ASB
ONE STEP AHEAD

# ASB Disclosure Statement and Annual Report

For the year ended 30 June 2021

asb.co.nz

# Contents

# Consolidated Performance in Brief

| For the year ended 30 June | **2021** | 2020 | 2019 |
|---|---|---|---|
| **Income Statement ($ millions)[6]** | | | |
| Interest income | **3,495** | 4,067 | 4,352 |
| Interest expense | **1,141** | 1,925 | 2,208 |
| **Net interest income** | **2,354** | 2,142 | 2,144 |
| Other income | **618** | 607 | 677 |
| **Total operating income** | **2,972** | 2,749 | 2,821 |
| Impairment (recoveries)/losses on financial assets | **(5)** | 306 | 108 |
| **Total operating income after impairment losses** | **2,977** | 2,443 | 2,713 |
| Total operating expenses | **1,141** | 1,115 | 967 |
| **Net profit before tax** | **1,836** | 1,328 | 1,746 |
| Tax expense | **515** | 378 | 472 |
| **Net profit after tax ("Statutory Profit")** | **1,321** | 950 | 1,274 |
| **Reconciliation of statutory profit to cash profit ($ millions)** | | | |
| **Statutory Profit** | **1,321** | 950 | 1,274 |
| Reconciling items: | | | |
| Hedging and IFRS volatility[1] | **(13)** | 4 | (9) |
| Notional inter-group charges[2] | **(8)** | (11) | (19) |
| Reporting structure differences[3] | **(15)** | 17 | (53) |
| Tax on reconciling items and prior period adjustments | **10** | 5 | 10 |
| **Cash net profit after tax ("Cash Profit")** | **1,295** | 965 | 1,203 |
| **Performance[4]** | | | |
| Return on average total equity | **15.2%** | 12.3% | 15.4% |
| Return on average total assets | **1.2%** | 0.9% | 1.2% |
| Net interest margin | **2.18%** | 2.12% | 2.23% |
| Total operating expenses as a percentage of total operating income | **39.0%** | 39.8% | 35.4% |

| As at 30 June | **2021** | 2020 | 2019 |
|---|---|---|---|
| **Balance Sheet ($ millions)[6]** | | | |
| Total assets | **112,645** | 105,204 | 98,467 |
| Advances to customers | **99,391** | 90,184 | 87,695 |
| Total liabilities | **103,459** | 97,329 | 90,676 |
| Deposits and other borrowings (excludes repurchase agreements) | **77,259** | 74,388 | 66,216 |
| **Capital ratios[5]** | | | |
| Common equity Tier 1 capital as a percentage of total risk-weighted exposures | **12.7%** | 10.8% | 11.4% |
| Tier 1 capital as a percentage of total risk-weighted exposures | **14.4%** | 12.5% | 13.2% |
| Total capital as a percentage of total risk-weighted exposures | **15.1%** | 13.2% | 14.0% |

(1) Hedging and IFRS volatility includes unrealised fair value gains or losses on economic hedges that do not qualify for hedge accounting and also includes unrealised fair value gains or losses on the ineffective portion of economic hedges that do qualify for hedge accounting under IFRS. Fair value gains or losses on all of these economic hedges are excluded from Cash Profit since the asymmetric recognition of the gains or losses does not affect the performance of the Banking Group over the life of the hedge.
(2) This represents the recognition of a notional cost of capital from the ultimate parent and other allocated costs which are not included in Statutory Profit. Comparative information relating to 2020 has been restated due to refinements to group equity rebate methodology being applied retrospectively.
(3) The results of certain business units, the loss on sale of Aegis Limited in 2020 and the gain on sale of Paymark Limited in 2019 are excluded from Cash Profit for management reporting purposes, but included in Statutory Profit.
(4) These performance metrics are calculated on a Cash Profit basis.
(5) Capital ratios were calculated in accordance with the Basel III framework. 2020 comparatives have been restated. Refer to the Changes to Comparatives section of note 1 on page 26 and note 42 on page 77 for more information.
(6) Comparative information relating to 2020 has been restated due to a change in accounting policy related to the capitalisation of intangible assets. The change impacts the Total operating expenses, Tax expense and Total assets. Refer to the Changes in Accounting Policies section of note 1 on page 26 for more information.

# Performance Overview

ASB reported a Cash net profit after tax ("NPAT")[1] of $1,295 million for the year ended 30 June 2021. This represents an increase of $330 million or 34% on the year prior, when ASB reported a 20% profit decline, largely due to the impacts of COVID-19. Cash NPAT represents ASB's underlying operating results and excludes items that introduce volatility and/or one-off distortions which are not considered representative of ASB's on-going financial performance.

This result is testament to ASB's determined focus to help its customers and actively support a resilient New Zealand economy in an unpredictable year, including providing 35,000 customers with COVID-19 relief on more than $13 billion in lending.

FY21 saw a 10% growth in total lending, with home and business lending increasing 12% and 9% respectively on the year prior. Reflecting New Zealand's stronger than expected recovery from COVID-19, ASB's net interest income was $2,349 million, an increase of $219 million or 10% on the prior year. This increase was driven by 7% growth in average interest earning assets and a cash net interest margin increase of 6bps (or a 3% increase) on the prior year.

On a cash basis, ASB's cost to income ratio was lower than FY20 at 39.0%, a decrease of 80bps. Operating income grew 8% while operating expenses increased by 5%. ASB continues to invest in people, risk and compliance capabilities, as well as technology to make banking safer and simpler.

ASB's loan impairment expense decreased to $311 million, as a result of New Zealand's strong economic recovery. The Bank has a strong and resilient balance sheet with a CET1 ratio of 12.7% of Risk Weighted Exposures.

ASB has also contributed to the New Zealand economy by employing 5,634 people, an increase of 10% on the prior year, and paying more than half a billion dollars in taxes, making us one of New Zealand's largest employers and taxpayers. ASB has also made over $410 million in payments to New Zealand-based suppliers in the past 12 months.

**Caring for our customers**

ASB helped ease pressure as the past year has tested Kiwis' financial resilience. ASB removed or reduced fees expected to save personal and business customers more than $28 million in the year ahead.

Mid last year, ASB launched Compassionate Care, a free home loan insurance benefit in the case of death. This has seen the Bank cover home loan interest payments for 147 customers to date, giving their loved ones much needed breathing space.

Along with a commitment to keep Kiwis in their homes with no forced sales of owner-occupied homes through to the end of 2021, in a first for New Zealand, ASB recently launched Support Finder in partnership with Inland Revenue and the Ministry of Social Development. This new feature in ASB's mobile app makes it easy for customers to explore their eligibility for a range of government benefits and payments.

To support a more balanced and sustainable housing market, ASB increased its loan to value ratio for investors during the year.

Customers increasingly preferred digital solutions to manage their everyday banking, with 87% of personal customers who interact with ASB now digitally active, including more than 100,000 customers who used online or mobile banking for the first time in the past year. The Bank continues to run its Better Banking workshops for customers who may need extra help to make the transition and launched a Community Banker pilot programme in the upper North Island.

The Bank has continued to back New Zealand business, increasing business lending by 9% in a year when overall business lending in New Zealand fell by almost 1.5%. It also supported businesses by introducing a merchant service fee rebate at the start of the summer trading season.

(1) Cash NPAT reflects ASB's underlying operating results and excludes items that introduce volatility and/or one-off distortions which are not considered representative of the bank's ongoing financial performance. Items include hedging and IFRS volatility, the notional cost of capital charged by the Commonwealth Bank of Australia (the ultimate parent of ASB) and other material non-recurring items. These items are calculated consistently period on period and do not discriminate between positive and negative adjustments. Refer to the Consolidated Performance in Brief for a reconciliation of the statutory and cash net profit after taxation, and for further information on these items.

# Performance Overview (continued)

**Investing in a sustainable New Zealand**

ASB honoured its promise to use the Reserve Bank's Funding For Lending Programme to benefit all Kiwis, earmarking almost $4 billion towards purpose led loans supporting a more productive and sustainable New Zealand.

These initiatives include Back My Build, for customers building new homes to help address New Zealand's housing supply challenges. It offers a low 1.79% pa variable interest rate as well as a cash back contribution for customers who commit to a New Zealand Green Building Council Homestar rating to certify their home's energy efficiency, or those building their first home.

ASB has earmarked at least $1 billion of this discounted lending to support businesses investing in infrastructure and sustainability projects, with more than $450 million already approved. More than $100 million in low-cost loans is also available to farmers who are taking positive steps to reduce their environmental impact, through ASB's new Rural Sustainability Loan.

Finally, the Board would like to acknowledge the efforts of ASB people who continue to show tremendous care and commitment in supporting each other, our customers, and our communities during these uncertain times.

G.R. Walker
Chairman

V.A.J. Shortt
Managing Director

11 August 2021

# Annual Report

The Directors are pleased to present the Annual Report for ASB Bank Limited (the "Bank") for the year ended 30 June 2021.

The shareholder of the Bank has agreed to apply the reporting concessions available under section 211(3) of the Companies Act 1993. Accordingly, there is no information required to be included in the Annual Report other than the financial statements for the year ended 30 June 2021 and the Independent Auditor's Report on those financial statements, which are enclosed.

G.R. Walker
Chairman

V.A.J. Shortt
Managing Director

11 August 2021

# General Disclosures

(To be read in conjunction with the Financial Statements)

**30 June 2021**

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

**Corporate Information**

ASB Bank Limited ("ASB" or the "Bank") is a company incorporated under the Companies Act 1993. The registered office of the Bank is Level 2, ASB North Wharf, 12 Jellicoe Street, Auckland Central, Auckland 1010, New Zealand.

The Banking Group consists of the Bank and its controlled entities listed in note 24 to the financial statements.

**Ultimate Parent Bank**

The ultimate parent bank of the Bank is Commonwealth Bank of Australia ("CBA"). CBA's registered office and address for service is: Ground Floor, Tower 1, 201 Sussex Street, Sydney, NSW 2000, Australia.

**Persons Having a Significant Interest in the Registered Bank**

The Bank's immediate parent, ASB Holdings Limited, holds 100% of the voting shares of the Bank and has the power of appointment of directors. The ultimate parent bank, CBA, has indirect power to appoint directors.

**Directors**

The details of the directors of the Bank (the "Directors") as at the time this Disclosure Statement was signed, are contained in the Directory which is located at the end of this Annual Report.

**Changes to Directors**

Mr R Buckley was appointed as a non-executive independent director of the Board on 1 October 2020.

Mr S Bartlett sadly passed away and ceased to be a director of the Board on 15 December 2020.

Mr G Cross will be appointed as a non-executive independent director of the Board on 16 August 2021.

Mr G Walker will retire from the Board on 31 August 2021. Current Director, Dame Therese Walsh, will replace Mr G Walker as Chairman of the Board from 1 September 2021.

**Communications to Directors**

Communications addressed to the Directors should be sent to the Registered Office (refer to the Directory for this address).

**Conflicts of Interest**

ASB maintains a register of Directors' interests that have been disclosed by Directors in accordance with the Companies Act 1993. Under the Bank's Conflicts Management Policy, disclosure by Directors of actual, potential and perceived conflicts of interests relating to outside business interests is required. Conflicts are managed by either controlling, disclosing or avoiding or a combination of these methods.

**Dealings with Directors**

There have been no dealings by any Director, or any immediate relative or close business associate of any Director, with any member of the Banking Group, that:

- Has been entered into on terms other than those which would, in the ordinary course of business of the Banking Group, be given to any other person of like circumstances or means; or
- Could otherwise be reasonably likely to influence materially the exercise of that Director's duties.

Refer to note 39 for outstanding balances with Directors.

**Board Audit and Risk Committee**

There is a Board Audit and Risk Committee ("BARC") that covers audit and risk matters. Other than the Managing Director, all Directors of the Board are members of the BARC. The BARC has four non-executive independent directors and two non-executive non-independent directors.

**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 |
|---|---|---|
| Standard & Poor's (Australia) Pty Limited ("S&P") | AA- | Stable |
| Fitch Australia Pty Limited ("Fitch Ratings") | A+ | Stable |
| Moody's Investors Service Pty Limited ("Moody's") | A1 | Stable |

- On 8 April 2020, S&P affirmed CBA's long-term issuer default rating at AA- and revised the outlook to negative from stable. As a consequence, ASB's outlook was aligned with CBA's and revised to negative from stable. On 7 June 2021, S&P affirmed ASB's long term issuer default rating at AA- and revised the outlook to stable from negative.
- On 7 April 2020, Fitch Ratings downgraded the long-term credit ratings of the major Australian banks and their subsidiaries by one notch. As a consequence, ASB's long-term credit rating was revised to A+ from AA- and the outlook remained negative. On 12 April 2021, Fitch Ratings affirmed ASB's long term issuer default rating at A+ and revised the outlook to stable from negative.
- The Moody's rating for ASB has remained unchanged during the two years immediately preceding the signing date.

# General Disclosures

(To be read in conjunction with the Financial Statements)

**Credit Ratings (continued)**

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

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

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

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

**Pending Proceedings or Arbitration**

The Banking Group is not a 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 ("PricewaterhouseCoopers") is the appointed auditor of the Bank. The auditor's address is contained in the Directory.

**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 $3.803 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 30 June 2021, the Covered Bonds issued have been assigned a long term rating of 'AAA' by Fitch Ratings and 'Aaa' by Moody's.

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

# General Disclosures (continued)

(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**

CBA does not guarantee the obligations of the Bank or its subsidiaries.

Under the Banking Act 1959 (Commonwealth of Australia) ("Australian Banking Act"), the Australian Prudential Regulation Authority ("APRA"), may determine prudential standards which must be complied with by CBA. Further, regulations made under the Australian Banking Act may specify prudential requirements which must be observed by CBA. These prudential standards and requirements may affect the ability of CBA to provide material financial support to the Bank or its subsidiaries.

Unless APRA provides otherwise, CBA must comply with APRA's prudential standard APS 222: *Associations with Related Entities* ("APS 222"). APS 222 contains the following prudential requirements, including revisions released by APRA in August 2019 which will apply from 1 January 2022:

- CBA's exposure to the Bank must not exceed 25% of CBA's Level 1 Tier 1 Capital (as defined in APS 222) and its aggregate exposure to all related Authorised Deposit-taking Institutions ("ADI's") (including overseas based equivalents) cannot exceed 75% of that capital base (currently, these limits are 50% and 150% respectively of CBA's Level 1 Total Capital);
- CBA must not enter into cross-default clauses whereby a default by the Bank on an obligation (whether financial or otherwise) is deemed to trigger a default by CBA in its obligations;
- CBA must not have unlimited exposures to the Bank (such as providing a general guarantee of the Bank's obligations); and
- CBA's limits on acceptable levels of exposure to the Bank must have regard to the level of exposures that would be approved to third parties of broadly equivalent credit status to the Bank, the impact on CBA's stand-alone capital and liquidity positions, and its ability to continue operating in the event of a failure by the Bank or any other related entity to which it is exposed.

CBA expects that sufficient capacity exists under the reduced limits to accommodate CBA's exposures to its related entities, including the additional capital requirement for New Zealand banks which was finalised by the Reserve Bank of New Zealand ("RBNZ") on 17 June 2021.

CBA has met APRA's requirement that its non-equity exposure to the Bank and its subsidiaries are below a limit of 5% of CBA's Level 1 Tier 1 Capital. For the purposes of this limit, exposures include all committed, non-intraday, non-equity exposures, including derivatives and off balance sheet exposures, however, excludes equity investments and holdings of capital instruments in the Bank and its subsidiaries. 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.

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

The assets of an ADI are taken for the purposes of section 13A(3) of the Australian Banking Act not to include any interest in an asset or part of an asset in a cover pool for which the ADI is the issuing ADI.

**Other Material Matters**

There are no other matters relating to the business or affairs of the Bank or the Banking Group which are not contained elsewhere in this Disclosure Statement, that would if disclosed, 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.

# Historical Summary of Financial Statements

| $ millions | | Banking Group | | | |
|---|---|---|---|---|---|
| **For the year ended 30 June** | **2021** | 2020 | 2019 | 2018 | 2017 |
| **Income Statement** | | | | | |
| Interest income | **3,495** | 4,067 | 4,352 | 4,188 | 4,027 |
| Interest expense | **1,141** | 1,925 | 2,208 | 2,149 | 2,176 |
| **Net interest income** | **2,354** | 2,142 | 2,144 | 2,039 | 1,851 |
| Other income | **618** | 607 | 677 | 607 | 583 |
| **Total operating income** | **2,972** | 2,749 | 2,821 | 2,646 | 2,434 |
| Impairment (recoveries)/losses on financial assets | **(5)** | 306 | 108 | 80 | 69 |
| **Total operating income after impairment losses** | **2,977** | 2,443 | 2,713 | 2,566 | 2,365 |
| Total operating expenses | **1,141** | 1,115 | 967 | 933 | 882 |
| **Net profit before tax** | **1,836** | 1,328 | 1,746 | 1,633 | 1,483 |
| Tax expense | **515** | 378 | 472 | 456 | 414 |
| **Net profit after tax** | **1,321** | 950 | 1,274 | 1,177 | 1,069 |
| **Dividends Paid** | | | | | |
| Ordinary dividends paid[1] | **-** | 3,350 | 700 | 650 | 450 |
| Perpetual preference dividends paid | **29** | 35 | 54 | 54 | 56 |
| **Total dividends paid** | **29** | 3,385 | 754 | 704 | 506 |

| $ millions | | Banking Group | | | |
|---|---|---|---|---|---|
| **As at 30 June** | **2021** | 2020 | 2019 | 2018 | 2017 |
| **Balance Sheet** | | | | | |
| Total assets | **112,645** | 105,204 | 98,467 | 95,413 | 88,628 |
| Individually impaired assets | **329** | 406 | 370 | 474 | 368 |
| Total liabilities | **103,459** | 97,329 | 90,676 | 87,541 | 81,226 |
| Total shareholders' equity | **9,186** | 7,875 | 7,791 | 7,872 | 7,402 |

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

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

Comparative information relating to 2020 has been restated due to a change in accounting policy related to the capitalisation of intangible assets. The change impacts the Total operating expenses, Tax expense and Total assets. Refer to the Changes in Accounting Policies section of note 1 on page 26 for more information.

# Income Statement

| $ millions<br>For the year ended 30 June | Note | Banking Group<br>2021 | <br>2020 |
|---|---|---|---|
| Interest income | 2 | **3,495** | 4,067 |
| Interest expense | 3 | **1,141** | 1,925 |
| **Net interest income** | | **2,354** | 2,142 |
| Other income | 4 | **618** | 607 |
| **Total operating income** | | **2,972** | 2,749 |
| Impairment (recoveries)/losses on financial assets | 17 | **(5)** | 306 |
| **Total operating income after impairment losses** | | **2,977** | 2,443 |
| **Total operating expenses** | 5 | **1,141** | 1,115 |
| Salaries and other staff expenses | | **655** | 625 |
| Building occupancy and equipment expenses | | **105** | 109 |
| Information technology expenses | | **206** | 179 |
| Other expenses | | **175** | 202 |
| **Net profit before tax** | | **1,836** | 1,328 |
| Tax expense | 7 | **515** | 378 |
| **Net profit after tax** | | **1,321** | 950 |

# Statement of Comprehensive Income

| $ millions<br>For the year ended 30 June | Note | Banking Group<br>2021 | <br>2020 |
|---|---|---|---|
| **Net profit after tax** | | **1,321** | 950 |
| **Other comprehensive income, net of tax** | | | |
| **Items that will not be reclassified to the Income Statement:** | | | |
| Net change in asset revaluation reserve | 35 | **(1)** | 3 |
| **Items that may be reclassified subsequently to the Income Statement:** | | | |
| Net change in fair value through other comprehensive income reserve | 35 | **46** | (2) |
| Net change in cash flow hedge reserve | 35 | **(26)** | 18 |
| | | **20** | 16 |
| **Total other comprehensive income, net of tax** | | **19** | 19 |
| **Total comprehensive income** | | **1,340** | 969 |

These statements are to be read in conjunction with the notes on pages 15 to 97 and the Independent Auditor's Report on pages 105 to 110.

# Statement of Changes in Equity

| $ millions | Note | Banking Group<br>Contributed Capital | Asset Revaluation Reserve | Cash Flow Hedge Reserve | FVOCI Reserve[1] | Retained Earnings | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|
| **For the year ended 30 June 2021** | | | | | | | |
| Balance at beginning of year | | **6,173** | **33** | **(99)** | **4** | **1,764** | **7,875** |
| Net profit after tax | | **-** | **-** | **-** | **-** | **1,321** | **1,321** |
| Other comprehensive income/(expense) | | **-** | **(1)** | **(26)** | **46** | **-** | **19** |
| **Total comprehensive income/(expense)** | | **-** | **(1)** | **(26)** | **46** | **1,321** | **1,340** |
| Perpetual preference dividends paid | 8 | **-** | **-** | **-** | **-** | **(29)** | **(29)** |
| **Balance as at 30 June 2021** | | **6,173** | **32** | **(125)** | **50** | **3,056** | **9,186** |
| **For the year ended 30 June 2020** | | | | | | | |
| Balance at beginning of year | | 3,673 | 30 | (117) | 6 | 4,199 | 7,791 |
| Net profit after tax | | - | - | - | - | 950 | 950 |
| Other comprehensive income | | - | 3 | 18 | (2) | - | 19 |
| **Total comprehensive income/(expense)** | | - | 3 | 18 | (2) | 950 | 969 |
| Share capital issued | 34 | 2,500 | - | - | - | - | 2,500 |
| Ordinary dividends paid | 8 | - | - | - | - | (3,350) | (3,350) |
| Perpetual preference dividends paid | 8 | - | - | - | - | (35) | (35) |
| **Balance as at 30 June 2020** | | 6,173 | 33 | (99) | 4 | 1,764 | 7,875 |

(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 15 to 97 and the Independent Auditor's Report on pages 105 to 110.

# Balance Sheet

| $ millions | | Banking Group | |
|---|---|---|---|
| **As at 30 June** | Note | **2021** | 2020 |
| **Assets** | | | |
| Cash and liquid assets | 9 | **2,780** | 4,217 |
| Due from financial institutions | 10 | **523** | 532 |
| Securities at fair value through other comprehensive income | 11 | **8,013** | 7,409 |
| Derivative assets | 12 | **793** | 1,644 |
| Advances to customers | 13 | **99,391** | 90,184 |
| Other assets | 25 | **292** | 321 |
| Property, plant and equipment | 26 | **413** | 452 |
| Intangible assets | | **178** | 178 |
| Deferred tax assets | 27 | **262** | 267 |
| **Total assets** | | **112,645** | 105,204 |
| *Total interest earning and discount bearing assets* | | ***110,901*** | *102,646* |
| **Liabilities** | | | |
| Deposits and other borrowings | 28 | **78,031** | 74,488 |
| Due to financial institutions | 29 | **916** | 1,640 |
| Derivative liabilities | 12 | **302** | 265 |
| Current tax liabilities | | **127** | 100 |
| Other liabilities | 30 | **582** | 874 |
| Provisions | 31 | **162** | 143 |
| Debt issues: | | | |
| At fair value through Income Statement | 32 | **6,079** | 545 |
| At amortised cost | 32 | **16,857** | 18,863 |
| Loan capital | 33 | **403** | 411 |
| **Total liabilities** | | **103,459** | 97,329 |
| **Shareholders' Equity** | | | |
| Contributed capital - ordinary shares | 34 | **5,173** | 5,173 |
| Reserves | 35 | **(43)** | (62) |
| Retained earnings | | **3,056** | 1,764 |
| **Ordinary shareholder's equity** | | **8,186** | 6,875 |
| Contributed capital - perpetual preference shares | 34 | **1,000** | 1,000 |
| **Total shareholders' equity** | | **9,186** | 7,875 |
| **Total liabilities and shareholders' equity** | | **112,645** | 105,204 |
| *Total interest and discount bearing liabilities* | | ***90,270*** | *87,148* |

For, and on behalf of, the Board of Directors, who authorised these financial statements for issue on 11 August 2021

G.R. Walker
Chairman of Board

Dame Therese Walsh
Chairman of Board Audit and Risk Committee

These statements are to be read in conjunction with the notes on pages 15 to 97 and the Independent Auditor's Report on pages 105 to 110.

