Financial report

Contents

Income statements

For the year ended 30 June 2019

		Group (1) (2) (3)			Bank (2) (3)	
	Note	**30 Jun 19 $M**	30 Jun 18 $M	30 Jun 17 $M	**30 Jun 19 $M**	30 Jun 18 $M
Interest income:						
Effective interest income	2.1	**34,089**	33,643	32,705	**32,960**	32,531
Other	2.1	**499**	501	490	**499**	465
Interest expense	2.1	**(16,468)**	(15,802)	(15,649)	**(17,405)**	(16,585)
Net interest income		**18,120**	18,342	17,546	**16,054**	16,411
Other banking income	2.3	**4,994**	5,423	5,721	**6,044**	7,365
Net banking operating income		**23,114**	23,765	23,267	**22,098**	23,776
Net funds management operating income	2.3	**1,073**	1,124	1,038	**-**	-
Net insurance operating income	2.3	**150**	241	178	**-**	-
Total net operating income before impairment and operating expenses		**24,337**	25,130	24,483	**22,098**	23,776
Loan impairment expense	3.2	**(1,201)**	(1,079)	(1,095)	**(1,058)**	(963)
Operating expenses	2.4	**(11,373)**	(11,029)	(10,133)	**(10,633)**	(10,703)
Net profit before income tax		**11,763**	13,022	13,255	**10,407**	12,110
Income tax expense	2.5	**(3,391)**	(3,952)	(3,784)	**(2,624)**	(3,235)
Net profit after income tax from continuing operations		**8,372**	9,070	9,471	**7,783**	8,875
Non-controlling interests in net profit after income tax from continuing operations		**(12)**	(13)	(13)	**-**	-
Net profit attributable to equity holders of the Bank from continuing operations		**8,360**	9,057	9,458	**7,783**	8,875
Net profit after tax from discontinued operations		**218**	278	481	**-**	-
Non-controlling interests in net profit after income tax from discontinued operations		**(7)**	(6)	(11)	**-**	-
Net profit attributable to equity holders of the Bank		**8,571**	9,329	9,928	**7,783**	8,875

The above Income Statements should be read in conjunction with the accompanying notes.

Earnings per share for profit attributable to equity holders of the Bank during the year:

			Group
	30 Jun 19	30 Jun 18	30 Jun 17
		Cents per share	
Earnings per share from continuing operations: (1)			
Basic	**473. 7**	518. 8	549. 9
Diluted	**457. 5**	503. 2	532. 9
Earnings per share:			
Basic	**485. 6**	534. 3	577. 3
Diluted	**468. 6**	517. 7	558. 8

(1) Information has been restated and presented on a continuing operations basis. For details on the Group's discontinued operations refer to Note 11.3.
(2) Comparative information has been restated to conform to presentation in the current year.
(3) Current year amounts reflect the adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from contracts with customers' on 1 July 2018. As permitted by AASB 9 and AASB 15 comparative information has not been restated. For details on the adoption of AASB 9 and AASB 15 refer to Note 1.1.

Statements of comprehensive income

For the year ended 30 June 2019

	Group [1] [2]			Bank [2]	
	30 Jun 19 $M	30 Jun 18 $M	30 Jun 17 $M	**30 Jun 19 $M**	30 Jun 18 $M
Net profit after income tax for the period from continuing operations	**8,372**	9,070	9,471	**7,783**	8,875
Other comprehensive income/(expense):					
Items that may be reclassified subsequently to profit/(loss):					
Foreign currency translation reserve net of tax	**457**	(12)	(256)	**214**	53
Gains/(losses) on cash flow hedging instruments net of tax	**947**	(53)	(577)	**1,003**	4
Gains/(losses) on debt investment securities at fair value through other comprehensive income net of tax	**103**	-	-	**(5)**	-
Losses on available-for-sale investments net of tax	**-**	(68)	(52)	**-**	(34)
Total of items that may be reclassified	**1,507**	(133)	(885)	**1,212**	23
Items that will not be reclassified to profit/(loss):					
Actuarial (losses)/gains from defined benefit superannuation plans net of tax	**(49)**	161	175	**(50)**	159
Losses on liabilities at fair value due to changes in own credit risk net of tax	**-**	(2)	(3)	**-**	(2)
Losses on equity investment securities at fair value through other comprehensive income net of tax	**(6)**	-	-	**(1)**	-
Revaluation of properties net of tax	**34**	31	23	**33**	29
Total of items that will not be reclassified	**(21)**	190	195	**(18)**	186
Other comprehensive income/(expense) net of income tax from continuing operations	**1,486**	57	(690)	**1,194**	209
Total comprehensive income for the period from continuing operations	**9,858**	9,127	8,781	**8,977**	9,084
Net profit after income tax for the period from discontinued operations	**218**	278	481	**-**	-
Other comprehensive income/(expense) for the period from discontinued operations net of income tax [3]	**14**	(6)	(29)	**-**	-
Total comprehensive income for the period	**10,090**	9,399	9,233	**8,977**	9,084
Total comprehensive income for the period is attributable to:					
Equity holders of the Bank	**10,071**	9,380	9,209	**8,977**	9,084
Non-controlling interests	**19**	19	24	**-**	-
Total comprehensive income net of tax	**10,090**	9,399	9,233	**8,977**	9,084

(1) Information has been restated and presented on a continuing operations basis. For details on the Group's discontinued operations refer to Note 11.3.
(2) Current year amounts reflect the adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from contracts with customers' on 1 July 2018. As permitted by AASB 9 and AASB 15 comparative information has not been restated. For details on the adoption of AASB 9 and AASB 15 refer to Note 1.1.
(3) Includes $7 million gain on foreign currency translation net of tax (30 June 2018: $3 million gain; 30 June 2017: $29 million loss) and $7 million gain on revaluation of debt investment securities measured at fair value through other comprehensive income net of tax. The year ended 30 June 2018 includes $9 million loss on revaluation of available-for-sale investments net of tax.

The above Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

				Group
		30 Jun 19	30 Jun 18	30 Jun 17
	Note		Cents per share	
Dividends per share attributable to shareholders of the Bank:				
Ordinary shares	8.4	**431**	431	429

Balance sheets

As at 30 June 2019

		Group (1) (2) (3)		Bank (1) (3)	
		30 Jun 19	30 Jun 18	**30 Jun 19**	30 Jun 18
Assets	Note	**$M**	$M	**$M**	$M
Cash and liquid assets	5.1	**29,387**	36,417	**26,912**	33,581
Receivables due from other financial institutions		**8,093**	9,222	**7,334**	8,376
Assets at fair value through Income Statement:					
Trading	5.2	**32,506**	32,254	**32,476**	29,993
Insurance	5.2	**-**	372	**-**	-
Other	5.2	**1,171**	258	**652**	-
Derivative assets	5.3	**25,215**	32,133	**24,311**	30,885
Investment securities:					
At amortised cost	5.4	**7,355**	-	**7,349**	-
At fair value through other comprehensive income	5.4	**78,912**	-	**73,212**	-
Available-for-sale investments	5.4	**-**	82,240	**-**	77,731
Loans, bills discounted and other receivables	3.1	**755,141**	743,365	**660,476**	656,650
Bank acceptances of customers		**32**	379	**32**	379
Shares in and loans to controlled entities	11.2	**-**	-	**120,193**	118,252
Property, plant and equipment		**2,383**	2,576	**1,389**	1,460
Investments in associates and joint ventures	11.1	**3,001**	2,842	**1,017**	1,118
Intangible assets	6.1	**7,965**	9,090	**4,317**	4,466
Deferred tax assets	2.5	**1,675**	1,439	**1,570**	1,430
Other assets	6.2	**7,115**	6,924	**5,910**	6,212
Assets held for sale	11.3	**16,551**	15,654	**1**	19
Total assets		**976,502**	975,165	**967,151**	970,552
Liabilities					
Deposits and other public borrowings	4.1	**636,040**	622,234	**573,851**	566,200
Payables due to other financial institutions		**23,370**	20,899	**22,618**	20,014
Liabilities at fair value through Income Statement	4.2	**8,520**	10,247	**7,961**	9,106
Derivative liabilities	5.3	**22,777**	28,472	**26,654**	30,871
Bank acceptances		**32**	379	**32**	379
Due to controlled entities		**-**	-	**105,774**	105,327
Current tax liabilities		**326**	952	**129**	796
Other provisions	7.1	**2,751**	1,860	**2,337**	1,561
Insurance policy liabilities		**-**	451	**-**	-
Debt issues	4.3	**163,990**	172,294	**131,062**	139,984
Bills payable and other liabilities	7.2	**10,285**	11,625	**9,040**	10,145
Liabilities held for sale	11.3	**15,796**	14,900	**-**	-
		883,887	884,313	**879,458**	884,383
Loan capital	8.2	**22,966**	22,992	**22,569**	22,249
Total liabilities		**906,853**	907,305	**902,027**	906,632
Net assets		**69,649**	67,860	**65,124**	63,920
Shareholders' Equity					
Ordinary share capital	8.3	**38,020**	37,270	**38,212**	37,533
Reserves	8.3	**3,092**	1,676	**3,813**	2,568
Retained profits	8.3	**28,482**	28,360	**23,099**	23,819
Shareholders' Equity attributable to equity holders of the Bank		**69,594**	67,306	**65,124**	63,920
Non-controlling interests	11.1	**55**	554	**-**	-
Total Shareholders' Equity		**69,649**	67,860	**65,124**	63,920

(1) Comparative information has been restated to conform to presentation in the current year.
(2) Current year balances have been impacted by the announced sale of CFSGAM, PT Commonwealth Life, Count Financial and completed sales of Sovereign and TymeDigital SA. For details on the Group's discontinued operations, refer to Note 11.3.
(3) Current year balances reflect the adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from contracts with customers' on 1 July 2018. As permitted by AASB 9 and AASB 15 comparative information has not been restated. For details on the adoption of AASB 9 and AASB 15 refer to Note 1.1.

The above Balance Sheets should be read in conjunction with the accompanying notes.

Statements of changes in equity

For the year ended 30 June 2019

	Ordinary share capital $M	Reserves $M	Retained profits $M	Total $M	Non-controlling interests $M	Group Total Shareholders' Equity $M
As at 30 June 2017	34,971	1,869	26,274	**63,114**	546	**63,660**
Net profit after income tax from continuing operations (1)	-	-	9,057	**9,057**	13	**9,070**
Net profit after income tax from discontinued operations (1)	-	-	272	**272**	6	**278**
Net other comprehensive income from continuing operations (1)	-	(102)	159	**57**	-	**57**
Net other comprehensive income from discontinued operations (1)	-	(6)	-	**(6)**	-	**(6)**
Total comprehensive income for the period	-	(108)	9,488	**9,380**	19	**9,399**
Transactions with Equity holders in their capacity as Equity holders: (2)						
Dividends paid on ordinary shares	-	-	(7,484)	**(7,484)**	-	**(7,484)**
Dividend reinvestment plan (net of issue costs)	2,105	-	-	**2,105**	-	**2,105**
Issue of shares (net of issue costs)	164	-	-	**164**	-	**164**
Share-based payments	-	(19)	-	**(19)**	-	**(19)**
Purchase of treasury shares	(95)	-	-	**(95)**	-	**(95)**
Sale and vesting of treasury shares	125	-	-	**125**	-	**125**
Other changes	-	(66)	82	**16**	(11)	**5**
As at 30 June 2018	37,270	1,676	28,360	**67,306**	554	**67,860**
Change on adoption of new accounting standards (3)	-	-	(955)	**(955)**	-	**(955)**
Restated opening balance	37,270	1,676	27,405	**66,351**	554	**66,905**
Net profit after income tax from continuing operations	-	-	8,360	**8,360**	12	**8,372**
Net profit after income tax from discontinued operations	-	-	211	**211**	7	**218**
Net other comprehensive income from continuing operations	-	1,535	(49)	**1,486**	-	**1,486**
Net other comprehensive income from discontinued operations	-	14	-	**14**	-	**14**
Total comprehensive income for the period	-	1,549	8,522	**10,071**	19	**10,090**
Transactions with Equity holders in their capacity as Equity holders: (2)						
Dividends paid on ordinary shares	-	-	(7,606)	**(7,606)**	-	**(7,606)**
Dividend reinvestment plan (net of issue costs)	748	-	-	**748**	-	**748**
Issue of shares (net of issue costs)	-	-	-	**-**	-	**-**
Share-based payments	-	16	-	**16**	-	**16**
Purchase of treasury shares	(93)	-	-	**(93)**	-	**(93)**
Sale and vesting of treasury shares	95	-	-	**95**	-	**95**
Other changes	-	(149)	161	**12**	(518)	**(506)**
As at 30 June 2019	38,020	3,092	28,482	**69,594**	55	**69,649**

(1) Information has been restated to reflect reclassification of CFSGAM and PT Commonwealth Life as discontinued operations during the current year.
(2) Current year and prior year include discontinued operations.
(3) The Group adopted AASB 9 'Financial Instruments' and AASB 15 'Revenue from contracts with customers' on 1 July 2018. The carrying amounts of assets and liabilities impacted by the adoption were adjusted through opening retained profits and reserves on 1 July 2018 as if the Group has always applied the new requirements. As permitted by AASB 9 and AASB 15, comparative information has not been restated. For details on the adoption of AASB 9 and AASB 15, refer to Note 1.1.

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Statements of changes in equity (continued)

For the year ended 30 June 2019

				Bank
	Ordinary share capital $M	**Reserves $M**	**Retained profits $M**	**Total Shareholders' Equity $M**
As at 30 June 2017	35,262	2,556	22,256	60,074
Net profit after income tax from continuing operations	-	-	8,875	8,875
Net other comprehensive income from continuing operations	-	52	157	209
Total comprehensive income for the period	-	52	9,032	9,084
Transactions with Equity holders in their capacity as Equity holders:				
Dividends paid on ordinary shares	-	-	(7,484)	(7,484)
Dividend reinvestment plan (net of issue costs)	2,107	-	-	2,107
Issue of shares (net of issue costs)	164	-	-	164
Share-based payments	-	(25)	-	(25)
Other changes	-	(15)	15	-
As at 30 June 2018	37,533	2,568	23,819	63,920
Change on adoption of new accounting standards (1)	-	-	(868)	(868)
Restated opening balance	37,533	2,568	22,951	63,052
Net profit after income tax from continuing operations	-	-	7,783	7,783
Net other comprehensive income from continuing operations	-	1,244	(50)	1,194
Total comprehensive income for the period	-	1,244	7,733	8,977
Transactions with Equity holders in their capacity as Equity holders:				
Dividends paid on ordinary shares	-	-	(7,606)	(7,606)
Dividend reinvestment plan (net of issue costs)	748	-	-	748
Issue of shares (net of issue costs)	-	-	-	-
Share-based payments	-	22	-	22
Purchase of treasury shares	(69)	-	-	(69)
Other changes	-	(21)	21	-
As at 30 June 2019	38,212	3,813	23,099	65,124

(1) The Bank adopted AASB 9 'Financial Instruments' and AASB 15 'Revenue from contracts with customers' on 1 July 2018. The carrying amounts of assets and liabilities impacted by the adoption were adjusted through opening retained profits and reserves on 1 July 2018 as if the Bank has always applied the new requirements. As permitted by AASB 9 and AASB 15, comparative information has not been restated. For details on the adoption of AASB 9 and AASB 15 refer to Note 1.1.

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Statements of cash flows

For the year ended 30 June 2019

		Group (1) (2)			Bank (1) (2)	
	Note	**30 Jun 19 $M**	30 Jun 18 $M	30 Jun 17 $M	**30 Jun 19 $M**	30 Jun 18 $M
Cash flows from operating activities						
Interest received		**34,757**	35,801	33,536	**32,366**	34,679
Interest paid		**(15,695)**	(15,356)	(15,006)	**(16,743)**	(16,100)
Other operating income received		**5,808**	6,181	5,556	**3,971**	4,217
Expenses paid		**(10,784)**	(10,340)	(9,763)	**(9,693)**	(8,739)
Income taxes paid		**(4,878)**	(4,791)	(3,976)	**(4,453)**	(3,892)
Net inflows from assets at fair value through Income Statement (excluding life insurance)		**2,482**	5,270	4,220	**6,915**	7,185
Net inflows/(outflows) from liabilities at fair value through Income Statement:						
Insurance:						
Investment income		**340**	225	186	**-**	-
Premiums received (3)		**2,414**	3,241	3,366	**-**	-
Policy payments and commission expense (3)		**(3,061)**	(3,453)	(3,854)	**-**	-
Other liabilities at fair value through Income Statement		**126**	(208)	156	**(410)**	12
Cash flows from operating activities before changes in operating assets and liabilities		**11,509**	16,570	14,421	**11,953**	17,362
Changes in operating assets and liabilities arising from cash flow movements						
Movement in investment securities:						
Purchases		**(41,925)**	-	-	**(39,020)**	-
Proceeds		**43,239**	-	-	**39,556**	-
Movement in available-for-sale investments:						
Purchases		**-**	(51,783)	(54,608)	**-**	(50,501)
Proceeds		**-**	52,832	49,392	**-**	51,673
Net increase in loans, bills discounted and other receivables		**(9,465)**	(16,105)	(38,744)	**(4,585)**	(10,420)
Net decrease in receivables due from other financial institutions and regulatory authorities		**1,345**	884	1,100	**1,210**	583
Net decrease/(increase) in securities purchased under agreements to resell		**930**	9,258	(13,993)	**933**	9,723
Insurance business:						
Purchase of insurance assets at fair value through Income Statement		**(1,383)**	(1,594)	(1,789)	**-**	-
Proceeds from sale/maturity of insurance assets at fair value through Income Statement		**2,512**	2,671	3,152	**-**	-
Net decrease/(increase) in other assets		**525**	(11)	(174)	**524**	(35)
Net increase/(decrease) in deposits and other public borrowings		**4,891**	(876)	39,821	**1,949**	(4,984)
Net increase/(decrease) in payables due to other financial institutions		**2,154**	(8,279)	666	**2,319**	(8,451)
Net increase/(decrease) in securities sold under agreements to repurchase		**4,402**	(1,574)	(853)	**4,408**	(1,695)
Net (decrease)/increase in other liabilities		**(648)**	(884)	802	**(137)**	(1,664)
Changes in operating assets and liabilities arising from cash flow movements		**6,577**	(15,461)	(15,228)	**7,157**	(15,771)
Net cash provided by/(used in) operating activities	12.3 (a)	**18,086**	1,109	(807)	**19,110**	1,591

(1) It should be noted that the Group does not use these accounting Statements of Cash Flows in the internal management of its liquidity positions.
(2) Includes discontinued operations. For the cash flows from discontinued operations refer to Note 11.3.
(3) Represents gross premiums and policy payments before splitting between policyholders and shareholders.

Statements of cash flows (continued)

For the year ended 30 June 2019

		Group (1) (2)			Bank (1) (2)	
	Note	**30 Jun 19 $M**	30 Jun 18 $M	30 Jun 17 $M	**30 Jun 19 $M**	30 Jun 18 $M
Cash flows from investing activities						
Cash inflows/(outflows) from acquisitions		**-**	26	(31)	**-**	-
Net proceeds from disposal of entities and businesses (net of cash disposals)		**1,259**	-	1	**-**	-
Dividends received		**141**	68	94	**1,473**	2,085
Net amounts received from controlled entities (3)		**-**	-	-	**(1,906)**	(2,993)
Proceeds from sale of property, plant and equipment		**151**	155	381	**89**	42
Purchases of property, plant and equipment		**(326)**	(477)	(602)	**(271)**	(321)
Net cash flows from sales/(acquisitions) of associates/joint ventures		**72**	(271)	(25)	**29**	-
Net purchase of intangible assets		**(314)**	(503)	(495)	**(597)**	(405)
Net cash (used in)/provided by investing activities		**983**	(1,002)	(677)	**(1,183)**	(1,592)
Cash flows from financing activities						
Dividends paid (excluding Dividend Reinvestment Plan)		**(6,853)**	(5,366)	(6,084)	**(6,853)**	(5,364)
Redemption of other equity instruments (net of costs)		**(505)**	-	-	**-**	-
Proceeds from issuance of debt securities		**56,448**	68,273	94,560	**46,685**	57,708
Redemption of issued debt securities		**(73,747)**	(67,809)	(81,758)	**(63,343)**	(56,692)
Purchase of treasury shares		**(93)**	(95)	(92)	**(69)**	-
Sale of treasury shares		**22**	55	34	**-**	-
Issue of loan capital		**1,579**	4,445	3,757	**1,571**	4,436
Redemption of loan capital		**(2,637)**	(464)	-	**(2,263)**	(467)
Proceeds from issuance of shares (net of issue costs)		**-**	-	(6)	**-**	-
Other		**47**	27	61	**(70)**	36
Net cash (used in)/provided by financing activities		**(25,739)**	(934)	10,472	**(24,342)**	(343)
Net (decrease)/increase in cash and cash equivalents		**(6,670)**	(827)	8,988	**(6,415)**	(344)
Effect of foreign exchange rates on cash and cash equivalents		**675**	715	(318)	**598**	746
Cash and cash equivalents at beginning of year		**23,005**	23,117	14,447	**21,351**	20,949
Cash and cash equivalents at end of year	12.3 (b)	**17,010**	23,005	23,117	**15,534**	21,351

(1) It should be noted that the Group does not use these accounting Statements of Cash Flows in the internal management of its liquidity positions.
(2) Includes discontinued operations. For the cash flows from discontinued operations refer to Note 11.3.
(3) Amounts received from and paid to controlled entities are presented in line with how they are managed and settled.

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

1. Overview

1.1 General information, basis of accounting, changes in accounting policies

General information

The Financial Report of the Commonwealth Bank of Australia (the Bank) and the Bank and its subsidiaries (the Group) for the year ended 30 June 2019, was approved and authorised for issue by the Board of Directors on 7 August 2019. The Directors have the power to amend and reissue the Financial Statements.

The Bank is a for-profit entity incorporated and domiciled in Australia. It is a company limited by shares that are publicly traded on the Australian Securities Exchange. The registered office is Ground Floor, Tower 1, 201 Sussex Street, Sydney, NSW 2000, Australia.

The Financial Report includes the consolidated and standalone financial statements of the Group and the Bank, respectively. Notes accompanying the Financial Statements and the Independent Auditor's Report form part of the Financial Report.

On 21 September 2017, the Group entered into an agreement to sell 100% of its life insurance businesses in Australia (CommInsure Life) and New Zealand (Sovereign) to AIA Group Limited (AIA). The sale of Sovereign completed on 2 July 2018. The sale of CommInsure Life remains subject to completion of the transfer of the Group's stake in BoCommLife Insurance Company Limited (BoCommLife) out of CommInsure Life and its associated Chinese regulatory approvals.

The Group and AIA remain fully committed to completing the CommInsure Life transaction. The Group and AIA are also well progressed in exploring an alternative path to complete the CommInsure Life transaction prior to the transfer of the Group's stake in BoCommLife. The alternative path is expected to be subject only to Australian regulatory approvals. The Group expects to be able to provide further details of this alternative path by the end of the first quarter of the financial year 2020, if the sale of BoCommLife has not substantially progressed in that timeframe.

On 23 May 2018, the Group announced the sale of its 37.5% equity interest in BoCommLife to Mitsui Sumitomo Insurance Co. Ltd (MSI). The sale of BoCommLife is subject to Chinese regulatory approvals and is the final condition precedent for the sale of CommInsure Life. The sale of BoCommLife is expected to be completed in the second half of the calendar year 2019.

On 25 June 2018, the Group announced its intention to demerge its wealth management and mortgage broking businesses, and undertake a strategic review of its general insurance business, including a potential sale. On 14 March 2019, the Group announced suspension of its preparation for the demerger in order to focus on the implementation of Royal Commission recommendations, refunding customers and remediating past issues.

On 23 October 2018, the Group announced the sale of its 80% interest in its Indonesian life insurance business, PT Commonwealth Life (PTCL), to FWD Group (FWD). As part of the sale, CBA's Indonesian banking subsidiary, PT Bank Commonwealth (PTBC), will enter into a 15 year life insurance distribution partnership with FWD. The sale is subject to regulatory approvals in Indonesia and is now expected to complete in the second half of calendar year 2019.

On 31 October 2018, the Group announced the sale of Colonial First State Global Asset Management (CFSGAM) to Mitsubishi UFJ Trust and Banking Corporation (MUTB). The sale completed on 2 August 2019.

On 1 November 2018, the Group completed the sale of Commonwealth Bank of South Africa (Holding Company) Limited (TymeDigital SA) to the minority shareholder, African Rainbow Capital (ARC).

On 13 June 2019, the Group announced the sale of its 100% interest in Count Financial Limited (Count Financial) to CountPlus Limited (CountPlus). Completion is expected to occur in October 2019.

CommInsure Life, Sovereign, BoCommLife, CFSGAM, PTCL and TymeDigital SA have been classified as discontinued operations in the Group's financial statements for the year ended 30 June 2019. The assets and liabilities of Count Financial are classified as held for sale as at 30 June 2019.

There have been no other significant changes in the nature of the principal activities of the Group during the year.

Basis of accounting

The Financial Report:

- is a general purpose financial report;
- has been prepared in accordance with the Australian Accounting interpretations adopted by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board;
- has been prepared in accordance with the requirements of the Corporations Act 2001 (Cth);
- is presented in Australian dollars, which is the Bank's functional and presentation currency, with all values rounded to the nearest million dollars ($M) in accordance with ASIC Corporations Instrument 2016/191 unless otherwise indicated;
- includes foreign currency transactions that are translated into the functional currency, using the exchange rates prevailing at the date of each transaction;
- has been prepared on a going concern basis using a historical cost basis, except for certain assets and liabilities (including derivative instruments) measured at fair value;
- presents assets and liabilities on the face of the Balance Sheets in decreasing order of liquidity;
- where required, presents restated comparative information for consistency with the current year's presentation in the Financial Report;
- contains accounting policies that have been consistently applied to all periods presented, unless otherwise stated.

1.1 General information, basis of accounting, changes in accounting policies (continued)

Change in comparatives

Discontinued operations

The financial results of businesses reclassified as discontinued operations are excluded from the results of the continuing operations and are presented as a single line item 'Net profit/(loss) after tax from discontinued operations' in the Income Statement, and 'Other comprehensive income/(expense) from discontinued operations' in the Statement of Comprehensive Income.

The Income Statements and Statements of Comprehensive Income for comparative periods are also restated. Assets and liabilities of discontinued operations subject to disposal have been presented on the Balance Sheet separately as assets and liabilities held for sale. The Balance Sheet is not restated when a business is reclassified as a discontinued operation.

Re-segmentation

In line with the Group's commitment to becoming a simpler, better bank, a number of changes to the Group's operating model have been made during the year:

- The General Insurance business has been placed under strategic review and moved to be part of Retail Banking Services, while the review is underway;
- The Small Business banking segment has been transferred out of Retail Banking Services to Business and Private Banking in order to consolidate the Group's business banking operations; and
- Bankwest and Commonwealth Financial Planning have been consolidated into Retail Banking Services, aligning all retail businesses within one division.

The comparative information has been restated.

Change in accounting policies

AASB 9 'Financial Instruments'

The Group adopted AASB 9 Classification and Measurement, and Impairment requirements and amendments in AASB 2017-6 related to prepayment features on 1 July 2018. The Group has elected an accounting policy choice in AASB 9 to retain AASB 139 hedge accounting requirements. The Group can commence applying AASB 9 hedging at the beginning of any future reporting period.

AASB 9 Classification and Measurement and Impairment requirements have been applied on a retrospective basis. The Group has adjusted the carrying amounts of financial instruments impacted by the adoption of AASB 9 through opening retained profits and reserves on 1 July 2018 as if it has always applied the new requirements. As permitted by AASB 9, the Group has not restated the comparative period financial statements.

The key changes to the Group's accounting policies and resultant impacts from the adoption of AASB 9 are described below.

Impairment

AASB 9 introduced an expected credit loss (ECL) impairment model which differs significantly from the incurred loss approach under AASB 139. The ECL model is forward looking and does not require evidence of an actual loss event for impairment provisions to be recognised.

The implementation of AASB 9 required management to make a number of judgements and assumptions and has had a significant impact on the Group's impairment provisioning methodology. A description of the key components of the Group's AASB 9 impairment methodology is provided below.

Expected credit loss (ECL) model

The ECL model applies to all financial assets measured at amortised cost, debt securities measured at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts not measured at fair value through profit or loss (FVTPL). The model uses a three-stage approach to recognition of expected credit losses. Financial assets migrate through these stages based on changes in credit risk since origination:

- *Stage 1 – 12 months ECL – Performing loans*
  On origination, financial assets recognise an impairment provision equivalent to 12 months ECL. 12 months ECL is the credit losses expected to arise from defaults occurring over the next 12 months.
- *Stage 2 – Lifetime ECL – Performing loans that have experienced a significant increase in credit risk (SICR)*
  Financial assets that have experienced a SICR since origination are transferred to Stage 2 and recognise an impairment provision equivalent to lifetime ECL. Lifetime ECL is the credit losses expected to arise from defaults occurring over the remaining life of financial assets. 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 impairment provision reverts to 12 months ECL.
- *Stage 3 – Lifetime ECL – Non-performing Loans*
  Financial assets in default recognise a provision equivalent to lifetime ECL. This includes assets that are considered credit impaired as well as assets that are considered to be in default but are not credit impaired.

Credit losses for financial assets in Stage 1 and Stage 2 are assessed for impairment collectively, whilst those in Stage 3 are subjected to either collective or individual assessment of 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 impairment provisions for financial assets in Stage 3.

Significant increase in credit risk (SICR)

SICR is assessed by comparing the risk of default occurring over the expected life of the financial asset at reporting date to the corresponding risk of default at origination. The Group considers all available qualitative and quantitative information that is relevant to assessing SICR.

For non-retail portfolios, such as the corporate risk rated portfolio and the asset finance portfolio, the risk of default is defined using the existing Risk Rated Probability of Default (PD) Masterscale. The PD Masterscale 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. Internal credit risk ratings are updated regularly on the basis of the most recent financial and non-financial information.

1.1 General information, basis of accounting, changes in accounting policies (continued)

AASB 9 'Financial Instruments' (continued)

Significant increase in credit risk (SICR) (continued)

The Group has developed a Retail Masterscale for use in the ECL measurement on personal loans, credit cards, home loans and SME retail portfolios. The Retail Masterscale 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 as credit quality scorecards are recalculated based on new behavioural information.

For significant portfolios, the primary indicator of SICR is a significant deterioration in an exposure's internal credit rating grade between origination and reporting date. 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 level of downgrade required to trigger SICR for each origination grade have been defined for each significant portfolio.

The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risks at an industry, geographic location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 65% of Stage 2 exposures for the Group and the Bank as at 30 June 2019.

The Group also uses secondary SICR indicators as backstops in combination with the primary SICR indicator, including:

- Arrears status;
- A retail exposure entering a financial hardship status; and
- A non-retail exposure's referral to Group Credit Structuring.

For a number of small portfolios, which are not considered significant individually or in combination, the Group applies simplified provisioning approaches that differ from the description above. 30 days past due is used as a primary indicator of SICR on exposures in these portfolios.

Definition of default, credit impaired assets and write-offs

The definition of default used in measuring ECL is aligned to the definition used for internal credit risk management purposes across all portfolios. This definition is also in line with the regulatory definition of default. Default occurs when there are indicators that a debtor is unlikely to meet contractual credit obligations to the Group in full, or the exposure is 90 days past due.

Facilities are classified as credit impaired where there is doubt as to whether the full amounts due, including interest and other payments, will be received in a timely manner. Loans are written off when there is no reasonable expectation of recovery.

ECL measurement

ECL is a probability weighted expected credit loss 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 Group uses the following AASB 9 collective provisioning models in calculating ECL:

- *Retail lending*: Personal Loans model, Credit Cards model, Home Loans model, Retail SME model;
- *Non-retail lending:* Corporate Risk rated model, Asset Finance model.

For each significant portfolio ECL is calculated as a product of the following credit risk factors at a facility level:

- *Probability of default (PD*): The likelihood that a debtor will be unable to pay its obligations in full without having to take actions such as realising on security or that the debtor will become 90 days overdue on obligation or contractual commitment;
- *Exposure at default (EAD):* Expected balance sheet exposure at default. The Group generally calculates EAD as the higher of the drawn balance and total credit limit, except for the credit cards portfolio, for which EAD calculation also takes into account the probability of unused limits being drawn down; and
- *Loss given default (LGD):* The amount that is not expected to be recovered following default.

Secured retail exposures with expected loss in excess of $20,000 and defaulted non-retail exposures that are not well secured are assessed for impairment through an Individually Assessed Provisions (IAP) process. Impairment provisions on these exposures are calculated directly as the difference between the defaulted asset's carrying value and the present value of expected future cash flows including cash flows from realisation of collateral, where applicable.

Forward-looking information

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

Forward looking PD and LGD factors are modelled for each significant portfolio based on macro-economic factors that are most closely correlated with credit losses in the relevant portfolios. Each of the four scenarios (refer below) includes a forecast of relevant macro-economic variables which differ by portfolio:

- *Retail portfolios:* Cash rate, unemployment rate, GDP per capita and House price index.
- *Non-retail lending:* Unemployment rate, business investment index, ASX 200 and the AUD/USD exchange rate.

New Zealand equivalents of a subset of the above macro-economic variables are used for retail credit exposures originated in New Zealand.

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

- *Central scenario:* This scenario considers the Group's base case assumptions used in business planning and forecasting. This scenario considers continued growth in GDP per capita, investment, the share market and the labour market supported by exchange rates and interest rate reductions over the short term. House prices see further modest declines from currently observed levels;

1.1 General information, basis of accounting, changes in accounting policies (continued)

AASB 9 'Financial Instruments' (continued)

Forward-looking information (continued)

- *Upside and Downside scenarios:* These scenarios are set relative to the Central scenario and based on macro-economic conditions which would lead to the lowest/highest impairment losses expected over an approximate 10 year economic cycle. Under the Upside scenario the economy strengthens from current state where several metrics, including house prices, return to above average growth and the central bank increases interest rates in the next year. The Downside scenario represents a deterioration from current state where the economy observes moderate declines across most metrics, including further house prices declines, as well as additional decreases in official interest rates; and
- *Severe Downside scenario:* This scenario has been included to account for a potentially severe impact of less likely, extremely adverse macro-economic conditions which would lead to the highest impairment losses expected over a longer horizon such as a 30 year economic cycle. Under this scenario the economy sees a significant deterioration from current state. The scenario contemplates a breakdown in typical economic relationships reflected by significant declines in GDP per capita, investment, house prices and the share market as well as increases in unemployment, interest rates and exchange rates.

Weights are assigned to each scenario based on management's best estimate of the proportion of potential future loss events that each scenario represents. The same economic scenarios and probability weights apply across all portfolios. The Group's assessment of SICR also incorporates the impact of multiple probability-weighted future forecast economic scenarios on exposures' internal risk grades using the same four forecast macro-economic scenarios as described above.

In estimating impairment provisions on individually significant defaulted exposures, the Group generally applies conservative assumptions in estimating recovery cash flows. Incorporating multiple forecast economic scenarios in estimates is not expected to significantly effect the level of impairment provisions on these credit exposures.

Lifetime of an exposure

For exposures in Stage 2 and Stage 3 impairment provisions are determined as a lifetime expected loss. The Group uses a range of approaches to estimate expected lives of financial instruments subject to ECL requirements:

- *Non-revolving products in corporate portfolios*: Expected life is determined as a maximum contractual period over which the Group is exposed to credit risk;
- *Non-revolving retail products*: For fixed term products such as personal loans and home loans, expected life is determined using behavioural term analysis and does not exceed the maximum contractual period; and
- *Revolving products in corporate and retail portfolios:* For revolving products that include both a loan and an undrawn commitment, such as credit cards and corporate lines of credit, the Group's contractual ability to cancel the undrawn limits and demand repayments does not limit the exposure to credit losses to the contractual notice period. For such products, ECL is measured over the behavioural life.

Incorporation of experienced credit judgement

Management exercises credit judgement in assessing if an exposure has experienced SICR and in determining the amount of impairment provisions at each reporting date. Where applicable, model adjustments are made to incorporate reasonable and supportable information about known or expected risks that have not been considered in the modelling process. This includes but is not limited to information about emerging risks at an industry, geographical location or a particular portfolio segment level.

Governance

The Group's Loan Loss Provisioning Committee (LLPC) is responsible for approving forecast economic scenarios and their associated weights. In addition, LLPC is responsible for approving all model adjustments including those required to account for situations where all relevant information has not been considered in the modelling process. The Group's provisions for impairment, loan impairment expense and any areas of judgement are reported to the Group's Board Audit Committee.

Classification and measurement

Under AASB 9, the classification and subsequent measurement of financial assets depends on:

- the business model within which the financial assets are managed; and
- the contractual cash flow characteristics of the asset, that is, whether the cash flows represent 'solely payments of principal and interest' (SPPI).

Business model assessment

The business model reflects how the Group manages financial assets in order to generate returns. This is assessed at the level which best reflects the manner in which risk and returns are managed, and information is provided to management. The factors considered in determining the business model include:

- how the financial assets' performance is evaluated and reported to management;
- how the risks within the portfolio are assessed and managed; and
- the frequency, volume, timing for past sales, sales expectations in future periods, and the reasons for such sales.

Assessment of whether contractual cash flows meet the SPPI test

In making the assessment of whether the contractual cash flows have SPPI characteristics, the Group considers whether the cash flows represent solely the payment of principal and interest. Principal is the fair value of the financial asset on initial recognition. Interest typically comprises compensation for the time value of money, credit risk and other basic lending costs, such as liquidity risk and administrative costs. Where the contractual terms include exposure to risk or volatility that is inconsistent with a basic lending arrangement, the cash flows would not be considered to be SPPI and the assets would be measured at fair value through profit or loss.

1.1 General information, basis of accounting, changes in accounting policies (continued)

AASB 9 'Financial Instruments' (continued)

Assessment of whether contractual cash flows meet the SPPI test (continued)

In making the assessment, the Group considers contingent events that would change the amount and timing of cash flows, prepayment and extension terms, leverage features, terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements), and features that modify consideration of the time value of money.

The Group is required to differentiate between financial asset debt instruments and financial asset equity instruments.

Financial assets – debt instruments

There are three classification models for financial asset debt instruments under AASB 9:

- *Amortised cost* – Financial assets are classified within this measurement category if they are held within a portfolio whose primary objective is the collection of contractual cash flows, where the contractual cash flows on the instrument are SPPI, and that are not designated at fair value through profit or loss.
- *Fair value through other comprehensive income (FVOCI)* – This classification applies to financial assets which meet the SPPI test, and are held within a portfolio whose objectives include both the collection of contractual cash flows and the selling of financial assets. These financial assets are subsequently measured at fair value with movements in the fair value recognised in other comprehensive income, with the exception of interest income, ECL and foreign exchange gains and losses that are recognised within profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the income statement.
- *Fair value through profit or loss (FVTPL)* – Financial assets that do not meet the criteria for classification as amortised cost or FVOCI are measured at FVTPL. The Group may also irrevocably designate financial assets that would otherwise meet the requirements to be measured at amortised cost or at FVOCI, as at FVTPL, if doing so would eliminate or significantly reduce an accounting mismatch that would otherwise arise.

Financial assets – equity instruments

AASB 9 requires equity instruments to be measured at FVTPL but permits non-traded equity investments to be designated at FVOCI on an instrument by instrument basis. Gains or losses are not reclassified from other comprehensive income to profit or loss on disposal of the investment. However, the gains or losses may be reclassified within equity. These instruments are not subject to impairment assessment.

Financial liabilities

The Group adopted the AASB 9 requirement to recognise changes in the fair value of financial liabilities designated at fair value through the Income Statement that are attributable to changes in own credit risk in other comprehensive income on 1 January 2014. There were no other changes to the classification and measurement of financial liabilities as a result of adoption of AASB 9.

Refer to Note 12.6 for the accounting policies that applied to financial instruments for comparative periods.

AASB 15 'Revenue from contracts with customers'

On 1 July 2018, the Group adopted AASB 15 'Revenue from Contracts with Customers', replacing the previous standard, AASB 118 'Revenue'. Under AASB 118, revenue was recognised when risks and rewards transferred from the seller to the buyer. AASB 15 has introduced a single, principle-based five-step recognition and measurement model for revenue recognition. The five steps are:

1. Identify the contract with a customer;
2. Identify the separate performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to each performance obligation identified in Step 2; and
5. Recognise revenue when a performance obligation is satisfied.

Where there is variable consideration in calculating a transaction price, revenue will only be recognised if it is highly probable that a significant revenue reversal will not subsequently occur. AASB 15 applies to contracts with customers except for revenue arising from items such as financial instruments, insurance contracts and leases.

The Group has used the modified retrospective approach in adopting AASB 15 which recognises the cumulative effect of initial application through opening retained earnings as at 1 July 2018. The Group has not restated the comparative period financial statements. The modified retrospective approach applied to contracts not completed at 30 June 2018.

The significant changes to the Group as a result of adopting AASB 15 are:

- *Trail commissions:* Certain trail commission income and expenses that were previously recognised over time by the Group, are recognised at the start of a contract when the performance obligation has been met. This has resulted in the Group recognising the net present value of expected future trail commission income and expenses. For investment referral services, the Group is unable to forecast the trail commission revenue in line with the highly probable test in AASB 15. Therefore trail commission revenue and expenses on investment referral balances are recognised when received or paid; and
- *Upfront fees:* Certain fees in relation to lending, lease and guarantees arrangements are no longer recognised upfront but when the performance obligation to the customer is delivered, which is generally over the life of these contractual arrangements. Where the performance obligation is the Group providing a loan, lease arrangement or guarantee over a contractual period, these fees previously recognised upfront are amortised over the expected life of the contracts. This has also resulted in a reclassification of the fees from other banking income to interest income.

Refer to Note 12.6 for the accounting policies that applied to revenue recognition for comparative periods.

1.1 General information, basis of accounting, changes in accounting policies (continued)

Impacts of adopting AASB 9 and AASB 15

The tables below summarise the adjustments arising on adoption of AASB 9 and AASB 15. The adjustments have been recognised against the Group's and the Bank's opening retained profits and reserves as at 1 July 2018.

		AASB 9 Classification and Measurement					AASB 9 Impairment	AASB 15 Revenue		Group
Assets	30 Jun 18 $M	High Quality Liquid Assets (HQLAs) $M	NZD Liquid Assets $M	Non-Traded Equities $M	Loans with Embedded Features $M	NZD Certificates of Deposit $M	$M	Trail Commission $M	Upfront Fees $M	1 Jul 18 $M
Assets at fair value through Income Statement	32,884	-	(2,148)	235	65	-	-	-	-	31,036
Derivative assets	32,133	-	-	-	(56)	-	-	-	-	32,077
Available-for-sale investments	82,240	(78,145)	(3,797)	(298)	-	-	-	-	-	-
Investment securities										
At amortised cost	-	7,121	-	-	-	-	-	-	-	7,121
At fair value through OCI	-	71,020	5,945	63	-	-	-	-	-	77,028
Loans, bills discounted and other receivables	743,365	-	-	-	(10)	-	(968)	-	(151)	742,236
Intangible assets	9,090	-	-	-	-	-	-	(72)	-	9,018
Deferred tax assets	1,439	1	-	-	-	-	299	64	72	1,875
Other assets	6,924	-	-	-	-	-	(10)	351	(8)	7,257
Other financial and non-financial assets	67,090	-	-	-	-	-	-	-	-	67,090
Total assets	975,165	(3)	-	-	(1)	-	(679)	343	(87)	974,738
Liabilities										
Deposits and other public borrowings	622,234	-	-	-	-	1,141	-	-	-	623,375
Liabilities at fair value through Income Statement	10,247	-	-	-	-	(1,141)	-	-	-	9,106
Derivative liabilities	28,472	-	-	-	(1)	-	-	-	-	28,471
Deferred tax liabilities	-	-	-	-	-	-	2	102	(3)	101
Other provisions	1,860	-	-	-	-	-	87	-	-	1,947
Bills payable and other liabilities	11,625	-	-	-	-	-	-	223	118	11,966
Other financial and non-financial liabilities	232,867	-	-	-	-	-	-	-	-	232,867
Total liabilities	907,305	-	-	-	(1)	-	89	325	115	907,833
Shareholders' Equity										
Share capital	37,270	-	-	-	-	-	-	-	-	37,270
Reserves	1,676	(3)	-	-	-	-	3	-	-	1,676
Retained profits	28,360	-	-	-	-	-	(771)	18	(202)	27,405
Non-controlling interest	554	-	-	-	-	-	-	-	-	554
Total Shareholders' equity	67,860	(3)	-	-	-	-	(768)	18	(202)	66,905

1.1 General information, basis of accounting, changes in accounting policies (continued)

Impacts of adopting AASB 9 and AASB 15 (continued)

		AASB 9 Classification and Measurement			AASB 9 Impairment	AASB 15 Revenue		Bank
	30 Jun 18	High Quality Liquid Assets (HQLAs)	Non-Traded Equities	Loans with Embedded Features		Trail Commission	Upfront Fees	1 Jul 18
Assets	$M	$M	$M	$M	$M	$M	$M	$M
Assets at fair value through Income Statement	**29,993**	-	-	65	-	-	-	**30,058**
Derivative assets	**30,885**	-	-	(56)	-	-	-	**30,829**
Available-for-sale investments	**77,731**	(77,686)	(45)	-	-	-	-	**-**
Investment securities:								
At amortised cost	**-**	7,121	-	-	-	-	-	**7,121**
At fair value through OCI	**-**	70,561	45	-	-	-	-	**70,606**
Loans, bills discounted and other receivables	**656,650**	-	-	(10)	(895)	-	(134)	**655,611**
Shares in and loans to controlled entities	**118,252**	-	-	-	(23)	-	-	**118,229**
Deferred tax assets	**1,430**	1	-	-	279	-	74	**1,784**
Other assets	**6,212**	-	-	-	(7)	91	-	**6,296**
Other financial and non-financial assets	**49,399**	-	-	-	-	-	-	**49,399**
Total assets	**970,552**	(3)	-	(1)	(646)	91	(60)	**969,933**
Liabilities								
Derivative liabilities	**30,871**	-	-	(1)	-	-	-	**30,870**
Due to controlled entities	**105,327**	-	-	-	-	-	16	**105,343**
Deferred tax liabilities	**-**	-	-	-	-	27	-	**27**
Other provisions	**1,561**	-	-	-	84	-	-	**1,645**
Bills payable and other liabilities	**10,145**	-	-	-	-	-	124	**10,269**
Other financial and non-financial liabilities	**758,728**	-	-	-	-	-	-	**758,728**
Total liabilities	**906,632**	-	-	(1)	84	27	140	**906,882**
Shareholders' Equity								
Share capital	**37,533**	-	-	-	-	-	-	**37,533**
Reserves	**2,568**	(3)	-	-	2	-	-	**2,567**
Retained profits	**23,819**	-	-	-	(732)	64	(200)	**22,951**
Total Shareholders' equity	**63,920**	(3)	-	-	(730)	64	(200)	**63,051**

1.1 General information, basis of accounting, changes in accounting policies (continued)

Adoption of AASB 9 classification and measurement

High Quality Liquid Assets (HQLA): under AASB 139, $78,145 million of the Group's HQLA were included in Available-for-Sale investments (Bank: $77,686 million). $7,121 million of the Group's HQLA (Bank: $7,121 million) previously included in Available-for-Sale assets were held within the business model held to collect and have been reclassified to Investment securities at amortised cost under AASB 9. These financial assets have been restated to amortised cost and $4 million of unrealised gains (before tax) previously recognised by the Group (Bank: $4 million unrealised gain) in the Available-for-Sale revaluation reserve have been reversed against the carrying value of the assets on 1 July 2018. This also led to a reversal of the deferred tax previously recognised in relation to unrealised gains on these securities through reserves. The Group's deferred tax asset has increased by $1 million (Bank: $1 million increase) and the reserves have decreased by $3 million (Bank: $3 million decrease).

$71,020 million of the Group's HQLA (Bank: $70,561 million) previously included in Available-for-Sale assets were held within the business model held to collect and sell and have been reclassified to Investment securities at FVOCI under AASB 9. The reclassification did not have an impact on retained profits or reserves.

The fair value of HQLA reclassified from Available-for-Sale Investments to Investment Securities at amortised cost on adoption of AASB 9 and held as at 30 June 2019 was $5,316 million. The fair value loss that would have been recognised on these securities in Other comprehensive Income as at 30 June 2019 was $9 million.

NZD liquid assets: under AASB 139, $3,797 million of the Group's NZD liquid assets were included in Available-for-Sale investments with the remaining $2,148 million measured at FVTPL. These financial assets were held within the business model held to collect and sell and have been reclassified to Investment securities at FVOCI under AASB 9. The reclassification did not have a material impact on retained profits or reserves.

As at 30 June 2019, the Group did not hold any of the NZD liquid assets reclassified from Assets at FVTPL to Investment securities at FVOCI on adoption of AASB 9. The average interest rate on these instruments on 1 July 2018 was 1.91% and the interest income recognised for the year ended 30 June 2019 was $7 million.

Non-traded equity instruments: the Group had $298 million of non-traded equity instruments included in Available-for-sale investment under AASB 139 (Bank: $45 million). One of the Group's equity securities of $235 million was reclassified to Assets at FVTPL under AASB 9. The Group's remaining $63 million (Bank: $45 million) of equity securities have been reclassified to Investment securities at FVOCI under AASB 9. The reclassifications did not have a material impact on retained profits or reserves.

Loans with embedded derivatives: the Group and the Bank issued loans with embedded derivative features. Under AASB 139, the embedded derivatives were bifurcated and accounted for as standalone derivatives at FVTPL; the host loan contracts were measured at amortised cost and included in Loans, bills discounted and other receivables on the Balance sheet. The contractual cash flows on these instruments are not solely payments of principal and interest and they have been reclassified to Assets at FVTPL together with the related embedded derivative features. The reclassification did not have an impact on retained profits.

NZD Certificate of Deposits (CD): Under AASB 9, $1,141 million of the Group's NZD CDs have been reclassified from liabilities at FVTPL to liabilities at amortised cost, as the CDs are not held for trading. The reclassification did not have a material impact on retained profits or reserves.

As at 30 June 2019, the Group did not hold any of NZD CDs reclassified from liabilities at FVTPL to liabilities at amortised cost on adoption of AASB 9. The average interest rate on these instruments on 1 July 2018 was 2.0% and the interest expense recognised for the year ended 30 June 2019 was $3 million.

Adoption of AASB 9 Impairment

The adoption of AASB 9 impairment requirements resulted in a $1,058 million increase in the Group's collective provisions (Bank: $1,004 million increase). This includes $968 million for loans, bills discounted and other receivables, $87 million for off-balance sheet instruments (recognised in other provisions), $3 million for investment securities at FVOCI (recognised in reserves) (Bank: $895 million for loans, bills discounted and other receivables, $23 million for loans to controlled entities, $84 million for off-balance sheet instruments and $2 million for investment securities at FVOCI). In addition, the Group recognised a $10 million provision in relation to non-lending assets that are not in scope of AASB 9 collective provisioning models (Bank: $7 million). The transition resulted in a $299 million increase in the Group's deferred tax assets (Bank: $279 million increase), a $2 million increase in deferred tax liabilities (Bank: nil) and a corresponding $771 million decrease in retained profits (Bank: $732 million decrease) as at 1 July 2018.

The increase in impairment provisions was mostly driven by the AASB 9 requirement to hold provisions equivalent to lifetime expected losses for all loans that have experienced a significant increase in credit risk since origination and the impact of forward looking factors on expected credit losses estimates.

