Commonwealth Bank of Australia
New Zealand Operations

Disclosure Statement

For the year ended 30 June 2021

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 2021 are set out in note 22 of the financial statements of the NZ Banking Group for the year ended 30 June 2021. For the purposes of "6.0 Conditions of Registration for Commonwealth Bank of Australia in New Zealand" the NZ Banking Group is the "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. For the purposes of "6.0 Conditions of Registration for Commonwealth Bank of Australia in New Zealand" the Branch is the "business of the registered bank in New Zealand".

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 be obtained from the CBA website (www.commbank.com.au/about-us/our-company/international-branches/new-zealand.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. A copy of the Overseas Banking Group's financial statements can be obtained from the CBA website (www.commbank.com.au/about-us/investors.html).

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 or amounts excluded under APRA's prudential standards) in Australia of a value that is equal to or greater than the total amount of its deposit liabilities in Australia, unless APRA has authorised the ADI to hold assets of a lesser value. This requirement has the potential to impact on the management of the liquidity of the New Zealand operations of the Overseas Bank in extreme circumstances.

4.0 Guarantee Arrangements

No material obligations of the Commonwealth Bank of Australia that relate to the Branch are guaranteed as at the date of signing this Disclosure Statement.

General Disclosures

(To be read in conjunction with the Financial Statements)

5.0 Directors of the Overseas Bank as at the signing date of this Disclosure Statement

Name	**C.B. (Catherine) Livingstone AO**
Position	Chairman and Independent Non-Executive Director
Primary occupation	Company director
Residence	New South Wales, Australia
External directorships and interests	The Australian Ballet Board, the University of Technology Sydney (Chancellor), and the CSIRO Australia Telescope National Facility Steering Committee.
Qualifications	BA (Hons) (Accounting), 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	**P.F. (Paul) O'Malley**
Position	Independent Non-Executive Director
Primary occupation	Company director
Residence	Victoria, Australia
External directorships and interests	Coles Group Limited (Director) and Australian Catholic Redress Limited (Chairman).
Qualifications	BCom, M. App Finance, Associated Chartered Accountant (Chartered Accountants Australia New Zealand)

Name	**M.P. (Matt) Comyn**
Position	Executive Director
Primary occupation	Managing Director and Chief Executive Officer
Residence	New South Wales, Australia
External directorships and interests	Australian Banking Association Council (Chairman), UNICEF Australia and the Financial Markets Foundation for Children.
Qualifications	EMBA (Sydney University), MCom and BAv (University of New South Wales), GMP (Harvard Business School)

Name	**S.P. (Simon) Moutter**
Position	Independent Non-Executive Director
Primary occupation	Company director
Residence	Auckland, New Zealand
External directorships and interests	Smart Environmental Ltd (Director and Operating Partner), Taconic Midco Ltd (Director and Operating Partner), Intellihub Ltd (Director and Operating Partner) and Designer Wardrobe Ltd (Chairman).
Qualifications	BSc, BE (Hons), ME

Name	**S. (Shirish) Apte**
Position	Independent Non-Executive Director
Primary occupation	Company director
Residence	Singapore
External directorships and interests	Keppel Corporation Limited (Director), Fullerton India Credit Company Limited (Chairman) and Aviva Sing Life Holdings (Director).
Qualifications	Associated Chartered Accountant (Institute Chartered Accountants England), BCom (Calcutta), MBA (London Business School)

Name	**M.L. (Mary) Padbury**
Position	Independent Non-Executive Director
Primary occupation	Company director
Residence	Victoria, Australia
External directorships and interests	The Macfarlane Burnet Institute for Medical Research and Public Health Ltd (Chairman) and Chief Executive Women (Member).
Qualifications	BA LLB (Hons) (University of Melbourne), Australian Institute of Company Directors (Graduate)

Name	**G. (Genevieve) Bell AO**
Position	Independent Non-Executive Director
Primary occupation	Company director
Residence	Australian Capital Territory, Australia
External directorships and interests	Australian National University Florence Violet McKenzie (Chair), School of Cybernetics (Director) and the 3A Institute College of Engineering and Computer Science (Director) at Australian National University, National Science and Technology Council (Member) and SRI International (Engelbart Distinguished Fellow).
Qualifications	PhD (Stanford), MA (Stanford), MPhil, BA (Bryn Mawr College), Australian Academy of Technological Sciences and Engineering (Fellow)

Name	**A.L. (Anne) Templeman-Jones**
Position	Independent Non-Executive Director
Primary occupation	Company director
Residence	New South Wales, Australia
External directorships and interests	GUD Holdings Limited (Director), Worley Limited (Director), Cyber Security Research Centre Limited (Director), Blackmores Limited (Chairman) New South Wales Treasury Corporation (Director).
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)

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(To be read in conjunction with the Financial Statements)

5.0 Directors of the Overseas Bank as at the signing date of this Disclosure Statement (continued)

Name	**P.G. (Peter) Harmer**
Position	Independent Non-Executive Director
Primary occupation	Company director
Residence	New South Wales, Australia
External directorships and interests	AUB Group Limited (Director), Merryck & Co ANZ (Executive Mentor), NIB Holdings Ltd (Director) and the Bain Advisory Council (Member).
Qualifications	Harvard Advanced Management Program

Name	**R.J. (Rob) Whitfield AM**
Position	Independent Non-Executive Director
Primary occupation	Company director
Residence	New South Wales, Australia
External directorships and interests	GPT Group (Director) and Transurban Limited (Director).
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	**A.J. (Andrew) Woodward**
Primary occupation	Managing Director, Commonwealth Bank of Australia, New Zealand Branch
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 AO and Rob Whitfield AM. All members of the Audit Committee are independent directors.

5.3 Name and Address for Service of Auditor

PricewaterhouseCoopers
Chartered Accountants
PricewaterhouseCoopers Tower
15 Customs Street West
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 March 2021, 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

General Disclosures

(To be read in conjunction with the Financial Statements)

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 ending on or before 30 September 2021, 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 ending on or after 31 October 2021, 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 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

11. 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.

12. 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 12 –

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the 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.

General Disclosures

(To be read in conjunction with the Financial Statements)

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

"loan-to-valuation measurement period" means -

(a) the six calendar month period ending on the last day of August 2021; and

(b) thereafter 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 September 2021.

6.1 Changes to Conditions of Registration

The Reserve Bank of New Zealand ("RBNZ") amended the Conditions of Registration of the Branch, effective 1 March 2021, to reinstate restrictions on new residential lending at high loan-to-valuation.

As at 30 June 2021, 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 or the NZ Banking Group.

8.0 Other Material Matters

Aligned Advisor Remediation

Aligned advisors were not employed by the Overseas Banking Group but were representatives authorised to provide financial advice under the licences of the Overseas Banking Group's subsidiaries, Financial Wisdom Limited ("FWL"), Count Financial Limited ("Count Financial") and Commonwealth Financial Planning Limited-Pathways ("CFP-Pathways").

The Overseas Banking Group completed the sale of Count Financial to CountPlus Limited ("CountPlus") on 1 October 2019, and ceased providing licensee services through CFP-Pathways and Financial Wisdom in March and June 2020, respectively. The Bank entered into reimbursement agreements with Financial Wisdom and CFP-Pathways, and an indemnity deed with CountPlus, to cover potential remediation of past issues including ongoing service fees charged where no service was provided.

During the year ended 30 June 2021, the Overseas Banking Group recognised an increase in the provision for Aligned Advice remediation issues and program costs of AUD273 million, including ongoing service fees charged where no service was provided.

As at 30 June 2021, the provision held by the Overseas Banking Group in relation to Aligned Advice remediation was AUD1,018 million (30 June 2020: AUD804 million). The provision includes AUD468 million for customer fee refunds (30 June 2020: AUD418 million), AUD423 million for interest on fees subject to refunds (30 June 2020: AUD280 million) and AUD127 million for costs to implement the remediation program (30 June 2020: AUD106 million).

The Overseas Banking Group's estimate of the proportion of fees to be refunded is based on sample testing and allows for a threshold below which customers will be automatically refunded without detailed assessment. It assumes an average refund rate across licensees of 39% (30 June 2020: 37%). 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 AUD20 million. The Overseas Banking Group is continuing to engage with the Australian Securities and Investment Commission ("ASIC") in relation to its remediation approach.

Banking and Other Wealth Customer Remediation

As at 30 June 2021, the provision held by the Overseas Banking Group in relation to Banking and other Wealth Management customer remediation programs was AUD159 million (30 June 2020: AUD227 million). The provision for Banking remediation includes an estimate of customer refunds (including interest) relating to business and retail banking products (including bank guarantees, cash deposit accounts, merchants billing and certain other lending products), and the related program costs. The wealth remediation provision includes an estimate of customer refunds (including interest) relating to advice quality, the Consumer Credit Insurance products, certain superannuation and other products, and the related program costs.

Shareholder Class Actions

In October 2017 and June 2018 two separate shareholder class action proceedings were filed against CBA 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 against CBA by the 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 AUSTRAC civil penalty proceedings was approved by the Federal Court on 20 June 2018 with CBA paying a penalty of AUD700 million and legal costs.

It is alleged in the class actions that CBA shareholders who acquired an interest in CBA shares between 16 June 2014 and 3 August 2017 suffered losses as a result of the alleged conduct. The two class actions are being case managed together, with a single harmonised statement of claim. CBA denies the allegations made against it, and it is currently not possible to determine the ultimate impact of these claims, if any, on the Overseas Banking Group. The Overseas Banking Group has provided for legal costs expected to be incurred in the defence of the claims.

General Disclosures

(To be read in conjunction with the Financial Statements)

8.0 Other Material Matters (continued)

Superannuation Class Actions

The Overseas Banking Group is also defending four class action claims in relation to superannuation products.

On 9 October 2018, a class action was filed against Colonial First State Investments Limited ("CFSIL") and CBA in the Federal Court of Australia. The claim initially related to investments in cash and deposit options (which are cash and deposit products provided by CBA) in the Colonial First State First Choice Superannuation Trust ("FirstChoice Fund") and Commonwealth Essential Super ("CES"). A second further amended statement of claim and amended application was filed on 2 June 2020, joining Avanteos Investments Limited ("AIL") as a party in respect of claims regarding the FirstWrap Pooled Cash Account and expanding the existing claims made against CFSIL and CBA. The main claims are that members invested in these cash and deposit options received lower interest rates than they could have received had CFSIL/AIL offered similar products made available in the market by another bank with comparable risk and that CFSIL/AIL retained the margin that arises through the internal transfer pricing process in respect of deposits made with CBA, for their own benefit. It is claimed CFSIL/AIL breached their duties as a trustee of the funds, CFSIL breached its duties as a Responsible Entity of the underlying managed investment schemes and that CBA was involved in CFSIL/AIL's breaches. CBA, CFSIL and AIL deny the allegations and are defending the proceedings.

On 18 October 2019, a second class action was commenced against CFSIL in the Federal Court of Australia. The claim relates to certain fees charged to members of the FirstChoice Fund. It is alleged that CFSIL breached its duties as trustee and acted unconscionably because it failed, between 2013 and 2019, to take steps to avoid the payment of grandfathered commissions to financial advisers, which would have resulted in a reduction of the fees paid by members in respect of whom those commissions were paid. CFSIL denies the allegations and is defending the proceedings. A mediation in this matter is likely in the last quarter of 2021.

On 24 October 2019, a third class action was filed against CFSIL and a former executive director of CFSIL in the Federal Court of Australia, relating to alleged contraventions of statutory obligations under superannuation law and trustee breaches in the period 2013 to 2017. The class action relates to the transfer of certain default balances held by members of FirstChoice Employer Super to a MySuper product. The key allegation is that members should have been transferred to a MySuper product earlier than they were, and that the alleged failure to effect the transfer as soon as reasonably practicable caused affected members to pay higher fees and receive lower investment returns during the period of delay. CFSIL and its former director deny the allegations and are defending the proceedings. A mediation in this matter is likely in the first quarter of 2022.

On 22 January 2020, a fourth class action was filed against CFSIL and The Colonial Mutual Life Assurance Society Limited ("CMLA") in the Federal Court of Australia. The class action alleges that CFSIL did not act in the best interests of members and breached its trustee duties when taking out group insurance policies obtained from CMLA. The key allegation is that CFSIL entered into and maintained insurance policies with CMLA on terms that were less favourable to members than would have reasonably been available in the market. It is alleged that CMLA was knowingly involved in CFSIL's contraventions as trustee and profited from those contraventions. CFSIL and CMLA deny the allegations and are defending the proceedings.

It is currently not possible to determine the ultimate impact of these claims on the Overseas Banking Group. The Overseas Banking Group has provided for the legal costs expected to be incurred in the defence of the claims.

Advice Class Action

On 21 August 2020, a class action was filed in the Federal Court of Australia against Commonwealth Financial Planning Limited ("CFP"), Financial Wisdom Limited ("FWL") and CMLA. The claim relates to certain CommInsure ("CMLA") life insurance policies recommended by financial advisers appointed by CFP and FWL during the period 21 August 2014 to 21 August 2020. The key allegations include that CFP and FWL or their financial advisers breached their fiduciary duties to their clients, breached their duty to act in the best interest of their clients, and had prioritised their own interests (and the interests of CFP, FWL and CMLA) over the interest of their clients, in recommending certain CommInsure life insurance policies in preference to substantially equivalent or better policies available at lower premiums from third party insurers. It is also alleged that CMLA is liable to account for excess premiums because it knew the material facts giving rise to the breaches of fiduciary duty. CFP, FWL and CMLA are defending the proceedings.

On 3 September 2020, CBA was notified of a class action commenced against Count Financial Limited ("Count") in the Federal Court of Australia on 24 August 2020. The proceeding relates to commissions paid to Count and its authorised representative financial advisers in respect of financial products (including insurance) and certain obligations of its financial advisers to provide ongoing advice in the period from 21 August 2014 to 21 August 2020. The claim also includes allegations (related to the receipt of commissions) that Count engaged in misleading or deceptive conduct, and that Count and its authorised representatives breached fiduciary duties owed to the applicant and group members. The claim seeks compensation and damages from Count, including any profits resulting from the contraventions.

Count was a wholly owned subsidiary of CBA until 1 October 2019, when it was acquired by CountPlus Limited. CBA has assumed the conduct of the defence in this matter on Count's behalf. Count is defending the proceedings.

It is currently not possible to determine the ultimate impact of these claims on the Overseas Banking Group. The Overseas Banking Group has provided for legal costs expected to be incurred in the defence of these claims.

US BBSW Class Action

In 2016, a class action was commenced in the United States District Court in New York against CBA, other banks and two brokers, claiming a conspiracy among competitors to manipulate the BBSW benchmark for mutual gain. The claims include allegations that United States racketeering and antitrust legislation have been contravened. In November 2018, the Court dismissed the claims against CBA and the other foreign defendants, but in April 2019, an amended complaint was filed that included new allegations and added a new named plaintiff. The defendants applied to the Court to dismiss the amended complaint. In February 2020, the judge determined that the new named plaintiff's claims could proceed against CBA and nine other banks. CBA denies the allegations made against it in the amended complaint.

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8.0 Other Material Matters (continued)

US BBSW Class Action *(continued)*

On 21 March 2021, CBA reached an agreement in principle with the plaintiffs to settle the action, the terms of which are currently confidential. The parties are in the process of negotiating the terms of a Deed of Settlement, which will be subject to Court approval. The approval hearing is likely to take place in 2022.

The Overseas Banking Group has provided for legal costs expected to be incurred in the matter and the agreed settlement sum.

Consumer Credit Insurance Class Action

On 10 June 2020, a class action was commenced against CBA and CMLA in the Federal Court of Australia. The claim relates to consumer credit insurance for credit cards and personal loans that was sold between 1 January 2010 and 7 March 2018. The class action alleges that CBA and CMLA engaged in unconscionable and misleading or deceptive conduct, failed to act in the best interests of customers and provided them with inappropriate advice. In particular, it is alleged that some customers were excluded from claiming certain benefits under the policies and the insurance was therefore unsuitable or of no value. Allegations are also made in relation to the manner in which the insurance was sold. CBA and CMLA deny the allegations and are defending the proceedings.

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 legal costs expected to be incurred in the defence of this claim.

ASIC Regulatory Enforcement Proceedings

CFSIL My Super (29WA)

On 17 March 2020, ASIC commenced civil penalty proceedings against CFSIL in the Federal Court of Australia for alleged breaches of the Australian Securities and Investments Commission Act 2001 (Cth) ("ASIC Act") and Corporations Act 2001 (Cth) ("Corporations Act") arising from communications with members of the FirstChoice Fund. In 2012, the Australian government passed legislation requiring trustees, such as CFSIL, to allocate member contributions to a default MySuper superannuation product in certain circumstances including where a written investment direction had not been provided by the member. ASIC alleges, amongst other things, that CFSIL communicated with members both in template letters and on telephone calls, in a misleading or deceptive manner regarding the provision of investment directions to stay with CFSIL's FirstChoice Fund rather than transitioning to CFSIL's MySuper product.

CFSIL filed its response to the claim on 17 July 2020. ASIC filed an amended statement of claim which, amongst other things, includes additional telephone calls which it alleges were misleading or deceptive. A defence to the amended statement of claim was filed on 11 December 2020. A hearing on the question of liability has been listed for 6 September 2021.

It is currently not possible to determine the ultimate impact of this claim on the Overseas Banking Group. The Overseas Banking Group has provided for legal costs expected to be incurred in the defence of this claim.

Commonwealth Essential Super

On 22 June 2020, ASIC commenced civil penalty proceedings against CFSIL and CBA in the Federal Court of Australia for alleged contraventions of the conflicted remuneration provisions in the Corporations Act relating to the arrangements between CFSIL and CBA for the distribution of CES. CES is a MySuper product issued by CFSIL.

CBA filed its defence to the proceedings on 24 August 2020 and CFSIL filed its defence on 25 August 2020. CBA and CFSIL deny the allegations and are defending the proceedings. A hearing on the question of liability has been listed for 26 April 2022.

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 legal costs expected to be incurred in the defence of this claim.

CBA Business Overdraft Proceedings

On 1 December 2020, ASIC commenced civil penalty proceedings against CBA in this matter in the Federal Court of Australia. CBA did not defend the proceedings. On 12 February 2021, consistent with CBA's admissions, the Court made declarations that CBA contravened the general obligations under the Corporations Act and certain misleading and deceptive conduct provisions of the ASIC Act, in relation to overcharging of interest on certain business overdraft accounts for the period 1 December 2014 to 31 March 2018.

The overcharging affected 2,269 customers. The affected customers have been sent refunds and CBA's remediation program has concluded. At a hearing on 6 April 2021, the judge ordered CBA to pay a penalty of AUD7 million, which has now been paid. The Court is also considering the appropriate form of a corrective notice to be published by CBA.

The Overseas Banking Group has provided for legal costs expected to be incurred in relation to the Court's consideration of the corrective notice.

CommSec/AUSIEX

On 1 March 2021, ASIC commenced proceedings against Commonwealth Securities Limited ("CommSec") and Australian Investment Exchange Limited ("AUSIEX") in the Federal Court of Australia. The proceedings relate to a number of issues including regulatory data requirements, trade confirmations requirements, client monies and brokerage issues. CommSec and AUSIEX are not defending the proceedings. A hearing has been listed for 3 March 2022 to determine penalties. CommSec and AUSIEX have also agreed to enter into a court-ordered compliance program.

AUSIEX was a subsidiary of the Overseas Banking Group until 3 May 2021. CBA has assumed carriage of the proceedings on AUSIEX's behalf. It is currently not possible to determine the ultimate impact of this claim on the Overseas Banking Group. The Overseas Banking Group has provided for legal costs expected to be incurred in this matter.

General Disclosures

(To be read in conjunction with the Financial Statements)

8.0 Other Material Matters (continued)

ASIC Regulatory Enforcement Proceedings*(continued)*

Monthly Account Fees

On 31 March 2021, ASIC commenced proceedings against CBA in the Federal Court of Australia. The proceedings relate to errors by CBA between 1 June 2010 and 11 September 2019 where monthly account fee waivers were not applied to accounts for certain customers. ASIC is alleging contraventions of certain misleading and deceptive conduct provisions of the ASIC Act and breaches of the general obligations under the Corporations Act. CBA does not accept the way the alleged contraventions have been formulated in the proceedings and is defending the proceedings.

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 legal costs expected to be incurred in the defence of this claim.

Fair Work Ombudsman ("FWO") Investigation

The FWO is investigating the Overseas Banking Group's employee entitlement review and potential breaches by CBA and its related entities, including CommSec, of the Overseas Banking Group's current and previous enterprise agreements and of the Fair Work Act 2009 (Cth). CBA self-disclosed these matters to the FWO and CBA continues to engage with FWO and respond to notices and requests for information.

It is currently not possible to determine the ultimate impact of this investigation on the Overseas Banking Group.

CBA is continuing with its broad review of employee entitlements and is remediating impacted current and former employees as the review progresses. CBA continue to update both the FWO and the Finance Sector Union. The Overseas Banking Group holds a provision for remediation and program costs related to this matter.

