b>	<b>3,278</b>	<b>11,373</b>	<b>6,916</b>	<b>94,717</b>	
Non-financial liabilities							98	
<b>Total liabilities</b>							<b>94,815</b>	
<b>Net derivative notionals</b>	<b>16,485</b>	<b>(2,061)</b>	<b>(10,800)</b>	<b>(10,833)</b>	<b>7,209</b>			
<b>Interest rate sensitivity gap</b>	<b>7,877</b>	<b>(5,445)</b>	<b>2,146</b>	<b>1,912</b>	<b>6,383</b>			



# Notes to the Financial Statements

For the six months ended 31 December 2018

## 20 Qualifying Liquid Assets

### Unaudited

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

If ASB enters into a repurchase agreement with the RBNZ, the qualifying liquid assets sold under the agreement are subject to a reduction in value ("haircut") in accordance with the RBNZ's Operating Rules and Guidelines. This haircut can range from 1 to 19 percent, depending on the qualifying asset, and reduces the value of the qualifying liquid assets available for liquidity purposes. The table below does not adjust the qualifying liquid assets for this haircut.

\$ millions	NZ Banking Group				Total
	Cash and Liquid Assets	Securities at Fair Value through Other Comprehensive Income	Advances to Customers	Other Assets	
<b>As at 31 December 2018</b>					
Cash	296	-	-	-	296
Call deposits with the central bank	1,047	-	-	-	1,047
Local authority securities	-	345	-	4	349
New Zealand government securities	2,118	1,379	-	16	3,513
Overseas government securities	-	2,435	-	9	2,444
Corporate bonds	-	1,102	-	6	1,108
Treasury bills	77	192	-	-	269
RBNZ Bills	-	35	-	-	35
Bank bills	-	518	-	-	518
Kauri bonds	-	2,466	-	26	2,492
Residential mortgage-backed securities	-	-	3,880	-	3,880
<b>Total qualifying liquid assets</b>	<b>3,538</b>	<b>8,472</b>	<b>3,880</b>	<b>61</b>	<b>15,951</b>

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 21 Maturity Analysis for Undiscounted Contractual Cash Flows Unaudited

The following tables present the NZ 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 NZ Banking Group and its counterparties, such as early repayments or refinancing of term loans.

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

\$ millions	NZ Banking Group						Total	Carrying Value
	On Demand	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Between 2-5 Years	Over 5 Years		
<b>As at 31 December 2018</b>								
<b>Non-derivative financial liabilities</b>								
Deposits and other borrowings	28,856	28,038	6,536	1,513	1,041	16	66,000	65,591
Due to financial institutions	822	106	-	-	-	-	928	914
Other financial liabilities	63	432	46	6	-	-	547	547
Debt issues:								
At fair value through Income Statement	-	217	-	-	-	-	217	214
At amortised cost	-	3,540	1,649	2,905	8,228	4,227	20,549	19,300
Loan capital	-	150	150	300	900	7,279	8,779	7,216
<b>Total non-derivative financial liabilities</b>	<b>29,741</b>	<b>32,483</b>	<b>8,381</b>	<b>4,724</b>	<b>10,169</b>	<b>11,522</b>	<b>97,020</b>	<b>93,782</b>
<b>Derivative financial liabilities</b>								
Inflows from derivatives	-	1,130	469	1,553	8,885	3,713	15,750	
Outflows from derivatives	-	(1,719)	(628)	(1,824)	(9,539)	(3,955)	(17,665)	
	-	(589)	(159)	(271)	(654)	(242)	(1,915)	
<b>Off balance sheet items</b>								
Lending commitments	12,752	3,290	-	-	-	-	16,042	
Guarantees	-	173	-	-	-	-	173	
Other contingent liabilities	-	355	-	-	-	-	355	
<b>Total off balance sheet items</b>	<b>12,752</b>	<b>3,818</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,570</b>	

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 22 Concentrations of Funding