# Cash Flow Statement

| $ millions | | Banking Group | |
|---|---|---|---|
| **For the year ended 30 June** | Note | **2021** | 2020 |
| **Cash flows from operating activities** | | | |
| Net profit before tax | | **1,836** | 1,328 |
| **Reconciliation of net profit before tax to net cash flows from operating activities** | | | |
| Non-cash items included in net profit before tax: | | | |
| Depreciation of property, plant and equipment | 5 | **78** | 77 |
| Amortisation of intangible assets | 5 | **63** | 55 |
| Net change in allowance for expected credit loss and bad debts written off | | **10** | 318 |
| Amortisation of loan establishment fees | | **89** | 61 |
| Net change in fair value of financial instruments and hedged items | | **(225)** | 98 |
| Other non-cash items | | **138** | 10 |
| Items classified as investing activities included in net profit before tax: | | | |
| Loss on sale from disposal of subsidiaries or associates | | **(3)** | 29 |
| Net (increase)/decrease in operating assets: | | | |
| Net change in reverse repurchase agreements | | **718** | 700 |
| Net change in due from financial institutions | | **9** | (14) |
| Net change in securities at fair value through other comprehensive income | | **(929)** | (1,686) |
| Net change in derivative assets | | **(316)** | 949 |
| Net change in advances to customers | | **(9,306)** | (2,874) |
| Net change in other assets | | **36** | (29) |
| Net increase/(decrease) in operating liabilities: | | | |
| Net change in deposits and other borrowings | | **3,656** | 8,199 |
| Net change in due to financial institutions | | **(740)** | 327 |
| Net change in derivative liabilities | | **628** | (555) |
| Net change in other liabilities | | **(377)** | 124 |
| Net tax paid | | **(488)** | (516) |
| **Net cash flows from operating activities** | | **(5,123)** | 6,601 |
| **Cash flows from investing activities** | | | |
| Cash was provided from: | | | |
| Proceeds from disposal of subsidiaries or associates | | **-** | 21 |
| Total cash inflows provided from investing activities | | **-** | 21 |
| Cash was applied to: | | | |
| Net increase in investment in subsidiaries or associates | | **(4)** | - |
| Purchase of property, plant and equipment | | **(33)** | (39) |
| Purchase of intangible assets | | **(69)** | (75) |
| Total cash outflows applied to investing activities | | **(106)** | (114) |
| **Net cash flows from investing activities** | | **(106)** | (93) |
| **Cash flows from financing activities** | | | |
| Cash was provided from: | | | |
| Issue of debt securities (net of issue costs) | 32 | **12,435** | 3,340 |
| Total cash inflows provided from financing activities | | **12,435** | 3,340 |
| Cash was applied to: | | | |
| Redemption of debt securities | 32 | **(7,860)** | (6,553) |
| Payment of lease liabilities | 36 | **(36)** | (35) |
| Ordinary dividends paid | 8 | **-** | (850) |
| Perpetual preference dividends paid | 8 | **(29)** | (35) |
| Total cash outflows applied to financing activities | | **(7,925)** | (7,473) |
| **Net cash flows from financing activities** | | **4,510** | (4,133) |
| **Summary of movements in cash flows** | | | |
| Net increase/(decrease) in cash and cash equivalents | | **(719)** | 2,375 |
| Add: cash and cash equivalents at beginning of year | | **3,371** | 996 |
| **Cash and cash equivalents at end of year** | | **2,652** | 3,371 |
| **Cash and cash equivalents comprise:** | | | |
| Cash and liquid assets | 9 | **2,780** | 4,217 |
| Less: reverse repurchase agreements included in cash and liquid assets | 9 | **(128)** | (846) |
| **Cash and cash equivalents at end of year** | | **2,652** | 3,371 |
| **Additional operating cash flow information** | | | |
| Interest received as cash | | **3,674** | 4,223 |
| Interest paid as cash | | **(1,203)** | (1,959) |

These statements are to be read in conjunction with the notes on pages 15 to 97 and the Independent Auditor's Report on pages 105 to 110.

# Notes to the Financial Statements

For the year ended 30 June 2021

## 1 Statement of Accounting Policies

### General Accounting Policies

The reporting entity is ASB Bank Limited and its controlled entities (the "Banking Group"). ASB is a company domiciled and incorporated in New Zealand under the Companies Act 1955 on 16 August 1988. Its registered office is Level 2, ASB North Wharf, 12 Jellicoe Street, Auckland 1010, New Zealand. The Bank was re-registered under the Companies Act 1993 on 30 June 1995.

These financial statements for the year ended 30 June 2021 have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

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

### Basis of Preparation

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

### Critical Accounting Estimates and Judgements

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

Allowance for Expected Credit Loss

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

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

The impacts of the pandemic have been considered when:

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

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

Financial instruments

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

### New Standards (effective 1 July 2020)

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

### New Standards (not yet effective)

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

- NZ IFRS 9 *Financial Instruments - Hedge accounting*

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

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

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

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

## 1 Statement of Accounting Policies (continued)

**New Standards (not yet effective) (continued)**

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

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

  The key amendments include the following:

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

  *IBOR reform programme*

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

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

**Presentation Currency and Rounding**

The consolidated financial statements are presented in New Zealand dollars, which is the Banking Group's functional and presentation currency. All amounts are presented in millions, unless otherwise stated.

### Particular Accounting Policies

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

**(a) Basis of Consolidation**

The consolidated financial statements of the Banking Group include the financial statements of the Bank and all entities where it is determined that there is capacity to control the entity. Control exists when the Banking Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. For the purposes of assessing control, the Banking Group acts as a principal when there are no substantial removal rights and when its economic interest is substantive compared to the economic interest of other investors.

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

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

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

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

The Banking Group exercises judgement to assess whether a SE should be consolidated based on the Banking Group's power over the relevant activities of the entity and the significance of its exposure to variable returns of the SE. Where the Banking Group has control of a SE, it is consolidated in the Banking Group's financial statements (refer to notes 22 and 24). The Banking Group does not consolidate a SE that it does not control.

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

**(b) Segment Reporting**

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

## 1 Statement of Accounting Policies (continued)

### (c) Foreign Currency Translation

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

### (d) Revenue Recognition

INTEREST INCOME AND EXPENSE
Financial instruments are classified in the manner described in note 1(f).

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

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

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

OTHER INCOME
Dividends are distributions of profits to holders of equity instruments in proportion to their holdings of a particular class of capital. Dividend income is recorded in the Income Statement when the Banking Group's right to receive the dividend is established.

Realised and unrealised gains and losses from re-measurement of financial instruments at fair value through Income Statement (other than those included in trading income above) are included in Other income.

REVENUE FROM CONTRACTS WITH CUSTOMERS

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

*Lending Fees*
Lending fees (for example facility fees and commitment fees) not directly related to the origination of a loan are recognised as the performance obligation is met (which is over the period of service).

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

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

### (e) Expense Recognition

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

### (f) Financial Instruments

BASIS OF RECOGNITION AND MEASUREMENT
The Banking Group offers an extensive range of financial instruments. Financial instruments are transacted on a commercial basis to derive an interest yield with terms and conditions having due regard to the nature of the transaction and the risks involved. All financial assets measured at fair value are accounted for on a trade date basis. Loans are recognised when cash is advanced to the borrower. Financial liabilities are recognised when an obligation arises. Derecognition is set out in note 1(k).

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

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

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

## 1 Statement of Accounting Policies (continued)

### (f) Financial Instruments (continued)

FINANCIAL ASSET DEBT INSTRUMENTS (continued)
The Banking Group assesses the business model at a portfolio level. Information that is considered in determining the business model includes:

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

In assessing whether contractual cashflows are SPPI, the 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:

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

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

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

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

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

Financial assets in this category include:

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

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

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

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

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

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

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

## 1 Statement of Accounting Policies (continued)

### (f) Financial Instruments (continued)

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)
When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the Income Statement and recognised in Other income or Other expenses, as appropriate.

Financial assets in this category include Securities at FVOCI.

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

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

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

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

Financial liabilities in this category include:

*Derivative Liabilities*
Refer to note 1(g) for more details on derivatives.

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

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

Financial liabilities in this category include:

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

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

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

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

*Loan Capital*
Loan capital is debt issued by the Banking Group with terms and conditions that qualify it for inclusion as capital under RBNZ's prudential standards. Refer to note 33, and note 42 for further information on regulatory capital. When fair value hedge accounting is applied to fixed rate loan capital, the carrying value at amortised cost is adjusted for changes in fair value related to the hedged risk.

### (g) Derivative Financial Instruments

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

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

## 1 Statement of Accounting Policies (continued)

### (g) Derivative Financial Instruments (continued)

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

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

Held for hedging derivatives are instruments held for the Banking Group's own risk management purposes, which meet the criteria for hedge accounting as described in note 1(h).

### (h) Hedge Accounting

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

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

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

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

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

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

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

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

### (i) Repurchase and Reverse Repurchase Agreements

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

## 1 Statement of Accounting Policies (continued)

### (i) Repurchase and Reverse Repurchase Agreements (continued)

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

### (j) Offsetting Financial Instruments

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

### (k) Derecognition of Financial Instruments

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

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

### (l) Asset Quality

DEFINITIONS

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

- Significant financial difficulty of the issuer or obligor; or
- A breach of contract, such as a default or delinquency in interest or principal payments; or
- The Banking Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that it would not otherwise consider; or
- The disappearance of an active market for the financial asset because of financial difficulties.

Individually impaired assets are any credit exposures against which an individually assessed allowance has been recorded.

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

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

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

Default occurs if either of the following takes place:

- The customer is unlikely to repay their credit obligations to the Banking Group in full without recourse by the Banking Group to actions such as realising security; or
- The customer is 90 days or more overdue on a scheduled credit obligation repayment. Where a customer was deferring payments under the available COVID-19 relief packages during the reporting period, the customer was not considered to be in default provided they were not already on a watchlist or impaired, or subsequently evidenced other indicators of impairment.

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

COVID-19 IMPACT

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

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

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

IMPAIRMENT

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

## 1 Statement of Accounting Policies (continued)

### (l) Asset Quality (continued)

IMPAIRMENT (continued)

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 ECL models for material portfolios. The ECL models multiply the exposure at balance date by the following credit risk factors to calculate ECL:

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

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

*Stage 1 – 12 months ECL – "Performing"*

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

*Stage 2 – Lifetime ECL – "Underperforming"*

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

*Stage 3 – Lifetime ECL – "Non-performing"*

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

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

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

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

*Impact of a modification on the determination of a financial asset's Stage*

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

*Significant increase in credit risk*

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

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

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

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

# 1 Statement of Accounting Policies (continued)

## (l) Asset Quality (continued)

IMPAIRMENT (continued)
In combination with the SICR assessment detailed above, the Banking Group uses a range of secondary indicators to determine whether a SICR has occurred, such as 30 days past due data. Where the customer had deferred payments under available COVID-19 relief packages, the customer was not considered to be 30 days past due provided they were not already on a watchlist or impaired.

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

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

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

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

*Forward-looking information*
The Banking Group considers four alternative macroeconomic scenarios to ensure a sufficient representative sample of economic conditions when estimating ECL. These scenarios include forward–looking macroeconomic factors (e.g. unemployment, interest rates and house prices), which are further described in note 16. The Banking Group's Loan Loss Provisioning Committee ("LLPC") is responsible for approving the macroeconomic scenarios and their associated probability weightings.

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

The BARC has an oversight role and provides challenge of key judgements and assumptions, including updates to macroeconomic scenarios and weightings, and management adjustments. The BARC receives information regarding the Banking Group's allowance for ECL, impairment losses on financial assets, areas of key accounting estimates and judgement, reported results and key messages.

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

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

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

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

## (m) Leasing

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

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

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

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

RIGHT OF USE ASSET
The right of use asset is initially measured at cost comprising the following:

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

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

## 1 Statement of Accounting Policies (continued)

### (m) Leasing (continued)

*Determining the lease term*

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

*Excluded leases*

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

### (n) Property, Plant and Equipment

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

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

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

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

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

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

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

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

### (o) Intangible Assets

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

GOODWILL

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

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

For the purposes of impairment testing, goodwill is allocated to cash-generating units ("CGU") or groups of units. A CGU is the smallest identifiable group of assets that generate independent cash inflows. Goodwill is allocated by the Banking Group to CGUs or groups of units based on how goodwill is monitored by management. Gains or losses on the disposal of an entity or CGU include the carrying value of goodwill relating to that entity or CGU. The Banking Group has $10 million of goodwill as at 30 June 2021 (30 June 2020 $10 million).

COMPUTER SOFTWARE

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

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

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

## 1 Statement of Accounting Policies (continued)

### (p) Income Tax

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

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted as at balance date taking advantage of all allowable deductions under current taxation legislation. It also includes any adjustment to tax payable in respect of previous financial years. Where transactions are assessed as having an uncertain tax outcome, provisions are held to reflect those tax uncertainties where appropriate.

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

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

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

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

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

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

Securitised assets are derecognised in accordance with the derecognition of financial instruments policy as set out in note 1(k).

### (r) Contingent Liabilities and Credit Commitments

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

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

### (s) Provisions

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

### (t) Cash Flow Statement

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

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

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

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

Changes in cash and cash equivalents related to financing activities reflect cash flows resulting from transactions with shareholders and cash flows relating to debt and loan capital issuances and repayments and payments of lease liabilities.

## 1 Statement of Accounting Policies (continued)

### Fair Value Estimates

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

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

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

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

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

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

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

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

### Changes to Comparatives

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

From 1 July 2020, the Banking Group presents provisions separately from other liabilities on the Balance Sheet. Refer to note 30 Other Liabilities and note 31 Provisions for further information.

In February 2021, the Bank identified an issue related to the recognition of income producing real estate ("IPRE") exposures due to an error within the data extract code which sits between the Bank's loan origination system and data warehouse, and within the data warehouse itself. Investigation into the data issue separately identified discrepancies in the Bank's classification methodology for IPRE exposures. As at 30 June 2020, the issues resulted in an understatement of the Bank's and the Banking Group's risk weighted assets ("RWA") by approximately $3.0 billion (being a 5.3% increase to the overall RWA), an overstatement of the Common Equity Tier 1 ("CET1") ratio by 65bps, an overstatement of the Tier 1 capital ratio by 74bps, an overstatement of the Total capital ratio by 78bps and an overstatement of the Buffer ratio by 78bps. The ratios disclosed in note 42 Capital Adequacy have therefore been restated using corrected calculations. This issue has been remediated.

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

### Changes in Accounting Policies

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

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

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

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

*Income Statement:*

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

*Balance Sheet:*

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

*Cash Flow Statement:*

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

## 2 Interest Income

| $ millions | Banking Group | |
|---|---|---|
| **For the year ended 30 June** | **2021** | 2020 |
| **Interest income on financial assets measured at amortised cost** | | |
| Cash and liquid assets | **9** | 23 |
| Due from financial institutions | **1** | 13 |
| Advances to customers | **3,442** | 3,947 |
| **Total interest income on financial assets measured at amortised cost** | **3,452** | 3,983 |
| **Interest income on Securities at fair value through other comprehensive income** | **43** | 84 |
| **Total interest income** | **3,495** | 4,067 |

## 3 Interest Expense

| $ millions | Banking Group | |
|---|---|---|
| **For the year ended 30 June** | **2021** | 2020 |
| Deposits and other borrowings: | | |
| Certificates of deposit | **29** | 59 |
| Term deposits | **530** | 1,082 |
| On demand and short term deposits | **289** | 266 |
| Repurchase agreements | **1** | - |
| Due to financial institutions | **1** | 14 |
| Debt issues: | | |
| At fair value through Income Statement | **11** | 10 |
| At amortised cost | **259** | 469 |
| Loan capital | **14** | 17 |
| Lease liabilities | **7** | 8 |
| **Total interest expense** | **1,141** | 1,925 |

Total interest expense for financial liabilities that were not at fair value through Income Statement for the year ended 30 June 2021 was $1,130 million (30 June 2020 $1,915 million).

## 4 Other Income

| $ millions | Banking Group | |
|---|---|---|
| **For the year ended 30 June** | **2021** | 2020 |
| Revenue from contracts with customers | **511** | 514 |
| Trading income | **90** | 95 |
| **Ineffective portion of hedges** | | |
| Fair value hedge ineffectiveness: | | |
| Gain/(loss) on hedged items | **617** | (578) |
| Gain/(loss) on hedging instruments | **(624)** | 581 |
| Cash flow hedge ineffectiveness | **4** | - |
| **Total ineffective portion of hedges** | **(3)** | 3 |
| **Other operating income** | | |
| Net fair value gain/(loss) on derivatives not qualifying for hedge accounting | **17** | (7) |
| Other | **3** | 2 |
| **Total other operating income/(loss)** | **20** | (5) |
| **Total other income** | **618** | 607 |

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

| $ millions | | | | Banking Group | | |
|---|---|---|---|---|---|---|
| **For the year ended 30 June 2021** | **Retail Banking** | **Business Banking** | **Corporate Banking** | **Private Banking, Wealth and Insurance** | **Other** | **Total** |
| **Revenue from contracts with customers** | | | | | | |
| Lending fees | **15** | **25** | **32** | **-** | **-** | **72** |
| Commission and other fees | **213** | **56** | **15** | **69** | **(64)** | **289** |
| Funds management income | **127** | **8** | **-** | **150** | **(135)** | **150** |
| **Total revenue from contracts with customers** | **355** | **89** | **47** | **219** | **(199)** | **511** |

| $ millions | | | | Banking Group | | |
|---|---|---|---|---|---|---|
| **For the year ended 30 June 2020** | Retail Banking | Business Banking | Corporate Banking | Private Banking, Wealth and Insurance | Other | Total |
| **Revenue from contracts with customers** | | | | | | |
| Lending fees | 16 | 22 | 28 | - | - | 66 |
| Commission and other fees | 227 | 62 | 10 | 77 | (71) | 305 |
| Funds management income | 115 | 8 | - | 143 | (123) | 143 |
| **Total revenue from contracts with customers** | 358 | 92 | 38 | 220 | (194) | 514 |

# Notes to the Financial Statements

For the year ended 30 June 2021

## 5 Operating Expense Disclosures

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

## 6 Auditor's Remuneration

| $ thousands | Banking Group | |
|---|---|---|
| For the year ended 30 June | 2021 | 2020 |
| **PricewaterhouseCoopers** | | |
| Audit and review of financial statements(1) | **2,071** | 1,756 |
| Other assurance related services(2) | **574** | 1,088 |
| Other services(3) | **-** | 59 |
| **Total compensation of auditors relating to the Banking Group** | **2,645** | 2,903 |
| **Fees related to funds managed by the Banking Group** | | |
| Audit of financial statements | **372** | 368 |
| Other assurance related services(2) | **39** | 38 |
| **Total compensation of auditors** | **3,056** | 3,309 |

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

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

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

## 7 Tax Expense

| $ millions | Banking Group | |
|---|---|---|
| For the year ended 30 June | 2021 | 2020(1) |
| Current tax | **515** | 475 |
| Deferred tax (refer to note 27) | **-** | (97) |
| **Total tax expense charged to the Income Statement** | **515** | 378 |

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

| | | |
|---|---|---|
| Net profit before tax | **1,836** | 1,328 |
| Tax at the domestic rate of 28% | **514** | 372 |
| Tax effect of expenses not deductible for tax purposes | **1** | 8 |
| Tax impact of changes to building depreciation | **-** | (2) |
| **Total tax expense charged to the Income Statement** | **515** | 378 |
| Effective tax rate | **28.1%** | 28.5% |

(1) Certain comparative information has been restated due to a change in accounting policy. Refer to the Changes in Accounting Policies section of note 1 on page 26 for more information.

## 8 Dividends

| $ millions<br>For the year ended 30 June | Banking Group<br>2021 | <br>2020 |
|---|---|---|
| Ordinary dividends paid | - | 3,350 |
| Perpetual preference dividends paid | 29 | 35 |
| **Total dividends paid** | **29** | 3,385 |

There were no dividends on ordinary shares for the year ended 30 June 2021 (30 June 2020 $3,350 million, 65.07 cents per share).

Dividends on perpetual preference shares for the year ended 30 June 2021 were:

- $16 million, being 272.53 cents per share on 6 million 2015 perpetual preference shares (30 June 2020 $20 million, 333.43 cents per share); and
- $13 million, being 326.53 cents per share on 4 million 2016 perpetual preference shares (30 June 2020 $15 million, 387.29 cents per share).

On 5 August 2021, the Directors resolved to pay:

- The following quarterly dividends on perpetual preference shares, subject to certain conditions being satisfied:
  - $4 million on 15 September 2021, being 69.33 cents per share on 6 million 2015 perpetual preference shares; and
  - $3 million on 15 September 2021, being 82.94 cents per share on 4 million 2016 perpetual preference shares.
- An ordinary dividend, subject to certain conditions being satisfied, of $650 million on 15 September 2021 being 12.63 cents per share on 5,148 million ordinary shares.

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

## 9 Cash and Liquid Assets

| $ millions<br>As at 30 June | Banking Group<br>2021 | <br>2020 |
|---|---|---|
| Cash, cash at bank and cash in transit | 117 | 140 |
| Call deposits with the central bank | 2,478 | 3,165 |
| Money at short call | 57 | 66 |
| Reverse repurchase agreements | 128 | 846 |
| **Total cash and liquid assets** | **2,780** | 4,217 |

## 10 Due from Financial Institutions

As at 30 June 2021, amounts due from financial institutions of $523 million are due for settlement within 12 months of balance date (30 June 2020 $532 million due within 12 months of balance date).

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

## 11 Securities at Fair Value through Other Comprehensive Income

| $ millions<br>As at 30 June | Banking Group<br>2021 | <br>2020 |
|---|---|---|
| Local authority securities | 533 | 463 |
| New Zealand Government securities | 3,455 | 2,729 |
| Corporate bonds | 268 | 192 |
| Treasury bills | - | 446 |
| Bank bills | 360 | 330 |
| Kauri bonds | 2,162 | 2,247 |
| Bank bonds | 1,235 | 1,002 |
| **Total securities at fair value through other comprehensive income** | **8,013** | 7,409 |
| Amounts due for settlement within 12 months | 658 | 2,320 |
| Amounts due for settlement over 12 months | 7,355 | 5,089 |
| **Total securities at fair value through other comprehensive income** | **8,013** | 7,409 |

## 12 Derivative Financial Instruments

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

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

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

| $ millions | Banking Group | | | | | |
|---|---|---|---|---|---|---|
| **As at 30 June** | **2021** | | | 2020 | | |
| | **Notional Amount** | **Fair Value Assets** | **Fair Value Liabilities** | Notional Amount | Fair Value Assets | Fair Value Liabilities |
| **Derivative financial instruments** | | | | | | |
| Held for trading | **139,455** | **350** | **(123)** | 82,041 | 348 | (166) |
| Held for hedging | **83,775** | **443** | **(179)** | 82,316 | 1,296 | (99) |
| **Total derivative assets/(liabilities)** | **223,230** | **793** | **(302)** | 164,357 | 1,644 | (265) |
| Amounts due for settlement within 12 months | | **419** | **(85)** | | 265 | (139) |
| Amounts due for settlement over 12 months | | **374** | **(217)** | | 1,379 | (126) |
| **Total derivative assets/(liabilities)** | | **793** | **(302)** | | 1,644 | (265) |

**(a) Derivative Financial Instruments which are Held for Trading**

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

| $ millions | Banking Group | | | | | |
|---|---|---|---|---|---|---|
| **As at 30 June** | **2021** | | | 2020 | | |
| | **Notional Amount** | **Fair Value Assets** | **Fair Value Liabilities** | Notional Amount | Fair Value Assets | Fair Value Liabilities |
| **Exchange rate contracts** | | | | | | |
| Forward contracts | **11,314** | **225** | **(67)** | 6,462 | 66 | (61) |
| Options | **734** | **6** | **(6)** | 569 | 6 | (6) |
| **Total exchange rate contracts** | **12,048** | **231** | **(73)** | 7,031 | 72 | (67) |
| **Interest rate contracts** | | | | | | |
| Swaps | **122,475** | **118** | **(50)** | 72,710 | 275 | (98) |
| Futures | **4,867** | **1** | **-** | 2,269 | - | - |
| Options | **62** | **-** | **-** | 19 | - | - |
| **Total interest rate contracts** | **127,404** | **119** | **(50)** | 74,998 | 275 | (98) |
| **Commodity contracts** | **3** | **-** | **-** | 12 | 1 | (1) |
| **Total held for trading** | **139,455** | **350** | **(123)** | 82,041 | 348 | (166) |

## 12 Derivative Financial Instruments (continued)

**(b) Information on Derivative Financial Instruments which are Held for Hedging**

**Hedged Risks**

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

Hedge accounting is applied for the following risk categories:

- Interest rate risk, which arises due to a mismatch between fixed and floating interest rates on assets and liabilities; and
- Combined risk, which arises on assets or liabilities with interest rate risk that are denominated in currencies other than New Zealand dollars.

