



China Construction Bank (New Zealand) Limited

**Disclosure Statement
for the period ended
30 September 2015**

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1. GENERAL INFORMATION AND DEFINITIONS

This is the off quarter Disclosure Statement of China Construction Bank (New Zealand) Limited and is for the period ended 30 September 2015. Certain information contained in this Disclosure Statement is required by section 81 of the Reserve Bank of New Zealand Act 1989 ("Reserve Bank Act") and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

In this Disclosure Statement:

- the "Bank" and "CCB NZ" mean China Construction Bank (New Zealand) Limited, previously known as CCB New Zealand Limited;
- "Banking Group" means 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;
- "Board" means the Board of Directors of the Bank; and
- "Reserve Bank" means the Reserve Bank of New Zealand.

Words and phrases not defined in this Disclosure Statement, but defined by the Order, have the meaning given by the Order when used in this Disclosure Statement. All amounts referred to in this Disclosure Statement are in thousands of New Zealand Dollars unless otherwise stated.

Disclosure Statements of the Bank are available, free of charge, at the internet address <http://nz.ccb.com>. A printed copy will also be made available, free of charge, upon request and will be dispatched by the end of the second working day after the day on which the request is made.

2. GENERAL MATTERS

2.1 Registered Bank

CCB 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 and changed its name to China Construction Bank (New Zealand) Limited (the "Bank").

The Bank's registered office and address for service is Vero Centre, 48 Shortland Street, Auckland 1010, New Zealand. The Bank's website address is: <http://nz.ccb.com>.

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 is incorporated in China and is subject to regulatory oversight by the China Banking Regulatory Commission (the "CBRC") and the Government of the People's Republic of China ("China"). The address for service of CCB is No. 25, Financial Street, Xicheng District, Beijing 100033, the People's Republic of China.

At 30 September 2015, the Ultimate Parent Bank has a direct qualifying interest in 100% of the voting securities of the Bank. In addition, the Ultimate Parent Bank is able 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.

2.2 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.

3. DIRECTORATE

3.1 Directors

The Directors of the Bank at the date when this Disclosure Statement was signed were Jenny Shipley, John Shewan, Qixin Wang, Xu Changning, Michael Allen and Yangtong Jin.

Michael Allen was appointed as a director of the Bank with effect from 1 July 2015.

Yangtong Jin was appointed as a director of the Bank with effect from 22 October 2015.

There have been no other changes to the Board of Directors since the signing of the 31 December 2014 Disclosure Statement.

3.2 Responsible person

All the Directors named above have authorised in writing Mr Xu Changning (Executive Director) to sign this Disclosure Statement on their behalf in accordance with section 82 of the Reserve Bank Act.

3.3 Address for communications

All communications may be sent to the Directors and the Responsible Person at the registered office of the Bank, PO Box 305, Shortland Street, Auckland 1140, New Zealand.

4. 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.

5. 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.

6. CREDIT RATINGS

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

| | Standard & Poor's Ratings Services | Moody's Investors Service |
|--------------------------|------------------------------------|---------------------------|
| Long-term credit rating | A | A1 |
| Short-term credit rating | A-1 | P-1 |
| Outlook | Stable | Stable |

There have been no changes to the above credit ratings or rating outlooks since the ratings obtained on 15 July 2014 from Standard & Poor's and 30 April 2015 from Moody's respectively.

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.

7. GUARANTEE ARRANGEMENTS

7.1 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, the Ultimate Parent Bank.

A copy of the Deed of Guarantee given by CCB is provided in the Bank's Disclosure Statement for the period ended 31 December 2014. A copy of the Disclosure Statement can be obtained from the Bank's website <http://nz.ccb.com>.

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.

7.2 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 commenced to implement the advanced measurement approaches for capital management from April 2014. As disclosed in CCB's unaudited consolidated results for the period ended 30 September 2015, considering relevant rules in the transition period, CCB Group's total capital for capital adequacy purposes was RMB 1,597,082 million (NZD 396,377 million) and its total capital ratio was 14.97%. The

capital ratio was calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* promulgated by the CBRC in June 2012.

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

| Rating agency | Current credit rating | Rating outlook |
|------------------------------------|-----------------------|----------------|
| Standard & Poor's Ratings Services | A | Stable |
| Moody's Investors Service | A1 | Stable |
| Fitch Ratings | A | Stable |

There have been no changes to any of the above CCB credit ratings or rating outlooks in the two years prior to 30 September 2015.

8. 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.

The contingent liabilities of the Bank are set out in Note 16 *Commitments and contingent liabilities* of the financial statements for the period ended 30 September 2015 included within this Disclosure Statement.

9. CONDITIONS OF REGISTRATION

During the reporting period no changes were made to the conditions of registration.

The Reserve Bank amended the Bank's conditions of registration with effect from 1 November 2015. The detail of changes is set out in Note 21 *Events subsequent to the reporting date* of the financial statements for the period ended 30 September 2015 included within this Disclosure Statement.

Non-compliance with Conditions of Registration

Between 29 January 2015 and 9 February 2015, the Bank's exposure to CCB Group exceeded the maximum of 40% of tier one capital as determined in accordance with the Reserve Bank document entitled "Connected Exposures Policy" (BS8). The breach was for a period of 12 days with a maximum percentage of 41.6%. The Bank disclosed this to the Reserve Bank immediately and took urgent action to return the ratio under 40%. The Reserve Bank notified the Bank that because of the limited duration and amount of the breach no further action will be taken.

10. PRIORITY OF CREDITORS' CLAIMS

In the unlikely event that the Bank is put into liquidation or ceased 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.

11. OTHER MATERIAL MATTERS

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

12. AUDITOR

The name and address of the Bank's auditor is PricewaterhouseCoopers ("PwC"), 188 Quay Street, Auckland 1142, New Zealand.

13. 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 period ended 30 September 2015:

- (a) the Bank has complied with all conditions of registration, except as disclosed on page 5 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 26 November 2015 and has been signed by Mr Xu Changning as the responsible person for and on behalf of all the Directors (by Directors' resolution):



Mr Xu Changning
Executive Director

APPENDIX - FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 September 2015

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STATEMENT OF COMPREHENSIVE INCOME

| For the period ended | Note | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 |
|---|----------|--|--|
| Interest income | 2 | 3,824 | 912 |
| Interest expense | 2 | (1,755) | (28) |
| Net interest income | 2 | 2,069 | 884 |
| Non-interest (expense)/income | 3 | (193) | 1 |
| Net operating income | | 1,876 | 885 |
| Operating expenses | 4 | (5,274) | (731) |
| Impairment losses on loans and advances | 5 | (289) | - |
| (Loss)/Profit before income tax | | (3,687) | 154 |
| Income tax expense | | - | - |
| (Loss)/Profit after income tax | | (3,687) | 154 |
| 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 | | - | - |
| Total other comprehensive income, net of tax | | - | - |
| Total comprehensive (loss)/income | | (3,687) | 154 |

The notes to the financial statements form part of, and should be read in conjunction with, these financial statements.

STATEMENT OF CHANGES IN EQUITY

| For the period ended 30 September 2015 (Unaudited) | Note | Share Capital \$000 | Accumulated Losses \$000 | Total \$000 |
|--|------|------------------------|-----------------------------|----------------|
| Balance at the beginning of the period | | 58,630 | (707) | 57,923 |
| Loss after income tax | | - | (3,687) | (3,687) |
| Other comprehensive income | | - | - | - |
| Total comprehensive loss for the period | | - | (3,687) | (3,687) |
| Transactions with owners: | | | | |
| Ordinary share capital issued | | - | - | - |
| Dividends paid on ordinary shares | | - | - | - |
| Balance as at 30 Sep 2015 | | 58,630 | (4,394) | 54,236 |

| For the period ended 30 September 2014 (Unaudited) | Note | Share Capital \$000 | Accumulated Profits \$000 | Total \$000 |
|--|------|------------------------|------------------------------|----------------|
| Balance at the beginning of the period | | - | - | - |
| Profit after income tax | | - | 154 | 154 |
| Other comprehensive income | | - | - | - |
| Total comprehensive income for the period | | - | 154 | 154 |
| Transactions with owners: | | | | |
| Ordinary share capital issued | | 58,630 | - | 58,630 |
| Dividends paid on ordinary shares | | - | - | - |
| Balance as at 30 Sep 2014 | | 58,630 | 154 | 58,784 |

The notes to the financial statements form part of, and should be read in conjunction with, these financial statements.