1.1 General information, basis of accounting, changes in accounting policies (continued)

Adoption of AASB 9 Impairment (continued)

The following tables provide a reconciliation between provisions for impairment under AASB 139 as at 30 June 2018 and provisions for impairment determined in accordance with AASB 9 on 1 July 2018 for the Group and the Bank:

				Group
Financial assets under AASB 9	**Previous measurement category under AASB 139**	**Provision for impairment under AASB 139**	**Remeasure-ment**	**Impairment provision under AASB 9**
Investment securities:				
At amortised cost	Available-for-sale	-	-	-
At fair value through other comprehensive income (1)	Available-for-sale	-	3	3
Loans, bills discounted and other receivables (2)	Amortised cost	3,605	968	4,573
Financial guarantees and other off-balance sheet items		28	87	115
Total		**3,633**	**1,058**	**4,691**

(1) Impairment losses in relation to Investment securities at fair value through Other Comprehensive Income are recognised in Other Comprehensive Income and are not included in total impairment provisions.
(2) Under AASB 9, Loans, bills discounted and other receivables are measured at amortised cost.

				Bank
Financial assets under AASB 9	**Previous measurement category under AASB 139**	**Provision for impairment under AASB 139**	**Remeasure-ment**	**Impairment provision under AASB 9**
Investment securities:				
At amortised cost	Available-for-sale	-	-	-
At fair value through other comprehensive income (1)	Available-for-sale	-	2	2
Loans, bills discounted and other receivables (2)	Amortised cost	3,261	895	4,156
Loans to controlled entities (2)	Amortised cost	-	23	23
Financial guarantees and other off-balance sheet items		28	84	112
Total		**3,289**	**1,004**	**4,293**

(1) Impairment losses in relation to Investment securities at fair value through Other Comprehensive Income are recognised in Other Comprehensive Income and are not included in total impairment provisions.
(2) Under AASB 9, Loans, bills discounted and other receivables, and Loans to controlled entities are measured at amortised cost.

1.1 General information, basis of accounting, changes in accounting policies (continued)

Adoption of AASB 9 Impairment (continued)

The table below presents the Group's total impairment provisions on lending assets by ECL stage as at 1 July 2018.

	Impairment provisions, $M				Group 1 Jul 18
Portfolio [1]	Stage 1 12 months ECL Collectively assessed	Stage 2 Lifetime ECL Collectively assessed	Stage 3 Lifetime ECL Collectively assessed	Stage 3 Lifetime ECL Individually assessed	Total
Retail					
Secured lending	206	410	113	253	**982**
Unsecured lending	525	847	233	3	**1,608**
Total retail	731	1,257	346	256	**2,590**
Non-retail					
Corporate and business lending, bank and sovereign entities [2]	145	1,268	74	614	**2,101**
Total	**876**	**2,525**	**420**	**870**	**4,691**

(1) Exposures subject to impairment provisions include drawn balances, undrawn credit commitments, financial guarantees and debt securities classified at fair value through OCI.
(2) Stage 1 provision includes $3 million ECL in relation to investment securities at fair value through OCI.

The table below presents the Bank's total impairment provisions on lending assets (excluding loans to controlled entities) by ECL stage as at 1 July 2018.

	Impairment provisions, $M				Bank 1 Jul 18
Portfolio [1] [2]	Stage 1 12 months ECL Collectively assessed	Stage 2 Lifetime ECL Collectively assessed	Stage 3 Lifetime ECL Collectively assessed	Stage 3 Lifetime ECL Individually assessed	Total
Retail					
Secured lending	174	372	105	236	**887**
Unsecured lending	482	818	219	3	**1,522**
Total retail	656	1,190	324	239	**2,409**
Non-retail					
Corporate and business lending, bank and sovereign entities [3]	129	1,123	69	540	**1,861**
Total	**785**	**2,313**	**393**	**779**	**4,270**

(1) Exposures subject to impairment provisions include drawn balances, undrawn credit commitments, financial guarantees and debt securities classified at fair value through OCI.
(2) Impairment provisions exclude $23 million recognised in relation to the Bank's loans to controlled entities.
(3) Stage 1 provision includes $2 million ECL in relation to investment securities at fair value through OCI.

1.1 General information, basis of accounting, changes in accounting policies (continued)

Adoption of AASB 15

Trail Commission: The Group's Other assets and Bills payable and other liabilities have increased by $351 million and $223 million, respectively, to reflect the recognition of trail commission receivable and payable across various arrangements across the Group (Bank: $91 million increase in Other Assets). This reflects the upfront recognition of certain future trail commission income and expenses when a performance obligation has been met, such as when a new customer is introduced into a product. This change also led to a $72 million decrease in the Group's goodwill on the acquisition of Aussie Home Loans, a $64 million and $102 million increase in deferred tax assets and deferred tax liabilities, respectively (Bank: $27 million increase in deferred tax liability). The impact of this change on the Group's retained profits as at 1 July 2018 was an increase of $18 million (Bank: an increase of $64 million).

Upfront fees: Upfront fees in relation to lending and guarantee arrangements are no longer recognised upfront. Instead, income is recognised over the life of the contractual arrangements. Establishment fees on financing facilities are deferred on the Group's and the Bank's Balance Sheets in Loans, bills discounted and other receivables, and amortised to interest income over the expected life of the loan in accordance with AASB 9. From 1 July 2018, this has also resulted in a reclassification of income from other banking income to interest income. In addition, other annual fees are deferred on the Balance Sheet in Bills payable and other liabilities when received and recognised in other banking income on a straight-line basis throughout the year. The impact for the Group as at 1 July 2018 includes a reduction in Loans, bills discounted and other receivables of $151 million (Bank: $134 million reduction), a reduction in Other assets of $8 million (Bank: $ nil), and an increase in Bills payable and other liabilities of $118 million (Bank: $124 million increase). It has also led to a $16 million increase in the Bank's balances Due to controlled entities. The deferral of upfront fees from existing customer contracts resulted in a one-off increase in the Group's deferred tax assets of $72 million (Bank: $74 million) and a decrease in deferred tax liabilities of $3 million (Bank: $ nil). The impact of this change on the Group's retained profits as at 1 July 2018 was a reduction of $202 million (Bank: $200 million).

2. Our performance

Overview

The Group earns its returns from providing a broad range of banking and wealth management products and services to retail and wholesale customers in Australia, New Zealand and other jurisdictions.

Lending and deposit taking are the Group's primary business activities with net interest income being the main contributor to the Group's results. Net interest income is derived from the difference between interest earned on lending and investment assets and interest incurred on customer deposits and wholesale debt raised to fund these assets.

The Group further generates income from lending fees and commissions, general insurance products and trading activities. It also incurs costs associated with running the business such as staff, occupancy and technology related expenses.

The Performance section provides details of the main contributors to the Group's returns and analysis of its financial performance by business segments and geographical regions.

2.1 Net interest income

	Group (1) (2) (3)			Bank (2) (3)	
	30 Jun 19 $M	30 Jun 18 $M	30 Jun 17 $M	**30 Jun 19 $M**	30 Jun 18 $M
Interest Income					
Effective interest income:					
Loans and bills discounted	**31,449**	31,315	30,628	**27,744**	27,861
Other financial institutions	**181**	140	149	**171**	121
Cash and liquid assets	**572**	459	321	**528**	427
Investment securities:					
At amortised cost	**199**	-	-	**199**	-
At fair value through Other Comprehensive Income	**1,688**	-	-	**1,559**	-
Available-for-sale investments	**-**	1,729	1,607	**-**	1,639
Controlled entities	**-**	-	-	**2,759**	2,483
Total effective interest income	**34,089**	33,643	32,705	**32,960**	32,531
Other:					
Assets at fair value through Income Statement	**499**	501	490	**499**	465
Total interest income	**34,588**	34,144	33,195	**33,459**	32,996
Interest Expense					
Deposits	**9,948**	9,843	10,409	**8,394**	8,380
Other financial institutions	**464**	418	300	**435**	379
Liabilities at fair value through Income Statement	**172**	167	102	**162**	142
Debt issues	**4,563**	4,169	4,159	**3,625**	3,286
Loan capital	**951**	836	679	**917**	801
Bank levy	**370**	369	-	**370**	369
Controlled entities	**-**	-	-	**3,502**	3,228
Total interest expense	**16,468**	15,802	15,649	**17,405**	16,585
Net interest income	**18,120**	18,342	17,546	**16,054**	16,411

(1) Information has been restated and presented on a continuing operations basis.
(2) Information has been restated to conform to presentation in the current year.
(3) Current year amounts reflect the adoption of AASB 9 'Financial Instruments' and AASB 15 'Revenue from contracts with customers' on 1 July 2018. As permitted by AASB 9 and AASB 15 comparative information has not been restated. For details on the adoption of AASB 9 and AASB 15 refer to Note 1.1.

2.1 Net interest income (continued)

Accounting policies

Interest income and interest expense on financial assets and liabilities are measured using the effective interest rate method. The effective interest rate method calculates the amortised cost of a financial instrument, such as a loan, deposit or issued debt instrument, and allocates the interest income or interest expense over the expected life of the financial instrument.

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

Fees, transaction costs and issue costs integral to the financial assets and liabilities are capitalised and included in the interest recognised over the expected life of the instrument. This includes fees for providing a loan or a lease arrangement.

Interest income on finance leases is recognised progressively over the life of the lease, consistent with the outstanding investment and unearned income balance.

Interest expense also includes payments made under a liquidity facility arrangement with the Reserve Bank of Australia, the Major Bank Levy (Bank Levy) expense and other financing charges.

2.2 Average balances and related interest

The following tables have been produced using statutory Balance Sheet and Income Statement categories. The tables list the major categories of interest earning assets and interest bearing liabilities of the Group together with the respective interest earned or paid and the average interest rate (mostly daily averages). Where assets or liabilities are hedged, the amounts are shown net of the hedge, but individual items not separately hedged may be affected by movements in exchange rates. The overseas component comprises overseas branches of the Bank and overseas domiciled controlled entities. Non-accrual loans are included in interest earning assets under Loans, bills discounted and other receivables. The official cash rate in both Australia and New Zealand (which is reflected in overseas) decreased 25 basis points in financial year 2019 (2018: no changes, 2017: 25 basis points decrease for Australia, and 50 basis points decrease for New Zealand).

									Group
			30 Jun 19			30 Jun 18			30 Jun 17
Interest earning assets [1] [2]	**Average Balance $M**	**Interest $M**	**Average Rate %**	Average Balance $M	Interest $M	Average Rate %	Average Balance $M	Interest $M	Average Rate %
Cash and liquid assets									
Australia	**18,415**	**367**	**2. 0**	19,087	313	1. 6	17,734	274	1. 5
Overseas	**20,238**	**205**	**1. 0**	18,898	146	0. 8	19,626	47	0. 2
Receivables due from other financial institutions									
Australia	**2,095**	**52**	**2. 5**	2,290	50	2. 2	2,266	17	0. 8
Overseas	**5,799**	**129**	**2. 2**	5,997	90	1. 5	8,850	132	1. 5
Assets at fair value through Income Statement (excluding life insurance)									
Australia	**24,651**	**488**	**2. 0**	20,761	444	2. 1	21,731	422	1. 9
Overseas	**822**	**11**	**1. 3**	4,070	57	1. 4	3,895	68	1. 7
Investment Securities:									
At amortised cost									
Australia	**6,887**	**199**	**2. 9**	-	-	-	-	-	-
Overseas	**5**	**-**	**0. 6**	-	-	-	-	-	-
At fair value through OCI									
Australia	**57,088**	**1,329**	**2. 3**	-	-	-	-	-	-
Overseas	**18,640**	**359**	**1. 9**	-	-	-	-	-	-
Available-for-sale investments									
Australia	**-**	**-**	**-**	66,241	1,479	2. 2	66,615	1,458	2. 2
Overseas	**-**	**-**	**-**	17,011	250	1. 5	13,870	149	1. 1
Loans, bills discounted and other receivables [3]									
Australia [4]	**603,394**	**26,524**	**4. 4**	597,343	26,711	4. 5	581,093	26,160	4. 5
Overseas	**106,140**	**4,925**	**4. 6**	102,566	4,604	4. 5	99,061	4,468	4. 5
Total interest earning assets and interest income	**864,174**	**34,588**	**4. 0**	854,264	34,144	4. 0	834,741	33,195	4. 0

(1) Information has been restated and presented on a continuing operations basis.
(2) Comparative information has been restated to conform to presentation in the current year.
(3) Loans, bills discounted and other receivables include bank acceptances.
(4) Net of average mortgage offset balances that are included in Non-interest earning assets. Gross Australian loan balance is $648,569 million (2018: $638,167 million, 2017: $616,418 million).

2.2 Average balances and related interest (continued)

			Group
	30 Jun 19	30 Jun 18	30 Jun 17
	Average Balance	Average Balance	Average Balance
Non-interest earning assets	**$M**	$M	$M
Assets at fair value through Income Statement - Insurance [1]			
Australia	**-**	-	12,105
Overseas	**-**	377	2,477
Property, plant and equipment			
Australia [2]	**2,208**	2,344	3,743
Overseas	**244**	252	289
Other assets			
Australia [2] [3]	**86,413**	95,521	108,931
Overseas	**10,175**	11,924	13,774
Provisions for impairment			
Australia	**(4,026)**	(3,203)	(3,303)
Overseas	**(599)**	(466)	(424)
Total non-interest earning assets	**94,415**	106,749	137,592
Assets held for sale			
Australia	**15,128**	13,046	-
Overseas	**1,829**	2,228	-
Total assets	**975,546**	976,287	972,333
Percentage of total assets applicable to overseas operations (%)	**16. 7**	16. 7	16. 6

(1) As at 30 June 2019, Insurance assets of CommInsure Life and PT Commonwealth Life are presented as assets held for sale. As at 30 June 2018, Insurance assets of CommInsure Life and Sovereign are presented as assets held for sale.
(2) Comparative information has been restated to conform to presentation in the current year.
(3) Includes average mortgage offset balances.

2.2 Average balances and related interest (continued)

									Group
			30 Jun 19			30 Jun 18			30 Jun 17
Interest bearing liabilities (1) (2)	**Average Balance $M**	**Interest $M**	**Average Rate %**	Average Balance $M	Interest $M	Average Rate %	Average Balance $M	Interest $M	Average Rate %
Time deposits									
Australia (3)	**203,750**	**5,164**	**2. 5**	203,694	5,038	2. 5	207,501	5,535	2. 7
Overseas	**53,836**	**1,746**	**3. 2**	51,291	1,532	3. 0	48,461	1,357	2. 8
Savings deposits									
Australia (3)	**144,686**	**1,588**	**1. 1**	146,346	1,812	1. 2	147,705	2,059	1. 4
Overseas	**14,335**	**167**	**1. 2**	14,414	205	1. 4	16,136	313	1. 9
Other demand deposits									
Australia	**114,193**	**1,151**	**1. 0**	112,195	1,120	1. 0	103,193	987	1. 0
Overseas	**8,765**	**132**	**1. 5**	8,136	136	1. 7	8,154	158	1. 9
Payables due to other financial institutions									
Australia	**8,852**	**221**	**2. 5**	10,292	196	1. 9	11,098	158	1. 4
Overseas	**12,709**	**243**	**1. 9**	16,648	222	1. 3	19,235	142	0. 7
Liabilities at fair value through Income Statement									
Australia	**9,372**	**162**	**1. 7**	7,557	141	1. 9	7,049	63	0. 9
Overseas	**1,054**	**10**	**0. 9**	1,332	26	2. 0	1,467	39	2. 7
Debt issues (4)									
Australia	**140,447**	**3,846**	**2. 7**	138,666	3,463	2. 5	136,614	3,323	2. 4
Overseas	**26,676**	**717**	**2. 7**	28,450	706	2. 5	32,307	836	2. 6
Loan capital									
Australia	**15,655**	**668**	**4. 3**	13,788	556	4. 0	11,239	447	4. 0
Overseas	**6,785**	**283**	**4. 2**	6,774	280	4. 1	5,453	232	4. 3
Bank levy									
Australia	**-**	**370**	**-**	-	369	-	-	-	-
Overseas	**-**	**-**	**-**	-	-	-	-	-	-
Total interest bearing liabilities and interest expense	**761,115**	**16,468**	**2. 2**	759,583	15,802	2. 1	755,612	15,649	2. 1

(1) Information has been restated and presented on a continuing operations basis.
(2) Comparative information has been restated to conform to presentation in the current year.
(3) Net of average mortgage offset balances that are included in Non-interest bearing liabilities.
(4) Debt issues include bank acceptances.

2.2 Average balances and related interest (continued)

Non-interest bearing liabilities	30 Jun 19 Average Balance $M	Group 30 Jun 18 Average Balance $M	30 Jun 17 Average Balance $M
Deposits not bearing interest			
Australia [1]	**91,316**	83,949	72,303
Overseas	**4,897**	4,193	3,671
Insurance policy liabilities			
Australia	**-**	-	11,190
Overseas	**-**	466	1,368
Other liabilities			
Australia	**25,532**	37,250	53,418
Overseas	**9,430**	10,255	12,796
Total non-interest bearing liabilities	**131,175**	136,113	154,746
Liabilities held for sale			
Australia	**13,855**	13,413	-
Overseas	**1,025**	1,308	-
Total liabilities	**907,170**	910,417	910,358
Shareholders' Equity	**68,376**	65,870	61,975
Total liabilities and Shareholders' Equity	**975,546**	976,287	972,333
Total liabilities applicable to overseas operations (%)	**15. 4**	15. 7	16. 4

(1) Includes average mortgage offset balance.

2.2 Average balances and related interest (continued)

Changes in Net Interest Income: Volume and Rate Analysis

The following tables show the movement in interest income and expense due to changes in volume and interest rates. Volume variances reflect the change in interest from the prior year due to movement in the average balance. Rate variances reflect the change in interest from the prior year due to changes in interest rates.

Volume and rate variance for total interest earning assets and interest bearing liabilities have been calculated separately (rather than being the sum of the individual categories).

	June 2019 vs June 2018			June 2018 vs June 2017		
Changes in net interest income: Volume and rate analysis [1] [2]	**Volume $M**	**Rate $M**	**Total $M**	Volume $M	Rate $M	Total $M
Interest Earning Assets						
Cash and liquid assets						
Australia	**(13)**	**67**	**54**	22	17	39
Overseas	**14**	**45**	**59**	(6)	105	99
Receivables due from other financial institutions						
Australia	**(5)**	**7**	**2**	1	32	33
Overseas	**(4)**	**43**	**39**	(43)	1	(42)
Assets at fair value through Income Statement (excluding life insurance)						
Australia	**77**	**(33)**	**44**	(21)	43	22
Overseas	**(43)**	**(3)**	**(46)**	2	(13)	(11)
Investment Securities: [3]						
Australia	**(54)**	**103**	**49**	(8)	29	21
Overseas	**31**	**78**	**109**	46	55	101
Loans, bills discounted and other receivables						
Australia	**266**	**(453)**	**(187)**	727	(176)	551
Overseas	**166**	**155**	**321**	157	(21)	136
Changes in interest income	**397**	**47**	**444**	780	169	949
Interest Bearing Liabilities and Loan Capital						
Time deposits						
Australia	**1**	**125**	**126**	(94)	(403)	(497)
Overseas	**83**	**131**	**214**	85	90	175
Savings deposits						
Australia	**(18)**	**(206)**	**(224)**	(17)	(230)	(247)
Overseas	**(1)**	**(37)**	**(38)**	(24)	(84)	(108)
Other demand deposits						
Australia	**20**	**11**	**31**	90	43	133
Overseas	**9**	**(13)**	**(4)**	-	(22)	(22)
Payables due to other financial institutions						
Australia	**(36)**	**61**	**25**	(15)	53	38
Overseas	**(75)**	**96**	**21**	(34)	114	80
Liabilities at fair value through Income Statement						
Australia	**31**	**(10)**	**21**	9	69	78
Overseas	**(3)**	**(13)**	**(16)**	(3)	(10)	(13)
Debt issues						
Australia	**49**	**334**	**383**	51	89	140
Overseas	**(48)**	**59**	**11**	(96)	(34)	(130)
Loan capital						
Australia	**80**	**32**	**112**	103	6	109
Overseas	**-**	**3**	**3**	55	(7)	48
Bank levy						
Australia	**-**	**1**	**1**	-	369	369
Overseas	**-**	**-**	**-**	-	-	-
Changes in interest expense	**33**	**633**	**666**	83	70	153
Changes in net interest income	**208**	**(430)**	**(222)**	419	377	796

(1) Information has been restated and presented on a continuing operations basis.
(2) Comparative information has been restated to conform to presentation in the current year.
(3) Investment securities at FVOCI and investment securities at amortised cost have been compared to available-for-sale assets in the prior period.

2.3 Other operating income

	Group (1) (2)			Bank (2)	
	30 Jun 19	30 Jun 18	30 Jun 17	**30 Jun 19**	30 Jun 18
	$M	$M	$M	**$M**	$M
Other Banking Income					
Lending fees	**992**	1,109	1,078	**926**	1,032
Commissions	**2,673**	2,712	2,601	**2,277**	2,363
Trading income	**974**	1,025	1,149	**874**	916
Net gain/(loss) on non-trading financial instruments (3)	**(113)**	58	433	**(205)**	71
Net gain/(loss) on sale of property, plant and equipment	**(9)**	(17)	6	**(11)**	(17)
Net gain from hedging ineffectiveness	**13**	12	62	**16**	-
Dividends - Controlled entities	**-**	-	-	**1,229**	2,029
Dividends - Other	**5**	10	10	**122**	56
Share of profit from associates and joint ventures net of impairment	**296**	317	270	**27**	(7)
Other (4)	**163**	197	112	**789**	922
Total other banking income (5)	**4,994**	5,423	5,721	**6,044**	7,365
Net Funds Management Operating Income					
Funds management income	**1,233**	1,259	1,200	**-**	-
Claims, policyholder liability and commission expense	**(160)**	(135)	(162)	**-**	-
Net funds management operating income	**1,073**	1,124	1,038	**-**	-
Net Insurance Operating Income					
Premiums from insurance contracts	**682**	687	643	**-**	-
Investment revenue	**5**	4	4	**-**	-
Claims, policyholder liability and commission expense from insurance contracts	**(537)**	(450)	(469)	**-**	-
Net insurance operating income	**150**	241	178	**-**	-
Total other operating income	**6,217**	6,788	6,937	**6,044**	7,365

(1) Information has been restated and presented on a continuing operations basis.
(2) Current year amounts reflect the adoption of AASB 15 'Revenue from contracts with customers' on 1 July 2018. As permitted by AASB 15 comparative information has not been restated. For details on the adoption of AASB 15 refer to Note 1.1.
(3) Inclusive of non-trading derivatives that are held for risk management purposes.
(4) Includes depreciation of $72 million in relation to assets held for lease by the Group (30 June 2018: $74 million, 30 June 2017: $88 million). Includes depreciation of $8 million in relation to assets held for lease by the Bank (30 June 2018: $9 million).
(5) The year ended 30 June 2019 includes $280 million income from the consolidation of AHL Holdings Pty Ltd (trading as Aussie Home Loans) and eChoice (30 June 2018: $233 million).

	Group			Bank	
	30 Jun 19	30 Jun 18	30 Jun 17	**30 Jun 19**	30 Jun 18
	$M	$M	$M	**$M**	$M
Net hedging ineffectiveness comprises:					
Gain/(loss) on fair value hedges:					
Hedging instruments	**567**	(757)	841	**(614)**	(759)
Hedged items	**(558)**	765	(799)	**624**	763
Cash flow and net investment hedge ineffectiveness	**4**	4	20	**6**	(4)
Net hedging ineffectiveness	**13**	12	62	**16**	-

2.3 Other operating income (continued)

Accounting policies

Lending fees and commission income include:

- Facility fees earned for managing and administering credit and other facilities for customers. These fees are generally charged to the customer on a monthly or annual basis and are recognised as revenue over the service period. Annual fees are deferred on Balance Sheet in Bills payable and other liabilities and recognised on a straight line basis over the year. Transaction based fees are charged and recognised at the time of the transaction.
- Commitment fees and upfront fees in relation to lending, lease and guarantee arrangements are deferred and recognised over the life of the contractual arrangements. Commitment fees to originate a loan that is unlikely to be drawn down are charged upfront to the customer and are recognised when the commitment is issued.
- Establishment fees on financing facilities are deferred and amortised to interest income over the expected life of the loan and are not recognised in Other banking income.
- Fee income earned for providing advisory or arrangement services, placement and underwriting services. These fees are recognised and charged when the related service is completed which is typically at the time of the transaction.
- Trail commissions are recognised at the start of a contract when the performance obligation has been met, typically when a customer is introduced to a new product. The Group recognises the net present value of expected future trail commission income. For investment referral services, the Group is unable to forecast the trail commission revenue in line with the highly probable test in AASB 15. Therefore, trail commission revenue on investment referral balances are recognised when received or paid.

Trading income represents both realised and unrealised gains and losses from changes in the fair value of trading assets, liabilities and derivatives, which are recognised in the period in which they arise.

Net gain/(loss) on non-trading financial instruments includes realised gains and losses from non-trading financial assets and liabilities (i.e. investment securities in the year ended 30 June 2019; available-for-sale securities in the years ended 30 June 2018 and 2017), as well as realised and unrealised gains and losses on non-trading derivatives that are held for risk management purposes.

Net gain/(loss) on the disposal of property, plant and equipment is the difference between proceeds received and its carrying value.

Net hedging ineffectiveness is measured on fair value, cash flow and net investment hedges.

Dividends received on non-trading equity investments are recognised on the ex-dividend date or when the right to receive payment is established.

Funds management operating income includes fees earned where the Group acts as the Responsible Entity, Trustee or Manager for a number of wholesale, superannuation, and investment funds or trusts. Fund management services are a single performance obligation and fees are recognised over the service period. Management fees are calculated and deducted from the funds on a monthly basis. Performance fees are deemed to be a variable component of the fund management service and only recognised when it is highly probable that a significant reversal of the fees will not occur.

General insurance premiums received and receivable are recognised as revenue when they are earned, based on actuarial assessment of the likely pattern in which risk will emerge. The portion not yet earned based on the pattern assessment is recognised as an unearned premium liability. Claims are recognised as an expense when the liability is established.

The Group equity accounts for its share of the profits or losses of associate or joint venture investments, net of impairment recognised. Dividends received are recognised as a reduction of the investment carrying amount.

Other income includes rental income on operating leases which are recognised on a straight line basis over the lease term. This is offset by depreciation and impairment expense on the associated operating lease assets held by the Group.

Other income also includes the impact of foreign currency revaluations for foreign currency monetary assets and liabilities. These assets and liabilities are retranslated at the spot rate at balance date. Exchange differences arising upon settling or translating monetary items at different rates to those at which they were initially recognised or previously reported, are recognised in the Income Statement.

Critical accounting judgements and estimates

The amount of trail commission revenue is dependent on assumptions about the behavioural life of the underlying transaction generating the commission. Trail commission income is only recognised to the extent it is highly probable it will not reverse in future periods.

2.4 Operating expenses

	Group (1) (2)			Bank (2)	
	30 Jun 19 $M	30 Jun 18 $M	30 Jun 17 $M	**30 Jun 19 $M**	30 Jun 18 $M
Staff Expenses					
Salaries and related on-costs	**5,418**	4,963	4,885	**4,998**	4,587
Share-based compensation	**99**	69	106	**115**	91
Superannuation	**398**	407	468	**388**	400
Total staff expenses	**5,915**	5,439	5,459	**5,501**	5,078
Occupancy and Equipment Expenses					
Operating lease rentals	**654**	665	635	**580**	591
Depreciation of property, plant and equipment	**270**	271	260	**247**	245
Other occupancy expenses	**174**	198	177	**164**	185
Total occupancy and equipment expenses	**1,098**	1,134	1,072	**991**	1,021
Information Technology Services					
Application maintenance and development	**721**	553	431	**734**	588
Data processing	**183**	200	200	**179**	198
Desktop	**142**	153	183	**129**	140
Communications	**217**	179	179	**205**	155
Amortisation of software assets (3)	**598**	563	903	**563**	517
Software write-offs	**13**	71	6	**13**	71
IT equipment depreciation	**93**	80	60	**79**	67
Total information technology services	**1,967**	1,799	1,962	**1,902**	1,736
Other Expenses					
Postage and stationery	**159**	177	183	**151**	163
Transaction processing and market data	**156**	138	143	**131**	120
Fees and commissions:					
Professional fees	**490**	671	379	**470**	651
Other	**239**	133	73	**65**	5
Advertising, marketing and loyalty	**453**	496	462	**362**	400
Amortisation of intangible assets (excluding software and merger related amortisation)	**11**	13	11	**-**	-
Non-lending losses (4)	**656**	838	122	**617**	829
Impairment on investments in subsidiaries	**-**	-	-	**-**	231
Other	**125**	157	263	**148**	242
Total other expenses	**2,289**	2,623	1,636	**1,944**	2,641
Operating expenses before restructuring, separation and transaction costs	**11,269**	10,995	10,129	**10,338**	10,476
Restructuring, separation and transaction costs (5)	**104**	34	4	**295**	227
Total operating expenses (6) (7)	**11,373**	11,029	10,133	**10,633**	10,703

(1) Information has been restated and presented on a continuing operations basis.
(2) Comparative information has been restated to conform to presentation in the current year.
(3) The year ended 30 June 2019 includes $161 million of amortisation of prepaid software licences (30 June 2018: $136 million; 30 June 2017: $141 million). The year ended 30 June 2017 includes a $393 million one-off expense for acceleration of amortisation on certain software assets.
(4) The year ended 30 June 2019 includes $145 million professional indemnity insurance recovery in relation to the AUSTRAC civil penalty. The year ended 30 June 2018 includes $700 million AUSTRAC civil penalty.
(5) The year ended 30 June 2019 includes $102 million of separation and transaction costs (30 June 2018: $30 million) and $2 million of merger related amortisation (30 June 2018: $4 million; 30 June 2017: $4 million).
(6) The year ended 30 June 2019 includes $269 million of expenses due to the consolidation of AHL Holdings Pty Ltd (trading as Aussie Home Loans) and eChoice mortgage broking operations (30 June 2018: $199 million).
(7) The year ended 30 June 2019 includes a $534 million provision for historical Aligned Advice remediation issues and associated program costs, and $384 million of Wealth and Banking customer refunds and associated program costs.

2.4 Operating expenses (continued)

Accounting policies

Salaries and related on-costs include annual leave, long service leave, employee incentives and relevant taxes. Staff expenses are recognised over the period the employee renders the service. Long service leave is discounted to present value using assumptions relating to staff departures, leave utilisation and future salary.

Share-based compensation includes both payments which may be cash or equity settled. Cash settled share-based remuneration is recognised as a liability and re-measured to fair value until settled. The changes in fair value are recognised as staff expenses. Equity settled remuneration is fair valued at the grant date and amortised to staff expenses over the vesting period, with a corresponding increase in the employee compensation reserve.

Superannuation expense includes expenses relating to defined contribution and defined benefit superannuation plans. Defined contribution expense is recognised in the period the service is provided, whilst the defined benefit expense, which measures current and past service costs is determined by an actuarial calculation.

Occupancy and equipment expenses include depreciation which is calculated using the straight line method over the asset's estimated useful life and operating lease rentals which are recognised on a straight line basis over the lease term.

IT services expenses are recognised as incurred unless they qualify for capitalisation as computer software due to the expenditure generating probable future economic benefits. If capitalised, the computer software is subsequently amortised over its estimated useful life. The Group assesses at each Balance Sheet date useful lives and residual values and whether there is any objective evidence of impairment. If an asset's carrying value is greater than its recoverable amount, the carrying amount is written down immediately to its recoverable amount.

Other expenses are recognised as the relevant service is rendered. Operating expenses related to provisions are recognised for present obligations arising from past events where a payment to settle the obligation is probable and can be reliably estimated.

Critical accounting judgements and estimates

Actuarial valuations of the Group's defined benefit superannuation plans' obligations are dependent on a series of assumptions set out in Note 10.2 including inflation rates, discount rates and salary growth rates. Changes in these assumptions impact the fair value of the plans' obligations, assets, superannuation expense and actuarial gains and losses recognised in Other Comprehensive Income.

2.5 Income tax expense

The income tax expense for the year is determined from the profit before income tax as follows:

	Group (1)			Bank	
	30 Jun 19 $M	30 Jun 18 $M	30 Jun 17 $M	**30 Jun 19 $M**	30 Jun 18 $M
Profit before income tax	**11,763**	13,022	13,255	**10,407**	12,110
Prima facie income tax at 30%	**3,529**	3,907	3,977	**3,122**	3,633
Effect of amounts which are non-deductible/(assessable) in calculating taxable income:					
Taxation offsets and other dividend adjustments	**-**	(7)	(11)	**(365)**	(612)
Tax losses not previously brought to account	**-**	-	(56)	**-**	-
Offshore tax rate differential	**(40)**	(36)	(46)	**(8)**	(9)
Offshore banking unit	**(32)**	(39)	(42)	**(32)**	(38)
Effect of changes in tax rates	**1**	15	3	**1**	15
Income tax (over)/under provided in previous years	**(101)**	(70)	(70)	**(105)**	(69)
Non-deductible expense provision (2)	**-**	210	-	**-**	210
Other	**34**	(28)	29	**11**	105
Total income tax expense	**3,391**	3,952	3,784	**2,624**	3,235
Effective tax rate (%)	**28. 8**	30. 3	28. 5	**25. 2**	26. 7

(1) Information has been restated and presented on a continuing operations basis.
(2) Relates to the AUSTRAC civil penalty, which is non-deductible for tax purposes.

	Group (1)			Bank	
Income tax expense attributable to profit from ordinary activities	**30 Jun 19 $M**	30 Jun 18 $M	30 Jun 17 $M	**30 Jun 19 $M**	30 Jun 18 $M
Australia					
Current tax expense	**3,238**	3,916	3,687	**2,755**	3,312
Deferred tax benefit	**(380)**	(416)	(292)	**(256)**	(157)
Total Australia	**2,858**	3,500	3,395	**2,499**	3,155
Overseas					
Current tax expense	**452**	937	359	**87**	77
Deferred tax expense/(benefit)	**81**	(485)	30	**38**	3
Total Overseas	**533**	452	389	**125**	80
Income Tax Expense attributable to profit from ordinary activities	**3,391**	3,952	3,784	**2,624**	3,235

(1) Information has been restated and presented on a continuing operations basis.

2.5 Income tax expense (continued)

	Group			Bank	
	30 Jun 19 $M	30 Jun 18 $M	30 Jun 17 $M	**30 Jun 19 $M**	30 Jun 18 $M
Deferred tax asset balances comprise temporary differences attributable to:					
Amounts recognised in the Income Statement and opening retained profits: (1)					
Provision for employee benefits	**425**	452	493	**398**	391
Provisions for impairment on loans, bills discounted and other receivables	**1,345**	991	1,032	**1,230**	913
Other provisions not tax deductible until expense incurred	**497**	221	201	**331**	154
Defined benefit superannuation plan	**357**	339	320	**357**	339
Unearned income	**250**	267	228	**250**	267
Other	**312**	296	225	**308**	273
Total amount recognised in the Income Statement and opening retained profits (1)	**3,186**	2,566	2,499	**2,874**	2,337
Amounts recognised directly in Other Comprehensive Income:					
Cash flow hedge reserve	**142**	114	123	**19**	11
Other reserves	**41**	22	12	**46**	28
Total amount recognised directly in Other Comprehensive Income	**183**	136	135	**65**	39
Total deferred tax assets (before set off)	**3,369**	2,702	2,634	**2,939**	2,376
Set off to tax	**(1,694)**	(1,263)	(1,728)	**(1,369)**	(946)
Net deferred tax assets	**1,675**	1,439	906	**1,570**	1,430
Deferred tax liability balances comprise temporary differences attributable to:					
Amounts recognised in the Income Statement and opening retained profits: (1)					
Lease financing	**162**	200	235	**91**	100
Intangible assets	**56**	56	64	**56**	56
Financial instruments	**3**	30	179	**13**	10
Insurance	**-**	-	485	**-**	-
Investments in associates	**148**	131	122	**-**	-
Other	**118**	83	246	**38**	39
Total amount recognised in the Income Statement and opening retained profits (1)	**487**	500	1,331	**198**	205
Amounts recognised directly in Other Comprehensive Income:					
Revaluation of properties	**82**	81	76	**84**	80
Foreign currency translation reserve	**36**	18	8	**-**	-
Cash flow hedge reserve	**481**	48	70	**479**	45
Defined benefit superannuation plan	**487**	498	445	**487**	498
Investment securities revaluation reserve	**121**	-	-	**121**	-
Available-for-sale investments reserve	**-**	118	130	**-**	118
Total amount recognised directly in Other Comprehensive Income	**1,207**	763	729	**1,171**	741
Total deferred tax liabilities (before set off)	**1,694**	1,263	2,060	**1,369**	946
Set off to tax	**(1,694)**	(1,263)	(1,728)	**(1,369)**	(946)
Net deferred tax liabilities	**-**	-	332	**-**	-

(1) The adoption of AASB 9 and AASB 15 on 1 July 2018 resulted in an increase in the Group's deferred tax asset of $435 million (Bank: $353 million) and an increase in the Group's deferred tax liability of $101 million (Bank: $27 million) recognised through opening retained profits. As permitted by AASB 9 and AASB 15, comparative information has not been restated. For details on the adoption of AASB 9 and AASB 15, refer to Note 1.1.

2.5 Income tax expense (continued)

Deferred tax assets have not been recognised in respect of the following items because it is not considered probable that future taxable profit will be available against which they can be realised:

	Group			Bank	
Deferred tax assets not taken to account	**30 Jun 19 $M**	30 Jun 18 $M	30 Jun 17 $M	**30 Jun 19 $M**	30 Jun 18 $M
Tax losses and other temporary differences on revenue account that:					
Expire under current legislation	**-**	-	52	**-**	-
Do not expire under current legislation	**-**	47	29	**-**	-
Total	**-**	47	81	**-**	-

Tax Consolidation

The Bank has recognised a tax consolidation contribution to the wholly-owned tax consolidated entity of $98 million (2018: $98 million).

The amount receivable by the Bank under the tax funding agreement was $320 million as at 30 June 2019 (2018: $283 million receivable). This balance is included in ‘Other assets’ in the Bank’s separate Balance Sheet.

Accounting policies

Income tax on the profit or loss for the period comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the Balance Sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the Balance Sheet method where temporary differences are identified by comparing the carrying amounts of assets and liabilities for financial reporting purposes to their tax bases.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities (i.e. through use or through sale), using tax rates which are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available for it to be used against. Deferred tax assets and liabilities are offset where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.

The Bank and its wholly owned Australian Subsidiaries elected to be treated as a single entity “the tax consolidated group” under the tax consolidation regime from 1 July 2002. The members of the tax consolidated group have entered into tax funding and tax sharing agreements, which set out the funding obligations and members.

Any current tax liabilities / assets and deferred tax assets from unused tax losses from subsidiaries in the tax consolidated group are recognised by the Bank legal entity and funded in line with the tax funding arrangement.

The measurement and disclosure of deferred tax assets and liabilities have been performed on a modified stand-alone basis under UIG 1052 ‘Tax Consolidation Accounting’.

Critical accounting judgements and estimates

Provisions for taxation require significant judgement with respect to outcomes that are uncertain. For such uncertainties, the Group has estimated the tax provisions based on the expected outcomes.

2.6 Earnings per Share

	Group (3)		
	30 Jun 19	30 Jun 18	30 Jun 17
Earnings per ordinary share (1)		Cents per Share	
Earnings per share from continuing operations: (2)			
Basic	**473. 7**	518. 8	549. 9
Diluted	**457. 5**	503. 2	532. 9
Earnings per share:			
Basic	**485. 6**	534. 3	577. 3
Diluted	**468. 6**	517. 7	558. 8

(1) EPS calculations are based on actual amounts prior to rounding to the nearest million.
(2) The information has been restated and presented on a continuing operations basis.
(3) The difference between earnings per share from continuing operations and earnings per share represents earnings per share from discontinued operations.

	Group		
Reconciliation of earnings from continuing operations used in calculation of earnings per share (1)	**30 Jun 19 $M**	30 Jun 18 $M	30 Jun 17 $M
Profit after income tax from continuing operations	**8,372**	9,070	9,471
Less: Other equity instrument dividends	**-**	-	-
Less: Non-controlling interests	**(12)**	(13)	(13)
Continuing operations earnings used in calculation of basic earnings per share	**8,360**	9,057	9,458
Add: Profit impact of assumed conversions of loan capital	**323**	267	218
Continuing operations earnings used in calculation of fully diluted earnings per share	**8,683**	9,324	9,676
Reconciliation of earnings used in calculation of earnings per share			
Continuing operations earnings used in calculation of basic earnings per share	**8,360**	9,057	9,458
Discontinued operations earnings used in calculation of basic earnings per share	**211**	272	470
Earnings used in calculation of basic earnings per share	**8,571**	9,329	9,928
Add: Profit impact of assumed conversions of loan capital	**323**	267	218
Earnings used in calculation of fully diluted earnings per share	**8,894**	9,596	10,146

(1) Comparative information has been restated to reflect the impact of discontinued operations.

	Number of Shares		
	30 Jun 19 $M	30 Jun 18 $M	30 Jun 17 $M
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**1,765**	1,746	1,720
Effect of dilutive securities - executive share plans and convertible loan capital instruments	**132**	106	96
Weighted average number of ordinary shares used in the calculation of fully diluted earnings per share	**1,897**	1,852	1,816

Accounting policies

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares on issue during the year, adjusted for any bonus element included in ordinary shares issued and excluding treasury shares held.

Diluted EPS is basic EPS adjusted for the impact of all securities on issue that can convert to CBA ordinary shares and would dilute basic EPS on conversion. It is calculated by dividing net profit attributable to ordinary equity holders of the Bank (after adding back interest on the convertible redeemable loan capital instruments) by the weighted average number of ordinary shares issued during the year (as calculated under basic earnings per share adjusted for the effects of dilutive convertible non-cumulative redeemable loan capital instruments and shares issuable under executive share plans).

2.7 Financial reporting by segments

The principal activities of the Group are carried out in the business segments below. These segments are based on the distribution channels through which the customer relationship is being managed.

During the year, the Group announced the sale of its global asset management business, CFSGAM, and Indonesian life insurance operation, PTCL. The Group's business segment performance has been updated and presented on a continuing operations basis to exclude these businesses, which are disclosed as discontinued operations.

During the year, the Group also made a number of structural changes to its operating segments. This includes merging Bankwest with Retail Banking Services, transferring Commonwealth Financial Planning and General Insurance businesses from Wealth Management to Retail Banking Services and migrating Small Business banking customers from Retail Banking Services to Business and Private Banking. In addition, refinements have been made to the allocation of support units and other costs. These changes have not impacted the Group's net profit, but have resulted in changes to the presentation of the Income Statement and the Balance Sheet of the affected segments.

The primary sources of revenue are interest and fee income (Retail Banking Services, Business and Private Banking, Institutional Banking and Markets, New Zealand and International Financial Services (IFS)) and insurance premium and funds management income (Wealth Management, New Zealand and IFS).

Revenues and expenses occurring between segments are subject to transfer pricing arrangements. All intra-group transactions are eliminated on consolidation.

Business segments are managed on the basis of net profit after income tax ("cash basis"). Management uses "cash basis" to assess performance and it provides the basis for the determination of the Bank's dividends. The "cash basis" presents the Group's underlying operating results, excluding a number of items that introduce volatility and/or one-off distortions of the Group's current period performance. These items, such as hedging and IFRS volatility, are calculated consistently year on year and do not discriminate between positive and negative adjustments.

(i) Retail Banking Services

Retail Banking Services provides home loan, consumer finance and retail deposit products and servicing to all Retail Banking Services' customers. Retail Banking Services also includes the Group's General Insurance business in Australia, which is under strategic review and Commonwealth Financial Planning.

(ii) Business and Private Banking

Business and Private Banking provides specialised banking services to relationship managed business and agribusiness customers, private banking to high net worth individuals, margin lending and trading through CommSec, and retail banking products and servicing to non-relationship managed small business customers.

(iii) Institutional Banking and Markets

Institutional Banking and Markets services the Group's major corporate, institutional and government clients using a relationship management model based on industry expertise and insights. The client offering includes debt raising, financial and commodities price risk management and transactional banking capabilities. Institutional Banking and Markets has international operations in London, New York, Japan, Singapore, Malta, Hong Kong, New Zealand, Beijing and Shanghai.

(iv) Wealth Management

Wealth Management includes Platform Administration and Financial Advice. CFSGAM (including operations in Asia and Europe) and CommInsure Life have been presented as discontinued operations.

(v) New Zealand

New Zealand includes Banking and Funds Management businesses operating in New Zealand (excluding Institutional Banking and Markets). The sale of New Zealand life insurance business, Sovereign, was completed on 2 July 2018.

(vi) IFS and Corporate Centre

The following parts of the business are included in IFS and Corporate Centre:

- International Financial Services includes the Indonesian retail and business banking operations, and associate investments in China and Vietnam. It does not include the Business and Private Banking, Institutional Banking and Markets and CFSGAM businesses in Asia;
- Indonesian life insurance operation, PTCL, has been presented as a discontinued operation;
- The sale of TymeDigital SA was completed on 1 November 2018. It has been presented as a discontinued operation.
- Corporate Centre includes the results of unallocated Group support functions such as Investor Relations, Group Strategy, Secretariat and Treasury; and
- Group wide elimination entries arising on consolidation, centrally raised provisions and other unallocated revenue and expenses.

2.7 Financial reporting by segments (continued)

30 Jun 19

	Retail Banking Services $M	Business and Private Banking $M	Institutional Banking and Markets $M	Wealth Management $M	New Zealand $M	IFS and Corporate Centre $M	Total $M
Net interest income	9,342	5,123	1,371	-	1,896	388	**18,120**
Other banking income:							
Commissions	1,383	781	181	-	301	27	**2,673**
Lending fees	197	391	344	-	60	-	**992**
Trading and other income	158	278	548	-	81	338	**1,403**
Total other banking income	1,738	1,450	1,073	-	442	365	**5,068**
Total banking income	11,080	6,573	2,444	-	2,338	753	**23,188**
Funds management income	96	-	-	862	130	(16)	**1,072**
Insurance income	149	-	-	-	-	(2)	**147**
Total operating income	11,325	6,573	2,444	862	2,468	735	**24,407**
Investment experience (1)	15	-	-	17	-	(28)	**4**
Total net operating income before impairment and operating expenses	11,340	6,573	2,444	879	2,468	707	**24,411**
Operating expenses	(4,533)	(2,409)	(1,043)	(645)	(912)	(1,727)	**(11,269)**
Loan impairment expense	(693)	(362)	(17)	-	(102)	(27)	**(1,201)**
Net profit before income tax	6,114	3,802	1,384	234	1,454	(1,047)	**11,941**
Income tax (expense)/benefit	(1,847)	(1,144)	(313)	(74)	(404)	345	**(3,437)**
Non-controlling interests	-	-	-	-	-	(12)	**(12)**
Net profit after tax from continuing operations - "cash basis"	4,267	2,658	1,071	160	1,050	(714)	**8,492**
Net profit after tax from discontinued operations	-	-	-	253	-	(39)	**214**
Net profit after tax - "cash basis" (2)	4,267	2,658	1,071	413	1,050	(753)	**8,706**
(Loss)/gain on disposal and acquisition of entities net of transaction costs	-	-	13	(240)	179	(13)	**(61)**
Hedging and IFRS volatility	-	-	-	-	(48)	(31)	**(79)**
Other non-cash items	(1)	-	-	6	-	-	**5**
Net profit after tax - "statutory basis"	4,266	2,658	1,084	179	1,181	(797)	**8,571**
Additional information							
Amortisation and depreciation	(201)	(162)	(38)	(20)	(80)	(473)	**(974)**
Balance Sheet							
Total assets	412,608	174,852	148,197	21,093	94,320	125,432	**976,502**
Total liabilities	273,603	140,541	150,209	25,297	88,466	228,737	**906,853**

(1) Investment experience is presented on a pre-tax basis.
(2) This balance excludes non-cash items, including $79 million unrealised losses relating to hedging and IFRS volatility, $82 million transaction and separation costs associated with the disposal of CommInsure Life, $71 million transaction and separation costs associated with the disposal of CFSGAM, $54 million separation costs for NewCo, $33 million impairment loss and transaction costs associated with the disposal of Count, $22 million loss including transaction and separation costs associated with the disposal of TymeDigital SA, partly offset by a $135 million gain net of transaction and separation costs associated with the disposal of Sovereign and $66 million net gain on acquisition and disposals of other businesses, and $1 million expense of Bankwest non-cash items and a $6 million gain due to treasury shares valuation adjustment.

2.7 Financial reporting by segments (continued)

							30 Jun 18 [1]
	Retail Banking Services $M	Business and Private Banking $M	Institutional Banking and Markets $M	Wealth Management $M	New Zealand $M	IFS and Corporate Centre $M	Total $M
Net interest income	9,645	5,115	1,434	-	1,760	388	**18,342**
Other banking income:							
Commissions	1,393	820	201	-	285	12	**2,711**
Lending fees	268	355	434	-	55	(3)	**1,109**
Trading and other income	166	250	602	-	75	302	**1,395**
Total other banking income	1,827	1,425	1,237	-	415	311	**5,215**
Total banking income	11,472	6,540	2,671	-	2,175	699	**23,557**
Funds management income	169	-	-	841	112	(3)	**1,119**
Insurance income	242	-	-	-	-	(4)	**238**
Total operating income	11,883	6,540	2,671	841	2,287	692	**24,914**
Investment experience [2]	8	-	-	10	-	(10)	**8**
Total net operating income before impairment and operating expenses	11,891	6,540	2,671	851	2,287	682	**24,922**
Operating expenses	(4,349)	(2,230)	(1,067)	(490)	(860)	(1,999)	**(10,995)**
Loan impairment expense	(652)	(247)	(80)	-	(74)	(26)	**(1,079)**
Net profit before income tax	6,890	4,063	1,524	361	1,353	(1,343)	**12,848**
Income tax (expense)/benefit	(2,067)	(1,218)	(354)	(106)	(378)	203	**(3,920)**
Non-controlling interests	-	-	-	-	-	(13)	**(13)**
Net profit after tax from continuing operations - "cash basis"	4,823	2,845	1,170	255	975	(1,153)	**8,915**
Net profit after tax from discontinued operations	-	-	-	452	96	(51)	**497**
Net profit after tax - "cash basis" [3]	4,823	2,845	1,170	707	1,071	(1,204)	**9,412**
(Loss)/gain on disposal and acquisition of entities net of transaction costs	58	-	-	(139)	(18)	(84)	**(183)**
Hedging and IFRS volatility	-	-	-	-	87	14	**101**
Other non-cash items	(3)	-	-	2	-	-	**(1)**
Net profit after tax - "statutory basis"	4,878	2,845	1,170	570	1,140	(1,274)	**9,329**
Additional information							
Amortisation and depreciation	(169)	(165)	(45)	(18)	(77)	(457)	**(931)**
Balance Sheet							
Total assets	397,986	174,635	162,125	19,459	90,022	130,938	**975,165**
Total liabilities	268,400	136,603	153,644	24,455	82,976	241,227	**907,305**

(1) Comparative information has been restated to conform to presentation in the current year and to reflect a number of structural changes to operating segments.
(2) Investment experience is presented on a pre-tax basis.
(3) This balance excludes non-cash items, including $101 million unrealised gains relating to hedging and IFRS volatility, $118 million transaction and separation costs associated with the disposal of CommInsure Life, $91 million impairment due to the reclassification of TymeDigital SA as discontinued operation, $21 million demerger costs for NewCo, $18 million transaction and separation costs associated with the disposal of Sovereign, partly offset by $58 million gain recognised on acquisition of AHL and $7 million net gain on acquisition and disposals of other businesses; and $3 million expense of Bankwest non-cash items and a $2 million gain due to treasury shares valuation adjustment.

2.7 Financial reporting by segments (continued)

						Group [1]
	30 Jun 19		30 Jun 18		30 Jun 17	
Financial performance and position	**$M**	**%**	$M	%	$M	%
Income						
Australia	**20,994**	**86. 3**	21,837	86. 9	21,321	87. 1
New Zealand	**2,444**	**10. 0**	2,297	9. 1	2,231	9. 1
Other locations [2]	**899**	**3. 7**	996	4. 0	931	3. 8
Total Income	**24,337**	**100. 0**	25,130	100. 0	24,483	100. 0
Non-Current Assets						
Australia	**12,453**	**93. 2**	13,473	93. 3	15,301	91. 8
New Zealand	**635**	**4. 8**	581	4. 0	1,045	6. 2
Other locations [2]	**261**	**2. 0**	387	2. 7	329	2. 0
Total non-current assets [3]	**13,349**	**100. 0**	14,441	100. 0	16,675	100. 0

(1) Information has been restated and presented on a continuing operations basis. For details on the Group's discontinued operations refer to Note 11.3.
(2) Other locations include: United Kingdom, United States, Japan, Singapore, Malta, Hong Kong, Indonesia, China and Vietnam. Comparative periods also includes South Africa.
(3) Non-current assets include Property, plant and equipment, Investments in associates and joint ventures, and Intangibles.