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

**Fair Value Hedges**

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

**Cash Flow Hedges**

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

**Hedging Risk Components**

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

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

Changes in fair value of the hedged risk component is usually the largest component of the overall change in fair value, excluding credit risk (which is not hedged, and is discussed further in note 14). Hedging the benchmark interest rate risk or spot exchange rate risk components results in other risks, such as credit risk and liquidity risk, being excluded from the hedge accounting relationship.

**Hedge Relationships and Ineffectiveness**

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

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

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

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

## 12 Derivative Financial Instruments (continued)

### (c) Hedging Instruments

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

| $ millions | Banking Group | | | | | |
|---|---|---|---|---|---|---|
| As at 30 June | 2021 | | | 2020 | | |
| | | Fair Value | | | Fair Value | |
| | Notional Amount | Derivative Assets | Derivative Liabilities | Notional Amount | Derivative Assets | Derivative Liabilities |
| **Fair value hedges** | | | | | | |
| Interest rate risk | 15,080 | 11 | (10) | 14,770 | 32 | (23) |
| Combined risk | 13,931 | 401 | (149) | 14,983 | 1,059 | (33) |
| **Total designated as fair value hedges** | 29,011 | 412 | (159) | 29,753 | 1,091 | (56) |
| **Cash flow hedges** | | | | | | |
| Interest rate risk | 53,650 | 25 | (10) | 50,627 | 82 | (39) |
| Combined risk | 1,114 | 6 | (10) | 1,936 | 123 | (4) |
| **Total designated as cash flow hedges** | 54,764 | 31 | (20) | 52,563 | 205 | (43) |
| **Total held for hedging** | 83,775 | 443 | (179) | 82,316 | 1,296 | (99) |

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

| $ millions | Banking Group | | | |
|---|---|---|---|---|
| Notional Amount | Within | Between | Over | |
| As at 30 June 2021 | 1 Year | 1-5 Years | 5 Years | Total |
| **Fair value hedges** | | | | |
| Interest rate risk | 2,616 | 9,738 | 2,726 | 15,080 |
| Combined risk | 1,870 | 6,700 | 5,361 | 13,931 |
| **Total fair value hedges** | 4,486 | 16,438 | 8,087 | 29,011 |
| **Cash flow hedges** | | | | |
| Interest rate risk | 26,430 | 26,972 | 248 | 53,650 |
| Combined risk | 136 | 978 | - | 1,114 |
| **Total cash flow hedges** | 26,566 | 27,950 | 248 | 54,764 |
| **Total held for hedging** | 31,052 | 44,388 | 8,335 | 83,775 |

| $ millions | Banking Group | | | |
|---|---|---|---|---|
| Notional Amount | Within | Between | Over | |
| As at 30 June 2020 | 1 Year | 1-5 Years | 5 Years | Total |
| **Fair value hedges** | | | | |
| Interest rate risk | 2,765 | 10,544 | 1,461 | 14,770 |
| Combined risk | 2,174 | 8,179 | 4,630 | 14,983 |
| **Total fair value hedges** | 4,939 | 18,723 | 6,091 | 29,753 |
| **Cash flow hedges** | | | | |
| Interest rate risk | 17,752 | 32,580 | 295 | 50,627 |
| Combined risk | 732 | 1,204 | - | 1,936 |
| **Total cash flow hedges** | 18,484 | 33,784 | 295 | 52,563 |
| **Total held for hedging** | 23,423 | 52,507 | 6,386 | 82,316 |

The average fixed interest rate of hedging instruments used to hedge interest rate risk during the reporting period was 1.82% for fair value hedges and 0.98% for cash flow hedges (30 June 2020 2.17% for fair value hedges and 1.56% for cash flow hedges).

The average exchange rates of major currencies where cross currency swaps were used to hedge foreign currency risk against NZD during the reporting period was 0.702 for USD and 0.607 for EUR (30 June 2020 0.700 for USD and 0.607 for EUR).

## 12 Derivative Financial Instruments (continued)

### (d) Hedged Items in Fair Value Hedge Accounting Relationships

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

| $ millions | | Banking Group | | | |
|---|---|---|---|---|---|
| | | Carrying Amount | | Accumulated Fair Value Adjustments(1) | |
| **As at 30 June 2021** | **Risk Categorisation** | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Securities at fair value through other comprehensive income | Interest rate risk | **7,367** | **-** | **(101)** | **-** |
| Debt issues at amortised cost | Interest rate risk | **-** | **(1,844)** | **-** | **(11)** |
| Debt issues at amortised cost | Combined risk | **-** | **(12,682)** | **-** | **(316)** |
| Loan capital | Interest rate risk | **-** | **(403)** | **-** | **(4)** |
| **Total** | | **7,367** | **(14,929)** | **(101)** | **(331)** |

| $ millions | | Banking Group | | | |
|---|---|---|---|---|---|
| | | Carrying Amount | | Accumulated Fair Value Adjustments(1) | |
| **As at 30 June 2020** | **Risk Categorisation** | Assets | Liabilities | Assets | Liabilities |
| Securities at fair value through other comprehensive income | Interest rate risk | 6,153 | - | 243 | - |
| Debt issues at amortised cost | Interest rate risk | - | (2,059) | - | (75) |
| Debt issues at amortised cost | Combined risk | - | (13,159) | - | (543) |
| Loan capital | Interest rate risk | - | (411) | - | (13) |
| **Total** | | 6,153 | (15,629) | 243 | (631) |

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

### (e) Hedge Ineffectiveness

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

| $ millions | Banking Group | | | | | |
|---|---|---|---|---|---|---|
| **As at 30 June** | **2021** | | | 2020 | | |
| | **Change in Value of Hedging Instrument(1)** | **Change in Value of Hedged Item(2)** | **Hedge Ineffectiveness(3)** | Change in Value of Hedging Instrument(1) | Change in Value of Hedged Item(2) | Hedge Ineffectiveness(3) |
| **Fair value hedges** | | | | | | |
| Interest rate risk | **23** | **(24)** | **(1)** | 22 | (21) | 1 |
| Combined risk | **(647)** | **641** | **(6)** | 559 | (557) | 2 |
| **Total** | **(624)** | **617** | **(7)** | 581 | (578) | 3 |
| **Cash flow hedges** | | | | | | |
| Interest rate risk | **45** | **(40)** | **5** | 2 | (2) | - |
| Combined risk | **(201)** | **200** | **(1)** | 270 | (270) | - |
| **Total** | **(156)** | **160** | **4** | 272 | (272) | - |

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

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

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

## 12 Derivative Financial Instruments (continued)

### (f) Cash Flow Hedge Reserve

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

| $ millions | Banking Group | | | | | |
|---|---|---|---|---|---|---|
| As at 30 June | 2021 | | | 2020 | | |
| | Interest Rate Risk | Combined Risk | Total | Interest Rate Risk | Combined Risk | Total |
| **Movement in cash flow hedge reserve** | | | | | | |
| Balance at beginning of year | (13) | (86) | (99) | (14) | (103) | (117) |
| Net gain/(loss) from changes in fair value[1] | (115) | (286) | (401) | (144) | 205 | 61 |
| Reclassified to Income Statement[2] | | | | | | |
| Interest income | (179) | - | (179) | (121) | - | (121) |
| Interest expense | 333 | 86 | 419 | 267 | 64 | 331 |
| Other income | - | 124 | 124 | - | (245) | (245) |
| Deferred tax | (11) | 22 | 11 | (1) | (7) | (8) |
| **Balance at end of year[3]** | 15 | (140) | (125) | (13) | (86) | (99) |

(1) Represents hedging gains or losses recognised in Other comprehensive income during the reporting period.
(2) No amounts have been reclassified to the Income Statement in respect of forecast transactions no longer expected to occur.
(3) Represents amounts included in the Cash flow hedge reserve for continuing hedges. No amounts included in the reserve relate to adjustments for hedges which have been discontinued.

### (g) Exposures Subject to Interest Rate Benchmark Reform

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

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

**Hedging instruments**

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

| $ millions | Banking Group | | |
|---|---|---|---|
| **Notional Amount** | Impacted by IBOR Reform[1] | | |
| **As at 30 June 2021** | USD LIBOR | Other | Total |
| Fair value hedges | 6,054 | 1,280 | 7,334 |
| Cash flow hedges | 43 | - | 43 |
| **Balance at end of year** | 6,097 | 1,280 | 7,377 |

**Hedged items**

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

| $ millions | Banking Group | | |
|---|---|---|---|
| | Impacted by IBOR Reform[1] | | |
| **As at 30 June 2021** | USD LIBOR | Other | Total |
| Debt issues at amortised cost | 2,014 | 977 | 2,991 |
| **Balance at end of year** | 2,014 | 977 | 2,991 |

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

## 13 Advances to Customers

| $ millions | Banking Group | |
|---|---|---|
| As at 30 June | **2021** | 2020 |
| Advances to customers (refer to note 16) | **99,941** | 90,813 |
| Allowance for expected credit loss (refer to note 16) | **(550)** | (629) |
| **Total advances to customers** | **99,391** | 90,184 |
| Amounts due for settlement within 12 months | **19,869** | 18,288 |
| Amounts due for settlement over 12 months | **79,522** | 71,896 |
| **Total advances to customers** | **99,391** | 90,184 |

## 14 Credit Risk Management Policies

### Credit Risk Management

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

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

The BARC operates under a charter by which it oversees the Banking Group's risk appetite statement, credit risk framework, credit approval authorities framework, and credit management policies and practices (including origination, decisioning, verification/fulfilment, and whole of life servicing). The BARC ensures that the Banking Group has in place and maintains credit policies and portfolio standards consistent with responsible lending standards designed to achieve portfolio outcomes consistent with the Banking Group's risk/return expectations. Day-to-day management of credit risk is performed and reported by the Bank's Credit function, with monitoring by the Bank's Executive Risk Committee.

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

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

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

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

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

Refer to notes 15 to 20 for additional credit risk disclosures.

### Collateral

Refer to note 21 for information on the Banking Group's policies and procedures regarding collateral and credit enhancements to mitigate credit risk.

### Credit Risk Measurement

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

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

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

LGD is the proportion of a facility estimated to be lost in the event of default. It is expressed as a percentage. LGD is impacted by the type, level, liquidity and volatility of any collateral held, carrying costs and other expense. Long run LGDs are used for internal estimates of risk and downturn LGDs are used for regulatory capital.

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

## 14 Credit Risk Management Policies (continued)

### Asset Quality

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

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

*Credit risk rating ("CRR")

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

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

### Retail

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

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

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

### Corporate

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

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

CRRs fall into two categories:

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

### Oversight

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

### Impairment of Financial Assets

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

## 15 Credit Quality Information for Advances to Customers

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

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

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

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

| $ millions | Banking Group | | | | |
|---|---|---|---|---|---|
| | Collectively Assessed | | | Individually Assessed | |
| **As at 30 June 2021** | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 3** | **Total** |
| **Advances to customers** | | | | | |
| Investment | **26,767** | **4,070** | **-** | **-** | **30,837** |
| Pass | **50,735** | **15,338** | **-** | **-** | **66,073** |
| Weak | **433** | **1,476** | **793** | **329** | **3,031** |
| **Total advances to customers** | **77,935** | **20,884** | **793** | **329** | **99,941** |
| **Lending commitments** | | | | | |
| Investment | **4,636** | **286** | **-** | **-** | **4,922** |
| Pass | **9,475** | **1,229** | **-** | **-** | **10,704** |
| Weak | **34** | **59** | **18** | **21** | **132** |
| **Total lending commitments** | **14,145** | **1,574** | **18** | **21** | **15,758** |
| **Total advances to customers and lending commitments** | **92,080** | **22,458** | **811** | **350** | **115,699** |
| **Allowance for ECL on advances to customers and lending commitments** | **143** | **243** | **71** | **93** | **550** |

| $ millions | Banking Group | | | | |
|---|---|---|---|---|---|
| | Collectively Assessed | | | Individually Assessed | |
| **As at 30 June 2020** | Stage 1 | Stage 2 | Stage 3 | Stage 3 | Total |
| **Advances to customers** | | | | | |
| Investment | 21,512 | 3,409 | - | - | 24,921 |
| Pass | 46,272 | 16,602 | - | - | 62,874 |
| Weak | 439 | 1,572 | 601 | 406 | 3,018 |
| **Total advances to customers** | 68,223 | 21,583 | 601 | 406 | 90,813 |
| **Lending commitments** | | | | | |
| Investment | 3,897 | 306 | - | - | 4,203 |
| Pass | 8,857 | 1,378 | - | - | 10,235 |
| Weak | 30 | 69 | 16 | 26 | 141 |
| **Total lending commitments** | 12,784 | 1,753 | 16 | 26 | 14,579 |
| **Total advances to customers and lending commitments** | 81,007 | 23,336 | 617 | 432 | 105,392 |
| **Allowance for ECL on advances to customers and lending commitments** | 153 | 266 | 75 | 135 | 629 |

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

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

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

Further information on credit quality is presented below:

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

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

## 16 Allowance for Expected Credit Loss

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

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

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

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

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

Section (g) provides further information on contractual modifications.

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

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

*Movement in Allowance for ECL*

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

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

*Movement in Gross Carrying Amount*

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

They are presented on the following basis:

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

# Notes to the Financial Statements

For the year ended 30 June 2021

## 16 Allowance for Expected Credit Loss (continued)

**(a) Residential Mortgages**

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

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

## 16 Allowance for Expected Credit Loss (continued)

**(a) Residential Mortgages** (continued)

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

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

## 16 Allowance for Expected Credit Loss (continued)

**(b) Other Retail**

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

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

## 16 Allowance for Expected Credit Loss (continued)

**(b) Other Retail (continued)**

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

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

## 16 Allowance for Expected Credit Loss (continued)

**(c) Corporate**

| $ millions<br>**Movement in Allowance for Expected Credit Loss**<br>**As at 30 June 2021** | **Banking Group**<br>**Collective Allowances**<br>**Stage 1** | **Stage 2** | **Stage 3** | **Individually Assessed Allowances**<br>**Stage 3** | **Total** |
|---|---|---|---|---|---|
| Balance at beginning of year | 57 | 147 | 2 | 125 | 331 |
| **(Credited against)/charged to the Income Statement** | | | | | |
| Changes in collective allowances due to transfers between ECL Stages | | | | | |
| Stage 1 to Stage 2 | (9) | 25 | - | - | 16 |
| Stage 1 to Stage 3 | - | - | - | - | - |
| Stage 2 to Stage 1 | 11 | (28) | - | - | (17) |
| Stage 2 to Stage 3 | - | - | 1 | - | 1 |
| Stage 3 to Stage 1 | - | - | - | - | - |
| Stage 3 to Stage 2 | - | - | - | - | - |
| Net transfers to/(from) Stage 3 individually assessed allowances | - | 2 | (5) | - | (3) |
| Changes in collective allowances due to transfers between ECL Stages | 2 | (1) | (4) | - | (3) |
| Changes in collective allowances due to additions and deletions | 2 | (11) | 5 | - | (4) |
| Changes in collective allowances due to amounts written off | - | - | - | - | - |
| **Total changes in collective allowances due to movements in gross carrying amounts** | 4 | (12) | 1 | - | (7) |
| Other changes in collective allowances | (5) | 19 | - | - | 14 |
| Net transfers from collective allowances | - | - | - | 3 | 3 |
| New and increased individually assessed allowances | - | - | - | 30 | 30 |
| Write-back of individually assessed allowances no longer required | - | - | - | (39) | (39) |
| **Total (credited against)/charged to the Income Statement** | (1) | 7 | 1 | (6) | 1 |
| Amounts written off from individually assessed allowances | - | - | - | (32) | (32) |
| **Balance at end of year** | 56 | 154 | 3 | 87 | 300 |

| $ millions<br>**Movement in Gross Carrying Amounts**<br>**As at 30 June 2021** | **Banking Group**<br>**Collectively Assessed**<br>**Stage 1** | **Stage 2** | **Stage 3** | **Individually Assessed**<br>**Stage 3** | **Total** |
|---|---|---|---|---|---|
| Balance at beginning of year | 10,449 | 14,730 | 26 | 354 | 25,559 |
| **Changes due to transfers between ECL Stages** | | | | | |
| Stage 1 to Stage 2 | (4,847) | 4,847 | - | - | - |
| Stage 1 to Stage 3 | (4) | - | 4 | - | - |
| Stage 2 to Stage 1 | 5,805 | (5,805) | - | - | - |
| Stage 2 to Stage 3 | - | (28) | 28 | - | - |
| Stage 3 to Stage 1 | 2 | - | (2) | - | - |
| Stage 3 to Stage 2 | - | 4 | (4) | - | - |
| Net transfers to/(from) Stage 3 individually assessed | (1) | (8) | (24) | 33 | - |
| **Total changes due to transfers between ECL Stages** | 955 | (990) | 2 | 33 | - |
| **Additions and deletions** | | | | | |
| Additions | 6,787 | 4,996 | 44 | - | 11,827 |
| Deletions (excluding amounts written off) | (4,713) | (5,082) | (34) | (64) | (9,893) |
| **Net additions/(deletions)** | 2,074 | (86) | 10 | (64) | 1,934 |
| Amounts written off | - | - | - | (32) | (32) |
| **Balance at end of year** | 13,478 | 13,654 | 38 | 291 | 27,461 |

## 16 Allowance for Expected Credit Loss (continued)

### (c) Corporate (continued)

| $ millions | Banking Group | | | | |
|---|---|---|---|---|---|
| **Movement in Allowance for Expected Credit Loss** | Collective Allowances | | | Individually Assessed Allowances | |
| **As at 30 June 2020** | Stage 1 | Stage 2 | Stage 3 | Stage 3 | Total |
| Balance at beginning of year | 44 | 115 | 3 | 63 | 225 |
| **(Credited against)/charged to the Income Statement** | | | | | |
| Changes in collective allowances due to transfers between ECL Stages | | | | | |
| Stage 1 to Stage 2 | (11) | 45 | - | - | 34 |
| Stage 1 to Stage 3 | - | - | 1 | - | 1 |
| Stage 2 to Stage 1 | 4 | (19) | - | - | (15) |
| Stage 2 to Stage 3 | - | (1) | 2 | - | 1 |
| Stage 3 to Stage 1 | - | - | - | - | - |
| Stage 3 to Stage 2 | - | - | (1) | - | (1) |
| Net transfers to/(from) Stage 3 individually assessed allowances | - | (7) | (1) | - | (8) |
| Changes in collective allowances due to transfers between ECL Stages | (7) | 18 | 1 | - | 12 |
| Changes in collective allowances due to additions and deletions | 2 | (4) | (2) | - | (4) |
| Changes in collective allowances due to amounts written off | - | - | - | - | - |
| **Total changes in collective allowances due to movements in gross carrying amounts** | (5) | 14 | (1) | - | 8 |
| Other changes in collective allowances | 18 | 18 | - | - | 36 |
| Net transfers from collective allowances | - | - | - | 8 | 8 |
| New and increased individually assessed allowances | - | - | - | 107 | 107 |
| Write-back of individually assessed allowances no longer required | - | - | - | (14) | (14) |
| **Total (credited against)/charged to the Income Statement** | 13 | 32 | (1) | 101 | 145 |
| Amounts written off from individually assessed allowances | - | - | - | (39) | (39) |
| **Balance at end of year** | 57 | 147 | 2 | 125 | 331 |

| $ millions | Banking Group | | | | |
|---|---|---|---|---|---|
| **Movement in Gross Carrying Amounts** | Collectively Assessed | | | Individually Assessed | |
| **As at 30 June 2020** | Stage 1 | Stage 2 | Stage 3 | Stage 3 | Total |
| Balance at beginning of year | 14,301 | 10,955 | 39 | 341 | 25,636 |
| **Changes due to transfers between ECL Stages** | | | | | |
| Stage 1 to Stage 2[(1)] | (7,576) | 7,576 | - | - | - |
| Stage 1 to Stage 3 | (10) | - | 10 | - | - |
| Stage 2 to Stage 1[(1)] | 3,231 | (3,231) | - | - | - |
| Stage 2 to Stage 3 | - | (27) | 27 | - | - |
| Stage 3 to Stage 1 | - | - | - | - | - |
| Stage 3 to Stage 2 | - | 16 | (16) | - | - |
| Net transfers to/(from) Stage 3 individually assessed | (52) | (173) | (11) | 236 | - |
| **Total changes due to transfers between ECL Stages** | (4,407) | 4,161 | 10 | 236 | - |
| **Additions and deletions** | | | | | |
| Additions[(1)] | 5,994 | 3,633 | 14 | - | 9,641 |
| Deletions (excluding amounts written off)[(1)] | (5,439) | (4,019) | (37) | (184) | (9,679) |
| **Net additions/(deletions)** | 555 | (386) | (23) | (184) | (38) |
| Amounts written off | - | - | - | (39) | (39) |
| **Balance at end of year** | 10,449 | 14,730 | 26 | 354 | 25,559 |

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

# Notes to the Financial Statements

For the year ended 30 June 2021

## 16 Allowance for Expected Credit Loss (continued)

**(d) Total Advances to Customers**

| $ millions<br>**Movement in Allowance for Expected Credit Loss**<br>**As at 30 June 2021** | **Banking Group**<br>**Collective Allowances**<br>**Stage 1** | **Stage 2** | **Stage 3** | **Individually Assessed Allowances**<br>**Stage 3** | **Total** |
|---|---|---|---|---|---|
| Balance at beginning of year | 153 | 266 | 75 | 135 | 629 |
| **(Credited against)/charged to the Income Statement** | | | | | |
| Changes in collective allowances due to transfers between ECL Stages | | | | | |
| Stage 1 to Stage 2 | (30) | 69 | - | - | 39 |
| Stage 1 to Stage 3 | - | - | 17 | - | 17 |
| Stage 2 to Stage 1 | 23 | (54) | - | - | (31) |
| Stage 2 to Stage 3 | - | (16) | 67 | - | 51 |
| Stage 3 to Stage 1 | - | - | (1) | - | (1) |
| Stage 3 to Stage 2 | - | 11 | (50) | - | (39) |
| Net transfers to/(from) Stage 3 individually assessed allowances | - | 2 | (6) | - | (4) |
| Changes in collective allowances due to transfers between ECL Stages | (7) | 12 | 27 | - | 32 |
| Changes in collective allowances due to additions and deletions | 9 | (20) | (10) | - | (21) |
| Changes in collective allowances due to amounts written off | - | (3) | (17) | - | (20) |
| **Total changes in collective allowances due to movements in gross carrying amounts** | 2 | (11) | - | - | (9) |
| Other changes in collective allowances | (12) | (12) | (4) | - | (28) |
| Net transfers from collective allowances | - | - | - | 4 | 4 |
| New and increased individually assessed allowances | - | - | - | 36 | 36 |
| Write-back of individually assessed allowances no longer required | - | - | - | (48) | (48) |
| **Total (credited against)/charged to the Income Statement** | (10) | (23) | (4) | (8) | (45) |
| Amounts written off from individually assessed allowances | - | - | - | (34) | (34) |
| **Balance at end of year** | 143 | 243 | 71 | 93 | 550 |

| $ millions<br>**Movement in Gross Carrying Amounts**<br>**As at 30 June 2021** | **Banking Group**<br>**Collectively Assessed**<br>**Stage 1** | **Stage 2** | **Stage 3** | **Individually Assessed**<br>**Stage 3** | **Total** |
|---|---|---|---|---|---|
| Balance at beginning of year | 68,223 | 21,583 | 601 | 406 | 90,813 |
| **Changes due to transfers between ECL Stages** | | | | | |
| Stage 1 to Stage 2 | (9,162) | 9,162 | - | - | - |
| Stage 1 to Stage 3 | (310) | - | 310 | - | - |
| Stage 2 to Stage 1 | 8,735 | (8,735) | - | - | - |
| Stage 2 to Stage 3 | - | (788) | 788 | - | - |
| Stage 3 to Stage 1 | 18 | - | (18) | - | - |
| Stage 3 to Stage 2 | - | 683 | (683) | - | - |
| Net transfers to/(from) Stage 3 individually assessed | (7) | (3) | (24) | 34 | - |
| **Total changes due to transfers between ECL Stages** | (726) | 319 | 373 | 34 | - |
| **Additions and deletions** | | | | | |
| Additions | 32,159 | 5,637 | 84 | - | 37,880 |
| Deletions (excluding amounts written off) | (21,717) | (6,632) | (233) | (77) | (28,659) |
| **Net additions/(deletions)** | 10,442 | (995) | (149) | (77) | 9,221 |
| Amounts written off | (4) | (23) | (32) | (34) | (93) |
| **Balance at end of year** | 77,935 | 20,884 | 793 | 329 | 99,941 |