BALANCE SHEET

| As at | Note | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 | Audited 31 December 2014 \$000 |
|--|------|---|---|--------------------------------------|
| Assets | | | | |
| Cash and balances with central banks | | - | - | - |
| Due from other financial institutions | 6 | 26,193 | 58,997 | 75,550 |
| Trading securities | | - | - | - |
| Derivative financial assets | | 2,635 | - | - |
| Available-for-sale securities | | - | - | - |
| Loans and advances | 7 | 291,444 | 9,401 | 3,825 |
| Due from related parties | 13 | 422 | - | 11,882 |
| Other assets | | 19 | 140 | 210 |
| Property, plant and equipment | 9 | 2,530 | 665 | 830 |
| Intangible assets | | 54 | 55 | 52 |
| Deferred tax assets | | - | - | - |
| Total assets | | 323,297 | 69,258 | 92,349 |
| Liabilities | | | | |
| Due to other financial institutions | 10 | 12,907 | 9,502 | 33,166 |
| Trading liabilities | | - | - | - |
| Derivative financial liabilities | | 160 | - | - |
| Deposits from customers | 11 | 60,207 | - | 501 |
| Debt securities issued | 12 | 105,405 | - | - |
| Due to related parties | 13 | 89,630 | 972 | 616 |
| Other liabilities | | 752 | - | 143 |
| Total liabilities | | 269,061 | 10,474 | 34,426 |
| Shareholder's equity | | | | |
| Share capital | | 58,630 | 58,630 | 58,630 |
| Accumulated (losses)/profits | | (4,394) | 154 | (707) |
| Available-for-sale revaluation reserve | | - | - | - |
| Cash flow hedge reserve | | - | - | - |
| Total shareholder's equity | | 54,236 | 58,784 | 57,923 |
| Total liabilities and shareholder's equity | | 323,297 | 69,258 | 92,349 |
| Total interest earning and discount bearing assets | | 318,343 | 68,398 | 91,080 |
| Total interest and discount bearing liabilities | | 266,157 | 9,502 | 33,646 |

The notes to the financial statements form part of, and should be read in conjunction with, these financial statements.

CASH FLOW STATEMENT

| For the period ended | Note | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 |
|--|------|--|--|
| Cash flows from operating activities | | | |
| Interest received | | 3,231 | 787 |
| Interest paid | | (924) | - |
| Non-interest expenses paid /income received | | (945) | 2 |
| Operating expenses paid | | (4,843) | (715) |
| Income taxes paid | | - | - |
| Net cash flows from operating activities before changes in operating assets and liabilities | | (3,481) | 74 |
| Net changes in operating assets and liabilities: | | | |
| Net decrease/(increase): | | | |
| GST receivable | | 88 | (139) |
| Other assets | | 103 | - |
| Loans and advances | | (287,158) | (9,360) |
| Due from related parties | | 11,853 | - |
| Net increase/(decrease): | | | |
| Due to other financial institutions | | (20,240) | 9,473 |
| Other liabilities | | 234 | - |
| Deposits from customers | | 59,395 | - |
| Net changes in operating assets and liabilities | | (235,725) | (26) |
| Net cash flows used in operating activities | 15 | (239,206) | 48 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (1,869) | (680) |
| Purchase of intangible assets | | (11) | (56) |
| Net cash flows used in investing activities | | (1,880) | (736) |
| Cash flows from financing activities | | | |
| Issue of ordinary share capital | | - | 58,630 |
| Net increase in due to related parties | | 88,940 | 972 |
| Net increase in debt issues | | 103,625 | - |
| Interest paid on financing activities | | (286) | - |
| Net cash flows provided by financing activities | | 192,279 | 59,602 |
| Net (decrease)/increase in cash and cash equivalents | | (48,807) | 58,914 |
| Cash and cash equivalents at beginning of the period | | 75,414 | - |
| Cash and cash equivalents at end of the period | | 26,607 | 58,914 |
| Cash and cash equivalents at end of the period comprise: | | | |
| Due from other financial institutions (call or original maturity of 3 months or less) excluding interest receivable ⁽¹⁾ | | 26,185 | 58,914 |
| Due from related parties | | 422 | - |
| Cash and cash equivalents at end of the period | | 26,607 | 58,914 |

(1) The amount 'Due from other financial institutions (call or original maturity of 3 months or less) excluding interest receivable' above does not equal the 'Due from other financial institutions' on the balance sheet due to accrued interest of \$8k as at 30 September 2015 and \$83k as at 30 September 2014 respectively.

The notes to the financial statements form part of, and should be read in conjunction with, these financial statements.

1. STATEMENT OF ACCOUNTING POLICIES

1.1 Reporting Entity

The reporting entity is China Construction Bank (New Zealand) Limited (the "Bank"). It became a registered bank on 15 July 2014 and changed its name from CCB New Zealand Limited to China Construction Bank (New Zealand) Limited on the same date. The Bank does not prepare group financial statements as it does not have any subsidiaries. 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. The Bank's registered office and address for service and principal place of business is Vero Centre, 48 Shortland Street, Auckland 1010, New Zealand.

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

The financial statements are for the period ended 30 September 2015 and have been prepared in accordance with the requirements of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"). They were approved for issue by the Board of Directors of the Bank (the "Board") on 26 November 2015.

1.2 Basis of Preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP") as appropriate for profit-oriented entities. These financial statements have also been prepared in accordance with NZ IAS 34 *Interim Financial Reporting* and should be read in conjunction with the Disclosure Statement for the period ended 31 December 2014. These financial statements comply with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

The financial statements have been prepared in accordance with the historical cost basis except that the following assets and liabilities are stated at their fair value:

- Derivative financial instruments, including in the case of fair value hedging, the fair value adjustment on the underlying hedged exposure;
- Available-for sale financial assets;
- Financial instruments held for trading; and
- Financial instruments designated at fair value through profit or loss.

Amendments to NZ IAS 32 *Financial Instruments: Presentation* ("NZ IAS 32") – *Offsetting Financial Assets and Financial Liabilities* was issued in February 2012 and effective from 1 January 2015. The Bank has applied the amendment for the preparation of these financial statements. The amendment provides guidance to applying the offsetting criteria provided in NZ IAS 32, including clarifying that the meaning of 'current legal enforceable rights of set off' is legally enforceable in all circumstances and that some gross settlement systems (such as through a clearing house) may be considered as the equivalent to net settlement. The amendment does not have a material impact on the financial statements of the Bank.

1.3 Presentation currency and rounding

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). All amounts contained in the financial statements are presented in thousands of New Zealand Dollars, which is the Bank's functional and presentation currency, unless otherwise stated.

1.4 Particular accounting policies

The same accounting policies and methods of computation have been followed in preparing these financial statements as were used in preparing the Disclosure Statement for the period ended 31 December 2014.

1.5 Comparative information

The comparative periods ended 30 September 2014 and 31 December 2014 only cover the periods beginning from 30 January 2014 when the Bank was incorporated.

1.6 Changing in accounting policies

These have been no changes to accounting policies in the period ended 30 September 2015.

2. NET INTEREST INCOME

| For the period ended | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 |
|---------------------------------------|---|---|
| Interest Income | | |
| Cash and liquid assets | - | - |
| Due from other financial institutions | 1,330 | 872 |
| Trading securities | - | - |
| Available-for-sale securities | - | - |
| Loans and advances ⁽¹⁾ | 2,436 | 40 |
| Due from related parties | 58 | - |
| Others | - | - |
| Total interest income | 3,824 | 912 |
| Interest expense | | |
| Due to other financial institutions | (165) | (28) |
| Deposits and other borrowings | (414) | - |
| Trading liabilities | - | - |
| Due to related parties | (78) | - |
| Debt securities issued | (1,120) | - |
| Others | 22 | - |
| Total interest expense | (1,755) | (28) |
| Total net interest income | 2,069 | 884 |

(1) Interest income on loans and advances includes interest earned of \$nil on individually impaired assets of the Bank.