Enforceable Undertaking to ASIC (foreign exchange)

In December 2016, CBA provided an enforceable undertaking ("EU") to ASIC arising from an investigation into wholesale spot foreign exchange (FX) trading between 2008 and 2013. ASIC accepted a variation to the EU on 16 October 2020. The EU included the engagement of an independent expert, to review and assess the changes CBA have made to its trading operating model in recent years, including in training, procedures and oversight.

The EU also included a voluntary contribution of AUD2.5 million to support the further development of financial literacy education relating to changes to delivery of care in the aged care sector. CBA continues to implement the terms of the varied EU.

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 focusing on the governance, culture and accountability frameworks and practices within the Overseas Banking Group. 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 would implement all of the recommendations and agreed to adjust its minimum operational risk capital requirements by an additional AUD1 billion (an impact to risk weighted assets of AUD12.5 billion) until such time as the recommendations are implemented to APRA's satisfaction.

CBA has entered into an EU 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 is continuing to provide APRA with quarterly progress reports, and CBA is committed to report publicly on its progress against the Remedial Action Plan twice a year. Twelve Promontory reports have been released. Promontory has noted that the Remedial Action Plan program of work remains on track and all 35 recommendations have now been delivered to Promontory as the independent reviewer by the scheduled due date.

In November 2020 APRA completed a validation review of the Overseas Banking Group's progress and found that it had made significant progress in implementing the Remedial Action Plan and reduced the minimum operational risk capital requirements from an additional AUD1 billion to an additional AUD500 million.

Financial Crime Compliance

As noted above, in 2018 the Overseas Banking Group resolved the AUSTRAC proceedings relating to contraventions of anti-money laundering/counter-terrorism financing ("AML/CTF") laws.

Recognising the crucial role that the Overseas Banking Group plays in fighting financial crime, it continues to invest significantly in its financial crime capabilities, including in its AML/CTF Compliance team and through the Program of Action with coverage across all aspects of financial crime (including AML/CTF, sanctions and anti-bribery and corruption) and all business units.

The Overseas Banking Group provides updates to AUSTRAC and the Overseas Banking Group's other regulators on the Program of Action implemented by the Overseas Banking Group.

However, there is no assurance that AUSTRAC or the Overseas Banking Group's other regulators will agree that the Overseas Banking Group's Program of Action will be adequate or that the Program of Action will effectively enhance the Overseas Banking Group's financial crime compliance programs across its business units and the jurisdictions in which it operates. Although the Overseas Banking Group is not currently aware of any other enforcement action by other domestic or foreign regulators in respect of its financial crime compliance, the Overseas Banking Group regularly engages with such regulators (including in respect of compliance matters) and there can be no assurance that the Overseas Banking Group will not be subject to such enforcement actions in the future.

General Disclosures

(To be read in conjunction with the Financial Statements)

8.0 Other Material Matters (continued)

Enforceable Undertaking to ASIC (Bank Bill Swap Rate)

On 21 June 2018, the Federal Court approved an agreement between CBA and ASIC to resolve proceedings concerning alleged market manipulation and unconscionable conduct in respect of the bank bill market. CBA 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 an earlier period.

As part of the settlement CBA also entered into an EU 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-referenced product businesses. On 5 October 2018, CBA appointed EY as the independent expert.

CBA has developed an enhanced control framework as part of the Final BBSW program. CBA is implementing the program in accordance with the terms of the enforceable undertaking.

Enforceable Undertaking to the Office of Australian Information Commission

In June 2019, the Australian Information and Privacy Commissioner (the "Commissioner") accepted an EU offered by CBA, which requires further enhancements to the management and retention of customer personal information within CBA and certain subsidiaries.

The EU follows CBA's 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 the incidents to the Commissioner in 2016 and 2018 respectively and has since addressed these incidents. CBA found no evidence that as a result of these incidents, its customers' personal information was compromised or that there have been any instances of unauthorised access by CBA employees or third parties.

The Overseas Banking Group has provided for certain costs associated with implementation and compliance with the EU provided to the Commissioner.

Exposures to divested businesses

The Overseas Banking Group has potential exposures to divested businesses, including through the provision of services, warranties and indemnities. These exposures may have an adverse impact on the Overseas Banking Group's financial performance and position. The Overseas Banking Group has recognised provisions where payments in relation to the exposures are probable and reliably measurable.

Reserve Bank Capital Review

In 2017 the Reserve Bank began a comprehensive review of the capital adequacy framework for locally incorporated registered banks in New Zealand. Final decisions were announced by the Reserve Bank in December 2019, with the formalised requirements published by the Reserve Bank on 17 June 2021 in 12 Banking Prudential Requirements (which will come into effect 1 October 2021). The new capital adequacy requirements consist of the following:

- The risk-weighted assets ("RWA") of internal rating based ("IRB") banks will increase to approximately 90% of that required under a standardised approach. This is achieved through an 85% output floor for credit risk RWA to apply from 1 January 2022 and an increase to the scalar applied to IRB credit risk RWA from 6% to 20% to apply from 1 October 2022. Dual reporting of IRB and standardised RWA will be required from 1 January 2022 for IRB banks;
- The buffer ratio will be renamed the prudential capital buffer ("PCB") and increase from 2.5% to 9.0% (for IRB banks) progressively between 1 July 2022 and 1 July 2028. The 9.0% PCB includes 1.5% countercyclical capital buffer, 2.0% domestic systemically important banks ("D-SIB") buffer and 5.5% conservation buffer. A Capital Buffer Response Framework will be introduced, which sets out three stages of escalating supervisory responses, including distribution restrictions which may be triggered if a bank fails to maintain the required PCB;
- Minimum Additional Tier 1 ("AT1") requirements will increase from 1.5% to 2.5% from 1 July 2024;
- Tier 2 capital will remain in the framework and can comprise 2% of the minimum Total Capital ratio; and
- Redeemable perpetual preference shares that are issued by banks will be eligible to qualify as AT1 capital. Existing capital instruments that have conversion features will no longer be eligible under the RBNZ's new capital criteria. The derecognition of non-qualifying AT1 and Tier 2 instruments will commence on 1 January 2022, with these instruments fully derecognised by 1 July 2028.

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")	A+	Stable
Moody's Investors Service Pty Limited ("Moody's")	Aa3	Stable

- On 8 April 2020, S&P affirmed CBA’s long-term issuer default rating at AA- and revised the outlook to negative from stable. On 7 June 2021, S&P affirmed CBA’s long-term issuer default rating at AA- and revised the outlook to stable from negative.
- On 7 April 2020, Fitch Ratings downgraded CBA’s long-term issuer default rating to A+ from AA- and affirmed the outlook as negative. On 12 April 2021, Fitch Ratings affirmed CBA’s long-term issuer default rating at A+ and revised the outlook to stable from negative.
- The Moody’s rating for CBA 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 'CCC' 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 2021:

- The Registered Bank has complied in all material respects with the 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 adequately monitor and control 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, operational risk and other business risks and that those systems are being properly applied.

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

A.J. Woodward
11 August 2021

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
11 August 2021

Commonwealth Bank of Australia New Zealand Banking Group

Financial Statements

For the year ended 30 June 2021

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Historical Summary of Financial Statements

$ millions	NZ Banking Group				
For the year ended 30 June	**2021**	2020	2019	2018	2017
Income Statement					
Interest income	**3,555**	4,176	4,500	4,324	4,141
Interest expense	**1,295**	2,129	2,459	2,410	2,414
Net interest income	**2,260**	2,047	2,041	1,914	1,727
Other income	**656**	638	715	646	618
Total operating income	**2,916**	2,685	2,756	2,560	2,345
Impairment (recoveries)/losses on financial assets	**(3)**	310	106	54	66
Total operating income after impairment losses	**2,919**	2,375	2,650	2,506	2,279
Total operating expenses	**1,153**	1,126	977	943	890
Net profit before tax	**1,766**	1,249	1,673	1,563	1,389
Tax expense	**509**	373	471	436	388
Net profit after tax	**1,257**	876	1,202	1,127	1,001
Net profit after tax attributable to non-controlling interests	**-**	-	13	13	13
Dividends and Repatriations Paid					
Perpetual preference dividends paid to non-controlling interests	**-**	-	13	13	13
Ordinary dividends paid[1]	**4**	3,348	625	550	323
Redeemable preference dividends paid	**-**	-	-	-	89
Profit repatriation	**35**	14	13	11	16
Total dividends and repatriations paid	**39**	3,362	651	574	441

$ millions	NZ Banking Group				
As at 30 June	**2021**	2020	2019	2018	2017
Balance Sheet					
Total assets	**120,810**	113,456	107,075	101,339	92,828
Individually impaired assets	**329**	406	370	474	384
Total liabilities	**111,574**	105,474	99,143	93,342	87,826
Total shareholders' equity	**9,236**	7,982	7,932	7,997	5,002
Head office contribution	**2,887**	2,887	2,887	2,887	462

[1] Refer to note 8 for further information on Ordinary dividends paid.

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 other income and operating expenses have been reclassified to ensure consistency with presentation in the current year.

Comparative information relating to 2020 has been restated due to a change in accounting policy related to the capitalisation of intangible assets. The change impacts the Total operating expenses, Tax expense and Total assets. Refer to the Changes in Accounting Policies section of note 1 on page 19 for more information.

Income Statement

$ millions **For the year ended 30 June**	Note	**NZ Banking Group** **2021**	 2020
Interest income	2	**3,555**	4,176
Interest expense	3	**1,295**	2,129
Net interest income		**2,260**	2,047
Other income	4	**656**	638
Total operating income		**2,916**	2,685
Impairment (recoveries)/losses on financial assets	17	**(3)**	310
Total operating income after impairment losses		**2,919**	2,375
Total operating expenses	5	**1,153**	1,126
Salaries and other staff expenses		**662**	632
Building occupancy and equipment expenses		**105**	109
Information technology expenses		**207**	180
Other expenses		**179**	205
Net profit before tax		**1,766**	1,249
Tax expense	7	**509**	373
Net profit after tax		**1,257**	876

Statement of Comprehensive Income

$ millions **For the year ended 30 June**	Note	**NZ Banking Group** **2021**	 2020
Net profit after tax		**1,257**	876
Other comprehensive income, net of tax			
Items that will not be reclassified to the Income Statement:			
Net change in asset revaluation reserve	34	**(1)**	3
Items that may be reclassified subsequently to the Income Statement:			
Net change in fair value through other comprehensive income reserve	34	**50**	-
Net change in cash flow hedge reserve	34	**(13)**	33
		37	33
Total other comprehensive income, net of tax		**36**	36
Total comprehensive income		**1,293**	912

These statements are to be read in conjunction with the notes on pages 8 to 80 and the Independent Auditor's Report on pages 81 to 87.

Statement of Changes in Equity

$ millions	Note	Head Office Contribution	Contributed Capital	Asset Revaluation Reserve	Cash Flow Hedge Reserve	FVOCI Reserve[1]	Retained Earnings	Total Share-holders' Equity
		NZ Banking Group						
For the year ended 30 June 2021								
Balance at beginning of year		**2,887**	**3,167**	**33**	**(110)**	**5**	**2,000**	**7,982**
Net profit after tax		**-**	**-**	**-**	**-**	**-**	**1,257**	**1,257**
Other comprehensive income/(expense)		**-**	**-**	**(1)**	**(13)**	**50**	**-**	**36**
Total comprehensive income/(expense)		**-**	**-**	**(1)**	**(13)**	**50**	**1,257**	**1,293**
Ordinary dividends paid	8	**-**	**-**	**-**	**-**	**-**	**(4)**	**(4)**
Profit repatriation		**-**	**-**	**-**	**-**	**-**	**(35)**	**(35)**
Balance as at 30 June 2021		**2,887**	**3,167**	**32**	**(123)**	**55**	**3,218**	**9,236**
For the year ended 30 June 2020								
Balance at beginning of year		2,887	667	30	(143)	5	4,486	7,932
Net profit after tax		-	-	-	-	-	876	876
Other comprehensive income		-	-	3	33	-	-	36
Total comprehensive income		-	-	3	33	-	876	912
Share capital issued	33	-	2,500	-	-	-	-	2,500
Ordinary dividends paid	8	-	-	-	-	-	(3,348)	(3,348)
Profit repatriation		-	-	-	-	-	(14)	(14)
Balance as at 30 June 2020		2,887	3,167	33	(110)	5	2,000	7,982

[1] FVOCI Reserve refers to Fair value through other comprehensive income reserve.

These statements are to be read in conjunction with the notes on pages 8 to 80 and the Independent Auditor's Report on pages 81 to 87.

Balance Sheet

$ millions		NZ Banking Group	
As at 30 June	Note	**2021**	2020
Assets			
Cash and liquid assets	9	**4,684**	5,668
Due from financial institutions	10	**293**	532
Securities at fair value through other comprehensive income	11	**10,973**	10,703
Derivative assets	12	**854**	1,756
Advances to customers	13	**102,566**	93,266
Other assets	23	**310**	349
Property, plant and equipment	24	**413**	452
Intangible assets	25	**453**	452
Deferred tax assets	26	**264**	278
Total assets		**120,810**	113,456
Total interest earning and discount bearing assets		***118,727***	*110,486*
Liabilities			
Deposits and other borrowings	27	**79,921**	75,919
Due to financial institutions	28	**1,046**	1,848
Derivative liabilities	12	**597**	940
Current tax liabilities		**125**	119
Other liabilities	29	**596**	887
Provisions	30	**166**	144
Debt issues:			
At fair value through Income Statement	31	**6,079**	545
At amortised cost	31	**16,057**	18,063
Loan capital	32	**6,987**	7,009
Total liabilities		**111,574**	105,474
Shareholders' Equity			
Head office contribution	33	**2,887**	2,887
Contributed capital - ordinary shares	33	**3,167**	3,167
Reserves	34	**(36)**	(72)
Retained earnings		**3,218**	2,000
Ordinary shareholder's equity		**9,236**	7,982
Total shareholders' equity		**9,236**	7,982
Total liabilities and shareholders' equity		**120,810**	113,456
Total interest and discount bearing liabilities		***98,034***	*94,512*

The Board of Directors authorised these financial statements for issue on 11 August 2021

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 80 and the Independent Auditor's Report on pages 81 to 87.

Cash Flow Statement

$ millions		NZ Banking Group	
For the year ended 30 June	Note	**2021**	2020
Cash flows from operating activities			
Net profit before tax		**1,766**	1,249
Reconciliation of net profit before tax to net cash flows from operating activities			
Non-cash items included in net profit before tax:			
Depreciation of property, plant and equipment	5	**78**	77
Amortisation of intangible assets	5	**63**	55
Net change in allowance for expected credit loss and bad debts written off		**13**	323
Amortisation of loan establishment fees		**86**	58
Net change in fair value of financial instruments and hedged items		**(207)**	120
Other non-cash items		**106**	(3)
Items classified as investing activities included in net profit before tax:			
(Gain)/loss on sale from disposal of subsidiaries or associates		**(3)**	29
Net (increase)/decrease in operating assets:			
Net change in reverse repurchase agreements		**718**	700
Net change in due from financial institutions		**238**	(14)
Net change in securities at fair value through other comprehensive income		**(929)**	(1,686)
Net change in derivative assets		**(316)**	949
Net change in advances to customers		**(9,398)**	(3,240)
Net change in other assets		**47**	(32)
Net increase/(decrease) in operating liabilities:			
Net change in deposits and other borrowings		**3,662**	8,271
Net change in due to financial institutions		**(820)**	663
Net change in derivative liabilities		**628**	(555)
Net change in other liabilities		**(381)**	123
Net tax paid		**(500)**	(523)
Net cash flows from operating activities		**(5,149)**	6,564
Cash flows from investing activities			
Cash was provided from:			
Proceeds from disposal of subsidiaries or associates		**-**	21
Total cash inflows provided from investing activities		**-**	21
Cash was applied to:			
Net increase in investment in subsidiaries or associates		**(4)**	-
Purchase of property, plant and equipment		**(33)**	(39)
Purchase of intangible assets		**(69)**	(75)
Total cash outflows applied to investing activities		**(106)**	(114)
Net cash flows from investing activities		**(106)**	(93)
Cash flows from financing activities			
Cash was provided from:			
Issue of debt securities (net of issue costs)	31	**12,435**	3,340
Total cash inflows provided from financing activities		**12,435**	3,340
Cash was applied to:			
Redemption of debt securities	31	**(7,860)**	(6,553)
Payment of lease liabilities	35	**(36)**	(35)
Ordinary dividends paid	8	**(4)**	(848)
Total cash outflows applied to financing activities		**(7,900)**	(7,436)
Net cash flows from financing activities		**4,535**	(4,096)
Summary of movements in cash flows			
Net increase/(decrease) in cash and cash equivalents		**(720)**	2,375
Add: cash and cash equivalents at beginning of year		**3,374**	999
Cash and cash equivalents at end of year		**2,654**	3,374
Cash and cash equivalents comprise:			
Cash and liquid assets	9	**4,684**	5,668
Less: reverse repurchase agreements included in cash and liquid assets	9	**(2,030)**	(2,294)
Cash and cash equivalents at end of year		**2,654**	3,374
Additional operating cash flow information			
Interest received as cash		**3,733**	4,335
Interest paid as cash		**(1,341)**	(2,147)

These statements are to be read in conjunction with the notes on pages 8 to 80 and the Independent Auditor's Report on pages 81 to 87.

Notes to the Financial Statements

For the year ended 30 June 2021

1 Statement of Accounting Policies

General Accounting Policies

The reporting entity is the NZ Banking Group which is an aggregation of ASB Holdings Limited, ASB Bank Limited ("ASB") and its controlled entities (the "ASB Banking Group"), the Branch, CBA Funding (NZ) Limited and its subsidiaries, CBA NZ Holding Limited and its subsidiary (up until 29 June 2021), and ASB Funding Limited (up until 1 November 2019). 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 2021 have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (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.

Basis of Preparation

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

Critical Accounting Estimates and Judgements

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

Allowance for Expected Credit Loss

The NZ Banking Group considers the allowance for expected credit loss ("ECL") on Advances to customers as an area that requires the most significant management judgement and estimation. Due to the ongoing COVID-19 pandemic, estimation uncertainty remains at a heightened level, including in relation to the efficacy and progress of vaccination programmes, continuing disruption to business activity from efforts to contain the spread of the virus, and potential future outbreaks.

A number of customers have been financially affected by the pandemic, and there is continued uncertainty as to the severity and duration of the domestic and global economic impacts.

The impacts of the pandemic have been considered when:

- Judging whether there is a significant increase in credit risk, or whether an amount is past-due or credit-impaired; and
- Estimating forward looking information (including updates to macroeconomic scenarios and weightings, and management adjustments).

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

Financial instruments

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

New Standards (effective 1 July 2020)

Amendments to existing standards adopted in the reporting period did not have a material impact on the NZ Banking Group.

New Standards (not yet effective)

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

- NZ IFRS 9 *Financial Instruments - Hedge accounting*

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

  The NZ IFRS 9 hedge accounting requirements also include a new approach for the cost of hedging, which is expected to be the key impact for the 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.

1 Statement of Accounting Policies (continued)

New Standards (not yet effective) (continued)

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

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

  The key amendments include the following:

  - A practical expedient for changes in contractual cash flows required by the reform: an entity will not have to derecognise or adjust the carrying amount of financial instruments but will instead update the effective interest rate to reflect the change to the alternative benchmark rate.
  - Hedge accounting: an entity will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets all the other hedge accounting criteria; and
  - Additional disclosures: an entity will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

  IBOR reform programme

  During 2019 the NZ Banking Group established a steering committee ("the committee"), to oversee the NZ Banking Group's IBOR transition plan. The committee consists of key information technology, finance, legal and compliance, risk, and treasury personnel and has put in place a transition project for those contracts which reference London Interbank Offered Rates ("LIBOR") to transition them to alternative risk-free reference rates. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting outcomes. As at 30 June 2021, changes required to systems, processes and models are being identified and testing plans are being developed. The project aims to minimise potential disruption to business and mitigate operational and conduct risks.

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

Presentation Currency and Rounding

The financial statements are presented in New Zealand dollars, which is the NZ Banking Group's functional and presentation currency. All amounts 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 the purposes of assessing control, the NZ Banking Group acts as a principal when there are no substantial removal rights and when its economic interest is 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.

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

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

The NZ Banking Group exercises judgement to assess whether a SE should be consolidated based on the NZ Banking Group's power over the relevant activities of the entity and the significance of its exposure to variable returns of the SE. Where the NZ Banking Group has control of a SE, it is consolidated in the NZ Banking Group's financial statements (refer to notes 20 and 22). The NZ Banking Group does not consolidate a SE that it does not control.

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

(b) Segment Reporting

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

Notes to the Financial Statements

For the year ended 30 June 2021

1 Statement of Accounting Policies (continued)

(c) Foreign Currency Translation

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

(d) Revenue Recognition

INTEREST INCOME AND EXPENSE

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

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

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

TRADING INCOME

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

OTHER INCOME

Dividends are distributions of profits to holders of equity instruments in proportion to their holdings of a particular class of capital. Dividend income is recorded in the Income Statement when the 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 (other than those included in trading income above) are included in Other income.