The geographical segment represents the location in which the transaction was recognised.

Accounting policies

Operating segments are reported based on the Group's organisational and management structures. Senior management review the Group's internal reporting based around these segments, in order to assess performance and allocate resources.

All transactions between segments are conducted on an arm's length basis, with inter-segment revenue and costs being eliminated in "Other".

3. Our lending activities

Overview

Lending is the Group's primary business activity, generating most of its net interest income and lending fees. The Group satisfies customers' needs for borrowed funds by providing a broad range of lending products in Australia, New Zealand and other jurisdictions. As a result of its lending activities the Group assumes credit risk arising from the potential that borrowers will fail to meet their obligations in accordance with agreed lending terms.

This section provides details of the Group's lending portfolio by type of product and geographical regions, analysis of the credit quality of the Group's lending portfolio and the related impairment provisions.

3.1 Loans, bills discounted and other receivables

		Group		Bank	
	Note	**30 Jun 19 $M**	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Australia					
Overdrafts		**26,297**	25,217	**26,297**	25,217
Home loans (1) (2)		**467,361**	451,367	**459,690**	444,186
Credit card outstandings		**11,271**	11,877	**11,271**	11,877
Lease financing		**4,410**	4,318	**3,532**	3,268
Bills discounted (3)		**1,955**	4,280	**1,955**	4,280
Term loans and other lending		**141,695**	147,028	**141,679**	147,009
Total Australia		**652,989**	644,087	**644,424**	635,837
Overseas					
Overdrafts		**1,842**	1,657	**306**	281
Home loans (1)		**55,581**	50,298	**341**	397
Credit card outstandings		**1,069**	993	**-**	-
Lease financing		**8**	25	**1**	4
Term loans and other lending		**49,492**	50,969	**20,662**	24,348
Total overseas		**107,992**	103,942	**21,310**	25,030
Gross loans, bills discounted and other receivables		**760,981**	748,029	**665,734**	660,867
Less					
Provisions for Loan Impairment: (4)	3.2				
Collective provision		**(3,820)**	(2,735)	**(3,455)**	(2,482)
Individually assessed provisions		**(895)**	(870)	**(801)**	(779)
Unearned income:					
Term loans		**(739)**	(692)	**(730)**	(692)
Lease financing		**(386)**	(367)	**(272)**	(264)
		(5,840)	(4,664)	**(5,258)**	(4,217)
Net loans, bills discounted and other receivables		**755,141**	743,365	**660,476**	656,650

(1) Home loans balance includes residential mortgages that have been assigned to securitisation vehicles and covered bond trusts. Further detail on these residential mortgages is disclosed in Note 4.4.
(2) These balances are presented gross of mortgage offset balances as required under accounting standards.
(3) On adoption of AASB 9 on 1 July 2018, bills discounted were reclassified from the trading category under AASB 139 to the amortised cost category under AASB 9 as the bills no longer meet the definition of a trading asset and they are held under the business model to collect. The reclassification did not have an impact on the Group's retained profits. As permitted by AASB 9, comparative information has not been restated.
(4) The adoption of AASB 9 impairment requirements on 1 July 2018 resulted in $968 million increase in the Group's collective provisions on loans, bills discounted and other receivables (Bank: $895 million) and $87 million increase in collective provisions for off-balance sheet instruments (Bank: $84 million). As permitted by AASB 9, comparative information has not been restated. For details on the adoption of AASB 9 refer to Note 1.1.

3.1 Loans, bills discounted and other receivables (continued)

Based on behavioural terms and current market conditions, the amounts expected to be recovered within 12 months of the Balance Sheet date are $185,208 million (2018: $175,826 million) for the Group, and $167,316 million (2018: $159,688 million) for the Bank.

Finance lease receivables

The Group and the Bank provide finance leases to a broad range of clients to support financing needs in acquiring transportation assets such as trains, aircraft, ships and major production and manufacturing equipment.

Finance lease receivables are included within Loans, bills discounted and other receivables to customers.

						Group
			30 Jun 19			30 Jun 18
	Gross Investment in Finance Lease Receivable $M	**Unearned Income $M**	**Present Value of Minimum Lease Payment Receivable $M**	Gross Investment in Finance Lease Receivable $M	Unearned Income $M	Present Value of Minimum Lease Payment Receivable $M
Not later than one year	**1,586**	**(167)**	**1,419**	1,706	(162)	1,544
One year to five years	**2,656**	**(207)**	**2,449**	2,455	(190)	2,265
Over five years	**176**	**(12)**	**164**	182	(15)	167
	4,418	**(386)**	**4,032**	4,343	(367)	3,976

						Bank
			30 Jun 19			30 Jun 18
	Gross Investment in Finance Lease Receivable $M	**Unearned Income $M**	**Present Value of Minimum Lease Payment Receivable $M**	Gross Investment in Finance Lease Receivable $M	Unearned Income $M	Present Value of Minimum Lease Payment Receivable $M
Not later than one year	**1,284**	**(118)**	**1,166**	1,248	(116)	1,132
One year to five years	**2,084**	**(143)**	**1,941**	1,864	(135)	1,729
Over five years	**165**	**(11)**	**154**	160	(13)	147
	3,533	**(272)**	**3,261**	3,272	(264)	3,008

Accounting policies

Loans, bills discounted and other receivables include overdrafts, home loans, credit card and other personal lending, term loans, and discounted bills. These financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The contractual cash flows on these financial assets comprise the payment of principal and interest only. These instruments are accordingly measured at amortised cost.

Loans, bills discounted and other receivables are recognised on settlement date, when funding is advanced to the borrowers. They are initially recognised at their fair value plus directly attributable transaction costs such as broker fees. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method and are presented net of provisions for impairment. For the accounting policy for provisions for impairment, refer to Note 3.2. For information on the Group's management of credit risk, refer to Note 9.2.

Finance leases, where the Group acts as lessor, are also included in Loans, bills discounted and other receivables. Finance leases are those where substantially all the risks and rewards of the lease asset have been transferred to the lessee. Lease receivables are recognised at an amount equal to the net investment in the lease. Finance lease income reflects a constant periodic return on this net investment and is recognised within interest income in the Income Statement.

Critical accounting judgements and estimates

When applying this effective interest method the Group has estimated the behavioural term of each loan portfolio by reference to historical prepayment rates and the contractual maturity.

3.1 Loans, bills discounted and other receivables (continued)

Contractual maturity tables

Industry [1]	Maturing 1 Year or Less $M	Maturing Between 1 and 5 Years $M	Maturing After 5 Years $M	Total $M
				Group Maturity Period at 30 June 2019
Australia				
Sovereign	14,139	2,117	506	16,762
Agriculture	3,647	5,273	371	9,291
Bank and other financial	5,470	3,046	159	8,675
Home loans	11,859	51,092	404,410	467,361
Construction	1,381	1,494	363	3,238
Other personal	6,848	12,978	1,682	21,508
Asset financing	3,065	4,757	125	7,947
Other commercial and industrial	41,763	66,223	10,221	118,207
Total Australia	88,172	146,980	417,837	652,989
Overseas				
Sovereign	446	982	8	1,436
Agriculture	3,201	5,874	1,392	10,467
Bank and other financial	2,253	4,295	89	6,637
Home loans	3,155	709	51,717	55,581
Construction	295	164	242	701
Other personal	1,264	378	282	1,924
Asset financing	22	191	203	416
Other commercial and industrial	9,119	14,780	6,931	30,830
Total overseas	19,755	27,373	60,864	107,992
Gross loans, bills discounted and other receivables	107,927	174,353	478,701	760,981

(1) The industry split has been prepared in line with industry exposures in Note 9.2.

Interest rate	Maturing 1 Year or Less $M	Maturing Between 1 and 5 Years $M	Maturing After 5 Years $M	Total $M
Australia	74,978	128,798	332,678	536,454
Overseas	18,408	21,952	11,767	52,127
Total variable interest rates	93,386	150,750	344,445	588,581
Australia	13,194	18,182	85,159	116,535
Overseas	1,347	5,421	49,097	55,865
Total fixed interest rates	14,541	23,603	134,256	172,400
Gross loans, bills discounted and other receivables	107,927	174,353	478,701	760,981

3.1 Loans, bills discounted and other receivables (continued)

				Group
				Maturity Period at 30 June 2018
Industry [1]	Maturing 1 Year or Less $M	Maturing Between 1 and 5 Years $M	Maturing After 5 Years $M	Total $M
Australia				
Sovereign	13,745	2,490	588	16,823
Agriculture	3,589	5,078	331	8,998
Bank and other financial	6,805	5,818	328	12,951
Home loans	9,861	41,930	399,576	451,367
Construction	1,223	1,465	340	3,028
Other personal	7,663	13,976	2,019	23,658
Asset financing	3,188	5,263	130	8,581
Other commercial and industrial	42,482	65,382	10,817	118,681
Total Australia	88,556	141,402	414,129	644,087
Overseas				
Sovereign	1,023	466	82	1,571
Agriculture	2,533	5,371	2,026	9,930
Bank and other financial	3,684	3,206	185	7,075
Home loans	3,202	657	46,439	50,298
Construction	273	148	217	638
Other personal	1,190	333	321	1,844
Asset financing	23	173	261	457
Other commercial and industrial	7,954	17,153	7,022	32,129
Total overseas	19,882	27,507	56,553	103,942
Gross loans, bills discounted and other receivables	108,438	168,909	470,682	748,029

(1) The industry split has been prepared in line with industry exposures in Note 9.2.

Interest rate	Maturing 1 Year or Less $M	Maturing Between 1 and 5 Years $M	Maturing After 5 Years $M	Total $M
Australia	73,612	122,146	328,864	524,622
Overseas	18,035	22,730	13,235	54,000
Total variable interest rates	91,647	144,876	342,099	578,622
Australia	14,944	19,256	85,265	119,465
Overseas	1,847	4,777	43,318	49,942
Total fixed interest rates	16,791	24,033	128,583	169,407
Gross loans, bills discounted and other receivables	108,438	168,909	470,682	748,029

3.2 Provisions for impairment

Provisions for impairment losses	30 Jun 19 $M (Group)	30 Jun 18 $M (Group)	30 Jun 17 $M (Group)	30 Jun 19 $M (Bank)	30 Jun 18 $M (Bank)
Collective provision					
Opening balance	**2,763**	2,747	2,818	**2,510**	2,482
Change on adoption of AASB 9 [(1)]	**1,055**	-	-	**979**	-
Net collective provision funding	**724**	716	617	**629**	646
Impairment losses written off	**(901)**	(871)	(894)	**(818)**	(789)
Impairment losses recovered	**206**	201	210	**191**	182
Other	**57**	(30)	(4)	**46**	(11)
Closing balance	**3,904**	2,763	2,747	**3,537**	2,510
Individually assessed provisions					
Opening balance	**870**	980	944	**779**	897
Net new and increased individual provisioning	**619**	625	670	**556**	559
Write-back of provisions no longer required	**(142)**	(262)	(192)	**(127)**	(242)
Discount unwind to interest income	**(23)**	(25)	(31)	**(23)**	(25)
Impairment losses written off	**(500)**	(548)	(454)	**(446)**	(473)
Other	**71**	100	43	**62**	63
Closing balance	**895**	870	980	**801**	779
Total provisions for impairment losses	**4,799**	3,633	3,727	**4,338**	3,289
Less: Off Balance Sheet provisions	**(84)**	(28)	(34)	**(82)**	(28)
Total provisions for loan impairment	**4,715**	3,605	3,693	**4,256**	3,261

(1) The adoption of AASB 9 impairment requirements on 1 July 2018 resulted in $968 million increase in the Group's collective provisions on loans, bills discounted and other receivables (Bank: $895 million) and $87 million increase in collective provisions for off-balance sheet instruments (Bank: $84 million). As permitted by AASB 9, comparative information has not been restated. For details on the adoption of AASB 9 refer to Note 1.1.

Of the total $1,401 million loans written-off by the Group during the year ended 30 June 2019, $424 million remain subject to enforcement activity. Of the total $1,264 million loans written-off by the Bank during the year ended 30 June 2019, $394 million remain subject to enforcement activity.

Provision ratios	30 Jun 19 % (Group)	30 Jun 18 % (Group)	30 Jun 17 % (Group)	30 Jun 19 % (Bank)	30 Jun 18 % (Bank)
Total provisions for impaired assets as a % of gross impaired assets [(1)]	**32. 77**	33. 60	36. 05	**35. 36**	37. 18
Total provisions for impairment losses as a % of gross loans and acceptances	**0. 63**	0. 49	0. 51	**0. 65**	0. 50

(1) Gross impaired assets include non-performing facilities, restructured facilities and unsecured retail managed facilities 90 days or more past due. For impaired assets classification refer to Note 9.2.

Loan impairment expense	30 Jun 19 $M (Group)	30 Jun 18 $M (Group)	30 Jun 17 $M (Group)	30 Jun 19 $M (Bank)	30 Jun 18 $M (Bank)
Net collective provision funding	**724**	716	617	**629**	646
Net new and increased individual provisioning	**619**	625	670	**556**	559
Write-back of individually assessed provisions	**(142)**	(262)	(192)	**(127)**	(242)
Total loan impairment expense	**1,201**	1,079	1,095	**1,058**	963

3.2 Provisions for impairment (continued)

Movement in provisions for impairment and credit exposures by ECL stage

The tables below provide movements in the Group's and the Bank's impairment provisions and credit exposures by ECL stage for the year ended 30 June 2019.

Movements in provisions for impairment in the tables below are attributable to the following items:

- *Net transfers between stages*: net movements in provisions for impairment due to transfers of credit exposures between Stage 1, Stage 2 and Stage 3 prior to re-measurement between 12-month and lifetime ECL.
- *Net re-measurement on transfers between stages*: net movements in provisions for impairment due to re-measurement between 12 month ECL and lifetime ECL as a result of transfers between stages.
- *Impact of transfers between 12 months and lifetime ECL*: a total of net transfers between stages and net re-measurement on transfers between stages.
- *Net financial assets originated*: net movements in provisions for impairment due to financial assets originated as well as exposure changes for existing credit exposures due to maturities, repayments or credit limit changes as well as changes in foreign exchange rates.
- *Movements in existing IAP including write-backs*: net movements in existing Individually Assessed Provisions (IAP) excluding movements to or from collective provisions and write-offs.
- *Write-offs*: decreases in the provisions for impairment due to the de-recognition of loans when there is no reasonable expectation of recovery.
- *Movement due to risk parameter and other changes:* movements in provisions for impairment due to changes in credit risk parameters, forward looking economic scenarios or other assumptions as well as other changes in underlying credit quality that do not lead to transfers between Stage 1, Stage 2 and Stage 3.

Movements in credit exposures in the tables below are attributable to the following items:

- *Net transfers between stages and financial assets originated*: net movements in credit exposures due to transfers between Stage 1, Stage 2 and Stage 3 and due to financial assets originated as well as changes in existing credit exposures due to maturities, repayments or credit limit changes as well as changes in foreign exchange rates.
- *Write-offs:* the de-recognition of credit exposures when there is no reasonable expectation of recovery.

					Group [1] 30 Jun 19
	Stage 1 Collectively Assessed $M	Stage 2 Collectively Assessed $M	Stage 3 Collectively Assessed $M	Stage 3 Individually Assessed $M	Total $M
Provisions for impairment losses [2]					
Opening balance	873	2,525	420	870	**4,688**
Net transfers between stages	700	(833)	14	119	**-**
Net re-measurement on transfers between stages	(1,072)	1,596	568	-	**1,092**
Impact of transfers between 12 months and lifetime ECL	(372)	763	582	119	**1,092**
Net financial assets originated	341	(999)	(77)	-	**(735)**
Movements in existing IAP including write-backs	-	-	-	406	**406**
Write-offs	-	-	(901)	(500)	**(1,401)**
Movements due to risk parameter and other changes	63	230	456	-	**749**
Closing balance	**905**	**2,519**	**480**	**895**	**4,799**
Credit exposures [2] [3]					
Opening balance	709,231	190,688	4,017	2,020	**905,956**
Net transfers between stages and financial assets originated	38,727	(26,418)	1,490	698	**14,497**
Write-offs	-	-	(901)	(500)	**(1,401)**
Closing balance	**747,958**	**164,270**	**4,606**	**2,218**	**919,052**

(1) Refer to Note 9.2 for further analysis of provisions for impairment and credit exposures.
(2) Movements in credit exposures exclude Cash and liquid assets and Receivables from other financial institutions. Movements in provisions for impairment losses include provisions in relation to these financial assets. As at 30 June 2019, collective provisions in Stage 1 include $9 million in relation to these financial assets.
(3) The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risk at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 65% of Stage 2 credit exposures for the Group as at 30 June 2019.

3.2 Provisions for impairment (continued)

Movement in provisions for impairment and credit exposures by ECL stage (continued)

	Stage 1 Collectively Assessed $M	Stage 2 Collectively Assessed $M	Stage 3 Collectively Assessed $M	Stage 3 Individually Assessed $M	Bank [1] 30 Jun 19 Total $M
Provisions for impairment losses [2]					
Opening balance	783	2,313	393	779	**4,268**
Net transfers between stages	692	(832)	23	117	**-**
Net re-measurement on transfers between stages	(1,037)	1,562	528	-	**1,053**
Impact of transfers between 12 months and lifetime ECL	(345)	730	551	117	**1,053**
Net financial assets originated	323	(981)	(40)	-	**(698)**
Movements in existing IAP including write-backs	-	-	-	351	**351**
Write-offs	-	-	(818)	(446)	**(1,264)**
Movements due to risk parameter and other changes	40	231	357	-	**628**
Closing balance	**801**	**2,293**	**443**	**801**	**4,338**
Credit exposures [2] [3]					
Opening balance	631,044	170,870	3,746	1,578	**807,238**
Net transfers between stages and financial assets originated	30,762	(26,871)	1,241	681	**5,813**
Write-offs	-	-	(818)	(446)	**(1,264)**
Closing balance	**661,806**	**143,999**	**4,169**	**1,813**	**811,787**

(1) Refer to Note 9.2 for further analysis of provisions for impairment and credit exposures.

(2) Movements in credit exposures exclude cash and liquid assets and receivables from other financial institutions. Movements in provisions for impairment losses include provisions in relation to these financial assets. As at 30 June 2019, collective provisions in Stage 1 include $9 million in relation these financial assets.

(3) The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risk at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 65% of Stage 2 credit exposures for the Bank as at 30 June 2019.

Movements in provisions for impairment during the year were due to the following:

- A net increase in the Group's Stage 1 credit exposures of $38,727 million (Bank: $30,762 million) driven by home loans portfolio growth, partly offset by net transfers from Stage 1 to Stage 2 and Stage 3 reflecting increases in corporate troublesome assets, heightened consumer finance arrears and forward looking adjustments.
- A net reduction in the Group's Stage 2 credit exposures of $26,418 million (Bank: $26,871 million) mainly driven by corporate portfolio optimisation, partly offset by net transfers to Stage 2, mainly from Stage 1 reflecting increases in corporate troublesome assets, heightened consumer finance arrears and forward looking adjustments. The impact of forward looking adjustments accounts for approximately 65% of the Group's and the Bank's Stage 2 credit exposures.
- A net increase in the Group's Stage 3 credit exposures of $787 million (Bank: $658 million) driven by net transfers to Stage 3 from Stage 1 and Stage 2 reflecting increases in corporate troublesome assets and impaired home loans, partly offset by write-offs.

3.2 Provisions for impairment (continued)

Sensitivity of provisions for impairment to changes in forward looking assumptions

As described in Note 1.1, the Group applies four alternative macro-economic scenarios (Central, Upside, Downside and Severe Downside scenarios) to reflect unbiased probability-weighted range of possible future outcomes in estimating ECL.

Assuming 100% weighting on the Central scenario and holding all other assumptions (including forward looking adjustments) constant the Group's provisions for impairment would be approximately $3,639 million (Bank: $3,290 million) compared to $4,799 million (Bank: $4,338 million) provisions for impairment recognised as at 30 June 2019.

Assuming 100% weighting on the Downside Scenario and holding all other assumptions (including forward looking adjustments) constant the Group's total provisions for impairment would be approximately $4,802 million (Bank: $4,338 million).

Accounting policies

By providing loans to customers, the Group bears the risk that the future circumstances of customers might change, including their ability to repay their loans in part or in full. While the Group's credit and responsible lending policies aim to minimise this risk, there will always be instances where the Group will not receive the full amount owed and hence a provision for impaired loans will be necessary.

On 1 July 2018, the Group adopted the AASB 9 impairment requirements, which resulted in the implementation of an expected credit loss impairment model. As a result, from 1 July 2018 provisions are recognised in accordance with the AASB 9 expected credit loss approach. The details of the Group's accounting policies and critical accounting judgements and estimates involved in calculating AASB 9 impairment provisions for the year ended 30 June 2019 are provided in Note 1.1.

3.2 Provisions for impairment (continued)

Individually assessed provisions by industry classification	30 Jun 19 $M	30 Jun 18 $M	30 Jun 17 $M	30 Jun 16 $M	Group 30 Jun 15 $M
Australia					
Sovereign	**-**	-	-	-	-
Agriculture	**51**	56	47	42	133
Bank and other financial	**14**	16	27	29	36
Home loans	**246**	236	249	193	148
Construction	**76**	21	25	25	20
Other personal	**3**	6	9	7	10
Asset financing	**10**	16	18	28	28
Other commercial and industrial	**369**	343	442	483	400
Total Australia	**769**	694	817	807	775
Overseas					
Sovereign	**-**	-	-	-	-
Agriculture	**46**	25	25	23	14
Bank and other financial	**-**	-	-	4	-
Home loans	**4**	5	4	6	10
Construction	**-**	1	1	8	1
Other personal	**3**	-	-	1	-
Asset financing	**-**	-	10	10	10
Other commercial and industrial	**73**	145	123	85	77
Total overseas	**126**	176	163	137	112
Total individually assessed provisions	**895**	870	980	944	887

3.2 Provisions for impairment (continued)

					Group
Loans written off by industry classification	**30 Jun 19 $M**	30 Jun 18 $M	30 Jun 17 $M	30 Jun 16 $M	30 Jun 15 $M
Australia					
Sovereign	**-**	-	-	-	-
Agriculture	**59**	28	17	84	65
Bank and other financial	**1**	3	1	10	36
Home loans	**134**	126	115	82	72
Construction	**44**	13	16	11	14
Other personal	**787**	764	792	747	686
Asset financing	**17**	23	41	54	45
Other commercial and industrial	**126**	179	210	249	404
Total Australia	**1,168**	1,136	1,192	1,237	1,322
Overseas					
Sovereign	**-**	-	-	-	-
Agriculture	**2**	3	15	7	3
Bank and other financial	**5**	5	5	-	69
Home loans	**2**	2	4	7	8
Construction	**2**	1	8	-	-
Other personal	**70**	65	60	54	42
Asset financing	**-**	-	-	-	-
Other commercial and industrial	**152**	207	64	112	35
Total overseas	**233**	283	156	180	157
Gross loans written off	**1,401**	1,419	1,348	1,417	1,479
Less recovery of amounts previously written off:					
Australia	**190**	187	194	211	165
Overseas	**16**	14	16	14	11
Total amounts recovered	**206**	201	210	225	176
Net loans written off	**1,195**	1,218	1,138	1,192	1,303

3.2 Provisions for impairment (continued)

					Group
Loans recovered by industry classification	**30 Jun 19 $M**	30 Jun 18 $M	30 Jun 17 $M	30 Jun 16 $M	30 Jun 15 $M
Australia					
Sovereign	**-**	-	-	-	-
Agriculture	**-**	-	-	1	-
Bank and other financial	**-**	1	1	27	9
Home loans	**4**	2	3	3	3
Construction	**1**	-	1	1	-
Other personal	**169**	165	170	154	125
Asset financing	**2**	5	7	4	4
Other commercial and industrial	**14**	14	12	21	24
Total Australia	**190**	187	194	211	165
Overseas					
Sovereign	**-**	-	-	-	-
Agriculture	**-**	-	-	-	-
Bank and other financial	**-**	-	-	1	-
Home loans	**1**	1	1	1	1
Construction	**-**	1	1	-	-
Other personal	**11**	10	11	10	10
Asset financing	**-**	-	-	-	-
Other commercial and industrial	**4**	2	3	2	-
Total overseas	**16**	14	16	14	11
Total loans recovered	**206**	201	210	225	176

4. Our deposits and funding activities

Overview

Stable and well diversified funding sources are critical to the Group's ability to fund its lending and investing activities and support growing its business.

Our main sources of funding include customer deposits and term funds raised in domestic and offshore wholesale markets via issuing debt securities and loan capital. The Group also relies on repurchase agreements as a source of short-term wholesale funding. Refer to Note 9.4 for the Group's management of liquidity and funding risk.

4.1 Deposits and other public borrowings

	Group (1)		Bank	
	30 Jun 19 $M	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Australia				
Certificates of deposit	**30,924**	31,405	**33,331**	33,496
Term deposits	**148,313**	149,924	**148,491**	150,086
On-demand and short-term deposits	**308,299**	300,607	**308,338**	300,768
Deposits not bearing interest	**49,274**	46,082	**49,245**	46,058
Securities sold under agreements to repurchase	**19,099**	14,696	**19,215**	14,806
Total Australia	**555,909**	542,714	**558,620**	545,214
Overseas				
Certificates of deposit	**12,144**	8,509	**8,818**	6,069
Term deposits	**39,147**	43,896	**5,869**	13,707
On-demand and short-term deposits	**23,491**	22,640	**481**	1,154
Deposits not bearing interest	**5,349**	4,475	**63**	56
Total overseas	**80,131**	79,520	**15,231**	20,986
Total external deposits and other public borrowings	**636,040**	622,234	**573,851**	566,200

(1) Current year balances reflect the adoption of AASB 9 'Financial Instruments' on 1 July 2018. As permitted by AASB 9, comparative information has not been restated. For details on adoption of AASB 9, refer to Note 1.1.

The majority of the amounts are due to be settled within 12 months of the Balance Sheet date.

The contractual maturity profile of Certificates of deposit and Term deposits are shown in the table below:

					Group At 30 June 2019
	Maturing Three Months or Less $M	**Maturing Between Three and Six Months $M**	**Maturing Between Six and Twelve Months $M**	**Maturing after Twelve Months $M**	**Total $M**
Australia					
Certificates of deposit (1)	14,674	13,182	1,232	1,836	**30,924**
Term deposits	92,825	39,389	13,835	2,264	**148,313**
Total Australia	**107,499**	**52,571**	**15,067**	**4,100**	**179,237**
Overseas					
Certificates of deposit (1)	5,938	3,156	3,005	45	**12,144**
Term deposits	17,820	13,129	6,127	2,071	**39,147**
Total overseas	**23,758**	**16,285**	**9,132**	**2,116**	**51,291**
Total certificates of deposits and term deposits	**131,257**	**68,856**	**24,199**	**6,216**	**230,528**

(1) All certificates of deposit issued by the Group are for amounts greater than $100,000.

4.1 Deposits and other public borrowings (continued)

	Group At 30 June 2018				
	Maturing Three Months or Less $M	**Maturing Between Three and Six Months $M**	**Maturing Between Six and Twelve Months $M**	**Maturing after Twelve Months $M**	**Total $M**
Australia					
Certificates of deposit [1]	15,321	9,286	2,351	4,447	31,405
Term deposits	83,431	25,576	32,222	8,695	149,924
Total Australia	98,752	34,862	34,573	13,142	181,329
Overseas					
Certificates of deposit [1]	3,425	2,441	2,601	42	8,509
Term deposits	22,758	10,033	7,901	3,204	43,896
Total overseas	26,183	12,474	10,502	3,246	52,405
Total certificates of deposits and term deposits	124,935	47,336	45,075	16,388	233,734

(1) All certificates of deposit issued by the Group are for amounts greater than $100,000.

Accounting policies

Deposits from customers include certificates of deposit, term deposits, savings deposits, other demand deposits and debentures. Deposits are initially recognised at their fair value less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost. Interest incurred is recognised within Net Interest Income using the effective interest method.

Securities sold under repurchase agreements are retained in the Financial Statements where substantially all the risks and rewards of ownership remain with the Group. A liability for the agreed repurchase amount is recognised within deposits and other public borrowings.

4.2 Liabilities at fair value through income statement

	Group		Bank	
	30 Jun 19 $M	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Deposits and other borrowings [1]	**6,217**	8,124	**6,217**	7,118
Debt instruments	**714**	399	**155**	264
Trading liabilities	**1,589**	1,724	**1,589**	1,724
Total liabilities at fair value through Income Statement	**8,520**	10,247	**7,961**	9,106

(1) Current period balances reflect the adoption of AASB 9 'Financial Instruments' on 1 July 2018. As permitted by AASB 9, comparative information has not been restated. For details on adoption of AASB 9, refer to Note 1.1.

As at 30 June 2019, $5,201 million of the Group's total liabilities at fair value through Income Statement (Bank: $4,642 million) are expected to be settled within 12 months of the Balance Sheet date. As at 30 June 2018, the majority of the Group's and the Bank's liabilities at fair value through Income Statement were expected to be settled within 12 months.

The amount that would be contractually required to be paid at maturity to the holders of the financial liabilities designated at fair value through Income Statement for the Group is $8,524 million (2018: $10,093 million) and for the Bank is $7,960 million (2018: $8,949 million).

Accounting policies

The Group designates certain liabilities at fair value through the Income Statement on origination when doing so eliminates or reduces an accounting mismatch, or where the liabilities contain embedded derivatives which must otherwise be separated and carried at fair value. Trading liabilities are incurred principally for the purpose of repurchasing or settling in the near term.

Subsequent to initial recognition, these liabilities are measured at fair value. Changes in fair value (except those due to changes in credit risk) are recognised in Other Banking Income. Changes in fair value relating to the Group's own credit risk are recognised in Other Comprehensive Income. Interest incurred is recognised within Net Interest Income using the effective interest method.

4.3 Debt issues

		Group		Bank	
	Note	**30 Jun 19 $M**	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Medium-term notes		**98,342**	99,579	**84,014**	87,474
Commercial paper		**20,158**	26,868	**17,596**	23,922
Securitisation notes	4.4	**12,177**	13,089	**-**	-
Covered bonds	4.4	**33,313**	32,758	**29,452**	28,588
Total debt issues (1)		**163,990**	172,294	**131,062**	139,984
Short Term Debt Issues by currency					
USD		**20,147**	27,008	**17,585**	24,061
AUD		**10**	1,009	**10**	1,009
GBP		**3,470**	2,949	**3,470**	2,949
Other currencies		**227**	335	**227**	335
Total short term debt issues		**23,854**	31,301	**21,292**	28,354
Long Term Debt Issues by currency (2)					
USD		**48,293**	51,472	**43,802**	48,017
EUR		**36,172**	33,057	**28,601**	26,842
AUD		**37,909**	35,066	**24,770**	20,875
GBP		**3,653**	4,701	**2,510**	3,614
NZD		**3,596**	3,954	**834**	1,028
JPY		**2,115**	3,505	**1,989**	3,390
Other currencies		**8,331**	9,175	**7,197**	7,801
Offshore loans (all JPY)		**67**	63	**67**	63
Total long term debt issues		**140,136**	140,993	**109,770**	111,630
Maturity Distribution of Debt Issues (3)					
Less than twelve months		**50,095**	59,980	**42,993**	50,994
Greater than twelve months		**113,895**	112,314	**88,069**	88,990
Total debt issues		**163,990**	172,294	**131,062**	139,984

(1) Debt issues include unrealised movements of $8,994 million in 2019 predominantly due to foreign exchange gains and losses.
(2) Long-term debt disclosed relates to debt issues which have a maturity at inception of greater than 12 months.
(3) Represents the remaining contractual maturity of the underlying instrument.

The Group's long-term debt issues include notes issued under the: USD70 billion Euro Medium Term Note Program; the USD50 billion US Medium Term Note Program; USD30 billion Covered Bond Program; Unlimited Domestic Debt Program; Unlimited ASB Domestic Medium Term Note Program; USD25 billion CBA New York Branch Medium Term Note Program; EUR7 billion ASB Covered Bond Program; USD10 billion ASB US Medium Term Note Program and other applicable debt documentation. Notes issued under debt programs are both fixed and variable rate. Interest rate risk associated with the notes is incorporated within the Bank's interest rate risk framework. The Bank, from time to time, as part of its balance sheet management, may consider opportunities to repurchase outstanding long-term debt pursuant to open-market purchases or other means. Such repurchases help manage the Bank's debt maturity profile, overall funding costs and assist in meeting regulatory changes and requirements.

4.3 Debt issues (continued)

Short term borrowings by Commercial paper program [1]	30 Jun 19	30 Jun 18	30 Jun 17
	Group		
	$M (except where indicated)		
Total			
Outstanding at year end [2]	**20,158**	26,868	28,800
Maximum amount outstanding at any month end	**24,557**	32,336	33,779
Average amount outstanding	**21,592**	30,007	29,226
US Commercial Paper Program			
Outstanding at year end [2]	**20,120**	26,792	28,393
Maximum amount outstanding at any month end	**24,481**	32,127	31,460
Average amount outstanding	**21,494**	29,887	27,593
Weighted average interest rate on:			
Average amount outstanding	**2. 6%**	1. 8%	1. 2%
Outstanding at year end	**2. 7%**	2. 3%	1. 5%
Euro Commercial Paper Program			
Outstanding at year end [2]	**38**	76	407
Maximum amount outstanding at any month end	**163**	219	2,789
Average amount outstanding	**98**	120	1,633
Weighted average interest rate on:			
Average amount outstanding	**2. 2%**	1. 5%	1. 0%
Outstanding at year end	**2. 7%**	2. 2%	1. 2%

(1) Short-term borrowings include callable medium term notes of $3,696 million (2018: $4,433 million) which have been excluded from the table above.
(2) The amount outstanding at year end is measured at amortised cost.

Exchange rates utilised [1]	Currency	As At 30 Jun 19	As At 30 Jun 18
AUD 1.00 =	USD	**0. 7013**	0. 7387
	EUR	**0. 6170**	0. 6350
	GBP	**0. 5533**	0. 5635
	NZD	**1. 0460**	1. 0909
	JPY	**75. 6460**	81. 7215

(1) End of day, Sydney time.

Guarantee arrangement

Guarantee under the Commonwealth Bank Sale Act

Historically, the due payment of all monies payable by the Bank was guaranteed by the Commonwealth of Australia under section 117 of the Commonwealth Banks Act 1959 (as amended) at 30 June 1996. With the sale of the Commonwealth's shareholding in the Bank this guarantee has been progressively phased out under transitional arrangements found in the Commonwealth Bank Sale Act 1995.

Demand deposits are no longer guaranteed by the Commonwealth under this guarantee. However, debt issues payable by the Bank under a contract entered into prior to 19 July 1996 remain guaranteed until maturity.

4.3 Debt Issues (continued)

Accounting Policies

Debt issues include short and long-term debt issues of the Group and consist of commercial paper, securitisation notes, covered bonds and medium term notes.

Debt issues are initially measured at fair value and subsequently measured at amortised cost.

Premiums, discounts and associated issue expenses are recognised in the Income Statement using the effective interest method from the date of issue, to ensure the carrying value of securities equals their redemption value by maturity date. Interest is recognised in the Income Statement using the effective interest method. Any profits or losses arising from redemption prior to maturity are taken to the Income Statement in the period in which they are realised.

The Group hedges interest rate and foreign currency rate risk on certain debt issues. When fair value hedge accounting is applied to fixed rate debt issues, the carrying values are adjusted for changes in fair value related to the hedged risks.

4.4 Securitisation, Covered Bonds and Transferred Assets

The Group enters into transactions in the normal course of business that transfers financial assets to counterparties or to Special Purpose Vehicles (SPVs). Transferred financial assets that do not qualify for de-recognition are typically associated with repurchase agreements and our covered bonds and securitisation programs. The underlying assets remain on the Group's Balance Sheet.

At the Balance Sheet date, transferred financial assets that did not qualify for de-recognition and their associated liabilities are as follows:

						Group
	Repurchase Agreements		Covered Bonds		Securitisation [1]	
	30 Jun 19 $M	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Carrying amount of transferred assets	**19,129**	14,696	**39,129**	37,012	**13,521**	14,661
Carrying amount of associated liabilities	**19,099**	14,696	**33,313**	32,758	**12,177**	13,089
For those liabilities that have recourse only to the transferred assets:						
Fair value of transferred assets					**13,524**	14,667
Fair value of associated liabilities					**12,177**	13,089
Net position					**1,347**	1,578

						Bank
	Repurchase Agreements		Covered Bonds		Securitisation [2]	
	30 Jun 19 $M	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Carrying amount of transferred assets	**19,245**	14,806	**34,160**	32,210	**70,274**	71,136
Carrying amount of associated liabilities	**19,215**	14,806	**29,452**	28,588	**69,800**	70,484
For those liabilities that have recourse only to the transferred assets:						
Fair value of transferred assets					**70,281**	71,155
Fair value of associated liabilities					**69,800**	70,484
Net position					**481**	671

(1) Securitisation liabilities of the Group include RMBS notes issued by securitisation SPVs and held by external investors.
(2) Securitisation liabilities of the Bank include borrowings from securitisation SPVs, including the SPVs that issue only internally held notes for repurchase with central banks, recognised on transfer of residential mortgages by the Bank. The carrying amount of associated liabilities from securitisation SPVs is recorded under loans due to controlled entities.

4.4 Securitisation, covered bonds and transferred assets (continued)

Accounting Policies

Repurchase Agreements

Securities sold under agreement to repurchase are retained on the Balance Sheet when substantially all the risks and rewards of ownership remain with the Group, and the counterparty liability is included separately on the Balance Sheet when cash consideration is received.

Securitisation Programs

The Group pools and equitably assigns residential mortgages as securities to investors through a series of wholly controlled securitisation vehicles. Where the Bank and ASB retain substantially all of the risks and rewards associated with the mortgages, the Bank and ASB continue to recognise the mortgages on their Balance Sheets. The Group is entitled to any residual income of the securitisation programs after all payments due to investors have been met. The investors have recourse only to the pool of mortgages in the SPV they have invested in.

Covered Bonds Programs

To complement existing wholesale funding sources, the Group has established two global covered bond programs for the Bank and ASB. Certain residential mortgages have been assigned to SPV's associated with covered bond programs to provide security on the payments to investors. Similarly to securitisation programs, the Group is entitled to any residual income after all payments due to covered bond investors have been met. As the Bank and ASB retain substantially all of the risks and rewards associated with the mortgages, the Bank and ASB continue to recognise the mortgages on their Balance Sheets. The covered investors have dual recourse to the Bank and the covered pool assets.

Critical accounting judgements and estimates

The Group exercises judgement at inception and periodically thereafter, to assess whether a structured entity should be consolidated based on the Bank's power over the relevant activities of the entity and the significance of its exposure to variable returns of the structured entity. Such assessments are predominantly required for the Group's securitisation programs, and structured transactions such as covered bond programs.

5. Our investing, trading and other banking activities

Overview

In addition to loans, the Group holds other assets to support its activities. Cash and liquid assets, receivables due from other financial institutions, trading assets and investment securities are held for liquidity purposes, to generate returns and to meet customer demand. The mix and nature of assets is driven by multiple factors including the Board's risk appetite, regulatory requirements, customer demand and the generation of shareholder returns.

The Group also transacts derivatives to meet customer demand and to manage its financial risks (interest rate, foreign currency, commodity and credit risks).

Refer to Note 9.1 for additional information relating to the Group's approach to managing financial risks through the use of derivatives.

5.1 Cash and liquid assets

	Group [1]		Bank [1]	
	30 Jun 19 $M	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Notes, coins, cash at banks and money at short call	**16,655**	22,897	**15,534**	21,351
Securities purchased under agreements to resell	**12,732**	13,520	**11,378**	12,230
Total cash and liquid assets	**29,387**	36,417	**26,912**	33,581

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

Accounting policies

Cash and liquid assets include cash at branches, cash at banks, nostro balances, money at call with an original maturity of three months or less and securities purchased under agreements to resell. Cash and liquid assets are initially recognised at fair value and subsequently measured at amortised cost. Interest is recognised in the Income Statement using the effective interest method.

Securities, including bonds and equities, purchased under agreements to resell are not recognised in the Financial Statements where substantially all the risks and rewards of ownership remain with the counterparty. An asset for the agreed resale amount by the counterparty is recognised within Cash and liquid assets.

5.2 Assets at fair value through income statement

Assets at Fair Value through Income Statement	Group (1) 30 Jun 19 $M	30 Jun 18 $M	Bank (1) 30 Jun 19 $M	30 Jun 18 $M
Trading				
Government bonds, notes and securities	**21,955**	18,078	**21,949**	16,923
Corporate/financial institution bonds, notes and securities	**3,264**	6,108	**3,264**	5,112
Shares and equity investments	**29**	116	**5**	6
Commodities	**7,258**	7,952	**7,258**	7,952
Total trading assets	**32,506**	32,254	**32,476**	29,993
Insurance (2)				
Investments backing life risk contracts	**-**	21	**-**	-
Investments backing life investment contracts	**-**	351	**-**	-
Total life insurance investment assets	**-**	372	**-**	-
Other				
Government securities	**81**	49	**-**	-
Receivables due from other corporate/financial institutions	**434**	209	**235**	-
Shares and equity investments	**238**	-	**-**	-
Other lending	**418**	-	**417**	-
Total other assets at fair value through Income Statement	**1,171**	258	**652**	-
Total assets at fair value through Income Statement	**33,677**	32,884	**33,128**	29,993
Maturity Distribution of assets at fair value through income statement				
Less than twelve months	**33,450**	32,247	**32,947**	29,724
More than twelve months	**227**	637	**181**	269
Total assets at fair value through Income Statement	**33,677**	32,884	**33,128**	29,993

(1) Current year balances reflect the adoption of AASB 9 'Financial Instruments' on 1 July 2018. As permitted by AASB 9, comparative information has not been restated. For details on the adoption of AASB 9, refer to Note 1.1.
(2) Life insurance assets have been reclassified to assets held for sale following the announced sale of PT Commonwealth Life.

Accounting policies

These assets are categorised as assets held for trading, insurance assets and other investments. Trading assets are those acquired for the purpose of selling or repurchasing in the near term. Insurance assets are investments that back life insurance and life investment contracts. Other assets are those that are designated at fair value through Income Statement at inception. Subsequent to initial recognition, financial assets are measured at fair value with changes in fair value recognised in Other Banking Income.

5.3 Derivative financial instruments and hedge accounting

Derivatives are classified as "Held for Trading" or "Held for Hedging". Held for Trading derivatives are contracts entered into in order to meet customers' needs, to undertake market making and positioning activities, or for risk management purposes that do not qualify for hedge accounting. Held for Hedging derivatives are instruments held for risk management purposes, which meet the criteria for hedge accounting. Derivative financial instruments are contracts whose values are derived from one or more underlying prices, indexes or other variables.

The fair value of derivative financial instruments is set out in the following tables:

				Group [1]
		30 Jun 19		30 Jun 18
Derivatives assets and liabilities	**Fair Value Asset $M**	**Fair Value Liability $M**	Fair Value Asset $M	Fair Value Liability $M
Held for trading				
Foreign exchange rate related contracts:				
Forwards	**5,404**	**(5,492)**	8,118	(7,961)
Swaps	**4,078**	**(7,327)**	7,457	(8,505)
Options	**349**	**(346)**	462	(415)
Total foreign exchange rate related contracts	**9,831**	**(13,165)**	16,037	(16,881)
Interest rate related contracts:				
Swaps	**6,978**	**(3,758)**	4,834	(3,458)
Futures	**46**	**(132)**	6	(57)
Options	**554**	**(463)**	531	(736)
Total interest rate related contracts	**7,578**	**(4,353)**	5,371	(4,251)
Credit related swaps	**21**	**(49)**	46	(65)
Equity related contracts:				
Swaps	**10**	**(26)**	12	(40)
Options	**1**	**(3)**	1	(5)
Total equity related contracts	**11**	**(29)**	13	(45)
Commodity related contracts:				
Swaps	**207**	**(193)**	397	(386)
Options	**57**	**(76)**	146	(85)
Total commodity related contracts	**264**	**(269)**	543	(471)
Identified embedded derivatives	**160**	**(60)**	229	(58)
Total derivative assets/(liabilities) held for trading	**17,865**	**(17,925)**	22,239	(21,771)

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

Held for trading derivatives are expected to be recovered or due to be settled within 12 months of the Balance Sheet date.

5.3 Derivative financial instruments and hedge accounting (continued)

			Group [1]	
	30 Jun 19		30 Jun 18	
	Fair Value Asset $M	**Fair Value Liability $M**	Fair Value Asset $M	Fair Value Liability $M
Fair value hedges				
Foreign exchange rate related swaps	**5,089**	**(2,384)**	6,538	(3,783)
Interest rate related swaps	**379**	**(1,440)**	278	(1,672)
Total fair value hedges	**5,468**	**(3,824)**	6,816	(5,455)
Cash flow hedges				
Foreign exchange rate related swaps	**1,470**	**(643)**	2,335	(744)
Interest rate related swaps	**411**	**(365)**	734	(493)
Commodity price related swaps	**-**	**(5)**	-	-
Total cash flow hedges	**1,881**	**(1,013)**	3,069	(1,237)
Net investment hedges				
Foreign exchange rate related forwards	**1**	**(15)**	9	(9)
Total net investment hedges	**1**	**(15)**	9	(9)
Total derivative assets/(liabilities) held for hedging	**7,350**	**(4,852)**	9,894	(6,701)

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

The majority of hedging derivatives are expected to be recovered or due to be settled more than 12 months after the Balance Sheet date.

5.3 Derivative financial instruments and hedge accounting (continued)

				Bank [1]
		30 Jun 19		30 Jun 18
Derivatives assets and liabilities	**Fair Value Asset $M**	**Fair Value Liability $M**	Fair Value Asset $M	Fair Value Liability $M
Held for trading				
Foreign exchange rate related contracts:				
Forwards	**5,392**	**(5,465)**	8,081	(7,937)
Swaps	**5,036**	**(8,161)**	8,291	(9,197)
Options	**348**	**(345)**	460	(413)
Derivatives held with controlled entities	**41**	**(2,015)**	16	(1,734)
Total foreign exchange rate related contracts	**10,817**	**(15,986)**	16,848	(19,281)
Interest rate related contracts:				
Swaps	**6,735**	**(3,653)**	4,610	(3,226)
Futures	**47**	**(132)**	6	(57)
Options	**554**	**(463)**	531	(736)
Derivatives held with controlled entities	**16**	**(91)**	73	(87)
Total interest rate related contracts	**7,352**	**(4,339)**	5,220	(4,106)
Credit related swaps	**21**	**(49)**	46	(65)
Equity related contracts:				
Swaps	**10**	**(26)**	12	(40)
Options	**1**	**(3)**	1	(5)
Total equity related contracts	**11**	**(29)**	13	(45)
Commodity related contracts:				
Swaps	**207**	**(193)**	397	(386)
Options	**57**	**(76)**	146	(85)
Total commodity related contracts	**264**	**(269)**	543	(471)
Identified embedded derivatives	**160**	**(60)**	229	(58)
Total derivative assets/(liabilities) held for trading	**18,625**	**(20,732)**	22,899	(24,026)

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

Held for trading derivatives are expected to be recovered or due to be settled within 12 months of the Balance Sheet date.

5.3 Derivative financial instruments and hedge accounting (continued)

	Bank [1]			
	30 Jun 19		30 Jun 18	
	Fair Value Asset $M	**Fair Value Liability $M**	Fair Value Asset $M	Fair Value Liability $M
Fair value hedges				
Foreign exchange rate related contracts:				
Swaps	**3,707**	**(1,670)**	5,087	(3,052)
Derivatives held with controlled entities	**-**	**(1,948)**	35	(1,365)
Total foreign exchange rate related contracts	**3,707**	**(3,618)**	5,122	(4,417)
Interest rate related contracts:				
Swaps	**333**	**(1,393)**	213	(1,477)
Derivatives held with controlled entities	**-**	**(68)**	13	(27)
Total interest rate related contracts	**333**	**(1,461)**	226	(1,504)
Total fair value hedges	**4,040**	**(5,079)**	5,348	(5,921)
Cash flow hedges				
Foreign exchange rate related contracts:				
Swaps	**1,329**	**(471)**	2,011	(586)
Derivatives held with controlled entities	**-**	**(97)**	16	(30)
Total foreign exchange rate related contracts	**1,329**	**(568)**	2,027	(616)
Interest rate related contracts:				
Swaps	**316**	**(255)**	602	(299)
Derivatives held with controlled entities	**-**	**-**	-	-
Total interest rate related contracts	**316**	**(255)**	602	(299)
Commodity price related contracts:				
Swaps	**-**	**(5)**	-	-
Total commodity price related contracts	**-**	**(5)**	-	-
Total cash flow hedges	**1,645**	**(828)**	2,629	(915)
Net investment hedges				
Foreign exchange rate related forward contracts	**1**	**(15)**	9	(9)
Total net investment hedges	**1**	**(15)**	9	(9)
Total derivative assets/(liabilities) held for hedging	**5,686**	**(5,922)**	7,986	(6,845)

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

The majority of hedging derivatives are expected to be recovered or due to be settled more than 12 months after the Balance Sheet date.

5.3 Derivative financial instruments and hedge accounting (continued)

The table below shows the deferred gains and losses, which are expected to be transferred to the Income Statement in the period which the hedge forecast transaction takes place:

		Group Total		**Bank Total**
	30 Jun 19 $M	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Within 6 months	**47**	(39)	**57**	(33)
6 months - 1 year	**(103)**	29	**(32)**	38
1 - 2 years	**(340)**	16	**(215)**	68
2 - 5 years	**1,476**	(131)	**1,516**	(25)
After 5 years	**53**	(95)	**207**	57
Net deferred gains/(losses)	**1,133**	(220)	**1,533**	105

Accounting policies

Derivatives transacted for hedging purposes

Derivatives are initially measured at fair value. Subsequent to initial recognition, gains or losses on derivatives are recognised in the Income Statement, unless they are entered into for hedging purposes and designated into a cash flow hedge.

Hedging strategy and hedge accounting

The Group risk management strategy (refer notes 9.1 and 9.3) is to manage market risks within risk limits to minimise profit and capital volatility. The use of derivative and other hedging instruments for hedging purposes gives rise to potential volatility in the Income Statement because of mismatches in the accounting treatment between derivative and other hedging instruments and the underlying exposures being hedged. The Group's and the Bank's objective is to reduce volatility in the Income Statement by applying hedge accounting.

Fair value hedges

Fair value hedges are used by the Group to manage exposure to changes in the fair value of an asset, liability or unrecognised firm commitments, predominantly associated with investment securities, debt issues and loan capital. Changes in fair values can arise from fluctuations in interest or foreign exchange rates. The Group principally uses interest rate swaps, cross currency swaps and futures to protect against such fluctuations.

Changes in the value of fair value hedges are recognised in the Income Statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. All gains and losses associated with the ineffective portion of fair value hedge relationships are recognised immediately as 'Other Banking Income' in the Income Statement.

If the hedge relationship no longer meets the criteria for hedge accounting, it is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortised to the Income Statement from the date of discontinuation over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the Income Statement.

Cash flow hedges

Cash flow hedges are used by the Group to manage exposure to variability in future cash flows, which could affect profit or loss and may result from fluctuations in interest and exchange rates or in commodity prices on financial assets, financial liabilities or highly probable forecast transactions, predominantly associated with floating rate domestic loans and deposits. The Group principally uses interest rate swaps, cross currency swaps, futures and equity related swaps to protect against such fluctuations.

