ASB Disclosure Statement

For the six months ended 31 December 2018

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ASB
ONE STEP › AHEAD

Contents

General Disclosures

(To be read in conjunction with the Financial Statements)

31 December 2018

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

Corporate Information

The Bank is a company incorporated under the Companies Act 1955 on 16 August 1988. The registered office of the Bank is Level 2, ASB North Wharf, 12 Jellicoe Street, Auckland Central, Auckland 1010, New Zealand. The Bank was re-registered under the Companies Act 1993 on 30 June 1995.

The "Banking Group" consists of the Bank and its controlled entities.

Ultimate Parent Bank

The ultimate parent bank of the Bank is the Commonwealth Bank of Australia ("CBA"), its registered office being Ground Floor, Tower 1, 201 Sussex Street, Sydney, NSW, Australia.

Changes to Directors

R.M. Carr was appointed as an independent director of the Bank on 12 September 2018.

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

Credit Ratings

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

Rating Agency	Current Long Term Credit Rating	Credit Rating Outlook
Moody's Investors Service Pty Limited ("Moody's")	A1	Stable
Standard & Poor's (Australia) Pty Limited ("S&P")	AA-	Negative
Fitch Australia Pty Limited ("Fitch Ratings")	AA-	Negative

On 19 June 2017, Moody's downgraded the long-term credit ratings of the major Australian banks and their strategically important subsidiaries by one notch. As a consequence, ASB's long term rating was revised to A1 from Aa3 and the outlook revised to stable from negative. The rating for S&P has remained unchanged during the 2 years immediately preceding the signing date. On 7 May 2018, Fitch Ratings affirmed CBA's long-term issuer default rating at AA- and has revised the outlook to negative from stable to reflect CBA's risks in remediating shortcomings in operational risk controls and governance. As a consequence, ASB's outlook was aligned with CBA's and revised to negative from stable.

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

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

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

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

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

Pending Proceedings or Arbitration

The Banking Group is not party to any pending legal proceedings or arbitration that may have a material adverse effect on the Bank or the Banking Group.

Auditor

PricewaterhouseCoopers New Zealand is the appointed auditor of the Bank. The auditor's address is PwC Tower, 188 Quay Street, Auckland 1010, New Zealand.

General Disclosures

(To be read in conjunction with the Financial Statements)

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

Since 30 June 2018, there has been no material change in regulations, legislation, or other restrictions of a legally enforceable nature that may materially inhibit the legal ability of CBA to provide material financial support to the Bank. On 25 November 2015, the Australian Prudential Regulation Authority ("APRA") informed CBA that it will be required to reduce its non-equity exposure to the Bank and its subsidiaries to below a limit of five percent of CBA's Level 1 Tier 1 Capital, over a five-year period commencing on 1 January 2016. APRA confirmed it will allow, on agreeable terms, the Australian parent banks to provide contingent funding support to their New Zealand banking subsidiaries in times of financial stress. At this time, only covered bonds meet the criteria for contingent funding arrangements. The Bank understands that CBA expects to be compliant with APRA's requirements by the end of the transition period.

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

Guarantee Arrangements

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

The Covered Bond Guarantor has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the Mortgage Loans, related security and other assets of the Covered Bond Trust. Covered bonds (including accrued interest) of $3.525 billion were guaranteed as at the signing date of this Disclosure Statement. The amount of the guarantee is limited to the assets of the Covered Bond Trust. There are no material conditions applicable to the guarantee other than non-performance. There are no material legislative or regulatory restrictions in New Zealand which would have the effect of subordinating the claims under the guarantee of any creditors of the Bank on the assets of the Covered Bond Guarantor, to other claims on the Covered Bond Guarantor, in a winding up of the Covered Bond Guarantor.

The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland 1010, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no credit ratings applicable to its long term senior unsecured obligations payable in New Zealand dollars. As at 31 December 2018, the Covered Bonds issued have been assigned a long term rating of 'AAA' by Fitch Ratings and 'Aaa' by Moody's. Further information about this guarantee arrangement is included in the Bank's disclosure statement for the year ended 30 June 2018, a copy of which is available at the internet address www.asb.co.nz. A printed copy will also be made available, free of charge, upon request.

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

Conditions of Registration

The Reserve Bank of New Zealand ("RBNZ") amended the Conditions of Registration on 29 August 2018 with effect on and after 1 October 2018 to account for some minor and technical changes to the Liquidity Policy Annex (BS13A).

There were no other changes to the Conditions of Registration between 30 June 2018 and 31 December 2018.

Non-compliance with condition of registration 1B

In September 2018, the Bank identified that the ratings for 18 obligors had not been reviewed at least annually as required by condition of registration 1B. A review of the 18 ratings was undertaken immediately. There was no impact on previously disclosed risk weighted assets or capital ratios as a result of that review.

Other Material Matters

There are no other matters relating to the business or affairs of the Bank or the Banking Group which would, if disclosed in this Disclosure Statement, materially affect the decision of a person to subscribe for debt securities of which the Bank or any member of the Banking Group is the issuer.

Income Statement

$ millions		Banking Group	
		Unaudited	Unaudited
For the six months ended	Note	**31-Dec-18**	31-Dec-17
Interest income		**2,186**	2,087
Interest expense		**1,119**	1,088
Net interest earnings		**1,067**	999
Other income	2	**326**	302
Total operating income		**1,393**	1,301
Impairment losses on financial assets	6	**45**	26
Total operating income after impairment losses		**1,348**	1,275
Total operating expenses		**473**	452
Salaries and other staff expenses		**262**	260
Building occupancy and equipment expenses		**51**	50
Information technology expenses		**72**	61
Other expenses		**88**	81
Net profit before taxation		**875**	823
Taxation		**245**	230
Net profit after taxation		**630**	593

Statement of Comprehensive Income

$ millions	Banking Group	
	Unaudited	Unaudited
For the six months ended	**31-Dec-18**	31-Dec-17
Net profit after taxation	**630**	593
Other comprehensive (expense)/income, net of taxation		
Items that may be reclassified subsequently to the Income Statement:		
Net change in fair value through other comprehensive income reserve	**(1)**	-
Net change in available-for-sale reserve	**-**	7
Net change in cash flow hedge reserve	**(5)**	(1)
Net change in foreign currency translation reserve	**(1)**	-
Total other comprehensive (expense)/income, net of taxation	**(7)**	6
Total comprehensive income	**623**	599

These statements are to be read in conjunction with the notes on pages 8 to 43 and the Independent Review Report on pages 45 to 46.

Statement of Changes in Equity

$ millions	Note	Contributed Capital	Asset Revaluation Reserve	Available-for-Sale Reserve	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	FVOCI Reserve[1]	Retained Earnings	Total Shareholders' Equity
		Banking Group							
For the six months ended 31 December 2018									
Unaudited									
Balance at 30 June 2018		**4,223**	**29**	**4**	**(94)**	**1**	**-**	**3,709**	**7,872**
Effects of new accounting standards	23	**-**	**-**	**(4)**	**-**	**-**	**4**	**(30)**	**(30)**
Balance at the beginning of the period		**4,223**	**29**	**-**	**(94)**	**1**	**4**	**3,679**	**7,842**
Net profit after taxation		**-**	**-**	**-**	**-**	**-**	**-**	**630**	**630**
Other comprehensive expense		**-**	**-**	**-**	**(5)**	**(1)**	**(1)**	**-**	**(7)**
Total comprehensive (expense)/income		**-**	**-**	**-**	**(5)**	**(1)**	**(1)**	**630**	**623**
Ordinary dividends paid		**-**	**-**	**-**	**-**	**-**	**-**	**(200)**	**(200)**
Perpetual preference dividends paid		**-**	**-**	**-**	**-**	**-**	**-**	**(27)**	**(27)**
Balance as at 31 December 2018		**4,223**	**29**	**-**	**(99)**	**-**	**3**	**4,082**	**8,238**
For the six months ended 31 December 2017									
Unaudited									
Balance at beginning of period		4,223	26	2	(86)	1	-	3,236	7,402
Net profit after taxation		-	-	-	-	-	-	593	593
Other comprehensive income/(expense)		-	-	7	(1)	-	-	-	6
Total comprehensive income/(expense)		-	-	7	(1)	-	-	593	599
Ordinary dividends paid		-	-	-	-	-	-	(300)	(300)
Perpetual preference dividends paid		-	-	-	-	-	-	(27)	(27)
Balance as at 31 December 2017		4,223	26	9	(87)	1	-	3,502	7,674

(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 43 and the Independent Review Report on pages 45 to 46.