REVENUE FROM CONTRACTS WITH CUSTOMERS

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 as the performance obligation is met (which is over the period of service).

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

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

(e) Expense Recognition

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

(f) Financial Instruments

BASIS OF RECOGNITION AND MEASUREMENT

The 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 note 1(k).

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

FINANCIAL ASSET DEBT INSTRUMENTS

Financial asset debt instruments are classified on the basis of two criteria:

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

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

Notes to the Financial Statements

For the year ended 30 June 2021

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

FINANCIAL ASSET DEBT INSTRUMENTS (continued)

- 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.

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

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

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

Financial assets in this category include:

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

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

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

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

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

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

Financial assets in this category include Securities at FVOCI.

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

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

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

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH INCOME STATEMENT

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

When the 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 note 1(g) for more details on derivatives.

Debt Issues: At Fair Value through Income Statement
This category includes all debt issues that are designated as at FVTIS and primarily consists of issued paper. Debt issues have been designated as at FVTIS, where the 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 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 FVTIS or included in debt issues. This includes transactional and savings accounts, term deposits, certificates of deposit, credit balances on cards, foreign currency accounts and repurchase agreements.

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

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

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

Loan Capital
Loan capital is debt issued by the NZ Banking Group with terms and conditions that qualify it for inclusion as capital under RBNZ's prudential standards. Refer to note 32, and note 41 for further information on regulatory capital. When fair value hedge accounting is applied to fixed rate loan capital, the carrying value at amortised cost is adjusted for changes in fair value related to the hedged risk.

(g) Derivative Financial Instruments

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

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

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

1 Statement of Accounting Policies (continued)

(g) Derivative Financial Instruments (continued)

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 note 1(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 identified portion of such an asset or liability, 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.

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

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 the cash flow hedge reserve is immediately transferred to Other income.

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

If the hedging instrument no longer meets the criteria for hedge accounting, or the 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) 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 within Deposits and other borrowings. The difference between the sale and repurchase price represents interest expense and is recognised in the Income Statement over the term of the repurchase agreement.

1 Statement of Accounting Policies (continued)

(i) Repurchase and Reverse Repurchase Agreements (continued)

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 within Cash and liquid assets. The difference between the purchase and sale price represents interest income and is recognised in the Income Statement over the term of the agreement.

(j) Offsetting Financial Instruments

The 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.

(k) Derecognition of Financial Instruments

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

(l) Asset Quality

DEFINITIONS

Objective evidence that a financial asset or portfolio of assets is credit impaired includes, but is not limited to, observable data that comes to the attention of the 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.

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 actions such as realising security; or
- The customer is 90 days or more overdue on a scheduled credit obligation repayment. Where a customer was deferring payments under the available COVID-19 relief packages during the reporting period, the customer was not considered to be in default provided they were not already on a watchlist or impaired, or subsequently evidenced other indicators of impairment.

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.

COVID-19 IMPACT

During the reporting period the NZ Banking Group made relief packages available to customers under the New Zealand government's mortgage repayment deferral scheme, which allowed for repayment deferrals (payment holidays and interest only periods). This scheme has been phased out during the period and ended on 31 March 2021.

The majority of customers who utilised deferral packages have resumed loan repayments, with some customers receiving further support.

Initial COVID-19 relief packages were not conditional on the customer being unable to otherwise meet their repayment obligations and a customer's use of the relief packages was not automatic evidence of credit impairment or a significant increase in credit risk ("SICR"), but was considered along with broader evidence and the indicators as outlined in this note. Subsequent to the expiry of relief packages, the regular process of assessing SICR, as outlined in this note is applied. The overall methodology applied by the NZ Banking Group in determining the allowance for ECL is unchanged, and is as set out below.

1 Statement of Accounting Policies (continued)

(l) Asset Quality (continued)

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 further amounts being drawn down. For other amounts, exposure at default is generally the higher of the drawn balance and the total credit limit; and
- Loss given default: The estimate of the proportion that is not expected to be recovered following default.

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

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

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

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

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

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

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

Impact of a modification on the determination of a financial asset's Stage
A modified financial asset will transfer out of Stage 3 if the conditions that led to it being identified as credit impaired are no longer present and relate objectively to an event occurring after the original credit impairment was recognised. A modified financial asset will transfer out of Stage 2 when it no longer satisfies the relative thresholds set to identify significant increases in credit risk. The risk of default and whether there has been a SICR continues to be assessed at each reporting date, and continues to be compared with the risk at origination under the original contractual terms prior to any modification.

Significant increase in credit risk
A SICR is assessed by comparing the risk of default at the reporting date to the corresponding risk of default at origination. In determining what constitutes a SICR the 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.

Notes to the Financial Statements

For the year ended 30 June 2021

1 Statement of Accounting Policies (continued)

(l) Asset Quality (continued)

IMPAIRMENT (continued)

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. Where the customer had deferred payments under available COVID-19 relief packages, the customer was not considered to be 30 days past due provided they were not already on a watchlist or impaired.

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.

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

Lifetime of an exposure
For exposures in Stage 2 and Stage 3, lifetime expected losses are used to determine the allowance for ECL. The 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 16. 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 Board Audit and Risk Committee of ASB ("BARC") has an oversight role and provides challenge of key judgements and assumptions, including updates to macroeconomic scenarios and weightings, and management adjustments. The BARC receives information regarding ASB'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.

(m) Leasing

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

LEASE LIABILITY

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

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

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

1 Statement of Accounting Policies (continued)

(m) Leasing (continued)

RIGHT OF USE ASSET

The right of use asset is initially measured at cost comprising the following:

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

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

Determining the lease term

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

Excluded leases

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

(n) Property, Plant and Equipment

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

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

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

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

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

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

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

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

(o) Intangible Assets

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

GOODWILL

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

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.

1 Statement of Accounting Policies (continued)

(o) Intangible Assets (continued)

GOODWILL (continued)

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

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. Where transactions are assessed as having an uncertain tax outcome, provisions are held to reflect those tax uncertainties where appropriate.

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

A deferred tax asset is recognised only to the extent that it is probable (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 FVOCI, cash flow hedges and the revaluation of non-current assets, which is charged or credited to Other comprehensive income is subsequently recognised in the Income Statement if and when the deferred gain or loss on the related asset or liability affects the Income Statement.

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

ASB Group Investments Limited, a member of the 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 note 1(k).

(r) Contingent Liabilities and Credit Commitments

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

The 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.

1 Statement of Accounting Policies (continued)

(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 cash flows relating to debt and loan capital issuances and repayments and payments of lease liabilities.

Fair Value Estimates

For financial instruments not presented on the 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.

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

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

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

Changes to Comparatives

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

From 1 July 2020, the NZ Banking Group presents provisions separately from other liabilities on the Balance Sheet. Refer to note 29 Other Liabilities and note 30 Provisions for further information.

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

Changes in Accounting Policies

Software-as-a-Service ("SaaS") arrangements

During the year ended 30 June 2021, the NZ Banking Group revised its accounting policy in relation to configuration and customisation costs incurred in implementing SaaS cloud computing arrangements, in which application software is accessed on an as-needed basis over the internet or via dedicated line. The change in accounting policy resulted from the implementation of agenda decisions issued by the IFRS Interpretations Committee clarifying its interpretation of how current accounting standards apply to these types of arrangements.

SaaS arrangements are service contracts providing the NZ Banking Group with the right to access a cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to, the cloud provider's application software, are recognised as operating expenses when the services are received.

The change has been applied retrospectively and impacted the financial statements of the NZ Banking Group as follows:

Income Statement:

- an increase in Salaries and other staff expenses for the year ended 30 June 2021 of $5 million (30 June 2020 $2 million);
- an increase in Information technology expenses for the year ended 30 June 2021 of $15 million (30 June 2020 $9 million);
- a decrease in Tax expense for the year ended 30 June 2021 of $6 million (30 June 2020 $3 million).

Notes to the Financial Statements

For the year ended 30 June 2021

1 Statement of Accounting Policies (continued)

Changes in Accounting Policies (continued)

Balance Sheet:

- a decrease in Intangible assets as at 30 June 2021 of $20 million (30 June 2020 $11 million);
- an increase in Deferred tax assets as at 30 June 2021 of $6 million (30 June 2020 $3 million).

Cash Flow Statement:

- a decrease in Purchase of intangible assets for the year ended 30 June 2021 of $21 million (30 June 2020 $11 million).
- A decrease in Net profit before tax for the year ended 30 June 2021 of $21 million (30 June 2020 $11 million).

2 Interest Income

$ millions	NZ Banking Group	
For the year ended 30 June	**2021**	2020
Interest income on financial assets measured at amortised cost		
Cash and liquid assets	**9**	23
Due from financial institutions	**1**	13
Advances to customers	**3,486**	4,016
Total interest income on financial assets measured at amortised cost	**3,496**	4,052
Interest income on Securities at fair value through other comprehensive income	**59**	124
Total interest income	**3,555**	4,176

3 Interest Expense

$ millions	NZ Banking Group	
For the year ended 30 June	**2021**	2020
Deposits and other borrowings:		
Certificates of deposit	**29**	59
Term deposits	**530**	1,082
On demand and short term deposits	**289**	266
Repurchase agreements	**1**	-
Due to financial institutions	**1**	16
Debt issues:		
At fair value through Income Statement	**11**	10
At amortised cost	**249**	452
Loan capital	**178**	236
Lease liabilities	**7**	8
Total interest expense	**1,295**	2,129

Total interest expense for financial liabilities that were not at fair value through Income Statement for the year ended 30 June 2021 was $1,284 million (30 June 2020 $2,119 million).

Notes to the Financial Statements

For the year ended 30 June 2021

4 Other Income

$ millions	NZ Banking Group	
For the year ended 30 June	**2021**	2020
Revenue from contracts with customers	**533**	535
Trading income	**106**	106
Ineffective portion of hedges		
Fair value hedge ineffectiveness:		
Gain/(loss) on hedged items	**325**	(281)
Gain/(loss) on hedging instruments	**(332)**	283
Cash flow hedge ineffectiveness	**4**	-
Total ineffective portion of hedges	**(3)**	2
Other operating income		
Net fair value gain/(loss) on derivatives not qualifying for hedge accounting	**17**	(7)
Other	**3**	2
Total other operating income/(loss)	**20**	(5)
Total other income	**656**	638

The portion of Other income relating to revenue from contracts with customers is disaggregated across the following categories, consistent with the segment descriptions detailed in note 44:

$ millions	NZ Banking Group						
For the year ended 30 June 2021	**Retail Banking**	**Business Banking**	**Corporate Banking**	**Institutional Banking and Markets**	**Private Banking, Wealth and Insurance**	**Other**	**Total**
Revenue from contracts with customers							
Lending fees	**15**	**25**	**32**	**20**	**-**	**-**	**92**
Commission and other fees	**213**	**56**	**15**	**2**	**69**	**(64)**	**291**
Funds management income	**127**	**8**	**-**	**-**	**150**	**(135)**	**150**
Total revenue from contracts with customers	**355**	**89**	**47**	**22**	**219**	**(199)**	**533**

$ millions	NZ Banking Group						
For the year ended 30 June 2020	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	22	28	19	-	-	85
Commission and other fees	227	62	10	2	77	(71)	307
Funds management income	115	8	-	-	143	(123)	143
Total revenue from contracts with customers	358	92	38	21	220	(194)	535

5 Operating Expense Disclosures

$ millions	NZ Banking Group	
For the year ended 30 June	**2021**	2020
Depreciation		
Right of use assets	**42**	44
Buildings	**1**	1
Other property, plant and equipment	**35**	32
Total depreciation	**78**	77
Lease and rent expenses	**15**	16
Amortisation of intangible assets	**63**	55

6 Auditor's Remuneration

$ thousands	NZ Banking Group	
For the year ended 30 June	**2021**	2020
PricewaterhouseCoopers		
Audit and review of financial statements(1)	**2,330**	2,007
Other assurance related services(2)	**624**	1,137
Other services(3)	**-**	59
Total compensation of auditors relating to the NZ Banking Group	**2,954**	3,203
Fees related to funds managed by the NZ Banking Group		
Audit of financial statements	**372**	368
Other assurance related services(2)	**39**	38
Total compensation of auditors	**3,365**	3,609

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

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

(3) The NZ Banking Group did not incur fees for other services for the year ended 30 June 2021 (30 June 2020 fees for a cyber security maturity assessment).

7 Tax Expense

$ millions	NZ Banking Group	
For the year ended 30 June	**2021**	2020(1)
Current tax	**508**	472
Deferred tax (refer to note 26)	**1**	(99)
Total tax expense charged to the Income Statement	**509**	373

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	**1,766**	1,249
Tax at the domestic rate of 28%	**494**	350
Tax effect of expenses not deductible for tax purposes	**15**	25
Tax impact of changes to building depreciation	**-**	(2)
Total tax expense charged to the Income Statement	**509**	373
Effective tax rate	**28.8%**	29.9%

(1) Certain comparative information has been restated due to a change in accounting policy. Refer to the Changes to Accounting Policies section on page 19 for more information.

8 Dividends

$ millions	NZ Banking Group	
For the year ended 30 June	**2021**	2020
Ordinary dividends paid	**4**	3,348
Total dividends paid	**4**	3,348

There were no dividends paid by ASB Holdings Limited on ordinary shares for the year ended 30 June 2021 (30 June 2020 $3,300 million, being 103.45 cents per share).

Dividends paid by CBA Funding (NZ) Limited on ordinary shares for the year ended 30 June 2021 were $3 million, being 450 cents per share (30 June 2020 $48 million, being 8,600 cents per share).

Dividends paid by CBA NZ Holding Limited on ordinary shares for the year ended 30 June 2021 were $1 million, being 1,143,696 cents per share (30 June 2020 nil).

On 5 August 2021, the Directors of ASB Holdings Limited resolved to pay an ordinary dividend, subject to certain conditions being satisfied of $545 million on 15 September 2021 being 17.08 cents per share on 3,190 million ordinary shares.

8 Dividends (continued)

On 2 April 2020, restrictions took effect under revised Conditions of Registration that prevent New Zealand incorporated banks, including ASB, from paying dividends on ordinary shares. These restrictions were implemented as a result of the economic uncertainty brought on by the COVID-19 pandemic. These restrictions remained in place until 29 April 2021, when the RBNZ amended the Conditions of Registration to allow banks to pay dividends on ordinary shares up to a maximum of 50% of their earnings for the most recently completed financial year. The RBNZ has advised that the 50% restriction will remain in place until 1 July 2022, at which point the RBNZ plans to remove the restriction entirely, subject to economic conditions.

9 Cash and Liquid Assets

$ millions	NZ Banking Group	
As at 30 June	**2021**	2020
Cash, cash at bank and cash in transit	**119**	143
Call deposits with the central bank	**2,478**	3,165
Money at short call	**57**	66
Reverse repurchase agreements	**2,030**	2,294
Total cash and liquid assets	**4,684**	5,668

10 Due from Financial Institutions

As at 30 June 2021, amounts due from financial institutions of $293 million are due for settlement within 12 months of balance date (30 June 2020 $532 million due within 12 months of balance date).

Cash collateral paid of $188 million is included in Due from financial institutions (30 June 2020 $225 million).

11 Securities at Fair Value through Other Comprehensive Income

$ millions	NZ Banking Group	
As at 30 June	**2021**	2020
Local authority securities	**533**	463
New Zealand Government securities	**3,455**	2,729
Corporate bonds	**268**	192
Treasury bills	**-**	446
Bank bills	**360**	330
Overseas government securities	**2,519**	2,842
Kauri bonds	**2,603**	2,699
Bank bonds	**1,235**	1,002
Total securities at fair value through other comprehensive income	**10,973**	10,703
Amounts due for settlement within 12 months	**1,092**	2,320
Amounts due for settlement over 12 months	**9,881**	8,383
Total securities at fair value through other comprehensive income	**10,973**	10,703

12 Derivative Financial Instruments

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

The NZ Banking Group has entered into credit support annexes ("CSAs") in respect of certain credit exposures relating to derivative transactions. These CSAs compel the NZ Banking Group or the counterparty to collateralise the market value of outstanding derivative transactions. As at 30 June 2021 the NZ Banking Group had advanced $188 million of cash collateral against derivative liabilities and received $324 million of cash collateral against derivative assets (30 June 2020 $225 million and $1,188 million respectively).

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

$ millions	NZ Banking Group					
As at 30 June	**2021**			2020		
	Notional Amount	**Fair Value Assets**	**Fair Value Liabilities**	Notional Amount	Fair Value Assets	Fair Value Liabilities
Derivative financial instruments						
Held for trading	**139,455**	**350**	**(123)**	82,041	348	(166)
Held for hedging	**95,007**	**504**	**(474)**	93,741	1,408	(774)
Total derivative assets/(liabilities)	**234,462**	**854**	**(597)**	175,782	1,756	(940)
Amounts due for settlement within 12 months		**432**	**(215)**		265	(139)
Amounts due for settlement over 12 months		**422**	**(382)**		1,491	(801)
Total derivative assets/(liabilities)		**854**	**(597)**		1,756	(940)

(a) 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	**2021**			2020		
	Notional Amount	**Fair Value Assets**	**Fair Value Liabilities**	Notional Amount	Fair Value Assets	Fair Value Liabilities
Exchange rate contracts						
Forward contracts	**11,314**	**225**	**(67)**	6,462	66	(61)
Options	**734**	**6**	**(6)**	569	6	(6)
Total exchange rate contracts	**12,048**	**231**	**(73)**	7,031	72	(67)
Interest rate contracts						
Swaps	**122,475**	**118**	**(50)**	72,710	275	(98)
Futures	**4,867**	**1**	**-**	2,269	-	-
Options	**62**	**-**	**-**	19	-	-
Total interest rate contracts	**127,404**	**119**	**(50)**	74,998	275	(98)
Commodity contracts	**3**	**-**	**-**	12	1	(1)
Total held for trading	**139,455**	**350**	**(123)**	82,041	348	(166)

12 Derivative Financial Instruments (continued)

(b) Information on 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
- Combined risk, which arises on assets or liabilities with interest rate risk that are denominated in currencies other than New Zealand dollars.

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

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 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 Deposits and other borrowings. 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 14). Hedging the benchmark interest rate risk or spot exchange rate risk components results in other risks, such as credit risk and liquidity risk, being excluded from the hedge accounting relationship.

Hedge Relationships and Ineffectiveness

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

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

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

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

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12 Derivative Financial Instruments (continued)

(c) Hedging Instruments

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

$ millions	NZ Banking Group					
	2021			2020		
		Fair Value			Fair Value	
As at 30 June	**Notional Amount**	**Derivative Assets**	**Derivative Liabilities**	Notional Amount	Derivative Assets	Derivative Liabilities
Fair value hedges						
Interest rate risk	**17,376**	**72**	**(28)**	17,061	144	(54)
Combined risk	**16,324**	**401**	**(254)**	17,592	1,059	(477)
Total designated as fair value hedges	**33,700**	**473**	**(282)**	34,653	1,203	(531)
Cash flow hedges						
Interest rate risk	**53,650**	**25**	**(10)**	50,627	82	(39)
Combined risk	**7,657**	**6**	**(182)**	8,461	123	(204)
Total designated as cash flow hedges	**61,307**	**31**	**(192)**	59,088	205	(243)
Total held for hedging	**95,007**	**504**	**(474)**	93,741	1,408	(774)

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			
Notional Amount	**Within**	**Between**	**Over**	
As at 30 June 2021	**1 Year**	**1-5 Years**	**5 Years**	**Total**
Fair value hedges				
Interest rate risk	**3,565**	**11,085**	**2,726**	**17,376**
Combined risk	**2,298**	**7,880**	**6,146**	**16,324**
Total fair value hedges	**5,863**	**18,965**	**8,872**	**33,700**
Cash flow hedges				
Interest rate risk	**26,430**	**26,972**	**248**	**53,650**
Combined risk	**3,456**	**4,201**	**-**	**7,657**
Total cash flow hedges	**29,886**	**31,173**	**248**	**61,307**
Total held for hedging	**35,749**	**50,138**	**9,120**	**95,007**

$ millions	NZ Banking Group			
Notional Amount	Within	Between	Over	
As at 30 June 2020	1 Year	1-5 Years	5 Years	Total
Fair value hedges				
Interest rate risk	2,765	12,835	1,461	17,061
Combined risk	2,174	9,932	5,486	17,592
Total fair value hedges	4,939	22,767	6,947	34,653
Cash flow hedges				
Interest rate risk	17,752	32,580	295	50,627
Combined risk	732	7,729	-	8,461
Total cash flow hedges	18,484	40,309	295	59,088
Total held for hedging	23,423	63,076	7,242	93,741

The average fixed interest rate of hedging instruments used to hedge interest rate risk during the reporting period was 1.95% for fair value hedges and 0.98% for cash flow hedges (30 June 2020 2.24% for fair value hedges and 1.56% 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 0.701 for USD, 0.607 for EUR and 0.910 for AUD (30 June 2020 0.699 for USD, 0.607 for EUR and 0.910 for AUD).