3. NON-INTEREST EXPENSES

| For the period ended | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 |
|--|--|--|
| Fees and commissions | | |
| Lending and credit facility related fee income | 118 | - |
| Other fee expense | (152) | - |
| Commission income | - | - |
| Total fees and commissions | (34) | - |
| Trading income | | |
| Net gains/(losses) on financial instruments held for trading | - | - |
| Other trading income | - | - |
| Total trading income | - | - |
| Other income/(expense) | | |
| Dividend income | - | - |
| Net ineffectiveness on qualifying hedges | (7) | - |
| Net gains/(losses) on other derivatives used for hedge purposes that do not qualify for hedge accounting | (170) | - |
| Net gains/(losses) on financial instruments designated at fair value through profit or loss | 8 | - |
| Net foreign exchange gains | 10 | 1 |
| Net gain/(losses) on available-for-sale financial assets transferred to the profit or loss | - | - |
| Net gains/(losses) on disposal of property, plant and equipment | - | - |
| Other income | - | - |
| Total other income/(expense) | (159) | 1 |
| Total non-interest expense | (193) | 1 |

4. OPERATING EXPENSES

| For the period ended | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 |
|--|--|--|
| Amortisation of intangible assets | 9 | 1 |
| Depreciation: | | |
| - Leasehold improvements | 68 | - |
| - Furniture and equipment | 52 | 4 |
| - Computer equipment | 169 | 10 |
| - Motor vehicles | 31 | 1 |
| Directors' fees | 134 | 48 |
| Employee benefits: | | |
| - Salaries and wages | 3,250 | 257 |
| - Defined contribution plan expense | 43 | 3 |
| - Other long-term employee benefits | - | - |
| - Other | 10 | - |
| Operating lease rentals (minimum lease payments) | 476 | 132 |

| | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 |
|--------------------------------------|--|--|
| For the period ended | | |
| Purchased services: | | |
| - Technology and information systems | 126 | 14 |
| - Legal | 122 | - |
| - Other professional services | 218 | 2 |
| Related party expenses | - | - |
| GST expense | 117 | - |
| Other expenses | 449 | 259 |
| Total operating expenses | 5,274 | 731 |

5. IMPAIRMENT LOSSES ON LOANS AND ADVANCES

| | Residential mortgage loans \$000 | Corporate exposures \$000 | Other exposures \$000 | Total credit exposures \$000 |
|---|---|---------------------------------|-----------------------------|------------------------------------|
| For the period ended 30 September 2015 (Unaudited) | | | | |
| Movement in collectively assessed provisions | 22 | 267 | - | 289 |
| Movement in individually assessed provisions | - | - | - | - |
| Bad debts written-off directly to the profit or loss | - | - | - | - |
| Bad debts recovered | - | - | - | - |
| Total impairment losses on loans and advances | 22 | 267 | - | 289 |

| | Residential mortgage loans \$000 | Corporate exposures \$000 | Other exposures \$000 | Total credit exposures \$000 |
|---|---|---------------------------------|-----------------------------|------------------------------------|
| For the period ended 30 September 2014 (Unaudited) | | | | |
| Movement in collectively assessed provisions | - | - | - | - |
| Movement in individually assessed provisions | - | - | - | - |
| Bad debts written-off directly to the profit or loss | - | - | - | - |
| Bad debts recovered | - | - | - | - |
| Total impairment losses on loans and advances | - | - | - | - |

6. DUE FROM OTHER FINANCIAL INSTITUTIONS

| | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 | Audited 31 December 2014 \$000 |
|---|--|--|---|
| As at | | | |
| Loans and advances due from other financial institutions – call | 339 | 8,914 | 800 |
| Loans and advances due from other financial institutions – term | 25,846 | 50,000 | 74,614 |
| Cash collateral given on derivative financial instruments | - | - | - |
| Reverse repurchase agreements | - | - | - |
| Other unsettled receivables | 8 | 83 | 136 |
| Total amount due from other financial institutions | 26,193 | 58,997 | 75,550 |
| Amounts expected to be recovered within 12 months | 26,193 | 58,997 | 75,550 |
| Amounts expected to be recovered after 12 months | - | - | - |
| Total amount due from other financial institutions | 26,193 | 58,997 | 75,550 |

The Bank did not have any collateral pledged to derivative counterparties for its credit support annex obligations or arising from reverse repurchase agreements as at 30 September 2015 (30 September 2014: nil, 31 December 2014: nil).

The fair value of any collateral held which has been sold or re-pledged as at 30 September 2015 is \$nil (30 September 2014: nil, 31 December 2014: nil).

7. LOANS AND ADVANCES

| As at | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 | Audited 31 December 2014 \$000 |
|--|--|--|---|
| Overdrafts | - | - | - |
| Term loans - housing | 22,093 | - | - |
| Term loans – non-housing | 269,643 | 9,401 | 3,828 |
| Finance lease receivables | - | - | - |
| Other | - | - | - |
| Total gross loans and advances | 291,736 | 9,401 | 3,828 |
| Provisions for impairment losses on loans and advances | (292) | - | (3) |
| Deferred and other unearned future income and expenses | - | - | - |
| Fair value hedge adjustments | - | - | - |
| Total net loans and advances | 291,444 | 9,401 | 3,825 |

8. ASSET QUALITY

| As at 30 September 2015 (Unaudited) | Residential mortgages \$000 | Corporate exposures \$000 | Other exposures \$000 | Total credit exposures \$000 |
|---|-----------------------------------|---------------------------------|-----------------------------|------------------------------------|
| Neither past due nor impaired | 22,093 | 269,643 | - | 291,736 |
| 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 | - | - | - | - |
| Individually impaired assets | | | | |
| Balance at beginning of the period | - | - | - | - |
| Additions | - | - | - | - |
| Amounts written off | - | - | - | - |
| Deletions | - | - | - | - |
| Total individually impaired assets | - | - | - | - |
| Total gross loans and advances | 22,093 | 269,643 | - | 291,736 |
| Individually assessed provisions | | | | |
| Balance at beginning of the period | - | - | - | - |
| Charge/(credit) to impairment losses on loans and advances in profit or loss: | | | | |
| New and increased provisions | - | - | - | - |

| As at 30 September 2015 (Unaudited) | Residential mortgages \$000 | Corporate exposures \$000 | Other exposures \$000 | Total credit exposures \$000 |
|--|--------------------------------|------------------------------|--------------------------|---------------------------------|
| Reversals of previously recognised impairment losses | - | - | - | - |
| Recoveries of amounts written off in previous periods | - | - | - | - |
| Amounts written off | - | - | - | - |
| Discount unwind ⁽¹⁾ | - | - | - | - |
| Balance at end of the period | - | - | - | - |
| Collectively assessed provisions | | | | |
| Balance at beginning of the period | - | 3 | - | 3 |
| Charge (credit) to impairment losses on loans and advances in profit or loss | 22 | 267 | - | 289 |
| Balance at end of the period | 22 | 270 | - | 292 |
| Total provisions for impairment losses on loans and advances | 22 | 270 | - | 292 |
| Total net loans and advances | 22,071 | 269,373 | - | 291,444 |

(1) 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 its present value using the original effective interest rate for the asset. This discount unwinds as interest income over the period the asset is held.

Undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired were \$nil as at 30 September 2015 (30 September 2014: nil, 31 December 2014: nil). The Bank did not have other assets under administration as at 30 September 2015 (30 September 2014: nil, 31 December 2014: nil).

| As at 30 September 2014 (Unaudited) | Residential mortgages \$000 | Corporate exposures \$000 | Other exposures \$000 | Total credit exposures \$000 |
|---|--------------------------------|------------------------------|--------------------------|---------------------------------|
| Neither past due nor impaired | - | 9,401 | - | 9,401 |
| 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 | - | - | - | - |
| Individually impaired assets | | | | |
| Balance at beginning of the period | - | - | - | - |
| Additions | - | - | - | - |
| Amounts written off | - | - | - | - |
| Deletions | - | - | - | - |
| Total individually impaired assets | - | - | - | - |
| Total gross loans and advances | - | 9,401 | - | 9,401 |
| Individually assessed provisions | | | | |
| Balance at beginning of the period | - | - | - | - |
| Charge/(credit) to impairment losses on loans and advances in profit or loss: | | | | |
| New and increased provisions | - | - | - | - |

| As at 30 September 2014 (Unaudited) | Residential mortgages \$000 | Corporate exposures \$000 | Other exposures \$000 | Total credit exposures \$000 |
|--|--------------------------------|------------------------------|--------------------------|---------------------------------|
| Reversals of previously recognised impairment losses | - | - | - | - |
| Recoveries of amounts written off in previous periods | - | - | - | - |
| Amounts written off | - | - | - | - |
| Discount unwind ⁽¹⁾ | - | - | - | - |
| Balance at end of the period | - | - | - | - |
| Collectively assessed provisions | | | | |
| Balance at beginning of the period | - | - | - | - |
| Charge (credit) to impairment losses on loans and advances in profit or loss | - | - | - | - |
| Balance at end of the period | - | - | - | - |
| Total provisions for impairment losses on loans and advances | - | - | - | - |
| Total net loans and advances | - | 9,401 | - | 9,401 |

(1) 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 its present value using the original effective interest rate for the asset. This discount unwinds as interest income over the period the asset is held.