Balance Sheet

$ millions		Banking Group		
		Unaudited	Unaudited	Audited
As at	Note	**31-Dec-18**	31-Dec-17	30-Jun-18
Assets				
Cash and liquid assets		**3,535**	1,331	2,566
Due from financial institutions		**624**	572	921
Trading securities	23	**-**	3,303	2,344
Securities at fair value through other comprehensive income	23	**5,607**	-	-
Derivative assets		**1,209**	1,196	1,727
Available-for-sale securities	23	**-**	3,855	4,142
Advances to customers	4	**85,167**	80,370	82,931
Other assets		**322**	250	261
Property, plant and equipment		**192**	181	184
Intangible assets		**190**	185	193
Deferred tax assets		**156**	131	144
Total assets		**97,002**	91,374	95,413
Total interest earning and discount bearing assets		***94,913***	*89,438*	*92,939*
Liabilities				
Deposits and other borrowings	9	**65,677**	60,833	62,419
Due to financial institutions		**820**	843	1,271
Other liabilities at fair value through Income Statement	23	**-**	1,593	1,097
Derivative liabilities		**535**	1,095	995
Current tax liabilities		**60**	55	136
Other liabilities		**552**	508	616
Debt issues:				
At fair value through Income Statement	10	**214**	196	148
At amortised cost	10	**20,100**	17,771	20,053
Loan capital		**806**	806	806
Total liabilities		**88,764**	83,700	87,541
Shareholders' equity				
Contributed capital - ordinary shares		**2,673**	2,673	2,673
Reserves		**(67)**	(51)	(60)
Retained earnings		**4,082**	3,502	3,709
Ordinary shareholder's equity		**6,688**	6,124	6,322
Contributed capital - perpetual preference shares		**1,550**	1,550	1,550
Total shareholders' equity		**8,238**	7,674	7,872
Total liabilities and shareholders' equity		**97,002**	91,374	95,413
Total interest and discount bearing liabilities		***82,188***	*77,400*	*81,006*

These statements are to be read in conjunction with the notes on pages 8 to 43 and the Independent Review Report on pages 45 to 46.

Cash Flow Statement

$ millions	Banking Group	
	Unaudited	**Unaudited**
For the period ended	**31-Dec-18**	31-Dec-17
Cash flows from operating activities		
Net profit before taxation	**875**	823
Reconciliation of net profit before taxation to net cash flows from operating activities		
Non-cash items included in net profit before taxation:		
Depreciation of property, plant and equipment	**16**	16
Amortisation of intangible assets	**25**	24
Net change in provisions for impairment losses and bad debts written off	**55**	33
Amortisation of loan establishment fees	**40**	38
Net change in fair value of financial instruments and hedged items	**(22)**	107
Other movements	**-**	(2)
Net (increase)/decrease in operating assets:		
Net change in reverse repurchase agreements	**(677)**	1,117
Net change in due from financial institutions	**115**	355
Net change in trading securities	**2,344**	(1,989)
Net change in securities at fair value through other comprehensive income	**(5,609)**	-
Net change in derivative assets	**512**	56
Net change in available-for-sale securities	**4,142**	172
Net change in advances to customers	**(2,403)**	(2,341)
Net change in other assets	**(29)**	(24)
Net increase/(decrease) in operating liabilities:		
Net change in deposits and other borrowings	**3,266**	2,529
Net change in due to financial institutions	**(451)**	379
Net change in other liabilities at fair value through Income Statement	**(1,097)**	527
Net change in derivative liabilities	**(163)**	(56)
Net change in other liabilities	**(58)**	(54)
Net taxation paid	**(319)**	(291)
Net cash flows from operating activities	**562**	1,419
Cash flows from investing activities		
Cash was applied to:		
Purchase of property, plant and equipment	**(24)**	(16)
Purchase of intangible assets	**(30)**	(31)
Total cash outflows applied to investing activities	**(54)**	(47)
Net cash flows from investing activities	**(54)**	(47)
Cash flows from financing activities		
Cash was provided from:		
Issue of debt securities (net of issue costs)	**4,265**	4,188
Total cash inflows provided from financing activities	**4,265**	4,188
Cash was applied to:		
Ordinary dividends paid	**(200)**	(300)
Perpetual preference dividends paid	**(27)**	(27)
Redemption of issued debt securities	**(4,254)**	(5,353)
Total cash outflows applied to financing activities	**(4,481)**	(5,680)
Net cash flows from financing activities	**(216)**	(1,492)
Summary of movements in cash flows		
Net increase/(decrease) in cash and cash equivalents	**292**	(120)
Add: cash and cash equivalents at beginning of period	**1,048**	1,412
Cash and cash equivalents at end of period	**1,340**	1,292
Cash and cash equivalents comprise:		
Cash and liquid assets	**3,535**	1,331
Less: reverse repurchase agreements included in cash and liquid assets	**(2,195)**	(39)
Cash and cash equivalents at end of period	**1,340**	1,292
Additional operating cash flow information		
Interest received as cash	**2,209**	2,111
Interest paid as cash	**(1,144)**	(1,107)
Other income received as cash	**268**	270
Operating expenses paid as cash	**(489)**	(458)

These statements are to be read in conjunction with the notes on pages 8 to 43 and the Independent Review Report on pages 45 to 46.

Notes to the Financial Statements

For the six months ended 31 December 2018

1 Statement of Accounting Policies

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

The functional and presentation currency of the Bank is New Zealand dollars. All amounts contained in this Disclosure Statement are presented in millions, unless otherwise stated.

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

NZ IFRS 9 *Financial Instruments*

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

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

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

The key areas of impact from NZ IFRS 9 are:

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

Classification and measurement

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

FINANCIAL ASSET DEBT INSTRUMENTS

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

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

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

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

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

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

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

FINANCIAL ASSETS AT AMORTISED COST

Financial assets with contractual cash flows that comprise SPPI, and which are held in a business model whose objective is to collect their contractual cash flows are subsequently measured at amortised cost.

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

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

1 Statement of Accounting Policies (continued)

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

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

When fair value hedge accounting is applied, only fair value changes relating to movements in credit spreads are included in OCI.

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

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

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

Financial assets in this category include Derivative assets.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH INCOME STATEMENT

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

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

Financial liabilities in this category include Derivative liabilities and Debt issues at FVTIS.

FINANCIAL LIABILITIES AT AMORTISED COST

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

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

Impairment

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

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

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

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

Stage 1 – 12 months ECL – "Performing"

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

Stage 2 – Lifetime ECL – "Underperforming"

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

Stage 3 – Lifetime ECL – "Non-performing"

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

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

1 Statement of Accounting Policies (continued)

Significant increase in credit risk

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

ECL measurement and forward-looking information

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

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

The Banking Group considers four alternative macroeconomic scenarios to ensure a sufficient representative sample of economic conditions when estimating ECL. These scenarios include forward-looking macroeconomic factors (e.g. unemployment, interest rates, house prices, exchange rates, share market growth and other factors specific to the prospects of individual industries). The Banking Group's Loan Loss Provisioning Committee is responsible for approving significant accounting estimates and judgements relating to:

- macroeconomic scenarios and their associated probability weightings;
- credit risk factors; and
- management adjustments that are made to account for situations where additional known or expected risks and information have not been considered in the modelling process.

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

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

NZ IFRS 15 *Revenue from Contracts with Customers*

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

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

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

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

Changes to Comparatives

Cash Flow Statement

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

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

In addition, amortisation of loan establishment fees are now disclosed separately from other movements within the reconciliation of net profit before taxation to net cash flows from operating activities. Comparatives have been restated for consistency resulting in a $38 million decrease in other movements, and separate presentation of this amount.

Other comparatives

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

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

Other comparative restatements or classifications are footnoted throughout the financial statements. All reclassifications and restatements have no impact on net profit after taxation.

Notes to the Financial Statements

For the six months ended 31 December 2018

2 Other Income

Unaudited

$ millions For the six months ended	Banking Group 31-Dec-18	 31-Dec-17
Net fair value (loss)/gain from:		
Derivatives not qualifying for hedge accounting	**(2)**	(1)
Hedge ineffectiveness	**12**	4
Total net fair value gain	**10**	3
Trading income	**47**	50
Other operating income		
Revenue from contracts with customers	**265**	246
Other	**4**	3
Total other operating income	**269**	249
Total other income	**326**	302

Revenue from contracts with customers is disaggregated across the following categories, and is consistent with the segment descriptions detailed in note 17:

$ millions For the six months ended 31 December 2018	Retail Banking	Business Banking	Banking Group Corporate Banking	Private Banking, Wealth and Insurance	Other	Total
Revenue from contracts with customers						
Lending fees	**9**	**10**	**13**	**-**	**-**	**32**
Commission and other fees	**124**	**34**	**4**	**39**	**(36)**	**165**
Funds management income	**50**	**3**	**-**	**68**	**(53)**	**68**
Total revenue from contracts with customers	**183**	**47**	**17**	**107**	**(89)**	**265**

$ millions For the six months ended 31 December 2017	Retail Banking	Business Banking	Banking Group Corporate Banking	Private Banking, Wealth and Insurance	Other	Total
Revenue from contracts with customers						
Lending fees	9	10	11	-	-	30
Commission and other fees	121	30	5	37	(35)	158
Funds management income	43	3	-	58	(46)	58
Total revenue from contracts with customers	173	43	16	95	(81)	246

The amounts included in the table above represent the portion of other income which relates to revenue from contracts with customers, and therefore will not agree to the segment information disclosed in note 17.

3 Financial Assets Pledged as Collateral for Liabilities

Unaudited

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

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

As noted in the General Disclosures, the Covered Bond Guarantor has guaranteed payments of interest and principal under the Covered Bonds pursuant to a guarantee which is secured over the Mortgage Loans, related security and other assets of the Covered Bond Trust. As at 31 December 2018, the Covered Bond Trust held Mortgage Loans with a carrying value of $5.8 billion and $149 million cash which have been pledged in respect of the Covered Bonds.

