Commonwealth Bank of Australia
New Zealand Operations

Disclosure Statement

For the year ended 30 June 2019

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 2019 are set out in note 25 of the financial statements of the NZ Banking Group for the year ended 30 June 2019;
- Commonwealth Bank of Australia New Zealand Life Insurance Group (the "NZ Life Group") referred to all of the New Zealand operations of the Overseas Banking Group that are not included in the NZ Banking Group; and
- Commonwealth Bank of Australia New Zealand Branch (the "Branch") refers to the New Zealand branch of the Overseas Bank and includes all banking business transacted in New Zealand through the Branch.

General Matters

1.0 Address for Service - Branch

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

A copy of the NZ Banking Group and the Overseas Banking Group's most recent published financial statements will be available immediately upon a request being made to the above address. A copy of the NZ Banking Group's financial statements can also be obtained from the 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: 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"); second, the ADI's debts to APRA for costs incurred by APRA in the administration of the Scheme in respect of that ADI; third, in payment of the ADI's liabilities in Australia in relation to protected accounts; fourth, the ADI's debts to the Reserve Bank of Australia; fifth, the ADI's liabilities under a certified industry support contract; and sixth, the ADI's other liabilities in the order of their priority apart from section 13A(3) of the Australian Banking Act.

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.

General Disclosures

(To be read in conjunction with the Financial Statements)

4.0 Guarantee Arrangements

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

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, University of Technology Sydney (Chancellor), The Australian Ballet, and the CISRO Australia Telescope National Facility Steering Committee.
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)

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), Citi Handlowy (Supervisory Board), Accion International, Virtusa Corporation (Advisor), Acibadem Hospital Group (Turkey) and Fortis Healthcare.
Qualifications	Institute of Chartered Accountants in England and Wales, BCom (Calcutta), MBA (London Business School)

Name	**G. (Genevieve) Bell**
Primary occupation	Company director
Residence	Australian Capital Territory, Australia
External directorships and interests	Florence Violet McKenzie (Chairman), Autonomy, Agency & Assurance Innovation Institute (3A), National Science and Technology Council (Member) and Editorial Board of the Australian Army Journal (Member).
Qualifications	PhD (Stanford), AB/MA (Bryn Mawr College), Mphil

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, WorleyParsons Limited, Cyber Security Research Centre Ltd (Director) and Cyber Security Research Committee (Member).
Qualifications	BCom (University of Western Australia), Executive MBA (Australian Graduate School of Management), MRM (University of New South Wales), Chartered Accountant, Australian Institute of Company Directors (Fellow)

Managing Director

Name	**M.P. (Matt) Comyn**
Primary occupation	Managing Director and Chief executive officer
Residence	New South Wales, Australia
External directorships and interests	Unicef Australia, Australian Bankers Association and Financial Markets Foundation for Children.
Qualifications	BAv (University of New South Wales), MCom (University of New South Wales), EMBA (University of Sydney), GMP (Harvard 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 (Chairman), Clinical Genomics Technologies Holdings Limited (Director), Chief Executive Women (Member) and Victorian Legal Admissions Board (Member).
Qualifications	BA LLB (Hons) (University of Melbourne), Australian Institute of Company Directors (Graduate)

Name	**Sir D.H. (David) Higgins**
Primary occupation	Company director
Residence	London, United Kingdom
External directorships and interests	Gatwick Airport Ltd (Chairman), United Utilities Group PLC and United Utilities Water Ltd and Senior Advisor of Marshall Industries and BAI Communications.
Qualifications	BE (Civil) (University of Sydney), Diploma (Securities Institute of Australia)

Name	**W.M. (Wendy) Stops**
Primary occupation	Company director
Residence	Victoria, Australia
External directorships and interests	Altium Ltd, Coles Group, Fitted for Work Ltd, University of Melbourne (Council Member), Chief Executive Women (Member), Australian Institute of Company Directors Technology Governance & Innovation Panel, and Chairman of the Melbourne Business School's Centre for Business Analytics Advisory Board.
Qualifications	BAppSc (Information Technology), Australian Institute of Company Directors (Graduate)

General Disclosures

(To be read in conjunction with the Financial Statements)

5.0 Directors of the Overseas Bank (Continued)

Name	**P.F. (Paul) O'Malley**
Primary occupation	Company director
Residence	Victoria, Australia
External directorships and interests	Australian Catholic Redress Limited (Chairman).
Qualifications	BCom, M. App Finance, Associated Chartered Accountant

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 FINSIA and Australian Institute of Company Directors (Fellow)

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 Anne Templeman-Jones (Chairman), Shirish Apte, Catherine Livingstone, and Wendy Stops. 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 that:

- Has been entered into on terms other than those which would, in the ordinary course of business of the NZ Banking Group be given to any other person of like circumstances or means; or
- Could otherwise be reasonably likely to influence materially the exercise of that Director's 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 2019, with the exception of the definition of "banking group" which applies from 2 July 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

6.0 Conditions of Registration for Commonwealth Bank of Australia in New Zealand (continued)

(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 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
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 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
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", with effect from 2 July 2018, means the New Zealand business of the registered bank and its subsidiaries as required to be reported in group financial statements for the group's New Zealand business under section 461B(2) of the Financial Markets Conduct Act 2013.

"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 2019, 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 2019.

General Disclosures

(To be read in conjunction with the Financial Statements)

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 2019, 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 2019, there have been no other changes to the Conditions of Registration.

7.0 Pending Proceedings or Arbitration

The NZ Banking Group is 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.

8.0 Other Material Matters

NZ Life Group

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

Aligned Advisor Remediation

During the current year, the Overseas Banking Group raised a provision for Aligned Advice remediation issues and program costs, including ongoing service fees charged where no service was provided. Aligned advisors are not employed by the Overseas Banking Group but are representatives authorised to provide financial advice under the licences of the Overseas Banking Group's subsidiaries, Financial Wisdom Limited, Count Financial Limited and Commonwealth Financial Planning Limited (Pathways only). As at 30 June 2019, the Overseas Banking Group holds a provision of AUD534 million in relation to Aligned Advice remediation. This includes AUD251 million for customer fee refunds, AUD123 million for interest on fees subject to refunds and AUD160 million for costs to implement the remediation program.

The Overseas Banking Group's estimate of the proportion of fees to be refunded is based on sample testing and assumes a refund rate of 24%. This compares to a refund rate of 22% which was paid for our salaried advisors. An increase/(decrease) in the failure rate by 1% would result in an increase/(decrease) in the provision of approximately AUD15 million.

The Overseas Banking Group is finalising its remediation approach in consultation with ASIC.

Banking and Other Wealth Customer Remediation

During the year ended 30 June 2019, the Overseas Banking Group has recognised provisions of AUD384 million for Banking and other Wealth Management customer remediation programs. The provision raised for banking remediation includes an estimate of refunds and interest to customers relating to business banking products, including bank guarantees, cash deposit accounts, merchants billing and certain commercial lending products. The wealth remediation provision includes an estimate of refunds and interest relating to advice quality, fees where no service was provided in the Commonwealth Financial Planning business, the Loan Protection Insurance product and certain other products.

Shareholder Class Actions

In October 2017 CBA was served with a shareholder class action proceeding filed in the Federal Court of Australia alleging breaches of CBA's continuous disclosure obligations and misleading and deceptive conduct in relation to the subject matter of the civil penalty proceedings brought by Australian Transaction Reports and Analysis Centre (AUSTRAC). The AUSTRAC proceedings concerned contraventions of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth). The resolution of the proceedings was approved by the Federal Court on 20 June 2018 with CBA paying a penalty of AUD700 million and legal costs. In the shareholder class action, it is alleged that CBA shareholders who acquired an interest in CBA shares between 1 July 2015 and 3 August 2017 suffered loss caused by the alleged conduct.

On 29 June 2018 a similar second shareholder class action in relation to the subject matter of the AUSTRAC 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. On 10 July 2019, court orders were made confirming the two class action proceedings would continue, would be case managed together and proceed by way of one harmonised statement of claim.

It is currently not possible to determine the ultimate impact of these claims, if any, on the Overseas Banking Group. The Overseas Banking Group denies the allegations and continues to defend both claims. The Overseas Banking Group has provided for legal costs expected to be incurred in the defence of the claims.

Superannuation Class Action

On 9 October 2018, a class action claim was filed against CBA and Colonial First State Investments Limited (CFSIL) in the Federal Court of Australia. The claim relates to investment in cash and deposit options (which are cash and deposit products prioritised by CBA) in Colonial First State FirstChoice Superannuation Trust and Commonwealth Essential Super. The main allegation is that members with these options in the funds received lower interest rates on them than they would have received had CFSIL put them in equivalent products with higher interest rates obtainable on the market. It is alleged that CBA was involved in CFSIL's breaches as trustee of the funds and CFSIL's breaches as Responsible Entity of the underlying managed investment schemes. Both CBA and CFSIL deny the allegations and filed a defence to the claim on 20 December 2018. The class action lawyers made further amendments to the claim filing an amended statement of claim on 16 April 2019. The amendments introduced additional allegations relating to another term deposit and a breach of trust in respect of adviser commissions, however the commissions claim is made against CFSIL only. CBA and CFSIL filed a defence to the amended claim on 7 June 2019 denying the new claims. It is currently not possible to determine the ultimate impact of this claim, if any, on the Overseas Banking Group. The Overseas Banking Group has provided for the legal costs expected to be incurred in the defence of the claim.

General Disclosures

(To be read in conjunction with the Financial Statements)

8.0 Other Material Matters (Continued)

ASIC Bank Bill Swap Rate

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

As part of the settlement CBA also entered into an Enforceable Undertaking with ASIC under which CBA undertook to engage an independent expert to assess changes it has made (and will make) to its policies, procedures, controls systems, training, guidance and framework for the monitoring and supervision of employees and trading in Prime Bank Bills and CBA's BBSW ("BBSW") referenced product businesses. On 5 October 2018, CBA appointed Ernst & Young ("EY") as the independent expert. CBA provided its BBSW Program of remediation work to ASIC and EY on 21 December 2018. EY reviewed the BBSW Program and provided certain recommendations in their report dated 23 April 2019. CBA considered those recommendations with ASIC and EY and delivered its Final BBSW Program to ASIC and EY on 23 July 2019. EY are due to report on CBA's Final BBSW Program on 30 August 2019. The Overseas Banking Group has provided for costs associated with implementation of the BBSW program.

ASIC Investigation

In September 2017, following the commencement of the civil proceedings against CBA by AUSTRAC, ASIC launched an investigation in relation to the Overseas Banking Group's disclosure in respect of the matters the subject of the AUSTRAC proceedings. ASIC is also investigating, among other things, whether the officers and directors at CBA complied with other specific 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 impact of this investigation, if any, on the Overseas Banking Group. The Overseas Banking Group has provided for the legal costs expected to be incurred in relation to this investigation.

APRA's Prudential Inquiry into CBA

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

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

CBA has entered into an Enforceable Undertaking under which CBA's remedial action (Remedial Action Plan) in response to the Final Report would be agreed and monitored regularly by APRA. The Remedial Action Plan provides a detailed program of change outlining how CBA will improve the way it runs its business, manages risk, and works with regulators. The Remedial Action Plan also provides a comprehensive assurance framework, with Promontory Australasia (Sydney) Pty Ltd (Promontory) having been appointed as the independent reviewer and which is required to report to APRA on the Overseas Banking Group's progress against committed milestones every 3 months.

Promontory has submitted two reports in September 2018 and December 2018 which have also been released by CBA. Promontory has noted that the Remedial Action Plan program of work remains on track and CBA's commitment to implementing the Inquiry's recommendations in a timely and comprehensive way continued to be strong with all 156 milestones on schedule to be delivered by the due date. Promontory is providing APRA with quarterly progress reports, and CBA is committed to report publicly on its progress against the Remedial Action Plan twice a year. The Overseas Banking Group has provided for costs associated with the implementation of the Remedial Action Plan.

The Royal Commission

The Royal Commission was established on 14 December 2017 and was authorised to inquire into misconduct by financial service entities (including CBA). Seven rounds of hearings into misconduct in the banking and financial services industry were held throughout 2018, covering a variety of topics including consumer and business lending, financial advice, superannuation, insurance and a policy round. The Royal Commission's final report was delivered on 1 February 2019. The final report included 76 policy recommendations to the Australian Government and findings in relation to the case studies investigated during the hearings, with a number of referrals being made to regulators for misconduct by financial institutions, which is expected to result in heightened levels of enforcement action across the industry.

The 76 recommendations covered many of CBA's business areas, and also canvassed the role of the regulators and the approach to be taken to customer focus, culture and remuneration. The recommendations regarding the role of regulators and their approach to enforcement may increase enforcement activity, costs and reputational impact for financial institutions. CBA released a statement to the ASX on 8 March 2019 welcoming the final report and committing to actions to deliver on the recommendations. The Australian Government has accepted 75 of the 76 recommendations.

Ongoing service fees in Commonwealth Financial Planning

Following an ASIC investigation, Commonwealth Financial Planning (CFP) entered into an Enforceable Undertaking (EU) with ASIC in April 2018 and agreed to certain variations on 20 December 2018. Under the EU, as varied, CFP agreed, among other things, to provide an attestation to ASIC in relation to remediation of ongoing service over the period July 2015 to January 2018 and in relation to CFP's current ongoing service compliance systems and processes. Although CFP was not in a position to sign the attestation in January 2019, CFP provided the attestation to ASIC on 30 May 2019. ASIC has since confirmed that it is satisfied with the attestation and compliance with the obligations under the EU is now finalised (save for the payment of some remaining refunds due to customers by 30 September 2019).

CFP has not charged ongoing service fees since 1 February 2019 and has not entered into new ongoing service agreements since that date. CFP is moving to a new model where customers will pay for advice once they have received it.

General Disclosures

(To be read in conjunction with the Financial Statements)

8.0 Other Material Matters (Continued)

Fair Work Ombudsman ("FWO") Investigation

The FWO has commenced an investigation in relation to CBA's self-disclosure of discrepancies in employee arrangements and entitlements. CBA continues to engage with the FWO in respect of the investigation and respond to requests made by the FWO. It is currently not possible to predict the ultimate impact of this investigation, if any, on the Overseas Banking Group.

Enforceable Undertaking accepted by Office of Australian Information Commission

The Australian Information Commissioner (Commissioner) has accepted an Enforceable Undertaking (EU) offered by CBA. The EU underpins execution of further enhancements to the management and retention of customer personal information within CBA and certain of its subsidiaries.