Changes in fair value associated with the effective portion of a cash flow hedge are recognised through Other Comprehensive Income in the Cash Flow Hedge Reserve within equity. Ineffective portions are recognised immediately in the Income Statement. Amounts deferred in equity are transferred to the Income Statement in the period in which the hedged forecast transaction takes place.

When a hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is reclassified to profit or loss in the period in which the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is recycled immediately to the Income Statement. Where it is appropriate, non-derivative financial assets and liabilities are also designated as hedging instruments in cash flow hedge relationships.

5.3 Derivative financial instruments and hedge accounting (continued)

Derivatives transacted for hedging purposes (continued)

Net investment hedges

The Group holds investments in foreign operations, where changes in net assets resulting from changes in foreign currency rates are recognised in foreign currency translation reserve and results in volatility in shareholders' equity. To protect against the foreign currency risk, the Group enters into foreign currency forwards that are designated as hedging instruments in net investment hedges. Gains and losses on derivative contracts relating to the effective portion of the net investment hedge are recognised in the foreign currency translation reserve in equity. Ineffective portions are recognised immediately in the Income Statement. Gains and losses accumulated in equity are included in the Income Statement when the foreign subsidiary or branch is disposed of.

Risk components

In some hedging relationships, the Group and the Bank designate risk components of hedged items as follows:

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

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.

Economic relationships and hedge effectiveness

The Group performs both prospective and retrospective tests to determine the economic 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. At the same time a hedging ratio is established by matching the notional of the derivatives with the principal of the portfolio or financial instruments being hedged, in most cases the ratio is 100%. Retrospective testing for each reporting period uses a regression model, which compares the change in the fair value of the hedged item and the change in the fair value of the hedging instrument. For a hedge to be deemed effective, the change in fair values should be within 80 to 125% of each other. Should the result fall outside this range the hedge would be deemed ineffective and recognised immediately through the income statement in line with each hedge relationship policy above.

Sources of hedge ineffectiveness affecting hedge accounting are:

- Differences in discounting between the hedged item and the hedging instrument. Collateralised derivatives are discounted using Overnight Indexed Swaps (OIS) discount curves, which are not applied to the hedged item;
- Change in the credit risk of the hedging instrument; and
- Mismatches between the contractual terms of the hedged item and the hedging instrument.

No other sources of hedge ineffectiveness have arisen during the year.

Embedded derivatives

In certain instances, a derivative may be embedded within a host contract. It is accounted for separately as a stand-alone derivative at fair value, where:

- the host contract is not carried at fair value through the Income Statement; and
- the economic characteristics and risks of the embedded derivative are not closely related to the host contract.

5.3 Derivative financial instruments and hedge accounting (continued)

Hedging instruments

The following table provides details of the Group's and the Bank's hedging instruments by the type of hedge relationship in which they are designated and the type of risk being hedged.

	Group 30 Jun 19			Bank 30 Jun 19		
	Notional $M	Fair Value Derivative Assets $M	Fair Value Derivative Liability $M	Notional $M	Fair Value Derivative Assets $M	Fair Value Derivative Liability $M
Fair value hedges						
Interest rate	112,725	379	(1,440)	98,365	333	(1,461)
Foreign exchange	709	7	(6)	-	-	-
Interest rate and foreign exchange	59,070	5,082	(2,378)	55,587	3,707	(3,618)
Total fair value hedges	172,504	5,468	(3,824)	153,952	4,040	(5,079)
Cash flow hedges						
Interest rate	529,431	411	(365)	481,685	316	(255)
Foreign exchange	19,400	1,470	(643)	16,835	1,329	(568)
Commodity price	80	-	(5)	80	-	(5)
Total cash flow hedges	548,911	1,881	(1,013)	498,600	1,645	(828)
Net investment hedges						
Foreign exchange	481	1	(15)	481	1	(15)
Total net investment hedges	481	1	(15)	481	1	(15)
Total hedging instrument assets/(liabilities)	721,896	7,350	(4,852)	653,033	5,686	(5,922)

In addition to derivative instruments used to hedge foreign currency risk, the Group and the Bank designate debt issues as hedging instruments of certain foreign exchange risk exposures. The carrying value of debt issues designated as cash flow hedging instruments as at 30 June 2019 was $949 million with average maturity of 4 years for the Group and $62 million with average maturity of 1 year for the Bank.

5.3 Derivative financial instruments and hedge accounting (continued)

Hedging instruments (continued)

The table below provides maturity analysis of expected notional values of the Group's hedging instruments by the type of hedge relationship in which they are designated and the type of risk being hedged:

					Group 30 Jun 19
		Notional Amounts			
	Hedged Risk	Due within 1 year $M	Due from 1 to 5 years $M	Due beyond 5 years $M	Total $M
Fair value hedges	Interest rate	16,714	45,248	50,763	112,725
	Foreign exchange	709	-	-	709
	Interest rate and foreign exchange	12,575	29,577	16,918	59,070
Cash flow hedges and net investment hedges	Interest rate	338,071	185,963	5,397	529,431
	Foreign exchange	12,867	4,722	2,292	19,881
	Commodity price	5	23	52	80

The weighted average fixed interest rate of interest rate swaps hedging interest rate risk is 2.00%. The major currency pairs of cross currency swaps designated in hedge relationships are receive USD / pay AUD and receive EUR / pay USD with weighted average foreign currencies rates of: AUD/USD 0.85 and USD/EUR 0.82.

The table below provides maturity analysis of expected notional values of the Bank's hedging instruments by the type of hedge relationship in which they are designated and the type of risk being hedged:

					Bank 30 Jun 19
		Notional Amounts			
	Hedged Risk	Due within 1 year $M	Due from 1 to 5 years $M	Due beyond 5 years $M	Total $M
Fair value hedges	Interest rate	14,685	36,050	47,630	98,365
	Foreign exchange	-	-	-	-
	Interest rate and foreign exchange	10,649	29,850	15,088	55,587
Cash flow hedges and net investment hedges	Interest rate	316,484	160,217	4,984	481,685
	Foreign exchange	10,436	4,588	2,292	17,316
	Commodity price	5	23	52	80

The weighted average fixed interest rate of interest rate swaps hedging interest rate risk is 2.00%. The major currencies of cross currency swaps designated in hedge relationships are receive USD / pay AUD and receive EUR / pay USD with weighted average foreign currencies rate: AUD/USD 0.84 and USD/EUR 0.83.

5.3 Derivative financial instruments and hedge accounting (continued)

Hedged items in fair value hedges

The table below provides details of the Group's and the Bank's hedged items designated in fair value hedge relationships by the type of risk being hedged:

		Group		Bank	
		30 Jun 19		30 Jun 19	
Hedged Items	**Hedged Risk**	**Carrying Amount $M**	**Fair Value Adjustment [1] [2] $M**	**Carrying Amount $M**	**Fair Value Adjustment [1] [2] $M**
Investment securities at fair value through other comprehensive income	Interest rate	44,493	4,438	40,064	4,425
Investment securities at fair value through other comprehensive income	Interest rate and foreign exchange	10,130	201	10,130	201
Loans, bills discounted and other receivables	Interest rate	2,136	63	57	57
Shares in and loans to controlled entities	Interest rate	-	-	1,533	65
Shares in and loans to controlled entities	Interest rate and foreign exchange	-	-	19,690	853
Deposits and other public borrowings	Interest rate	557	7	557	7
Deposits and other public borrowings	Interest rate and foreign exchange	49	5	49	5
Assets held for sale	Foreign exchange	1,161	49	-	-
Debt issues	Interest rate	26,319	746	17,713	573
Debt issues	Interest rate and foreign exchange	63,566	2,155	47,585	1,368
Loan capital interest bearing	Interest rate	5,974	326	5,582	316
Loan capital interest bearing	Interest rate and foreign exchange	9,443	192	9,443	193

(1) Represents the accumulated amount of the fair value adjustment included in the carrying amount. Positive amounts represent increases in the carrying amount of the asset or liability. The cumulative amount that is related to ceased hedge relationships where the risk being hedged was interest rate and foreign exchange risk is nil.

(2) Changes in fair value of the hedged item used as a basis to determine effectiveness. The changes in fair value of the hedged items are recognised in Other Banking Income.

5.3 Derivative financial instruments and hedge accounting (continued)

Hedge items in cash flow hedges and net investment hedges

The table below provides details of the Group's and the Bank's hedged items designated in cash flow and net investment hedge relationships by the type of risk being hedged:

			Group 30 Jun 19		Bank 30 Jun 19
		Cash Flow Hedge Reserve (1)	Foreign Currency Translation Reserve (2)	Cash Flow Hedge Reserve (1)	Foreign Currency Translation Reserve (2)
Hedged Items	**Hedged Risk**	**$M**	**$M**	**$M**	**$M**
Cash Flow Hedges					
Investment securities at fair value through other comprehensive income	Foreign exchange	15	-	15	-
Loans, bills discounted and other receivables	Interest rate	4,085	-	3,834	-
Shares in and loans to controlled entities	Interest rate	-	-	3	-
Shares in and loans to controlled entities	Foreign exchange	-	-	68	-
Deposits and other public borrowings	Interest rate	(2,741)	-	(2,447)	-
Debt issues	Interest rate	(7)	-	(6)	-
Debt issues	Foreign exchange	(117)	-	76	-
Loan capital interest bearing	Interest rate and Foreign exchange	7	-	7	-
Highly probable forecast transactions	Foreign exchange	(92)	-	-	-
Highly probable forecast transactions	Commodity price	(17)	-	(17)	-
Net Investment Hedges					
Foreign Operations	Foreign exchange	-	(33)	-	(33)
Total		**1,133**	**(33)**	**1,533**	**(33)**

(1) Represents the accumulated effective amount of the hedging instrument deferred to Cash Flow Hedge Reserve. The cumulative amount related to ceased hedge relationships where the risk being hedged was interest rate and foreign exchange risk is a loss of $13 million for the Group and the Bank. A cumulative loss of $1 million related to ceased hedge relationships was amortised to Income Statement during the period.

(2) Represents the accumulated effective amount of the hedging instrument deferred to Foreign Currency Translation Reserve. The cumulative amount related to ceased hedge relationships where the risk being hedged was foreign exchange risk is nil.

5.3 Derivative financial instruments and hedge accounting (continued)

Hedge effectiveness

The table below details effectiveness of the Group's and the Bank's hedges by the type of hedge relationship and the type of risk being hedged:

			Group 30 Jun 19			Bank 30 Jun 19
	Change in Value of Hedged Item (1)	Change in Value of Hedging Instrument	Hedge Ineffectiveness recognised in Income statement (2)	Change in Value of Hedged Item (1)	Change in Value of Hedging Instrument	Hedge Ineffectiveness recognised in Income statement (2)
	$M	$M	$M	$M	$M	$M
Fair value hedges						
Interest rate	1,257	(1,269)	(12)	1,384	(1,397)	(13)
Foreign exchange	49	(49)	-	-	-	-
Interest rate and Foreign exchange	(1,864)	1,885	21	(760)	783	23
Total fair value hedges	(558)	567	9	624	(614)	10
Cash flow hedges and net investment hedges						
Interest rate	(1,279)	1,283	4	(1,302)	1,308	6
Foreign exchange	(51)	51	-	(101)	101	-
Commodity prices	(5)	5	-	(5)	5	-
Total cash flow hedges and net investment hedges	(1,335)	1,339	4	(1,408)	1,414	6

(1) Changes in value of hedged item for fair value hedges is recognised in Other Banking Income. Changes in value of the hedged item for cash flow hedges is only used as basis for recognising ineffectiveness and represents the lower of the change in the hedged item and the hedging instrument. During the year, the unrealised gains deferred to the Cash flow hedge reserve were $1,355 million for the Group and $1,428 million for the Bank, and a loss recognised in the Net investment hedge reserve was $20 million for the Group and the Bank.

(2) Hedge ineffectiveness is recognised in Other Banking Income.

5.4 Investment securities

	Group [1]		Bank [1]	
	30 Jun 19 $M	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Investment securities at fair value through OCI				
Government bonds, notes and securities	**50,560**	-	**48,454**	-
Corporate/financial institution bonds, notes and securities	**18,075**	-	**16,407**	-
Shares and equity investments	**67**	-	**45**	-
Covered bonds, mortgage backed securities and SSA [2]	**10,210**	-	**8,306**	-
Total investment securities at fair value through OCI	**78,912**	-	**73,212**	-
Investment securities at amortised cost				
Government bonds, notes and securities	**6**	-	**-**	-
Covered bonds, mortgage backed securities and SSA [2]	**7,349**	-	**7,349**	-
Total investment securities at amortised cost	**7,355**	-	**7,349**	-
Total investment securities	**86,267**	-	**80,561**	-
Available-for-Sale Investments (AASB 139)				
Government bonds, notes and securities	**-**	46,363	**-**	44,701
Corporate/financial institution bonds, notes and securities	**-**	21,372	**-**	20,356
Shares and equity investments	**-**	298	**-**	45
Covered bonds, mortgage backed securities and SSA [2]	**-**	14,207	**-**	12,629
Total available-for-sale investments (AASB 139)	**-**	82,240	**-**	77,731

(1) Current year balances reflect the adoption of AASB 9 'Financial Instruments' on 1 July 2018. As permitted by AASB 9, comparative information has not been restated.
(2) Supranational, Sovereign and Agency Securities (SSA).

As at 30 June 2019, Investment Securities at Fair Value through OCI expected to be recovered within 12 months of the Balance Sheet date were $10,409 million (2018: $14,772 million) for the Group, and $8,639 million (2018: $13,478 million) for the Bank. As at 30 June 2019, Investment Securities at Amortised Cost amounts expected to be recovered within 12 months of the Balance Sheet date were $1,622 million (2018: Nil) for the Group and the Bank. As at 30 June 2018, Available for Sale investments expected to be recovered within 12 months of the Balance Sheet date were $14,772 million for the Group, and $13,478 million for the Bank.

5.4 Investment securities (continued)

	Group									
	Maturity Period at 30 June 2019									
	0 to 1 Year		1 to 5 Years		5 to 10 Years		10 or more Years		Non-Maturing	**Total**
	$M	%	$M	%	$M	%	$M	%	$M	**$M**
Investment securities at fair value through OCI										
Government bonds, notes and securities	3,712	1. 99	16,221	1. 46	24,978	1. 70	5,649	2. 77	-	**50,560**
Corporate/financial institution bonds, notes and securities	4,805	1. 59	12,934	2. 58	336	2. 52	-	-	-	**18,075**
Shares and equity investments	-	-	-	-	-	-	-	-	67	**67**
Covered bonds, mortgage backed securities and SSA	1,849	1. 92	6,349	1. 72	1,340	1. 78	672	3. 34	-	**10,210**
Total investment securities at fair value through OCI	**10,366**		**35,504**		**26,654**		**6,321**		**67**	**78,912**
Investment securities at amortised cost										
Government bonds, notes and securities	6	0. 66	-	-	-	-	-	-	-	**6**
Covered bonds, mortgage backed securities and SSA	-	-	22	2. 72	256	2. 39	7,071	2. 32	-	**7,349**
Total investment securities at amortised cost	**6**		**22**		**256**		**7,071**		**-**	**7,355**
Total investment securities	**10,372**	**-**	**35,526**	**-**	**26,910**	**-**	**13,392**	**-**	**67**	**86,267**

Accounting policies

Investment securities primarily include public debt securities held as part of the Group's liquidity portfolio.

Investment securities at Fair Value through OCI (FVOCI)

Debt securities

This category includes debt securities held within the business model whose objective is achieved by both collecting contractual cash flows and selling the assets. The contractual cash flows on these financial assets comprise payments of principal and interest only. These securities are initially recognised at their fair value plus directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value through Other Comprehensive Income.

Interest income and foreign exchange gains and losses on these securities are recognised in the Income Statement. The securities are assessed for impairment using the expected credit loss approach described in Note 1.1. Impairment is recognised in the Loan Impairment Expense line in the Income Statement.

When FVOCI debt securities are derecognised, the cumulative gain or loss recognised in Other Comprehensive Income is reclassified to the Other Banking Income line in the Income Statement.

Equity securities

This category also includes non-traded equity instruments designated at fair value through Other Comprehensive Income. Fair value gains and losses and foreign exchange gains and losses on these equity instruments are recognised in Other Comprehensive Income and are not reclassified to the Income Statement on derecognition.

Investment securities at amortised cost

This category includes debt securities held within the business model whose objective is to hold financial assets in order to collect contractual cash flows. The contractual cash flows on these financial assets comprise the payment of principal and interest only. These securities are initially recognised at their fair value plus directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method and are presented net of provisions for impairment. For the accounting policy for provisions for impairment, refer to Note 1.1.

6. Other assets

Overview

The Group's other assets comprise assets not included in its lending, investing, trading and other banking activities. Other Assets include property, plant and equipment held for use and for lease through our asset finance businesses. Other assets also include software, brand names and goodwill. These assets support the Group's business activities.

6.1 Intangible assets

	Group [1]		Bank [1]	
	30 Jun 19 $M	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Goodwill				
Purchased goodwill at cost	**5,974**	6,941	**2,522**	2,522
Closing balance	**5,974**	6,941	**2,522**	2,522
Computer Software Costs				
Cost	**4,837**	4,633	**4,396**	4,122
Accumulated amortisation	**(3,125)**	(2,814)	**(2,842)**	(2,440)
Closing balance	**1,712**	1,819	**1,554**	1,682
Brand Names [2]				
Cost	**203**	206	**186**	186
Accumulated amortisation	**(2)**	(1)	**-**	-
Closing balance	**201**	205	**186**	186
Other Intangibles [3]				
Cost	**351**	342	**219**	192
Accumulated amortisation	**(273)**	(217)	**(164)**	(116)
Closing balance	**78**	125	**55**	76
Total Intangible assets	**7,965**	9,090	**4,317**	4,466

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

(2) Brand names predominantly represent the value of royalty costs foregone by the Group through acquiring the Bankwest brand name. The royalty costs that would have been incurred by an entity using the Bankwest brand name are based on an annual percentage of income generated by Bankwest. The Bankwest brand name has an indefinite useful life as there is no foreseeable limit to the period over which the brand name is expected to generate cash flows. This balance also includes the Aussie Home Loans brand name ($16 million) which has an indefinite useful life. They are not subject to amortisation, but require annual impairment testing. No impairment was required this period. The Count Financial brand name of $3 million was impaired during the year ended 30 June 2019.

(3) Other intangibles include the value of customer and credit card relationships acquired from Bankwest and Aussie Home Loans. This value represents future net income generated from the relationships that existed at Balance Sheet date. The assets have a useful life of between 6 and 10 years based on the attrition rates of customers. Other intangibles also include prepaid software licences with a net book value of $54 million (30 June 2018: $67 million). Customer relationship intangibles in relation to Count Financial of $13 million were impaired during the year ended 30 June 2019.

Impairment tests for goodwill and intangible assets with indefinite lives

To assess whether goodwill and other assets with indefinite useful lives are impaired, the carrying amount of a cash-generating unit or a group of cash-generating units are compared to the recoverable amount. The recoverable amount is determined based on fair value less cost to sell, primarily using an earnings multiple applicable to that type of business. The category of this fair value is Level 3 as defined in Note 9.5.

Earnings multiples relating to the Group's Banking cash-generating units are sourced from publicly available data associated with Australian businesses displaying similar characteristics to those cash-generating units, and are applied to current earnings. The key assumption is the Price-Earnings (P/E) multiple observed for these businesses, which for the Banking businesses were in the range of 11.6x – 12.0x (2018: 10.9x – 11.2x). The goodwill allocated to the Wealth Management and IFS cash-generating units is not significant.

6.1 Intangible assets (continued)

Goodwill allocation to cash generating units

	Group (1)	
	30 Jun 19 $M	30 Jun 18 $M
Retail Banking Services	**3,744**	3,841
Business and Private Banking	**1,271**	1,271
Wealth Management	**679**	1,551
New Zealand	**269**	258
IFS and Other	**11**	20
Total	**5,974**	6,941

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

Reconciliation of the carrying amounts of Intangible Assets is set out below:

	Group (1)		Bank (1)	
	30 Jun 19 $M	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Goodwill				
Opening balance	**6,941**	7,872	**2,522**	2,522
Additions	**-**	446	**-**	-
Transfers/disposals/other adjustments (2)	**(967)**	(1,377)	**-**	-
Closing balance	**5,974**	6,941	**2,522**	2,522
Computer Software Costs				
Opening balance	**1,819**	1,934	**1,682**	1,735
Additions (3)	**343**	486	**287**	399
Amortisation and write-offs (4)	**(450)**	(553)	**(415)**	(452)
Reclassification to assets held for sale	**-**	(48)	**-**	-
Closing balance	**1,712**	1,819	**1,554**	1,682
Brand Names				
Opening balance	**205**	189	**186**	186
Additions	**-**	16	**-**	-
Impairment (5)	**(4)**	-	**-**	-
Closing balance	**201**	205	**186**	186
Other Intangibles				
Opening balance	**125**	100	**76**	77
Additions	**140**	178	**142**	139
Amortisation and impairment (6)	**(187)**	(153)	**(163)**	(140)
Closing balance	**78**	125	**55**	76

(1) Comparative information has been restated to conform to presentation in the current year.
(2) Includes reclassifications to assets held for sale and foreign currency revaluation.
(3) Primarily relates to internal development costs.
(4) Includes amounts associated with discontinued operations.
(5) The Count Financial brand name of $3 million was impaired during the year ended 30 June 2019.
(6) Customer relationship intangibles in relation to Count Financial of $13 million were impaired during the year ended 30 June 2019.

6.1 Intangible assets (continued)

Accounting policies

Intangible assets are identifiable non-monetary assets without physical substance. They are recognised only if it is probable the asset will generate future benefits for the Group. Those assets with an indefinite useful life are tested for impairment annually. All intangible assets must be tested for impairment when there is an indication that its carrying amount may be greater than its recoverable amount.

Goodwill

Goodwill arises on the acquisition of an entity and represents the excess of the consideration paid over the fair value of the net assets and liabilities acquired. Goodwill is tested for impairment annually through allocation to a group of Cash Generating Units (CGUs). The CGUs' recoverable amount is then compared to the carrying amount of the CGUs including goodwill and an impairment is recognised for any excess carrying value.

Computer software costs

Certain internal and external costs directly incurred in acquiring and developing software, net of specific project related grants, are capitalised and amortised over the estimated useful life on a straight line basis. The majority of software projects are amortised over two to five years. The Group's core banking software is amortised over ten years. Software maintenance is expensed as incurred.

Brand names

Brand names acquired in a business combination include Aussie Home Loans, Bankwest and Count Financial Limited and these were initially recognised at fair value. Aussie Home Loans and Bankwest brand names are assessed as having an indefinite useful life as there is no foreseeable limit to the period over which the brand names are expected to generate cash flows. Count Financial brand name has been fully impaired during the year. The remaining brand names are amortised over their useful life.

Other intangibles

Other intangibles predominantly comprise customer relationships. Customer relationships acquired as part of a business combination are initially measured at fair value. They are subsequently measured at cost less accumulated amortisation and any impairment losses. Amortisation is calculated based on the timing of projected cash flows associated with those relationships.

Critical accounting judgements and estimates

Goodwill is allocated to CGUs whose recoverable amount is calculated for the purpose of impairment testing. The recoverable amount calculation relies primarily on publicly available earnings multiples, which are disclosed on page 181.

6.2 Other assets

		Group (1) (2)		Bank (1) (2)	
	Note	**30 Jun 19 $M**	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Accrued interest receivable		**2,421**	2,377	**2,577**	3,114
Accrued fees/reimbursements receivable (3)		**1,117**	1,255	**258**	205
Securities sold not delivered		**1,893**	1,823	**1,323**	1,398
Intragroup current tax receivable		**-**	-	**320**	283
Current tax assets		**624**	24	**609**	3
Prepayments		**291**	253	**190**	143
Defined benefit superannuation plan surplus	10.2	**462**	581	**462**	581
Other		**307**	611	**171**	485
Total other assets		**7,115**	6,924	**5,910**	6,212

(1) Comparative information has been restated to conform to presentation in the current year.
(2) Current period balances reflect the adoption of AASB 15 'Revenue from Contracts with Customers' on 1 July 2018. As permitted by AASB 15 comparative information has not been restated. For details on adoption of AASB 15 refer to Note 1.1.
(3) Accrued fees/reimbursements receivable as at 30 June 2019 include trail commission receivable of $442 million for the Group.

Except for the defined benefits superannuation plan surplus, the majority of the above amounts are expected to be recovered within 12 months of the Balance Sheet date.

Accounting policies

Other assets include interest and fee receivables, current tax assets, prepayments receivables on unsettled trades and the surplus within defined benefit plans. Interest receivables are recognised on an accruals basis, fees and reimbursements receivable are recognised once the service is provided and trade date accounted securities sold not delivered are recognised between trade execution and final settlement. The remaining other assets are recognised on an accruals or service performed basis and amortised over the period in which the economic benefits from these assets are received. Further defined benefit plan details are provided in Note 10.2.

7. Other liabilities

Overview

Other liabilities primarily represent provisions recognised, interest payable, fees and bills payable and unsettled trades. Other provisions principally cover annual leave and long service leave employee entitlements as well as general insurance claims, provisions for customer remediation, compliance and regulation programs and litigations. Also, it includes provision for impairment losses on financial guarantees and other off-balance sheet instruments issued by the Group. They do not relate to individually assessed provisions or collective provisions recognised on impaired financial assets of the Group (such as impaired home loans).

Certain provisions involve significant judgement to determine the likely outcome of events as well as a reliable estimate of the outflow. Where future events are uncertain or where the outflow cannot be reliably determined, these are disclosed as contingent liabilities. Contingent liabilities are not recognised in the Group's Balance Sheet but disclosed in Note 12.1.

Commentary on certain other provisions and contingent liabilities are given in Note 7.1.

7.1 Other provisions

		Group [1]		Bank [1]	
	Note	**30 Jun 19 $M**	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Employee entitlements		**958**	880	**906**	839
General insurance claims		**292**	219	**-**	-
Customer remediation		**959**	162	**901**	134
Dividends	8.4	**119**	113	**119**	113
Compliance and regulation		**213**	283	**213**	283
Off-balance sheet instruments [2]		**84**	28	**82**	28
Other		**126**	175	**116**	164
Total other provisions		**2,751**	1,860	**2,337**	1,561

(1) Comparative information has been restated to conform to presentation in the current year.
(2) The adoption of AASB 9 impairment requirements on 1 July 2018 resulted in an $87 million increase in the Group's collective provisions for off-balance sheet instruments (Bank: $84 million). As permitted by AASB 9, comparative information has not been restated. For details on the adoption of AASB 9 refer to Note 1.1.

Maturity distribution of other provisions

	Group [1]		Bank [1]	
	30 Jun 19 $M	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Less than twelve months	**2,284**	1,606	**1,825**	1,352
More than twelve months	**467**	254	**512**	209
Total other provisions	**2,751**	1,860	**2,337**	1,561

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

7.1 Other provisions (continued)

	Group (1)		Bank (1)	
Reconciliation	**30 Jun 19 $M**	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
General insurance claims:				
Opening balance	**219**	273	**-**	-
Additional provisions	**637**	530	**-**	-
Amounts utilised during the year	**(564)**	(584)	**-**	-
Closing balance	**292**	219	**-**	-
Customer remediation:				
Opening balance	**162**	202	**134**	194
Additional provisions (2)	**963**	162	**903**	135
Amounts utilised during the year	**(166)**	(157)	**(136)**	(162)
Release of provision	**-**	(45)	**-**	(33)
Closing balance	**959**	162	**901**	134
Compliance and regulation:				
Opening balance	**283**	69	**283**	69
Additional provisions (3)	**125**	389	**125**	389
Amounts utilised during the year	**(188)**	(175)	**(188)**	(175)
Release of provision	**(7)**	-	**(7)**	-
Closing balance	**213**	283	**213**	283
Off-balance sheet instruments:				
Opening balance	**28**	25	**28**	25
Changes on adoption of AASB 9 (4)	**87**	-	**84**	-
Additional provisions	**-**	3	**-**	3
Release of provision	**(31)**	-	**(30)**	-
Closing balance	**84**	28	**82**	28
Other:				
Opening balance	**175**	264	**164**	227
Additional provisions	**57**	135	**49**	93
Amounts utilised during the year	**(100)**	(131)	**(97)**	(113)
Release of provision	**-**	(56)	**-**	(43)
Reclassification to liabilities held for sale	**(6)**	(37)	**-**	-
Closing balance	**126**	175	**116**	164

(1) Comparative information has been restated to conform to presentation in the current year.
(2) Customer remediation includes provisions recognised during the current year for Aligned Advice, Banking and other Wealth Management remediation including related program costs.
(3) Compliance and regulation includes additional provisions recognised during the current year for Financial Crimes Compliance Program of Action, ASIC investigation, Better Risk Outcomes Program (BROP) and litigation related costs.
(4) The adoption of AASB 9 impairment requirements on 1 July 2018 resulted in an $87 million increase in the Group's collective provisions for off-balance sheet instruments (Bank: $84 million). As permitted by AASB 9, comparative information has not been restated. For details on the adoption of AASB 9 refer to Note 1.1.

Accounting policies

General insurance claims

This provision is to cover future claims on general insurance contracts that have been incurred but not reported. The provision will be realised upon settlement of claims whose maturities were uncertain at the reporting date.

Customer remediation

This provision covers customer remediation costs and related program costs.

Compliance and regulation

This provision relates to project and other administrative costs associated with certain compliance and regulatory programs of the Group.

7.1 Other provisions (continued)

Accounting policies (continued)

Other provisions

Other provisions include provisions for redundancy and restructuring costs, self-insurance provisions, make-good provisions in relation to property leases, and provisions for certain other costs.

Provisions for employee entitlements (such as long service leave, annual leave and other employee benefits)

This provision is calculated based on expected payments. Where the payments are expected to be more than one year in the future, these provisions factor in the expected period of service by employees, as well as salary increases. These future obligations are discounted using a market observable rate.

Provisions are recognised for present obligations arising from past events where a payment to settle the obligation is probable and can be reliably estimated. Where the effect of the time value of money is material, the amount of the provision is measured as the present value of expenditures required to settle the obligation, based on a market observable rate.

Critical accounting judgements and estimates

Provisions are held in respect of a range of future obligations, some of which involve significant judgement about the likely outcome of various events and estimated future cash flows.

Customer remediation

Provisions for customer remediation require significant levels of estimation and judgement. The amount raised depends on a number of different assumptions, such as the number of years impacted, the forecast refund rate and the average cost per case. The Group is committed to comprehensively and efficiently addressing the full range of remediation issues impacting customers of the Banking and Wealth Management businesses. Significant resources have been committed to a comprehensive program of work, to ensure that all issues are identified and addressed.

Aligned Advice remediation

During the current year, the Group raised a provision for Aligned Advice remediation issues and program costs, including ongoing service fees charged where no service was provided. Aligned advisors are not employed by the Group but are representatives authorised to provide financial advice under the licences of the Group's subsidiaries, Financial Wisdom Limited, Count Financial Limited and Commonwealth Financial Planning Limited (Pathways only). As at 30 June 2019, the Group holds a provision of $534 million in relation to Aligned Advice remediation. This includes $251 million for customer fee refunds, $123 million for interest on fees subject to refunds and $160 million for costs to implement the remediation program.

The Group's estimate of the proportion of fees to be refunded is based on sample testing and assumes a refund rate of 24%. This compares to a refund rate of 22% which was paid for our salaried advisors. An increase/(decrease) in the failure rate by 1% would result in an increase/(decrease) in the provision of approximately $15 million.

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

Banking and other Wealth customer remediation

During the year ended 30 June 2019, the Group recognised provisions of $384 million for Banking and other Wealth Management customer remediation programs. The provision raised for banking remediation includes an estimate of refunds and interest to customers relating to business banking products, including bank guarantees, cash deposit accounts, merchants billing and certain commercial lending products. The wealth remediation provision includes an estimate of refunds and interest relating to advice quality, fees where no service was provided in the Commonwealth Financial Planning business, the Loan Protection Insurance product and certain other products.

Litigation, investigations and reviews

The Group is party to legal proceedings and the subject of investigations and reviews. These include the matters outlined below as at 30 June 2019. Provisions have been raised where indicated in line with the principles outlined in the accounting policy section of this note.

Litigation

Shareholder class actions

In October 2017 CBA was served with a shareholder class action proceeding filed in the Federal Court of Australia alleging breaches of CBA's continuous disclosure obligations and misleading and deceptive conduct in relation to the subject matter of the civil penalty proceedings brought by Australian Transaction Reports and Analysis Centre (AUSTRAC). The AUSTRAC proceedings concerned contraventions of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth). The resolution of the proceedings was approved by the Federal Court on 20 June 2018 with CBA paying a penalty of $700 million and legal costs. In the shareholder class action, it is alleged that CBA shareholders who acquired an interest in CBA shares between 1 July 2015 and 3 August 2017 suffered loss caused by the alleged conduct.

7.1 Other provisions (continued)

Litigation, investigations and reviews (continued)

Litigation (continued)

Shareholder class actions (continued)

On 29 June 2018 a similar second shareholder class action in relation to the subject matter of the AUSTRAC proceedings was served on CBA on behalf of certain CBA shareholders who acquired an interest in CBA shares between 16 June 2014 and 3 August 2017. On 10 July 2019, court orders were made confirming the two class action proceedings would continue, would be case managed together and proceed by way of one harmonised statement of claim.

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

Superannuation class action

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

ASIC bank bill swap rate

On 21 June 2018 the Federal Court approved the agreement between CBA and the Australian Securities and Investment Commission (ASIC) to resolve the proceedings concerning alleged market manipulation and unconscionable conduct in respect of the bank bill market. Accordingly CBA has paid a civil penalty of $5 million and a community benefit payment of $15 million to Financial Literacy Australia. It also agreed to pay ASIC's costs of the investigation and legal costs. The Group provided for these costs in the prior period.

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

Investigations and reviews

ASIC investigation

In September 2017, following the commencement of the civil proceedings against CBA by AUSTRAC, ASIC launched an investigation in relation to the Group's disclosure in respect of the matters the subject of the AUSTRAC proceedings. ASIC is also investigating, among other things, whether the officers and directors at CBA complied with other specific obligations under the Corporations Act 2001 (Cth). CBA continues to engage with ASIC in respect of the investigation and respond to requests made by ASIC. It is currently not possible to predict the ultimate impact of this investigation, if any, on the Group. The Group has provided for the legal costs expected to be incurred in relation to this investigation.

APRA's prudential inquiry into CBA

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

The final report of the Inquiry was released on 1 May 2018 (the Final Report). The Final Report made a number of findings regarding the complex interplay of organisational and cultural factors within the Group and the need for enhanced management of non-financial risks. In response to the Final Report, the Group acknowledged that it will implement all of the recommendations and agreed to adjust its minimum operational risk capital requirements by an additional $1 billion (risk weighted assets $12.5 billion) until such time as the recommendations are implemented to APRA's satisfaction.

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

7.1 Other provisions (continued)

Litigation, investigations and reviews (continued)

Investigations and reviews (continued)

APRA's prudential inquiry into CBA (continued)

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

The Royal Commission

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

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

Ongoing service fees in Commonwealth Financial Planning

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

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

Fair Work Ombudsman (FWO) Investigation

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

New Zealand compliance audit findings

The Labour Inspectorate in New Zealand is undertaking a programme of compliance audits on a number of organisations in respect of the Holidays Act 2003 (the "Holidays Act"). On 18 December 2018 ASB Bank Limited (ASB) received the Labour Inspectorate's report of its findings on ASB's compliance with the Holidays Act. The findings, based on a sample of employees, include that ASB has not complied with the requirements of the Holidays Act by not including certain incentive payments in ASB's calculation of gross earnings under the Holidays Act. ASB's position in relation to that finding is that the application of the law is uncertain and yet to be definitively determined. That finding, if extrapolated to ASB's entire workforce, would result in an estimated liability of NZD31 million in total for the preceding six years' annual holiday payments. ASB will continue to engage with the Labour Inspectorate on the matter.

Enforceable Undertaking accepted by Office of Australian Information Commission

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

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

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

7.1 Other provisions (continued)

Litigation, investigations and reviews (continued)

Investigations and reviews (continued)

Program of Action

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

Remediation and Compliance Programs

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

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

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

Other matter

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

7.2 Bills payable and other liabilities

	Group [1]		Bank [1]	
	30 Jun 19 $M	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Bills payable	**756**	931	**664**	827
Accrued interest payable	**2,676**	2,745	**2,059**	2,163
Accrued fees, employee incentives and other items payable [2] [3] [4]	**2,390**	3,194	**1,906**	2,523
Securities purchased not delivered	**2,414**	2,456	**1,774**	1,942
Unearned income [3] [5]	**1,439**	1,389	**1,011**	968
Other	**610**	910	**1,626**	1,722
Total bills payable and other liabilities	**10,285**	11,625	**9,040**	10,145

(1) Comparative information has been restated to conform to presentation in the current year.
(2) The balance as at 30 June 2018 includes a payable for AUSTRAC civil penalty of $700 million.
(3) Current period balances reflect the adoption of AASB 15 Revenue from Contracts with Customers' on 1 July 2018. As permitted by AASB 15 comparative information has not been restated. For details on adoption of AASB 15 refer to Note 1.1.
(4) Accrued fees payable as at 30 June 2019 include trail commissions payable of $265 million for the Group.
(5) Unearned income includes annual facility fees, commitment fees and upfront fees that are deferred and recognised over the service periods. Of the unearned income recognised at the beginning of the period, the Group and the Bank has recognised $177 million and $174 million, respectively, as income for the period ended 30 June 2019.

Accounting policies

Bills Payable and Other Liabilities include accrued interest payable, accrued incentives payable, accrued fees payable and unearned income. Bills Payable and Other Liabilities are measured at the contractual amount payable. As most payables are short-term in nature, the contractual amount payable approximates fair value.

8. Our capital, equity and reserves

Overview

The Group maintains a strong capital position in order to satisfy regulatory capital requirements, provide financial security to its depositors and creditors and adequate return to its shareholders. The Group's Shareholders' Equity includes issued ordinary shares, retained earnings and reserves.

This section provides analysis of the Group's Shareholders' Equity including changes during the period.

8.1 Capital adequacy

The Bank is an Authorised Deposit-taking Institution (ADI) regulated by APRA under the authority of the Banking Act 1959. APRA has set minimum regulatory capital requirements for banks based on the Basel Committee on Banking Supervision (BCBS) guidelines.

The Basel III measurement and monitoring of capital has been effective from 1 January 2013. APRA has adopted a more conservative approach than the minimum standards published by the BCBS and also adopted an accelerated timetable for implementation. The requirements define what is acceptable as capital and provide methods of measuring the risks incurred by the Bank.

The regulatory capital requirements are measured for the Extended Licenced Entity Group (known as "Level 1", comprising the Bank and APRA approved subsidiaries) and for the Bank and all of its banking subsidiaries, which includes ASB Bank (known as "Level 2" or the "Group").

All entities which are consolidated for accounting purposes are included within the Group capital adequacy calculations except for:

- The insurance and funds management operating subsidiaries; and
- The entities through which securitisation of Group assets are conducted.

Regulatory capital is divided into Common Equity Tier 1 (CET1), Additional Tier 1 Capital and Tier 2 Capital. CET1 primarily consists of Shareholders' Equity, less goodwill and other prescribed adjustments. Additional Tier 1 Capital is comprised of high quality capital providing a permanent and unrestricted commitment of funds, is freely available to absorb losses, ranks behind the claims of depositors and other more senior creditors and provides for fully discretionary capital distributions. Tier 1 capital is the aggregate of CET1 and Additional Tier 1 capital. Tier 2 Capital is hybrid and debt instruments that fall short of necessary conditions to qualify as Additional Tier 1 to APRA. Total Capital is the aggregate of Tier 1 and Tier 2 Capital.

The tangible component of the investment in the insurance and funds management operations are deducted 100% from CET1.

Capital adequacy is measured by means of risk based capital ratios. The capital ratios reflect capital (CET1, Additional Tier 1, Tier 2 and Total Capital) as a percentage of total Risk Weighted Assets (RWA). RWA represents an allocation of risks associated with the Group's assets and other related exposures.

The Group has a range of instruments and methodologies available to effectively manage capital. These include share issues and buybacks, dividend and DRP policies, hybrid capital raising and dated and undated subordinated loan capital issuances. All major capital related initiatives require approval of the Board.

The Group's capital position is monitored on a continuous basis and reported monthly to the Executive Leadership Team and at regular intervals throughout the year to the Board.

The Group's capital ratios throughout the 2017, 2018 and 2019 financial years were in compliance with both APRA minimum capital adequacy requirements and the Board approved minimums. The Group is required to inform APRA immediately of any breach or potential breach of its minimum prudential capital adequacy requirements, including details of remedial action taken or planned to be taken.

8.2 Loan capital

				Group			Bank
		Currency Amount (M)	**Endnotes**	**30 Jun 19 $M**	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Tier 1 Loan Capital							
Undated	FRN	USD 100	(1)	**143**	135	**143**	135
Undated	PERLS VI	AUD 2,000	(2)	**-**	1,999	**-**	1,999
Undated	PERLS VII	AUD 3,000	(3)	**2,985**	2,978	**2,985**	2,978
Undated	PERLS VIII	AUD 1,450	(3)	**1,441**	1,436	**1,441**	1,436
Undated	PERLS IX	AUD 1,640	(3)	**1,628**	1,622	**1,628**	1,622
Undated	PERLS X	AUD 1,365	(3)	**1,356**	1,356	**1,352**	1,352
Undated	PERLS XI	AUD 1,590	(3)	**1,580**	-	**1,576**	-
Total Tier 1 Loan Capital				**9,133**	9,526	**9,125**	9,522
Tier 2 Loan Capital							
AUD denominated			(4)	**1,774**	1,773	**1,774**	1,773
USD denominated			(5)	**4,616**	4,380	**4,616**	4,380
JPY denominated			(6)	**968**	896	**968**	896
GBP denominated			(7)	**-**	266	**-**	266
NZD denominated			(8)	**379**	729	**-**	-
EUR denominated			(9)	**5,259**	5,107	**5,259**	5,107
Other currencies denominated			(10)	**318**	309	**318**	309
Total Tier 2 Loan Capital				**13,314**	13,460	**12,935**	12,731
Fair value hedge adjustments				**519**	6	**509**	(4)
Total Loan Capital (1)				**22,966**	22,992	**22,569**	22,249

(1) Loan Capital includes unrealised movements of $220 million in 2019 predominantly due to foreign exchange gains and losses.

As at 30 June 2019, $1,604 million of securities issued by the Group and $1,620 million of securities issued by the Bank were contractually due for redemption in the next 12 months (the Group has the right to call some securities earlier than the contractual maturity).

(1) USD100 million Floating Rate Notes

On 15 October 1986, the State Bank of Victoria issued USD125 million of floating rate notes, the current outstanding balance is USD100 million. The floating rate notes are perpetual but were able to be redeemed from October 1991. They were assigned to the Bank on 1 January 1991.

The Bank entered into an agreement with the Commonwealth of Australia on 31 December 1991 which provides that, if certain events occur, the Bank may either issue CBA ordinary shares to the Commonwealth of Australia, or (with the consent of the Commonwealth of Australia) conduct a renounceable rights issue for CBA ordinary shares to all shareholders. The capital raised must be used to pay any amounts due and payable on the floating rate notes.

The floating rate notes were issued into the international markets and are subject to English law. They qualify as Additional Tier 1 Capital of the Bank under the Basel III transitional arrangements for capital instruments as implemented by APRA.

(2) PERLS VI

On 17 October 2012, the Bank issued $2,000 million of Perpetual Exchangeable Resaleable Listed Securities (PERLS VI). All PERLS VI were redeemed for cash on 17 December 2018.

(3) PERLS VII, PERLS VIII, PERLS IX, PERLS X and PERLS XI

On 1 October 2014, the Bank issued $3,000 million of CommBank PERLS VII Capital Notes (PERLS VII). On 30 March 2016, the Bank issued $1,450 million of CommBank PERLS VIII Capital Notes (PERLS VIII). On 31 March 2017, the Bank issued $1,640 million of CommBank PERLS IX Capital Notes (PERLS IX). On 6 April 2018, the Bank issued $1,365 million of CommBank PERLS X Capital Notes (PERLS X). On 17 December 2018, the Bank issued $1,590 million of CommBank PERLS XI Capital Notes (PERLS XI). PERLS VII, PERLS VIII, PERLS IX, PERLS X and PERLS XI are subordinated, unsecured notes.

PERLS VII, PERLS VIII, PERLS IX, PERLS X and PERLS XI are listed on the ASX and are subject to New South Wales law. They qualify as Additional Tier 1 Capital of the Bank under Basel III as implemented by APRA.

8.2 Loan Capital (continued)

(4) AUD denominated Tier 2 loan capital issuances

- $25 million subordinated floating rate notes, issued April 1999, due April 2029;
- $1,000 million subordinated notes issued November 2014, due November 2024; and
- $750 million subordinated notes issued June 2016, due June 2026.

(5) USD denominated Tier 2 loan capital issuances

- USD1,250 million subordinated notes issued December 2015, due December 2025;
- USD750 million subordinated Euro Medium Term Notes (EMTN) issued October 2016, due October 2026; and
- USD 1,250 million subordinated notes issued January 2018, due in January 2048.

(6) JPY denominated Tier 2 loan capital issuances

- JPY20 billion perpetual subordinated EMTN, issued February 1999;
- JPY40 billion subordinated EMTNs issued December 2016 (three tranches JPY20 billion, JPY10 billion and JPY10 billion), due December 2026; and
- JPY13.3 billion subordinated EMTN issued March 2017, due March 2027.

(7) GBP denominated Tier 2 loan capital issuances

- GBP150 million subordinated EMTN, issued June 2003, and redeemed in December 2018.

(8) NZD denominated Tier 2 loan capital issuances

- NZD400 million subordinated, unsecured notes, issued April 2014, and redeemed in June 2019:
  On 17 April 2014, a wholly owned entity of the Bank (ASB Bank Limited) issued NZD400 million subordinated, unsecured notes (ASB Notes) with a face value of NZD1 each. All ASB Notes were redeemed for cash on 17 June 2019; and
- NZD400 million subordinated, unsecured notes, issued November 2016, due December 2026:
  On 30 November 2016, ASB Bank Limited issued NZD400 million subordinated, unsecured notes (ASB Notes 2) with a face value of NZD1 each.

ASB Notes 2 are listed on the New Zealand Stock Exchange (NZX) debt market and are subject to New South Wales and New Zealand law. They qualify as Tier 2 Capital of the Bank and ASB under Basel III as implemented by APRA and the RBNZ.

(9) EUR denominated Tier 2 loan capital issuances

- EUR1,000 million subordinated notes, issued August 2009, due August 2019;
- EUR1,250 million subordinated notes issued April 2015, due April 2027; and
- EUR 1,000 million subordinated EMTN, issued October 2017, due October 2029.

(10) Other foreign currency denominated Tier 2 loan capital issuances

- CNY1,000 million subordinated notes issued March 2015, due March 2025; and
- HKD608 million subordinated EMTN issued March 2017, due March 2027.

All Tier 2 Capital securities issued prior to 1 January 2013 qualify as Tier 2 Capital of the Bank under the Basel III transitional arrangements for capital instruments as implemented by APRA. All Tier 2 Capital securities issued after 1 January 2013 qualify as Tier 2 Capital of the Bank under Basel III as implemented by APRA.

PERLS VII, PERLS VIII, PERLS IX, PERLS X and PERLS XI, and all Tier 2 Capital securities issued after 1 January 2013, are subject to Basel III, under which these securities must be exchanged for a variable number of CBA ordinary shares or written down if a capital trigger event (PERLS VII, PERLS VIII, PERLS IX, PERLS X and PERLS XI only) or a non-viability trigger event (all securities) occurs. Any exchange will occur as described in the terms of the applicable instrument documentation.

Accounting policies

Loan capital are instruments issued by the Group, which qualify as regulatory capital under the Prudential Standards set by the Australian Prudential Regulation Authority (APRA) and the Reserve Bank of New Zealand (RBNZ). Loan capital is initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method. Interest expense incurred is recognised in Net Interest Income.

8.3 Shareholders' equity

	Group		Bank	
	30 Jun 19 $M	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Ordinary Share Capital				
Shares on issue:				
Opening balance	**37,535**	35,266	**37,533**	35,262
Issue of shares (net of issue costs) (1)	**-**	164	**-**	164
Dividend reinvestment plan (net of issue costs) (2) (3)	**748**	2,105	**748**	2,107
	38,283	37,535	**38,281**	37,533
Less treasury shares:				
Opening balance	**(265)**	(295)	**-**	-
Purchase of treasury shares (4)	**(93)**	(95)	**(69)**	-
Sale and vesting of treasury shares (4)	**95**	125	**-**	-
	(263)	(265)	**(69)**	-
Closing balance	**38,020**	37,270	**38,212**	37,533

(1) During the year ended 30 June 2018, shares issued relate to the acquisition of the remaining 20% interest in AHL Holding Pty Limited.
(2) The determined dividend includes an amount attributable to the dividend reinvestment plan of $749 million (final 2017/2018), $536 million (interim 2017/2018) and $1,573 million (final 2016/2017). The value of shares issued under plans rules net of issue costs for the respective periods was $748 million, $533 million and $1,572 million.
(3) The DRP in respect of 2018/2019 interim dividend was satisfied in full through the on-market purchase and transfer of 8,080,558 shares to participating shareholders.
(4) The movement in treasury shares relate to amounts held within life insurance statutory funds, and 1,178,102 shares acquired at an average price of $69.95 for satisfying the Company's obligations under various equity settled share plans. Other than shares purchased as part of the Non-Executive Director fee sacrifice arrangements disclosed in Note 10.3, shares purchased were not on behalf of or initially allocated to a director.

	Group		Bank	
Number of shares on issue	**30 Jun 19 Shares**	30 Jun 18 Shares	**30 Jun 19 Shares**	30 Jun 18 Shares
Opening balance (excluding treasury shares deduction)	**1,759,842,930**	1,729,868,161	**1,759,842,930**	1,729,868,161
Issue of shares (1)	**-**	2,087,604	**-**	2,087,604
Dividend reinvestment plan issues:				
2016/2017 Final dividend fully paid ordinary shares $75.73	**-**	20,772,433	**-**	20,772,433
2017/2018 Interim dividend fully paid ordinary shares $75.38	**-**	7,114,732	**-**	7,114,732
2017/2018 Final dividend fully paid ordinary shares $72.05	**10,396,577**	-	**10,396,577**	-
2018/2019 Interim dividend fully paid ordinary shares $73.21 (2)	**-**	-	**-**	-
Closing balance (excluding treasury shares deduction)	**1,770,239,507**	1,759,842,930	**1,770,239,507**	1,759,842,930
Less: treasury shares (3) (4)	**(2,508,628)**	(3,489,325)	**-**	-
Closing balance	**1,767,730,879**	1,756,353,605	**1,770,239,507**	1,759,842,930

(1) During the year ended 30 June 2018, the number of shares issued relates to the acquisition of the remaining 20% interest in AHL Holdings Pty Limited.
(2) The DRP in respect of 2018/2019 interim dividend was satisfied in full through the on-market purchase and transfer of 8,080,558 shares at $73.21 to participating shareholders.
(3) Comparative information has been restated to conform to presentation in the current year.
(4) Relates to treasury shares held within the life insurance statutory funds and the employees share scheme.

Ordinary shares have no par value and the Company does not have a limited amount of share capital.

Ordinary shares entitle holders to receive dividends payable to ordinary shareholders and to participate in the proceeds available to ordinary shareholders on winding up of the Company in proportion to the number of fully paid ordinary shares held.

On a show of hands every holder of fully paid ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll one vote for each share held.