4 Advances to Customers

$ millions	Banking Group		
	Unaudited	Unaudited	Audited
As at	31-Dec-18	31-Dec-17	30-Jun-18
Residential mortgages (refer to note 5(a))	**55,339**	52,580	53,918
Other retail (refer to note 5(b))	**5,204**	5,111	5,185
Corporate (refer to note 5(c))	**25,005**	22,967	24,129
Total gross carrying amount of advances to customers	**85,548**	80,658	83,232
Provisions for impairment losses (refer to note 5(d))	**(381)**	(288)	(301)
Total advances to customers	**85,167**	80,370	82,931

5 Credit Quality Information for Advances to Customers

Unaudited

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

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

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

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

(a) Residential Mortgages

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

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

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

5 Credit Quality Information for Advances to Customers (continued)

Unaudited

(a) Residential mortgages (continued)

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

Stage 1 collective provision

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

Stage 2 collective provision

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

Stage 3 collective provision

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

Stage 3 individually assessed provisions

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

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

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

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

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

5 Credit Quality Information for Advances to Customers (continued)

Unaudited

(b) Other Retail

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

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

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

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

Stage 1 collective provision

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

Stage 2 collective provision

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

5 Credit Quality Information for Advances to Customers (continued)

Unaudited

(b) Other Retail (continued)

Stage 3 collective provision

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

Stage 3 individually assessed provisions

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

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

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

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

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

5 Credit Quality Information for Advances to Customers (continued)

Unaudited

(c) Corporate

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

$ millions	Banking Group				
As at 31 December 2018	**Stage 1 Collective provision**	**Stage 2 Collective provision**	**Stage 3 Collective provision**	**Stage 3 Individually assessed provisions**	**Total**
Movement in provisions for impairment losses - corporate Advances to customers					
Balance at beginning of period	39	113	4	42	198
(Credited against)/charged to the Income Statement for:					
Transfers between ECL Stages:					
Stage 1 collective provision to Stage 2 collective provision	(3)	11	-	-	8
Stage 1 collective provision to Stage 3 collective provision	-	-	-	-	-
Stage 2 collective provision to Stage 1 collective provision	3	(9)	-	-	(6)
Stage 2 collective provision to Stage 3 collective provision	-	(1)	1	-	-
Stage 3 collective provision to Stage 1 collective provision	-	-	-	-	-
Stage 3 collective provision to Stage 2 collective provision	-	-	-	-	-
Net transfers to/(from) Stage 3 individually assessed provisions	-	-	-	-	-
Total transfers between ECL Stages	-	1	1	-	2
Changes in collective provisions due to additions and deletions	(1)	(3)	(1)	-	(5)
Changes in collective provisions due to amounts written off	-	-	-	-	-
Other changes in collective provisions(1)	(1)	2	-	-	1
Total credited against the Income Statement for collective provisions	(2)	-	-	-	(2)
New and increased individually assessed provisions	-	-	-	23	23
Write-back of individually assessed provisions no longer required	-	-	-	(5)	(5)
Total charged to the Income Statement for individually assessed provisions	-	-	-	18	18
Amounts written off from individually assessed provisions	-	-	-	(9)	(9)
Balance at end of period	37	113	4	51	205

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

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

Stage 1 collective provision

The Stage 1 collective provision decreased by $2 million. This is driven by a $1 million decrease in the provision associated with a net increase of $768 million in corporate Advances to customers as a result of new, increased, decreased and closed lending within this Stage (reflecting differences in credit quality between the gross carrying amount of additions and deletions during the reporting period). The remaining $1 million decrease in the provision is due to other changes in collective provisions, primarily non-significant improvements in the credit quality of existing corporate Advances to customers within this Stage.

Stage 2 collective provision

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

5 Credit Quality Information for Advances to Customers (continued)

Unaudited

(c) Corporate (continued)

Stage 3 collective provision

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

Stage 3 individually assessed provisions

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

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

$ millions	Banking Group				
As at 31 December 2018	Stage 1 Collectively assessed	Stage 2 Collectively assessed	Stage 3 Collectively assessed	Stage 3 Individually assessed	Total
Movement in gross carrying amounts of corporate Advances to customers					
Balance at beginning of period	12,996	10,651	50	432	24,129
Changes due to transfer between ECL stages:					
Stage 1 collectively assessed to Stage 2 collectively assessed	(1,070)	1,070	-	-	-
Stage 1 collectively assessed to Stage 3 collectively assessed	(3)	-	3	-	-
Stage 2 collectively assessed to Stage 1 collectively assessed	1,078	(1,078)	-	-	-
Stage 2 collectively assessed to Stage 3 collectively assessed	-	(19)	19	-	-
Stage 3 collectively assessed to Stage 1 collectively assessed	-	-	-	-	-
Stage 3 collectively assessed to Stage 2 collectively assessed	-	15	(15)	-	-
Net transfers to/(from) Stage 3 individually assessed	-	9	(2)	(7)	-
Total changes due to transfer between ECL stages	5	(3)	5	(7)	-
Additions(1)	3,635	2,109	4	-	5,748
Deletions (excluding amounts written off)(2)	(2,867)	(1,927)	(16)	(53)	(4,863)
Net additions/(deletions)	768	182	(12)	(53)	885
Amounts written off	-	-	-	(9)	(9)
Balance at end of period	13,769	10,830	43	363	25,005

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

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

5 Credit Quality Information for Advances to Customers (continued)

Unaudited

(d) Total Advances to Customers

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

$ millions	Banking Group				
As at 31 December 2018	**Stage 1 Collective provision**	**Stage 2 Collective provision**	**Stage 3 Collective provision**	**Stage 3 Individually assessed provisions**	**Total**
Movement in provisions for impairment losses - total Advances to customers					
Balance at beginning of period	110	186	28	49	373
(Credited against)/charged to the Income Statement for:					
Transfers between ECL Stages:					
Stage 1 collective provision to Stage 2 collective provision	(16)	40	-	-	24
Stage 1 collective provision to Stage 3 collective provision	-	-	5	-	5
Stage 2 collective provision to Stage 1 collective provision	6	(20)	-	-	(14)
Stage 2 collective provision to Stage 3 collective provision	-	(8)	20	-	12
Stage 3 collective provision to Stage 1 collective provision	-	-	-	-	-
Stage 3 collective provision to Stage 2 collective provision	-	3	(12)	-	(9)
Net transfers to/(from) Stage 3 individually assessed provisions	-	-	-	-	-
Total transfers between ECL Stages	(10)	15	13	-	18
Changes in collective provisions due to additions and deletions	1	(8)	(6)	-	(13)
Changes in collective provisions due to amounts written off	-	(3)	(7)	-	(10)
Other changes in collective provisions(1)	7	(1)	-	-	6
Total (credited against)/charged to the Income Statement for collective provisions	(2)	3	-	-	1
New and increased individually assessed provisions	-	-	-	27	27
Write-back of individually assessed provisions no longer required	-	-	-	(9)	(9)
Total charged to the Income Statement for individually assessed provisions	-	-	-	18	18
Amounts written off from individually assessed provisions	-	-	-	(11)	(11)
Balance at end of period	108	189	28	56	381

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

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

5 Credit Quality Information for Advances to Customers (continued)

Unaudited

(d) Total Advances to Customers (continued)

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

$ millions	Banking Group				
As at 31 December 2018	Stage 1 Collectively assessed	Stage 2 Collectively assessed	Stage 3 Collectively assessed	Stage 3 Individually assessed	Total
Movement in gross carrying amounts of total Advances to customers					
Balance at beginning of period	64,599	17,934	225	474	83,232
Changes due to transfer between ECL stages:					
Stage 1 collectively assessed to Stage 2 collectively assessed	(1,969)	1,969	-	-	-
Stage 1 collectively assessed to Stage 3 collectively assessed	(63)	-	63	-	-
Stage 2 collectively assessed to Stage 1 collectively assessed	1,690	(1,690)	-	-	-
Stage 2 collectively assessed to Stage 3 collectively assessed	-	(226)	226	-	-
Stage 3 collectively assessed to Stage 1 collectively assessed	-	-	-	-	-
Stage 3 collectively assessed to Stage 2 collectively assessed	-	163	(163)	-	-
Net transfers (from)/to Stage 3 individually assessed	(2)	10	(7)	(1)	-
Total changes due to transfer between ECL Stages	(344)	226	119	(1)	-
Additions[1]	13,218	2,476	15	-	15,709
Deletions (excluding amounts written off)[2]	(10,455)	(2,746)	(77)	(68)	(13,346)
Net additions/(deletions)	2,763	(270)	(62)	(68)	2,363
Amounts written off	(3)	(19)	(14)	(11)	(47)
Balance at end of period	67,015	17,871	268	394	85,548

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

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

5 Credit Quality Information for Advances to Customers (continued)

Unaudited

(e) Past due assets not individually impaired

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

(f) Other credit quality information

$ millions	Banking Group			
As at 31 December 2018	**Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
Other assets under administration	24	4	-	28

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

6 Impairment losses on financial assets

Unaudited

$ millions	Banking Group			
For the six months ended 31 December 2018	**Residential Mortgages**	**Other Retail**	**Corporate**	**Total**
Charged to/(credited against) the Income Statement for collective provisions	6	(3)	(2)	1
Charged to the Income Statement for individually assessed provisions	-	-	18	18
Bad debts written off directly to the Income Statement	-	36	-	36
Recovery of amounts previously written off	(1)	(8)	(1)	(10)
Total impairment losses recognised in the Income Statement	5	25	15	45