The EU follows CBA's ongoing work to address two incidents: one relating to the disposal by a third party of magnetic data tapes containing historical customer statements and the other relating to potential unauthorised internal user access to certain systems and applications containing customer personal information. CBA reported both incidents to the Commissioner in 2016 and 2018 respectively and has since been working to address these incidents and respond to inquiries made by the Commissioner. CBA has found no evidence to date, as a result of these incidents, that our customers' personal information was compromised, or that there have been any instances of unauthorised access by CBA employees or third parties.

It is not currently possible to estimate the financial impact of the Overseas Banking Group's response under the EU.

Program of Action

The Overseas Banking Group continues to strengthen its financial crime capabilities, and has invested significantly, recognising the crucial role that it plays, including through the Program of Action with coverage across all aspects of financial crime (including anti-money laundering/counter-terrorism financing, sanctions and anti-bribery and corruption) and all business units. The Overseas Banking Group has provided for certain costs of running the Program of Action.

Remediation and Compliance Programs

The Overseas Banking Group undertakes ongoing compliance activities, including review of products, advice, conduct and services provided to customers, as well as interest, fees and premiums charged.

Some of these investigations and reviews have resulted in remediation programs and where required the Overseas Banking Group consults with the respective regulator on the proposed remediation action. There is a risk that where a breach has occurred, regulators may also impose fines and/or sanctions.

Provisions are recognised when it is probable an outflow will be required to address a past event and where a reliable estimate is available. There remains a contingent liability with respect to these matters, however the aggregate potential liability of the above matters cannot be reliably estimated.

Other Matter

Financial Wisdom Limited, a subsidiary of the Overseas Banking Group, has agreements pre-dating 2013, which provide authorised representatives with the ability to sell their client book to the subsidiary in certain circumstances contingent upon a number of key conditions being met. The agreements provide for the sale at a multiple of ongoing revenue subject to a range of criteria (including potential discount factors). The authorised representative must apply to commence the conditional sale process. No applications have been received to date. It is not currently possible to reliably estimate the financial impact of these agreements.

General Disclosures

(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
Standard and Poor's (Australia) Pty Limited ("S&P")	AA-	Stable
Fitch Australia Pty Limited ("Fitch Ratings")	AA-	Negative
Moody's Investors Service Pty Limited ("Moody's")	Aa3	Stable

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

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

Long Term Credit Rating Definitions	Moody's[(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 of this Disclosure Statement:

- 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 year ended 30 June 2019:

- 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
7 August 2019

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

M.P. Comyn
Managing Director and Chief Executive Officer

For himself and on behalf of each other Director
7 August 2019

Commonwealth Bank of Australia New Zealand Banking Group

Financial Statements

For the year ended 30 June 2019

Contents

Contents

Historical Summary of Financial Statements

$ millions	NZ Banking Group				
For the year ended 30 June	**2019**	2018	2017	2016	2015
Income Statement					
Interest income	**4,500**	4,324	4,141	4,201	4,290
Interest expense	**2,459**	2,410	2,414	2,481	2,626
Net interest income	**2,041**	1,914	1,727	1,720	1,664
Other income	**715**	646	618	553	502
Total operating income	**2,756**	2,560	2,345	2,273	2,166
Impairment losses on financial assets	**106**	54	66	129	101
Total operating income after impairment losses	**2,650**	2,506	2,279	2,144	2,065
Total operating expenses	**977**	943	890	881	856
Net profit before tax	**1,673**	1,563	1,389	1,263	1,209
Tax expense	**471**	436	388	355	338
Net profit after tax	**1,202**	1,127	1,001	908	871
Net profit after tax attributable to non-controlling interests	**13**	13	13	17	18
Dividends and Repatriations Paid					
Perpetual preference dividends paid to non-controlling interests	**13**	13	13	17	18
Ordinary dividends paid	**625**	550	323	193	1,066
Redeemable preference dividends paid	**-**	-	89	16	72
Repatriation of profit	**13**	11	16	11	14
Total dividends and repatriations paid	**651**	574	441	237	1,170

$ millions	NZ Banking Group				
As at 30 June	**2019**	2018	2017	2016	2015
Balance Sheet					
Total assets	**107,075**	101,339	92,828	86,127	80,585
Individually impaired assets	**370**	474	384	430	365
Total liabilities	**99,143**	93,342	87,826	80,630	75,265
Total shareholders' equity	**7,932**	7,997	5,002	5,497	5,320
Head office contribution	**2,887**	2,887	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, other income and operating expenses have been reclassified to ensure consistency with presentation in the current year.

Income Statement

$ millions For the year ended 30 June	Note	NZ Banking Group 2019	2018
Interest income	3	**4,500**	4,324
Interest expense	4	**2,459**	2,410
Net interest income		**2,041**	1,914
Other income	5	**715**	646
Total operating income		**2,756**	2,560
Impairment losses on financial assets	20	**106**	54
Total operating income after impairment losses		**2,650**	2,506
Total operating expenses	6	**977**	943
Salaries and other staff expenses		**552**	537
Building occupancy and equipment expenses		**102**	100
Information technology expenses		**156**	134
Other expenses		**167**	172
Net profit before tax		**1,673**	1,563
Tax expense	8	**471**	436
Net profit after tax		**1,202**	1,127
Attributable to:			
Parent company shareholders		**1,189**	1,114
Non-controlling interests	37	**13**	13
Net profit after tax		**1,202**	1,127

Statement of Comprehensive Income

$ millions For the year ended 30 June	Note	NZ Banking Group 2019	2018
Net profit after tax		**1,202**	1,127
Other comprehensive income/(expense), net of tax			
Items that will not be reclassified to the Income Statement:			
Net change in asset revaluation reserve	36	**1**	3
Items that may be reclassified subsequently to the Income Statement:			
Net change in fair value through other comprehensive income reserve	36	**(9)**	-
Net change in available-for-sale reserve	36	**-**	12
Net change in cash flow hedge reserve	36	**(27)**	2
Net change in foreign currency translation reserve	36	**(1)**	-
		(37)	14
Total other comprehensive (expense)/income, net of tax		**(36)**	17
Total comprehensive income		**1,166**	1,144
Attributable to:			
Parent company shareholders		**1,153**	1,131
Non-controlling interests	37	**13**	13
Total comprehensive income		**1,166**	1,144

These statements are to be read in conjunction with the notes on pages 8 to 81 and the Independent Auditor's Report on pages 82 to 88.

Statement of Changes in Equity

$ millions	Note	NZ Banking Group Head Office Contribution	Contributed Capital	Asset Revaluation Reserve	Available-for-Sale Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	FVOCI Reserve(1)	Retained Earnings	Non-controlling Interests	Total Share-holders' Equity
For the year ended 30 June 2019											
Balance at 30 June 2018		**2,887**	**667**	**29**	**14**	**(116)**	**1**	**-**	**3,965**	**550**	**7,997**
Effects of new accounting standards	2	**-**	**-**	**-**	**(14)**	**-**	**-**	**14**	**(30)**	**-**	**(30)**
Balance at beginning of year		**2,887**	**667**	**29**	**-**	**(116)**	**1**	**14**	**3,935**	**550**	**7,967**
Net profit after tax		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,189**	**13**	**1,202**
Other comprehensive income/(expense)		**-**	**-**	**1**	**-**	**(27)**	**(1)**	**(9)**	**-**	**-**	**(36)**
Total comprehensive income/(expense)		**-**	**-**	**1**	**-**	**(27)**	**(1)**	**(9)**	**1,189**	**13**	**1,166**
Ordinary dividends paid	9	**-**		**-**	**-**	**-**	**-**	**-**	**(625)**	**-**	**(625)**
Perpetual preference dividends paid to non-controlling interests	37	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(13)**	**(13)**
Perpetual preference shares redeemed	37	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(550)**	**(550)**
Profit repatriation		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(13)**	**-**	**(13)**
Balance as at 30 June 2019		**2,887**	**667**	**30**	**-**	**(143)**	**-**	**5**	**4,486**	**-**	**7,932**
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 tax		-	-	-	-	-	-	-	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	35	2,425	-	-	-	-	-	-	-	-	2,425
Ordinary dividends paid	9	-	-	-	-	-	-	-	(550)	-	(550)
Perpetual preference dividends paid to non-controlling interests	37	-	-	-	-	-	-	-	-	(13)	(13)
Profit repatriation		-	-	-	-	-	-	-	(11)	-	(11)
Balance as at 30 June 2018		2,887	667	29	14	(116)	1	-	3,965	550	7,997

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

These statements are to be read in conjunction with the notes on pages 8 to 81 and the Independent Auditor's Report on pages 82 to 88.

Balance Sheet

$ millions		NZ Banking Group	
As at 30 June	Note	**2019**	2018
Assets			
Cash and liquid assets	10	**5,010**	2,569
Due from financial institutions	11	**518**	921
Trading securities	12	**-**	2,344
Securities at fair value through other comprehensive income	13	**8,685**	-
Derivative assets	14	**1,263**	1,836
Available-for-sale securities	15	**-**	6,849
Advances to customers	16	**90,413**	85,728
Other assets	26	**319**	286
Property, plant and equipment		**197**	184
Intangible assets	27	**478**	467
Deferred tax assets	28	**192**	155
Total assets		**107,075**	101,339
Total interest earning and discount bearing assets		***104,858***	*98,456*
Liabilities			
Deposits and other borrowings	29	**68,602**	62,328
Due to financial institutions	31	**1,184**	1,212
Other liabilities at fair value through Income Statement	32	**-**	1,097
Derivative liabilities	14	**949**	1,115
Current tax liabilities		**170**	125
Other liabilities	30	**646**	634
Debt issues:			
At fair value through Income Statement	33	**585**	148
At amortised cost	33	**20,171**	19,253
Loan capital	34	**6,836**	7,430
Total liabilities		**99,143**	93,342
Shareholders' Equity			
Head office contribution	35	**2,887**	2,887
Contributed capital - ordinary shares	35	**667**	667
Reserves	36	**(108)**	(72)
Retained earnings		**4,486**	3,965
Ordinary shareholder's equity		**7,932**	7,447
Non-controlling interests	37	**-**	550
Total shareholders' equity		**7,932**	7,997
Total liabilities and shareholders' equity		**107,075**	101,339
Total interest and discount bearing liabilities		***91,418***	*86,694*

The Board of Directors authorised these financial statements for issue on 7 August 2019

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 81 and the Independent Auditor's Report on pages 82 to 88.

Cash Flow Statement

$ millions		NZ Banking Group	
For the year ended 30 June	Note	**2019**	2018
Cash flows from operating activities			
Net profit before tax		**1,673**	1,563
Reconciliation of net profit before tax to net cash flows from operating activities			
Non-cash items included in net profit before tax:			
Depreciation of property, plant and equipment		**32**	31
Amortisation of intangible assets		**54**	53
Net change in allowance for expected credit loss and bad debts written off		**127**	67
Amortisation of loan establishment fees		**72**	76
Net change in fair value of financial instruments and hedged items		**122**	19
Other non-cash items		**(11)**	8
Items classified as investing activities included in net profit before tax:			
Gain on sale from disposal of associate		**(46)**	-
Net (increase)/decrease in operating assets:			
Net change in reverse repurchase agreements		**(2,493)**	(362)
Net change in due from financial institutions		**1**	26
Net change in trading securities		**-**	(768)
Net change in securities at fair value through other comprehensive income		**719**	-
Net change in derivative assets		**696**	94
Net change in available-for-sale securities		**-**	(2,408)
Net change in advances to customers		**(4,956)**	(4,638)
Net change in other assets		**(1)**	(46)
Net increase/(decrease) in operating liabilities:			
Net change in deposits and other borrowings		**5,169**	4,045
Net change in due to financial institutions		**89**	3
Net change in other liabilities at fair value through Income Statement		**-**	30
Net change in derivative liabilities		**(109)**	(39)
Net change in other liabilities		**4**	40
Net tax paid		**(436)**	(418)
Net cash flows from operating activities		**706**	(2,624)
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of property, plant and equipment		**-**	5
Proceeds from disposal of associate		**48**	-
Total cash inflows provided from investing activities		**48**	5
Cash was applied to:			
Purchase of property, plant and equipment		**(44)**	(29)
Purchase of intangible assets		**(65)**	(65)
Total cash outflows applied to investing activities		**(109)**	(94)
Net cash flows from investing activities		**(61)**	(89)
Cash flows from financing activities			
Cash was provided from:			
Issue of loan capital (net of issue costs)		**-**	(9)
Issue of debt securities (net of issue costs)	33	**8,869**	8,837
Net movements in due to/from controlled entities and associates		**-**	2,425
Total cash inflows provided from financing activities		**8,869**	11,253
Cash was applied to:			
Redemption of debt securities	33	**(7,978)**	(8,340)
Redemption of loan capital	34	**(400)**	-
Redemption of perpetual preference shares	37	**(550)**	-
Ordinary dividends paid	9	**(625)**	(550)
Dividends paid to non-controlling interests	9	**(13)**	(13)
Total cash outflows applied to financing activities		**(9,566)**	(8,903)
Net cash flows from financing activities		**(697)**	2,350
Summary of movements in cash flows			
Net decrease in cash and cash equivalents		**(52)**	(363)
Add: cash and cash equivalents at beginning of year		**1,051**	1,414
Cash and cash equivalents at end of year		**999**	1,051
Cash and cash equivalents comprise:			
Cash and liquid assets	10	**5,010**	2,569
Less: reverse repurchase agreements included in cash and liquid assets	10	**(4,011)**	(1,518)
Cash and cash equivalents at end of year		**999**	1,051
Additional operating cash flow information			
Interest received as cash		**4,601**	4,342
Interest paid as cash		**(2,449)**	(2,362)
Other operating income received as cash		**590**	589
Operating expenses paid as cash		**(871)**	(837)

These statements are to be read in conjunction with the notes on pages 8 to 81 and the Independent Auditor's Report on pages 82 to 88.

Notes to the Financial Statements

For the year ended 30 June 2019

1 Statement of Accounting Policies

General Accounting Policies

The reporting entity is the NZ Banking Group which is an aggregation of the Branch, ASB Holdings Limited, ASB Funding Limited, ASB Bank Limited ("ASB") and its controlled entities, CBA Funding (NZ) Limited and its subsidiaries, CBA NZ Holding Limited and its subsidiary, up until 25 October 2017, CBA USD Funding Limited and from 1 July 2018 to 29 April 2019, First State Investments (NZ) Limited. The basis of aggregation is an addition of the NZ Banking Group entities' individual financial statements. All transactions and balances between entities within the NZ Banking Group have been fully eliminated.

These financial statements for the year ended 30 June 2019 have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Order.