# Notes to the Financial Statements

For the year ended 30 June 2021

## 16 Allowance for Expected Credit Loss (continued)

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

| $ millions | Banking Group | | | | |
|---|---|---|---|---|---|
| **Movement in Allowance for Expected Credit Loss** | Collective Allowances | | | Individually Assessed Allowances | |
| **As at 30 June 2020** | Stage 1 | Stage 2 | Stage 3 | Stage 3 | Total |
| Balance at beginning of year | 117 | 188 | 36 | 69 | 410 |
| **(Credited against)/charged to the Income Statement** | | | | | |
| Changes in collective allowances due to transfers between ECL Stages | | | | | |
| Stage 1 to Stage 2 | (49) | 114 | - | - | 65 |
| Stage 1 to Stage 3 | (1) | - | 22 | - | 21 |
| Stage 2 to Stage 1 | 10 | (40) | - | - | (30) |
| Stage 2 to Stage 3 | - | (19) | 60 | - | 41 |
| Stage 3 to Stage 1 | - | - | (4) | - | (4) |
| Stage 3 to Stage 2 | - | 7 | (30) | - | (23) |
| Net transfers to/(from) Stage 3 individually assessed allowances | - | (7) | (2) | - | (9) |
| Changes in collective allowances due to transfers between ECL Stages | (40) | 55 | 46 | - | 61 |
| Changes in collective allowances due to additions and deletions | 6 | (13) | (13) | - | (20) |
| Changes in collective allowances due to amounts written off | - | (5) | (12) | - | (17) |
| **Total changes in collective allowances due to movements in gross carrying amounts** | (34) | 37 | 21 | - | 24 |
| Other changes in collective allowances | 70 | 41 | 18 | - | 129 |
| Net transfers from collective allowances | - | - | - | 9 | 9 |
| New and increased individually assessed allowances | - | - | - | 120 | 120 |
| Write-back of individually assessed allowances no longer required | - | - | - | (20) | (20) |
| **Total (credited against)/charged to the Income Statement** | 36 | 78 | 39 | 109 | 262 |
| Amounts written off from individually assessed allowances | - | - | - | (43) | (43) |
| **Balance at end of year** | 153 | 266 | 75 | 135 | 629 |

| $ millions | Banking Group | | | | |
|---|---|---|---|---|---|
| **Movement in Gross Carrying Amounts** | Collectively Assessed | | | Individually Assessed | |
| **As at 30 June 2020** | Stage 1 | Stage 2 | Stage 3 | Stage 3 | Total |
| Balance at beginning of year | 69,605 | 17,753 | 377 | 370 | 88,105 |
| **Changes due to transfers between ECL Stages** | | | | | |
| Stage 1 to Stage 2[1] | (9,537) | 9,537 | - | - | - |
| Stage 1 to Stage 3 | (301) | - | 301 | - | - |
| Stage 2 to Stage 1[1] | 4,218 | (4,218) | - | - | - |
| Stage 2 to Stage 3 | - | (623) | 623 | - | - |
| Stage 3 to Stage 1 | 16 | - | (16) | - | - |
| Stage 3 to Stage 2 | - | 472 | (472) | - | - |
| Net transfers to/(from) Stage 3 individually assessed | (75) | (174) | (37) | 286 | - |
| **Total changes due to transfers between ECL Stages** | (5,679) | 4,994 | 399 | 286 | - |
| **Additions and deletions** | | | | | |
| Additions[1] | 24,286 | 4,239 | 58 | - | 28,583 |
| Deletions (excluding amounts written off)[1] | (19,982) | (5,375) | (207) | (207) | (25,771) |
| **Net additions/(deletions)** | 4,304 | (1,136) | (149) | (207) | 2,812 |
| Amounts written off | (7) | (28) | (26) | (43) | (104) |
| **Balance at end of year** | 68,223 | 21,583 | 601 | 406 | 90,813 |

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

## 16 Allowance for Expected Credit Loss (continued)

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

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

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

| $ millions | Banking Group | |
|---|---|---|
| **For the year ended 30 June** | **2021** | 2020 |
| Updates to modelled multiple macroeconomic scenarios and weightings (refer section (f)) | **(5)** | 109 |
| COVID-19 management adjustments to ECL | **(5)** | 60 |
| **(Credited against)/charged to the Income Statement for collective allowances due to COVID-19 model adjustments** | **(10)** | 169 |
| Other amounts credited against the Income Statement for collective allowances | **(27)** | (16) |
| Amounts charged to the Income Statement for individually assessed allowances | **(8)** | 109 |
| **Total (credited against)/charged to the Income Statement for allowance for ECL** | **(45)** | 262 |

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

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

*Residential Mortgages*

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

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

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

*Other Retail*

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

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

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

*Corporate*

The Banking Group's Corporate allowance for ECL in note 16(c) has decreased by $31 million during the year, with an increase in the collective allowances of $7 million being offset by a decrease in the individually assessed allowances of $38 million.

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

- Updates to multiple macroeconomic scenarios and weightings resulting in an increase of $26 million, within Other changes in collective allowances; and
- A decrease to the COVID-19 management adjustments of $8 million for the sectors within the Corporate portfolio identified as having potentially worse or lagged prospects than the general economy, including commercial property, retail trade, entertainment, leisure and tourism. The net movement in gross carrying amount of transfers from Stage 2 to Stage 1 of $1.0 billion during the year reflects the impact of these adjustments, together with movements in quality. These adjustments are presented within transfers between ECL Stages and Other changes in collective allowances.

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

## 16 Allowance for Expected Credit Loss (continued)

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

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

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

*Multiple Macroeconomic Scenarios*

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

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

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

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

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

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

The weighting applied to each scenario has been updated to reflect the revised macroeconomic conditions included in each scenario, together with a refresh of credit risk factors reflecting the continued impact of the COVID-19 pandemic. These updates over the year have improved the Central scenario's macroeconomic outlook, which is offset by the ongoing uncertainty regarding the long-term economic impact, both within New Zealand and globally, resulting in updated scenario weightings. The updated weightings, movements in credit risk factors and general portfolio movements have resulted in a $79 million decrease in ECL. This comprises a $42 million decrease in individually assessed allowances due to improvements or other resolution of the underlying assets, and a $37 million decrease in collective allowances.

*Macroeconomic Credit Risk Factors*

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

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

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

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

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

## 16 Allowance for Expected Credit Loss (continued)

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

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

*Sensitivity to Macroeconomic Scenarios*

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

| $ millions | **Banking Group** | |
|---|---|---|
| **As at 30 June** | **2021** | 2020 |
| Upside | **(180)** | (193) |
| Central | **(170)** | (70) |
| Downside | **204** | 129 |
| Severe downside | **855** | 718 |

*Sensitivity to SICR Assessment*

If an additional 1% of Stage 1 financial assets were assessed as having a SICR at 30 June 2021, with the scenario weightings applied at 30 June 2021 held constant, the Banking Group's allowance for ECL would increase by $8 million (30 June 2020 $10 million) as a result of recognising a loss allowance equal to Stage 2 lifetime ECL (rather than at an amount equal to one year of ECL). Conversely, if 1% of Stage 2 financial assets were assessed as no longer having a SICR, the Banking Group's allowance for ECL would decrease by $2 million (30 June 2020 $2 million).

### (g) Contractual Modifications

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

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

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

## 17 Impairment Losses on Financial Assets

| $ millions | Banking Group | | | |
|---|---|---|---|---|
| **For the year ended 30 June 2021** | **Residential Mortgages** | **Other Retail** | **Corporate** | **Total** |
| Impairment losses charged to the Income Statement for collective allowances | **(16)** | **(35)** | **10** | **(41)** |
| Impairment losses charged to the Income Statement for individually assessed allowances | **(1)** | **1** | **(8)** | **(8)** |
| Bad debts written off directly to the Income Statement | **-** | **59** | **-** | **59** |
| Recovery of amounts previously written off | **(1)** | **(14)** | **-** | **(15)** |
| **Total impairment (recoveries)/losses recognised in the Income Statement** | **(18)** | **11** | **2** | **(5)** |

| $ millions | Banking Group | | | |
|---|---|---|---|---|
| **For the year ended 30 June 2020** | Residential Mortgages | Other Retail | Corporate | Total |
| Impairment losses charged to the Income Statement for collective allowances | 59 | 47 | 47 | 153 |
| Impairment losses charged to the Income Statement for individually assessed allowances | 3 | 4 | 97 | 104 |
| Bad debts written off directly to the Income Statement | - | 61 | - | 61 |
| Recovery of amounts previously written off | - | (12) | - | (12) |
| **Total impairment (recoveries)/losses recognised in the Income Statement** | 62 | 100 | 144 | 306 |

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

**Amounts written off during the year still subject to enforcement activity**

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

## 18 Concentrations of Credit Exposures

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

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

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

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

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

| $ millions | Banking Group | | | |
|---|---|---|---|---|
| **As at 30 June 2021** | **Financial Assets at Amortised Cost** | **Financial Assets at Fair Value** | **Other Credit Exposures** | **Total Credit Exposures** |
| **Concentration by industry** | | | | |
| Agriculture | 10,327 | 14 | 941 | 11,282 |
| Forestry and Fishing, Agriculture Services | 492 | 3 | 63 | 558 |
| Manufacturing | 907 | 21 | 422 | 1,350 |
| Electricity, Gas, Water and Waste Services | 370 | 92 | 192 | 654 |
| Construction | 649 | - | 376 | 1,025 |
| Wholesale Trade | 646 | 6 | 559 | 1,211 |
| Retail Trade and Accommodation | 1,617 | 2 | 512 | 2,131 |
| Transport, Postal and Warehousing | 862 | 2 | 365 | 1,229 |
| Financial and Insurance Services | 3,871 | 4,239 | 243 | 8,353 |
| Rental, Hiring and Real Estate Services | 35,174 | 36 | 1,507 | 36,717 |
| Professional, Scientific, Technical, Administrative and Support Services | 674 | 1 | 405 | 1,080 |
| Public Administration and Safety | 77 | 4,389 | 41 | 4,507 |
| Education and Training | 248 | 1 | 85 | 334 |
| Health Care and Social Assistance | 844 | - | 337 | 1,181 |
| Arts, Recreation and Other Services | 355 | - | 132 | 487 |
| Household | 45,532 | - | 10,318 | 55,850 |
| All Other | 49 | - | 37 | 86 |
| **Total credit exposures by industry** | 102,694 | 8,806 | 16,535 | 128,035 |
| **Concentration by geographic region** | | | | |
| Auckland | 49,506 | 1,752 | 9,083 | 60,341 |
| Rest of New Zealand | 52,236 | 4,301 | 7,318 | 63,855 |
| Overseas | 952 | 2,753 | 134 | 3,839 |
| **Total credit exposures by geographic region** | 102,694 | 8,806 | 16,535 | 128,035 |

## 18 Concentrations of Credit Exposures (continued)

| $ millions | Banking Group | | | |
|---|---|---|---|---|
| **As at 30 June 2020** | Financial Assets at Amortised Cost | Financial Assets at Fair Value | Other Credit Exposures | Total Credit Exposures |
| **Concentration by industry** | | | | |
| Agriculture | 10,240 | 25 | 806 | 11,071 |
| Forestry and Fishing, Agriculture Services | 462 | 5 | 59 | 526 |
| Manufacturing | 891 | 30 | 356 | 1,277 |
| Electricity, Gas, Water and Waste Services | 334 | 73 | 180 | 587 |
| Construction | 614 | - | 353 | 967 |
| Wholesale Trade | 663 | 9 | 542 | 1,214 |
| Retail Trade and Accommodation | 1,572 | 3 | 499 | 2,074 |
| Transport, Postal and Warehousing | 787 | 5 | 363 | 1,155 |
| Financial and Insurance Services | 5,295 | 4,804 | 226 | 10,325 |
| Rental, Hiring and Real Estate Services | 32,019 | 84 | 1,258 | 33,361 |
| Professional, Scientific, Technical, Administrative and Support Services | 529 | 1 | 416 | 946 |
| Public Administration and Safety | 34 | 4,002 | 77 | 4,113 |
| Education and Training | 254 | 1 | 123 | 378 |
| Health Care and Social Assistance | 890 | 11 | 262 | 1,163 |
| Arts, Recreation and Other Services | 321 | - | 111 | 432 |
| Household | 39,978 | - | 9,648 | 49,626 |
| All Other | 50 | - | 32 | 82 |
| **Total credit exposures by industry** | 94,933 | 9,053 | 15,311 | 119,297 |
| | | | | |
| **Concentration by geographic region** | | | | |
| Auckland | 44,476 | 1,735 | 8,679 | 54,890 |
| Rest of New Zealand | 48,471 | 3,937 | 6,501 | 58,909 |
| Overseas | 1,986 | 3,381 | 131 | 5,498 |
| **Total credit exposures by geographic region** | 94,933 | 9,053 | 15,311 | 119,297 |

## 19 Concentration of Credit Exposures to Individual Counterparties

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 CET1 capital as at 30 June 2021.

| | Banking Group | |
|---|---|---|
| **Number of exposures that equals or exceeds 10% of CET1 capital** | **Exposure as at 30-Jun-21** | **Peak end-of-day exposure over six months to 30-Jun-21** |
| **Exposures to banks** | | |
| With a long-term credit rating of A- or A3 or above, or its equivalent: | | |
| 10% to less than 15% of CET1 capital | 1 | 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: | - | - |

## 20 Credit Exposures to Connected Persons and Non-bank Connected Persons

| | Banking Group | | | |
|---|---|---|---|---|
| | Peak end-of-day Exposure over the Year | | Balance Date Exposure | |
| **30 June 2021** | **$ millions** | **Percentage of Tier 1 Capital** | **$ millions** | **Percentage of Tier 1 Capital** |
| All connected persons | **1,606** | **18.2%** | **989** | **11.2%** |
| Non-bank connected persons | **7** | **0.1%** | **7** | **0.1%** |

The information on credit exposures to connected persons has been derived in accordance with the Conditions of Registration and RBNZ document *Connected Exposures Policy* (BS8) dated November 2015.

The basis for calculation is actual credit exposures presented on a gross basis. Exposures are all of a non-capital nature and shown net of any allowances for impairment losses on individual assets. The peak end-of-day credit exposure to connected persons and non-bank connected persons has been calculated by determining the maximum end-of-day aggregate amount of credit exposure over the year and then dividing that amount by the Banking Group's Tier 1 capital as at 30 June 2021.

The Banking Group has a contingent exposure to its ultimate parent, CBA, arising from risk lay off arrangements in respect of credit exposures to counterparties. As at 30 June 2021 this amounted to $62 million.

The Banking Group had no credit exposures to connected persons that were credit impaired at 30 June 2021.

In accordance with its Conditions of Registration, the Banking Group's aggregate credit exposures to all connected persons must not exceed its rating contingent limit of 60% of Tier 1 capital. Within the overall rating contingent limit, there is a sub-limit of 15% of Tier 1 capital which applies to aggregate credit exposures to non-bank connected persons. Both the rating contingent limit on lending to connected persons and the sub-limit on lending to non-bank connected persons have been complied with at all times during the year ended 30 June 2021.

## 21 Maximum Exposure and Effect of Collateral and Other Credit Enhancements

### Collateral and Credit Enhancements Held

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

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

### Cash and Liquid Assets

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

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

### Due from Financial Institutions

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

### Securities at Fair Value through Other Comprehensive Income

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

### Derivative Assets

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

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

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

### Other Assets

This Balance Sheet category includes interest receivable accrued and other current assets. As at 30 June 2021 no collateral is held on these balances (30 June 2020 nil).

### Advances to Customers

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

Principal collateral types for Advances to customers include:

- Mortgages over residential and commercial real estate;
- Charges over business assets such as premises, inventory and accounts receivable;
- Personal and corporate guarantees received from third parties; and
- The Crown Deed of Indemnity under the New Zealand Government’s Business Finance Guarantee Scheme, whereby the Crown undertakes to indemnify the Bank for 80 percent of the shortfall on supported loans issued under the Business Finance Guarantee Scheme. As at 30 June 2021 the Banking Group had advanced $298 million to customers under the Scheme (30 June 2020 $27 million). The BFGS concluded on 30 June 2021, with new scheme loans no longer being available.

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

- Residential Mortgages

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

- Other Retail Lending

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

- Corporate Lending

  The Banking Group’s main collateral types for corporate lending consists of secured rights over specified assets of the borrower in the form of: commercial property, land rights, cash (usually in the form of a charge over a deposit), guarantees by company directors supporting commercial lending, a charge over a company’s assets (including debtors, inventory and work in progress), or a charge over shares. In other instances, customer facilities may be secured by collateral with value less than the carrying amount of the credit exposure.

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

**Advances to Customers (continued)**

For the purposes of the tables below:

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

| $ millions | Banking Group | | | |
|---|---|---|---|---|
| **Collateral Held on Advances to Customers - On Balance Sheet** | **Residential Mortgages[1]** | **Other Retail** | **Corporate** | **Total** |
| **As at 30 June 2021** | | | | |
| **Maximum Exposure** | **68,971** | **3,259** | **27,161** | **99,391** |
| **Collateral Classification** | | | | |
| Secured | **100.0%** | **27.8%** | **73.9%** | **90.5%** |
| Partially Secured | **-** | **6.0%** | **15.6%** | **4.5%** |
| Unsecured | **-** | **66.2%** | **10.5%** | **5.0%** |
| **As at 30 June 2020** | | | | |
| **Maximum Exposure** | 61,530 | 3,426 | 25,228 | 90,184 |
| **Collateral Classification** | | | | |
| Secured | 99.9% | 27.8% | 71.4% | 89.2% |
| Partially Secured | 0.1% | 6.0% | 17.6% | 5.2% |
| Unsecured | - | 66.2% | 11.0% | 5.6% |

**Collateral Classification - Credit Impaired**

As at 30 June 2021, 64.2% of the Banking Group's credit impaired Advances to customers were secured, 23.8% were partially secured and 12.0% were unsecured (30 June 2020 50.9% secured, 28.9% partially secured and 20.2% unsecured).

**Credit Commitments and Contingent Liabilities**

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

| $ millions<br>**Collateral Held on Credit Commitments - Off Balance Sheet** | **Banking Group** |
|---|---|
| **As at 30 June 2021** | |
| **Maximum Exposure** | **16,535** |
| **Collateral Classification** | |
| Secured | **68.1%** |
| Partially Secured | **6.2%** |
| Unsecured | **25.7%** |
| **As at 30 June 2020** | |
| **Maximum Exposure** | 15,311 |
| **Collateral Classification** | |
| Secured | 65.6% |
| Partially Secured | 6.6% |
| Unsecured | 27.8% |

(1) Refer to note 42 for loan-to-valuation ratios for residential mortgages.

## 22 Transferred Financial Assets

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

**Transferred Financial Assets that are Not Derecognised in their Entirety**

*Residential Mortgage-Backed Securities*
During the year ended 30 June 2009 the Banking Group established an in-house residential mortgage-backed securities ("RMBS") facility, which can issue securities that are acceptable as collateral for repurchase agreements with the RBNZ. As at 30 June 2021, mortgage loans with a carrying value of $10.2 billion (30 June 2020 $8.3 billion), have been internally securitised through the Medallion NZ Series Trust 2009-1R. These mortgage loans (included within Advances to customers) have not been derecognised from the Banking Group's financial statements as the Banking Group retains substantially all the risks and rewards of ownership (funding, liquidity and credit risks remain with the Banking Group). As at 30 June 2021, the Medallion NZ Series Trust 2009-1R had other assets of $799 million representing cash from principal repayments (30 June 2020 $396 million).

*Covered Bond Programme*
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 30 June 2021, Covered Bonds (including accrued interest) of $3.8 billion were guaranteed (30 June 2020 $3.5 billion). The mortgage loans (included within advances to customers) have not been derecognised from the Banking Group's financial statements as the Banking Group retains substantially all the risks and rewards of ownership (funding, liquidity and credit risks remain with the Banking Group). As at 30 June 2021, the Covered Bond Trust held mortgage loans with a carrying value of $5.3 billion (30 June 2020 $5.1 billion), and other assets of $135 million representing cash from principal repayments (30 June 2020 $96 million). The carrying value of the associated Covered Bond liabilities as at 30 June 2021 was $3.9 billion (30 June 2020 $3.6 billion).

*Collateral Advanced*
Under repurchase agreements, collateral in the form of securities is advanced to a third party and the Banking Group receives cash in exchange. The counterparty is allowed to sell or repledge the collateral advanced under repurchase agreements but has an obligation to return the collateral at the maturity of the contract. These securities have not been derecognised from the Banking Group's financial statements as the Banking Group retains substantially all the risks and rewards of ownership (funding, liquidity and credit risks remain with the Banking Group). In addition, a financial liability is recognised for cash received which is included in Deposits and other borrowings.

As at 30 June 2021 the Banking Group had collateral advanced under repurchase agreements of $924 million in the form of RMBS (30 June 2020 $100 million in the form of bonds within Securities at fair value through other comprehensive income).

**Transferred Financial Assets that are Derecognised in their Entirety**

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

## 23 Imputation Credit Account

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

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

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

## 24 Controlled Entities and Associates

| Entity Name | % | Nature of Business | Balance Date |
|---|---|---|---|
| **Subsidiaries** | | | |
| ASB Finance Limited | 100 | Finance | 30 June |
| ASB Group Investments Limited | 100 | Investment administration and management | 30 June |
| ASB Management Services Limited | 100 | Management, payment services and property investment | 30 June |
| ASB Nominees Limited | 100 | Nominee company | 30 June |
| ASB Securities Limited | 100 | Sharebroking | 30 June |
| Mortgage Holding Trust Company Limited | 100 | Nominee company | 30 June |
| Securitisation Management Services Limited | 100 | Securitisation management | 30 June |
| **Other Controlled Entities** | | | |
| ASB Cash Fund | - | Portfolio investment entity | 30 June |
| ASB Term Fund | - | Portfolio investment entity | 30 June |
| Medallion NZ Series Trust 2009-1R | - | Group funding entity | 30 June |
| ASB Covered Bond Trust | - | Group funding entity | 30 June |
| **Associates** | | | |
| Payments NZ Limited | 19 | Payment systems | 30 September |
| Trade Window Limited | 26 | Digital trade administration platform | 31 March |

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

All companies were incorporated in New Zealand.