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

7 Concentrations of Credit Exposures

Unaudited

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

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

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

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

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

$ millions	Banking Group			
As at 31 December 2018	**Financial Assets at Amortised Cost**	**Financial Assets at Fair Value**	**Other Credit Exposures**	**Total Credit Exposures**
Concentration by industry				
Agriculture	10,681	18	781	11,480
Forestry and Fishing, Agriculture Services	443	2	64	509
Manufacturing	1,009	33	309	1,351
Electricity, Gas, Water and Waste Services	261	70	109	440
Construction	558	-	296	854
Wholesale Trade	719	11	353	1,083
Retail Trade and Accommodation	1,382	1	421	1,804
Transport, Postal and Warehousing	817	4	231	1,052
Financial and Insurance Services	4,767	4,521	182	9,470
Rental, Hiring and Real Estate Services	29,881	40	1,176	31,097
Professional, Scientific, Technical, Administrative and Support Services	487	1	368	856
Public Administration and Safety	12	2,106	73	2,191
Education and Training	362	1	126	489
Health Care and Social Assistance	876	6	272	1,154
Arts, Recreation and Other Services	361	1	103	465
Households	36,637	-	9,871	46,508
All Other	73	1	31	105
Total credit exposures by industry	89,326	6,816	14,766	110,908
Concentration by geographic region				
Auckland	43,418	1,815	8,519	53,752
Rest of New Zealand	43,462	1,958	6,095	51,515
Overseas	2,446	3,043	152	5,641
Total credit exposures by geographic region	89,326	6,816	14,766	110,908

8 Concentration of Credit Exposures to Individual Counterparties

Unaudited

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

The peak end-of-day aggregate concentration of credit exposure to individual counterparties has been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the relevant six-month period and then dividing that amount by the Banking Group's common equity tier one capital as at 31 December 2018.

	Banking Group	
Number of exposures that are greater than 10% of common equity tier one capital	**Exposure as at 31-Dec-18**	**Peak End-of-day Exposure over Six Months to 31-Dec-18**
Exposures to banks		
With a long-term credit rating of A- or A3 or above, or its equivalent		
Greater than 10% but less than 15% of common equity tier one capital	**3**	**3**
Greater than 15% but less than 20% of common equity tier one capital	**1**	**2**
Greater than 20% but less than 25% of common equity tier one capital	**-**	**-**
Greater than 25% but less than 30% of common equity tier one capital	**-**	**1**
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	**-**	**-**
Exposures to non-banks		
With a long-term credit rating of A- or A3 or above, or its equivalent	**-**	**-**
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	**-**	**-**

9 Deposits and Other Borrowings

$ millions	Banking Group		
As at	**Unaudited 31-Dec-18**	Unaudited 31-Dec-17	Audited 30-Jun-18
Certificates of deposit	**3,628**	2,374	2,551
Term deposits	**33,107**	30,664	32,268
On demand and short term deposits	**23,565**	23,134	22,780
Deposits not bearing interest	**5,377**	4,661	4,820
Total deposits and other borrowings	**65,677**	60,833	62,419

10 Debt Issues

$ millions	Banking Group		
	Unaudited	Unaudited	Audited
As at	**31-Dec-18**	31-Dec-17	30-Jun-18
Debt issues at fair value through Income Statement	**214**	196	148
Debt issues at amortised cost	**20,100**	17,771	20,053
Total debt issues	**20,314**	17,967	20,201
Movement in debt issues			
Balance at beginning of period	**20,201**	18,480	18,480
Issuances during the period[(1)]	**4,265**	4,188	8,837
Repayments during the period[(1)]	**(4,254)**	(5,353)	(8,340)
Foreign exchange and fair value movements during the period[(1)]	**102**	652	1,224
Balance at the end of period	**20,314**	17,967	20,201

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

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

11 Contingent Liabilities

$ millions	Banking Group Notional Amount		
	Unaudited	Unaudited	Audited
As at	**31-Dec-18**	31-Dec-17	30-Jun-18
Guarantees	**173**	192	200
Standby letters of credit	**131**	126	143
Other credit facilities	**223**	189	200
Total credit related contingent liabilities	**527**	507	543

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

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

a) has not complied with the requirements of the Holidays Act by not including certain incentive payments in the Bank's calculation of gross earnings under the Holidays Act; and

b) has not fully complied with some other requirements of the Holidays Act.

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

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

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

12 Related Party Transactions and Balances

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

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

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

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

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

$ millions		Banking Group	
	Unaudited	Unaudited	Audited
As at	**31-Dec-18**	31-Dec-17	30-Jun-18
Commonwealth Bank Group	**990**	1,065	1,203
NZ Life Group	**-**	249	186
ASB Holdings Limited	**32**	44	41
Superannuation schemes and managed investment schemes managed by ASB Group Investments Limited(1)	**940**	912	949
Total amounts due to related parties	**1,962**	2,270	2,379
Commonwealth Bank Group	**828**	344	801
NZ Life Group	**-**	-	4
Superannuation schemes and managed investment schemes managed by ASB Group Investments Limited	**15**	13	14
Total amounts due from related parties	**843**	357	819

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

For the six months ended 31 December 2018, significant related party transactions included interest expense paid to the Commonwealth Bank Group of $55 million (31 December 2017 $50 million) and management and administration fees received from schemes managed by ASB Group Investments Limited of $51 million (31 December 2017 $43 million). Dividends paid to the shareholder are disclosed in the Statement of Changes in Equity.

13 Fair Value of Financial Instruments

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

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

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

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

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

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

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

13 Fair Value of Financial Instruments (continued)

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

	Banking Group			
$ millions	Level 1	Level 2	Level 3	Total
As at 31 December 2018				
Unaudited				
Financial assets				
Securities at fair value through other comprehensive income	**4,700**	**907**	**-**	**5,607**
Derivative assets	**1**	**1,208**	**-**	**1,209**
Total financial assets measured at fair value	**4,701**	**2,115**	**-**	**6,816**
Financial liabilities				
Derivative liabilities	**-**	**535**	**-**	**535**
Debt issues at fair value through Income Statement	**-**	**214**	**-**	**214**
Total financial liabilities measured at fair value	**-**	**749**	**-**	**749**
As at 31 December 2017				
Unaudited				
Financial assets				
Trading securities	2,404	899	-	3,303
Derivative assets	-	1,196	-	1,196
Available-for-sale securities	3,491	364	-	3,855
Total financial assets measured at fair value	5,895	2,459	-	8,354
Financial liabilities				
Other liabilities at fair value through Income Statement	-	1,593	-	1,593
Derivative liabilities	-	1,095	-	1,095
Debt issues at fair value through Income Statement	-	196	-	196
Total financial liabilities measured at fair value	-	2,884	-	2,884
As at 30 June 2018				
Audited				
Financial assets				
Trading securities	1,256	1,088	-	2,344
Derivative assets	-	1,727	-	1,727
Available-for-sale securities	3,854	288	-	4,142
Total financial assets measured at fair value	5,110	3,103	-	8,213
Financial liabilities				
Other liabilities at fair value through Income Statement	-	1,097	-	1,097
Derivative liabilities	-	995	-	995
Debt issues at fair value through Income Statement	-	148	-	148
Total financial liabilities measured at fair value	-	2,240	-	2,240

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

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

Securities at fair value through other comprehensive income, Trading securities, Available-for-sale securities, Other liabilities at fair value through Income Statement and Debt issues at fair value through Income Statement
The fair value is based on quoted market prices where applicable or calculated using discounted cash flow models. This discount rates applied in this calculation are based on current market rates.

13 Fair Value of Financial Instruments (continued)

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

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

	Banking Group					
	Unaudited 31-Dec-18		Unaudited 31-Dec-17		Audited 30-Jun-18	
$ millions	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value	Fair Value	Carrying Value
Financial assets						
Cash and liquid assets	**3,535**	**3,535**	1,331	1,331	2,566	2,566
Due from financial institutions	**624**	**624**	572	572	921	921
Advances to customers	**85,277**	**85,167**	80,387	80,370	82,957	82,931
Other financial assets	**296**	**296**	226	226	237	237
Total	**89,732**	**89,622**	82,516	82,499	86,681	86,655
Financial liabilities						
Deposits and other borrowings	**65,755**	**65,677**	60,911	60,833	62,461	62,419
Due to financial institutions	**820**	**820**	843	843	1,271	1,271
Other financial liabilities[1]	**527**	**527**	479	479	587	587
Debt issues at amortised cost	**20,112**	**20,100**	17,917	17,771	20,141	20,053
Loan capital	**819**	**806**	830	806	827	806
Total	**88,033**	**87,930**	80,980	80,732	85,287	85,136

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

14 Capital Adequacy

Unaudited

The Banking Group is subject to regulation by the Reserve Bank of New Zealand ("RBNZ"). The RBNZ has set minimum regulatory capital requirements for New Zealand registered banks that are consistent with the internationally agreed framework developed by the Basel Committee on Banking Supervision, commonly known as Basel III. These requirements define what is acceptable as capital and provide for methods of measuring the risks incurred by the Banking Group.

The Banking Group must comply with RBNZ minimum capital adequacy ratios under the Bank's Conditions of Registration. These Conditions of Registration require capital adequacy ratios for the Banking Group to be calculated in accordance with the RBNZ document *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) dated November 2015. The Banking Group is accredited by the RBNZ to adopt the internal ratings based ("IRB") approach for calculating regulatory capital requirements.

During the reporting period, notwithstanding the disclosure on page 3 of this Disclosure Statement, the Banking Group complied with all of the RBNZ minimum capital ratios to which it is subject.