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

New Standards (effective 1 July 2018)

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

- NZ IFRS 9 *Financial Instruments*

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

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

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

  The key areas of impact from NZ IFRS 9 are:

  (a) Classification and measurement: requiring asset classification and measurement based upon both business model and contractual cashflow characteristics; and

  (b) Impairment: introducing an expected credit loss ("ECL") model incorporating forward looking information.

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

- NZ IFRS 15 *Revenue from Contracts with Customers*

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

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

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

New Standards (not yet effective)

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

- NZ IFRS 9 *Financial Instruments - Hedge accounting*

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

  The NZ IFRS 9 hedge accounting requirements also include a new approach for the cost of hedging, which is expected to be the key impact for the 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 and will assess the likely adoption date of the NZ IFRS 9 hedge accounting requirements as the dynamic risk management project progresses.

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

Notes to the Financial Statements

For the year ended 30 June 2019

1 Statement of Accounting Policies (continued)

New Standards (not yet effective) (continued)

- NZ IFRS 16 *Leases*

  NZ IFRS 16 replaces NZ IAS 17 *Leases* and is required to be adopted by the NZ Banking Group from 1 July 2019. NZ IFRS 16 requires lessees to recognise a right of use asset and a liability for future payments arising from lease contracts. Lessees will recognise a finance charge on the liability and a depreciation charge on the asset rather than a straight-line lease expense, which may affect the timing of the recognition of expenses on leased assets. This change will mainly impact the properties that the NZ Banking Group currently accounts for as operating leases.

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

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

Basis of Preparation

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

Critical Accounting Estimates and Judgements

The critical judgements used by management in applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements, apart from those involving estimation, are the designation of financial assets and financial liabilities as at fair value through Income Statement. Refer to (f) for classification of financial instruments.

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

Estimates and assumptions are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The NZ Banking Group considers the valuation of financial instruments and the allowance for ECL on Advances to customers as areas that require significant estimation and management judgement. Refer to (f) for valuation of financial instruments and (m) and notes 17 and 19 for details of credit risk management and the basis of the NZ Banking Group's allowance for ECL.

Presentation Currency and Rounding

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

Particular Accounting Policies

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

(a) Basis of Consolidation

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 substantive removal rights and when its economic interest is substantive compared to the economic interest of other investors.

Subsidiaries
Subsidiaries are those companies and other entities controlled by 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.

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 23 and 25).

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 entities classified as associates. Associates are accounted for under the equity method of accounting.

Notes to the Financial Statements

For the year ended 30 June 2019

1 Statement of Accounting Policies (continued)

(b) Segment Reporting

Operating segments are reported based on the NZ Banking Group's organisational and management structures (refer to note 47). 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.

(c) Foreign Currency Translation

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

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

(d) Revenue Recognition

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

For financial instruments measured at amortised cost, the effective interest method is used to measure the interest income or interest expense recognised in the Income Statement. Fees and direct costs relating to loan origination, financing and loan commitments are deferred and amortised to interest income over the life of the loan using the effective interest method.

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

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

OTHER INCOME
Dividends are distributions of profits to holders of equity instruments in proportion to their holdings of a particular class of capital and dividend income is recorded in the Income Statement when the 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.

REVENUE FROM CONTRACTS WITH CUSTOMERS

Accounting policy effective 1 July 2018

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

Lending Fees
Lending fees (for example, facility fees and commitment fees) not directly related to the origination of a loan are recognised over the period of service.

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

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

Accounting policy prior to 1 July 2018

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

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

Notes to the Financial Statements

For the year ended 30 June 2019

1 Statement of Accounting Policies (continued)

(e) Expense Recognition

Operating lease payments are recognised in the Income Statement on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern of the benefit received.

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

(f) Financial Instruments

Accounting policy effective 1 July 2018

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

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

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

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

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

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

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

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

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

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

Financial assets in this category include:

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2019

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

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

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

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

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

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

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

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

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

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

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

Financial liabilities in this category include:

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

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

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

Financial liabilities in this category include:

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

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

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

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

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 44 for further information on regulatory capital. When fair value hedge accounting is applied to fixed rate loan capital, the carrying value at amortised cost is adjusted for changes in fair value related to the hedged risk.

Accounting policy prior to 1 July 2018

BASIS OF RECOGNITION AND MEASUREMENT

The NZ Banking Group offers an extensive range of financial instruments. Financial instruments are transacted on a commercial basis to derive an interest yield with terms and conditions having due regard to the nature of the transaction and the risks involved. All financial assets measured at fair value are accounted for on a trade date basis. Loans are recognised when cash is advanced to the borrower. Financial liabilities are recognised when an obligation arises. Financial 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 Derivative assets and Trading securities. For further information on the nature of Derivative assets refer to the accounting policies effective from 1 July 2018. Trading securities includes short and long term public and other debt securities, which are held for trading. The fair value of securities is based on quoted market prices, where available, or calculated using discounted cash flow models based on current market rates.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

Impairment charges on available-for-sale equity financial assets are recorded when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgement and the 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.

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.

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

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

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

Other liabilities at fair value through Income Statement include certain liabilities designated as at fair value through Income Statement on origination, where those liabilities are managed on a fair value basis, or where designation eliminates or significantly reduces an accounting mismatch. An accounting mismatch could arise from measuring assets or liabilities, or recognising their gains or losses on different bases. These amounts are managed with other assets and liabilities accounted for and evaluated on a fair value basis. The fair value is calculated using discounted cash flow models. The discount rates applied in this calculation are based on current market rates.

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

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

(g) Derivative Financial Instruments

Derivative instruments are contracts whose value is derived from one or more underlying variables such as a specified interest rate or an index as defined in the contract. The 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 on the Balance Sheet at their fair value. Measurement of derivatives at fair value is mandatory under NZ IFRS. Fair values are obtained from market yields and discounted cash flow models or option pricing models as appropriate. Derivative assets are those contracts which have a positive fair value. Derivative liabilities are those contracts which have a negative fair value.

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

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

Held for hedging derivatives are instruments held for the 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 net profit. A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect net profit.

The 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.

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

Leases where the NZ Banking Group as lessor retains substantially all the risks and rewards of ownership of an asset (or as lessee does not obtain substantially all the risks and rewards) are classified as operating leases. Operating lease rental revenue (and expense) is recognised in the Income Statement on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern of the benefit received. The 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 on the Balance Sheet where there is currently a legally enforceable right to set off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(l) Derecognition of Financial Instruments

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired. Derecognition also occurs when the rights to receive cash flows from financial assets have been transferred together with substantially all of their risks and rewards. For those transactions where substantially all the risk and rewards are neither retained nor transferred, the 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 2019

1 Statement of Accounting Policies (continued)

(m) Asset Quality

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

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

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

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

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

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

Default occurs if either of the following takes place:

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

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

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

Accounting policy effective 1 July 2018

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

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

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

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

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

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

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

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

1 Statement of Accounting Policies (continued)

(m) Asset Quality (Continued)

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

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

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

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

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

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

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

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

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

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

Forward-looking information
The NZ Banking Group considers four alternative macroeconomic scenarios to ensure a sufficient representative sample of economic conditions when estimating ECL. These scenarios include forward-looking macroeconomic factors (e.g. unemployment, interest rates and house prices), which are further described in note 19. ASB's Loan Loss Provisioning Committee ("LLPC") is responsible for approving the macroeconomic scenarios and their associated probability weightings.

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2019

1 Statement of Accounting Policies (continued)

(m) Asset Quality (Continued)

Accounting policy prior to 1 July 2018

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

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

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

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

The internal rating process also assists management in assessing the requirements of NZ IAS 39 relating to impairment and provisioning of financial assets. The internal rating process for the year ended 30 June 2018 is described in notes 17 and 44.

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

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

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

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

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

(n) Property, Plant and Equipment

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

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

1 Statement of Accounting Policies (continued)

(n) Property, Plant and Equipment (continued)

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.

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 on the Balance Sheet, and has an indefinite life.

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

For the purposes of impairment testing, goodwill is allocated to cash-generating units or groups of units. A cash-generating unit is the smallest identifiable group of assets that generate independent cash inflows. Goodwill is allocated by the 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 in operating expenses in the Income Statement.

(p) Income Tax

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

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

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

1 Statement of Accounting Policies (continued)

(p) Income Tax (continued)

A deferred tax asset is recognised only to the extent that it is probable (i.e. more likely than not) that a future taxable profit will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current or deferred tax related to fair value measurement of Securities at fair value through other comprehensive income (Available-for-sale financial assets for the 30 June 2018 financial year), cash flow hedges and the revaluation of non-current assets, which is charged or credited to other comprehensive income is subsequently recognised in the Income Statement if and when the deferred gain or loss on the related asset or liability affects the Income Statement.

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

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

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

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

(r) Contingent Liabilities and Credit Commitments

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

The 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.

(s) Provisions

A provision is recognised on 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 tax is adjusted for non-cash transactions and movements in Balance Sheet accounts relating to operating activities.

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

Changes in cash and cash equivalents related to operating activities reflect cash flows generated by the 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.

Fair Value Estimates

For financial instruments not presented on 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 on the Balance Sheet is considered a reasonable estimate of their fair value after making allowances for the fair value of impaired and potential problem loans. For fixed rate advances, fair value is estimated using discounted cash flow models applying discount rates based on current market interest rates for advances with similar credit, interest rate repricing and maturity profiles.

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

Notes to the Financial Statements

For the year ended 30 June 2019

1 Statement of Accounting Policies (continued)

Fair Value Estimates (continued)

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

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

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

Changes to Comparatives

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

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2019

2 New Accounting Standards Adopted on 1 July 2018

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

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

Notes to the Financial Statements

For the year ended 30 June 2019

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

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

Notes to the Financial Statements

For the year ended 30 June 2019

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

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

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

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

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

(b) Securities at fair value through other comprehensive income were previously categorised as available for sale under NZ IAS 39. Under NZ IFRS 9 these securities have been recategorised to FVOCI as the NZ Banking Group's business model is achieved both by collecting contractual cash flows and selling these assets. The contractual cash flows of these securities are solely principal and interest. As a result, securities with a fair value of $6,849 million as at 30 June 2018 were reclassified from Available-for-sale securities to Securities at fair value through other comprehensive income, and fair value gains of $14 million were reclassified within Reserves, from the Available-for-sale reserve to the FVOCI reserve on 1 July 2018.

(c) The NZ Banking Group's allowance for ECL as at 1 July 2018 has increased by $74 million, which consists of $72 million for Advances to Customers and $2 million for off balance sheet exposures (recognised in Other liabilities). This resulted in a corresponding decrease of $53 million in Retained earnings and an increase in Deferred tax assets of $21 million. The increase in the allowance for ECL under NZ IFRS 9 is mainly driven by the requirement to hold allowances equivalent to lifetime expected losses for all loans that have experienced a significant increase in credit risk since origination and the impact of forward-looking factors on expected credit losses estimates. Under NZ IAS 39, provisions were only held for incurred losses on the portfolio and forward-looking factors were not considered.

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

	NZ Banking Group		
$ millions	NZ IAS 39 Provision for Impairment Losses 30 June 2018	NZ IFRS 9 Measurement Impact on Transition	NZ IFRS 9 Allowance for ECL 1 July 2018
Advances to customers	**307**	**72**	**379**
Other liabilities	**-**	**2**	**2**
Total	**307**	**74**	**381**

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

Notes to the Financial Statements

For the year ended 30 June 2019

3 Interest Income

$ millions	NZ Banking Group	
For the year ended 30 June	**2019**	2018[1]
Interest income on financial assets measured at amortised cost		
Cash and liquid assets	**51**	39
Due from financial institutions	**22**	20
Advances to customers	**4,241**	4,094
Total interest income on financial assets measured at amortised cost	**4,314**	4,153
Interest income on financial assets measured at fair value through Income Statement		
Trading securities	**-**	44
Total interest income on financial assets measured at fair value through Income Statement	**-**	44
Securities at fair value through other comprehensive income	**186**	-
Available-for-sale securities	**-**	127
Total interest income	**4,500**	4,324

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

Total interest income on financial assets that were not at fair value through Income Statement for the year ended 30 June 2018 was $4,280 million.

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

4 Interest Expense

$ millions	NZ Banking Group	
For the year ended 30 June	**2019**	2018
Deposits and other borrowings:		
Certificates of deposit	**75**	56
Term deposits	**1,166**	1,100
On demand and short term deposits	**310**	370
Repurchase agreements	**-**	4
Due to financial institutions	**22**	19
Other liabilities at fair value through Income Statement	**-**	22
Debt issues:		
At fair value through Income Statement	**7**	5
At amortised cost	**571**	523
Loan capital	**308**	311
Total interest expense	**2,459**	2,410

Total interest expense for financial liabilities that were not at fair value through Income Statement for the year ended 30 June 2019 is $2,452 million (30 June 2018 $2,383 million).

Notes to the Financial Statements

For the year ended 30 June 2019

5 Other Income

$ millions For the year ended 30 June	NZ Banking Group 2019	 2018[(1)]
Revenue from contracts with customers	**551**	518
Trading income	**102**	108
Ineffective portion of hedges		
Fair value hedge ineffectiveness:		
Loss on hedged items	**(122)**	(78)
Gain on hedging instruments	**136**	77
Cash flow hedge ineffectiveness	**(3)**	9
Total ineffective portion of hedges	**11**	8
Other operating income		
Net gain on disposal of property, plant and equipment	**-**	3
Dividends received	**3**	7
Net fair value loss on derivatives not qualifying for hedge accounting	**-**	(1)
Net gain on sale of associate	**46**	-
Other	**2**	3
Total other operating income	**51**	12
Total other income	**715**	646

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

The portion of Other income relating to revenue from contracts with customers is disaggregated across the following categories, consistent with the segment descriptions detailed in note 47:

$ millions For the year ended 30 June 2019	NZ Banking Group Retail Banking	 Business Banking	 Corporate Banking	 Institutional Banking and Markets	 Private Banking, Wealth and Insurance	 Other	 Total
Revenue from contracts with customers							
Lending fees	**16**	**21**	**27**	**23**	**-**	**-**	**87**
Commission and other fees	**241**	**65**	**13**	**2**	**76**	**(71)**	**326**
Funds management income	**103**	**7**	**-**	**-**	**138**	**(110)**	**138**
Total revenue from contracts with customers	**360**	**93**	**40**	**25**	**214**	**(181)**	**551**

$ millions For the year ended 30 June 2018	NZ Banking Group Retail Banking	 Business Banking	 Corporate Banking	 Institutional Banking and Markets	 Private Banking, Wealth and Insurance	 Other	 Total
Revenue from contracts with customers							
Lending fees	16	21	23	21	-	-	81
Commission and other fees	237	60	13	2	74	(71)	315
Funds management income	90	6	-	-	122	(96)	122
Total revenue from contracts with customers	343	87	36	23	196	(167)	518

6 Operating Expense Disclosures

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

Notes to the Financial Statements

For the year ended 30 June 2019

7 Auditor's Remuneration

$ thousands	NZ Banking Group	
For the year ended 30 June	**2019**	2018
PricewaterhouseCoopers		
Audit and review of financial statements (1)	**1,955**	2,138
Other assurance related services (2)	**1,133**	1,013
Other services (3)	**26**	438
Total compensation of auditors relating to the NZ Banking Group	**3,114**	3,589
Fees related to funds managed by the NZ Banking Group		
Audit of financial statements	**341**	303
Other assurance related services(2)	**37**	37
Total compensation of auditors	**3,492**	3,929

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

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

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

8 Tax Expense

$ millions	NZ Banking Group	
For the year ended 30 June	**2019**	2018
Current tax	**481**	435
Deferred tax (refer to note 28)	**(10)**	1
Total tax expense charged to the Income Statement	**471**	436

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

Net profit before tax	**1,673**	1,563
Tax at the domestic rate of 28%	**468**	437
Tax effect of income not subject to tax	**(13)**	-
Tax effect of expenses not deductible for tax purposes	**21**	1
Tax effect of imputation credit adjustments	**(1)**	(2)
Tax effect of prior period adjustments	**(4)**	-
Total tax expense charged to the Income Statement	**471**	436
Effective tax rate	**28.2%**	27.9%

9 Dividends

$ millions	NZ Banking Group	
For the year ended 30 June	**2019**	2018
Ordinary dividends paid	**625**	550
Total dividends paid	**625**	550

Dividends paid by ASB Holdings Limited on ordinary shares for the year ended 30 June 2019 were $625 million, being 90.58 cents per share (30 June 2018 $550 million, being 79.71 cents per share).