### Unaudited

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

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

\$ millions As at	NZ Banking Group 31-Dec-18
<b>Total funding comprises:</b>	
Deposits and other borrowings	65,591
Due to financial institutions	914
Debt issues:	
At fair value through Income Statement	214
At amortised cost	19,300
Loan capital	7,216
<b>Total funding</b>	<b>93,235</b>
<b>Concentration by industry</b>	
Agricultural, Forestry and Fishing	1,106
Manufacturing	787
Construction	771
Wholesale Trade	613
Retail Trade and Accommodation	926
Transport, Postal and Warehousing	763
Information Media and Telecommunications	304
Financial and Insurance Services	34,363
Rental, Hiring and Real Estate Services	3,541
Professional, Scientific, Technical, Administrative and Support Services	4,803
Public Administration and Safety	947
Education and Training	1,398
Health Care and Social Assistance	925
Arts, Recreation and Other Services	1,730
Households	39,917
All Other	341
<b>Total funding by industry</b>	<b>93,235</b>
<b>Concentration by geographic region</b>	
New Zealand	62,385
Overseas	30,850
<b>Total funding by geographic region</b>	<b>93,235</b>

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 23 New Accounting Standards Adopted on 1 July 2018

### Unaudited

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

\$ millions	Note	NZ IAS 39 Measurement Category	NZ IFRS 9 Measurement Category	Carrying Amount at 30 June 2018	NZ Banking Group		NZ IFRS 9 Measurement Impact	NZ IFRS 15 Measurement Impact	Carrying Amount at 1 July 2018
					NZ IFRS 9 Reclassification	Carrying Amount Post Reclassification			
<b>Assets</b>									
Cash and liquid assets		Loans and receivables	Amortised cost	2,569	-	2,569	-	-	2,569
Due from financial institutions		Loans and receivables	Amortised cost	921	-	921	-	-	921
Trading securities	(a)	FVTIS	FVOCI	2,344	(2,344)	-	-	-	-
Securities at fair value through other comprehensive income	(a), (b)	N/A	FVOCI	-	9,193	9,193	-	-	9,193
Derivative assets		FVTIS	FVTIS - mandated	1,836	-	1,836	-	-	1,836
Available-for-sale securities	(b)	Available-for-sale	N/A	6,849	(6,849)	-	-	-	-
Advances to customers	(c)	Loans and receivables	Amortised cost	85,728	-	85,728	(72)	-	85,656
Other assets	(d)	Loans and receivables	Amortised cost	286	-	286	-	32	318
Property, plant and equipment		N/A	N/A	184	-	184	-	-	184
Intangible assets		N/A	N/A	467	-	467	-	-	467
Deferred tax assets	(c), (d)	N/A	N/A	155	-	155	21	(9)	167
<b>Total assets</b>				<b>101,339</b>	<b>-</b>	<b>101,339</b>	<b>(51)</b>	<b>23</b>	<b>101,311</b>

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 23 New Accounting Standards Adopted on 1 July 2018 (continued)