12 Derivative Financial Instruments (continued)

(d) 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 2021	**Risk Categorisation**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Securities at fair value through other comprehensive income	Interest rate risk	**7,807**	**-**	**(85)**	**-**
Securities at fair value through other comprehensive income	Combined risk	**2,519**	**-**	**132**	**-**
Debt issues at amortised cost	Interest rate risk	**-**	**(1,844)**	**-**	**(11)**
Debt issues at amortised cost	Combined risk	**-**	**(12,682)**	**-**	**(316)**
Loan capital	Interest rate risk	**-**	**(403)**	**-**	**(4)**
Loan capital	Combined risk	**-**	**(6,584)**	**-**	**(59)**
Total		**10,326**	**(21,513)**	**47**	**(390)**

$ millions		NZ Banking Group			
		Carrying Amount		Accumulated Fair Value Adjustments(1)	
As at 30 June 2020	Risk Categorisation	Assets	Liabilities	Assets	Liabilities
Securities at fair value through other comprehensive income	Interest rate risk	6,603	-	270	-
Securities at fair value through other comprehensive income	Combined risk	2,842	-	240	-
Debt issues at amortised cost	Interest rate risk	-	(2,059)	-	(75)
Debt issues at amortised cost	Combined risk	-	(13,159)	-	(543)
Loan capital(2)	Interest rate risk	-	(411)	-	(13)
Loan capital(2)	Combined risk	-	(6,598)	-	(109)
Total		9,445	(22,227)	510	(740)

(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.

(2) Certain comparative information has been reclassified due to a miscategorisation between interest rate risk and combined risk.

(e) 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		**2021**			2020	
	Change in Value of Hedging Instrument(1)	**Change in Value of Hedged Item(2)**	**Hedge Ineffectiveness(3)**	Change in Value of Hedging Instrument(1)	Change in Value of Hedged Item(2)	Hedge Ineffectiveness(3)
Fair value hedges						
Interest rate risk	**(14)**	**13**	**(1)**	12	(11)	1
Combined risk	**(318)**	**312**	**(6)**	271	(270)	1
Total	**(332)**	**325**	**(7)**	283	(281)	2
Cash flow hedges						
Interest rate risk	**45**	**(40)**	**5**	2	(2)	-
Combined risk	**(164)**	**163**	**(1)**	443	(443)	-
Total	**(119)**	**123**	**4**	445	(445)	-

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

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

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

12 Derivative Financial Instruments (continued)

(f) Cash Flow Hedge Reserve

The table below details the movements in the 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	2021			2020		
	Interest Rate Risk	Combined Risk	Total	Interest Rate Risk	Combined Risk	Total
Movement in cash flow hedge reserve						
Balance at beginning of year	**(13)**	**(97)**	**(110)**	(14)	(129)	(143)
Net gain/(loss) from changes in fair value(1)	**(115)**	**(255)**	**(370)**	(144)	370	226
Reclassified to Income Statement(2)						
Interest income	**(179)**	**(6)**	**(185)**	(121)	(6)	(127)
Interest expense	**333**	**98**	**431**	267	78	345
Other income	**-**	**105**	**105**	-	(398)	(398)
Deferred tax	**(11)**	**17**	**6**	(1)	(12)	(13)
Balance at end of year(3)	**15**	**(138)**	**(123)**	(13)	(97)	(110)

(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.

(g) Exposures Subject to Interest Rate Benchmark Reform

The NZ Banking Group has hedge accounting relationships that reference USD, CHF and JPY LIBOR interest rate benchmarks which are currently undergoing reform. The tables below provide information on the hedge accounting relationships that are directly impacted by the IBOR reform.

On 5 March 2021 the UK Financial Conduct Authority ("FCA") confirmed the dates on which LIBOR benchmarks will either cease to be provided, or will no longer be representative. The majority of the NZ Banking Group's hedging derivatives are subject to the International Swaps and Derivatives Association ("ISDA") Fallbacks Protocol for converting LIBOR benchmarks to fallback rates (meaning a risk-free rate plus spread adjustment). However, the NZ Banking Group has concluded that uncertainty remains with respect to the timing of LIBOR-based cash flows of these hedging instruments transitioning to alternative reference rates, as the NZ Banking Group may seek bilateral amendments prior to the fallback rates coming into effect. As a result, the relief afforded under *Interest Rate Benchmark Reform – Amendments to NZ IFRS 9, NZ IAS 39 and NZ IFRS 7* ("Phase 1 relief"), which was early adopted during the period ended 30 June 2020, continues to apply.

Hedging instruments

The table below sets out the notional amount of derivatives in hedge accounting relationships directly affected by the IBOR reform:

$ millions	NZ Banking Group		
Notional Amount	Impacted by IBOR Reform(1)		
As at 30 June 2021	USD LIBOR	Other	Total
Fair value hedges	**8,018**	**1,280**	**9,298**
Cash flow hedges	**43**	**-**	**43**
Balance at end of year	**8,061**	**1,280**	**9,341**

Hedged items

The table below sets out the extent of the NZ Banking Group's exposures directly affected by the IBOR reform and which are in hedge accounting relationships:

$ millions	NZ Banking Group		
	Impacted by IBOR Reform(1)		
As at 30 June 2021	USD LIBOR	Other	Total
Securities at fair value through other comprehensive income	**2,086**	**-**	**2,086**
Debt issues at amortised cost	**2,014**	**977**	**2,991**
Balance at end of year	**4,100**	**977**	**5,077**

(1) Excludes hedged items which will be settled before the benchmark reform is expected to take effect (which is immediately after 30 June 2023 for USD LIBOR tenors relevant to the NZ Banking Group, and 31 December 2021 for Other exposures).

13 Advances to Customers

$ millions	NZ Banking Group	
As at 30 June	**2021**	2020
Advances to customers (refer to note 16)	**103,130**	93,906
Allowance for expected credit loss (refer to note 16)	**(564)**	(640)
Total advances to customers	**102,566**	93,266
Amounts due for settlement within 12 months	**20,336**	18,765
Amounts due for settlement over 12 months	**82,230**	74,501
Total advances to customers	**102,566**	93,266

Advances to customers include finance lease receivables of $1 million (30 June 2020 $1 million).

14 Credit Risk Management Policies

Credit Risk Management

Credit risk is the potential risk of loss arising from the failure of a customer or counterparty to meet their contractual obligations. At 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 Group 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. With respect to ASB Group, day-to-day management of credit risk is performed and reported by the Credit function of ASB Group, with monitoring by the Executive Risk Committee of ASB Group. With respect to the Branch, day-to-day management of credit risk and monitoring is performed by the Overseas Banking Group.

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 15 to 18 for additional credit risk disclosures.

Collateral

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

Credit Risk Measurement

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

The PD is the estimate of the probability that a customer will default within the next 12 months. It reflects a customer's ability to generate sufficient cash flows into the future to meet the terms of all its credit contracts with the 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 other expense. Long run LGDs are used for internal estimates of risk and downturn LGDs are used for regulatory capital.

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

14 Credit Risk Management Policies (continued)

Asset Quality

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

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

*Credit risk rating ("CRR")

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

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

Retail

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

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

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

Corporate

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

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

CRRs fall into two categories:

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

Oversight

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

Impairment of Financial Assets

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

15 Credit Quality Information for Advances to Customers

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

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

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

The following tables present the 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 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Advances to customers					
Investment	**29,506**	**4,070**	**-**	**-**	**33,576**
Pass	**51,067**	**15,366**	**-**	**-**	**66,433**
Weak	**433**	**1,566**	**793**	**329**	**3,121**
Total advances to customers	**81,006**	**21,002**	**793**	**329**	**103,130**
Lending commitments					
Investment	**6,040**	**286**	**-**	**-**	**6,326**
Pass	**9,624**	**1,296**	**-**	**-**	**10,920**
Weak	**34**	**85**	**18**	**21**	**158**
Total lending commitments	**15,698**	**1,667**	**18**	**21**	**17,404**
Total advances to customers and lending commitments	**96,704**	**22,669**	**811**	**350**	**120,534**
Allowance for ECL on advances to customers and lending commitments	**150**	**250**	**71**	**93**	**564**

$ millions	NZ Banking Group				
	Collectively Assessed			Individually Assessed	
As at 30 June 2020	Stage 1	Stage 2	Stage 3	Stage 3	Total
Advances to customers					
Investment	23,582	3,409	-	-	26,991
Pass	46,879	17,018	-	-	63,897
Weak	439	1,572	601	406	3,018
Total advances to customers	70,900	21,999	601	406	93,906
Lending commitments					
Investment	5,183	306	-	-	5,489
Pass	9,099	1,507	-	-	10,606
Weak	30	69	16	26	141
Total lending commitments	14,312	1,882	16	26	16,236
Total advances to customers and lending commitments	85,212	23,881	617	432	110,142
Allowance for ECL on advances to customers and lending commitments	158	272	75	135	640

15 Credit Quality Information for Advances to Customers (continued)

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

$ millions	NZ Banking Group				
	Collectively Assessed			Individually Assessed	
As at 30 June 2020	Stage 1	Stage 2	Stage 3	Stage 3	Total
Credit related contingent liabilities					
Investment	99	10	-	-	109
Pass	292	291	-	-	583
Weak	-	19	4	17	40
Total credit related contingent liabilities	391	320	4	17	732
Allowance for ECL on credit related contingent liabilities	1	5	-	-	6

Further information on credit quality is presented below:

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

$ millions	NZ Banking Group			
As at 30 June 2020	Residential Mortgages	Other Retail	Corporate	Total
Past due assets not individually impaired				
1 to 7 days	770	90	181	1,041
8 to 29 days	337	54	55	446
1 to 29 days	1,107	144	236	1,487
30 to 59 days	131	27	8	166
60 to 89 days	108	18	1	127
90 days and over	216	39	4	259
Total past due assets not individually impaired	1,562	228	249	2,039
Other assets under administration	13	2	2	17
Undrawn lending commitments to customers with individually impaired assets	-	1	25	26

16 Allowance for Expected Credit Loss

Information for the year ended 30 June 2021 is presented separately for the following categories of Advances to customers, as prescribed by the Order:

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

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

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

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

Section (g) provides further information on contractual modifications.

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

The NZ Banking Group recategorised certain lending from Other retail to Residential mortgages as at 30 June 2020, which is presented separately in the tables in sections (a) and (b). There were no recategorisations performed at 30 June 2021.

Movement in Allowance for ECL

The movement in allowance for ECL tables are presented on the following basis:

- Changes in collective allowances due to transfers between ECL Stages include the impact of both the initial transfer and subsequent remeasurement of the allowance for ECL. The remeasurement of transferred amounts occurs in the Stage to which the allowance for ECL has transferred and includes the impact of COVID-19 management adjustments;
- The effect of any Stage 3 discount unwind is included within other changes in collective allowances and within new and increased individually assessed allowances. This discount unwind is presented in the Income Statement as a reduction in Interest income;
- Other changes in collective allowances includes the impact of changes in future forecast economic assumptions, other changes in models or assumptions, changes in the expected life of existing lending and other changes in the credit quality of existing lending (excluding those related to SICR). This includes the impact of COVID-19 on forecast economic assumptions (described further in section (f)) and management adjustments; and
- The impact of additions, deletions and transfers between Stages on the allowance for ECL will be impacted by the credit quality of the underlying gross carrying amounts.

Movement in Gross Carrying Amount

The movement in gross carrying amount tables set out on the following pages summarise changes in gross carrying amounts to explain changes in the 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.

Notes to the Financial Statements

For the year ended 30 June 2021

16 Allowance for Expected Credit Loss (continued)

(a) Residential Mortgages

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

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

16 Allowance for Expected Credit Loss (continued)

(a) Residential Mortgages (continued)

$ millions	NZ Banking Group				
Movement in Allowance for Expected Credit Loss	Collective Allowances			Individually Assessed Allowances	
As at 30 June 2020	Stage 1	Stage 2	Stage 3	Stage 3	Total
Balance at beginning of year	22	40	10	3	75
(Credited against)/charged to the Income Statement					
Changes in collective allowances due to transfers between ECL Stages					
Stage 1 to Stage 2	(4)	14	-	-	10
Stage 1 to Stage 3	-	-	10	-	10
Stage 2 to Stage 1	2	(6)	-	-	(4)
Stage 2 to Stage 3	-	(4)	16	-	12
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	2	(12)	-	(10)
Net transfers to/(from) Stage 3 individually assessed allowances	-	-	(1)	-	(1)
Changes in collective allowances due to transfers between ECL Stages	(2)	6	13	-	17
Changes in collective allowances due to additions and deletions	3	(2)	(4)	-	(3)
Changes in collective allowances due to amounts written off	-	-	-	-	-
Total changes in collective allowances due to movements in gross carrying amounts	1	4	9	-	14
Other changes in collective allowances	29	5	11	-	45
Net transfers from collective allowances	-	-	-	1	1
New and increased individually assessed allowances	-	-	-	7	7
Write-back of individually assessed allowances no longer required	-	-	-	(5)	(5)
Total (credited against)/charged to the Income Statement	30	9	20	3	62
Amounts written off from individually assessed allowances	-	-	-	(2)	(2)
Amounts recategorised from Other retail	4	2	3	-	9
Balance at end of year	56	51	33	4	144

$ millions	NZ Banking Group				
Movement in Gross Carrying Amounts	Collectively Assessed			Individually Assessed	
As at 30 June 2020	Stage 1	Stage 2	Stage 3	Stage 3	Total
Balance at beginning of year	50,447	6,453	273	21	57,194
Changes due to transfers between ECL Stages					
Stage 1 to Stage 2	(1,401)	1,401	-	-	-
Stage 1 to Stage 3	(260)	-	260	-	-
Stage 2 to Stage 1	687	(687)	-	-	-
Stage 2 to Stage 3	-	(484)	484	-	-
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	405	(405)	-	-
Net transfers to/(from) Stage 3 individually assessed	(18)	-	(22)	40	-
Total changes due to transfers between ECL Stages	(992)	635	317	40	-
Additions and deletions					
Additions	14,048	493	12	-	14,553
Deletions (excluding amounts written off)	(10,108)	(1,164)	(118)	(19)	(11,409)
Net additions/(deletions)	3,940	(671)	(106)	(19)	3,144
Amounts written off	-	-	-	(2)	(2)
Amounts recategorised from Other retail	1,284	29	23	2	1,338
Balance at end of year	54,679	6,446	507	42	61,674

Notes to the Financial Statements

For the year ended 30 June 2021

16 Allowance for Expected Credit Loss (continued)

(b) Other Retail

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

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

Notes to the Financial Statements

For the year ended 30 June 2021

16 Allowance for Expected Credit Loss (continued)

(b) Other Retail (continued)

$ millions	NZ Banking Group				
Movement in Allowance for Expected Credit Loss	Collective Allowances			Individually Assessed Allowances	
As at 30 June 2020	Stage 1	Stage 2	Stage 3	Stage 3	Total
Balance at beginning of year	51	33	23	3	110
(Credited against)/charged to the Income Statement					
Changes in collective allowances due to transfers between ECL Stages					
Stage 1 to Stage 2	(34)	55	-	-	21
Stage 1 to Stage 3	(1)	-	11	-	10
Stage 2 to Stage 1	4	(15)	-	-	(11)
Stage 2 to Stage 3	-	(14)	42	-	28
Stage 3 to Stage 1	-	-	(4)	-	(4)
Stage 3 to Stage 2	-	5	(17)	-	(12)
Net transfers to/(from) Stage 3 individually assessed allowances	-	-	-	-	-
Changes in collective allowances due to transfers between ECL Stages	(31)	31	32	-	32
Changes in collective allowances due to additions and deletions	1	(7)	(7)	-	(13)
Changes in collective allowances due to amounts written off	-	(5)	(12)	-	(17)
Total changes in collective allowances due to movements in gross carrying amounts	(30)	19	13	-	2
Other changes in collective allowances	23	18	7	-	48
Net transfers from collective allowances	-	-	-	-	-
New and increased individually assessed allowances	-	-	-	6	6
Write-back of individually assessed allowances no longer required	-	-	-	(1)	(1)
Total (credited against)/charged to the Income Statement	(7)	37	20	5	55
Amounts written off from individually assessed allowances	-	-	-	(2)	(2)
Amounts recategorised to Residential mortgages	(4)	(2)	(3)	-	(9)
Balance at end of year	40	68	40	6	154

$ millions	NZ Banking Group				
Movement in Gross Carrying Amounts	Collectively Assessed			Individually Assessed	
As at 30 June 2020	Stage 1	Stage 2	Stage 3	Stage 3	Total
Balance at beginning of year	4,857	345	65	8	5,275
Changes due to transfers between ECL Stages					
Stage 1 to Stage 2	(560)	560	-	-	-
Stage 1 to Stage 3	(31)	-	31	-	-
Stage 2 to Stage 1	300	(300)	-	-	-
Stage 2 to Stage 3	-	(112)	112	-	-
Stage 3 to Stage 1	16	-	(16)	-	-
Stage 3 to Stage 2	-	51	(51)	-	-
Net transfers to/(from) Stage 3 individually assessed	(5)	(1)	(4)	10	-
Total changes due to transfers between ECL Stages	(280)	198	72	10	-
Additions and deletions					
Additions	4,244	113	32	-	4,389
Deletions (excluding amounts written off)	(4,435)	(192)	(52)	(4)	(4,683)
Net additions/(deletions)	(191)	(79)	(20)	(4)	(294)
Amounts written off	(7)	(28)	(26)	(2)	(63)
Amounts recategorised to Residential mortgages	(1,284)	(29)	(23)	(2)	(1,338)
Balance at end of year	3,095	407	68	10	3,580

16 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 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	62	153	2	125	342
(Credited against)/charged to the Income Statement					
Changes in collective allowances due to transfers between ECL Stages					
Stage 1 to Stage 2	(11)	28	-	-	17
Stage 1 to Stage 3	-	-	-	-	-
Stage 2 to Stage 1	15	(33)	-	-	(18)
Stage 2 to Stage 3	-	-	1	-	1
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	-	-	-	-
Net transfers to/(from) Stage 3 individually assessed allowances	-	2	(5)	-	(3)
Changes in collective allowances due to transfers between ECL Stages	4	(3)	(4)	-	(3)
Changes in collective allowances due to additions and deletions	2	(11)	5	-	(4)
Changes in collective allowances due to amounts written off	-	-	-	-	-
Total changes in collective allowances due to movements in gross carrying amounts	6	(14)	1	-	(7)
Other changes in collective allowances	(5)	22	-	-	17
Net transfers from collective allowances	-	-	-	3	3
New and increased individually assessed allowances	-	-	-	30	30
Write-back of individually assessed allowances no longer required	-	-	-	(39)	(39)
Total (credited against)/charged to the Income Statement	1	8	1	(6)	4
Amounts written off from individually assessed allowances	-	-	-	(32)	(32)
Balance at end of year	63	161	3	87	314

$ millions	NZ Banking Group				
Movement in Gross Carrying Amounts	**Collectively Assessed**			**Individually Assessed**	
As at 30 June 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	13,126	15,146	26	354	28,652
Changes due to transfers between ECL Stages					
Stage 1 to Stage 2	(5,230)	5,230	-	-	-
Stage 1 to Stage 3	(4)	-	4	-	-
Stage 2 to Stage 1	6,302	(6,302)	-	-	-
Stage 2 to Stage 3	-	(28)	28	-	-
Stage 3 to Stage 1	2	-	(2)	-	-
Stage 3 to Stage 2	-	4	(4)	-	-
Net transfers to/(from) Stage 3 individually assessed	(1)	(8)	(24)	33	-
Total changes due to transfers between ECL Stages	1,069	(1,104)	2	33	-
Additions and deletions					
Additions	7,340	5,022	44	-	12,406
Deletions (excluding amounts written off)	(4,986)	(5,292)	(34)	(64)	(10,376)
Net additions/(deletions)	2,354	(270)	10	(64)	2,030
Amounts written off	-	-	-	(32)	(32)
Balance at end of year	16,549	13,772	38	291	30,650

16 Allowance for Expected Credit Loss (continued)

(c) Corporate (continued)

$ millions	NZ Banking Group				
Movement in Allowance for Expected Credit Loss	Collective Allowances			Individually Assessed Allowances	
As at 30 June 2020	Stage 1	Stage 2	Stage 3	Stage 3	Total
Balance at beginning of year	50	115	3	63	231
(Credited against)/charged to the Income Statement					
Changes in collective allowances due to transfers between ECL Stages					
Stage 1 to Stage 2	(12)	51	-	-	39
Stage 1 to Stage 3	-	-	1	-	1
Stage 2 to Stage 1	4	(19)	-	-	(15)
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	-	(7)	(1)	-	(8)
Changes in collective allowances due to transfers between ECL Stages	(8)	24	1	-	17
Changes in collective allowances due to additions and deletions	2	(4)	(2)	-	(4)
Changes in collective allowances due to amounts written off	-	-	-	-	-
Total changes in collective allowances due to movements in gross carrying amounts	(6)	20	(1)	-	13
Other changes in collective allowances	18	18	-	-	36
Net transfers from collective allowances	-	-	-	8	8
New and increased individually assessed allowances	-	-	-	107	107
Write-back of individually assessed allowances no longer required	-	-	-	(14)	(14)
Total (credited against)/charged to the Income Statement	12	38	(1)	101	150
Amounts written off from individually assessed allowances	-	-	-	(39)	(39)
Balance at end of year	62	153	2	125	342

$ millions	NZ Banking Group				
Movement in Gross Carrying Amounts	Collectively Assessed			Individually Assessed	
As at 30 June 2020	Stage 1	Stage 2	Stage 3	Stage 3	Total
Balance at beginning of year	17,025	10,955	39	341	28,360
Changes due to transfers between ECL Stages					
Stage 1 to Stage 2[(1)]	(8,027)	8,027	-	-	-
Stage 1 to Stage 3	(10)	-	10	-	-
Stage 2 to Stage 1[(1)]	3,231	(3,231)	-	-	-
Stage 2 to Stage 3	-	(27)	27	-	-
Stage 3 to Stage 1	-	-	-	-	-
Stage 3 to Stage 2	-	16	(16)	-	-
Net transfers to/(from) Stage 3 individually assessed	(52)	(173)	(11)	236	-
Total changes due to transfers between ECL Stages	(4,858)	4,612	10	236	-
Additions and deletions					
Additions[(1)]	6,714	3,633	14	-	10,361
Deletions (excluding amounts written off)[(1)]	(5,755)	(4,054)	(37)	(184)	(10,030)
Net additions/(deletions)	959	(421)	(23)	(184)	331
Amounts written off	-	-	-	(39)	(39)
Balance at end of year	13,126	15,146	26	354	28,652

(1) Prior period figures for additions and deletions have been restated by $4.0 billion to correct a gross up of each balance. Net additions/(deletions) have not been impacted. As a result, transfers of gross carrying amounts from Stage 1 to Stage 2 and from Stage 2 to Stage 1 were understated by $22 million and $25 million respectively and have also been restated.