Notes to the Financial Statements

For the year ended 30 June 2019

10 Cash and Liquid Assets

$ millions	NZ Banking Group	
As at 30 June	**2019**	2018
Cash, cash at bank and cash in transit	**50**	123
Call deposits with the central bank	**913**	873
Money at short call	**36**	55
Reverse repurchase agreements	**4,011**	1,518
Total cash and liquid assets	**5,010**	2,569

11 Due from Financial Institutions

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

12 Trading Securities

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

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

13 Securities at Fair Value through Other Comprehensive Income

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

$ millions	NZ Banking Group	
As at 30 June	**2019**	2018
Local authority securities	**347**	-
New Zealand government securities	**1,630**	-
Corporate bonds	**79**	-
Treasury bills	**25**	-
Bank bills	**598**	-
Overseas government securities	**2,552**	-
Kauri bonds	**2,434**	-
Bank bonds	**1,020**	-
Total securities at fair value through other comprehensive income	**8,685**	-
Amounts due for settlement within 12 months	**1,792**	-
Amounts due for settlement over 12 months	**6,893**	-
Total securities at fair value through other comprehensive income	**8,685**	-

14 Derivative Financial Instruments

Derivative financial instruments are classified as either held for trading or held for hedging. Held for trading derivatives are those entered into in order to meet customers' needs, to undertake market making and positioning activities and for economic hedging without applying hedge accounting. Held for hedging derivatives are instruments held for risk management purposes, which meet the criteria for hedge accounting. Refer to note 1 (g) and (h) for an explanation of the 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 2019 the NZ Banking Group had advanced $214 million of cash collateral against derivative liabilities and received $764 million of cash collateral against derivative assets (30 June 2018 $417 million and $894 million respectively).

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

$ millions	NZ Banking Group					
As at 30 June	2019			2018		
	Notional	Fair Value		Notional	Fair Value	
	Amount	Assets	Liabilities	Amount	Assets	Liabilities
Derivative financial instruments						
Held for trading	**90,130**	**301**	**(175)**	74,384	413	(375)
Held for hedging	**95,177**	**962**	**(774)**	86,530	1,423	(740)
Total derivative assets/(liabilities)	**185,307**	**1,263**	**(949)**	160,914	1,836	(1,115)
Amounts due for settlement within 12 months		**227**	**(179)**		683	(366)
Amounts due for settlement over 12 months		**1,036**	**(770)**		1,153	(749)
Total derivative assets/(liabilities)		**1,263**	**(949)**		1,836	(1,115)

Derivative Financial Instruments which are Held for Trading

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

$ millions	NZ Banking Group					
As at 30 June	2019			2018		
	Notional	Fair Value		Notional	Fair Value	
	Amount	Assets	Liabilities	Amount	Assets	Liabilities
Exchange rate contracts						
Forward contracts	**5,853**	**32**	**(50)**	5,083	77	(43)
Options	**428**	**3**	**(3)**	314	3	(3)
Total exchange rate contracts	**6,281**	**35**	**(53)**	5,397	80	(46)
Interest rate contracts						
Swaps	**77,001**	**264**	**(121)**	67,582	333	(329)
Futures	**6,815**	**1**	**-**	1,380	-	-
Options	**19**	**-**	**-**	8	-	-
Total interest rate contracts	**83,835**	**265**	**(121)**	68,970	333	(329)
Commodity contracts						
Options purchased and sold	**14**	**1**	**(1)**	17	-	-
Total held for trading	**90,130**	**301**	**(175)**	74,384	413	(375)

14 Derivative Financial Instruments (continued)

Derivative Financial Instruments which are Held for Hedging

Hedged Risks

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

Hedge accounting is applied for the following risk categories:

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

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

For disclosures of the extent of risk exposures that the NZ Banking Group manages, refer to notes 17 and 48 to 51.

Fair Value Hedges

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

Cash Flow Hedges

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

Hedging Risk Components

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

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

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

Hedge Relationships and Ineffectiveness

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

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2019

14 Derivative Financial Instruments (continued)

(a) Hedging Instruments

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

$ millions	NZ Banking Group		
		Fair Value	
As at 30 June 2019	Notional Amount	Derivative Assets	Derivative Liabilities
Fair value hedges			
Interest rate risk	**15,849**	**152**	**(65)**
Combined risk	**17,140**	**604**	**(206)**
Total designated as fair value hedges	**32,989**	**756**	**(271)**
Cash flow hedges			
Interest rate risk	**50,699**	**98**	**(114)**
Combined risk	**11,489**	**108**	**(389)**
Total designated as cash flow hedges	**62,188**	**206**	**(503)**
Total held for hedging	**95,177**	**962**	**(774)**

$ millions	NZ Banking Group		
	Notional	Fair Value	
As at 30 June 2018	Amount	Assets	Liabilities
Fair value hedges			
Exchange rate contracts			
Swaps	16,837	881	(293)
Interest rate contracts			
Swaps	15,301	122	(212)
Total designated as fair value hedges	32,138	1,003	(505)
Cash flow hedges(1)			
Exchange rate contracts			
Swaps	12,399	282	(23)
Interest rate contracts			
Swaps	41,993	138	(212)
Total designated as cash flow hedges	54,392	420	(235)
Total held for hedging	86,530	1,423	(740)

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

14 Derivative Financial Instruments (continued)

(a) Hedging Instruments (continued)

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

$ millions	NZ Banking Group			
As at 30 June 2019	Within 1 Year	Between 1-5 Years	Over 5 Years	Total
Fair value hedges				
Interest rate risk	2,114	11,156	2,579	15,849
Combined risk	1,159	7,904	8,077	17,140
Total fair value hedges	3,273	19,060	10,656	32,989
Cash flow hedges				
Interest rate risk	22,982	27,285	432	50,699
Combined risk	3,631	7,858	-	11,489
Total cash flow hedges	26,613	35,143	432	62,188
Total held for hedging	29,886	54,203	11,088	95,177

The average fixed interest rate of hedging instruments used to hedge interest rate risk during the reporting period was 2.27% for fair value hedges and 2.18% for cash flow hedges. The average exchange rates of major currencies where cross currency swaps were used to hedge foreign currency risk against NZD during the reporting period was 0.695 for USD, 0.615 for EUR and 0.909 for AUD.

(b) Hedged Items in Fair Value Hedge Accounting Relationships

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

$ millions		NZ Banking Group			
		Carrying Amount		Accumulated Fair Value Adjustments[1]	
As at 30 June 2019	Risk Categorisation	Assets	Liabilities	Assets	Liabilities
Securities at fair value through other comprehensive income	Interest rate risk	5,076	-	157	-
Securities at fair value through other comprehensive income	Combined risk	2,552	-	59	-
Debt issues at amortised cost	Interest rate risk	-	(1,636)	-	(49)
Debt issues at amortised cost	Combined risk	-	(14,601)	-	(307)
Loan capital	Interest rate risk	-	(6,835)	-	(121)
Total		7,628	(23,072)	216	(477)

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

Notes to the Financial Statements

For the year ended 30 June 2019

14 Derivative Financial Instruments (continued)

(c) Hedge Ineffectiveness

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

$ millions	NZ Banking Group		
As at 30 June 2019	**Change in Value of Hedging Instrument[1]**	**Change in Value of Hedged Item[2]**	**Hedge Ineffectiveness[3]**
Fair value hedges			
Interest rate risk	125	(125)	-
Combined risk	11	3	14
Total	136	(122)	14
Cash flow hedges			
Interest rate risk	(8)	5	(3)
Combined risk	(21)	21	-
Total	(29)	26	(3)

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

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

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

(d) Cash Flow Hedge Reserve

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

$ millions	NZ Banking Group		
As at 30 June 2019	**Interest Rate Risk**	**Combined Risk**	**Total**
Movement in cash flow hedge reserve			
Balance at beginning of year	(10)	(106)	(116)
Net gain/(loss) from changes in fair value[1]	(81)	(97)	(178)
Reclassified to Income Statement[2]			
Interest income	(85)	(7)	(92)
Interest expense	160	73	233
Deferred tax	2	8	10
Balance at end of year[3]	(14)	(129)	(143)

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2019

15 Available-for-Sale Securities

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

$ millions	NZ Banking Group	
As at 30 June	**2019**	2018
Local authority securities	-	243
New Zealand government securities	-	1,103
Corporate bonds[1]	-	63
Overseas government securities	-	2,380
Kauri bonds	-	2,048
Bank bonds[1]	-	1,012
Total available-for-sale securities	-	6,849
Amounts due for settlement within 12 months	-	1,223
Amounts due for settlement over 12 months	-	5,626
Total available-for-sale securities	-	6,849

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

16 Advances to Customers

$ millions	NZ Banking Group	
As at 30 June	**2019**	2018
Advances to customers (refer to note 19)	**90,829**	86,035
Allowance for expected credit loss (refer to note 19)	**(416)**	(307)
Total advances to customers	**90,413**	85,728
Amounts due for settlement within 12 months	**17,957**	16,218
Amounts due for settlement over 12 months	**72,456**	69,510
Total advances to customers	**90,413**	85,728

Advances to customers include finance lease receivables of $2 million (30 June 2018 $4 million).

Notes to the Financial Statements

For the year ended 30 June 2019

17 Credit Risk Management Policies

Credit Risk Management

Credit risk is the potential risk of loss arising from the failure of a customer or counterparty to meet their contractual obligations. At 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 it oversees 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 ensures 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 accredited advanced internal ratings based approach (albeit some exposures are subject to the standardised approach). The approach uses judgemental assessment supported by analytical tools (including scorecards) to estimate expected and unexpected loss within the credit portfolio.

While the 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 18 to 21 for additional credit risk disclosures.

Collateral

Refer to note 22 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.

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

Notes to the Financial Statements

For the year ended 30 June 2019

17 Credit Risk Management Policies

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; or
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 Controls Assurance and Review ("CAR"), an internal unit within the NZ Banking Group. CAR's processes include a review of compliance with policy, portfolio standards, and application of risk ratings with reports on findings reported to the BARC.

Impairment of Financial Assets

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

Notes to the Financial Statements

For the year ended 30 June 2019

18 Credit Quality Information for Advances to Customers

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

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

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

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

$ millions	NZ Banking Group				
	Collectively Assessed			Individually Assessed	
As at 30 June 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Advances to customers					
Investment	24,152	1,636	-	-	25,788
Pass	47,815	14,725	-	-	62,540
Weak	362	1,392	377	370	2,501
Total advances to customers	72,329	17,753	377	370	90,829
Lending commitments					
Investment	6,129	87	-	-	6,216
Pass	9,083	1,060	-	-	10,143
Weak	42	41	13	4	100
Total lending commitments	15,254	1,188	13	4	16,459
Total advances to customers and lending commitments	87,583	18,941	390	374	107,288
Allowance for ECL on advances to customers and lending commitments	123	188	36	69	416

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

Notes to the Financial Statements

For the year ended 30 June 2019

18 Credit Quality Information for Advances to Customers (continued)

Further information on credit quality is presented below:

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

$ millions	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 as at 30 June 2018:				
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
1 to 29 days	1,306	223	275	1,804
30 to 59 days	172	48	4	224
60 to 89 days	67	20	6	93
90 days and over	70	23	9	102
Total past due assets not impaired	1,615	314	294	2,223
Individually impaired assets				
Balance at beginning of year	20	6	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 lending commitments to customers with individually impaired assets	-	1	3	4

The facilities that are reported as impaired and past due are collateralised in accordance with note 22.

