Commonwealth Bank of Australia
New Zealand Operations

Disclosure Statement

For the year ended 30 June 2018

General Disclosures

(To be read in conjunction with the Financial Statements)

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;
- Commonwealth Bank of Australia New Zealand Life Insurance Group (the "NZ Life Group") refers to all of the New Zealand operations of the Overseas Banking Group that are not included in the NZ Banking Group, including those entities whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand non-banking business. Controlled entities of the NZ Life Group as at 30 June 2018 are set out in note 15 of the financial statements of the NZ Life 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.

This Disclosure Statement consists of two parts: the NZ Banking Group (Part A) and the NZ Life Group (Part B).

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 CBA website (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 CBA website (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 Ranking of Local Creditors in a Winding-Up

Under section 13A(3) of the Banking Act 1959 (Commonwealth of Australia) ("Australian Banking Act"), if an authorised deposit-taking institution ("ADI") (which includes a bank) becomes unable to meet its obligations or suspends payment, the assets of the ADI in Australia are to be available to meet the ADI's liabilities in the following order: (a) first, the ADI's liabilities to the Australian Prudential Regulation Authority ("APRA"), to the extent that APRA has made, or is required to make, payments to depositors under the Australian Government's Financial Claims Scheme (the "Scheme"); (b) second, the ADI's debts to APRA for costs incurred by APRA in the administration of the Scheme in respect of that ADI; (c) third, in payment of the ADI's liabilities in Australia in relation to protected accounts; (d) fourth, the ADI's debts to the Reserve Bank of Australia; (e) fifth, the ADI's liabilities under a certified industry support contract; and (f) sixth, the ADI's other liabilities in the order of their priority apart from section 13A(3) of the Australian Banking Act.

Sections 16(1) and (2) of the Australian Banking Act provide that, despite anything contained in any law relating to the winding up of companies, but subject to section 13A(3) of the Australian Banking Act, the debts of an ADI to APRA in respect of APRA's costs (including costs in the nature of remuneration and expenses) of being in control of the ADI's business or of having an administrator in control of the ADI's business have priority in a winding up of the ADI over all other unsecured debts.

Section 86 of the Reserve Bank Act 1959 (Commonwealth of Australia) provides that notwithstanding anything contained in any law relating to the winding up of companies, but subject to section 13A(3) of the Australian Banking Act, debts due to the Reserve Bank of Australia by an ADI shall, in the winding up, have priority over all other debts. The Overseas Bank is an ADI.

3.1 Requirement for the Overseas Bank to maintain sufficient assets in Australia to cover an ongoing obligation to pay deposit liabilities in Australia

Section 13A(4) of the Australian Banking Act states that it is an offence for an ADI not to hold assets (excluding goodwill and any other assets excluded under APRA's prudential standards) in Australia of a value that is equal to or greater than the total amount of its deposit liabilities in Australia, unless APRA has authorised the ADI to hold assets of a lesser value. This requirement has the potential to impact on the management of the liquidity of the New Zealand operations of the Overseas Bank in extreme circumstances.

4.0 Guarantee Arrangements

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

General Disclosures (continued)

(To be read in conjunction with the Financial Statements)

5.0 Directors of the Overseas Bank

Chairman

Name	**C.B. (Catherine) Livingstone AO**
Primary occupation	Company director
Residence	New South Wales, Australia
External directorships and interests	WorleyParsons Limited, Saluda Medical Pty Ltd, The Australian Ballet and University of Technology Sydney (Chancellor) and The Australian Ballet
Qualifications	BA (Accounting) (Hons), Chartered Accountants Australia and New Zealand (Fellow), Australian Academy of Technological Sciences and Engineering (Fellow), Australian Institute of Company Directors (Fellow), Australian Academy of Science (Fellow)

Managing Director

Name	**M.P. (Matt) Comyn**
Primary occupation	Chief executive officer
Residence	New South Wales, Australia
External directorships and interests	Unicef Australia and MasterCard's Global Advisory Board
Qualifications	BAv (University of New South Wales), MCom (University of New South Wales), EMBA (University of Sydney), GMP (Harvard Business School)

Name	**S. (Shirish) Apte**
Primary occupation	Company director
Residence	Singapore
External directorships and interests	IHH Healthcare Bhd (including two of its subsidiaries), Fullerton India Credit Company Limited, AIG Asia Pacific Pte Ltd, Clifford Capital Pte Ltd, Pierfront Capital Mezzanine Fund Pte Ltd (Chairman) and Supervisory Board of Citi Handlowy (Vice Chairman)
Qualifications	Institute of Chartered Accountants in England and Wales, BCom (Calcutta), MBA (London Business School)

Name	**M.L. (Mary) Padbury**
Primary occupation	Company director
Residence	Victoria, Australia
External directorships and interests	Trans-Tasman IP Attorneys Board (Chairman), The Macfarlane Burnet Institute for Medical Research and Public Health Ltd, Chief Executive Women (Member) and Victorian Legal Admissions Board (Member)
Qualifications	BA LLB (Hons) (University of Melbourne), Australian Institute of Company Directors (Graduate)

Name	**B.J. (Brian) Long**
Primary occupation	Company director
Residence	New South Wales, Australia
External directorships and interests	Brambles Ltd, OneMarket Limited, Cantarella Bros Pty Ltd, University of New South Wales (Council Member) and Centennial Park and Moore Park Trust (Trustee)
Qualifications	Chartered Accountants Australia and New Zealand (Fellow)

Name	**Sir D.H. (David) Higgins**
Primary occupation	Company director
Residence	London, United Kingdom
External directorships and interests	Gatwick Airport Ltd (Chairman)
Qualifications	BE (Civil) (University of Sydney), Diploma (Securities Institute of Australia)

Name	**A.L. (Anne) Templeman-Jones**
Primary occupation	Company director
Residence	New South Wales, Australia
External directorships and interests	GUD Holdings Ltd, The Citadel Group Ltd and WorleyParsons Limited
Qualifications	BCom (University of Western Australia), EMBA (Australian Graduate School of Management), MRM (University of New South Wales), Chartered Accountant, Australian Institute of Company Directors (Fellow)

Name	**W.M. (Wendy) Stops**
Primary occupation	Company director
Residence	Victoria, Australia
External directorships and interests	Altium Ltd, Fitted for Work Ltd, University of Melbourne (Council Member) and Chief Executive Women (Member)
Qualifications	BAppSc (Information Technology), Australian Institute of Company Directors (Graduate)

Name	**A.M. (Andrew) Mohl**
Primary occupation	Company director
Residence	New South Wales, Australia
External directorships and interests	ASIC External Advisory Panel (Member) and CEDA Board of Governors (Member)
Qualifications	BEc (Hons) Monash

Name	**R.J. (Rob) Whitfield**
Primary occupation	Company director
Residence	New South Wales, Australia
External directorships and interests	New South Wales Treasury Corporation
Qualifications	BCom (University of New South Wales), Graduate Diploma Banking, Graduate Diploma Finance, AMP (Harvard Business School), Senior Fellow Fin, Australian Institute of Company Directors (Fellow)

General Disclosures (continued)

(To be read in conjunction with the Financial Statements)

5.1 Address for Directors of the Overseas Bank and the New Zealand Chief Executive Officer of the Branch

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

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

New Zealand Chief Executive Officer of the Branch

Name	**V.A.J. (Vittoria) Shortt**
Primary occupation	Chief Executive Officer, ASB Bank Limited
Residence	Auckland, New Zealand

5.2 Audit Committee

The Board of Directors (the "Board") Audit Committee consists of Brian Long (Chairman), Shirish Apte, Catherine Livingstone, Wendy Stops and Anne Templeman-Jones. All members of the Audit Committee are independent directors.

5.3 Name and Address for Service of Auditor

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

5.4 Dealings with Directors

There have been no dealings by any Director or the New Zealand Chief Executive Officer, or any immediate relative or close business associate of any Director or the New Zealand Chief Executive Officer, with any member of the NZ Banking Group or the NZ Life Group that: (i) has been entered into on terms other than those which would, in the ordinary course of business of the NZ Banking Group or the NZ Life Group be given to any other person of like circumstances or means; or (ii) could otherwise be reasonably likely to influence materially the exercise of that Director's or the New Zealand Chief Executive Officer's duties.

All Directors are expected to disclose to the Board of the Overseas Bank all actual or possible conflicts of interest and abstain from any vote on related matters. The Overseas Bank maintains a register of Directors' interests.

6.0 Conditions of Registration for Commonwealth Bank of Australia in New Zealand

These conditions of registration apply on and after 1 January 2018.

The registration of Commonwealth Bank of Australia ("the registered bank") in New Zealand is subject to the following conditions:

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

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

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

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

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

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

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

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

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

   For the purposes of this condition of registration,-

   "insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance;

   "insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

3. That the business of the registered bank in New Zealand does not constitute a predominant proportion of the total business of the registered bank.

4. That no appointment to the position of the New Zealand chief executive officer of the registered bank shall be made unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.
5. That Commonwealth Bank of Australia complies with the requirements imposed on it by the Australian Prudential Regulation Authority.
6. That Commonwealth Bank of Australia complies with the following minimum capital adequacy requirements, as administered by the Australian Prudential Regulation Authority:
   (a) Common Equity Tier 1 capital of Commonwealth Bank of Australia is not less than 4.5% of risk weighted exposures;
   (b) Tier 1 capital of Commonwealth Bank of Australia is not less than 6% of risk weighted exposures;
   (c) Total capital of Commonwealth Bank of Australia is not less than 8% of risk weighted exposures.
7. That liabilities of the registered bank in New Zealand, net of amounts due to related parties (including amounts due to a subsidiary or affiliate of the registered bank), do not exceed NZ$15 billion.
8. That retail deposits of the registered bank in New Zealand do not exceed $200 million. For the purposes of this condition retail deposits are defined as deposits by natural persons, excluding deposits with an outstanding balance which exceeds $250,000.
9. That, for a loan-to-valuation measurement period, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 65%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
10. That, for a loan-to-valuation measurement period, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 15% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
11. That the business of the registered bank in New Zealand must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,-

"banking group"–

(a) 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; but

(b) does not include the New Zealand business of subsidiaries which conduct life assurance business.

"business of the registered bank in New Zealand" means the New Zealand business of the registered bank as defined in the requirement for financial statements for New Zealand business in section 461B(1) of the Financial Markets Conduct Act 2013.

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

"liabilities of the registered bank in New Zealand" means the liabilities that the registered bank would be required to report in financial statements for its New Zealand business if section 461B(1) of the Financial Markets Conduct Act 2013 applied.

In conditions of registration 9 to 11,-

"loan-to-valuation ratio", "non property-investment residential mortgage loans", "property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans",and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated January 2018, and where the version of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) referred to in BS19 for the purpose of defining these terms is that dated November 2015.

"loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of June 2018.

6.1 Changes to Conditions of Registration

The Reserve Bank of New Zealand ("RBNZ") amended the Conditions of Registration of the Branch, effective 1 January 2018, to incorporate changes to the loan-to-valuation ratios that apply to property and non-property investment residential mortgage lending. The amendments also refer to the revised "*Framework for Restrictions on High-LVR Residential Mortgage Lending*" (BS19).

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

7.0 Pending Proceedings or Arbitration

The NZ Banking Group and the NZ Life Group are not party to any pending proceedings or arbitration which are expected to have a material adverse effect on the financial position, or results, of the Branch, the NZ Banking Group or the NZ Life Group.

General Disclosures (continued)

(To be read in conjunction with the Financial Statements)

8.0 Other Material Matters

Legally Enforceable Restrictions

On 25 November 2015, 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. ASB understands that CBA expects to be compliant with APRA's requirements by the end of the transition period.

Australian Transaction Reports and Analysis Centre Civil Proceedings

On 3 August 2017, Australian Transaction Reports and Analysis Centre ("AUSTRAC") commenced civil penalty proceedings in the Federal Court of Australia in Sydney against CBA. The AUSTRAC statement of claim alleged past and ongoing contraventions of four provisions of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth).

On 4 June 2018, CBA announced that it had entered into an agreement with AUSTRAC to resolve the civil proceedings. The agreement followed the Federal Court-ordered mediation between CBA and AUSTRAC. As part of the agreement:

- CBA agreed to pay a civil penalty of AUD700 million together with AUSTRAC's legal costs;
- CBA admitted further contraventions of Australia's Anti-Money Laundering and Counter-Terrorism ("AML/CTF") Act, beyond those already admitted, including contraventions in risk procedures, reporting, monitoring and customer due-diligence; and
- AUSTRAC's civil proceedings are otherwise dismissed.

The proposed settlement was approved on 20 June 2018 by the Federal Court of Australia. Accordingly, CBA recognises an AUD700 million expense in its financial statements for the full year ending 30 June 2018.

CBA is committed to build on the significant changes made in recent years as part of a comprehensive program to improve operational risk management and compliance. CBA continues to make significant investment in AML/CTF compliance, including upgrading and enhancing its AML/CTF technology, updating its process documentation, investing in further resourcing and strengthening training of its personnel.

CBA has acted to strengthen Financial Crime capabilities, and has invested heavily in seeking to fulfil 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 ("Bus").

The Program of Action is uplifting CBA's processes for monitoring, managing, reporting and controlling Financial Crime across all of its operations, including how CBA engages with and informs AUSTRAC and other regulators, and the operating model of CBA which relates specifically to Financial Crime to ensure increased confidence in managing this area of risk. CBA has provided for certain costs of running the Program of Action.

Australian Securities and Investments Commission Investigation

On 11 August 2017, following the commencement of the civil proceedings against CBA by AUSTRAC, Australian Securities and Investments Commission ("ASIC") confirmed it would investigate CBA'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 continuous disclosure 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 CBA. CBA has provided for the 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 AUSTRAC civil proceedings. 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. In July 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. It is currently not possible to determine the ultimate impact of these claims, if any, on CBA. CBA denies the allegations and intends to vigorously defend both claims. CBA has provided for legal costs expected to be incurred to defend this litigation.

Australian Securities and Investments Commission Bank Bill Swap Rate

On 30 January 2018, as part of the industry wide review into the trading activities of participants in the bank bill market, ASIC filed a claim against CBA alleging that on six occasions between 31 January 2012 and 31 October 2012, CBA's bills traders had engaged in market manipulation and unconscionable conduct. On 9 May 2018, CBA and ASIC agreed to settle the proceedings. The terms of settlement included an admission by CBA that its traders had engaged in attempted unconscionable conduct on five occasions in 2012 and that CBA's systems, training, policies and controls were inadequate to prevent the conduct from occurring. CBA agreed to a civil penalty of AUD5 million (which required the approval of the Federal Court of Australia) and to pay ASIC's costs of the investigation and legal costs in a combined amount of AUD5 million and to make a community benefit payment of AUD15 million to Financial Literacy Australia. The agreed settlement was approved on 21 June 2018 by the Federal Court of Australia. CBA has also entered into an Enforceable Undertaking with ASIC to ensure that CBA's systems, training, policies and controls are strengthened to prevent a recurrence of the conduct.

General Disclosures (continued)

(To be read in conjunction with the Financial Statements)

8.0 Other Material Matters (continued)

APRA's Prudential Inquiry into CBA

On 28 August 2017, APRA announced it would establish an independent prudential inquiry (the "Inquiry") into CBA with the goal of identifying shortcomings in the governance, culture and accountability frameworks. The Inquiry considered, amongst other things, whether CBA's organisational structure, governance, financial objectives, remuneration and accountability frameworks conflicted with sound risk management and compliance outcomes. A panel was appointed on 8 September 2017 to conduct the Inquiry, comprising of Dr John Laker AO, Jillian Broadbent AO and Professor Graeme Samuel AC (the "Panel").

The Panel published a progress report on 1 February 2018 and its final report on 1 May 2018 ("Final Report"). The Final Report makes a number of findings regarding the complex interplay of organisational and cultural factors within CBA and the need for enhanced management of non-financial risks. In response to the Final Report, CBA has acknowledged that it will implement all of the recommendations and has agreed to adjust its minimum capital requirements by an additional AUD1 billion dollars 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 in response to the Final Report will be agreed upon and monitored regularly by APRA.

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 is 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. A final report is due by 1 February 2019, with an interim report due by 30 September 2018. The Commissioner's report is expected to outline his findings and recommendations, which may form the basis of regulatory changes.

The Royal Commission is conducting rounds of public hearings, focusing 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 Royal Commission is playing an important role in highlighting misconduct and conduct below community standards and expectations, demonstrating that the industry hasn't always done the right thing by customers, and it will continue to highlight cases where CBA have made mistakes.

CBA are engaging openly and transparently with the Royal Commission and carefully considering the issues specific to CBA and the broader issues the Royal Commission, customers, regulators and other stakeholders are raising around how the financial services industry operates.

CBA's Royal Commission Project team leads the engagement with the Royal Commission and manages the various requirements, including providing requested documents, supporting CBA's witnesses, attending hearings, and preparing submissions. As at 30 June 2018, CBA had responded to 106 notices to produce documents from the Royal Commission, provided 47 witness statements and 10 submissions. In addition, CBA executives had provided in-hearing evidence to the Royal Commission on 12 occasions.

NZ Life Group

In September 2017, CBA entered into an agreement to sell 100% of its life insurance business in Australia ("CommInsure Life") and New Zealand ("Sovereign") to AIA Group Limited ("AIA"). As a result, the NZ Life Group within CBA New Zealand Operations is considered held for sale and its net assets are measured at the lower of carrying amount and fair value less cost to sell.

The sale of Sovereign completed on 2 July 2018, resulting in a gain of $102 million (subject to purchase price adjustments to be finalised in September). This has also been reported as a subsequent event in the NZ Life Group section of this Disclosure Statement.

General Disclosures (continued)

(To be read in conjunction with the Financial Statements)

9.0 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 and Poor's (Australia) Pty Limited ("S&P")	AA-	Negative
Fitch Australia Pty Limited ("Fitch Ratings")	AA-	Negative

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

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

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

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

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

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

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) (the "Order"); 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 full financial year ended 30 June 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
8 August 2018

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
8 August 2018

Part A

Commonwealth Bank of Australia New Zealand Banking Group

Financial Statements

For the year ended 30 June 2018

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Historical Summary of Financial Statements

$ millions For the year ended 30 June	NZ Banking Group 2018	2017	2016	2015	2014
Income Statement					
Interest income	**4,324**	4,141	4,201	4,290	3,806
Interest expense	**2,410**	2,414	2,481	2,626	2,253
Net interest earnings	**1,914**	1,727	1,720	1,664	1,553
Other income	**592**	570	508	461	483
Total operating income	**2,506**	2,297	2,228	2,125	2,036
Impairment losses on advances	**54**	66	129	101	54
Total operating income after impairment losses	**2,452**	2,231	2,099	2,024	1,982
Total operating expenses	**889**	842	836	815	779
Net profit before taxation	**1,563**	1,389	1,263	1,209	1,203
Taxation	**436**	388	355	338	358
Net profit after taxation	**1,127**	1,001	908	871	845
Net profit after taxation attributable to non-controlling interests	**13**	13	17	18	15
Dividends and Repatriations Paid					
Perpetual preference dividends paid to non-controlling interests	**13**	13	17	18	15
Ordinary dividends paid	**550**	323	193	1,066	300
Redeemable preference dividends paid	**-**	89	16	72	62
Repatriation of profit	**11**	16	11	14	9
Total dividends and repatriations paid	**574**	441	237	1,170	386

$ millions As at 30 June	NZ Banking Group 2018	2017	2016	2015	2014
Balance Sheet					
Total assets	**101,339**	92,828	86,127	80,585	72,513
Individually impaired assets	**474**	384	430	365	249
Total liabilities	**93,342**	87,826	80,630	75,265	66,804
Total shareholders' equity	**7,997**	5,002	5,497	5,320	5,709
Head office contribution	**2,887**	462	462	462	462

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

Income Statement

$ millions For the year ended 30 June	Note	NZ Banking Group 2018	 2017
Interest income	2	**4,324**	4,141
Interest expense	3	**2,410**	2,414
Net interest earnings		**1,914**	1,727
Other income	4	**592**	570
Total operating income		**2,506**	2,297
Impairment losses on advances	17	**54**	66
Total operating income after impairment losses		**2,452**	2,231
Total operating expenses	5	**889**	842
Salaries and other staff expenses		**537**	509
Building occupancy and equipment expenses		**114**	121
Information technology expenses		**120**	106
Other expenses		**118**	106
Net profit before taxation		**1,563**	1,389
Taxation	7	**436**	388
Net profit after taxation		**1,127**	1,001
Attributable to:			
Parent company shareholders		**1,114**	988
Non-controlling interests	34	**13**	13
Net profit after taxation		**1,127**	1,001

Statement of Comprehensive Income

$ millions For the year ended 30 June	Note	NZ Banking Group 2018	 2017
Net profit after taxation		**1,127**	1,001
Other comprehensive income/(expense), net of taxation			
Items that will not be reclassified to the Income Statement:			
Net change in asset revaluation reserve	33	**3**	1
Items that may be reclassified subsequently to the Income Statement:			
Net change in available-for-sale reserve	33	**12**	12
Net change in cash flow hedge reserve	33	**2**	3
		14	15
Total other comprehensive income, net of taxation		**17**	16
Total comprehensive income		**1,144**	1,017
Attributable to:			
Parent company shareholders		**1,131**	1,004
Non-controlling interests	34	**13**	13
Total comprehensive income		**1,144**	1,017

These statements are to be read in conjunction with the notes on pages 8 to 67 and the Independent Auditor's Report from 68 to 74.

Statement of Changes in Equity

$ millions	Note	Head Office Contribution	Contributed Capital	Asset Revaluation Reserve	Available -for-Sale Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Retained Earnings	Non-controlling Interests	Total Share-holders' Equity
						NZ Banking Group				
For the year ended 30 June 2018										
Balance at beginning of year		**462**	**667**	**26**	**2**	**(118)**	**1**	**3,412**	**550**	**5,002**
Net profit after taxation		**-**	**-**	**-**	**-**	**-**	**-**	**1,114**	**13**	**1,127**
Other comprehensive income		**-**	**-**	**3**	**12**	**2**	**-**	**-**	**-**	**17**
Total comprehensive income		**-**	**-**	**3**	**12**	**2**	**-**	**1,114**	**13**	**1,144**
Capital injection		**2,425**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,425**
Ordinary and redeemable preference dividends paid	8	**-**	**-**	**-**	**-**	**-**	**-**	**(550)**	**-**	**(550)**
Perpetual preference dividends paid to non-controlling interests	34	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(13)**	**(13)**
Profit repatriation		**-**	**-**	**-**	**-**	**-**	**-**	**(11)**	**-**	**(11)**
Balance as at 30 June 2018		**2,887**	**667**	**29**	**14**	**(116)**	**1**	**3,965**	**550**	**7,997**
For the year ended 30 June 2017										
Balance at beginning of year		462	1,738	28	(10)	(121)	1	2,849	550	5,497
Net profit after taxation		-	-	-	-	-	-	988	13	1,001
Other comprehensive income		-	-	1	12	3	-	-	-	16
Total comprehensive income		-	-	1	12	3	-	988	13	1,017
Decrease in share capital	32	-	(1,071)	-	-	-	-	-	-	(1,071)
Transfer from asset revaluation reserve to retained earnings	33	-	-	(3)	-	-	-	3	-	-
Ordinary and redeemable preference dividends paid	8	-	-	-	-	-	-	(412)	-	(412)
Perpetual preference dividends paid to non-controlling interests	34	-	-	-	-	-	-	-	(13)	(13)
Profit repatriation		-	-	-	-	-	-	(16)	-	(16)
Balance as at 30 June 2017		462	667	26	2	(118)	1	3,412	550	5,002

These statements are to be read in conjunction with the notes on pages 8 to 67 and the Independent Auditor's Report from 68 to 74.

Balance Sheet

$ millions		NZ Banking Group	
As at 30 June	Note	**2018**	2017
Assets			
Cash and liquid assets	9	**2,569**	2,570
Due from financial institutions	10	**921**	947
Trading securities	11	**2,344**	1,578
Derivative assets	12	**1,836**	1,037
Available-for-sale securities	13	**6,849**	4,425
Advances to customers	14	**85,728**	81,232
Other assets	23	**286**	240
Property, plant and equipment		**184**	186
Intangible assets		**467**	453
Deferred taxation asset	25	**155**	160
Total assets		**101,339**	92,828
Total interest earning and discount bearing assets		***98,456***	*90,732*
Liabilities			
Deposits and other borrowings	26	**62,328**	58,147
Due to financial institutions	28	**1,212**	1,168
Other liabilities at fair value through Income Statement	29	**1,097**	1,065
Derivative liabilities	12	**1,115**	1,885
Current taxation liability		**125**	108
Other liabilities	27	**634**	592
Debt issues:			
At fair value through Income Statement	30	**148**	407
At amortised cost	30	**19,253**	17,273
Loan capital	31	**7,430**	7,181
Total liabilities		**93,342**	87,826
Shareholders' Equity			
Head office contribution	32	**2,887**	462
Contributed capital - ordinary shares	32	**667**	667
Reserves	33	**(72)**	(89)
Retained earnings		**3,965**	3,412
Ordinary shareholder's equity		**7,447**	4,452
Non-controlling interests	34	**550**	550
Total shareholders' equity		**7,997**	5,002
Total liabilities and shareholders' equity		**101,339**	92,828
Total interest and discount bearing liabilities		***86,694***	*81,227*

The Board of Directors authorised these financial statements for issue on 8 August 2018

C.B. Livingstone

C.B. Livingstone AO
Chairman

M.P. Comyn
Managing Director and Chief Executive Officer

These statements are to be read in conjunction with the notes on pages 8 to 67 and the Independent Auditor's Report from 68 to 74.

