China Construction Bank (New Zealand) Limited

Disclosure Statement

For the year ended
31 December 2019

Table of contents

Disclosure Statement 3
General Information and Definitions 3
Corporate Information 3
Ultimate Parent and Holding Company 3
Significant Interest in the Registered Bank 3
Limits on Material Financial Support by the Ultimate Parent Bank 3
Directorate 4
Credit Ratings 5
Guarantee Arrangements 7
Pending Proceedings or Arbitration 8
Conditions of Registration 8
Non-Compliance with Conditions of Registration 12
Priority of Creditors' Claims 12
Other Material Matters 12
Auditor 13
Items Excluded by Shareholder Agreement 13
Directors' Statement 13
Historical Summary of Financial Statements 14
Statement of Comprehensive Income 15
Statement of Changes in Equity 16
Balance Sheet 17
Cash Flow Statement 18
Notes to the Financial Statements 19
1. Statement of Accounting Policies 19
2. Net interest income 32
3. Non-interest income 32
4. Operating expenses 33
5. Impairment losses on credit exposures 34
6. Income tax expense 34
7. Cash and balances with Central Bank 35
8. Due from other financial institutions 35
9. Investment securities 35
10. Loans and Advances 35
11. Asset Quality 36
12. Derivative financial instruments 39
13. Other assets 40
14. Deferred tax 41
15. Property, plant and equipment 41
16. Deposits from Customers 42
17. Debt securities issued 42
18. Other liabilities 43
19. Share capital 43
20. Related Party Transactions 44
21. Key management personnel 45
22. Fair Value of Financial Instruments 45
23. Offsetting of financial assets and financial liabilities 48
24. Net Cash Flows used in Operating Activities 48
25. Commitments and Contingent Liabilities 49
26. Concentration of Credit Exposures 50
27. Credit exposure to connected persons and non-bank connected persons 51
28. Concentration of Funding 53
29. Insurance Business, Securitisation, Funds Management, other Fiduciary Activities and the Marketing and Distribution of Insurance Products 53
30. Risk Management 54
31. Capital Adequacy 64
32. Regulatory Liquidity Ratios 69
33. Events subsequent to the reporting date 70
Abbreviations 71
Deed of Guarantee 72
Independent Auditor's Report 78

Disclosure Statement

For the year ended 31 December 2019

General Information and Definitions

This is the full year Disclosure Statement of China Construction Bank (New Zealand) Limited (the "Bank") for the year ended 31 December 2019, in accordance with Section 81 of the Reserve Bank of New Zealand Act 198 and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

In this Disclosure Statement:

- "Banking Group" refers to the Bank and its subsidiaries. As at the date of this Disclosure Statement, the Bank does not have any subsidiaries and is the only member of the Banking Group;
- the "Ultimate Parent Bank", "Immediate Parent Bank" and "CCB" mean China Construction Bank Corporation;
- China Construction Bank Corporation New Zealand Branch referred to as the ("Branch") – refers to the New Zealand Branch of the Ultimate Parent Bank;
- "Board" means the Board of Directors of the Bank; and
- "Reserve Bank" means the Reserve Bank of New Zealand.

Words and phrases defined by the Order have the same meaning when used in this Disclosure Statement. All amounts referred to in this Disclosure Statement are in thousands of New Zealand Dollars unless otherwise stated.

Corporate Information

China Construction Bank (New Zealand) Limited was incorporated under the Companies Act 1993 (Company Number 4929019) on 30 January 2014. It became a registered bank on 15 July 2014.

The Bank's registered office and address for service is Level 29, Vero Centre, 48 Shortland Street, Auckland 1010, New Zealand. The Bank's website address is: http://nz.ccb.com. A copy of this Disclosure Statement is available on the Bank's website or upon request at the Bank's registered office.

Ultimate Parent and Holding Company

The Bank is a wholly-owned subsidiary of China Construction Bank Corporation ("CCB") which is the Bank's ultimate parent bank (the "Ultimate Parent Bank") and ultimate holding company. CCB was incorporated in China and is subject to supervision by banking regulatory bodies empowered by the State Council of the People's Republic of China. The address for service of CCB is No. 25, Financial Street, Xicheng District, Beijing 100033, the People's Republic of China.

Significant Interest in the Registered Bank

The Ultimate Parent Bank has a direct qualifying interest in 100% of the voting securities of the Bank and has the power to directly appoint up to 100% of the Board of Directors of the Bank. All appointments to the Board must be approved by the Reserve Bank.

Limits on Material Financial Support by the Ultimate Parent Bank

There are no regulations, legislation or other restrictions of a legally enforceable nature in China that may materially inhibit the legal ability of CCB to provide material financial support to the Bank.

Directorate

The Directors of the Bank at the time this Disclosure Statement was signed were: Dr. Murray Horn, John Shewan, Jun Qi, Xingyao Li, Michael Allen and Yangtong Jin.

	Dr. Murray Horn	John Shewan	Michael Allen
Non-executive	*Yes*	*Yes*	*Yes*
Independent Director	*No*	*Yes*	*Yes*
Qualifications:	*CNZM, PhD (Harvard)*	*CNZM, FCA, BCA (Hons)*	*LLB/BCom (Otago)*
Country of Residence	*New Zealand*	*New Zealand*	*New Zealand*
Primary Occupation	*Director*	*Director*	*Director*
Secondary Occupations	*Advisor*	*Adjunct Professor of Accounting at Victoria University of Wellington*	*None*
Board Audit and Risk Committee Member	*Yes*	*Yes*	*Yes*
Date of appointment	*18 Nov 2019*	*09 Jun 2014*	*01 Jul 2015*
External Directorships:	*Como Corp Limited* *HFT Co Limited* *Marisco Properties Limited* *Marisco Vineyards Limited*	*Munich Holdings of Australasia Pty Limited* *Munich Reinsurance Company of Australasia Limited* *FSF Management Company Limited* *Wellington Regional Stadium Trust*	*Quay street Asset Management Limited* *Waikato-Tainui Fisheries Limited* *Tainui Group Holdings Limited* *Breakwater Consulting Limited* *Taumata Plantations Limited* *Abano Healthcare Group Limited* *Investore Property Limited* *Johnston's Coachlines (NZ) Limited* *Go Bus Limited* *Go-Bus Transport Limited* *Ngai Tahu Tainui Go Bus Holdings Limited* *Go-Bus Holdings Limited*

	Jun Qi	Xingyao Li	Yangtong Jin
Non-executive	*No*	*No*	*Yes*
Independent Director	*No*	*No*	*No*
Qualifications:	*Bachelor Degree*	*Bachelor Degree*	*Master Degree*
Country of Residence	*New Zealand*	*New Zealand*	*Australia*
Primary Occupation	*Executive Director and Chief Executive Officer, China Construction Bank (New Zealand) Limited, General Manager, China Construction Bank Corporation New Zealand Branch*	*Executive Director and Deputy Chief Executive Officer, China Construction Bank (New Zealand) Limited, Deputy General Manager, China Construction Bank Corporation New Zealand Branch*	*General Manager of China Construction Bank Corporation Sydney Branch*
Secondary Occupations	*None*	*None*	*None*
Board Audit and Risk Committee Member	*No*	*No*	*Yes*
Date of appointment	*24 Mar 2017*	*03 Aug 2016*	*22 Oct 2015*
External Directorships:	*None*	*None*	*None*

Changes to Directorate

The following changes to the composition of the Board of Directors (the 'Board') have occurred since the publication of the Bank's previous full year Disclosure Statement for the year ended 31 December 2018:

- Dame Jenny Shipley resigned as Director of the Company on 31 March 2019
- Mr. John Shewan was appointed as Acting Chairman from 1 April 2019 until 17 November 2019.
- Dr. Murray Horn was appointed as Director and Chairman effective from 18 November 2019.

Apart from the above, there have been no other changes in the Board since 31 December 2018.

Responsible Person

Mr Jun Qi (Executive Director), has been authorised in writing to sign this Disclosure Statement in accordance with section 82 of the Reserve Bank Act on behalf of the Directors, being:

Dr Murray Horn (Chair), John Shewan, Michael Allen, Xingyao Li and Yangtong Jin.

Address for communications

All communications may be sent to the Directors and the Responsible Person at the registered office of the Bank, Level 29, Vero Centre, 48 Shortland Street, Auckland 1010, New Zealand.

Conflicts of Interest

The Board is responsible for ensuring that actual and potential conflicts of interest between the Directors' duty to the Bank and their personal, professional or business interests are avoided or dealt with.

Accordingly, each Director must:

(a) Disclose to the Board any actual or potential conflicts of interest that may exist or might reasonably be thought to exist as soon as the situation arises.

(b) If required by the Board, take steps as are necessary and reasonable to resolve any conflict of interest within an appropriate period.

The Board will determine whether or not the Director declaring a conflict should remain present when the Board discusses matters about which the conflict relates.

Transactions with Directors

There have been no transactions entered into by any Director, or any immediate relative or close business associate of any Director, with the Bank:

(a) on terms other than on those which would, in the ordinary course of business of the Bank, be given to any other person of like circumstances or means; or

(b) which could otherwise be reasonably likely to materially influence the exercise of that Director's duties.

Credit Ratings

The Bank has the following credit ratings as at the date the Directors signed this Disclosure Statement.

	S&P Global Ratings	Moody's Investors Service	Fitch Ratings
Long-term credit rating	A	A1	A
Short-term credit rating	A-1	P-1	F1+
Outlook	Stable	Stable	Stable

A credit rating is not a recommendation to buy, sell or hold securities of the Bank. Such ratings are subject to revision, qualification, suspension or withdrawal at any time by the assigning rating agencies. Investors in the Bank's securities are cautioned to evaluate each rating independently of any other rating. There have been no changes to S&P Global and Moody's credit ratings in the two years prior to the signing date of this Disclosure Statement.

The Bank was issued a new credt rating by Fitch Australia Pty Ltd (Fitch Ratings) on 13 January 2020.

Descriptions of the credit rating scales are as follows:

The following table describes the credit rating grades available for long-term senior unsecured obligations:

Rating Agency	S&P Global Ratings (a)	Moody's Investors Service (b)	Fitch Ratings (a)
The following grades display investment grade characteristics:			
Ability to repay principal and interest is extremely strong. This is the highest investment category.	AAA	Aaa	AAA
Very strong ability to repay principal and interest.	AA	Aa	AA
Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.	A	A	A
Adequate ability to repay principal and interest. More vulnerable to adverse changes.	BBB	Baa	BBB
The following grades have predominantly speculative characteristics:			
Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	BB	Ba	BB
Greater vulnerability and therefore greater likelihood of default.	B	B	B
Likelihood of default now considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.	CCC	Caa	CCC
Highest risk of default.	CC to C	Ca to C	CC to C
Obligations currently in default.	D	-	RD & D

(a) *S&P Global Ratings and Fitch Ratings may be modified by the addition of "+" or "-" to show the relative standing within the "AA" to "B" categories.*

(b) *Moody's Investors Service applies numerical modifiers 1, 2, and 3 to each of the "Aa" to "Caa" classifications with 1 indicating the higher end and 3 the lower end of the rating category.*

Below is the description of short-term rating grades:

S&P Global Ratings

- A-1 A short-term obligation rated 'A-1' is rated in the highest category by S&P Global Ratings. The obligor's capacity to meet its financial commitments on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments on these obligations is extremely strong.
- A-2 A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitments on the obligation is satisfactory.
- A-3 A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken an obligor's capacity to meet its financial commitments on the obligation.
- B A short-term obligation rated 'B' is regarded as vulnerable and has significant speculative characteristics. The obligor currently has the capacity to meet its financial commitments; however, it faces major ongoing uncertainties that could lead to the obligor's inadequate capacity to meet its financial commitments.
- C A short-term obligation rated 'C' is currently vulnerable to non-payment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitments on the obligation.

D	A short-term obligation rated 'D' is in default or in breach of an imputed promise. For non-hybrid capital instruments, the 'D' rating category is used when payments on an obligation are not made on the date due, unless S&P Global Ratings believes that such payments will be made within any stated grace period. However, any stated grace period longer than five business days will be treated as five business days. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. A rating on an obligation is lowered to 'D' if it is subject to a distressed exchange offer.

Moody's Investors Service

P-1	Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations
P-2	Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.
P-3	Issuers (or supporting institutions) rated Prime-3 have an acceptable ability to repay short-term obligations.
NP	NP Issuers (or supporting institutions) rated Not Prime do not fall within any of the Prime rating categories.

Fitch Ratings

F1	Highest Short-Term Credit Quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good Short-Term Credit Quality. Good intrinsic capacity for timely payment of financial commitments.
F3	Fair Short-Term Credit Quality. The intrinsic capacity for timely payment of financial commitments is adequate.
B	Speculative Short-Term Credit Quality. Minimal capacity for timely payment of financial commitments, plus heightened vulnerability to near term adverse changes in financial and economic conditions.
C	High Short-Term Default risk. Default is a real possibility.
RD	Restricted Default. Indicates an entity that has defaulted on one or more of its financial commitments, although it continues to meet other financial obligations. Typically applicable to entity ratings only.
D	Default. Indicates a broad-based default event for an entity, or the default of a short-term obligation.

Guarantee Arrangements

(a) Details of Guaranteed Obligations

As at the date of this Disclosure Statement, under the terms of the Deed of Guarantee (“the Guarantee”), the obligations of the Bank are guaranteed by CCB.

A copy of the Deed of Guarantee given by CCB is provided in Additional Disclosures on pages 71 to 76.

Under the Guarantee:

(a) There are no limits on the amount of the obligations guaranteed.
(b) There are no material conditions applicable to the Guarantee other than non-performance by the Bank.
(c) There are no material legislative or regulatory restrictions in China that would have the effect of subordinating the claims under the Guarantee of any of the Bank’s creditors on the assets of the Ultimate Parent Bank, to other claims on the Ultimate Parent Bank in a winding up of the Ultimate Parent Bank.
(d) The Guarantee does not have an expiry date.

There have been no other changes to the Deed of Guarantee.

(b) Details of the Guarantor

The guarantor is CCB, which is not a member of the Banking Group. The address for service of the guarantor is No. 25, Financial Street, Xicheng District, Beijing 100033, the People's Republic of China.

CCB has implemented the advanced measurement approaches for capital management from April 2014. As disclosed in CCB’s unaudited consolidated results for the nine month period ended 30 September 2019, considering relevant rules in the transition period, CCB Group’s total capital for capital adequacy purposes was RMB 2,535,703 million (NZD 540,351 million) and its total capital ratio was 17.3%. The capital ratio was calculated in accordance with the Capital Rules for Commercial Banks (Provisional) promulgated by the China Banking Regulatory Commission (CBRC) in June 2012. CBRC became China Banking Insurance Regulatory Commission (CBIRC) on 8 April 2018.

CCB has the following credit ratings applicable to its long-term senior unsecured obligations payable in Chinese Yuan Renminbi ("RMB") as at the date the Directors signed this Disclosure Statement:

Rating Agency	Current credit	Rating outlook
Standard & Poor's Ratings Services	A	Stable
Moody's Investors Service	A1	Stable
Fitch Ratings	A	Stable

Pending Proceedings or Arbitration

There are no pending legal proceedings or arbitration at the date of this Disclosure Statement involving the Bank, whether in New Zealand or elsewhere, that may have a material adverse effect on the Bank.

Conditions of Registration

The RBNZ issued revised conditions of registration twice during the year. These took effect from 1 January 2019 and 12 November 2019.

The following changes have been made to the Bank's Conditions of Registration since 31 December 2018 pursuant to section 74(2) of the Reserve Bank of New Zealand Act 1989:

A. Effective 1 January 2019:

(a) Condition 11 has been modified to reflect the issue date of revised Liquidity Policy (BS13A); and

(b) Conditions 15 and 16 have been updated to reflect the changes made to Framework for Restrictions on High-LVR Residential Mortgage Lending (BS19). The changes include:

- No more than 5% of the Bank's new mortgage lending to residential property investors can be at LVRs of more than 70% (previously 65%); and
- No more than 20% (previously 15%) of the Bank's new mortgage lending to owner occupiers can be at LVRs of more than 80%.

B. Effective 12 November 2019:

(a) Condition 6 (c) has been modified to allow at least two board members to act as Independent directors until 5 September 2022, and thereafter at least half the board members must be independent directors;

(b) Condition 6 (f) has been modified to allow a non-executive director to act as Chairperson of the Board until 5 September 2022, thereafter the Chairperson of the board must be an Independent director;

There have been no other changes to the Bank's Conditions of Registration.

The registration of China Construction Bank (New Zealand) Limited ("the bank") as a registered bank is subject to the following conditions:

1. That

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

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

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

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

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

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

For the purposes of this condition of registration,

"Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

"Total capital" has the same meaning as in Part 2 of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 8(2)(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

a Tier 2 capital instrument is an instrument that meets the requirements of subsection 9(2)(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

1A. That

(a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ('ICAAP')" (BS12) dated December 2007;
(b) under its ICAAP the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015; and
(c) the bank determines an internal capital allocation for each identified and measured "other material risk".

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

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

Banking group's buffer ratio Percentage	Percentage limit to distributions of the bank's earnings
0% - 0.625%	0%
>0.625 - 1.25%	20%
>1.25 - 1.875%	40%
>1.875 - 2.5%	60%

(b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and
(c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration,

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

(a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

(b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the banking group's insurance business

(a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
(b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration

"insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance:

"insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating contingent limit outlined in the following matrix:

Credit rating of the bank[1]	Connected exposure limit (% of the Banking Group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

[1] *This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's.)*

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the banking group's Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated November 2015.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the bank complies with the following corporate governance requirements:

   (a) the board of the bank must have at least five directors;
   (b) the majority of the board members must be non-executive directors;
   (c) until 5 September 2022 at least two board members must be independent directors, and thereafter at least half the board members must be independent directors;
   (d) an alternate director,
      (i) for a non-executive director must be non-executive; and
      (ii) for an independent director must be independent;
   (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
   (f) until 5 September 2022 the chairperson of the board of the bank must be a non-executive director and must not be a director or employee of any other member of the group, thereafter the chairperson of the board must be an independent director; and
   (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

   For the purposes of this condition of registration, "non-executive", "group" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:

   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the bank unless

   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:

   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
   (b) the committee must have at least three members;
   (c) every member of the committee must be a non-executive director of the bank;
   (d) at least one member of the committee must be independent; and
   (e) the chairperson of the committee must not be the chairperson of the bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

10. That a substantial proportion of the bank's business is conducted in and from New Zealand.

11. That the banking group complies with the following quantitative requirements for liquidity-risk management:
    (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
    (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
    (c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated January 2018 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated October 2018.

12. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:
    (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
    (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
    (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
    (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

13. That no more than 10% of total assets may be beneficially owned by a SPV.

    For the purposes of this condition,

    "total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets:

    "SPV" means a person
    (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
    (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
    (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond:

    "covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

14. That
    (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
    (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
        (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
        (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

    For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

15. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
16. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
17. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,

"banking group" means China Construction Bank (New Zealand) Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 15 to 17,

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated January 2019:

"loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of June 2019.

Non-Compliance with Conditions of Registration

Following Dame Jenny Shipley's resignation from the Board on 31 March 2019, the Bank's Condition of Registration requirement (Section 6 (c)), to have at least half of the board members as Independent Directors has not been met since then until 11 November 2019. The Reserve Bank of New Zealand was notified in advance about this situation and confirmed that there would be no enforcement action against the Bank.

The revised Condition 6 (c), which became effective on 12 November 2019, allows the bank to operate with a minimum of two Independent Directors until 5 September 2022.

Priority of Creditors' Claims

In the unlikely event that the Bank is put into liquidation or ceases to trade, claims of secured creditors and those creditors set out in the Seventh Schedule of the Companies Act 1993 would rank ahead of the claims of unsecured creditors. Deposits from customers are unsecured and rank equally with other unsecured liabilities of the Bank, and such liabilities rank ahead of any subordinated instruments issued by the Bank.

Other Material Matters

The Board is of the opinion that, there are no material matters relating to the business or affairs of the Bank which are not contained elsewhere in the Disclosure Statement and which would, if disclosed in this Disclosure Statement, materially affect the decision of a person to subscribe for debt securities of which the Bank is the issuer.

Auditor

The appointed auditor for the Bank is Ernst & Young ("EY"). The auditor's address is 2 Takutai Square, Britomart, Auckland 1010, New Zealand.

Items Excluded by Shareholder Agreement

With agreement of the shareholder, the Bank has taken advantage of the concessions available to it under Section 211 (3) of the Companies Act 1993. Accordingly, there is no information to be provided in relation to remuneration received by the Directors and highly paid employees.

Directors' Statements

Each Director of the Bank believes, after due enquiry, that, as at the date on which this Disclosure Statement is signed:

(a) the Disclosure Statement contains all the information that is required by the Order; and
(b) the Disclosure Statement is not false or misleading.

Each Director of the Bank believes, after due enquiry that, for the year ended 31 December 2019:

(a) the Bank has complied with all conditions of registration except as disclosed on page 12 of this Disclosure Statement;
(b) credit exposures to connected persons (if any) were not contrary to the interests of the Banking Group; and
(c) the Bank had systems in place to monitor and control adequately the material risks of the Banking Group including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement is dated 27 March 2020 and has been signed by Mr Jun Qi as the responsible person for and on behalf of all the Directors (by Directors' resolution):

Mr Jun Qi
EXECUTIVE DIRECTOR

Historical Summary of Financial Statements

For the year ended 31 December	2019 $000	2018 $000	2017 $000	2016 $000	2015 $000
Interest income	57,764	67,549	57,340	22,990	7,318
Interest expense	(33,257)	(37,283)	(32,834)	(14,168)	(3,710)
Other interest (expense)/income	(126)	(2,049)	-	-	-
Net interest Income	**24,381**	**28,217**	**24,506**	**8,822**	**3,608**
Net non-interest income	8,980	4,734	2,770	1,691	(481)
Total operating income	**33,361**	**32,951**	**27,276**	**10,513**	**3,127**
Operating expenses	(14,485)	(15,844)	(11,827)	(9,658)	(7,567)
Impairment (losses)/write-back on credit exposures	(1,803)	(249)	(900)	(439)	(304)
Profit/ (Loss) before income tax	**17,073**	**16,858**	**14,549**	**416**	**(4,744)**
Income tax expense	(4,892)	(4,737)	(4,100)	1,384	-
Profit after income tax attributable to the owner of the Bank	**12,181**	**12,121**	**10,449**	**1,800**	**(4,744)**
Dividends paid on ordinary shares	**-**	**-**	**-**	**-**	**-**

As at 31 December	2019 $000	2018 $000	2017 $000	2016 $000	2015 $000
Balance sheet					
Total assets	1,863,417	1,555,580	1,826,457	887,719	401,944
Total individually impaired assets	-	-	-	-	-
Total liabilities	1,635,760	1,339,912	1,620,526	692,121	348,765
Total shareholder's equity	227,657	215,668	205,931	195,598	53,179

The amounts disclosed in this historical summary of financial statements have been taken from the audited financial statements of the Bank.