19 Allowance for Expected Credit Loss

Information for the year ended 30 June 2019 is presented separately for the following categories of Advances to customers:

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

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

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

Movement in allowance for ECL

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

They are presented on the following basis:

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

Movement in gross carrying amount

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

They are presented on the following basis:

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

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

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

19 Allowance for Expected Credit Loss (continued)

(a) Residential Mortgages

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

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

19 Allowance for Expected Credit Loss (continued)

(b) Other Retail

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

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

19 Allowance for Expected Credit Loss (continued)

(c) Corporate

$ millions	NZ Banking Group				
Movement in Allowance for Expected Credit Loss	**Collective Allowances**			**Individually Assessed Allowances**	
As at 30 June 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	45	113	4	42	204
(Credited against)/charged to the Income Statement					
Changes in collective allowances due to transfers between ECL stages					
Stage 1 to Stage 2	(11)	25	-	-	14
Stage 1 to Stage 3	-	-	-	-	-
Stage 2 to Stage 1	5	(17)	-	-	(12)
Stage 2 to Stage 3	-	(1)	2	-	1
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	1	(1)	-	-
Net transfers to/(from) Stage 3 individually assessed allowances	-	-	-	-	-
Changes in collective allowances due to transfers between ECL stages	(6)	8	1	-	3
Changes in collective allowances due to additions and deletions	6	(10)	(2)	-	(6)
Changes in collective allowances due to amounts written off	-	-	-	-	-
Total changes in collective allowances due to movements in gross carrying amounts	-	(2)	(1)	-	(3)
Other changes in collective allowances	5	4	-	-	9
Changes in individually assessed allowances due to transfers from collective allowances	-	-	-	-	-
New and increased individually assessed allowances[(1)]	-	-	-	44	44
Write-back of individually assessed allowances no longer required	-	-	-	(9)	(9)
Total charged to/(credited against) the Income Statement	5	2	(1)	35	41
Amounts written off from individually assessed allowances	-	-	-	(14)	(14)
Balance at end of year	50	115	3	63	231

$ millions	NZ Banking Group				
Movement in Gross Carrying Amounts	**Collectively Assessed**			**Individually Assessed**	
As at 30 June 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	15,799	10,651	50	432	26,932
Changes due to transfers between ECL stages					
Stage 1 to Stage 2	(3,007)	3,007	-	-	-
Stage 1 to Stage 3	(4)	-	4	-	-
Stage 2 to Stage 1	2,641	(2,641)	-	-	-
Stage 2 to Stage 3	-	(24)	24	-	-
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	24	(24)	-	-
Net transfers to/(from) Stage 3 individually assessed	1	15	(6)	(10)	-
Total changes due to transfers between ECL stages	(369)	381	(2)	(10)	-
Additions and deletions					
Additions	8,173	3,874	16	-	12,063
Deletions (excluding amounts written off)	(6,578)	(3,951)	(25)	(67)	(10,621)
Net additions/(deletions)	1,595	(77)	(9)	(67)	1,442
Amounts written off	-	-	-	(14)	(14)
Balance at end of year	17,025	10,955	39	341	28,360

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

Notes to the Financial Statements

For the year ended 30 June 2019

19 Allowance for Expected Credit Loss (continued)

(d) Total Advances to Customers

$ millions **Movement in Allowance for Expected Credit Loss** **As at 30 June 2019**	**NZ Banking Group** **Collective Allowances** **Stage 1**	**Stage 2**	**Stage 3**	**Individually Assessed Allowances** **Stage 3**	**Total**
Balance at beginning of year	116	186	28	49	379
(Credited against)/charged to the Income Statement					
Changes in collective allowances due to transfers between ECL stages					
Stage 1 to Stage 2	(37)	82	-	-	45
Stage 1 to Stage 3	-	-	9	-	9
Stage 2 to Stage 1	12	(39)	-	-	(27)
Stage 2 to Stage 3	-	(16)	49	-	33
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	7	(24)	-	(17)
Net transfers to Stage 3 individually assessed allowances	-	-	(1)	-	(1)
Changes in collective allowances due to transfers between ECL stages	(25)	34	33	-	42
Changes in collective allowances due to additions and deletions	12	(20)	(10)	-	(18)
Changes in collective allowances due to amounts written off	-	(7)	(15)	-	(22)
Total changes in collective allowances due to movements in gross carrying amounts	(13)	7	8	-	2
Other changes in collective allowances	20	(5)	-	-	15
Changes in individually assessed allowances due to transfers from collective allowances	-	-	-	1	1
New and increased individually assessed allowances	-	-	-	54	54
Write-back of individually assessed allowances no longer required	-	-	-	(17)	(17)
Total charged to the Income Statement	7	2	8	38	55
Amounts written off from individually assessed allowances	-	-	-	(18)	(18)
Balance at end of year	123	188	36	69	416

$ millions **Movement in Gross Carrying Amounts** **As at 30 June 2019**	**NZ Banking Group** **Collectively Assessed** **Stage 1**	**Stage 2**	**Stage 3**	**Individually Assessed** **Stage 3**	**Total**
Balance at beginning of year	67,402	17,934	225	474	86,035
Changes due to transfers between ECL stages					
Stage 1 to Stage 2	(4,841)	4,841	-	-	-
Stage 1 to Stage 3	(146)	-	146	-	-
Stage 2 to Stage 1	3,951	(3,951)	-	-	-
Stage 2 to Stage 3	-	(470)	470	-	-
Stage 3 to Stage 1	4	-	(4)	-	-
Stage 3 to Stage 2	-	309	(309)	-	-
Net transfers (from)/to Stage 3 individually assessed	(5)	17	(16)	4	-
Total changes due to transfers between ECL stages	(1,037)	746	287	4	-
Additions and deletions					
Additions	27,279	4,585	39	-	31,903
Deletions (excluding amounts written off)	(21,309)	(5,477)	(143)	(90)	(27,019)
Net additions/(deletions)	5,970	(892)	(104)	(90)	4,884
Amounts written off	(6)	(35)	(31)	(18)	(90)
Balance at end of year	72,329	17,753	377	370	90,829

19 Allowance for Expected Credit Loss (continued)

(e) Forward looking information

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

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

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

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

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

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

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

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

Assuming a 100% weighting on the central scenario and holding all other assumptions constant, the total allowance for ECL as at 30 June 2019 would be approximately $118 million lower.

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

$ 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

20 Impairment Losses on Financial Assets

$ millions	NZ Banking Group			
For the year ended 30 June 2019	**Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
Charged to/(credited against) the Income Statement for collective allowances	**12**	**(1)**	**6**	**17**
Charged to the Income Statement for individually assessed allowances	**2**	**1**	**35**	**38**
Bad debts written off directly to the Income Statement	**-**	**72**	**-**	**72**
Recovery of amounts previously written off	**(2)**	**(14)**	**(5)**	**(21)**
Total impairment losses recognised in the Income Statement	**12**	**58**	**36**	**106**

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

Amounts written off during the year still subject to enforcement activity

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

$ millions	NZ Banking Group			
For the year ended 30 June 2018	Residential Mortgages	Other Retail	Corporate	Total
Impairment losses on advances				
Movement in collective provision	1	14	(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

Notes to the Financial Statements

For the year ended 30 June 2019

21 Concentrations of Credit Exposures

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

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

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

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

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

$ millions	NZ Banking Group			
As at 30 June 2019	**Financial Assets at Amortised Cost**	**Financial Assets at Fair Value**	**Other Credit Exposures**	**Total Credit Exposures**
Concentration by industry				
Agriculture	**10,719**	**23**	**787**	**11,529**
Forestry and Fishing, Agriculture Services	**475**	**3**	**65**	**543**
Manufacturing	**1,154**	**25**	**847**	**2,026**
Electricity, Gas, Water and Waste Services	**421**	**75**	**367**	**863**
Construction	**623**	**-**	**302**	**925**
Wholesale Trade	**1,032**	**5**	**478**	**1,515**
Retail Trade and Accommodation	**1,553**	**1**	**441**	**1,995**
Transport, Postal and Warehousing	**937**	**5**	**385**	**1,327**
Financial and Insurance Services	**6,393**	**4,939**	**781**	**12,113**
Rental, Hiring and Real Estate Services	**31,979**	**60**	**1,301**	**33,340**
Professional, Scientific, Technical, Administrative and Support Services	**539**	**1**	**372**	**912**
Public Administration and Safety	**30**	**4,798**	**360**	**5,188**
Education and Training	**284**	**2**	**152**	**438**
Health Care and Social Assistance	**1,218**	**9**	**356**	**1,583**
Arts, Recreation and Other Services	**373**	**1**	**207**	**581**
Household	**38,084**	**-**	**9,780**	**47,864**
All Other	**127**	**1**	**174**	**302**
Total credit exposures by industry	**95,941**	**9,948**	**17,155**	**123,044**
Concentration by geographic region				
Auckland	**46,529**	**1,880**	**10,447**	**58,856**
Rest of New Zealand	**44,837**	**1,689**	**6,552**	**53,078**
Overseas	**4,575**	**6,379**	**156**	**11,110**
Total credit exposures by geographic region	**95,941**	**9,948**	**17,155**	**123,044**

Notes to the Financial Statements

For the year ended 30 June 2019

21 Concentrations of Credit Exposures (continued)

$ 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

22 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 the NZ Banking Group subject to an agreement to return them for a fixed price. As at 30 June 2019 the NZ Banking Group had not sold or repledged securities accepted as collateral under reverse repurchase agreements (30 June 2018 nil).

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

Due from Financial Institutions

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

Trading Securities

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

Securities at Fair Value through Other Comprehensive Income

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

Derivative Assets

The NZ Banking Group's use of derivative contracts is outlined in note 14. 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 policy requires all netting arrangements to be legally documented (e.g. International Swap and Derivatives Association ("ISDA") Master Agreement). A master netting agreement provides the contractual framework within which dealing activities across a range of over-the-counter products are conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other predetermined events occur.

Depending on the creditworthiness of the counterparty and/or nature of the transaction collateral may be obtained against derivative assets. Refer to note 14 for detail of collateral received.

Available-for-Sale Securities

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

Other Assets

This Balance Sheet category includes interest receivable accrued and other current assets. As at 30 June 2019 no collateral is held on these balances (30 June 2018 nil).

Advances to Customers

The 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
- Personal and corporate guarantees received from third parties.

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

- Residential Mortgages

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

- Other Retail Lending

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

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

Advances to Customers (continued)

- 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, customer facilities may be secured by collateral with value less than the carrying amount of the credit exposure. These facilities are deemed either secured, partially secured or unsecured. 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.

For the purposes of the tables below:

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

$ millions	NZ Banking Group			
Collateral Held on Advances to Customers - On Balance Sheet:	**Residential Mortgages(1)**	**Other Retail**	**Corporate**	**Total**
As at 30 June 2019				
Maximum Exposure	**57,119**	**5,165**	**28,129**	**90,413**
Collateral Classification				
Secured	**100.0%**	**30.7%**	**63.9%**	**84.8%**
Partially Secured	**-**	**7.1%**	**20.2%**	**6.7%**
Unsecured	**-**	**62.2%**	**15.9%**	**8.5%**
As at 30 June 2018				
Maximum Exposure(2)	53,883	5,072	26,773	85,728
Collateral Classification(2)				
Secured	100.0%	29.5%	60.3%	83.4%
Partially Secured	-	8.0%	20.6%	6.9%
Unsecured	-	62.5%	19.1%	9.7%

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

Credit Commitments and Contingent Liabilities

The 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 Advances to customers. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

$ millions **Collateral Held on Credit Commitments - Off Balance Sheet:**	**NZ Banking Group**
As at 30 June 2019	
Maximum Exposure	**17,155**
Collateral Classification	
Secured	**59.1%**
Partially Secured	**6.0%**
Unsecured	**34.9%**
As at 30 June 2018	
Maximum Exposure	17,230
Collateral Classification(2)	
Secured	59.9%
Partially Secured	5.3%
Unsecured	34.8%

(1) Refer to note 44 for loan-to-valuation ratios for residential mortgages.
(2) Certain comparative information has been restated to ensure consistency with presentation in the current period.

Notes to the Financial Statements

For the year ended 30 June 2019

23 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 2019, residential mortgage loans ("mortgage loans") with a carrying value of $5.0 billion (30 June 2018 $5.0 billion), have been internally securitised through the Medallion NZ Series Trust 2009-1R, 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 2019, the Medallion NZ Series Trust 2009-1R had other assets of $347 million representing cash from principal repayments (30 June 2018 $358 million).

Covered Bond Programme

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 2019, Covered Bonds (including accrued interest) of $3.9 billion were guaranteed (30 June 2018 $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 2019, the Covered Bond Trust held mortgage loans with a carrying value of $5.1 billion (30 June 2018 $5.1 billion), and other assets of $116 million representing cash from principal repayments (30 June 2018 $137 million). The carrying value of the associated Covered Bond liabilities as at 30 June 2019 is $3.5 billion (30 June 2018 $3.9 billion).

Collateral Advanced

Under repurchase agreements, collateral in the form of securities is advanced to a third party and the 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 securities at fair value through other comprehensive income (30 June 2018 included within Trading securities and/or Available-for-sale securities)) have not been derecognised from the 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, a financial liability is recognised for cash received which is included in Deposits and other borrowings.

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

Transferred Financial Assets that are Derecognised in their Entirety

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

24 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 amount of imputation credits available to all members of the ICA Group as at 30 June 2019 is $1,259 million (30 June 2018 $1,075 million). This amount includes imputation credits that will arise from the payment of the provision for income tax and from the receipt of dividends recognised as receivables as at the reporting date, and imputation debits that will arise from the payment of dividends recognised as payables as at the reporting date.

CBA Investments (No. 4) Limited is not a member of the ICA Group. As at 30 June 2019 CBA Investments (No. 4) Limited had imputation credits available of $2 million (30 June 2018 $1 million). These figures have been calculated on the same basis as the ICA Group.

ASB Capital Limited and ASB Capital No. 2 Limited were not members of the ICA Group and as at 30 June 2018, ASB Capital Limited and ASB Capital No. 2 Limited had imputation credits available of $241,000 and $388,000 respectively. These entities were amalgamated into CBA Funding NZ Limited in 2019 and had nil imputation credit balances at the time of amalgamation. Refer to note 25 for further information.

Notes to the Financial Statements

For the year ended 30 June 2019

25 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 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
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
Other Controlled Entities			
ASB Cash Fund	-	Portfolio investment entity	30 June
ASB Term Fund	-	Portfolio investment entity	30 June
Medallion NZ Series Trust 2009-1R	-	Securitisation entity	30 June
ASB Covered Bond Trust	-	Guarantor	30 June
Associates			
Payments NZ Limited	19	Payment systems	30 September

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

All companies were incorporated in New Zealand.

Changes in Composition of the NZ Banking Group

- From 1 July 2018, First State Investments (NZ) Limited (FSI) aggregated into the NZ Banking Group (previously part of the NZ Life Group). This had no impact on the financial statements of the NZ Banking Group. On 13 August 2018, FSI retired as manager of First State Investments Global Listed Infrastructure Fund. FSI was removed from the New Zealand Companies Register on 14 March 2019. The removal did not have an impact on the financial statements of the NZ Banking Group.
- On 19 December 2018, Bond Investments UK Limited, a wholly owned subsidiary of ASB, was amalgamated into Bond Investments No 1 Limited (also a subsidiary of ASB). There was no material impact on the financial statements of the NZ Banking Group.
- On 11 January 2019, ASB sold its 25% shareholding in Paymark Limited to Ingenico Group. The sale resulted in a net gain of $46 million. Paymark Limited was previously an associate of ASB.
- On 17 May 2019, ASB Capital Limited and ASB Capital 2 Limited were amalgamated into CBA Funding (NZ) Limited. There was no material impact on the financial statements of the NZ Banking Group. Refer to the note 37 for further details.
- On 2 August 2019, Bond Investment No 1 Limited was removed from the New Zealand Companies Register. The removal does not have an impact on the financial statements of the NZ Banking Group.

Comparative Period

- 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.