Cash Flow Statement

$ millions	NZ Banking Group	
For the year ended 30 June	**2018**	2017
Cash flows from operating activities		
Net profit before taxation	**1,563**	1,389
Reconciliation of net profit before taxation to net cash flows from operating activities		
Non-cash items included in net profit before taxation:		
Depreciation of property, plant and equipment	**31**	34
Amortisation of intangible assets	**53**	45
Net change in provisions for impairment losses and bad debts written off	**67**	84
Net change in fair value of financial instruments and hedged items	**(101)**	(421)
Other movements	**84**	37
Net (increase)/decrease in operating assets:		
Net change in reverse repurchase agreements	**(362)**	(701)
Net change in due from financial institutions	**26**	148
Net change in trading securities	**(768)**	(505)
Net change in available-for-sale securities	**(2,408)**	45
Net change in advances to customers	**(4,638)**	(5,943)
Net change in other assets	**(46)**	4
Net increase/(decrease) in operating liabilities:		
Net change in deposits and other borrowings	**4,045**	3,610
Net change in due to financial institutions	**3**	(1,049)
Net change in other liabilities at fair value through Income Statement	**30**	(273)
Net change in other liabilities	**40**	26
Net taxation paid	**(418)**	(334)
Net cash flows from operating activities	**(2,799)**	(3,804)
Cash flows from investing activities		
Cash was provided from:		
Proceeds from sale of property, plant and equipment	**5**	7
Total cash inflows provided from investing activities	**5**	7
Cash was applied to:		
Purchase of property, plant and equipment	**(29)**	(37)
Purchase of intangible assets	**(65)**	(57)
Total cash outflows applied to investing activities	**(94)**	(94)
Net cash flows from investing activities	**(89)**	(87)
Cash flows from financing activities		
Cash was provided from:		
Issue of loan capital (net of issue costs)	**(9)**	2,154
Issue of debt securities (net of issue costs)	**8,834**	12,830
Net movements in due to/from controlled entities and associates	**2,425**	-
Total cash inflows provided from financing activities	**11,250**	14,984
Cash was applied to:		
Repurchase of ordinary share capital	**-**	(37)
Redemption of redeemable preference share capital	**-**	(1,034)
Dividends paid	**(550)**	(412)
Redemption of issued debt securities	**(8,162)**	(9,135)
Dividends paid to non-controlling interests	**(13)**	(13)
Total cash outflows applied to financing activities	**(8,725)**	(10,631)
Net cash flows from financing activities	**2,525**	4,353
Summary of movements in cash flows		
Net (decrease)/increase in cash and cash equivalents	**(363)**	462
Add: cash and cash equivalents at beginning of year	**1,414**	952
Cash and cash equivalents at end of year	**1,051**	1,414
Cash and cash equivalents comprise:		
Cash and liquid assets	**2,569**	2,570
Less: reverse repurchase agreements included in cash and liquid assets	**(1,518)**	(1,156)
Cash and cash equivalents at end of year	**1,051**	1,414
Additional operating cash flow information		
Interest received as cash	**4,342**	4,188
Interest paid as cash	**(2,362)**	(2,433)
Other income received as cash	**535**	513
Operating expenses paid as cash	**(783)**	(757)

These statements are to be read in conjunction with the notes on pages 8 to 67 and the Independent Auditor's Report from 68 to 74.

Notes to the Financial Statements

For the year ended 30 June 2018

1 Statement of Accounting Policies

General Accounting Policies

The reporting entity for the purpose of this Disclosure Statement is the Branch. The reporting group 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 5 July 2016, CBA Real Estate Funding (NZ) Limited and, up until 25 October 2017, CBA USD Funding 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.

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

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

New Standards (not yet effective)

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

- NZ IFRS 9 *Financial Instruments*

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

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

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

  Impairment

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

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

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

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

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

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

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

  Significant increase in credit risk
  A significant increase in credit risk for a financial asset is assessed by comparing the risk of default at reporting date to the corresponding risk of default at origination. In determining what constitutes a significant increase in credit risk the 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 will also use a range of secondary indicators, such as, 30 days past due arrears data.

Notes to the Financial Statements

For the year ended 30 June 2018

1 Statement of Accounting Policies (continued)

New Standards (not yet effective) (continued)

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 exposure at balance date by the following credit risk factors to calculate ECL:

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

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

The NZ Banking Group's loan loss provisions, loan impairment expense and any areas of key judgement will be 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 judgements and assumptions, including the basis of the scenarios adopted.

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

Classification and measurement

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

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

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

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

In assessing whether contractual cashflows are SPPI, the 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 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.

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

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

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

- $6,849 million of available-for-sale securities were reclassified to FVOCI. These securities will continue to be measured at fair value. The amount previously recognised in the available-for-sale reserve that is transferred to another reserve within equity is immaterial.
- $2,344 million of trading securities were reclassified from fair value through Income Statement to FVOCI. These securities will continue to be measured at fair value. The amount previously recognised in retained earnings that is transferred to another reserve within equity is immaterial.
- $1,097 million of other liabilities were previously designated at fair value through Income Statement. These were reclassified to amortised cost, and re-measured accordingly. The amount previously recognised in retained earnings that is adjusted against the carrying value of other liabilities is immaterial.

1 Statement of Accounting Policies (continued)

New Standards (not yet effective) (continued)

Hedge accounting

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

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

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

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

- NZ IFRS 15 *Revenue from Contracts with Customers*

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

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

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

- NZ IFRS 16 *Leases*

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

Basis of Preparation

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

Critical Accounting Estimates and Judgements

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

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

Estimates and assumptions are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The NZ Banking Group considers the consolidation of structured entities, the valuation of financial instruments, goodwill impairment testing and the provision for impairment losses on advances to customers require significant accounting estimates and management judgement. Refer to (a) for details on consolidation, (f) for valuation of financial instruments, note 24 for goodwill impairment testing and note 15 for details of credit risk management and the basis of the NZ Banking Group's impairment provision model.

Presentation Currency and Rounding

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

Notes to the Financial Statements

For the year ended 30 June 2018

1 Statement of Accounting Policies (continued)

Particular Accounting Policies

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

(a) Basis of Consolidation

Control exists when the NZ Banking Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. For purposes of assessing control, the NZ Banking Group acts as a principal when there are no substantial removal rights and when its economic interest is substantial compared to the economic interest of other investors.

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

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

Other Controlled Entities
The NZ Banking Group may invest in or establish a structured entity ("SE") to enable it to undertake specific transactions. SEs include securitisation vehicles, a covered bond trust and other structured finance entities. Where the NZ Banking Group has control of a SE, it is consolidated in the NZ Banking Group's financial statements (refer to notes 20 and 22).

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

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

(b) Segment Reporting

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

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

(c) Foreign Currency Translation

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

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

(d) Revenue Recognition

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

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

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

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

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

1 Statement of Accounting Policies (continued)

(d) Revenue Recognition (continued)

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

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

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

(e) Expense Recognition

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

(f) Financial Instruments

BASIS OF RECOGNITION AND MEASUREMENT
The 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 borrowers. Financial liabilities are recognised when an obligation arises. Financial instruments are classified in one of the following categories at initial recognition: financial assets at fair value through Income Statement, available-for-sale financial assets, loans and receivables, held-to-maturity, financial liabilities at fair value through Income Statement and other financial liabilities.

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

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

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

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

Financial assets in this category include:

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

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2018

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

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

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

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

Financial assets in the loans and receivable category include:

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

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

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

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

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

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

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

Liabilities in this category include:

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

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2018

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

OTHER FINANCIAL LIABILITIES

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

Financial liabilities in this category include:

Deposits and Other Borrowings

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

Due to Financial Institutions

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

Other Liabilities

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

Debt Issues: At Amortised Cost

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

Loan Capital

Loan capital is debt issued by the NZ Banking Group with terms and conditions that qualify for inclusion as capital under RBNZ's prudential standards. Refer to note 41 for further information on regulatory capital. When fair value hedge accounting is applied to fixed rate loan capital, the carrying value at amortised cost is adjusted for changes in fair value related to the hedged risk.

(g) Derivative Financial Instruments

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

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

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

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

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

(h) Hedge Accounting

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2018

1 Statement of Accounting Policies (continued)

(h) Hedge Accounting (continued)

Cash Flow Hedge Accounting

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

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

Fair Value Hedge Accounting

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

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

(i) Leasing

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

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

(j) Repurchase and Reverse Repurchase Agreements

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

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

(k) Offsetting Financial Instruments

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

(l) Derecognition of Financial Instruments

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

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

Notes to the Financial Statements

For the year ended 30 June 2018

1 Statement of Accounting Policies (continued)

(m) Asset Quality

DEFINITIONS

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

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

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

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

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

PROVISION FOR IMPAIRMENT

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

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

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

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

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

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

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

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

Advances to Customers

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

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

(n) Property, Plant and Equipment

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2018

1 Statement of Accounting Policies (continued)

(n) Property, Plant and Equipment (continued)

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

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

(o) Intangible Assets

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

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

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

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

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

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

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

(p) Taxation

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2018

1 Statement of Accounting Policies (continued)

(r) Contingent Liabilities and Credit Commitments

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

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

(s) Provisions

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

(t) Cash Flow Statement

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

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

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

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

Changes in cash and cash equivalents related to financing activities reflect cash flows resulting from transactions with shareholders and non-controlling interests, and cash flows relating to debt and loan capital issuances and repayments. The NZ Banking Group adopted the *Disclosure Initiative (Amendments to* NZ IAS 7*)* in the current year, and as a result note 30 includes a reconciliation of the movement in debt issues.

Fair Value Estimates

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

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

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

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

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

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

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

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

Changes to Comparatives

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

Notes to the Financial Statements

For the year ended 30 June 2018

2 Interest Income

$ millions	NZ Banking Group	
For the year ended 30 June	**2018**	2017
Cash and liquid assets	**39**	38
Due from financial institutions	**14**	10
Trading securities	**44**	30
Available-for-sale securities	**127**	102
Advances to customers	**4,100**	3,961
Total interest income	**4,324**	4,141

Interest income on advances to customers for the year ended 30 June 2018 included interest earned of $24 million on individually impaired assets (30 June 2017 $28 million).

Total interest income for financial assets that are not at fair value through Income Statement is $4,280 million (30 June 2017 $4,111 million).

3 Interest Expense

$ millions	NZ Banking Group	
For the year ended 30 June	**2018**	2017
Deposits and other borrowings:		
Certificates of deposit	**56**	65
Term deposits	**1,100**	971
On demand and short term deposits	**370**	498
Repurchase agreements	**4**	1
Due to financial institutions	**19**	47
Other liabilities at fair value through Income Statement	**22**	11
Debt issues:		
At fair value through Income Statement	**5**	28
At amortised cost	**523**	542
Loan capital	**311**	251
Total interest expense	**2,410**	2,414

Total interest expense for financial liabilities that are not at fair value through Income Statement is $2,383 million (30 June 2017 $2,375 million).

4 Other Income

$ millions	NZ Banking Group	
For the year ended 30 June	**2018**	2017
Lending fees	**81**	76
Commissions and other fees	**267**	244
Funds management income	**114**	97
Trading income	**108**	105
Ineffective portion of hedges		
Fair value hedge ineffectiveness:		
(Loss)/gain on hedged items	**(78)**	109
Gain/(loss) on hedging instruments	**77**	(102)
Cash flow hedge ineffectiveness	**9**	20
Total ineffective portion of hedges	**8**	27
Other operating income		
Net gain on disposal of property, plant and equipment	**3**	3
Dividends received	**7**	5
Net fair value loss on derivatives not qualifying for hedge accounting	**(1)**	(1)
Net fair value gain on financial instruments designated at fair value through Income Statement	**-**	1
Other	**5**	13
Total other operating income	**14**	21
Total other income	**592**	570

Notes to the Financial Statements

For the year ended 30 June 2018

5 Operating Expense Disclosures

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

6 Auditor's Remuneration

PricewaterhouseCoopers is the appointed auditor of the NZ Banking Group.

Fees of $2,138,000 were paid to PricewaterhouseCoopers for the audit and review of the NZ Banking Group during the year ended 30 June 2018 (30 June 2017 $1,784,000).

During the year ended 30 June 2018, PricewaterhouseCoopers was paid fees of $1,013,000 for other assurance related services (30 June 2017 $478,000). Other assurance related services included assurance over compliance with regulations, internal controls and audit related agreed upon procedures (30 June 2017 other assurance related services included reviews of financial information, process and internal controls and reviews for regulatory purposes).

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

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

7 Taxation

$ millions	NZ Banking Group	
For the year ended 30 June	**2018**	2017
Current taxation	**435**	389
Deferred taxation (refer to note 25)	**1**	(1)
Total income tax charged to the Income Statement	**436**	388

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

Net profit before taxation	**1,563**	1,389
Tax at the domestic rate of 28%	**437**	389
Tax effect of income not subject to taxation	**-**	(1)
Tax effect of expenses not deductible for taxation purposes	**1**	1
Tax effect of imputation credit adjustments	**(2)**	(1)
Total income tax charged to the Income Statement	**436**	388
Weighted average effective tax rate	**27.9%**	27.9%

8 Dividends

$ millions	NZ Banking Group	
For the year ended 30 June	**2018**	2017
Ordinary dividends paid	**550**	323
Redeemable preference dividends paid	**-**	89
Total dividends paid	**550**	412

Dividends paid by ASB Holdings Limited on ordinary shares for the year ended 30 June 2018 were $550 million, 79.71 cents per share (30 June 2017 $300 million, 43.48 cents per share).

Dividends paid by CBA NZ Holding Limited on ordinary shares for the year ended 30 June 2018 were nil (30 June 2017 $22 million, 59.50 cents per share).

Dividends paid by CBA Funding (NZ) Limited on ordinary shares for the year ended 30 June 2018 were nil (30 June 2017 $1 million, 159.22 cents per share).

Dividends paid by CBA Funding (NZ) Limited on redeemable preference shares for the year ended 30 June 2018 were nil as all redeemable preference shares were redeemed during the year ended 30 June 2017 (30 June 2017 $22 million, 8.63 cents per share on 254 million redeemable preference shares and $67 million, 8.63 cents per share on 780 million redeemable preference shares).

9 Cash and Liquid Assets

$ millions	NZ Banking Group	
As at 30 June	**2018**	2017
Cash, cash at bank and cash in transit	**123**	166
Call deposits with the central bank	**873**	1,237
Money at short call	**55**	11
Reverse repurchase agreements	**1,518**	1,156
Total cash and liquid assets	**2,569**	2,570

10 Due from Financial Institutions

As at 30 June 2018 amounts due from financial institutions of $921 million are due for settlement within 12 months of balance date (30 June 2017 $947 million due within 12 months of balance date).

11 Trading Securities

$ millions As at 30 June	NZ Banking Group 2018	 2017
Local authority securities	**20**	21
New Zealand government securities	**230**	752
Corporate bonds	**-**	14
Treasury bills	**125**	-
RBNZ bills	**881**	-
Bank bills	**1,088**	789
Kauri bonds	**-**	2
Total trading securities	**2,344**	1,578
Amounts due for settlement within 12 months	**2,344**	1,059
Amounts due for settlement over 12 months	**-**	519
Total trading securities	**2,344**	1,578

12 Derivative Financial Instruments

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

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

Hedge Accounting

Cash Flow Hedges

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

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

Fair Value Hedges

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

12 Derivative Financial Instruments (continued)

$ millions	NZ Banking Group					
As at 30 June	2018			2017		
	Notional Amount	Fair Value Assets	Fair Value Liabilities	Notional Amount	Fair Value Assets	Fair Value Liabilities
Held for trading						
Exchange rate contracts						
Forward contracts	5,083	77	(43)	4,185	51	(81)
Options	314	3	(3)	274	3	(3)
Total exchange rate contracts	5,397	80	(46)	4,459	54	(84)
Interest rate contracts						
Swaps	67,582	333	(329)	52,037	402	(390)
Futures	1,380	-	-	2,880	-	-
Options	8	-	-	486	-	-
Total interest rate contracts	68,970	333	(329)	55,403	402	(390)
Commodity contracts						
Options purchased and sold	17	-	-	19	1	(1)
Total held for trading	74,384	413	(375)	59,881	457	(475)
Held for hedging						
Designated as cash flow hedges						
Exchange rate contracts						
Swaps	12,399	282	(23)	12,454	10	(242)
Interest rate contracts						
Swaps	41,993	138	(212)	41,420	156	(290)
Total designated as cash flow hedges	54,392	420	(235)	53,874	166	(532)
Designated as fair value hedges						
Exchange rate contracts						
Swaps	16,837	881	(293)	11,819	286	(675)
Interest rate contracts						
Swaps	15,301	122	(212)	12,706	128	(203)
Total designated as fair value hedges	32,138	1,003	(505)	24,525	414	(878)
Total held for hedging	86,530	1,423	(740)	78,399	580	(1,410)
Total derivative assets/(liabilities)	160,914	1,836	(1,115)	138,280	1,037	(1,885)
Amounts due for settlement within 12 months		683	(366)		168	(438)
Amounts due for settlement over 12 months		1,153	(749)		869	(1,447)
Total derivative assets/(liabilities)		1,836	(1,115)		1,037	(1,885)

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For the year ended 30 June 2018

13 Available-for-Sale Securities

$ millions	NZ Banking Group	
As at 30 June	**2018**	2017
Local authority securities	**243**	248
New Zealand government securities	**1,103**	1,266
Corporate bonds	**1,075**	903
Overseas government securities	**2,380**	408
Kauri bonds	**2,048**	1,600
Total available-for-sale securities	**6,849**	4,425
Amounts due for settlement within 12 months	**1,223**	1,020
Amounts due for settlement over 12 months	**5,626**	3,405
Total available-for-sale securities	**6,849**	4,425

14 Advances to Customers

$ millions	NZ Banking Group	
As at 30 June	**2018**	2017
Loans and other receivables (refer to note 16)	**86,035**	81,549
Provisions for impairment losses (refer to note 17)	**(307)**	(317)
Total advances to customers	**85,728**	81,232
Amounts due for settlement within 12 months	**16,218**	15,137
Amounts due for settlement over 12 months	**69,510**	66,095
Total advances to customers	**85,728**	81,232
Advances to customers include finance lease receivables as follows:		
Gross investment in finance lease receivables		
No later than 1 year	**-**	-
Later than 1 year and no later than 5 years	**5**	5
Later than 5 years	**-**	1
	5	6
Less: Unearned future finance lease income	**(1)**	(1)
Net investment in finance leases	**4**	5
Net investment in finance leases		
No later than 1 year	**-**	-
Later than 1 year and no later than 5 years	**4**	4
Later than 5 years	**-**	1
Net investment in finance leases	**4**	5

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For the year ended 30 June 2018

15 Credit Risk Management Policies

Credit Risk Management

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

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

The BARC and the Risk Committee of CBA operate under a charter by which they oversee the NZ Banking Group's risk appetite statement, credit risk framework, credit approval authorities framework, and credit management policies and practices (including origination, decisioning, verification/fulfilment, and whole of life servicing). The BARC and Risk Committee of CBA ensure that ASB and the Branch respectively have in place and maintain credit policies and portfolio standards consistent with responsible lending standards designed to achieve portfolio outcomes consistent with the risk/return expectations of ASB and the Branch respectively. Day-to-day management of credit risk is performed and reported by the Credit function of ASB, with independent monitoring by the Executive Credit Committee of ASB.

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

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

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

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

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

Refer to notes 16 to 18 for additional credit risk disclosures.

Collateral

Refer to note 19 for information on the NZ Banking Group's policies and procedures regarding collateral and credit enhancements to mitigate credit risk.

Credit Risk Measurement

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

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

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

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

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

15 Credit Risk Management Policies (continued)

Asset Quality

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

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

*Credit risk rating ("CRR")

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

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

Retail

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

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

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

Corporate

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

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

CRRs fall into two categories:

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

Oversight

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

Impairment and Provisioning of Financial Assets

Default occurs if either of the following takes place:

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

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

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

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For the year ended 30 June 2018

15 Credit Risk Management Policies (continued)

Impairment and Provisioning of Financial Assets (continued)

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

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

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

16 Credit Quality Information for Advances to Customers

$ millions	NZ Banking Group			
As at 30 June 2018	**Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
Neither past due nor impaired				
The credit quality of advances that were neither past due nor impaired can be assessed by reference to the NZ Banking Group's internal rating system:				
Low expected loss	49,436	326	15,685	65,447
Medium expected loss	2,796	4,356	10,382	17,534
High expected loss	41	177	139	357
Total advances neither past due nor impaired	52,273	4,859	26,206	83,338
Past due assets not impaired				
1 to 7 days	803	130	201	1,134
8 to 29 days	503	93	74	670
30 to 59 days	172	48	4	224
60 to 89 days	67	20	6	93
90 days and over	70	23	9	102
Total past due assets not impaired	1,615	314	294	2,223
Individually impaired assets				
Balance at beginning of year	20	6	358	384
Additions	26	9	265	300
Deletions	(14)	-	(181)	(195)
Amounts written off	(2)	(3)	(10)	(15)
Total individually impaired assets	30	12	432	474
Total gross advances to customers	53,918	5,185	26,932	86,035
Other assets under administration	27	4	1	32

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

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

16 Credit Quality Information for Advances to Customers (continued)

$ millions	NZ Banking Group			
As at 30 June 2017	Residential Mortgages	Other Retail	Corporate	Total
Neither past due nor impaired				
Low expected loss	46,478	329	13,033	59,840
Medium expected loss	2,618	4,156	11,206	17,980
High expected loss	43	176	509	728
Total advances neither past due nor impaired	49,139	4,661	24,748	78,548
Past due assets not impaired				
1 to 7 days	1,160	183	240	1,583
8 to 29 days	506	92	21	619
30 to 59 days	189	47	10	246
60 to 89 days	55	15	3	73
90 days and over	59	22	15	96
Total past due assets not impaired	1,969	359	289	2,617
Individually impaired assets				
Balance at beginning of year	34	11	385	430
Additions	16	5	168	189
Deletions	(26)	(9)	(181)	(216)
Amounts written off	(4)	(1)	(14)	(19)
Total individually impaired assets	20	6	358	384
Total gross advances to customers	51,128	5,026	25,395	81,549
Other assets under administration	29	2	-	31

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17 Provisions for Impairment Losses

$ millions	NZ Banking Group			
As at 30 June 2018	**Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
Collective provision				
Balance at beginning of year	**31**	**95**	**136**	**262**
Charged to/(recovered from) Income Statement	**1**	**14**	**(19)**	**(4)**
Balance at end of year	**32**	**109**	**117**	**258**
Individually assessed provisions				
Balance at beginning of year	**4**	**3**	**48**	**55**
Add/(less):				
Charged to Income Statement:				
New and increased provisions	**6**	**5**	**32**	**43**
Write-back of provisions no longer required	**(5)**	**(1)**	**(38)**	**(44)**
Write-offs against individually assessed provisions	**(2)**	**(3)**	**(10)**	**(15)**
Add: Write-back of provision on guarantee	**-**	**-**	**10**	**10**
Balance at end of year	**3**	**4**	**42**	**49**
Total provisions for impairment losses	**35**	**113**	**159**	**307**
Impairment losses on advances				
Movement in collective provision	**1**	**14**	**(19)**	**(4)**
New and increased individually assessed provisions net of write-backs	**1**	**4**	**(6)**	**(1)**
Bad debts written off directly to the Income Statement	**1**	**73**	**(2)**	**72**
Recovery of amounts previously written off	**-**	**(12)**	**(1)**	**(13)**
Total impairment losses on advances	**3**	**79**	**(28)**	**54**

$ millions	NZ Banking Group			
As at 30 June 2017	Residential Mortgages	Other Retail	Corporate	Total
Collective provision				
Balance at beginning of year	26	92	147	265
Charged to/(recovered from) Income Statement	5	3	(11)	(3)
Balance at end of year	31	95	136	262
Individually assessed provisions				
Balance at beginning of year	7	2	47	56
Add/(less):				
Charged to Income Statement:				
New and increased provisions	8	4	28	40
Write-back of provisions no longer required	(7)	(2)	(13)	(22)
Write-offs against individually assessed provisions	(4)	(1)	(14)	(19)
Balance at end of year	4	3	48	55
Total provisions for impairment losses	35	98	184	317
Impairment losses on advances				
Movement in collective provision	5	3	(11)	(3)
New and increased individually assessed provisions net of write-backs	1	2	15	18
Bad debts written off directly to the Income Statement	1	68	-	69
Recovery of amounts previously written off	(2)	(12)	(4)	(18)
Total impairment losses on advances	5	61	-	66

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18 Concentrations of Credit Exposures

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

For financial assets recognised on the Balance Sheet, the maximum exposure to credit risk equals their carrying values. Other credit exposures include irrevocable lending commitments, guarantees, standby letters of credit and other off balance sheet credit commitments. The maximum exposure to credit risk for guarantees and standby letters of credit is the maximum amount that the 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.

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

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

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

$ millions	NZ Banking Group			
As at 30 June 2018	**Financial Assets at Amortised Cost**	**Financial Assets at Fair Value**	**Other Credit Exposures**	**Total Credit Exposures**
Concentration by industry				
Agriculture	**10,537**	**17**	**992**	**11,546**
Forestry and Fishing, Agriculture Services	**329**	**1**	**91**	**421**
Manufacturing	**1,352**	**26**	**685**	**2,063**
Electricity, Gas, Water and Waste Services	**566**	**69**	**307**	**942**
Construction	**540**	**-**	**270**	**810**
Wholesale Trade	**951**	**7**	**393**	**1,351**
Retail Trade and Accommodation	**1,335**	**1**	**363**	**1,699**
Transport, Postal and Warehousing	**856**	**4**	**533**	**1,393**
Financial and Insurance Services	**4,382**	**6,660**	**467**	**11,509**
Rental, Hiring and Real Estate Services	**30,373**	**35**	**1,799**	**32,207**
Professional, Scientific, Technical, Administrative and Support Services	**592**	**2**	**300**	**894**
Public Administration and Safety	**14**	**4,197**	**280**	**4,491**
Education and Training	**373**	**1**	**118**	**492**
Health Care and Social Assistance	**1,164**	**7**	**395**	**1,566**
Arts, Recreation and Other Services	**320**	**1**	**215**	**536**
Household	**35,317**	**1**	**9,854**	**45,172**
All Other	**217**	**-**	**168**	**385**
Total credit exposures by industry	**89,218**	**11,029**	**17,230**	**117,477**
Concentration by geographic region				
Auckland	**44,716**	**2,393**	**10,202**	**57,311**
Rest of New Zealand	**42,468**	**2,831**	**6,838**	**52,137**
Overseas	**2,034**	**5,805**	**190**	**8,029**
Total credit exposures by geographic region	**89,218**	**11,029**	**17,230**	**117,477**

18 Concentrations of Credit Exposures (continued)

$ millions	NZ Banking Group			
As at 30 June 2017	Financial Assets at Amortised Cost	Financial Assets at Fair Value	Other Credit Exposures	Total Credit Exposures
Concentration by industry[1]				
Agriculture	10,173	20	881	11,074
Forestry and Fishing, Agriculture Services	205	1	73	279
Manufacturing	1,375	19	873	2,267
Electricity, Gas, Water and Waste Services	595	38	359	992
Construction	526	-	235	761
Wholesale Trade	784	9	336	1,129
Retail Trade and Accommodation	1,201	2	382	1,585
Transport, Postal and Warehousing	826	2	371	1,199
Financial and Insurance Services	4,203	3,987	226	8,416
Rental, Hiring and Real Estate Services	29,420	35	1,440	30,895
Professional, Scientific, Technical, Administrative and Support Services	525	1	274	800
Public Administration and Safety	17	2,918	423	3,358
Education and Training	332	1	154	487
Health Care and Social Assistance	1,304	5	359	1,668
Arts, Recreation and Other Services	297	-	192	489
Household	32,737	1	9,707	42,445
All Other	229	1	174	404
Total credit exposures by industry	84,749	7,040	16,459	108,248
Concentration by geographic region[1]				
Auckland	42,024	1,737	9,712	53,473
Rest of New Zealand	40,654	2,574	6,570	49,798
Overseas	2,071	2,729	177	4,977
Total credit exposures by geographic region	84,749	7,040	16,459	108,248

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

19 Maximum Exposure and Effect of Collateral and Other Credit Enhancements

Collateral and Credit Enhancements Held

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

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

Cash and Liquid Assets

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

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

Due from Financial Institutions

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

Trading Securities

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

Derivative Assets

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

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

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

Available-for-Sale Securities

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

Other Assets

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

Advances to Customers

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

Principal collateral types for advances to customers include:

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

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

(i) Residential Mortgages

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

(ii) Other Retail Lending

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

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

Advances to Customers (continued)

(iii) Corporate Lending

The NZ Banking Group's main collateral types for corporate lending consists of secured rights over specified assets of the borrower in the form of: commercial property, land rights, cash (usually in the form of a charge over a deposit), guarantees by company directors supporting commercial lending, a charge over a company's assets (including debtors, inventory and work in progress), or a charge over shares. In other instances, client facilities may be secured by collateral with value less than the carrying amount of the credit exposure. These facilities are deemed either secured, partially secured or unsecured. The Corporate category includes lending by the Branch which is generally to large corporate counterparties of strong financial standing, the majority of which borrow on negative pledge terms.