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

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

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

On 14 December 2018, the RBNZ released a fourth consultation paper titled "How much capital is enough?" (including minimum capital ratios and buffers), seeking industry submissions by 3 May 2019. The key elements of this proposal are as follows:

- a Tier 1 capital ratio requirement for the domestic systemically important banks (D-SIB) of 16%, consisting of a 6% minimum and 10% of prudential buffers;
- an increase in IRB banks' Risk Weighted Assets ("RWA") due to an increase in the scalar that is used in the calculation from 1.06 to 1.2 with an output floor of 85% of the RWA calculated under the standardised approach;
- retention of a Tier 2 capital requirement of 2% of RWA. The RBNZ has requested banks to provide their views on whether Tier 2 capital should remain in the capital framework; and
- a requirement for banks to provide their views on whether a Leverage ratio requirement (Tier 1 capital / non-risk weighted exposures) should be included in the New Zealand framework. The inclusion of the Leverage ratio would align the New Zealand framework more closely with international Basel standards.

The RBNZ is expected to release its revised capital adequacy framework in the third quarter of 2019.

14 Capital Adequacy (continued)

Unaudited

$ millions As at 31 December 2018	Banking Group
Capital under Basel III IRB approach	
Tier one capital	
Common equity tier one capital	
Issued and fully paid-up ordinary share capital	**2,673**
Retained earnings	**4,082**
Accumulated other comprehensive income and other disclosed reserves	**(96)**
Deductions from common equity tier one capital:	
Goodwill and other intangible assets	**(190)**
Deferred tax assets	**(156)**
Cash flow hedge reserve	**99**
Excess of expected loss over eligible allowance for impairment	**(97)**
Total common equity tier one capital	**6,315**
Additional tier one capital	
Perpetual fully paid-up non-cumulative preference shares - classified as equity	**1,000**
Total additional tier one capital	**1,000**
Total tier one capital	**7,315**
Tier two capital	
Loan capital	**800**
Asset revaluation reserve	**29**
Total tier two capital	**829**
Total capital	**8,144**

	Banking Group		Bank	
As at	**31-Dec-18**	31-Dec-17	**31-Dec-18**	31-Dec-17
Capital ratios				
Common equity tier one capital ratio	**11.5%**	10.6%	**11.5%**	10.5%
Tier one capital ratio	**13.3%**	12.6%	**13.3%**	12.6%
Total capital ratio	**14.8%**	14.1%	**14.8%**	14.1%
Buffer ratio	**6.8%**	6.1%	**6.8%**	6.0%
Minimum ratio requirement				
Common equity tier one capital ratio	**4.5%**	4.5%	**4.5%**	4.5%
Tier one capital ratio	**6.0%**	6.0%	**6.0%**	6.0%
Total capital ratio	**8.0%**	8.0%	**8.0%**	8.0%
Buffer ratio	**2.5%**	2.5%	**2.5%**	2.5%

14 Capital Adequacy (continued)

Unaudited

$ millions	Banking Group		
As at 31 December 2018	**Total Exposure[1]**	**RWE[2]**	**Capital Requirement**
Capital requirements			
Total credit risk	**110,428**	**48,386**	**3,871**
Operational risk	**N/A**	**4,375**	**350**
Market risk	**N/A**	**2,106**	**168**
Total capital requirement		**54,867**	**4,389**

As at 31 December 2018, the Banking Group held $3,755m of capital in excess of its regulatory capital requirements.

(1) Total exposure is after credit risk mitigation.

(2) RWE is risk-weighted exposures or implied risk-weighted exposures.

Capital Structure

Ordinary Shares

The total number of issued ordinary shares as at 31 December 2018 was 2,648,121,300. All ordinary shares have equal voting rights and share equally in dividends and any profit on winding up, after the obligations to holders of ASB perpetual preference shares ("PPS") are satisfied. Dividends are declared, subject in all cases, to the applicable directors' resolutions being passed.

Perpetual Preference Shares

a) On 16 March 2015, the Bank issued 6,000,000 PPS to ASB Holdings Limited and raised $600 million from the issuance. On 31 March 2016, the Bank issued a further 4,000,000 PPS to ASB Holdings Limited and raised $400 million from the issuance. Both PPS issuances qualify as additional tier one capital under the RBNZ's regulatory capital standards.

The PPS are non-voting and pay discretionary quarterly floating rate dividends. Upon a winding-up, the PPS rank equally with the Bank's other preference shares, above its ordinary shares and below its liabilities. At the option of the Bank, the 6,000,000 and 4,000,000 PPS are redeemable on the initial optional redemption dates of 16 March 2020 and 15 June 2021 respectively or on any subsequent scheduled distribution date, subject to RBNZ approval.

If a non-viability trigger event ("NVTE") occurs, the PPS will be exchanged into a fixed number of ordinary shares of the Bank. A NVTE occurs at the direction of the RBNZ or a statutory manager of the Bank. A NVTE occurs when, among other circumstances, the RBNZ has reasonable grounds to believe that the Bank is insolvent or likely to become insolvent and directs the Bank to exchange the PPS for ordinary shares. If for any reason the exchange for ordinary shares cannot occur, the PPS will be immediately and irrevocably written down, in accordance with the PPS terms.

b) On 15 May 2006, the Bank issued 200,000,000 of 2006 Series 1 PPS and 350,000,000 of 2006 Series 2 PPS to ASB Holdings Limited. ASB Holdings Limited subsequently transferred the PPS by way of novation to its subsidiary ASB Funding Limited.

The 2006 Series 1 and Series 2 PPS were issued as part of transactions with ASB Capital Limited and ASB Capital No. 2 Limited, both of which are subsidiaries of CBA Funding (NZ) Limited, which is ultimately owned by CBA.

Under the transactions, ASB Capital Limited and ASB Capital No. 2 Limited have advanced proceeds received from a public issue of their own PPS to ASB Funding Limited. ASB Funding Limited in turn invested the proceeds in the 2006 Series 1 and Series 2 PPS issued by the Bank. ASB Funding Limited and The New Zealand Guardian Trust Company Limited (the "Trustee") together with ASB Capital Limited and ASB Capital No. 2 Limited respectively are party to Trust Deeds, whereby ASB Funding Limited provides covenants to the Trustee for the benefit of holders of the ASB Capital Limited and ASB Capital No. 2 Limited PPS and grants security over the Bank's PPS in favour of the Trustee.

The 2006 Series 1 and Series 2 PPS are non-redeemable and carry limited voting rights. Dividends which are payable quarterly in arrears are non-cumulative, and payable at the discretion of the Directors.

The dividend payable on the 2006 Series 1 PPS is based on the one year swap rate plus a margin of 1.3%. Rates are reset annually on 15 November or the succeeding business day. The rate was reset on 15 November 2018 to 3.35% per annum (the rate to 15 November 2018 was 3.30% per annum). The next dividend reset date is 15 November 2019.

The dividend payable on the 2006 Series 2 PPS is based on the one year swap rate plus a margin of 1.0%. Rates are reset annually on 15 May or the succeeding business day. The rate was reset on 15 May 2018 to 3.05% per annum. The next dividend reset date is 15 May 2019.

In the event of the liquidation of the Bank, payment of the issue price and cumulative dividends on the PPS ranks:
- before all rights of ordinary shareholders;
- after all rights of holders of shares of the Bank other than ordinary or preference shares; and
- after all rights of creditors of the Bank.

The total number of issued PPS as at 31 December 2018 was 560,000,000.

14 Capital Adequacy (continued)

Unaudited

Capital Structure (continued)

Loan Capital

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

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

If a NVTE occurs, some or all of the Notes will automatically and immediately be exchanged for CBA ordinary shares. A NVTE occurs when, among other circumstances:

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

In conjunction with the issuance of the ASB Notes and ASB Notes 2, the Bank also entered into related agreements with ASB Holdings Limited and CBA on 13 March 2014 and 12 October 2016 respectively. These related agreements include a requirement for the Bank to issue to ASB Holdings Limited, upon the occurrence of a NVTE, a variable number of shares, for a consideration equivalent to the Notes exchanged into CBA shares.