26 Other Assets

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

$ millions	NZ Banking Group	
As at 30 June	**2019**	2018
Interest receivable accrued	**207**	207
Contract assets	**32**	-
Other assets	**80**	79
Total other assets	**319**	286
Amounts due for settlement within 12 months	**289**	272
Amounts due for settlement over 12 months	**30**	14
Total other assets	**319**	286

27 Goodwill

$ millions	NZ Banking Group	
As at 30 June	**2019**	2018
Goodwill arising from the purchase of:		
ASB Bank Limited	**275**	**275**
ASB Group Investments Limited	**10**	**10**
Aegis Limited	**38**	**38**
Total goodwill	**323**	323

Goodwill of $275 million 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).

Impairment Tests for Goodwill

Goodwill was tested for impairment as at 30 June 2019. Goodwill of $275 million was allocated to the Retail Banking segment of ASB (which is considered a cash-generating unit).

No impairment losses were recognised against the carrying amount of goodwill for the year ended 30 June 2019 (30 June 2018 nil).

Key Assumptions Used in Value in Use Calculations

As at 30 June 2019, 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.

Notes to the Financial Statements

For the year ended 30 June 2019

28 Deferred Tax Assets

$ millions	NZ Banking Group	
As at 30 June	**2019**	2018
Balance at 30 June	**155**	160
Effects of new accounting standards	**12**	-
Balance at beginning of year	**167**	160
Recognised in the Income Statement	**10**	(1)
Recognised in other comprehensive income	**15**	(4)
Balance at end of year	**192**	155
Deferred tax relates to:		
Asset revaluation reserve	**(3)**	(4)
Available-for-sale reserve	**-**	(5)
FVOCI reserve	**(1)**	-
Cash flow hedge reserve	**55**	45
Depreciation	**4**	2
Provision for employee entitlements	**12**	13
Allowance for ECL	**118**	86
Other temporary differences	**7**	18
Total deferred tax assets	**192**	155
Deferred tax recognised in the Income Statement:		
Depreciation	**2**	2
Provision for employee entitlements	**(1)**	3
Allowance for ECL	**11**	(4)
Other temporary differences	**(2)**	(2)
Total deferred tax recognised in the Income Statement	**10**	(1)
Deferred tax recognised in other comprehensive income:		
Asset revaluation reserve	**1**	1
Available-for-sale reserve	**-**	(4)
FVOCI reserve	**4**	-
Cash flow hedge reserve	**10**	(1)
Total deferred tax recognised in other comprehensive income	**15**	(4)

Notes to the Financial Statements

For the year ended 30 June 2019

29 Deposits and Other Borrowings

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

$ millions	NZ Banking Group	
As at 30 June	**2019**	2018
Certificates of deposit	**3,377**	2,551
Term deposits	**34,034**	32,268
On demand and short term deposits	**23,187**	22,689
Deposits not bearing interest	**5,530**	4,820
Repurchase agreements	**2,474**	-
Total deposits and other borrowings	**68,602**	62,328
Amounts due for settlement within 12 months	**66,446**	59,032
Amounts due for settlement over 12 months	**2,156**	3,296
Total deposits and other borrowings	**68,602**	62,328

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 2019 (30 June 2018 nil).

30 Other Liabilities

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

$ millions	NZ Banking Group	
As at 30 June	**2019**	2018
Interest payable accrued	**297**	303
Employee entitlements	**131**	140
Contract liabilities	**58**	-
Trade accounts payable and other liabilities	**160**	191
Total other liabilities	**646**	634
Amounts due for settlement within 12 months	**640**	627
Amounts due for settlement over 12 months	**6**	7
Total other liabilities	**646**	634

31 Due to Financial Institutions

As at 30 June 2019 amounts due to financial institutions of $1,184 million are due for settlement within 12 months of balance date (30 June 2018 $1,212 million due within 12 months of balance date).

32 Other Liabilities at Fair Value through Income Statement

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

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2019

33 Debt Issues

$ millions	NZ Banking Group	
As at 30 June	**2019**	2018
Debt issues by programme		
Euro commercial paper	**215**	148
USD commercial paper	**3,050**	3,214
Euro medium term notes	**8,862**	7,662
USD medium term notes	**2,276**	1,467
NZD domestic bonds	**2,890**	2,990
Covered bonds	**3,463**	3,920
Total debt issues	**20,756**	19,401
Short term debt issues by currency		
USD	**3,265**	3,362
Long term debt issues by currency due for settlement within 12 months		
USD	**-**	317
GBP	**567**	-
EUR	**891**	862
NZD	**457**	1,202
CHF	**232**	676
Total debt issues due for settlement within 12 months	**5,412**	6,419
Long term debt issues by currency due for settlement over 12 months		
USD	**4,699**	3,452
AUD	**133**	109
GBP	**469**	1,057
JPY	**132**	126
EUR	**6,568**	5,496
NZD	**2,433**	1,990
HKD	**195**	147
CHF	**715**	605
Total debt issues due for settlement over 12 months	**15,344**	12,982
Total debt issues	**20,756**	19,401
Debt issues at fair value through Income Statement	**585**	148
Debt issues at amortised cost	**20,171**	19,253
Total debt issues	**20,756**	19,401
Fair value hedge adjustments included in total debt issues	**356**	(52)
Movement in debt issues		
Balance at beginning of year	**19,401**	17,680
Issuances during the year(1)	**8,869**	8,837
Repayments during the year(1)	**(7,978)**	(8,340)
Fair value movements	**408**	(33)
Foreign exchange and other movements(1)	**56**	1,257
Balance at end of year	**20,756**	19,401

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

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

Notes to the Financial Statements

For the year ended 30 June 2019

33 Debt Issues (continued)

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 and 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 a programme limit of USD10 billion. Notes issued under this programme are in USD and have both fixed and variable interest rates;
- Bonds issued under a Covered Bond programme. 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 and may have both fixed and variable interest rates. These bonds are guaranteed by the Covered Bond Guarantor. Refer to note 23 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.

34 Loan Capital

$ millions			NZ Banking Group	
As at 30 June			**2019**	2018
Issuer	**Face Value**	**Footnote**		
ASB Bank Limited	NZD400 million	(a)	**407**	806
CBA New Zealand Branch	AUD3,000 million	(b)	**3,195**	3,292
CBA New Zealand Branch	AUD1,450 million	(c)	**1,517**	1,565
CBA New Zealand Branch	AUD1,640 million	(d)	**1,717**	1,767
Total loan capital			**6,836**	7,430

$ millions	NZ Banking Group	
For the year ended 30 June	**2019**	2018
Movement in loan capital		
Balance at beginning of year	**7,430**	7,181
Redemption during the year	**(400)**	-
Foreign exchange and fair value movements during the period	**(194)**	249
Balance at end of year	**6,836**	7,430

Terms

ASB Bank Limited

a) The loan capital held in ASB is made up of the following issuances:

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

  On 17 June 2019, ASB redeemed all of the ABB030 Notes for their face value of $400 million.
- On 30 November 2016, ASB issued additional subordinated and unsecured debt securities with a face value of $400 million quoted as ABB050 on the NZX Debt Market (the "ABB050 Notes"). The ABB050 Notes will mature on 15 December 2026, but subject to certain conditions ASB has the right to redeem all or some of the ABB050 Notes on any interest payment date on or after 15 December 2021 (call option date). However, at any time, ASB may redeem the ABB050 Notes for tax or regulatory reasons. The ABB050 Notes bear an interest rate of 5.25% fixed for five years, and will be reset if not redeemed on or before their call option date. Payment of interest is quarterly in arrears and is subject to ASB remaining solvent and the NZ Banking Group being solvent immediately after such payment is made.

34 Loan Capital (continued)

ASB Bank Limited (continued)

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

If a non-viability trigger event ("NVTE") occurs, some or all of the ABB050 Notes will automatically and immediately be exchanged for CBA ordinary shares. A NVTE occurs when, among other circumstances:

- The RBNZ has reasonable grounds to believe that ASB is insolvent or likely to become insolvent and directs ASB to convert or write down a class of capital instruments that includes the ABB050 Notes; or
- APRA notifies CBA that it believes an exchange of some or all the ABB050 Notes is necessary because without it CBA would become non-viable. If the ABB050 Notes are not able to be exchanged, or the exchange is not effective, within five business days, the rights of the holders will be terminated; or

In conjunction with the issuance of the ABB050 Notes, ASB also entered into a related agreement with ASB Holdings Limited and CBA on 12 October 2016. This related agreement includes 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 ABB050 Notes exchanged into CBA shares.

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 One 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 One 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 One Capital of CBA under Basel III as implemented by APRA.

35 Head Office Account and Contributed Capital

$ millions	NZ Banking Group	
As at 30 June	**2019**	2018
Head office account		
Balance at beginning of year	**2,887**	462
Capital injection	**-**	2,425
Balance at end of year	**2,887**	2,887

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**	667
Balance at end of year	**667**	667
Total contributed capital	**667**	667

Ordinary Shares

As at 30 June 2019 the NZ Banking Group had 690,561,572 issued ordinary shares of which 100,000 were unpaid (30 June 2018 690,561,572 issued of which 100,000 were unpaid). During the year ended 30 June 2019, no ordinary shares were redeemed (30 June 2018 100 ordinary shares were redeemed).

All ordinary shares have equal voting rights and share equally in dividends and any profit on winding up. Dividends are declared, subject in all cases, to the applicable directors' resolutions being passed.

Notes to the Financial Statements

For the year ended 30 June 2019

36 Reserves

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

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

Available-for-sale reserve		
Balance at 30 June 2018	**14**	-
Effects of new accounting standards	**(14)**	-
Balance at beginning of year	**-**	2
Net gain from changes in fair value	**-**	16
Deferred tax	**-**	(4)
Balance at end of year	**-**	14

The available-for-sale reserve included the cumulative net change in the fair value of available-for-sale securities until the investment was derecognised or impaired. When fair value hedge accounting was applied, only fair value changes relating to movements in credit spreads were included in the reserve. On transition to NZ IFRS 9, this reserve was reclassified to the fair value through other comprehensive income reserve. Refer to note 2 for further information.

Cash flow hedge reserve		
Balance at beginning of year	**(116)**	(118)
Net loss from changes in fair value	**(178)**	(171)
Reclassified to Income Statement:		
Interest income	**(92)**	(91)
Interest expense	**233**	265
Deferred tax	**10**	(1)
Balance at end of year	**(143)**	(116)

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

Foreign currency translation reserve		
Balance at beginning of year	**1**	1
Currency translation differences	**(1)**	-
Balance at end of year	**-**	1

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

Fair value through other comprehensive income reserve		
Balance at 30 June 2018	**-**	-
Effects of new accounting standards	**14**	-
Balance at beginning of year	**14**	-
Net gain from changes in fair value	**(13)**	-
Deferred tax	**4**	-
Balance at end of year	**5**	-

The fair value through other comprehensive income reserve includes the cumulative net change in the fair value of securities at fair value through other comprehensive income (excluding impairment gains or losses, interest revenue and foreign exchange gains or losses) until the financial asset is derecognised or impaired. When fair value hedge accounting is applied, only fair value changes relating to movements in credit spreads are included in the reserve. On transition to NZ IFRS 9, the available-for-sale reserve was reclassified to this reserve. Refer to note 2 for further information.

37 Non-controlling Interests

$ millions	NZ Banking Group	
As at 30 June	**2019**	2018
Perpetual preference shares issued to non-controlling interests		
Balance at beginning of year	**550**	550
Perpetual preference shares redeemed during the year	**(550)**	-
Balance at end of year	**-**	550

As at 30 June 2019 the NZ Banking Group had no issued and fully paid PPS (30 June 2018 550,000,000 issued and fully paid PPS). These shares previously constituted 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 had no fixed term, and carried limited voting rights. They were issued as part of transactions with ASB.

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

On 15 May 2019, all of the issued PPS were redeemed for their face value of $550 million. Subsequently on 17 May 2019, ASB Capital Limited and ASB Capital No. 2 Limited were amalgamated into CBA Funding (NZ) Limited. Refer to note 25.

$ millions	NZ Banking Group	
As at 30 June	**2019**	2018
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 were payable quarterly in arrears and were payable at the discretion of the directors of ASB Capital Limited and ASB Capital No. 2 Limited. These dividends were non-cumulative.

Dividends on PPS were 2.39 cents per share (30 June 2018 2.42 cents per share) paid by ASB Capital Limited and 2.20 cents per share (30 June 2018 2.18 cents per share) paid by ASB Capital No. 2 Limited for the year ended 30 June 2019.

Prior to redemption:

- The dividend payable on the ASB Capital Limited PPS was based on the one year swap rate plus a margin of 1.3%. Rates were reset annually on 15 November or the next business day. The rate was reset on 15 November 2018 to 3.35% per annum including imputation credits (the rate to 15 November 2018 was 3.30% per annum); and
- The dividend payable on the ASB Capital No. 2 Limited PPS was based on the one year swap rate plus a margin of 1.0%. Rates were reset annually on 15 May or the next business day. The rate to 15 May 2019 was 3.05% per annum including imputation credits.

Notes to the Financial Statements

For the year ended 30 June 2019

38 Leasing and Other Commitments

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

The 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 6).

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

39 Credit and Capital Commitments, and Contingent Liabilities

$ millions	NZ Banking Group Notional Amount	
As at 30 June	**2019**	2018
Credit and capital commitments		
Lending commitments approved but not yet advanced (1)	**16,459**	16,686
Capital expenditure commitments	**3**	5
Total credit and capital commitments	**16,462**	16,691
Credit related contingent liabilities		
Guarantees	**184**	200
Standby letters of credit	**125**	144
Other credit facilities	**387**	200
Total credit related contingent liabilities	**696**	544

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

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

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

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

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.

40 Related Party Transactions and Balances

During the year ended 30 June 2019 the NZ Banking Group has entered into, or had in place various financial transactions with members of the Overseas Banking Group, and other related parties. ASB provides administrative functions to some subsidiaries and related companies for which no compensation has been received. 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. Related party balances between these schemes and the NZ Banking Group are disclosed below.

The Commonwealth Bank of Australia New Zealand Life Insurance Group ("NZ Life Group") included the ASB Group (Life) Limited group of companies and First State Investments (NZ) Limited ("FSI"). On 2 July 2018, CBA finalised the sale of 100% of its insurance business in New Zealand to AIA Group Limited. From that date the ASB Group (Life) Limited group of companies is no longer considered to be a related party of the NZ Banking Group. On 12 July 2018, ASB Group Life (Limited) was renamed to AIA Sovereign Limited. From 1 July 2018 to 29 April 2019, FSI was aggregated into the NZ Banking Group. Refer to note 25.