8.3 Shareholders' equity (continued)

Retained Profits	Group 30 Jun 19 $M	Group 30 Jun 18 $M	Bank 30 Jun 19 $M	Bank 30 Jun 18 $M
Opening balance	**28,360**	26,274	**23,819**	22,256
Changes on adoption of new accounting standards [1]	**(955)**	-	**(868)**	-
Restated opening balance	**27,405**	26,274	**22,951**	22,256
Actuarial (losses)/gains from defined benefit superannuation plans	**(49)**	161	**(50)**	159
Losses on liabilities at fair value due to changes in own credit risk	**-**	(2)	**-**	(2)
Realised gains and dividend income on treasury shares	**12**	16	**-**	-
Net profit attributable to Equity holders of the Bank	**8,571**	9,329	**7,783**	8,875
Total available for appropriation	**35,939**	35,778	**30,684**	31,288
Transfers from/(to) general reserve	**126**	47	**(2)**	(4)
Transfers from asset revaluation reserve	**23**	19	**23**	19
Interim dividend - cash component	**(2,949)**	(2,969)	**(2,949)**	(2,969)
Interim dividend - Dividend reinvestment plan [2] [3]	**(592)**	(536)	**(592)**	(536)
Final dividend - cash component	**(3,316)**	(2,406)	**(3,316)**	(2,406)
Final dividend - Dividend reinvestment plan [3]	**(749)**	(1,573)	**(749)**	(1,573)
Closing balance	**28,482**	28,360	**23,099**	23,819

(1) The Group adopted AASB 9 'Financial Instruments' and AASB 15 'Revenue' on 1 July 2018. The carrying amounts of assets and liabilities impacted by the adoption were adjusted through opening retained profits and reserves on 1 July 2018 as if the Group has always applied the new requirements. As permitted by AASB 9 and AASB 15, comparative information has not been restated. For details on the adoption of AASB 9 and AASB 15 refer to Note 1.1.

(2) The DRP in respect of 2018/2019 interim dividend was satisfied in full through the on-market purchase and transfer of 8,080,558 shares to participating shareholders.

(3) The determined dividend includes an amount attributable to the dividend reinvestment plan of $749 million (final 2017/2018), $536 million (interim 2017/2018), and $1,573 million (final 2016/2017). The value of shares issued under plans rules net of issue costs for the respective periods was $748 million, $533 million, and $1,572 million.

8.3 Shareholders' equity (continued)

	Group		Bank	
Reserves	**30 Jun 19 $M**	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
General Reserve				
Opening balance	**859**	906	**584**	580
Transfer (to)/from retained profits	**(126)**	(47)	**2**	4
Closing balance	**733**	859	**586**	584
Capital Reserve				
Opening balance	**-**	-	**1,254**	1,254
Closing balance	**-**	-	**1,254**	1,254
Asset Revaluation Reserve				
Opening balance	**235**	223	**206**	196
Revaluation of properties	**38**	35	**37**	33
Transfer to retained profits	**(23)**	(19)	**(23)**	(19)
Income tax effect	**(4)**	(4)	**(4)**	(4)
Closing balance	**246**	235	**216**	206
Foreign Currency Translation Reserve				
Opening balance	**448**	457	**88**	35
Currency translation adjustments of foreign operations	**491**	(9)	**233**	39
Currency translation on net investment hedge	**(20)**	15	**(19)**	14
Income tax effect	**(7)**	(15)	**-**	-
Closing balance	**912**	448	**302**	88
Cash Flow Hedge Reserve				
Opening balance	**(160)**	(107)	**70**	66
Gains/(losses) on cash flow hedging instruments:				
Recognised in other comprehensive income	**1,087**	(260)	**1,356**	6
Transferred to Income Statement:				
Interest income	**(630)**	(960)	**(674)**	(975)
Interest expense	**898**	1,160	**746**	985
Income tax effect	**(408)**	7	**(425)**	(12)
Closing balance	**787**	(160)	**1,073**	70
Employee Compensation Reserve				
Opening balance	**145**	164	**139**	164
Current period movement	**16**	(19)	**22**	(25)
Closing balance	**161**	145	**161**	139

8.3 Shareholders' equity (continued)

	Group		Bank	
	30 Jun 19 $M	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Investment Securities Revaluation Reserve				
Opening balance	**-**	-	**-**	-
Change on adoption of AASB 9 (1)	**149**	-	**227**	-
Restated opening balance	**149**	-	**227**	-
Net gains on revaluation of investment securities	**140**	-	**18**	-
Net gains on investment securities transferred to Income Statement on disposal	**(42)**	-	**(42)**	-
Income tax effect	**6**	-	**18**	-
Closing balance	**253**	-	**221**	-
Available-for-sale Investments Reserve				
Opening balance	**149**	226	**227**	261
Change on adoption of AASB 9 (1)	**(149)**	-	**(227)**	-
Restated opening balance	**-**	226	**-**	261
Net losses on revaluation of available-for-sale investments	**-**	(185)	**-**	(135)
Net losses on available-for-sale investments transferred to Income Statement on disposal	**-**	87	**-**	87
Income tax effect	**-**	21	**-**	14
Closing balance	**-**	149	**-**	227
Total Reserves	**3,092**	1,676	**3,813**	2,568
Shareholders' Equity attributable to Equity holders of the Bank	**69,594**	67,306	**65,124**	63,920
Shareholders' Equity attributable to Non-controlling interests	**55**	554	**-**	-
Total Shareholders' Equity	**69,649**	67,860	**65,124**	63,920

(1) The Group and the Bank adopted AASB 9 'Financial Instruments' on 1 July 2018. The carrying amounts of assets and liabilities impacted by the adoption were adjusted through opening retained profits and reserves on 1 July 2018 as if the Group and the Bank have always applied the new requirements. As permitted by AASB 9, comparative information has not been restated. For details on the adoption of AASB 9 refer to Note 1.1.

8.3 Shareholders' equity (continued)

Accounting policies

Shareholders' equity includes ordinary share capital, retained profits and reserves. Policies for each component are set out below:

Ordinary share capital

Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs. Where the Bank or entities within the Group purchase shares in the Bank, the consideration paid is deducted from total Shareholders' equity and the shares are treated as treasury shares until they are subsequently sold, reissued or cancelled. Where such shares are sold or reissued, any consideration received is included in Shareholders' Equity.

Retained profits

Retained profits includes the accumulated profits for the Group including certain amounts recognised directly in retained profits less dividends paid.

Reserves

General Reserve

The general reserve is derived from revenue profits and is available for dividend payments except for undistributable profits in respect of the Group's life insurance business.

Capital reserve

The capital reserve held by the Bank relates to historic internal Group restructuring performed at fair value. The capital reserve is eliminated on consolidation.

Asset revaluation reserve

The asset revaluation reserve is used to record revaluation adjustments on the Group's property assets. Where an asset is sold or disposed of, any balance in the reserve in relation to the asset is transferred directly to retained profits.

Foreign currency translation reserve

Exchange differences arising on translation of the Group's foreign operations are accumulated in the foreign currency translation reserve. Specifically assets and liabilities are translated at the prevailing exchange rate at Balance Sheet date; revenue and expenses are translated at the transaction date; and all resulting exchange differences are recognised in the foreign currency translation reserve.

When a foreign operation is disposed of, exchange differences are recycled out of the reserve and recognised in the Income Statement.

Cash flow hedge reserve

The cash flow hedge reserve is used to record fair value gains or losses associated with the effective portion of designated cash flow hedging instruments. Amounts are reclassified to the Income Statement when the hedged transaction impacts profit or loss.

Employee compensation reserve

The employee compensation reserve is used to recognise the fair value of shares and other equity instruments issued to employees under the employee share plans and bonus schemes.

Investment securities revaluation reserve

The investment securities revaluation reserve includes changes in the fair value of investment securities measured at fair value through other comprehensive income. For debt securities, these changes are reclassified to the Income Statement when the asset is derecognised. For equity securities, these changes are not reclassified to the Income Statement when derecognised.

8.4 Dividends

		Group			Bank	
	Note	**30 Jun 19 $M**	30 Jun 18 $M	30 Jun 17 $M	**30 Jun 19 $M**	30 Jun 18 $M
Ordinary Shares						
Interim ordinary dividend (fully franked) (2019: 200 cents; 2018: 200 cents; 2017: 199 cents)						
Interim ordinary dividend paid - cash component only		**2,949**	2,969	2,871	**2,949**	2,969
Interim ordinary dividend paid - Dividend Reinvestment Plan (1)		**592**	536	558	**592**	536
Total dividend paid		**3,541**	3,505	3,429	**3,541**	3,505
Other provision carried		**119**	113	100	**119**	113
Dividend proposed and not recognised as a liability (fully franked) (2019: 231 cents; 2018: 231 cents; 2017: 230 cents) (2)		**4,089**	4,065	3,979	**4,089**	4,065
Provision for dividends						
Opening balance		**113**	100	90	**113**	100
Provision made during the year		**7,606**	7,484	7,237	**7,606**	7,484
Provision used during the year		**(7,600)**	(7,471)	(7,227)	**(7,600)**	(7,471)
Closing balance	7.1	**119**	113	100	**119**	113

(1) The DRP in respect of the 2018/2019 interim dividend was satisfied in full through the on-market purchase and transfer of 8,080,558 shares to participating shareholders.

(2) The 2019 final dividend will be satisfied by cash disbursements with the Dividend Reinvestment Plan (DRP) anticipated to be satisfied in full through an on-market purchase of shares. The 2018 final dividend was satisfied by cash disbursements of $3,316 million and $749 million being reinvested by the participants through the DRP. The 2017 final dividend was satisfied by cash disbursements of $2,406 million and $1,573 million being reinvested by the participants through the DRP.

Final dividend

The Directors have declared a franked final dividend of 231 cents per share amounting to $4,089 million. The dividend will be payable on 26 September 2019 to shareholders on the register at 5pm AEST on 15 August 2019. The ex-dividend date is 14 August 2019.

The Board determines the dividends based on the Group's net profit after tax ("cash basis") per share, having regard to a range of factors including:

- Current and expected rates of business growth and the mix of business;
- Capital needs to support economic, regulatory and credit ratings requirements;
- Investments and/or divestments to support business development;
- Competitors comparison and market expectations; and
- Earnings per share growth.

Dividend franking account

After fully franking the final dividend to be paid for the year, the amount of credits available at the 30% tax rate as at 30 June 2019 to frank dividends for subsequent financial years, is $1,190 million (2018: $1,464 million). This figure is based on the franking accounts of the Bank at 30 June 2019, adjusted for franking credits that will arise from the payment of income tax payable on profits for the year, franking debits that will arise from the payment of dividends proposed, and franking credits that the Bank may be prevented from distributing in subsequent financial periods.

The Bank expects that future tax payments will generate sufficient franking credits for the Bank to be able to continue to fully frank future dividend payments. These calculations have been based on the taxation law as at 30 June 2019.

8.4 Dividends (continued)

Dividend history

Half year ended	Cents Per Share	Payment Date	Half-year Payout Ratio [(1)] %	Full Year Payout Ratio [(1)] %	DRP Price $	DRP Participation Rate [(2)] %
31 December 2016	199	04/04/2017	70. 1	-	83. 21	16. 3
30 June 2017	230	29/09/2017	79. 0	74. 6	75. 73	39. 5
31 December 2017	200	28/03/2018	71. 4	-	75. 38	15. 3
30 June 2018	231	28/09/2018	91. 9	81. 2	72. 05	18. 4
31 December 2018	200	28/03/2019	77. 0	-	73. 21	16. 7
30 June 2019	231	26/09/2019	103. 0	89. 0	-	-

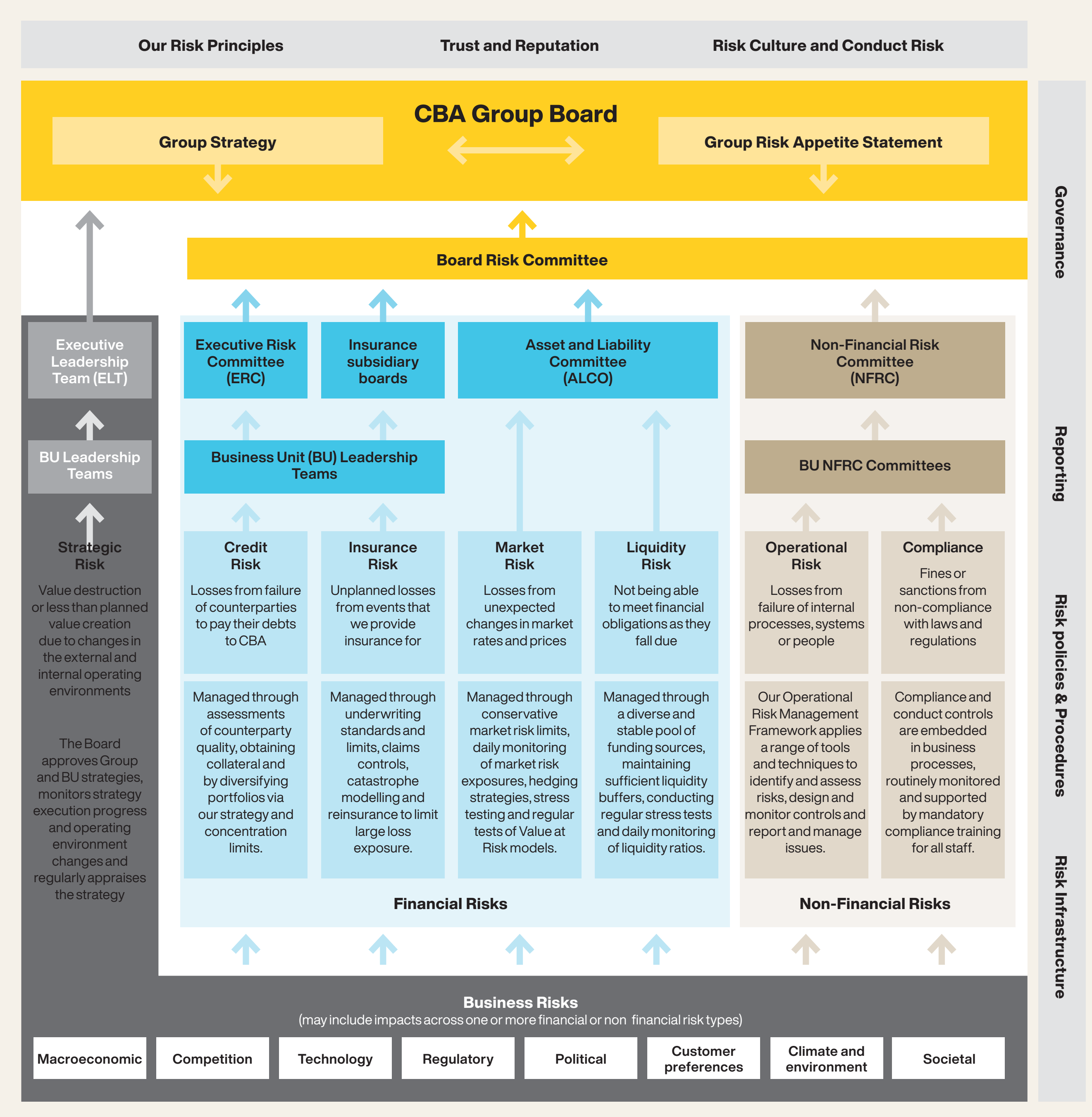
(1) Dividend Payout Ratio: dividends divided by statutory earnings (earnings are net of dividends on other equity instruments).
(2) DRP Participation Rate: the percentage of total issued share capital participating in the DRP.

Accounting policies

Dividends represent a distribution of profits that holders of ordinary shares receive from time to time. Dividends are not accrued as a liability until a dividend declaration is made by the Board of the Bank. The liability is reduced when the dividend is paid. The Board takes into consideration factors including the Group's relative capital strength and the Group's existing dividend payout ratio guidelines in determining the amount of dividends to be paid.

9. Risk management

The Group is exposed to business, financial and non-financial risks arising from its operations. The Group manages these risks through its Risk Management Framework (Framework) that evolves with emerging risks arising from the changing business environment, better practice approaches, and regulatory and community expectations. The components of the Framework are illustrated below, including the governance that enables executive and Board oversight of these risks.



Further details on each of the material risks, and how the Group manages them are outlined in this note.

9.1 Risk management framework

The Group's embedded Framework enables the appropriate development and implementation of strategies, policies and procedures to manage its risks. The Framework incorporates the requirements of APRA's prudential standard for risk management (CPS 220) supported by the three key documentary components:

- The Group Risk Appetite Statement (RAS) articulates the type and degree of risk the Board is prepared to accept and the maximum level of risk that the institution must operate within.
- The Group Risk Management Approach (RMA) describes how the Group ensures the comprehensive management of risks across the Group in support of achieving its strategic goals.
- The Group Business Plan (Plan) summarises the Group's approach to the implementation of its strategic objectives. The Plan has a rolling three year duration and reflects material risks arising from its implementation.

The Framework is underpinned by key foundational components, in particular:

Risk culture and conduct risk

Risk culture is the beliefs, values and practices within the organisation that determine how risks are identified, measured, governed, and acted upon. A strong risk culture guides our actions in a resilient and flexible way when we need to react and make sound judgements in new and unfamiliar circumstances. The organisation's culture influences employee behaviours and has the potential to lead to poor conduct. The Board's RAS in relation to conduct requires business practices that are fair to our customers, protects the fair and efficient operation of the market and engender confidence in our products and services. The Group's risk culture emphasises doing what is right, accountability, service, excellence and getting things done the right way. Annually the CBA Board forms a view regarding the effectiveness of the Group's risk culture in keeping risk taking within appetite. Action plans are initiated and monitored to drive positive risk culture changes in areas of need.

Trust and reputation

The reputation of the Group and trust of stakeholders are significant assets. Damage to the Group's reputation arises from negative perception on the part of customers, counterparties, shareholders, investors, debt holders, market analysts, regulators and other relevant stakeholders of the Group. The Group's purpose and values combined with the organisational culture and our conduct as an organisation and as individuals form the framework which protects this asset. Potential adverse reputational impacts are mitigated by managing our material risks well, living by our Code of Conduct and actively focusing on transparency in business decisions and engagement with our customers. In addition the Group has a corporate responsibility plan focused on driving positive change through education, innovation and good business practice.

The four key elements that operationalise the Framework are:

Risk governance

The Group is committed to ensuring that its risk management practices reflect a high standard of governance. This enables Management to undertake, in an effective manner, prudent risk-taking activities. The Board operates as the highest level of the Group's risk governance as specified in its Charter. The Risk Committee oversees the Framework and helps formulate the Group's risk appetite for consideration by the Board. In particular it:

- Monitors the Group's risk profile (including identification of emerging risks);
- Reviews regular reports from Management on the measurement of risk and the adequacy and effectiveness of the Group's risk management and internal controls systems;
- Forms a view on the independence of the risk function by meeting with the Group Chief Risk Officer (CRO) at the will of the Committee or the CRO.

The Group operates a Three Lines of Accountability (3LoA) model which places accountability for risk ownership with Line 1 Business Units (BUs) while focussing the mandate of Line 2 Risk Teams on appetite and framework, oversight, assurance, approval or acceptance of risk and advice. Line 3 Audit provides independent assurance to the Board, regulators and other stakeholders of the effectiveness of risk management, internal controls and governance. This model recognises that the business is best positioned to make optimal long-term risk-reward decisions that consider the full end-to-end value chain.

Risk policies & procedures

Risk policies and procedures provide guidance to the business on the management of each material risk. They support the Framework by:

- Summarising the principles and practices to be used by the Group in identifying and assessing its material risks;
- Quantifying the financial operating tolerances for material risks; and
- Clearly stating the types of risk outcomes to which the Group is intolerant.

Risk reporting

Regular management information is produced which allows financial and non-financial risk positions to be monitored against approved Risk Appetite and policy limits. At Board level, the majority of risk reporting is provided to the Board Risk Committee but regulatory relationships, strategic risk and reputational matters, capital and liquidity risk are reported directly. Controls reporting is provided to the Audit Committee. The Chairs of the Board Risk and Audit Committees report to the Board post Committee meetings.

Risk management infrastructure

The Framework is supported by key infrastructure systems and processes for the management of the Group's material risk types. The key risk management systems and processes in place include:

- Established risk identification and assessment processes;
- Risk controls and mitigation plans;
- A Management Information System to measure and aggregate risks across the Group;
- Risk models and tools;
- A Risk-Adjusted-Performance Measurement (RAPM) process that is a means of assessing the performance of a business after adjustment for its capital consumption and is used as a basis for executive incentives; and
- An Internal Capital Adequacy Assessment Process (ICAAP) used in combination with other risk management practices (including stress testing), to understand, manage and quantify the Group's risks; the outcomes of which are used to inform risk decisions, set capital buffers and assist strategic planning.

9.1 Risk management framework (continued)

Material risk types

Risk Type	Description	Governing Policies and Key Management Committees	Key Limits, Standards and Measurement Approaches
Credit Risk	Credit risk is the potential for loss arising from the failure of a counterparty to meet their contractual obligations to the Group. At a portfolio level, credit risk includes concentration risk arising from interdependencies between customers, and concentrations of exposures to geographical regions and industry sectors.	**Governing Policies:** • Group Credit Risk Principles, Framework and Governance • Group and Business Unit Credit Risk Policies **Key Management Committee**: • Executive Risk Committee • Loan Loss Provisioning Committee	The following credit concentration frameworks set credit portfolio concentration limits: • Large Credit Exposure Policy; • Country Risk Exposure Policy; and • Industry Sector Concentration Policy. Credit risk indicators with associated intervention levels are set in the Group RAS for corporate and retail exposures and cascaded to BUs. Group and BU Credit Risk Policies cover the credit risk exposure cycle. The measurement of credit risk is primarily based on the APRA accredited Advanced Internal Ratings Based (AIRB) approach.
Market Risk (including Equity 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 Group. This includes changes in interest rates, foreign exchange rates, equity and commodity prices, credit spreads, and the resale value of operating leased assets at maturity (lease residual value risk).	**Governing Policies:** • The Group Market Risk Policy **Key Management Committee**: • Asset and Liability Committee	The Group Market Risk Policy sets limits and standards with respect to the following: • Traded Market Risk; • Interest Rate Risk in the Banking Book (IRRBB); • Residual Value Risk; • Non-traded Equity Risk; and • Market Risk in Insurance Businesses. The respective measurement approaches for these risks include: • Value at Risk, Stress Testing; • Market Value Sensitivity, Net Interest Earnings at Risk; • Aggregate Residual Value Risk Margin; • Aggregate Portfolio Limit; and • Value at Risk.
Liquidity and Funding Risk	Liquidity risk is the combined risks of not being able to meet financial obligations as they fall due (funding liquidity risk), and that liquidity in financial markets, such as the market for debt securities, may reduce significantly (market liquidity risk).	**Governing Policies:** • Group Liquidity Risk Management Policy **Key Management Committee:** • Asset and Liability Committee	The Group Liquidity Policy sets limits and standards with respect to the following: • The Liquidity Coverage Ratio, which sets minimum levels for liquid assets; • The Net Stable Funding Ratio, which encourages stable funding of core assets; • Market and idiosyncratic stress test scenarios; and • Limits that set tolerances for the sources and tenor of funding. The measurement of liquidity risk uses scenario analysis, covering both adverse and ordinary operating circumstances.
Operational Risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	**Governing Policies:** • Operational Risk Management Framework (ORMF) • Operational Risk Policies and Standards **Key Management Committee:** • Executive Leadership Team Non- Financial Risk Committee.	A range of Operational Risk indicators are included in the Group Risk Appetite Statement (RAS). The measurement of operational risk capital is based on an APRA accredited Advanced Measurement Approach. The approach combines internal and external loss experience and business judgements captured through Scenario Analysis.
Compliance Risk	Compliance risk is the risk of sanctions, financial loss, or reputational damage we may suffer as a result of the Group's failure to comply with laws, regulations, rules, statements of regulatory policy, and codes of conduct applicable to its business activities (not including operational risk failures) and includes societal expectations. Financial crime represents a sub-component of Compliance Risk and covers risks including Anti Money Laundering, Counter Terrorism Financing, Anti-Bribery and Corruption, and Sanctions.	**Governing Policies:** • Group Compliance Management Framework (CMF) • Group and Business Unit Compliance Policies **Key Management Committee:** • Executive Leadership Team Non- Financial Risk Committee.	The CMF sets the standards on how the Group identifies, assesses, manages, monitors and reports on Compliance management. The CMF is supported by a number of key policies which are set out in the Group Risk Management Approach (RMA). Compliance statements and indicators are included in the Group Risk Appetite Statement (RAS).

9.1 Risk management framework (continued)

Material risk types (continued)

Risk Type	Description	Governing Policies and Key Management Committees	Key Limits, Standards and Measurement Approaches
Insurance Risk	Insurance risk is the risk of loss due to the potential for events the Group has insured against occurring more frequently or with greater severity than anticipated. Insurance risk also covers inadequacy in product design, pricing, underwriting, claims management and reinsurance management as well as variations in policy lapses, servicing expenses, and option take up rates.	**Governing Policies:** • Product Management Policy • Underwriting Policy • Claims Management Policy • Reinsurance Management Policy **Key Management Committee:** • Executive Committees of insurance writing businesses	The key limits and standards with respect to insurance risk are set via the end-to-end policies of insurance writing businesses. The major methods include: • Sound product design and pricing to ensure that customers understand the extent of their cover and that premiums are sufficient to cover the risk involved; • Controls to ensure payment of valid claims without undue delay; • Regular review of insurance experience (as loss ratios, new business volumes and lapse rates), so that product design, policy liabilities and pricing remains sound; and • Transferring a proportion of insurance risk to reinsurers to keep within risk appetite. • Insurance risk is measured using actuarial techniques which are used to establish the likelihood and severity of possible insurance claims.
Strategic Risk	Strategic Risk is the risk of material stakeholder value destruction or less than planned value creation due to changes in the Group's external and internal operating environments (including macroeconomic conditions, competitive forces, technology, regulatory, political and social trends, customer preference and the environment).	**Governing Policies:** • Group Strategic Risk Management Policy **Key Management Committee:** • Executive Leadership Team	The Group assesses, monitors and responds to Strategic Risk throughout its processes for: • strategy development, approval and review; • identifying and monitoring changes and potential changes to the operating environment; and • monitoring execution progress of strategies. In developing the strategy, the following is considered: • impact of strategy on the Group's risk profile and measures of risk appetite; • recent execution progress; and • assumptions around the operating environment. Climate Change is an important component of strategic risk. As for all other strategic risks, the potential adverse impacts of climate change manifest, and are therefore measured and managed, as an outcome in the Group's other material risks. In order to understand these potential impacts, and in support of our commitment to limiting climate change in line with the Paris Agreement, and the responsible global transition to net zero emissions by 2050 we: • Develop scenario analyses to understand the impacts of both transition and physical climate-related risks on our business and the implications for strategic and tactical portfolio decisions; and • Have developed policy frameworks which consider Environmental, Social and Governance (ESG) issues, including climate change impacts in assessing our relationships with customers and suppliers. In addition, Corporate Responsibility programs: • Outline our objectives for safeguarding the environment, while supporting economic growth and development; and • Provide guidelines in monitoring and reducing our own greenhouse gas emissions and energy use.

9.2 Credit risk

Credit risk management principles and portfolio standards

The Group has clearly defined credit policies for the approval and management of credit risk. Credit policies apply to all credit risks, with specific portfolio standards applying to all major lending areas. These set the minimum requirements in assessing the integrity and ability of counterparties to meet their contracted financial obligations for repayment, acceptable forms of collateral and security and the frequency of credit reviews.

The Group's credit policies and frameworks include concentration limits, which are designed to achieve portfolio outcomes that are consistent with the Group's risk appetite and risk/return expectations.

The Credit Portfolio Assurance unit, part of Group Audit and Assurance, reviews credit portfolios and business unit compliance with credit policies, frameworks, application of credit risk ratings and other key practices on a regular basis.

The credit risk portfolio has two major segments:

(i) Retail managed segment

This segment has sub-segments covering housing loans, credit cards, personal loans, and personal overdrafts. It also covers most non-retail lending where the aggregated credit exposure to a group of related obligors is less than $1 million.

Auto-decisioning is used to approve credit applications for eligible counterparties in this segment. Auto-decisioning uses a scorecard approach based on a combination of factors, which may include the Group's historical experience on similar applications, information from a credit reference bureau, the Group's existing knowledge of a counterparty's behaviour and updated information provided by the counterparty.

Loan applications that do not meet scorecard Auto-decisioning requirements may be referred to a Personal Credit Approval Authority (PCAA) for manual decisioning.

After loan origination, these portfolios are managed using behavioural scoring systems and a delinquency band approach, such as actions taken when loan payments are greater than 30 days past due differ from actions when payments are greater than 60 days past due. Loans past due are reviewed by the relevant Arrears Management or Financial Assistance Team.

(ii) Risk-rated segment

This segment comprises non-retail exposures, including bank and sovereign exposures. Each exposure is assigned an internal Credit Risk-Rating (CRR) based on Probability of Default (PD) and Loss Given Default (LGD).

Either a PD Rating Tool or expert judgement is used to determine the PD for customers in this segment. Expert judgement is used where the complexity of the transaction and/or the counterparty is such that it is inappropriate to rely completely on a statistical model. External ratings may be used for benchmarking in the expert judgement assessment.

The CRR is designed to:

- Aid in assessing changes to counterparty credit quality;
- Influence decisions on approval, management and pricing of individual credit facilities; and
- Provide the basis for reporting details of the Group's credit portfolio.

Credit risk-rated exposures are generally reviewed on an individual basis, at least annually, and fall within the following categories:

- "Pass" – these credit facilities qualify for approval of new or increased exposure on normal commercial terms; and
- "Troublesome or Impaired Assets (TIAs)" – these credit facilities are not eligible for new or increased exposure, unless it facilitates rehabilitation to "pass grade" or protects or improves the Group's position by maximising recovery prospects. Where a counterparty is in default but no loss is expected based on an assessment of the security position and other factors, the facility may be classed as troublesome but not impaired. Where a loss is expected, a facility is classified as impaired. Restructured facilities, where the original contractual arrangements have been modified outside commercial terms to provide concessions for the customer's financial difficulties, are classified as impaired.

Default is to be recorded with one or more of the following:

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

Credit risk measurement

The measurement of credit risk uses analytical tools to calculate both: (i) Expected, and (ii) Unexpected Loss probabilities for the credit portfolio. The use of analytical tools is governed by the Credit Rating Governance Committee.

(i) Expected loss

Expected Loss (EL) is the product of:

- PD;
- Exposure at Default (EAD); and
- LGD.

The PD, expressed as a percentage, is the estimate of the probability that a client will default within the next 12 months.

9.2 Credit risk (continued)

Credit risk measurement (continued)

EAD is the estimate of the amount of a facility that will be outstanding under a facility in the event of default. Estimates are based on a downturn in economic conditions. The estimate is based on the actual amount outstanding, plus the undrawn amount multiplied by a credit conversion factor (CCF). The CCF represents the potential rate of conversion from undrawn 12 months prior to default to drawn at default. For most committed facilities, the Group applies a CFF of 100% to the undrawn amount.

For uncommitted facilities, the EAD will generally be the drawn balance only. For defaulted facilities, it is the actual amount outstanding at default. For retail exposures, a modelling approach can be used based on factors including limit usage, arrears and loan type to segment accounts into homogeneous pools to calculate EAD.

LGD expressed as a percentage, is the estimated proportion of a facility likely to be lost in the event of default. LGD is impacted by:

- Type and level of any collateral held;
- Liquidity and volatility of collateral;
- Carrying costs (effectively the costs of providing a facility that is not generating an interest return); and
- Realisation costs.

Various factors are considered when calculating PD, EAD and LGD. Considerations include the potential for default by a borrower due to economic, management, industry and other risks, and the mitigating benefits of any collateral held as security.

(ii) Unexpected loss

In addition to EL, a more stressed loss amount is calculated. This Unexpected Loss estimate directly affects the calculation of regulatory and internal economic capital requirements. Refer to the Performance Overview section and Note 8.1 for information relating to regulatory capital.

Climate related risk

Climate risk is a risk for the Group. The impacts of climate change have the potential to affect our customers' ability to service and repay their loans, and the value of collateral the Group holds to secure loans. These impacts include long-term changes in climatic conditions, extreme weather events, and the action taken by governments, regulators or society more generally to transition to a low carbon economy.

The Group is a major provider of non-retail loans. A key step in credit risk due diligence for non-retail lending is the assessment of potential transactions for environmental, social and governance (ESG) risks, including climate risk, through our ESG Risk Assessment Tool. All Institutional Banking and Markets loans, as well as large loans in other business units, are evaluated through the Group's compulsory ESG risk assessment process.

The risk of climate change is assessed at origination and during the annual review process. Exposures with medium or high risk profile are subject to additional due diligence and heightened consideration and assessment in the credit process. As at 30 June 2019, there is considered to be no material risk of loss due to climate-related risk in our client exposures.

Credit risk mitigation, collateral and other credit enhancements

The Group has policies and procedures in place setting out the circumstances where acceptable and appropriate collateral is to be taken to mitigate credit risk. These include valuation parameters, review frequency and independence of valuation.

The general nature of collateral that may be taken, and the balances held, are summarised below by financial asset classes.

Cash and liquid assets

Collateral is not usually sought on the majority of cash and liquid asset balances as these types of exposures are generally considered low risk. However, securities purchased under agreement to resell are collateralised by highly liquid debt securities. The collateral related to agreements to resell has been legally transferred to the Group subject to an agreement to return them for a fixed price.

The Group's cash and liquid asset balance included $14,527 million (2018: $21,148 million) deposited with central banks and is considered to carry less credit risk.

Receivables due from other financial institutions

Collateral is usually not sought on these balances as exposures are generally considered to be of low risk. The exposures are mainly short term and to investment grade banks.

Trading assets at fair value through income statement and Investment securities at fair value through OCI

These assets are carried at fair value, which accounts for the credit risk. Investment securities at amortised cost are measured at amortised cost and presented net of provisions for impairment. Collateral is not generally sought from the issuer or counterparty but collateral may be implicit in the terms of the instrument (such as an asset-backed security).

Insurance assets

These assets are carried at fair value, which accounts for the credit risk. Collateral is not generally sought or provided on these types of assets, other than a fixed charge over properties backing Australian mortgage investments. In most cases the credit risk of insurance assets is borne by policyholders. However, on certain insurance contracts the Group retains exposure to credit risk.

Other assets at fair value through income statement

These assets are carried at fair value, which accounts for the credit risk.

Derivative assets

The Group's use of derivative contracts is outlined in Note 5.3. The Group is exposed to counterparty credit risk on derivative contracts. The counterparty credit risk is affected by the nature of the trades, the counterparty, netting, and collateral arrangements. Credit risk from derivatives is mitigated where possible (typically for financial institutions counterparties, but less frequently for corporate or government counterparties) through netting agreements, whereby derivative assets and liabilities with the same counterparty can be offset and cleared with Central Counterparties (CCPs). The International Swaps and Derivatives Association (ISDA) Master Agreement (or other derivative agreements) are used by the Group as an agreement for documenting Over-the-Counter (OTC) derivatives.

9.2 Credit risk (continued)

Derivative assets (continued)

The fair value of collateral held and the potential effect of offset obtained by applying master netting agreements are disclosed in Note 9.7.

Due from controlled entities

Collateral is not generally taken on these intergroup balances.

Credit commitments and contingent liabilities

The Group applies fundamentally the same risk management policies for off Balance Sheet risks as it does for its on Balance Sheet risks. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction. Of the Group's off Balance Sheet exposures, $103,713 million (2018: $100,110 million) are secured.

Loans, bills discounted and other receivables

The principal collateral types for loans and receivable balances are:

- Mortgages over residential and commercial real estate; and
- Charges over business assets such as cash, shares, inventory, fixed assets and accounts receivables.

Collateral security is generally taken except for government, bank and corporate counterparties that are often externally risk-rated and of strong financial standing. Longer term consumer finance, such as housing loans, are generally secured against real estate, while short term revolving consumer credit is generally not secured by formal collateral.

The collateral mitigating credit risk of the key lending portfolios is addressed in the table 'Collateral held against Loans, Bills Discounted and Other Receivables' within this note.

9.2 Credit risk (continued)

Maximum exposure to credit risk by industry and asset class before collateral held or other credit enhancements

Group
At 30 June 2019

	Sovereign $M	Agri-culture $M	Bank and Other Financial $M	Home Loans $M	Constr-uction $M	Other Personal $M	Asset Financ-ing $M	Other Comm and Indust. $M	Other $M	Total $M
Australia										
Credit risk exposures relating to on Balance Sheet assets:										
Cash and liquid assets	4,575	-	11,930	-	-	-	-	-	-	16,505
Receivables due from other financial institutions	-	-	3,037	-	-	-	-	-	-	3,037
Assets at fair value through Income Statement:										
Trading	21,354	-	941	-	-	-	-	9,308	-	31,603
Other	81	-	434	-	-	-	-	414	242	1,171
Derivative assets	1,414	64	18,550	-	4	-	-	1,150	-	21,182
Investment securities:										
At amortised cost	9	-	7,341	-	-	-	-	-	-	7,350
At fair value through Other Comprehensive Income	43,540	-	16,893	-	-	-	-	67	-	60,500
Loans, bills discounted and other receivables (1)	16,762	9,291	8,675	467,361	3,238	21,508	7,947	118,207	-	652,989
Bank acceptances	-	3	-	-	2	-	-	27	-	32
Other assets (2)	488	3	5,496	-	-	10	-	230	14,175	20,402
Assets held for sale	1,423	-	5,633	-	-	-	-	3,943	4,211	15,210
Total on Balance Sheet Australia	89,646	9,361	78,930	467,361	3,244	21,518	7,947	133,346	18,628	829,981
Credit risk exposures relating to off Balance Sheet assets:										
Guarantees	36	20	1,584	-	324	-	-	3,195	-	5,159
Loan commitments	605	1,975	7,675	67,874	2,331	21,207	-	34,156	-	135,823
Other commitments	58	11	1,362	-	1,390	214	12	2,963	-	6,010
Total Australia	90,345	11,367	89,551	535,235	7,289	42,939	7,959	173,660	18,628	976,973
Overseas										
Credit risk exposures relating to on Balance Sheet assets:										
Cash and liquid assets	9,952	-	2,930	-	-	-	-	-	-	12,882
Receivables due from other financial institutions	-	-	5,056	-	-	-	-	-	-	5,056
Assets at fair value through Income Statement:										
Trading	602	-	251	-	-	-	-	50	-	903
Insurance	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Derivative assets	169	12	2,110	-	-	-	-	1,742	-	4,033
Investment securities:										
At amortised cost	5	-	-	-	-	-	-	-	-	5
At fair value through Other Comprehensive Income	16,092	-	2,320	-	-	-	-	-	-	18,412
Loans, bills discounted and other receivables (1)	1,436	10,467	6,637	55,581	701	1,924	416	30,830	-	107,992
Bank acceptances	-	-	-	-	-	-	-	-	-	-
Other assets (2)	30	-	338	-	-	4	8	49	1,308	1,737
Assets held for sale	683	-	469	-	-	-	-	23	166	1,341
Total on Balance Sheet Overseas	28,969	10,479	20,111	55,581	701	1,928	424	32,694	1,474	152,361
Credit risk exposures relating to off Balance Sheet assets:										
Guarantees	-	10	949	-	54	-	-	334	-	1,347
Loan commitments	419	834	5,034	7,875	222	2,098	48	9,849	-	26,379
Other commitments	-	-	473	-	3	-	-	612	-	1,088
Total Overseas	29,388	11,323	26,567	63,456	980	4,026	472	43,489	1,474	181,175
Total gross credit risk	119,733	22,690	116,118	598,691	8,269	46,965	8,431	217,149	20,102	1,158,148

(1) Loans, bills discounted and other receivables is presented gross of provisions for impairment and unearned income in line with Note 3.1.
(2) For the purpose of reconciling to the Balance Sheet, "Other Assets" predominantly comprises assets which do not give rise to credit exposure, including Property, plant and equipment, Investment in Associates and Joint Ventures, Intangible Assets, Deferred tax assets and Other assets.

9.2 Credit risk (continued)

Maximum exposure to credit risk by industry and asset class before collateral held or other credit enhancements (continued)

	Group At 30 June 2018									
	Sovereign $M	Agri-culture $M	Bank and Other Financial $M	Home Loans $M	Constr-uction $M	Other Personal $M	Asset Financ-ing $M	Other Comm and Indust. $M	Other $M	Total $M
Australia										
Credit risk exposures relating to on Balance Sheet assets:										
Cash and liquid assets	4,461	-	10,974	-	-	-	-	-	-	15,435
Receivables due from other financial institutions	-	-	2,644	-	-	-	-	-	-	2,644
Assets at fair value through Income Statement:										
Trading	15,917	-	2,780	-	-	-	-	10,223	-	28,920
Other	49	-	209	-	-	-	-	-	-	258
Derivative assets	1,371	45	20,865	-	4	-	-	1,736	-	24,021
Available-for-sale investments	39,906	-	26,525	-	-	-	-	298	-	66,729
Loans, bills discounted and other receivables (1)	16,823	8,998	12,951	451,367	3,028	23,658	8,581	118,681	-	644,087
Bank acceptances	-	2	-	-	2	-	-	35	-	39
Other assets (2)	1,030	4	4,272	-	1	7	-	237	15,100	20,651
Assets held for sale	1,521	-	4,585	-	-	-	-	4,172	3,136	13,414
Total on Balance Sheet Australia	81,078	9,049	85,805	451,367	3,035	23,665	8,581	135,382	18,236	816,198
Credit risk exposures relating to off Balance Sheet assets:										
Guarantees	44	18	991	6	307	-	-	3,059	-	4,425
Loan commitments	907	1,750	7,837	66,483	2,439	21,783	-	34,995	-	136,194
Other commitments	54	22	736	1	1,357	-	10	3,021	-	5,201
Total Australia	82,083	10,839	95,369	517,857	7,138	45,448	8,591	176,457	18,236	962,018
Overseas										
Credit risk exposures relating to on Balance Sheet assets:										
Cash and liquid assets	16,688	-	4,294	-	-	-	-	-	-	20,982
Receivables due from other financial institutions	-	-	6,578	-	-	-	-	-	-	6,578
Assets at fair value through Income Statement:										
Trading	2,161	-	1,085	-	-	-	-	88	-	3,334
Insurance	358	-	14	-	-	-	-	-	-	372
Other	-	-	-	-	-	-	-	-	-	-
Derivative assets	348	16	4,586	-	-	-	-	3,162	-	8,112
Available-for-sale investments	12,515	-	2,995	-	-	-	-	1	-	15,511
Loans, bills discounted and other receivables (1)	1,571	9,930	7,075	50,298	638	1,844	457	32,129	-	103,942
Bank acceptances	-	-	-	-	-	-	-	340	-	340
Other assets (2)	30	-	798	2	-	3	10	43	1,334	2,220
Assets held for sale	-	-	1,788	-	-	-	-	-	452	2,240
Total on Balance Sheet Overseas	33,671	9,946	29,213	50,300	638	1,847	467	35,763	1,786	163,631
Credit risk exposures relating to off Balance Sheet assets:										
Guarantees	1	9	1,486	-	40	-	-	304	-	1,840
Loan commitments	349	1,007	4,266	7,268	230	1,977	-	10,799	-	25,896
Other commitments	9	5	607	-	1	-	-	1,018	-	1,640
Total Overseas	34,030	10,967	35,572	57,568	909	3,824	467	47,884	1,786	193,007
Total gross credit risk	116,113	21,806	130,941	575,425	8,047	49,272	9,058	224,341	20,022	1,155,025

(1) Loans, bills discounted and other receivables is presented gross of provisions for impairment and unearned income in line with Note 3.1.

(2) For the purpose of reconciling to the Balance Sheet, "Other Assets" predominantly comprises assets which do not give rise to credit exposure, including Property, plant and equipment, Investment in Associates and Joint Ventures, Intangible Assets, Deferred tax assets and Other assets.

9.2 Credit risk (continued)

Large exposures

Concentrations of exposure to any counterparty or counterparty group are controlled by a large credit exposure policy, which defines a graduated limit framework that restricts credit limits based on the internally assessed CRR, the type of client, and facility tenor. All exposures outside the policy limits require approval by the Executive Risk Committee and are reported to the Board Risk Committee.

The following table shows the number of the Group's Corporate and Industrial aggregated counterparty exposures (including direct and contingent exposures), which individually were greater than 5% of the Group's capital resources (Tier 1 and Tier 2 capital):

	Group	
	30 Jun 19 Number	30 Jun 18 Number
5% to less than 10% of the Group's capital resources	**-**	-
10% to less than 15% of the Group's capital resources	**-**	-

The Group has a high quality, well diversified credit portfolio, with 61% of the gross loans and other receivables in domestic mortgage loans and a further 7% in overseas mortgage loans, primarily in New Zealand. Overseas loans account for 14% of loans and advances.

Distribution of financial assets by credit classification

When doubt arises as to the collectability of a credit facility, the financial instrument is classified and reported as impaired. Provisions for impairment are raised where there is objective evidence of impairment and for an amount adequate to cover assessed credit related losses. The Group regularly reviews its financial assets and monitors adherence to contractual terms. Credit risk-rated exposures are assessed, at least at each Balance Sheet date, to determine whether the financial asset is impaired.

Distribution of financial instruments by credit quality

The tables on pages 211 to 213 provide information about the gross carrying amount of the Group's and the Bank's loans, bills discounted and other receivables by credit rating grade and ECL stage as at 30 June 2019.

This segmentation of loans in retail and risk-rated portfolios is based on the mapping of a counterparty's internally assessed PD to S&P Global ratings, reflecting a counterparty's ability to meet their credit obligations. In particular, retail PD pools have been aligned to the Group's PD grades which are consistent with rating agency views of credit quality segmentation. Investment grade is representative of lower assessed default probabilities with other classifications reflecting progressively higher default risk. Specifically, Investment grade corresponds to S&P ratings AAA to BBB-, Pass grade corresponds to S&P ratings BB+ to B-, Weak grade corresponds to S&P ratings below CCC. For Stage 3, weak grade includes exposures in default.

9.2 Credit risk (continued)

Distribution of financial instruments by credit quality

					Group 30 Jun 19
Loans, bills and discounted and other receivables	**Stage 1 Collectively Assessed $M**	**Stage 2 Collectively Assessed $M**	**Stage 3 Collectively Assessed $M**	**Stage 3 Individually Assessed $M**	**Total $M**
Credit grade					
Investment	380,159	30,212	-	-	**410,371**
Pass	231,412	87,280	-	-	**318,692**
Weak	9,159	15,024	4,500	2,110	**30,793**
Gross carrying amount	**620,730**	**132,516**	**4,500**	**2,110**	**759,856**
Undrawn credit commitments					
Credit grade					
Investment	78,502	14,470	-	-	**92,972**
Pass	35,709	11,381	-	-	**47,090**
Weak	748	425	87	88	**1,348**
Total undrawn credit commitments	**114,959**	**26,276**	**87**	**88**	**141,410**
Total credit exposures	**735,689**	**158,792**	**4,587**	**2,198**	**901,266**
Impairment provision	**897**	**2,444**	**479**	**895**	**4,715**
ECL coverage %	**0. 1**	**1. 5**	**10. 4**	**40. 7**	**0. 5**
Financial guarantees and other off Balance Sheet instruments					
Credit grade					
Investment	8,866	1,553	-	-	**10,419**
Pass	3,358	3,689	-	-	**7,047**
Weak	45	236	19	20	**320**
Total financial guarantees and other off Balance Sheet instruments	**12,269**	**5,478**	**19**	**20**	**17,786**
Impairment provision	**8**	**75**	**1**	**-**	**84**
ECL coverage %	**0. 1**	**1. 4**	**5. 3**	**-**	**0. 5**
Total Credit Exposures					
Credit grade					
Investment	467,527	46,235	-	-	**513,762**
Pass	270,479	102,350	-	-	**372,829**
Weak	9,952	15,685	4,606	2,218	**32,461**
Total credit exposures [1]	**747,958**	**164,270**	**4,606**	**2,218**	**919,052**
Total impairment provision	**905**	**2,519**	**480**	**895**	**4,799**
ECL coverage %	**0. 1**	**1. 5**	**10. 4**	**40. 4**	**0. 5**

(1) The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risk at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 65% of Stage 2 credit exposures for the Group as at 30 June 2019.

9.2 Credit risk (continued)

Distribution of Financial Instruments by Credit Quality (continued)

					Bank 30 Jun 19
Loans, bills and discounted and other receivables	**Stage 1 Collectively Assessed $M**	**Stage 2 Collectively Assessed $M**	**Stage 3 Collectively Assessed $M**	**Stage 3 Individually Assessed $M**	**Total $M**
Credit grade					
Investment	353,676	28,113	-	-	**381,789**
Pass	182,819	72,105	-	-	**254,924**
Weak	8,681	13,529	4,081	1,728	**28,019**
Gross carrying amount	**545,176**	**113,747**	**4,081**	**1,728**	**664,732**
Undrawn credit commitments					
Credit grade					
Investment	75,156	14,395	-	-	**89,551**
Pass	28,875	10,180	-	-	**39,055**
Weak	728	383	70	65	**1,246**
Total undrawn credit commitments	**104,759**	**24,958**	**70**	**65**	**129,852**
Total credit exposures	**649,935**	**138,705**	**4,151**	**1,793**	**794,584**
Impairment provision	**793**	**2,220**	**441**	**801**	**4,255**
ECL coverage %	**0. 1**	**1. 6**	**10. 6**	**44. 7**	**0. 5**
Financial guarantees and other off Balance Sheet instruments					
Credit grade					
Investment	8,762	1,553	-	-	**10,315**
Pass	3,064	3,511	-	-	**6,575**
Weak	45	230	18	20	**313**
Total financial guarantees and other off Balance Sheet instruments	**11,871**	**5,294**	**18**	**20**	**17,203**
Impairment provision	**8**	**73**	**2**	**-**	**83**
ECL coverage %	**0. 1**	**1. 4**	**11. 1**	**-**	**0. 5**
Total Credit Exposures					
Credit grade					
Investment	437,594	44,061	-	-	**481,655**
Pass	214,758	85,796	-	-	**300,554**
Weak	9,454	14,142	4,169	1,813	**29,578**
Total credit exposures (1)	**661,806**	**143,999**	**4,169**	**1,813**	**811,787**
Total impairment provision	**801**	**2,293**	**443**	**801**	**4,338**
ECL coverage %	**0. 1**	**1. 6**	**10. 6**	**44. 2**	**0. 5**

(1) The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risk at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 65% of Stage 2 credit exposures for the Bank as at 30 June 2019.

9.2 Credit risk (continued)

Distribution of financial instruments by credit quality (continued)

The tables below present the Group's and the Bank's total impairment provisions on lending assets by ECL stage as at 30 June 2019.

					30 Jun 19
	Impairment provisions, $M				
Portfolio (1)	Stage 1 12 months ECL Collectively assessed	Stage 2 Lifetime ECL Collectively assessed	Stage 3 Lifetime ECL Collectively assessed	Stage 3 Lifetime ECL Individually assessed	Total
Retail					
Secured lending	266	393	132	271	**1,062**
Unsecured lending	474	934	217	3	**1,628**
Total retail	740	1,327	349	274	**2,690**
Non-retail					
Corporate and business lending, bank and sovereign entities (2)	168	1,192	131	621	**2,112**
Total (3)	**908**	**2,519**	**480**	**895**	**4,802**

(1) Exposures subject to impairment provisions include drawn balances, undrawn credit commitments, financial guarantees and debt securities classified at fair value through OCI.
(2) Stage 1 provision includes $3 million ECL in relation to investment securities at fair value through OCI.
(3) The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risk at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 65% of Stage 2 credit exposures for the Group as at 30 June 2019.

					Bank 30 Jun 19
	Impairment provisions, $M				
Portfolio (1) (2)	Stage 1 12 months ECL Collectively assessed	Stage 2 Lifetime ECL Collectively assessed	Stage 3 Lifetime ECL Collectively assessed	Stage 3 Lifetime ECL Individually assessed	Total
Retail					
Secured lending	234	353	122	261	**970**
Unsecured lending	434	906	200	3	**1,543**
Total retail	668	1,259	322	264	**2,513**
Non-retail					
Corporate and business lending, bank and sovereign entities (3)	135	1,034	121	537	**1,827**
Total (4)	**803**	**2,293**	**443**	**801**	**4,340**

(1) Exposures subject to impairment provisions include drawn balances, undrawn credit commitments, financial guarantees and debt securities classified at fair value through OCI.
(2) Impairment provisions exclude $21 million recognised in relation to the Bank's loans to controlled entities.
(3) Stage 1 provision includes $2 million ECL in relation to investment securities at fair value through OCI.
(4) The assessment of significant increase in credit risk includes the impact of forward looking adjustments for emerging risk at an industry, geographical location or a particular portfolio segment level, which are calculated by stressing an exposure's internal credit rating grade at the reporting date. This accounts for approximately 65% of Stage 2 credit exposures for the Bank as at 30 June 2019.