Statement of Comprehensive Income

For the year ended 31 December	Note	2019 $000	2018 $000
Interest income	2	57,764	67,549
Interest expense	2	(33,257)	(37,283)
Other interest (expense)/income	2	(126)	(2,049)
Net interest Income	2	**24,381**	**28,217**
Net non-interest income	3	8,980	4,734
Total operating income		**33,361**	**32,951**
Operating expenses	4	(14,485)	(15,844)
Impairment (losses)/write-back on credit exposures	5	(1,803)	(249)
Profit/ (Loss) before income tax		**17,073**	**16,858**
Income tax (expense) / benefit	6	(4,892)	(4,737)
Profit after income tax attributable to the owner of the Bank		**12,181**	**12,121**
Other comprehensive income, net of tax			
Other comprehensive income which will not be reclassified to profit or loss		-	-
Other comprehensive income which may be reclassified to profit or loss		(192)	(152)
Total other comprehensive income, net of tax		**(192)**	**(152)**
Total comprehensive income attributable to the owner of the Bank		**11,989**	**11,969**

These financial statements are to be read in conjunction with the notes on pages 19 - 70.

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Statement of Changes in Equity

For the year ended 31 December 2019	Note	Share Capital $000	Retained Earnings $000	Cash Flow Hedge Reserve $000	FVOCI Reserve $000	Total $000
Balance at 01 January 2019		199,178	16,687	(197)	-	215,668
Profit after income tax		-	12,181	-	-	12,181
Other comprehensive income		-	-	(140)	(52)	(192)
Total comprehensive income for the year		**-**	**12,181**	**(140)**	**(52)**	**11,989**
Transactions with owners:						
Shares issued during the year	19	-	-	-	-	-
Dividends paid on ordinary shares		-	-	-	-	-
Balance at 31 December 2019		**199,178**	**28,868**	**(337)**	**(52)**	**227,657**

For the year ended 31 December 2018	Note	Share Capital $000	Retained Earnings $000	Cash Flow Hedge Reserve $000	FVOCI Reserve $000	Total $000
Balance at 01 January 2018		199,178	6,798	(45)	-	205,931
Impact of adoption of NZ IFRS 9		-	(2,232)	-	-	(2,232)
Restated total equity as at 01 January 2018		**199,178**	**4,566**	**(45)**	**-**	**203,699**
Profit after income tax		-	12,121	-	-	12,121
Other comprehensive income		-	-	(152)	-	(152)
Total comprehensive income for the period		**-**	**12,121**	**(152)**	**-**	**11,969**
Transactions with owners:						
Shares issued during the year	19	-	-	-	-	-
Dividends paid on ordinary shares		-	-	-	-	-
Balance at 31 December 2018		**199,178**	**16,687**	**(197)**	**-**	**215,668**

These financial statements are to be read in conjunction with the notes on pages 19 - 70.

EY

Balance Sheet

As at 31 December	Note	2019 $000	2018 $000
Assets			
Cash and balances with central bank	7	38,161	50,698
Due from other financial institutions	8	145,196	300,528
Investment securities	9	201,549	188,329
Loans and advances	10	1,425,054	983,489
Due from related parties	20	15,264	774
Derivative financial assets	12	33,622	28,694
Property, plant and equipment	15	1,730	849
Intangible assets		80	126
Deferred tax assets	14	2,621	1,852
Other assets	13	140	241
Total assets		**1,863,417**	**1,555,580**
Liabilities			
Deposits from customers	16	238,978	201,610
Debt securities issued	17	976,213	690,246
Due to related parties	20	382,555	420,227
Subordinated debt	20	15,107	15,129
Derivative financial liabilities	12	15,961	5,725
Current tax liabilities		2,724	4,650
Other liabilities	18	4,222	2,325
Total liabilities		**1,635,760**	**1,339,912**
Shareholder's equity			
Share capital	19	199,178	199,178
Retained earnings		28,868	16,687
Reserves		(389)	(197)
Total shareholder's equity		**227,657**	**215,668**
Total liabilities and shareholder's equity		**1,863,417**	**1,555,580**
Total interest earning and discount bearing assets		1,827,964	1,524,740
Total interest and discount bearing liabilities		1,591,591	1,313,195

These financial statements were approved by the Directors on 27 March 2020 and are signed on their behalf by:

Dr Murray Horn
CHAIR

Mr Jun Qi
EXECUTIVE DIRECTOR

These financial statements are to be read in conjunction with the notes on pages 19 - 70.

Cash Flow Statement

For the year ended 31 December	Note	2019 $000	2018 $000
Cash flows from operating activities			
Interest received		56,059	69,673
Interest paid		(5,312)	(9,473)
Income received from financial instruments designated at FVTPL		3,329	1,835
Non-interest income received		21,413	12,427
Non-interest expense paid		(866)	(39)
Operating expenses paid		(12,444)	(14,649)
Income taxes paid		(7,532)	(3,710)
Net cash flows from operating activities before changes in operating assets and liabilities		**54,647**	**56,064**
Net changes in operating assets and liabilities:			
Net decrease/(increase):			
GST receivable		(18)	(4)
Other assets		117	211
Loans and advances		(443,032)	657,669
Due from related parties		(9,941)	98
Net increase/(decrease):			
Due to other financial institutions		-	-
Deposits from customers		37,489	(256,566)
Net changes in operating assets and liabilities		**(415,385)**	**401,408**
Net cash flows provided by/ (used in) operating activities	24	**(360,738)**	**457,472**
Cash flows from investing activities			
Purchase of investment securities		(12,161)	(187,809)
Placements with other financial institutions		-	-
Purchase of property, plant and equipment		(168)	(194)
Purchase of intangible assets		-	-
Net cash flows used in investing activities		**(12,329)**	**(188,003)**
Cash flows from financing activities			
Amount borrowed from related parties		38,808	496,683
Repayments of due to related parties		(80,934)	(773,412)
Issuance of debt issues	17	462,133	563,943
Repayments of debt securities	17	(181,300)	(333,000)
Repayment of principal portion of lease liabilities		(861)	-
Interest paid on financing activities		(28,100)	(28,478)
Net cash flows (used in)/ provided by financing activities		**209,746**	**(74,264)**
Net increase/ (decrease) in cash and cash equivalents		(163,321)	195,205
Cash and cash equivalents at beginning of the year		351,924	156,719
Cash and cash equivalents at end of the year	30	**188,603**	**351,924**
Cash and cash equivalents at end of the year comprise:			
Due from other financial institutions (call or original maturity of 3 months or less)	30	145,196	300,528
Cash and balances with central banks	30	38,161	50,698
Due from related parties (nostro account)	30	5,246	698
Cash and cash equivalents at end of the year	30	**188,603**	**351,924**

These financial statements are to be read in conjunction with the notes on pages 19 - 70.

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Notes to the Financial Statements

1. Statement of Accounting Policies

1.1 Reporting Entity

The reporting entity is China Construction Bank (New Zealand) Limited (the "Bank") and its subsidiaries (the "Banking Group"). As at the date of this Disclosure Statement the Bank does not have any subsidiaries and is the only member of the Banking Group. The Bank became a registered bank on 15 July 2014 under the Reserve Bank of New Zealand Act 1989. The Bank is a company incorporated in New Zealand under the Companies Act 1993 on 30 January 2014 and is registered under Company Number 4929019 and is a FMC reporting entity for the purposes of Part 7 of the Financial Markets Conduct Act 2013.

These financial statements were approved for issue by the Board of Directors of the Bank on 27 March 2020.

The principal activity of the Bank is the provision of a range of banking products and services to business, corporate, institutional and retail customers.

1.2 Basis of Preparation

These financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"). The financial statements comply with Generally Accepted Accounting Practice in New Zealand ("GAAP") and with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as appropriate for Tier 1 for-profit entities. They also comply with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") applicable to companies reporting under IFRS.

The financial statements have been prepared on a historical cost basis except for financial instruments measured at fair value.

The going concern and the accrual basis of accounting have been adopted.

1.3 Presentation currency and rounding

All amounts contained in the financial statements are presented in New Zealand Dollars, which is the Bank's functional and presentation currency. The amounts are rounded to the nearest thousands, unless otherwise stated.

1.4 Comparative data

Certain comparative information has been reclassified to ensure consistency with the current reporting period. This has been highlighted in the relevant notes.

1.5 Changes in accounting policies

The accounting policies and methods of computation are consistent with those of the Bank's financial statements for the full year ended 31 December 2018, except for the adoption of new and amended standards as set out below.

New and amended standards adopted

NZ IFRS 16 - Leases effective for periods beginning on or after 1 January 2019, became applicable for the current reporting period and the Bank has changed its accounting policies and made adjustments as a result of adopting this accounting standard.
NZ IFRS 16 requires a lessee to recognise a Lease liability reflecting future lease payments and a 'Right-of-use asset' for virtually all lease contracts.

The impact of the adoption of this standard and the new accounting policies is disclosed below. The bank has adopted NZ IFRS 16 which replaces NZ IAS 17 - Leases from 1 January 2019 which resulted in changes in accounting policies and recognition of a lease liability reflecting future lease payments and a Right-of-use asset for all lease contracts outstanding at this date.

The bank has adopted the "Cumulative catch-up approach" for migrating to the new standard under which comparative information is not restated. The carrying amounts of right-of-use asset and lease liability at the date of the transition were recognised in the opening Balance sheet of the current financial year. The Bank also elected to apply the optional exemption applicable to lessees and has excluded short term leases and leases of low value assets.

The carrying amount of operating lease commitments as at 31 December 2018 was $2,530,000. Lease liabilities on transition had a carrying amount of $2,149,000 discounted at the weighted average incremental borrowing rate of 3.2%. The remaining movement between prior year lease commitments and current year lease liabilities relates to short term leases and leases of low value assets.

Following the adoption of NZ IFRS 16 as at 1 January 2019, there was no impact on the opening retained earnings. The impact on the opening balance sheet as at 1 January 2019 is as follows:

Balance sheet as at 1 January 2019	$000
Property, plant and equipment	
Right-of-use asset	2,067
Other liabilities	
Lease liability	(2,067)

1.6 Particular accounting policies

(a) Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when recognised in other comprehensive income as qualifying cash flow hedges.

Translation differences on non-monetary items measured at fair value through profit or loss are reported as part of the fair value gain or loss on these items.

(b) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

Interest income

Interest income for all interest earning financial assets excluding those measured through "Fair value through profit & loss (FVTPL)" is recognised in the profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments over the expected life of the financial instrument, or when appropriate, over a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, cash flows are estimated based upon all contractual terms of the financial instrument but do not consider expected credit losses. The calculation includes all fees and other amounts received or paid between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For financial assets that are purchased and originated credit impaired (“POCI”), the original credit- adjusted effective interest rate is applied to the amortised cost of the financial asset. For financial assets that are not "POCI" but have subsequently become credit-impaired (or stage 3), interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

Other interest (expense)/income

Interest earned on investment securities and interest expense incurred on borrowings from related parties that are measured at FVTPL is recognised and presented as ‘Other interest (expense)/income’ within net interest income.

Fee and commission income

Fee and commission income from contracts with customers is measured based on the consideration specified in the contract with the customer. The Bank recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of product / service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition
Retail and corporate banking service	The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rate separately for retail and corporate banking customers. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed and variable rates.	Revenue from account service and servicing fees is recognised over time as the services are provided to the customers. Revenue related to the transactions is recognised at the point in time when the transaction takes place.

Trading income

Realised gains and losses and unrealised gains and losses arising from changes in the fair value of trading assets and trading liabilities are recognised as trading income in the profit or loss in the period in which they arise, except for recognition of day one profits or losses which are deferred where certain valuation inputs are unobservable. Interest income or interest expense on the trading portfolio is recognised as part of net interest income.

Gain or loss on disposal of property, plant and equipment

The gain or loss arising on the disposal or retirement of property, plant and equipment is determined as the difference between the sale proceeds less costs of disposal and the carrying amount of the respective asset and is recognised in the profit or loss as non-interest income.

(c) Expense recognition

Interest expense

Interest expense, including premiums or discounts and associated expenses incurred on the issue of financial and lease liabilities, is recognised in the profit or loss using the effective interest method.

Loan origination expenses

Certain loan origination expenses are an integral part of the effective interest rate of a financial asset measured at amortised cost. These loan origination expenses include:

- fees and commissions payable to brokers and certain customer incentive payments in respect of originating lending business; and
- other expenses of originating lending business, such as external legal costs and valuation fees, provided these are direct and incremental costs related to the issue of a financial asset.

Such loan origination expenses are initially recognised as part of the cost of acquiring the financial asset and amortised as part of the effective yield of the financial asset over its expected life using the effective interest method.

Leasing

On adoption of NZ IFRS 16 effective from 1 January 2019, interest expense on 'Lease liability' and depreciation on 'Right-of-use assets' is recognised in the profit and loss as an expense.

Prior to adoption of NZ IFRS 16, Operating lease payments were recognised in the profit or loss as an expense on a straight-line basis over the lease term. Incentives received on entering into operating leases are recognised as liabilities and amortised as a reduction of rental expense on a straight-line basis over the lease term.

Impairment losses on credit exposures

The loss recognised in the profit or loss for impairment on credit exposures reflects the net movement in the provisions for credit exposures, write-offs and recoveries of impairments previously written off.

Commissions and other fees

All other fees and commissions are recognised in the profit or loss over the period in which the related service is received.

Employee benefits

Employee entitlements to salaries and wages, bonus, annual leave, long service leave, retiring leave and other similar benefits are recognised in the income statement when they accrue to employees.

Obligations for contributions to defined contribution retirement plans are recognised as an expense in the income statement as they fall due.

Other expenses

All other expenses are recognised in the profit or loss on an accruals basis as the related service is received.

(d) Taxation

Income tax expense

Income tax on profit or loss for the period comprises current and deferred tax and is based on the applicable tax law. It is recognised in the profit or loss as tax expense or benefit, except when it relates to items recognised in other comprehensive income or directly in equity, in which case it is recorded in other comprehensive income or directly in equity respectively, or where it arises from the initial accounting for a business combination, in which case it is included in the determination of goodwill.

Current tax

Current tax is the expected tax payable on taxable income for the period, based on tax rates (and tax laws) which are enacted or substantively enacted by the reporting date and including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive tax balance sheet method. It is generated by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credits can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences, other than those relating to taxable temporary differences arising from goodwill. They are also recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures, except where the Bank is able to control the reversal of the temporary differences and it is probable that temporary differences will not reverse in the foreseeable future. Deferred tax assets associated with these interests are recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and there will be sufficient taxable profits against which to utilise the benefits of the temporary difference.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset or liability giving rise to them is realised or settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Bank, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

Offsetting

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes levied by the same taxation authority, there is a legal right and intention to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

Goods and services tax

Income, expenses and assets are recognised net of the amount of goods and services tax (“GST”) except where the amount of GST incurred is not recoverable from Inland Revenue. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the operating expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, Inland Revenue is included as other assets or other liabilities in the balance sheet.

Cash flows are included in the cash flow statement on a net basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from or payable to Inland Revenue, are classified as operating cash flows.

(e) Financial Assets

Classification

The Bank classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through Other Comprehensive Income (OCI), or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the Bank's business model for managing the financial assets and the contractual terms of the cash flows.

The Bank reclassifies financial assets when and only when its business model for managing those assets changes.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

- Amortised cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in profit or loss.
- Fair Value through Other Comprehensive Income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the asset's cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in interest income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as a separate line item in profit or loss.
- FVTPL: Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a financial asset that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Recognition and measurement of financial assets

Financial assets are recognised when the Bank becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets are recognised on trade-date or the date on which the Bank commits to purchase or sell the asset.

Financial instruments are measured initially at fair value plus, in the case of a financial instrument not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Transaction costs for financial instruments measured at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, the Bank measures different categories of financial assets at amortised cost, fair value through other comprehensive income or fair value through profit or loss respectively. Financial liabilities other than those measured at fair value through profit or loss are measured at amortised cost using the effective interest method.

(i) Financial assets measured at fair value through profit or loss

Gains and losses from changes in the fair value of financial assets measured at fair value through profit or loss are recognised in profit or loss. Interest earned on financial assets measured at FVTPL is recognised as net income from financial instruments designated at FVTPL and does not form part of interest income in profit or loss.

(ii) Financial assets measured at FVOCI

The impairment losses, foreign exchange gains and losses and interest income calculated using effective interest method of financial assets measured at FVOCI are recognised in profit and loss. Other changes of carrying amount are recognised in other comprehensive income.

When financial assets measured at FVOCI are sold, gains or losses on disposal are recognised in profit or loss. Gains or losses on disposal include those previously recognised in other comprehensive income.

(iii) Financial assets measured at amortised cost

The amortised cost of a financial asset should be measured with the initial recognition after the following adjustments: (i) deducting the repaid principal; (ii) adding or subtracting the cumulative amortisation, using the effective interest method, of any difference between that initial amount and the maturity amount; (iii) the loss provision for the accumulated accrual.

For financial assets measured at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortization process.

Effective interest rate

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected lifetime of the financial asset to its carrying amount less any impairment allowance. The calculation does not consider expected credit losses but includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate. The Bank determines interest income based on the book balance of financial assets multiplied by the effective interest rate, except that (i) for purchased or sourced financial assets that have suffered credit impairment, from the initial recognition, interest income is calculated using the financial assets' amortised cost and credit-adjusted real interest rate; (ii) for a purchased or sourced financial asset that has not suffered credit impairment but has become credit impaired in subsequent periods, interest income is determined using the financial asset's amortised cost and the effective interest rate. If the financial asset no longer has credit impairment due to the improvement of its credit risk in the subsequent period, and this improvement can be objectively related to an event that occurs after the application of the above provisions, interest income should be recalculated using the effective interest rate multiplied by the book balance of the financial asset.

Cash and balances with central banks

Cash and balances with central banks include settlement account balances. These balances have an original maturity of less than three months. They are accounted for as financial assets at amortised cost and subsequently measured at amortised cost or the gross value of the outstanding balance, where appropriate.

Due from other financial institutions

Due from other financial institutions is defined by the nature of the counterparty and includes loans, nostro balances, deposit funds placed, collateral placed, reverse repurchase agreements, cash and cash at bank and due from other financial institutions. They are accounted for as financial assets at amortised cost and subsequently measured at amortised cost using the effective interest method, less impairment where applicable.

Investment securities

Investment securities are non-derivative financial assets, which includes short and long term public and other debt securities investments by the Bank. The fair value of securities is based on quoted market prices, where available, or calculated using discounted cash flow models based on current market rates.
The classification depends on the business model of the Bank's business model for managing the investment securities and the contractual terms of the cash flows.

Derivative assets

Derivative assets are measured at fair value through profit or loss. The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is used as a hedging instrument and, if so, the nature of the item being hedged. Refer to (h) below for more details on derivatives.

Loans and advances

Loans and advances cover all forms of lending provided to customers such as overdrafts, term loans and lease receivables. They are accounted for as financial assets at amortised cost and subsequently measured at amortised cost using the effective interest method, less impairment where applicable.

Due from related parties

This amount includes all amounts due from related parties of the Bank, and is accounted for as financial assets at amortised cost as above.

Other assets

Other assets include fees and commissions receivable, receivables relating to unsettled transactions and trade debtors.

Impairment of financial assets

At the end of each reporting period, the Bank performs an impairment assessment based on expected credit loss on financial assets measured at amortised cost and FVOCI, as well as loan commitments and financial guarantee contracts.

The expected credit loss refers to the weighted average of the credit losses of financial instruments that are weighted by the risk of default. Credit loss refers to the difference between all contractual cash flows receivable from the contract and all cash flows expected to be received discounted at the original real interest rate by the Bank, that is, the present value of all cash shortages. Among them, financial assets that have been purchased or sourced by the Bank and have suffered credit impairment are discounted according to the effective interest rate of the financial assets after credit adjustments.

The Bank's method of measuring expected credit losses of financial instruments reflects the following elements: (i) unbiased weighted average probability determined by the results of evaluating a range of possible outcomes; (ii) time value of money; (iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

At the end of each reporting period, the Bank assesses whether the credit risk of the relevant financial instruments has increased significantly since the initial recognition, and measures its expected credit losses ("ECL") and recognises its loss provision and changes from the prior period in the following cases: (i) if the credit risk of the financial instrument has not increased significantly since the initial recognition, the Bank measures its loss provision based on the amount equivalent to the expected credit loss of the financial instrument in the next 12 months; (ii) if the credit risk of the financial instrument has increased significantly since the initial recognition, the Bank measures its loss provision based on the amount of lifetime expected credit loss of the financial instrument. Under the above circumstances, regardless of whether the Bank's assessment of credit losses is based on a single financial instrument or a combination of financial instruments, the increase or reversal of the loss provision resulting therefrom is included in the current profit and loss as an impairment loss or gain.

For Investment securities measured at FVOCI, the Bank recognises the allowance for impairment in other comprehensive income and impairment losses or gains in profit and loss.

In cases where the loss provision is measured at the amount equivalent to the lifetime expected credit loss of the financial instrument, and the financial instrument is no longer having significant increase in credit risk at the end of the current reporting period, the Bank measures its loss provision based on the amount of its expected credit losses for the next 12 months, and the reversal of the loss provision is recognised in profit or loss for the current reporting period.

For financial assets that have been purchased or sourced with credit impairment, the Bank only recognises cumulative changes in lifetime expected credit losses after initial recognition at the end of the reporting period as loss provision. At the end of each reporting period, the Bank recognises the amount of the change in lifetime expected credit losses as an impairment loss or gain in current profit or loss.

- ***Segmentation of financial instruments***

The Bank adopts a "three-stage" model for impairment, based on changes in credit quality since initial recognition, to estimate the expected credit losses.

The key definition of the three stages are summarised below:

- Stage 1: 12-months ECL – For financial instruments with no significant increase in credit risk after initial recognition, expected credit losses in the next 12 months are recognised
- Stage 2: Lifetime ECL – not credit impaired – For financial instruments with significant increase in credit risk since initial recognition, but no objective evidence of impairment, lifetime expected credit losses are recognised.
- Stage 3: Lifetime ECL – credit impaired – For financial assets that show objective evidence of impairment at the end of the reporting period, lifetime expected credit losses are recognised.