**Changes in Composition of the Banking Group**

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

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

## 25 Other Assets

| $ millions | Banking Group | |
|---|---|---|
| **As at 30 June** | **2021** | 2020 |
| Interest receivable accrued | **155** | 168 |
| Contract assets | **29** | 32 |
| Other assets | **108** | 121 |
| **Total other assets** | **292** | 321 |
| Amounts due for settlement within 12 months | **257** | 278 |
| Amounts due for settlement over 12 months | **35** | 43 |
| **Total other assets** | **292** | 321 |

## 26 Property, Plant and Equipment

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

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

## 27 Deferred Tax Assets

| $ millions | Banking Group | |
|---|---|---|
| **As at 30 June** | **2021** | 2020[1] |
| Balance at beginning of year | **267** | 177 |
| Recognised in the Income Statement | **-** | 97 |
| Recognised in Other comprehensive income | **(5)** | (7) |
| **Balance at end of year** | **262** | 267 |
| **Deferred tax relates to:** | | |
| Asset revaluation reserve | **(2)** | (3) |
| Fair value through other comprehensive income reserve | **(19)** | (2) |
| Cash flow hedge reserve | **49** | 38 |
| Depreciation | **27** | 19 |
| Leases | **6** | 4 |
| Provision for employee entitlements | **33** | 27 |
| Allowance for expected credit loss | **158** | 178 |
| Other temporary differences | **10** | 6 |
| **Total deferred tax assets** | **262** | 267 |
| **Deferred tax recognised in the Income Statement:** | | |
| Depreciation | **8** | 15 |
| Leases | **2** | 4 |
| Provision for employee entitlements | **6** | 15 |
| Allowance for expected credit loss | **(20)** | 62 |
| Other temporary differences | **4** | 1 |
| **Total deferred tax recognised in the Income Statement** | **-** | 97 |
| **Deferred tax recognised in Other comprehensive income:** | | |
| Asset revaluation reserve | **1** | - |
| Fair value through other comprehensive income reserve | **(17)** | 1 |
| Cash flow hedge reserve | **11** | (8) |
| **Total deferred tax recognised in Other comprehensive income** | **(5)** | (7) |

(1) Certain comparative information has been restated due to a change in accounting policy. Refer to the Changes in Accounting Policies section of note 1 on page 26 for more information.

## 28 Deposits and Other Borrowings

| $ millions | Banking Group | |
|---|---|---|
| **As at 30 June** | **2021** | 2020 |
| Certificates of deposit | **3,854** | 4,023 |
| Term deposits | **25,398** | 32,885 |
| On demand and short term deposits | **36,356** | 29,357 |
| Deposits not bearing interest | **11,651** | 8,123 |
| Repurchase agreements | **772** | 100 |
| **Total deposits and other borrowings** | **78,031** | 74,488 |
| Amounts due for settlement within 12 months | **75,400** | 72,323 |
| Amounts due for settlement over 12 months | **2,631** | 2,165 |
| **Total deposits and other borrowings** | **78,031** | 74,488 |

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

## 29 Due to Financial Institutions

As at 30 June 2021 amounts due to financial institutions of $916 million are due for settlement within 12 months of balance date (30 June 2020 $1,640 million due within 12 months of balance date).

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

## 30 Other Liabilities

| $ millions<br>As at 30 June | Banking Group<br>2021 | <br>2020 |
|---|---|---|
| Interest payable accrued | **118** | 237 |
| Salaries, wages and other staff payables[1] | **93** | 85 |
| Contract liabilities | **55** | 57 |
| Trade accounts payable and other liabilities[1] | **95** | 250 |
| Lease liabilities (refer to note 36) | **221** | 245 |
| **Total other liabilities** | **582** | 874 |
| Amounts due for settlement within 12 months[1] | **369** | 660 |
| Amounts due for settlement over 12 months[1] | **213** | 214 |
| **Total other liabilities** | **582** | 874 |

(1) Certain comparative information has been restated to ensure consistency with presentation in the current period. Refer to the Changes to Comparatives section on page 26 for more information.

## 31 Provisions

| $ millions<br>As at 30 June | Banking Group<br>2021 | <br>2020 |
|---|---|---|
| Employee entitlements | **42** | 44 |
| Compliance, regulation and remediation | **93** | 71 |
| Leasing make-good obligations | **16** | 16 |
| Other | **11** | 12 |
| **Total provisions** | **162** | 143 |
| Estimated amounts due for settlement within 12 months | **127** | 88 |
| Estimated amounts due for settlement over 12 months | **35** | 55 |
| **Total provisions** | **162** | 143 |

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

| $ millions | Banking Group | | | | |
|---|---|---|---|---|---|
| **For the year ended 30 June 2021** | **Compliance, regulation and remediation** | **Employee entitlements** | **Leasing make-good obligations** | **Other** | **Total** |
| Balance at beginning of year | **71** | **44** | **16** | **12** | **143** |
| Additional provisions during the year | **57** | **60** | **1** | **11** | **129** |
| Amounts utilised during the year | **(27)** | **(54)** | **(1)** | **(9)** | **(91)** |
| Release of provisions during the year | **(8)** | **(8)** | **-** | **(3)** | **(19)** |
| **Balance at end of year** | **93** | **42** | **16** | **11** | **162** |

**Compliance, regulation and remediation**

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

**Employee entitlements**

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

**Leasing make-good obligations**

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

## 32 Debt Issues

| $ millions | Banking Group | |
|---|---|---|
| As at 30 June | 2021 | 2020 |
| **Debt issues by programme** | | |
| USD commercial paper | 6,079 | 934 |
| Euro medium term notes | 7,642 | 8,593 |
| USD medium term notes | 2,201 | 2,445 |
| NZD domestic bonds | 3,144 | 3,859 |
| Covered bonds | 3,870 | 3,577 |
| **Total debt issues** | 22,936 | 19,408 |
| **Short term debt issues by currency** | | |
| USD | 6,079 | 934 |
| **Long term debt issues by currency due for settlement within 12 months** | | |
| USD | 1,065 | 342 |
| GBP | - | 478 |
| JPY | - | 101 |
| EUR | 862 | 892 |
| NZD | 790 | 1,166 |
| HKD | 38 | 40 |
| **Total debt issues due for settlement within 12 months** | 8,834 | 3,953 |
| **Long term debt issues by currency due for settlement over 12 months** | | |
| USD | 3,472 | 4,742 |
| AUD | 253 | 263 |
| JPY | 32 | 36 |
| EUR | 6,930 | 6,792 |
| NZD | 2,354 | 2,693 |
| HKD | 116 | 169 |
| CHF | 945 | 760 |
| **Total debt issues due for settlement over 12 months** | 14,102 | 15,455 |
| **Total debt issues** | 22,936 | 19,408 |
| Debt issues at fair value through Income Statement | 6,079 | 545 |
| Debt issues at amortised cost | 16,857 | 18,863 |
| **Total debt issues** | 22,936 | 19,408 |
| **Movement in debt issues** | | |
| Balance at beginning of year | 19,408 | 21,556 |
| Issuances during the year | 12,435 | 3,340 |
| Repayments during the year | (7,860) | (6,553) |
| Fair value movements | (291) | 262 |
| Foreign exchange and other movements | (756) | 803 |
| **Balance at end of year** | 22,936 | 19,408 |
| Fair value hedge adjustments included in total debt issues | 327 | 618 |

## 32 Debt Issues (continued)

### Short Term Debt

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

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

### Long Term Debt

The Banking Group's long term borrowings include:

- Notes issued under a joint Euro Medium Term Note programme with CBA. The joint programme limit is USD70 billion. These issuances occur in multiple currencies and have both fixed and variable interest rates;
- Notes issued under a US Medium Term Note programme. The programme limit is USD10 billion. Notes issued under this programme are in USD and have both fixed and variable interest rates;
- Bonds issued under a Covered Bond programme. The programme limit is EUR7 billion and is subject to the regulatory constraint that the assets of the Covered Bond Trust may not exceed 10% of the Banking Group's total assets. The issuances may occur in multiple currencies and may have both fixed and variable interest rates. These bonds are guaranteed by the Covered Bond Guarantor. Refer to the General Disclosures and to note 22 for further information; and
- Domestic bonds issued into the New Zealand market. The issuances occur in NZD and have both fixed and variable interest rates.

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

## 33 Loan Capital

| $ millions | Banking Group | |
|---|---|---|
| **For the year ended 30 June** | **2021** | 2020 |
| **Movement in loan capital** | | |
| Balance at beginning of year | **411** | 407 |
| Fair value and other movements | **(8)** | 4 |
| **Balance at end of year** | **403** | 411 |

### Subordinated Notes - Tier 2 capital

On 30 November 2016, the Bank issued subordinated and unsecured debt securities with a face value of $400 million quoted as ABB050 on the NZX Debt Market (the "ABB050 Notes"). The ABB050 Notes meet the existing criteria for Tier 2 capital designation under the Bank's and CBA's regulatory capital requirements and are classified as financial liabilities under NZ IAS 32. Under the RBNZ's new capital criteria, the ABB050 Notes will be phased out over the 7 year transition period starting 1 January 2022.

### Redemption

The ABB050 Notes will mature on 15 December 2026, but subject to certain conditions the Bank has the right to redeem all or some of the ABB050 Notes on any interest payment date on or after 15 December 2021 (call option date). However, at any time, subject to certain conditions, the Bank may redeem the ABB050 Notes for tax or regulatory reasons.

### Interest

The ABB050 Notes bear an interest rate of 5.25% fixed for five years, and will be reset if not redeemed on or before their call option date. Payment of interest is quarterly in arrears and is subject to the Bank remaining solvent and the Banking Group being solvent immediately after such payment is made.

### Conversion

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

- The RBNZ has reasonable grounds to believe that 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 ABB050 Notes; or
- APRA notifies CBA that it believes an exchange of some or all the ABB050 Notes is necessary because without it CBA would become non-viable. If the ABB050 Notes are not able to be exchanged, or the exchange is not effective, within five business days, the rights of the holders will be terminated.

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

## 34 Contributed Capital

| | Banking Group | | | |
|---|---|---|---|---|
| | Number of shares | | $ millions | |
| **As at 30 June** | **2021** | 2020 | **2021** | 2020 |
| **Issued and fully paid ordinary share capital** | | | | |
| Balance at beginning of year | **5,148,121,300** | 2,648,121,300 | **5,173** | 2,673 |
| Share capital issued | **-** | 2,500,000,000 | **-** | 2,500 |
| **Balance at end of year** | **5,148,121,300** | 5,148,121,300 | **5,173** | 5,173 |
| **Issued and fully paid perpetual preference share capital** | | | | |
| Balance at beginning of year | **10,000,000** | 10,000,000 | **1,000** | 1,000 |
| **Balance at end of year** | **10,000,000** | 10,000,000 | **1,000** | 1,000 |
| **Total contributed capital** | | | **6,173** | 6,173 |

All contributed capital is included in Tier 1 capital for capital adequacy calculation purposes. Refer to note 42 for more information on regulatory capital.

**Ordinary Shares**

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.

On 10 October 2019, the Bank issued 2,500,000,000 ordinary shares to ASB Holdings Limited and raised $2,500 million from this issuance.

**Perpetual Preference Shares – Additional Tier 1 Capital**

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. At 30 June 2021, both PPS issuances qualified as Additional Tier 1 capital ("AT1") under the RBNZ's regulatory capital standard but will be phased out over a 7 year transition period starting 1 January 2022 as a result of the RBNZ capital review described in note 42.

**Redemption**

At the option of the Bank, the 6,000,000 and 4,000,000 PPS are redeemable on any scheduled dividend distribution date, subject to RBNZ approval.

**Dividends and Ranking**

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.

**Exchange for Ordinary Shares**

If a 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.

## 35 Reserves

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

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

| | | |
|---|---|---|
| **Cash flow hedge reserve** | | |
| Balance at beginning of year | **(99)** | (117) |
| Net gain/(loss) from changes in fair value | **(401)** | 61 |
| Reclassified to Income Statement: | | |
| Interest income | **(179)** | (121) |
| Interest expense | **419** | 331 |
| Other income | **124** | (245) |
| Deferred tax | **11** | (8) |
| **Balance at end of year** | **(125)** | (99) |

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

| | | |
|---|---|---|
| **Fair value through other comprehensive income reserve** | | |
| Balance at beginning of year | **4** | 6 |
| Net gain/(loss) from changes in fair value | **63** | (3) |
| Deferred tax | **(17)** | 1 |
| **Balance at end of year** | **50** | 4 |

The fair value through other comprehensive income reserve includes the cumulative net change in the fair value of Securities at FVOCI (excluding impairment recoveries or losses, interest revenue and foreign exchange gains or losses) until the financial asset is derecognised or impaired. When fair value hedge accounting is applied, only fair value changes relating to movements in credit spreads are included in the reserve.

## 36 Leasing

The Banking Group leases premises under arrangements with varying terms and renewal rights. Disclosure of the Banking Group's recognised right of use assets is included in note 26, and related depreciation in note 5. Disclosure of the Banking Group's recognised lease liabilities is included in note 30, and related interest expense in note 3.

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

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

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

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

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

### Significant leasing arrangements

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

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

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

### Sub-leasing arrangements

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

## 37 Credit and Capital Commitments, and Contingent Liabilities

| $ millions | Banking Group Notional Amount | |
|---|---|---|
| **As at 30 June** | **2021** | 2020 |
| **Credit and capital commitments** | | |
| Lending commitments approved but not yet advanced [1] | **15,758** | 14,579 |
| Capital expenditure commitments | **2** | 5 |
| **Total credit and capital commitments** | **15,760** | 14,584 |
| **Credit related contingent liabilities** | | |
| Financial guarantees | **202** | 187 |
| Letters of credit | **122** | 100 |
| Other credit facilities | **453** | 445 |
| **Total credit related contingent liabilities** | **777** | 732 |

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

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

**Other contingent liabilities**

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

The Banking Group is exposed to other contingent liabilities in respect of 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.

## 38 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 year ended 30 June 2021 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 related companies and entities for which no compensation has been received. In all other cases, arrangements with related parties were conducted on an arm's length basis and on normal commercial terms, and within the Bank's approved policies. Loans to and borrowings from related parties are unsecured.

| $ millions | Banking Group | |
|---|---|---|
| **For the year ended 30 June** | **2021** | 2020 |
| **Related Party Transactions** | | |
| **Interest income** | | |
| Received from Commonwealth Bank Group | **-** | 7 |
| **Interest expense** | | |
| Paid to Commonwealth Bank Group | **69** | 114 |
| Paid to superannuation schemes and managed investment schemes managed by ASB Group Investments Limited | **16** | 23 |
| | **85** | 137 |
| **Other income** | | |
| Management and administration fees received from superannuation schemes and managed investment schemes managed by ASB Group Investments Limited | **140** | 125 |
| **Other expenses** | | |
| Paid to Commonwealth Bank Group | **5** | 2 |

| $ millions | Banking Group | |
|---|---|---|
| **As at 30 June** | **2021** | 2020 |
| **Related Party Balances** | | |
| **Commonwealth Bank Group** | | |
| Cash and liquid assets | **79** | 348 |
| Due from financial institutions | **255** | 304 |
| Derivative assets | **226** | 424 |
| Other assets | **-** | 13 |
| | **560** | 1,089 |
| Deposits and other borrowings | **8** | 9 |
| Due to financial institutions | **30** | 462 |
| Debt issues at amortised cost | **800** | 800 |
| Derivative liabilities | **150** | 20 |
| Other liabilities | **1** | 2 |
| | **989** | 1,293 |

## 38 Related Party Transactions and Balances (continued)

| $ millions | Banking Group | |
|---|---|---|
| **As at 30 June** | **2021** | 2020 |
| **Related Party Balances** (continued) | | |
| **Superannuation schemes and managed investment schemes managed by ASB Group Investments Limited** | | |
| Other assets | **20** | 17 |
| Deposits and other borrowings | **1,739** | 1,345 |
| Debt issues at amortised cost | **133** | 165 |
| Other liabilities | **1** | - |
| | **1,873** | 1,510 |
| **ASB Holdings Limited** | | |
| Deposits and other borrowings | **3** | 8 |
| **Trade Window Limited** | | |
| Advances to customers | **1** | 2 |
| Other assets | **1** | 1 |
| | **2** | 3 |
| Deposits and other borrowings | **4** | 1 |
| **Total related party assets** | **582** | 1,109 |
| **Total related party liabilities** | **2,869** | 2,812 |

**Other Transactions and Balances**

Commonwealth Bank Group provides guarantees over certain lending offered by the Bank to the value of $62 million (30 June 2020 $55 million).

The Banking Group has entered into interest rate derivatives, exchange rate derivatives and commodity contracts with the Commonwealth Bank Group with an aggregate notional principal amount of $67 million, $13,665 million and $2 million respectively (30 June 2020 $151 million, $9,102 million and $6 million). The carrying amount of interest rate derivatives at 30 June 2021 is split between those with a positive fair value recognised as assets rounding to nil (30 June 2020 $1 million), and those with a negative fair value of $1 million recognised as liabilities (30 June 2020 $7 million). For exchange rate derivatives, $225 million is recognised as assets (30 June 2020 $423 million) and $149 million is recognised as liabilities (30 June 2020 $13 million) and for commodity contracts $1 million is recognised as assets (30 June 2020 nil).

Net receipts of $13 million were received by the Banking Group from related parties, relating to tax-related items (30 June 2020 net receipts of $5 million).

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

Refer to note 8 for details of dividends paid to the shareholder, note 34 for details of shares issued to and repurchased from related parties, note 39 for transactions and amounts with key management personnel and note 43 for further information on superannuation schemes and managed investment schemes managed by ASB Group Investments Limited.

## 39 Key Management Personnel

The executive management and Directors of the Bank are considered to be key management personnel. Their details are set out in the Directory.

| $ millions | Banking Group | |
|---|---|---|
| **For the year ended 30 June** | **2021** | 2020 |
| **Key management compensation** | | |
| Short term employee benefits | **13** | 14 |
| Share-based payments | **3** | 3 |
| **Total key management compensation** | **16** | 17 |

Executive management of the Bank participate in CBA cash settled share-based payment plans and are awarded a number of rights that vest provided certain conditions are met (including that the participant remains in employment until the vesting date). The liability as at 30 June 2021 was $5 million (30 June 2020 $6 million).

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

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

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

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

| $ millions | Banking Group | |
|---|---|---|
| **As at 30 June** | **2021** | 2020 |
| Loans to key management personnel and their related parties[1] | **19** | 9 |
| Deposits from key management personnel and their related parties[1] | **22** | 12 |

[1] Includes close family members of key management personnel and entities that are controlled or jointly controlled by key management personnel or their close family members.

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

No individually assessed allowance has been recognised in respect of loans provided to key management personnel. There were no debts written off or forgiven during the year ended 30 June 2021 (30 June 2020 nil).

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

## 40 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.

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

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

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

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

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

| $ millions | | Banking Group | | |
|---|---|---|---|---|
| **As at 30 June 2021** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets** | | | | |
| Securities at fair value through other comprehensive income | **6,387** | **1,626** | **-** | **8,013** |
| Derivative assets | **1** | **792** | **-** | **793** |
| **Total financial assets measured at fair value** | **6,388** | **2,418** | **-** | **8,806** |
| **Financial liabilities** | | | | |
| Derivative liabilities | **-** | **302** | **-** | **302** |
| Debt issues at fair value through Income Statement | **-** | **6,079** | **-** | **6,079** |
| **Total financial liabilities measured at fair value** | **-** | **6,381** | **-** | **6,381** |

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

| $ millions | | Banking Group | | |
|---|---|---|---|---|
| **As at 30 June 2020** | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets** | | | | |
| Securities at fair value through other comprehensive income | 6,012 | 1,397 | - | 7,409 |
| Derivative assets | - | 1,644 | - | 1,644 |
| **Total financial assets measured at fair value** | 6,012 | 3,041 | - | 9,053 |
| **Financial liabilities** | | | | |
| Derivative liabilities | - | 265 | - | 265 |
| Debt issues at fair value through Income Statement | - | 545 | - | 545 |
| **Total financial liabilities measured at fair value** | - | 810 | - | 810 |

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

## 40 Fair Value of Financial Instruments (continued)

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

The following tables compare the carrying values of financial instruments not measured at fair value with their estimated fair values and analyses them by level in the fair value hierarchy. Other financial liabilities excludes the lease liability of $221 million as no fair value disclosure is required in respect of lease liabilities (30 June 2020 $245 million).

| $ millions | Banking Group | | | | |
|---|---|---|---|---|---|
| | | Fair Value | | | Carrying Value |
| **As at 30 June 2021** | **Level 1** | **Level 2** | **Level 3** | **Total** | **Total** |
| **Financial assets** | | | | | |
| Cash and liquid assets | **2,652** | **128** | **-** | **2,780** | **2,780** |
| Due from financial institutions | **-** | **523** | **-** | **523** | **523** |
| Advances to customers | **-** | **-** | **99,373** | **99,373** | **99,391** |
| Other financial assets | **-** | **241** | **-** | **241** | **241** |
| **Total** | **2,652** | **892** | **99,373** | **102,917** | **102,935** |
| **Financial liabilities** | | | | | |
| Deposits and other borrowings | **-** | **78,109** | **-** | **78,109** | **78,031** |
| Due to financial institutions | **-** | **916** | **-** | **916** | **916** |
| Other financial liabilities | **-** | **361** | **-** | **361** | **361** |
| Debt issues at amortised cost | **-** | **16,996** | **-** | **16,996** | **16,857** |
| Loan capital | **-** | **407** | **-** | **407** | **403** |
| **Total** | **-** | **96,789** | **-** | **96,789** | **96,568** |

| $ millions | Banking Group | | | | |
|---|---|---|---|---|---|
| | | Fair Value | | | Carrying Value |
| **As at 30 June 2020** | Level 1 | Level 2 | Level 3 | Total | Total |
| **Financial assets** | | | | | |
| Cash and liquid assets | 3,371 | 846 | - | 4,217 | 4,217 |
| Due from financial institutions | - | 532 | - | 532 | 532 |
| Advances to customers | - | - | 90,647 | 90,647 | 90,184 |
| Other financial assets | - | 274 | - | 274 | 274 |
| **Total** | 3,371 | 1,652 | 90,647 | 95,670 | 95,207 |
| **Financial liabilities** | | | | | |
| Deposits and other borrowings | - | 74,692 | - | 74,692 | 74,488 |
| Due to financial institutions | - | 1,640 | - | 1,640 | 1,640 |
| Other financial liabilities | - | 644 | - | 644 | 644 |
| Debt issues at amortised cost | - | 18,835 | - | 18,835 | 18,863 |
| Loan capital | - | 415 | - | 415 | 411 |
| **Total** | - | 96,226 | - | 96,226 | 96,046 |

## 41 Offsetting Financial Assets and Financial Liabilities

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

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

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

| | Banking Group | | | | | |
|---|---|---|---|---|---|---|
| | Amounts Subject to Enforceable Master Netting Agreements | | | | | |
| $ millions | Gross Amounts[1] | Financial Instruments Not Offset | Financial Collateral | Net Amount | Amounts Not Subject to Enforceable Master Netting Agreements[1] | Carrying Value |
| **Financial instruments as at 30 June 2021** | | | | | | |
| Derivative assets | **751** | **(258)** | **(321)** | **172** | **42** | **793** |
| Reverse repurchase agreements | **128** | **-** | **(128)** | **-** | **-** | **128** |
| **Total financial assets** | **879** | **(258)** | **(449)** | **172** | **42** | **921** |
| Derivative liabilities | **(284)** | **258** | **-** | **(26)** | **(18)** | **(302)** |
| Repurchase agreements | **(772)** | **-** | **772** | **-** | **-** | **(772)** |
| **Total financial liabilities** | **(1,056)** | **258** | **772** | **(26)** | **(18)** | **(1,074)** |
| **Financial instruments as at 30 June 2020** | | | | | | |
| Derivative assets[2] | 1,560 | (207) | (1,186) | 167 | 84 | 1,644 |
| Reverse repurchase agreements | 846 | - | (846) | - | - | 846 |
| **Total financial assets** | 2,406 | (207) | (2,032) | 167 | 84 | 2,490 |
| Derivative liabilities[2] | (252) | 207 | 25 | (20) | (13) | (265) |
| Repurchase agreements | (100) | - | 100 | - | - | (100) |
| **Total financial liabilities** | (352) | 207 | 125 | (20) | (13) | (365) |

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

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

### Effects of Master Netting Agreements on Financial Instruments

In the table above:

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

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

## 42 Capital Adequacy

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

**Regulatory Requirements - Basel III**

The Banking Group is subject to regulation by the RBNZ. Current minimum regulatory capital requirements that are set by the RBNZ are consistent with the internationally agreed framework developed by the Basel Committee on banking supervision. 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. The risk-weighted exposure calculation includes the use of IRB models and the credit models described in note 14 (using PD, EAD and LGD). In applying the IRB approach, the RBNZ accreditation and Conditions of Registration require the use of parameters which are more conservative than those calculated using the Bank's own methodologies.