$ millions	NZ Banking Group			
Collateral Held on Advances to Customers - On Balance Sheet:	**Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
As at 30 June 2018				
Maximum Exposure	**53,918**	**5,185**	**26,932**	**86,035**
Collateral Classification				
Secured[1]	**99.9%**	**29.4%**	**60.3%**	**83.3%**
Partially Secured[2]	**0.1%**	**8.1%**	**20.7%**	**7.0%**
Unsecured[3]	**-**	**62.5%**	**19.0%**	**9.7%**
As at 30 June 2017				
Maximum Exposure	51,128	5,026	25,395	81,549
Collateral Classification				
Secured[1]	100.0%	30.6%	55.4%	81.8%
Partially Secured[2]	-	9.5%	24.3%	8.2%
Unsecured[3]	-	59.9%	20.3%	10.0%

Credit Commitments and Contingent Liabilities

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

$ millions **Collateral Held on Credit Commitments - Off Balance Sheet:**	**NZ Banking Group**
As at 30 June 2018	
Maximum Exposure	**17,230**
Collateral Classification	
Secured[1]	**59.0%**
Partially Secured[2]	**5.1%**
Unsecured[3]	**35.9%**
As at 30 June 2017	
Maximum Exposure	16,459
Collateral Classification	
Secured[1]	56.7%
Partially Secured[2]	4.6%
Unsecured[3]	38.7%

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

20 Transferred Financial Assets

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

Transferred Financial Assets that are Not Derecognised in their Entirety

Residential Mortgage-Backed Securities

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

Covered Bond Programme

On 11 August 2011, the ASB Covered Bond Trust (the "Covered Bond Trust"), a controlled entity of ASB, was established to acquire and hold 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. These mortgage loans (included within advances to customers) have not been derecognised from ASB's financial statements as it retains substantially all the risks and rewards of ownership (funding, liquidity and credit risks remain with ASB).

As at 30 June 2018, Covered Bonds (including accrued interest) of $3.9 billion were guaranteed (30 June 2017 $3.9 billion). The Covered Bond Guarantor has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the mortgage loans, related security and other assets of the Covered Bond Trust. The amount of the guarantee is limited to the assets of the Covered Bond Trust. As at 30 June 2018, the Covered Bond Trust held mortgage loans with a carrying value and fair value of $5.1 billion (30 June 2017 $5.6 billion), and other assets of $137 million representing cash from principal repayments (30 June 2017 $148 million).

Collateral Advanced

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

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

Transferred Financial Assets that are Derecognised in their Entirety

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

21 Imputation Credit Accounts

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

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

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

ASB Capital Limited, ASB Capital No. 2 Limited and CBA Investments (No. 4) Limited are not members of the ICA Group. As at 30 June 2018 ASB Capital Limited, ASB Capital No. 2 Limited and CBA Investments (No. 4) Limited had imputation credits available of $241,000, $388,000 and $781,000 respectively (30 June 2017 $250,000, $386,000 and $219,000 respectively). These figures have been calculated on the same basis as the ICA Group.

22 Controlled Entities and Associates

Entity Name	%	Nature of Business	Balance Date
Subsidiaries			
Aegis Limited	100	Investment administration and custody	30 June
ASB Bank Limited	100	Registered bank	30 June
ASB Capital Limited	100	Finance	30 June
ASB Capital No. 2 Limited	100	Finance	30 June
ASB Finance Limited	100	Finance	30 June
ASB Funding Limited	100	Holding company	30 June
ASB Group Investments Limited	100	Investment administration and management	30 June
ASB Holdings Limited	100	Holding company	30 June
ASB Management Services Limited	100	Management, payment services and property investment	30 June
ASB Nominees Limited	100	Nominee company	30 June
ASB Securities Limited	100	Sharebroking	30 June
Bond Investments No 1 Limited	100	Finance	30 June
Bond Investments UK Limited	100	Finance	30 June
CBA Asset Finance (NZ) Limited	100	Finance	30 June
CBA Asset Holdings (NZ) Limited	100	Finance	30 June
CBA Funding (NZ) Limited	100	Finance	30 June
CBA Investments (No 4) Limited	100	Finance	30 June
CBA NZ Holding Limited	100	Finance	30 June
Investment Custodial Services Limited	100	Investment custodian	30 June
Mortgage Holding Trust Company Limited	100	Nominee company	30 June
Securitisation Management Services Limited	100	Securitisation management	30 June
All subsidiaries were incorporated in New Zealand.			
Other Controlled Entities			
ASB Cash Fund	-	Portfolio investment entity	30 June
ASB Term Fund	-	Portfolio investment entity	30 June
Medallion NZ Series Trust 2009-1R	-	Securitisation entity	30 June
ASB Covered Bond Trust	-	Guarantor	30 June
Associates			
Paymark Limited	25	EFTPOS settlements	31 March
Payments NZ Limited	19	Payment systems	30 September

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

Changes in Composition of the NZ Banking Group

CBA USD Funding Limited (a subsidiary of CBA) was removed from the New Zealand Companies Register on 25 October 2017. The removal did not have an impact on the financial statements of the NZ Banking Group. On 17 January 2018 the NZ Banking Group entered into an agreement to sell its 25% shareholding in Paymark Limited (an associate of ASB) to Ingenico Group. The investment in the associate is considered held for sale and is measured at the lower of carrying amount and fair value less costs to sell. The transaction is subject to regulatory consents. There were no other changes to the composition of the NZ Banking Group during the year.

Comparative Period

Cards NZ Limited (an associate of ASB) and CBA Real Estate Funding (NZ) Limited (a subsidiary of CBA) were removed from the New Zealand Companies Register on 16 August 2016 and 5 July 2016 respectively. These removals did not have an impact on the financial statements of the NZ Banking Group. There were no other changes to the composition of the NZ Banking Group during the year.

Notes to the Financial Statements

For the year ended 30 June 2018

23 Other Assets

$ millions	NZ Banking Group	
As at 30 June	**2018**	2017
Interest receivable accrued	**207**	186
Other assets	**79**	54
Total other assets	**286**	240
Amounts due for settlement within 12 months	**272**	225
Amounts due for settlement over 12 months	**14**	15
Total other assets	**286**	240

24 Goodwill

Goodwill of $275m arose from the initial purchase of 25% of ASB by CBA Funding (NZ) Limited. Ownership of the 25% of ASB was moved to ASB Holdings Limited when CBA restructured its New Zealand operations on 1 July 2001. ASB (Group) Holdings Limited and ASB Holdings Limited amalgamated with ASB Group Limited on 15 and 16 March 2006 respectively. On amalgamation, ownership of ASB was transferred to ASB Group Limited (subsequently renamed ASB Holdings Limited).

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

Impairment Tests for Goodwill

Goodwill was tested for impairment as at 30 June 2018. Goodwill of $275m was allocated to the Retail Banking segment of ASB and $48m was allocated to the Private Banking, Wealth and Insurance segment of ASB, $38m was allocated to Aegis Limited and $10m was allocated to ASB Group Investments Limited, each of which is considered to be a cash-generating unit for the purpose of impairment testing. To assess whether goodwill is impaired the carrying amount of each cash-generating unit is compared to its recoverable amount.

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

Key Assumptions Used in Value in Use Calculations

As at 30 June 2018, the recoverable amount relating to the cash-generating unit within the Retail Banking segment was calculated based on its fair value less costs to sell. Earnings multiples were sourced from publicly available data associated with businesses displaying similar characteristics to the cash-generating unit, and were applied to current earnings.

As at 30 June 2018, the recoverable amounts for Aegis Limited and ASB Group Investments Limited were calculated based on their value in use. Value in use for each cash-generating unit was determined by discounting the future cash flows expected to be generated from the continuing use of the unit, based on the following assumptions:

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

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

Notes to the Financial Statements

For the year ended 30 June 2018

25 Deferred Taxation Asset

$ millions	NZ Banking Group	
As at 30 June	**2018**	2017
Balance at beginning of year	**160**	165
Recognised in the Income Statement	**(1)**	1
Recognised in other comprehensive income	**(4)**	(6)
Balance at end of year	**155**	160
Deferred taxation relates to:		
Asset revaluation reserve	**(4)**	(5)
Available-for-sale reserve	**(5)**	(1)
Cash flow hedge reserve	**45**	46
Depreciation	**2**	-
Provision for employee entitlements	**13**	10
Provision for impairment losses	**86**	90
Other temporary differences	**18**	20
Total deferred taxation asset	**155**	160
Deferred taxation recognised in the Income Statement:		
Depreciation	**2**	(4)
Holiday pay	**3**	(1)
Provision for impairment losses	**(4)**	-
Other temporary differences	**(2)**	6
Total deferred taxation recognised in the Income Statement	**(1)**	1
Deferred taxation recognised in other comprehensive income:		
Asset revaluation reserve	**1**	-
Available-for-sale reserve	**(4)**	(5)
Cash flow hedge reserve	**(1)**	(1)
Total deferred taxation recognised in other comprehensive income	**(4)**	(6)

26 Deposits and Other Borrowings

$ millions **As at 30 June**	NZ Banking Group **2018**	 2017
Certificates of deposit	**2,551**	2,528
Term deposits	**32,268**	28,748
On demand and short term deposits	**22,689**	22,805
Deposits not bearing interest	**4,820**	4,037
Repurchase agreements	**-**	29
Total deposits and other borrowings	**62,328**	58,147
Amounts due for settlement within 12 months	**59,032**	55,742
Amounts due for settlement over 12 months	**3,296**	2,405
Total deposits and other borrowings	**62,328**	58,147

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

The Branch did not have any retail deposits (deposits with natural persons, excluding deposits with an outstanding balance which exceeds $250,000) as at 30 June 2018 (30 June 2017 nil).

27 Other Liabilities

$ millions **As at 30 June**	NZ Banking Group **2018**	 2017
Interest payable accrued	**303**	288
Employee entitlements	**140**	129
Trade accounts payable and other liabilities	**191**	175
Total other liabilities	**634**	592
Amounts due for settlement within 12 months	**627**	589
Amounts due for settlement over 12 months	**7**	3
Total other liabilities	**634**	592

28 Due to Financial Institutions

As at 30 June 2018 amounts due to financial institutions of $1,212 million are due for settlement within 12 months of balance date (30 June 2017 $1,168 million due within 12 months of balance date).

29 Other Liabilities at Fair Value through Income Statement

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2018

30 Debt Issues

$ millions	NZ Banking Group	
As at 30 June	**2018**	2017
Debt issues by programme		
Euro commercial paper	**148**	135
USD commercial paper	**3,214**	2,492
Euro medium term notes	**7,662**	7,406
USD medium term notes	**1,467**	-
NZD domestic bonds	**2,990**	3,744
Covered bonds	**3,920**	3,903
Total debt issues	**19,401**	17,680
Short term debt issues by currency		
USD	**3,362**	2,574
GBP	**-**	53
Long term debt issues by currency due for settlement within 12 months		
USD	**317**	136
GBP	**-**	1,155
EUR	**862**	1,246
NZD	**1,202**	1,561
CHF	**676**	-
Total debt issues due for settlement within 12 months	**6,419**	6,725
Long term debt issues by currency due for settlement over 12 months		
USD	**3,452**	1,594
AUD	**109**	-
GBP	**1,057**	792
JPY	**126**	115
EUR	**5,496**	4,487
NZD	**1,990**	2,690
HKD	**147**	36
CHF	**605**	1,241
Total debt issues due for settlement over 12 months	**12,982**	10,955
Total debt issues	**19,401**	17,680
Debt issues at fair value through Income Statement	**148**	407
Debt issues at amortised cost	**19,253**	17,273
Total debt issues	**19,401**	17,680
Fair value hedge adjustments included in total debt issues	**(52)**	(19)
Movement in debt issues		
Balance at beginning of period	**17,680**	14,277
Issuances during the period	**8,834**	12,830
Repayments during the period	**(8,162)**	(9,135)
Foreign exchange and fair value movements during the period	**1,049**	(292)
Balance at the end of period	**19,401**	17,680

30 Debt Issues (continued)

Short Term Debt

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

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

Long Term Debt

The NZ Banking Group's long term borrowings include:

- notes issued under a joint Euro Medium Term Note programme with CBA, the ultimate parent of ASB. The joint programme limit is USD70 billion. These issuances occur in multiple currencies. Notes issued under this programme have both fixed and variable interest rates,
- notes issued under a US Medium Term Note programme. ASB established this debt programme on 9 May 2018, and may issue up to the USD10 billion programme limit. Notes issued under this programme are in USD in both fixed and variable interest rates,
- bonds issued under a Covered Bond programme. ASB or its subsidiary ASB Finance Limited (acting through its London branch) may issue notes up to a programme limit of EUR7 billion, subject to the regulatory constraint that the assets of the Covered Bond Trust may not exceed 10% of the total assets of ASB and its controlled entities. The issuances may occur in multiple currencies. Covered Bonds issued under this programme may have both fixed and variable interest rates. These bonds are guaranteed by the Covered Bond Guarantor. Refer to note 20 for further information, and
- domestic bonds issued into the New Zealand market. The issuances occur in NZD and have both fixed and variable interest rates.

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

31 Loan Capital

$ millions			NZ Banking Group	
As at 30 June			2018	2017
Issuer	Face Value	Footnote		
ASB Bank Limited	NZD800 million	(a)	**806**	804
CBA New Zealand Branch	AUD3,000 million	(b)	**3,292**	3,172
CBA New Zealand Branch	AUD1,450 million	(c)	**1,565**	1,507
CBA New Zealand Branch	AUD1,640 million	(d)	**1,767**	1,698
Total loan capital			**7,430**	7,181

Terms

ASB Bank Limited

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

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

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

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

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

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

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

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

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

CBA New Zealand Branch ("Branch")

(b) Unsecured and subordinated CommBank PERLS VII capital notes ("PERLS VII") issued on 1 October 2014 (AUD3,000 million). PERLS VII may be redeemed or resold to a third party at its face value on 15 December 2022. If not redeemed or resold, the Branch will be required to exchange PERLS VII for CBA ordinary shares on 15 December 2024. PERLS VII are listed on the Australian Stock Exchange and are subject to New South Wales law. They qualify as Additional Tier 1 Capital of CBA under Basel III as implemented by APRA.

(c) Unsecured and subordinated CommBank PERLS VIII capital notes ("PERLS VIII") issued on 30 March 2016 (AUD1,450 million). PERLS VIII may be redeemed or resold to a third party at its face value on 15 October 2021. If not redeemed or resold, the Branch will be required to exchange PERLS VIII for CBA ordinary shares on 15 October 2023. PERLS VIII are listed on the Australian Stock Exchange and are subject to New South Wales law. They qualify as Additional Tier 1 Capital of CBA under Basel III as implemented by APRA.

(d) Unsecured and subordinated CommBank PERLS IX capital notes ("PERLS IX") issued on 31 March 2017 (AUD1,640 million). PERLS IX may be redeemed or resold to a third party at its face value on 31 March 2022. If not redeemed or resold, the Branch will be required to exchange PERLS IX for CBA ordinary shares on 31 March 2024. PERLS IX are listed on the Australian Stock Exchange and are subject to New South Wales law. They qualify as Additional Tier 1 Capital of CBA under Basel III as implemented by APRA.

Notes to the Financial Statements

For the year ended 30 June 2018

32 Head Office Account and Contributed Capital

$ millions	NZ Banking Group	
As at 30 June	**2018**	2017
Head office account		
Balance at beginning of year	**462**	462
Capital injection	**2,425**	-
Balance at end of year	**2,887**	462

Head office account comprises funds provided by CBA to support its New Zealand branch. It is non-interest bearing and there is no fixed date for repatriation.

Issued and fully paid ordinary share capital		
Balance at beginning of year	**667**	704
Decrease in share capital	**-**	(37)
Balance at end of year	**667**	667
Issued and fully paid redeemable preference share capital		
Balance at beginning of year	**-**	1,034
Decrease in share capital	**-**	(1,034)
Balance at end of year	**-**	-
Total contributed capital	**667**	667

Ordinary Shares

As at 30 June 2018 the NZ Banking Group had 690,561,572 ordinary shares of which 100,000 were unpaid (30 June 2017 690,561,672 issued of which 100,000 were unpaid). During the year ended 30 June 2018, 100 ordinary shares were redeemed (30 June 2017 36,975,208 ordinary shares were redeemed).

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

Redeemable Preference Shares

As at 30 June 2018 the NZ Banking Group had no issued and fully paid redeemable preference shares (30 June 2017 nil). Two series of redeemable preference shares were redeemed during the year ended 30 June 2017, the details of which are as follows:

(a) Redeemable preference shares included 254,000,000 non-participating redeemable preference shares issued on 22 December 2006 by CBA Funding (NZ) Limited which must have been redeemed 100 years after issue or any earlier date immediately prior to the date on which the liquidation of CBA Funding (NZ) Limited commences. They could also have been redeemed earlier with the consent of the holder.

Upon redemption, the holder of each of these redeemable preference shares was required to invest the redemption proceeds in ordinary shares to be issued by CBA Funding (NZ) Limited. The number of ordinary shares to be issued was fixed as determined by dividing the redemption proceeds by the value of each existing ordinary share as at 30 May 2014.

On 31 March 2017 CBA Funding (NZ) Limited exercised its option to early redeem 254,000,000 of these shares. In accordance with the terms of redemption, on 31 March 2017 the holder reinvested the $254 million redemption proceeds in CBA Funding (NZ) Limited's ordinary shares. On the same day, CBA Funding (NZ) Limited reacquired these ordinary shares at a consideration equal to their issue price.

(b) During the year ended 30 June 2008, CBA Funding (NZ) Limited issued 780,000,000 redeemable preference shares which were classified as equity. These shares had no fixed term, carried no voting rights and were redeemable by CBA Funding (NZ) Limited providing 75 days notice to the holder of the shares. Dividends were payable at the discretion of the directors of CBA Funding (NZ) Limited and were non-cumulative.

Upon redemption, the holder of each of these redeemable preference shares was required to invest the redemption proceeds in ordinary shares to be issued by CBA Funding (NZ) Limited. The number of ordinary shares to be issued was fixed as determined by dividing the redemption proceeds by the value of each existing ordinary share as at 30 May 2014.

On 31 March 2017 CBA Funding (NZ) Limited exercised its option to redeem 780,000,000 of these shares. In accordance with the terms of redemption, on 31 March 2017 the holder reinvested the $780 million redemption proceeds in CBA Funding (NZ) Limited's ordinary shares. On the same day, CBA Funding (NZ) Limited reacquired these ordinary shares at a consideration equal to their issue price.

Notes to the Financial Statements

For the year ended 30 June 2018

33 Reserves

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

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

Available-for-sale reserve		
Balance at beginning of year	**2**	(10)
Net gain from changes in fair value	**16**	17
Deferred taxation	**(4)**	(5)
Balance at end of year	**14**	2

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

Cash flow hedge reserve		
Balance at beginning of year	**(118)**	(121)
Net loss from changes in fair value	**(171)**	(211)
Transferred to Income Statement:		
Interest income	**(91)**	(88)
Interest expense	**265**	303
Deferred taxation	**(1)**	(1)
Balance at end of year	**(116)**	(118)

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

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

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

34 Non-controlling Interests

$ millions **As at 30 June**	NZ Banking Group **2018**	 2017
Shareholders' equity	**550**	550

As at 30 June 2018 the NZ Banking Group had 550,000,000 issued and fully paid PPS (30 June 2017 550,000,000 issued and fully paid PPS). These shares constitute a non-controlling interest in the NZ Banking Group.

In December 2002 ASB Capital Limited issued 200,000,000 PPS. In December 2004 ASB Capital No. 2 Limited issued 350,000,000 PPS. These shares have no fixed term, are non-redeemable and carry limited voting rights. They were issued as part of transactions with ASB.

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

$ millions **As at 30 June**	NZ Banking Group **2018**	 2017
Perpetual preference dividends paid to non-controlling interests		
ASB Capital Limited	**5**	5
ASB Capital No. 2 Limited	**8**	8
Total perpetual preference dividends paid to non-controlling interests	**13**	13

Dividends are payable quarterly in arrears and are payable at the discretion of the directors of ASB Capital Limited and ASB Capital No. 2 Limited. These dividends are non-cumulative.

Dividends on PPS were 2.42 cents per share (30 June 2017 2.67 cents per share) paid by ASB Capital Limited and 2.18 cents per share (30 June 2017 2.30 cents per share) paid by ASB Capital No. 2 Limited for the year ended 30 June 2018.

The dividend payable on ASB Capital Limited PPS is based on the one year swap rate plus a margin of 1.3%. The dividend rate paid on the PPS for the period ended 15 November 2017 was 3.42% per annum including imputation credits. Rates are reset annually on 15 November or the succeeding business day. The rate was reset on 15 November 2017 to 3.30% per annum. The next dividend reset date is 15 November 2018.

The dividend payable on the ASB Capital No. 2 Limited PPS is based on the one year swap rate plus a margin of 1.0%. The dividend rate paid on the PPS for the period ended 15 May 2018 was 3.03% per annum including imputation credits. Rates are reset annually on 15 May or the succeeding business day. The rate was reset on 15 May 2018 to 3.05% per annum. The next dividend reset date is 15 May 2019.

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

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

Events after the Reporting Period

On 18 July 2018 the directors of ASB Capital Limited declared a gross perpetual preference dividend of $2 million, being 0.8250 cents per share, including imputation credits. The cash dividend of 0.5940 cents per share will be paid on 15 August 2018 to all registered holders of perpetual preference shares as at 5.00pm on 6 August 2018.

On 18 July 2018 the directors of ASB Capital No. 2 Limited declared a gross perpetual preference dividend of $3 million, being 0.7625 cents per share, including imputation credits. The cash dividend of 0.5490 cents per share will be paid on 15 August 2018 to all registered holders of perpetual preference shares as at 5.00pm on 6 August 2018.

35 Leasing and Other Commitments

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

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

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

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

36 Credit and Capital Commitments, and Contingent Liabilities

$ millions	NZ Banking Group Notional Amount	
As at 30 June	2018	2017
Credit and capital commitments		
Lending commitments approved but not yet advanced (1)	16,686	15,988
Capital expenditure commitments	5	2
Total credit and capital commitments	16,691	15,990
Contingent liabilities		
Guarantees	200	166
Standby letters of credit	144	119
Other credit facilities	200	186
Total	544	471

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

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

The NZ Banking Group has other contingent liabilities in respect of 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 year ended 30 June 2018

37 Related Party Transactions and Balances

During the year ended 30 June 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 certain subsidiaries and related companies for which no compensation has been received. In all other cases, arrangements with related parties were conducted on an arm's length basis and on normal commercial terms, and within the NZ Banking Group's approved policies. 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. The NZ Life Group similarly administers and manages certain superannuation schemes and managed investment schemes. Related party transactions and balances between these schemes, and the NZ Banking Group are disclosed below.

$ millions		NZ Banking Group	
For the year ended 30 June		**2018**	2017[(1)]
Related Party Transactions			
Interest income			
Received from Overseas Banking Group		**18**	11
		18	11
Interest expense			
Paid to Overseas Banking Group		**94**	129
Paid to NZ Life Group		**4**	4
Paid to superannuation schemes and managed investment schemes managed by a subsidiary of ASB		**26**	16
		124	149
Other income			
Fair value gains/(losses) on hedging derivatives with Overseas Banking Group		**91**	(21)
Received from NZ Life Group for administrative services		**12**	12
Received from NZ Life Group for insurance commission		**44**	42
Fair value gains/(losses) on hedging derivatives with NZ Life Group		**19**	(19)
Management and administration fees received from superannuation schemes and managed investment schemes managed by a subsidiary of ASB		**91**	69
		257	83
Other expenses			
Paid to NZ Life Group for the origination of mortgages		**2**	2
Paid to Commonwealth Bank Group for investment management services		**2**	2
		4	4
Related Party Balances			
Overseas Banking Group			
Cash and liquid assets		**133**	243
Due from financial institutions		**472**	189
Derivative assets:	Interest rate contracts	**134**	156
	Exchange rate contracts	**171**	23
	Commodity contracts	**-**	1
Other assets		**4**	2
		914	614
Deposits and other borrowings		**-**	29
Due to financial institutions		**212**	752
Derivative liabilities:	Interest rate contracts	**77**	101
	Exchange rate contracts	**120**	522
Other liabilities		**3**	2
		412	1,406

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

Notes to the Financial Statements

For the year ended 30 June 2018

37 Related Party Transactions and Balances (continued)

$ millions	NZ Banking Group	
For the year ended 30 June	**2018**	2017[1]
Related Party Balances (continued)		
NZ Life Group		
Derivative assets: Exchange rate contracts	**4**	1
	4	1
Deposits and other borrowings	**185**	212
Derivative liabilities: Exchange rate contracts	**-**	11
Other liabilities	**1**	1
	186	224
Superannuation schemes and managed investment schemes managed by a subsidiary of ASB		
Other assets	**14**	10
	14	10
Deposits and other borrowings	**820**	662
Debt issues: at amortised cost	**125**	118
	945	780
Superannuation schemes and managed investment schemes managed or administered by NZ Life Group		
Deposits and other borrowings	**-**	3
	-	3
Total related party assets	**932**	**625**
Total related party liabilities	**1,543**	**2,413**

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

Other Transactions and Balances

The Overseas Banking Group provides guarantees over certain lending offered by ASB to the value of $138 million (30 June 2017 $143 million).

No net receipts were received from the NZ Life Group for the utilisation of tax-related items (30 June 2017 $6 million).

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

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

Refer to note 31 for details of loan capital issued to related parties.

Refer to note 32 for details of capital contributed by related parties.

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

Notes to the Financial Statements

For the year ended 30 June 2018

38 Key Management Personnel

The executive management and Directors of ASB and the New Zealand Chief Executive Officer of the Branch are considered to be key management personnel.

$ millions	NZ Banking Group	
For the year ended 30 June	**2018**	2017
Key management compensation		
Short term employee benefits	**14**	16
Other long term benefits	**4**	5
Total key management compensation	**18**	21

$ millions	NZ Banking Group	
As at 30 June	**2018**	2017
Loans to key management personnel	**7**	15
Deposits from key management personnel	**8**	12

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

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

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

39 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 significant number of financial instruments are carried on the Balance Sheet at fair value. The best evidence of fair value is a quoted market price in an active market. Therefore, where possible, fair value is based on quoted market prices. Where a quoted market price for a financial instrument is not available, its fair value is based on present value estimates or other valuation techniques based on current market conditions. These valuation techniques rely on market observable inputs wherever possible, or in a limited number of instances, rely on inputs which are unobservable but are reasonable assumptions based on market conditions.

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

- Level 1 - inputs are quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities that the 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; or
- 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.