Unaudited

\$ millions	Note	NZ IAS 39 Measurement Category	NZ IFRS 9 Measurement Category	Carrying Amount at 30 June 2018	NZ Banking Group		NZ IFRS 9 Measurement Impact	NZ IFRS 15 Measurement Impact	Carrying Amount at 1 July 2018
					NZ IFRS 9 Reclassification	Carrying Amount Post Reclassification			
<b>Liabilities</b>									
Deposits and other borrowings		Amortised cost	Amortised cost	62,328	1,097	63,425	-	-	63,425
Due to financial institutions		Amortised cost	Amortised cost	1,212	-	1,212	-	-	1,212
Other liabilities at fair value through Income Statement	(a)	FVTIS	N/A	1,097	(1,097)	-	-	-	-
Derivative liabilities		FVTIS	FVTIS - mandated	1,115	-	1,115	-	-	1,115
Current tax liabilities		N/A	N/A	125	-	125	-	-	125
Other liabilities	(c)	Amortised cost	Amortised cost	634	-	634	2	-	636
Debt issues:									
At fair value through Income Statement		FVTIS	FVTIS - designated	148	-	148	-	-	148
At amortised cost		Amortised cost	Amortised cost	19,253	-	19,253	-	-	19,253
Loan capital		Amortised cost	Amortised cost	7,430	-	7,430	-	-	7,430
<b>Total liabilities</b>				<b>93,342</b>	<b>-</b>	<b>93,342</b>	<b>2</b>	<b>-</b>	<b>93,344</b>
<b>Shareholders' equity</b>									
Head office contribution		N/A	N/A	2,887	-	2,887	-	-	2,887
Contributed capital - ordinary shares		N/A	N/A	667	-	667	-	-	667
Reserves	(b)	N/A	N/A	(72)	-	(72)	-	-	(72)
Retained earnings	(c), (d)	N/A	N/A	3,965	-	3,965	(53)	23	3,935
<b>Ordinary shareholder's equity</b>				<b>7,447</b>	<b>-</b>	<b>7,447</b>	<b>(53)</b>	<b>23</b>	<b>7,417</b>
<b>Non-controlling interests</b>		N/A	N/A	<b>550</b>	<b>-</b>	<b>550</b>	<b>-</b>	<b>-</b>	<b>550</b>
<b>Total shareholders' equity</b>				<b>7,997</b>	<b>-</b>	<b>7,997</b>	<b>(53)</b>	<b>23</b>	<b>7,967</b>
<b>Total liabilities and shareholders' equity</b>				<b>101,339</b>	<b>-</b>	<b>101,339</b>	<b>(51)</b>	<b>23</b>	<b>101,311</b>

# Notes to the Financial Statements

For the six months ended 31 December 2018

## 23 New Accounting Standards Adopted on 1 July 2018 (continued)

### Unaudited

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

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

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

- (b) Securities at fair value through other comprehensive income were previously categorised as available for sale under NZ IAS 39. Under NZ IFRS 9, these securities have been recategorised to FVOCI, as the NZ Banking Group's business model is achieved both by collecting contractual cash flows and selling these assets. The contractual cash flows of these securities are solely principal and interest. As a result, securities with a fair value of \$6,849 million as at 30 June 2018 were reclassified from Available-for-sale securities to Securities at fair value through other comprehensive income, and fair value gains of \$14 million were reclassified within Reserves, from the Available-for-sale reserve to the FVOCI reserve on 1 July 2018.
- (c) The NZ Banking Group's provisions for impairment losses as at 1 July 2018 has increased by \$74 million, which consists of \$72 million for Advances to Customers and \$2 million for off balance sheet exposures (recognised in Other liabilities). This resulted in a corresponding decrease of \$53 million in Retained earnings and an increase in Deferred tax assets of \$21 million. The increase in impairment provisions under NZ IFRS 9 is mainly driven by the requirement to hold provisions equivalent to lifetime expected losses for all loans that have experienced a significant increase in credit risk since origination and the impact of forward-looking factors on expected credit losses estimates. Under NZ IAS 39, provisions were only held for incurred losses on the portfolio and forward-looking factors were not considered.

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

\$ millions	NZ Banking Group		
	NZ IAS 39 Provision for Impairment Losses 30 June 2018	NZ IFRS 9 Measurement Impact on Transition	NZ IFRS 9 Provision for Impairment Losses 1 July 2018
<b>Provisions for Impairment Losses</b>			
Advances to customers	307	72	379
Other liabilities	-	2	2
<b>Total Provisions for Impairment Losses</b>	<b>307</b>	<b>74</b>	<b>381</b>

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

## 24 Events after the Reporting Period

### Unaudited

On 17 January 2019, the Directors of ASB Capital Limited declared a quarterly gross perpetual preference dividend of \$1 million, being 0.8375 cents per share, including imputation credits. The cash dividend of 0.6030 cents per share was paid on 15 February 2019 to all registered holders of perpetual preference shares as at 5.00pm on 5 February 2019.