9.2 Credit risk (continued)

Prior year comparative credit risk disclosures

The credit risk disclosures on pages 214 to 219 were included in the Financial Report for the year ended 30 June 2018 and do not reflect the adoption of AASB 9 on 1 July 2018. These tables are not directly comparable to the credit risk information as at 30 June 2019 provided under AASB 9 on pages 211 to 213 above.

Distribution of financial instruments by credit quality

The table below segregates financial instruments into neither past due nor impaired, past due but not impaired and impaired. An asset is considered to be past due when a contracted amount, including principal or interest, has not been met when due or it is otherwise outside contracted arrangements. Excluding some retail portfolios, the amount included as past due is the entire contractual balance, rather than the overdue portion.

						Group 30 Jun 18
	Neither Past Due nor Impaired $M	Past due but not Impaired $M	Impaired Assets $M	Gross $M	Total Provisions for Impairment Losses $M	Net $M
Cash and liquid assets	36,417	-	-	36,417	-	36,417
Receivables due from other financial institutions	9,222	-	-	9,222	-	9,222
Assets at fair value through Income Statement:						
Trading	32,254	-	-	32,254	-	32,254
Insurance	372	-	-	372	-	372
Other	258	-	-	258	-	258
Derivative assets	32,081	-	52	32,133	-	32,133
Available-for-sale investments	82,240	-	-	82,240	-	82,240
Loans, bills discounted and other receivables:						
Australia	628,865	13,071	2,151	644,087	(3,178)	640,909
Overseas	100,904	2,152	886	103,942	(427)	103,515
Bank acceptances	379	-	-	379	-	379
Assets held for sale	11,999	-	-	11,999	-	11,999
Credit related commitments	175,106	-	90	175,196	(28)	175,168
Total	1,110,097	15,223	3,179	1,128,499	(3,633)	1,124,866

9.2 Credit risk (continued)

Prior year comparative credit risk disclosures (continued)

Distribution of financial instruments by credit quality (continued)

						Bank 30 Jun 18
	Neither Past Due nor Impaired $M	Past Due but not Impaired $M	Impaired Assets $M	Gross $M	Total Provisions for Impairment Losses $M	Net $M
Cash and liquid assets	33,581	-	-	33,581	-	33,581
Receivables due from other financial institutions	8,376	-	-	8,376	-	8,376
Assets at fair value through Income Statement:						
Trading	29,993	-	-	29,993	-	29,993
Insurance	-	-	-	-	-	-
Other	-	-	-	-	-	-
Derivative assets	30,834	-	51	30,885	-	30,885
Available-for-sale investments	77,731	-	-	77,731	-	77,731
Loans, bills discounted and other receivables:						
Australia	620,641	13,066	2,130	635,837	(3,171)	632,666
Overseas	24,681	23	326	25,030	(90)	24,940
Bank acceptances	379	-	-	379	-	379
Shares in and loans to controlled entities	118,252	-	-	118,252	-	118,252
Credit related commitments	159,521	-	85	159,606	(28)	159,578
Total	1,103,989	13,089	2,592	1,119,670	(3,289)	1,116,381

9.2 Credit risk (continued)

Prior year comparative credit risk disclosures (continued)

Credit quality of loans, bills discounted and other receivables which were neither past due nor impaired

For the analysis below, financial assets that are neither past due nor impaired have been segmented into investment, pass and weak classifications. This segmentation of loans in retail and risk-rated portfolios is based on the mapping of a counterparty's internally assessed PD to S&P Global ratings, reflecting a counterparty's ability to meet their credit obligations. In particular, retail PD pools have been aligned to the Group's PD grades which are consistent with rating agency views of credit quality segmentation. Investment grade is representative of lower assessed default probabilities with other classifications reflecting progressively higher default risk. No consideration is given to LGD, the impact of any recoveries or the potential benefit of mortgage insurance.

					Group 30 Jun 18
Credit grading	**Home Loans $M**	**Other Personal $M**	**Asset Financing $M**	**Other Commercial and Industrial $M**	**Total $M**
Australia					
Investment	307,993	4,608	643	71,525	384,769
Pass	124,371	13,863	7,435	83,185	228,854
Weak	7,567	4,045	243	3,387	15,242
Total Australia	439,931	22,516	8,321	158,097	628,865
Overseas (1)					
Investment	15,471	-	9	23,837	39,317
Pass	32,327	1,544	424	26,078	60,373
Weak	888	-	-	326	1,214
Total overseas	48,686	1,544	433	50,241	100,904
Total loans which were neither past due nor impaired	488,617	24,060	8,754	208,338	729,769

(1) For New Zealand Housing Loans, PDs reflect Reserve Bank of New Zealand requirements resulting in higher PDs on average and lower grading.

9.2 Credit risk (continued)

Prior year comparative credit risk disclosures (continued)

Credit quality of loans, bills discounted and other receivables which were neither past due nor impaired (continued)

					Bank
					30 Jun 18
Credit grading	**Home Loans $M**	**Other Personal $M**	**Asset Financing $M**	**Other Commercial and Industrial $M**	**Total $M**
Australia					
Investment	307,974	4,603	641	70,727	383,945
Pass	117,245	13,847	7,386	83,066	221,544
Weak	7,539	4,039	243	3,331	15,152
Total Australia	432,758	22,489	8,270	157,124	620,641
Overseas					
Investment	65	-	1	18,711	18,777
Pass	295	2	-	5,544	5,841
Weak	-	-	-	63	63
Total overseas	360	2	1	24,318	24,681
Total loans which were neither past due nor impaired	433,118	22,491	8,271	181,442	645,322

9.2 Credit risk (continued)

Prior year comparative credit risk disclosures (continued)

Other financial assets which were neither past due nor impaired

The majority of all other financial assets of the Group and the Bank that were neither past due nor impaired as at 30 June 2018 were of investment grade.

Age analysis of loans, bills discounted and other receivables that are past due but not impaired

For the purposes of this analysis an asset is considered to be past due when any payment under the contractual terms has been missed.

Past due loans are not classified as impaired if no loss to the Group is expected. Unsecured consumer loans are impaired at 90 days past due and may be classified as impaired earlier if non-commercial repayment arrangements are agreed or a related loan is classified as impaired.

					Group 30 Jun 18
Loans which were past due but not impaired	**Home Loans $M**	**Other Personal [1] $M**	**Asset Financing $M**	**Other Commercial and Industrial $M**	**Total $M**
Australia					
Past due 1 - 29 days	4,703	550	146	1,170	6,569
Past due 30 - 59 days	1,770	180	38	199	2,187
Past due 60 - 89 days	1,005	121	11	93	1,230
Past due 90 - 179 days	1,410	-	2	140	1,552
Past due 180 days or more	1,292	2	-	239	1,533
Total Australia	10,180	853	197	1,841	13,071
Overseas					
Past due 1 - 29 days	1,227	205	13	268	1,713
Past due 30 - 59 days	162	44	4	7	217
Past due 60 - 89 days	63	19	1	8	91
Past due 90 - 179 days	45	14	2	15	76
Past due 180 days or more	26	7	-	22	55
Total overseas	1,523	289	20	320	2,152
Total loans which were past due but not impaired	11,703	1,142	217	2,161	15,223

(1) Included in these balances are credit card facilities and other unsecured portfolio managed facilities up to 90 days past due. At 90 days past due all unsecured portfolio managed facilities are classified as impaired.

9.2 Credit risk (continued)

Prior year comparative credit risk disclosures (continued)

Age analysis of loans, bills discounted and other receivables that are past due but not impaired

					Bank 30 Jun 18
Loans which were past due but not impaired	**Home Loans $M**	**Other Personal (1) $M**	**Asset Financing $M**	**Other Commercial and Industrial $M**	**Total $M**
Australia					
Past due 1 - 29 days	4,701	550	146	1,170	6,567
Past due 30 - 59 days	1,769	180	38	199	2,186
Past due 60 - 89 days	1,005	121	11	93	1,230
Past due 90 - 179 days	1,409	-	2	140	1,551
Past due 180 days or more	1,291	2	-	239	1,532
Total Australia	10,175	853	197	1,841	13,066
Overseas					
Past due 1 - 29 days	20	-	-	-	20
Past due 30 - 59 days	2	-	-	-	2
Past due 60 - 89 days	-	-	-	-	-
Past due 90 - 179 days	-	-	-	-	-
Past due 180 days or more	-	-	-	1	1
Total overseas	22	-	-	1	23
Total loans which were past due but not impaired	10,197	853	197	1,842	13,089

(1) Included in these balances are credit card facilities and other unsecured portfolio managed facilities up to 90 days past due. At 90 days past due all unsecured portfolio managed facilities are classified as impaired.

Impaired Assets by Classification

Assets in credit risk rated portfolios and retail managed portfolios are assessed for objective evidence that the financial asset is impaired.

Impaired assets are split into the following categories:

- Non-Performing Facilities;
- Restructured Facilities; and
- Unsecured retail managed facilities 90 days or more past due.

Non-performing facilities are facilities against which an individually assessed provision for impairment has been raised and facilities where loss of principal or interest is anticipated. Interest income on these facilities is reserved and taken to the Income Statement only if paid in cash or if a recovery is made.

Restructured facilities are facilities where the original contractual terms have been modified to non-commercial terms due to financial difficulties of the borrower. Interest on these facilities is taken to the Income Statement. Failure to comply fully with the modified terms will result in immediate reclassification to non-performing.

Unsecured retail products 90 days or more past due are credit cards, personal loans and other unsecured retail products which are 90 days or more past due. These loans are collectively provided for.

The Group does not manage credit risk based solely on arrears categorisation, but also uses credit risk rating principles as described earlier in this note.

9.2 Credit risk (continued)

Impaired assets by classification (continued)

					Group
	30 Jun 19 $M	30 Jun 18 $M	30 Jun 17 $M	30 Jun 16 $M	30 Jun 15 $M
Australia					
Non-Performing assets:					
Gross balances	**2,217**	1,711	1,962	2,002	1,940
Less provisions for impairment	**(826)**	(694)	(817)	(807)	(775)
Net non-performing assets	**1,391**	1,017	1,145	1,195	1,165
Restructured assets:					
Gross balances	**428**	264	174	221	144
Less provisions for impairment	**(13)**	(4)	-	-	-
Net restructured assets	**415**	260	174	221	144
Unsecured retail products 90 days or more past due:					
Gross balances	**245**	254	251	252	251
Less provisions for impairment	**(199)**	(161)	(157)	(169)	(130)
Net unsecured retail products 90 days or more past due	**46**	93	94	83	121
Net Australia impaired assets	**1,852**	1,370	1,413	1,499	1,430
Overseas					
Non-Performing assets:					
Gross balances	**518**	695	686	560	454
Less provisions for impairment	**(126)**	(176)	(163)	(138)	(112)
Net non-performing assets	**392**	519	523	422	342
Restructured assets:					
Gross balances	**196**	242	101	67	54
Less provisions for impairment	**(6)**	(20)	-	-	-
Net restructured assets	**190**	222	101	67	54
Unsecured retail products 90 days or more past due:					
Gross balances	**18**	13	13	14	12
Less provisions for impairment	**(17)**	(13)	(12)	(13)	(9)
Net unsecured retail products 90 days or more past due	**1**	-	1	1	3
Net Overseas impaired assets	**583**	741	625	490	399
Total net impaired assets	**2,435**	2,111	2,038	1,989	1,829

9.2 Credit risk (continued)

Impaired assets by size

						Group
	Australia	**Overseas**	**Total**	Australia	Overseas	Total
	30 Jun 19	**30 Jun 19**	**30 Jun 19**	30 Jun 18	30 Jun 18	30 Jun 18
Impaired assets by size	**$M**	**$M**	**$M**	$M	$M	$M
Less than $1 million	**1,698**	**266**	**1,964**	1,418	139	1,557
$1 million to $10 million	**628**	**147**	**775**	569	197	766
Greater than $10 million	**564**	**319**	**883**	242	614	856
Total (1) (2)	**2,890**	**732**	**3,622**	2,229	950	3,179

Movement in impaired assets

					Group
	30 Jun 19	30 Jun 18	30 Jun 17	30 Jun 16	30 Jun 15
Movement in gross impaired assets	**$M**	$M	$M	$M	$M
Gross impaired assets - opening balance	**3,179**	3,187	3,116	2,855	3,367
New and increased	**2,289**	2,136	2,164	2,370	2,095
Balances written off	**(1,245)**	(1,196)	(1,225)	(1,328)	(1,355)
Returned to performing or repaid	**(1,328)**	(1,666)	(1,637)	(1,460)	(1,903)
Portfolio managed - new/increased/return to performing/repaid	**727**	718	769	679	651
Gross impaired assets - closing balance (1) (2)	**3,622**	3,179	3,187	3,116	2,855

(1) As at 30 June 2019, impaired assets include those assets in Stage 3 that are considered impaired, as well as $139 million of restructured assets in Stage 2. Stage 3 assets include impaired assets and those that are defaulted but not impaired as they are well secured.

(2) Includes $3,454 million of loans and advances and $168 million of other financial assets (30 June 2018: $3,037 million of loans and advances and $142 million of other financial assets).

9.2 Credit risk (continued)

Impaired assets by industry and status

							Group 30 Jun 19
Industry	**Total Balance $M**	**Gross Impaired Assets $M**	**Total Provisions for Impaired Assets (1) $M**	**Net Impaired Assets $M**	**Write-offs (2) $M**	**Recoveries (2) $M**	**Net Write-offs (2) $M**
Loans - Australia							
Sovereign	16,762	-	-	-	-	-	-
Agriculture	9,291	114	(52)	62	59	-	59
Bank and other financial	8,675	6	(15)	(9)	1	-	1
Home loans	467,361	1,596	(272)	1,324	134	(4)	130
Construction	3,238	82	(84)	(2)	44	(1)	43
Other personal	21,508	276	(202)	74	787	(169)	618
Asset financing	7,947	78	(10)	68	17	(2)	15
Other commercial and industrial	118,207	626	(403)	223	126	(14)	112
Total loans - Australia	652,989	2,778	(1,038)	1,740	1,168	(190)	978
Loans - Overseas							
Sovereign	1,436	-	-	-	-	-	-
Agriculture	10,467	298	(46)	252	2	-	2
Bank and other financial	6,637	10	-	10	5	-	5
Home loans	55,581	204	(10)	194	2	(1)	1
Construction	701	1	-	1	2	-	2
Other personal	1,924	16	(20)	(4)	70	(11)	59
Asset financing	416	2	-	2	-	-	-
Other commercial and industrial	30,830	145	(73)	72	152	(4)	148
Total loans - Overseas	107,992	676	(149)	527	233	(16)	217
Total loans	760,981	3,454	(1,187)	2,267	1,401	(206)	1,195
Other balances - Australia							
Credit commitments	146,992	111	-	111	-	-	-
Derivatives	21,182	1	-	1	-	-	-
Total other balances - Australia	168,174	112	-	112	-	-	-
Other balances - Overseas							
Credit commitments	28,814	9	-	9	-	-	-
Derivatives	4,033	47	-	47	-	-	-
Total other balances - Overseas	32,847	56	-	56	-	-	-
Total other balances	201,021	168	-	168	-	-	-
Total	962,002	3,622	(1,187)	2,435	1,401	(206)	1,195

(1) Includes $895 million of individually assessed provisions and $292 million of collective provisions. Provisions for impaired assets include $9 million for restructured assets in Stage 2.

(2) Write-off, recoveries and net write-offs are not recognised against credit commitments or derivatives as these exposures are closed out and converted to loans and receivables on impairment. Write-offs and recoveries take place subsequent to this conversion.

9.2 Credit risk (continued)

Impaired assets by industry and status (continued)

							Group 30 Jun 18
Industry	Total Balance $M	Gross Impaired Assets $M	Total Provisions for Impaired Assets [1] $M	Net Impaired Assets $M	Write-offs [2] $M	Recoveries [2] $M	Net Write-offs [2] $M
Loans - Australia							
Sovereign	16,823	-	-	-	-	-	-
Agriculture	8,998	94	(56)	38	28	-	28
Bank and other financial	12,951	7	(16)	(9)	3	(1)	2
Home loans	451,367	1,256	(236)	1,020	126	(2)	124
Construction	3,028	16	(21)	(5)	13	-	13
Other personal	23,658	289	(171)	118	764	(165)	599
Asset financing	8,581	63	(16)	47	23	(5)	18
Other commercial and industrial	118,681	426	(343)	83	179	(14)	165
Total loans - Australia	644,087	2,151	(859)	1,292	1,136	(187)	949
Loans - Overseas							
Sovereign	1,571	-	-	-	-	-	-
Agriculture	9,930	365	(25)	340	3	-	3
Bank and other financial	7,075	9	-	9	5	-	5
Home loans	50,298	89	(5)	84	2	(1)	1
Construction	638	1	(1)	-	1	(1)	-
Other personal	1,844	11	(33)	(22)	65	(10)	55
Asset financing	457	4	-	4	-	-	-
Other commercial and industrial	32,129	407	(145)	262	207	(2)	205
Total loans - Overseas	103,942	886	(209)	677	283	(14)	269
Total loans	748,029	3,037	(1,068)	1,969	1,419	(201)	1,218
Other balances - Australia							
Credit commitments	145,820	75	-	75	-	-	-
Derivatives	24,021	3	-	3	-	-	-
Total other balances - Australia	169,841	78	-	78	-	-	-
Other balances - Overseas							
Credit commitments	29,376	15	-	15	-	-	-
Derivatives	8,112	49	-	49	-	-	-
Total other balances - Overseas	37,488	64	-	64	-	-	-
Total other balances	207,329	142	-	142	-	-	-
Total	955,358	3,179	(1,068)	2,111	1,419	(201)	1,218

(1) Includes $870 million of individually assessed provisions and $198 million of collective provisions.
(2) Write-off, recoveries and net write-offs are not recognised against credit commitments or derivatives as these exposures are closed out and converted to loans and receivables on impairment. Write-offs and recoveries take place subsequent to this conversion.

9.2 Credit risk (continued)

Collateral held against loans, bills discounted and other receivables

	Home Loans	Other Personal	Asset Financing	Commercial and Industrial	Group 30 Jun 19 Total [(1)]
Maximum exposure ($M)	522,942	23,432	8,363	206,244	**760,981**
Collateral classification:					
Secured (%)	99. 1	12. 2	98. 7	49. 0	**83. 4**
Partially secured (%)	0. 9	-	1. 3	15. 7	**4. 8**
Unsecured (%)	-	87. 8	-	35. 3	**11. 8**

(1) As at 30 June 2019, total exposures in ECL Stage 3 were $6,610 million. 60% of these exposures were secured, 26% partially secured and 14% unsecured.

	Home Loans	Other Personal	Asset Financing	Commercial and Industrial	Group 30 Jun 18 Total
Maximum exposure ($M)	501,665	25,502	9,038	211,824	748,029
Collateral classification:					
Secured (%)	99. 1	12. 4	99. 4	44. 7	81. 2
Partially secured (%)	0. 9	-	0. 6	15. 3	4. 9
Unsecured (%)	-	87. 6	-	40. 0	13. 9

	Home Loans	Other Personal	Asset Financing	Commercial and Industrial	Bank 30 Jun 19 Total [(1)]
Maximum exposure ($M)	460,031	21,497	7,900	176,306	**665,734**
Collateral classification:					
Secured (%)	99. 0	13. 0	98. 4	46. 5	**82. 9**
Partially secured (%)	1. 0	-	1. 6	15. 2	**4. 6**
Unsecured (%)	-	87. 0	-	38. 3	**12. 5**

(1) As at 30 June 2019, total exposures in ECL Stage 3 were $5,809 million. 65% of these exposures were secured, 20% partially secured and 15% unsecured.

	Home Loans	Other Personal	Asset Financing	Commercial and Industrial	Bank 30 Jun 18 Total
Maximum exposure ($M)	444,583	23,633	8,531	184,120	660,867
Collateral classification:					
Secured (%)	99. 1	13. 4	99. 2	40. 7	79. 6
Partially secured (%)	0. 9	-	0. 8	14. 7	4. 8
Unsecured (%)	-	86. 6	-	44. 6	15. 6

For the purposes of the collateral classification above, home loans are classified as secured unless they are impaired in which case they are classified as partially secured. For other types of credit exposures, a facility is determined to be secured where its ratio of exposure to the estimated value of collateral (adjusted for lending margins) is less than or equal to 100%. A facility is deemed to be partly secured when this ratio exceeds 100% but not more than 250%, and unsecured when either no security is held (e.g. can include credit cards, personal loans, small business loans, and exposures to highly rated corporate entities), or where the secured loan to estimated value of collateral exceeds 250%.

Home loans

Home loans are generally secured by fixed charges over borrowers' residential properties. In limited circumstances, collateral in the form of cash or commercial property may be provided in addition to residential properties. Further, with the exception of some relatively small portfolios, for loans with a Loan to Valuation Ratio (LVR) of higher than 80% either a Low Deposit Premium or margin is levied, or Lenders Mortgage Insurance (LMI) is taken out to cover the difference between the principal plus interest owing and the net amount received from selling the collateral post default.

9.2 Credit risk (continued)

Collateral held against loans, bills discounted and other receivables (continued)

Personal lending

Personal lending (such as credit cards and personal loans) are predominantly unsecured, whilst margin lending is secured.

Asset finance

The Group leases assets to corporate and retail clients. When the title to the underlying assets is held by the Group as collateral, the balance is deemed fully secured. In other instances, a client's facilities may be secured by collateral valued at less than the carrying amount of the credit exposure. These facilities are deemed partly secured or unsecured.

Other commercial and industrial lending

The Group's main collateral types for other commercial and industrial 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; a charge over a company's assets (including debtors, inventory and work in progress); or a charge over shares. In other instances, a client's facilities may be secured by collateral with value less than the carrying amount of the credit exposure. These facilities are deemed partly secured or unsecured.

9.3 Market risk

Market risk measurement

The Group uses Value-at-Risk (VaR) as one of the measures of Traded and Non-traded market risk. VaR measures potential loss using historically observed market movements and correlation between different markets.

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

The VaR measured for Traded market risk uses two years of daily movement in market rates. The VaR measure for Non-traded Banking Book market risk uses six years of daily movement in market rates. The VaR measure for the insurance business is a forward-looking measure based on ten thousand simulations, which are calibrated to current market conditions and past price movements.

A 1-day holding period is used for trading book positions. A 20- day holding period is used for Interest Rate Risk in the Banking Book, insurance business market risk and Non-traded equity risk.

VaR is driven by historical observations and is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation, management also uses stress testing to measure the potential for economic loss at confidence levels significantly higher than 97.5%. Management then uses these results in decisions to manage the economic impact of market risk positions.

Total Market Risk VaR (1-day 97.5% confidence)	**Average June 2019 (1) $M**	**As at June 2019 $M**	Average June 2018 (1) $M	As at June 2018 $M
Traded Market Risk	**9. 9**	**9. 5**	11. 1	13. 3
Non-Traded Interest Rate Risk (2)	**36. 7**	**36. 3**	43. 1	37. 6
Non-Traded Equity Risk (2)	**4. 9**	**5. 0**	5. 3	4. 7
Non-Traded Insurance Market Risk (2)	**5. 1**	**5. 6**	5. 4	5. 6

(1) Average VaR calculated for each 12 month period.
(2) The risk of these exposures has been represented in this table using a one day holding period. In practice however, these 'non-traded' exposures are managed to a longer holding period.

Traded market risk

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

The Group maintains access to markets by quoting bid and offer prices with other market makers and carries an inventory of treasury, capital market and risk management instruments, including a broad range of securities and derivatives.

Traded Market Risk VaR (1-day 97.5% confidence)	**Average June 2019 (1) $M**	**As at June 2019 $M**	Average June 2018 (1) $M	As at June 2018 $M
Interest rate risk	**7. 6**	**9. 0**	8. 4	12. 5
Foreign exchange risk	**1. 9**	**3. 6**	2. 2	2. 7
Equities risk	**0. 1**	**0. 1**	0. 2	0. 1
Commodities risk	**3. 1**	**3. 3**	3. 2	3. 6
Credit spread risk	**1. 7**	**1. 3**	2. 0	1. 4
Diversification benefit	**(6. 9)**	**(10. 0)**	(7. 7)	(9. 4)
Total general market risk	**7. 5**	**7. 3**	8. 3	10. 9
Undiversified risk	**2. 2**	**2. 1**	2. 5	2. 3
ASB Bank	**0. 2**	**0. 1**	0. 3	0. 1
Total	**9. 9**	**9. 5**	11. 1	13. 3

(1) Average VaR calculated for each 12 month period.

Non-traded market risk

Interest rate risk in the banking book

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

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

(a) Next 12 months' earnings

Interest rate risk from an earnings perspective is the impact based on changes to the net interest income over the next 12 months.

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

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

The prospective change to the 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. The change in the Balance Sheet product mix, growth, funding and pricing strategies is incorporated.

Assets and liabilities that reprice directly from observable market rates are measured based on the full extent of the rate shock that is applied.

9.3 Market risk (continued)

Non-Traded Market Risk (continued)

Interest rate risk in the banking book (continued)

Products that are priced based on Group administered or discretionary interest rates and that are impacted by customer behaviour are measured by taking into consideration the historic repricing strategy of the Group and repricing behaviours of customers. In addition to considering how the products have been repriced in the past the expected change in price based on both the current and anticipated competitive market forces are also considered in the sensitivity analysis.

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

Net Interest Earnings at Risk		June 2019 (1) $M	June 2018 $M
Average monthly exposure	AUD	421. 9	229. 2
	NZD (2)	8. 0	23. 3
High monthly exposure	AUD	558. 0	311. 5
	NZD (2)	15. 5	44. 3
Low monthly exposure	AUD	217. 8	120. 2
	NZD (2)	1. 1	4. 3
As at balance date	AUD	450. 3	231. 4
	NZD (2)	8. 3	10. 5

(1) Exposures over a 12 month period. NZD exposures are presented in NZD.
(2) Net interest earnings at risk for NZD decreased during the period due to an update to products classified as sensitive to interest rate changes.

(b) Economic value

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

Measuring the change in the economic value of equity is an assessment of the long-term impact to the earnings potential of the Group present valued to the current date. The Group assesses the potential change in its economic value of equity through the application of the VaR methodology.

A 20-day 97.5% VaR measure is used to capture the net economic value impact over the long-term or total life of all Balance Sheet assets and liabilities to adverse changes in interest rates.

The impact of customer prepayments on the contractual cash flows for fixed rate products is included in the calculation. Cash flows for discretionary priced products are behaviourally adjusted and repriced at the resultant profile.

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

Non-Traded Interest Rate VaR (20 day 97.5% confidence) (2)	Average June 2019 (1) $M	Average June 2018 (1) $M
AUD Interest rate risk	164. 1	192. 9
NZD Interest rate risk (3)	2. 2	3. 3

(1) Average VaR calculated for each 12 month period.
(2) VaR is only for entities that have material risk exposure.
(3) ASB data (expressed in NZD) is for the month-end date.

Non-traded equity risk

The Group retains Non-Traded equity risk primarily through business activities in Wealth Management.

A 20-day, 97.5% confidence VaR is used to measure the economic impact of adverse changes in value.

Non-Traded Equity VaR (20 day 97.5% confidence)	As at June 2019 $M	As at June 2018 $M
VaR	22. 4	21. 2

Market risk in insurance businesses

There are two main sources of market risk in the life insurance businesses: (i) market risk arising from guarantees made to policyholders; and (ii) market risk arising from the investment of Shareholders' capital.

Guarantees (to policyholders)

All financial assets within the life Insurance Statutory Funds directly support either the Group's life insurance or life investment contracts. Market risk arises for the Group on contracts where the liabilities to policyholders are guaranteed by the Group. The Group manages this risk by having an asset and liability management framework which includes the use of hedging instruments. The Group also monitors the risk on a monthly basis.

Shareholders' capital

A portion of financial assets held within the Insurance business, both within the Statutory Funds and in the Shareholder Funds of the life insurance company represents shareholder (Group) capital. Market risk also arises for the Group on the investment of this capital. Shareholders' funds in the Australian life insurance businesses are invested 99% in income assets (cash and fixed interest) and 1% in growth assets as at 30 June 2019.

A 20-day 97.5% VaR measure is used to capture the Non-traded market risk exposures.

Non-Traded VaR in Australian Life Insurance Business (1) (20 day 97.5% confidence)	Average June 2019 (2) $M	Average June 2018 (2) $M
Shareholder funds (3)	1. 1	1. 1
Guarantees (to Policyholders) (4)	22. 8	23. 6

(1) On 21 September 2017, the Group announced the sale of 100% of its Australian life insurance business (CommInsure Life) to AIA. CommInsure Life is presented as a discontinued operation with assets and liabilities reclassified as held for sale as at 30 June 2019 and 30 June 2018. For further details, see Note 11.3.
(2) Average VaR calculated for each 12 month period.
(3) VaR in relation to the investment of shareholder funds.
(4) VaR in relation to product portfolios where the Group has guaranteed liabilities to policyholders.

9.3 Market risk (continued)

Structural foreign exchange risk

Structural foreign exchange risk is the risk that movements in foreign exchange rates may have an adverse effect on the Group's Australian dollar earnings and economic value when the Group's foreign currency denominated earnings and capital are translated into Australian dollars. The Group's only material exposure to this risk arises from its New Zealand banking and insurance, Asian and US operations.

Lease residual value risk

The Group takes lease residual value risk on assets such as industrial, mining, rail, aircraft, marine, technology, healthcare and other equipment. A lease residual value guarantee exposes the Group to the movement in second-hand prices of these assets.

Commonwealth Bank Group Super Fund

The Commonwealth Bank Group Super Fund (the Fund) has a defined benefit portion that creates market risk for the Group.

Risk Management and Human Resources provide oversight of the market risks of the Fund held and managed on behalf of the employees receiving defined benefit pension funds on behalf of the Group (refer to Note 10.2).

9.4 Liquidity and funding risk

Overview

The Group's liquidity and funding policies are designed to ensure it will meet its obligations as and when they fall due by ensuring it is able to borrow funds on an unsecured basis, has sufficient liquid assets to borrow against on a secured basis, or sell to raise immediate funds without adversely affecting the Group's net asset value.

The Group's liquidity policies are designed to ensure it maintains sufficient cash balances and liquid asset holdings to meet its obligations to customers, in both ordinary market conditions and during periods of extreme stress. These policies are intended to protect the value of the Group's operations during periods of unfavourable market conditions.

The Group's funding policies are designed to achieve diversified sources of funding by product, term, maturity date, investor type, investor location, currency and concentration, on a cost effective basis. This objective applies to the Group's wholesale and retail funding activities.

Liquidity and funding risk management framework

The CBA Board is ultimately responsible for the sound and prudent management of liquidity risk across the Group. The Group's liquidity and funding policies, structured under a formal Group Liquidity and Funding Risk Management Framework, are approved by the Board and agreed with APRA. The Group has an Asset and Liability Committee (ALCO) the charter of which includes reviewing the management of assets and liabilities, reviewing liquidity and funding policies and strategies, as well as regularly monitoring compliance with those policies across the Group. Group Treasury manages the Group's liquidity and funding positions in accordance with the Group's liquidity policies and has ultimate authority to execute liquidity decisions should the Group Contingent Funding Plan be activated. Group Risk Management provides oversight of the Group's liquidity and funding risks and compliance with Group policies and manages the Group's relationship with prudential regulators.

Subsidiaries within the Colonial Holding Company Group apply their own liquidity and funding strategies to address their specific needs. The Group's New Zealand banking subsidiary, ASB Bank, manages its own domestic liquidity and funding needs in accordance with its own liquidity policies and the policies of the Group. ASB's liquidity policy is also overseen by the Reserve Bank of New Zealand.

Liquidity and funding policies and management

The Group's liquidity and funding policies provide that:

- An excess of liquid assets over the minimum prescribed under APRA's Liquidity Coverage Ratio (LCR) requirement is maintained. Australian ADIs are required to meet a 100% LCR, calculated as the ratio of high quality liquid assets to 30 day net cash outflows projected under a prescribed stress scenario;
- A surplus of stable funding from various sources, as measured by APRA's Net Stable Funding Ratio (NSFR), is maintained. The NSFR is calculated by applying APRA prescribed factors to assets and liabilities to determine a ratio of required stable funding to available stable funding which must be greater than 100%;
- Additional internal funding and liquidity metrics are also calculated and stress tests additional to the LCR are run;
- Short and long-term wholesale funding limits are established, monitored and reviewed regularly;
- The Group's wholesale funding market capacity is regularly assessed and used as a factor in funding strategies;
- Balance Sheet assets that cannot be liquidated quickly are funded with stable deposits or term borrowings that meet minimum maturity requirements with appropriate liquidity buffers;
- Liquid assets are held in Australian dollar and foreign currency denominated securities in accordance with expected requirements;
- The Group has three categories of liquid assets within its domestic liquid assets portfolio. The first includes cash, government and Australian semi-government securities. The second includes Negotiable Certificates of Deposit, bank bills, bank term securities, supranational bonds, Australian Residential Mortgage-backed Securities (RMBS) and securities that meet certain Reserve Bank of Australia (RBA) criteria for purchases under reverse repo. The final category is internal RMBS, being mortgages that have been securitised but retained by the Bank, that are repo-eligible with the RBA under stress; and
- Offshore branches and subsidiaries adhere to liquidity policies and hold appropriate foreign currency liquid assets to meet required obligations.

9.4 Liquidity and funding risk (continued)

Liquidity and funding policies and management (continued)

The Group's key funding tools include:

- Its consumer retail funding base, which includes a wide range of retail transaction accounts, savings accounts and term deposits for individual consumers;
- Its small business customer and institutional deposit base; and
- Its wholesale international and domestic funding programs which include its Australian dollar Negotiable Certificates of Deposit; Australian dollar bank bills; Asian Transferable Certificates of Deposit program; Australian, U.S. and Euro Commercial Paper programs; US Extendible Notes programs; Australian dollar Domestic Debt Program; U.S.144a and 3a2 Medium-Term Note Programs; Euro Medium-Term Note Program; multi jurisdiction Covered Bond program; and its Medallion securitisation program.

The Group's key liquidity tools include:

- A regulatory liquidity management reporting system delivering granular customer and product type information to inform business decision making, product development and resulting in a greater awareness of the liquidity risk adjusted value of banking products;
- A liquidity management model similar to a "maturity ladder" or "liquidity gap analysis", that allows forecasting of liquidity needs on a daily basis;
- An additional liquidity management model that implements the agreed prudential liquidity policies. This model is calibrated with a series of "stress" liquidity crisis scenarios, incorporating both systemic and idiosyncratic crisis assumptions, such that the Group will have sufficient liquid assets available to ensure it meets all of its obligations as and when they fall due;
- Central bank repurchase agreement facilities including the RBA's Committed Liquidity Facility that provide the Group with the ability to borrow funds on a secured basis, even when normal funding markets are unavailable; and
- A robust Contingent Funding Plan that is regularly tested so that it can be activated in case of need due to a liquidity event.

9.4 Liquidity and funding risk (continued)

Maturity analysis of monetary liabilities

Amounts shown in the tables below are based on contractual undiscounted cash flows for the remaining contractual maturities.

	Group					
	Maturity Period as at 30 June 2019					
	0 to 3 Months $M	3 to 12 Months $M	1 to 5 Years $M	Over 5 Years $M	Not Specified $M	Total $M
Monetary liabilities						
Deposits and other public borrowings (1)	524,555	105,532	6,903	676	-	637,666
Payables due to other financial institutions	19,486	3,902	41	-	-	23,429
Liabilities at fair value through Income Statement	4,590	2,299	621	1,244	-	8,754
Derivative financial instruments:						
Held for trading	17,925	-	-	-	-	17,925
Held for hedging purposes (net-settled)	59	293	829	714	-	1,895
Held for hedging purposes (gross-settled):						
Outflows	2,391	14,346	35,918	26,791	-	79,446
Inflows	(2,264)	(13,642)	(34,332)	(26,250)	-	(76,488)
Bank acceptances	32	-	-	-	-	32
Insurance policy liabilities	-	-	-	-	-	-
Debt issues and loan capital	17,913	36,163	89,164	53,483	-	196,723
Managed funds units on issue	-	-	-	-	-	-
Other monetary liabilities	5,657	374	495	58	-	6,584
Liabilities held for sale	561	169	956	491	13,052	15,229
Total monetary liabilities	590,905	149,436	100,595	57,207	13,052	911,195
Guarantees (2)	6,506	-	-	-	-	6,506
Loan commitments (2)	162,202	-	-	-	-	162,202
Other commitments (2)	7,098	-	-	-	-	7,098
Total off Balance Sheet items	175,806	-	-	-	-	175,806
Total monetary liabilities and off Balance Sheet items	766,711	149,436	100,595	57,207	13,052	1,087,001

	Group (3)					
	Maturity Period as at 30 June 2018					
	0 to 3 Months $M	3 to 12 Months $M	1 to 5 Years $M	Over 5 Years $M	Not Specified $M	Total $M
Monetary liabilities						
Deposits and other public borrowings (1)	502,021	103,788	17,587	489	-	623,885
Payables due to other financial institutions	18,064	2,827	-	44	-	20,935
Liabilities at fair value through Income Statement	6,622	1,747	524	1,441	-	10,334
Derivative financial instruments:						
Held for trading	21,771	-	-	-	-	21,771
Held for hedging purposes (net-settled)	19	155	1,238	838	-	2,250
Held for hedging purposes (gross-settled):						
Outflows	644	13,185	34,427	20,938	-	69,194
Inflows	(614)	(11,825)	(32,652)	(19,651)	-	(64,742)
Bank acceptances	331	48	-	-	-	379
Insurance policy liabilities	-	-	-	-	451	451
Debt issues and loan capital	18,597	43,784	96,080	46,296	-	204,757
Managed funds units on issue	-	-	-	-	-	-
Other monetary liabilities	6,582	903	96	23	-	7,604
Liabilities held for sale	182	572	274	143	12,886	14,057
Total monetary liabilities	574,219	155,184	117,574	50,561	13,337	910,875
Guarantees (2)	6,265	-	-	-	-	6,265
Loan commitments (2)	162,090	-	-	-	-	162,090
Other commitments (2)	6,841	-	-	-	-	6,841
Total off Balance Sheet items	175,196	-	-	-	-	175,196
Total monetary liabilities and off Balance Sheet items	749,415	155,184	117,574	50,561	13,337	1,086,071

(1) Includes deposits that are contractually at call, customer savings and cheque accounts. These accounts provide a stable source of long-term funding.
(2) All off Balance Sheet items are included in the 0 to 3 months maturity band to reflect their earliest possible maturity.
(3) Comparative information has been restated to conform to presentation in the current year.

9.4 Liquidity and funding risk (continued)

Maturity analysis of monetary liabilities (continued)

	Bank					
	Maturity Period as at 30 June 2019					
	0 to 3 Months $M	3 to 12 Months $M	1 to 5 Years $M	Over 5 Years $M	Not Specified $M	Total $M
Monetary liabilities						
Deposits and other public borrowings [1]	483,254	86,453	4,781	594	-	575,082
Payables due to other financial institutions	18,734	3,902	41	-	-	22,677
Liabilities at fair value through Income Statement	4,588	1,736	621	1,244	-	8,189
Derivative financial instruments:						
Held for trading	20,732	-	-	-	-	20,732
Held for hedging purposes (net-settled)	19	167	917	697	-	1,800
Held for hedging purposes (gross-settled):						
Outflows	1,846	13,444	41,604	31,830	-	88,724
Inflows	(1,744)	(12,767)	(39,565)	(30,526)	-	(84,602)
Bank acceptances	32	-	-	-	-	32
Debt issues and loan capital	16,603	30,046	70,125	45,362	-	162,136
Due to controlled entities	5,196	6,311	24,499	69,768	-	105,774
Other monetary liabilities	5,539	335	458	55	-	6,387
Total monetary liabilities	554,799	129,627	103,481	119,024	-	906,931
Guarantees [2]	6,026	-	-	-	-	6,026
Loan commitments [2]	146,483	-	-	-	-	146,483
Other commitments [2]	6,944	-	-	-	-	6,944
Total off Balance Sheet items	159,453	-	-	-	-	159,453
Total monetary liabilities and off Balance Sheet items	714,252	129,627	103,481	119,024	-	1,066,384

	Bank [3]					
	Maturity Period as at 30 June 2018					
	0 to 3 Months $M	3 to 12 Months $M	1 to 5 Years $M	Over 5 Years $M	Not Specified $M	Total $M
Monetary liabilities						
Deposits and other public borrowings [1]	464,588	88,005	14,496	468	-	567,557
Payables due to other financial institutions	17,197	2,808	-	44	-	20,049
Liabilities at fair value through Income Statement	5,480	1,747	524	1,441	-	9,192
Derivative financial instruments:						
Held for trading	24,026	-	-	-	-	24,026
Held for hedging purposes (net-settled)	11	47	996	822	-	1,876
Held for hedging purposes (gross-settled):						
Outflows	644	17,173	34,868	22,579	-	75,264
Inflows	(614)	(15,189)	(33,192)	(21,302)	-	(70,297)
Bank acceptances	331	48	-	-	-	379
Debt issues and loan capital	15,333	37,730	78,067	39,379	-	170,509
Due to controlled entities	6,174	6,070	24,411	68,672	-	105,327
Other monetary liabilities	6,274	779	65	10	-	7,128
Total monetary liabilities	539,444	139,218	120,235	112,113	-	911,010
Guarantees [2]	5,835	-	-	-	-	5,835
Loan commitments [2]	147,098	-	-	-	-	147,098
Other commitments [2]	6,673	-	-	-	-	6,673
Total off Balance Sheet items	159,606	-	-	-	-	159,606
Total monetary liabilities and off Balance Sheet items	699,050	139,218	120,235	112,113	-	1,070,616

(1) Includes deposits that are contractually at call, customer savings and cheque accounts. These accounts provide a stable source of long-term funding.
(2) All off Balance Sheet items are included in the 0 to 3 months maturity band to reflect their earliest possible maturity.
(3) Comparative information has been restated to conform to presentation in the current year.

9.5 Disclosures about fair values

Fair value hierarchy for financial assets and liabilities measured at fair value

The classification in the fair value hierarchy of the Group's and the Bank's financial assets and liabilities measured at fair value is presented in the tables below. An explanation of how fair values are calculated and the levels in the fair value hierarchy are included in the accounting policy within this note.

								Group
	Fair Value as at 30 June 2019				Fair Value as at 30 June 2018			
	Level 1 $M	**Level 2 $M**	**Level 3 $M**	**Total $M**	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets measured at fair value on a recurring basis								
Assets at fair value through Income Statement:								
Trading	24,599	7,907	-	**32,506**	22,078	10,176	-	32,254
Insurance (1)	-	-	-	**-**	-	372	-	372
Other	319	852	-	**1,171**	49	209	-	258
Derivative assets	59	25,072	84	**25,215**	42	31,998	93	32,133
Investment securities at fair value through Other Comprehensive Income	77,193	1,666	53	**78,912**	-	-	-	-
Available-for-sale investments	-	-	-	**-**	74,234	7,941	65	82,240
Bills discounted	-	-	-	**-**	4,280	-	-	4,280
Assets held for sale (1)	934	7,631	2,339	**10,904**	2,012	8,061	1,818	11,891
Total financial assets measured at fair value	103,104	43,128	2,476	**148,708**	102,695	58,757	1,976	163,428
Financial liabilities measured at fair value on a recurring basis								
Liabilities at fair value through Income Statement	1,583	6,937	-	**8,520**	1,724	8,523	-	10,247
Derivative liabilities	132	22,579	66	**22,777**	57	28,075	340	28,472
Life investment contracts (1)	-	-	-	**-**	-	337	-	337
Liabilities held for sale (1)	3	6,325	496	**6,824**	5	6,985	353	7,343
Total financial liabilities measured at fair value	1,718	35,841	562	**38,121**	1,786	43,920	693	46,399

(1) As at 30 June 2019, assets and liabilities of CommInsure Life, CFSGAM, PT Commonwealth Life, Count Financial and the Group's investment in BoCommLife are presented as held for sale. As at 30 June 2018, assets and liabilities of CommInsure Life, Sovereign and the Group's investment in BoCommLife are presented as held for sale.

9.5 Disclosures about fair values (continued)

Fair value hierarchy for financial assets and liabilities measured at fair value (continued)

								Bank
	Fair Value as at 30 June 2019				Fair Value as at 30 June 2018			
	Level 1 $M	**Level 2 $M**	**Level 3 $M**	**Total $M**	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets measured at fair value on a recurring basis								
Assets at fair value through Income Statement:								
Trading	24,569	7,907	-	**32,476**	20,813	9,180	-	29,993
Other	-	652	-	**652**	-	-	-	-
Derivative assets	56	24,171	84	**24,311**	41	30,751	93	30,885
Investment securities at fair value through Other Comprehensive Income	72,479	680	53	**73,212**	-	-	-	-
Available-for-sale investments	-	-	-	**-**	69,988	7,678	65	77,731
Bills discounted	-	-	-	**-**	4,280	-	-	4,280
Total financial assets measured at fair value	97,104	33,410	137	**130,651**	95,122	47,609	158	142,889
Financial liabilities measured at fair value on a recurring basis								
Liabilities at fair value through Income Statement	1,583	6,378	-	**7,961**	1,724	7,382	-	9,106
Derivative liabilities	132	26,456	66	**26,654**	57	30,474	340	30,871
Total financial liabilities measured at fair value	1,715	32,834	66	**34,615**	1,781	37,856	340	39,977

9.5 Disclosures about fair values (continued)

Analysis of movements between fair value hierarchy levels

During the year ended 30 June 2018, $1,722 million of trading securities were reclassified from Level 2 to Level 1 due to changes in the observability of inputs. The tables below summarise movements in Level 3 balance during the year. Transfers have been reflected as if they had taken place at the end of the reporting periods. Transfers in and out of Level 3 were due to changes in the observability of inputs.

Level 3 movement analysis for the year ended 30 June 2019

								Group
	Financial Assets					Financial Liabilities		
	Insurance Assets $M	Derivative Assets $M	Investment Securities at Fair Value through OCI $M	Available for Sale Investments $M	Assets held for Sale [1] $M	Derivative Liabilities $M	Life Investment Contracts $M	Liabilities held for Sale [1] $M
As at 1 July 2017	1,530	67	-	139	-	(102)	(565)	-
Purchases	618	-	-	-	-	-	-	-
Sales/(settlements) [2]	(208)	(18)	-	(100)	-	14	212	-
Gains/(losses) in the year:								
Recognised in the Income Statement	(122)	(15)	-	-	-	(144)	-	-
Recognised in the Statement of Comprehensive Income	-	-	-	-	-	-	-	-
Transfers in	-	59	-	26	1,818	(108)	-	(353)
Transfers out	(1,818)	-	-	-	-	-	353	-
As at 30 June 2018	-	93	-	65	1,818	(340)	-	(353)
Gains/(losses) recognised in the Income Statement for financial instruments held as at 30 June 2018	(103)	(15)	-	-	-	(144)	-	-
As at 1 July 2018	-	93	-	65	1,818	(340)	-	(353)
Changes on adoption of new accounting standard [3]	-	-	65	(65)	-	-	-	-
Purchases	-	15	-	-	499	-	-	-
Sales/(settlements)	-	-	(8)	-	-	-	-	-
Gains/(losses) in the year:								
Recognised in the Income Statement	-	(5)	-	-	22	198	-	-
Recognised in the Statement of Comprehensive Income	-	-	(4)	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-	(143)
Transfers out	-	(19)	-	-	-	76	-	-
As at 30 June 2019	-	84	53	-	2,339	(66)	-	(496)
Gains/(losses) recognised in the Income Statement for financial instruments held as at 30 June 2019	-	22	-	-	22	175	-	-

(1) As at 30 June 2019, assets and liabilities of CommInsure Life, CFSGAM, PT Commonwealth Life, Count Financial and the Group's investment in BoCommLife are presented as held for sale. As at 30 June 2018, assets and liabilities of CommInsure Life, Sovereign and the Group's investment in BoCommLife were presented as held for sale.

(2) Sales/ settlements includes the impact of changing fund ownership percentage held via the Group's life insurance operations.

(3) Current year balances reflect the adoption of AASB 9 'Financial Instruments' on 1 July 2018. As permitted by AASB 9 comparative information has not been restated. For details on the adoption of AASB 9 refer to Note 1.1. Level 3 available-for-sale securities were reclassified to Investment securities measured at fair value through other comprehensive income on adoption of AASB 9 on 1 July 2018.

9.5 Disclosures about fair values (continued)

Analysis of movements between fair value hierarchy levels (continued)

Level 3 movement analysis for the year ended 30 June 2019 (continued)

The valuation of insurance assets directly impacts the life investment contracts they are backing. The Group's exposure to other financial instruments measured at fair value based in full or in part or non-market observable inputs is restricted to a small number of financial instruments, which comprise an insignificant component of the portfolios to which they belong. As such, changes in fair value assumptions on all these instruments due to size or backing by policy holder funds generally have minimal impact on the Group's Income Statement and Shareholders' Equity.

	Financial Assets			Bank Financial Liabilities
	Derivative Assets	Investment Securities at Fair Value through OCI	Available for Sale Investments	Derivative Liabilities
	$M	$M	$M	$M
As at 1 July 2017	67	-	139	(103)
Purchases	-	-	-	-
Sales/(settlements)	(18)	-	(100)	15
Gains/(losses) in the period:				
Recognised in the Income Statement	(15)	-	-	(144)
Recognised in the Statement of Comprehensive Income	-	-	-	-
Transfers in	59	-	26	(108)
Transfers out	-	-	-	-
As at 30 June 2018	93	-	65	(340)
Gains/(losses) recognised in the Income Statement for financial instruments held as at 30 June 2018	(15)	-	-	(144)
As at 1 July 2018	93	-	65	(340)
Changes on adoption of new accounting standard (1)	-	65	(65)	-
Purchases	15	-	-	-
Sales/(settlements)	-	(8)	-	-
Gains/(losses) in the period:				
Recognised in the Income Statement	(5)	-	-	198
Recognised in the Statement of Comprehensive Income	-	(4)	-	-
Transfers in	-	-	-	-
Transfers out	(19)	-	-	76
As at 30 June 2019	84	53	-	(66)
Gains/(losses) recognised in the Income Statement for financial instruments held as at 30 June 2019	22	-	-	175

(1) Current year balances reflect the adoption of AASB 9 'Financial Instruments' on 1 July 2018. As permitted by AASB 9 comparative information has not been restated. For details on the adoption of AASB 9 refer to Note 1.1. Level 3 available-for-sale securities were reclassified to Investment securities measured at fair value through other comprehensive income on adoption of AASB 9 on 1 July 2018.