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

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

$ millions	NZ Banking Group			
As at 30 June 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Trading securities	**1,256**	**1,088**	**-**	**2,344**
Derivative assets	**-**	**1,836**	**-**	**1,836**
Available-for-sale securities	**6,561**	**288**	**-**	**6,849**
Total financial assets measured at fair value	**7,817**	**3,212**	**-**	**11,029**
Financial liabilities				
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**
Total financial liabilities measured at fair value	**-**	**2,360**	**-**	**2,360**

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

$ millions	NZ Banking Group			
As at 30 June 2017	Level 1	Level 2	Level 3	Total
Financial assets				
Trading securities	776	802	-	1,578
Derivative assets	-	1,037	-	1,037
Available-for-sale securities	4,033	392	-	4,425
Total financial assets measured at fair value	4,809	2,231	-	7,040
Financial liabilities				
Other liabilities at fair value through Income Statement	-	1,065	-	1,065
Derivative liabilities	1	1,884	-	1,885
Debt issues at fair value through Income Statement	-	407	-	407
Total financial liabilities measured at fair value	1	3,356	-	3,357

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

39 Fair Value of Financial Instruments (continued)

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

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

$ millions	NZ Banking Group				
	Fair Values				Carrying Value
As at 30 June 2018	**Level 1**	**Level 2**	**Level 3**	**Total**	**Total**
Financial assets					
Cash and liquid assets	**1,051**	**1,518**	**-**	**2,569**	**2,569**
Due from financial institutions	**-**	**921**	**-**	**921**	**921**
Advances to customers	**-**	**-**	**85,758**	**85,758**	**85,728**
Other assets	**-**	**260**	**-**	**260**	**260**
Total	**1,051**	**2,699**	**85,758**	**89,508**	**89,478**
Financial liabilities					
Deposits and other borrowings	**-**	**62,369**	**-**	**62,369**	**62,328**
Due to financial institutions	**-**	**1,212**	**-**	**1,212**	**1,212**
Other liabilities	**-**	**634**	**-**	**634**	**634**
Debt issues at amortised cost	**-**	**19,341**	**-**	**19,341**	**19,253**
Loan capital	**-**	**7,447**	**-**	**7,447**	**7,430**
Total	**-**	**91,003**	**-**	**91,003**	**90,857**

$ millions	NZ Banking Group				
	Fair Values				Carrying Value
As at 30 June 2017	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Cash and liquid assets	1,414	1,156	-	2,570	2,570
Due from financial institutions	-	947	-	947	947
Advances to customers	-	-	81,150	81,150	81,232
Other assets	-	220	-	220	220
Total	1,414	2,323	81,150	84,887	84,969
Financial liabilities					
Deposits and other borrowings	-	58,228	-	58,228	58,147
Due to financial institutions	-	1,168	-	1,168	1,168
Other liabilities	-	592	-	592	592
Debt issues at amortised cost	-	17,355	-	17,355	17,273
Loan capital	-	7,239	-	7,239	7,181
Total	-	84,582	-	84,582	84,361

Notes to the Financial Statements

For the year ended 30 June 2018

40 Offsetting Financial Assets and Financial Liabilities

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

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

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

	NZ Banking Group					
	Amounts Subject to Enforceable Master Netting Agreements				Amounts Not Subject to Enforceable Master Netting Agreements[1]	
$ millions	Gross Amounts[1]	Financial Instruments Not Offset	Financial Collateral	Net Amount		Carrying Value
Financial instruments as at 30 June 2018						
Derivative assets	**1,826**	**(748)**	**(889)**	**189**	**10**	**1,836**
Reverse repurchase agreements	**1,518**	**-**	**(1,518)**	**-**	**-**	**1,518**
Total financial assets	**3,344**	**(748)**	**(2,407)**	**189**	**10**	**3,354**
Derivative liabilities	**(1,114)**	**748**	**309**	**(57)**	**(1)**	**(1,115)**
Total financial liabilities	**(1,114)**	**748**	**309**	**(57)**	**(1)**	**(1,115)**
Financial instruments as at 30 June 2017						
Derivative assets	1,025	(711)	(234)	80	12	1,037
Reverse repurchase agreements	1,156	(29)	(1,127)	-	-	1,156
Total financial assets	2,181	(740)	(1,361)	80	12	2,193
Derivative liabilities	(1,884)	711	785	(388)	(1)	(1,885)
Repurchase agreements	(29)	29	-	-	-	(29)
Total financial liabilities	(1,913)	740	785	(388)	(1)	(1,914)

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

Effects of Master Netting Agreements on Financial Instruments

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

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

41 Capital Adequacy[1]

Regulatory Requirements - Basel III

For the purposes of this Disclosure Statement, the NZ Banking Group is subject to regulation by the RBNZ by way of two banking licences, one for ASB and its controlled entities (the "ASB Banking Group"), and another for the Branch. The RBNZ registration requirements set out, among other things, minimum regulatory capital requirements for banks that are consistent with the internationally agreed framework developed by the Basel Committee on Banking Supervision. These capital requirements define what is acceptable as qualifying regulatory capital and provide for methods of measuring the risks incurred by banks. The ASB Banking Group and the Branch must comply with RBNZ registration requirements, including any minimum capital adequacy ratios under the Conditions of Registration for each respective banking licence.

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

Capital Management Policies

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

The Boards of Directors for ASB and CBA (the Overseas Bank) have ultimate responsibility for capital adequacy, and minimum capital levels and limits. These are set at a higher level than required by the RBNZ, which both reduces the risk of breaching the Conditions of Registration and provides investor confidence. ASB and CBA each actively monitor capital adequacy and report this on a regular basis to senior management and the respective Boards. This includes forecasting capital requirements so that any capital requirements can be executed in a timely manner. The NZ Banking Group considers other stakeholders' requirements when managing capital, and uses a mix of capital instruments to reduce single source reliance and to optimise capital efficiency.

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

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

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).

The Overseas Banking Group is required by APRA to hold minimum capital specified under the Basel III (AIRB) approach. As at 30 June 2018 the minimum capital requirements were met (30 June 2017 minimum capital requirements were met).

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

(1) Certain sections of note 41 are subject to review procedures which do not constitute an audit. These sections are clearly labelled as "Unaudited". Refer to page 68 of the Independent Auditor's Report for further information.

41 Capital Adequacy (continued)

Unaudited $ millions As at 30 June 2018 LVR Range	NZ Banking Group Does Not Exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and Not 80%	Exceeds 80% and Not 90%	Exceeds 90%	Total
Value of exposures	**27,997**	**13,561**	**16,393**	**3,072**	**1,385**	**62,408**
Expressed as a percentage of total exposures	**44.9%**	**21.7%**	**26.3%**	**4.9%**	**2.2%**	**100%**

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

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

Market Risk Exposure

The NZ Banking Group's aggregate market risk exposure is derived in accordance with BS2A. The peak end-of-day exposure is derived by taking the highest market exposure over the six months ended 30 June 2018.

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

Unaudited $ millions Exposures as at 30 June 2018	NZ Banking Group Interest Rate Risk	Foreign Currency Risk	Equity Risk	Total
Implied risk-weighted exposure	**2,492**	**318**	**-**	**2,810**
Aggregate capital charge	**199**	**25**	**-**	**224**

Unaudited $ millions Peak Exposures for the six months ended 30 June 2018	NZ Banking Group Interest Rate Risk	Foreign Currency Risk	Equity Risk	Total
Implied risk-weighted exposure	**3,067**	**439**	**-**	**3,506**
Aggregate capital charge	**245**	**35**	**-**	**280**

Notes to the Financial Statements

For the year ended 30 June 2018

42 Overseas Banking Group

	Overseas Banking Group
Asset quality	
As at 30 June 2018	
Total gross individually impaired assets	**AUD3,179 million**
Total individually impaired assets as a % of total assets	**0.3%**
Total individually assessed provisions	**AUD870 million**
Total individually assessed provisions as a % of total gross individually impaired assets	**27.4%**
Total collective provision	**AUD2,763 million**
Profitability	
For the year ended 30 June 2018	
Net profit after taxation	**AUD9,348 million**
Net profit after taxation as a % of average total assets	**1.0%**
Size	
As at 30 June 2018	
Total assets	**AUD975,165 million**
% change in total assets from previous 30 June	**-0.1%**

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 is $6,669 million as at 30 June 2018 (30 June 2017 $6,400 million).

Notes to the Financial Statements

For the year ended 30 June 2018

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

Securitisation, Funds Management and Other Fiduciary Activities

Securitisation
As at 30 June 2018 ASB had internally securitised $5.3 billion of RMBS through the Medallion NZ Series Trust 2009-1R (30 June 2017 $4.7 billion), of which $5.0 billion of Class A floating rate notes issued by the Medallion NZ Series Trust 2009-1R have been assigned a credit rating of AAA by Fitch Ratings (30 June 2017 $4.5 billion). Refer to note 20 for more information.

Funds Management
ASB markets and distributes funds management products which are issued by a wholly owned subsidiary, ASB Group Investments Limited (refer to note 22). Funds under management distributed by ASB totalled $14,234 million as at 30 June 2018 (30 June 2017 $10,730 million). As at 30 June 2018 $1,034 million of funds under management were invested in related party products or securities (30 June 2017 $928 million).

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

Insurance Business

The NZ Banking Group does not conduct any insurance business.

Marketing and Distribution of Insurance Products

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

Risk Management

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

Provision of Financial Services

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

Notes to the Financial Statements

For the year ended 30 June 2018

44 Financial Reporting by Operating Segments

$ millions	Retail Banking	Business Banking	Institutional Banking and Markets	Private Banking, Wealth and Insurance	Other	Total
	NZ Banking Group					
Income Statement						
For the year ended 30 June 2018						
Net interest earnings/(losses)	**1,020**	**843**	**10**	**54**	**(13)**	**1,914**
Other income/(loss)	**267**	**145**	**45**	**210**	**(75)**	**592**
Total operating income/(loss)	**1,287**	**988**	**55**	**264**	**(88)**	**2,506**
Impairment losses/(recoveries) on advances	**76**	**5**	**(26)**	**-**	**(1)**	**54**
Segment operating expenses (excluding impairment losses)	**401**	**333**	**14**	**122**	**19**	**889**
Segment net profit/(loss) before taxation	**810**	**650**	**67**	**142**	**(106)**	**1,563**
Taxation	**227**	**182**	**19**	**40**	**(32)**	**436**
Segment net profit/(loss) after taxation	**583**	**468**	**48**	**102**	**(74)**	**1,127**
Non-cash expenses(1)						
Depreciation and amortisation expense	**47**	**27**	**-**	**10**	**-**	**84**
Balance Sheet						
As at 30 June 2018						
Total assets	**42,739**	**39,963**	**2,862**	**2,393**	**13,382**	**101,339**
Total liabilities	**33,918**	**20,610**	**1,683**	**4,169**	**32,962**	**93,342**

$ millions	Retail Banking	Business Banking	Institutional Banking and Markets	Private Banking, Wealth and Insurance	Other	Total
	NZ Banking Group					
Income Statement(2)						
For the year ended 30 June 2017						
Net interest earnings/(losses)	926	762	15	44	(20)	1,727
Other income/(loss)	250	139	42	184	(45)	570
Total operating income/(loss)	1,176	901	57	228	(65)	2,297
Impairment losses/(recoveries) on advances	61	8	(3)	-	-	66
Segment operating expenses (excluding impairment losses)	389	325	13	110	5	842
Segment net profit/(loss) before taxation	726	568	47	118	(70)	1,389
Taxation	203	159	13	33	(20)	388
Segment net profit/(loss) after taxation	523	409	34	85	(50)	1,001
Non-cash expenses(1)(2)						
Depreciation and amortisation expense	45	25	-	9	-	79
Balance Sheet(2)						
As at 30 June 2017						
Total assets	40,998	37,417	3,207	2,051	9,155	92,828
Total liabilities	32,208	18,945	1,433	3,540	31,700	87,826

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

(2) The basis of segmentation has changed from 1 July 2017. Private Banking has been merged into the Wealth and Insurance segment and Business Banking has been merged into the Corporate Commercial and Rural segment. Both Private Banking and Business Banking were previously reported under the Retail and Business Banking segment. As a result of this restructure, the Retail and Business Banking segment has been renamed Retail Banking, the Corporate, Commercial and Rural segment has been renamed Business Banking, and the Wealth and Insurance segment has been renamed Private Banking, Wealth and Insurance. The basis of segmentation disclosed at 30 June 2018 follows reporting to the Chief Operating Decision Maker at that date. Certain comparative information has been reclassified to ensure consistency with presentation in the current period.

44 Financial Reporting by Operating Segments (continued)

Retail Banking:	The Retail Banking segment provides services to private individuals. In addition, net income is attributed to this segment for the distribution of wealth management products through the retail distribution network.
Business Banking:	The Business Banking segment provides services to corporate, commercial, rural and small business customers. It also comprises ASB's financial markets activities, including financial instruments trading and sales of financial instruments to 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 Total Capital Solutions offering includes debt and equity capital raising, financial and commodities price risk management and transactional banking capabilities. 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; and
- 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.

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.

The NZ Banking Group operates predominantly in the banking industry within New Zealand. The NZ Banking Group has very limited exposure to risks associated with operating in different economic environments or political conditions in other countries. On this basis no geographical segment information is provided.

45 Risk Management Policies

Introduction

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

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

Management and governance of ASB and its subsidiaries are separate from those of the Branch. Although the policies are consistent, their execution is undertaken by separate management and governance.

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

CBA has in place an integrated risk management framework to identify, assess, manage and report risks and risk adjusted returns on a consistent and reliable basis. This framework is applied by the Branch and is consistent with the risk management framework of ASB. The components of the framework are made up of credit, market, operational and strategic business and insurance risk.

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

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

The following notes contain information about the risk measurement framework: notes 15 to 19 (credit risk), notes 46 and 47 (market risk), and notes 48 to 51 (liquidity and funding risk). Operational and compliance, strategic, and reputational risks are discussed below.

Operational and Compliance Risk

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

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

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

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

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

Strategic Risk

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

Strategic risk is managed by ASB's Executive Leadership Team in accordance with the NZ Banking Group's risk appetite statement.

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

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

Reputational Risk

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

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

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

45 Risk Management Policies (continued)

Business Continuity Management

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

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

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

Internal Audit

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

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

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

CBA maintains an independent internal audit function which is ultimately accountable to the CBA Board of Directors. CBA's internal audit function performs a similar role for the Branch to that of ASB's internal audit function.

46 Market Risk

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

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

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

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

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

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

Market Risk Measurement

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

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

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

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

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

Traded Market Risk

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

$ millions	NZ Banking Group	
VaR at 97.5% Confidence Level	**Average VaR**	
As at 30 June	**2018**	2017
Interest rate risk	**0.36**	0.38
Foreign exchange risk	**0.05**	0.09
Diversification benefit	**(0.04)**	(0.06)
Total Traded Market Risk	**0.37**	0.41

46 Market Risk (continued)

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

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

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

(a) Next 12 months' earnings

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

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

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

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

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

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

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

(b) Economic Value

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

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

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

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

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

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

Net Foreign Currency Open Positions

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

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

47 Interest Rate Repricing Schedule

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

$ millions	NZ Banking Group						
As at 30 June 2018	**Up to 3 Months**	**Over 3 Months and up to 6 Months**	**Over 6 Months and up to 1 Year**	**Over 1 Year and up to 2 Years**	**Over 2 Years**	**Non-interest Bearing**	**Total**
Assets							
Cash and liquid assets	**2,455**	**-**	**-**	**-**	**-**	**114**	**2,569**
Due from financial institutions	**921**	**-**	**-**	**-**	**-**	**-**	**921**
Trading securities	**2,044**	**50**	**250**	**-**	**-**	**-**	**2,344**
Derivative assets	**-**	**-**	**-**	**-**	**-**	**1,836**	**1,836**
Available-for-sale securities	**394**	**51**	**1,083**	**990**	**4,331**	**-**	**6,849**
Advances to customers	**40,173**	**8,352**	**15,051**	**15,984**	**6,327**	**(159)**	**85,728**
All other assets	**-**	**-**	**-**	**-**	**-**	**1,092**	**1,092**
Total assets	**45,987**	**8,453**	**16,384**	**16,974**	**10,658**	**2,883**	**101,339**
Liabilities							
Deposits and other borrowings	**37,327**	**10,051**	**6,834**	**2,316**	**980**	**4,820**	**62,328**
Due to financial institutions	**1,189**	**-**	**-**	**-**	**-**	**23**	**1,212**
Other liabilities at fair value through Income Statement	**1,097**	**-**	**-**	**-**	**-**	**-**	**1,097**
Derivative liabilities	**-**	**-**	**-**	**-**	**-**	**1,115**	**1,115**
All other liabilities	**-**	**-**	**-**	**-**	**-**	**759**	**759**
Debt issues:							
At fair value through Income Statement	**148**	**-**	**-**	**-**	**-**	**-**	**148**
At amortised cost	**7,210**	**1,157**	**571**	**1,325**	**9,052**	**(62)**	**19,253**
Loan capital	**6,637**	**-**	**400**	**-**	**400**	**(7)**	**7,430**
Total liabilities	**53,608**	**11,208**	**7,805**	**3,641**	**10,432**	**6,648**	**93,342**
Net derivative notionals	**14,186**	**498**	**(9,587)**	**(11,048)**	**5,951**	**-**	**-**
Interest rate sensitivity gap	**6,565**	**(2,257)**	**(1,008)**	**2,285**	**6,177**	**(3,765)**	**7,997**

47 Interest Rate Repricing Schedule (continued)

$ millions	NZ Banking Group						
As at 30 June 2017	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-interest Bearing	Total
Assets							
Cash and liquid assets	2,401	-	-	-	-	169	2,570
Due from financial institutions	947	-	-	-	-	-	947
Trading securities	804	255	-	519	-	-	1,578
Derivative assets	-	-	-	-	-	1,037	1,037
Available-for-sale securities	495	340	323	1,237	2,030	-	4,425
Advances to customers	37,165	6,377	13,375	14,830	9,634	(149)	81,232
All other assets	-	-	-	-	-	1,039	1,039
Total Assets	41,812	6,972	13,698	16,586	11,664	2,096	92,828
Liabilities							
Deposits and other borrowings	36,701	10,758	4,173	1,624	854	4,037	58,147
Due to financial institutions	1,013	136	-	-	-	19	1,168
Other liabilities at fair value through Income Statement	1,025	40	-	-	-	-	1,065
Derivative liabilities	-	-	-	-	-	1,885	1,885
All other liabilities	-	-	-	-	-	700	700
Debt issues:							
At fair value through Income Statement	325	82	-	-	-	-	407
At amortised cost	7,813	675	-	1,872	6,940	(27)	17,273
Loan capital	6,396	-	-	400	400	(15)	7,181
Total liabilities	53,273	11,691	4,173	3,896	8,194	6,599	87,826
Net derivative notionals	20,083	(3,633)	(7,154)	(10,855)	1,559	-	-
Interest rate sensitivity gap	8,622	(8,352)	2,371	1,835	5,029	(4,503)	5,002

48 Liquidity and Funding Risk

Liquidity and Funding Risk Management Framework and Policies

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

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

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

The key objectives of the policy are:

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

Regulatory Supervision

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

ASB - Measuring and Monitoring Liquidity Risk

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

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

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

Residential Mortgage-Backed Securities Facility

ASB has an in-house RMBS facility, which has issued securities that can be used as collateral for borrowing from the RBNZ. As at 30 June 2018 ASB had internally securitised $5.3 billion of RMBS through the Medallion NZ Series Trust 2009-1R, of which $5.0 billion of Class A floating rate notes have been assigned a credit rating of AAA by Fitch Ratings and are eligible for acceptance by the RBNZ (30 June 2017 $4.7 billion and $4.5 billion respectively). While not intended to be used for day-to-day liquidity management, the RMBS form part of ASB's total qualifying liquid assets. The RBNZ has imposed a cap of 4% of total assets limiting the amount of RMBS that can be deemed as qualifying liquid assets available for repurchase agreements with the RBNZ (30 June 2017 4%). As at 30 June 2018 none of the RMBS had been used as collateral for repurchase agreements with the RBNZ (30 June 2017 nil). Refer to note 20 for additional information.

The Branch - Liquidity Risk Management Framework and Policies

The Branch is subject to the CBA Level 1 Liquidity Group Liquidity Management Standard ("CBA LMS"), in place to manage liquidity and funding risk at the CBA Level 1 entity level, including offshore branches. The CBA LMS is owned by CBA Group Treasury. Ultimate responsibility for liquidity and funding management of the Branch is held by CBA Group Treasury, however day-to-day management and reporting of liquidity and funding risks have been delegated to ASB Treasury. Similarly, responsibility for independent oversight is held by CBA Portfolio Analysis & Risk Management, however ASB Market Risk performs the day to day independent monitoring function. The key senior management oversight committee is the CBA Asset and Liability Committee.

CBA LMS requires that liquidity and funding risks are managed within a number of risk appetite limits. CBA NZ operates within minimum liquid asset and maximum funding gap limits.

Notes to the Financial Statements

For the year ended 30 June 2018

49 Qualifying Liquid Assets

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. 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						
As at 30 June 2018	**Cash and Liquid Assets**	**Available -for-Sale Securities**	**Trading Securities**	**Advances to Customers**	**Deposits and Other Borrowings[(1)]**	**Other Assets**	**Total**
Cash	**178**	**-**	**-**	**-**	**-**	**-**	**178**
Call deposits with the central bank	**873**	**-**	**-**	**-**	**-**	**-**	**873**
Local authority securities	**-**	**243**	**20**	**-**	**-**	**2**	**265**
New Zealand government securities	**1,518**	**1,103**	**230**	**-**	**-**	**13**	**2,864**
Overseas government securities	**-**	**2,380**	**-**	**-**	**-**	**9**	**2,389**
Corporate bonds	**-**	**1,075**	**-**	**-**	**-**	**6**	**1,081**
Treasury bills	**-**	**-**	**125**	**-**	**-**	**-**	**125**
RBNZ Bills	**-**	**-**	**881**	**-**	**-**	**-**	**881**
Bank bills	**-**	**-**	**1,088**	**-**	**-**	**-**	**1,088**
Kauri bonds	**-**	**2,048**	**-**	**-**	**-**	**23**	**2,071**
Residential mortgage-backed securities	**-**	**-**	**-**	**3,817**	**-**	**-**	**3,817**
Total qualifying liquid assets	**2,569**	**6,849**	**2,344**	**3,817**	**-**	**53**	**15,632**

$ millions	NZ Banking Group						
As at 30 June 2017	Cash and Liquid Assets	Available -for-Sale Securities	Trading Securities	Advances to Customers	Deposits and Other Borrowings[(1)]	Other Assets	Total
Cash	177	-	-	-	-	-	177
Call deposits with the central bank	1,237	-	-	-	-	-	1,237
Local authority securities	-	248	21	-	-	3	272
New Zealand government securities	1,156	1,266	752	-	(29)	19	3,164
Overseas government securities	-	408	-	-	-	2	410
Corporate bonds	-	903	14	-	-	5	922
Bank bills	-	-	789	-	-	-	789
Kauri bonds	-	1,600	2	-	-	18	1,620
Residential mortgage-backed securities	-	-	-	3,545	-	-	3,545
Total qualifying liquid assets	2,570	4,425	1,578	3,545	(29)	47	12,136

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

50 Maturity Analysis for Undiscounted Contractual Cash Flows

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

Actual cash flows may differ significantly from the contractual cash flows presented below as a result of changes in market conditions and future actions of the 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 ASB. It should be noted that the NZ Banking Group does not manage its liquidity risk on the basis of the information below. The management of liquidity risk is set out in note 48.

$ millions	NZ Banking Group							
As at 30 June 2018	On Demand	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Between 2-5 Years	Over 5 Years	Total	Carrying Value
Non-derivative financial liabilities								
Deposits and other borrowings	**27,526**	**24,939**	**6,910**	**2,364**	**1,013**	**-**	**62,752**	**62,328**
Due to financial institutions	**1,109**	**103**	**-**	**-**	**-**	**-**	**1,212**	**1,212**
Other liabilities at fair value through Income Statement	**-**	**1,106**	**-**	**-**	**-**	**-**	**1,106**	**1,097**
Other liabilities	**100**	**524**	**3**	**7**	**-**	**-**	**634**	**634**
Debt issues:								
At fair value through Income Statement	**-**	**149**	**-**	**-**	**-**	**-**	**149**	**148**
At amortised cost	**-**	**4,131**	**2,385**	**2,429**	**7,148**	**4,136**	**20,229**	**19,253**
Loan capital	**-**	**160**	**160**	**320**	**959**	**7,626**	**9,225**	**7,430**
Total non-derivative financial liabilities	**28,735**	**31,112**	**9,458**	**5,120**	**9,120**	**11,762**	**95,307**	**92,102**
Derivative financial liabilities								
Inflows from derivatives	**-**	**1,415**	**846**	**636**	**6,949**	**1,274**	**11,120**	
Outflows from derivatives	**-**	**(2,074)**	**(1,010)**	**(825)**	**(7,287)**	**(1,401)**	**(12,597)**	
	-	**(659)**	**(164)**	**(189)**	**(338)**	**(127)**	**(1,477)**	
Off balance sheet items								
Lending commitments	**12,756**	**3,930**	**-**	**-**	**-**	**-**	**16,686**	
Guarantees	**-**	**200**	**-**	**-**	**-**	**-**	**200**	
Other contingent liabilities	**-**	**344**	**-**	**-**	**-**	**-**	**344**	
Total off balance sheet items	**12,756**	**4,474**	**-**	**-**	**-**	**-**	**17,230**	

Notes to the Financial Statements

For the year ended 30 June 2018

50 Maturity Analysis for Undiscounted Contractual Cash Flows (continued)

$ millions **As at 30 June 2017**	On Demand	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Between 2-5 Years	Over 5 Years	Total	Carrying Value
	NZ Banking Group							
Non-derivative financial liabilities								
Deposits and other borrowings	26,823	25,109	4,092	1,600	871	-	58,495	58,147
Due to financial institutions	427	724	20	-	-	-	1,171	1,168
Other liabilities at fair value through Income Statement	-	1,075	-	-	-	-	1,075	1,065
Other liabilities	75	503	9	5	-	-	592	592
Debt issues:								
At fair value through Income Statement	-	408	-	-	-	-	408	407
At amortised cost	-	4,734	1,823	3,116	6,537	1,805	18,015	17,273
Loan capital	-	145	145	289	868	7,513	8,960	7,181
Total non-derivative financial liabilities	27,325	32,698	6,089	5,010	8,276	9,318	88,716	85,833
Derivative financial liabilities								
Inflows from derivatives	-	3,760	2,023	2,000	9,448	5,522	22,753	
Outflows from derivatives	-	(4,569)	(2,323)	(2,470)	(10,360)	(5,882)	(25,604)	
	-	(809)	(300)	(470)	(912)	(360)	(2,851)	
Off balance sheet items								
Lending commitments	12,450	3,538	-	-	-	-	15,988	
Guarantees	-	166	-	-	-	-	166	
Other contingent liabilities	-	305	-	-	-	-	305	
Total off balance sheet items	12,450	4,009	-	-	-	-	16,459	

51 Concentrations of Funding

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

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

$ millions	NZ Banking Group	
As at 30 June	**2018**	2017
Total funding comprises:		
Deposits and other borrowings	**62,328**	58,147
Due to financial institutions	**1,212**	1,168
Other liabilities at fair value through Income Statement	**1,097**	1,065
Debt issues:		
At fair value through Income Statement	**148**	407
At amortised cost	**19,253**	17,273
Loan capital	**7,430**	7,181
Total funding	**91,468**	85,241
Concentration by industry[1]		
Agricultural, Forestry and Fishing	**1,052**	909
Manufacturing	**627**	605
Construction	**633**	580
Wholesale Trade	**584**	569
Retail Trade and Accommodation	**807**	747
Transport, Postal and Warehousing	**684**	757
Information Media and Telecommunications	**267**	310
Financial and Insurance Services	**34,576**	32,009
Rental, Hiring and Real Estate Services	**3,039**	2,741
Professional, Scientific, Technical, Administrative and Support Services	**4,494**	4,443
Public Administration and Safety	**855**	731
Education and Training	**1,530**	1,389
Health Care and Social Assistance	**909**	738
Arts, Recreation and Other Services	**1,623**	1,580
Households	**39,522**	36,866
All Other	**266**	267
Total funding by industry	**91,468**	85,241
Concentration by geographic region[1]		
New Zealand	**60,534**	57,217
Overseas	**30,934**	28,024
Total funding by geographic region	**91,468**	85,241

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

52 Events after the Reporting Period

Refer to note 34 for details of perpetual preference dividends payable to non-controlling interests, declared after the reporting period.