The Banking Group is subject to Basel III capital requirements. The objective of the Basel III framework is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profile of banks.

Basel III consists of three pillars:

- Pillar One covers the capital requirements for banks for credit, operational, and market risks;
- Pillar Two covers all other material risks not already included in Pillar One; and
- Pillar Three relates to market disclosure.

**Capital Management Policies**

The Board reviews and approves the Banking Group's capital policy on an annual basis.

The Banking Group's objectives for the management of capital are to:

- Comply at all times with the regulatory capital requirements set by the RBNZ;
- Maintain a strong capital base to cover the inherent risks of the business in excess of that required by credit rating agencies to maintain a strong or very strong credit rating; and
- Support the future development and growth of the business.

Key attributes of the Banking Group's capital policy and processes relating to regulatory capital are set out below.

Regulatory capital is divided into Tier 1 capital, comprising CET1 capital and AT1 capital; and Tier 2 capital.

CET1 and AT1 capital primarily consist of shareholders' equity and qualifying Tier 1 capital instruments as per BS2B, less intangible and deferred tax assets, and other prescribed deductions. Tier 2 capital comprises the asset revaluation reserve and subordinated debt securities.

Regulatory capital adequacy ratios are calculated by expressing capital (CET1, AT1, Tier 2 or total regulatory capital) as a percentage of risk-weighted exposures. Risk-weighted exposures represent risks associated with the Banking Group's credit risk exposures, as well as operational risk and both traded and non-traded market risk, calculated in accordance with RBNZ banking supervision guidelines.

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

- Total regulatory capital must not be less than 8% of risk-weighted exposures;
- Tier 1 capital must not be less than 6% of risk-weighted exposures;
- CET1 capital must not be less than 4.5% of risk-weighted exposures; and
- Total regulatory capital must not be less than $30 million.

In addition, the Bank must maintain a minimum capital conservation buffer of 2.5% of risk-weighted exposures otherwise restrictions on the distribution of earnings payable to holders of AT1 capital instruments will be imposed.

The Board has ultimate responsibility for capital adequacy, and setting minimum capital levels and limits. These are set at a higher level than required by the RBNZ, which both reduces the risk of breaching the conditions of registration and provides a buffer for unexpected losses.

The Banking Group actively monitors its capital adequacy, and reports this on a regular basis to senior management and the Board. This includes forecasting capital requirements to ensure any future capital requirements can be executed in a timely manner. The Banking Group uses a mix of capital instruments to reduce single source reliance and to optimise the Banking Group's mix of capital.

The material terms and conditions of ordinary shares, perpetual preference shares and loan capital are disclosed in notes 33 and 34.

The capital adequacy tables set out on the following page summarise the composition of regulatory capital and the capital adequacy ratios for the Banking Group for the year ended 30 June 2021.

During the current financial year and the comparative year shown, the Banking Group complied with all of the RBNZ minimum capital ratios to which it is subject.

## 42 Capital Adequacy (continued)

### RBNZ Capital Review

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

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

## 42 Capital Adequacy (continued)

| $ millions<br>As at 30 June 2021 | Banking Group |
|---|---|
| **Capital under Basel III IRB approach** | |
| **Tier 1 capital** | |
| **CET1 capital** | |
| Issued and fully paid-up ordinary share capital | **5,173** |
| Retained earnings | **3,056** |
| Accumulated other comprehensive income and other disclosed reserves | **(75)** |
| Deductions from CET1 capital: | |
| Goodwill and other intangible assets | **(178)** |
| Deferred tax assets | **(262)** |
| Cash flow hedge reserve | **125** |
| Excess of expected loss over eligible allowance for impairment | **(36)** |
| **Total CET1 capital** | **7,803** |
| **AT1 capital** | |
| Perpetual fully paid-up non-cumulative preference shares - classified as equity | **1,000** |
| **Total AT1 capital** | **1,000** |
| **Total Tier 1 capital** | **8,803** |
| **Tier 2 capital** | |
| Loan capital | **400** |
| Asset revaluation reserve | **32** |
| **Total Tier 2 capital** | **432** |
| **Total capital** | **9,235** |

| Unaudited | Banking Group | | Bank | |
|---|---|---|---|---|
| **As at 30 June** | **2021** | 2020 | **2021** | 2020 |
| **Capital ratios** | | | | |
| CET1 capital ratio(1) | **12.7%** | 10.8% | **12.7%** | 10.8% |
| Tier 1 capital ratio(1) | **14.4%** | 12.5% | **14.4%** | 12.5% |
| Total capital ratio(1) | **15.1%** | 13.2% | **15.1%** | 13.2% |
| Buffer ratio(1) | **7.1%** | 5.2% | **7.1%** | 5.2% |
| **Minimum ratio requirement** | | | | |
| CET1 capital ratio | **4.5%** | 4.5% | **4.5%** | 4.5% |
| Tier 1 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% |

| Unaudited<br>$ millions<br>Capital Requirements as at 30 June 2021 | Banking Group<br>Total Exposure(2) | RWE(3) | Capital Requirement |
|---|---|---|---|
| Total credit risk | **130,924** | **51,455** | **4,117** |
| Operational risk | **N/A** | **6,053** | **484** |
| Market risk | **N/A** | **3,744** | **299** |
| **Total capital requirement** | | **61,252** | **4,900** |

As at 30 June 2021, the Banking Group held $4,335m of capital in excess of its regulatory capital requirements.

(1) The June 2020 Capital ratios and Buffer ratio have been restated. Refer to Changes to Comparatives on page 26 for additional information.
(2) Total exposure is after credit risk mitigation.
(3) RWE is risk-weighted exposures or implied risk-weighted exposures.

## 42 Capital Adequacy (continued)

| Unaudited | Banking Group | | | | | |
|---|---|---|---|---|---|---|
| As at 30 June 2021 PD Grade | Weighted Average PD | Exposure Amount $ millions | Exposure Weighted LGD | Exposure Weighted Risk Weight | Risk Weighted Exposures[1] $ millions | Minimum Capital Requirement $ millions |
| **Credit risk exposures subject to the IRB approach by exposure class** | | | | | | |
| **Sovereign exposures** | | | | | | |
| Less than and including 0.03% | 0.02% | 7,901 | 5% | 1% | 96 | 8 |
| 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% | 7,901 | 5% | 1% | 96 | 8 |
| **Bank exposures** | | | | | | |
| Less than and including 0.03% | 0.03% | 1,068 | 60% | 22% | 251 | 20 |
| Over 0.03% up to and including 0.05% | 0.04% | 2,762 | 60% | 25% | 732 | 59 |
| Over 0.05% up to and including 0.07% | 0.07% | 27 | 60% | 65% | 18 | 1 |
| Over 0.07% up to and including 0.26% | 0.20% | 7 | 60% | 85% | 7 | 1 |
| Over 0.26% up to and including 99.99% | 1.90% | - | 16% | 32% | - | - |
| Default PD grade | - | - | - | - | - | - |
| **Total bank exposures** | 0.04% | 3,864 | 60% | 25% | 1,008 | 81 |
| **Exposures secured by residential mortgages** | | | | | | |
| Less than and including 0.50% | 0.27% | 25,881 | 16% | 11% | 3,006 | 240 |
| Over 0.50% up to and including 0.85% | 0.65% | 24,851 | 20% | 21% | 5,602 | 448 |
| Over 0.85% up to and including 3.26% | 1.25% | 21,570 | 23% | 38% | 8,711 | 697 |
| Over 3.26% up to and including 7.76% | 3.58% | 2,267 | 25% | 78% | 1,878 | 150 |
| Over 7.76% up to and including 99.99% | 12.50% | 1,497 | 19% | 97% | 1,536 | 123 |
| Default PD grade | 100.00% | 719 | 23% | 228% | 1,734 | 139 |
| **Total exposures secured by residential mortgages** | 1.94% | 76,785 | 20% | 28% | 22,467 | 1,797 |
| **Other retail exposures** | | | | | | |
| Less than and including 0.50% | - | - | - | - | - | - |
| Over 0.50% up to and including 0.85% | 0.83% | 474 | 95% | 89% | 446 | 36 |
| Over 0.85% up to and including 3.26% | 1.59% | 2,090 | 95% | 112% | 2,474 | 198 |
| Over 3.26% up to and including 7.76% | 3.77% | 337 | 93% | 134% | 479 | 38 |
| Over 7.76% up to and including 99.99% | 26.96% | 39 | 94% | 233% | 96 | 8 |
| Default PD grade | 100.00% | 16 | 94% | 582% | 100 | 8 |
| **Total other retail exposures** | 2.59% | 2,956 | 94% | 115% | 3,595 | 288 |
| **Corporate exposures - small and medium enterprises** | | | | | | |
| Less than and including 0.20% | 0.15% | 836 | 35% | 23% | 204 | 16 |
| Over 0.20% up to and including 0.50% | 0.33% | 4,335 | 24% | 27% | 1,230 | 98 |
| Over 0.50% up to and including 1.00% | 0.68% | 10,005 | 29% | 45% | 4,785 | 383 |
| Over 1.00% up to and including 2.30% | 1.46% | 5,671 | 29% | 59% | 3,524 | 282 |
| Over 2.30% up to and including 99.99% | 7.31% | 1,719 | 31% | 98% | 1,792 | 143 |
| Default PD grade | 100.00% | 256 | 42% | 229% | 621 | 50 |
| **Total corporate exposures - small and medium enterprises** | 2.40% | 22,822 | 28% | 50% | 12,156 | 972 |
| **Other corporate exposures** | | | | | | |
| Less than and including 0.20% | 0.10% | 1,171 | 48% | 28% | 347 | 28 |
| Over 0.20% up to and including 0.50% | 0.31% | 2,265 | 39% | 43% | 1,023 | 82 |
| Over 0.50% up to and including 1.00% | 0.63% | 1,600 | 44% | 68% | 1,156 | 92 |
| Over 1.00% up to and including 2.30% | 1.50% | 754 | 42% | 87% | 693 | 55 |
| Over 2.30% up to and including 99.99% | 3.20% | 169 | 31% | 82% | 146 | 12 |
| Default PD grade | 100.00% | 85 | 39% | 273% | 245 | 20 |
| **Total other corporate exposures** | 1.98% | 6,044 | 42% | 56% | 3,610 | 289 |

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

## 42 Capital Adequacy (continued)

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

| **Unaudited**<br>$ millions<br>**As at 30 June 2021** | **Banking Group**<br>**Undrawn Commitments and Other Off Balance Sheet Amounts**<br>**Value** | <br>**EAD** | **Market Related Contracts**<br>**Principal Amount** | <br>**EAD** |
|---|---|---|---|---|
| Sovereign exposures | 2 | 2 | - | - |
| Bank exposures | 50 | 50 | 34,037 | 799 |
| Exposures secured by residential mortgages | 9,473 | 8,742 | - | - |
| Other retail exposures | 2,049 | 2,012 | - | - |
| Corporate exposures - small and medium enterprises | 3,046 | 3,032 | 1,606 | 49 |
| Other corporate exposures | 1,910 | 1,903 | 2,958 | 71 |
| | 16,530 | 15,741 | 38,601 | 919 |

| **Unaudited**<br>$ millions<br>**As at 30 June 2021**<br>**LVR Range** | **Banking Group**<br>**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 | 30,765 | 14,771 | 18,243 | 4,473 | 1,222 | 69,474 |
| Off balance sheet exposures | 5,524 | 1,349 | 1,464 | 226 | 184 | 8,747 |
| **Total value of exposures** | 36,289 | 16,120 | 19,707 | 4,699 | 1,406 | 78,221 |
| Expressed as a percentage of total exposures | 46.4% | 20.6% | 25.2% | 6.0% | 1.8% | 100.0% |

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

| $ millions<br>**As at 30 June 2021** | **Banking Group** |
|---|---|
| **Reconciliation of mortgage-related amounts** | |
| **Residential mortgages in Advances to customers (refer to note 16)** | 69,098 |
| Add/(less): | |
| Off balance sheet exposures | 8,747 |
| Exposure at default adjustments | 633 |
| Unamortised loan establishment fees and expenses | (257) |
| **Residential mortgages in LVR disclosure** | 78,221 |
| Add/(less): | |
| Residential mortgages subject to the Standardised Approach | (1,436) |
| **Residential mortgages subject to the IRB approach** | 76,785 |

## 42 Capital Adequacy (continued)

| Unaudited<br>Balance Sheet Exposures Subject to the Slotting Approach as at 30 June 2021 | Banking Group<br>Total Exposure after Credit Risk Mitigation $ millions | Risk Weight | Risk Weighted Exposures[1] $ millions | Minimum Capital Requirement $ millions |
|---|---|---|---|---|
| **Specialised lending** | | | | |
| Strong | 2,048 | 70% | 1,520 | 122 |
| Good | 1,144 | 90% | 1,091 | 87 |
| Satisfactory | 525 | 115% | 640 | 51 |
| Weak | 154 | 250% | 408 | 33 |
| | 3,871 | | 3,659 | 293 |

| Unaudited<br>Off Balance Sheet Exposures Subject to the Slotting Approach as at 30 June 2021 | Banking Group<br>EAD $ millions | Average Risk Weight | Risk Weighted Exposures[1] $ millions | Minimum Capital Requirement $ millions |
|---|---|---|---|---|
| Undrawn commitments and other off balance sheet exposures | 161 | 103% | 176 | 14 |

| Unaudited<br>Balance Sheet Exposures Subject to the Standardised Approach as at 30 June 2021 | Banking Group<br>Total Exposure after Credit Risk Mitigation $ millions | Average Risk Weight | Risk Weighted Exposures[1] $ millions | Minimum Capital Requirement $ millions |
|---|---|---|---|---|
| Cash | 114 | - | - | - |
| Secured by residential mortgages | 1,431 | 40% | 608 | 49 |
| Other assets | 3,717 | 87% | 3,441 | 275 |
| **Total balance sheet exposures** | 5,262 | | 4,049 | 324 |

| Unaudited<br>Off Balance Sheet Exposures and Market Related Contracts Subject to the Standardised Approach as at 30 June 2021 | Total Exposure or Principal Amount $ millions | Average Credit Conversion Factor | Banking Group<br>Credit Equivalent Amount $ millions | Average Risk Weight | Risk Weighted Exposures[1] $ millions | Minimum Capital Requirement $ millions |
|---|---|---|---|---|---|---|
| Market related contracts | | | | | | |
| - Foreign exchange contracts | 102 | N/A | 2 | 100% | 2 | - |
| - Interest rate contracts[2] | 183,861 | N/A | 1,073 | 2% | 23 | 2 |
| Undrawn commitments | 1,152 | 9% | 104 | 98% | 108 | 9 |
| Other off balance sheet exposures | 112 | 67% | 75 | 100% | 80 | 6 |
| **Total off balance sheet exposures subject to the standardised approach** | 185,227 | | 1,254 | | 213 | 17 |

| Unaudited<br>Equity Exposures Subject to the Standardised Approach as at 30 June 2021 | Banking Group<br>Total exposure $ millions | Risk weight | Risk weighted exposures[1] $ millions | Minimum Capital Requirement $ millions |
|---|---|---|---|---|
| All equity holdings not deducted from capital | 4 | 400% | 19 | 2 |

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

(2) The total exposure or principal amount reflects the gross notional value of contracts transacted through a qualifying central counterparty.

## 42 Capital Adequacy (continued)

| **Unaudited**<br>$ millions<br>**Total Credit Risk as at 30 June 2021** | **Banking Group**<br>**Total Exposure after Credit Risk Mitigation** | **Total Risk Weighted Exposures** | **Capital Requirement** |
|---|---|---|---|
| Exposures subject to the IRB approach | **120,372** | **42,932** | **3,435** |
| Specialised lending subject to the slotting approach | **4,032** | **3,835** | **307** |
| Exposures subject to the standardised approach | **6,520** | **4,281** | **342** |
| Credit valuation adjustment | **-** | **407** | **33** |
| **Total credit risk** | **130,924** | **51,455** | **4,117** |

| **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. |
| Secured by residential mortgages | Home lending fully or partially secured by residential property. |
| Other retail exposures | Personal credit cards. |
| Corporate exposures | 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 | Income-producing real estate. |

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

### Credit Risk Mitigation

**Unaudited**

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. Housing loans and 43% of small business loans are secured against residential real estate, whilst credit cards, personal loans and overdrafts are generally unsecured.

As at 30 June 2021 none of the credit risk exposures subject to the standardised approach are covered by eligible financial collateral (i.e. cash, debt securities or equity 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.

### Additional Information about Credit Risk

**Unaudited**

The RBNZ has accredited the Banking Group to report capital adequacy under the Capital Adequacy Framework (Internal Models Based Approach) (BS2B).

Under the internal ratings based approach the measurement of credit risk utilises analytical tools to calculate both expected and unexpected loss probabilities for the credit portfolio. This includes consideration of the PD, the EAD and the LGD that would likely be experienced as a consequence. Refer to note 14 for more information about the Banking Group's credit risk management.

For exposures classified as specialised lending, the Banking Group uses slotting tables supplied by the RBNZ rather than internal estimates.

The Banking Group has a number of portfolios that due to size, systems or other constraints are not yet part of the IRB approach, and are assessed for capital adequacy under the standardised approach - prescribed by the RBNZ under the document Capital Adequacy Framework (Standardised Approach) (BS2A). The major portfolio segments in this category relate to personal lending exposures and small business lending that does not meet the corporate criteria, as they are not individually risk rated. The summary table on the top of this page shows the asset types according to their current rating approach.

## 42 Capital Adequacy (continued)

**Unaudited**

### Additional Information about Credit Risk (continued)

#### Controls Surrounding Credit Risk Ratings Systems

Credit risk rating systems and policy cover all of the methods, processes, controls, data collection and technology that support the assessment of credit risk, the assignment of credit risk ratings and the quantification of associated default and loss estimates.

The Chief Risk Officer has ultimate responsibility for the on-going review and amendment of credit risk rating models. The Credit Risk Management division actively participates in the development, selection, implementation and validation of rating models.

Internal Audit regularly reviews the Banking Group's credit risk rating system and its operations, including the operations of the credit function and the estimation of PD, LGD and EAD.

All material aspects of rating and estimation processes must be approved by the BARC. Senior management are required to:

- Provide notice to the BARC of material changes or exceptions from established policies that will materially impact the operations of the credit risk rating system;
- Have a good understanding of the design and operation of credit risk rating systems; and
- Approve material differences between established procedure and actual practice.

Refer to note 14 for more details of credit risk management controls.

### 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 30 June 2021 was $6,053 million.

The total operational risk capital requirement as at 30 June 2021 was $484 million.

#### Advanced Measurement Approach Overview

The Banking Group follows a mathematically determined loss distribution approach to measure operational risk. This involves separate modelling of the frequency and severity of risks at a component level and then aggregating simulated losses from these components into loss distributions for the Banking Group.

The Banking Group's modelling approach is very granular and considers the multiple risk types in line with industry standards. This approach allows capital to link closely with where the businesses manage their risk, and also allows accurate modelling of both risk and extreme but plausible events.

The operational risk measurement approach integrates the use of the following relevant factors:

Direct inputs:

- Scenario analysis to capture the business judgements; and
- Internal loss data.

Indirect inputs used in the scenario analysis process:

- External loss data case studies (sourced from external providers) are used in the scenario analysis process; and
- Risk indicators (developed and recorded).

No adjustments or deductions are currently made to the Banking Group's measurement of operational risk regulatory capital for the mitigating impacts of insurance.

Operational risk capital is allocated across business units based on an internal capital allocation methodology that is reviewed and approved annually.

## 42 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 30 June 2021.

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.

| **Unaudited** | | **Banking Group** | | |
|---|---|---|---|---|
| $ millions<br>**Exposures as at 30 June 2021** | **Interest Rate Risk** | **Foreign Currency Risk** | **Equity Risk** | **Total** |
| Implied risk-weighted exposure | **3,418** | **326** | **-** | **3,744** |
| Aggregate capital charge | **273** | **26** | **-** | **299** |

| **Unaudited** | | **Banking Group** | | |
|---|---|---|---|---|
| $ millions<br>**Peak end-of-day Exposures for the six months ended 30 June 2021** | **Interest Rate Risk** | **Foreign Currency Risk** | **Equity Risk** | **Total** |
| Implied risk-weighted exposure | **4,353** | **523** | **-** | **4,876** |
| Aggregate capital charge | **348** | **42** | **-** | **390** |

#### 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.

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, the BARC and the Board. The Banking Group's ICAAP and ICAAP documents are reviewed annually and significant revisions to 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. Other material risks considered by the Banking Group include strategic business risk, liquidity risk, reputational risk, funding risk, concentration risk, information technology and cyber risk. As at 30 June 2021 internal capital allocations of $314 million (30 June 2020 $317 million) had been made for other material risks.

#### 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 predominantly accredited to use the Advanced Internal Ratings Based Approach for credit risk and the Advanced Measurement Approach for operational risk. The ultimate parent banking group is also required to assess its traded market risk and Interest Rate Risk in the Banking Book requirements under Pillar 1 of the Basel capital framework.

APRA prudential standards require the ultimate parent banking group to have 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%, brings the CET1 requirement to at least 8% as specified under Basel III.

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

As at 30 June 2021 the minimum capital requirements were met (30 June 2020 minimum capital requirements were met).

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

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

### Insurance Business

The Banking Group does not conduct any insurance business.

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

*Securitisation*

As at 30 June 2021 the Banking Group had internally securitised $11.0 billion of RMBS through the Medallion NZ Series Trust 2009-1R (30 June 2020 $8.7 billion), of which $10.0 billion of Class A floating rate notes issued by the Medallion NZ Series Trust 2009-1R have been assigned a credit rating of AAA by Fitch Ratings (30 June 2020 $8.0 billion). Refer to note 22 for more information.

*Funds Management*

The Banking Group markets and distributes managed fund products which are issued by a wholly owned subsidiary, ASB Group Investments Limited (refer to note 24). Funds under management distributed by the Banking Group totalled $21,750 million as at 30 June 2021 (30 June 2020 $18,500 million). As at 30 June 2021 $2,079 million of funds under management were invested in related party products or securities (30 June 2020 $1,654 million).

*Other Fiduciary Activities*

The Banking Group provides custodial services relating to holding interest-bearing instruments and equity securities on behalf of clients. Funds under custodial arrangements totalled $939 million as at 30 June 2021 (30 June 2020 $1,168 million).

*Marketing and Distribution of Insurance Products*

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

*Risk Management*

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

*Provision of Financial Services*

Financial services (including deposit taking and foreign exchange services) provided by the Banking Group during the year to entities which are involved in the above activities are provided on arm's length terms and conditions and at fair value. The Banking Group has not purchased any assets from such entities during the year.