$ millions	NZ Banking Group	
For the year ended 30 June	**2019**	2018
Related Party Transactions		
Interest income		
Received from Overseas Banking Group	**9**	18
	9	18
Interest expense		
Paid to Overseas Banking Group	**98**	94
Paid to NZ Life Group	**-**	4
Paid to superannuation schemes and managed investment schemes managed by a subsidiary of ASB	**27**	26
	125	124
Other income		
Fair value gains on hedging derivatives with Overseas Banking Group	**(37)**	91
Received from NZ Life Group for administrative services	**-**	12
Received from NZ Life Group for insurance commission	**-**	44
Fair value gains on hedging derivatives with NZ Life Group	**-**	19
Management and administration fees received from superannuation schemes and managed investment schemes managed by a subsidiary of ASB	**106**	91
	69	257
Other expenses		
Paid to NZ Life Group for the origination of mortgages	**-**	2
Paid to Commonwealth Bank Group for investment management services	**2**	2
	2	4

$ millions		NZ Banking Group	
As at 30 June		**2019**	2018
Related Party Balances			
Overseas Banking Group			
Cash and liquid assets		**2,592**	133
Due from financial institutions		**3**	472
Derivative assets:	Interest rate contracts	**114**	134
	Exchange rate contracts	**144**	171
Other assets		**3**	4
		2,856	914
Deposits and other borrowings		**2,474**	-
Due to financial institutions		**396**	212
Derivative liabilities:	Interest rate contracts	**28**	77
	Exchange rate contracts	**563**	120
Other liabilities		**3**	3
		3,464	412

40 Related Party Transactions and Balances (continued)

$ millions	NZ Banking Group	
As at 30 June	2019	2018
Related Party Balances (continued)		
NZ Life Group		
Derivative assets: Exchange rate contracts	-	4
	-	4
Deposits and other borrowings	-	185
Other liabilities	-	1
	-	186
Superannuation schemes and managed investment schemes managed by a subsidiary of ASB		
Other assets	16	14
	16	14
Deposits and other borrowings	843	820
Debt issues: at amortised cost	133	125
	976	945
Total related party assets	2,872	932
Total related party liabilities	4,440	1,543

Other Transactions and Balances

The Overseas Banking Group provides guarantees over certain lending offered by ASB to the value of $13 million (30 June 2018 $14 million)[(1)].

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

Refer to note 9 for details of dividends paid to shareholders, note 34 for details of loan capital issued to related parties, note 35 for details of capital contributed by related parties and note 46 for further information on superannuation schemes and managed investment schemes managed by ASB Group Investments Limited.

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

41 Key Management Personnel

The executive management and Directors of ASB and the executive management of the Branch are considered to be key management personnel.

$ millions	NZ Banking Group	
For the year ended 30 June	2019	2018
Key management compensation		
Short term employee benefits	13	14
Share-based payments	3	4
Total key management compensation	16	18

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

$ millions	NZ Banking Group	
As at 30 June	2019	2018
Loans to key management personnel	12	7
Deposits from key management personnel	6	8

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

No individually assessed allowance has been recognised in respect of loans provided to key management personnel. There were no debts written off or forgiven during the year ended 30 June 2019 (30 June 2018 nil).

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

Notes to the Financial Statements

For the year ended 30 June 2019

42 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.

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

- Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities that the 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 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Securities at fair value through other comprehensive income	**7,653**	**1,032**	**-**	**8,685**
Derivative assets	**1**	**1,262**	**-**	**1,263**
Total financial assets measured at fair value	**7,654**	**2,294**	**-**	**9,948**
Financial liabilities				
Derivative liabilities	**-**	**949**	**-**	**949**
Debt issues at fair value through Income Statement	**-**	**585**	**-**	**585**
Total financial liabilities measured at fair value	**-**	**1,534**	**-**	**1,534**

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

$ 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 for the year ended 30 June 2018.

42 Fair Value of Financial Instruments (continued)

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

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

$ millions	NZ Banking Group				
	Fair Values				Carrying Value
As at 30 June 2019	**Level 1**	**Level 2**	**Level 3**	**Total**	**Total**
Financial assets					
Cash and liquid assets	**999**	**4,011**	**-**	**5,010**	**5,010**
Due from financial institutions	**-**	**518**	**-**	**518**	**518**
Advances to customers	**-**	**-**	**90,590**	**90,590**	**90,413**
Other financial assets	**-**	**303**	**-**	**303**	**303**
Total	**999**	**4,832**	**90,590**	**96,421**	**96,244**
Financial liabilities					
Deposits and other borrowings	**-**	**68,720**	**-**	**68,720**	**68,602**
Due to financial institutions	**-**	**1,184**	**-**	**1,184**	**1,184**
Other financial liabilities	**-**	**617**	**-**	**617**	**617**
Debt issues at amortised cost	**-**	**20,220**	**-**	**20,220**	**20,171**
Loan capital	**-**	**7,001**	**-**	**7,001**	**6,836**
Total	**-**	**97,742**	**-**	**97,742**	**97,410**

$ 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 financial 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 financial liabilities[(1)]	-	605	-	605	605
Debt issues at amortised cost	-	19,341	-	19,341	19,253
Loan capital	-	7,447	-	7,447	7,430
Total	-	90,974	-	90,974	90,828

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

Notes to the Financial Statements

For the year ended 30 June 2019

43 Offsetting Financial Assets and Financial Liabilities

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

The 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					
$ millions	Gross Amounts(1)	Financial Instruments Not Offset	Financial Collateral	Net Amount	Amounts Not Subject to Enforceable Master Netting Agreements(1)	Carrying Value
Financial instruments as at 30 June 2019						
Derivative assets	**1,247**	**(462)**	**(651)**	**134**	**16**	**1,263**
Reverse repurchase agreements	**4,011**	**(2,474)**	**(1,537)**	**-**	**-**	**4,011**
Total financial assets	**5,258**	**(2,936)**	**(2,188)**	**134**	**16**	**5,274**
Derivative liabilities	**(948)**	**462**	**32**	**(454)**	**(1)**	**(949)**
Repurchase agreements	**(2,474)**	**2,474**	**-**	**-**	**-**	**(2,474)**
Total financial liabilities	**(3,422)**	**2,936**	**32**	**(454)**	**(1)**	**(3,423)**
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)

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

Effects of Master Netting Agreements on Financial Instruments

In the table above:

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

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

44 Capital Adequacy

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

Regulatory Requirements - Basel III

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 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;
- Maintain a strong capital base to cover the inherent risks of the business in excess of that required by credit rating agencies to maintain a strong or very strong credit rating; and
- Support the future development and growth of the business.

The Boards of Directors for ASB and CBA 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; and
- 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 2019 the minimum capital requirements were met (30 June 2018 minimum capital requirements were met).

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

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

44 Capital Adequacy (continued)

Unaudited $ millions As at 30 June 2019 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
Residential Mortgages by Loan-to-Valuation Ratio ("LVR")						
Value of exposures	**30,016**	**13,975**	**16,860**	**3,353**	**1,466**	**65,670**
Expressed as a percentage of total exposures	**45.7%**	**21.3%**	**25.7%**	**5.1%**	**2.2%**	**100%**

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

Unaudited $ millions As at 30 June 2019	NZ Banking Group
Reconciliation of mortgage-related amounts	
Residential mortgages in Advances to customers (refer to note 19)	**57,194**
Add/(less):	
Off balance sheet exposures	**8,066**
Exposure at default adjustments	**578**
Unamortised loan establishment fees and expenses	**(168)**
Residential mortgages in LVR disclosure	**65,670**

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 2019.

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 2019	Interest Rate Risk	NZ Banking Group Foreign Currency Risk	Equity Risk	Total
Implied risk-weighted exposure	**2,594**	**461**	**-**	**3,055**
Aggregate capital charge	**208**	**37**	**-**	**245**

Unaudited $ millions Peak end-of-day Exposures for the six months ended 30 June 2019	Interest Rate Risk	NZ Banking Group Foreign Currency Risk	Equity Risk	Total
Implied risk-weighted exposure	**2,942**	**461**	**1**	**3,404**
Aggregate capital charge	**235**	**37**	**-**	**272**

Notes to the Financial Statements

For the year ended 30 June 2019

45 Overseas Banking Group

	Overseas Banking Group
Asset quality	
As at 30 June 2019	
Total gross individually impaired assets	**AUD3,622 million**
Total individually impaired assets as a % of total assets	**0.4%**
Total individually assessed provisions	**AUD895 million**
Total individually assessed provisions as a % of total gross individually impaired assets	**24.7%**
Total collective provision	**AUD3,904 million**
Profitability	
For the year ended 30 June 2019	
Net profit after tax	**AUD8,571 million**
Net profit after tax as a % of average total assets	**0.9%**
Size	
As at 30 June 2019	
Total assets	**AUD976,579 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 $6,499 million as at 30 June 2019 (30 June 2018 $6,669 million).

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

Securitisation, Funds Management and Other Fiduciary Activities

Securitisation

As at 30 June 2019 the NZ Banking Group had internally securitised $5.3 billion of RMBS through the Medallion NZ Series Trust 2009-1R (30 June 2018 $5.3 billion), of which $5.0 billion of Class A floating rate notes issued by the Medallion NZ Series Trust 2009-1R have been assigned a credit rating of AAA by Fitch Ratings (30 June 2018 $5.0 billion). Refer to note 23 for more information.

Funds Management

The NZ Banking Group markets and distributes managed fund products which are issued by a wholly owned subsidiary of ASB, ASB Group Investments Limited (refer to note 25). Funds under management distributed by the NZ Banking Group totalled $16,452 million as at 30 June 2019 (30 June 2018 $14,234 million). As at 30 June 2019 $1,020 million of funds under management were invested in related party products or securities (30 June 2018 $1,034 million).

Fiduciary Activities

The NZ Banking Group provides custodial services relating to holding interest-bearing instruments and equity securities on behalf of clients. Funds under custodial arrangements totalled $17,061 million as at 30 June 2019 (30 June 2018 $14,607 million).

Insurance Business

The NZ Banking Group does not conduct any insurance business.

Marketing and Distribution of Insurance Products

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

Risk Management

The 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 2019

47 Financial Reporting by Operating Segments

$ millions	Retail Banking	Business Banking	Corporate Banking	NZ Banking Group Institutional Banking and Markets	Private Banking, Wealth and Insurance	Other	Total
Income Statement							
For the year ended 30 June 2019							
Net interest income	**1,063**	**795**	**110**	**12**	**63**	**(2)**	**2,041**
Other income/(loss)	**397**	**123**	**46**	**43**	**227**	**(121)**	**715**
Total operating income/(expense)	**1,460**	**918**	**156**	**55**	**290**	**(123)**	**2,756**
Impairment losses/(recoveries) on financial assets	**62**	**39**	**7**	**(2)**	**1**	**(1)**	**106**
Segment operating expenses (excluding impairment losses)	**551**	**304**	**54**	**14**	**127**	**(73)**	**977**
Segment net profit before tax	**847**	**575**	**95**	**43**	**162**	**(49)**	**1,673**
Tax expense	**237**	**161**	**27**	**12**	**45**	**(11)**	**471**
Segment net profit after tax	**610**	**414**	**68**	**31**	**117**	**(38)**	**1,202**
Non-cash expenses[(1)]							
Depreciation and amortisation expense	**55**	**15**	**9**	**-**	**7**	**-**	**86**
Balance Sheet							
As at 30 June 2019							
Total assets	**44,937**	**36,923**	**5,822**	**2,782**	**2,680**	**13,931**	**107,075**
Total liabilities	**35,447**	**14,679**	**6,644**	**1,684**	**4,679**	**36,010**	**99,143**

$ millions	Retail Banking	Business Banking	Corporate Banking	NZ Banking Group Institutional Banking and Markets	Private Banking, Wealth and Insurance	Other	Total
Income Statement[(2)]							
For the year ended 30 June 2018							
Net interest income	1,022	748	93	10	54	(13)	1,914
Other income/(loss)	380	115	48	45	209	(151)	646
Total operating income/(expense)	1,402	863	141	55	263	(164)	2,560
Impairment losses/(recoveries) on financial assets	76	4	1	(26)	-	(1)	54
Segment operating expenses (excluding impairment losses)	517	290	56	14	123	(57)	943
Segment net profit before tax	809	569	84	67	140	(106)	1,563
Tax expense	227	159	24	19	39	(32)	436
Segment net profit after tax	582	410	60	48	101	(74)	1,127
Non-cash expenses[(1)(2)]							
Depreciation and amortisation expense	51	16	12	-	5	-	84
Balance Sheet[(2)]							
As at 30 June 2018							
Total assets	42,721	34,845	5,625	2,856	2,392	12,900	101,339
Total liabilities	33,918	14,316	6,294	1,683	4,169	32,962	93,342

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

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

47 Financial Reporting by Operating Segments (continued)

Retail Banking: The Retail Banking segment provides a range of services to personal customers. In addition, net income is attributed to this segment for the distribution of wealth management products through the retail distribution network.

Business Banking: The Business Banking segment provides services to commercial, rural and small business customers.

Corporate Banking: The Corporate Banking segment provides services to corporate customers and transactional banking services for non-retail customers. It also comprises ASB’s financial markets activities, including financial instruments trading and sales of financial instruments to bank wide customers.

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

Private Banking, Wealth and Insurance: The Private Banking, Wealth and Insurance segment provides securities, investment and insurance services to customers, and a personalised banking service to high net worth individuals.

Other primarily includes:

- Business units that do not meet the definition of operating segments under NZ IFRS 8 *Operating Segments,* including the NZ Banking Group’s Treasury function and other functions that supply support and services to the segments;
- Elimination entries on consolidation of the results, assets and liabilities of the NZ Banking Group’s controlled entities in the preparation of the financial statements of the NZ Banking Group; and
- Results of certain business units excluded for management reporting purposes, but included within the financial statements of the NZ Banking Group for statutory reporting purposes.

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

48 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.

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

- Note 17 (credit risk);
- Notes 49 and 50 (market risk); and
- Notes 51 to 54 (liquidity and funding risk).

Operational and Compliance Risk

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

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that 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 measurement methodology combines assessment of individual risk exposures with internal loss data to determine potential losses and calculate operational risk economic capital.

Each business manager of ASB and CBA is responsible for the identification and assessment of these risks, on a regular basis, and for maintaining appropriate internal controls, and is supported by the 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 non-compliance, monitoring and reporting.

Strategic Risk

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

Strategic risk is managed by ASB's Executive Leadership Team in accordance with the NZ Banking Group's risk appetite statement. The Executive Leadership Team assess strategic risk at least annually and monitor strategic execution risk at least quarterly.