16 Allowance for Expected Credit Loss (continued)

(d) Total Advances to Customers

$ millions	NZ Banking Group				
Movement in Allowance for Expected Credit Loss	**Collective Allowances**			**Individually Assessed Allowances**	
As at 30 June 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	158	272	75	135	640
(Credited against)/charged to the Income Statement					
Changes in collective allowances due to transfers between ECL Stages					
Stage 1 to Stage 2	(32)	72	-	-	40
Stage 1 to Stage 3	-	-	17	-	17
Stage 2 to Stage 1	27	(59)	-	-	(32)
Stage 2 to Stage 3	-	(16)	67	-	51
Stage 3 to Stage 1	-	-	(1)	-	(1)
Stage 3 to Stage 2	-	11	(50)	-	(39)
Net transfers to/(from) Stage 3 individually assessed allowances	-	2	(6)	-	(4)
Changes in collective allowances due to transfers between ECL Stages	(5)	10	27	-	32
Changes in collective allowances due to additions and deletions	9	(20)	(10)	-	(21)
Changes in collective allowances due to amounts written off	-	(3)	(17)	-	(20)
Total changes in collective allowances due to movements in gross carrying amounts	4	(13)	-	-	(9)
Other changes in collective allowances	(12)	(9)	(4)	-	(25)
Net transfers from collective allowances	-	-	-	4	4
New and increased individually assessed allowances	-	-	-	36	36
Write-back of individually assessed allowances no longer required	-	-	-	(48)	(48)
Total (credited against)/charged to the Income Statement	(8)	(22)	(4)	(8)	(42)
Amounts written off from individually assessed allowances	-	-	-	(34)	(34)
Balance at end of year	150	250	71	93	564

$ millions	NZ Banking Group				
Movement in Gross Carrying Amounts	**Collectively Assessed**			**Individually Assessed**	
As at 30 June 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 3**	**Total**
Balance at beginning of year	70,900	21,999	601	406	93,906
Changes due to transfers between ECL Stages					
Stage 1 to Stage 2	(9,545)	9,545	-	-	-
Stage 1 to Stage 3	(310)	-	310	-	-
Stage 2 to Stage 1	9,232	(9,232)	-	-	-
Stage 2 to Stage 3	-	(788)	788	-	-
Stage 3 to Stage 1	18	-	(18)	-	-
Stage 3 to Stage 2	-	683	(683)	-	-
Net transfers to/(from) Stage 3 individually assessed	(7)	(3)	(24)	34	-
Total changes due to transfers between ECL Stages	(612)	205	373	34	-
Additions and deletions					
Additions	32,712	5,663	84	-	38,459
Deletions (excluding amounts written off)	(21,990)	(6,842)	(233)	(77)	(29,142)
Net additions/(deletions)	10,722	(1,179)	(149)	(77)	9,317
Amounts written off	(4)	(23)	(32)	(34)	(93)
Balance at end of year	81,006	21,002	793	329	103,130

16 Allowance for Expected Credit Loss (continued)

(d) Total Advances to Customers (continued)

$ millions **Movement in Allowance for Expected Credit Loss** **As at 30 June 2020**	**NZ Banking Group** Collective Allowances Stage 1	 Stage 2	 Stage 3	Individually Assessed Allowances Stage 3	 Total
Balance at beginning of year	123	188	36	69	416
(Credited against)/charged to the Income Statement					
Changes in collective allowances due to transfers between ECL Stages					
Stage 1 to Stage 2	(50)	120	-	-	70
Stage 1 to Stage 3	(1)	-	22	-	21
Stage 2 to Stage 1	10	(40)	-	-	(30)
Stage 2 to Stage 3	-	(19)	60	-	41
Stage 3 to Stage 1	-	-	(4)	-	(4)
Stage 3 to Stage 2	-	7	(30)	-	(23)
Net transfers to/(from) Stage 3 individually assessed allowances	-	(7)	(2)	-	(9)
Changes in collective allowances due to transfers between ECL Stages	(41)	61	46	-	66
Changes in collective allowances due to additions and deletions	6	(13)	(13)	-	(20)
Changes in collective allowances due to amounts written off	-	(5)	(12)	-	(17)
Total changes in collective allowances due to movements in gross carrying amounts	(35)	43	21	-	29
Other changes in collective allowances	70	41	18	-	129
Net transfers from collective allowances	-	-	-	9	9
New and increased individually assessed allowances	-	-	-	120	120
Write-back of individually assessed allowances no longer required	-	-	-	(20)	(20)
Total (credited against)/charged to the Income Statement	35	84	39	109	267
Amounts written off from individually assessed allowances	-	-	-	(43)	(43)
Balance at end of year	158	272	75	135	640

$ millions **Movement in Gross Carrying Amounts** **As at 30 June 2020**	**NZ Banking Group** Collectively Assessed Stage 1	 Stage 2	 Stage 3	Individually Assessed Stage 3	 Total
Balance at beginning of year	72,329	17,753	377	370	90,829
Changes due to transfers between ECL Stages					
Stage 1 to Stage 2[(1)]	(9,988)	9,988	-	-	-
Stage 1 to Stage 3	(301)	-	301	-	-
Stage 2 to Stage 1[(1)]	4,218	(4,218)	-	-	-
Stage 2 to Stage 3	-	(623)	623	-	-
Stage 3 to Stage 1	16	-	(16)	-	-
Stage 3 to Stage 2	-	472	(472)	-	-
Net transfers to/(from) Stage 3 individually assessed	(75)	(174)	(37)	286	-
Total changes due to transfers between ECL Stages	(6,130)	5,445	399	286	-
Additions and deletions					
Additions[(1)]	25,006	4,239	58	-	29,303
Deletions (excluding amounts written off)[(1)]	(20,298)	(5,410)	(207)	(207)	(26,122)
Net additions/(deletions)	4,708	(1,171)	(149)	(207)	3,181
Amounts written off	(7)	(28)	(26)	(43)	(104)
Balance at end of year	70,900	21,999	601	406	93,906

(1) Prior period figures for Corporate additions and deletions have been restated by $4.0 billion to correct a gross up of each balance. Net additions/(deletions) have not been impacted. As a result, Corporate transfers of gross carrying amounts from Stage 1 to Stage 2 and from Stage 2 to Stage 1 were understated by $22 million and $25 million respectively and have also been restated.

16 Allowance for Expected Credit Loss (continued)

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

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

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

$ millions	NZ Banking Group	
For the year ended 30 June	**2021**	2020
Updates to modelled multiple macroeconomic scenarios and weightings (refer section (f))	**(4)**	111
COVID-19 management adjustments to ECL	**(5)**	65
(Credited against)/charged to the Income Statement for collective allowances due to COVID-19 model adjustments	**(9)**	176
Other amounts credited against the Income Statement for collective allowances	**(25)**	(18)
Amounts charged to the Income Statement for individually assessed allowances	**(8)**	109
Total (credited against)/charged to the Income Statement for allowance for ECL	**(42)**	267

The decrease in COVID-19 related provision is due to an improved economic outlook and fewer customers than expected being negatively impacted. However, the ultimate duration and impact of the COVID-19 pandemic on customers and the mitigating effect of government stimulus packages remains uncertain, resulting in continued estimation uncertainty in the current year. Actual credit losses may differ from the NZ Banking Group's current estimate.

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

Residential Mortgages

The NZ Banking Group's Residential mortgages allowance for ECL in note 16(a) has decreased by $17 million during the year, with decreases in both the collective allowances of $14 million and the individually assessed allowances of $3 million.

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

- Updates to multiple macroeconomic scenarios and weightings resulting in a decrease of $30 million, within Other changes in collective allowances and changes in Stage;
- Minor changes resulting in an increase of $2 million to the overall size of the COVID-19 management adjustments; and
- Improvements in portfolio quality attributes are resulting in decreases in provision, which are partially offset by management adjustments, relating to factors not present in modelled outcomes e.g. household indebtedness. These are presented in both transfers between ECL Stages and Other changes in collective allowances.

Other Retail

The NZ Banking Group's other retail allowance for ECL in note 16(b) has decreased by $31 million during the year, with decreases in both the collective allowances of $30 million and the individually assessed allowances of $1 million.

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

- Updates to multiple macroeconomic scenarios and weightings result in immaterial changes in provision within transfers between ECL Stages and Other changes in collective allowances;
- Changes to the COVID-19 management adjustments resulting in an increase of $1 million and potentially vulnerable industry sectors presented within transfers between ECL Stages and Other changes in collective allowances;
- Reductions in portfolio balances through portfolio attrition and write-off are causing releases in provision presented within Additions and Deletions and Write-off; and
- Improvements in underlying portfolio quality are being offset by small numbers of customers requiring further financial assistance post COVID-19 presented within changes in Stage.

Corporate

The NZ Banking Group's Corporate allowance for ECL in note 16(c) has decreased by $28 million during the year, with an increase in the collective allowances of $10 million being offset by a decrease in the individually assessed allowances of $38 million.

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

- Updates to multiple macroeconomic scenarios and weightings resulting in an increase of $27 million, within Other changes in collective allowances; and
- A decrease to the COVID-19 management adjustments of $8 million for the sectors within the Corporate portfolio identified as having potentially worse or lagged prospects than the general economy, including commercial property, retail trade, entertainment, leisure and tourism. The net movement in gross carrying amount of transfers from Stage 2 to Stage 1 of $1.1 billion during the year reflects the impact of these adjustments, together with movements in quality. These adjustments are presented within transfers between ECL Stages and Other changes in collective allowances.

With respect to the individually assessed allowances there has been a net reduction in gross carrying amount of $63 million during the year, which has resulted in a $38 million decrease in these allowances, including the write-back of any allowance for ECL no longer required, amounts written off and new and increased allowances.

16 Allowance for Expected Credit Loss (continued)

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

The methodology used to estimate expected credit losses is consistent with that applied at 30 June 2020.

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

Multiple Macroeconomic Scenarios

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

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

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

The 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 scenarios as described above.

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

	NZ Banking Group	
As at 30 June	**2021**	2020
Upside	**5%**	15%
Central	**62.5%**	55%
Downside	**25%**	25%
Severe downside	**7.5%**	5%

The weighting applied to each scenario has been updated to reflect the revised macroeconomic conditions included in each scenario, together with a refresh of credit risk factors reflecting the continued impact of the COVID-19 pandemic. These updates over the year have improved the Central scenario's macroeconomic outlook, which is offset by the ongoing uncertainty regarding the long-term economic impact, both within New Zealand and globally, resulting in updated scenario weightings. The updated weightings, movements in credit risk factors and general portfolio movements have resulted in a $76 million decrease in ECL. This comprises a $42 million decrease in individually assessed allowances due to improvements or other resolution of the underlying assets, and a $34 million decrease in collective allowances.

Macroeconomic Credit Risk Factors

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

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

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

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

- Central (62.5%): The outlook for the next twelve months reflects a combination of improving unemployment (reducing to 4.5%) due to a tight labour market and border restrictions, positive house price growth (5%) reflecting a stablising housing market, positive business investment (9%) and a continued low OCR (0.5%). This scenario represents a short to medium term economic recovery and economic stabilisation from 2022 onwards.
- Upside (5%): Reflects a more positive outlook, with unemployment reducing to 4% and then stablising. House prices continue to grow at rates of 10% per annum and 5% per annum over the longer term, business investment is positive at 10%, and continued increases in OCR in subsequent years rising to 1.5%.
- Downside (25%): Reflects a sharper but still relatively short to medium term economic shock with unemployment rising to 11%, house price contraction of 15% and business investment outlook negative (-15%) during the next twelve months. This is partially offset by a supportive low OCR (-0.25%). Over the following 24 months this scenario sees the economic recovery beginning, although unemployment remains high (falling to 8%), further house price reductions of 10% and relatively stable business investment (3%).

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For the year ended 30 June 2021

16 Allowance for Expected Credit Loss (continued)

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

Macroeconomic Credit Risk Factors (continued)

- Severe downside (7.5%): Reflects the sharpest economic shock, which continues over the longer term. Unemployment rises to a peak of 13%, house prices fall (-25%) and business investment contracts (-30%) in the next twelve months. Again, this is offset by a supportive low OCR (-0.25%). This negative trend continues through the following 24 months, with house prices retracting a further 15%, unemployment remaining at high levels (11%), further contraction in business investment (-15%) and the OCR dropping to -0.5%, with only moderate improvement in these credit risk factors expected over the longer term.

Sensitivity to Macroeconomic Scenarios

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

$ millions	NZ Banking Group	
As at 30 June	**2021**	2020
Upside	**(188)**	(199)
Central	**(178)**	(73)
Downside	**214**	133
Severe downside	**895**	747

Sensitivity to SICR Assessment

If an additional 1% of Stage 1 financial assets were assessed as having a SICR at 30 June 2021, with the scenario weightings applied at 30 June 2021 held constant, the NZ Banking Group's allowance for ECL would increase by $9 million (30 June 2020 $11 million) as a result of recognising a loss allowance equal to Stage 2 lifetime ECL (rather than at an amount equal to one year of ECL). Conversely, if 1% of Stage 2 financial assets were assessed as no longer having a SICR, the NZ Banking Group's allowance for ECL would decrease by $2 million (30 June 2020 $2 million).

(g) Contractual Modifications

Between March 2020 and March 2021, the NZ Banking Group made a number of relief packages available to customers. For example, in certain circumstances customers could temporarily defer payments on existing advances for 3-6 months, or access limited additional financing at concessionary interest rates.

Where customers took the opportunity to defer payments, this represented a modification under accounting standards. During the year ended 30 June 2021, payments were deferred on Advances to customers with a gross carrying amount of approximately $635 million in Stage 2 or 3 (30 June 2020 $2.2 billion). There was no material loss to the Banking Group from these modifications, because the Banking Group continues to earn interest during the deferral period.

Advances to customers with a gross carrying amount of $1.1 billion that were subject to payment deferrals have since returned to Stage 1 as at 30 June 2021, or have been repaid or otherwise extinguished (30 June 2020 $141 million).

17 Impairment Losses on Financial Assets

$ millions	NZ Banking Group			
For the year ended 30 June 2021	**Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
Impairment losses charged to the Income Statement for collective allowances	**(16)**	**(35)**	**13**	**(38)**
Impairment losses charged to the Income Statement for individually assessed allowances	**(1)**	**1**	**(8)**	**(8)**
Bad debts written off directly to the Income Statement	**-**	**59**	**-**	**59**
Recovery of amounts previously written off	**(1)**	**(14)**	**(1)**	**(16)**
Total impairment (recoveries)/losses recognised in the Income Statement	**(18)**	**11**	**4**	**(3)**

$ millions	NZ Banking Group			
For the year ended 30 June 2020	Residential Mortgages	Other Retail	Corporate	Total
Impairment losses charged to the Income Statement for collective allowances	59	47	52	158
Impairment losses charged to the Income Statement for individually assessed allowances	3	4	97	104
Bad debts written off directly to the Income Statement	-	61	-	61
Recovery of amounts previously written off	-	(12)	(1)	(13)
Total impairment (recoveries)/losses recognised in the Income Statement	62	100	148	310

Impairment losses on other financial assets for the year ended 30 June 2021 and the year ended 30 June 2020 are not material to the NZ Banking Group.

Amounts written off during the year still subject to enforcement activity

As at 30 June 2021, the contractual amount outstanding on financial assets that were written off during the year, but which are still subject to enforcement activity, is $77 million (30 June 2020 $64 million).

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For the year ended 30 June 2021

18 Concentrations of Credit Exposures

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

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

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 2021	**Financial Assets at Amortised Cost**	**Financial Assets at Fair Value**	**Other Credit Exposures**	**Total Credit Exposures**
Concentration by industry				
Agriculture	**10,327**	**14**	**941**	**11,282**
Forestry and Fishing, Agriculture Services	**492**	**3**	**63**	**558**
Manufacturing	**968**	**21**	**829**	**1,818**
Electricity, Gas, Water and Waste Services	**415**	**92**	**257**	**764**
Construction	**649**	**-**	**376**	**1,025**
Wholesale Trade	**903**	**6**	**641**	**1,550**
Retail Trade and Accommodation	**1,667**	**2**	**512**	**2,181**
Transport, Postal and Warehousing	**1,069**	**2**	**641**	**1,712**
Financial and Insurance Services	**5,967**	**4,741**	**243**	**10,951**
Rental, Hiring and Real Estate Services	**36,873**	**36**	**1,775**	**38,684**
Professional, Scientific, Technical, Administrative and Support Services	**674**	**1**	**405**	**1,080**
Public Administration and Safety	**77**	**6,908**	**253**	**7,238**
Education and Training	**258**	**1**	**120**	**379**
Health Care and Social Assistance	**1,235**	**-**	**488**	**1,723**
Arts, Recreation and Other Services	**355**	**-**	**132**	**487**
Household	**45,532**	**-**	**10,318**	**55,850**
All Other	**82**	**-**	**187**	**269**
Total credit exposures by industry	**107,543**	**11,827**	**18,181**	**137,551**
Concentration by geographic region				
Auckland	**51,841**	**1,752**	**10,260**	**63,853**
Rest of New Zealand	**52,849**	**4,301**	**7,787**	**64,937**
Overseas	**2,853**	**5,774**	**134**	**8,761**
Total credit exposures by geographic region	**107,543**	**11,827**	**18,181**	**137,551**

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For the year ended 30 June 2021

18 Concentrations of Credit Exposures (continued)

$ millions	NZ Banking Group			
As at 30 June 2020	Financial Assets at Amortised Cost	Financial Assets at Fair Value	Other Credit Exposures	Total Credit Exposures
Concentration by industry				
Agriculture	10,240	25	806	11,071
Forestry and Fishing, Agriculture Services	462	5	59	526
Manufacturing	1,025	30	734	1,789
Electricity, Gas, Water and Waste Services	441	73	292	806
Construction	614	-	353	967
Wholesale Trade	982	9	577	1,568
Retail Trade and Accommodation	1,615	3	499	2,117
Transport, Postal and Warehousing	1,002	5	431	1,438
Financial and Insurance Services	7,054	5,368	375	12,797
Rental, Hiring and Real Estate Services	33,551	84	1,555	35,190
Professional, Scientific, Technical, Administrative and Support Services	529	1	416	946
Public Administration and Safety	34	6,844	371	7,249
Education and Training	274	1	148	423
Health Care and Social Assistance	1,260	11	319	1,590
Arts, Recreation and Other Services	324	-	189	513
Household	39,978	-	9,648	49,626
All Other	81	-	196	277
Total credit exposures by industry	99,466	12,459	16,968	128,893
Concentration by geographic region				
Auckland	46,987	1,735	10,099	58,821
Rest of New Zealand	49,046	3,937	6,738	59,721
Overseas	3,433	6,787	131	10,351
Total credit exposures by geographic region	99,466	12,459	16,968	128,893

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19 Maximum Exposure and Effect of Collateral and Other Credit Enhancements

Collateral and Credit Enhancements Held

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

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

Cash and Liquid Assets

This Balance Sheet category includes reverse repurchase agreements which are fully collateralised by highly liquid debt securities which have been legally transferred to the NZ Banking Group subject to an agreement to return them for a fixed price. As at 30 June 2021 the NZ Banking Group had not sold or repledged securities accepted as collateral under reverse repurchase agreements (30 June 2020 nil).