Reserves

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

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

14 Capital Adequacy (continued)

Unaudited

Credit risk exposures subject to the IRB approach by exposure class

As at 31 December 2018	Banking Group					
PD Grade	Weighted Average PD	Exposure Amount $ millions	Exposure Weighted LGD	Exposure Weighted Risk Weight	Risk Weighted Exposures[(1)] $ millions	Minimum Capital Requirement $ millions
Sovereign exposures						
Less than and including 0.03%	0.02%	4,087	42%	5%	223	18
Over 0.03% up to and including 0.05%	-	-	-	-	-	-
Over 0.05% up to and including 0.07%	-	-	-	-	-	-
Over 0.07% up to and including 0.26%	-	-	-	-	-	-
Over 0.26% up to and including 99.99%	-	-	-	-	-	-
Default PD grade	-	-	-	-	-	-
Total sovereign exposures	0.02%	4,087	42%	5%	223	18
Bank exposures						
Less than and including 0.03%	0.03%	1,085	60%	24%	273	22
Over 0.03% up to and including 0.05%	0.04%	2,697	61%	23%	663	53
Over 0.05% up to and including 0.07%	0.07%	303	61%	36%	114	9
Over 0.07% up to and including 0.26%	0.13%	32	61%	46%	15	1
Over 0.26% up to and including 99.99%	1.90%	-	59%	128%	-	-
Default PD grade	-	-	-	-	-	-
Total bank exposures	0.04%	4,117	61%	24%	1,065	85
Exposures secured by residential mortgages						
Less than and including 0.50%	0.27%	20,441	17%	9%	2,016	161
Over 0.50% up to and including 0.85%	0.65%	20,820	20%	21%	4,633	371
Over 0.85% up to and including 3.26%	1.25%	19,012	23%	39%	7,859	629
Over 3.26% up to and including 7.76%	3.58%	2,134	25%	80%	1,804	144
Over 7.76% up to and including 99.99%	12.65%	1,227	19%	103%	1,337	107
Default PD grade	100.00%	209	24%	288%	637	51
Total exposures secured by residential mortgages	1.36%	63,843	20%	27%	18,286	1,463
Other retail exposures						
Less than and including 0.50%	-	-	-	-	-	-
Over 0.50% up to and including 0.85%	0.83%	518	95%	89%	487	39
Over 0.85% up to and including 3.26%	1.59%	2,187	95%	112%	2,587	207
Over 3.26% up to and including 7.76%	3.77%	354	93%	133%	501	40
Over 7.76% up to and including 99.99%	26.96%	23	94%	233%	57	5
Default PD grade	100.00%	8	94%	1175%	104	8
Total other retail exposures	2.17%	3,090	94%	114%	3,736	299
Corporate exposures - small and medium enterprises						
Less than and including 0.20%	0.15%	646	33%	19%	132	11
Over 0.20% up to and including 0.50%	0.34%	3,154	26%	28%	944	76
Over 0.50% up to and including 1.00%	0.69%	8,704	31%	49%	4,526	362
Over 1.00% up to and including 2.30%	1.48%	7,937	32%	68%	5,737	459
Over 2.30% up to and including 99.99%	6.25%	2,676	33%	105%	2,991	239
Default PD grade	100.00%	398	41%	356%	1,501	120
Total corporate exposures - small and medium enterprises	3.21%	23,515	31%	64%	15,831	1,267
Other corporate exposures						
Less than and including 0.20%	0.10%	833	60%	35%	306	24
Over 0.20% up to and including 0.50%	0.29%	1,761	39%	47%	880	70
Over 0.50% up to and including 1.00%	0.64%	2,246	37%	60%	1,430	114
Over 1.00% up to and including 2.30%	1.44%	700	43%	92%	682	55
Over 2.30% up to and including 99.99%	4.20%	89	42%	127%	120	10
Default PD grade	100.00%	5	19%	240%	13	1
Total other corporate exposures	0.70%	5,634	42%	57%	3,431	274

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

14 Capital Adequacy (continued)

Unaudited

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

$ millions	Banking Group			
	Undrawn Commitments and Other Off Balance Sheet Amounts		Market Related Contracts	
As at 31 December 2018	Value	EAD	Principal Amount	EAD
Bank exposures	121	120	204,498	1,341
Exposures secured by residential mortgages	8,353	8,113	-	-
Other retail exposures	2,030	1,993	-	-
Corporate exposures - small and medium enterprises	2,702	2,696	2,233	79
Other corporate exposures	1,454	1,449	3,980	107
	14,660	14,371	210,711	1,527

$ millions	Banking Group					
LVR Range	0%-60%	60.1%-70%	70.1%-80%	80.1%-90%	>90%	Total
Residential mortgages by loan-to-valuation ratio ("LVR")						
On balance sheet exposures	24,219	12,386	14,959	2,993	1,187	55,744
Off balance sheet exposures	4,897	1,343	1,518	159	202	8,119
Total value of exposures	29,116	13,729	16,477	3,152	1,389	63,863
Expressed as a percentage of total exposures	45.6%	21.5%	25.8%	4.9%	2.2%	100.0%

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

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

14 Capital Adequacy (continued)

Unaudited

As at 31 December 2018 Balance Sheet Exposures Subject to the Slotting Approach	Banking Group Total Exposure after Credit Risk Mitigation $ millions	Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Capital Requirement $ millions
Specialised lending				
Strong	120	70%	89	7
Good	155	90%	148	12
Satisfactory	2	115%	2	-
Weak	4	250%	12	1
	281		251	20

As at 31 December 2018 Off Balance Sheet Exposures Subject to the Slotting Approach	Banking Group EAD $ millions	Average Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Capital Requirement $ millions
Undrawn commitments	14	143%	21	2
Other off balance sheet exposures	3	90%	2	-
	17		23	2

As at 31 December 2018 Balance Sheet Exposures Subject to the Standardised Approach	Banking Group Total Exposure after Credit Risk Mitigation $ millions	Average Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Capital Requirement $ millions
Cash	175	-	-	-
Residential mortgages	14	50%	7	1
Other assets	4,720	99%	4,965	397
Total balance sheet exposures	4,909		4,972	398

As at 31 December 2018 Off Balance Sheet Exposures Subject to the Standardised Approach	Banking Group Total Exposure or Principal Amount $ millions	Average Credit Conversion Factor	Credit Equivalent Amount $ millions	Average Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Capital Requirement $ millions
Undrawn commitments	1,215	6%	78	96%	79	6
Other off balance sheet exposures	112	100%	112	100%	119	10
Market related contracts	92	0%	2	100%	2	-
Total off balance sheet exposures subject to the standardised approach	1,419		192		200	16

As at 31 December 2018 Equity Exposures Subject to the Standardised Approach	Banking Group Total Exposure $ millions	Risk Weight	Risk Weighted Exposures[1] $ millions	Minimum Capital Requirement $ millions
All equity holdings not deducted from capital	-	400%	1	-

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

14 Capital Adequacy (continued)

Unaudited

$ millions	Banking Group		
As at 31 December 2018	**Total Exposure after Credit Risk Mitigation**	**Total Risk Weighted Exposures**	**Capital Requirement**
Total credit risk			
Exposures subject to the IRB approach	104,286	42,572	3,406
Specialised lending subject to the slotting approach	298	274	22
Exposures subject to the standardised approach	5,101	5,173	414
Credit valuation adjustment	-	351	28
Qualifying central counterparties	743	16	1
Total credit risk	110,428	48,386	3,871

Exposures Subject to the IRB Approach	
Sovereign exposures	Exposures to the Crown; RBNZ; specified multilateral development banks; any other sovereign or its central bank.
Bank exposures	Exposures to banks and local authorities.
Exposures secured by residential mortgages	Home lending fully or partially secured by residential property.
Other retail exposures	Personal credit cards.
Corporate exposures	Other corporate exposures - clients where turnover exceeds $50 million; small and medium enterprises ("SME") - clients where turnover is less than $50 million and group exposure exceeds $1 million.

Exposures Subject to the Slotting Approach	
Specialised lending	Project finance; income-producing real estate.

Exposures Subject to the Standardised Approach	
Secured by residential mortgages	A small non-scored home loan portfolio.
Other assets	SME where group exposure is less than $1 million, other personal lending, and all other assets not falling within any other asset class.

Credit Risk Mitigation

The Banking Group assesses the integrity and ability of debtors or counterparties to meet their contracted financial obligations for repayment. Collateral security in the form of real property or a security interest in personal property is generally taken for business credit except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance (e.g. housing loans) is generally secured against real estate while short term revolving consumer credit is generally unsecured.

As at 31 December 2018, none of the credit risk exposures subject to the standardised approach are covered by eligible financial collateral (i.e. cash or debt securities). Across all portfolios, no exposures are covered by credit derivatives. Information on the total value of exposures covered by financial guarantees is not disclosed, as the effect of these guarantees on the underlying credit risk exposures is not considered to be material.

Operational Risk

The Banking Group uses the Advanced Measurement Approach together with any required regulatory adjustments to determine capital requirements for operational risk.

The implied risk-weighted exposure for operational risk as at 31 December 2018 was $4,375 million.

The total operational risk capital requirement as at 31 December 2018 was $350 million.

14 Capital Adequacy (continued)

Unaudited

Market Risk Capital Charges

The Banking Group's aggregate market risk exposure is derived in accordance with the RBNZ documents *Capital Adequacy Framework (Internal Models Based Approach)* (BS2B) and *Market Risk Guidance Notes* (BS6). The peak end-of-day exposure is derived by taking the highest market exposure over the six months ended 31 December 2018.

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

$ millions	Banking Group			
Exposures as at 31 December 2018	**Interest Rate Risk**	**Foreign Currency Risk**	**Equity Risk**	**Total**
Implied risk-weighted exposure	**2,025**	**81**	**-**	**2,106**
Aggregate capital charge	**162**	**6**	**-**	**168**

$ millions	Banking Group			
Peak Exposures for the six months ended 31 December 2018	**Interest Rate Risk**	**Foreign Currency Risk**	**Equity Risk**	**Total**
Implied risk-weighted exposure	**3,724**	**164**	**-**	**3,888**
Aggregate capital charge	**298**	**13**	**-**	**311**

Capital for Other Material Risks

The Banking Group has an internal capital adequacy assessment process ("ICAAP") which complies with the requirements set out in the RBNZ document *Guidelines on a Bank's Internal Capital Adequacy Assessment Process ("ICAAP")* (BS12) in accordance with the Bank's Conditions of Registration. The Board is responsible for ensuring that the Banking Group has adequate overall capital in relation to its risk profile.

Under RBNZ rules, a bank that is a member of a wider banking group may base its approach on group wide-methodologies. The Banking Group, as a member of the wider CBA banking group, has based its ICAAP processes on that of CBA, after taking account of New Zealand and Bank conditions.