9.5 Disclosures about fair values (continued)

Fair value information for financial instruments not measured at fair value

The estimated fair values and fair value hierarchy of the Group's and the Bank's financial instruments not measured at fair value are presented below:

					Group 30 Jun 19
	Carrying value		Fair value		
	Total $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets not measured at fair value on a recurring basis					
Cash and liquid assets	**29,387**	16,655	12,732	-	**29,387**
Receivables due from other financial institutions	**8,093**	-	8,093	-	**8,093**
Investment securities at amortised cost	**7,355**	-	7,330	15	**7,345**
Loans and other receivables	**755,141**	-	-	755,515	**755,515**
Bank acceptances of customers	**32**	32	-	-	**32**
Other assets	**5,431**	1,893	3,532	6	**5,431**
Assets held for sale	**699**	354	326	19	**699**
Total financial assets	**806,138**	18,934	32,013	755,555	**806,502**
Financial liabilities not measured at fair value on a recurring basis					
Deposits and other public borrowings	**636,040**	-	636,465	18	**636,483**
Payables due to other financial institutions	**23,370**	-	23,370	-	**23,370**
Bank acceptances	**32**	32	-	-	**32**
Debt issues	**163,990**	-	164,295	-	**164,295**
Bills payable and other liabilities	**8,236**	2,414	5,822	-	**8,236**
Loan capital	**22,966**	9,477	14,168	-	**23,645**
Liabilities held for sale	**3,963**	-	1,831	2,132	**3,963**
Total financial liabilities	**858,597**	11,923	845,951	2,150	**860,024**
Financial guarantees, loan commitments and other off Balance Sheet instruments	**171,084**	-	-	171,084	**171,084**

9.5 Disclosures about fair values (continued)

Fair value information for financial instruments not measured at fair value (continued)

	Group 30 Jun 18				
	Carrying value	Fair value			
	Total $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets not measured at fair value on a recurring basis					
Cash and liquid assets	36,417	22,896	13,521	-	36,417
Receivables due from other financial institutions	9,222	-	9,222	-	9,222
Loans and other receivables	739,085	-	-	739,545	739,545
Bank acceptances of customers	379	379	-	-	379
Other assets	5,455	1,823	3,630	2	5,455
Assets held for sale	192	107	85	-	192
Total financial assets	790,750	25,205	26,458	739,547	791,210
Financial liabilities not measured at fair value on a recurring basis					
Deposits and other public borrowings	622,234	-	622,327	-	622,327
Payables due to other financial institutions	20,899	-	20,899	-	20,899
Bank acceptances	379	379	-	-	379
Debt issues	172,294	-	173,895	-	173,895
Bills payable and other liabilities (1)	9,326	2,459	6,867	-	9,326
Loan capital	22,992	9,566	14,131	-	23,697
Liabilities held for sale	2,621	13	923	1,685	2,621
Total financial liabilities	850,745	12,417	839,042	1,685	853,144
Financial guarantees, loan commitments and other off Balance Sheet instruments	170,586	-	-	170,586	170,586

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

9.5 Disclosures about fair values (continued)

Fair value information for financial instruments not measured at fair value (continued)

					Bank 30 Jun 19
	Carrying value	Fair value			
	Total $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets not measured at fair value on a recurring basis					
Cash and liquid assets	**26,912**	15,534	11,378	-	**26,912**
Receivables due from other financial institutions	**7,334**	-	7,334	-	**7,334**
Investment securities at amortised cost	**7,349**	-	7,340	9	**7,349**
Loans and other receivables	**660,476**	-	-	660,660	**660,660**
Bank acceptances of customers	**32**	32	-	-	**32**
Loans to controlled entities	**120,193**	-	-	113,029	**113,029**
Other assets	**4,158**	1,324	2,829	5	**4,158**
Total financial assets	**826,454**	16,890	28,881	773,703	**819,474**
Financial liabilities not measured at fair value on a recurring basis					
Deposits and other public borrowings	**573,851**	-	574,164	18	**574,182**
Payables due to other financial institutions	**22,618**	-	22,618	-	**22,618**
Bank acceptances	**32**	32	-	-	**32**
Due to controlled entities	**105,774**	-	-	105,774	**105,774**
Debt issues	**131,062**	-	132,071	-	**132,071**
Bills payable and other liabilities	**6,403**	1,774	4,629	-	**6,403**
Loan capital	**22,569**	9,483	13,764	-	**23,247**
Total financial liabilities	**862,309**	11,289	747,246	105,792	**864,327**
Financial guarantees, loan commitments and other off Balance Sheet instruments	**154,731**	-	-	154,731	**154,731**

9.5 Disclosures about fair values (continued)

Fair value information for financial instruments not measured at fair value (continued)

	Bank 30 Jun 18				
	Carrying value	Fair value			
	Total $M	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
Financial assets not measured at fair value on a recurring basis					
Cash and liquid assets	33,581	21,351	12,230	-	33,581
Receivables due from other financial institutions	8,376	-	8,376	-	8,376
Loans and other receivables	652,370	-	-	652,794	652,794
Bank acceptances of customers	379	379	-	-	379
Loans to controlled entities	106,431	-	-	106,509	106,509
Other assets	4,717	1,398	3,317	2	4,717
Total financial assets	805,854	23,128	23,923	759,305	806,356
Financial liabilities not measured at fair value on a recurring basis					
Deposits and other public borrowings	566,200	-	566,200	-	566,200
Payables due to other financial institutions	20,014	-	20,014	-	20,014
Bank acceptances	379	379	-	-	379
Due to controlled entities	105,327	-	-	105,309	105,309
Debt issues	139,984	-	142,064	-	142,064
Bills payable and other liabilities (1)	7,455	1,942	5,513	-	7,455
Loan capital	22,249	9,561	13,373	-	22,934
Total financial liabilities	861,608	11,882	747,164	105,309	864,355
Financial guarantees, loan commitments and other off Balance Sheet instruments	155,012	-	-	155,012	155,012

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

9.5 Disclosures about fair values (continued)

Accounting policies

Valuation

Fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. On initial recognition, the transaction price generally represents the fair value of the financial instrument, unless there is observable information from an active market that provides a more appropriate fair value.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations, without any deduction for transaction costs. Assets and long positions are measured at a quoted bid price; liabilities and short positions are measured at a quoted asking price. Where the Group has positions with offsetting market risks, mid-market prices are used to measure the offsetting risk positions and a quoted bid or asking price adjustment is applied only to the net open position as appropriate.

Non-market quoted financial instruments are mostly valued using valuation techniques based on observable inputs except where observable market data is unavailable. Where market data is unavailable the financial instrument is initially recognised at the transaction price, which is generally the best indicator of fair value. This may differ from the value obtained from the valuation model. The timing of the recognition in the Income Statement of this initial difference in fair value depends on the individual facts and circumstances of each transaction, but is never later than when the market data becomes observable. The difference may be either amortised over the life of the transaction, recognised when the inputs become observable or on derecognition of the instrument, as appropriate.

The fair value of Over-the-Counter (OTC) derivatives includes credit valuation adjustments (CVA) for derivative assets to reflect the credit worthiness of the counterparty. Fair value of uncollateralised derivative assets and uncollateralised derivative liabilities incorporate funding valuation adjustments (FVA) to reflect funding costs and benefits to the Group. These adjustments are applied after considering any relevant collateral or master netting arrangements.

Fair value hierarchy

The Group utilises various valuation techniques and applies a hierarchy for valuation inputs that maximise the use of observable market data, if available.

Under AASB 13 'Fair Value Measurement' all financial and non-financial assets and liabilities measured or disclosed at fair value are categorised into one of the following three fair value hierarchy levels:

Quoted Prices in Active Markets – Level 1

This category includes assets and liabilities for which the valuation is determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Financial instruments included in this category are liquid government bonds, financial institution and corporate bonds, certificates of deposit, bank bills, listed equities and exchange traded derivatives.

Valuation technique using observable inputs – Level 2

This category includes assets and liabilities that have been valued using inputs other than quoted prices as described for Level 1, but which are observable for the asset or liability, either directly or indirectly. The valuation techniques include the use of discounted cash flow analysis, option pricing models and other market accepted valuation models.

Financial instruments included in this category are commercial papers, mortgage-backed securities and OTC derivatives including interest rate swaps, cross currency swaps and FX options.

Valuation technique using significant unobservable inputs – Level 3

This category includes assets and liabilities where the valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally derived and extrapolated from observable inputs to match the risk profile of the financial instrument, and are calibrated against current market assumptions, historic transactions and economic models, where available. These inputs may include the timing and amount of future cash flows, rates of estimated credit losses, discount rates and volatility. Financial instruments included in this category for the Group and Bank are assets backing insurance liabilities held through infrastructure funds, certain exotic OTC derivatives and certain asset-backed securities valued using unobservable inputs.

9.5 Disclosures about fair values (continued)

Accounting policies (continued)

Critical accounting judgements and estimates

Valuation techniques are used to estimate the fair value of securities. When using valuation techniques the Group makes maximum use of market inputs and relies as little as possible on entity specific inputs. It incorporates all factors that the Group believes market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Data inputs that the Group relies upon when valuing financial instruments relate to counterparty credit risk, volatility, correlation and extrapolation.

Periodically, the Group calibrates its valuation techniques and tests them for validity using prices from any observable current market transaction in the same instruments (i.e. without modification or repackaging) and any other available observable market data.

9.6 Collateral arrangements

Collateral accepted as security for assets

The Group takes collateral where it is considered necessary to support both on and off Balance Sheet financial instruments. The Group evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral taken, if deemed necessary, is based on management's credit evaluation of the counterparty. The Group has the right to sell, re-pledge, or otherwise use some of the collateral received. At Balance Sheet date the carrying value of cash accepted as collateral (and recognised on the Group's and the Bank's Balance Sheets) and the fair value of securities accepted as collateral (but not recognised on the Group's or the Bank's Balance Sheets) were as follows:

	Group		Bank	
	30 Jun 19 $M	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Cash	**6,147**	6,884	**5,568**	6,155
Securities	**12,732**	13,520	**11,379**	12,230
Collateral held	**18,879**	20,404	**16,947**	18,385
Collateral held which is re-pledged or sold	**-**	-	**-**	-

Assets pledged

As part of standard terms of transactions with other banks, the Group has provided collateral to secure liabilities. At Balance Sheet date, the carrying value of assets pledged as collateral to secure liabilities were as follows:

	Group		Bank	
	30 Jun 19 $M	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Cash	**5,837**	6,064	**5,781**	5,679
Securities (1)	**21,022**	15,495	**21,138**	15,604
Assets pledged	**26,859**	21,559	**26,919**	21,283
Asset pledged which can be re-pledged or re-sold by counterparty	**21,022**	15,495	**21,138**	15,604

(1) These balances include assets sold under repurchase agreements. The liabilities related to these repurchase agreements are disclosed in Note 4.1.

The Group and the Bank have pledged collateral as part of entering into repurchase and derivative agreements. These transactions are governed by standard industry agreements.

9.7 Offsetting financial assets and financial liabilities

The table below identifies amounts that have been offset on the Balance Sheet and amounts covered by enforceable netting arrangements or similar agreements that do not qualify for set off. Cash settled derivatives that trade on an exchange are deemed to be economically settled and therefore outside the scope of these disclosures.

	Subject to Enforceable Master Netting or Similar Agreements							Group 30 Jun 19
	Amounts offset on the Balance Sheet			Amounts not offset on the Balance Sheet				
Financial Instruments	**Gross Balance Sheet Amount $M**	**Amount offset [1] $M**	**Reported on the Balance Sheet $M**	**Financial Instruments [2] $M**	**Financial Collateral (Received)/Pledged [2] $M**	**Net Amount $M**	**Not subject to Netting Agreements $M**	**Total Balance Sheet amount $M**
Derivative assets	40,913	(17,801)	23,112	(14,318)	(5,095)	3,699	2,103	**25,215**
Securities purchased under agreements to resell	12,732	-	12,732	(565)	(12,146)	21	-	**12,732**
Equity securities sold not delivered	661	(313)	348	-	-	348	-	**348**
Total financial assets	54,306	(18,114)	36,192	(14,883)	(17,241)	4,068	2,103	**38,295**
Derivative liabilities	(42,756)	20,727	(22,029)	14,318	4,086	(3,625)	(748)	**(22,777)**
Securities sold under agreements to repurchase	(19,099)	-	(19,099)	565	18,534	-	-	**(19,099)**
Equity securities purchased not delivered	(821)	313	(508)	-	-	(508)	-	**(508)**
Total financial liabilities	(62,676)	21,040	(41,636)	14,883	22,620	(4,133)	(748)	**(42,384)**

(1) The net offset balance of $2,926 million relates to variation margin netting reflected on other Balance Sheet lines.

(2) For the purpose of this disclosure, the related amounts of financial instruments and financial collateral not set off on the Balance Sheet have been capped by relevant netting agreements so as not to exceed the net amounts of financial assets/(liabilities) reported on the Balance Sheet, i.e. over collateralisation, where it exists, is not reflected in the tables. As a result, the above collateral balances will not correspond to the tables in Note 9.6.

9.7 Offsetting financial assets and financial liabilities (continued)

Group
30 Jun 18

	Subject to Enforceable Master Netting or Similar Agreements							
	Amounts offset on the Balance Sheet			Amounts not offset on the Balance Sheet				
Financial Instruments	Gross Balance Sheet Amount $M	Amount offset [1] $M	Reported on the Balance Sheet $M	Financial Instruments [2] $M	Financial Collateral (Received)/Pledged [2] $M	Net Amount $M	Not subject to Netting Agreements $M	Total Balance Sheet amount $M
Derivative assets	36,923	(6,794)	30,129	(19,344)	(6,770)	4,015	2,004	32,133
Securities purchased under agreements to resell	13,520	-	13,520	(765)	(12,755)	-	-	13,520
Equity securities sold not delivered	516	(230)	286	-	-	286	-	286
Total financial assets	50,959	(7,024)	43,935	(20,109)	(19,525)	4,301	2,004	45,939
Derivative liabilities	(37,466)	10,149	(27,317)	19,344	4,567	(3,406)	(1,155)	(28,472)
Securities sold under agreements to repurchase	(14,696)	-	(14,696)	765	13,931	-	-	(14,696)
Equity securities purchased not delivered	(656)	230	(426)	-	-	(426)	-	(426)
Total financial liabilities	(52,818)	10,379	(42,439)	20,109	18,498	(3,832)	(1,155)	(43,594)

(1) The net offset balance of $3,355 million relates to variation margin netting reflected on other Balance Sheet lines.
(2) For the purpose of this disclosure, the related amounts of financial instruments and financial collateral not set off on the Balance Sheet have been capped by relevant netting agreements so as not to exceed the net amounts of financial assets/(liabilities) reported on the Balance Sheet, i.e. over collateralisation, where it exists, is not reflected in the tables. As a result the above collateral balances will not correspond to the tables in Note 9.6.

9.7 Offsetting financial assets and financial liabilities (continued)

Bank
30 Jun 19

	Subject to Enforceable Master Netting or Similar Agreements							
	Amounts offset on the Balance Sheet			Amounts not offset on the Balance Sheet				
Financial Instruments	**Gross Balance Sheet Amount $M**	**Amount offset [1] $M**	**Reported on the Balance Sheet $M**	**Financial Instruments [2] $M**	**Financial Collateral (Received)/Pledged [2] $M**	**Net Amount $M**	**Not subject to Netting Agreements $M**	**Total Balance Sheet amount $M**
Derivative assets	39,487	(17,273)	22,214	(14,065)	(4,697)	3,452	2,097	**24,311**
Securities purchased under agreements to resell	11,378	-	11,378	(573)	(10,784)	21	-	**11,378**
Total financial assets	50,865	(17,273)	33,592	(14,638)	(15,481)	3,473	2,097	**35,689**
Derivative liabilities	(45,839)	19,944	(25,895)	14,065	4,039	(7,791)	(759)	**(26,654)**
Securities sold under agreements to repurchase	(19,215)	-	(19,215)	573	18,642	-	-	**(19,215)**
Total financial liabilities	(65,054)	19,944	(45,110)	14,638	22,681	(7,791)	(759)	**(45,869)**

(1) The net offset balance of $2,671 million relates to variation margin netting reflected on other Balance Sheet lines.
(2) For the purpose of this disclosure, the related amounts of financial instruments and financial collateral not set off on the Balance Sheet have been capped by relevant netting agreements so as not to exceed the net amounts of financial assets/(liabilities) reported on the Balance Sheet, i.e. over collateralisation, where it exists, is not reflected in the tables. As a result the above collateral balances will not correspond to the tables in Note 9.6.

Bank
30 Jun 18

	Subject to Enforceable Master Netting or Similar Agreements							
	Amounts offset on the Balance Sheet			Amounts not offset on the Balance Sheet				
Financial Instruments	Gross Balance Sheet Amount $M	Amount offset [1] $M	Reported on the Balance Sheet $M	Financial Instruments [2] $M	Financial Collateral (Received)/Pledged [2] $M	Net Amount $M	Not subject to Netting Agreements $M	Total Balance Sheet amount $M
Derivative assets	35,483	(6,794)	28,689	(18,887)	(5,955)	3,847	2,196	30,885
Securities purchased under agreements to resell	12,230	-	12,230	(765)	(11,465)	-	-	12,230
Total financial assets	47,713	(6,794)	40,919	(19,652)	(17,420)	3,847	2,196	43,115
Derivative liabilities	(39,785)	10,149	(29,636)	18,887	4,375	(6,374)	(1,235)	(30,871)
Securities sold under agreements to repurchase	(14,806)	-	(14,806)	765	14,041	-	-	(14,806)
Total financial liabilities	(54,591)	10,149	(44,442)	19,652	18,416	(6,374)	(1,235)	(45,677)

(1) The net offset balance of $3,355 million relates to variation margin netting reflected on other Balance Sheet lines.
(2) For the purpose of this disclosure, the related amounts of financial instruments and financial collateral not set off on the Balance Sheet have been capped by relevant netting agreements so as not to exceed the net amounts of financial assets/(liabilities) reported on the Balance Sheet, i.e. over collateralisation, where it exists, is not reflected in the tables. As a result the above collateral balances will not correspond to the tables in Note 9.6.

Related amounts not set off on the balance sheet

Derivative Assets and Liabilities

The “Financial Instruments” column identifies financial assets and liabilities that are subject to set off under netting agreements, such as the ISDA Master Agreement. All outstanding transactions with the same counterparty can be offset and close-out netting applied 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.

Repurchase and Reverse Repurchase Agreements and Security Lending Agreements

The “Financial Instruments” column identifies financial assets and liabilities that are subject to set off under netting agreements, such as global master repurchase agreements and global master securities lending agreements. Under these netting agreements, all outstanding transactions with the same counterparty can be offset and close-out netting applied if an event of default or other predetermined events occur. Financial collateral typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

Accounting policies

Financial assets and liabilities are offset and the net amount is presented in the Balance Sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

10. Employee benefits

Overview

The Group employs over 50,000 people across multiple jurisdictions and remunerates its employees through both fixed and variable arrangements. This section outlines details of the share-based payment and superannuation components of employee remuneration and provides an overview of key management personnel arrangements.

10.1 Share-based payments

The Group operates a number of cash and equity settled share plans as detailed below.

Long Term Variable Remuneration (LTVR)

The Group's 2019 LTVR award for the CEO and Group Executives is made under the Employee Equity Plan (EEP). LTVR awards up to and including the 2018 financial year were made under the Group Leadership Reward Plan (GLRP). LTVR focuses efforts on achieving superior performance for key stakeholders – being customers, community, employees and shareholders – in order to create sustainable long-term shareholder value and drive positive culture and behaviours in the Group.

Participants are awarded a maximum number of Rights, which may convert into CBA shares on a 1-for-1 basis. The Board has discretion to apply a cash equivalent.

The Rights may vest at the end of a performance period of four years subject to the satisfaction of performance measures as follows:

For awards up to and including the 2017 financial year:

- 25% of the award is assessed against Customer Satisfaction compared to ANZ, NAB, Westpac and other key competitors for our wealth management business by reference to independent external surveys; and
- 75% of the award is assessed against Total Shareholder Return (TSR) compared to the 20 largest companies listed on the ASX (by market capitalisation) at the beginning of each respective performance period, excluding resource companies and CBA.

For awards made from the 2018 financial year:

- 75% of the award is assessed against TSR compared to the 20 largest companies listed on the ASX (by market capitalisation) at the beginning of each respective performance period, excluding resource companies and CBA.
- 12.5% of the award is assessed against a Relative Trust and Reputation measure; and
- 12.5% of the award is assessed against an Absolute Employee Engagement measure.

A positive TSR gateway applies to the Trust and Reputation and Employee Engagement measures. Refer to the Remuneration Report for further details on LTVR.

The following table provides details of outstanding awards of Rights granted under LTVR awards:

Period	Outstanding 1 July	Granted	Vested	Forfeited	Outstanding 30 June	Expense ($'000)
30 Jun 19	**678,801**	**294,619**	**(34,099)**	**(130,802)**	**808,519**	**7,186**
30 Jun 18	1,174,899	215,356	(174,139)	(537,315)	678,801	4,329

The weighted average fair value at the grant date for TSR was $33.57 and $49.87 for both Trust and Reputation and Employee Engagement Rights issued during the year (2018: $36.94 for TSR and $57.11 for both Trust and Reputation and Employee Engagement). The fair value of the Rights granted during the period has been independently calculated at grant date using a Monte Carlo pricing model based on market information and excluding the impact of non-market performance conditions. The assumptions included in the valuation of the 2019 financial year award include a share price of $71.77, a risk-free interest rate of 2.29%, a 5.83% dividend yield on the Bank's ordinary shares and a volatility in the Bank share price of 15%.

Group Rights Plan (GRP) and Employee Equity Plan (EEP)

The GRP and EEP Restricted Shares facilitate mandatory short-term variable remuneration deferral, sign-on incentives and retention awards. Participants are awarded rights or restricted shares that vest provided the participant remains in employment of the Group until vesting date. The following table provides details of outstanding awards of rights and shares granted under the GRP and EEP.

10.1 Share-based payments (continued)

Group Rights Plan (GRP) and Employee Equity Plan (EEP) (continued)

Period	Outstanding 1 July	Granted	Vested	Forfeited	Outstanding 30 June	Expense ($'000)
30 Jun 19	**2,246,204**	**1,086,280**	**(993,435)**	**(186,582)**	**2,152,467**	**77,136**
30 Jun 18	2,125,927	1,045,179	(849,508)	(75,394)	2,246,204	67,725

The weighted average fair value at grant date of the awards issued during the year was $71.08 (2018: $75.67).

Employee Share Acquisition Plan (ESAP)

Under the ESAP eligible employees have the opportunity to receive up to $1,000 worth of shares each year if the Group meets the required performance hurdle of growth in the Group's net profit after tax ("cash basis"). If the hurdle is not met, the Board has discretion to determine whether a full award, a partial award or no award is made.

The number of shares a participant receives is calculated by dividing the award amount by the average price paid for CBA shares purchased during the purchase period preceding the grant date. Shares granted are restricted from sale until the earlier of three years or until such time as the participant ceases employment with the Group. Participants receive full dividend entitlements and voting rights attached to those shares.

While the Group did not achieve the ESAP performance target for the 2018 financial year, the Board exercised its discretion and approved a partial award of $550 during the financial year ended 30 June 2019 to each eligible employee to recognise their contribution through-out the year.

The following table provides details of shares granted under the ESAP:

Period	Allocation date	Participants	Number of Shares Allocated per Participant	Total Number of Shares Allocated	Issue Price $	Total Fair Value $
30 Jun 19	**16 Nov 2018**	**30,960**	**7**	**216,720**	**70.86**	**15,356,779**
30 Jun 18	8 Sep 2017	31,780	12	381,360	79.11	30,169,390

It is estimated that approximately $34 million of CBA shares will be purchased on market at the prevailing market price for the 2019 grant.

Other employee awards

A number of other plans are operated by the Group, including:

- The Employee Share (Performance Unit) Plan and Employee Equity Plan (EEP) Cash Settled Rights are cash-based versions of the GRP and EEP; and
- The International Employee Share Acquisition Plan, which is the cash-based version of the ESAP.

The following table provides a summary of the movement in awards during the year:

Period	Outstanding 1 July	Granted	Vested	Forfeited	Outstanding 30 June	Expense ($'000)
30 Jun 19	**509,927**	**162,180**	**(242,026)**	**(48,657)**	**381,424**	**15,805**
30 Jun 18	458,764	251,284	(168,925)	(31,196)	509,927	21,405

The weighted average fair value at grant date of the awards issued during the year was $71.35 (2018: $75.70).

Salary sacrifice arrangements

The Group facilitates the purchase of CBA shares via salary sacrifice as follows:

Type	Arrangements
Salary Sacrifice (ESSSP)	• Australian based employees and Non-Executive Directors can elect to sacrifice between $2,000 and $5,000 p.a. of their fixed remuneration and/or annual STVR or fees (in the case of Non-Executive Directors) • Restricted from sale for a minimum of two years and a maximum of seven years or earlier, if the employee ceases employment with the Group (or retires from the Group in the case of Non-Executive Directors).
Non-Executive Directors (NEDSP)	• Required to defer 20% of post-tax fees until a minimum shareholding requirement of 5,000 shares is reached. • Restricted from sale for ten years or when the Non-Executive Director retires from the Board if earlier.

10.1 Share-based payments (continued)

Salary sacrifice arrangements (continued)

Shares are purchased on market at the prevailing market price at that time and receive full dividend entitlements and voting rights. The following table provides details of shares granted under the ESSSP and NEDSP (voluntary fee sacrifice).

Period	Participants	Number of shares purchased	Average purchase price $	Total purchase consideration $
30 Jun 19	**952**	**47,205**	**71.57**	**3,378,462**
30 Jun 18	983	41,390	77.68	3,215,222

During the year four (2018: four) Non-Executive Directors applied $103,151 in fees (2018: $74,991) to purchase 1,424 shares (2018: 988 shares).

10.2 Retirement benefit obligations

Name of Plan	Type	Form of Benefit	Date of Last Actuarial Assessment of the Fund
Commonwealth Bank Group Super	Defined Benefits and Accumulation(1)	Indexed pension and lump sum	30 June 2018
Commonwealth Bank of Australia (UK) Staff Benefits Scheme (CBA (UK) SBS)	Defined Benefits and Accumulation(1)	Indexed pension and lump sum	30 June 2016

(1) The defined benefit formulae are generally comprised of final salary, or final average salary, and service.

Regulatory framework

Both plans operate under trust law with the assets of the plans held separately in trust. The Trustee of Commonwealth Bank Group Super is Commonwealth Bank Officers Superannuation Corporation Pty Limited. The Trustee of CBA (UK) SBS is Commonwealth Bank of Australia (UK) Staff Benefits Scheme Trustee Company Limited. Both Trustees are wholly owned subsidiaries of the Group. The Trustees do not conduct any business other than trusteeship of the plans. The plans are managed and administered on behalf of the members in accordance with the terms of each trust deed and relevant legislation. The funding of the plans complies with regulations in Australia and the UK respectively.

Funding and contributions

An actuarial assessment as at 30 June 2018 showed Commonwealth Bank Group Super remained in funding surplus. The Bank agreed to continue contributions of $20 million per month to the plan. Employer contributions paid to the plan are subject to tax at the rate of 15% in the plan.

An actuarial assessment of the CBA (UK) SBS as at 30 June 2016 was completed in September 2017. It confirmed a funding deficit of GBP26.2 million ($47.4 million). The Bank agreed to pay deficit reduction contributions of GBP5 million ($9 million) per annum, paid monthly from 1 January 2018 to 31 December 2022. The Group's expected contributions to the Commonwealth Bank Group Super and the CBA (UK) SBS for the year ended 30 June 2020 are $240 million and GBP7.5 million ($13.6 million) respectively.

10.2 Retirement benefit obligations (continued)

Defined benefit superannuation plan

		Commonwealth Bank Group Super		CBA(UK)SBS		Total	
	Note	**30 Jun 19 $M**	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Present value of funded obligations		**(3,004)**	(2,826)	**(711)**	(645)	**(3,715)**	(3,471)
Fair value of plan assets		**3,438**	3,355	**739**	697	**4,177**	4,052
Net pension assets/(liabilities) as at 30 June		**434**	529	**28**	52	**462**	581
Amounts in the Balance Sheet:							
Assets	6.2	**434**	529	**28**	52	**462**	581
Net assets/(liabilities)		**434**	529	**28**	52	**462**	581
The amounts recognised in the Income Statement are as follows:							
Current service cost		**(36)**	(36)	**(6)**	(6)	**(42)**	(42)
Net interest income/(expense)		**16**	13	**2**	-	**18**	13
Employer financed benefits within accumulation division [1]		**(279)**	(289)	**-**	-	**(279)**	(289)
Total included in superannuation plan expense		**(299)**	(312)	**(4)**	(6)	**(303)**	(318)
Changes in the present value of the defined benefit obligation are as follows:							
Opening defined benefit obligation		**(2,826)**	(2,910)	**(645)**	(656)	**(3,471)**	(3,566)
Current service cost		**(36)**	(36)	**(6)**	(6)	**(42)**	(42)
Interest cost		**(119)**	(122)	**(17)**	(17)	**(136)**	(139)
Member contributions		**(6)**	(6)	**-**	-	**(6)**	(6)
Actuarial (losses) from changes in demographic assumptions		**(18)**	-	**-**	-	**(18)**	-
Actuarial gains/(losses) from changes in financial assumptions		**(228)**	(25)	**(69)**	29	**(297)**	4
Actuarial gains from changes in other assumptions		**45**	57	**-**	-	**45**	57
Payments from the plan		**184**	216	**39**	35	**223**	251
Exchange differences on foreign plans		**-**	-	**(13)**	(30)	**(13)**	(30)
Closing defined benefit obligation		**(3,004)**	(2,826)	**(711)**	(645)	**(3,715)**	(3,471)
Changes in the fair value of plan assets are as follows:							
Opening fair value of plan assets		**3,355**	3,336	**697**	645	**4,052**	3,981
Interest income		**135**	135	**19**	17	**154**	152
Return on plan assets (excluding interest income)		**165**	143	**34**	17	**199**	160
Member contributions		**6**	6	**-**	-	**6**	6
Employer contributions		**240**	240	**15**	22	**255**	262
Employer financed benefits within accumulation division		**(279)**	(289)	**-**	-	**(279)**	(289)
Payments from the plan		**(184)**	(216)	**(39)**	(35)	**(223)**	(251)
Exchange differences on foreign plans		**-**	-	**13**	31	**13**	31
Closing fair value of plan assets		**3,438**	3,355	**739**	697	**4,177**	4,052

(1) Represents superannuation contributions required by the Bank to meet its obligations to members of the defined contribution division of Commonwealth Bank Group Super.

10.2 Retirement benefit obligations (continued)

Economic assumptions

	Commonwealth Bank Group Super		CBA(UK)SBS	
Economic assumptions	**30 Jun 19 %**	30 Jun 18 %	**30 Jun 19 %**	30 Jun 18 %
The above calculations were based on the following assumptions:				
Discount rate	**3. 20**	4. 20	**2. 30**	2. 70
Inflation rate	**1. 60**	2. 10	**3. 50**	3. 30
Rate of increases in salary	**2. 40**	2. 90	**4. 50**	4. 30

In addition to financial assumptions, the mortality assumptions for pensioners can materially impact the defined benefit obligations. These assumptions are age related and allowances are made for future improvement in mortality. The expected life expectancies (longevity) for pensioners are set out below:

	Commonwealth Bank Group Super		CBA(UK)SBS	
Expected life expectancies for pensioners	**30 Jun 19 Years**	30 Jun 18 Years	**30 Jun 19 Years**	30 Jun 18 Years
Male pensioners currently aged 60	**28. 8**	28. 8	**28. 0**	27. 6
Male pensioners currently aged 65	**23. 9**	23. 8	**23. 2**	23. 1
Female pensioners currently aged 60	**31. 2**	33. 1	**29. 9**	29. 8
Female pensioners currently aged 65	**26. 1**	28. 1	**25. 1**	25. 0

Sensitivity to changes in assumptions

The table below sets out the sensitivities of the present value of defined benefit obligations at 30 June to a change in the principal actuarial assumptions:

	Commonwealth Bank Group Super	CBA(UK)SBS
Impact of change in assumptions on liabilities	**30 Jun 19 %**	**30 Jun 19 %**
0.25% decrease in discount rate	**3. 70**	**4. 90**
0.25% increase in inflation rate	**2. 96**	**3. 30**
0.25% increase to the rate of increases in salary	**0. 47**	**0. 30**
Longevity increase of 1 year	**4. 76**	**3. 70**

Average duration

The average duration of defined benefit obligation at 30 June is as follows:

	Commonwealth Bank Group Super	CBA(UK)SBS
	30 Jun 19 Years	**30 Jun 19 Years**
Average duration at balance date	**13**	**19**

10.2 Retirement benefit obligations (continued)

Risk management

The pension plans expose the Group to longevity risk, currency risk, interest rate risk, inflation risk and market risk. The Trustees perform Asset-Liability Matching (ALM) exercises to ensure the plan assets are well matched to the nature and maturities of the defined benefit obligations.

The Commonwealth Bank Group Super's investment strategy comprises 41% growth and 59% defensive assets. Inflation and interest rate risks are partly mitigated by investing in long dated fixed interest securities which better match the average duration of liabilities and entering into inflation and interest rate swaps.

The allocation of assets backing the defined benefit portion of the Commonwealth Bank Group Super is as follows:

	Commonwealth Bank Group Super			
	30 Jun 19		30 Jun 18	
Asset allocations	**Fair value $M**	**% of plan asset**	Fair value $M	% of plan asset
Cash	**83**	**2. 4**	81	2. 4
Equities - Australian (1)	**193**	**5. 6**	253	7. 5
Equities - Overseas (1)	**591**	**17. 2**	570	17. 0
Bonds - Commonwealth Government (1)	**967**	**28. 1**	679	20. 2
Bonds - Semi-Government (1)	**956**	**27. 8**	1,179	35. 1
Bonds - Corporate and other (1)	**71**	**2. 1**	79	2. 4
Real Estate and Infrastructure (2)	**346**	**10. 1**	334	10. 0
Derivatives	**(33)**	**(1. 0)**	(17)	(0. 5)
Other (3)	**264**	**7. 7**	197	5. 9
Total fair value of plan assets	**3,438**	**100. 0**	3,355	100. 0

(1) Values based on prices or yields quoted in an active market.
(2) This includes listed and unlisted property and infrastructure investments.
(3) These are alternative investments which are not included in the traditional asset classes of equities, fixed interest securities, real estate and cash. They include multi-asset investments, liquid alternative investments and hedge funds.

The Australian equities fair value includes $15.3 million of Commonwealth Bank shares. The real estate fair value includes $1.4 million of property assets leased to the Bank. The bonds – corporate and other fair value includes $0.4 million of Commonwealth Bank debt securities. The other asset allocation includes $0.5 million of Commonwealth Bank shares and $0.1 million debt securities held in a multi-asset fund.

10.3 Key management personnel

Detailed remuneration disclosures by Key Management Personnel (KMP) are provided in the Remuneration Report of the Directors' Report on pages 82 to 106.

	Group		**Bank**	
	30 Jun 19	30 Jun 18	**30 Jun 19**	30 Jun 18
Key Management Personnel compensation	**$'000**	$'000	**$'000**	$'000
Short-term benefits (1) (2)	**23,326**	23,127	**21,413**	23,127
Post-employment benefits	**457**	421	**400**	421
Long-term benefits	**864**	854	**836**	854
Share-based payments (1)	**14,715**	11,235	**14,405**	11,235
Total	**39,362**	35,637	**37,054**	35,637

(1) Non-Executive Director fees for the 2018 financial year have been restated to reflect car parking benefits (including associated fringe benefits tax) and the proportion between cash fees and Non-Executive Directors' share plan shares for some individuals.
(2) Short-term benefits includes termination benefits of $1,294,969 (2018: $4,700,917)

10.3 Key management personnel (continued)

Security holdings

Details of the aggregate security holdings of KMP are set out below.

	Class (1)	Balance 1 July 18 (2)	Acquired/ Granted as Remuneration	Previous Years Awards Vested (3)	Net Change Other (4)	Balance 30 June 19 (5)
Non-Executive Directors	Ordinary (6)	138,406	9,145	-	(97,190)	**50,361**
	PERLS	8,600	-	-	(5,830)	**2,770**
Executives	Ordinary	228,623	-	96,267	(114,930)	**209,960**
	LTVR Rights	440,321	294,619	(18,390)	(131,133)	**585,417**
	Deferred Shares	-	38,818	-	(14,923)	**23,895**
	Deferred Rights	54,353	7,064	(41,896)	409	**19,930**
	Sign-on equity	9,234	125,772	(42,651)	-	**92,355**
	PERLS	2,330	-	-	(2,330)	**-**

(1) LTVR rights are subject to performance hurdles. Deferred shares represent the deferred STVR awarded in the 2019 financial year. Deferred rights represent the deferred STVR awarded under Executive General Manager arrangements and retention awards received as rights in prior years, as well as the CEO ASB's 2018 financial year STVR award. Sign-on equity includes sign-on awards received as deferred rights or shares. PERLS include cumulative holdings of all PERLS securities issued by the Group.
(2) Due to the changes in KMP during the 2019 financial year, aggregate security holdings balance at 1 July 2018 does not align to the balance disclosed for 30 June 2018.
(3) LTVR rights, deferred shares and deferred rights become ordinary shares or are cash settled upon vesting.
(4) Net change other incorporates changes resulting from purchases, sales, forfeitures and appointment or departure of KMP during the year.
(5) 30 June 2019 balances represent aggregate shareholdings of all KMP at balance date.
(6) Non-Executive Directors who hold fewer than 5,000 Commonwealth Bank shares are required to receive 20% of their total after-tax base fees as CBA shares. These shares are subject to a 10-year trading restriction (the shares will be released earlier if the Non-Executive Director leaves the Board).

Loans to KMP

All loans to KMP (including close family members or entities controlled, jointly controlled, or significantly influenced by them, or any entity over which any of those family members or entities held significant voting power) have been made in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees and customers, including the term of the loan, security required and the interest rate (which may be fixed or variable). There has been no write down of loans during the period.

Details of aggregate loans to KMP are set out below:

	30 Jun 19 $'000	30 Jun 18 $'000
Loans	**12,337**	12,914
Interest charged	**480**	476

Other transactions of KMP

Financial Instrument Transactions

Financial instrument transactions (other than loans and shares disclosed within this report) of KMP occur in the ordinary course of business on normal commercial terms and conditions no more favourable than those given to other employees and customers.

Disclosure of financial instrument transactions regularly made as part of normal banking operations is limited to disclosure of such transactions with KMP and entities controlled or significantly influenced by them.

All such financial instrument transactions that have occurred between entities within the Group and their KMP have been trivial or domestic in nature and were in the nature of normal personal banking and deposit transactions.

Transactions other than Financial Instrument Transactions of Banks

All other transactions with KMP and their related entities and other related parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally involve the provision of financial and investment services by entities not controlled by the Group.

Services agreements

The maximum contingent liability for termination benefits in respect of service agreements with the Chief Executive Officer and other Group KMP at 30 June 2019 was $2,254,283 (2018: $3,096,820).

11. Group structure

Overview

The Group structure includes the Bank legal entity and its interests in operating and special purpose subsidiaries, joint ventures and associates. These entities were either acquired or established and their classification is driven by the Bank's level of control or influence.

These entities operating activities include banking, advice, funds management, specialised customer financing and asset backed financing across multiple jurisdictions.

11.1 Investments in subsidiaries and other entities

Subsidiaries

The key subsidiaries of the Bank are:

Entity Name	Entity Name
Australia	
(a) Banking	
CBA Covered Bond Trust	Medallion Trust Series 2015-2
Commonwealth Securities Limited	Medallion Trust Series 2016-1
Medallion Trust Series 2008-1R	Medallion Trust Series 2016-2
Medallion Trust Series 2011-1	Medallion Trust Series 2017-1
Medallion Trust Series 2013-1	Medallion Trust Series 2017-1P
Medallion Trust Series 2013-2	Medallion Trust Series 2017-2
Medallion Trust Series 2014-1	Residential Mortgage Group Pty Ltd
Medallion Trust Series 2014-2	Medallion Trust Series 2018-1
Medallion Trust Series 2015-1	
(b) Insurance and Funds Management	
Capital 121 Pty Limited	Commonwealth Insurance Limited
Colonial Holding Company Limited	The Colonial Mutual Life Assurance Society Limited (1)
Commonwealth Insurance Holdings Limited	

(1) This subsidiary is classified as a discontinued operation.

All the above subsidiaries are 100% owned and incorporated in Australia.

11.1 Investments in subsidiaries and other entities (continued)

Subsidiaries (continued)

Entity Name	Extent of Beneficial Interest if not 100%	Incorporated in
New Zealand and Other Overseas		
(a) Banking		
ASB Bank Limited		New Zealand
ASB Covered Bond Trust		New Zealand
ASB Finance Limited		New Zealand
ASB Holdings Limited		New Zealand
ASB Term Fund		New Zealand
CommBank Europe Limited		Malta
Medallion NZ Series Trust 2009-1R		New Zealand
PT Bank Commonwealth	99%	Indonesia
(b) Insurance and Funds Management		
PT Commonwealth Life [1]	80%	Indonesia
First Gas Limited [1]	12%	New Zealand

(1) As at 30 June 2019, PT Commonwealth Life and First Gas Limited are classified as discontinued operations.

The Group also consolidates a number of unit trusts and other companies as part of the ongoing investment activities of the life insurance and wealth businesses. These investment vehicles are excluded from the above list.

Significant Judgements and Assumptions

Control and voting rights

Holding more than 50% of an entity's voting rights typically indicates that the Group has control over the entity. Significant judgement is involved where the Group either holds more than 50% of the voting rights but does not control an entity, or where the Group is deemed to control an entity despite holding less than 50% of the voting rights.

Agent or principal

The Group is deemed to have power over an investment fund when it holds either the responsible entity (RE) and/or the manager function of that fund. Whether that power translates to control depends on whether the Group is deemed to act as an agent or a principal of that fund. Management have determined that the Group acts as a principal and controls a fund when it cannot be easily removed as a manager or RE by investors and when its economic interest in that fund is substantial compared to the economic interest of other investors. In all other cases the Group acts as agent and does not control the fund.

Non-controlling interests

	Group	
	30 Jun 19 $M	30 Jun 18 $M
Shareholders' Equity	**55**	554
Total non-controlling interests	**55**	554

New Zealand Perpetual Preference Shares of AUD505 million issued by ASB Capital Limited and ASB Capital No.2 Limited, the Group's New Zealand subsidiaries, were bought back and subsequently cancelled in May 2019.

As at 30 June 2019, non-controlling interests include minority shareholders' interest in the Group's subsidiaries, PT Bank Commonwealth, PT Commonwealth Life and First Gas Limited.

11.1 Investments in subsidiaries and other entities (continued)

Significant restrictions

There were no significant restrictions on the ability to transfer cash or other assets, pay dividends or other capital distributions, provide or repay loans and advances between the entities within the Group. There were also no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group resulting from protective rights of non-controlling interests.

Associates and joint ventures

There were no individually significant investments in associates or joint ventures held by the Group as at 30 June 2019 and 30 June 2018. In addition, there were no significant restrictions on the ability of associates or joint ventures to transfer funds to the Bank or its subsidiaries in the form of cash dividends or to repay loans or advances made.

The Group's investments in associates and joint ventures are shown in the table below.

	Group						
	30 Jun 19 $M	30 Jun 18 $M	**30 Jun 19 Ownership Interest %**	30 Jun 18 Ownership Interest %	Principal Activities	Country of Incorporation	Balance Date
Bank of Hangzhou Co., Ltd	**1,816**	1,680	**18**	18	Commercial Banking	China	31-Dec
First State European Diversified Infrastructure Fund FCP-SIF [1]	**-**	121	**4**	3	Funds Management	Luxembourg	31-Dec
Qilu Bank Co., Ltd	**771**	638	**18**	18	Commercial Banking	China	31-Dec
Vietnam International Commercial Joint Stock Bank	**242**	210	**20**	20	Commercial Banking	Vietnam	31-Dec
Other	**172**	193	**Various**	Various	Various	Various	Various
Carrying amount of investments in associates and joint ventures	**3,001**	2,842					

	Group	
Share of Associates' and Joint Ventures profits [2]	**30 Jun 19 $M**	30 Jun 18 $M
Operating profits before income tax	**315**	321
Income tax expense	**(27)**	(52)
Operating profits after income tax [3]	**288**	269

(1) The investment in First State European Diversified Infrastructure Fund FCP-SIF has been classified as held for sale following the announced sale of CFSGAM.
(2) Excludes information concerning associates and joint ventures classified as held for sale.
(3) This amount is recognised within Note 2.3 in the share of profits of associates and joint ventures net of impairment.

Structured entities

A structured entity 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. Depending on the Group's power over the activities of the entity and its exposure to and ability to influence its own returns, it may consolidate the entity. In other cases it may sponsor or have exposure to such an entity but not consolidate it.

Consolidated structured entities

The Group has the following contractual arrangements which require it to provide financial support to its structured entities.

11.1 Investments in subsidiaries and other entities (continued)

Structured entities (continued)

Securitisation structured entities

The Group provides liquidity facilities to Medallion, Medallion NZ and Swan structured entities. The liquidity facilities can only be drawn to cover cash flow shortages relating to mismatches in timing of cash inflows due from securitised asset pools and cash outflows due to note holders. These 'timing mismatch' facilities rank pari passu with other senior secured creditors. The facilities limit is $877 million (2018: $857 million).

The Group has no contractual obligations to purchase assets from its securitisation structured entities.

Covered bonds trust

The Group provides funding and support facilities to CBA Covered Bond Trust and ASB Covered Bond Trust (the 'Trusts'). The Trusts are bankruptcy remote SPVs that guarantee any debt obligations owing under the US$30 billion CBA Covered Bond Programme and the EUR7 billion ASB Covered Bond Programme, respectively. The funding facilities allow the Trusts to hold sufficient residential mortgage loans to support the guarantees provided to the Covered Bonds. The Group also provides various swaps to the Trusts to hedge any interest rate and currency mismatches. The Group, either directly or via its wholly owned subsidiaries, Securitisation Advisory Services Pty Limited and Securitisation Management Services Limited, provides various services to the Trusts including servicing and monitoring of the residential mortgages.

Structured asset finance structured entities

The Group has no contractual obligation to provide financial support to any of its Structured asset finance structured entities.

During the year ended 30 June 2019, the Bank entered into a debt forgiveness arrangement with two wholly owned structured entities for the total of $7 million (2018: $17 million). The financial impact of the debt forgiveness was fully eliminated on consolidation.

Unconsolidated structured entities

The Group has exposure to various securitisation vehicles via Residential Mortgage-backed Securities (RMBS) and Asset-backed Securities (ABS). The Group may also provide derivatives and other commitments to these vehicles. The Group also has exposure to Investment funds and other financing vehicles.

Securitisations

Securitisations involve transferring assets into an entity that sells beneficial interests to investors through the issue of debt and equity notes with varying levels of subordination. The notes are collateralised by the assets transferred to these vehicles and pay a return based on the returns of those assets, with residual returns paid to the most subordinated investor.

The Group may trade or invest in RMBS and ABS, which are backed by Commercial Properties, Consumer Receivables, Equipment and Auto Finance. The Group may also provide lending, derivatives, liquidity and commitments to these securitisation entities.

Other financing

Asset-backed entities are used to provide tailored lending for the purchase or lease of assets transferred by the Group or its clients. The assets are normally pledged as collateral to the lenders. The Group engages in raising finance for assets such as aircraft, trains, vessels and other infrastructure. The Group may also provide lending, derivatives, liquidity and commitments to these entities.

Investment funds

The Group conducts investment management and other fiduciary activities as responsible entity, trustee, custodian, advisor or manager for investment funds and trusts, including superannuation and approved deposit funds, wholesale and retail trusts. The Group's exposure to investment funds includes holding units in the investment funds and trusts, providing lending facilities, derivatives and receiving fees for services.

The nature and extent of the Group's interests in these entities are summarised below. Interests do not include derivatives and other positions where the Group creates rather than absorbs variability of the Structured entity, for example deposits. These have been excluded from the below table.

11.1 Investments in subsidiaries and other entities (continued)

Unconsolidated structured entities (continued)

Exposures to unconsolidated structured entities	RMBS $M	ABS $M	Other Financing $M	Investment Funds $M	Total $M
					30 Jun 19
Assets at fair value through income statement - trading	-	-	-	242	**242**
Investment securities	7,619	476	-	-	**8,095**
Loans, bills discounted and other receivables	1,977	1,602	5,454	7,367	**16,400**
Other assets	-	-	-	-	**-**
Assets held for sale	-	-	-	1,108	**1,108**
Total on Balance Sheet exposures	**9,596**	**2,078**	**5,454**	**8,717**	**25,845**
Total notional amounts of off Balance Sheet exposures (1)	2,761	729	539	4,302	**8,331**
Total maximum exposure to loss	**12,357**	**2,807**	**5,993**	**13,019**	**34,176**
Total assets of the entities (2)	**55,508**	**9,523**	**17,542**	**329,237**	**411,810**

(1) Relates to undrawn facilities.
(2) Size of the entities is generally the total assets of the entities, except for Real Estate Investment Trusts where the size is based on the Group's credit exposure of $9,073 million.

Exposures to unconsolidated structured entities	RMBS $M	ABS $M	Other Financing (1) $M	Investment Funds $M	Total $M
					30 Jun 18
Assets at fair value through income statement - trading	22	-	-	43	**65**
Available-for-sale investments	7,233	652	-	224	**8,109**
Loans, bills discounted and other receivables	3,056	1,576	5,576	8,089	**18,297**
Other assets	-	-	-	401	**401**
Assets held for sale	-	-	-	824	**824**
Total on Balance Sheet exposures	**10,311**	**2,228**	**5,576**	**9,581**	**27,696**
Total notional amounts of off Balance Sheet exposures (2)	2,027	674	1,068	4,302	**8,071**
Total maximum exposure to loss	**12,338**	**2,902**	**6,644**	**13,883**	**35,767**
Total assets of the entities (3)	**52,230**	**9,869**	**16,101**	**332,443**	**410,643**

(1) In prior years, Other Financing included exposures to structured entities where the Group had recourse only to assets of the structured entities. Comparative information has been restated to conform to presentation in the current year and includes all exposures to structured entities.
(2) Relates to undrawn facilities.
(3) Size of the entities is generally the total assets of the entities, except for Real Estate Investment Trusts where the size is based on the Group's credit exposure of $9,688 million.

11.1 Investments in subsidiaries and other entities (continued)

Unconsolidated structured entities (continued)

The Group's exposure to loss depends on the level of subordination of the interest, which indicates the extent to which other parties are obliged to absorb credit losses before the Group. An overview of the Group's interests, relative ranking and external credit rating, for vehicles that have credit subordination in place, is summarised in the table below, and include securitisation vehicles and other financing.

				30 Jun 19
Ranking and credit rating of exposures to unconsolidated structured entities	**RMBS $M**	**ABS $M**	**Other Financing $M**	**Total $M**
Senior [1]	12,269	2,807	5,993	**21,069**
Mezzanine [2]	88	-	-	**88**
Total maximum exposure to loss	12,357	2,807	5,993	**21,157**

(1) All ABS and RMBS exposures and $3,901 million of other financing exposures are rated investment grade. $2,092 million of other financing exposures are sub-investment grade.
(2) All RMBS exposures are rated investment grade.

				30 Jun 18 [1]
Ranking and credit rating of exposures to unconsolidated structured entities	**RMBS $M**	**ABS $M**	**Other Financing $M**	**Total $M**
Senior [2]	12,254	2,902	6,644	**21,800**
Mezzanine [3]	84	-	-	**84**
Total maximum exposure to loss	12,338	2,902	6,644	**21,884**

(1) In prior years, Other Financing included exposures to structured entities where the Group had recourse only to assets of the structured entities. Comparative information has been restated to conform to presentation in the current year and includes all exposures to structured entities.
(2) All ABS exposures, $12,240 million of RMBS exposures and $4,067 million of other financing exposures are rated investment grade. $14 million of RMBS and $2,577 million of other financing exposures are sub-investment grade.
(3) All RMBS exposures are rated investment grade.

Sponsored unconsolidated structured entities

For the purposes of this disclosure, the Group sponsors an entity when it manages or advises the entity's program, places securities into the market on behalf of the entity, provides liquidity and/or credit enhancements to the entity, or the Group's name appears in the Structured Entity.

As at 30 June 2019, the Group has not sponsored any unconsolidated structured entities.

11.1 Investments in subsidiaries and other entities (continued)

Accounting policies

Subsidiaries

The consolidated financial report comprises the financial report of the Bank and its subsidiaries. Subsidiaries are entities (including structured entities) over which the Bank has control. The Bank controls an entity when it has:

- power over the relevant activities of the entity, for example through voting or other rights;
- exposure to, or rights to, variable returns from the Bank's involvement with the entity; and
- the ability to use its power over the entity to affect the Bank's returns from the entity.