On 17 January 2019, the Directors of ASB Capital No.2 Limited declared a quarterly gross perpetual preference dividend of \$2 million, being 0.7625 cents per share, including imputation credits. The cash dividend of 0.5490 cents per share was paid on 15 February 2019 to all registered holders of perpetual preference shares as at 5.00pm on 5 February 2019.

Refer to note 17 for details of the sale of Paymark Limited after the reporting period.

On 5 February 2019, the CBA Board approved the redemption of Perpetual Preference Shares issued by ASB Capital Limited and ASB Capital No. 2 Limited at their total par value of \$550 million plus any accrued dividends, in accordance with the terms of the securities. The redemption is expected to be completed in May 2019. As at 31 December 2018, the Perpetual Preference Shares represented the total equity attributable to non-controlling interests.

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

# Independent Review Report



## *Independent Review Report*

To the Directors of the Commonwealth Bank of Australia

### *Report on the Disclosure Statement*

We have reviewed pages 1 to 35 of the Disclosure Statement for the six months ended 31 December 2018 of the Commonwealth Bank of Australia (the 'Company') in respect of the New Zealand Banking Group (the 'NZ Banking Group'), which includes the condensed interim financial statements (the 'financial statements') required by Clause 26 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the 'Order') and the supplementary information required by Schedules 5, 7, 9, 10, 12 and 14 of the Order. The financial statements comprise the balance sheet as at 31 December 2018, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the six months then ended, and the notes to the financial statements that include the statement of accounting policies, and selected explanatory notes.

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

The Directors of the Company (the 'Directors') are responsible on behalf of the Company for the preparation and fair presentation of the Disclosure Statement, which includes financial statements prepared in accordance with Clause 26 of the Order and for such internal control as the Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible, on behalf of the Company, for the preparation and fair presentation of supplementary information in the Disclosure Statement which complies with Schedules 3, 5, 7, 9, 12 and 14 of the Order.

### *Our responsibility*

Our responsibility is to express the following conclusions on the financial statements and supplementary information presented by the Directors based on our review:

- the financial statements (excluding the supplementary information): whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the financial statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* (NZ IAS 34) and International Accounting Standard 34: *Interim Financial Reporting* (IAS 34);
- the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy): whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 12 and 14 of the Order; and
- the supplementary information relating to credit and market risk exposures and capital adequacy: whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects disclosed in accordance with Schedule 9 of the Order.

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410: *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). As auditor of the NZ Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial

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# Independent Review Report (continued)



and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on the financial statements and supplementary information.

We are independent of the NZ Banking Group. Our firm carries out other services for the NZ Banking Group. These services are audit and assurance services in respect to funds managed by the NZ Banking Group, and other assurance and audit-related services. Other assurance and audit-related services include assurance over compliance with regulations, internal controls, audit-related agreed upon procedure engagements and an agreed upon procedures engagement in relation to a system replacement project. In addition, certain partners and employees of our firm may deal with the NZ Banking Group on normal terms within the ordinary course of trading activities of the NZ Banking Group. These matters have not impaired our independence as auditor of the NZ Banking Group.

## *Conclusions*

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

- a) the financial statements on pages 1 to 35 (excluding the supplementary information) have not been prepared, in all material respects, in accordance with NZ IAS 34 and IAS 34;
- b) the supplementary information prescribed by Schedules 5, 7, 12 and 14 of the Order, does not fairly state the matters to which it relates in accordance with those Schedules; and
- c) the supplementary information relating to credit and market risk exposures and capital adequacy prescribed by Schedule 9 of the Order is not, in all material respects disclosed in accordance with Schedule 9 of the Order.

## *Who we report to*

This report is made solely to the Directors, as a body. Our review work has been undertaken so that we might state to the Directors those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors, as a body, for our review procedures, for this report, or for the conclusions we have formed.

For and on behalf of:

A handwritten signature in black ink, appearing to read 'Priyanka Haslelogar', written in a cursive style.

Chartered Accountants  
22 February 2019

Auckland