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

Independent auditor's report

To the Directors of Commonwealth Bank of Australia

This report is for the New Zealand banking operations of Commonwealth Bank of Australia Group ('NZ Banking Group').

This report includes our:

- audit opinion on the financial statements prepared in accordance with Clause 25 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the 'Order'), New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS');
- audit opinion on the supplementary information prepared in accordance with Schedules 4, 7, 11 and 13 of the Order;
- audit opinion on other legal and regulatory requirements in accordance with Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order;
- review conclusion on the supplementary information relating to credit and market risk exposures and capital adequacy prepared in accordance with Schedule 9 of the Order.

Report on the audit of the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)

We have audited the NZ Banking Group's financial statements required by Clause 25 of the Order and supplementary information required by Schedules 4, 7, 11 and 13 of the Order which comprises:

- the balance sheet as at 30 June 2018;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended;
- the notes to the financial statements, which include a statement of accounting policies; and
- the supplementary information required by Schedules 4, 7, 11 and 13 of the Order.

Our opinion

In our opinion:

- The NZ Banking Group's financial statements (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 9, 11 and 13 of the Order and included within notes 15 to 18, 41 to 43 and 45 to 51):
  - (i) comply with generally accepted accounting practice in New Zealand;
  - (ii) comply with NZ IFRS and IFRS; and
  - (iii) give a true and fair view of the financial position of the NZ Banking Group as at 30 June 2018, and its financial performance and cash flows for the year then ended.
- The supplementary information disclosed in accordance with Schedules 4, 7, 11 and 13 of the Order and included within notes 15 to 18, 41 to 43 and 45 to 51:
  - (i) has been prepared, in all material respects, in accordance with the guidelines issued under section 78(3) of the Reserve Bank of New Zealand Act 1989 or any conditions of registration;

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(ii) is in accordance with the books and records of the NZ Banking Group; and

(iii) fairly states, in all material respects, the matters to which it relates in accordance with those Schedules.

Basis for opinion

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

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

Our audit approach

Overview

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

The overall NZ Banking Group materiality is $78 million, which represents approximately 5% of net profit before taxation.

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

We have determined that there are three key audit matters:

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

Materiality

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

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

Audit scope

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

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

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Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Provision for impairment losses on the NZ Banking Group's advances to customers ***(2018: $307 million, 2017: $317 million)*** We considered this a key audit matter due to the subjective judgements made by management in determining when to recognise impairment provisions against advances to customers and in estimating the size of such provisions. Provisions for the impairment of loans that exceed specific thresholds are individually assessed by management. These provisions are established based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the NZ Banking Group in respect of those loans. During the financial year ended 30 June 2018 the majority of the NZ Banking Group's individually assessed provisions for specific advances related primarily to commercial and rural loans, classified as corporate exposures in note 16. If an individually assessed loan is not impaired, it is then included in a group of loans with similar risk characteristics and, along with those loans below the specific thresholds referred above, is collectively assessed on a portfolio basis using models developed by management. These models use assumptions in their calculations which are based on the NZ Banking Group's historical loss experience including both the frequency of defaults and the losses incurred where loans have defaulted. Adjustments or overlays to the provisions are applied by management to take account of emerging trends and where models may fail to fully capture all risks in the loan portfolio. An example of an overlay is one which allows for the impact of the current macroeconomic	We developed an understanding of the controls relevant to our audit over the following areas and assessed whether they were appropriately designed and were operating effectively throughout the year: • identification of impaired advances to customers; • reliability and integrity of credit information maintained in the NZ Banking Group's systems; • transfer of data from the underlying source systems to the impairment provisioning models; and • management's assessment of the integrity of these models. For a selection of **individually assessed provisions** for specific advances, we: • examined management's impairment calculation by assessing key judgements (in particular the amount and, where appropriate, the timing of recoveries) made by management in the context of the borrowers' circumstances based on the detailed loan and counterparty information known by the NZ Banking Group; and • compared key inputs and estimates (such as valuation of collateral held) to external information where available. To test the **collectively assessed provisions**, we, together with our independent actuarial experts: • tested the completeness and accuracy of key data being transferred between the NZ Banking Group's systems and management's collective provisioning models; • compared management's key assumptions, such as EADs, PDs and LGDs to supporting evidence and market practices; and • compared the modelled calculations to our own calculated expectations on a sample basis. To assess the adjustments or **overlays to the provisions**, we: • considered the potential for impairment to be affected by events not captured by management's models, and

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environment (such as residential mortgages or lending in the rural sector). These overlays require significant judgement.

Relevant references in the financial statements

Refer notes 1(m) and 17 for further information.

- challenged management to provide objective evidence that the overlays were appropriate.

The NZ Banking Group's approach to calculating the provision for impairment losses was consistent with prior periods and we had no material matters to report.

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

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

The NZ Banking Group's controls over IT systems include:

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

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

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

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

NZ IFRS 9 Financial Instruments expected credit loss

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

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

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

- Assessed the methodology and approach taken by the NZ Banking Group against the requirements of the new accounting standard.
- Considered the impact of the estimation uncertainty associated with the NZ Banking Group's assumptions and judgements.
- Assessed the reasonableness of forward looking information incorporated for portfolio segments with emerging risk by validating against relevant supporting evidence including internal and external data, and used

Independent Auditor's Report (continued)

significant estimates at adoption including the impact of multiple economic scenarios.

We considered this a key audit matter because:

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

Relevant references in the financial statements

Refer note 1 for further information.

PwC actuarial experts to challenge forward looking forecasts and the multiple-economic scenarios and weightings applied.

- Considered the integrity of data used as input into the models including the transfer of data from source systems and the impairment provisioning models by selecting key inputs used in the model and agreeing to supporting documentation.

Considered disclosure of the ECL transitional impact in the financial statements.

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

The Directors of Commonwealth Bank of Australia (the 'Directors') are responsible, on behalf of Commonwealth Bank of Australia, for the other information in the Disclosure Statement. The other information comprises the information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order and is included on pages (i) to (viii) and 1 to 3. Our opinion on the financial statements and supplementary information does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of the Directors for the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)

The Directors are responsible, on behalf of Commonwealth Bank of Australia, for the preparation and fair presentation of the financial statements in accordance with Clause 25 of the Order, NZ IFRS and IFRS and that give a true and fair view of the matters to which they relate. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible for the preparation and fair presentation of the supplementary information in the Disclosure Statement which complies with Schedules 2, 4, 7, 11 and 13 of the Order.

In preparing the financial statements, the Directors are responsible for assessing the NZ Banking Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going

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concern basis of accounting unless the Directors either intend to liquidate the NZ Banking Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)

Our objectives are to obtain reasonable assurance about whether the financial statements and the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note 41) disclosed in accordance with Clause 25 and Schedules 4, 7, 11 and 13 of the Order, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

This description forms part of our auditor's report.

Report on other legal and regulatory requirements (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)

We also report in accordance with the requirements of Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note 41) for the year ended 30 June 2018:

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

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

Report on the review of the supplementary information relating to credit and market risk exposures and capital adequacy

We have examined the supplementary information relating to credit and market risk exposures and capital adequacy required by Schedule 9 of the Order as disclosed in note 41 of the financial statements of the NZ Banking Group for the year ended 30 June 2018.

Our conclusion

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note 41, is not in all material respects disclosed in accordance with Schedule 9 of the Order.

This conclusion is to be read in the context of what we say in the remainder of this report.

Basis for our conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). Our responsibilities under this standard are further described in the Auditor's responsibilities for the review of the supplementary information relating to credit and market risk exposures and capital adequacy section of our report.

Responsibilities of the Directors for the supplementary information relating to credit and market risk exposures and capital adequacy

The Directors are responsible, on behalf of Commonwealth Bank of Australia, for the preparation and fair presentation of the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of the supplementary information relating to credit and market risk exposures and capital adequacy that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the supplementary information relating to credit and market risk exposures and capital adequacy

Our responsibility is to express a conclusion, whether, based on our review, the supplementary information relating to credit and market risk exposures and capital adequacy, disclosed in note 41, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

A review of the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note 41 in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with ISAs NZ and ISAs. Accordingly we do not express an audit opinion on the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note 41.

Auditor independence

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

Our firm carries out other services for the NZ Banking Group. These services are audit and assurance services in respect to funds managed by the NZ Banking Group, advisory services over model assessments and risk model reviews and other assurance and audit-related services. Other assurance and audit-related services include assurance over compliance with regulations, internal controls and audit-related agreed upon procedure engagements. In addition, certain partners and employees of our firm may deal with the 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.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
8 August 2018

Auckland

PwC

Part B

Commonwealth Bank of Australia New Zealand Life Insurance Group

Financial Statements

For the year ended 30 June 2018

Contents

Contents

Historical Summary of Financial Statements

$ millions			NZ Life Group		
For the year ended 30 June	**2018**	2017	2016	2015	2014
Income Statement					
Premium income	**717**	715	691	669	642
Less: Reinsurance expense	**(48)**	(50)	(49)	(47)	(42)
Net premium income	**669**	665	642	622	600
Investment income	**142**	96	167	229	181
Other income	**3**	1	6	10	3
Total operating income	**814**	762	815	861	784
Claims expense	**395**	382	374	365	358
Less: Reinsurance recoveries	**(43)**	(34)	(39)	(41)	(33)
Net claims expense	**352**	348	335	324	325
Other operating expenses	**279**	286	291	291	291
Net change in life insurance contract liabilities	**(24)**	(31)	(30)	(23)	(22)
Net change in life investment contract liabilities	**56**	47	13	82	71
Finance costs	**-**	-	-	-	(20)
Total operating expenses	**663**	650	609	674	645
Net profit before taxation	**151**	112	206	187	139
Taxation	**44**	8	99	61	29
Net profit after taxation from continuing operations	**107**	104	107	126	110
Net Profit after taxation from discontinued operations	**-**	-	-	-	27
Net profit after taxation	**107**	104	107	126	137
Dividends and Repatriations Paid					
Dividends	**138**	82	159	103	150
Branch surplus repatriated	-	-	-	-	6
Total dividends and repatriations paid	**138**	82	159	103	156

$ millions			NZ Life Group		
As at 30 June	**2018**	2017	2016	2015	2014
Balance Sheet					
Total assets	**2,672**	2,749	2,893	2,996	2,914
Individually impaired assets	**-**	-	-	-	1
Total liabilities	**1,419**	1,466	1,631	1,682	1,623
Total shareholders' equity	**1,253**	1,283	1,262	1,314	1,291

The amounts disclosed in this historical summary of aggregated financial statements have been taken from the audited financial statements of the NZ Life Group.

Income Statement

$ millions		NZ Life Group	
For the year ended 30 June	Note	**2018**	2017
Premium income	4	**717**	715
Less: Reinsurance expense	4	**(48)**	(50)
Net premium income		**669**	665
Investment income	6	**142**	96
Other income	5	**3**	1
Total operating income		**814**	762
Claims expense	7	**395**	382
Less: Reinsurance recoveries	7	**(43)**	(34)
Net claims expense		**352**	348
Other operating expenses	8	**279**	286
Decrease in life insurance contract liabilities	19	**(24)**	(31)
Increase in life investment contract liabilities	19	**56**	47
		663	650
Net profit before taxation		**151**	112
Taxation expense	10	**44**	8
Net profit after taxation	3	**107**	104

These statements are to be read in conjunction with the notes on pages 8 to 43 and the Independent Auditor's Report from pages 44 to 46.

Statement of Comprehensive Income

$ millions		NZ Life Group	
For the year ended 30 June	Note	**2018**	2017
Net profit after taxation	3	**107**	104
Other comprehensive income, net of taxation			
Items that will not be reclassified to the Income Statement:			
Remeasurement of defined benefit plans net of tax		**1**	(1)
Total other comprehensive income, net of taxation		**1**	(1)
Total comprehensive income		**108**	103

These statements are to be read in conjunction with the notes on pages 8 to 43 and the Independent Auditor's Report from pages 44 to 46.

Statement of Changes in Equity

$ millions	Note	Contributed Capital	Retained Earnings	Total Shareholders' Equity
			NZ Life Group	
For the year ended 30 June 2018				
Balance at beginning of year		**1,080**	**203**	**1,283**
Net profit after taxation		**-**	**107**	**107**
Other comprehensive income, net of taxation		**-**	**1**	**1**
Total comprehensive income		**-**	**108**	**108**
Ordinary dividend paid	22	**-**	**(138)**	**(138)**
Balance as at 30 June 2018		**1,080**	**173**	**1,253**
For the year ended 30 June 2017				
Balance at beginning of year		1,080	182	1,262
Net profit after taxation		-	104	104
Other comprehensive expense, net of taxation		-	(1)	(1)
Total comprehensive income		-	103	103
Ordinary dividend paid	22	-	(82)	(82)
Balance as at 30 June 2017		1,080	203	1,283

These statements are to be read in conjunction with the notes on pages 8 to 43 and the Independent Auditor's Report from pages 44 to 46.

Balance Sheet

$ millions		NZ Life Group	
As at 30 June	Note	**2018**	2017
Assets			
Cash and cash equivalents	13	**462**	544
Trade and other receivables	17	**60**	48
Securities	12	**1,600**	1,594
Derivative assets	14	**-**	11
Liabilities ceded under reinsurance	19	**10**	13
Current taxation asset		**2**	-
Property, plant and equipment		**15**	16
Intangible assets	16	**522**	523
Retirement benefit surplus	18	**1**	-
Total assets		**2,672**	2,749
Total interest earning and discount bearing assets		***1,322***	*1,383*
Liabilities			
Trade and other payables	21	**104**	108
Derivative liabilities	14	**4**	1
Life investment contract liabilities	19	**710**	739
Life insurance contract liabilities	19	**73**	100
Current taxation liability		**-**	9
Deferred taxation liability	20	**528**	509
Total liabilities		**1,419**	1,466
Shareholders' Equity			
Contributed capital	22	**1,080**	1,080
Retained earnings		**173**	203
Total shareholders' equity		**1,253**	1,283
Total liabilities and shareholders' equity		**2,672**	2,749
Total interest and discount bearing liabilities		***11***	*9*

The Board of Directors authorised these financial statements for issue on 8 August 2018.

C.B. Livingstone

C.B. Livingstone AO
Chairman

M.P. Comyn
Managing Director and Chief Executive Officer

These statements are to be read in conjunction with the notes on pages 8 to 43 and the Independent Auditor's Report from pages 44 to 46.

Cash Flow Statement

$ millions	NZ Life Group	
For the year ended 30 June	**2018**	2017
Cash flows from operating activities		
Cash was provided from:		
Premium and deposit premium receipts	**736**	739
Dividend receipts	**12**	15
Interest receipts	**50**	48
Reinsurance receipts	**38**	34
Management fees and commission receipts	**-**	1
	836	837
Cash was applied to:		
Claims, surrenders and maturities payments	**499**	534
Commission payments	**152**	145
Payments to suppliers and employees	**132**	130
Tax payments	**36**	44
Reinsurance premiums	**48**	50
	867	903
Net cash flows from operating activities	**(31)**	(66)
Cash flows from investing activities		
Cash was provided from:		
Proceeds from sale of securities	**326**	481
Proceeds from sale of intangible assets	**3**	-
Net settlement of foreign exchange contracts	**-**	37
	329	518
Cash was applied to:		
Purchase of securities	**233**	390
Purchase of property, plant and equipment	**1**	1
Purchase and development of intangible assets	**3**	7
Net settlement of foreign exchange contracts	**5**	-
	242	398
Net cash flows from investing activities	**87**	120
Cash flows from financing activities		
Cash was applied to:		
Dividends paid	**138**	82
Net cash flows from financing activities	**(138)**	(82)
Summary of movements in cash flows		
Net decrease in cash and cash equivalents	**(82)**	(28)
Add: cash and cash equivalents at beginning of year	**544**	572
Cash and cash equivalents at end of year	**462**	544

These statements are to be read in conjunction with the notes on pages 8 to 43 and the Independent Auditor's Report from pages 44 to 46.

Cash Flow Statement (continued)

$ millions	NZ Life Group	
For the year ended 30 June	**2018**	2017
Reconciliation of net profit after taxation to net cash flows from operating activities		
Net profit after taxation	**107**	104
Non-cash items included in net profit after taxation		
Gain on disposal of intangible assets	**(3)**	-
Amortisation and depreciation	**5**	8
Net realised and unrealised gains	**(71)**	(18)
Non-cash dividends received	**(10)**	(13)
Decrease in life insurance contract liabilities recognised in the Income Statement	**(24)**	(31)
Increase in life investment contract liabilities recognised in the Income Statement	**56**	47
Movements in assets and liabilities		
Trade and other receivables - increase	**(12)**	(1)
Net income tax liability - increase/(decrease)	**8**	(36)
Trade and other payables - (decrease)/increase	**(2)**	17
Decrease in life investment contract liabilities recognised in the Balance Sheet	**(85)**	(143)
Net cash flows from operating activities	**(31)**	(66)

These statements are to be read in conjunction with the notes on pages 8 to 43 and the Independent Auditor's Report from pages 44 to 46.

Notes to the Financial Statements

For the year ended 30 June 2018

1 Statement of Accounting Policies

General Accounting Policies

The reporting entity is the NZ Life Group, comprising the aggregated results of ASB Group (Life) Limited (renamed AIA Sovereign Limited on 12 July 2018) and its subsidiaries ("ASBGL"), and First State Investments (NZ) Limited ("FSI"). The basis of aggregation is an addition of the NZ Life Group entities' individual financial statements. All transactions and balances between entities within the NZ Life Group have been fully eliminated. The NZ Life Group is 100% owned by Commonwealth Insurance Holdings Ltd. The ultimate parent as at 30 June 2018 was Commonwealth Bank of Australia. The NZ Life Group's registered address was Level 2, ASB North Wharf, 12 Jellicoe Street, Auckland Central, Auckland 1010. The NZ Life Group's principal areas of business are life insurance and investment management. Further information regarding the sale of ASBGL is disclosed in the Commonwealth Bank of Australia New Zealand Operations financial statements under the General Disclosure section 8.0 Other Material Matters and Note 37 Events after the Reporting Period within the financial statements of the NZ Life Group.

These financial statements for the year ended 30 June 2018 have been drawn up in accordance with the requirements of the Financial Markets Conduct Act 2013 and, to the extent applicable to the NZ Life Group, the Order.

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

Comparative information has been reclassified or restated to ensure consistency with presentation in the current reporting period. These reclassifications and restatements have no impact on net profit after taxation.

There are no new or revised NZ IFRS applicable for the first time for the financial year beginning on or after 1 July 2017 that would have a material impact to the NZ Life Group.

The following new standards relevant to the NZ Life Group have been issued. The NZ Life Group does not intend to apply these standards until their effective dates.

- NZ IFRS 9 *Financial Instruments* addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 *Financial Instruments: Recognition and Measurement* that relates to the classification and measurement of financial instruments.

  NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is now a new expected credit losses model that replaces the incurred loss impairment model for financial assets used in NZ IAS 39.

  NZ IFRS 9 relaxes the requirements for hedge effectiveness, and requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same that is used by management for risk management purposes. The standard is effective for the NZ Life Group's reporting period beginning on 1 July 2018. Early adoption is permitted.

  The NZ Life Group has assessed the effect of adopting NZ IFRS 9 on its financial statements, deeming the impact not to be material, other than additional disclosure requirements and changes in presentation.

- NZ IFRS 15 *Revenue from Contracts with Customers* addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 *Construction Contracts* and is applicable to all entities with revenue from contracts with customers. It sets out a five-step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration, to which the entity expects to be entitled in exchange for those goods or services. This standard is effective for the NZ Life Group's reporting periods beginning on or after 1 July 2018. Early adoption is permitted. The NZ Life Group has assessed the effect of adopting NZ IFRS 15 on its financial statements, deeming the impact to be low. Implementation of NZ IFRS 15 will have no impact on existing revenue recognition process; however, it will require additional disclosures and changes in presentation for investment linked products.

  Under NZ IFRS 15 the NZ Life Group will need to report as separate revenue items for investment linked products that are currently reported as a component of life investment contract liabilities on the Income Statement.

- NZ IFRS 16 *Leases* replaces the current guidance in NZ IAS 17 *Leases*. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use ("ROU") asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. This standard is effective for reporting periods beginning on or after 1 Jan 2019. Early adoption is only permitted following adoption of NZ IFRS 15 Revenue from Contracts with Customers.

  The NZ Life Group is assessing the effects of adopting NZ IFRS 16 on its financial statements, but does not expect the impact to be material. NZ IFRS 16 requires lessees to recognise most leases on their balance sheet. Lessees are required to initially recognise a lease liability for the obligation to make lease payments and ROU asset for the right to use the underlying asset for the term of the lease term. The lease liability is measured at the present value of the lease payment to be made over the lease term. The asset will then be subject to depreciation, while interest will be recognised on the lease liability over the lease term.

  NZ IFRS 16 prescribes two transitional methods for lessees to implement the new standard. Under the full retrospective approach, lessees must restate comparative information. Under the cumulative catch up approach, lessees do not need to restate comparative information, but are required to adjust the opening value of equity for the accumulative effect of initially applying NZ IFRS 16 at the initial date of application. If this method is adopted, a number of more specific transitional requirements and optional reliefs also apply.

Notes to the Financial Statements

For the year ended 30 June 2018

1 Statement of Accounting Policies (continued)

General Accounting Policies (continued)

The transitional approach adopted by the NZ Life Group will be aligned with that taken by the parent company at the time of adoption.

- NZ IFRS 17 *Insurance Contracts* was issued in Aug 2017 as a replacement for NZ IFRS 4 *Insurance Contracts* and is mandatory for financial years commencing on or after 1 Jan 2021. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:
  • discounted probability-weighted cash flows
  • an explicit risk adjustment, and
  • a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

  The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under NZ IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

  There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

  The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. The NZ Life Group is currently assessing the effect of adopting NZ IFRS 17 on its financial statements.

Basis of Preparation

The measurement base adopted is historical cost, modified by the fair value measurement of financial instruments, including derivative contracts, at fair value through the Income Statement.

Critical Accounting Estimates and Judgements

Preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The areas where a high degree of judgement is applied by management, that have the most significant effect on amounts recognised in the financial statements are the valuation of: financial instruments (refer notes 1(f) and 28), life insurance contract liabilities and life investment contract liabilities (refer notes 1(k) and 19), intangible assets (refer notes 1(h) and 16) and deferred taxation liability (refer notes 1(i) and 20). Uncertainties exist with respect to the interpretation of complex tax regulations for life insurance activities. Given the complexity of life insurance tax legislation and the assumptions involved, adjustments to income tax expense in future periods may be required.

Presentation Currency and Rounding

The functional and presentation currency of the NZ Life Group is New Zealand dollars. All amounts are presented in millions, unless otherwise stated.

Particular Accounting Policies

There have been no material changes to accounting policies during the year ended 30 June 2018 and the following particular accounting policies have been applied on a consistent basis.

(a) Basis of Consolidation

Where it is determined that there is a capacity to control, the NZ Life Group financial statements consolidate the financial statements of a parent and all its subsidiaries using the acquisition method of consolidation. Control exists when the NZ Life Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to the NZ Life Group and are no longer consolidated from the date that control ceases. The NZ Life Group has 100% ownership of each of its subsidiaries (refer note 15). There are no substantial removal rights and it has controlling economic interests.

All intragroup balances and transactions have been eliminated in preparing the consolidated financial statements.

The cost of an acquisition is measured as the fair value of the assets transferred, the liabilities incurred, and the equity interests issued by the NZ Life Group. The excess of purchase consideration over the fair value of identifiable net assets acquired is recorded as goodwill, except in the case of acquisitions of entities under common control, where the difference is recorded directly in equity.

Goodwill on Acquisition

Following initial recognition, goodwill on acquisition of a business combination is not amortised but is tested annually for impairment, or more regularly where an indication of impairment exists. If any such indication exists, the asset's recoverable amount is estimated, and an impairment loss is recognised immediately in the Statement of Comprehensive Income. Impairment losses on goodwill are not reversed. For the purposes of impairment testing, goodwill is allocated to cash generating units or groups of units, based on how goodwill is monitored by management. A cash generating unit is the smallest identifiable group of assets that generate independent cash flows. Gains and losses on the disposal of an entity include the carrying value of goodwill relating to the entity sold.

Notes to the Financial Statements

For the year ended 30 June 2018

1 Statement of Accounting Policies (continued)

(a) Basis of Consolidation (continued)

NZ Life Group Companies Acting as Trustee or Manager of Superannuation Schemes

As at the balance date, the NZ Life Group provides investment management services for the Sovereign Superannuation Retirement Fund ("SSRF"). The assets and liabilities of SSRF are not included in the NZ Life Group financial statements as there is no capacity to control.

(b) Foreign Currency Translation

All foreign currency monetary assets and liabilities are translated to New Zealand currency at the exchange rate ruling as at balance date.

Non-monetary assets and liabilities denominated in foreign currencies, measured at fair value, are translated to New Zealand currency at the exchange rate ruling at the dates that the values were determined. Foreign currency exchange differences relating to securities and derivative financial instruments are included in investment income or other income.

Foreign currency transactions are translated to New Zealand currency at the exchange rate ruling at the date of the transaction.

(c) Revenue Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the NZ Life Group, and that the revenue and stage of completion of the transaction can be reliably measured. The principal sources of revenue are premium income and investment income.

Premium Income

(i) Life Insurance Contracts
Premiums received for providing services and bearing risks are recognised as revenue on an accrual basis.

(ii) Life Investment Contracts
Premiums received are split, with the fee portion recognised as revenue on an accrual basis and the deposit portion recognised as an increase in life investment contract liabilities.

Initial entry fee income on life investment contracts is recognised as revenue at the outset of the contract only if a specific initial service (for which the fee relates) is provided by the NZ Life Group at that time. Otherwise initial entry fee income is deferred as a component of life investment contract liabilities and is amortised as related services are provided under the contract.