## 44 Financial Reporting by Operating Segments

| | Banking Group | | | | | |
|---|---|---|---|---|---|---|
| $ millions | Retail Banking | Business Banking | Corporate Banking | Private Banking, Wealth and Insurance | Other | Total |
| **Income Statement** | | | | | | |
| **For the year ended 30 June 2021** | | | | | | |
| Net interest income | **1,199** | **919** | **111** | **77** | **48** | **2,354** |
| Other income/(loss) | **381** | **118** | **55** | **238** | **(174)** | **618** |
| Total operating income/(loss) | **1,580** | **1,037** | **166** | **315** | **(126)** | **2,972** |
| Impairment (recoveries)/losses on financial assets | **(3)** | **2** | **(5)** | **1** | **-** | **(5)** |
| Segment operating expenses/(benefit) excluding impairment losses | **651** | **337** | **59** | **138** | **(44)** | **1,141** |
| Segment net profit/(loss) before tax | **932** | **698** | **112** | **176** | **(82)** | **1,836** |
| Tax expense/(benefit) | **261** | **195** | **31** | **49** | **(21)** | **515** |
| Segment net profit/(loss) after tax | **671** | **503** | **81** | **127** | **(61)** | **1,321** |
| **Non-cash expenses[1]** | | | | | | |
| Depreciation and amortisation expense | **54** | **19** | **14** | **11** | **43** | **141** |
| **Balance Sheet** | | | | | | |
| **As at 30 June 2021** | | | | | | |
| Total assets | **52,388** | **40,307** | **6,384** | **3,367** | **10,199** | **112,645** |
| Total liabilities | **41,113** | **18,381** | **7,857** | **4,859** | **31,249** | **103,459** |

| | Banking Group | | | | | |
|---|---|---|---|---|---|---|
| $ millions | Retail Banking | Business Banking | Corporate Banking | Private Banking, Wealth and Insurance | Other | Total |
| **Income Statement[2]** | | | | | | |
| **For the year ended 30 June 2020** | | | | | | |
| Net interest income | 1,085 | 820 | 113 | 64 | 60 | 2,142 |
| Other income/(loss) | 391 | 120 | 49 | 234 | (187) | 607 |
| Total operating income/(loss) | 1,476 | 940 | 162 | 298 | (127) | 2,749 |
| Impairment losses on financial assets | 131 | 76 | 94 | 4 | 1 | 306 |
| Segment operating expenses/(benefit) excluding impairment losses | 608 | 318 | 54 | 132 | 3 | 1,115 |
| Segment net profit/(loss) before tax | 737 | 546 | 14 | 162 | (131) | 1,328 |
| Tax expense/(benefit) | 206 | 153 | 4 | 45 | (30) | 378 |
| Segment net profit/(loss) after tax | 531 | 393 | 10 | 117 | (101) | 950 |
| **Non-cash expenses[1]** | | | | | | |
| Depreciation and amortisation expense | 56 | 16 | 8 | 8 | 44 | 132 |
| **Balance Sheet** | | | | | | |
| **As at 30 June 2020** | | | | | | |
| Total assets[2] | 46,816 | 37,612 | 5,745 | 2,789 | 12,242 | 105,204 |
| Total liabilities | 38,807 | 16,615 | 7,861 | 5,213 | 28,833 | 97,329 |

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

# Notes to the Financial Statements

For the year ended 30 June 2021

## 44 Financial Reporting by Operating Segments (continued)

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

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

## 45 Risk Management Policies

### Introduction

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

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

The Chief Risk Officer, who reports to the Chief Executive Officer, is responsible for the implementation of the Banking Group's Risk Management Framework. This includes the development and deployment of appropriate risk frameworks that allow for conscious exposures to risk within the Board approved appetite. All executives have responsibility for the day-to-day management of risk across the Banking Group, including the implementation of the Banking Group's Risk Management Framework. The Banking Group's Risk Management Framework is set and approved by the Board through the BARC. All non-executive Directors are members of the BARC (refer to the Directory for details). Formal executive committees are in place governing all material risk types.

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

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

This note contains information on operational and compliance, strategic, and reputational risks and the following notes contain information about the Risk Management Framework:

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

### Operational and Compliance Risk

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

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

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

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

Each business manager is responsible for the identification and assessment of these risks, on a regular basis, and for maintaining appropriate internal controls, and is supported by the Banking Group's governance structures, Operational Risk Management Framework and Compliance Management Framework.

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

### Strategic Risk

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

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

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

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

### Reputational Risk

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

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

The Bank sets out clear behavioural standards, as outlined in the Banking Group's Risk Appetite Statement and the Code of Conduct, and the Bank's leadership framework supports the Bank's vision and values.

## 45 Risk Management Policies (continued)

### Business Continuity Management

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

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

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

### Internal Audit

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

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

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

## 46 Market Risk

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

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

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

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

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

### Market Risk Measurement

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

VaR is modelled at a 99% confidence level over a 10-day holding period for trading book positions and a 99% confidence level over a 20-day holding period is used for interest rate risk in the banking book.

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

### Traded Market Risk

Traded market risk is assessed on a daily basis and is generated through the Banking Group's participation in financial markets to service its customers as well as an appetite to take positions to benefit from movements in interest and foreign exchange rates.

| $ millions | Banking Group | | | |
|---|---|---|---|---|
| **VaR at 99% Confidence Level** | | | | |
| **As at 30 June 2021[(1)]** | **As at** | **High for year** | **Low for year** | **Average for year** |
| Foreign exchange risk | **0.28** | **1.50** | **0.02** | **0.42** |
| Interest rate risk | **0.60** | **27.96** | **0.55** | **3.74** |
| Diversification benefit | **(0.28)** | **N/A** | **N/A** | **(0.38)** |
| **Total Traded Market Risk** | **0.60** | **27.59** | **0.55** | **3.77** |

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

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

## 46 Market Risk (continued)

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

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

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

- **Next 12 months' earnings**

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

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

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

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

| $ millions | Banking Group | |
|---|---|---|
| **Net Interest Earnings at Risk(1)** | **2021** | 2020 |
| Exposure at end of year | **316.9** | 178.7 |
| Past 12-month exposure - average | **286.8** | 183.6 |
| Past 12-month exposure - high | **350.9** | 197.7 |
| Past 12-month exposure - low | **180.8** | 178.6 |

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

- **Economic Value**

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

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

  This table outlines the net present value of the expected change in the Banking Group's future earnings in all future periods for the remaining term of all existing assets and liabilities:

| $ millions | Banking Group | |
|---|---|---|
| **Non-traded Interest Rate VaR at 99% Confidence Level** | **2021** | 2020 |
| Exposure at end of year | **6.7** | 7.3 |
| Past 12-month VaR (99 percentile) - average | **6.5** | 6.3 |
| Past 12-month VaR (99 percentile) - high | **10.3** | 8.8 |
| Past 12-month VaR (99 percentile) - low | **3.2** | 3.6 |

# Notes to the Financial Statements

For the year ended 30 June 2021

## 46 Market Risk (continued)

### Net Foreign Currency Open Positions

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

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

## 47 Interest Rate Repricing Schedule

The following tables represent a breakdown of the 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". The Banking Group does not manage its interest rate risk on the basis of the information below. The management of interest rate risk is set out in note 46.

| $ millions | Banking Group | | | | | | |
|---|---|---|---|---|---|---|---|
| As at 30 June 2021 | Up to 3 Months | Over 3 Months and up to 6 Months | Over 6 Months and up to 1 Year | Over 1 Year and up to 2 Years | Over 2 Years | Non-interest Bearing | Total |
| **Assets** | | | | | | | |
| Cash and liquid assets | 2,663 | - | - | - | - | 117 | 2,780 |
| Due from financial institutions | 523 | - | - | - | - | - | 523 |
| Securities at fair value through other comprehensive income | 565 | 80 | 157 | 1,775 | 5,436 | - | 8,013 |
| Derivative assets | - | - | - | - | - | 793 | 793 |
| Advances to customers | 43,368 | 13,978 | 25,414 | 10,213 | 6,729 | (311) | 99,391 |
| Other financial assets | - | - | - | - | - | 241 | 241 |
| **Total financial assets** | 47,119 | 14,058 | 25,571 | 11,988 | 12,165 | 840 | 111,741 |
| Non-financial assets | | | | | | | 904 |
| **Total assets** | | | | | | | 112,645 |
| **Liabilities** | | | | | | | |
| Deposits and other borrowings | 50,877 | 8,972 | 4,401 | 1,348 | 782 | 11,651 | 78,031 |
| Due to financial institutions | 871 | - | - | - | - | 45 | 916 |
| Derivative liabilities | - | - | - | - | - | 302 | 302 |
| Other financial liabilities | - | - | - | - | - | 582 | 582 |
| Debt issues: | | | | | | | |
| At fair value through Income Statement | 2,434 | 2,390 | 1,255 | - | - | - | 6,079 |
| At amortised cost | 3,254 | 47 | 1,131 | 745 | 11,363 | 317 | 16,857 |
| Loan capital | - | 400 | - | - | - | 3 | 403 |
| **Total financial liabilities** | 57,436 | 11,809 | 6,787 | 2,093 | 12,145 | 12,900 | 103,170 |
| Non-financial liabilities | | | | | | | 289 |
| **Total liabilities** | | | | | | | 103,459 |
| **Net derivative notionals** | 26,707 | (18,134) | (11,077) | (8,620) | 11,124 | | |
| **Interest rate sensitivity gap** | 16,390 | (15,885) | 7,707 | 1,275 | 11,144 | | |

## 47 Interest Rate Repricing Schedule (continued)

| $ millions | | | Banking Group | | | | |
|---|---|---|---|---|---|---|---|
| **As at 30 June 2020** | Up to 3 Months | Over 3 Months and up to 6 Months | Over 6 Months and up to 1 Year | Over 1 Year and up to 2 Years | Over 2 Years | Non-interest Bearing | Total |
| **Assets** | | | | | | | |
| Cash and liquid assets | 4,077 | - | - | - | - | 140 | 4,217 |
| Due from financial institutions | 532 | - | - | - | - | - | 532 |
| Securities at fair value through other comprehensive income | 949 | 180 | 1,424 | 308 | 4,548 | - | 7,409 |
| Derivative assets | - | - | - | - | - | 1,644 | 1,644 |
| Advances to customers | 37,615 | 9,259 | 18,836 | 21,331 | 3,587 | (444) | 90,184 |
| Other financial assets | - | - | - | - | - | 274 | 274 |
| **Total financial assets** | 43,173 | 9,439 | 20,260 | 21,639 | 8,135 | 1,614 | 104,260 |
| Non-financial assets | | | | | | | 944 |
| **Total assets** | | | | | | | 105,204 |
| **Liabilities** | | | | | | | |
| Deposits and other borrowings | 47,474 | 11,614 | 5,112 | 1,319 | 846 | 8,123 | 74,488 |
| Due to financial institutions | 1,583 | - | - | - | - | 57 | 1,640 |
| Derivative liabilities | - | - | - | - | - | 265 | 265 |
| Other financial liabilities | - | - | - | - | - | 889 | 889 |
| Debt issues: | | | | | | | |
| At fair value through Income Statement | 545 | - | - | - | - | - | 545 |
| At amortised cost | 4,138 | 40 | 1,625 | 2,215 | 10,237 | 608 | 18,863 |
| Loan capital | - | - | - | 400 | - | 11 | 411 |
| **Total financial liabilities** | 53,740 | 11,654 | 6,737 | 3,934 | 11,083 | 9,953 | 97,101 |
| Non-financial liabilities | | | | | | | 228 |
| **Total liabilities** | | | | | | | 97,329 |
| **Net derivative notionals** | 16,030 | (2,096) | (9,775) | (15,665) | 11,507 | | |
| **Interest rate sensitivity gap** | 5,463 | (4,311) | 3,748 | 2,040 | 8,559 | | |

## 48 Liquidity and Funding Risk

### a) Liquidity and Funding Risk Management Framework and Policies

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

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

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

The key objectives of the LRMPS are:

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

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

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

**Regulatory Supervision**

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 has the appropriate internal framework and tools for liquidity risk management to ensure compliance with these regulatory requirements, as well as internal targets and limits.

**Measuring and Monitoring Liquidity Risk**

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

BARC approved liquidity risk limits define a quantitative tolerance for liquidity risk that are more conservative than the requirements of the relevant regulators. These limits are consistent with the risk appetite statement and the LRMPS. These require that the Bank maintains positive cash flow runoffs for one-week and one-month periods using stressed assumptions, in addition to a strong and stable core funding ratio.

**RBNZ Liquidity Facilities**

The RBNZ has several facilities that support monetary policy and manage liquidity in the New Zealand banking system. These facilities allow banks to borrow funding from the RBNZ by pledging high quality liquid assets as collateral. The Bank has an in-house RMBS facility, which has issued securities that can be used as collateral for borrowing from the RBNZ. As at 30 June 2021 the Bank had internally securitised $11.0 billion of RMBS through the Medallion NZ Series Trust 2009-1R (30 June 2020 $8.7 billion), of which $10.0 billion of Class A floating rate notes have been assigned a credit rating of AAA by Fitch Ratings and are eligible for acceptance by the RBNZ (30 June 2020 $8.0 billion). While not intended to be used for day-to-day liquidity management, the RMBS form part of the Bank's total qualifying liquid assets. The RBNZ has imposed a tiered cap limiting the amount of RMBS that can be deemed as qualifying liquid assets available for repurchase agreements with the RBNZ, with a maximum limit of 5% of total assets, based upon the Bank's asset encumbrance ratio (30 June 2020 maximum limit of 4%).

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

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

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

As at 30 June 2021 $924 million of the RMBS had been used as collateral for repurchase agreements with the RBNZ (30 June 2020 nil). Refer to note 22 for additional information.

### b) Liquidity and Funding Risk Management Framework and Regulatory Liquidity Ratios (unaudited)

The Bank calculates liquidity ratios in accordance with BS13. The BS13 ratios are calculated daily and are a key component of the Bank's liquidity management framework.

The RBNZ requires banks to hold minimum amounts of liquid assets to help ensure that they are effectively managing their liquidity risks. The mismatch ratio is a measure of a bank's liquid assets, adjusted for expected cash inflows and outflows during a one-week or one-month period of stress. The Banking Group must maintain its one-week and one-month mismatch ratios above zero on a daily basis, with the mismatch ratio representing surplus liquidity as a portion of total funding of the Bank.

## 48 Liquidity and Funding Risk (continued)

### b) Liquidity and Funding Risk Management Framework and Regulatory Liquidity Ratios (unaudited) (continued)

The RBNZ also requires banks to obtain a minimum amount of funding from stable sources called core funding. As part of the response to COVID-19, on 2 April 2020 the RBNZ reduced the minimum core funding ratio from 75% to 50% of the Banking Group's total Advances to customers. The RBNZ has advised that it intends to increase the minimum requirement back to 75% on 1 January 2022.

The average of these ratios for the quarter ended 30 June 2021 are reflected in the table below.

| Unaudited | Banking Group | |
|---|---|---|
| Average for the three months ended | 30-Jun-21 | 31-Mar-21 |
| One-month mismatch ratio | 5.0% | 4.4% |
| One-week mismatch ratio | 4.7% | 4.2% |
| Core funding ratio | 84.1% | 84.0% |

## 49 Qualifying Liquid Assets

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 30 June 2021 | Cash and Liquid Assets | Securities at Fair Value through Other Comprehensive Income | Advances to Customers | Deposits and Other Borrowings(1) | Other Assets | Total |
| Cash | 174 | - | - | - | - | 174 |
| Call deposits with the central bank | 2,478 | - | - | - | - | 2,478 |
| Local authority securities | - | 533 | - | - | 3 | 536 |
| New Zealand Government securities | 118 | 3,455 | - | - | 16 | 3,589 |
| Corporate bonds | - | 268 | - | - | 1 | 269 |
| Treasury bills | 10 | - | - | - | - | 10 |
| Bank bills | - | 360 | - | - | - | 360 |
| Kauri bonds | - | 2,162 | - | - | 16 | 2,178 |
| Bank bonds | - | 1,235 | - | - | 7 | 1,242 |
| Residential mortgage-backed securities(2) | - | - | 5,632 | - | - | 5,632 |
| **Total qualifying liquid assets** | **2,780** | **8,013** | **5,632** | **-** | **43** | **16,468** |

| $ millions | Banking Group | | | | | |
|---|---|---|---|---|---|---|
| As at 30 June 2020 | Cash and Liquid Assets | Securities at Fair Value through Other Comprehensive Income | Advances to Customers | Deposits and Other Borrowings(1) | Other Assets | Total |
| Cash | 206 | - | - | - | - | 206 |
| Call deposits with the central bank | 3,165 | - | - | - | - | 3,165 |
| Local authority securities | - | 463 | - | - | 3 | 466 |
| New Zealand Government securities | 790 | 2,729 | - | - | 17 | 3,536 |
| Corporate bonds | - | 192 | - | - | 1 | 193 |
| Treasury bills | 56 | 446 | - | - | - | 502 |
| Bank bills | - | 330 | - | - | - | 330 |
| Kauri bonds | - | 2,247 | - | - | 18 | 2,265 |
| Bank bonds | - | 1,002 | - | (100) | 5 | 907 |
| Residential mortgage-backed securities(2) | - | - | 4,208 | - | - | 4,208 |
| **Total qualifying liquid assets** | 4,217 | 7,409 | 4,208 | (100) | 44 | 15,778 |

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

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

## 50 Maturity Analysis for Undiscounted Contractual Cash Flows

The following tables present the 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 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. The Banking Group does not manage its liquidity risk on the basis of the information below. The management of liquidity risk is set out in note 48.

| $ millions | Banking Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **As at 30 June 2021** | **On Demand** | **Within 6 Months** | **Between 6-12 Months** | **Between 1-2 Years** | **Between 2-5 Years** | **Over 5 Years** | **Total** | **Carrying Value** |
| **Non-derivative financial liabilities** | | | | | | | | |
| Deposits and other borrowings | 48,007 | 23,090 | 4,438 | 1,379 | 1,253 | 59 | 78,226 | 78,031 |
| Due to financial institutions | 916 | - | - | - | - | - | 916 | 916 |
| Other financial liabilities | 70 | 267 | 39 | 59 | 91 | 89 | 615 | 582 |
| Debt issues: | | | | | | | | |
| At fair value through Income Statement | - | 4,826 | 1,257 | - | - | - | 6,083 | 6,079 |
| At amortised cost | - | 1,222 | 1,735 | 2,588 | 7,210 | 4,627 | 17,382 | 16,857 |
| Loan capital | - | 11 | 11 | 21 | 63 | 411 | 517 | 403 |
| **Total non-derivative financial liabilities** | 48,993 | 29,416 | 7,480 | 4,047 | 8,617 | 5,186 | 103,739 | 102,868 |
| **Derivative financial liabilities** | | | | | | | | |
| Inflows from derivatives | - | 119 | 88 | 1,751 | 2,650 | 2,247 | 6,855 | |
| Outflows from derivatives | - | (678) | (215) | (1,956) | (3,099) | (2,423) | (8,371) | |
| | - | (559) | (127) | (205) | (449) | (176) | (1,516) | |
| **Off balance sheet items** | | | | | | | | |
| Lending commitments | 13,724 | 2,034 | - | - | - | - | 15,758 | |
| Financial guarantees | 202 | - | - | - | - | - | 202 | |
| Other credit related contingent liabilities | 575 | - | - | - | - | - | 575 | |
| **Total off balance sheet items** | 14,501 | 2,034 | - | - | - | - | 16,535 | |

## 50 Maturity Analysis for Undiscounted Contractual Cash Flows (continued)

| $ millions | | | | Banking Group | | | | |
|---|---|---|---|---|---|---|---|---|
| As at 30 June 2020 | On Demand | Within 6 Months | Between 6-12 Months | Between 1-2 Years | Between 2-5 Years | Over 5 Years | Total | Carrying Value |
| **Non-derivative financial liabilities** | | | | | | | | |
| Deposits and other borrowings | 37,480 | 29,985 | 5,169 | 1,355 | 825 | 54 | 74,868 | 74,488 |
| Due to financial institutions | 1,607 | 33 | - | - | - | - | 1,640 | 1,640 |
| Other financial liabilities | 58 | 579 | 46 | 41 | 93 | 108 | 925 | 889 |
| Debt issues: | | | | | | | | |
| At fair value through Income Statement | - | 547 | - | - | - | - | 547 | 545 |
| At amortised cost | - | 1,065 | 2,594 | 3,080 | 8,717 | 3,746 | 19,202 | 18,863 |
| Loan capital | - | 11 | 11 | 21 | 63 | 416 | 522 | 411 |
| **Total non-derivative financial liabilities** | 39,145 | 32,220 | 7,820 | 4,497 | 9,698 | 4,324 | 97,704 | 96,836 |
| **Derivative financial liabilities** | | | | | | | | |
| Inflows from derivatives | - | 571 | 48 | 50 | 389 | 91 | 1,149 | |
| Outflows from derivatives | - | (1,548) | (312) | (322) | (598) | (101) | (2,881) | |
| | - | (977) | (264) | (272) | (209) | (10) | (1,732) | |
| **Off balance sheet items** | | | | | | | | |
| Lending commitments | 12,861 | 1,718 | - | - | - | - | 14,579 | |
| Financial guarantees | 187 | - | - | - | - | - | 187 | |
| Other credit related contingent liabilities | 545 | - | - | - | - | - | 545 | |
| **Total off balance sheet items** | 13,593 | 1,718 | - | - | - | - | 15,311 | |

## 51 Concentrations of Funding

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 | Banking Group | |
|---|---|---|
| **As at 30 June** | **2021** | 2020 |
| **Total funding comprises:** | | |
| Deposits and other borrowings | **78,031** | 74,488 |
| Due to financial institutions | **916** | 1,640 |
| Debt issues: | | |
| At fair value through Income Statement | **6,079** | 545 |
| At amortised cost | **16,857** | 18,863 |
| Loan capital | **403** | 411 |
| **Total funding** | **102,286** | 95,947 |
| **Concentration by industry** | | |
| Agricultural, Forestry and Fishing | **1,281** | 1,185 |
| Manufacturing | **1,034** | 1,046 |
| Construction | **1,156** | 1,075 |
| Wholesale Trade | **888** | 869 |
| Retail Trade and Accommodation | **1,231** | 1,228 |
| Transport, Postal and Warehousing | **528** | 987 |
| Information Media and Telecommunications | **419** | 334 |
| Financial and Insurance Services | **32,552** | 29,269 |
| Rental, Hiring and Real Estate Services | **4,801** | 4,380 |
| Professional, Scientific, Technical, Administrative and Support Services | **6,697** | 5,302 |
| Public Administration and Safety | **1,098** | 1,181 |
| Education and Training | **1,784** | 1,814 |
| Health Care and Social Assistance | **1,106** | 1,167 |
| Arts, Recreation and Other Services | **1,839** | 1,956 |
| Households | **45,444** | 43,731 |
| All Other | **428** | 423 |
| **Total funding by industry** | **102,286** | 95,947 |
| **Concentration by geographic region** | | |
| New Zealand | **74,929** | 71,559 |
| Overseas | **27,357** | 24,388 |
| **Total funding by geographic region** | **102,286** | 95,947 |

## 52 Events after the Reporting Period

Refer to note 8 for details of perpetual preference and ordinary dividends declared after the reporting period.

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

# Additional Disclosures

(To be read in conjunction with the Financial Statements)

**Conditions of Registration for ASB Bank Limited**

**The following conditions of registration were applicable as at 30 June 2021 and came into effect on 29 April 2021, except as provided otherwise.**

The registration of ASB Bank Limited ("the bank") as a registered bank is subject to the following conditions:

1. That:

   (a) The Total capital ratio of the banking group is not less than 8%;

   (b) The Tier 1 capital ratio of the banking group is not less than 6%;

   (c) The Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;

   (d) The Total capital of the banking group is not less than $30 million;

   (e) The bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and

   (f) The bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document "*Application requirements for capital recognition or repayment and notification requirements in respect of capital*" (BS16) dated November 2015 in respect of regulatory capital instruments.

   For the purposes of this condition of registration,

   - The scalar referred to in the Reserve Bank of New Zealand document *"Capital Adequacy Framework (Internal Models Based Approach)"* (BS2B) dated November 2015 is 1.06;
   - "Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document *"Capital Adequacy Framework (Internal Models Based Approach)"* (BS2B) dated November 2015;
   - "Total capital" has the same meaning as in Part 2 of the Reserve Bank of New Zealand document *"Capital Adequacy Framework (Internal Models Based Approach)"* (BS2B) dated November 2015;
   - An Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document *"Capital Adequacy Framework (Internal Models Based Approach)"* (BS2B) dated November 2015;
   - A Tier 2 capital instrument is an instrument that meets the requirements of subsection 2.16(a) or (c) of the Reserve Bank of New Zealand document *"Capital Adequacy Framework (Internal Models Based Approach)"* (BS2B) dated November 2015.

1A. That:

   (a) The bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document *"Guidelines on a bank's internal capital adequacy assessment process ('ICAAP')"* (BS12) dated December 2007;

   (b) Under its ICAAP the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document *"Capital Adequacy Framework (Internal Models Based Approach)"* (BS2B) dated November 2015; and

   (c) The bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That the bank complies with the minimum requirements set out in the following sections of the Reserve Bank of New Zealand document *"Capital Adequacy Framework (Internal Models Based Approach)"* (BS2B) dated November 2015:

   (a) The model approval requirements in section 1.3A;

   (b) The compendium requirements in section 1.3B;

   (c) The minimum requirements for the IRB approach in sections 4.217 to 4.324 (that is, Subpart 4C of BS2B); and

   (d) The minimum requirements for using the AMA approach for operational risk set out in sections 8.4 to 8.34.