Cash and liquid assets include $2,478 million as at 30 June 2021 deposited with the RBNZ (30 June 2020 $3,165 million).

Due from Financial Institutions

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

Securities at Fair Value through Other Comprehensive Income

These assets are measured at fair value. As at 30 June 2021 no collateral is held to mitigate the credit risk on these instruments and a maximum of $299 million of these securities are backed by guarantees (30 June 2020 nil and $299 million respectively).

Derivative Assets

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

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

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

Other Assets

This Balance Sheet category includes interest receivable accrued and other current assets. As at 30 June 2021 no collateral is held on these balances (30 June 2020 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 receivable;
- Personal and corporate guarantees received from third parties; and
- The Crown Deed of Indemnity under the New Zealand Government's Business Finance Guarantee Scheme, whereby the Crown undertakes to indemnify ASB for up to 80 percent of the shortfall on supported loans issued under the Business Finance Guarantee Scheme. As at 30 June 2021 the NZ Banking Group had advanced $298 million to customers under the Scheme (30 June 2020 $27 million). The BFGS concluded on 30 June 2021, with new scheme loans no longer being available.

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

- Residential Mortgages

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

- Other Retail Lending

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

- 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. 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.

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

Advances to Customers (continued)

For the purposes of the tables below:

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

$ millions	NZ Banking Group			
Collateral Held on Advances to Customers - On Balance Sheet	**Residential Mortgages[1]**	**Other Retail**	**Corporate**	**Total**
As at 30 June 2021				
Maximum Exposure	**68,971**	**3,259**	**30,336**	**102,566**
Collateral Classification				
Secured	**100.0%**	**27.8%**	**68.4%**	**88.3%**
Partially Secured	**-**	**6.0%**	**14.6%**	**4.5%**
Unsecured	**-**	**66.2%**	**17.0%**	**7.2%**
As at 30 June 2020				
Maximum Exposure	61,530	3,426	28,310	93,266
Collateral Classification				
Secured	99.9%	27.8%	65.5%	86.8%
Partially Secured	0.1%	6.0%	17.6%	5.6%
Unsecured	-	66.2%	16.9%	7.6%

Collateral Classification - Credit Impaired

As at 30 June 2021, 64.2% of the Banking Group's credit impaired Advances to customers were secured, 23.8% were partially secured and 12.0% were unsecured (30 June 2020 50.9% secured, 28.9% partially secured and 20.2% 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 2021	
Maximum Exposure	**18,181**
Collateral Classification	
Secured	**63.2%**
Partially Secured	**6.1%**
Unsecured	**30.7%**
As at 30 June 2020	
Maximum Exposure	16,968
Collateral Classification	
Secured	59.5%
Partially Secured	6.8%
Unsecured	33.7%

(1) Refer to note 41 for loan-to-valuation ratios for residential mortgages.

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20 Transferred Financial Assets

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

Transferred Financial Assets that are Not Derecognised in their Entirety

Residential Mortgage-Backed Securities
During the year ended 30 June 2009 ASB established an in-house residential mortgage-backed securities ("RMBS") facility, which can issue securities that are acceptable as collateral for repurchase agreements with the RBNZ. As at 30 June 2021, mortgage loans with a carrying value of $10.2 billion (30 June 2020 $8.3 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 Banking Group's financial statements retains substantially all the risks and rewards of ownership (funding, liquidity and credit risks remain with ASB Banking Group). As at 30 June 2021, the Medallion NZ Series Trust 2009-1R had other assets of $799 million representing cash from principal repayments (30 June 2020 $396 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 Banking Group's financial statements as it retains substantially all the risks and rewards of ownership (funding, liquidity and credit risks remain with the ASB Banking Group).

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 2021, Covered Bonds (including accrued interest) of $3.8 billion were guaranteed (30 June 2020 $3.5 billion), and the Covered Bond Trust held mortgage loans with a carrying value of $5.3 billion (30 June 2020 $5.1 billion) and other assets of $135 million representing cash from principal repayments (30 June 2020 $96 million). The carrying value of the associated Covered Bond liabilities as at 30 June 2021 was $3.9 billion (30 June 2020 $3.6 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 or other securities in exchange. The counterparty is allowed to sell or repledge the collateral advanced under repurchase agreements but has an obligation to return the collateral at the maturity of the contract. These securities have not been derecognised from the 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 and other securities received which is included in Deposits and other borrowings.

As at 30 June 2021 the NZ Banking Group had collateral advanced under repurchase agreements of $924 million in the form of RMBS and $1,902 million in the form of bonds within Securities at fair value through other comprehensive income (30 June 2020 $1,548 million in the form of bonds within Securities at fair value through other comprehensive income).(1)

Transferred Financial Assets that are Derecognised in their Entirety

As at 30 June 2021 the NZ Banking Group has not derecognised in its entirety any financial assets where it has a continuing involvement (30 June 2020 nil).

(1) Comparative information has been restated to include $1,448 million of collateral advanced under non-cash settled repurchase agreements.

21 Imputation Credit Accounts

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

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

The amount of imputation credits available to all members of the ICA Group as at 30 June 2021 is $862 million (30 June 2020 $389 million). This amount includes imputation credits that will arise from the payment of the provision for income tax.

CBA Investments (No. 4) Limited is not a member of the ICA Group. As at 30 June 2021 CBA Investments (No. 4) Limited had imputation credits available of $3 million (30 June 2020 $2 million). These figures have been calculated on the same basis as the ICA Group.

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22 Controlled Entities and Associates

Entity Name	%	Nature of Business	Balance Date
Subsidiaries			
ASB Bank Limited	100	Registered bank	30 June
ASB Finance Limited	100	Finance	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
CBA Asset Finance (NZ) Limited	100	Finance	30 June
CBA Funding (NZ) Limited	100	Finance	30 June
CBA Investments (No 4) Limited	100	Finance	30 June
Mortgage Holding Trust Company Limited	100	Nominee company	30 June
Securitisation Management Services Limited	100	Securitisation management	30 June
Other Controlled Entities			
ASB Cash Fund	-	Portfolio investment entity	30 June
ASB Term Fund	-	Portfolio investment entity	30 June
Medallion NZ Series Trust 2009-1R	-	Group funding entity	30 June
ASB Covered Bond Trust	-	Group funding entity	30 June
Associates			
Payments NZ Limited	19	Payment systems	30 September
Trade Window Limited	26	Digital trade administration platform	31 March

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

All companies were incorporated in New Zealand.

Changes in Composition of the NZ Banking Group

On 29 June 2021, CBA Asset Holdings (NZ) Limited and CBA NZ Holding Limited were amalgamated into CBA Funding (NZ) Limited. There was no material impact on the financial statements of the NZ Banking Group. CBA Asset Holdings (NZ) Limited and CBA NZ Holding Limited were previously wholly owned subsidiaries of the NZ Banking Group.

During the year ended 30 June 2021, ASB acquired further ordinary shares in Trade Window Limited, which remains an associate of the NZ Banking Group.

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

23 Other Assets

$ millions	NZ Banking Group	
As at 30 June	**2021**	2020
Interest receivable accrued	**174**	188
Contract assets	**29**	32
Other assets	**107**	129
Total other assets	**310**	349
Amounts due for settlement within 12 months	**275**	306
Amounts due for settlement over 12 months	**35**	43
Total other assets	**310**	349

24 Property, Plant and Equipment

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

$ millions	NZ Banking Group			
As at 30 June 2020	Right of use assets	Freehold land and buildings	Other property, plant and equipment	Total
Net book value				
Balance at beginning of year	288	45	152	485
Additions	5	-	39	44
Revaluation	-	3	-	3
Depreciation charge for the year	(44)	(1)	(32)	(77)
Impairment loss	(1)	-	(2)	(3)
Balance as at 30 June 2020	248	47	157	452

25 Goodwill

$ millions	NZ Banking Group	
As at 30 June	**2021**	2020
Goodwill arising from the purchase of:		
ASB Bank Limited	**275**	275
ASB Group Investments Limited	**10**	10
Total goodwill	**285**	285

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 2021. 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 as at 30 June 2021 (30 June 2020 nil).

Key Assumptions Used in the Recoverable Amount Calculation

As at 30 June 2021 and 30 June 2020, 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.

26 Deferred Tax Assets

$ millions	NZ Banking Group	
As at 30 June	2021	2020[(1)]
Balance at beginning of year	**278**	192
Recognised in the Income Statement	**(1)**	99
Recognised in Other comprehensive income	**(13)**	(13)
Balance at end of year	**264**	278
Deferred tax relates to:		
Asset revaluation reserve	**(2)**	(3)
Fair value through other comprehensive income reserve	**(21)**	(1)
Cash flow hedge reserve	**48**	42
Depreciation	**27**	19
Leases	**6**	4
Provision for employee entitlements	**34**	27
Allowance for expected credit loss	**162**	182
Other temporary differences	**10**	8
Total deferred tax assets	**264**	278
Deferred tax recognised in the Income Statement:		
Depreciation	**8**	15
Leases	**2**	4
Provision for employee entitlements	**7**	15
Allowance for expected credit loss	**(20)**	64
Other temporary differences	**2**	1
Total deferred tax recognised in the Income Statement	**(1)**	99
Deferred tax recognised in Other comprehensive income:		
Asset revaluation reserve	**1**	-
Fair value through other comprehensive income reserve	**(20)**	-
Cash flow hedge reserve	**6**	(13)
Total deferred tax recognised in Other comprehensive income	**(13)**	(13)

(1) Certain comparative information has been restated due to a change in accounting policy. Refer to the Changes to Accounting Policies section on page 19 for more information.

27 Deposits and Other Borrowings

$ millions	NZ Banking Group	
As at 30 June	2021	2020
Certificates of deposit	**3,854**	4,023
Term deposits	**25,398**	32,885
On demand and short term deposits	**36,344**	29,340
Deposits not bearing interest	**11,651**	8,123
Repurchase agreements	**2,674**	1,548
Total deposits and other borrowings	**79,921**	75,919
Amounts due for settlement within 12 months	**77,290**	73,754
Amounts due for settlement over 12 months	**2,631**	2,165
Total deposits and other borrowings	**79,921**	75,919

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 2021 (30 June 2020 nil).

28 Due to Financial Institutions

As at 30 June 2021 amounts due to financial institutions of $1,046 million are due for settlement within 12 months of balance date (30 June 2020 $1,848 million due within 12 months of balance date).

Cash collateral received of $324 million is included in Due to financial institutions (30 June 2020 $1,188 million).

29 Other Liabilities

$ millions	NZ Banking Group	
As at 30 June	**2021**	2020
Interest payable accrued	**125**	245
Salaries, wages and other staff payables[1]	**94**	87
Contract liabilities	**55**	57
Trade accounts payable and other liabilities[1]	**101**	253
Lease liabilities (refer to note 35)	**221**	245
Total other liabilities	**596**	887
Amounts due for settlement within 12 months[1]	**383**	673
Amounts due for settlement over 12 months[1]	**213**	214
Total other liabilities	**596**	887

(1) Certain comparative information has been restated to ensure consistency with presentation in the current period. Refer to the Changes to Comparatives section on page 19 for more information.

30 Provisions

$ millions	NZ Banking Group	
As at 30 June	**2021**	2020
Employee entitlements	**44**	45
Compliance, regulation and remediation	**95**	71
Leasing make-good obligations	**16**	16
Other	**11**	12
Total provisions	**166**	144
Estimated amounts due for settlement within 12 months	**131**	89
Estimated amounts due for settlement over 12 months	**35**	55
Total provisions	**166**	144

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

$ millions	NZ Banking Group				
For the year ended 30 June 2021	**Compliance, regulation and remediation**	**Employee entitlements**	**Leasing make-good obligations**	**Other**	Total
Balance at beginning of year	**71**	**45**	**16**	**12**	**144**
Additional provisions during the year	**59**	**60**	**1**	**11**	**131**
Amounts utilised during the year	**(27)**	**(54)**	**(1)**	**(9)**	**(91)**
Release of provisions during the year	**(8)**	**(7)**	**-**	**(3)**	**(18)**
Balance at end of year	**95**	**44**	**16**	**11**	**166**

Compliance, regulation and remediation

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

Employee entitlements

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

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For the year ended 30 June 2021

30 Provisions (continued)

Leasing make-good obligations

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

31 Debt Issues

$ millions	NZ Banking Group	
As at 30 June	**2021**	2020
Debt issues by programme		
USD commercial paper	**6,079**	934
Euro medium term notes	**7,642**	8,593
USD medium term notes	**2,201**	2,445
NZD domestic bonds	**2,344**	3,059
Covered bonds	**3,870**	3,577
Total debt issues	**22,136**	18,608
Short term debt issues by currency		
USD	**6,079**	934
Long term debt issues by currency due for settlement within 12 months		
USD	**1,065**	342
GBP	**-**	478
JPY	**-**	101
EUR	**862**	892
NZD	**790**	1,166
HKD	**38**	40
Total debt issues due for settlement within 12 months	**8,834**	3,953
Long term debt issues by currency due for settlement over 12 months		
USD	**3,472**	4,742
AUD	**253**	263
JPY	**32**	36
EUR	**6,930**	6,792
NZD	**1,554**	1,893
HKD	**116**	169
CHF	**945**	760
Total debt issues due for settlement over 12 months	**13,302**	14,655
Total debt issues	**22,136**	18,608
Debt issues at fair value through Income Statement	**6,079**	545
Debt issues at amortised cost	**16,057**	18,063
Total debt issues	**22,136**	18,608
Movement in debt issues		
Balance at beginning of year	**18,608**	20,756
Issuances during the year	**12,435**	3,340
Repayments during the year	**(7,860)**	(6,553)
Fair value movements	**(291)**	262
Foreign exchange and other movements	**(756)**	803
Balance at end of year	**22,136**	18,608
Fair value hedge adjustments included in total debt issues	**327**	618

31 Debt Issues (continued)

Short Term Debt

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

The weighted average interest rate on balances outstanding as at 30 June 2021 was 0.22% for CP issued under the USCP programme (30 June 2020 1.21%). There were no outstanding issuances under the ECP programme.

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. The programme limit is USD10 billion. Notes issued under this programme are in USD and have both fixed and variable interest rates;
- Bonds issued under a Covered Bond programme. The programme limit is EUR7 billion and is subject to the regulatory constraint that the assets of the Covered Bond Trust may not exceed 10% of the total assets of the ASB Banking Group. 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 20 for further information; and
- Domestic bonds issued into the New Zealand market. The issuances occur in NZD and have both fixed and variable interest rates.

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

32 Loan Capital

$ millions			NZ Banking Group	
As at 30 June			**2021**	2020
Issuer	**Face Value**	**Footnote**		
ASB Bank Limited	NZD400 million	(a)	**403**	411
CBA New Zealand Branch	AUD3,000 million	(b)	**3,259**	3,274
CBA New Zealand Branch	AUD1,450 million	(c)	**1,559**	1,559
CBA New Zealand Branch	AUD1,640 million	(d)	**1,766**	1,765
Total loan capital			**6,987**	7,009

$ millions	NZ Banking Group	
For the year ended 30 June	**2021**	2020
Movement in loan capital		
Balance at beginning of year	**7,009**	6,836
Foreign exchange and fair value movements during the period	**(22)**	173
Balance at end of year	**6,987**	7,009

Terms

ASB Bank Limited

a) Subordinated Notes - Tier 2 loan capital

On 30 November 2016, ASB issued 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 meet the existing criteria for Tier 2 capital designation under ASB's and CBA's regulatory capital requirements and are classified as financial liabilities under NZ IAS 32. Under the RBNZ's new capital criteria, the ABB050 Notes will be phased out over the 7 year transition period starting 1 January 2022.

Redemption

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, subject to certain conditions, ASB may redeem the ABB050 Notes for tax or regulatory reasons.

Interest

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 ASB Banking Group being solvent immediately after such payment is made.

32 Loan Capital (continued)

Conversion

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.

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). Subject to certain criteria, CBA may elect to redeem the PERLS VII at their face value on 15 December 2022. If not redeemed, the Branch will be required to exchange PERLS VII for CBA ordinary shares on 15 December 2024. PERLS VII are listed on the Australian Stock Exchange and are subject to New South Wales law. They qualify as Additional Tier 1 Capital of CBA under Basel III as implemented by APRA.

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

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

33 Head Office Account and Contributed Capital

$ millions	NZ Banking Group	
As at 30 June	**2021**	2020
Head office account		
Balance at beginning of year	**2,887**	2,887
Balance at end of year	**2,887**	2,887

The 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	**3,167**	667
Issuance of ordinary shares	**-**	2,500
Balance at end of year	**3,167**	3,167
Total contributed capital	**3,167**	3,167

Ordinary Shares

As at 30 June 2021 the NZ Banking Group had 3,190,561,572 issued ordinary shares of which 100,000 were unpaid (30 June 2020 3,190,561,572 issued of which 100,000 were unpaid). During the year ended 30 June 2021, no ordinary shares were redeemed (30 June 2020 nil).

On 10 October 2019, ASB Holdings Limited issued 2,500,000,000 ordinary shares to CBA and raised $2.5 billion from this issuance.

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.

34 Reserves

$ millions	NZ Banking Group	
As at 30 June	**2021**	2020
Asset revaluation reserve		
Balance at beginning of year	**33**	30
Revaluations of land and buildings	**(2)**	3
Deferred tax	**1**	-
Balance at end of year	**32**	33

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

Cash flow hedge reserve		
Balance at beginning of year	**(110)**	(143)
Net gain/(loss) from changes in fair value	**(370)**	226
Reclassified to Income Statement:		
Interest income	**(185)**	(127)
Interest expense	**431**	345
Other income	**105**	(398)
Deferred tax	**6**	(13)
Balance at end of year	**(123)**	(110)

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.

Fair value through other comprehensive income reserve		
Balance at beginning of year	**5**	5
Net gain from changes in fair value	**70**	-
Deferred tax	**(20)**	-
Balance at end of year	**55**	5

The fair value through other comprehensive income reserve includes the cumulative net change in the fair value of Securities at FVOCI (excluding impairment recoveries 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.

35 Leasing

The NZ Banking Group leases premises under arrangements with varying terms and renewal rights. Disclosure of the NZ Banking Group's recognised right of use assets is included in note 24, and related depreciation in note 5. Disclosure of the NZ Banking Group's recognised lease liabilities is included in note 29, and related interest expense in note 3.

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

$ millions	NZ Banking Group	
As at 30 June	**2021**	2020
Balance at beginning of year	**245**	275
New leases during the year	**2**	5
Repayments during the year[1]	**(36)**	(35)
Other movements	**10**	-
Balance at end of year	**221**	245

[1] Repayments during the year represent the principal portion of the lease liability repayments. The total cash outflow in respect of leases (including interest, short term, low value and variable lease payments) was $50 million for the year ended 30 June 2021 (30 June 2020 $49 million).

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

$ millions	NZ Banking Group	
As at 30 June	**2021**	2020
Less than one year	**40**	43
Between one and two years	**39**	38
Between two and five years	**87**	92
Over five years	**88**	108
Total undiscounted lease liabilities	**254**	281

Significant leasing arrangements

The NZ Banking Group's most significant lease is in respect of the head office premises. This lease was for an initial term of 18 years, which now has 10 years remaining. It is subject to a 2.5% fixed annual increase and at the end of 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). At 30 June 2021 the remaining reasonably certain lease term for this lease is 10 years, and as a result the rights of renewal have not been included in the recognised lease liability (30 June 2020 11 years and rights of renewal not included in the recognised lease liability).

In respect of these head office premises and all other premises leased by the NZ Banking Group, the gross undiscounted cash flows associated with renewals which have not been included in the lease liability is approximately $358 million (30 June 2020 $360 million). It is uncertain whether the NZ Banking Group will exercise these renewals.

In addition, the NZ Banking Group is committed to one lease which has not yet commenced at 30 June 2021 (30 June 2020 two leases). Right of use assets and lease liabilities of $2 million will be recognised when the underlying assets are available for use by the NZ Banking Group (30 June 2020 $4 million).

Sub-leasing arrangements

The NZ Banking Group has also entered into certain sub-leasing arrangements. Sub-leasing income rounded to nil for the year ended 30 June 2021 (30 June 2020 nil).

36 Credit and Capital Commitments, and Contingent Liabilities

$ millions As at 30 June	NZ Banking Group Notional Amount 2021	2020
Credit and capital commitments		
Lending commitments approved but not yet advanced [1]	**17,404**	16,236
Capital expenditure commitments	**2**	5
Total credit and capital commitments	**17,406**	16,241
Credit related contingent liabilities		
Financial guarantees	**202**	187
Letters of credit	**122**	100
Other credit facilities	**453**	445
Total credit related contingent liabilities	**777**	732

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

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

Other contingent liabilities

The NZ Banking Group has identified a number of matters where it is undertaking reviews relating to products and services provided to customers which may require remediation and, in some cases, engagement with regulators. Specific provisions have been made where possible in relation to these matters. However there are instances where the potential liability to the NZ Banking Group, if any, cannot be accurately assessed until such matters are further progressed or because the application of the law is uncertain.