Investment Income

Interest income is recognised in the Income Statement using the effective interest method. Dividend income is recognised in the Income Statement when the NZ Life Group's right of receipt is established. Realised gains and losses on financial instruments are included as part of investment income. Unrealised gains and losses from fair value re-measurement of financial instruments are also included in investment income (refer to note 1(f)).

Other Income

Other income is recognised on an accrual basis.

(d) Expense Recognition

Claims

Life insurance contract claims are recognised as an expense when a liability has been established. Claims under life investment contracts represent withdrawals of investment deposits and are recognised as a reduction in life investment contract liabilities.

Acquisition Costs

Acquisition costs are the fixed and variable costs of accepting, issuing and initially recording policies, including initial commission and similar distribution costs. Acquisition costs do not include general growth and development costs that are not specifically related to acquisition activity.

Acquisition Costs - Life Insurance Contracts

Acquisition costs attributable to life insurance contracts are deferred as an element of life insurance contract liabilities. These costs are amortised over the life of the policies written. Unamortised acquisition costs are a component of the life insurance contract liabilities. Amortisation of acquisition costs are recognised in the Income Statement as a component of 'net change in insurance contract liabilities' at the same time as policy margins are released.

Acquisition Costs - Life Investment Contracts

Commission that varies with and is directly related to securing new contracts is capitalised as a deferred acquisition cost asset and is included in intangible assets. The deferred acquisition cost asset is subsequently amortised over the life of the contracts and is recognised in other operating expenses in the Income Statement.

Notes to the Financial Statements

For the year ended 30 June 2018

1 Statement of Accounting Policies (continued)

(d) Expense Recognition (continued)

Maintenance and Investment Management Expenses

Maintenance costs are the fixed and variable costs of administering policies subsequent to sale and are recognised in the Income Statement on an accrual basis. These include general growth and development costs. Maintenance costs include all operating costs other than acquisition and investment management costs.

Investment management costs are the fixed and variable costs of managing investment funds and are recognised in the Income Statement on an accrual basis.

Other Operating Expenses

All other operating expenses are recognised in the Income Statement on an accrual basis.

Other operating expenses also include employee benefits, depreciation, amortisation and other management costs. Employee benefits include salaries and wages, annual and long service leave, annual bonuses, KiwiSaver contributions, and premiums on employee life, disability income and medical schemes.

(e) Dividend Recognition

Ordinary dividends are recognised as a movement in equity in the reporting period within which they have been approved.

Where a dividend is declared post reporting date, but prior to the date of issue of the financial statements, disclosure of the declaration is made in the notes to the financial statements but no liability is recognised on the Balance Sheet.

(f) Financial Instruments

BASIS OF RECOGNITION AND MEASUREMENT

The NZ Life Group classifies financial instruments into one of the following categories at initial recognition: financial assets at fair value through the Income Statement, held for trading, loans and receivables, financial liabilities at fair value through the Income Statement and financial liabilities at amortised cost. Regular purchases and sales of financial assets are recognised and derecognised, as applicable, using trade date accounting.

Some of these categories require measurement at fair value. Where available, quoted market prices are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at balance date.

Financial assets that are stated at cost or amortised cost are reviewed at each balance date to determine whether there is objective evidence of impairment. Impairment losses are calculated by discounting the expected future cash flows, at the original effective interest rate or approximation thereof, and comparing the resultant present value with the assets current carrying amount. An impairment loss is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. The impairment loss is reversed only to the extent that the financial asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired. Derecognition also occurs when the rights to receive cash flows from financial assets have been transferred together with substantially all of their risks and rewards. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

Assets in this category are measured at fair value at inception and on an on-going basis and include:

Securities

Securities held by life insurance companies are recognised at fair value through the Income Statement at inception because they back life insurance contract liabilities or life investment contract liabilities. Gains and losses arising from the fair value remeasurement of securities are included as part of investment income in the Income Statement.

Securities include equity securities, fund certificates, property securities, and fixed interest securities.

HELD FOR TRADING

Forward currency contracts are used to reduce the NZ Life Group's exposure to currency movements affecting the market value of the NZ Life Group's investments denominated in foreign currencies.

Derivative financial instruments are recorded at fair value through the Income Statement, based on market accepted valuation techniques using observable market inputs. Subsequent gains and losses arising from the fair value remeasurement of derivative financial instruments are recognised immediately in investment income in the Income Statement. All derivatives used by the NZ Life Group are classified as held for trading as they do not meet the criteria for hedge accounting under NZ IAS 39.

The NZ Life Group recognises derivatives in the Balance Sheet at their fair value. Derivative assets are the fair value of derivatives which have a positive fair value. Derivative liabilities are the fair value of derivatives which have a negative fair value.

LOANS AND RECEIVABLES

Assets in this category are recognised initially at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest method less any allowance for uncollectible amounts. Loans and receivables include:

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

Cash and Cash Equivalents

Cash and Cash Equivalents include bank current accounts, cash on deposit and registered certificates of deposit, readily convertible to known amounts of cash, that are subject to an insignificant risk of changes in value. Assets in this category are at face value and interest is taken to the Income Statement when earned. Bank overdrafts are shown within cash and cash equivalents if the net position is an asset due to the NZ Life Group's right to offset overdrafts within its banking facility.

Trade and Other Receivables

Trade and other receivables include investment receivables, amounts due from related parties, amounts due from agents and other current assets. These assets are short term in nature and the carrying amount includes allowances for impaired receivables and therefore is considered a reasonable estimate of fair value.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH INCOME STATEMENT

Life investment contract liabilities are measured at fair value, with subsequent gains and losses arising from fair value remeasurement recognised in the Income Statement. Refer to note 1(k) for more details of life investment contract liabilities.

FINANCIAL LIABILITIES AT AMORTISED COST

This category includes all financial liabilities other than those designated by the NZ Life Group as at fair value through the Income Statement. Liabilities in this category include:

Trade and Other Payables

Trade and other payables includes amounts due to agents, outstanding claims, investment creditors, trade creditors and accruals, amounts due to related parties and other payables. Liabilities in this category are initially measured at fair value plus transaction costs. After initial recognition, they are measured at amortised cost using the effective interest method.

(g) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of property, plant and equipment less the estimated residual value is depreciated over their useful lives on a straight-line basis. Depreciation of work in progress will not begin until the asset is available for use i.e. when it is in the location and condition necessary for it to be operating in the manner intended by management. The estimated useful lives of the major assets are:

› Leasehold improvements and services	10 - 18 years
› Office equipment, furniture and fittings and computer equipment	3 - 10 years

Property, plant and equipment assets are reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Any impairment loss is recognised immediately in the Income Statement. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

(h) Intangible Assets

Goodwill

Refer to (a) for details on goodwill.

Internally Developed Software, Acquired Software Licences and Application Software

The NZ Life Group generally expenses computer software costs in the year incurred. However, some costs associated with developing identifiable and unique software products controlled by the NZ Life Group, including employee costs and an appropriate portion of relevant overheads, are capitalised and treated as intangible assets when certain criteria are met. Acquired computer software licenses are capitalised on the basis that they are costs incurred to acquire and to use specific software. These assets are amortised using the straight-line method over their useful lives (not exceeding three years).

Other Intangible Assets and Deferred Acquisition Costs

Costs for the right to service policies have been capitalised and treated as intangible assets. These assets are amortised using the straight-line method over their useful lives. Other operating costs (refer note 1(d)) that vary with, and are directly related to securing new life investment policies, are capitalised as a deferred acquisition cost intangible asset, and are subsequently amortised over the life of the contracts.

› Agency purchases	18 - 54 months
› Deferred acquisition costs	6 - 17 years

Intangible Assets Impairment Reviews

Intangible assets are assessed at an asset level when they generate independent cash inflows, otherwise they are grouped into Cash Generating Units ("CGUs") for impairment purposes. Impairment reviews are performed annually to identify events or changes in circumstances that indicate that the carrying amount may not be recoverable. If the asset or the CGU's carrying amount is greater than its estimated recoverable amount, the carrying amount of the asset or CGU is written down to its recoverable amount. The recoverable amount is the higher of the asset or CGU's fair value less costs to sell and the value in use. Any impairment loss is recognised immediately in the Income Statement.

Notes to the Financial Statements

For the year ended 30 June 2018

1 Statement of Accounting Policies (continued)

(i) Taxation

Tax expense for the period comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case, the tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at balance date after taking advantage of all allowable deductions under current taxation legislation. It also includes any adjustment to tax payable in respect of previous financial years. Current tax is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

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

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

Tax liabilities and assets are transferred among group companies through intercompany accounts at the current tax rate if, and only if, the entities concerned have a legally enforceable right to make or receive a single net payment and the entities intend to make or receive such a net payment or to recover the asset and settle the liability simultaneously.

Life Insurance Tax

From 1 July 2010, life insurers have been subject to a new tax regime. Two tax bases are maintained; the shareholder base which is subject to tax on life risk products (premiums less claims and expenses) and net investment income from shareholder funds, and the policyholder base which is subject to tax on net investment income from policyholder funds. The life insurer pays tax on both bases at the prevailing corporate tax rate of 28% (30 June 2017 28%). As the life insurer is taxed as proxy for the policyholder, returns to policyholders are tax exempt.

The regime is applicable to all life insurance policies, irrespective of when they were issued. However, the new regime offers a concessional tax treatment (known as a transitional adjustment) for life insurance policies that were in force prior to 1 July 2010. The impact of the transitional adjustment is that it effectively treats designated policies (known as grandparented policies) as having income tax levied on a basis equivalent to the life office base under the old tax regime. In general, grandparented status lasted for 5 years from 1 July 2010. However, for certain policy types, namely level term policies, the grandparented status can be for the duration of the policy.

Goods and Services Tax

Where a transaction is subject to Goods and Services Tax ("GST"), the financial statements have been prepared so that all components are stated exclusive of GST, with the exception of trade receivables and trade payables, which includes GST invoiced.

(j) Provisions

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

(k) Life Insurance Business

Statutory Obligations

The New Zealand insurance industry is regulated by the Reserve Bank of New Zealand ("RBNZ"), under the Insurance (Prudential Supervision) Act 2010 ("IPSA"). IPSA requires all entities carrying on insurance business in New Zealand (as defined by IPSA) to hold a licence. Sovereign Assurance Company Limited ("SACL"), a wholly owned subsidiary of ASBGL, holds a full licence under IPSA. Key elements of the insurance prudential supervision regime include minimum solvency requirements and regular reporting to the RBNZ, the need for directors and other relevant officers to meet fit and proper standards, and governance and risk management requirements.

IPSA requires that a life insurer must at all times have at least one statutory fund in respect of its life insurance business. On 1 July 2013, SACL established a statutory fund, the Sovereign Statutory Fund No. 1, that relates solely to SACL's life insurance business as defined by IPSA. SACL's standalone health insurance business (which is not classified as life insurance business under IPSA) and business that does not relate to contracts of insurance are included in SACL's Other Fund. The activities of the statutory fund are reported in aggregate with the Other Fund in the financial statements. Further information on the statutory fund is provided in notes 23 and 32.

SACL has an insurer financial strength rating of "A+" (Superior) issued by international rating agency A.M. Best Company Inc. with an effective date of 15 December 2017.

1 Statement of Accounting Policies (continued)

(k) Life Insurance Business (continued)

Life Insurance and Life Investment Contracts - Classification

The NZ Life Group's life insurance business is split between life insurance contracts and life investment contracts. Life insurance contracts are accounted for in accordance with the requirements of NZ IFRS 4 *Insurance Contracts*. Life investment contracts are accounted for in accordance with NZ IAS 39.

Life insurance contracts are those contracts that transfer significant insurance risk. Life investment contracts are those contracts with no significant insurance risk, but which give rise to a financial liability under NZ IAS 39.

Contracts that contain a discretionary participation feature are also classified as life insurance contracts.

The financial reporting methodology used to determine the value of life insurance contract liabilities is referred to as Margin on Services ("MoS"), as set out in New Zealand Society of Actuaries Professional Standard No. 20: *Determination of Life Insurance Policy Liabilities*. MoS is designed to recognise profits on life insurance policies as services are provided to policyholders and income is received. Under MoS, the planned profit margins of premium received less expenses is deferred and amortised over the life of the contract, whereas losses are recognised immediately.

Life insurance contract liabilities are calculated in a way that allows for the systematic release of planned profit margins as services are provided to policyholders and the revenues relating to those services are received. Services used to determine profit recognition include the cost of expected insurance claims and annuity payments. Life insurance contract liabilities are generally determined as the present value of all future expected payments, expenses, taxes and profit margins, reduced by the present value of all future expected premiums.

Profit is analysed into the following categories:

(i) *Planned Margins of Revenues Over Expenses*

At the time of writing a policy and at each balance date, best estimate assumptions are used to determine all expected future payments (including tax) and premiums. Where actual experience replicates best estimate assumptions, the expected profit margins will be released to profit over the life of the policy.

(ii) *The Difference Between Actual and Assumed Experience*

Experience profits and losses are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits and losses include variations in claims, expenses, mortality, discontinuance and investment returns (to the extent the shareholder assumes investment risk).

(iii) *Changes to Underlying Assumptions*

Assumptions used for measuring life insurance contract liabilities are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the end of the year.

The financial effect of a change in discount rates resulting from changes in market conditions is recognised in the year that the rates are changed. The financial effect of all other changes to assumptions is recognised in the Income Statement over the future years during which services are provided to policyholders. If, based on best estimate assumptions, written business of a group of related products is expected to be unprofitable, the total expected loss for that related product group is recognised in the Income Statement immediately. When loss making business becomes profitable previously recognised losses are reversed.

(iv) *Investment Earnings on Assets in Excess of Policy Liabilities*

Profits are generated from investment assets in excess of those required to meet policy liabilities. Investment earnings are directly influenced by market conditions and as such this component of MoS profit will vary from year to year.

Life Investment Contract Liabilities

All contracts issued by the NZ Life Group which are classified as life investment contracts are unit linked. The fair value of a unit linked contract is determined using the current unit values that reflect the fair value of the financial assets backing the contract, multiplied by the number of units attributed to the contract holder.

Identification of Assets Backing Life Investment Contracts

All contracts issued by the NZ Life Group that are classified as life insurance contracts are non linked. The assets backing unit linked contracts are in separate investment funds from those backing non linked contracts.

Reinsurance

Contracts entered into by the NZ Life Group with reinsurers all meet the definition of an insurance contract.

As the reinsurance agreements provide for indemnification of the NZ Life Group by the reinsurers against loss or liability, reinsurance income and expenses are recognised separately in the Income Statement when they become due and payable in accordance with the reinsurance agreements.

Reinsurance recoveries for claims are recognised as reinsurance income. Reinsurance premiums are recognised as reinsurance expenses.

Liabilities ceded under reinsurance are the present value of future reinsurance claims receivable and premiums payable by the NZ Life Group and have been classified as an asset, liabilities ceded under reinsurance. Reinsurance assets are assessed for impairment on a quarterly basis.

Notes to the Financial Statements

For the year ended 30 June 2018

1 Statement of Accounting Policies (continued)

(l) Retirement Benefits Obligations

The NZ Life Group currently sponsors SSRF superannuation plan for its employees and ex-employees. The assets and liabilities of this plan are held independently of the NZ Life Group's assets in a separate trustee administered fund. The NZ Life Group has both a defined benefit and defined contribution section and has been closed to new members since 01 July 2004.

Full disclosures of the defined benefit and contribution plan as required by NZ IAS 19 *Employee Benefits* have not been presented on the basis that these assets and liabilities are not material in the context of the NZ Life Group's Balance Sheet.

Defined Benefit Plans

Defined benefit plans are formal arrangements under which an entity provides post-employment benefits.

The asset recognised on the Balance Sheet in respect of SSRF is calculated as the present value of the defined benefit obligation and the fair value of the plan's assets deducted. The discount rate is the yield at balance date on government securities which have approximately the same terms to maturity. Where the calculation results in a benefit to the NZ Life Group, the recognised asset is limited to the present value of any future employer contributions to the plan that can be funded from the plan surplus.

Actuarial gains and losses arising from the above valuation are charged or credited directly to retained earnings.

Defined Contribution Plans

The SSRF Defined Contribution Plan is a post-employment benefit plan under which the NZ Life Group pays fixed contributions to the plan and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior years.

Contributions to SSRF are recognised as an expense in the Income Statement as incurred.

(m) Contingent Liabilities

The NZ Life Group discloses a contingent liability when it has a possible obligation arising from past events, that will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the NZ Life Group's control. A contingent liability is disclosed when a present obligation is not recognised because it is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

(n) Transactions with CBA NZ Operations

Due to the diverse nature of the Commonwealth Bank of Australia's operations in New Zealand, the New Zealand operations have been broken into two separate groups, and separate disclosures statements are compiled for each group. Transactions between the NZ Life Group (reporting entity) and the NZ Banking Group have not been eliminated. This will better reflect the true nature of activities within New Zealand.

(o) Cash Flow Statement

The Cash Flow Statement has been prepared using the direct approach, modified by the netting of cash flows associated with related parties and foreign exchange forward contracts. For these items, the NZ Life Group considers that knowledge of gross receipts and payments is not essential to understanding the activities of the NZ Life Group and it is considered acceptable to report only the net cash flows. This is based on the fact that the turnover of these items is quick, the amounts are large, and the maturities are short.

(p) Segment Reporting

The NZ Life Group is not required to disclose geographic or operating segment information under NZ IFRS 8 *Operating Segments*. On this basis there are no disclosures relating to the NZ Life Group's geographic or operating segments.

(q) Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Income Statement on a straight-line basis over the period of the lease.

Notes to the Financial Statements

For the year ended 30 June 2018

2 Actuarial Assumptions and Methods

The effective date of the policy liabilities and solvency margin calculation for the NZ Life Group is 30 June 2018. Bartosz Piwcewicz FIAA, as the Chief Actuary of SACL, is satisfied as to the accuracy of the data from which the amount of life insurance, and life investment contract liabilities has been determined.

The projection method is used to determine life insurance, and life investment contract liabilities. In principle, the projection method uses expected cash flows (premiums, investment income, surrenders or benefit payments, expenses) plus profit margins to be released in future periods, to calculate the present value of contract liabilities.

Life insurance and life investment contract liabilities have been determined in accordance with Professional Standard No. 20 of the New Zealand Society of Actuaries and the requirements of NZ IFRS 4.

Key assumptions used in determining life insurance and life investment contract liabilities are as follows:

(a) Discount Rates

(i) *Business Where Benefits are Contractually Linked to the Performance of Assets Held*

The discount rates used to determine life insurance and life investment contract liabilities reflect the expected future gross returns on the NZ Life Group's current strategic asset mix. Fixed interest investments were assumed to earn 2.9% pa (30 June 2017 3.1%) and equity investments 6.9% pa (30 June 2017 7.1%). The discount rates used for individual classes of business varied between 2.9% pa and 4.1% pa (30 June 2017 3.1% and 4.4%).

(ii) *Other Business*

The discount rate used to determine life insurance contract liabilities is a risk free discount rate. Single point discount rates have been determined so that the term structure of the products is taken into account in setting the discount rate. For annuities and risk business rates between 2.6% and 3.7% pa were used (30 June 2017 2.8% to 3.8%).

(b) Profit Carriers

Policies are divided into related product groups with profit carriers and profit margins as follows:

Policy type	Carrier
Risk	Expected claims payments
Savings business	Funds under management/investment management expenses
Traditional participating business	Bonuses

(c) Investment and Maintenance Expenses

Future maintenance and investment expenses have been assumed at current levels in line with contractual fees set out in agreement with Sovereign Services Limited ("SSL"), a wholly owned subsidiary of SACL, and external fund managers. Future inflation has been assumed to be 2.0% pa (30 June 2017 2.0%) for determining future expenses and inflation linked increases in benefits and premiums.

(d) Taxation

The rates of taxation enacted or substantially enacted at the date of the valuation are assumed to continue into the future. The corporate tax rate used is 28% (30 June 2017 28%). Allowance has been made for the "fair dividend rate" rules that apply to global equities, where tax is paid on 5% of the market value of investments, regardless of the actual rate of investment income.

(e) Rates of Growth of Unit Prices

Unit price growth is assumed to be equal to the assumed investment earning rates less tax and asset based charges for each product.

(f) Mortality and Morbidity

Projected future rates of mortality experience are based on a proportion of the NZ97 tables. These are then adjusted by comparing the standard tables with the NZ Life Group's own experience using geometric smoothing techniques or moving averages. Annuitant mortality is assumed to be a proportion of the PMA92 and PMF92 tables, adjusted for mortality improvements prior to and after the valuation date.

In general, mortality assumptions are reviewed based on annual experience studies.

The following changes have been made to mortality assumptions for 30 June 2018:

- The mortality assumption for modern life business has been reduced by 2%.
- There was a reduction in the long term mortality assumption for workplace.
- Overall, there was a slight reduction in credit insurance mortality.

For the other business, there have been no changes in mortality assumptions since 30 June 2017.

The proportions of NZ97 adopted for the major products range from 47% to 96% (30 June 2017 48% to 96%).

Projected future morbidity experience are based on a combination of reinsurers' tables, industry tables, industry experience and internal investigations. For significant classes of business, internal experience is compared with reinsurers' tables using geometric smoothing techniques or moving averages.

2 Actuarial Assumptions and Methods (continued)

(f) Mortality and Morbidity (continued)

In general, morbidity assumptions are reviewed based on annual experience studies.

The following changes have been made to morbidity assumptions for 30 June 2018:

- Disability Income (DI) claim duration assumption has increased.
- Living Assurance Benefit (LAB) claim assumptions have been reviewed with the Modern LAB Retail increasing by 2% and Modern LAB Bancassurance reducing by 6%.
- Modern Total and Permanent Disability (TPD) base assumptions have been increased by 11% and selection discounts have been introduced, resulting in an overall increase in assumption.
- Overall, there was a slight reduction in credit insurance morbidity.
- Health claims assumptions have seen a number of changes resulting in an overall increase in projected claim costs.

(g) Rates of Discontinuance

Assumptions for the incidence of withdrawal, partial termination and transfer of policies to paid-up are primarily based on investigations of the NZ Life Group's own experience.

Discontinuance rates were reviewed for 30 June 2018.

Future rates of discontinuance are:

		Policy Duration (years)									
	Age	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10+**
As at 30 June 2018											
Life rate for age	**< 30**	**9%**	**14%**	**16%**	**15%**	**15%**	**14%**	**13%**	**13%**	**12%**	**10%**
	30 - 39	**6%**	**10%**	**14%**	**13%**	**12%**	**12%**	**11%**	**11%**	**10%**	**9%**
	40 - 49	**7%**	**10%**	**14%**	**13%**	**12%**	**12%**	**11%**	**11%**	**11%**	**10%**
	50 - 64	**8%**	**13%**	**17%**	**14%**	**15%**	**14%**	**14%**	**15%**	**13%**	**12%**
	65+	**13%**	**17%**	**23%**	**21%**	**21%**	**20%**	**20%**	**19%**	**19%**	**18%**
Life level to age 80	**< 30**	**16%**	**13%**	**14%**	**13%**	**11%**	**8%**	**8%**	**7%**	**6%**	**6%**
	30 - 39	**12%**	**10%**	**10%**	**9%**	**8%**	**6%**	**6%**	**5%**	**5%**	**4%**
	40 - 49	**8%**	**6%**	**7%**	**6%**	**5%**	**4%**	**4%**	**3%**	**3%**	**3%**
	50 - 64	**6%**	**7%**	**8%**	**6%**	**6%**	**5%**	**5%**	**4%**	**4%**	**3%**
	65+	**5%**	**6%**	**7%**	**6%**	**6%**	**5%**	**4%**	**4%**	**4%**	**3%**
As at 30 June 2017											
Life rate for age	**< 30**	8%	11%	15%	15%	15%	13%	13%	12%	11%	10%
	30 - 39	6%	9%	13%	13%	12%	11%	10%	10%	10%	9%
	40 - 49	6%	9%	13%	12%	12%	11%	11%	11%	11%	9%
	50 - 64	6%	11%	17%	15%	16%	14%	14%	14%	14%	11%
	65+	13%	17%	23%	22%	21%	20%	21%	20%	20%	18%
Life level to age 80	**< 30**	16%	9%	14%	10%	9%	8%	9%	8%	7%	6%
	30 - 39	12%	7%	10%	8%	6%	6%	6%	6%	5%	4%
	40 - 49	9%	4%	8%	5%	5%	4%	4%	4%	3%	3%
	50 - 64	5%	5%	8%	6%	5%	5%	4%	4%	4%	3%
	65+	5%	5%	8%	6%	5%	5%	4%	4%	4%	3%

As at 30 June			**2018**			2017	
	Age	**Life**	**Non-Life**	**Total**	Life	Non-Life	Total
Other Risk	**< 30**	**20%**	**12%**		20%	12%	
	30 - 39	**14%**	**12%**		14%	12%	
	40 - 49	**11%**	**11%**		11%	12%	
	50 - 64	**10%**	**12%**		10%	13%	
	65+	**8%**	**15%**		8%	16%	
Participating				**3%**			3%
Savings				**8%**			8%

(h) Basis of Calculation of Surrender Values

Surrender values are set using an asset share approach and taking into consideration equity between continuing and terminating policyholders.

The surrender value basis was changed for June 2018, with some increases at longer durations.

Notes to the Financial Statements

For the year ended 30 June 2018

2 Actuarial Assumptions and Methods (continued)

(i) Participating business

For most participating business, bonus rates are set such that, over long periods, the returns to policyholders are commensurate with the investment returns achieved on the relevant assets, together with other sources of profit arising from this business. Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions at a maximum allowable rate of 20% (30 June 2017 20%).

In applying the policyholders' share of profits to provide bonuses, consideration is given to equity between generations of policyholders and equity between the various classes and sizes of policies in force. Assumed future bonus rates included in life insurance contract liabilities were set such that the present value of life insurance contract liabilities equates to the present value of assets supporting the business together with assumed future investment returns, allowing for the shareholder's right to participate in distributions.