- ***Significant increase in credit risk (SICR)***

The Bank assesses whether the credit risk of a financial instrument has increased significantly since initial recognition on a quarterly basis. The Bank considers all reasonable and supportable information, including forward-looking information, which reflects the significant increase in credit risk. The major factors considered include regulatory and business environment, internal and external credit grading, repayment ability, operation capacity, contract terms of the loan, repayment behaviours, etc. The Bank compares the risk of a default occurring as at the end of the reporting period with that as at the date of initial recognition of one financial instrument or a portfolio of financial instruments that shares the similar credit risk characteristics. The Bank considers the change in probability of default (PD), whether the overdue exceeds 30 days, and other factors to determine whether there is significant increase in credit risk since initial recognition.

- ***Definition of default and credit-impaired assets***

The Bank considers a financial instrument is in default when it is credit-impaired. Additionally, overdue for more than 90 days on contractual payment terms is considered default.

In order to evaluate whether a financial asset is impaired, the Bank considers the following criteria:

- Significant financial difficulty of the borrower or issuer;
- Breach of contract term, such as a default or delinquency in interest or principal payments;
- The Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Bank would not otherwise consider;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- Disappearance of an active market for financial assets because of financial difficulties;

- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including adverse changes in the payment status of borrowers in the Bank, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer of an equity instrument;
- A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and
- Other objective evidence indicating there is an impairment of the financial asset.

The Bank's definition of default has been consistently applied to the modelling process of PD, EAD and LGD during the ECL calculation.

- ***Measuring ECL – Explanation of inputs, assumptions and estimation techniques***

The expected credit loss (ECL) is recognised on either a 12-month or lifetime basis. Lifetime basis is used only where a significant increase in credit risk has occurred since initial recognition or a financial instrument is considered to be credit impaired. Expected credit losses are the discounted product of the weighted average of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) under the three scenarios, defined as follows:

- PD represents the consideration of forward-looking information on the likelihood of a borrower defaulting on its financial obligation in the future.
- LGD represents an estimate of loss arising, after consideration of forward-looking information on the Bank's expectation. It is expressed as a percentage of EAD.
- EAD is based on the total amount of risk exposure on and off balance sheet at the time of default. The exposure is determined by the repayment plan according to different types of product.
- The discount rate used in the ECL calculation is the effective interest rate.

The assumptions underlying the ECL calculation, such as how the maturity profile of the PDs and how the collateral values change etc. are monitored and reviewed on a quarterly basis.

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

- ***Forward looking information incorporated in the ECL***

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank assesses ECL in positive, neutral and negative scenarios. Following this assessment, the Bank measures ECL as a weighted average probability of ECL in the next 12-months under the three scenarios for Stage 1 financial instruments; and a weighted average probability of lifetime ECL for Stage 2 and 3 financial instruments.

Nature and effect of modifications on the measurement of doubtful debts

The Bank sometimes renegotiates or otherwise modifies contracts with counterparties. If the new terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset under the revised terms.

If the renegotiation or modification does not result in derecognition, but leads to changes in contractual cash flows, the Bank assesses whether a significant increase in credit risk has occurred, based on comparing the risk of a default occurring under the revised terms as at the end of the reporting period with that as at the date of initial recognition under the original terms.

(f) Non-financial assets

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. Cost is the fair value of the consideration provided plus any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the profit or loss as an expense as incurred. Impairment is recognised as an operating expense in the profit or loss.

Depreciation is calculated using the straight-line method to allocate the cost of assets less any residual value over their estimated useful lives as follows:

• Leasehold improvements	Lesser of 5 years or the remaining lease term
• Furniture and equipment	5 years
• Computer equipment	3 years
• Motor vehicles	5 years

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance date.

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

Property, plant and equipment also includes 'Right-of-use' assets under NZ IFRS 16 Leases. The bank recognises a Right-of-use asset at commencement date of a lease. The right-of-use asset is initially measured at cost, cost comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful life of right-of-use asset is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Intangible assets

Intangible assets comprise computer software licences and computer software costs and are carried at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These assets are amortised over their expected useful lives on a straight line basis over periods generally ranging from 3 to 5 years.

Internal and external costs directly incurred in the development of computer software, including subsequent upgrades and enhancements, are recognised as intangible assets when it is probable that they will generate future economic benefits attributable to the Bank. These assets are amortised over their expected useful lives on a straight line basis.

(g) Financial liabilities

Classification

The Bank classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortised cost.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as held for trading if they are: (i) acquired or incurred principally for the purpose of sale or repurchase in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract).

(ii) Other financial liabilities

Other financial liabilities are financial liabilities other than those measured at FVTPL.

Recognition and measurement of financial liabilities

Financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instruments.

Financial liabilities measured at FVTPL: this classification is applied to derivatives and other financial liabilities designated as such at initial recognition. Gains or losses arising due to changes in the fair value of the liability are recognised in profit or loss. Financial liabilities designated as measured at FVTPL, are accounted for in accordance with the following requirements: (i) the amount of changes in the fair value of the financial liability arising from changes in the Bank’s own credit risk should be included in other comprehensive income; (ii) other changes in fair value of the financial liabilities are recognised in current profit or loss. If the treatment of the impact of changes in the financial liabilities’ own credit risk will create or enlarge the accounting mismatch in profit or loss in accordance with (i), the Bank shall recognise the entire gain or loss of the financial liabilities (including the amount of the impact of changes in its own credit risk) in profit and loss.

Financial liabilities measured at amortised cost are initially measured at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. A gain or loss is recognised in profit or loss when the financial liability is derecognised.

Due to other financial institutions

Due to other financial institutions is defined by the nature of the counterparty, being a bank and includes deposits, vostro balances, collateral received, repurchase agreements and settlement account balances due to other financial institutions. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Deposits from customers

Deposits and other borrowings cover all forms of funding from customers including transactional and savings accounts, term deposits and foreign currency accounts. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Derivative liabilities

Derivative liabilities are measured at fair value through profit or loss. The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is used as a hedging instrument and, if so, the nature of the item being hedged. Refer to (h) below for more details on derivatives.

Debt securities issued

Debt securities are certificates of deposit, commercial paper, bonds and notes that have been issued by the Bank. They are either accounted for at amortised cost or at fair value through profit or loss. If the liability is accounted for at amortised cost, it is initially recorded at the fair value of the consideration received, net of transaction costs. Subsequently, the debt is measured at amortised cost using the effective interest method. If the liability is accounted for at fair value through profit or loss, the debt issue is initially recognised at the fair value of the consideration received. Debt issues are measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due. Financial guarantees are issued in the ordinary course of business, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given; typically, this is the premium received. Subsequent to initial recognition, the Bank’s liabilities under such guarantees are measured at the higher of:

- the amount initially recognised less, when appropriate, amortisation of the fee which is recognised over the life of the guarantee; and
- where it is likely the Bank will incur a loss as a result of issuing the contract, the estimated amount of the loss payable. These estimates are determined based on experience of similar transactions and history of past losses.

Due to related parties

This amount includes all amounts due to related parties of the Bank. They are initially recorded at fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Subordinated debt

Subordinated debt securities are notes that have been issued by the Bank. They are initially recorded at the fair value of the consideration received, net of transaction costs. Subsequently, the Subordinated debt is measured at amortised cost using the effective interest method.

Other liabilities

Other liabilities include fees payable, payables relating to unsettled transactions and trade creditors. Other liabilities are recorded at fair value of the consideration received, net of transaction costs and subsequently measured at amortised cost using the effective interest method.

Other liabilities also includes Lease liability upon adoption of NZ IFRS 16 Leases. The Lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability includes fixed payments as per lease contracts. The Lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from changes in lease contracts. When the Lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the Right-of use asset or is recorded in profit or loss if the carrying amount of the Right-of use asset has been reduced to zero.

Guarantee from parent bank

When the Bank has obtained a benefit in the form of lower rates of interest on loans as a result of the guarantee from the parent bank, the unit of account is the guaranteed loan and therefore the fair value equals the face value of the proceeds received.

EY

(h) Derivative financial instruments and hedge accounting

Derivative financial instruments are contracts whose value is derived from one or more underlying price index or other variable. They include swaps (interest rate and currency), forward rate agreements, futures, options and combinations of these instruments.

All derivatives are recognised in the balance sheet at fair value on trade date and are classified as held-for-trading except where they are used as part of an effective hedge relationship. The carrying value of a derivative is re-measured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative.

The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is used as a hedging instrument and, if so, the nature of the item being hedged. The Bank designates certain derivatives as either hedges of movements in the fair value of recognised assets and liabilities or firm commitments (fair value hedge) or hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

The Bank documents, at inception of the transaction, the relationship between the hedging instrument and the hedged item, the Bank's risk management objective and strategy for undertaking the hedge transaction and the methods that will be used to assess the effectiveness of the hedging relationship. The Bank formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging instrument has been highly effective in offsetting changes in the fair value or cash flows of the hedged item.

A hedge is regarded as highly effective if, at inception and throughout its life, the Bank can expect changes in the fair value or cash flows of the hedged item to be almost fully offset by the changes in the fair value or cash flows of the hedging instrument, and actual results of the hedge are within a range of 80% to 125% of these changes. The Bank also performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Bank uses the hypothetical derivative method to assess effectiveness. Hedge ineffectiveness represents the amount by which the changes in the fair value of the hedging instrument differ from changes in the fair value of the hedged item or the amount by which changes in the cash flows of the hedging instrument differ from changes (or expected changes) in the present value of the cash flows of the hedged item.

Any derivative that is de-designated as a hedging derivative will be accounted for as held-for-trading from the time that it is de-designated, with all subsequent movements in fair value recognised in the profit or loss.

Fair value hedge accounting

Where the Bank hedges the fair value of a recognised asset or liability or firm commitment, changes in the fair value of the derivative designated as a fair value hedge are recognised in the profit or loss. Changes in the fair value of the hedged item attributable to the hedged risk are reflected in adjustments to the carrying value of the hedged item, which are also recognised in the profit or loss.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The resulting adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the profit or loss on an effective yield basis over the period to maturity of the hedged item. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the profit or loss.

Cash flow hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify for cash flow hedge accounting are recognised in other comprehensive income, while the gain or loss relating to any ineffective portion is recognised immediately in the profit or loss. Amounts accumulated in reserves are transferred to the profit or loss in the period in which the hedged item will affect the profit or loss.

When a hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting, any cumulative gain or loss existing in reserves at that time remains in reserves and is recognised in the profit or loss when the forecast transaction ultimately affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in reserves is immediately transferred to the profit or loss.

(i) Offsetting

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income generated by the financial instrument;
- where gains and losses relating to fair value hedges are assessed as effective; or
- where gains and losses arise from a group of similar transactions, such as foreign exchange gains and losses.

Offsetting of financial assets and financial liabilities

Assets and liabilities are offset and the net amount reported in the balance sheet only where there is:

- a legally enforceable right to offset the asset and liability; and
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(j) Provisions

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

(k) Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but are disclosed, unless the possibility of payment is remote.

(l) Equity

Shares

Issued shares are recognised at the amount paid per share net of directly attributable issue costs.

Cash flow hedge reserve

This reserve includes the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments.

Dividend distribution

Dividends are recognised in equity in the period in which they are approved. Proposed dividends which are declared and approved after the end of each reporting period are not recognised in the balance sheet and are instead disclosed as a subsequent event in a note to the financial statements.

(m) Statement of cash flows

Cash and cash equivalents

For presentation purposes within the cash flow statement, cash and cash equivalents include cash and cash at bank, cash in transit, call deposits and settlement account balances with the central bank (with an original maturity of three months or less) and money at short call (deposit and settlement accounts with other financial institutions with an original maturity of three months or less). Cash and cash equivalents do not include any accrued interest.

Interest paid

Interest paid on debt securities issued and due to related parties is included as cash flows used in financing activities. All other interest paid is included as cash flows used in operating activities.

Netting of cash flows

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and disbursed on behalf of customers and reflect the activities of those customers rather than those of the Bank, or are received and disbursed in transactions where the turnover is quick, the amounts are large and the maturities are short.

1.7 Future accounting developments

The publication of the London Inter-Bank Offered Rate (LIBOR) is expected to be discontinued beyond 31 December 2021. The LIBOR are extensively embedded across the Bank's financial products, and contracts. To respond to this challenge, the Bank has started assessing the impact of this change on customer contacts in readiness to transition towards the new benchmarks in conjunction with CCB.

1.8 Critical accounting estimates, assumptions and judgements

The preparation of these financial statements in accordance with NZ IFRS requires management to make estimates and assumptions that affect the amounts reported. It also requires management to make judgements in the process of applying the Bank's accounting policies.

Although the Bank has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. It is not anticipated that such differences would be material. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

a) Impairment of loans and advances

For the year ended 31 December 2019, the significant accounting estimates and judgements of NZ IFRS 9 used by the Bank include the measurement of expected credit losses.

The measurement of the expected credit loss allowance is based on the expected credit loss (ECL) model under NZ IFRS 9. This requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). An explanation of the inputs, assumptions and estimation techniques used in measuring expected credit losses is further detailed in Note 1.6 (e).

A number of significant judgements are required in applying the accounting requirements for measuring expected credit losses, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of expected credit losses;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses; and
- Establishing groups of similar financial assets for the purpose of measuring expected credit losses.

b) Fair value measurement

The valuation of financial instruments requires significant estimates and judgements. Refer to Note 22 for more details on the valuation of financial instruments.

There are no other assumptions made about the future, and no other major sources of estimation uncertainty as at 31 December 2019, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. There are also no other judgements that management has made in the process of applying the Bank's accounting policies that have a significant effect on the amounts recognised in the financial statements.

2. Net interest income

	2019 $000	2018 $000
Interest income		
[1] Cash and balances with central bank	558	866
[1] Due from other financial institutions	5,094	2,237
[1] Loans and advances *	51,565	64,203
[1] Due from related parties	66	145
[2] Investments securities	481	98
Total interest income	**57,764**	**67,549**
Interest expense		
[3] Due to other financial institutions	(11)	(196)
[3] Deposits and other borrowings	(5,255)	(7,980)
[3] Due to related parties	(6,611)	(11,418)
[3] Debt securities issued	(21,327)	(17,689)
[3] Lease Liabilities	(53)	-
Total interest expense	**(33,257)**	**(37,283)**
Other interest (expense)/income		
[4] Investment securities	3,144	3,081
[4] Due to related party	(3,270)	(5,130)
Total other interest (expense)/income	**(126)**	**(2,049)**
Total net interest income	**24,381**	**28,217**

[1] *Interest earned on financial assets classified and measured at amortised cost.*
[2] *Interest earned on financial assets classified and measured at FVOCI.*
[3] *Interest expense on financial liabilities classified and measured at amortised cost.*
[4] *Interest earned on financial assets and interest expense on financial liabilities classified and measured at FVTPL*
* *Interest earned on impaired assets is nil, (31 December 2018: nil).*

3. Non-interest income

	2019 $000	2018 $000
Fee income		
Lending and credit facility related fee income	3,373	2,604
Other fee expense	(345)	(39)
Trade finance and other fee income	101	80
Management fee income	4,472	3,443
Total fee income	**7,601**	**6,088**
Other income (expense)		
Net ineffectiveness on qualifying hedges	(296)	1,661
Net gain/(loss) on derivatives	(533)	19
Loss on disposal of financial assets at fair value through profit or loss	-	(444)
Loss on early redemption of foreign currency borrowing	-	(26,135)
Gain on early termination of derivatives	-	25,624
Unrealised gain/(loss) on financial assets at fair value through profit or loss	809	(727)
Unrealised gain/(loss) on financial liabilities at fair value through profit or loss	1,399	(1,352)
Total other income (expense)	**1,379**	**(1,354)**
Total net non-interest income	**8,980**	**4,734**

4. Operating expenses

	2019 $000	2018 $000
Amortisation of intangible assets	55	152
Depreciation of property, plant and equipment [1]	1,355	523
Directors' fees	237	289
Fees Paid to External Auditors	135	255
Employee benefits:		
- Salaries and wages	11,465	9,593
- Defined contribution plan expense	122	100
- Other	778	177
Operating lease rentals	-	985
Purchased services:		
- Technology and information systems	552	453
- Legal	93	165
- Other professional services	577	1,216
GST expense	169	149
Marketing expenses [2]	506	532
Management service expense reimbursement [3]	(2,291)	-
Other expenses [2]	732	1,255
Total operating expenses	**14,485**	**15,844**

[1] *Depreciation of property, plant and equipment includes depreciation on leased assets of $838,000 (31 December 2018: nil).*

[2] *Comparative information for 31 December 2018 has been reclassified to ensure consistency with current year reporting.*

[3] *Management service expense reimbursement is from "NZ Branch" for provision of management service due to change in accounting treatment in September 2019.*

Fees paid to external auditors	**2019**	**2018**
Audit and review of financial statements		
Audit of December disclosure statement	103	175
Review of June disclosure statement	32	40
Total audit and review fees	**135**	**215**
Other services		
Procedures over off-quarter disclosure statements	-	-
Business advisory services	-	38
Advisory on tax matters	-	2
Total other services	**-**	**40**
Total fees paid to the external auditors	**135**	**255**

EY

5. Impairment losses on credit exposures

	Due from other financial institutions	Loans and advances			Total impairment loss
		Residential mortgage loans	Corporate exposures	Other exposures	
	$000	$000	$000	$000	$000
For the year ended 31 December 2019					
Movement in collective provision 12-months ECL	(62)	602	1,298	-	1,838
Movement in collective provision Lifetime ECL not credit impaired	-	-	-	-	-
Movement in collective provision Lifetime ECL credit impaired	-	-	-	-	-
Movement in specific provision Lifetime ECL credit impaired	-	-	-	-	-
Bad debts written-off directly to the profit or loss	-	(35)	-	-	(35)
Bad debts recovered	-		-	-	-
Total impairment losses on loans and advances	**(62)**	**567**	**1,298**	**-**	**1,803**
For the year ended 31 December 2018					
Movement in collective provision 12-months ECL	70	3,270	(2,616)	67	**791**
Movement in collective provision Lifetime ECL not credit impaired	-	-	(688)	-	**(688)**
Movement in collective provision Lifetime ECL credit impaired	-	-	-	-	**-**
Movement in specific provision Lifetime ECL credit impaired	-	-	-	-	**-**
Bad debts written-off directly to the profit or loss	-	-	-	146	**146**
Bad debts recovered	-	-	-	-	**-**
Total impairment losses on loans and advances	**70**	**3,270**	**(3,304)**	**213**	**249**

6. Income tax expense

	2019 $000	2018 $000
Current tax	5,584	4,672
Deferred tax	(692)	65
Total income tax expense	**4,892**	**4,737**
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	17,073	16,858
Tax at domestic rate (28%)	4,780	4,720
Tax effect of expenses not deductible for tax purposes	21	19
Tax effect of prior period adjustments	68	(2)
Recognition of prior tax losses	-	-
Other	23	-
Total income tax expense	**4,892**	**4,737**
Effective tax rate	**28.7%**	**28.1%**
Income tax credited directly to equity		
Current tax	-	-
Deferred tax	77	927
Total income tax credited directly to equity	**77**	**927**

Imputation credit account

The amount of imputation credits available to the Bank as at 31 December 2019 for use in subsequent reporting periods is $11.2m (31 December 2018: $3.7m).

7. Cash and balances with Central Bank

As at 31 December	2019 $000	2018 $000
Settlement account balances with central bank	38,161	50,698
Total cash and balances with central bank	**38,161**	**50,698**

8. Due from other financial institutions

As at 31 December	2019 $000	2018 $000
Placements with other financial institutions – call	9,124	13,376
Placements with other financial institutions – term	136,080	287,222
Provision for impairment losses	(8)	(70)
Total amount due from other financial institutions	**145,196**	**300,528**

9. Investment securities

As at 31 December	2019 $000	2018 $000
At FVOCI		
Registered bank securities	6,502	-
Multilateral development banks and other international organisation	45,094	-
RBNZ bills	-	38,986
Provision for impairment losses *	-	-
Total investment securities at FVOCI	**51,596**	**38,986**
At FVTPL		
Government securities	149,953	149,343
Total investment securities at FVTPL	**149,953**	**149,343**
Total investment securities	**201,549**	**188,329**

* *Provision for impairment losses on Investment securities measured at FVOCI is recognised in other comprehensive income through "FVOCI reserve".*

10. Loans and Advances

As at 31 December	2019 $000	2018 $000
Residential mortgages	701,487	658,502
Corporate exposures *	731,083	329,133
Total gross loans and advances	**1,432,570**	**987,635**
Unearned income	(2,411)	(1,985)
Loan origination fees	904	1,095
Fair value hedge adjustments	437	1,290
Loans and advances before provisions for impairment	**1,431,500**	**988,035**
Provision for impairment losses	(6,446)	(4,546)
Total net loans and advances	**1,425,054**	**983,489**

* *Comparative information for 31 December 2018 has been reclassified to ensure consistency with current year reporting.*

11. Asset Quality

a) Credit quality information

	FVTPL	Amortised cost			
	Investment securities $000	Residential mortgage loans $000	Corporate exposures $000	Other exposures $000	Total loans and advances $000
As at 31 December 2019					
Neither past due nor impaired	149,953	701,487	731,083	-	**1,432,570**
Past due but not impaired:					-
Less than 30 days past due	-	-	-	-	-
At least 30 days but less than 60 days past due	-	-	-	-	-
At least 60 days but less than 90 days past due	-	-	-	-	-
At least 90 days past due	-	-	-	-	-
Total past due but not impaired	-	-	-	-	-
Movements in Individually impaired assets					
Balance at beginning of the year	-	-	-	-	-
Additions	-	-	-	-	-
Amounts written off	-	-	-	-	-
Deletions	-	-	-	-	-
Total individually impaired assets	-	-	-	-	-
Total gross loans and advances	**149,953**	**701,487**	**731,083**	-	**1,432,570**
Total Provision for impairment losses	-	(4,154)	(2,292)	-	(6,446)
Unearned income	-	-	-	-	(2,411)
Loan origination fees	-	-	-	-	904
Fair value hedge adjustments	-	-	-	-	437
Total net loans and advances	**149,953**	**697,333**	**728,791**	-	**1,425,054**
As at 31 December 2018					
Neither past due nor impaired	149,343	658,502	329,133	-	**987,635**
Past due but not impaired:					
Less than 30 days past due	-	-	-	-	-
At least 30 days but less than 60 days past due	-	-	-	-	-
At least 60 days but less than 90 days past due	-	-	-	-	-
At least 90 days past due	-	-	-	-	-
Total past due but not impaired	-	-	-	-	-
Movements in Individually impaired assets					
Balance at beginning of the year	-	-	-	-	-
Additions	-	-	-	-	-
Amounts written off	-	-	-	-	-
Deletions	-	-	-	-	-
Total individually impaired assets	-	-	-	-	-
Total gross loans and advances	**149,343**	**658,502**	**329,133**	-	**987,635**
Total Provision for impairment losses	-	(3,552)	(994)	-	(4,546)
Unearned income	-	-	-	-	(1,985)
Loan origination fees	-	-	-	-	1,095
Fair value hedge adjustments	-	-	-	-	1,290
Total net loans and advances	**149,343**	**654,950**	**328,139**	-	**983,489**

Credit commitments to counterparties

Undrawn balances on credit commitments to counterparties for whom drawn balances are classified as individually impaired were nil as at 31 December 2019 (31 December 2018: nil).