Consolidation of structured entities

The Group exercises judgement at inception and periodically thereafter, to assess whether that structured entity should be consolidated based on the Bank's power over the relevant activities of the entity and the significance of its exposure to variable returns of the structured entity. Such assessments are predominately required for the Group's securitisation program, structured transactions and involvement with investment funds.

Transactions between subsidiaries in the Group are eliminated. Non-controlling interests and the related share of profits in subsidiaries are shown separately in the consolidated Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, and Balance Sheet. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated when control ceases. Subsidiaries are accounted for at cost less accumulated impairments at the Bank level.

Business combinations

Business combinations are accounted for using the acquisition method. At the acquisition date, the cost of the business is the fair value of the purchase consideration, measured as the aggregate of the fair values of assets transferred, equity instruments issued, or liabilities incurred or assumed at the date of exchange.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value on the acquisition date. Goodwill represents the excess of the fair value of the purchase consideration over the fair value of the Group's share of assets acquired and liabilities and contingent liabilities assumed on the date of acquisition. If there is a deficit instead, this discount on acquisition is recognised directly in the consolidated Income Statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Investments in associates and joint ventures

Associates and joint ventures are entities over which the Group has significant influence or joint control, but not control. In the consolidated financial report, they are equity accounted. They are initially recorded at cost and adjusted for the Group's share of the associates' and joint ventures' post-acquisition profits or losses and other comprehensive income (OCI), less any dividends received. At the Bank level, they are accounted for at cost less accumulated impairments.

The Group assesses, at each Balance Sheet date, whether there is any objective evidence of impairment. If there is an indication that an investment may be impaired, then the entire carrying amount of the investment in associate or joint venture is tested for impairment by comparing the recoverable amount (higher of value in use and fair value less disposal costs) with the carrying amount. Impairment losses recognised in the Income Statement are subsequently reversed through the Income Statement if there has been a change in the estimates used to determine recoverable amount since the impairment loss was recognised.

11.2 Related party disclosures

Banking transactions are entered into with related parties in the normal course of business on an arm's length basis. These include loans, deposits and foreign currency transactions, upon which some fees and commissions may be earned. Details of amounts paid or received from related parties, in the form of dividends or interest, are set out in Notes 2.3 and 2.1.

The Bank's aggregate investments in, and loans to controlled entities are disclosed in the table below. Amounts due to controlled entities are disclosed in the Balance Sheet of the Bank.

		Bank
	30 Jun 19 $M	30 Jun 18 $M
Shares in controlled entities	**10,728**	11,821
Loans to controlled entities	**109,465**	106,431
Total shares in and loans to controlled entities	**120,193**	118,252

As at 30 June 2019, loans to controlled entities in the table above are presented net of $21 million provisions for impairment.

11.2 Related party disclosures (continued)

The Group receives fees on an arm's length basis of $61 million (2018: $118 million) from funds included in assets held for sale.

The Bank provides letters of comfort to other entities within the Group on standard terms. Guarantees include a $175 million (2018: $175 million) guarantee to AFS license holders in respect of excess compensation claims. During the year ended 30 June 2019, the Bank entered into reimbursement arrangements totalling $396 million with its subsidiaries, Avanteos Investments Limited, Count Financial Limited, Financial Wisdom Limited and Commonwealth Financial Planning Limited (for the Pathways business (CFPL)), to cover potential remediation of ongoing service failures to customers, deceased estates, and inappropriate advice and other matters. This amount includes $374 million for Aligned Advice remediation and $22 million for other wealth remediation programs. The Group and the Bank have provided for these costs.

The Bank is the head entity of the tax consolidated group and has entered into tax funding and tax sharing agreements with its eligible Australian resident subsidiaries. The details of these agreements are set out in Note 2.5. The amount receivable by the Bank under the tax funding agreement with the tax consolidated entities is $320 million as at 30 June 2019 (2018: $283 million receivable). This balance is included in 'Other assets' in the Bank's separate Balance Sheet.

All transactions between Group entities are eliminated on consolidation.

Accounting policies

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, or a separate party controls both. The definition includes subsidiaries, associates, joint ventures, pension plans as well as other persons.

11.3 Discontinued operations

Completed transactions

Life insurance business in New Zealand

On 21 September 2017, the Group announced the sale of 100% of its New Zealand life insurance business (Sovereign) to AIA Group Limited (AIA) for $1.3 billion. The sale agreement includes a long-term partnership with AIA for the provision of life insurance products to customers in New Zealand. The sale of Sovereign completed on 2 July 2018, resulting in a total post-tax gain of $117 million (net of transaction and separation costs). This includes $135 million post-tax gain net of transaction and separation costs recognised during the year ended 30 June 2019, and $18 million post-tax transaction and separation costs recognised during the year ended 30 June 2018.

TymeDigital SA

On 1 November 2018, the Group completed the sale of Commonwealth Bank of South Africa (Holding Company) Limited (TymeDigital SA) to the minority shareholder, African Rainbow Capital, resulting in a total post-tax loss of $113 million.

Colonial First State Global Asset Management

On 31 October 2018, the Group announced the sale of Colonial First State Global Asset Management (CFSGAM) to Mitsubishi UFJ Trust and Banking Corporation (MUTB). The sale of CFSGAM completed on 2 August 2019, resulting in final sale proceeds of $4.2 billion and a total post tax gain of $1.5 billion (inclusive of separation costs and subject to final tax calculations and completion adjustments).

Ongoing transactions

Life insurance businesses in Australia

On 21 September 2017, the Group announced the 100% sale of its Australian life insurance businesses (CommInsure Life) to AIA for $2.5 billion. The sale agreement includes a long-term partnership with AIA for the provision of life insurance products to customers in Australia. The sale of CommInsure Life remains subject to the completion of the transfer of the Group's stake in BoCommLife out of CommInsure Life and its associated Chinese regulatory approvals.

The Group and AIA remain fully committed to completing the CommInsure Life transaction. The Group and AIA are also well progressed in exploring an alternative path to complete the CommInsure Life transaction prior to the transfer of the Group's stake in BoCommLife. The alternative path is expected to be subject only to Australian regulatory approvals. The Group expects to be able to provide further details of this alternative path by the end of the first quarter of the financial year 2020, if the sale of BoCommLife has not substantially progressed in that timeframe.

BoCommLife

On 23 May 2018, the Group announced the sale of its 37.5% equity interest in BoCommLife to Mitsui Sumitomo Insurance Co. Ltd (MSI). On completion, CBA is expected to receive proceeds of approximately $891 million. The sale of BoCommLife is subject to Chinese regulatory approvals, and is expected to be completed in the second half of the calendar year 2019.

11.3 Discontinued operations (continued)

Ongoing transactions (continued)

PT Commonwealth Life

On 23 October 2018, the Group announced the sale of its 80% interest in its Indonesian life insurance business, PT Commonwealth Life (PTCL), to FWD Group (FWD). As part of the sale, CBA's Indonesian banking subsidiary, PT Bank Commonwealth (PTBC), will enter into a 15-year life insurance distribution partnership with FWD. On completion, CBA is expected to receive $426 million in consideration for the sale of PTCL and entering the distribution partnership. The sale is subject to regulatory approvals in Indonesia and is now expected to complete in the second half of calendar year 2019.

Count Financial

On 13 June 2019, the Group announced the sale of its 100% interest in Count Financial Limited (Count Financial) to CountPlus Limited (CountPlus) for $2.5 million. Completion is expected to occur in October 2019. Upon completion, the Group will provide an indemnity to CountPlus capped at $200 million. This indemnity amount represents a potential contingent liability of $56 million in excess of a $144 million Count Financial remediation provision included in the Group's total Aligned Advice provision of $534 million as at 30 June 2019. Refer to Note 7.1 for further information.

The assets and liabilities of Count Financial have been presented as held for sale as at 30 June 2019. Count Financial has not been classified as a discontinued operation.

Financial impact of discontinued operations on the Group

The performance and net cash flows of the Group's interests in CommInsure Life, Sovereign, BoCommLife, PTCL, CFSGAM and TymeDigital SA are set out in the tables below:

	Full Year Ended (1)		
	30 Jun 19 $M	30 Jun 18 $M	30 Jun 17 $M
Net interest income	**6**	-	(9)
Other banking income	**20**	21	20
Net banking operating income	**26**	21	11
Funds management income	**1,102**	1,194	1,138
Investment revenue	**391**	503	513
Claims, policyholder liability and commission revenue/(expense)	**(548)**	(604)	(644)
Net funds management operating income	**945**	1,093	1,007
Premiums from insurance contracts	**1,256**	2,066	2,305
Investment revenue	**539**	367	216
Claims, policyholder liability and commission expense from insurance contracts	**(1,503)**	(1,702)	(1,861)
Net insurance operating income	**292**	731	660
Total net operating income before operating expenses	**1,263**	1,845	1,678
Operating expenses	**(938)**	(1,110)	(989)
Net profit before tax	**325**	735	689
Income tax expense	**(48)**	(172)	(176)
Policyholder tax	**(50)**	(58)	(32)
Net profit after tax and before transaction and separation costs	**227**	505	481
Losses on disposals of businesses net of transaction and separation costs	**(9)**	(227)	-
Non-controlling interests	**(7)**	(6)	(11)
Net profit after income tax from discontinued operations attributable to Equity holders of the Bank	**211**	272	470

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

11.3 Discontinued operations (continued)

Earnings per share for profit from discontinued operations attributable to equity holders of the parent:

	Full Year Ended (1)		
	30 Jun 19	30 Jun 18	30 Jun 17
	Cents per Share		
Earnings per share from discontinued operations:			
Basic	**11. 9**	15. 5	27. 4
Diluted	**11. 1**	14. 5	25. 9

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

Cash flow statement

	Full Year Ended (1) (2)		
	30 Jun 19	30 Jun 18	30 Jun 17
	$M	$M	$M
Net cash used in operating activities	**(563)**	(543)	(739)
Net cash from investing activities	**809**	1,080	1,120
Net cash used in financing activities	**(180)**	(659)	(122)
Net cash (outflows)/inflows from discontinued operations	**66**	(122)	259

(1) Comparative information has been restated to conform to presentation in the current year.
(2) Represents cash flows from the underlying businesses classified as discontinued operations and excludes proceeds from disposal.

11.3 Discontinued operations (continued)

Balance sheet

The balance sheet of the Group's interest in CommInsure Life, Sovereign, BoCommLife, PTCL, CFSGAM and Count Financial are set out in the table below. TymeDigital SA did not meet the held for sale classification criteria as at 30 June 2018. Count Financial met the held for sale criteria as at 30 June 2019 but has not been reclassified as a discontinued operation.

	As at (1)	
	30 Jun 19	30 Jun 18
Assets held for sale	**$M**	$M
Cash and liquid assets	**354**	108
Assets at fair value through Income Statement	**10,417**	11,867
Investment securities at fair value through other comprehensive income	**260**	-
Available-for-sale investments	**-**	10
Intangible assets	**2,049**	1,372
Property, plant and equipment	**1,510**	1,225
Investment in associates and joint ventures	**607**	401
Deferred tax assets	**145**	13
Other assets	**1,207**	630
Total assets (2)	**16,549**	15,626
Liabilities held for sale		
Insurance policy liabilities	**10,854**	11,188
Deferred tax liabilities	**404**	763
Deposits and other public borrowings	**1,268**	871
Managed funds units on issue	**2,197**	1,698
Other liabilities	**1,073**	380
Total liabilities	**15,796**	14,900

(1) Intragroup balances have been eliminated; however it will impact the final gain/loss on disposal of the discontinued operations.
(2) Includes assets of Count Financial classified as held for sale as at 30 June 2019 and assets of the businesses classified as discontinued operations. Excludes other assets classified as held for sale.

As at 30 June 2019, the foreign currency translation reserve relating to discontinued operations was $69 million (30 June 2018: $63 million, 30 June 2017: $61 million); the investment securities revaluation reserve relating to discontinued operations was $11 million.

As at 30 June 2018 and 30 June 2017, the available-for-sale investments revaluation reserve relating to discontinued operations was $4 million and $13 million respectively.

12. Other

Overview

This section includes other information about the Group's operations that is disclosed to provide a more complete view of our business. It includes customer related commitments and contingent liabilities that arise in the ordinary course of business through certain lending arrangements. In addition, it covers the impact of adopting new accounting standards, notes to the statement of cash flows, lease commitments and remuneration of auditors. Finally, details of events that have taken place subsequent to the Balance Sheet date are provided.

12.1 Contingent liabilities, contingent assets and commitments arising from the banking business

Details of contingent liabilities and off Balance Sheet instruments are presented below and in Note 7.1. The face (contract) value, as disclosed below, represents the maximum amount that could be lost if the counterparty fails to meet its financial obligations. The credit equivalent amounts are a measure of potential loss to the Group in the event of non-performance by the counterparty. The credit commitments shown in the table below also constitute contingent assets. These commitments would be classified as loans and other assets in the Balance Sheet should they be drawn upon by the customer.

				Group
	Face Value		Credit Equivalent	
Credit risk related instruments	**30 Jun 19 $M**	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Guarantees	**6,506**	6,265	**5,387**	5,185
Documentary letters of credit	**326**	761	**322**	753
Performance related contingents	**4,722**	4,610	**2,362**	2,531
Commitments to provide credit	**162,202**	162,090	**154,408**	157,636
Other commitments	**2,050**	1,470	**2,040**	1,470
Total credit risk related instruments	**175,806**	175,196	**164,519**	167,575

				Bank
	Face Value		Credit Equivalent	
Credit risk related instruments	**30 Jun 19 $M**	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Guarantees	**6,026**	5,835	**4,907**	4,754
Documentary letters of credit	**249**	720	**248**	715
Performance related contingents	**4,722**	4,593	**2,362**	2,514
Commitments to provide credit	**146,483**	147,098	**140,035**	144,102
Other commitments	**1,973**	1,360	**1,963**	1,360
Total credit risk related instruments	**159,453**	159,606	**149,515**	153,445

12.1 Contingent liabilities, contingent assets and commitments arising from the banking business (continued)

Accounting policies

Credit default financial guarantees are unconditional undertakings given to support the obligations of a customer to third parties. Other forms of financial guarantees include documentary letters of credit which are undertakings by the Group to pay or accept drafts drawn by a supplier of goods against presentation of documents in the event of payment default by a customer. Financial guarantees are recognised within other liabilities and are initially measured at their fair value, equal to the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Income Statement, and the expected credit loss recognised under AASB 9. Any increase in the liability relating to financial guarantees is recorded in the Income Statement. The premium received is recognised in the Income Statement in other operating income on a straight line basis over the life of the guarantee.

Performance related contingencies are undertakings that oblige the Group to pay third parties should a customer fail to fulfil a contractual non-monetary obligation. Performance related contingencies are performance guarantees and do not meet the definition of a financial guarantee, because they do not transfer credit risk. Performance guarantees are recognised when it is probable that an obligation has arisen. The amount of any provision is the best estimate of the amount required to fulfil the obligation.

Commitments to provide credit include all obligations on the part of the Group to provide credit facilities (unutilised credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Group subject to notice conditions. As facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. Under AASB 9 loan commitments must be measured with reference to the quantum of expected credit losses required to be recognised. In the case of undrawn loan commitments, the inherent credit risk is managed and monitored by the Group together with the drawn component as a single credit exposure. The exposure at default on the entire facility is therefore used to calculate the cumulative expected credit losses. Upon a loan drawdown by the counterparty, the amount of the loan is accounted for in accordance with accounting policies for loans and receivables.

Other commitments to provide credit include commitments with certain drawdowns, standby letters of credit and bill endorsements.

The details of the Group's accounting policies and critical judgements and estimates involved in calculating the AASB 9 impairment provisions for the year ended 30 June 2019 are provided in Note 1.1.

12.2 Lease commitments

	Group		Bank	
	30 Jun 19 $M	30 Jun 18 $M	**30 Jun 19 $M**	30 Jun 18 $M
Lease Commitments - Property, Plant and Equipment				
Due within one year	**673**	681	**626**	619
Due after one year but not later than five years	**1,805**	1,764	**1,668**	1,593
Due after five years	**1,600**	1,811	**1,466**	1,658
Total lease commitments - property, plant and equipment	**4,078**	4,256	**3,760**	3,870

Lease arrangements

Operating leases are entered into to meet the business needs of entities in the Group. Leases are primarily over commercial and retail premises and plant and equipment.

Lease rentals are determined in accordance with market conditions when leases are entered into or on rental review dates. The total expected future sublease payments to be received are $77 million as at 30 June 2019 (2018: $88 million).

12.3 Notes for the statements of cash flows

(a) Reconciliation of net profit after income tax to net cash provided by/ (used in) operating activities

	Group			Bank	
	30 Jun 19 $M	30 Jun 18 $M	30 Jun 17 $M	**30 Jun 19 $M**	30 Jun 18 $M
Net profit after income tax	**8,590**	9,348	9,952	**7,783**	8,875
(Increase)/decrease in interest receivable	**(36)**	(62)	(14)	**537**	(17)
(Decrease)/increase in interest payable	**(69)**	112	(26)	**(104)**	243
Net (increase)/decrease in assets at fair value through Income Statement (excluding life insurance)	**(4,935)**	1,536	2,788	**(3,089)**	2,079
Net loss/(gain) on sale of controlled entities and associates	**61**	184	(2)	**236**	172
Net movement in derivative assets/liabilities	**6,606**	3,381	(492)	**8,873**	4,830
Net loss/(gain) on sale of property, plant and equipment	**9**	17	(6)	**11**	17
Equity accounting (profit)/loss	**(231)**	(287)	(292)	**63**	7
Loan impairment expense	**1,201**	1,079	1,095	**1,058**	963
Depreciation and amortisation (including asset write downs)	**1,011**	968	1,229	**912**	777
(Decrease)/increase in liabilities at fair value through Income Statement (excluding life insurance)	**(603)**	(258)	121	**(1,013)**	(41)
Increase in other provisions	**783**	156	114	**722**	205
(Decrease)/increase in income taxes payable	**(1,082)**	(461)	603	**(1,573)**	(484)
(Decrease)/increase in deferred tax liabilities	**(457)**	400	(14)	**(27)**	-
Decrease/(increase) in deferred tax assets	**67**	(538)	(573)	**(140)**	(106)
(Increase)/decrease in accrued fees/reimbursements receivable	**(111)**	20	(238)	**(53)**	(68)
(Decrease)/increase in accrued fees and other items payable	**(340)**	631	18	**(775)**	801
Decrease in life insurance contract policy liabilities	**(787)**	(836)	(1,240)	**-**	-
Cash flow hedge ineffectiveness	**(4)**	(4)	(20)	**(6)**	4
Loss/(gain) on changes in fair value of hedged items	**558**	(765)	799	**(624)**	(763)
Dividend received - controlled entities and associates	**-**	-	-	**(1,473)**	(2,085)
Changes in operating assets and liabilities arising from cash flow movements	**6,577**	(15,461)	(15,228)	**7,157**	(15,771)
Other	**1,278**	1,949	619	**635**	1,953
Net cash provided by/(used in) operating activities	**18,086**	1,109	(807)	**19,110**	1,591

(b) Reconciliation of cash

For the purposes of the Statements of Cash Flows, cash includes cash and money at short call.

	Group			Bank	
	30 Jun 19 $M	30 Jun 18 $M	30 Jun 17 $M	**30 Jun 19 $M**	30 Jun 18 $M
Notes, coins and cash at banks	**16,930**	17,110	14,836	**15,633**	15,586
Other short-term liquid assets	**80**	5,895	8,281	**(99)**	5,765
Cash and cash equivalents at end of year	**17,010**	23,005	23,117	**15,534**	21,351

12.3 Notes for the statements of cash flows (continued)

(c) Non-cash financing and investing activities

	Group		
	30 Jun 19 $M	30 Jun 18 $M	30 Jun 17 $M
Shares issued under the Dividend Reinvestment Plan	**748**	2,105	1,143

(d) Disposal of controlled entities

	Group		
	30 Jun 19 $M	30 Jun 18 $M	30 Jun 17 $M
Net assets	**1,128**	-	-
Cash consideration received	**1,304**	-	-
Cash and cash equivalents held in disposed entities	**45**	-	-

12.4 Remuneration of auditors

During the financial year, the following fees were paid or payable for services provided by the auditor of the Group and the Bank, and its network firms:

	Group		Bank	
	30 Jun 19 $'000	30 Jun 18 $'000	**30 Jun 19 $'000**	30 Jun 18 $'000
a) Audit and audit related services				
Audit services				
PricewaterhouseCoopers Australian firm	**23,858**	21,292	**16,776**	14,040
Network firms of PricewaterhouseCoopers Australian firm	**5,334**	5,939	**1,204**	1,027
Total remuneration for audit services	**29,192**	27,231	**17,980**	15,067
Audit related services				
PricewaterhouseCoopers Australian firm	**3,809**	4,416	**2,630**	3,736
Network firms of PricewaterhouseCoopers Australian firm	**1,697**	2,133	**34**	145
Total remuneration for audit related services	**5,506**	6,549	**2,664**	3,881
Total remuneration for audit and audit related services	**34,698**	33,780	**20,644**	18,948
b) Non-audit services				
Taxation services				
PricewaterhouseCoopers Australian firm	**925**	757	**228**	561
Network firms of PricewaterhouseCoopers Australian firm	**470**	1,508	**266**	481
Total remuneration for tax related services	**1,395**	2,265	**494**	1,042
Other Services				
PricewaterhouseCoopers Australian firm	**7,315**	10,955	**7,315**	10,933
Network firms of PricewaterhouseCoopers Australian firm	**600**	66	**3**	-
Total remuneration for other services	**7,915**	11,021	**7,318**	10,933
Total remuneration for non-audit services	**9,310**	13,286	**7,812**	11,975
Total remuneration for audit and non-audit services (1)	**44,008**	47,066	**28,456**	30,923

(1) An additional amount of $10,497,464 (2018: $11,850,256) was paid to PricewaterhouseCoopers by way of fees for entities not consolidated into the Financial Statements. Of this amount, $7,521,734 (2018: $8,093,111) relates to audit and audit-related services.

12.4 Remuneration of auditors (continued)

The Audit Committee has considered the non-audit services provided by PricewaterhouseCoopers and is satisfied that the services and the level of fees are compatible with maintaining auditors' independence. All such services were approved by the Audit Committee in accordance with pre-approved policies and procedures.

Audit related services principally include assurance and attestation relating to sustainability reporting and comfort letters over financing programmes as well as reviews of internal control systems.

Taxation services include assistance with tax software configuration as well as advice regarding tax returns and submissions, and Australia/foreign tax legislation.

Other services include benchmarking and process reviews on the Bank's response to the Royal Commission, IT security assessments, and consulting services related to corporate transactions.

12.5 Future accounting developments

Adoption of AASB 16 'Leases'

On 1 July 2019, the Group adopted AASB 16 'Leases' replacing the previous standard AASB 117 'Leases'. AASB 117 required leases to be classified as operating leases or finance leases according to their economic substance at inception of the lease. Finance leases were recognised on the Balance Sheet. Operating leases were not recognised on the Balance Sheet and rent payable was recognised as an expense over the lease term.

AASB 16 introduces a single accounting model for recognising and measuring lease arrangements. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time. Lessor accounting remains largely unchanged from the previous standard. Under lessee accounting, AASB 16 requires all leases to be recognised on the Balance Sheet, unless the underlying asset is of low value or the lease has a term of 12 months or less.

From 1 July 2019, the Group will recognise a 'right-of-use asset' representing its right to use leased assets and a 'lease liability', measured as the present value of future lease payments. The income statement will include depreciation of the right-of-use asset and interest expense on the lease liability over the lease term. Total lease expense recognised over the life of a lease remains unchanged as compared to AASB 117, however the timing of expense recognition changes, with a higher expense recognised in the earlier stages of a lease due to the interest expense being determined on the lease liability that amortises over the lease term.

The Group has applied the modified retrospective approach in adopting AASB 16, and measured the right-of-use asset for certain existing premises as if AASB 16 has always been applied. The resulting transition adjustments will be recognised in opening retained profits. For other leases, the right-of-use asset is measured as equal to the lease liability. Under this approach no restatement to comparative information is required. The adoption of AASB 16 is expected to increase assets by approximately $2,755 million and increase liabilities by approximately $2,951 million. This will result in a post-tax decrease in retained profits of $138 million and an increase in deferred tax asset of $58 million. This predominantly relates to leases over the Group's commercial and retail premises. Management judgement applied in determining these values includes the determination of whether an arrangement contains a lease, the term of the lease, the discount rate and future lease cash flows.

Interest Rate Benchmark Reform

Interbank offered rates (IBORs), such as LIBOR, play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments. The global regulatory community has initiated various programmes to develop alternative benchmarks (known as "IBOR reform") within certain jurisdictions. In response to the uncertainty about the long-term viability of these benchmark rates, the IASB announced in 2018 that it would establish a project to consider the financial reporting implications of the reform. It is expected to have an impact on various elements of financial instrument accounting, including hedge accounting, loan modifications, as well as fair value methodologies and disclosures. In May 2019, the IASB published an Exposure Draft Interest Rate Benchmark Reform which proposes exceptions to specific hedge accounting requirements in IFRS 9 and IAS 39. The IASB expects to issue final guidance later in 2019. The Group is monitoring these developments and continues to assess the expected impact.

12.5 Future accounting developments (continued)

Other Accounting Developments

AASB 17 ‘Insurance Contracts’, amends the accounting for insurance contracts and will replace AASB 4 ‘Insurance Contracts’, AASB 1023 ‘General Insurance Contracts’ and AASB 1038 ‘Life Insurance Contracts’. AASB 17 will apply to the Group from 1 July 2021. The impact of AASB 17 is dependent on the Group’s composition at the time of adoption. The Group is still assessing the impact of AASB 17.

AASB Interpretation 23 ‘Uncertainty over Income Tax Treatments’ (Interpretation 23) clarifies the recognition and measurement criteria where there is uncertainty over income tax treatments. It requires an assessment of each uncertain tax position to determine whether it is probable that a taxation authority will accept the position. Where it is not considered probable, the effect of the uncertainty will be reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates. The amount will be determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever better predicts the resolution of the uncertainty. Judgements will be reassessed as and when new facts and circumstances are presented. Interpretation 23 will apply to the Group from 1 July 2019, and is not expected to have a significant impact on the Group.

A revised conceptual framework has been issued, which contains new definitions and recognition criteria for assets, liabilities, income and expenses in the framework. These changes will apply to the Group from 1 July 2020, where the criteria are not inconsistent with the specific requirements of an accounting standard. The changes are not expected to have a significant impact on the Group.

Other amendments to existing standards that are not yet effective are not expected to result in significant changes to the Group's accounting policies.

12.6 Accounting policies applicable for comparative periods

The Group adopted AASB 9 and AASB 15 on 1 July 2018. The Group’s current accounting policies for the recognition and measurement of financial assets are detailed in Notes 3.1, 3.2, 5.2, 5.3 and 5.4 and the recognition of revenue from contracts with customers is detailed in Note 2.3. A summary of accounting policies that applied to financial instruments and revenue recognition for the comparative periods is provided below.

Financial instruments

The Group classifies its financial assets in the following categories:

- available-for-sale investments;
- loans and receivables;
- financial assets at fair value through the Income Statement; and
- derivative assets.

The classification of financial instruments at initial recognition depends on their purpose, characteristics and management’s intention when acquiring them.

Available-for-sale investments

The Group Available-for-sale (AFS) investments are non-derivative financial assets that are not classified at fair value through the Income Statement or as loans and receivables. They primarily include public debt securities held as part of the Group’s liquidity portfolio. Subsequent to initial recognition, AFS investments are measured at fair value with unrealised gains and losses arising from changes in fair value recognised in the AFS investment reserve within equity, net of applicable income taxes until such investments are sold, collected, otherwise disposed of, or become impaired. Interest, premiums and dividends are recognised in the Income Statement when earned. Foreign exchange gains and losses on AFS equity instruments are recognised directly in equity.

The Group assesses at each Balance Sheet date, whether there is any objective evidence of impairment as a result of one or more events which have an impact on the estimated future cash flows of the AFS investments that can be reliably estimated. For equity securities classified as an AFS investment, the main indicators of impairment are significant changes in the market, economic or legal environment and a significant or prolonged decline in fair value below cost. If any such evidence exists for AFS investments, cumulative losses are removed from equity and recognised in the Income Statement. If, in a subsequent period, the fair value of an AFS debt security increases and the increase can be linked objectively to an event occurring after the impairment event, the impairment is reversed through the Income Statement. Impairment losses on AFS equity securities are not reversed. Upon disposal, the accumulated change in fair value within the AFS investments reserve is transferred to the Income Statement and reported within Other Banking Income.

12.6 Accounting policies applicable for comparative periods (continued)

Financial instruments (continued)

Loans and receivables

Loans, bills discounted and other receivables are financial assets, with fixed and determinable payments that are not quoted in an active market. Loans, bills discounted and other receivables include overdrafts, home loans, credit card and other personal lending, term loans, discounted bills and finance leases. Loans and receivables are recognised on settlement date, when funding is advanced to the borrowers. The loans and receivables are initially recognised at their fair value plus directly attributable transaction costs such as broker fees. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method and are presented net of provisions for impairment. Discounted bills are included in this category due to their financing nature, however they meet the definition of a trading asset. They are measured at fair value through the Income Statement with directly attributable transaction costs expensed.

The Group assesses at each Balance Sheet date whether there is any objective evidence of impairment. If there is objective evidence that an impairment loss on loans and other receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. Short-term balances are not discounted. Loans and other receivables are presented net of provisions for loan impairment.

Guarantees and other contingent liabilities are accounted for as off Balance Sheet items. Provisioning for these exposures is calculated under AASB 137 ‘Provisions, Contingent Liabilities and Contingent Assets’. Loan assets under committed lending facilities are not recognised until the facilities are drawn upon. However, the Group has determined that it is appropriate to establish provisions in relation to such facilities where a customer has been downgraded. These provisions are disclosed as other liabilities in the Balance Sheet.

Provisions for impairment of financial assets are raised to cover assessed credit related losses where there is objective evidence of impairment (i.e. where the Group does not expect to receive all of the cash flows contractually due). Individually assessed provisions against loans are subject to change as new information becomes available to reassess the level of impairment against a loan.

Loans and receivables that do not have an individually assessed provision are assessed collectively for impairment. The collective provision is maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the Balance Sheet date. Increases or decreases in the provision amount are recognised in the Income Statement.

Financial assets at fair value through the Income Statement

These assets are categorised as assets held for trading, insurance assets and other investments. Trading assets are those acquired for the purpose of selling or repurchasing in the near term. Insurance assets are investments that back life insurance and life investment contracts. Other assets are those that are designated at fair value through Income Statement at inception. Subsequent to initial recognition, financial assets are measured at fair value with changes in fair value recognised in Other Banking Income.

Derivative financial instruments

Derivatives are initially measured at fair value. Subsequent to initial recognition, gains or losses on derivatives are recognised in the Income Statement, unless they are entered into for hedging purposes and designated into a cash flow hedge.

Revenue recognition

Lending fees and commission income include:

- Facility fees earned for managing and administering credit and other facilities for customers, which are recognised over the service period;
- Commitment fees to originate a loan that is unlikely to be drawn down which are recognised when the commitment is issued; and
- Fee income earned for providing advisory or arrangement services, placement and underwriting services, which are recognised when the related service is completed.

Trading income represents both realised and unrealised gains and losses from changes in the fair value of trading assets, liabilities and derivatives, which are recognised in the period in which they arise.

Net gain/(loss) on non-trading financial instruments includes realised gains and losses from non-trading financial assets and liabilities (i.e. available-for-sale investments), as well as realised and unrealised gains and losses on non-trading derivatives that are held for risk management purposes.

Net gain/(loss) on the sale of property, plant and equipment is the difference between proceeds received and their carrying values.

Net hedging ineffectiveness is measured on fair value, cash flow and net investment hedges.

Dividends received on non-trading equity investments including controlled entities are recognised either on the ex-dividend date or when the right to receive payment is established.

12.6 Accounting policies applicable for comparative periods (continued)

Revenue recognition (continued)

Net funds management operating income includes fees earned where the Group acts as the Responsible Entity, Trustee or Manager for a number of wholesale, superannuation, and investment funds or trusts. Management fees are recognised over the service period.

Performance fees are recognised when it is probable that the revenue will be received.

General insurance premiums received and receivable are recognised as revenue when they are earned, based on actuarial assessment of the likely pattern in which risk will emerge. The portion not yet earned based on the pattern assessment is recognised as unearned premium liability. Claims are recognised as an expense when the liability is established.

The Group recognises its share of the profits or losses from associate or joint venture investments, less any dividends received or impairment recognised.

Other income includes rental income on operating leases which are recognised on a straight line basis over the lease term. This is offset by depreciation and impairment expense on the associated operating lease assets held by the Group. For the Bank, this includes management fee income for services provided to subsidiaries.

Other income also includes the impact of foreign currency revaluations for foreign currency monetary assets and liabilities. These assets and liabilities are retranslated at the spot rate at balance date. Exchange differences arising upon settling or translating monetary items at different rates to those at which they were initially recognised or previously reported, are recognised in the Income Statement.

12.7 Subsequent events

Dividend Reinvestment Plan (DRP)

The Bank expects the DRP for the final dividend for the year ended 30 June 2019 will be satisfied in full by an on-market purchase and transfer of shares of approximately $683 million.

Completion of CFSGAM Sale

On 31 October 2018, the Group announced the sale of Colonial First State Global Asset Management (CFSGAM) to Mitsubishi UFJ Trust and Banking Corporation (MUTB). The sale of CFSGAM completed on 2 August 2019, resulting in final sale proceeds of $4.2 billion and a total post tax gain of $1.5 billion (inclusive of separation costs and subject to final tax calculations and completion adjustments).

Update on Aligned Advice businesses

Ceasing to provide licensee services through Financial Wisdom

The Group has decided to cease providing licensee services through Financial Wisdom and will proceed with an assisted closure. The Group will support advisers through an orderly transition to alternative arrangements, including self-licensing or joining another licensee. The Group will also continue to manage customer remediation arising from past issues at Financial Wisdom. The cost of customer remediation for Financial Wisdom has been included in customer remediation provisions recognised by the Group during the year.

Commonwealth Financial Planning Limited-Pathways (CFP-Pathways) advisers to transition to new licensee arrangements

In July 2019, the Group reached a decision to allow CFP-Pathways advisers to transition to self-licensing arrangements or move to another licensee.

The estimated pre-tax costs of supporting the Financial Wisdom and CFP-Pathways businesses, their advisers and their customers through this transition, as well as other internal project costs, is approximately $26 million.

Investment in Klarna Holding AB (Klarna)

The Group has committed an investment of US$100 million into Klarna Holding AB (Klarna), as part of their US$460 million capital raise. The Group will become Klarna’s exclusive partner in Australia and New Zealand and intends to further invest at the parent and local level to support this partnership.

Directors' declaration

The Directors of the Commonwealth Bank of Australia declare that in their opinion:

(a) the consolidated financial statements and notes for the year ended on 30 June 2019, as set out on pages 112 to 271, are in accordance with the *Corporations Act 2001 (Cth)*, including:

(i) complying with the Australian Accounting Standards and any further requirements in the *Corporations Regulations 2001*; and

(ii) giving a true and fair view of the Group's financial position as at 30 June 2019 and its performance for the year ended 30 June 2019;

(b) there are reasonable grounds to believe that the Commonwealth Bank of Australia will be able to pay its debts as and when they become due and payable.

Note 1.1 of the consolidated financial statements includes a statement of compliance with the International Financial Reporting Standards.

The Directors have been given the declarations required by section 295A of the *Corporations Act 2001 (Cth)* for the year ended 30 June 2019.

This declaration is made in accordance with a resolution of the Directors.

C.B. Livingstone

Catherine Livingstone AO
Chairman
7 August 2019

Matt Comyn
Managing Director and Chief Executive Officer
7 August 2019

Independent auditor's report

To the members of the Commonwealth Bank of Australia

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of the Commonwealth Bank of Australia (the Bank) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

a. giving a true and fair view of the Bank's and Group's financial positions as at 30 June 2019 and of their financial performance for the year then ended; and

b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Bank and Group financial report comprises:

- the Bank and the Group balance sheets as at 30 June 2019;
- the Bank and the Group income statements for the year then ended;
- the Bank and the Group statements of comprehensive income for the year then ended;
- the Bank and the Group statements of changes in equity for the year then ended;
- the Bank and the Group statements of cash flows for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies; and
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of this report.

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

Independence

We are independent of the Bank and the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Our audit approach

Bank and Group audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Bank and the Group, their accounting processes and controls and the industries in which they operate. We also ensured that the audit team had the appropriate skills and competencies needed for the audit of a complex financial services group. This included industry expertise in retail, business and institutional banking, and insurance and wealth management financial services, as well as specialists and experts in IT, actuarial, tax, treasury and valuation.

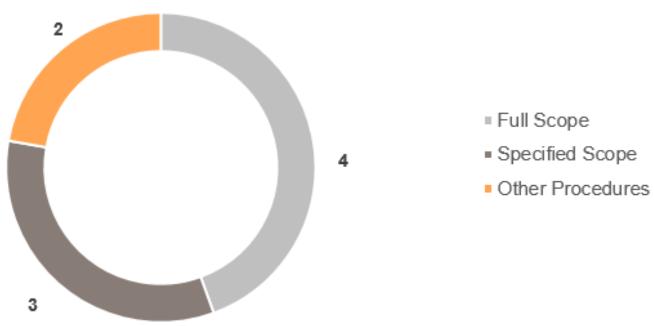
The Group is structured into 6 business segments being Retail Banking Services (RBS), Business and Private Banking (B&PB), Institutional Banking and Markets (IB&M), Wealth Management (WM), New Zealand (NZ), International Financial Services and Corporate Centre (IFS and Corporate Centre).

In designing our scope we considered the structure of the Bank and the Group and further identified those entities or business activities within each business segment for which the Bank and the Group prepares financial information for inclusion in the financial report (referred to as components).

The nature, timing and extent of audit work performed for each component was determined by the components' risk characteristics and financial significance to the Bank and the Group and consideration of whether sufficient evidence had been obtained for our opinion on the financial report as a whole. This involved either:

- an audit of the complete financial information of a component (full scope);
- an audit of one or more of the component's account balances, classes of transactions or disclosures (specified scope);
- analytical procedures performed at the Group level; or
- audit procedures at a Group level, including over the consolidation of the Group's reporting units and the preparation of the financial report.

Number of Components by Scope



Set out on the next page is an overview of our Bank and Group audit approach highlighting key aspects of our audit.

Scoping and Performance of Procedures

Component	*Audit Scope*
RBS	Bank and Group – Full scope
B&PB	Bank and Group – Full scope
IB&M	Bank and Group – Full scope
NZ - ASB[1]	Group – Full scope
WM – Colonial First State	Bank and Group – Specified scope
WM – Global Asset Management	Bank and Group – Specified scope
WM - Colonial Mutual Life Assurance[1]	Group – Specified scope
IFS – Continuing operations	Group – Other procedures
IFS – PT Commonwealth Life	Group – Other procedures

Reporting

Key Audit Matters	*Audit opinion*
Areas in our professional judgement which were of most significance in our audit	*Opinion on the financial report as a whole*

[1] Full scope audits are performed for the purposes of standalone legal entity statutory financial reports as required.

Bank and Group materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Items are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of the users taken on the basis of the financial report.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Bank and Group materiality for the financial report, which we have set out in the table below:

Overall Bank and Group materiality	$510 million (2018: $615 million)
How we determined it	Approximately 5% of 2019 financial year profit before tax (PBT) (2018: approximately 5% of 2018 financial year PBT) for the Bank.
Rationale for the materiality benchmark applied	We chose net profit before income tax because, in our view, it is the metric against which the performance of the Bank and the Group is most commonly measured and is a generally accepted benchmark in the financial services industry. We performed our audit over both the Bank and the Group financial information concurrently. We apply the lower of materiality calculated based on the Bank or the Group PBT in order to avoid duplication of work. As the Bank has a lower PBT, we calculated materiality based on the Bank PBT and applied this during the audit of both the Bank and the Group. We selected 5% based on our professional judgement noting that it is also within the range of commonly acceptable quantitative materiality measures.

pwc

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current year. We describe each key audit matter and include a summary of the principal audit procedures we performed to address those matters in the table below.

The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee. The key audit matters identified below relate to both the Bank and the Group audit with the exception of the valuation of insurance policy holder liabilities which relates only to the Group.

Key audit matter	*How our audit addressed the key audit matter*
Loan impairment provisions *(Bank and Group Level; Relevant components: RBS, B&PB, IB&M, NZ - ASB)*	
AASB 9 *Financial Instruments* was adopted by the Bank and the Group for the financial year beginning 1 July 2018. Insofar as it applies to loan impairment provisions, AASB 9 introduces an expected credit loss (ECL) impairment model which takes into account forward-looking information reflecting potential future economic events. The Bank and the Group developed new models which are reliant on data as well as a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk. We considered this a key audit matter due to the subjective judgements made by the Bank and the Group in determining when to recognise impairment provisions including: · Models used to calculate ECLs (ECL models) are inherently complex and judgement is applied in determining the appropriate construct of model to be applied; and · A number of assumptions are made by the Bank and Group concerning the values of inputs to the ECL models and how inputs correlate with one another. Provisions for impairment of loans that exceed specific thresholds are individually assessed by the Bank and the Group. These provisions are	We developed an understanding of the controls relevant to our audit over the following areas and assessed whether they were appropriately designed and were operating effectively throughout the year on a sample basis: · Review and approval of forward looking information used in ECL models; · Reliability and accuracy of critical data elements used in ECL models; and · Review and approval of ECL model adjustments and the ECL loan impairment provisions by the Bank's and the Group's Loan Loss Provisioning Committee (LLPC). In addition to controls testing, we along with PwC actuarial experts, performed the following audit procedures, amongst others on a sample basis: · Assessed the ECL model methodology applied against general market practice and the results of model monitoring performed, including back-testing of actual losses against predicted losses; · Considered the Bank's and the Group's judgements including the reasonableness of forward-looking information incorporated into the ECL

Key audit matter	*How our audit addressed the key audit matter*
Loan impairment provisions *(Bank and Group Level; Relevant components: RBS, B&PB, IB&M, NZ - ASB)*	
established based on the expected future cash repayments and estimated proceeds from the value of the collateral held by the Bank and the Group in respect of those loans. During the financial year ended 30 June 2019, the majority of the Bank's and the Group's individually assessed provisions for specific lending assets related primarily to business and corporate loans. ***Relevant references in the financial report*** Refer notes 1.1 and 3.2 for further information.	models by assessing the forecasts, assumptions and probability weightings applied in the multiple economic scenarios; · Agreed a sample of data used as input to the ECL models to relevant source documentations; · Compared the modelled calculations to our own calculated expectations as determined by independently applying the model methodology; and · Assessed the appropriateness of model adjustments identified by the Bank and the Group against internal and external supporting information. For a selection of individually assessed provisions for specific lending assets, we performed the following audit procedures, amongst others: · Examined cashflow forecasts supporting the impairment calculation by assessing judgements (in particular the amount and timing of recoveries) made by the Bank and the Group in the context of the borrowers' circumstances based on the detailed loan and counterparty information known by the Bank and the Group; and · Compared inputs in the Bank's and the Group's estimates (such as valuation of collateral held) to external information where available. We also assessed the appropriateness of the Group's disclosures against the requirements of Australian Accounting Standards.

pwc

Key audit matter	*How our audit addressed the key audit matter*
Judgemental valuation of financial instruments *(Bank and Group Level; Relevant components: IB&M, NZ – ASB, WM – Colonial Mutual Life Assurance)*	
The Bank and Group hold financial instruments measured at fair value representing 14% of the total assets and 4% of the total liabilities of the Bank and 15% of the total assets and 4% of the total liabilities of the Group. The financial instruments held at fair value include: · Derivative assets and liabilities; · Investment securities at fair value though other comprehensive income; · Life insurance assets and liabilities; and · Bills discounted and other assets and liabilities designated at fair value. The majority of the Bank's and the Group's financial instruments are considered to be non-complex in nature as fair value is based on prices and rates that can be easily observed in the relevant markets. On this basis the majority of the Bank's and the Group's financial instruments are classified under Australian Accounting Standards as either 'Level 1' (i.e. where key inputs to the valuation is based on quoted prices in the market) or 'Level 2' (i.e. where key inputs to the valuation is based on observable prices in the market). We considered these Level 1 and Level 2 financial instruments to be a key audit matter due to their financial significance to the Bank and the Group. The Group also holds a limited number of financial instruments considered to be 'Level 3' in nature under Australian Accounting Standards (i.e. where key inputs to the valuation require additional judgement as observable inputs are not available in the market due to market illiquidity or complexity of the product) primarily in respect to complex derivatives, certain asset-backed securities and infrastructure funds. While the Bank's and the Group's holdings of such instruments is limited relative to total	We developed an understanding of the controls relevant to our audit over the following areas and assessed whether they were appropriately designed and were operating effectively throughout the year: · Valuation model governance control framework; · Completeness and accuracy of data inputs, including sourcing independent market data inputs; · Methodology for the determination of fair value adjustments; and · The Bank and Group's assessment of its own models used to measure fair value. In relation to the fair value of financial instruments as at 30 June 2019, together with PwC valuation experts, we compared the Bank's and the Group's calculation of fair value to our own independent calculation across a sample of financial instruments. This involved sourcing independent inputs from market data providers or external sources and using our own valuation models. We considered the results to assess whether there was evidence of systemic bias or error in the Bank and the Group's calculation of fair value.

Key audit matter	*How our audit addressed the key audit matter*
Judgemental valuation of financial instruments *(Bank and Group Level; Relevant components: IB&M, NZ – ASB, WM – Colonial Mutual Life Assurance)*	
financial instrument holdings, we considered their valuation to be a key audit matter because there is more judgement involved in determining their value. ***Relevant references in the financial report*** Refer notes 1.1, 4.2, 5.2, 5.3, 5.4 and 9.5 for further information.	

Key audit matter	*How our audit addressed the key audit matter*
Provisions for customer remediation and project costs associated with regulatory compliance matters *(Bank and Group level; Relevant components: All)*	
The Bank and the Group have assessed the need to raise provisions in relation to customer remediation payments, legal proceedings, project costs associated with compliance matters and investigations and reviews from its regulators including APRA's Enforceable Undertaking, amongst others. We considered this a key audit matter due to the subjective judgements required by the Bank and the Group in determining: · the probability of financial outcomes based on available information; · the estimate of customer remediation payment amounts; and · the project costs associated with the remediation activities, and regulatory proceedings, investigations and reviews. ***Relevant references in the financial report*** Refer notes 1.1 and 7.1 for further information.	We developed an understanding of the Bank's and the Group's processes for identifying and assessing the impact of customer remediation payments, legal proceedings and project costs associated with compliance matters and investigations and reviews from its regulators. We read the minutes of the Bank's main governance meetings (i.e. Audit Committee, Risk Committee and Board of Directors), attended the Bank's Audit and Risk Committee meetings and considered correspondence with relevant regulatory bodies. We discussed ongoing legal matters with the directors and management. We obtained written representations from the Group Chief Executive Officer, Chief Financial Officer and Group General Counsel and obtained access to relevant documents in order to develop our understanding of the matters. For material provisions, we considered the judgement as to whether there is potential material financial exposure for the Bank and the Group, and if so, the amount of any provision required. This included · inspecting the Bank's and the Group's underlying calculations and assumptions made against available information; and

Key audit matter	*How our audit addressed the key audit matter*
Provisions for customer remediation and project costs associated with regulatory compliance matters *(Bank and Group level; Relevant components: All)*	
	· assessing assumptions in light of historical trends, if possible; or · developing an understanding of the basis of estimating the provisions and discussing the assumptions, including costs of identifying and remediating affected customers. Where the Bank and the Group determined that they were unable to reliably estimate the possible financial impact of a remediation activity or investigations, we considered relevant information available in relation to the activities and investigations to assess the appropriateness of this conclusion. We also assessed the adequacy of related disclosures against the requirements of Australian Accounting Standards.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of insurance policyholder liabilities *(Group Level; Relevant components: WM - Colonial Mutual Life Assurance)*	
We considered this a key audit matter because the Group's valuation of the provisions for the settlement of future insurance claims involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in a material impact to the valuation of these liabilities. The Group's insurance policyholder liabilities relate to the life insurance businesses. In determining the valuation of the liabilities, the key actuarial assumptions made by the Group's experts include: · Expected amount, timing and duration of claims and/or policy payments, likely lapse rates of policies by policyholders, mortality and morbidity rates, acquisition and maintenance expenses; and	To assess the appropriateness of a selection of actuarial assumptions used to determine the value of insurance policyholder liabilities, we along with PwC actuarial experts performed the following audit procedures, amongst others: · Compared the methodology and models used by the Group to those commonly applied in the insurance industry and recognised by regulatory standards; · Developed an understanding of and evaluated the relevant controls the Group has in place over processes relating to the valuation of insurance policyholder liabilities. This included the Group's use of models, the quality of oversight and controls over assumptions within those models, and the Group's preparation of the

Key audit matter	*How our audit addressed the key audit matter*
Valuation of insurance policyholder liabilities *(Group Level; Relevant components: WM - Colonial Mutual Life Assurance)*	
· Long term economic assumptions including inflation rates. ***Relevant references in the financial report*** Refer note 1.1 and 11.3 for further information. WM – Colonial Mutual Life Assurance business segment was classified as a discontinued operation as at 30 June 2019.	manually calculated components of the liability; · Compared inputs (for example inflation rates) used by the Group in calculating the insurance policy liability to relevant supporting evidence, such as external market data; · Considered the impact of changes in assumptions and methodologies over the year and compared these to historical experience and industry trends; · Compared the underlying supporting data relating to policyholder information used in the Group's valuation to source documentation; and · Tested that all relevant policy data was included in the Group's valuation models by reference to source systems.

Key audit matter	*How our audit addressed the key audit matter*
Operation of financial reporting Information Technology (IT) systems and controls *(Bank and Group Level; Relevant components: All)*	
We considered this a key audit matter because the Bank's and the Group's operations and financial reporting processes are heavily dependent on IT systems for the processing and recording of a significant volume of transactions. In particular, in common with all banks, access rights to technology are important because they are intended to ensure that changes to applications and data are appropriately authorised. Ensuring staff have appropriate access to IT systems, and that access is monitored, are key controls in mitigating the potential for fraud or error as a result of a change to an application or underlying data.	For material financial statement balances we developed an understanding of the business processes, key controls and IT systems used to generate and support those balances. Our procedures included evaluating and testing the design and operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting. This involved assessing: · The technology control environment: the governance processes and controls used to monitor and enforce control consciousness throughout the Group's technology teams; · Change management: the processes and controls used to develop, test and

Key audit matter	*How our audit addressed the key audit matter*
Operation of financial reporting Information Technology (IT) systems and controls *(Bank and Group Level; Relevant components: All)*	
The Bank's and the Group's controls over IT systems include: · The framework of governance over IT systems; · Program development and changes; · Access to process, data and IT operations; and · Governance over generic and privileged user accounts.	authorise changes to the functionality and configurations within systems; · System development: the project disciplines which ensure that new systems are developed to meet a defined business need, are appropriately tested before implementation and that data is converted and transferred completely and accurately; · 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 · IT operations: the controls over key operations are used to ensure that any issues that arise are managed appropriately For IT operations within the scope of our audit where technology services are provided by a third party, we considered: · Assurance reports from the third party's auditor on the design and operating effectiveness of controls; and · Managements monitoring control over the third party. We also carried out tests, on a sample basis, of system functionality that was key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls. Where we noted design or operating effectiveness matters relating to IT systems and applications controls relevant to our audit, we performed alternative or additional audit procedures.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of our limited assurance report over the Non-Financial Performance Metrics as detailed in pages 297 to 304 of the annual report.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Bank are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Bank and the Group 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 Bank or the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Our opinion on the Remuneration Report

We have audited the information on pages 87 to 106 included as part of the Remuneration Report on pages 82 to 106 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Bank are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
7 August 2019