| As at 31 December 2014 (Audited) | Residential mortgages \$000 | Corporate exposures \$000 | Other exposures \$000 | Total credit exposures \$000 |
|---|--------------------------------|------------------------------|--------------------------|---------------------------------|
| Neither past due nor impaired | - | 3,828 | - | 3,828 |
| 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 | - | - | - | - |
| Individually impaired assets | | | | |
| Balance at beginning of the period | - | - | - | - |
| Additions | - | - | - | - |
| Amounts written off | - | - | - | - |
| Deletions | - | - | - | - |
| Total individually impaired assets | - | - | - | - |
| Total gross loans and advances | - | 3,828 | - | 3,828 |
| Individually assessed provisions | | | | |
| Balance at beginning of the period | - | - | - | - |
| Charge/(credit) to impairment losses on loans and advances in profit or loss: | | | | |
| New and increased provisions | - | - | - | - |
| Reversals of previously recognised impairment losses | - | - | - | - |
| Recoveries of amounts written off in previous periods | - | - | - | - |

| | Residential mortgages \$000 | Corporate exposures \$000 | Other exposures \$000 | Total credit exposures \$000 |
|--|-----------------------------------|---------------------------------|-----------------------------|------------------------------------|
| As at 31 December 2014 (Audited) | | | | |
| Amounts written off | - | - | - | - |
| Discount unwind ⁽¹⁾ | - | - | - | - |
| Balance at end of the period | - | - | - | - |
| Collectively assessed provisions | | | | |
| Balance at beginning of the period | - | - | - | - |
| Charge (credit) to impairment losses on loans and advances in profit or loss | - | 3 | - | 3 |
| Balance at end of the period | - | 3 | - | 3 |
| Total provisions for impairment losses on loans and advances | - | 3 | - | 3 |
| Total net loans and advances | - | 3,825 | - | 3,825 |

(1) 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 its present value using the original effective interest rate for the asset. This discount unwinds as interest income over the period the asset is held.

9. PROPERTY, PLANT AND EQUIPMENT

| | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 | Audited 31 December 2014 \$000 |
|--|--|--|---|
| As at | | | |
| Leasehold improvements | 1,260 | - | - |
| Furniture and equipment | 547 | 251 | 205 |
| Computer equipment | 550 | 342 | 557 |
| Motor vehicles | 173 | 72 | 68 |
| Total property, plant and equipment | 2,530 | 665 | 830 |

| | Leasehold improvements \$000 | Furniture and equipment \$000 | Computer Equipment \$000 | Motor vehicles \$000 | Total \$000 |
|--|------------------------------------|-------------------------------------|--------------------------------|----------------------------|----------------|
| As at 30 September 2015 (Unaudited) | | | | | |
| Cost brought forward | - | 220 | 611 | 73 | 904 |
| Accumulated depreciation brought forward | - | (15) | (54) | (5) | (74) |
| Opening net carrying amount | - | 205 | 557 | 68 | 830 |
| Additions | 1,328 | 394 | 162 | 136 | 2,020 |
| Disposals | - | - | - | - | - |
| Depreciation | (68) | (52) | (169) | (31) | (320) |
| Closing net carrying amount | 1,260 | 547 | 550 | 173 | 2,530 |
| Cost | 1,328 | 613 | 773 | 209 | 2,923 |
| Accumulated depreciation | (68) | (66) | (223) | (36) | (393) |
| Closing net carrying amount | 1,260 | 547 | 550 | 173 | 2,530 |

| As at 30 September 2014 (Unaudited) | Leasehold improvements \$000 | Furniture and equipment \$000 | Computer Equipment \$000 | Motor vehicles \$000 | Total \$000 |
|---|------------------------------------|-------------------------------------|--------------------------------|----------------------------|----------------|
| Cost brought forward | - | - | - | - | - |
| Accumulated depreciation brought forward | - | - | - | - | - |
| Opening net carrying amount | - | - | - | - | - |
| Additions | - | 255 | 352 | 73 | 680 |
| Disposals | - | - | - | - | - |
| Depreciation | - | (4) | (10) | (1) | (15) |
| Closing net carrying amount | - | 251 | 342 | 72 | 665 |
| Cost | - | 255 | 352 | 73 | 680 |
| Accumulated depreciation | - | (4) | (10) | (1) | (15) |
| Closing net carrying amount | - | 251 | 342 | 72 | 665 |

| As at 31 December 2014 (Audited) | Leasehold improvements \$000 | Furniture and equipment \$000 | Computer Equipment \$000 | Motor vehicles \$000 | Total \$000 |
|---|------------------------------------|-------------------------------------|--------------------------------|----------------------------|----------------|
| Cost brought forward | - | - | - | - | - |
| Accumulated depreciation brought forward | - | - | - | - | - |
| Opening net carrying amount | - | - | - | - | - |
| Additions | - | 220 | 611 | 73 | 904 |
| Disposals | - | - | - | - | - |
| Depreciation | - | (15) | (54) | (5) | (74) |
| Closing net carrying amount | - | 205 | 557 | 68 | 830 |
| Cost | - | 220 | 611 | 73 | 904 |
| Accumulated depreciation | - | (15) | (54) | (5) | (74) |
| Closing net carrying amount | - | 205 | 557 | 68 | 830 |

There were no restrictions existing on title to property, plant and equipment and no property, plant and equipment was pledged as security for liabilities as at 30 September 2015 (30 September 2014: nil, 31 December 2014: nil).

As at 30 September 2015 contractual commitments relating to the purchase of furniture and computer equipment was nil (30 September 2014: \$73,000, 31 December 2014: approximately \$154,000).

10. DUE TO OTHER FINANCIAL INSTITUTIONS

| As at | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 | Audited 31 December 2014 \$000 |
|--|--|--|---|
| Loans and advances due to other financial institutions – call | - | - | - |
| Loans and advances due to other financial institutions – term | 12,906 | 9,473 | 33,146 |
| Cash collateral received on derivative financial | - | - | - |

| | | | |
|---|---------------|--------------|---------------|
| instruments | | | |
| Other unsettled payables | 1 | 29 | 20 |
| Total amount due to other financial institutions | 12,907 | 9,502 | 33,166 |
| Amounts expected to be settled within 12 months | 12,907 | 9,502 | 33,166 |
| Amounts expected to be settled after 12 months | - | - | - |
| Total amount due to other financial institutions | 12,907 | 9,502 | 33,166 |

Included in due to other financial institutions as at 30 September 2015 was \$nil (30 September 2014: nil, 31 December 2014: nil) of collateral pledged by counterparties in respect of its credit support annex obligations to the Bank.

11. DEPOSITS FROM CUSTOMERS

| As at | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 | Audited 31 December 2014 \$000 |
|--------------------------------------|--|--|---|
| Demand deposits not bearing interest | - | - | - |
| Demand deposits bearing interest | 4,865 | - | 501 |
| Term deposits | 55,342 | - | - |
| Total deposits from customers | 60,207 | - | 501 |

12. DEBT SECURITIES ISSUED

Presented below are the Bank's debt securities issued at 30 September 2015. The distinction between short-term and long-term debt is based on the maturity of the underlying security at origination.

| As at | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 | Audited 31 December 2014 \$000 |
|---|--|--|---|
| Short term debt | | | |
| Certificates of deposit | - | - | - |
| Commercial paper | - | - | - |
| Total short term debt | - | - | - |
| Long term debt | | | |
| Domestic bonds | 105,405 | - | - |
| Euro medium term notes | - | - | - |
| Covered bonds | - | - | - |
| Total long term debt | 105,405 | - | - |
| Total debt securities issued | 105,405 | - | - |
| Debt securities issued at fair value through profit or loss | - | - | - |
| Debt securities issued at amortised cost | 105,405 | - | - |
| Total debt securities issued | 105,405 | - | - |
| Amounts expected to be settled within 12 months | 825 | - | - |
| Amounts expected to be settled after 12 months | 104,580 | - | - |
| Total debt securities issued | 105,405 | - | - |

Included in total debt securities issued were fair value hedge adjustments of \$1,058,811 as at 30 September 2015 (30 September 2014: nil, 31 December 2014: nil).

Details of the terms and conditions of debt securities issued by the Bank as at 30 September 2015 were as follows:

Short term debt

The Bank has no short term debt securities issued as at 30 September 2015 (30 September 2014: nil, 31 December 2014: nil).

Long term debt

During the period ended 30 September 2015, \$105,405,000 (30 September 2014: nil, 31 December 2014: nil) of long term debt securities was issued by the Bank.

The Bank has not had any defaults of principal, interest or other breaches with regard to all liabilities during the period ended 30 September 2015 (30 September 2014: nil, 31 December 2014: nil).

13. 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. As at 30 September 2015, the Bank had no controlled entities.