Assets under administration

The Bank does not have any assets under administration as at 31 December 2019 (31 December 2018: nil).

Restructured asset

The Bank does not have any restructuted assets as at 31 December 2019 (31 December 2018: nil).

EY

b) Movement in loans and advances

As at 31 December 2019	Stage 1 12-month ECL $000	Stage 2 Lifetime 12-month ECL $000	Stage 3 Lifetime 12-month ECL $000	Purchased credit-impaired $000	Total $000
Residential mortgages					
Gross balance as at beginning of year	658,502	-	-	-	**658,502**
Additions	152,506	-	-	-	**152,506**
Amounts written off	-	-	-	-	**-**
Deletions	(109,521)	-	-	-	**(109,521)**
Gross balance as at end of year	**701,487**	**-**	**-**	**-**	**701,487**
Corporate exposures					
Gross balance as at beginning of year	321,923	7,210	-	-	**329,133**
Additions	1,904,308	236	-	-	**1,904,544**
Amounts written off	-	-	-	-	**-**
Deletions	(1,495,148)	(7,446)	-	-	**(1,502,594)**
Gross balance as at end of year	**731,083**	**-**	**-**	**-**	**731,083**
Other exposures					
Gross balance as at beginning of year	-	-	-	-	**-**
Additions	-	-	-	-	**-**
Amounts written off	-	-	-	-	**-**
Deletions	-	-	-	-	**-**
Gross balance as at end of year	**-**	**-**	**-**	**-**	**-**
Total					
Gross balance as at beginning of year	**980,425**	**7,210**	**-**	**-**	**987,635**
Additions	**2,056,814**	**236**	**-**	**-**	**2,057,050**
Amounts written off	**-**	**-**	**-**	**-**	**-**
Deletions	**(1,604,669)**	**(7,446)**	**-**	**-**	**(1,612,115)**
Gross balance as at end of year	**1,432,570**	**-**	**-**	**-**	**1,432,570**

Due from other financial institutions balances (refer to Note 8) were all represented in Stage 1 - 12 months ECL.

c) Movement in provision for impairment losses

As at 31 December 2019	Collective Provision 12-months ECL $000	Collective Provision Lifetime ECL Not Credit Impaired $000	Collective Provision Lifetime ECL Credit Impaired $000	Specific Provision Lifetime ECL Credit Impaired $000	Total Provision $000
Residential mortgages					
Balance at beginning of year	3,552	-	-	-	**3,552**
Transferred to collective provision 12-months ECL	-	-	-	-	**-**
Transferred to collective provision lifetime ECL not credit impaired	-	-	-	-	**-**
Transferred to collective provision lifetime ECL credit impaired	-	-	-	-	**-**
Transferred to specific provision lifetime ECL credit impaired	-	-	-	-	**-**
Charge to profit or loss excluding transfer between ECL stages	1,197	-	-	-	**1,197**
Amounts written off	-	-	-	-	**-**
Reversals of previously recognised impairment losses	(595)	-	-	-	**(595)**
Recovery of amounts written off	-	-	-	-	**-**
Balance at end of year – Residential mortgages	**4,154**	**-**	**-**	**-**	**4,154**
Corporate exposures					
Balance at beginning of year	944	50	-	-	**994**
Transferred to collective provision 12-months ECL	-	-	-	-	**-**
Transferred to collective provision lifetime ECL not credit impaired	-	-	-	-	**-**
Transferred to collective provision lifetime ECL credit impaired	-	-	-	-	**-**
Transferred to specific provision lifetime ECL credit impaired	-	-	-	-	**-**
Charge to profit or loss excluding transfer between ECL stages	5,873	7	-	-	**5,880**
Amounts written off	-	-	-	-	**-**
Reversals of previously recognised impairment losses	(4,525)	(57)	-	-	**(4,582)**
Recovery of amounts written off	-	-	-	-	**-**
Balance at end of year – Corporate exposures	**2,292**	**-**	**-**	**-**	**2,292**
Other exposures					
Balance at beginning of year	**-**	**-**	**-**	**-**	**-**
Transferred to collective provision 12-months ECL	**-**	**-**	**-**	**-**	**-**
Transferred to collective provision lifetime ECL not credit impaired	**-**	**-**	**-**	**-**	**-**
Transferred to collective provision lifetime ECL credit impaired	**-**	**-**	**-**	**-**	**-**
Transferred to specific provision lifetime ECL credit impaired	**-**	**-**	**-**	**-**	**-**
Charge to profit or loss excluding transfer between ECL stages	**-**	**-**	**-**	**-**	**-**
Amounts written off	**-**	**-**	**-**	**-**	**-**
Reversals of previously recognised impairment losses	**-**	**-**	**-**	**-**	**-**
Recovery of amounts written off	**-**	**-**	**-**	**-**	**-**
Balance at end of year – Other exposures	**-**	**-**	**-**	**-**	**-**
Total					
Balance at beginning of year	**4,496**	**50**	**-**	**-**	**4,546**
Transferred to collective provision 12-months ECL	**-**	**-**	**-**	**-**	**-**
Transferred to collective provision lifetime ECL not credit impaired	**-**	**-**	**-**	**-**	**-**
Transferred to collective provision lifetime ECL credit impaired	**-**	**-**	**-**	**-**	**-**
Transferred to specific provision lifetime ECL credit impaired	**-**	**-**	**-**	**-**	**-**
Charge to profit or loss excluding transfer between ECL stages	**7,070**	**7**	**-**	**-**	**7,077**
Amounts written off	**-**	**-**	**-**	**-**	**-**
Reversals of previously recognised impairment losses	**(5,120)**	**(57)**	**-**	**-**	**(5,177)**
Recovery of amounts written off	**-**	**-**	**-**	**-**	**-**
Total provision for impairment losses at the end of year for loans and advances	**6,446**	**-**	**-**	**-**	**6,446**

The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present value using the original effective interest rate for the asset. This discount unwinds as interest income over the period the asset is held.

There was no transfer of collective provision for 'Due from financial institutions' between the stages. The total provision of $8,000 (31 December 2018: $70,000) (refer Note 8) was represented in 'Collective provision 12-months ECL' during the period.

12. Derivative financial instruments

	As at 31 Dec 2019			As at 31 Dec 2018		
	Notional Amount $000	Fair Values Assets $000	Fair Values Liabilities $000	Notional Amount $000	Fair Values Assets $000	Fair Values Liabilities $000
Held for Trading						
Interest rate swap	195,616	5,503	(5,149)	318,741	3,169	(2,690)
Forward contracts	6,841	75	(48)	8,037	89	(180)
FX Swaps	1,520	19	(14)	7,860	153	-
Fair value hedges						
Interest rate swap	630,325	13,027	(1,481)	993,107	7,029	(735)
Dual fair value and cash flow hedges						
Cross Currency Interest rate swap	481,623	13,380	(9,269)	345,025	16,661	-
Economic Hedge						
Cross Currency Interest rate swap	-	-	-	-	-	-
Forward contracts	-	-	-	5,125	162	57
FX Swaps	78,013	1,618	-	338,433	1,431	(2,177)
Total derivative financial instruments	**1,393,938**	**33,622**	**(15,961)**	**2,016,328**	**28,694**	**(5,725)**

The use of derivatives and their sale to customers as risk management products is an integral part of the Bank's trading activities. Derivatives are also used to manage the Bank's own exposure to fluctuations in exchange and interest rates as part of its own asset and liability management activities.

Derivatives are subject to the same types of credit and market risk as other financial instruments and the Bank manages these risks in a consistent manner.

Derivatives, except for those that are specifically held for hedging purpose are classified as held for trading.

Derivatives held for trading

The held for trading classification includes those held as trading positions.

Trading positions

The held for trading positions consist of sales to customers. Sales to customers include the structuring and marketing of derivative products to customers which enable them to take or mitigate risks. Positions may be traded actively or held over a period of time to benefit from expected changes in market rates.

Derivatives in hedging relationships

Economic Hedge

Derivatives which are used in the Balance Sheet risk management activities but do not qualify for hedge accounting are recognised as economic hedges.

Fair value hedges

The Bank uses interest rate swaps to hedge interest rate risk exposure of a portion of its fixed rate mortgage assets and debt issuances included in debt issues at amortised cost.

	Note	2019 $000	2018 $000
Gain/(loss) arising from fair value hedges			
hedged item		10,071	(3,743)
hedging instrument		(10,367)	5,404
Net ineffectiveness on qualifying hedges (refer to Note 3)	3	**(296)**	**1,661**

Dual fair value and cash flow hedges

The Bank hedges fixed rate foreign currency denominated liabilities, using a cross currency swap, designated as fair value hedge of foreign interest rates and cash flow hedge of foreign exchange rates.

The net ineffectiveness of cash flow hedges as at 31 December 2019 is $95,658 (31 December 2018: nil).

EY

There were no transactions for which cash flow hedge accounting had to be ceased during the year ended 31 December 2019 as a result of highly probable cash flows no longer being expected to occur (31 December 2018: nil).

The profile of the timing of the notional amount and average price of derivatives designated in cash flow hedge relationships is outlined in the following table.

As at 31 December 2019	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000	Total $000
Interest rate swaps				
Pay fixed	74,893	62,931	97,809	235,633
Received fixed	20,000	112,500	457,808	590,308
Total notional amount	**94,893**	**175,431**	**555,617**	**825,941**
Weighted average interest rate	*1.70%*	*2.24%*	*2.13%*	
Cross currency interest rate swaps				
Received fixed - Pay floating	-	44,590	-	44,590
Received floating - Pay floating	-	130,796	306,237	437,033
Total notional amount	**-**	**175,386**	**306,237**	**481,623**
Weighted average interest rate	-	*2.28%*	*2.15%*	
Forward exchange contracts				
Forward contracts	526	6,315	-	6,841
FX Swaps	79,533	-	-	79,533
Total notional amount	**80,059**	**6,315**	**-**	**86,374**
Weighted average USD rate	*1.520*	-	-	
Weighted average CNY rate	*4.481*	*4.650*	-	

13. Other assets

As at 31 December	2019 $000	2018 $000
Trade debtors	-	15
Prepayments	57	161
Other	83	65
Total other assets	**140**	**241**

14. Deferred tax

As at 31 December	2019 $000	2018 $000
Deferred tax asset		
Balance at beginning of period	1,852	990
Recognised in profit or loss	692	(65)
Recognised directly in equity	77	927
Balance at end of period	**2,621**	**1,852**
Deferred tax assets / (liabilities) comprise the following temporary differences:		
Provision for impairment losses on loans and advances	1,807	1,292
Provision for employee entitlements	367	254
Property, plant and equipment	274	219
Intangible assets	-	-
Cash flow hedges	131	75
Fair value adjustment of bonds - IFRS method	21	-
Other temporary differences [2]	21	12
Total deferred tax assets (net) [1]	**2,621**	**1,852**
Deferred taxation recognised in profit or loss		
Provision for impairment losses on loans and advances	515	(37)
Provision for employee entitlements	113	(59)
Property, plant and equipment	55	74
Intangible assets	-	-
Other temporary differences	9	(43)
Tax losses recognised	-	-
Total deferred taxation recognised in in profit or loss	**692**	**(65)**
Deferred taxation recognised in equity		
Cash flow hedges	56	59
Fair value adjustment of bonds - IFRS method	21	-
IFRS9 transition adjustment	-	868
Total deferred taxation recognised in equity	**77**	**927**

[1] *Deferred tax assets and deferred tax liabilities are set-off where they relate to income tax levied by the same taxation authority, there is a legal right and intention to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.*

[2] *Included in Other temporary differences are deferred tax assets of $353,000 arising from Lease liabilities and deferred tax liabilities of $344,000 arising from Right-of-use asset.*

The Bank does not have any unutilised tax losses that were available for offset against future taxable profits of the Bank as at 31 December 2019 (31 December 2018: nil).

15. Property, plant and equipment

As at 31 December	2019 $000	2018 $000
Property, plant and equipment owned	3,482	3,313
Accumulated depreciation	(2,981)	(2,464)
Total Property, plant and equipment owned	**501**	**849**
Right-of-use asset [1]	2,067	-
Accumulated depreciation	(838)	-
Total Right-of-use asset	**1,229**	**-**
Total Property, plant and equipment	**1,730**	**849**

[1] *Being the reclassification of Right-of-use of asset on the Balance sheet under NZ IFRS 16 as at 1 January 2019.*

Additions to the Right-of-use assets during the year ended 31 December 2019 is $ nil.

EY

16. Deposits from Customers

As at 31 December	2019 $000	2018 $000
Demand deposits bearing interest *		
Retail	23,793	19,310
Wholesale	25,580	14,939
Term deposits *		
Retail	15,581	4,475
Wholesale	172,385	161,701
Total deposits from customers excluding not bearing interest	**237,339**	**200,425**
Demand deposits not bearing interest	1,639	1,185
Total deposits from customers	**238,978**	**201,610**

* *Comparative information for 31 December 2018 has been reclassified to ensure consistency with current year reporting.*

17. Debt securities issued

As at 31 December	2019 $000	2018 $000
Short term debt		
Registered certificate of deposits	46,000	55,000
Total short term debt	**46,000**	**55,000**
Long term debt	-	-
Domestic medium-term notes	916,765	627,243
Total long term debt	**916,765**	**627,243**
Total debt securities issued	**962,765**	**682,243**
Debt securities issued at face value	962,765	682,243
Total debt securities issued at face value	**962,765**	**682,243**
Movement in debt securities issued		
Balance at beginning of the year	690,246	453,507
Issuance during the year	462,133	563,943
Repayments during the year	(181,300)	(333,000)
Effect of fair value hedge adjustment	5,222	5,406
Net effect of transaction costs and accruals	(88)	390
Balance at end of the year	976,213	690,246
Total debt securities	**976,213**	**690,246**

The distinction between short-term and long-term debt is based on the maturity of the underlying security at origination.

Included in total debt securities issued are fair value hedge adjustments of $5,222,000 as at 31 December 2019 (31 December 2018: $5,406,000).

Details of the debt securities issued by the Bank as at 31 December 2019 are:

Short term debt

The Bank's short term debt program includes a Registered Certificate of Deposits (RCD) debt program. The issuances occur in NZ Dollars only. RCD is issued under this program at a discount. Interest rate risks associated with the issuances are incorporated within the Bank's risk management framework. Weighted Average Interest Rate ("WAIR") as at 31 December 2019 was 2.08% (31 December 2018: 2.45%).

Long term debt

The Bank's long term debt includes notes issued under its Medium Term Note program. The issuances occur in NZD and USD and notes issued under this program have both fixed or variable interest rates. Interest rate risks associated with the issuances are incorporated within the Bank's risk management framework. WAIR as at 31 December 2019 was 3.03% (31 December 2018: 3.61%).

The Bank has not had any defaults of principal, interest or other breaches with regard to all Long and Short term debt liabilities during the year ended 31 December 2019 (31 December 2018: nil).

18. Other liabilities

As at 31 December	2019 $000	2018 $000
Other Liabilities		
Trade creditors and other accrued expenses	515	197
Lease liability [1]	1,259	-
Employee entitlements	2,448	1,982
Other	-	146
Total Other Liabilities	**4,222**	**2,325**

[1] *Being the reclassification of Lease liability on the Balance sheet under NZ IFRS 16 as at 1 January 2019.*

Other information about leases for which the Bank is a lessee is presented below.

Amounts recognised in Profit or loss	2019 $000	2018 $000
Interest on lease liabilities	53	-
Depreciation charge on Right-of-use asset	838	-
Expenses relating to short-term leases	-	-
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-	-
Total amounts recognised in profit or loss	**891**	-

Maturity analysis contracted undiscounted cash flows	2019 $000	2018 $000
Less than one year	865	-
One to five years	423	-
More than five years	-	-
Total undiscounted lease liabilities	**1,288**	**-**
Lease liabilities included in Other liabilities		
Current	849	-
Non-current	410	-
Total Lease liabilities included in Other liabilities	**1,259**	**-**

Amounts recognised in the Statement of cash flows	2019 $000	2018 $000
Total cash outflow for leases	861	-

19. Share capital

As at 31 December	2019 $000	2018 $000
Issued and fully paid capital:		
158,629,981 ordinary shares	199,178	199,178
Total share capital	**199,178**	**199,178**

The total number of ordinary shares on issue as at 31 December 2019 was 158,629,981 (31 December 2018: 158,629,981). All issued ordinary shares are fully paid. All ordinary shares carry the right to one vote on a poll at meetings of shareholders and share equally in dividends authorised in respect of the ordinary shares and any proceeds available to ordinary shareholders on a winding up of the Bank. The ordinary shares do not have a par value.

During the year ended 31 December 2019 the Bank paid dividends of nil to CCB (equivalent to nil per share) (31 December 2018: nil per share).

20. Related Party Transactions

The Bank is a wholly owned subsidiary of CCB, a company incorporated in China. The Ultimate Parent Bank of the Bank is also CCB. The Ultimate Parent Bank Group refers to the Ultimate Parent Bank and its subsidiaries.

Nature of transactions and balances with related parties

The Bank undertakes transactions with the Ultimate Parent Bank and other members of the Ultimate Parent Bank Group.

These transactions principally consist of funding (interest bearing) and hedging transactions (interest bearing) and the provision of technology and process support. Transactions with related parties are conducted on an arm's length basis and on normal commercial terms.

Ultimate Parent Bank

The amount due from Ultimate Parent Bank consists of nostro accounts held with the Ultimate Parent Bank and other receivables, which is reflected as *Cash and liquid assets* and *Other assets* . The receivable owed by the Ultimate Parent Bank is reflected below.

The amount due from NZ Branch $10m, is a short-term placement. The amount due to NZ Branch $8m, consists of demand deposit.

The Bank raised NZD $15 million (issuing 15,000 redeemable, subordinated and unsecured medium term notes at a face value of NZD $1,000) from the Sydney Branch of the Ultimate Parent Bank in April 2016. The amount is expected to be settled on 28 April 2023.

The amount due to Ultimate Parent Bank consists of placements and borrowed funds from the Ultimate Parent Bank measured at amortised cost and at FVTPL. These placements are reflected as *Deposits and overnights placements* and borrowings are reflected as *Borrowings.* These placements and borrowings are made in the normal course of business and are at arms length. The amount payable to the Ultimate Parent Bank is reflected below.

Recognised in	31 Dec 2019		31 Dec 2018	
	NZ Branch $000	Ultimate Parent Bank $000	NZ Branch $000	Ultimate Parent Bank $000
Statement of Comprehensive Income				
Interest income	-	2,146	-	145
Interest expense	-	(13,272)	-	(16,548)
Non-interest income / (expense)				
Management fee income	4,472	-	3,443	-
Unrealised gain/(loss) on derivatives	-	(328)	-	220
Loss on early redemption of FC borrowing	-	-	-	(26,135)
Gain on early termination of derivatives	-	-	-	25,624
Unrealised gain/(loss) on financial liabilities at fair value through profit or loss		1,399		(1,352)
Operating expenses				
Management service expense reimbursement	2,291	-	-	-
Total Profit or Loss impact	**6,763**	**(10,055)**	**3,443**	**(18,046)**
Balance Sheet				
Due from related parties				
Cash and liquid assets	-	5,246	-	698
Loans and advances	10,003	-	-	-
Other assets	-	15	-	76
Derivative financial assets	-	21,209	-	20,514
Total Assets	**10,003**	**26,470**	**-**	**21,288**
Subordinated Debt	-	15,107	-	15,129
Due to related parties				
Deposits and overnights placements	8,049	-	9,699	-
Borrowings at fair value through profit or loss	-	153,876		151,082
Borrowings at amortised cost	-	220,630	-	259,446
Derivative financial liabilities	-	5,149	-	2,536
Total Liabilities	**8,049**	**394,762**	**9,699**	**428,193**

Transactions and balances with "NZ Branch" are not included in the balances with the "Ultimate Parent Bank".

There were no debts with any related parties written off or forgiven during the year ended 31 December 2019 (31 December 2018: nil).

Provision for impairments on credit exposure of nil have been recognised in respect of the related party assets as at 31 December 2019 (31 December 2018: nil).

21. Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The key management personnel of the Bank are defined as the Directors and members of the senior executive team of the Bank. The information relating to the key management personnel disclosed in the tables below includes transactions with those individuals, their close family members and their controlled entities.

The table below shows the amount of compensation paid to key management personnel of the Bank.

	2019 $000	2018 $000
Key management personnel compensation		
Salaries and other short-term employee benefits	1,779	1,551
Post-employment benefits (pension scheme contribution)	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
Total key management personnel compensation	**1,779**	**1,551**

Out of the above, CCB paid $34,211 of the salaries and the rest of the costs were borne by the Bank (31 December 2018: $35,005 of the salaries was paid by CCB).

The total maximum remuneration payable to the Directors is approved by the Shareholder at the Annual General Meeting. No Director received any other benefit that was additional to his or her total remuneration.

Loans and deposits with key management personnel

There were no loans or deposits with key management personnel in the year ended 31 December 2019 (31 December 2018: nil). Consequently, no provisions have been recognised in respect of loans given to key management personnel and their related parties (31 December 2018: nil) and there were no debts written off or forgiven during the year (31 December 2018: nil).

Other key management personnel transactions

There were no other transactions with key management personnel during the year ended 31 December 2019 (31 December 2018: nil).

22. Fair Value of Financial Instruments

Classification of financial instruments and estimates of fair value

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The fair value is the price 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. The methods and assumptions used in the fair value estimates are described below.

(a) Fair value hierarchy of financial instruments measured at fair value

The best evidence of fair value is a quoted price in an active market. Wherever possible the Bank determines the fair value of a financial instrument based on the quoted price.

Where no quoted price in an active market is available, the Bank applies present value estimates or other valuation techniques based on current market conditions.

These valuation techniques rely on market observable inputs wherever possible or in a limited number of instances rely on inputs which are unobservable but are reasonable assumptions based on market conditions.

The Bank categorises all fair value measurements according to the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

"Level 1" – Quoted market price

Fair value measurement where inputs are quoted market prices (unadjusted) in an active market for identical financial assets or financial liabilities.

"Level 2" – Valuation technique using observable inputs

Where quoted market prices are not available in active markets for similar instruments, fair values have been estimated using present value or valuation techniques using significant inputs that are observable for the financial asset or financial liability, either directly or indirectly from market data.