The Banking Group's ICAAP is a documented process to ensure the Banking Group has adequate overall capital in relation to its risk profile. Component parts of the Banking Group's ICAAP are reviewed on a regular basis by senior management and the Board. The Banking Group's ICAAP and ICAAP documents are reviewed annually. Revisions to significant ICAAP processes must be approved by the Board.

The Banking Group's ICAAP includes an assessment of capital required to cover material risks not already captured in the measurement of regulatory capital. As at 31 December 2018, internal capital allocations of $320 million (31 December 2017 $333 million) had been made for other material risks including strategic risk and fixed asset risk.

Capital Adequacy of Ultimate Parent Bank and Ultimate Parent Banking Group

The ultimate parent bank of the Banking Group is CBA. The ultimate parent banking group is CBA and the various companies and other entities owned and controlled by CBA.

The ultimate parent banking group is 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 ultimate parent banking group's risk-weighted exposures.

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

The ultimate parent banking group is required to disclose capital adequacy information on a quarterly basis. This information is made available to users via the ultimate parent bank's website (www.commbank.com.au).

The ultimate parent banking group is required by APRA to hold minimum capital. As at 31 December 2018 the minimum capital requirements were met (31 December 2017 minimum capital requirements were met).

	Ultimate Parent Bank		Ultimate Parent Banking Group	
As at	**31-Dec-18**	31-Dec-17(1)	**31-Dec-18**	31-Dec-17(1)
Common equity tier one capital ratio	**11.3%**	11.0%	**10.8%**	10.4%
Tier one capital ratio	**13.3%**	12.7%	**12.9%**	12.3%
Total capital ratio	**16.3%**	15.2%	**15.8%**	14.7%

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

15 Insurance Business, Marketing and Distribution of Insurance Products

Unaudited

The Banking Group does not conduct any insurance business. However, certain general, travel and life insurance products are marketed and distributed by the Bank for the following entities: IAG New Zealand Limited, Cigna Life Insurance Limited and Sovereign Assurance Company Limited (a wholly owned subsidiary of AIA Sovereign Limited, refer to note 12).

16 Changes in the Composition of the Banking Group during the Reporting Period

Unaudited

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

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

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

17 Financial Reporting by Operating Segments

Unaudited

	Banking Group					
$ millions	Retail Banking	Business Banking	Corporate Banking	Private Banking, Wealth and Insurance	Other	Total
Income Statement						
For the six months ended 31 December 2018						
Net interest earnings	533	390	56	31	57	1,067
Other income/(loss)	201	64	24	113	(76)	326
Total operating income/(expense)	734	454	80	144	(19)	1,393
Impairment losses/(recoveries) on financial assets	30	17	(2)	-	-	45
Segment operating expenses/(income) (excluding impairment)	270	148	28	63	(36)	473
Segment net profit before taxation	434	289	54	81	17	875
Taxation	121	81	15	23	5	245
Segment net profit after taxation	313	208	39	58	12	630
Balance Sheet						
As at 31 December 2018						
Total assets	43,343	35,929	5,082	2,487	10,161	97,002
Total liabilities	34,914	14,845	6,207	4,303	28,495	88,764

17 Financial Reporting by Operating Segments (continued)

Unaudited

	Banking Group					
$ millions	Retail Banking	Business Banking	Corporate Banking	Private Banking, Wealth and Insurance	Other	Total
Income Statement[1]						
For the six months ended 31 December 2017						
Net interest earnings	499	366	46	25	63	999
Other income/(loss)	190	57	26	102	(73)	302
Total operating income/(expense)	689	423	72	127	(10)	1,301
Impairment losses/(recoveries) on financial assets	31	(5)	-	-	-	26
Segment operating expenses/(income) (excluding impairment)	255	145	28	61	(37)	452
Segment net profit before taxation	403	283	44	66	27	823
Taxation	113	79	12	19	7	230
Segment net profit after taxation	290	204	32	47	20	593
Balance Sheet[1]						
As at 31 December 2017						
Total assets	41,642	33,520	4,906	2,246	9,060	91,374
Total liabilities	33,259	13,856	6,166	3,980	26,439	83,700

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

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

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

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

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

Other primarily includes:

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

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

18 Interest Rate Repricing Schedule

Unaudited

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

$ millions	Banking Group						
As at 31 December 2018	Up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 2 Years	Over 2 Years	Non-interest Bearing	Total
Assets							
Cash and liquid assets	3,284	-	-	-	-	251	3,535
Due from financial institutions	624	-	-	-	-	-	624
Securities at fair value through other comprehensive income	2,311	193	31	1,050	2,022	-	5,607
Derivative assets	-	-	-	-	-	1,209	1,209
Advances to customers	37,228	8,160	19,412	14,939	5,659	(231)	85,167
Other financial assets	-	-	-	-	-	296	296
Total financial assets	43,447	8,353	19,443	15,989	7,681	1,525	96,438
Non-financial assets							564
Total assets							97,002
Liabilities							
Deposits and other borrowings	40,508	10,825	6,472	1,474	1,021	5,377	65,677
Due to financial institutions	792	-	-	-	-	28	820
Derivative liabilities	-	-	-	-	-	535	535
Other financial liabilities	-	-	-	-	-	527	527
Debt issues:							
At fair value through Income Statement	-	214	-	-	-	-	214
At amortised cost	7,905	378	43	1,804	9,952	18	20,100
Loan capital	-	400	-	-	400	6	806
Total financial liabilities	49,205	11,817	6,515	3,278	11,373	6,491	88,679
Non-financial liabilities							85
Total liabilities							88,764
Net derivative notionals	13,987	(2,485)	(10,800)	(10,833)	10,131		
Interest rate sensitivity gap	8,229	(5,949)	2,128	1,878	6,439		

19 Regulatory Liquidity Ratios

Unaudited

The Bank is subject to the conditions of the RBNZ's liquidity policy as set out in the RBNZ documents *Liquidity Policy* (BS13) and *Liquidity Policy Annex: Liquid Assets* (BS13A).

The Bank calculates liquidity ratios in accordance with BS13. These ratios are calculated daily and are a key component of the Bank's liquidity management framework. Quarterly average ratios are produced in accordance with the Order and are reflected in the table below:

	Banking Group	
Average for the three months ended	**31-Dec-18**	30-Sep-18
One-month mismatch ratio	**5.5%**	6.0%
One-week mismatch ratio	**5.2%**	5.7%
Core funding ratio	**87.5%**	86.7%

20 Qualifying Liquid Assets

Unaudited

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

If the Bank enters into a repurchase agreement with the RBNZ, the qualifying liquid assets sold under the agreement are subject to a reduction in value ("haircut") in accordance with the RBNZ's Operating Rules and Guidelines. This haircut can range from 1 to 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	Banking Group				
As at 31 December 2018	**Cash and Liquid Assets**	**Securities at Fair Value through Other Comprehensive Income**	**Advances to Customers**	**Other Assets**	**Total**
Cash	**293**	**-**	**-**	**-**	**293**
Call deposits with the central bank	**1,047**	**-**	**-**	**-**	**1,047**
Local authority securities	**-**	**345**	**-**	**4**	**349**
New Zealand government securities	**2,118**	**1,379**	**-**	**16**	**3,513**
Corporate bonds	**-**	**1,102**	**-**	**6**	**1,108**
Treasury bills	**77**	**192**	**-**	**-**	**269**
RBNZ bills	**-**	**35**	**-**	**-**	**35**
Bank bills	**-**	**518**	**-**	**-**	**518**
Kauri bonds	**-**	**2,036**	**-**	**21**	**2,057**
Residential mortgage-backed securities	**-**	**-**	**3,880**	**-**	**3,880**
Total qualifying liquid assets	**3,535**	**5,607**	**3,880**	**47**	**13,069**

21 Maturity Analysis for Undiscounted Contractual Cash Flows

Unaudited

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

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

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

$ millions				Banking Group				
As at 31 December 2018	**On Demand**	**Within 6 Months**	**Between 6-12 Months**	**Between 1-2 Years**	**Between 2-5 Years**	**Over 5 Years**	**Total**	**Carrying Value**
Non-derivative financial liabilities								
Deposits and other borrowings	28,942	28,038	6,536	1,513	1,041	16	66,086	65,677
Due to financial institutions	820	-	-	-	-	-	820	820
Other financial liabilities	60	416	45	6	-	-	527	527
Debt issues:								
At fair value through Income Statement	-	217	-	-	-	-	217	214
At amortised cost	-	3,548	1,657	2,922	9,053	4,227	21,407	20,100
Loan capital	-	24	24	48	143	842	1,081	806
Total non-derivative financial liabilities	29,822	32,243	8,262	4,489	10,237	5,085	90,138	88,144
Derivative financial liabilities								
Inflows from derivatives	-	988	328	1,274	1,604	2,476	6,670	
Outflows from derivatives	-	(1,565)	(474)	(1,517)	(1,871)	(2,697)	(8,124)	
	-	(577)	(146)	(243)	(267)	(221)	(1,454)	
Off balance sheet items								
Lending commitments	12,752	1,487	-	-	-	-	14,239	
Guarantees	-	173	-	-	-	-	173	
Other contingent liabilities	-	354	-	-	-	-	354	
Total off balance sheet items	12,752	2,014	-	-	-	-	14,766	