Transactions with related parties

| For the period ended | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 |
|------------------------------------|--|--|
| Interest income | | |
| Received from Ultimate Parent Bank | 58 | - |
| Interest expense | | |
| Paid to Ultimate Parent Bank | (78) | - |
| Non-interest income | | |
| Received from Ultimate Parent Bank | - | - |
| Operating expenses | | |
| Paid to Ultimate Parent Bank | - | - |

Balances with related parties

| As at | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 | Audited 31 December 2014 \$000 |
|---|--|--|---|
| Due from related parties¹ | | | |
| Due from Ultimate Parent Bank | 422 | - | 11,882 |
| Due from other related parties | - | - | - |
| Total related party assets | 422 | - | 11,882 |
| Due to related parties² | | | |
| Due to Ultimate Parent Bank | 89,630 | 972 | 616 |

| As at | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 | Audited 31 December 2014 \$000 |
|--|--|--|---|
| Due to other related parties | - | - | - |
| Total related party liabilities | 89,630 | 972 | 616 |

(1) Due from related parties is disclosed in the Bank's balance sheet and is expected to be recovered within 12 months

(2) Due to related parties is disclosed in the Bank's balance sheet and is expected to be settled within 12 months

There were no debts with any related parties written off or forgiven during the period ended 30 September 2015 (30 September 2014: nil, 31 December 2014: nil).

No provisions for impairment loss have been recognised in respect of loans given to related parties as at 30 September 2015 (30 September 2014: nil, 31 December 2014: nil).

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.

Ultimate Parent Bank

In the last financial year, the Ultimate Parent Bank provided \$1,474,000 in two instalments to fund payment of the Bank's set-up costs (the "Set-up Funding"). The Bank utilised part of the Set-up Funding in line with the accounting policy outlined by the Ultimate Parent Bank for the set-up costs that are normally borne by the Ultimate Parent Bank. The expenses that were charged against the Set-up Funding were not recognised in the Statement of Comprehensive Income of the Bank. In May 2015, the bank fully repaid \$615,752 of net amount repayable to the Ultimate Parent Bank of the Set-up Funding.

The Bank made loans to branches of the Ultimate Parent Bank. These loans were made in the normal course of business and were at arms-length. Interest income was derived on these loans and included within the Statement of Comprehensive Income. As at 30 September 2015, there was nil balance of loans to branches of the Ultimate Parent Bank after all the principal and interest was fully repaid.

The Bank has held Nostro accounts with the Ultimate Parent Bank with the total balance of \$422,000 as at 30 September 2015. Also, the Bank has borrowed funds from the Ultimate Parent Bank. These borrowings are made in the normal course of business and are at arms-length. Interest expenses were arisen from these borrowings and included within the Statement of Comprehensive Income. During the year, the Bank has borrowed \$105,251,000 from and repaid \$15,699,000 inclusive interest paid of \$4,000 to the Ultimate Parent Bank. The balance as at 30 September 2015 was \$89,630,309 inclusive accrued interest of \$74,154. All related party balances are expected to be settled in cash and within 12 months from the balance date.

14. 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 on page 26 and 27.

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 market accepted valuation techniques. The use of a market accepted valuation technique will typically involve the use of a valuation model and appropriate inputs to the model.

The majority of models used by the Bank employ only observable market data as inputs. However, for certain financial instruments, data may be employed which is not readily observable in current markets. Typically in these instances valuation inputs will be derived using alternative means (including extrapolation from other relevant market data) and tested against historic transactions. The use of these inputs will require a high degree of management judgment.

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

Quoted market price (unadjusted) in an active market for an identical instrument: The quoted market price is not adjusted for any potential impact that may be attributed to a large holding of the financial instrument.

"Level 2" – Valuation technique using observable inputs

Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices): This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly from market data.

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

Valuation techniques which use significant unobservable inputs: 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.

The following table below analyses financial instruments that are measured at fair value by the level in the fair value hierarchy into which the fair value measurement is categorised. A financial instrument's categorisation is based on the lowest level input that is significant to the fair value measurement.

| As at 30 September 2015 (Unaudited) | Level 1 \$000 | Level 2 \$000 | Level 3 \$000 | Total \$000 |
|---|------------------|------------------|------------------|----------------|
| Financial assets | | | | |
| Trading securities | - | - | - | - |
| Derivative financial assets | - | 2,635 | - | 2,635 |
| Available-for-sale securities | - | - | - | - |
| Total financial assets carried at fair value | - | 2,635 | - | 2,635 |
| Financial liabilities | | | | |
| Trading liabilities | - | - | - | - |
| Derivative financial liabilities | - | 160 | - | 160 |

| As at 30 September 2015 (Unaudited) | Level 1 \$000 | Level 2 \$000 | Level 3 \$000 | Total \$000 |
|---|------------------|------------------|------------------|----------------|
| Debt securities issued at fair value through income statement | - | - | - | - |
| Total financial liabilities carried at fair value | - | 160 | - | 160 |

| As at 30 September 2014 (Unaudited) | Level 1 \$000 | Level 2 \$000 | Level 3 \$000 | Total \$000 |
|---|------------------|------------------|------------------|----------------|
| Financial assets | | | | |
| Trading securities | - | - | - | - |
| Derivative financial assets | - | - | - | - |
| Available-for-sale securities | - | - | - | - |
| Total financial assets carried at fair value | - | - | - | - |
| Financial liabilities | | | | |
| Trading liabilities | - | - | - | - |
| Derivative financial liabilities | - | - | - | - |
| Debt securities issued at fair value through income statement | - | - | - | - |
| Total financial liabilities carried at fair value | - | - | - | - |

| As at 31 December 2014 (Audited) | Level 1 \$000 | Level 2 \$000 | Level 3 \$000 | Total \$000 |
|---|------------------|------------------|------------------|----------------|
| Financial assets | | | | |
| Trading securities | - | - | - | - |
| Derivative financial assets | - | - | - | - |
| Available-for-sale securities | - | - | - | - |
| Total financial assets carried at fair value | - | - | - | - |
| Financial liabilities | | | | |
| Trading liabilities | - | - | - | - |
| Derivative financial liabilities | - | - | - | - |
| Debt securities issued at fair value through income statement | - | - | - | - |
| Total financial liabilities carried at fair value | - | - | - | - |

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period. The timing of recognising transfers is the same for transfers into the levels as for transfers out of the levels. There have been no transfers between levels 1 and 2 during the period ended 30 September 2015. There have been no transfers into/out of level 3 during the period ended 30 September 2015 (30 September 2014: nil, 31 December 2014: nil).

Fair value of financial instruments not measured at fair value

The following table below sets out and compares the fair value of financial instruments not measured at fair value with their carrying amounts.

| As at | Unaudited 30 September 2015 | | Unaudited 30 September 2014 | | Audited 31 December 2014 | |
|--|--------------------------------|-----------------------------|--------------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Fair Value \$000 | Carrying amount \$000 | Fair Value \$000 | Carrying amount \$000 | Fair Value \$000 | Carrying amount \$000 |
| Financial assets | | | | | | |
| Due from other financial institutions | 26,193 | 26,193 | 58,997 | 58,997 | 75,550 | 75,550 |
| Loans and advances | 278,884 | 291,444 | 9,414 | 9,401 | 3,956 | 3,825 |
| Due from related parties | 422 | 422 | - | - | 11,899 | 11,882 |
| Other financial assets | - | - | - | - | - | - |
| Total financial assets | 305,499 | 318,059 | 68,411 | 68,398 | 91,405 | 91,257 |
| Financial liabilities | | | | | | |
| Due to other financial institutions | 12,907 | 12,907 | 9,502 | 9,502 | 33,166 | 33,166 |
| Deposits from customers | 60,414 | 60,207 | - | - | 501 | 501 |
| Due to related parties | 89,630 | 89,630 | 972 | 972 | 616 | 616 |
| Debt securities issued at amortized cost | 108,923 | 105,405 | - | - | - | - |
| Other financial liabilities | 608 | 635 | - | - | 54 | 54 |
| Total financial liabilities | 272,482 | 268,784 | 10,474 | 10,474 | 34,337 | 34,337 |

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.

Trading securities, available-for-sale securities and trading liabilities

Fair value is based on quoted market prices, or broker or dealer price quotations. If this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics, or market accepted valuation models as appropriate (including discounted cash flow models) based on current market rates for similar types of instruments and the maturity of each instrument. These techniques address factors such as interest rates, credit risk and liquidity.

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. Also included in the determination of the fair value of derivatives is a credit valuation adjustment ("CVA") or debit valuation adjustment ("DVA"). Where the derivative has a positive fair value (asset), the CVA adjustment is to

reflect the creditworthiness of the counterparty. Where the derivative has a negative fair value (liability), the DVA adjustment reflects the Bank's own credit risk. These adjustments are taken into account after considering any relevant collateral or master netting agreements.