1C. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:

   (a) According to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit on distributions that corresponds to the banking group's buffer ratio:

| Banking group's buffer ratio | Percentage limit to distributions of the bank's earnings |
|---|---|
| 0% - 0.625% | 0% |
| >0.625% - 1.25% | 20% |
| >1.25% - 1.875% | 40% |
| >1.875% - 2.5% | 50% |

   (b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and

   (c) have the capital plan approved by the Reserve Bank.

   For the purposes of this condition of registration,

   - "Buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document *"Capital Adequacy Framework (Internal Models Based Approach)"* (BS2B) dated November 2015.
   - The scalar referred to in the Reserve Bank of New Zealand document *"Capital Adequacy Framework (Internal Models Based Approach)"* (BS2B) dated November 2015 is 1.06.

# Additional Disclosures (continued)

(To be read in conjunction with the Financial Statements)

**Conditions of Registration for ASB Bank Limited** (continued)

1D. That, if the buffer ratio of the banking group is more than 2.5%, the bank must limit aggregate distributions, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to no more than 50% of the bank's earnings.

For the purposes of this condition of registration,

- An Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 2.13(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;
- "buffer ratio", "distributions" and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015;
- The scalar referred to in the Reserve Bank of New Zealand document "Capital Adequacy Framework (Internal Models Based Approach)" (BS2B) dated November 2015 is 1.06;
- The bank must not make any individual dividend payment contributing to aggregate distributions for a financial year until it has completed its interim financial accounts for the first six months of its financial year or its annual financial accounts for its full financial year, and must not make any such dividend payment less than six months after any previous such dividend payment.

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

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

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

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

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

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

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

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

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

   For the purposes of this condition of registration,

   - "Insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance.
   - "Insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

| Credit rating of the bank[1] | Connected exposure limit (% of the Banking Group's Tier 1 capital) |
|---|---|
| AA/Aa2 and above | 75 |
| AA-/Aa3 | 70 |
| A+/A1 | 60 |
| A/A2 | 40 |
| A-/A3 | 30 |
| BBB+/Baa1 and below | 15 |

(1) This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's.)

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the banking group's Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected exposures policy" (BS8) dated November 2015.

**Conditions of Registration for ASB Bank Limited** (continued)

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
6. That the bank complies with the following corporate governance requirements:
   (a) The board of the bank must have at least five directors;
   (b) The majority of the board members must be non-executive directors;
   (c) At least half of the board members must be independent directors;
   (d) An alternate director,
      (i) For a non-executive director must be non-executive; and
      (ii) For an independent director must be independent;
   (e) At least half of the independent directors of the bank must be ordinarily resident in New Zealand;
   (f) The chairperson of the board of the bank must be independent; and
   (g) The bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled *"Corporate Governance"* (BS14) dated July 2014.
7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:
   (a) The Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) The Reserve Bank has advised that it has no objection to that appointment.
8. That a person must not be appointed as chairperson of the board of the bank unless:
   (a) The Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) The Reserve Bank has advised that it has no objection to that appointment.
9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
   (a) The mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
   (b) The committee must have at least three members;
   (c) Every member of the committee must be a non-executive director of the bank;
   (d) The majority of the members of the committee must be independent; and
   (e) The chairperson of the committee must be independent and must not be the chairperson of the bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled *"Corporate Governance"* (BS14) dated July 2014.
10. That a substantial proportion of the bank's business is conducted in and from New Zealand.
11. That the bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the bank that are carried on by a person other than the bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the bank or of a service provider to the bank, the following outcomes:
   (a) That the bank's clearing and settlement obligations due on a day can be met on that day;
   (b) That the bank's financial risk positions on a day can be identified on that day;
   (c) That the bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
   (d) That the bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

   This condition ceases to apply in respect of an existing outsourcing arrangement on the earlier of either 1 October 2023 or when the existing outsourcing arrangement becomes compliant with condition 21, from which point in time condition 21 will apply to that outsourcing arrangement.

   For the purposes of this condition of registration:

   - The term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006; and
   - The term "existing outsourcing arrangement" is defined in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated April 2020.

# Additional Disclosures (continued)

(To be read in conjunction with the Financial Statements)

**Conditions of Registration for ASB Bank Limited** (continued)

12. That:

    (a) The business and affairs of the bank are managed by, or under the direction or supervision of, the board of the bank;

    (b) The employment contract of the chief executive officer of the bank or person in an equivalent position (together "CEO") is with the bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the bank; and

    (c) All staff employed by the bank will have their remuneration determined by (or under the delegated authority of) the board or the CEO of the bank and be accountable (directly or indirectly) to the CEO of the bank.

13. Before and on 30 April 2021, that the banking group complies with the following quantitative requirements for liquidity-risk management:

    (a) The one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;

    (b) The one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and

    (c) The one-year core funding ratio of the banking group is not less than 50 per cent at the end of each business day.

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated January 2018 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated October 2018.

13A. On and after 1 May 2021, that the banking group complies with the following quantitative requirements for liquidity-risk management:

    (a) The one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;

    (b) The one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and

    (c) The one-year core funding ratio of the banking group is not less than 50 per cent at the end of each business day.

    For the purposes of this condition of registration, the bank must calculate the banking group's one-week mismatch ratio, one-month mismatch ratio and one-year core funding ratio in accordance with the Reserve Bank of New Zealand documents entitled *"Liquidity Policy"* (BS13) dated May 2021 and *"Liquidity Policy Annex: Liquid Assets"* (BS13A) dated May 2021.

14. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:

    (a) Is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;

    (b) Identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

    (c) Identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and

    (d) Considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

15. That no more than 10% of total assets may be beneficially owned by a SPV.

    For the purposes of this condition,

    - "Total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets;
    - "SPV" means a person:
      (a) To whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
      (b) Who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
      (c) Who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond;
    - "Covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

16. That:

    (a) No member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:

        (i) The bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and

        (ii) At the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document *Significant Acquisitions Policy* (BS15) dated December 2011; and

    (b) No member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:

        (i) The bank has notified the Reserve Bank in writing of the intended acquisition or business combination;

        (ii) At the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document *"Significant Acquisitions Policy"* (BS15) dated December 2011; and

        (iii) The Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

**Conditions of Registration for ASB Bank Limited (continued)**

For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document *"Significant Acquisitions Policy"* (BS15) dated December 2011.

17. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can:

    (a) Close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager

    (i) All liabilities are frozen in full; and

    (ii) No further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;

    (b) Apply a de minimis to relevant customer liability accounts;

    (c) Apply a partial freeze to the customer liability account balances;

    (d) Reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;

    (e) Maintain a full freeze on liabilities not pre-positioned for open bank resolution; and

    (f) Reinstate customers' access to some or all of their residual frozen funds.

    For the purposes of this condition of registration, "de minimis", "partial freeze", "customer liability account", and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document *"Open Bank Resolution (OBR) Pre-positioning Requirements Policy"* (BS17) dated September 2013.

18. That the bank has an Implementation Plan that:

    (a) Is up-to-date; and

    (b) Demonstrates that the bank's prepositioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: *"Open Bank Resolution Pre-positioning Requirements Policy"* (BS17) dated September 2013.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document *"Open Bank Resolution (OBR) Pre-positioning Requirements Policy"* (BS17) dated September 2013.

19. That the bank has a compendium of liabilities that:

    (a) At the product-class level lists all liabilities, indicating which are:

    (i) Pre-positioned for Open Bank Resolution; and

    (ii) Not pre-positioned for Open Bank Resolution;

    (b) Is agreed to by the Reserve Bank; and

    (c) If the Reserve Bank's agreement is conditional, meets the Reserve Bank's conditions.

    For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document *"Open Bank Resolution (OBR) Pre-positioning Requirements Policy"* (BS17) dated September 2013.

20. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the bank's Implementation Plan.

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document *"Open Bank Resolution (OBR) Pre-positioning Requirements Policy"* (BS17) dated September 2013.

21. That the bank must comply with the Reserve Bank of New Zealand document *"Outsourcing Policy"* (BS11) dated April 2020.

22. That, for a loan-to-valuation measurement period ending on or before 30 June 2021, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

23. That, for a loan-to-valuation measurement period ending on or after 31 July 2021, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

24. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

25. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration:

- "banking group" means ASB Bank Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of part 7 of that Act.
- "generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

# Additional Disclosures (continued)

(To be read in conjunction with the Financial Statements)

**Conditions of Registration for ASB Bank Limited** (continued)

In conditions of registration 22 to 25:

- "loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated January 2019:
- "loan-to-valuation measurement period" means:
  - (a) the three calendar month period ending on the last day of May 2021; and
  - (b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of June 2021.

**Changes to Conditions of Registration since the previous Disclosure Statement**

The RBNZ amended the Conditions of Registration on 1 March 2021 to reinstate loan-to-valuation restrictions on new residential lending and to correct condition 11 by amending the reference from condition 24 to 21.

The RBNZ further amended the Conditions of Registration on 29 April 2021 to allow banks to pay dividends on ordinary shares up to a maximum of 50% of their earnings for the most recently completed financial year, and to refer to updated versions of BS13 Liquidity Policy and BS13A Liquidity Policy Annex: Liquid Assets (effective 1 May 2021).

As at 30 June 2021, there have been no other changes to the Conditions of Registration.

# Directors' Statement

**After due enquiry by the Directors, it is each Director's opinion that for the year ended 30 June 2021:**

- The Bank complied in all material respects 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;
- 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 material risks of the Banking Group including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks and that those systems are being properly applied.

**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 all Directors.**

G.R. Walker

Dame Therese Walsh

V.A.J. Shortt

S.R.S. Blair

R.M. Carr

as agent for
D.A. Cohen

R.J.P. Buckley

11 August 2021

# Independent Auditor's Report

## Independent auditor's report

To the shareholder of ASB Bank Limited

*This report is for the Banking Group, comprising ASB Bank Limited (the 'Bank') and the entities it controlled at 30 June 2021 or from time to time during the financial year.*

This report includes our:

- audit opinion on the financial statements prepared in accordance with Clause 24 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the 'Order'), New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS');
- audit opinion on the supplementary information prepared in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order;
- audit opinion on other legal and regulatory requirements in accordance with Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order; and
- review conclusion on the supplementary information relating to capital adequacy and regulatory liquidity requirements prepared in accordance with Schedule 11 of the Order.

## Report on the audit of the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

We have audited the Banking Group's financial statements required by Clause 24 of the Order and supplementary information required by Schedules 4, 7, 13, 14, 15 and 17 of the Order which comprises:

- the balance sheet as at 30 June 2021;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended;
- the notes to the financial statements, which include a statement of accounting policies; and
- the supplementary information required by Schedules 4, 7, 13, 14, 15 and 17 of the Order.

### Our opinion

In our opinion:

- the Banking Group's financial statements (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 11, 13, 14, 15 and 17 of the Order and within notes 14 to 20, 42, 43 and 45 to 50):
  - (i) comply with generally accepted accounting practice in New Zealand;
  - (ii) comply with NZ IFRS and IFRS; and
  - (iii) give a true and fair view of the financial position of the Banking Group as at 30 June 2021, and its financial performance and cash flows for the year then ended.
- the supplementary information disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order and included within the balance sheet and notes 14 to 20, 42, 43 and 45 to 50:
  - (i) has been prepared, in all material respects, in accordance with the guidelines issued under section 78(3) of the Reserve Bank of New Zealand Act 1989 or any conditions of registration;
  - (ii) is in accordance with the books and records of the Banking Group; and
  - (iii) fairly states, in all material respects, the matters to which it relates in accordance with those Schedules.

### Basis for opinion

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

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

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T: +64 9 355 8000, pwc.co.nz

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## Independence

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

Our firm carries out other services for the Banking Group. These services are audit and assurance services in respect of 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 and audit related agreed upon procedure engagements. 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.

## Key audit matters

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Allowance for expected credit losses on the Bank's advances to customers**<br>**(2021: $550 million, 2020: $629 million)**<br>NZ IFRS 9 *Financial Instruments* requires an expected credit loss (ECL) allowance to be recognised, the measurement of which is required to incorporate reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.<br>The Bank utilises ECL models which are reliant on internal and external data as well as a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk.<br>Allowances for ECL of advances to customers that meet specific risk based criteria are individually assessed by the Bank. These allowances are established based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Bank, where applicable, in respect of those advances to customers under multiple weighted scenario outcomes.<br>We considered this a key audit matter due to the inherent uncertainty in this area, namely due to the subjectivity in judgements made by the Bank in determining allowances for expected credit losses including:<br>· Models used to calculate ECLs (ECL models) are inherently complex and judgement is applied in determining the appropriate construct of each model;<br>· A number of assumptions are made by the Bank concerning the values of inputs to the ECL models and how inputs correlate with one another; and | We obtained an understanding of the controls relevant to our audit over the following areas and assessed whether they were appropriately designed and were operating effectively throughout the year on a sample basis:<br>· Review and approval of forward-looking information used in ECL models;<br>· Reliability and accuracy of critical data elements used in ECL models;<br>· Review and approval of ECL model adjustments and the allowance for ECL by the Bank's Loan Loss Provisioning Committee (LLPC); and<br>· Identification of impaired advances to customers.<br>In addition to controls testing, we along with PwC actuarial experts and PwC economics experts, performed the following audit procedures, amongst others on a sample basis:<br>· Assessed the ECL model methodology applied against accepted theory and general market practice and the results of model monitoring performed;<br>· Considered the Bank's judgements including the appropriateness of forward-looking information incorporated into the ECL models by assessing the forecasts, assumptions and probability weightings with a particular focus on the impact of COVID-19;<br>· Agreed a sample of certain critical data elements used as inputs to the ECL models to relevant source documentation;<br>· Assessed the appropriateness of certain model adjustments identified by the Bank against internal and external supporting information as appropriate and performing sensitivity analysis;<br>· Assessed certain post model adjustments identified by the Bank; |

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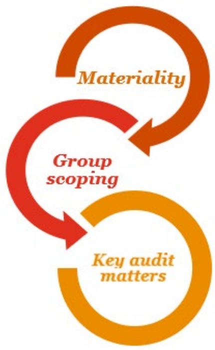
| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| · The estimation uncertainty and subjective judgements associated with determining the valuation of individually assessed allowances for impaired non-retail borrowers.<br>Further, the COVID-19 pandemic has introduced additional subjectivity and judgement into the measurement of ECL due to the heightened uncertainty regarding economic outlook and the consequential impact of the pandemic on the Bank's customers.<br>Specifically, this includes judgements regarding the impact of COVID-19 on forward looking information, including macroeconomic scenarios and their associated weightings and the use of model adjustments and post model adjustments in the calculation of the ECL.<br>*Relevant references in the financial statements*<br>Refer notes 1(l) and 16 for further information. | · Examined management's individually assessed allowance calculations by assessing key judgements (in particular the amount and, where appropriate, the timing of recoveries, and the probability of different scenarios) made by management in the context of the customers' circumstances based on the detailed loan and counterparty information known by the Bank, and compared key inputs and estimates (such as valuation of collateral held) to external information where available; and<br>· Considered the impacts of events occurring subsequent to balance date on the ECL.<br>We also assessed the reasonableness of the Bank's disclosures against the requirements of NZ IFRS. |
| **Operation of financial reporting Information Technology (IT) systems and controls**<br>We considered this area a key audit matter because the Banking Group's operations and financial reporting processes are heavily dependent on IT systems for the processing and recording of a significant volume of transactions.<br>In particular, in common with all banks, access rights to technology are important because they are intended to ensure that changes to applications and data are appropriately authorised. Ensuring staff have appropriate access to IT systems, and that access is monitored, are key controls in mitigating the potential for fraud or error as a result of a change to an application or underlying data.<br>The Banking Group's controls over IT systems include:<br>· program development and changes;<br>· access to process, data and IT operations; and<br>· governance over generic and privileged user accounts. | For material financial statement transactions and balances we developed an understanding of the business processes, IT systems used to generate and support those transactions and balances and associated IT application controls and IT dependencies in manual controls. Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting.<br>This involved assessing, where relevant to the audit:<br>· Change management: the processes and controls used to develop, test and authorise changes to the functionality and configurations within systems;<br>· System development: the project disciplines which ensure that significant developments or implementations are appropriately tested before implementation and that data is converted and transferred completely and accurately, including specifically the transfer to a new general ledger system for the Banking Group during the year;<br>· Security: the access controls designed to enforce segregation of duties, govern the use of generic and privileged accounts or ensure that data is only changed through authorised means; and<br>· IT operations: the controls over operations used to ensure that any issues that arise are managed appropriately.<br>Within the scope of our audit where technology services are provided by a third party, we considered:<br>· Assurance reports from the third party's auditor on the design and operating effectiveness of controls; and<br>· Managements monitoring controls over the third party.<br>We also carried out tests, on a sample basis, of IT application controls and IT dependencies in manual controls that were key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls.<br>Where we noted design or operating effectiveness matters relating to IT systems and application controls relevant to our audit, we performed alternative or additional audit procedures. |

## Our audit approach

### Overview




The overall Banking Group materiality is $92 million, which represents approximately 5% of net profit before tax.

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

Full scope audits were performed for two of twelve entities in the Banking Group based on their financial significance. Specified audit and analytical review procedures were performed on the remaining entities.

As reported above, we have two key audit matters, being:

- Allowance for expected credit losses on the Bank’s advances to customers
- Operation of financial reporting Information Technology (IT) systems and controls

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

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

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

### How we tailored our group audit scope

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

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

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

The Directors of the Bank (the ‘Directors') are responsible, on behalf of the Bank, for the other information in the Disclosure Statement and Annual Report. The other information comprises the Annual Report and the information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order and is included on pages 1 to 10, 98 to 104 and 111 to 112. Our opinion on the financial statements and supplementary information does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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### Responsibilities of the Directors for the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

The Directors are responsible, on behalf of the Bank, for the preparation of the financial statements in accordance with Clause 24 of the Order, NZ IFRS and IFRS and that give a true and fair view of the matters to which they relate. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible for the preparation and fair presentation of the supplementary information in the Disclosure Statement which complies with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order.

In preparing the financial statements, the Directors are responsible for assessing the Banking Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Banking Group or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, and the supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 42 and 48(b)) disclosed in accordance with Clause 24 and Schedules 4, 7, 13, 14, 15 and 17 of the Order, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

This description forms part of our auditor's report.

## Report on other legal and regulatory requirements (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

We also report in accordance with the requirements of Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 42 and 48(b)) for the year ended 30 June 2021:

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

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

## Report on the review of the supplementary information relating to capital adequacy and regulatory liquidity requirements

We have examined the supplementary information relating to capital adequacy and regulatory liquidity requirements required by Schedule 11 of the Order as disclosed in notes 42 and 48(b) of the financial statements of the Banking Group for the year ended 30 June 2021.

### Our conclusion

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 42 and 48(b), is not in all material respects disclosed in accordance with Schedule 11 of the Order.

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

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# Independent Auditor's Report (continued)

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## Basis for our conclusion

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

## Responsibilities of the Directors for the supplementary information relating to capital adequacy and regulatory liquidity requirements

The Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 11 of the Order. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of the supplementary information relating to capital adequacy and regulatory liquidity requirements that is free from material misstatement, whether due to fraud or error.

## Auditor's responsibilities for the review of the supplementary information relating to capital adequacy and regulatory liquidity requirements

Our responsibility is to express a conclusion, whether, based on our review, the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 42 and 48(b), is not, in all material respects, disclosed in accordance with Schedule 11 of the Order.

A review of the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 42 and 48(b) in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with ISAs (NZ) and ISAs. Accordingly we do not express an audit opinion on the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in notes 42 and 48(b).

## Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
11 August 2021

Auckland

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# Directory

As at the signing date of this Disclosure Statement

## DIRECTORS

| | |
|---|---|
| **Name** | **G.R. (Gavin) Walker ONZM** |
| Position | Chairman and Independent Non-Executive Director |
| Occupation | Company director |
| Country of residence | New Zealand |
| Other company directorships | Commonwealth Securities Limited, Walker Consulting Group Limited, Matarangi Land Holdings Limited |
| Qualifications | BCA, CFInstD, INFINZ(Fellow) |

| | |
|---|---|
| **Name** | **V.A.J. (Vittoria) Shortt** |
| Position | Managing Director |
| Primary occupation | Chief Executive Officer ASB Bank Limited |
| Secondary occupation | Company director |
| Country of residence | New Zealand |
| Other company directorships | ASB Holdings Limited |
| Qualifications | BMS, FCA |

| | |
|---|---|
| **Name** | **R.M. (Rod) Carr** |
| Position | Independent Non-Executive Director |
| Occupation | Company director |
| Country of residence | New Zealand |
| Other company directorships | Waingawa Forest Corporation Limited, JRC (NZ) Limited, Otakaro Limited |
| Qualifications | BCom (Hons), LLB (Hons), MBA, MA, PhD |

| | |
|---|---|
| **Name** | **Dame Therese Walsh DNZM** |
| Position | Independent Non-Executive Director |
| Occupation | Company director |
| Country of residence | New Zealand |
| Other company directorships | Air New Zealand Limited, Contact Energy Limited, Therese Walsh Consulting Limited, On Being Bold Limited |
| Qualifications | BCA, FCA, CMInstD |

| | |
|---|---|
| **Name** | **S.R.S. (Simon) Blair** |
| Position | Non-Executive Director |
| Occupation | Company director |
| Country of residence | New Zealand |
| Other company directorships | BUPA Chile S.A. |
| Qualifications | BA (Hons), GradDipBA, MSc |

| | |
|---|---|
| **Name** | **D.A. (David) Cohen** |
| Position | Non-Executive Director |
| Primary occupation | Deputy Chief Executive Officer Commonwealth Bank of Australia |
| Secondary occupation | Company director |
| Country of residence | Australia |
| Other company directorships | PT Bank Commonwealth |
| Qualifications | BA, LLB, FAPI |

| | |
|---|---|
| **Name** | **R.J.P. (Ross) Buckley** |
| Position | Independent Non-Executive Director |
| Occupation | Company director |
| Country of residence | New Zealand |
| Other company directorships | - |
| Qualifications | BBS, FCA, FCPA, CMInstD |

# Directory (continued)

As at the signing date of this Disclosure Statement

| | | |
|---|---|---|
| **BOARD AUDIT AND RISK COMMITTEE** | Dame Therese Walsh DNZM (Chairman)<br>S.R.S. (Simon) Blair<br>R.J.P. (Ross) Buckley<br>R.M. (Rod) Carr<br>D.A. (David) Cohen<br>G.R. (Gavin) Walker | |
| **EXECUTIVE MANAGEMENT** | V. (Vittoria) Shortt | Chief Executive Officer |
| | N. (Nigel) Annett | Executive General Manager Corporate Banking |
| | S. (Stephen) Bendall | Executive General Manager Business Services |
| | A. (Adam) Boyd | Executive General Manager Private Banking, Wealth and Insurance |
| | D. (David) Bullock | Executive General Manager Technology & Operations |
| | T. (Tim) Deane | Executive General Manager Business Banking |
| | C. (Carl) Ferguson | Chief Risk Officer |
| | L. (Lohit) Kalburgi | Executive General Manager Corporate Strategy |
| | J. (Jon) Raby | Chief Financial Officer |
| | C. (Craig) Sims | Executive General Manager Retail Banking |
| | S. (Simon) Tong | Executive General Manager Digital, Data and Brand |
| | R. (Robyn) Worthington | Executive General Manager People |
| **INTERNAL AUDITOR** | M. (Melanie) Toft | Chief Internal Auditor (Acting) |
| **AUDITOR** | PricewaterhouseCoopers New Zealand<br>Chartered Accountants<br>PwC Tower<br>15 Customs Street West<br>Auckland 1010<br>New Zealand<br>www.pwc.co.nz | |
| **ULTIMATE SHAREHOLDER (Ordinary Shares)** | Commonwealth Bank of Australia<br>Ground Floor, Tower 1<br>201 Sussex Street<br>Sydney, NSW<br>Australia<br>www.commbank.com.au | |
| **REGISTERED OFFICE** | Level 2<br>ASB North Wharf<br>12 Jellicoe Street<br>Auckland 1010<br>New Zealand<br>www.asb.co.nz | |