The NZ Banking Group is exposed to 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.

37 Related Party Transactions and Balances

During the year ended 30 June 2021 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 related companies and entities for which no compensation has been received. In all other cases, arrangements with related parties were conducted on an arm's length basis and on normal commercial terms, and within the 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.

$ millions For the year ended 30 June	NZ Banking Group 2021	2020
Related Party Transactions		
Interest income		
Received from Overseas Banking Group	**-**	7
Interest expense		
Paid to Overseas Banking Group	**35**	96
Paid to superannuation schemes and managed investment schemes managed by a subsidiary of ASB	**16**	23
	51	119
Other income		
Management and administration fees received from superannuation schemes and managed investment schemes managed by a subsidiary of ASB	**140**	125
Other expenses		
Paid to Overseas Banking Group	**4**	2

37 Related Party Transactions and Balances (continued)

$ millions	NZ Banking Group	
As at 30 June	2021	2020
Related Party Balances		
Overseas Banking Group		
Cash and liquid assets	1,980	1,795
Due from financial institutions	25	304
Derivative assets	287	535
Other assets	-	21
	2,292	2,655
Deposits and other borrowings	1,902	1,448
Due to financial institutions	160	671
Derivative liabilities	446	696
Other liabilities	-	2
	2,508	2,817
Superannuation schemes and managed investment schemes managed by a subsidiary of ASB		
Other assets	20	17
Deposits and other borrowings	1,739	1,345
Debt issues at amortised cost	133	165
Other liabilities	1	-
	1,873	1,510
Trade Window Limited		
Advances to customers	1	2
Other assets	1	1
	2	3
Deposits and other borrowings	4	1
Total related party assets	2,314	2,675
Total related party liabilities	4,385	4,328

Other Transactions and Balances

The Overseas Banking Group provides guarantees over certain lending offered by ASB to the value of $24 million (30 June 2020 $16 million).

The NZ Banking Group has entered into interest rate derivatives, exchange rate derivatives and commodity contracts with the Overseas Banking Group with an aggregate notional principal amount of $2,363 million, $22,601 million and $2 million respectively (30 June 2020 $2,443 million, $18,236 million and $6 million). The carrying amount of interest rate derivatives at 30 June 2021 is split between those with a positive fair value of $61 million recognised as assets (30 June 2020 $113 million), and those with a negative fair value of $19 million recognised as liabilities (30 June 2020 $39 million). For exchange rate derivatives, $225 million is recognised as assets (30 June 2020 $422 million) and $426 million is recognised as liabilities (30 June 2020 $657 million) and for commodity contracts $1m is recognised as assets (30 June 2020 nil). Net interest on derivatives of $48 million was paid to the Overseas Banking Group (30 June 2020 $29 million).

No individually assessed allowance has been recognised in respect of loans given to related parties (30 June 2020 nil).

Refer to note 8 for details of dividends paid to the shareholder, note 32 for details of loan capital issued to related parties, note 33 for details of capital contributed by related parties, note 38 for transactions and amounts with key management personnel and note 43 for further information on superannuation schemes and managed investment schemes managed by ASB Group Investments Limited.

38 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	**2021**	2020
Key management compensation		
Short term employee benefits	**14**	14
Share-based payments	**3**	3
Total key management compensation	**17**	17

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 2021 was $5 million (30 June 2020 $6 million).

During the year ended 30 June 2020, the CEO of ASB began participating in CBA equity settled share-based payment plans and is awarded a number of rights that vest provided similar conditions are met (including remaining in employment until the vesting date).

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

	NZ Banking Group			
	Number of rights		Fair Value ($ millions)	
As at 30 June	**2021**	2020	**2021**	2020
Equity settled rights granted during year	**26,194**	29,103	**2**	2

The expense recognised on equity settled rights for the year ended 30 June 2021 rounded to $1 million (30 June 2020 rounded to nil). No equity settled rights have vested during the year.

$ millions	NZ Banking Group	
As at 30 June	**2021**	2020
Loans to key management personnel and their related parties[1]	**19**	10
Deposits from key management personnel and their related parties[1]	**22**	12

[1] Includes key management personnel of the NZ Banking Group and its parent company, close family members of key management personnel and entities that are controlled or jointly controlled by key management personnel or their close family members.

Loans made to and deposits held from key management personnel were made in the ordinary course of business on normal commercial terms and conditions, no more favourable than those given to other employees of the 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 2021 (30 June 2020 nil).

Interest is received on loans and paid on deposits at market rates. For the year ended 30 June 2021 these amounts rounded to nil (30 June 2020 nil).

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39 Fair Value of Financial Instruments

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

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

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 significant 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 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Securities at fair value through other comprehensive income	**9,347**	**1,626**	**-**	**10,973**
Derivative assets	**1**	**853**	**-**	**854**
Total financial assets measured at fair value	**9,348**	**2,479**	**-**	**11,827**
Financial liabilities				
Derivative liabilities	**-**	**597**	**-**	**597**
Debt issues at fair value through Income Statement	**-**	**6,079**	**-**	**6,079**
Total financial liabilities measured at fair value	**-**	**6,676**	**-**	**6,676**

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

$ millions	NZ Banking Group			
As at 30 June 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Securities at fair value through other comprehensive income	9,306	1,397	-	10,703
Derivative assets	-	1,756	-	1,756
Total financial assets measured at fair value	9,306	3,153	-	12,459
Financial liabilities				
Derivative liabilities	-	940	-	940
Debt issues at fair value through Income Statement	-	545	-	545
Total financial liabilities measured at fair value	-	1,485	-	1,485

During the year ended 30 June 2020, following a reduction in the availability of quoted prices for certain Securities at fair value through other comprehensive income during the period, the NZ Banking Group transferred $587 million from level 1 to level 2 as the fair values were subsequently determined using valuation techniques with observable inputs. There were no other transfers between levels for recurring fair value measurements.

39 Fair Value of Financial Instruments (continued)

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

The following tables compare the carrying values of financial instruments not measured at fair value with their estimated fair values and analyses them by level in the fair value hierarchy. Other financial liabilities excludes the lease liability of $221 million as no fair value disclosure is required in respect of lease liabilities.

$ millions	NZ Banking Group				
	Fair Values				Carrying Value
As at 30 June 2021	**Level 1**	**Level 2**	**Level 3**	**Total**	**Total**
Financial assets					
Cash and liquid assets	**2,654**	**2,030**	**-**	**4,684**	**4,684**
Due from financial institutions	**-**	**293**	**-**	**293**	**293**
Advances to customers	**-**	**-**	**102,553**	**102,553**	**102,566**
Other financial assets	**-**	**259**	**-**	**259**	**259**
Total	**2,654**	**2,582**	**102,553**	**107,789**	**107,802**
Financial liabilities					
Deposits and other borrowings	**-**	**79,999**	**-**	**79,999**	**79,921**
Due to financial institutions	**-**	**1,046**	**-**	**1,046**	**1,046**
Other financial liabilities	**-**	**375**	**-**	**375**	**375**
Debt issues at amortised cost	**-**	**16,187**	**-**	**16,187**	**16,057**
Loan capital	**-**	**7,046**	**-**	**7,046**	**6,987**
Total	**-**	**104,653**	**-**	**104,653**	**104,386**

$ millions	NZ Banking Group				
	Fair Values				Carrying Value
As at 30 June 2020	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Cash and liquid assets	3,374	2,294	-	5,668	5,668
Due from financial institutions	-	532	-	532	532
Advances to customers	-	-	93,734	93,734	93,266
Other financial assets	-	302	-	302	302
Total	3,374	3,128	93,734	100,236	99,768
Financial liabilities					
Deposits and other borrowings	-	76,123	-	76,123	75,919
Due to financial institutions	-	1,848	-	1,848	1,848
Other financial liabilities	-	656	-	656	656
Debt issues at amortised cost	-	18,035	-	18,035	18,063
Loan capital	-	6,981	-	6,981	7,009
Total	-	103,643	-	103,643	103,495

40 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. 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 2021						
Derivative assets	**813**	**(319)**	**(321)**	**173**	**41**	**854**
Reverse repurchase agreements	**2,030**	**(1,902)**	**(128)**	**-**	**-**	**2,030**
Total financial assets	**2,843**	**(2,221)**	**(449)**	**173**	**41**	**2,884**
Derivative liabilities	**(580)**	**319**	**-**	**(261)**	**(17)**	**(597)**
Repurchase agreements	**(2,674)**	**1,902**	**772**	**-**	**-**	**(2,674)**
Total financial liabilities	**(3,254)**	**2,221**	**772**	**(261)**	**(17)**	**(3,271)**
Financial instruments as at 30 June 2020						
Derivative assets(2)	1,672	(319)	(1,186)	167	84	1,756
Reverse repurchase agreements	2,294	(1,448)	(846)	-	-	2,294
Total financial assets	3,966	(1,767)	(2,032)	167	84	4,050
Derivative liabilities(2)	(927)	319	25	(583)	(13)	(940)
Repurchase agreements	(1,548)	1,448	100	-	-	(1,548)
Total financial liabilities	(2,475)	1,767	125	(583)	(13)	(2,488)

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

(2) Prior period figures have been restated due to a misclassification between the Amounts Subject to and Amounts Not Subject to Enforceable Master Netting Agreements. As a result, the Gross Amounts of Derivative assets and Derivative liabilities subject to master netting agreements have decreased by $65 million and $11 million respectively, with an equivalent increase to the Amounts Not Subject to Enforceable Master Netting Agreements.

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.

41 Capital Adequacy

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

Regulatory Requirements - Basel III

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

The Overseas Banking Group is predominantly 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 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 2021 the minimum capital requirements were met (30 June 2020 minimum capital requirements were met).

Unaudited	**Overseas Bank**		**Overseas Banking Group**	
As at 30 June	**2021**	2020	**2021**	2020
Capital ratios				
CET1 capital ratio	**13.3%**	11.9%	**13.1%**	11.6%
Tier 1 capital ratio	**16.1%**	14.4%	**15.7%**	13.9%
Total capital ratio	**20.3%**	18.1%	**19.8%**	17.5%

41 Capital Adequacy (continued)

Unaudited $ millions As at 30 June 2021 LVR Range	0%-60%	60.1%-70%	NZ Banking Group 70.1%-80%	80.1%-90%	>90%	Total
Residential Mortgages by Loan-to-Valuation Ratio ("LVR")						
On balance sheet exposures	30,765	14,771	18,243	4,473	1,222	69,474
Off balance sheet exposures	5,524	1,349	1,464	226	184	8,747
Total value of exposures	36,289	16,120	19,707	4,699	1,406	78,221
Expressed as a percentage of total exposures	46.4%	20.6%	25.2%	6.0%	1.8%	100.0%

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

$ millions As at 30 June 2021	NZ Banking Group
Reconciliation of mortgage-related amounts	
Residential mortgages in Advances to customers (refer to note 16)	69,098
Add/(less):	
Off balance sheet exposures	8,747
Exposure at default adjustments	633
Unamortised loan establishment fees and expenses	(257)
Residential mortgages in LVR disclosure	78,221

Market Risk Exposure

The NZ Banking Group's aggregate market risk exposure is derived in accordance with the RBNZ document *Capital Adequacy Framework (Standardised Approach)* ("BS2A"). The peak end-of-day exposure is derived by taking the highest market exposure over the six months ended 30 June 2021.

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 2021	Interest Rate Risk	NZ Banking Group Foreign Currency Risk	Equity Risk	Total
Implied risk-weighted exposure	3,415	316	-	3,731
Notional capital charge	273	25	-	298

Unaudited $ millions Peak end-of-day Exposures for the six months ended 30 June 2021	Interest Rate Risk	NZ Banking Group Foreign Currency Risk	Equity Risk	Total
Implied risk-weighted exposure	4,617	472	-	5,089
Notional capital charge	369	38	-	407

42 Overseas Banking Group

	Overseas Banking Group
Asset quality	
As at 30 June 2021	
Total gross individually impaired assets	**AUD1,885 million**
Total individually impaired assets as a % of total assets	**0.2%**
Total individually assessed provisions	**AUD900 million**
Total individually assessed provisions as a % of total gross individually impaired assets	**47.7%**
Total collective provision	**AUD5,311 million**
Profitability	
For the year ended 30 June 2021	
Net profit after tax	**AUD10,181 million**
Net profit after tax as a % of average total assets	**1.0%**
Size	
As at 30 June 2021	
Total assets	**AUD1,091,962 million**
% change in total assets from previous 30 June	**7.7%**

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 $6,600 million as at 30 June 2021 (30 June 2020 $6,634 million).

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

Insurance Business

The NZ Banking Group does not conduct any insurance business.

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

Securitisation
As at 30 June 2021 the NZ Banking Group had internally securitised $11.0 billion of RMBS through the Medallion NZ Series Trust 2009-1R (30 June 2020 $8.7 billion), of which $10.0 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 2020 $8.0 billion). Refer to note 20 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 22). Funds under management distributed by the NZ Banking Group totalled $21,750 million as at 30 June 2021 (30 June 2020 $18,500 million). As at 30 June 2021 $2,079 million of funds under management were invested in related party products or securities (30 June 2020 $1,654 million).

Other 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 $939 million as at 30 June 2021 (30 June 2020 $1,168 million).

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

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

Provision of Financial Services
Financial services (including deposit taking and foreign exchange services) provided by the NZ Banking Group during the year to entities which are involved in the above activities are provided on arm's length terms and conditions and at fair value. The 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 2021

44 Financial Reporting by Operating Segments

	NZ Banking Group						
$ millions	**Retail Banking**	**Business Banking**	**Corporate Banking**	**Institutional Banking and Markets**	**Private Banking, Wealth and Insurance**	**Other**	**Total**
Income Statement							
For the year ended 30 June 2021							
Net interest income/(expense)	**1,199**	**919**	**111**	**19**	**77**	**(65)**	**2,260**
Other income/(loss)	**381**	**118**	**55**	**48**	**238**	**(184)**	**656**
Total operating income/(loss)	**1,580**	**1,037**	**166**	**67**	**315**	**(249)**	**2,916**
Impairment (recoveries)/losses on financial assets	**(3)**	**2**	**(5)**	**2**	**1**	**-**	**(3)**
Segment operating expenses/(benefit) excluding impairment losses	**651**	**337**	**59**	**13**	**138**	**(45)**	**1,153**
Segment net profit/(loss) before tax	**932**	**698**	**112**	**52**	**176**	**(204)**	**1,766**
Tax expense/(benefit)	**261**	**195**	**31**	**14**	**49**	**(41)**	**509**
Segment net profit/(loss) after tax	**671**	**503**	**81**	**38**	**127**	**(163)**	**1,257**
Non-cash expenses[1]							
Depreciation and amortisation expense	**54**	**19**	**14**	**-**	**11**	**43**	**141**
Balance Sheet							
As at 30 June 2021							
Total assets	**52,663**	**40,307**	**6,384**	**3,236**	**3,367**	**14,853**	**120,810**
Total liabilities	**41,113**	**18,381**	**7,857**	**1,853**	**4,859**	**37,511**	**111,574**

	NZ Banking Group						
$ millions	Retail Banking	Business Banking	Corporate Banking	Institutional Banking and Markets	Private Banking, Wealth and Insurance	Other	Total
Income Statement[2]							
For the year ended 30 June 2020							
Net interest income/(expense)	1,085	820	113	18	64	(53)	2,047
Other income/(loss)	391	120	49	41	234	(197)	638
Total operating income/(loss)	1,476	940	162	59	298	(250)	2,685
Impairment losses on financial assets	131	76	94	4	4	1	310
Segment operating expenses/(benefit) excluding impairment losses	608	318	54	14	132	-	1,126
Segment net profit/(loss) before tax	737	546	14	41	162	(251)	1,249
Tax expense/(benefit)	206	153	4	12	45	(47)	373
Segment net profit after tax	531	393	10	29	117	(204)	876
Non-cash expenses[1]							
Depreciation and amortisation expense	56	16	8	-	8	44	132
Balance Sheet							
As at 30 June 2020							
Total assets[2]	47,091	37,612	5,745	3,096	2,789	17,123	113,456
Total liabilities	38,807	16,615	7,861	2,507	5,213	34,471	105,474

(1) Non-cash expenses are included in segment operating expenses (excluding impairment losses).
(2) Certain comparative information has been restated due to a change in accounting policy related to the capitalisation of intangible assets. Refer to the Changes in Accounting Policies section of note 1 for more information.

44 Financial Reporting by Operating Segments (continued)

Retail Banking:	The Retail Banking segment provides services to personal customers. In addition, net income is attributed to this segment for the distribution of wealth management products through the retail distribution network.
Business Banking:	The Business Banking segment provides services to commercial, rural and small business customers.
Corporate Banking:	The Corporate Banking segment provides services to corporate customers and transactional banking services for non-retail customers. It also comprises ASB's financial markets activities, including financial instruments trading and sales of financial instruments to customers bank wide.
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.

45 Risk Management Policies

Introduction

The NZ Banking Group is committed to the management of risk to achieve sustainability of service, employment and profits, and therefore takes on controlled amounts of risk when considered appropriate. The Risk Management Framework provides the framework for how NZ Banking Group identifies, assesses, manages and reports its material risks and risk adjusted returns using a regulatory capital framework. This is targeted at ensuring that the 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 Chief Risk Officer, who reports to the Chief Executive Officer, is responsible for the implementation of ASB's Risk Management Framework. This includes the development and deployment of the appropriate risk frameworks that all for conscious exposures to risk within the Board approved appetite. All executives have responsibility for the day-to-day management of risk across ASB, including the implementation of ASB's Risk Management Framework. ASB's Risk Management Framework is set and approved 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 material risk types.

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 compliance, strategic, business and insurance risk.

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

The 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 and compliance, strategic, and reputational risks and the following notes contain information about the Risk Management Framework:

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

Notes to the Financial Statements

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45 Risk Management Policies (continued)

Operational and Compliance Risk

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

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that the 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.

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

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 regulatory 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 Management Framework.

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

Strategic Risk

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

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

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

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

Reputational Risk

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

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

ASB sets out clear behavioural standards, as outlined in ASB's Risk Appetite Statement and the Code of Conduct and ASB's Leadership Framework supports the 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 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 meets on a regular basis to consider ASB's financial reporting, internal control and corporate governance matters. In doing so, the BARC reviews internal audit findings and opinions, and the activities of the internal audit function.

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

46 Market Risk

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

Market risk is managed separately for the entities that comprise the NZ Banking Group:

- Market risk for ASB and its controlled entities 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 ASB Board.
- Market risk for the NZ Banking Group, excluding ASB and its controlled entities is managed by CBA Group Treasury in association with the CBA New Zealand Asset and Liability Committee.

The market risk policy framework sets limits for ASB Bank through ASB's Risk Appetite Statement, market risk policy, trading book standard, banking book standard, global markets dealing manual, and treasury dealing manual.

The market risk policy framework sets limits for CBA NZ Branch through CBA's Risk Appetite Statement, Group Market Risk policy, Group Traded Market Risk Standard, Group Interest Rate Risk in the Banking Book Standard ("IRRBB"), Trading Delegations Manual and Group Treasury Non-Traded Risk Market Risk Mandate.

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

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

Market Risk Measurement

The NZ Banking Group uses VaR as one of the measures of traded and non-traded market risk. VaR measures the potential loss using historically observed market volatility and correlation between different markets. The VaR measured for traded market risk uses two years of daily movement in market rates. The VaR measure for non-traded banking book market risk uses six-years of daily movement in market rates.

VaR is modelled at a 99% confidence level over a 10-day holding period for trading book positions and a 99% confidence level over 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 assessed on a daily basis and is generated through the NZ Banking Group's participation in financial markets to service its customers as well as an appetite to take positions to benefit from movements in interest and foreign exchange rates.

$ millions	NZ Banking Group			
VaR at 99% Confidence Level				
AS at 30 June 2021[1]	**As at**	**High for year**	**Low for year**	**Average for year**
Foreign exchange risk	**0.28**	**1.50**	**0.02**	**0.42**
Interest rate risk	**0.60**	**27.96**	**0.55**	**3.74**
Diversification benefit	**(0.28)**	**N/A**	**N/A**	**(0.38)**
Total Traded Market Risk - ASB and its controlled entities	**0.60**	**27.59**	**0.55**	**3.77**
Total Traded Market Risk - Branch	**2.76**	**34.71**	**1.29**	**6.81**

$ millions	NZ Banking Group			
VaR at 99% Confidence Level				
As at 30 June 2020	As at	High for year	Low for year	Average for year
Foreign exchange risk	0.20	0.96	0.02	0.21
Interest rate risk	0.35	1.35	0.08	0.58
Volatility risk	-	0.03	-	-
Diversification benefit	(0.07)	N/A	N/A	(0.18)
Total Traded Market Risk - ASB and its controlled entities	0.48	1.48	0.11	0.61
Total Traded Market Risk - Branch	1.26	6.65	0.55	1.98

(1) Interest rate VaR is significantly higher in 2021 than 2020. This was driven by the current low interest rate environment and significant proportional movements during the period. In February 2021, CBA received approval from APRA to change the VaR methodology for traded market risk to move from a hybrid proportional shift approach to an absolute shock approach. This change was implemented by CBA and the Banking Group at the time.