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

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.

15. NET CASH FLOWS USED IN OPERATING ACTIVITIES

| | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 |
|---|--|--|
| For the period ended | | |
| Reconciliation of loss after income tax to net cash flows used in operating activities | | |
| (Loss)/Profit after income tax | (3,687) | 154 |
| Adjustments: | | |
| Interest income | (3,824) | (912) |
| Interest expense | 1,755 | 28 |
| Impairment losses on loans and advances | 289 | - |
| Depreciation and amortisation | 329 | 17 |
| Other non-cash operating expenses | 102 | - |
| Net (increase)/decrease in operating assets: | | |
| GST receivable | 88 | (139) |
| Loans and advances | (287,158) | (9,360) |
| Due from related parties | 11,853 | - |

| | | |
|---|-----------|-------|
| Other assets | 103 | - |
| Derivative financial assets | (912) | - |
| Net increase/(decrease) in operating liabilities: | | |
| Due to other financial institutions | (20,240) | 9,473 |
| Deposits from customers | 59,395 | - |
| Derivative financial liabilities | 160 | - |
| Other liabilities | 234 | - |
| Taxation paid | - | - |
| Interest derived from operating activities | 3,231 | 787 |
| Interest paid on operating activities | (924) | - |
| Net cash flows used in operating activities | (239,206) | 48 |

16. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

| As at | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 | Audited 31 December 2014 \$000 |
|--|--|--|---|
| Capital expenditure commitments | | | |
| Property, plant and equipment | - | 73 | 154 |
| Intangible assets | - | - | - |
| Total | - | 73 | 154 |

Leasing commitments

The following non-cancellable operating lease commitments existed as at 30 September 2015.

| As at | Unaudited 30 September 2015 \$000 | Unaudited 30 September 2014 \$000 | Audited 31 December 2014 \$000 |
|--|--|--|---|
| Future aggregate minimum lease payments under non-cancellable operating leases: | | | |
| No later than 1 year | 938 | 350 | 228 |
| Later than 1 year and no later than 5 years | 3,584 | - | - |
| Later than 5 years | 665 | - | - |
| Total | 5,187 | 350 | 228 |

Leasing commitments relate to rental of the Bank's premises and computer equipment.

Credit related 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.

The Bank has credit related commitments as at 30 September 2015 of \$25,211,710 (30 September 2014: nil, 31 December 2014: \$5,000,000).

Credit related commitments and contingent liabilities arising in respect of the Bank's operations as at 30 September 2015 were:

| As at | Unaudited Contract or notional amount 30 September 2015 \$000 | Unaudited Contract or notional amount 30 September 2014 \$000 | Audited Contract or notional amount 31 December 2014 \$000 |
|--|--|--|--|
| Credit related commitments and contingent liabilities | | | |
| Commitments to extend credit ¹ | 24,414 | - | 5,000 |
| Financial guarantees ² | 80 | - | - |
| Standby letters of credit ³ | 624 | - | - |
| Trade letters of credit ⁴ | - | - | - |
| Non-financial guarantees ⁵ | 94 | - | - |
| Other commitments ⁶ | - | - | - |
| Total | 25,212 | - | 5,000 |

(1) Commitments to extend credit include all obligations on the part of the Bank to provide credit facilities. As facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. In addition to the commitments disclosed above as at 30 September 2015, the Bank has offered \$nil facilities to customers, which had not yet been accepted.

(2) Financial guarantees are unconditional undertakings given to support the obligations of a customer to third parties. The Bank may hold cash as collateral for certain guarantees issued.

(3) Standby letters of credit are undertakings to pay, against presentation documents, an obligation in the event of a default by a customer.

(4) Trade letters of credit are undertakings by the Bank to pay or accept drafts drawn by an overseas supplier of goods against presentation of documents in the event of default by a customer.

(5) Non-financial guarantees included undertakings that oblige the Bank to pay third parties should a customer fail to fulfil a contractual non-monetary obligation.

(6) Other commitments include underwriting facilities.

Other contingent liabilities

There were no other contingent liabilities as at 30 September 2015 (30 September 2014: nil, 31 December 2014: nil).

17. 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 30 September 2015 (Unaudited) | Cash and balances with central banks \$000 | Due from other financial institutions \$000 | Trading securities and available- for-sale securities \$000 | Derivative financial assets \$000 | Loans and advances \$000 | Other financial assets \$000 | Total (on-balance sheet) \$000 | Credit commit- ments and contingent liabilities \$000 |
|--|--|---|---|---|--------------------------------|---------------------------------------|---|--|
| Industry sector | | | | | | | | |
| Agriculture | - | - | - | - | 23,540 | - | 23,540 | - |
| Forestry and fishing | - | - | - | - | - | - | - | - |
| Mining | - | - | - | - | - | - | - | - |
| Manufacturing | - | - | - | - | 10,058 | - | 10,058 | 10,000 |

| As at 30 September 2015 (Unaudited) | Cash and balances with central banks \$000 | Due from other financial institutions \$000 | Trading securities and available-for-sale securities \$000 | Derivative financial assets \$000 | Loans and advances \$000 | Other financial assets \$000 | Total (on-balance sheet) \$000 | Credit commitments and contingent liabilities \$000 |
|--|--|---|--|-----------------------------------|--------------------------|------------------------------|--------------------------------|---|
| Electricity, gas, water and waste services | - | - | - | - | 135,327 | - | 135,327 | 3,424 |
| Construction | - | - | - | 8 | 35,565 | - | 35,573 | 8,121 |
| Wholesale trade | - | - | - | - | - | - | - | - |
| Retail trade | - | - | - | - | - | - | - | - |
| Accommodation and food services | - | - | - | - | - | - | - | - |
| Transport, postal and warehousing | - | - | - | - | - | - | - | - |
| Information media and telecommunications | - | - | - | - | - | - | - | - |
| Financial and insurance services | - | 26,193 | - | 2,627 | 11,403 | - | 40,223 | - |
| Rental, hiring and real estate services | - | - | - | - | 50,937 | - | 50,937 | 3,667 |
| Professional, scientific and technical services | - | - | - | - | 2,813 | - | 2,813 | - |
| Administrative and support services | - | - | - | - | - | - | - | - |
| Public administration and safety | - | - | - | - | - | - | - | - |
| Education and training | - | - | - | - | - | - | - | - |
| Health care and social assistance | - | - | - | - | - | - | - | - |
| Arts and recreation services | - | - | - | - | - | - | - | - |
| Personal lending | - | - | - | - | 22,093 | - | 22,093 | - |
| Other | - | - | - | - | - | - | - | - |
| Subtotal | - | 26,193 | - | 2,635 | 291,736 | - | 320,564 | 25,212 |
| Provisions for impairment losses on loans and advances | - | - | - | - | (292) | - | (292) | - |
| Deferred and other unearned future income and expenses | - | - | - | - | - | - | - | - |
| Fair value hedge adjustments | - | - | - | - | - | - | - | - |
| Due from related parties | - | 422 | - | - | - | - | 422 | - |
| Total credit exposures | - | 26,615 | - | 2,635 | 291,444 | - | 320,694 | 25,212 |
| Geographical area | | | | | | | | |
| New Zealand | - | 26,193 | - | 2,635 | 291,444 | - | 320,272 | 25,212 |
| Overseas | - | 422 | - | - | - | - | 422 | - |
| Total credit exposures | - | 26,615 | - | 2,635 | 291,444 | - | 320,694 | 25,212 |

Concentration of credit exposure to individual counterparties

Concentrations of credit exposures are disclosed on the basis of actual exposures. In addition, 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 of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or to any bank with a long-term credit rating of A- or A3 or above, or its equivalent.

The number of individual bank counterparties (which are not members of a group of closely related counterparties), and groups of closely related counterparties of which a bank is the parent, to which the Bank has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Bank's equity:

- As at 30 September 2015 was nil; and
- In respect of peak end-of-day aggregate credit exposure for the relevant three month period was nil.