"Level 3" – Valuation technique with significant non-observable input

This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

All of the Bank's financial instruments are recognised and measured at fair value on a recurring basis within Level 2 (31 December 2018: Level 2).

The Bank considers if transfers between levels, have occurred at the beginning of the reporting period.

There have been no transfers between Level 1 and 2 of the fair value hierarchy during the period ended 31 December 2019 (31 December 2018: nil). There have been no transfers into/out of Level 3 during the period ended 31 December 2019 (31 December 2018: nil).

Credit risk adjustment on financial assets designated at fair value through profit or loss

The changes in value of financial assets designated at fair value through profit or loss that are attributable to changes in credit risk have been calculated using a statistical-based calculation that estimates expected losses attributable to adverse movement in credit risks. There is no credit risk adjustment on financial assets designated at fair value through profit or loss during the year.

(b) Fair value of financial instruments

The following table below compares the fair value of financial instruments with their carrying amounts.

As at 31 December 2019	At amortised cost $000	At FVOCI $000	At FVTPL $000	Fair value - Derivative instruments $000	Total Carrying amount $000	Fair value $000
Financial assets						
Cash and balances with central banks	38,161	-	-	-	38,161	38,161
Due from other financial institutions	145,196	-	-	-	145,196	145,196
Investment securities	-	51,596	149,953	-	201,549	201,549
Loans and advances	1,425,054	-	-	-	1,425,054	1,655,228
Due from related parties	15,264	-	-	-	15,264	15,264
Derivative financial assets	-	-	-	33,622	33,622	33,622
Other assets	82	-	-	-	82	82
Total financial assets	**1,623,757**	**51,596**	**149,953**	**33,622**	**1,858,928**	**2,089,102**
Financial liabilities						
Due to other financial institutions	-	-	-	-	-	-
Deposits from customers	238,978	-	-	-	238,978	239,872
Debt securities issued	976,213	-	-	-	976,213	992,287
Due to related parties	228,679	-	153,876	-	382,555	383,672
Subordinated Debt	15,107	-	-	-	15,107	16,433
Derivative financial liabilities	-	-	-	15,961	15,961	15,961
Lease liabilities	1,259	-	-	-	1,259	1,259
Total financial liabilities	**1,460,236**	**-**	**153,876**	**15,961**	**1,630,073**	**1,649,484**

As at 31 December 2018	At amortised cost $000	At FVOCI $000	At FVTPL $000	Fair value - Derivative instruments $000	Total Carrying amount $000	Fair value $000
Financial assets						
Cash and balances with central banks	50,698	-	-	-	50,698	50,698
Due from other financial institutions	300,528	-	-	-	300,528	300,528
Investment securities	-	38,986	149,343	-	188,329	188,329
Loans and advances	983,489	-	-	-	983,489	1,166,393
Due from related parties	774	-	-	-	774	774
Derivative financial assets	-	-	-	28,694	28,694	28,694
Other assets	65	-	-	-	65	65
Total financial assets	**1,335,554**	**38,986**	**149,343**	**28,694**	**1,552,577**	**1,735,481**
Financial liabilities						
Due to other financial institutions	-	-	-	-	-	-
Deposits from customers	201,610	-	-	-	201,610	202,608
Debt securities issued	690,246	-	-	-	690,246	748,765
Due to related parties	269,145	-	151,082	-	420,227	430,031
Subordinated Debt	15,129	-	-	-	15,129	15,733
Derivative financial liabilities	-	-	-	5,725	5,725	5,725
Total financial liabilities	**1,176,130**	**-**	**151,082**	**5,725**	**1,332,937**	**1,402,862**

(c) Estimation of fair value

The fair value estimates of the Bank's financial instruments were determined by application of the methods and assumptions described below:

Cash and balances with central banks, due from/to other financial institutions and due from/to related parties

Where these financial instruments are short-term in nature, defined as those that re-price or mature in three months or less, or are receivable or payable on demand, the carrying amounts are considered to approximate the fair values. When longer term in nature, fair value is calculated using discounted cash flow models based on the interest rate repricing and maturity. Discount rates applied in this calculation are based on current market interest rates for similar instruments with similar credit and maturity profiles.

Derivative financial instruments

Fair value is obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate, which incorporate current market and contractual prices for the underlying instrument, time to expiry yield curves and volatility of the underlying instrument.

Loans and advances

For floating rate loans and advances, the carrying amounts are considered to approximate the fair values. For fixed rate loans and advances, fair value is estimated using discounted cash flow models based on the interest rate repricing and maturity of the loans and advances. Discount rates applied in this calculation are based on current market interest rates for loans and advances with similar credit and maturity profiles.

Deposits from customers

With respect to deposits from customers, the fair value of non-interest bearing, call and variable rate deposits and fixed rate deposits repricing within three months is considered to approximate the carrying amount. For other fixed rate term deposits, the fair value is estimated using discounted cash flow models based on the maturity of the instruments. The discount rates applied in this calculation are based on current market interest rates for similar instruments with similar maturity profiles. The fair value includes a calculation of the Bank's own credit risk based on observable market data.

Debt securities issued (including subordinated debt)

For debt securities issued held at amortised cost with maturities of less than three months, the carrying amount is considered to approximate the fair value. For all other debt securities issued, fair values have been calculated based on quoted market prices. For those debt securities issued where quoted market prices are not available, fair value is estimated using discounted cash flow models based on the interest rate repricing and maturity of the instruments. The discount rates applied in this calculation are based on current market interest rates for similar instruments with similar maturity profiles. The fair value includes a calculation of the Bank's own credit risk based on observable market data.

Other financial assets / financial liabilities

For these balances, the carrying amount is considered to approximate the fair value, as they are short term in nature or are receivable / payable on demand.

23. Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities

The following financial assets and financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

	Effect of netting in Balance Sheet					
	Gross amounts $000	Amount Offset $000	Net amount reported on the balance sheet $000	Financial Collateral $000	Amounts Subject to Enforceable Master netting Agreements but not offset $000	Carrying value $000
As at 31 December 2019						
Derivative financial assets	33,622	-	33,622	-	-	33,622
Total financial assets	**33,622**	-	**33,622**	-	-	**33,622**
Derivative financial liabilities	15,961	-	15,961	-	-	15,961
Total financial liabilities	**15,961**	-	**15,961**	-	-	**15,961**
As at 31 December 2018						
Derivative financial assets	28,694	-	28,694	-	-	28,694
Total financial assets	**28,694**	-	**28,694**	-	-	**28,694**
Derivative financial liabilities	5,725	-	5,725	-	-	5,725
Total financial liabilities	**5,725**	-	**5,725**	-	-	**5,725**

24. Net Cash Flows used in Operating Activities

For the year ended 31 December	2019 $000	2018 $000
Reconciliation of profit after income tax to net cash flows from (used in) operating activities		
Profit after income tax	12,181	12,121
Adjustments:		
Impairment losses on credit exposures	1,803	249
Depreciation and amortisation	1,401	675
Deduct/(add) items reclassified as financing activities	28,100	28,478
Income tax expense	(2,640)	1,027
Movement in fair value of financial assets and liabilities	11,567	13,095
Movement in accruals	2,235	419
Net (increase)/decrease in operating assets:		
GST receivable	(18)	(4)
Loans and advances	(443,032)	657,669
Due from related parties [1]	(9,941)	98
Other assets	117	211
Net increase/(decrease) in operating liabilities:		
Due to other financial institutions	-	-
Deposits from customers	37,489	(256,566)
Net cash flow from (used in) operating activities	**(360,738)**	**457,472**

[1] *The amount of due from related parties excludes nostro balances held with Ultimate Parent Bank.*

25. Commitments and Contingent Liabilities

The Bank is party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, financial guarantees, standby letters of credit, trade letters of credit, non-financial guarantees and underwriting facilities.

The Bank's exposure to credit loss in the event of non-performance by the other party is represented by the contract or notional amount of those financial instruments. The Bank uses the same credit policies in making commitments and conditional obligations for off-balance sheet risk as it does for on-balance sheet financial instruments.

On adoption of NZ IFRS 16, leasing commitments related to rental of the Bank's premises and computer equipment are now being recorded through "other liabilities" and the interest expense on lease liability and depreciation on right-of-use asset is being charged to profit or loss.

Prior to the adoption of the standard, these commitments were recorded as "lease commitments" and operating lease expenses were charged to profit or loss on a straight-line basis over the term of the lease.

Credit related and other commitments (contractual or notional amount) and contingent liabilities arising in respect of the Bank's operations as at 31 December 2019 were:

As at 31 December	2019 $000	2018 $000
Credit related commitments and contingent liabilities		
Commitments to extend credit	257,482	167,106
Financial guarantees	89	383
Standby letters of credit	-	-
Trade letters of credit	-	-
Non-financial guarantees	4,893	4,744
Total Credit related commitments and contingent liabilities	**262,464**	**172,233**
Other commitments		
Rental / lease commitments less than 1 year	N/A	1,022
Rental / lease commitments greater than 1 year	N/A	1,508
Capital commitment	-	-
Total Other commitments	-	**2,530**
Total commitments	**262,464**	**174,763**

There were no other contingent liabilities as at 31 December 2019 (31 December 2018: nil).

26. Concentration of Credit Exposures

Concentrations of credit exposures arise where the Bank is exposed to risk in industries of a similar nature or in particular geographies. The following table presents the Bank's concentrations of credit exposures reported by industry and geographic area.

Australian and New Zealand Standard Industrial Classifications ("ANZSIC") have been used as the basis for disclosing industry sectors.

As at 31 December	On-balance sheet credit exposures 2019 $000	On-balance sheet credit exposures 2018 $000	Off-balance sheet credit related commitments 2019 $000	Off-balance sheet credit related commitments 2018 $000	Total 2019 $000	Total 2018 $000
Industry sector						
Agriculture, Forestry and Fishing	8,050	10,854	3,747	2,643	11,797	13,497
Mining	-	-	-	-	-	-
Manufacturing	51,183	3,015	-	30,000	51,183	33,015
Electricity, gas, water and waste services	58,324	-	9,436	-	67,760	-
Construction	179,246	192,292	133,987	107,817	313,233	300,109
Retail trade	-	-	144	295	144	295
Wholesale trade	10,078	-	207	-	10,285	-
Accommodation and food services	2,667	2,767	-	-	2,667	2,767
Health care and social assistance	9,776	-	5,318		15,094	-
Transport, postal and warehousing	-	-	-	-	-	-
Information media and telecommunications	95,430	9,787	-	-	95,430	9,787
Financial and insurance services [1]	200,592	330,066	-	4,744	200,592	334,810
Rental, hiring and real estate services [1]	316,200	102,199	18,843	1,060	335,043	103,259
Arts and Recreation Services	-	7,210	-	-	-	7,210
Professional, scientific and technical services	129	1,009	-	-	129	1,009
Public administration and safety [1]	233,208	239,027	28,497	25,000	261,705	264,027
Personal lending	701,487	658,502	62,285	674	763,772	659,176
Subtotal	**1,866,370**	**1,556,728**	**262,464**	**172,233**	**2,128,834**	**1,728,961**
Unearned income	(2,411)	(1,985)	-	-	(2,411)	(1,985)
Loan origination fees	904	1,095	-	-	904	1,095
Fair value hedge adjustments	437	1,290	-	-	437	1,290
Provisions for impairment losses	(6,454)	(4,616)	-	-	(6,454)	(4,616)
Total credit exposures	**1,858,846**	**1,552,512**	**262,464**	**172,233**	**2,121,310**	**1,724,745**
Geographical area *						
New Zealand	1,210,576	871,268	262,464	172,233	1,473,040	1,043,501
Overseas	648,270	681,244	-	-	648,270	681,244
Total credit exposures	**1,858,846**	**1,552,512**	**262,464**	**172,233**	**2,121,310**	**1,724,745**

[1] Comparative information for 31 December 2018 has been reclassified to ensure consistency with current year reporting.

* *Geographic area classification is based on customers' tax residency status.*

Concentration of credit exposure to individual counterparties

Concentrations of credit exposures are disclosed on the basis of actual exposures. Credit exposures to individual counterparties (not being members of a group of closely related counterparties) and to groups of closely related counterparties exclude exposures to connected persons, to the central government or central bank of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or to any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

The following disclosures show the number of individual counterparties (Bank and Non-Bank) or groups of closely related counterparties where the period end and peak end-of-day credit exposures equalled or exceeded 10% of the Bank's Common Equity Tier 1 (CET1) capital as at balance date.

The peak end-of-day aggregate credit exposure to an individual counterparty or a group of closely related counterparties has been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure for the relevant six months period ended 31 December 2019 and then dividing that by the Bank's Common Equity Tier 1 capital as at balance date.

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As at 31 December 2019								
	Number of Bank Counterparties				Number of Non-Bank Counterparties			
% of Common Equity Tier 1 Capital	"A" Rated	"B" Rated	Unrated	Total	"A" Rated	"B" Rated	Unrated	Total
As at Balance date								
10% - 14%	-	-	-	-	1	-	6	7
15% - 19%	-	-	-	-	-	-	2	2
20% - 24%	2	-	-	2	-	-	2	2
25% - 29%	-	-	-	-	-	-	-	-
30% - 34%	-	-	-	-	-	-	-	-
35% - 39%	-	-	-	-	-	-	-	-
40% - 44%	-	-	-	-	-	-	1	1
45% - 49%	-	-	-	-	-	-	1	1
55% - 59%	-	-	-	-	-	-	-	-
65% - 69%	-	-	-	-	-	-	-	-
Total	**2**	**-**	**-**	**2**	**1**	**-**	**12**	**13**
Peak exposure								
10% - 14%	1	1	-	2	1	-	8	9
15% - 19%	1	-	-	1	-	-	2	2
20% - 24%	2	-	-	2	-	-	2	2
25% - 29%	-	-	-	-	-	-	1	1
30% - 34%	1	-	-	1	-	-	-	-
35% - 39%	-	1	-	1	-	-	-	-
40% - 44%	-	-	-	-	-	-	1	1
45% - 49%	-	-	-	-	-	-	1	1
55% - 59%	-	-	-	-	-	-	-	-
65% - 69%	-	-	-	-	-	-	-	-
Total	**5**	**2**	**-**	**7**	**1**	**-**	**15**	**16**

As at 31 December 2018								
As at Balance date								
10% - 14%	1	-	-	1	1	-	3	4
15% - 19%	-	-	-	-	-	-	-	-
25% - 29%	-	1	-	1	-	-	1	1
30% - 34%	-	1	-	1	-	-	-	-
35% - 39%	-	-	-	-	-	-	-	-
45% - 49%	-	-	-	-	-	-	1	1
65% - 69%	-	1	-	1	-	-	-	-
Total	**1**	**3**	**-**	**4**	**1**	**-**	**5**	**6**
Peak exposure								
10% - 14%	1	-	-	1	1	-	5	6
15% - 19%	1	-	-	1	-	-	1	1
20% - 24%	-	-	-	-	-	-	1	1
25% - 29%	1	-	-	1	-	-	1	1
30% - 34%	-	1	-	1	-	-	1	1
35% - 39%	1	1	-	2	-	-	-	-
45% - 49%	-	-	-	-	-	-	1	1
65% - 69%	-	1	-	1	-	-	-	-
Total	**4**	**3**	**-**	**7**	**1**	**-**	**10**	**11**

Notes:
"A" Rated - those counterparties that have a long-term credit rating of A- or A3 or above, or its equivalent
"B" Rated - those counterparties that have a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent.
Unrated - those counterparties that have a long-term credit rating lower than BBB- or Baa3, or its equivalent and those counterparties that do not have a long-term credit rating.

27. Credit exposure to connected persons and non-bank connected persons

The Bank's credit exposure to connected persons is derived in accordance with the Bank's conditions of registration and the Reserve Bank document Connected Exposures Policy (BS8). The Reserve Bank defines connected persons to be other members of the Ultimate Parent Bank Group and Directors of the Bank.

Credit exposures to connected persons are based on actual credit exposures and are calculated on a gross basis, net of individual credit impairment allowances and excluding advances to connected persons of a capital nature.

Peak end-of-day aggregate credit exposures to connected persons expressed as a percentage of Tier One capital of the Bank have been derived by determining the maximum end-of-day aggregate amount of credit exposure over the year ended 31 December 2019 and then dividing that amount by the Bank's Tier One capital as at 31 December 2019.

	$000	% of Tier 1 Capital 31 Dec 2019
As at end of year		
Credit exposures to connected persons	47,355	21.02%
Credit exposures to non-bank connected persons	-	-
Peak for the year ended		
Credit exposures to connected persons	70,050	31.09%
Credit exposures to non-bank connected persons	-	-

In accordance with its Conditions of Registration, the rating-contingent limit applicable to the Bank is 40% of Tier One capital. Within the overall rating-contingent limit there is a sub-limit of 15% of Tier One capital which applies to the aggregate credit exposure to non-bank connected persons. There was no change to the rating-contingent limit during the year ended 31 December 2019.

The limits on aggregate credit exposures to all connected persons and to non-bank connected persons in the Bank's conditions of registration have been complied with at all times during the year ended 31 December 2019.

Where there is a loan made to non-connected counterparties by a New Zealand incorporated bank that has been guaranteed by a third party in respect of default by the borrower, these arrangements are called risk lay-off arrangements. As at 31 December 2019, the Bank had contingent exposures to connected persons arising from risk lay-off arrangements in respect of credit exposures to counterparties of $9,018,000.

The aggregate amount of the Bank's loss allowance for credit exposures to connected persons that are credit impaired was nil as at 31 December 2019.

28. Concentration of Funding

Concentrations of funding arise where the Bank is funded by industries of a similar nature or in particular geographies. The following table presents the Bank's concentrations of funding, which are reported by industry and geographic area.

ANZSIC classifications have been used as the basis for disclosing industry sectors.

As at 31 December	2019 $000	2018 $000
Total funding comprises		
Due to other financial institutions	-	-
Deposits from customers	238,978	201,610
Debt securities issued	976,213	690,246
Due to related parties	382,555	420,227
Subordinated debt	15,107	15,129
Total funding	**1,612,853**	**1,327,212**
Concentration of funding by industry sector		
Accommodation and food services	-	4
Agriculture, forestry and fishing	7,753	2,849
Construction	16,209	5,305
Electricity, gas, water and waste services	-	-
Financial and insurance services	1,111,074	803,570
Households	21,102	24,835
Manufacturing	2,123	219
Local government administration	-	-
Public administration and safety	-	20,051
Rental, hiring and real estate services	9,952	5,570
Retail trade	231	327
Transport, postal and warehousing	20,038	16,947
Wholesale trade	1,886	630
Other	24,823	11,549
Subtotal	**1,215,191**	**891,856**
Due to related parties (including Subordinated debt)	397,662	435,356
Total funding	**1,612,853**	**1,327,212**
Concentration of funding by geographic region [1]		
New Zealand*	1,198,438	876,707
China*	393,136	393,545
Australia*	15,107	37,285
Rest of Overseas*	6,172	19,675
Total funding	**1,612,853**	**1,327,212**

[1] *The geographic region used for debt securities issued is based on the nature of the debt programmes.*

* *Comparative information for 31 December 2018 has been reclassified to ensure consistency with current year reporting.*

29. Insurance Business, Securitisation, Funds Management, other Fiduciary Activities and the Marketing and Distribution of Insurance Products

Insurance

The Bank does not conduct any insurance business.

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

The Bank is not involved in:
- the establishment, marketing, or sponsorship of trust, custodial, funds management and other fiduciary activities;
- the origination of securitised assets or the marketing or servicing of securitisation schemes; and
- the marketing or distribution of insurance products.

Provision of Financial Services

Financial services (including deposit taking and foreign exchange services) provided by the Bank to entities which are involved in trust, custodial, funds management and other fiduciary duties are provided on arm's length terms and conditions and at fair value. The Bank has not purchased any assets from such entities during the year.

30. Risk Management

A. Introduction

The primary categories of risk managed by the Bank include credit, market, liquidity and funding, operational, strategic/business and reputational risk.

The Bank is committed to the management of risk and regards it as a fundamental activity performed at all levels of its business. The Bank also recognises the importance of effective risk management to its business success. Effective risk management is about achieving a balanced approach to risk and reward and enables the Bank to both increase financial growth opportunities and mitigate potential loss or damage. The Bank only takes on controlled amounts of risk when considered appropriate.

The Board is responsible for determining the Bank's risk appetite. The Board and the Risk Management Committee of the Bank has set the risk management policy control framework, including the implementation, monitoring and evaluation of the overall risk profile of the Bank on a regular basis. The Bank is a wholly owned subsidiary of the Ultimate Parent Bank and accordingly its risk management strategies and policies are closely aligned with those of the Ultimate Parent Bank.

The Bank has an Asset and Liability Committee ("Bank's ALCO"), which meets monthly. This is a specialised principal management committee that leads the management of balance sheet structure and oversees market risk, liquidity and funding risk and capital management within the context of the Bank's risk appetite as determined by the Bank's Board.

The Bank's executive team in support of the Bank's Board Audit and Risk Committee ("Bank's BARC") has responsibility for overseeing all risk aspects at the Internal Control and Compliance Committee and Risk Management Committee that are not considered by the Bank's ALCO. This includes overseeing credit risk, operational risk, strategic/business risk and reputational risk within the context of the Bank's risk appetite as determined by the Bank's Board.

B. Board Audit and Risk Committee and internal audit function

The Board is supported by the Bank's BARC. The Bank's BARC comprises four Directors of the Bank, all of whom are non-executive and two of whom are independent. The Bank's BARC assists the Board in fulfilling its responsibilities to ensure the integrity of the Bank's financial controls, reporting systems and internal audit standards. It also oversees the integrity of the financial statements, compliance with legal and regulatory requirements relating to financial reporting, performance of the internal audit function and the external auditors' qualifications, independence, performance and remuneration.

The Bank has an internal audit function, and uses an independent, qualified and reputable third party service provider for specific internal audit activities, whose role is to provide the Board and management with an effective and independent appraisal of the internal controls established by management. The internal audit function is accountable to CCB 's Internal Audit Department and the Bank's BARC and administratively to the Bank's Chief Risk Officer (CRO) and is granted full, free and unfettered access to all the Bank's records, property and employees. The Bank's internal audit function schedules two to four audit assignments annually.

C. Review of risk management systems

The Bank has a reporting process to provide detailed information to the Ultimate Parent Bank relating to the Bank's risk management systems as part of the Ultimate Parent Bank's review process.

The risk management system and architecture of the Bank are reviewed annually by management.

D. Credit risk

Credit risk is the risk of financial loss arising from the failure of a customer or counterparty to meet its contractual obligations to the Bank. It can arise from the Bank's lending activities and from inter-bank, treasury and international trade activities. The Bank has an overall lending objective of sound growth for appropriate returns.