46 Market Risk (continued)

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

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

The NZ Banking Group measures the impact of interest rates risk in two ways:

- **Next 12 months' earnings**

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

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

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

  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(1)	**2021**	2020
Exposure at end of year	**316.9**	178.7
Past 12-month exposure - average	**286.8**	183.6
Past 12-month exposure - high	**350.9**	197.7
Past 12-month exposure - low	**180.8**	178.6

(1) During the year, net interest earnings at risk increased because of the growth in customer deposit balances that are subject to interest rate floors. The prior year comparable figures have been restated to reflect the margin contraction impact from flooring the customer deposits at zero from a downward interest rate shock.

- **Economic Value**

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

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

  The limits and framework for CBA NZ Branch non-traded market risk is set through CBA's Risk Appetite Statement, Group Market Risk policy and Group IRRBB Standard. The calculation for VaR includes a component for credit spread risk.

  This table outlines 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	ASB and its controlled entities		Branch	
Non-traded VaR at 99% Confidence Level	**2021**	2020	**2021**	2020
Exposure at end of year	**6.7**	7.3	**10.7**	15.9
Past 12-month VaR (99 percentile) - average	**6.5**	6.3	**12.8**	15.6
Past 12-month VaR (99 percentile) - high	**10.3**	8.8	**15.7**	18.4
Past 12-month VaR (99 percentile) - low	**3.2**	3.6	**10.5**	13.9

46 Market Risk (continued)

Net Foreign Currency Open Positions

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

$ millions	NZ Banking Group	
As at 30 June	2021	2020
Net open foreign currency position		
Australian Dollar	7	1
Canadian Dollar	(6)	-
Pound Sterling	-	1
US Dollar	(2)	(3)
Total net open position	(1)	(1)

47 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". 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 46.

$ millions	NZ Banking Group						
As at 30 June 2021	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-interest Bearing	Total
Assets							
Cash and liquid assets	4,565	-	-	-	-	119	4,684
Due from financial institutions	293	-	-	-	-	-	293
Securities at fair value through other comprehensive income	566	80	591	2,111	7,625	-	10,973
Derivative assets	-	-	-	-	-	854	854
Advances to customers	46,483	14,033	25,438	10,213	6,729	(330)	102,566
Other financial assets	-	-	-	-	-	259	259
Total financial assets	51,907	14,113	26,029	12,324	14,354	902	119,629
Non-financial assets							1,181
Total assets							120,810
Liabilities							
Deposits and other borrowings	52,767	8,972	4,401	1,348	782	11,651	79,921
Due to financial institutions	1,001	-	-	-	-	45	1,046
Derivative liabilities	-	-	-	-	-	597	597
Other financial liabilities	-	-	-	-	-	596	596
Debt issues:							
At fair value through Income Statement	2,434	2,390	1,255	-	-	-	6,079
At amortised cost	2,455	47	1,131	745	11,363	316	16,057
Loan capital	6,543	400	-	-	-	44	6,987
Total financial liabilities	65,200	11,809	6,787	2,093	12,145	13,249	111,283
Non-financial liabilities							291
Total liabilities							111,574
Net derivative notionals	29,560	(18,134)	(11,505)	(8,945)	9,024		
Interest rate sensitivity gap	16,267	(15,830)	7,737	1,286	11,233		

Notes to the Financial Statements

For the year ended 30 June 2021

47 Interest Rate Repricing Schedule (continued)

$ millions **As at 30 June 2020**	**NZ Banking Group** 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	5,525	-	-	-	-	143	5,668
Due from financial institutions	532	-	-	-	-	-	532
Securities at fair value through other comprehensive income	949	180	1,424	787	7,363	-	10,703
Derivative assets	-	-	-	-	-	1,756	1,756
Advances to customers	40,532	9,361	18,914	21,332	3,587	(460)	93,266
Other financial assets	-	-	-	-	-	302	302
Total financial assets	47,538	9,541	20,338	22,119	10,950	1,741	112,227
Non-financial assets							1,229
Total assets							113,456
Liabilities							
Deposits and other borrowings	48,905	11,614	5,112	1,319	846	8,123	75,919
Due to financial institutions	1,791	-	-	-	-	57	1,848
Derivative liabilities	-	-	-	-	-	940	940
Other financial liabilities	-	-	-	-	-	901	901
Debt issues:							
At fair value through Income Statement	545	-	-	-	-	-	545
At amortised cost	3,338	40	1,625	2,215	10,237	608	18,063
Loan capital	6,525	-	-	400	-	84	7,009
Total financial liabilities	61,104	11,654	6,737	3,934	11,083	10,713	105,225
Non-financial liabilities							249
Total liabilities							105,474
Net derivative notionals	19,064	(2,096)	(9,775)	(16,132)	8,940		
Interest rate sensitivity gap	5,498	(4,209)	3,826	2,053	8,807		

48 Liquidity and Funding Risk

Liquidity and Funding Risk Management Framework and Policies

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

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

The ASB Banking Group 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 the ASB Banking Group's 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 ASB's Asset and Liability Committee. Liquidity and funding risk management is performed and reported by ASB's Treasury function, monitored by ASB's Market Risk Committee with oversight provided by ASB's 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 are more conservative than the requirements of the relevant regulators. These limits are consistent with the risk appetite statement and the LRMPS. 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.

RBNZ Liquidity Facilities

The RBNZ has several facilities that support monetary policy and manage liquidity in the New Zealand banking system. These facilities allow banks to borrow funding from the RBNZ by pledging high quality liquid assets as collateral. 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 2021 ASB had internally securitised $11.0 billion of RMBS through the Medallion NZ Series Trust 2009-1R (30 June 2020 $8.7 billion), of which $10.0 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 2020 $8.0 billion). 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 tiered cap limiting the amount of RMBS that can be deemed as qualifying liquid assets available for repurchase agreements with the RBNZ, with a maximum limit of 5% of total assets, based upon the ASB's asset encumbrance ratio (30 June 2020 maximum limit of 4%).

As a result of COVID-19, the RBNZ announced that from 20 March 2020 it would provide term funding through a Term Auction Facility ("TAF") to give banks the ability to access term funding using repurchase agreements with qualifying collateral for a term of up to twelve months. On 10 March 2021 the RBNZ announced the removal of the TAF following improvements in financial markets and funding conditions. ASB had nothing outstanding with the RBNZ under this facility as at 30 June 2021 (30 June 2020 $100 million).

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

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

As at 30 June 2021 $924 million of the RMBS had been used as collateral for repurchase agreements with the RBNZ (30 June 2020 nil). Refer to note 20 for additional information.

48 Liquidity and Funding Risk (continued)

The Branch - Liquidity Risk Management Framework and Policies

The Branch is subject to the CBA Group Level 1 Liquidity Group Liquidity Management Standard ("Group LMS"), in place to manage liquidity and funding risk across the CBA Group, including offshore branches. The Group 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 Balance Sheet Risk Management Oversight, 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.

The Group LMS requires that liquidity and funding risks are managed within a number of risk appetite limits. CBA NZ operates within a liquidity coverage ratio framework and maximum funding gap limits.

49 Qualifying Liquid Assets

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

If ASB enters into a repurchase agreement with the RBNZ, the qualifying liquid assets sold under the agreement are subject to a reduction in value ("haircut") in accordance with the RBNZ's Operating Rules 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 2021	**Cash and Liquid Assets**	**Securities at Fair Value through Other Comprehensive Income**	**Advances to Customers**	**Deposits and Other Borrowings(1)**	**Other Assets**	**Total**
Cash	**176**	**-**	**-**	**-**	**-**	**176**
Call deposits with the central bank	**2,478**	**-**	**-**	**-**	**-**	**2,478**
Local authority securities	**-**	**533**	**-**	**-**	**3**	**536**
New Zealand Government securities	**118**	**3,455**	**-**	**-**	**16**	**3,589**
Overseas government securities	**1,902**	**2,519**	**-**	**(1,902)**	**9**	**2,528**
Corporate bonds	**-**	**268**	**-**	**-**	**1**	**269**
Treasury bills	**10**	**-**	**-**	**-**	**-**	**10**
Bank bills	**-**	**360**	**-**	**-**	**-**	**360**
Kauri bonds	**-**	**2,603**	**-**	**-**	**21**	**2,624**
Bank bonds	**-**	**1,235**	**-**	**-**	**7**	**1,242**
Residential mortgage-backed securities(2)	**-**	**-**	**5,632**	**-**	**-**	**5,632**
Total qualifying liquid assets	**4,684**	**10,973**	**5,632**	**(1,902)**	**57**	**19,444**

$ millions	NZ Banking Group					
As at 30 June 2020	Cash and Liquid Assets	Securities at Fair Value through Other Comprehensive Income	Advances to Customers	Deposits and Other Borrowings(1)	Other Assets	Total
Cash	209	-	-	-	-	209
Call deposits with the central bank	3,165	-	-	-	-	3,165
Local authority securities	-	463	-	-	3	466
New Zealand government securities	790	2,729	-	-	17	3,536
Overseas government securities	1,448	2,842	-	(1,448)	9	2,851
Corporate bonds	-	192	-	-	1	193
Treasury bills	56	446	-	-	-	502
Bank bills	-	330	-	-	-	330
Kauri bonds	-	2,699	-	-	23	2,722
Bank bonds	-	1,002	-	(100)	5	907
Residential mortgage-backed securities(2)	-	-	4,208	-	-	4,208
Total qualifying liquid assets	5,668	10,703	4,208	(1,548)	58	19,089

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

(2) As at 30 June 2021, $5,624 million of the $5,632 million residential mortgage-backed securities held by the NZ Banking Group were eligible for repurchase transactions with the RBNZ (30 June 2020 $4,315 million eligible for repurchase).

50 Maturity Analysis for Undiscounted Contractual Cash Flows

The following tables present the NZ Banking Group's cash flows by remaining contractual maturities for financial liabilities as at 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 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 48.

$ millions	NZ Banking Group							
As at 30 June 2021	**On Demand**	**Within 6 Months**	**Between 6-12 Months**	**Between 1-2 Years**	**Between 2-5 Years**	**Over 5 Years**	**Total**	**Carrying Value**
Non-derivative financial liabilities								
Deposits and other borrowings	47,995	24,992	4,438	1,379	1,253	59	80,116	79,921
Due to financial institutions	901	149	-	-	-	-	1,050	1,046
Other financial liabilities	73	278	39	59	91	89	629	596
Debt issues:								
At fair value through Income Statement	-	4,826	1,257	-	-	-	6,083	6,079
At amortised cost	-	1,217	1,730	1,783	7,210	4,627	16,567	16,057
Loan capital	-	96	96	190	6,752	411	7,545	6,987
Total non-derivative financial liabilities	48,969	31,558	7,560	3,411	15,306	5,186	111,990	110,686
Derivative financial liabilities								
Inflows from derivatives	-	1,737	2,292	5,024	3,931	3,078	16,062	
Outflows from derivatives	-	(2,401)	(2,504)	(5,335)	(4,372)	(3,235)	(17,847)	
	-	(664)	(212)	(311)	(441)	(157)	(1,785)	
Off balance sheet items								
Lending commitments	13,724	3,680	-	-	-	-	17,404	
Financial guarantees	202	-	-	-	-	-	202	
Other credit related contingent liabilities	575	-	-	-	-	-	575	
Total off balance sheet items	14,501	3,680	-	-	-	-	18,181	

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For the year ended 30 June 2021

50 Maturity Analysis for Undiscounted Contractual Cash Flows (continued)

$ millions	NZ Banking Group							
As at 30 June 2020	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	37,463	31,433	5,169	1,355	825	54	76,299	75,919
Due to financial institutions	1,586	262	-	-	-	-	1,848	1,848
Other financial liabilities	58	593	46	41	93	108	939	901
Debt issues:								
At fair value through Income Statement	-	547	-	-	-	-	547	545
At amortised cost	-	1,059	2,588	3,068	7,914	3,746	18,375	18,063
Loan capital	-	98	98	195	6,985	416	7,792	7,009
Total non-derivative financial liabilities	39,107	33,992	7,901	4,659	15,817	4,324	105,800	104,285
Derivative financial liabilities								
Inflows from derivatives	-	641	118	3,863	4,862	916	10,400	
Outflows from derivatives	-	(1,655)	(417)	(4,364)	(5,339)	(1,005)	(12,780)	
	-	(1,014)	(299)	(501)	(477)	(89)	(2,380)	
Off balance sheet items								
Lending commitments	12,861	3,375	-	-	-	-	16,236	
Financial guarantees	187	-	-	-	-	-	187	
Other credit related contingent liabilities	545	-	-	-	-	-	545	
Total off balance sheet items	13,593	3,375	-	-	-	-	16,968	

51 Concentrations of Funding

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

$ millions	NZ Banking Group	
As at 30 June	**2021**	2020
Total funding comprises:		
Deposits and other borrowings	**79,921**	75,919
Due to financial institutions	**1,046**	1,848
Debt issues:		
At fair value through Income Statement	**6,079**	545
At amortised cost	**16,057**	18,063
Loan capital	**6,987**	7,009
Total funding	**110,090**	103,384
Concentration by industry		
Agricultural, Forestry and Fishing	**1,281**	1,185
Manufacturing	**1,034**	1,046
Construction	**1,156**	1,075
Wholesale Trade	**888**	869
Retail Trade and Accommodation	**1,231**	1,228
Transport, Postal and Warehousing	**528**	987
Information Media and Telecommunications	**419**	334
Financial and Insurance Services	**40,356**	36,706
Rental, Hiring and Real Estate Services	**4,801**	4,380
Professional, Scientific, Technical, Administrative and Support Services	**6,697**	5,302
Public Administration and Safety	**1,098**	1,181
Education and Training	**1,784**	1,814
Health Care and Social Assistance	**1,106**	1,167
Arts, Recreation and Other Services	**1,839**	1,956
Households	**45,444**	43,731
All Other	**428**	423
Total funding by industry	**110,090**	103,384
Concentration by geographic region		
New Zealand	**74,102**	70,688
Overseas	**35,988**	32,696
Total funding by geographic region	**110,090**	103,384

52 Events after the Reporting Period

Refer to note 8 for details of the ordinary dividend declared after the reporting period.

During July 2021, the Branch sold a total of $2.6 billion worth of US Treasury Notes. As at 30 June 2021 these US Treasury Notes were included within the Securities at fair value through other comprehensive income. The proceeds of the sale were used to repay $2.4 billion of the Head office contribution.

There are 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 2021;
- 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 14 to 18, 41 to 43 and 45 to 50):
  - (i) comply with generally accepted accounting practice in New Zealand;
  - (ii) comply with NZ IFRS and IFRS; and
  - (iii) give a true and fair view of the financial position of the NZ Banking Group as at 30 June 2021, 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 14 to 18, 41 to 43 and 45 to 50:
  - (i) has been prepared, in all material respects, in accordance with the guidelines issued under section 78(3) of the Reserve Bank of New Zealand Act 1989 or any conditions of registration;
  - (ii) is in accordance with the books and records of the NZ Banking Group; and
  - (iii) fairly states, in all material respects, the matters to which it relates in accordance with those Schedules.

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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.

Independence

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

Our firm carries out other services for the NZ Banking Group. These services are audit and assurance services in respect of funds managed by the NZ Banking Group, and other assurance and audit related services. Other assurance and audit related services include assurance over compliance with regulations, internal controls 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.

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 **(2021: $564 million, 2020: $640 million)** NZ IFRS 9 *Financial Instruments* requires an expected credit loss (ECL) allowance to be recognised, the measurement of which is required to incorporate reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The NZ Banking Group utilises ECL models which are reliant on internal and external data as well as a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk. Allowances for ECL of advances to customers that meet specific risk based criteria are individually assessed by the NZ Banking Group. 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, where applicable, in respect of those advances to customers under multiple weighted scenario outcomes.	We obtained 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: · Review and approval of forward-looking information used in ECL models; · Reliability and accuracy of critical data elements used in ECL models; · Review and approval of ECL model adjustments and the allowance for ECL by the Loan Loss Provisioning Committee (LLPC); and · Identification of impaired advances to customers. In addition to controls testing, we along with PwC actuarial experts and PwC economics experts, performed the following audit procedures, amongst others on a sample basis: · Assessed the ECL model methodology applied against accepted theory and general market practice and the results of model monitoring performed;

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Independent Auditor's Report (continued)

Key audit matter	How our audit addressed the key audit matter
We considered this a key audit matter due to the inherent uncertainty in this area, namely due to the subjectivity in judgements made by the NZ Banking Group in determining 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 each model; · 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; and · The estimation uncertainty and subjective judgements associated with determining the valuation of individually assessed allowances for impaired non-retail borrowers. Further, the COVID-19 pandemic has introduced additional subjectivity and judgement into the measurement of ECL due to the heightened uncertainty regarding economic outlook and the consequential impact of the pandemic on the NZ Banking Group's customers. Specifically, this includes judgements regarding the impact of COVID-19 on forward looking information, including macroeconomic scenarios and their associated weightings and the use of model adjustments and post model adjustments in the calculation of the ECL. *Relevant references in the financial statements* Refer notes 1(l) and 16 for further information.	· Considered the NZ Banking Group's judgements including the appropriateness of forward-looking information incorporated into the ECL models by assessing the forecasts, assumptions and probability weightings with a particular focus on the impact of COVID-19; · Agreed a sample of certain critical data elements used as inputs to the ECL models to relevant source documentation; · Assessed the appropriateness of certain model adjustments identified by the NZ Banking Group against internal and external supporting information as appropriate and performing sensitivity analysis; · Assessed certain post model adjustments identified by the NZ Banking Group; · Examined management's individually assessed allowance calculations by assessing key judgements (in particular the amount and, where appropriate, the timing of recoveries, and the probability of different scenarios) made by management in the context of the customers' 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; and · Considered the impacts of events occurring subsequent to balance date on the ECL. We also assessed the reasonableness of the NZ Banking Group's disclosures against the requirements of NZ IFRS.
Operation of financial reporting Information Technology (IT) systems and controls We considered this area a key audit matter because the NZ Banking Group's operations and financial reporting processes are heavily dependent on IT systems for the processing and recording of a significant volume of transactions. In particular, in common with all banks, access rights to technology are important because they are intended to ensure that changes to applications and data are appropriately authorised. Ensuring staff have appropriate access to IT systems, and that access is monitored, are key controls in mitigating the potential for fraud or error as a result of a change to an application or underlying data. The NZ Banking Group's controls over IT systems include: · program development and changes; · access to process, data and IT operations; and · governance over generic and privileged user accounts.	For material financial statement transactions and balances we developed an understanding of the business processes, IT systems used to generate and support those transactions and balances and associated IT application controls and IT dependencies in manual controls. Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting. This involved assessing, where relevant to the audit: · Change management: the processes and controls used to develop, test and authorise changes to the functionality and configurations within systems; · System development: the project disciplines which ensure that significant developments or implementations are appropriately tested before implementation and that data is converted and transferred completely and accurately, including specifically the transfer to a new general ledger system for the NZ Banking Group during the year; · Security: the access controls designed to enforce segregation of duties, govern the use of generic and privileged accounts or ensure that data is only changed through authorised means; and

Key audit matter	How our audit addressed the key audit matter
	· IT operations: the controls over operations used to ensure that any issues that arise are managed appropriately. Within the scope of our audit where technology services are provided by a third party, we considered: · Assurance reports from the third party's auditor on the design and operating effectiveness of controls; and · Managements monitoring controls over the third party. We also carried out tests, on a sample basis, of IT application controls and IT dependencies in manual controls that were key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls. Where we noted design or operating effectiveness matters relating to IT systems and application controls relevant to our audit, we performed alternative or additional audit procedures.

Our audit approach

Overview

The overall NZ Banking Group materiality is $88 million, which represents approximately 5% of net profit before tax.

We chose net profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the NZ Banking Group is most commonly measured by users, and is a generally accepted benchmark.

Full scope audits were performed for three of 26 components in the NZ Banking Group based on their financial significance. Specified audit and analytical review procedures were performed on the remaining components including elimination entities required for the aggregation.

As reported above, 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. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

How we tailored our group audit scope

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

The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).

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

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

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

This description forms part of our auditor's report.

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

We also report in accordance with the requirements of Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in note 41) for the year ended 30 June 2021:

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

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

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

We have examined the supplementary information relating to credit and market risk exposures and capital adequacy required by Schedule 9 of the Order as disclosed in note 41 of the financial statements of the NZ Banking Group for the year ended 30 June 2021.

Our conclusion

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

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

Basis for our conclusion

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

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Independent Auditor's Report (continued)

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

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

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

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

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

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
11 August 2021

Auckland

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