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

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

Reputational Risk

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

48 Risk Management Policies (continued)

Reputational Risk (continued)

Reputational risk is managed by the Bank’s Executive Leadership Team with support from the Non-financial Risk Committee (previously known as the operational & Business Risk Forum) in accordance with the NZ Banking Group’s risk appetite statement, operational risk management framework, and code of conduct. The Non-financial Risk Committee meets on a monthly basis.

ASB sets out clear behavioural standards, as outlined in the risk appetite statement and the code of conduct and ASB’s leadership framework that support ASB’s vision and values.

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 ASB Board through the ASB 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 regularly and are 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.

49 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; and
- 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 market risk metrics to measure and manage market risk including stress testing, risk sensitivity and position limits.

Traded Market Risk

Traded market risk is generated through the NZ Banking Group's participation in financial markets to service its customers and is assessed on a daily basis. 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	**2019**	2018
Interest rate risk	**0.23**	0.36
Foreign exchange risk	**0.06**	0.05
Diversification benefit	**(0.05)**	(0.04)
Total Traded Market Risk	**0.24**	0.37

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 where interest rate movements can result in earnings volatility over 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.

49 Market Risk (continued)

(a) Next 12 months' earnings (continued)

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

(b) Economic Value

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

Measuring the change in the economic value of equity is an assessment of the long term impact to the earnings potential of the 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	**2019**	2018
Exposure at end of year	**7.3**	4.3
Past 12 month VaR (97.5 percentile) - average	**5.1**	7.0
Past 12 month VaR (97.5 percentile) - high	**8.8**	10.0
Past 12 month VaR (97.5 percentile) - low	**2.5**	3.5

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	**2019**	2018
Net open position		
US Dollar	**(3)**	(6)
Total net open position	**(3)**	(6)

50 Interest Rate Repricing Schedule

The following tables represent a breakdown of the NZ Banking Group's assets and liabilities by their contractual repricing. The carrying amounts of derivative financial instruments, which are principally used to reduce the NZ Banking Group's exposure to interest rate movements, are included under the heading "Non-interest Bearing". It should be noted that the NZ Banking Group does not manage its interest rate risk on the basis of the information below. The management of interest rate risk is set out in note 49.

$ millions	NZ Banking Group						
As at 30 June 2019	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-interest Bearing	Total
Assets							
Cash and liquid assets	4,977	-	-	-	-	33	5,010
Due from financial institutions	515	-	-	-	-	3	518
Securities at fair value through other comprehensive income	999	65	1,078	846	5,697	-	8,685
Derivative assets	-	-	-	-	-	1,263	1,263
Advances to customers	41,763	10,348	15,960	15,532	7,078	(268)	90,413
Other financial assets	-	-	-	-	-	303	303
Total financial assets	48,254	10,413	17,038	16,378	12,775	1,334	106,192
Non-financial assets							883
Total assets							107,075
Liabilities							
Deposits and other borrowings	41,446	13,740	5,731	1,166	989	5,530	68,602
Due to financial institutions	1,165	-	-	-	-	19	1,184
Derivative liabilities	-	-	-	-	-	949	949
Other financial liabilities	-	-	-	-	-	617	617
Debt issues:							
At fair value through Income Statement	222	363	-	-	-	-	585
At amortised cost	5,897	42	1,277	2,123	10,486	346	20,171
Loan capital	6,371	-	-	-	400	65	6,836
Total financial liabilities	55,101	14,145	7,008	3,289	11,875	7,526	98,944
Non-financial liabilities							199
Total liabilities							99,143
Net derivative notionals	15,205	(2,237)	(7,113)	(11,436)	5,581		
Interest rate sensitivity gap	8,358	(5,969)	2,917	1,653	6,481		

50 Interest Rate Repricing Schedule (continued)

$ 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
Other financial assets[(1)]	-	-	-	-	-	260	260
Total financial assets	45,987	8,453	16,384	16,974	10,658	2,051	100,507
Non-financial assets[(1)]							832
Total assets							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
Other financial liabilities[(1)]	-	-	-	-	-	605	605
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 financial liabilities	53,608	11,208	7,805	3,641	10,432	6,494	93,188
Non-financial liabilities[(1)]							154
Total liabilities							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		

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

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

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

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

The key objectives of the LRMPS are:

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

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

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

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 of cash movements, ASB 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.

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 2019 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 2018 $5.3 billion and $5.0 billion respectively). While not intended to be used for day-to-day liquidity management, the RMBS form part of 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 2018 4%). As at 30 June 2019 none of the RMBS had been used as collateral for repurchase agreements with the RBNZ (30 June 2018 nil). Refer to note 23 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 2019

52 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 and Guidelines. This haircut can range from 1 to 19 percent, depending on the qualifying asset, and reduces the value of the qualifying liquid assets available for liquidity purposes. The table below does not adjust the qualifying liquid assets for this haircut.

$ millions	NZ Banking Group					
As at 30 June 2019	**Cash and Liquid Assets**	**Securities at Fair Value through Other Comprehensive Income**	**Advances to Customers**	**Deposits and Other Borrowings (1)**	**Other Assets**	**Total**
Cash	**86**	**-**	**-**	**-**	**-**	**86**
Call deposits with the central bank	**913**	**-**	**-**	**-**	**-**	**913**
Local authority securities	**-**	**347**	**-**	**-**	**3**	**350**
New Zealand government securities	**1,546**	**1,630**	**-**	**(9)**	**12**	**3,179**
Overseas government securities	**2,465**	**2,552**	**-**	**(2,465)**	**9**	**2,561**
Corporate bonds	**-**	**79**	**-**	**-**	**-**	**79**
Treasury bills	**-**	**25**	**-**	**-**	**-**	**25**
Bank bills	**-**	**598**	**-**	**-**	**-**	**598**
Kauri bonds	**-**	**2,434**	**-**	**-**	**21**	**2,455**
Bank bonds	**-**	**1,020**	**-**	**-**	**5**	**1,025**
Residential mortgage-backed securities	**-**	**-**	**3,939**	**-**	**-**	**3,939**
Total qualifying liquid assets	**5,010**	**8,685**	**3,939**	**(2,474)**	**50**	**15,210**

$ 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(2)	-	63	-	-	-	-	63
Treasury bills	-	-	125	-	-	-	125
RBNZ bills	-	-	881	-	-	-	881
Bank bills	-	-	1,088	-	-	-	1,088
Kauri bonds	-	2,048	-	-	-	23	2,071
Bank bonds(2)	-	1,012	-	-	-	6	1,018
Residential mortgage-backed securities	-	-	-	3,817	-	-	3,817
Total qualifying liquid assets	2,569	6,849	2,344	3,817	-	53	15,632

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

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

53 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 reporting date. The amounts disclosed in the tables are the contractual undiscounted cash flows and include principal and future interest cash flows, and therefore may not agree to the carrying values on the Balance Sheet.

Actual cash flows may differ significantly from the contractual cash flows presented below as a result of changes in market conditions and future actions of the NZ Banking Group and its counterparties, such as early repayments or refinancing of term loans.

Deposits and other borrowings include substantial customer savings and cheque deposits, which are at call. History demonstrates that such accounts provide a stable source of long term funding for the NZ Banking Group. 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 51.

$ millions	NZ Banking Group							
As at 30 June 2019	On Demand	Within 6 Months	Between 6-12 Months	Between 1-2 Years	Between 2-5 Years	Over 5 Years	Total	Carrying Value
Non-derivative financial liabilities								
Deposits and other borrowings	28,718	32,253	5,785	1,199	972	55	68,982	68,602
Due to financial institutions	950	235	-	-	-	-	1,185	1,184
Other financial liabilities	58	545	8	4	2	-	617	617
Debt issues:								
At fair value through Income Statement	-	594	-	-	-	-	594	585
At amortised cost	-	1,827	3,345	3,218	7,993	4,684	21,067	20,171
Loan capital	-	122	122	243	3,792	3,592	7,871	6,836
Total non-derivative financial liabilities	29,726	35,576	9,260	4,664	12,759	8,331	100,316	97,995
Derivative financial liabilities								
Inflows from derivatives	-	523	1,192	1,964	8,359	3,458	15,496	
Outflows from derivatives	-	(1,211)	(1,452)	(2,280)	(9,029)	(3,613)	(17,585)	
	-	(688)	(260)	(316)	(670)	(155)	(2,089)	
Off balance sheet items								
Lending commitments	12,692	3,767	-	-	-	-	16,459	
Guarantees	-	184	-	-	-	-	184	
Other credit related contingent liabilities	-	512	-	-	-	-	512	
Total off balance sheet items	12,692	4,463	-	-	-	-	17,155	

Notes to the Financial Statements

For the year ended 30 June 2019

53 Maturity Analysis for Undiscounted Contractual Cash Flows (continued)

$ 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 financial liabilities[1]	81	514	3	7	-	-	605	605
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	28,716	31,102	9,458	5,120	9,120	11,762	95,278	92,073
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 credit related contingent liabilities	-	344	-	-	-	-	344	
Total off balance sheet items	12,756	4,474	-	-	-	-	17,230	

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

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

$ millions	NZ Banking Group	
As at 30 June	**2019**	2018
Total funding comprises:		
Deposits and other borrowings	**68,602**	62,328
Due to financial institutions	**1,184**	1,212
Other liabilities at fair value through Income Statement	**-**	1,097
Debt issues:		
At fair value through Income Statement	**585**	148
At amortised cost	**20,171**	19,253
Loan capital	**6,836**	7,430
Total funding	**97,378**	91,468
Concentration by industry		
Agricultural, Forestry and Fishing	**1,214**	1,052
Manufacturing	**717**	627
Construction	**796**	633
Wholesale Trade	**630**	584
Retail Trade and Accommodation	**871**	807
Transport, Postal and Warehousing	**620**	684
Information Media and Telecommunications	**287**	267
Financial and Insurance Services	**38,078**	34,576
Rental, Hiring and Real Estate Services	**3,778**	3,039
Professional, Scientific, Technical, Administrative and Support Services	**4,912**	4,494
Public Administration and Safety	**713**	855
Education and Training	**1,573**	1,530
Health Care and Social Assistance	**879**	909
Arts, Recreation and Other Services	**1,799**	1,623
Households	**40,108**	39,522
All Other	**403**	266
Total funding by industry	**97,378**	91,468
Concentration by geographic region		
New Zealand	**62,617**	60,534
Overseas	**34,761**	30,934
Total funding by geographic region	**97,378**	91,468

55 Events after the Reporting Period

Refer to note 25 for details of the removal of Bond Investments No 1 Limited from the New Zealand Companies Register after the reporting period

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

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; and
- 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 2019;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended;
- the notes to the financial statements, which include a statement of accounting policies; and
- the supplementary information required by Schedules 4, 7, 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 17 to 21, 44 to 46 and 48 to 54):
  - (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 2019, 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 the balance sheet and notes 17 to 21, 44 to 46 and 48 to 54:

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

(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 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 $84 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 two key audit matters:

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

Materiality

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

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall 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.

pwc

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 financial reporting processes and controls, and the industry in which the NZ Banking Group operates.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Allowance for expected credit losses on the NZ Banking Group's advances to customers (2019: $416 million, 2018: $307 million)	
NZ IFRS 9 *Financial Instruments* was adopted by the NZ Banking Group for the financial year beginning 1 July 2018. Allowances for expected credit loss (ECL) of advances to customers that exceed specific thresholds are individually assessed by management. These allowances are established based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the NZ Banking Group in respect of those advances to customers. During the financial year ended 30 June 2019 the majority of the NZ Banking Group's individually assessed allowances for specific advances related primarily to commercial and rural advances to customers, classified as corporate exposures in note 19(c). If an individually assessed advance to customer is not impaired, it is then included in a group of advances to customers with similar risk characteristics and, along with those advances to customers below the specific thresholds referred above, is collectively assessed on a portfolio basis using models developed by management. NZ IFRS 9 introduces an ECL impairment model which takes into account forward-looking information reflecting potential future economic events. The NZ Banking Group developed new models which are reliant on data as well as a number of estimates including the impact of multiple economic scenarios and other	We developed an understanding of the controls relevant to our audit over the following areas and assessed whether they were appropriately designed and were operating effectively throughout the year on a sample basis: · Identification of impaired advances to customers; · Review and approval of forward looking information used in ECL models; · Reliability and accuracy of critical data elements used in ECL models; and · Review and approval of ECL model adjustments and the allowance for ECL by the Loan Loss Provisioning Committee (LLPC). In addition to controls testing, we along with PwC actuarial experts, performed the following audit procedures, amongst others on a sample basis: · Examined management's individually assessed allowance calculations by assessing key judgements (in particular the amount and, where appropriate, the timing of recoveries) made by management in the context of the borrowers' circumstances based on the detailed loan and counterparty information known by the NZ Banking Group, and compared key inputs and estimates (such as valuation of collateral held) to external information where available;

PwC

assumptions such as defining a significant increase in credit risk.

We considered this a key audit matter due to the subjective judgements made by the NZ Banking Group in determining when to recognise allowances for expected credit losses including:

- Models used to calculate ECLs (ECL models) are inherently complex and judgement is applied in determining the appropriate construct of model to be applied; and
- A number of assumptions are made by the NZ Banking Group concerning the values of inputs to the ECL models and how inputs correlate with one another.

Relevant references in the financial statements

Refer notes 1(m) and 19 for further information.

- Assessed the ECL model methodology applied against general market practice and the results of model monitoring performed;
- Considered the NZ Banking Group's judgements including the reasonableness of forward-looking information incorporated into the ECL models by assessing the forecasts, assumptions and probability weightings applied in the multiple economic scenarios against market information or other evidence;
- Agreed a sample of data used as inputs to the ECL models to relevant source documentation; and
- Assessed the appropriateness of model adjustments identified by the NZ Banking Group by agreeing to internal and external supporting information as appropriate and performing sensitivity analysis.

We also assessed the appropriateness of the NZ Banking Group's disclosures against the requirements of NZ IFRS. From the procedures performed 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 applications controls relevant to our audit, we performed alternative or additional audit procedures.

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

The Directors of 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 (ix) 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 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, as a whole, and the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note 44) 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/assurance-standards/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

PwC

pwc

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 44) for the year ended 30 June 2019:

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

(ii) in our opinion, proper accounting records have been kept by the 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 44 of the financial statements of the NZ Banking Group for the year ended 30 June 2019.

Our conclusion

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note 44, 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 44, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

Independent Auditor's Report (continued)

pwc

A review of the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note 44 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 44.

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 of funds managed by the NZ Banking Group, a system data migration review and other assurance and audit-related services. Other assurance and audit-related services include assurance over compliance with regulations, internal controls and audit related agreed upon procedure engagements. In addition, certain partners and employees of our firm may deal with the 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 Auckland
7 August 2019

PwC