The number of individual non-bank counterparties (which are not members of a group of closely related counterparties), and groups of closely related counterparties of which a bank is not the parent, to which the Bank has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Bank's equity:

| Percentage of Shareholder's Equity | Unaudited 30 September 2015 | | | | Unaudited 30 September 2014 | | | |
|------------------------------------|-----------------------------------|--------------|-----------|-----------|-----------------------------------|--------------|----------|----------|
| | Number of Non-Bank Counterparties | | | | Number of Non-Bank Counterparties | | | |
| | "A" Rated | "B" Rated | Unrated | Total | "A" Rated | "B" Rated | Unrated | Total |
| As at Balance Date | | | | | | | | |
| 10% - 14% | - | - | 2 | 2 | - | - | - | - |
| 15% - 19% | - | - | 5 | 5 | - | - | 1 | 1 |
| 20% - 24% | - | - | 1 | 1 | - | - | - | - |
| 25% - 29% | - | - | - | - | - | - | - | - |
| 30% - 34% | - | - | - | - | - | - | - | - |
| 35% - 39% | - | - | 1 | 1 | - | - | - | - |
| 40%-44% | - | - | 1 | 1 | - | - | - | - |
| 45%-49% | - | - | - | - | - | - | - | - |
| 50%-54% | - | - | - | - | - | - | - | - |
| 55%-59% | - | - | - | - | - | - | - | - |
| 60%-64% | - | - | - | - | - | - | - | - |
| 65%-69% | - | - | - | - | - | - | - | - |
| 70%-74% | - | - | - | - | - | - | - | - |
| 75%-79% | - | - | - | - | - | - | - | - |
| 80%-84% | - | - | - | - | - | - | - | - |
| 85%-89% | - | - | - | - | - | - | - | - |
| 90%-94% | - | - | 1 | 1 | - | - | - | - |
| 95%-99% | - | - | - | - | - | - | - | - |
| 100%-104% | - | - | - | - | - | - | - | - |
| 105%-109% | - | - | - | - | - | - | - | - |
| 110%-114% | - | - | - | - | - | - | - | - |
| 115%-119% | - | - | - | - | - | - | - | - |
| 120%-124% | - | - | - | - | - | - | - | - |
| 125%-129% | - | - | - | - | - | - | - | - |
| 130%-134% | - | - | - | - | - | - | - | - |
| 135%-139% | - | - | - | - | - | - | - | - |
| 140%-144% | - | - | - | - | - | - | - | - |
| 145%-149% | - | 1 | - | 1 | - | - | - | - |
| Total | - | 1 | 11 | 12 | - | - | 1 | 1 |

| Percentage of Shareholder's Equity | Unaudited 30 September 2015 | | | | Unaudited 30 September 2014 | | | |
|------------------------------------|-----------------------------------|--------------|-----------|-----------|-----------------------------------|--------------|----------|----------|
| | Number of Non-Bank Counterparties | | | | Number of Non-Bank Counterparties | | | |
| | "A" Rated | "B" Rated | Unrated | Total | "A" Rated | "B" Rated | Unrated | Total |
| Peak Exposure | | | | | | | | |
| 10% - 14% | - | - | 2 | 2 | - | - | - | - |
| 15% - 19% | - | - | 5 | 5 | - | - | 1 | 1 |
| 20% - 24% | - | - | 1 | 1 | - | - | - | - |
| 25% - 29% | - | - | - | - | - | - | - | - |
| 30% - 34% | - | - | - | - | - | - | - | - |
| 35% - 39% | - | - | 1 | 1 | - | - | - | - |
| 40%-44% | - | - | 1 | 1 | - | - | - | - |
| 45%-49% | - | - | - | - | - | - | - | - |
| 50%-54% | - | - | - | - | - | - | - | - |
| 55%-59% | - | - | - | - | - | - | - | - |
| 60%-64% | - | - | - | - | - | - | - | - |
| 65%-69% | - | - | - | - | - | - | - | - |
| 70%-74% | - | - | - | - | - | - | - | - |
| 75%-79% | - | - | - | - | - | - | - | - |
| 80%-84% | - | - | - | - | - | - | - | - |
| 85%-89% | - | - | - | - | - | - | - | - |
| 90%-94% | - | - | 1 | 1 | - | - | - | - |
| 95%-99% | - | - | - | - | - | - | - | - |
| 100%-104% | - | - | - | - | - | - | - | - |
| 105%-109% | - | - | - | - | - | - | - | - |
| 110%-114% | - | - | - | - | - | - | - | - |
| 115%-119% | - | - | - | - | - | - | - | - |
| 120%-124% | - | - | - | - | - | - | - | - |
| 125%-129% | - | - | - | - | - | - | - | - |
| 130%-134% | - | - | - | - | - | - | - | - |
| 135%-139% | - | - | - | - | - | - | - | - |
| 140%-144% | - | - | - | - | - | - | - | - |
| 145%-149% | - | 1 | - | 1 | - | - | - | - |
| Total | - | 1 | 11 | 12 | - | - | 1 | 1 |

| 31 December 2014 Audited | | | | |
|------------------------------------|-----------------------------------|-----------|---------|-------|
| Percentage of Shareholder's Equity | Number of Non-Bank Counterparties | | | Total |
| | "A" Rated | "B" Rated | Unrated | |
| As at Balance Date | | | | |
| 10% - 14% | - | - | - | - |
| 15% - 19% | - | - | - | - |
| 20% - 24% | - | - | - | - |
| 25% - 29% | - | - | - | - |
| 30% - 34% | - | - | - | - |
| 35% - 39% | - | - | - | - |
| Total | - | - | - | - |

| 31 December 2014 Audited | | | | |
|------------------------------------|-----------------------------------|-----------|---------|-------|
| Percentage of Shareholder's Equity | Number of Non-Bank Counterparties | | | Total |
| | "A" Rated | "B" Rated | Unrated | |
| Peak Exposure | | | | |
| 10% - 14% | - | - | - | - |
| 15% - 19% | - | - | 1 | 1 |
| 20% - 24% | - | - | - | - |
| 25% - 29% | - | - | - | - |
| 30% - 34% | - | - | - | - |
| 35% - 39% | - | - | - | - |
| Total | - | - | 1 | 1 |

Note:

"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 do not have a long-term credit rating.

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 three month period and then dividing that by Shareholder's Equity as at the end of the quarter.

18. 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 30 September 2015 (Unaudited) | 2015 \$000 |
|-------------------------------------|----------------|
| Total funding comprises | |
| Due to other financial institutions | 12,907 |
| Trading liabilities | - |
| Deposits from customers | 60,207 |
| Debt securities issued | 105,405 |
| Due to related parties | 89,630 |
| Total funding | 268,149 |

Concentration of funding by industry sector

| | |
|--|--------|
| Agriculture | 5 |
| Forestry and fishing | 23,539 |
| Mining | - |
| Manufacturing | - |
| Electricity, gas, water and waste services | - |

| As at 30 September 2015 (Unaudited) | 2015 \$000 |
|---|----------------|
| Construction | 3,558 |
| Wholesale trade | - |
| Retail trade | - |
| Accommodation and food services | - |
| Transport, postal and warehousing | - |
| Information media and telecommunications | - |
| Financial and insurance services | 130,759 |
| Rental, hiring and real estate services | 5,040 |
| Professional, scientific and technical services | - |
| Administrative and support services | - |
| Public administration and safety | - |
| Education and training | - |
| Health care and social assistance | - |
| Arts and recreation services | - |
| Households | 15,618 |
| Other | - |
| Subtotal | 178,519 |
| Due to related parties | 89,630 |
| Total funding | 268,149 |

| | |
|---|----------------|
| Concentration of funding by geographical areas¹ | |
| New Zealand | 163,517 |
| China | 104,632 |
| Australia | - |
| United States | - |
| Europe | - |
| Other countries | - |
| Total funding | 268,149 |

¹ The geographic area used for debt securities issued is based on the nature of the debt programmes.

19. INSURANCE BUSINESS, SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND THE MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS

The Bank does not conduct any insurance business.

The Bank is also not involved in:

- the establishment, marketing, or sponsorship of trust, custodial, funds management and other fiduciary activities;
- the origination of securitised assets; and the marketing or servicing of securitisation schemes; and
- the marketing and distribution of insurance products

20. RISK MANAGEMENT

There have been no material change to the risk management policies and no new categories of risk to which the Bank has become exposed to since 31 December 2014.

Liquidity portfolio management

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

| As at 30 September 2015 (Unaudited) | 2015 \$000 |
|---|---------------|
| Cash and cash equivalents: | |
| Cash and balances with central banks | - |
| Due from other financial institutions (call or original maturity of 3 months or less) | 26,193 |
| Due from related parties ¹ | 422 |
| Reverse repurchase agreements | - |
| Government bonds, notes and securities | - |
| Local and semi-government bonds, notes and securities | - |
| Corporate and other institutions bonds, notes and securities | - |
| Total liquidity portfolio | 26,615 |

⁽¹⁾ Due from related parties was Nostro account balance held with the Parent Bank as at 30 September 2015

21. EVENTS SUBSEQUENT TO THE REPORTING DATE

Yangtong Jin was appointed as a director of the Bank with effect from 22 October 2015.