E. Credit risk management

The Bank has a credit risk management framework for the approval and management of credit risk. The framework applies to all activities of the Bank that give rise to credit risk exposure (including on-balance sheet, off-balance sheet and derivatives) and applies to all customers and counterparties. Its aim is to ensure a structured and disciplined approach is maintained in achieving the objectives set by the Board. Key elements of the credit risk policy are:

(a) Organisational structure

The Bank's senior management team is responsible for approving frameworks and policies for the management of credit risk that are within the risk appetite of the Bank.

The Bank's executive team is tasked with producing robust credit risk policies, credit risk management processes and asset writing strategies; examining portfolio standards, concentrations of lending and asset impairment; and monitoring compliance with credit risk policy.

In relation to credit risk, the Bank's Risk Management Department, which includes credit risk specialists, exists to: (i) provide independent credit decisions; (ii) support front-line lending staff in the application of sound credit practices; (iii) provide centralised remedial management of arrears; and (iv) undertake portfolio monitoring and loan asset quality analysis and reporting.

The integrity and effectiveness of the Bank's credit risk management practices, asset quality and compliance with policy is supported by independent assessments by the credit risk review function (within the Bank's Risk Management Department) and the internal audit function.

(b) Credit approval

The Bank has clearly defined credit underwriting policies and standards for all lending, which incorporate income and repayment capacity, acceptable terms, security and loan documentation criteria. In the first instance, the Bank relies on the assessed integrity of the customer or counterparty and their ability to meet their contractual obligations for repayment. A credit risk grade is assigned to the customer using the Bank's credit risk grading system, which has been developed by the Ultimate Parent Bank.

Credit facilities are approved through a hierarchy of delegated approval authorities that reflect the skill and experience of lending management.

(c) Credit risk mitigation

The Bank has policies and procedures in place setting out the circumstances where acceptable and appropriate collateral is to be taken to mitigate credit risk. The policies and procedures are designed to ensure collateral is managed, legally enforceable, conservatively valued and adequately insured where appropriate. The credit risk policy sets out the type of acceptable collateral, including cash, mortgages over property, charges over business assets (e.g. premises, inventory and accounts receivable), charges over financial instruments (e.g. debt securities and equities) and financial guarantees.

The Bank also uses International Swap Dealers' Association ("ISDA") Master Agreements to document derivative activities to limit exposure to credit losses. The credit risk is reduced by a master agreement to the extent that, if an event of default or predetermined event occurs, all contracts with the counterparty are terminated and settled on a net basis.

(d) Credit risk monitoring

Monitoring of compliance with loan covenants is performed on a monthly basis by the Bank's Risk Management Department. In addition, all loans and advances are required to be reviewed on an annual basis with any recommendations for action to be approved by the appropriate delegated authority. The Bank's Risk Management Department may also initiate an earlier review if market conditions change in a way that may significantly affect the risk profile of the customer or counterparty.

(e) Portfolio analysis and reporting

Credit portfolios are actively monitored at each layer of the risk structure to ensure credit deterioration is quickly detected and mitigated through the implementation of remediation strategies.

The Bank's Risk Management Department undertakes regular and comprehensive analysis of the credit portfolio. Issue identification and adherence to performance benchmarks are reported to the Bank's CRO through a series of regular reports, with the Bank's CRO providing a comprehensive report analysing the credit portfolio to the Board. Using the Bank's Risk Management Department for analysis and reporting ensures an efficient and independent conduit to identify and communicate emerging credit issues to the Bank's executive team and the Board.

(f) Problem credit facility management

Credit exposures are monitored regularly through the examination of irregular and delinquent accounts. This enables doubtful debts to be immediately identified so that specific provisions for potential losses can be established as early as possible. Problem credit facilities are monitored to ensure workout and collection and recovery strategies are established and enacted promptly to minimise risk of potential losses.

(g) Concentration of credit risk

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

The Bank monitors its portfolio to identify and assess risk concentrations. Concentration limits are used to guard against large single customer or correlated credit risks in relation to industry and country. These policies and limits are an important part of portfolio management objectives to create a diversified portfolio avoiding significantly large concentrations of economically related credit risk exposures. The Bank's executive team monitor large exposure concentrations and adherence to concentration limits through monthly reporting provided by the Bank's Risk Management Department. Any exceptions to the limits require prior Board approval.

Refer to Note 26 for the disclosure of concentration of credit exposures by industry and geographical area and to individual counterparties.

(h) Maximum credit exposure and effect of collateral and other credit enhancements

The following table presents the maximum exposure to credit risk for on and off-balance sheet financial instruments before taking account of the financial effect of any collateral held or other credit enhancements, unless such collateral meets the offsetting criteria in NZ IAS 32 *Financial Instruments: Presentation* .

The table also provides a quantification of the value of the financial charges the Bank holds over a borrower's specific asset (or assets) where the Bank is able to enforce the collateral in satisfying a debt in the event of the borrower failing to meet its contractual obligations. For the purposes of this disclosure, where the collateral held is valued at more than the corresponding credit exposure, the financial effect is capped at the value of the credit exposure. In respect of derivative financial instruments, the assessed collateral is the amount of cash collateral received and does not include the effect of any netting arrangements under ISDAs. There are currently no netting arrangements under the ISDAs.

The Bank also manages its credit risk by accepting other types of collateral and credit enhancement such as guarantees and security interests over the assets of a customer's business. The assignable value of such credit mitigants is less certain and their financial effect has not been quantified for disclosure purposes. Credit exposures shown as not fully secured may benefit from such credit mitigants.

There were no material changes to the risk management policies in the financial year ended 31 December 2019.

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2019	2018	2019	2018	2019	2018
As at 31 December	$000	$000	$000	$000	$000	$000
On-balance sheet financial instruments						
Cash and balances with central banks	38,161	50,698	38,161	50,698	-	-
Due from other financial institutions	145,196	300,528	-	-	145,196	300,528
Investment securities	201,549	188,329	-	-	201,549	188,329
Loans and advances	1,425,054	983,489	1,055,494	906,860	369,560	76,629
Due from related parties	15,264	774	-	-	15,264	774
Derivative financial assets	33,622	28,694	-	-	33,622	28,694
Total On-balance sheet financial instruments	**1,858,846**	**1,552,512**	**1,093,655**	**957,558**	**765,191**	**594,954**
Off-balance sheet financial instruments						
Credit related commitments and contingent liabilities	262,464	172,233	144,756	53,207	117,708	119,026
Market related contracts	54,329	50,321	-	-	54,329	50,321
Total off-balance sheet financial instruments	316,793	**222,554**	**144,756**	**53,207**	172,037	**169,347**
Total exposure to credit risk	**2,175,639**	**1,775,066**	**1,238,411**	**1,010,765**	**937,228**	**764,301**

(i) Nature of collateral and other credit enhancements

The nature of collateral or other credit enhancements taken to mitigate each financial asset class to which collateral is held as security or other credit enhancements exist is described below:

Cash and balances with central banks	This category includes deposits with the Reserve Bank of New Zealand and People's Bank of China.
Due from other financial institutions	This balance sheet category includes reverse repurchase agreements which are fully collateralised by highly liquid debt securities which have been legally transferred to the Bank subject to an agreement to resell for a fixed price. There are no repurchase agreements as at 31 December 2019 (31 December 2018: nil).
Derivative financial assets	Credit risk from derivatives is mitigated where possible through netting agreements whereby derivative assets and liabilities with the same counterparty can be offset. All netting arrangements are legally documented. The ISDA Master Agreements contractually bind both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other predetermined events occur.
Loans and advances	The most common types of collateral mitigating credit risk over loans and advances include security over real estate (including residential, commercial, industrial and rural property); cash (usually in the form of a charge over a deposit); guarantees; and other security over business assets including specific plant and equipment, inventory and accounts receivable.

(j) Credit quality of financial assets that are neither past due nor impaired

The credit quality of financial assets that were neither past due nor impaired as at 31 December 2019 has been assessed to be normal in that the customer or counterparty can honour the terms of their contractual obligation. There is no reason to doubt their ability to repay principal and interest in full on a timely basis (31 December 2018: normal).

F. Market risk

Market risk is the risk of loss, in respect of the Bank's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates and equity prices.

The Bank has a policy which is approved by the Board to manage market risk. Day-to-day management of market risk is performed and reported by the Bank's Treasury function, with independent monitoring performed by the Bank's Risk Management Department whereby it ensures that market risk positions remain within prescribed limits. Oversight is provided by the Bank's ALCO, which receives monthly reporting to ensure market risk remains within the risk appetite specified by the Board.

For the purposes of market risk management, the Bank makes a distinction between traded and non-traded market risks. Traded market risk covers market risk arising from discretionary trading activity derived from dealing of interest rate or foreign exchange products on behalf of customers. These customer deals are systematically hedged with the market, leaving no residual market risk. Non-traded market risk covers all market risks which are not designated as traded market risk. The Bank does not currently conduct any discretionary or proprietary trading activity and hence the market risks faced by the Bank are mainly of a non-traded nature.

(a) Interest rate risk

Interest rate risk is the risk of loss in earnings or in the economic value as a consequence of movements in interest rates. All traded market interest rate risk is derived from customer deals that are systematically hedged at the time of trading, leaving no residual risk. The Bank's non-traded interest rate risk mainly comprises of yield curve, repricing, basis and optionality risks arising from mismatch of term structure and pricing basis of assets and liabilities in the banking book. The Bank uses the following tools to monitor and manage its interest rate risk:

- Interest rate repricing gap limits: This includes both limits on the aggregate net position, curve risk and limits applied to the short or long position for each repricing time bucket.
- Simulations using interest rate scenarios are used to provide a series of potential net interest income (NII) outcomes. NII is modelled using a 1 basis point parallel shift in the yield curve above and below current levels. NII outcomes from these yield curve shocks are monitored and reported internally with management. Additional stressed interest rate scenarios are also considered and modelled.

(b) Interest rate repricing gap analysis

The following table presents the Bank's assets and liabilities at their carrying amounts as at 31 December 2019, categorised by the earlier of the contractual repricing or maturity dates. The carrying amounts of derivative financial instruments, which are principally used to reduce the Bank's exposure to interest rate movements, are included under the heading "Non-interest bearing".

As at 31 December 2019	0-3 months $000	3-6 months $000	6-12 months $000	1-2 years $000	Over 2 years $000	Non-interest bearing $000	Total $000
Financial assets							
Cash and balances with central banks	38,161	-	-	-	-	-	38,161
Due from other financial institutions	145,108	-	-	-	-	88	145,196
Investment securities	155,135	23,714	-	21,136	-	1,564	201,549
Derivative financial assets	-	-	-	-	-	33,622	33,622
Loans and advances	797,933	107,033	299,853	192,467	32,160	(4,392)	1,425,054
Due from related parties	15,264	-	-	-	-	-	15,264
Total financial assets	**1,151,601**	**130,747**	**299,853**	**213,603**	**32,160**	**30,882**	**1,858,846**
Non-financial assets	-	-	-	-	-	4,571	4,571
Total assets	**1,151,601**	**130,747**	**299,853**	**213,603**	**32,160**	**35,453**	**1,863,417**
Financial liabilities							
Derivative financial liabilities						15,961	15,961
Deposits from customers	181,739	27,417	18,899	9,284	-	1,639	238,978
Debt securities issued	447,235	14,873	120,320	10,000	370,375	13,410	976,213
Due to related parties	331,859	-	44,590	-	-	6,106	382,555
Subordinated debt	15,000	-	-	-	-	107	15,107
Total financial liabilities	**975,833**	**42,290**	**183,809**	**19,284**	**370,375**	**37,223**	**1,628,814**
Non-financial liabilities						6,946	6,946
Total liabilities	**975,833**	**42,290**	**183,809**	**19,284**	**370,375**	**44,169**	**1,635,760**
On-balance sheet interest rate repricing gap	**175,768**	**88,457**	**116,044**	**194,319**	**(338,215)**	**(8,716)**	**227,657**
Net derivative notional amount	(448,040)	(14,059)	102,099	-	360,000	-	-
Net interest rate repricing gap	**(272,272)**	**74,398**	**218,143**	**194,319**	**21,785**	**(8,716)**	**227,657**

As at 31 December 2018	0-3 months $000	3-6 months $000	6-12 months $000	1-2 years $000	Over 2 years $000	Non-interest bearing $000	Total $000
Financial assets							
Cash and balances with central banks	50,698	-	-	-	-	-	50,698
Due from other financial institutions	300,402	-	-	-	-	126	300,528
Investment securities	38,986	-	-	148,096	-	1,247	188,329
Derivative financial assets	-	-	-	-	-	28,694	28,694
Loans and advances	410,735	132,102	303,890	126,276	12,781	(2,295)	983,489
Due from related parties	774	-	-	-	-	-	774
Total financial assets	**801,595**	**132,102**	**303,890**	**274,372**	**12,781**	**27,772**	**1,552,512**
Non-financial assets	-	-	-	-	-	3,068	3,068
Total assets	**801,595**	**132,102**	**303,890**	**274,372**	**12,781**	**30,840**	**1,555,580**
Financial liabilities							
Derivative financial liabilities	-	-	-	-	-	5,725	5,725
Deposits from customers	143,238	3,647	52,795	169	-	1,761	201,610
Debt securities issued	213,943	11,500	37,300	124,500	295,000	8,003	690,246
Due to related parties	222,687	-	-	193,416	-	4,124	420,227
Subordinated debt	15,000	-	-	-	-	129	15,129
Total financial liabilities	**594,868**	**15,147**	**90,095**	**318,085**	**295,000**	**19,742**	**1,332,937**
Non-financial liabilities	-	-	-	-	-	6,975	6,975
Total liabilities	**594,868**	**15,147**	**90,095**	**318,085**	**295,000**	**26,717**	**1,339,912**
On-balance sheet interest rate repricing gap	206,727	116,955	213,795	(43,713)	(282,219)	4,123	215,668
Net derivative notional amount	55,120	(96,529)	(265,196)	31,605	275,000	-	-
Net interest rate repricing gap	**261,847**	**20,426**	**(51,401)**	**(12,108)**	**(7,219)**	**4,123**	**215,668**

EY

(c) Interest rate sensitivity

The table below summarises the pre-tax for Profit or loss and post-tax for Equity sensitivity of interest bearing financial assets and financial liabilities to an incremental 100 basis points parallel fall or rise in market interest rates across all yield curves. The sensitivity analysis is based on the Bank's financial instruments held at reporting date excluding accrued interest, which are assumed to remain constant. It is also assumed that all other variables remain constant and that the changes in market rates are effective for a twelve-month period.

As at 31 December	2019 $000	2018 $000
Total funding comprises		
Impact on equity of increase or decrease to market interest rates		
100 bp parallel increase	1,716	2,215
100 bp parallel decrease	(1,716)	(2,215)
Impact on profit or loss of increase or decrease to market interest rates		
100 bp parallel increase	2,383	3,075
100 bp parallel decrease	(2,383)	(3,075)

(d) Foreign exchange risk

Foreign exchange risk is the risk of loss due to changes in foreign exchanges rates as a result of a mismatch of foreign currency assets and liabilities. Foreign exchange mismatches can arise from the day to day purchase and sale of foreign currency (on its own account or on behalf of customers), from deposit and lending activity in foreign currencies, international trade finance activities and from offshore funding by the Bank.

The Bank manages its foreign currency risk by using specified maximum aggregate exposure limits for defined currencies. Foreign currency risk is managed by using spot and forward exchange transactions, by matching foreign currency denominated assets with corresponding liabilities in the same currency, and derivatives (principally foreign exchange swaps and cross currency swaps).

Structural foreign exchange risk is the potential impact arising from a change in exchange rate for investments in foreign currency based operations. The Bank operates solely in New Zealand.

(e) Net open foreign currency position

The net open position of major foreign currency held at 31 December 2019 are detailed in the table below. It represents the net of the non-derivative assets and liabilities in that foreign currency aggregated with the net expected future cash flows from derivative financial instrument purchases and sales from foreign exchange transactions in that foreign currency.

As at 31 December	2019 $000	2018 $000
Net open position		
US Dollar (USD)	(1,215)	(3,798)
Euro (EUR)	294	201
Chinese Yuan	493	561

(f) Foreign exchange rate sensitivity

The table below summarises the pre-tax for Profit or loss and post-tax for Equity sensitivity of financial assets and financial liabilities to a 10% depreciation or appreciation in foreign exchange rates against the New Zealand Dollar. The sensitivity analysis is based on the Bank's financial instruments held in foreign currency at reporting date. It is assumed that all other variables remain constant.

As at 31 December	2019 $000	2018 $000
Net open position		
Impact on equity of increase or decrease in foreign exchange rates		
10% appreciation (increase)	(74)	(365)
10% depreciation (decrease)	74	365
Impact on profit or loss of increase or decrease in foreign exchange rates		
10% appreciation (increase)	(103)	(506)
10% depreciation (decrease)	103	506

(g) Equity risk

The Bank does not have any equity risk exposure as at 31 December 2019 (31 December 2018: nil).

G. Liquidity and funding risk

Liquidity risk is the risk that the Bank will be unable to fund assets and meet its obligations as they fall due, leading to an inability to support normal business activity and meet liquidity regulatory requirements. Funding risk is the risk that the funding mix of the Bank is such that the Bank will have to pay higher than market rates for its funding or have difficulty raising funds. Liquidity and funding risk is caused by mismatches of assets and liabilities in terms of their amounts and maturity dates.

The Bank has a policy to manage liquidity and funding risk which is approved by the Board. Day-to-day management of liquidity and funding risk is performed and reported by the Bank's Treasury function, with independent monitoring by the Bank's Risk Management Department. Oversight is provided by the Bank's ALCO, which receives monthly reporting to ensure liquidity and funding risk remains within the risk appetite specified by the Board.

The key objectives of the policy are:

- To ensure that cash flow commitments can be met as they fall due under both normal, stressed and crisis conditions.
- To ensure that the Bank develops and protects a resilient and diversified funding base that is responsive to the Bank's needs.
- To ensure that policies and procedures in relation to liquidity and funding risk management are clearly documented and understood by those in the organisation with responsibility for managing liquidity and funding risk.

(a) Regulatory supervision

The Bank is subject to the conditions of the Reserve Bank's liquidity policy as set out in BS13 *Liquidity Policy* . The Bank has the appropriate internal framework and tools for liquidity risk management to ensure compliance with these regulatory requirements, as well as internal targets and limits.

(b) Monitoring and managing liquidity and funding risk

The Bank uses the following tools to monitor and manage its liquidity and funding risk including:

- Forecasting future cash requirements on a daily basis by constructing a maturity profile analysis to determine the net mismatch figure and informing the Bank of any liquidity and funding gaps in particular time bands. The cash flow projections take into account the expected behaviour of assets and liabilities where contractual maturities are unlikely to be a useful guide, and also consider contingent demands on liquidity.
- Limits to ensure the holding of readily realisable investment assets and deposits with high credit quality counterparties do not fall below prudent levels, as well as counterparty concentration limits.
- Limits to ensure a diverse and stable funding base, including in relation to source of funding and maturity profile mismatch gaps.
- Monitoring of compliance with the Reserve Bank's one-week mismatch ratio, one-month mismatch ratio and core funding ratio requirements on a daily basis.
- Scenario analysis (including stress scenarios) to support the Bank's understanding of its liquidity and funding risk and whether the Bank has the ability to meet cash outflows over a range of time horizons in a range of scenarios (including stress scenarios).
- Developing, maintaining and regularly testing a liquidity Early Warning Indicator (EWI) framework and a Contingency Funding Plan (CFP) to enable the Bank to monitor, deal promptly and act decisively in response to a liquidity and funding crisis. EWIs are a set of carefully chosen metrics designed to aid in the process of identifying the emergence of increased risk, potential funding needs, or other vulnerabilities in the liquidity position. The CFP establishes the trigger levels of select EWIs for invoking the CFP, policies, responsibilities and plans designed to return the Bank to a robust position within its risk tolerance as quickly as possible.
- Maintaining an internal funding arrangement with the Ultimate Parent Bank to support the Bank's liquidity management.

(c) Liquidity portfolio management

The Bank held the following financial assets for the purpose of managing liquidity risk:

As at 31 December	Note	2019 $000	2018 $000
Cash and cash equivalents:			
Cash and balances with central banks	7	38,161	50,698
Due from other financial institutions (call or original maturity of 3 months or less)	8	145,196	300,528
Due from related parties[1]	20	5,246	698
Total Cash and cash equivalent		**188,603**	**351,924**
Investment securities			
Government securities	9	149,953	-
RBNZ Bills	9	-	38,986
Total liquidity portfolio		**338,556**	**390,910**

[1] *Due from related parties includes Nostro account balance held with the Ultimate Parent Bank as at 31 December 2019 and 31 December 2018.*

(d) Contractual maturity analysis of financial liabilities

The table below presents the Bank's cash flows by remaining period to contractual maturity as at reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows and include principal and future interest cash flows and therefore will not agree to the carrying amounts on the balance sheet, except for derivatives held for trading where the full mark to market amount has been included.

Actual cash flows may differ significantly from the contractual cash flows presented below as a result of future actions of the Bank and its counterparties such as early repayments or refinancing of term loans.

The contractual maturity analysis for off-balance sheet commitments and contingent liabilities has been prepared using the earliest date at which the Bank can be called upon to pay. The liquidity risk of credit related commitments and contingent liabilities may be less than the contract amount and does not necessarily represent future cash requirements as many of these facilities are expected to be only partially used or to expire unused.

The Bank does not manage its liquidity risk based on the analysis presented in the table below:

As at 31 December 2019	On Demand $000	Up to 3 months $000	Over 3 months & up to 1 year $000	Over 1 year & up to 5 years $000	Over 5 years $000	Total $000	Carrying Amount $000
Non derivative financial liabilities							
Deposits from customers	49,373	117,028	64,163	9,715	-	240,279	238,978
Debt securities issued	-	81,333	175,570	800,869	-	1,057,771	976,213
Due to related parties	8,049	155,317	221,296	-	-	384,662	382,555
Subordinated Debt	-	107	320	16,032	-	16,459	15,107
Total non-derivative financial liabilities	**57,422**	**353,785**	**461,349**	**826,615**	**-**	**1,699,171**	**1,612,853**
Derivative financial liabilities							
Net settled	-	26	37	5,148	-	5,211	
Gross settled – cash inflow	-	(1,185)	(1,644)	(155,170)	-	(157,999)	
Gross settled – cash outflow	-	1,249	3,448	161,558	-	166,255	
Total derivative financial liabilities	**-**	**90**	**1,841**	**11,536**	**-**	**13,467**	**15,961**

As at 31 December 2018	On Demand $000	Up to 3 months $000	Over 3 months & up to 1 year $000	Over 1 year & up to 5 years $000	Over 5 years $000	Total $000	Carrying Amount $000
Non derivative financial liabilities							
Deposits from customers	35,434	88,368	62,678	17,465	-	203,945	201,610
Debt securities issued	-	43,739	67,580	675,769	-	787,088	690,246
Due to related parties	-	11,607	44,262	379,733	-	435,602	420,227
Subordinated Debt	-	185	-	16,857	-	17,042	15,129
Total non-derivative financial liabilities	**35,434**	**143,899**	**174,520**	**1,089,824**	**-**	**1,443,677**	**1,327,212**
Derivative financial liabilities *							
Net settled	-	2,870	-	-	-	2,870	
Gross settled – cash inflow	-	(191)	(1,990)	(517)	-	(2,698)	
Gross settled – cash outflow	-	2,804	2,283	1,276	-	6,363	
Total derivative financial liabilities	**-**	**5,483**	**293**	**759**	**-**	**6,535**	**5,725**

* *Comparative information for 31 December 2018 has been reclassified to ensure consistency with current year reporting.*

(e) Current and non-current assets and liabilities

Assets and liabilities are classified as current if it is expected they will be recovered, or due for settlement or expected to be settled, within 12 months of the reporting date.