22 Concentrations of Funding

Unaudited

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

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

$ millions **As at**	**Banking Group** **31-Dec-18**
Total funding comprises:	
Deposits and other borrowings	**65,677**
Due to financial institutions	**820**
Debt issues:	
At fair value through Income Statement	**214**
At amortised cost	**20,100**
Loan capital	**806**
Total funding	**87,617**
Concentration by industry	
Agricultural, Forestry and Fishing	**1,106**
Manufacturing	**787**
Construction	**771**
Wholesale Trade	**613**
Retail Trade and Accommodation	**926**
Transport, Postal and Warehousing	**763**
Information Media and Telecommunications	**304**
Financial and Insurance Services	**28,745**
Rental, Hiring and Real Estate Services	**3,541**
Professional, Scientific, Technical, Administrative and Support Services	**4,803**
Public Administration and Safety	**947**
Education and Training	**1,398**
Health Care and Social Assistance	**925**
Arts, Recreation and Other Services	**1,730**
Households	**39,917**
All Other	**341**
Total funding by industry	**87,617**
Concentration by geographic region	
New Zealand	**63,282**
Overseas	**24,335**
Total funding by geographic region	**87,617**

23 New Accounting Standards Adopted on 1 July 2018

Unaudited

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

				Banking Group					
$ millions	Note	NZ IAS 39 Measurement Category	NZ IFRS 9 Measurement Category	Carrying Amount at 30 June 2018	NZ IFRS 9 Reclassification	Carrying Amount Post Reclassification	NZ IFRS 9 Measurement Impact	NZ IFRS 15 Measurement Impact	Carrying Amount at 1 July 2018
Assets									
Cash and liquid assets		Loans and receivables	Amortised cost	2,566	-	2,566	-	-	2,566
Due from financial institutions		Loans and receivables	Amortised cost	921	-	921	-	-	921
Trading securities	(a)	FVTIS	FVOCI	2,344	(2,344)	-	-	-	-
Securities at fair value through other comprehensive income	(a), (b)	N/A	FVOCI	-	6,486	6,486	-	-	6,486
Derivative assets		FVTIS	FVTIS - mandated	1,727	-	1,727	-	-	1,727
Available-for-sale securities	(b)	Available-for-sale	N/A	4,142	(4,142)	-	-	-	-
Advances to customers	(c)	Loans and receivables	Amortised cost	82,931	-	82,931	(72)	-	82,859
Other assets	(d)	Loans and receivables	Amortised cost	261	-	261	-	32	293
Property, plant and equipment		N/A	N/A	184	-	184	-	-	184
Intangible assets		N/A	N/A	193	-	193	-	-	193
Deferred tax assets	(c), (d)	N/A	N/A	144	-	144	21	(9)	156
Total assets				95,413	-	95,413	(51)	23	95,385

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

Unaudited

				Banking Group					
$ millions	Note	NZ IAS 39 Measurement Category	NZ IFRS 9 Measurement Category	Carrying Amount at 30 June 2018	NZ IFRS 9 Reclassification	Carrying Amount Post Reclassification	NZ IFRS 9 Measurement Impact	NZ IFRS 15 Measurement Impact	Carrying Amount at 1 July 2018
Liabilities									
Deposits and other borrowings		Amortised cost	Amortised cost	62,419	1,097	63,516	-	-	63,516
Due to financial institutions		Amortised cost	Amortised cost	1,271	-	1,271	-	-	1,271
Other liabilities at fair value through Income Statement	(a)	FVTIS	N/A	1,097	(1,097)	-	-	-	-
Derivative liabilities		FVTIS	FVTIS - mandated	995	-	995	-	-	995
Current tax liabilities		N/A	N/A	136	-	136	-	-	136
Other liabilities	(c)	Amortised cost	Amortised cost	616	-	616	2	-	618
Debt issues:									
At fair value through Income Statement		FVTIS	FVTIS - designated	148	-	148	-	-	148
At amortised cost		Amortised cost	Amortised cost	20,053	-	20,053	-	-	20,053
Loan capital		Amortised cost	Amortised cost	806	-	806	-	-	806
Total liabilities				87,541	-	87,541	2	-	87,543
Shareholders' equity									
Contributed capital - ordinary shares		N/A	N/A	2,673	-	2,673	-	-	2,673
Reserves	(b)	N/A	N/A	(60)	-	(60)	-	-	(60)
Retained earnings	(c), (d)	N/A	N/A	3,709	-	3,709	(53)	23	3,679
Ordinary shareholder's equity				6,322	-	6,322	(53)	23	6,292
Contributed capital - perpetual preference shares		N/A	N/A	1,550	-	1,550	-	-	1,550
Total shareholders' equity				7,872	-	7,872	(53)	23	7,842
Total liabilities and shareholders' equity				95,413	-	95,413	(51)	23	95,385

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

Unaudited

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

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

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

(b) Securities at fair value through other comprehensive income were previously categorised as available for sale under NZ IAS 39. Under NZ IFRS 9, these securities have been recategorised to FVOCI, as the Banking Group's business model is achieved both by collecting contractual cash flows and selling these assets. The contractual cash flows of these securities are solely principal and interest. As a result, securities with a fair value of $4,142 million as at 30 June 2018 were reclassified from Available-for-sale securities to Securities at fair value through other comprehensive income, and fair value gains of $4 million were reclassified within Reserves, from the Available-for-sale reserve to the FVOCI reserve on 1 July 2018.

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

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

	Banking Group		
$ millions	NZ IAS 39 Provision for Impairment Losses 30 June 2018	NZ IFRS 9 Measurement Impact on Transition	NZ IFRS 9 Provision for Impairment Losses 1 July 2018
Provisions for Impairment Losses			
Advances to customers	**301**	**72**	**373**
Other liabilities	**-**	**2**	**2**
Total Provisions for Impairment Losses	**301**	**74**	**375**

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

24 Events after the Reporting Period

Unaudited

On 1 February 2019, the Directors resolved to pay, subject to certain conditions being satisfied:

(a) The following quarterly dividends:

- $1 million on 15 February 2019, being 0.60 cents per share on 200 million 2006 Series 1 perpetual preference shares;
- $2 million on 15 February 2019, being 0.55 cents per share on 350 million 2006 Series 2 perpetual preference shares;
- $6 million on 15 March 2019, being 94.88 cents per share on 6 million 2015 perpetual preference shares; and
- $4 million on 15 March 2019, being 107.90 cents per share on 4 million 2016 perpetual preference shares.

(b) A half yearly dividend of $500 million on 15 March 2019, being 18.88 cents per share on 2,648 million ordinary shares.

Refer to note 16 for details of the sale of Paymark Limited after the reporting period.

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

Directors' Statement

After due enquiry by the Directors, it is each Director's opinion that for the six months ended 31 December 2018:

- the Bank complied with the Conditions of Registration imposed by the Reserve Bank of New Zealand under section 74 of the Reserve Bank of New Zealand Act 1989, except as disclosed on page 3 of this Disclosure Statement;
- credit exposures to connected persons were not contrary to the interests of the Banking Group; and
- the Bank had systems in place to adequately monitor and control the Banking Group's credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other material business risks and that those systems are being properly applied.

After due enquiry by the Directors, it is each Director's opinion that as at the date of this Disclosure Statement:

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

The Disclosure Statement is signed by or on behalf of all the Directors.

G.R. Walker

S.R.S. Blair

V.A.J. Shortt

M.B. Coomer

Dame Therese Walsh

S.R. Peterson

R.M. Carr

6 February 2019

Independent Review Report

To the shareholder of ASB Bank Limited

Report on the Disclosure Statement

We have reviewed pages 4 to 43 of the Disclosure Statement for the six months ended 31 December 2018 (the 'Disclosure Statement') of ASB Bank Limited (the 'Bank') and the entities it controlled at 31 December 2018 or from time to time during the period (the 'Banking Group'), which includes the condensed interim financial statements (the 'financial statements') required by Clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the 'Order') and the supplementary information required by Schedules 5, 7, 11, 13, 16 and 18 of the Order. The financial statements comprise the balance sheet as at 31 December 2018, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the six months then ended, and the notes to the financial statements that include the statement of accounting policies and selected explanatory notes.

Directors' responsibility for the Disclosure Statement

The Directors of the Bank (the 'Directors') are responsible on behalf of the Bank for the preparation and fair presentation of the Disclosure Statement, which includes financial statements prepared in accordance with Clause 25 of the Order and for such internal control as the Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of supplementary information in the Disclosure Statement which complies with Schedules 3, 5, 7, 11, 13, 16 and 18 of the Order.

Our responsibility

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

- the financial statements (excluding the supplementary information): whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the financial statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* (NZ IAS 34) and International Accounting Standard 34: *Interim Financial Reporting* (IAS 34);
- the supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements): whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order; and
- the supplementary information relating to capital adequacy and regulatory liquidity requirements: whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects disclosed in accordance with Schedule 11 of the Order.

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

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Independent Review Report (continued)

A review in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, we do not express an audit opinion on the financial statements and the supplementary information.

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

Conclusions

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

a) the financial statements on pages 4 to 43 (excluding the supplementary information) have not been prepared, in all material respects, in accordance with NZ IAS 34 and IAS 34;

b) the supplementary information prescribed by Schedules 5, 7, 13, 16 and 18 of the Order, does not fairly state the matters to which it relates in accordance with those Schedules;

c) the supplementary information relating to capital adequacy and regulatory liquidity requirements prescribed by Schedule 11 of the Order, is not, in all material respects disclosed in accordance with Schedule 11 of the Order.

Who we report to

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants　　　　Auckland
6 February 2019