With effect from 1 November 2015, the Bank's conditions of registration were amended to refer to the revised version as follows:

- (a) Application requirements for capital recognition or repayment and notification requirements in respect of capital (BS16);
- (b) Capital Adequacy Framework (Standardised Approach) (BS2A);
- (c) Framework for Restrictions on High-LVR Residential Mortgage Lending (BS19); and
- (d) Connected Exposures Policy (BS8).

There were no other material events that occurred subsequent to the reporting date, that require recognition or additional disclosure in these financial statements.

22. 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 for banks 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. The Bank does not have any Tier 2 capital components.

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 page 5.

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 period ended 30 September 2015.

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 30 September 2015. During the period, 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.

| As at 30 September 2015 (Unaudited) | 2015 \$000 |
|--|---------------|
| Tier One Capital | |
| Common Equity Tier One capital | |
| Issued and fully paid-up ordinary share capital | 58,630 |
| Accumulated losses (net of appropriations) | (4,394) |
| Accumulated other comprehensive income and other disclosed reserves ⁽¹⁾ | - |
| Less deductions from Common Equity Tier One capital | |
| Intangible assets | 54 |
| Cash flow hedge reserve | - |
| Deferred tax assets | - |
| Total Common Equity Tier One capital | 54,182 |
| Additional Tier One capital | |
| Nil | - |
| Total Additional Tier One capital | - |
| Total Tier One capital | 54,182 |
| Tier Two capital | |
| Nil | - |
| Total Tier Two capital | - |
| Total capital | 54,182 |

⁽¹⁾ Accumulated other comprehensive income and other disclosed reserves consist of available-for-sale revaluation reserve of \$nil and cash flow hedge reserve of \$nil.

Capital instruments

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; and
- there are no options granted or to be granted pursuant to any arrangement.

The Bank does not have any other classes of capital instrument in its capital structure.

Credit risk

On-balance sheet exposures

| As at 30 September 2015 (Unaudited) | 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 | - | - | - | - |
| Multilateral development banks and other international organisation | - | - | - | - |
| Public sector entities | - | - | - | - |
| Banks | 26,193 | 20% | 5,239 | 419 |
| Corporate | 268,573 | 100% | 268,573 | 21,486 |
| Residential mortgages not past due | 22,071 | 35% | 7,725 | 618 |
| Past due residential mortgages | - | - | - | - |
| Other past due assets | - | - | - | - |
| Equity holdings (not deducted from capital) that are publicly traded | - | - | - | - |
| All other equity holdings (not deducted from capital) | - | - | - | - |
| Other assets | 422 | 100% | 422 | 34 |
| Total on-balance sheet exposures | 317,259 | -% | 281,959 | 22,557 |

Off-balance sheet exposures and market related contracts

| As at 30 September 2015 (Unaudited) | Total exposure \$000 | Credit conversion factor % | Credit equivalent amount \$000 | Average risk weight % | Risk weighted exposure \$000 | Minimum Pillar 1 capital requirement \$000 |
|---|----------------------------|-------------------------------------|---|--------------------------------|---------------------------------------|---|
| Direct credit substitute | - | 100% | - | - | - | - |
| Asset sale with recourse | - | 100% | - | - | - | - |
| Forward asset purchase | - | 100% | - | - | - | - |
| Commitment with certain drawdown | 10,989 | 100% | 10,989 | 100% | 10,989 | 879 |
| Note issuance facility | - | 50% | - | - | - | - |
| Revolving underwriting facility | 13,425 | 50% | 6,713 | 100% | 6,713 | 537 |
| Performance-related contingency | - | 50% | - | - | - | - |
| Trade-related contingency | 798 | 20% | 160 | 100% | 160 | 13 |
| Placements of forward deposits | - | 100% | - | - | - | - |
| Other commitments where original maturity is more than one year | - | 50% | - | - | - | - |
| Other commitments where original maturity is less than or equal to one year | - | 20% | - | - | - | - |
| Other commitments that cancel automatically when the creditworthiness of the counterparty deteriorates or that can be cancelled unconditionally at any time without prior notice | - | 0% | - | - | - | - |
| Market related contracts¹ | | | | | | |
| (a) Foreign exchange contracts | 77,843 | n/a | 31 | - | 31 | 2 |

| As at 30 September 2015 (Unaudited) | Total exposure \$000 | Credit conversion factor % | Credit equivalent amount \$000 | Average risk weight % | Risk weighted exposure \$000 | Minimum Pillar 1 capital requirement \$000 |
|--|-------------------------|-------------------------------|-----------------------------------|--------------------------|---------------------------------|---|
| (b) Interest rate contracts | 66,500 | n/a | 14,084 | 100% | 14,084 | 1,127 |
| (c) Other – OTC etc. | - | n/a | - | - | - | - |
| Total off-balance sheet exposures | - | - | 31,977 | - | 31,977 | 2,558 |

(1) The credit equivalent amount for market related contracts was calculated using the current exposure method.

Additional mortgage information

Residential mortgages by loan-to-valuation ratio

| As at 30 September 2015 (Unaudited) | Does not exceed 80% | Exceeds 80% and not 90% | Exceeds 90% | Total |
|-------------------------------------|---------------------|-------------------------|-------------|---------------|
| Loan-to-valuation ratio | | | | |
| On-balance sheet exposures | 22,071 | - | - | 22,071 |
| Off-balance sheet exposures | - | - | - | - |
| Value of exposures | 22,071 | - | - | 22,071 |

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 is reconciliation between any figures disclosed elsewhere in the Disclosure Statement that relate to mortgages on residential property:

Reconciliation of residential mortgage-related amount

| As at 30 September 2015 (Unaudited) | 2015 \$000 |
|---|---------------|
| Term loans – housing (as disclosed in Note 7) and Residential mortgages – total gross loans and advances (as disclosed in Note 8) | 22,093 |
| Reconciling items: | |
| Provisions for impairment losses on loans and advances | (22) |
| Residential mortgages by loan-to-valuation ratio | 22,071 |

Credit risk mitigation

| As at 30 September 2015 (Unaudited) | 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 | - | - |

| As at 30 September 2015 (Unaudited) | 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 |
|-------------------------------------|--|---|
| Bank | - | - |
| Corporate | 1,000 | - |
| Residential mortgage | - | - |
| Other | - | - |
| Total | 1,000 | - |

Operational risk

| As at 30 September 2015 (Unaudited) | Implied weighted exposure \$000 | Total operational risk capital requirement \$000 |
|-------------------------------------|------------------------------------|---|
| Operational risk | 43,110 | 3,449 |

Market risk

| As at 30 September 2015 (Unaudited) | End-period capital charges | | Peak end-of-day capital charge | |
|-------------------------------------|---|-----------------------------------|---|-----------------------------------|
| | Implied risk weighted exposure \$000 | Aggregate capital charge \$000 | Implied risk weighted exposure \$000 | Aggregate capital charge \$000 |
| Interest rate risk | 1,516 | 121 | 7,326 | 586 |
| Foreign currency risk | 691 | 55 | 1,401 | 112 |
| Equity risk | - | - | - | - |
| Total | 2,207 | 176 | 8,727 | 698 |

Peak end-of-day aggregate capital charge for each category of market risk is derived by determining the maximum over the relevant period 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 30 September 2015 (Unaudited) | Total exposure after credit risk mitigation \$000 | Risk weighted exposure or implied risk weighted exposure \$000 | Total capital requirement \$000 |
|-------------------------------------|--|---|------------------------------------|
| Total credit risk + equity | 349,236 | 313,936 | 25,115 |
| Operational risk | n/a | 43,110 | 3,449 |
| Market risk | n/a | 2,207 | 176 |
| Total | 349,236 | 359,253 | 28,740 |

Capital requirements for other material risks (Pillar II)

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 has set up a buffer at 2% in addition to the buffer ratio of 2.5% required by Reserve Bank within the Board target to mitigate all the Pillar II risks in its ICAAP as a prudent treatment.

Capital ratios of the Bank

| As at 30 September 2015 (Unaudited) | The Bank % |
|--|------------|
| Capital adequacy ratios | |
| Common Equity Tier 1 capital ratio | 15.08% |
| Tier 1 capital ratio | 15.08% |
| Total capital ratio | 15.08% |
| Reserve Bank minimum ratio requirements | |
| Common Equity Tier 1 capital ratio | 4.50% |
| Tier 1 capital ratio | 6.00% |
| Total capital ratio | 8.00% |
| Buffer ratio | |
| Buffer ratio | 7.08% |
| Buffer ratio requirement | 2.50% |