Non-current assets include property, plant and equipment and intangible assets as well as financial assets of a long term nature. Non-current liabilities include financial and non-financial liabilities which are expected to be settled after twelve months from reporting date. For the purposes of this disclosure, the fair value of derivatives has been classified as current or non-current based on the contractual maturity of the derivative deals.

As at 31 December	2019 Current $000	2019 Non-current $000	2019 Total $000	2018 Current $000	2018 Non-current $000	2018 Total $000
Assets						
Cash and balances with central bank	38,161	-	38,161	50,698	-	50,698
Due from other financial institutions	145,196	-	145,196	300,528	-	300,528
Investment securities	173,692	27,857	201,549	38,986	149,343	188,329
Loans and advances	269,337	1,155,717	1,425,054	190,471	793,018	983,489
Due from related parties	15,264	-	15,264	774	-	774
Derivative financial assets	13,650	19,972	33,622	6,774	21,920	28,694
Property, plant and equipment	-	1,730	1,730	-	849	849
Intangible assets	-	80	80	-	126	126
Deferred tax assets	-	2,621	2,621	-	1,852	1,852
Other assets	140	-	140	241	-	241
Total assets	**655,440**	**1,207,977**	**1,863,417**	**588,472**	**967,108**	**1,555,580**
Liabilities						
Due to other financial institutions	-	-	-	-	-	-
Deposits from customers	229,569	9,409	238,978	184,370	17,240	201,610
Debt securities issued	206,454	769,759	976,213	88,926	601,320	690,246
Due to related parties	382,555	-	382,555	48,088	372,139	420,227
Subordinated debt	107	15,000	15,107	129	15,000	15,129
Derivative financial liabilities	722	15,239	15,961	2,845	2,880	5,725
Current tax liabilities	2,724	-	2,724	4,650	-	4,650
Other liabilities	4,222	-	4,222	2,236	89	2,325
Total liabilities	**826,353**	**809,407**	**1,635,760**	**331,244**	**1,008,668**	**1,339,912**

H. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It also includes legal and regulatory risk to the extent that the impacts are related to operational risk events.

The Bank's Operational Risk Management Framework sets out the business requirements for managing operational risks across the Bank with respect to governance, risk and control assessments, incident and loss management, and reporting and monitoring.

Effective operational risk management within the Bank is based on a three lines of defence model. The Bank's business line management are the first line of defence and are accountable for the management of their operational risks (including identification, measurement, monitoring and mitigation) on a day-to-day basis. Oversight and support is provided by the Bank's Risk Management Department (who report to the Bank's CRO) and the Bank's Finance Department (who report to the Bank's CFO). The Bank's Risk Management Department is responsible for establishing the Bank's Operational Risk Management Framework. Assurance is provided by the internal audit function.

I. Strategic and business risk

Strategic and business risk is the risk of loss resulting from changes in the business environment caused by factors such as economic conditions, competitive forces, social trends, technology or regulatory changes. Strategic and business risk is primarily managed by:

- Establishment and maintenance of structures, measurement basis and risk management processes, including strategic planning and financial management, for the evaluation and management of strategic and business risks.
- Building capability within the Bank to enable both the pursuit of opportunities and mitigation of vulnerability.

J. Reputational risk

Reputational risk is the risk of loss arising from an adverse perception of the Bank on the part of existing or potential stakeholders including customers, counterparties, employees, suppliers, and regulators. Reputational risk is primarily managed by:

- Awareness and application of policies and procedures regarding reputational risk and other material risks.
- Business line management and support functions (including the Risk Management Department) taking account of the Bank's reputation in all decision-making, including dealings with customers and suppliers.
- Reporting systems to ensure awareness of all potential reputational issues.
- Effective and proactive stakeholder management through on-going engagement.

K. Capital risk

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Reserve Bank, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Conditions of Registration (see pages 8 to 12). The amount of Tier 1 capital that the Bank managed as at 31 December 2019 was $225,293,000 (31 December 2018: $213,886,000). Compliance with capital adequacy ratios set by the Reserve Bank is actively monitored and reported on a regular basis to Senior Management, ALCO and the Board.

In April 2016, The Bank issued NZD 15 million subordinated, unsecured notes, due April 2023. These qualify as Tier 2 Capital of CCB NZ, subject to BS2A rules as implemented by the Reserve Bank. Under the current capital requirements set by the Reserve Bank, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's financial statements prepared under NZ IFRS and is $237,293,000 as at 31 December 2019 (refer note 31) (31 December 2018: $228,886,000)

The Bank has complied with all externally imposed capital requirements throughout the year ended 31 December 2019.

31. Capital Adequacy

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

The objective of the Basel III Framework is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profile of banks. Basel III consists of three pillars – Pillar One covers the capital requirements for banks for credit, operational and market risks. Pillar Two covers all other material risks not already included in Pillar One, and Pillar Three relates to market disclosure. As a bank adopting a Standardised approach under the Basel III regime, the Bank applies the Reserve Bank's BS2A Capital Adequacy Framework (Standardised Approach) for calculating regulatory capital requirements.

The Basel III standards for bank capital distinguish between Tier 1 and Tier 2 capital. Tier 1 capital is permanently and freely available to absorb losses without the bank being obliged to cease trading, while Tier 2 capital generally only absorbs losses in a winding up. Within Tier 1 capital, Common Equity (CET 1) has greater loss absorbing capability than the other Tier 1 instruments referred to as Additional Tier 1 (AT 1) capital. Common Equity and Additional Tier 1 capital primarily consists of shareholders' equity and other capital instruments acceptable to the Reserve Bank less intangible and deferred tax assets and other prescribed deductions. Tier 2 can comprise other capital instruments acceptable to the Reserve Bank.

Capital ratios are used to define minimum capital requirements for each of: Common Equity (CET1), Tier 1 capital (CET1 plus AT1), and Total capital (Tier 1 plus Tier 2), as a percentage of risk-weighted assets calculated in accordance with the Reserve Bank document BS2A Capital Adequacy Framework (Standardised Approach).

As a condition of registration, the Bank must comply with the following minimum requirements set by the Reserve Bank:

- Total capital ratio must not be less than 8% of risk weighted exposures.
- Tier 1 capital ratio must not be less than 6% of risk weighted exposures.
- Common Equity Tier 1 capital ratio must not be less than 4.5% of risk weighted exposures.
- Capital of the Bank must not be less than $30 million.

In addition to minimum capital requirements, Basel III introduces a capital conservation buffer of 2.5 per cent of risk-weighted assets. There are increasing constraints on capital distributions where a bank's capital level falls within the buffer range, which are specified in the conditions of registration on pages 8 to 12.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with the externally imposed capital requirements set by the Reserve Bank and maintains strong credit ratings and healthy capital ratios in order to support the future development and growth of the business and to maximise shareholder value.

The Board has ultimate responsibility for ensuring that the Bank has adequate overall capital in relation to its risk profile and establishes minimum internal capital levels and limits above the regulatory minimum to reduce the risk of breaching its conditions of registration. The Bank actively monitors its capital adequacy as part of the Bank's Internal Capital Adequacy Assessment Process ("ICAAP"), which complies with the requirements set out in the Reserve Bank document BS12 Guidelines on Internal Capital Adequacy Assessment Process (ICAAP), and reports this on a regular basis to senior management and the Board.

The Bank's ICAAP is a documented process that describes not only the risk appetite and tolerances of the Bank, but also the levels of capital held against risks, including credit, market, operational and other material risks. The Bank's ICAAP is reviewed and approved at least annually by senior management and the Board and the process includes consideration of stress tests and future strategic requirements. The Bank also considers other stakeholders' requirements when managing capital.

The Bank manages its capital structure and makes adjustments according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders, return/issue capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes during the year ended 31 December 2019. There were no significant capital initiatives undertaken during the year ended 31 December 2019.

The capital adequacy tables set out on the following pages summarise the composition of regulatory capital, risk-weighted assets and the capital adequacy ratios for the Bank as at 31 December 2019. During the year, the Bank complied in full with all externally imposed Reserve Bank capital requirements as set out in the Bank's conditions of registration.

Capital

The table below shows the qualifying capital for the Bank.

Regulatory Capital	31 Dec 2019 $000	31 Dec 2018 $000
Tier 1 Capital		
Common Equity Tier 1 capital		
Issued and fully paid-up ordinary share capital	199,178	199,178
Retained earnings (net of appropriations)	28,868	16,687
Accumulated other comprehensive income and other disclosed reserves [1]	(389)	(197)
Less deductions from Common Equity Tier 1 capital		
Intangible assets	80	127
Cash flow hedge reserve	(337)	(197)
Deferred tax assets	2,621	1,852
Total Common Equity Tier 1 capital	**225,293**	**213,886**
Additional Tier 1 capital	-	-
Total Additional Tier 1 capital	-	-
Total Tier 1 capital	**225,293**	**213,886**
Tier 2 capital		
Subordinated notes	12,000	15,000
Less deductions from Tier 2 capital		
Allowance for tax under BS2A	-	-
Total Tier 2 capital	**12,000**	15,000
Total capital	**237,293**	**228,886**

[1] *Accumulated other comprehensive income and other disclosed reserves' consist of FVOCI revaluation reserve of ($52,000) and cash flow hedge reserve of ($337,000).*

Capital instruments

Ordinary shares

In accordance with the Reserve Bank document BS2A Capital Adequacy Framework (Standardised Approach), ordinary share capital is classified as Common Equity Tier 1 capital.

In relation to the ordinary shares:

- there are no options or facilities for early redemptions, conversion, write-down or capital repayment;
- there is no predetermined dividend rate;
- there is no maturity date;
- there are no options granted or to be granted pursuant to any arrangement;
- they have equal voting rights and share equally in dividends and profit on winding up. They represent the most subordinated claim on winding up; and
- Dividends are declared and paid out from distributable items (including retained earnings), subject to restrictions as per the conditions of registration applicable to the Bank.

Subordinated notes

On 28 April 2016, the Bank issued $15 million (15,000 subordinated and unsecured medium term notes at a face value of $1,000.00 "the Notes") to the Sydney Branch of the Ultimate Parent Bank. The Notes will mature on 28 April 2023. The Notes are redeemable, subordinated and unsecured securities of the Bank. The Notes are subordinated to the claims of depositors and other unsubordinated creditors of the Bank and qualify for Tier 2 regulatory recognition subject to the allowance for tax in accordance with section 10f(5), of subpart 2F under BS2A.

The Bank obtained relief from the allowance for tax in accordance with section 10f(5), of subpart 2F in BS2A in recognising the full face value of the Tier 2 instrument for regulatory capital purposes effective 30 June 2018 following amendment to the Income Tax Act 2007. The Bank may redeem all the Notes on any interest payment date, subject to certain conditions including the Reserve Bank's written approval ("Redemption of Term Subordinated Notes"). Early redemption of all but not some of the Notes for tax reasons or regulatory reasons is permitted subject to Redemption of Term Subordinated Notes.

The Notes bear interest at a rate based on the 3-month Bank Bill Rate plus a fixed margin of 3.00% per annum. Interest is payable quarterly in arrears and commenced on 28th July 2016.

This instrument is subject to phase-out from Tier 2 in accordance with BS2A. The phase-out will be over five consecutive years, with the amount of the instrument qualifying as Tier 2 capital reducing by 20% each year commencing on 29 April 2019 to maturity being 28 April 2023.

If a Non-Viability Trigger Event occurs, the Bank must apply the conditions of ("Write-off"). A Non-Viability Trigger Event occurs if:

a) the Reserve Bank has reasonable grounds to believe that the Bank meets any of the grounds of section 113(a) to (e) of the Reserve Bank Act 1989 requiring the Bank to write off (in whole or in part) a class of capital instrument that includes the Notes; or

b) the Bank is subject to statutory management and the statutory manager decides to write off the Notes (in whole or in part).

Credit risk

a) On-balance sheet exposures

As at 31 December 2019	Total exposure after credit risk mitigation $000	Risk weight %	Risk weighted exposure $000	Minimum Pillar 1 capital requirement $000
Cash and gold bullion	-	-	-	-
Sovereigns and central banks	188,114	0%	-	-
Multilateral development banks and other international organisation	45,094	-	-	-
Public sector entities	-	20%	-	-
Banks	120,540	20%	24,108	1,929
Banks	46,422	50%	23,211	1,857
Banks	-	100%	-	-
Corporate-without recognised mitigation	728,791	100%	728,791	58,303
Residential mortgages (owner occupied) not past due-LVR up to 80%	426,347	35%	149,221	11,938
Residential mortgages (investment) not past due-LVR up to 80%	270,986	40%	108,394	8,672
Past due residential mortgages	-	-	-	-
Other Lending	3,752	100%	3,752	300
Other past due assets	-	-	-	-
Equity holdings (not deducted from capital) that are publicly traded	-	-	-	-
All other equity holdings (not deducted from capital)	-	-	-	-
Other assets	1,870	100%	1,870	150
Non-risk weighted assets	31,501	-	-	-
Total on-balance sheet exposures	**1,863,417**		**1,039,347**	**83,149**

(b) Off-balance sheet exposures and market related contracts

As at 31 December 2019	Total exposure $000	Credit conversion factor $000	Credit equivalent amount $000	Average risk weight %	Risk weighted exposure $000	Minimum Pillar 1 capital requirement $000
Direct credit substitute	89	100%	89	0%	-	-
Revolving underwriting facility	75,002	50%	37,501	100%	37,501	3,000
Performance-related contingency	4,893	50%	2,447	100%	2,447	196
Other commitments where original maturity is more than one year	120,195	50%	60,098	100%	60,098	4,808
Other commitments where original maturity is less than or equal to one year	62,285	20%	12,457	38%	4,685	375
Market related contracts [1]						
(a) Foreign exchange contracts	567,996	NA	33,021	42%	13,869	1,110
(b) Interest rate contracts (exposure more than 1 year and less than or equal to 5 years)	825,942	NA	21,308	54%	11,506	920
(c) Credit valuation adjustment					20,378	1,630
Total off-balance sheet exposures	**1,656,402**		**166,921**		**150,484**	**12,039**

[1] *The credit equivalent amount for market related contracts was calculated using the current exposure method under BS2A and the Bank uses the simple approach for credit risk mitigation with regards to measurement of fair value of collaterals.*

Additional mortgage information

Residential mortgages by loan-to-valuation ratio

As at 31 December 2019	Does not exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
Loan-to-valuation ratio				
On-balance sheet exposures				
Residential mortgages - Owner occupied	426,347	-	-	426,347
Residential mortgages - Investment	270,986	-	-	270,986
Total On-balance sheet exposures	**697,333**	**-**	**-**	**697,333**
Off-balance sheet exposures	62,285	-	-	62,285
Value of exposures	**759,618**	**-**	**-**	**759,618**

The information in the above table is in respect of the total residential mortgage loans used to calculate the Bank's Pillar 1 capital requirement for credit risk, categorised by loan-to-valuation ratio.

Any residential mortgage loan for which no loan-to-valuation ratio is available is included in the category for loan-to-valuation ratios that exceed 90%.

The following table reconciles figures disclosed elsewhere in the Disclosure Statement that relate to mortgages on residential property:

Reconciliation of residential mortgage-related amount

As at 31 December 2019	Note	$000
Total Residential mortgages	**10**	701,487
Reconciling items:		
Less: - Provision for impairment losses on credit exposures	11 (a)	(4,154)
On-balance sheet exposures	11 (a)	**697,333**
Off-balance sheet exposures		**62,285**
Total Residential mortgages exposures		**759,618**

Credit risk mitigation

As at 31 December 2019	Total value of on- and off-balance sheet exposures covered by eligible collateral (after haircutting) $000	Total value of on- and off-balance sheet exposures covered by guarantees or credit derivatives $000
Sovereign or central bank	-	-
Multilateral development bank	-	-
Public sector entities	-	-
Bank	89	-
Corporate	-	-
Residential mortgage	-	-
Other	-	-
Total	**89**	-

Operational risk

As at 31 December 2019	Implied weighted exposure $000	Total operational risk capital $000
Operational risk	138,193	11,055

EY

Market risk

As at 31 December 2019	End-period capital charges Implied risk weighted exposure $000	End-period capital charges Aggregate capital charge $000	Peak end-of-day capital charge Implied risk weighted exposure $000	Peak end-of-day capital charge Aggregate capital charge $000
Interest rate risk	51,319	4,106	53,702	4,296
Foreign currency risk	2,586	207	3,586	287
Equity risk	-	-	-	-
Total	**53,905**	**4,313**	**57,288**	**4,583**

Peak end-of-day aggregate capital charge for each category of market risk is derived by determining the maximum over the 6 month period ended 31 December 2019 of the aggregate capital charge at the close of each business day derived in accordance with Part 10 of the Reserve Bank document BS2A Capital Adequacy Framework (Standardised Approach).

Total capital requirements

As at 31 December 2019	Total exposure after credit risk mitigation $000	Risk weighted exposure or implied risk weighted exposure $000	Total capital requirement $000
Total credit risk + equity	2,030,338	1,189,831	95,186
Operational risk	n/a	138,193	11,055
Market risk	n/a	53,905	4,312
Total	**2,030,338**	**1,381,929**	**110,553**

Capital requirements for other material risks

The Basel III capital adequacy regime intends to ensure that banks have adequate capital to support all material risks inherent in their business activities. Consequently, the Bank's ICAAP captures all material risks that the Bank faces including those not captured by Pillar 1 regulatory capital requirements. These other material risks for the Bank include liquidity and funding risk, strategic and business risk, and reputational risk.

The Bank's internal capital allocation for other material risks for the year ended 31 December 2019 is $53.1 million (31 December 2018: $44.4 million). Since the registration of the Bank, the Board has included an extra 2% capital buffer to cover these risks taking the total capital ratio to a minimum of 12.5%.

Capital ratios of the Bank

As at 31 December	Unaudited 2019 %	Unaudited 2018 %
Capital adequacy ratios		
Common Equity Tier 1 capital ratio	16.30%	20.71%
Tier 1 capital ratio	16.30%	20.71%
Total capital ratio	17.17%	22.16%
Reserve Bank minimum ratio requirements		
Common Equity Tier 1 capital ratio	4.50%	4.50%
Tier 1 capital ratio	6.00%	6.00%
Total capital ratio	8.00%	8.00%
Buffer ratio		
Buffer ratio	9.17%	14.16%
Buffer ratio requirement	2.50%	2.50%

Capital adequacy of Ultimate Parent Bank Group and Ultimate Parent Bank

The Ultimate Parent Bank of the Bank is CCB. The Ultimate Parent Bank Group comprises the Ultimate Parent Bank and its subsidiaries.

From 1 January 2013, in accordance with the China Banking and Insurance Regulatory Commission's ("CBIRC") "Measures for Capital Management of Commercial Banks (Trial)" and relevant regulations, commercial banks should meet the minimum capital requirements of Common Equity Tier 1 ratio at or above a minimum of 5%, Tier 1 ratio at or above a minimum of 6% and total capital ratio at or above a minimum of 8%, in addition to a 2.5% buffer ratio and 1.5% additional capital requirement for global systemically important banks, the additional requirement is for Common Equity Tier 1. If a countercyclical buffer is required or the Pillar 2 capital requirement is raised by the regulator to a specific commercial bank, the minimum requirements should be met within the transitional period.

On 2 April 2014, CBIRC had officially approved the implementation of the advanced approach of capital management by the Overseas Bank. In this approach, the Overseas Bank has elected to use foundation internal rating based ("IRB") approach for corporate risk exposure which is compliant with regulatory requirements, IRB approach for retail risk exposure, internal models approach for market risk and standardised approach for operational risk exposure in the calculation of the relevant capital charges.

Both the Ultimate Parent Bank and the Ultimate Parent Bank Group are required by the China Banking and Insurance Regulatory Commission ("CBIRC") to hold minimum capital at least equal to that specified under the Basel III standardised approach and are required to publicly disclose this capital adequacy information on a quarterly basis. This information is available via the Ultimate Parent Bank's website (www.ccb.com).

The Ultimate Parent Bank and the Ultimate Parent Bank Group each met the capital requirements imposed on them by the CBIRC as at 30 September 2019, the latest reporting date.

The capital ratios below have been calculated in accordance with the Measures for Capital Management of Commercial Banks (Trial), issued by the CBIRC.

As at 30 September	Unaudited 2019 %	Unaudited 2018 %
Ultimate Parent Bank Group		
Common Equity Tier 1 capital ratio	13.96%	13.34%
Tier 1 capital ratio	14.50%	13.92%
Total capital ratio	17.30%	16.23%
Ultimate Parent Bank		
Common Equity Tier 1 capital ratio	13.80%	13.17%
Tier 1 capital ratio	14.32%	13.72%
Total capital ratio	17.24%	16.14%

32. Regulatory Liquidity Ratios

The following table shows the average regulatory liquidity ratios over the three-month period ended on 31 December 2019 and the three month period ended on 30 September 2019.

As at	Reserve Bank minimum ratio requirements	Unaudited 31 Dec 2019 %	Unaudited 30 Sep 2019 %
Liquidity ratios			
The one-week mismatch ratio	0%	8.6%	7.8%
The one-month mismatch ratio	0%	22.7%	21.9%
The core funding ratio	75%	90.9%	96.8%

The average value of a ratio was calculated at the close of each working day in the relevant three-month period in accordance with the Conditions of Registration of the Bank relating to liquidity risk-management, and calculating the arithmetic average of all of the daily ratio figures.

33. Events subsequent to the reporting date

Subsequent to the reporting date, the Coronavirus (“COVID-19”) outbreak has impacted the global economy. The impact on local and international businesses will depend on the effectiveness of containment of the pandemic, its duration and the implementation of related regulatory policies.