Assumed future bonus rates per annum for the major classes of individual participating business were:

		NZ Life Group	
As at 30 June		**2018**	2017
Ex-Colonial policies	Bonus rate on sum assured	**0.20%**	0.20%
	Bonus rate on existing bonus	**0.20%**	0.20%
Ex-Prudential policies	Bonus rate on sum assured	**0.25%**	0.25%
	Bonus rate on existing bonus	**0.25%**	0.25%
Ex-NZI policies	Bonus rate on sum assured	**0.13%**	0.13%
	Bonus rate on existing bonus	**0.25%**	0.25%
Ex-Metropolitan life policies	Bonus rate on sum assured	**0.00%**	0.00%
	Bonus rate on existing bonus	**0.00%**	0.00%
Investment account policies	Crediting Rate	**3.23%**	3.16%

(j) Impact of Changes in Assumptions

Refer to note 1(k) for an explanation of the treatment of changes in actuarial assumptions on life insurance contract liabilities. The impact of changes in actuarial assumptions made during the reporting period are:

	NZ Life Group			
$ millions	Effect on Future Profit Margins		Effect on Life Insurance Contract Liabilities	
For the year ended 30 June	**2018**	2017	**2018**	2017
Market related changes to discount rates	**21**	(49)	**-**	2
Non-market related changes to discount rates	**-**	(1)	**-**	-
Mortality and morbidity	**(23)**	4	**(2)**	1
Discontinuance rates	**42**	2	**2**	1
Maintenance expenses	**31**	3	**(2)**	1
Other assumptions	**(44)**	(22)	**(1)**	(3)

3 Sources of Profit

$ millions	NZ Life Group	
For the year ended 30 June	**2018**	2017
Life insurance		
Planned margins of revenues over expenses	**72**	74
Unwind of discount on policy liabilities	**11**	9
Difference between actual and assumed experience	**8**	8
Effects of changes in underlying assumptions	**-**	(3)
Reversal / (recognition) of future expected losses	**4**	1
Net profit after taxation arising from life insurance contracts	**95**	89
Life investment		
Planned margins of revenues over expenses	**6**	9
Difference between actual and assumed experience	**-**	1
Net profit after taxation arising from life investment contracts	**6**	10
Shareholder investment earnings	**6**	5
Total life activities	**107**	104
Net profit after taxation attributed to shareholders	**107**	104

Notes to the Financial Statements

For the year ended 30 June 2018

4 Premium Income

$ millions		NZ Life Group	
For the year ended 30 June	Note	**2018**	2017
Life insurance contract premiums		**716**	714
Life investment contract deposit premiums and fee income		**22**	25
Total premiums		**738**	739
Less: Deposit premiums recognised as an increase in life investment contract liabilities	19	**(21)**	(24)
Total premium income		**717**	715
Less: Reinsurance expense		**(48)**	(50)
Total net premium income		**669**	665

5 Other Income

$ millions	NZ Life Group	
For the year ended 30 June	**2018**	2017
Management and other fees	**-**	1
Other sundry income	**3**	-
Total other income	**3**	1

6 Investment Income

$ millions	NZ Life Group	
For the year ended 30 June	**2018**	2017
Dividends	**18**	23
Realised and unrealised gains	**72**	59
Total equity securities and fund certificates	**90**	82
Dividends	**4**	5
Realised and unrealised gains/(losses)	**6**	(6)
Total property securities	**10**	(1)
Interest	**49**	50
Realised and unrealised gains/(losses)	**12**	(54)
Total fixed interest securities and cash	**61**	(4)
Realised and unrealised (losses)/gains	**(19)**	19
Total derivatives	**(19)**	19
Total investment income	**142**	96

7 Claims Expense

$ millions		NZ Life Group	
For the year ended 30 June	Note	**2018**	2017
Death, disability and medical claims		**362**	335
Maturities		**31**	43
Surrenders		**104**	167
Annuities		**4**	4
Total claims		**501**	549
Less: Claims recognised as a decrease in life investment contract liabilities	19	**(106)**	(167)
Total claims expense		**395**	382
Less: Reinsurance recoveries		**(43)**	(34)
Total net claims expense		**352**	348

Notes to the Financial Statements

For the year ended 30 June 2018

8 Other Operating Expenses

	NZ Life Group					
$ millions	Life insurance contracts		Life investment contracts		Total	
For the year ended 30 June	**2018**	2017	**2018**	2017	**2018**	2017
Initial commission	**59**	56	**-**	-	**59**	56
Other acquisition expenses	**59**	64	**1**	2	**60**	66
Policy acquisition expenses	**118**	120	**1**	2	**119**	122
Renewal commission	**89**	90	**3**	3	**92**	93
Other maintenance expenses	**61**	66	**2**	2	**63**	68
Policy maintenance expenses	**150**	156	**5**	5	**155**	161
Investment management expenses	**3**	1	**2**	1	**5**	2
Total life expenses	**271**	277	**8**	8	**279**	285
Other expenses					**-**	1
Total other operating expenses					**279**	286
Included above:						
Operating lease expenses					**5**	5
Amortisation of intangible assets					**3**	6
Depreciation					**2**	2
Employee benefits expense						
Wages and salaries					**75**	79
Defined contribution plan expense					**2**	2
Fiduciary expenses					**2**	2

9 Auditor's Remuneration

$ thousands	NZ Life Group	
For the year ended 30 June	**2018**	2017

PricewaterhouseCoopers is the appointed auditor of the NZ Life Group for the current and prior year.

Fees paid to PricewaterhouseCoopers are as follows:

Fees for the audit and review of financial statements	**881**	910
Review of controls relating to superannuation schemes	**-**	22
Audit of solvency return	**41**	39
Risk assessment audit of anti-money laundering and counter financing of terrorism	**-**	15
Other assurance related services	**8**	11

Other assurance related services include work performed over the off-quarter disclosure statements and other agreed upon procedures.

Notes to the Financial Statements

For the year ended 30 June 2018

10 Taxation

$ millions For the year ended 30 June	Note	NZ Life Group 2018	 2017
Current taxation expense		**25**	31
Deferred taxation expense/(benefit)	20	**19**	(23)
Total taxation expense recognised in the Income Statement		**44**	8

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

		2018	2017
Net profit before taxation		**151**	112
Income tax at the current rate of 28% (2017 28%)		**42**	31
Investment income adjustments		**(23)**	(12)
Imputation and PIE credit adjustments		**(3)**	(2)
Movement in investment contract liabilities and adjustments		**17**	14
Movement in insurance contract liabilities, reserves and adjustments		**11**	(19)
Other non-deductible expenditure		**1**	-
Prior period adjustments		**(1)**	(4)
Total taxation expense recognised in the Income Statement		**44**	8
Weighted average effective tax rate		**29%**	7%

11 Imputation Credit Account

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

NZ Life Group was a member of an imputation group with members of the Commonwealth Bank of Australia Group until 30 June 2018. However, due to the shareholder change the closing balance of this imputation credit account is no longer available to the Group.

NZ Life Group has formed a new AIA Sovereign imputation group. The balance of tax payable at 30 June 2018 that will be credited to the new imputation group is $4 million.

Notes to the Financial Statements

For the year ended 30 June 2018

12 Securities

$ millions **As at 30 June**	Note	**NZ Life Group** **2018**	 2017
Equity securities and fund certificates		**674**	681
Fixed interest securities			
New Zealand government stock		**727**	710
Corporate bonds		**24**	25
Foreign government stock		**109**	104
Total fixed interest securities	12(a)	**860**	839
Property securities		**66**	74
Total securities		**1,600**	1,594

As at 30 June 2018 no investments were pledged under repurchase agreements or other arrangements (30 June 2017 nil). A maturity analysis for equity securities, fund certificates, and property securities has not been presented because these investments are liquid assets and the timing of realisation is not known.

(a) Fixed Interest Securities

Maturity analysis:		
Under one year	**8**	6
Between one and two years	**8**	9
Between two and three years	**31**	7
Between three and four years	**8**	38
Between four and five years	**570**	7
Greater than five years	**235**	772
	860	839

Notes to the Financial Statements

For the year ended 30 June 2018

13 Cash and Cash Equivalents

$ millions	NZ Life Group	
As at 30 June	**2018**	2017
Cash at bank and on deposit	**459**	542
Foreign currency deposits	**3**	2
Total cash and cash equivalents	**462**	544

14 Derivative Financial Instruments

The NZ Life Group enters into derivative transactions which provide economic hedges for risk exposures but do not meet the accounting requirements for hedge accounting treatment. The NZ Life Group enters into foreign currency contracts as economic hedges to manage currency risk (refer note 1f). Gains or losses on the forward contracts have been recorded in investment income with the gains or losses on the investments they have hedged.

The forward currency contracts taken out do not exceed three months. At balance date these contracts have varying maturity dates.

Face and Fair Values

The face value is the contractual amount of the derivatives and provides a basis for comparison with instruments recognised on the Balance Sheet. This amount is not necessarily exchanged and does not indicate the NZ Life Group's exposure to credit risk. The amount predominantly acts as a reference value upon which the net settlements can be calculated and on which revaluation is based. The face value of derivative financial instruments on hand, the favourable or unfavourable market values of these instruments, and the consequent aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values of derivative financial instruments held are set out in the following table:

$ millions	NZ Life Group	
As at 30 June	**2018**	2017
Financial instruments subject to enforceable master netting agreements		
Forward contract assets	**-**	11
Total derivative financial assets	**-**	11
Forward contract liabilities	**4**	1
Total derivative financial liabilities	**4**	1
Total net derivative financial instruments *	**(4)**	10

* Whilst master netting arrangements are in place, derivative assets and derivative liabilities are presented gross on the balance sheet. The NZ Life Group does not have any collateral arrangements in relation to these financial instruments.

Currency contracts face value		
Forward contract assets	**3**	387
Forward contract liabilities	**270**	125

Notes to the Financial Statements

For the year ended 30 June 2018

15 Principal Subsidiaries

The NZ Life Group has an interest in the following entities:

Entity Name	%	Nature of Business	Balance Date
ASB Group (Life) Limited	100	Holding company	30 June
First State Investments (NZ) Limited	100	Investment and registry administration	30 June
Sovereign Assurance Company Limited	100	Life insurance	30 June
Sovereign Services Limited	100	Administration services	30 June
Sovereign Superannuation Funds Limited	100	Superannuation scheme manager	30 June
Sovereign Superannuation Trustees Limited	100	Trustee company	30 June
Westside Properties Limited	100	Asset leasing	30 June

All entities were incorporated in New Zealand.

16 Intangible Assets

The NZ Life Group has goodwill of $507 million (30 June 2017 $507 million) for which the cash generating unit is the Group's life insurance and life investment business.

The recoverable amount for the life insurance and investment business is based on fair value calculations. The purchase price for ASBGL has been used in assessing excess market value over net tangible assets of the Group.

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

Other intangible assets of $15 million (30 June 2017 $16 million) consist of internally developed software of $9 million (30 June 2017 $7 million), life investment contract deferred acquisition cost of $6 million (30 June 2017 $7 million) and other items of nil (30 June 2017 $2 million).

No Impairment losses were recognised against the carrying amount of other intangible assets for the year ended 30 June 2018 (30 June 2017 $nil).

17 Trade and Other Receivables

$ millions		NZ Life Group	
As at 30 June	Note	**2018**	2017
Investment receivables		**15**	16
Outstanding premiums		**17**	17
Amounts due from related parties	24	**1**	1
Amounts due from reinsurers		**17**	12
Agent balances receivables		**1**	1
Other assets		**9**	1
Total trade and other receivables		**60**	48

All trade and other receivables have an expected settlement date of less than 12 months.

Notes to the Financial Statements

For the year ended 30 June 2018

18 Retirement Benefit Surplus

Actuarial gains and losses are recognised in full each year.

SSRF is a superannuation scheme with a defined benefit section and a defined contribution section. The last full triennial actuarial review was completed in 2016. The next triennial actuarial review is scheduled for 31 March 2019.

$ millions	NZ Life Group SSRF	
As at 30 June	**2018**	2017
Reconciliation of amounts recognised in the Balance Sheet		
Present value of funded obligations	**(3)**	(3)
Fair value of fund assets	**9**	9
Surplus	**6**	6
Adjustment for limit on the use of net assets *	**(5)**	(6)
Total retirement benefit surplus (inclusive of specified superannuation contribution withholding tax)	**1**	-

* SSRF's estimated net assets at 30 June 2018 were $9 million (30 June 2017 $9 million), but a large part of the value of the surplus assets cannot be brought into the employer's financial statements. This is because SSL is not expected to be able to make use of all the surplus assets for its future employer contributions due to the current size of SSRF's membership.

Notes to the Financial Statements

For the year ended 30 June 2018

19 Life Insurance and Life Investment Contract Liabilities

$ millions	NZ Life Group			
	Life insurance contracts		Life investment contracts	
For the year ended 30 June	**2018**	2017	**2018**	2017
Reconciliation of movements in policy liabilities				
Balance at the beginning of the period	**100**	146	**739**	835
(Decrease)/increase in liabilities recognised in the Income Statement, excluding reinsurance and deferred fee income reserve	**(27)**	(27)	**59**	52
Loans on policies recognised as a decrease in policy liabilities	**-**	(19)	**-**	-
Decrease in deferred fee income reserve recognised in the Income Statement	**-**	-	**(3)**	(5)
Deposit premium recognised as an increase in policy liabilities	**-**	-	**21**	24
Claims recognised as a decrease in policy liabilities	**-**	-	**(106)**	(167)
Total policy liabilities	**73**	100	**710**	739

	Life insurance contracts			
$ millions	**Under one year**	**Between one and five years**	**Greater than five years**	**Total**
Expected realisation maturity analysis				
Expected realisation of policy liabilities as at 30 June 2018	**(10)**	**(23)**	**106**	**73**
Expected realisation of policy liabilities as at 30 June 2017	(13)	(26)	139	100

The maturity value of life investment contract liabilities is determined by the fair value of the linked assets at maturity date. Refer to note 34 for a contractual maturity analysis of life investment contract liabilities.

$ millions	Life insurance contracts		Life investment contracts	
For the year ended 30 June	**2018**	2017	**2018**	2017
Liabilities ceded under reinsurance				
Balance at the beginning of the period	**13**	9	**-**	-
(Decrease)/increase in liabilities ceded under reinsurance recognised in the Income Statement	**(3)**	4	**-**	-
Total liabilities ceded under reinsurance	**10**	13	**-**	-
Maturity analysis				
Under one year	**9**	11	**-**	-
Greater than one year	**1**	2	**-**	-
	10	13	**-**	-

Notes to the Financial Statements

For the year ended 30 June 2018

19 Life Insurance and Life Investment Contract Liabilities (continued)

$ millions For the year ended 30 June	NZ Life Group Life insurance contracts 2018	 2017
Policy liabilities related to guarantees		
Policy liabilities with a discretionary participation feature	**649**	639
Valuation of policy liabilities		
Cash flows net of tax:		
Future policy benefits	**8,071**	7,447
Future bonuses	**70**	82
Future expenses	**3,207**	3,103
Future planned margins of revenue over expenses	**1,245**	1,175
Future premiums	**(12,062)**	(11,265)
Unvested policyholder benefits	**73**	72
Deferred tax gross up	**(531)**	(514)
Total policy liabilities	**73**	100

Life investment contract policy liabilities with an investment performance guarantee at 30 June 2018 were $7 million (30 June 2017 $7 million).

Life insurance contract liabilities future net cash inflows		
Under one year	**314**	311
Between one and five years	**1,071**	1,038
Greater than five years	**3,977**	3,889
	5,362	5,238

The table above shows the estimated timing of undiscounted future net cash flows resulting from life insurance contract liabilities. This includes estimated future surrenders, claims and maturity benefits, and bonuses, offset by expected future premiums and reinsurance recoveries. All values are undiscounted to the reporting date using the assumed future investment earning rate for each product.

20 Deferred Taxation Liability

$ millions For the year ended 30 June	NZ Life Group 2018	 2017
Balance at beginning of year	**509**	532
Recognised in the Income Statement	**19**	(23)
Total deferred taxation liability	**528**	509
Deferred taxation relates to:		
Life insurance and life investment contract liabilities	**528**	510
Other	**-**	(1)
Total deferred taxation liability	**528**	509
Deferred taxation recognised in the Income Statement:		
Life insurance and life investment contract liabilities	**18**	(17)
Other	**1**	(6)
Total deferred taxation recognised in the Income Statement	**19**	(23)

21 Trade and Other Payables

$ millions **As at 30 June**	**NZ Life Group** **2018**	 2017
Outstanding claims	**60**	58
Expense creditors	**12**	13
Prepaid premiums	**9**	11
Employee benefits	**14**	15
Investment creditors	**2**	4
Agent balances	**6**	6
Amounts due to reinsurers	**1**	1
Total trade and other payables	**104**	108

As at 30 June 2018 all trade and other payables have an expected settlement date of less than 12 months, with the exception of $2m long term employee benefits (30 June 2017 $2m).

A maturity analysis of current and non-current financial liabilities is presented in note 34.

22 Contributed Capital

$ millions **As at 30 June**	**NZ Life Group** **2018**	 2017
Issued ordinary share capital		
Balance at beginning of year	**1,080**	1,080
Balance at end of year	**1,080**	1,080

Share capital for ASBGL includes 30,000,100 ordinary shares paid to $1.00, 105,000,000 ordinary shares paid to $10.00, and 10,000,000 unpaid ordinary shares (30 June 2017 30,000,100 ordinary shares paid to $1.00 and 105,000,000 ordinary shares paid to $10.00 and 10,000,000 unpaid ordinary shares).

All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

Dividend on ASBGL ordinary shares for the year ended 30 June 2018 was $138m (30 June 2017 $82m), equating to $0.95 per share (30 June 2017 $0.57).

Share capital for First State Investments (FSI) includes 350,000 shares paid to $1.00 (30 June 2017 350,000 ordinary shares paid to $1.00).

23 Capital Management

The capital of the NZ Life Group is managed separately for ASBGL and FSI.

ASBGL

The objectives of ASBGL with regard to the management of capital adequacy are:

(i) maintain a level of target surplus for SACL which creates a buffer over minimum regulatory capital while still allowing for efficient use of capital;
(ii) maintain a strong capital base to cover the inherent risks of the business; and
(iii) support the future development and growth of the business to maximise shareholder value.

The SACL Board has ultimate responsibility for compliance with the solvency standard and managing capital. The SACL Board approves the capital policy and minimum capital levels and limits. Minimum capital levels are set based on maintaining a target surplus in excess of solvency margin requirements under the Solvency Standard for Life Insurance Business issued in accordance with IPSA. Under its licence, the RBNZ requires SACL to hold a solvency margin of at least $0 (30 June 2017 $0) for each life fund. SACL has two life funds, the Statutory Fund and the Other Fund.

If the SACL Board has reasonable grounds to believe that a failure to maintain a solvency margin in either life fund is likely to occur at any time within the next 3 years, the likely failure must be reported to the RBNZ as soon as is reasonably practicable. Compliance with these requirements is a continuous obligation. As a minimum, calculations must be undertaken twice a year, at six monthly intervals, and reported to the RBNZ.

Target surplus is a capital buffer held on top of regulatory requirements to ensure the likelihood of a breach of regulatory requirements is at a level consistent with SACL's risk appetite. The level of target surplus takes account of management assessments of actual risk and forecasts/stress testing of future capital requirements. The SACL Board Audit and Risk Committee (BARC) approves the methodology and basis for determining target surplus.

The solvency position of SACL for the two life funds is as follows:

$ millions	Sovereign Statutory Fund	Other Fund	Total
For the year ended 30 June 2018			
Actual solvency capital	**573**	**107**	**680**
Minimum solvency capital	**497**	**98**	**595**
Solvency margin	**76**	**9**	**85**
Solvency ratio	**115%**	**109%**	**114%**
For the year ended 30 June 2017			
Actual solvency capital	602	111	713
Minimum solvency capital	482	91	573
Solvency margin	120	20	140
Solvency ratio	125%	123%	125%

FSI

FSI considers ordinary share capital to be capital for management purposes. FSI has no externally imposed capital requirements. FSI's objectives when managing capital are to safeguard FSI's ability to continue as a going concern in order to provide returns to shareholder and benefits to other stakeholders. There have been no material changes in FSI's management of capital during the year ended 30 June 2018 (no change for year end 30 June 2017).

Notes to the Financial Statements

For the year ended 30 June 2018

24 Related Party Transactions and Balances

$ millions	NZ Life Group	
For the year ended 30 June	**2018**	2017

During the year ended 30 June 2018, the NZ Life Group has entered into, or had in place, financial transactions with the following reporting entities:

- The Commonwealth Bank of Australia Group (the "Overseas Banking Group") is domiciled in Australia and comprises CBA, the worldwide activities of CBA, and its controlled entities; and
- The CBA New Zealand Banking Group ("the NZ Banking Group") refers to all New Zealand banking operations of the Overseas Banking Group, primarily comprising ASB Bank Limited ("ASB").

The above related parties ceased being related on 2 July 2018 when the NZ Life Group was acquired by AIA. During the year, the NZ Life Group entered into the following transactions with related parties:

Related Party Transactions

	2018	2017
Income		
Interest received from NZ Banking Group	**4**	4
Dividends received from Overseas Banking Group	**5**	8
Fees received from NZ Banking Group	**2**	2
Fees received from superannuation schemes managed by a subsidiary of SACL	**-**	1
Net realised/unrealised gains on fund certificates managed by the Overseas Banking Group	**2**	45
Net realised/unrealised gains on fund certificates managed by the NZ Banking Group	**35**	-
Net realised/unrealised (losses)/gains on derivatives issued by the NZ Banking Group	**(19)**	19
	29	79
Expenses		
Paid to Overseas Banking Group for investment management services	**1**	1
Paid to NZ Banking Group for administrative services	**12**	12
Paid to NZ Banking Group for insurance commission	**44**	42
	57	55

Related Party Balances

	2018	2017
Overseas Banking Group		
Assets		
Securities*	**42**	377
Recoverable expenses related to sale of business to AIA	**4**	-
NZ Banking Group		
Assets		
Cash and cash equivalents	**185**	212
Securities*	**328**	-
Trade and other receivables	**1**	1
Derivative assets	**-**	11
	514	224
Liabilities		
Derivative liabilities	**4**	1
	4	1

* These securities balances represent investments in external fund certificates issued by the funds managed by the Overseas Banking Group and the NZ Banking Group. The underlying exposure to related party securities is $1m as at 30 June 2018 (30 June 2017 $1m).

Refer to the Statement of Changes in Equity and note 22 for details of dividends paid to the Shareholder.

The NZ Life Group is the sponsor, investment manager and assists with administration of one off-balance sheet employee superannuation scheme (refer note 18).

During the year ended 30 June 2018, the NZ Life Group participated in the Colonial Mutual Life Assurance Society Limited (CMLA) catastrophe cover reinsurance programme. Refer note 29 "Risk Management Policies" under Insurance Risk. This insurance cover is continuing post sale to AIA.

Notes to the Financial Statements

For the year ended 30 June 2018

25 Directors and Key Management Personnel

$ millions	NZ Life Group	
For the year ended 30 June	**2018**	2017
Short term employee benefits	**5**	5
Directors fees	**1**	1
Total directors and key management personnel compensation	**6**	6

$ millions		
As at 30 June	**2018**	2017
Provisions for short term benefits	**4**	1
Provisions for long term benefits	**1**	2

Key management personnel are defined as members of the executive leadership team. The NZ Life Group has no other material transactions or balances with directors and key management personnel.

26 Leasing Commitments

$ millions	NZ Life Group	
As at 30 June	**2018**	2017
The following non-cancellable operating lease commitments existed at the end of the year:		
Within one year	**5**	5
Between one and five years	**22**	21
Over five years	**12**	18
Total leasing commitments	**39**	44

All of the NZ Life Group's leases are classified as operating leases as a significant portion of the risks and rewards of ownership are retained by the lessor.

On 6 October 2005, SSL signed an 18-year lease on Sovereign House, its head office premises at Smales Farm, Auckland. The lease term commenced in October 2007. A fixed rate of increase will be applied to the annual lease cost. SSL has a number of other properties under operating leases. The leases have a variety of lease periods and a number of the leases contain options to renew. Payments made under operating leases are charged to the Income Statement on a straight-line basis over the period of the lease.

27 Capital Commitments and Contingent Liabilities

The NZ Life Group has no material capital commitments or contingent liabilities as at 30 June 2018 (30 June 2017 nil).

28 Fair Value of Financial Instruments

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

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

A significant number of financial instruments are carried on the Balance Sheet at fair value. The best evidence of fair value is a quoted market price in an active market. Therefore, where possible, fair value is based on quoted market prices. Where a quoted market price for a financial instrument is not available, its fair value is based on present value estimates or other valuation techniques based on current market conditions. These valuation techniques rely on market observable inputs wherever possible, or in limited instances, rely on inputs which are unobservable but are reasonable assumptions based on market conditions.

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

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities that the NZ Life Group can access. Level 1 assets comprise:
  - Equity and property securities measured based on the bid market price quoted by the stock exchange.
  - External fund certificates measured based on the unadjusted unit price provided from the fund manager.
  - Bank bonds and government bonds measured based on a quoted bid market price or third party pricing information.
- 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 2 assets comprise:
  - External fund certificates measured based on the most recently available unit price from the fund manager at the time of valuation, adjusted appropriately using market observable benchmarks to accurately reflect the fair value.
  - Corporate bonds measured based on third party pricing information.
  - Held for trading foreign exchange contracts measured based on market observable foreign currency inputs sourced from third party pricing information.

28 Fair Value of Financial Instruments (continued)

- Level 3: Fair values are estimated using inputs that are unobservable for the financial asset or financial liability.

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

The following table presents an analysis by level in the fair value hierarchy of the fair value measurements of financial statements that are recognised and measured at fair value on a recurring basis.

$ millions	NZ Life Group			
	Level 1	**Level 2**	**Level 3**	**Total**
As at 30 June 2018				
Financial assets				
Securities				
Equity securities and fund certificates	**213**	**461**	**-**	**674**
Fixed interest securities	**847**	**13**	**-**	**860**
Property securities	**66**	**-**	**-**	**66**
Total financial assets measured at fair value	**1,126**	**474**	**-**	**1,600**
Financial liabilities				
Derivative liabilities	**-**	**4**	**-**	**4**
Life investment contract liabilities	**-**	**710**	**-**	**710**
Total financial liabilities measured at fair value	**-**	**714**	**-**	**714**
As at 30 June 2017				
Financial assets				
Securities				
Equity securities and fund certificates	224	457	-	681
Fixed interest securities	825	14	-	839
Property securities	74	-	-	74
Derivative assets	-	11	-	11
Total financial assets measured at fair value	1,123	482	-	1,605
Financial liabilities				
Derivative liabilities	-	1	-	1
Life investment contract liabilities	-	739	-	739
Total financial liabilities measured at fair value	-	740	-	740

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

The following table sets out and compares the fair values of financial instruments not measured at fair value with their carrying amounts.

$ millions **As at 30 June 2018**	**Fair Value**	**Carrying Value**
Financial Assets		
Cash and cash equivalents	**462**	**462**
Trade and other receivables	**60**	**60**
Total financial assets not measured at fair value	**522**	**522**
Financial Liabilities		
Trade and other payables	**81**	**81**
Total financial liabilities not measured at fair value	**81**	**81**

Notes to the Financial Statements

For the year ended 30 June 2018

28 Fair Value of Financial Instruments (continued)

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

$ millions As at 30 June 2017	Fair Value	Carrying Value
Financial Assets		
Cash and cash equivalents	544	544
Trade and other receivables	48	48
Total financial assets not measured at fair value	592	592
Financial Liabilities		
Trade and other payables	82	82
Total financial liabilities not measured at fair value	82	82

29 Categories of Financial Instruments

The following tables summarise the carrying amounts and fair values of categories of financial assets and financial liabilities. Refer to note 1(f) for a description of the categories and how fair values are estimated.