The expected credit loss at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. The Bank will continue to closely monitor the developments of COVID-19 and actively manage the impact on the Bank’s financial position and performance. At this date, this evaluation is a subject of close attention but it is too early to assess the impact on the Bank. The Bank considers that it has adequate liquidity, funding and capital to manage through a period of uncertainty.

On 16th March 2020, Official Cash rate (OCR) published by the Reserve Bank of New Zealand reduced from 1% to 0.25% and will remain at this level for at least the next 12 months.

There were no other material events that occurred subsequent to the reporting date which require recognition or additional disclosure.

Abbreviations

ALCO	Asset and Liability committee
ANZSIC	Australia and New Zealand Standard Industrial Classifications
BARC	Board Audit and Risk Committee
CBIRC	China Banking and Insurance Regulatory Commission
CBRC	China Banking Regulatory Commission
CET1	Common Equity Tier 1
CFP	Contingency funding plan
EAD	Exposure at default
ECL	Expected credit loss
EWI	Early warning indicator
FC	Foreign Currency
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
ICAAP	Internal capital adequacy assessment process
IRB	Internal rating based
IRRBB	Interest rate risk in the Banking book
ISDA	International swap dealers association
LGD	Loss given default
LVR	Loan-to-valuation ratio
NII	Net interest income
NZ GAAP	New Zealand Generally Accepted Accounting Principles
NZ IAS	New Zealand equivalent to International Accounting Standards
NZ IFRS	New Zealand equivalent to International Financial Reporting Standards
PD	Probability of default
POCI	Purchased and originated credit impaired
RBNZ	Reserve Bank of New Zealand
RMB	Chinese Yuan Renminbi
SICR	Significant increase in credit risk
VaR	Value at risk

Deed of Guarantee

Date: 30 May 2014

PARTIES

China Construction Bank Corporation, a body corporate constituted under The
Company Law of PRC and Law of the PRC on Commercial Banks, having its registered office at No. 25, Financial Street, Xicheng District, Beijing 100033, China (the Bank)

CCB New Zealand Limited, a Company incorporated in New Zealand having its registered office at C/- Minter Ellison Rudd Watts, 88 Shortland Street, Auckland, 1010, New Zealand (CCB NZ)

BACKGROUND

A The shares in CCB NZ are held by the Bank.

B The Bank has agreed to give the Guarantee to the Creditors as an unconditional guarantee for the benefit of the Creditors of all the present and future obligations of CCB NZ.

BY THIS DEED the parties agree as follows:

1 **DEFINITIONS AND INTERPRETATION**

1.1 **Defined terms**
In this Deed and the Recitals, unless the context otherwise requires:

Authorised Person means in relation to any Person:

(a) who is not a natural person, an individual who is a director thereof or another officer who has been expressly authorised to carry out tasks in connection with the Obligations; or

(b) who is a natural person, that person or his/her duly authorised representative.

Business Day means any day, other than a Saturday or Sunday or public holiday, on which banks are open for general business in Wellington and Auckland.

Creditor means each and any Person to whom an Obligation is due and owed by CCB NZ during the term of the Guarantee.

Guarantee means the guarantee by the Bank for the benefit of the Creditors pursuant and subject to the terms and conditions of this Deed.

Guaranteed Amount means, in relation to a claim made by any Creditor, the amount stated in a Creditors Demand in accordance with the procedure set out under clause 3 .2.

Immediate Termination Event means the occurrence of any of following events:

(a) any substantial asset of, or any share in the issued capital of, CCB NZ is expropriated or nationalized by the Government of New Zealand or by any sub-division, agency or department thereof;

(b) any change in any law or regulation in any jurisdiction which renders this Guarantee illegal or inoperative in New Zealand; or

(c) CCB NZ ceasing to be a wholly owned subsidiary (as that term is defined in the Companies Act 1993) of the Bank.

Obligation means a legally enforceable, claim, liability or obligation of CCB NZ to a Creditor ranking at least pari passu with the claims of unsecured creditors of CCB NZ, provided that an "Obligation" shall not include any claim, liability or obligation:

(a) in respect of special, exemplary or punitive damages; and/or

(b) for the payment of taxes, levies, rates, imposts, duties or similar government charges; and/or

(c) which is subject to a bona fide dispute; and/or

(d) in respect of which the Creditor has not submitted proper proof or other documents and security in accordance with this Deed so as to enable CCB NZ to discharge such claim, liability or obligation; and/or

(e) in respect of a contingent liability; and/or

(f) which is barred by the laws of limitation or such similar laws.

Person means any person, firm, partnership, body corporate, trust, estate, corporation, association, co-operative, government or governmental agency.

Rating Agency means, at the date of this Deed, Standard & Poor's (Australia) Pty Limited, any successor thereto and includes from time to time, such other reputable internationally recognised securities rating agency as CCB NZ may wish to designate.

1.2 *Words importing the singular number or plural number shall include the plural number and singular number respectively. Words importing any gender shall include every gender.*

1.3 *References to laws, statutes or legislation are to the laws, statues or legislation for the time being in force in New Zealand, unless the contrary appears from the context of this Deed.*

2 **GUARANTEE**

2.1 *The Bank hereby irrevocably and unconditionally guarantees for the benefit of each Creditor the due and punctual payment by CCB NZ of each and every Obligation (whether at stated maturity or upon acceleration) now owing or to become owing by CCB NZ to the Creditor during the term of the Guarantee to the intent that should CCB NZ default in the due and punctual payment of any such Obligation, the Bank shall, upon written demand by the relevant Creditor under clause 3.2, forthwith pay or cause to be paid to the Creditor the Guaranteed Amount together with all costs and expenses incurred by the Creditor in enforcing the Guarantee.*

2.2 *The Guarantee is a continuing guarantee and shall not be considered as satisfied by any intermediate payment and shall remain in force until the termination or expiry of the Guarantee.*

2.3 *Subject to the terms of this Deed, neither the liability of the Bank, nor any of the rights of any Creditor, under the Guarantee shall be affected or discharged by anything which, but for this clause, might operate to affect or discharge the liability of, or otherwise provide a defence to, the Bank (whether or not known to, or done or omitted to be done by, the Bank).*

2.4 *The Bank's obligations under this Guarantee shall rank at all times at least pari passu with all its other present and future unsecured creditors, except indebtedness preferred solely by operation of law.*

2.5 *Notwithstanding clause 2.2, a Creditor may at any time by an instrument in writing, release the Bank from its liability under the Guarantee in relation to that Creditor. In addition, the Guarantee shall not apply to an Obligation if the terms of the Obligation expressly provide in writing that the Obligation will not have the benefit of the Guarantee.*

3 **DEMAND AND PAYMENT**

3.1 *A Creditor shall be entitled to make a demand under this Deed if and only if:*

(a) the Creditor has served written demand (a Primary Demand) on CCB NZ with proper proof for the payment of an Obligation which remains unpaid beyond its due date; and

(b) the Creditor has complied with all of the requirements of CCB NZ, including with regard to documentation and security, and the Primary Demand remains unsatisfied in whole or in part for a period of five (5) Business Days after service of the Primary Demand on CCB NZ in accordance with this Deed.

3.2 *A demand by a Creditor under this Deed (a Creditors Demand) shall be served on the Bank and shall be accompanied by a statutory declaration made by the Creditor or by an Authorised Officer of the Creditor stating:*

(a) the residency and place of business of the Creditor;

(b) that CCB NZ has failed to meet an Obligation;

(c) that a Primary Demand in respect of that Obligation has been given to CCB NZ (accompanied by a verified copy of that Primary Demand);

(d) that the Primary Demand has remained unsatisfied for a period of five (5) Business Days as stated in clause 3.l(b);

(e) brief particulars of the nature of that Obligation (accompanied by a verified copy of any document giving rise to that Obligation);

(f) that the Obligation ranks at least pari passu with the claims of unsecured creditors of CCB NZ generally;

(g) the outstanding amount and currency of that Obligation; and

(h) that there is no bona fide dispute relating to that Obligation.

3.3 *Service of the Creditors Demand and all accompanying documents under clause 3.2 on the Bank shall constitute a written demand by the Creditor under clause 2.1.*

4 **PAYMENTS**

4.1 *All payments by the Bank under this Deed shall be made in the currency or currencies in which the relevant Obligation is denominated.*

4.2 *All payments by the Bank under this Deed shall be made to a Creditor free and clear of and without deduction for or on account of, except to the extent required by law, any present or future taxes, levies, impost, duties, charges, fees, deductions or withholdings of any nature and whatever called (excluding taxes on overall net income) imposed, levied, collected, withheld or assessed by or on behalf of New Zealand or any political subdivision or any authority thereof or therein having power to tax (Taxes).*

4.3 *If any withholding or deduction for or on account of any Tax (a Tax Deduction) is required by law to be made by the Bank from a payment to a Creditor under this Deed, the Bank shall pay such additional amounts in order that (after making any Tax Deduction) the Creditor receives an amount equal to the payment which would have been due if no Tax Deduction had been required. No increased payment will be required under this clause in respect of a payment of any Guaranteed Amount if, had that Guaranteed Amount been paid by CCB NZ, no increased payment would have been payable by CCB NZ in respect of any deduction or withholding for or on account of any Tax.*

4.4 *In determining and making any payment the Bank shall be entitled to deduct the amounts (if any) which the Bank is entitled in law or in equity to set-off or counterclaim against the Creditor to whom the Obligation is owed and the amounts (if any) which CCB NZ could have set-off or counterclaimed in law or in equity against the Creditor to whom such Obligation is owed.*

5 **REPRESENTATIONS**

5.1 The Bank represents and warrants that:

(a) it is a registered bank duly organised and validly existing under the laws of China;

(b) it has the corporate power to enter into this Deed and to perform the obligations imposed upon it under this Deed in accordance with its terms; and

(c) this Deed constitutes a valid, binding and enforceable obligation upon it.

6 **TERMINATION OF GUARANTEE**

6.1 The Bank may terminate the Guarantee for any reason by notice in writing to CCB NZ. The Bank will promptly provide a copy of such notice to each Rating Agency. Such termination shall take effect on the date described in clause 6.2, but

6.2 On receipt of a notice of termination under clause 6.1, CCB NZ shall give notice to the Creditors of:

(a) the termination of the Guarantee; and

(b) the date of termination, which shall be:
   (i) in the case of an Immediate Termination Event, immediately on the giving notice to the Creditors in accordance with clause 9.1; and
   (ii) in the case of any event other than an immediate Termination Event, not less than three (3) months after the giving notice to the Creditors in accordance with clause 9.1, (being, in each case, the Termination Date).

6.3 Any termination of the Guarantee as contemplated by this clause 6 must be on terms that:

(a) the Guarantee shall remain in place for the benefit of each Creditor that is owed Obligations as at the Termination Date, but only in relation to, and to the extent of, those Obligations; and

(b) the Guarantee shall terminate, in relation to each Creditor referred to in sub- clause (a) above, at such time as those Obligations existing as at the Termination Date in favour of the relevant Creditor have been satisfied in full (whether by action taken by the Bank, CCB NZ, the relevant Creditor or by operation of law).

7 **SUBROGATION**

The Bank and CCB NZ expressly agree that the Bank is and shall be entitled to all the rights and remedies of a guarantor under law including, without limiting the generality of the foregoing, all rights of subrogation which shall accrue to the Bank by virtue of any payment hereunder by the Bank to or for the benefit of any Creditor and, subject to the law, the Bank shall be entitled to claim the benefit of and participate in any security now or hereafter held by that Creditor from CCB NZ either in whole or upon a pro-rata basis, as the case may be, where the Bank has paid all moneys to or for the benefit of that Creditor under this Deed. Notwithstanding the generality of the foregoing, the Bank shall not exercise or seek to enforce any claim against CCB NZ (whether or not in liquidation) for reimbursement to the Bank of any moneys paid pursuant to this Deed by the Bank to a Creditor in respect of an Obligation until the default of CCB NZ in respect of that Obligation has been fully remedied by CCB NZ or the Bank.

8 **DEALINGS BETWEEN THE BANK AND THE CREDITORS**

8.1 After receipt of a written demand from a Creditor under clause 3.2 the Bank and that Creditor shall deal with one another as principal in relation to all matters under or in relation to this Deed, the Guarantee and CCB NZ.

8.2 Without limiting the generality of clause 9, the Bank shall be and is entitled to serve any notice, demands or statements in connection with this Deed upon that Creditor (at its place of business specified in the Creditor's Demand) and the Bank shall be and is entitled to make any payment which it is liable to pay to the Creditor under this Deed directly to that Creditor and not through any other Person.

9 **NOTICES**

9.1 Any notice to the Creditors generally in respect of this Deed will be validly given if published in a newspaper circulating generally throughout New Zealand. Any such notice shall be deemed to have been given on the date of publication or, if published more than once, on the date of first publication.

9.2 Any notice, demand, statement or other document required to be served on or delivered to the Bank or CCB NZ under or in relation to this Deed (Notice) shall be in writing signed by the party giving the Notice or by an Authorised Officer of that party, shall be made, served or given (subject in the case of the Bank to clause 12.2) by being left at or sent by prepaid mail or by facsimile (if applicable) as follows:

China Construction Bank Corporation
No. 25, Financial Street
Xicheng District
Beijing 100033
China

Attention: International Business Department

CCB New Zealand Limited
C/ - Minter Ellison Rudd Watts
88 Shortland Street
Auckland 1010
New Zealand

Attention: Managing Director

or to such other address or such facsimile number as shall have been notified (in accordance with this clause) to the Creditors and/or the other party hereto. No Notice shall be deemed to have been received by the Bank or CCB NZ until actually received by the relevant party to whom it is addressed at its designated address.

10 **NOTICES**

10.1 Any provision of this Deed may be amended or supplemented by agreement in writing between the Bank and CCB NZ after having given prior notice to each Rating Agency. No further consent from the Creditors shall be required to any such amendment or supplement provided that notice of any such amendment or supplement shall be given to the Creditors in accordance with clause 9.1.

10.2 Any provision of this Deed may be amended or supplemented by agreement in writing between the Bank and CCB NZ after having given prior notice to each Rating Agency. No further consent from the Creditors shall be required to any such amendment or supplement provided that notice of any such amendment or supplement shall be given to the Creditors in accordance with clause 9.1.

10.3 Any amendment or supplement made pursuant to clause 10.1 shall become effective on the later of the date that the relevant documentation is signed and the date upon which notice is deemed to be given to the Creditors pursuant to clause 9.1. Any waiver or consent shall become effective on the date that waiver or consent is given in writing. In each case, the Bank shall cause a duly executed original of the document evidencing the relevant amendment, supplement, waiver or consent to be deposited with the original of this Guarantee.

11 **ASSIGNMENT**

11.1 The Bank may not assign or transfer all or any of its rights and obligations under or in relation to this Deed, without first having given prior notice to each Rating Agency. No consent from the Creditors shall be required to any such assignment or

11.2 No Creditor may assign or transfer its rights or obligations hereunder without the prior written consent of the Bank.

12 **GOVERNING LAW**

12.1 This Deed shall be governed by and construed in accordance with the laws for the time being in force in New Zealand. The Bank and CCB NZ each hereby submit, for the purposes of this Deed, to the non-exclusive jurisdiction of the Courts of New Zealand in respect of all legal actions arising under or in relation to this Deed.

12.2 The Bank hereby irrevocably appoints CCB NZ (and CCB NZ hereby accepts such appointment) to be the agent of the Bank to accept service of process on behalf of the Bank in respect of all matters in New Zealand arising under or in relation to this Deed and the Bank agrees that any such process shall be properly served upon the Bank if delivered to CCB NZ at its address for the service of Notices set out in clause 9.2.

13 **DELIVERY**

13.1 Without limiting any other mode of delivery, this Deed will be delivered by each of the parties to this Deed immediately on the earlier of:

(a) physical delivery of an original to this Deed, executed by that party, into the custody of each of the other parties or its solicitors; or

(b) transmission by that party or its solicitors (or any other person authorised in writing by that party) of a facsimile, photocopied or scanned copy of an original of this Deed, executed by that party, to each of the other parties or its solicitors.

EXECUTION as a Deed

Signed by **China Construction Bank Corporation**

张建国

President

Signed by **CCB New Zealand Limited**

徐生宏

Director

in the presence of:

Witness

Name: ANDREW POOLE

Occupation: LAWYER

Address: 25 ALBERT ST
AUCKLAND CITY.

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Independent auditor's report to the Shareholder of China Construction Bank (New Zealand) Limited

Report on the audit of the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

Opinion

We have audited the financial statements required by Clause 24 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) ("the Order") and the supplementary information required by Schedules 4, 7, 13 to 15 and 17 of the Order of China Construction Bank (New Zealand) Limited (the "Bank") as included on pages 15 to 70 of the Disclosure Statement. The financial statements and supplementary information comprise:

- the balance sheet of the Bank as at 31 December 2019;
- the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended of the Bank;
- the notes to the financial statements including a summary of significant accounting policies; and
- the supplementary information required by Schedules 4, 7, 13 to 15 and 17 of the Order.

In our opinion, the financial statements on pages 15 to 70 (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 13 to 15 and 17 of the Order and included within notes 11 and 26 to 32) give a true and fair view of the financial position of the Bank as at 31 December 2019 and its financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

In our opinion, the supplementary information disclosed in accordance with Schedules 4, 7, 13 to 15 and 17 of the Order and included within Notes 11 and 26 to 32 fairly states, in all material respects, the matters to which it relates in accordance with those schedules.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements) section of our report.

We are independent of the Bank in accordance with Professional and Ethical Standard 1 (revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Partners and employees of our firm may deal with the Bank on normal terms within the ordinary course of trading activities of the business of the Bank. We have no other relationship with, or interest in, the Bank.

Emphasis of matter – subsequent events

We draw attention to Note 33 to the financial statements, which explains that the Bank has considered the potential impacts of the novel coronavirus disease ("COVID 19") pandemic on its current and future business. The recorded impairment losses on credit exposures and other judgments and estimates at 31 December 2019 are based on information and expectations, including the economic conditions prevailing, at that date and so do not take account of any impact of the pandemic. The impact of COVID 19 on the Bank, its asset quality and estimates for impairment losses on credit exposures are uncertain and may significantly impact the financial position and financial performance of the Bank. Our opinion is not modified in respect of this matter.

Other matter

The financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements) of the Bank for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 12 March 2019.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements) section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Impairment losses on credit exposures for corporate exposures

Why significant	How our audit addressed the key audit matter
As described in Note 5 Impairment losses on credit exposures and Note 10 Loans and advances, impairment losses on loans and advances are determined under application of	Our audit procedures included the following:

New Zealand Equivalent to International Financial Reporting Standard 9 Financial Instruments (“NZ IFRS 9”).

This was a key audit matter due to the size of total impairment losses on loans and advances, and the degree of judgement and estimation uncertainty associated with the calculations.

Key areas of judgement included:

- the application of the impairment requirements under NZ IFRS 9 within the Bank’s expected credit loss methodology;
- the identification of exposures with a significant deterioration in credit quality;
- the assumptions used in the expected credit loss model (for exposures assessed on an individual or collective basis); and
- the incorporation of forward-looking information to reflect current or future external factors (e.g. gross domestic product).

We assessed:

- the alignment of the Bank’s expected credit loss model and its underlying methodology with the requirements of NZ IFRS 9;
- the approach determined by the Bank for the incorporation of forward-looking macroeconomic factors;
- the effectiveness of relevant controls relating to the:
  - capture of data used to determine the total impairment losses on loans and advances, including transactional data captured at loan origination and ongoing internal credit quality assessments; and
  - expected credit loss model, including functionality, ongoing monitoring/validation and model governance.
- the accuracy and completeness of the loan data and appropriateness of the calculation methodology used in the expected credit loss model.
- significant modelling assumptions for exposures evaluated on a collective basis, with a focus on the sensitivity of the collective provisions to changes in modelling assumptions.

We examined a sample of exposures and evaluated the credit quality and expected credit loss calculation for these exposures.

We considered the adequacy and appropriateness of the disclosures related to impairment losses within the Disclosure Statement.

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We involved our Actuarial and IT specialists in the performance of these procedures where their specific expertise was required.

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

The directors of the Bank are responsible for the Disclosure Statement, which includes information other than the financial statements, the supplementary information required by Schedules 4,7, 13 to 15 and 17 of the Order and our auditor’s report.

Our opinion on the financial statements and supplementary information does not cover the other information and we do not express any form of assurance conclusion thereon except as otherwise stated.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or supplementary information or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed, 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.

Directors’ responsibilities for the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

The directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the financial statements in accordance with Clause 24 of the Order, New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the supplementary information in the Disclosure Statement which complies with Clause 24 and Schedules 2, 4, 7, 13 to 15 and 17 of the Order.

In preparing the financial statements, the directors are responsible for assessing the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or cease operations, or have no realistic alternative but to do so.

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Auditor's responsibilities for the audit of the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole and the supplementary information (excluding supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in Notes 31 and 32) disclosed in accordance with Clause 24 and Schedules 4, 7, 13 to 15 and 17 of the Order are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/. This description forms part of our auditor's report.

Report on the other legal and regulatory requirements (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements)

We also report in accordance with the requirements of Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the financial statements and supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in Notes 31 and 32) for the year ended 31 December 2019:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by the Bank, as far as appears from our examination of those records.

Report on the review of supplementary information relating to capital adequacy and regulatory liquidity requirements

We have reviewed the supplementary information relating to capital adequacy and regulatory liquidity requirements required by Schedule 9 of the Order as disclosed in Notes 31 and 32 of the financial statements of the Bank for the year ended 31 December 2019.

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to capital adequacy (disclosed in Note 31) and regulatory liquidity requirements (disclosed in Note 32) is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

Basis for Conclusion

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

A review of the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in Notes 31 and 32 in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly, we do not express an audit opinion on the supplementary information relating to capital adequacy and regulatory liquidity requirements disclosed in Notes 31 and 32.

Directors' responsibility for the supplementary information relating to capital adequacy and regulatory liquidity requirements

The directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the supplementary information relating to capital adequacy and regulatory liquidity requirements in accordance with Schedule 9 of the Order. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of the supplementary information relating to capital adequacy and regulatory liquidity requirements that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the supplementary information relating to capital adequacy and regulatory liquidity requirements

As the auditor of the Bank, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Our responsibility in relation to supplementary information relating to capital adequacy (disclosed in Note 31) and regulatory liquidity requirements (disclosed in Note 32) that is required to be disclosed by Schedule 9 of the Order is to express a conclusion as to whether, on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

The engagement partner on the audit resulting in this independent auditor’s report is Emma Winsloe.

Ernst + Young

Chartered Accountants
Auckland
27 March 2020