	NZ Life Group					
	At Fair Value through Income Statement		At Amortised Cost			
$ millions	Held for Trading	Designated on Initial Recognition	Loans and Receivables	Financial Liabilities	Total	Fair Value
As at 30 June 2018						
Financial assets						
Cash and cash equivalents	-	-	462	-	462	462
Trade and other receivables	-	-	60	-	60	60
Securities	-	1,600	-	-	1,600	1,600
Total financial assets	-	1,600	522	-	2,122	2,122
Financial liabilities						
Trade and other payables	-	-	-	81	81	81
Derivative liabilities	4	-	-	-	4	4
Life investment contracts	-	710	-	-	710	710
Total financial liabilities	4	710	-	81	795	795
As at 30 June 2017						
Financial assets						
Cash and cash equivalents	-	-	544	-	544	544
Trade and other receivables	-	-	48	-	48	48
Securities	-	1,594	-	-	1,594	1,594
Derivative assets	11	-	-	-	11	11
Total financial assets	11	1,594	592	-	2,197	2,197
Financial liabilities						
Trade and other payables	-	-	-	82	82	82
Derivative liabilities	1	-	-	-	1	1
Life investment contracts	-	739	-	-	739	739
Total financial liabilities	1	739	-	82	822	822

Notes to the Financial Statements

For the year ended 30 June 2018

30 Asset Quality

The NZ Life Group has no material impaired or past due assets.

Credit Quality of Financial Assets that are not Past Due or Impaired

Cash and Cash Equivalents

The Standard and Poors ("S&P") credit ratings for the NZ Life Group's major cash holdings are:

	NZ Life Group	
As at 30 June	**2018**	2017
ASB Bank Limited	**AA-**	AA-
Westpac New Zealand Limited	**AA-**	AA-
ANZ Bank New Zealand Limited	**AA-**	AA-
Citibank NA	**A+**	A+

Securities

The NZ Life Group holds fixed interest securities issued by counterparties with the following S&P credit ratings:

	NZ Life Group					
As at 30 June	**2018**	2017	**2018**	2017	**2018**	2017
$ millions	**Investment-linked***		**Non-Linked**		**Total**	
Ratings						
AAA	**-**	-	**5**	4	**5**	4
AA+	**31**	32	**775**	753	**806**	785
AA	**2**	2	**32**	32	**34**	34
AA-	**10**	11	**-**	-	**10**	11
A+	**2**	2	**-**	-	**2**	2
A	**1**	-	**-**	-	**1**	-
A-	**2**	3	**-**	-	**2**	3
Total fixed interest securities	**48**	50	**812**	789	**860**	839

* For investment-linked assets, the liability to policyholders is linked to the performance of and value of the assets that back these liabilities. The shareholder has no direct exposure to any risk in the assets which back these liabilities.

Credit ratings are not provided for equity and property securities because they are not subject to credit risk.

Derivative Financial Instruments

The counterparty for the NZ Life Group's derivative financial instruments at balance date is ASB Bank Limited (refer note 24).

Investment Receivables

This balance comprises outstanding sales, accrued interest, and outstanding dividends. All outstanding sales have subsequently been settled. The credit ratings of counterparties for which accrued interest arises are disclosed in the table above. Credit risk associated with outstanding dividends is deemed to be negligible.

Outstanding Premiums

Outstanding premiums are primarily aged less than 90 days, and in the case of participating policies, have surrender values that are equal to or greater than the premium amount outstanding.

Amounts Due from Reinsurers

The credit ratings for the NZ Life Group's major reinsurers are :

As at 30 June	**Rating Agency**	**2018**	Rating Agency	2017
General Reinsurance Life Australia Limited	**S&P**	**AA+**	S&P	AA+
RGA Reinsurance Company of Australia Limited	**S&P**	**AA-**	S&P	AA-
Swiss Re Life and Health (Australia) Limited	**S&P**	**AA-**	S&P	AA-
Munich Reinsurance Company of Australasia Limited	**S&P**	**AA-**	S&P	AA-
Lloyd's	**S&P**	**A+**	S&P	A+
Assicurazioni Generali S.P.A.	**AM Best**	**A**	AM Best	A

Notes to the Financial Statements

For the year ended 30 June 2018

31 Provisions for Impairment Losses

The NZ Life Group had no material impaired or past due assets, but has a provision for impairment of $1 million as at 30 June 2018 (30 June 2017 $1 million).

32 Disaggregated Information

$ millions	NZ Life Group Sovereign Statutory			Other Fund
	Life insurance contracts	Life investment contracts	Total	

NZ IFRS 4 requires a life insurer to disclose disaggregated information for each life fund, as defined in the solvency standards under IPSA. Disaggregated information for major components of the NZ Life Group's life funds are presented in the tables below.

$ millions	Life insurance contracts	Life investment contracts	Total	Other Fund
For the year ended 30 June 2018				
Premium income	**629**	**1**	**630**	**88**
Investment income	**72**	**69**	**141**	**-**
Claims expense	**340**	**-**	**340**	**55**
Other operating expenses	**256**	**8**	**264**	**31**
Investment income paid or allocated to policyholders	**53**	**69**	**122**	**-**
Net profit before tax	**117**	**5**	**122**	**13**
Net profit after tax	**79**	**7**	**86**	**10**
Net distributions made from funds	**(115)**	**-**	**(115)**	**(16)**
For the year ended 30 June 2017				
Premium income	633	1	634	82
Investment income	23	72	95	4
Claims expense	332	-	332	50
Other operating expenses	257	8	265	31
Investment income paid or allocated to policyholders	19	72	91	-
Net profit before tax	86	18	104	1
Net profit after tax	88	10	98	2
Net distributions made from funds	(73)	-	(73)	(9)
As at 30 June 2018				
Life insurance contract liabilities/(assets)	**183**	**-**	**183**	**(110)**
Life investment contract liabilities	**-**	**710**	**710**	**-**
Other liabilities	**591**	**1**	**592**	**32**
Retained profits/(losses) directly attributable to shareholders	**197**	**3**	**200**	**(17)**
Investment assets	**991**	**609**	**1,600**	**-**
Other assets	**370**	**90**	**460**	**70**
As at 30 June 2017				
Life insurance contract liabilities/(assets)	202	-	202	(102)
Life investment contract liabilities	-	739	739	-
Other liabilities	582	1	583	29
Retained profits/(losses) directly attributable to shareholders	222	6	228	(10)
Investment Assets	969	625	1,594	-
Other Assets	427	105	532	83

Notes to the Financial Statements

For the year ended 30 June 2018

32 Disaggregated Information (continued)

IPSA requires a life insurer to allocate the operating profit or loss of a statutory fund or a category of business of a statutory fund. The regulations define two categories of business: participating business and non-participating business. SACL classifies all its life insurance business as participating business or non-participating business in order to ensure the appropriate allocation of profit, as shown below:

	NZ Life Group			
	Sovereign Statutory Fund			Other Fund
$ millions	Life insurance contracts	Life investment contracts	Total	
For the year ended 30 June 2018				
Participating net profit after tax	**3**	**-**	**3**	**-**
Non-participating net profit after tax	**76**	**7**	**83**	**10**
Net profit allocated to shareholders	**79**	**7**	**86**	**10**
For the year ended 30 June 2017				
Participating net profit after tax	3	-	3	-
Non-participating net profit after tax	85	10	95	2
Net profit allocated to shareholders	88	10	98	2

Notes to the Financial Statements

For the year ended 30 June 2018

33 Risk Management Policies

Introduction

The NZ Life Group is exposed to risk through its financial assets, financial liabilities, reinsurance assets and life insurance contract liabilities. Risk management policies focus on ensuring cash flows from assets are sufficient to fund obligations arising from life insurance and life investment contracts. The primary risks are those of insurance, credit, market, liquidity, operational and strategic business risk.

ASBGL

For ASBGL the primary risks largely relate to SACL and its subsidiaries. The risk function is the responsibility of the Chief Risk Officer ("CRO"), who reports to the Chief Executive Officer. SACL's risk management strategy is set by the SACL Board through the SACL BARC. This committee comprises members of the SACL Board and is chaired by an independent member of the SACL Board. The CRO is responsible for implementation of risk management strategy and all executives have responsibility for the day to day management of risk across ASBGL.

ASBGL has management structures and information systems to manage individual risks, has separated risk initiation and monitoring tasks where feasible, and subjects all material systems to regular review. Periodic assessments of all risk management systems, key business processes and applications are undertaken by the internal audit function.

ASBGL conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables such as interest rate, currency rate, mortality, morbidity and inflation. The valuations included in the reported results and the NZ Life Group's best estimate of future performance are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of the NZ Life Group and as such represents a risk.

The sensitivity analysis in the risk categories that follow, is based on changes in economic conditions that are considered reasonably possible at the reporting date. The correlation of assumptions will have a significant effect in determining the ultimate profit impact, but to demonstrate the impact of a specific assumption change, modelling had to be done on the basis that all other assumptions were held constant.

The following sections describe the risk management framework components:

Operational and Strategic Business Risk

Operational risk is defined as the risk of economic gain or loss resulting from inadequate or failed internal processes and methodologies, people, systems or external events.

Strategic business risk is defined as the risk of economic gain or loss resulting from changes in the business environment caused by economic, competitive, social trend or regulatory factors.

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

ASBGL's operational risk measurement methodology combines expert assessment of individual risk exposures with internal loss data to determine potential losses and calculate operational risk economic capital.

Business Continuity Management

Business Continuity Management ("BCM") within ASBGL involves the development, maintenance and testing of action plans to manage business disruption risk. This ensures that business processes continue with minimal adverse impact on customers, staff, products, services and brands.

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

A BCM programme including plan development, testing and education is in place across all divisions and includes technology disaster recovery planning.

Internal Audit

The Group was serviced by ASB's Audit & Assurance function up to completion of the Sale Transaction on 2 July. Following completion, the Audit & Assurance function will report to AIA's Head of Internal Audit for Australia and New Zealand.

Internal audit provides an independent assurance service designed to assist ASBGL in achieving its objectives by bringing a systematic and disciplined approach to improving the effectiveness of risk management systems, the framework of controls, and governance processes. Operational, compliance, financial and systems reviews of ASBGL's operations are performed based on an assessment of risk. The independent internal audit function is ultimately accountable to the SACL Board through the BARC.

The BARC meets on a regular basis to consider financial reporting, internal control and corporate governance issues. It reviews the interim and annual financial statements, the activities of the internal and external auditors and monitors the relationship between management and the external auditors.

33 Risk Management Policies (continued)

ASBGL (continued)

Insurance Risk

Insurance risk is risk, other than financial risk, that is transferred from the holder of a contract to the issuer.

ASBGL's objectives in managing risks arising from insurance business are:

(i) To ensure insurance risk is managed in accordance with the principles set out in the Risk Appetite Statement. The Risk Appetite Statement describes the NZ Life Group's tolerance and intolerance to key risks via a set of statements and principles.

(ii) To ensure that an appropriate return on capital is made in return for accepting insurance risk.

(iii) To ensure that strong internal controls are embedded within the business to mitigate underwriting risk.

(iv) To ensure that internal and external solvency and capital requirements are met.

(v) To use reinsurance as a component of insurance risk management strategy.

Variations in claim levels will affect reported profit and shareholders' equity. The impact may be magnified if the variation leads to a change in actuarial assumptions which cannot be absorbed within the present value of planned margins for a group of related products.

Insurance risk may arise through the reassessment of the incidence of claims, the trend of future claims and the effect of unforeseen diseases or epidemics. In addition, in the case of morbidity, the time to recovery may be longer than assumed. Insurance risk is controlled by ensuring underwriting standards adequately identify potential risk, retaining the right to amend premiums on risk policies where appropriate and through the use of reinsurance. The experience of ASBGL's life insurance business is reviewed regularly.

Concentrations of insurance risk arise due to:

- Large sums assured on certain individuals. The largest exposures all relate to mortality.
- Geographic concentrations due to employee group schemes. During the year ended 30 June 2018, ASBGL participated in the CMLA catastrophe cover reinsurance programme which provides cover of AUD$90 million for single event claims in excess of AUD$20 million.
- Geographic concentrations due to a pandemic affecting lives in a certain country or region. ASBGL has pandemic reinsurance cover which provides cover for abnormally high mortality claims cost due to a pandemic of $60 million in excess of 125% of the expected annual mortality claims cost.

Terms and conditions of life insurance contracts

The nature of terms of life insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend. The table below provides an overview of these:

Type of contract	Detail of contract terms and conditions	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability, major medical)	Benefits paid on death, ill health or maturity that are fixed and guaranteed and not at the discretion of the issuer. Premiums may be guaranteed through the life of the contract, guaranteed for a specified term or variable at the insurer's discretion.	Benefits, defined by the life insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	- Mortality - Morbidity - Discontinuance rates
Life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a clearly defined initial guaranteed sum assured which is payable on death. The guaranteed amount is a multiple of the amount that is increased throughout the duration of the policy by the addition of regular bonuses annually which, once added, are not removed. Regular bonuses are also added retrospectively.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract.	- Mortality - Morbidity - Market risk - Discontinuance rates - Market returns on underlying assets
Life annuity contracts	These policies provide guaranteed regular payments to the life assured.	The amount of the payment is set at inception of the policy.	- Longevity - Market returns on underlying assets

Notes to the Financial Statements

For the year ended 30 June 2018

33 Risk Management Policies (continued)

Sensitivity to insurance risk

Insurance risk is measured by using sensitivity analysis to show the effects on equity and profit. The below sensitivities are calculated based on all other assumptions remaining unchanged.

Mortality rates

For life insurance contracts, greater mortality rates would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder's equity. This is offset by increased annuitant mortality which would reduce expected future annuity payments and therefore reduce life insurance contract liabilities.

Morbidity rates

The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration with which they remain ill. Higher than expected incidence and duration would be likely to increase claim costs, reducing profit and shareholders' equity.

Discontinuance

The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on performance and net assets. However, due to the interplay between the factors, there is not always an adverse outcome to profits from an increase in discontinuance rates.

The table below illustrates the sensitivity of reported net profit and loss after tax and equity to changes in insurance risk assumptions:

$ millions		NZ Life Group Change in following financial year's net profit after tax and shareholders' equity			
As at 30 June		**2018**		2017	
Insurance risks		**Before reinsurance**	**After reinsurance**	Before reinsurance	After reinsurance
Mortality	Improvement by 10%	**16**	**7**	22	10
	Deterioration by 10%	**(21)**	**(13)**	(33)	(21)
Morbidity	Improvement by 10%	**8**	**5**	8	5
	Deterioration by 10%	**(65)**	**(62)**	(35)	(32)
Discontinuance	Improvement by 20%	**9**	**1**	10	2
	Deterioration by 20%	**(12)**	**(8)**	(13)	(8)
Expenses	Increase by 10%	**(3)**	**(3)**	(4)	(4)
	Decrease by 10%	**2**	**2**	4	4

Credit Risk

Credit risk is the potential risk for loss arising from failure of a counterparty to meet their contractual obligations.

Credit risk principally arises within ASBGL from investments of shareholder funds or funds where the shareholder participates in investment returns in cash and fixed interest securities, and reinsurer payment obligations. Credit risk also arises from loans to agents, foreign currency contracts and trade receivables. No collateral exists for any of the securities held by the NZ Life Group. The maximum credit risk associated with each class of recognised financial asset held by the NZ Life Group is the carrying value. The NZ Life Group has a credit policy that covers the approval and management of all credit risk.

Investment concentrations for shareholder funds are managed within established guidelines and limits set by the Asset and Liability Committee ("ALCO"). Some criteria are referred to the SACL BARC for approval. Guidelines and limits are set for security credit ratings and aggregate exposure to any single geographic region or counterparty as documented within the investment management agreement.

Reinsurance is entered into for the purpose of risk transfer. The credit risk inherent in reinsurance arrangements is managed by establishing minimum credit standards for reinsurers.

For investment linked contracts the investments credit risk is appropriate for each particular product and the risk is borne by the policyholder. There is no significant credit risk assumed by ASBGL. The impact on the fair value of life investment contract liabilities due to changes in credit risk is nil (30 June 2017 nil), except to the extent that the market value of securities backing life investment contract liabilities is affected by changes in credit risk. Any such credit risk impact is reflected in the movement of securities balances during the year.

The credit ratings of counterparties are disclosed in note 30.

33 Risk Management Policies (continued)

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk is designed to ensure that ASBGL has the ability to meet its financial obligations as they fall due.

ASBGL manages this risk by holding a pool of readily tradable investment assets and deposits on call.

The maturity of life insurance and life investment contract liabilities are disclosed in notes 19 and 34 respectively.

	NZ Life Group		
$ millions	Cash and Cash Equivalents	Securities	Total
Liquid assets			
The NZ Life Group holds the following financial assets for the purposes of managing liquidity risk:			
As at 30 June 2018			
Cash and cash equivalents	**459**	**-**	**459**
Foreign currency deposits	**3**	**-**	**3**
Equity securities and fund certificates	**-**	**674**	**674**
Government stock	**-**	**836**	**836**
Corporate bonds	**-**	**24**	**24**
Property securities	**-**	**66**	**66**
Total liquid assets	**462**	**1,600**	**2,062**
As at 30 June 2017			
Cash and cash equivalents	542	-	542
Foreign currency deposits	2	-	2
Equity securities and fund certificates	-	681	681
Government stock	-	814	814
Corporate bonds	-	25	25
Property securities	-	74	74
Total liquid assets	544	1,594	2,138

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk arises from the mismatch between assets and liabilities. ASBGL is exposed to market risk on diverse financial instruments including interest bearing assets, foreign currency investments, equities, and derivative instruments. For each distinct category of liabilities, a separate portfolio of assets is maintained and investment mandates are set that are appropriate for each.

A significant proportion of assets are held for investment linked policies where market risk is transferred to the policyholder. ASBGL earns fees on investment linked policies that are based on the amount of assets invested and it may receive lower fees should markets fall. Asset allocation for investment linked policies is decided in accordance with the policyholders' fund selections.

Market risk arises on discretionary participation business as these contracts have investment guarantees. Risk is mitigated by using an appropriate bonus / credit rate policy and a suitable growth / income investment allocation.

Market risk arises from returns obtained from investing the shareholders' funds held in ASBGL. Appropriate investment mandates are set by ALCO for the investment of shareholders' funds. As at 30 June 2018, shareholders' funds in ASBGL were invested 1% (30 June 2017 1%) in growth assets (equity and property) and 99% (30 June 2017 99%) in income assets (cash and fixed interest).

Market risk comprises three types of risk: currency risk, interest rate risk and price risk.

Notes to the Financial Statements

For the year ended 30 June 2018

33 Risk Management Policies (continued)

Market Risk (continued)

(i) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates.

ASBGL does not fully hedge foreign currency denominated equity instruments. Adverse movements in currency rates relating to the New Zealand dollar will subsequently reduce the value of policyholder assets and liabilities.

ASBGL uses foreign currency forward contracts to mitigate its exposure to currency risk from foreign currency denominated investments. Global equity is hedged within the Collective Investment Vehicle (CIV). The hedge ratio benchmark for Global Equities in the CIV is 100%. All other equity and property investments denominated in foreign currency have a weighted average hedging ratio of 67% (30 June 2017 67%) and fixed interest investments denominated in a foreign currency have a hedging ratio of 100% (30 June 2017 100%). All investments denominated in emerging market currencies are unhedged.

(ii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Fair value interest rate risk arises from the potential for a change in interest rates to cause a fluctuation in the fair value of financial instruments and the value of life insurance contract liabilities. Interest rate risk arises from the structure and characteristics of ASBGL's assets, liabilities and equity, and the mismatch in cash flows of its assets and liabilities. The objective is to manage the interest rate risk to achieve stable and sustainable net profit.

For fixed interest investments held to match fixed interest style products selected by policyholders, the interest rate risk is borne by the policyholder.

Interest rate risk also arises on risk contracts where negative policy liabilities (arising from the deferral of acquisition costs) are valued at current risk-free interest rates.

Cash flow interest rate risk is the potential for a change in interest rates to change interest expense and interest income in the current year and in future years.

ASBGL reduces interest rate risk by seeking to match the cash flows of assets and liabilities.

Depending on the profile of the investment portfolio, the investment income of the NZ Life Group will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder's equity depends on the relative profiles of assets and liabilities, to the extent that these are not matched.

(iii) Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

This risk is managed by ensuring a diverse range of investments, limits on counterparty exposure and restrictions on types of instruments.

Equity Prices

For life investment contracts and life insurance contracts with discretionary participation features, liabilities depend on the value of underlying assets. Equity price risk may be entirely borne by policyholders. However, the NZ Life Group derives fee income based on the value of the underlying funds; hence revenues are always sensitive to changes in market value. For assets which are not contractually linked to policy liabilities, the NZ Life Group is exposed to equity price risk.

Notes to the Financial Statements

For the year ended 30 June 2018

33 Risk Management Policies (continued)

Market Risk (continued)

Sensitivity to market risk

Market risk is measured by using sensitivity analysis to model changes in interest rates, equity values and foreign currency rates.

The table below illustrates the sensitivity of reported profit and loss after tax and equity to changes in market risk assumptions:

$ millions		NZ Life Group Change in following financial year's profit after tax and shareholders' equity			
As at 30 June		**2018**		2017	
Market risks		**Before reinsurance**	**After reinsurance**	Before reinsurance	After reinsurance
Equity prices	Favourable by 10%	**1**	**1**	1	1
	Adverse by 10%	**(1)**	**(1)**	(1)	(1)
Interest rates	Increase of 100 bps	**(17)**	**(13)**	(16)	(13)
	Decrease of 100 bps	**19**	**15**	17	14

FSI

There are no material risks to FSI as all material transactions are inter-group.

Notes to the Financial Statements

For the year ended 30 June 2018

34 Maturity Analysis of Financial Liabilities

	NZ Life Group							
$ millions	On Demand	Within 6 Months	Between 6 - 12 Months	Between 1 - 2 Years	Between 2 - 5 Years	Over 5 Years	Total	Carrying Value
As at 30 June 2018								
Non derivative financial liabilities								
Trade and other payables	**6**	**70**	**-**	**-**	**-**	**5**	**81**	**81**
Life investment contracts	**692**	**-**	**-**	**1**	**2**	**4**	**699**	**710**
	698	**70**	**-**	**1**	**2**	**9**	**780**	**791**
Derivative financial liabilities								
Inflows from derivatives	**-**	**143**	**-**	**-**	**-**	**-**	**143**	
Outflows from derivatives	**-**	**(146)**	**-**	**-**	**-**	**-**	**(146)**	
	-	**(3)**	**-**	**-**	**-**	**-**	**(3)**	
As at 30 June 2017								
Non derivative financial liabilities								
Trade and other payables	6	72	-	-	-	4	82	82
Life investment contracts	677	2	2	6	13	46	746	739
	683	74	2	6	13	50	828	821
Derivative financial liabilities								
Inflows from derivatives	-	125	-	-	-	-	125	
Outflows from derivatives	-	(126)	-	-	-	-	(126)	
	-	(1)	-	-	-	-	(1)	

The above analysis is based on contractual undiscounted cash flows. Where the counterparty has discretion in requesting payment, liabilities have been classified according to the earliest time period in which the NZ Life Group may be required to pay. Refer to note 33 for details of how the NZ Life Group manages liquidity risk.

35 Funds Under Management and Administration

The NZ Life Group manages and administers investment products that are closed to new business. As at 30 June 2018 the NZ Life Group had $707 million funds under management and administration (30 June 2017 $737 million). The NZ Life Group utilises external fund managers and investment consultants in the management of these funds, including entities which are fellow CBA subsidiaries (refer note 24).

36 Events after the Reporting Period

On 21 September 2017 CBA announced the sale of 100% of its life insurance businesses in Australia and New Zealand, of which NZ Life Group is a part, to AIA International Limited, a subsidiary of AIA for AUD $3.8 billion. The sale of the New Zealand life insurance business to AIA was completed and became effective after the reporting period, on 2 July 2018.

Due to the sale, the registered name and address changed from ASB Group (Life) Limited, Level 2, ASB North Wharf, 12 Jellicoe Street, Auckland, 1010, New Zealand to AIA Sovereign Limited, Sovereign House, 74 Taharoto Road, Takapuna, Auckland, 0622, New Zealand on 12 July 2018.

On 2 July 2018, the NZ Life Group entered into a significant reinsurance agreement with an existing reinsurer (refer note 1(k) and 27). This new arrangement will impact reinsurance expense and recoveries going forward. However, at the time of completing these accounts, the Group is working through the impact this new reinsurance arrangement will have on the future profitability of the NZ Life Group.

As part of the sale arrangement, AIA International Limited has entered into a 20 year distribution agreement for the provision of life insurance products to CBA and ASB customers in Australia and New Zealand.

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

Independent auditor's report

To the Directors of Commonwealth Bank of Australia

This report is for the Commonwealth Bank of Australia New Zealand Life Insurance Group (the "NZ Life Group").

The report includes:

- our audit opinion on the financial statements prepared in accordance with Clause 25 of the Registered Bank Disclosure Statement (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order"), New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards ("IFRS"); and
- our audit opinion on the supplementary information prepared in accordance with Schedules 4, 7, 11 and 13 of the Order.

The financial statements comprise:

- the balance sheet as at 30 June 2018;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a statement of accounting policies.

Our opinion

In our opinion:

- the financial statements (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 11 and 13 of the Order):

  (i) comply with generally accepted accounting practice in New Zealand;
  (ii) comply with NZ IFRS and IFRS; and
  (iii) give a true and fair view of the financial position of the NZ Life Group as at 30 June 2018, and its financial performance and cash flows for the year then ended.

- the supplementary information disclosed in accordance with Schedules 4, 7, 11 and 13 of the Order:

  (i) has been prepared, in all material respects, in accordance with the guidelines issued under section 78(3) of the Reserve Bank of New Zealand Act 1989 or any conditions of registration;
  (ii) is in accordance with the books and records of the NZ Life Group; and
  (iii) fairly states, in all material respects, the matters to which it relates in accordance with those Schedules.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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Independent Auditor's Report (continued)

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

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

Our firm carries out other services for the NZ Life Group through an assurance engagement over the solvency return and an agreed upon procedures engagement. In addition, certain partners and employees of our firm may deal with the NZ Life Group on normal terms within the ordinary course of trading activities of the NZ Life Group. These matters have not impaired our independence as auditor of the NZ Life Group.

Emphasis of Matter – Subsequent events

We draw attention to Note 36 of the financial statements, which describes the completion of the Commonwealth Bank of Australia (the "Company") sale of life insurance businesses, of which NZ Life Group is a part, subsequent to 30 June 2018. Our opinion is not modified in respect of this matter.

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

The Directors of the Company (the "Directors") are responsible, on behalf of the Company, for the information in the Disclosure Statement. The other information comprises the information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order and is included on pages (i) to (viii) and Part B - page 1. Our opinion on the financial statements and supplementary information does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of the Directors for the financial statements and supplementary information

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 25 of the Order, NZ IFRS and IFRS and that give a true and fair view of the matters to which they relate. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In addition, the Directors are responsible for including supplementary information in the Disclosure Statement which complies with Schedules 4, 7, 11 and 13 of the Order.

In preparing the financial statements, the Directors are responsible for assessing the NZ Life Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Independent Auditor's Report (continued)

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Auditor's responsibilities for the audit of the financial statements and supplementary information

Our objectives are to obtain reasonable assurance about whether the financial statements and the supplementary information disclosed in accordance with Clause 25 and Schedules 4, 7, 11 and 13 of the Order, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5/

This description forms part of our auditor's report.

Report on other legal and regulatory requirements

We also report in accordance with the requirements of the Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the financial statements and supplementary information for the year ended 30 June 2018:

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

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

Who we report to

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

The engagement partner on the audit resulting in this independent auditor's report is Karl Deutschle.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
8 August 2018

Auckland