China Construction Bank Corporation New Zealand Banking Group

First Disclosure Statement

For the nine month period ended 30 September 2017

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General Information and Definitions

Certain information contained in this first full year Disclosure Statement, for the nine month period ended 30 September 2017, is as required by section 81 of the Reserve Bank of New Zealand Act 1989 and is in accordance with the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "**Order**").

In this Disclosure Statement reference is made to the following reporting entities:

- China Construction Bank Corporation otherwise referred to as the ("**Overseas Bank**"), ("**Registered Bank**"), ("**Ultimate Parent Bank**") or ("**CCBC**"), is domiciled in China – refers to the worldwide business of China Construction Bank Corporation excluding its controlled entities;
- China Construction Bank Corporation Group otherwise referred to as the ("**Overseas Banking Group**") is domiciled in China – refers to the worldwide business of China Construction Bank Corporation including its controlled entities;
- China Construction Bank (New Zealand) Limited referred to as ("**CCBNZL**") – refers to the locally incorporated subsidiary of the Overseas Bank;
- China Construction Bank Corporation New Zealand Branch referred to as (the "**Branch**") – refers to the New Zealand branch of the Overseas Bank;
- China Construction Bank Corporation New Zealand Banking Group referred to as the ("**NZ Banking Group**) – refers to the New Zealand banking operations of the Overseas Banking Group, including:
  - (a) the Branch; and
  - (b) China Construction Bank (New Zealand) Limited ("**CCBNZL**");
- Reserve Bank of New Zealand referred to as ("**RBNZ**") or ("**Reserve Bank**");
- The Board of Directors of the Overseas Bank referred to as ("**Board**").

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

General Matters

Registered Bank

Address for Service - Overseas Bank's principal office outside of New Zealand is:

China Construction Bank Corporation
No. 25 Financial Street,
Xicheng District,
Beijing 100033,
the People's Republic of China

Address for Service - Branch:

China Construction Bank Corporation, New Zealand Branch
Level 29 Vero Centre,
48 Shortland Street,
Auckland 1010,
New Zealand.

A copy of the NZ Banking Group and the Overseas Banking Group's most recent published financial statements period ended 30 September 2017 will be made available, free of charge upon a request being made to the above address of the Branch. A copy of the NZ Banking Group's financial statements can also be obtained from the NZ Banking Group's website (http://nz.ccb.com/newzealand/en/index.html). A copy of the Overseas Banking Group's financial statement can also be obtained from the Overseas Bank's website (http://en.ccb.com/en/investorv3/annualreports/annals.html?ptId=6&ctId=1).

Subordination of claims of creditors

There are no material legislative or regulatory restrictions in the Peoples Republic of China that, in a liquidation of the Overseas Bank, subordinate the claims of any class of unsecured creditors of the Branch on the assets of the Overseas Bank to those of any other class of unsecured creditors of the Overseas Bank.

Requirement to hold excess assets over deposit liabilities

The Overseas Bank is not required by any statute to hold in New Zealand an excess of assets over deposit liabilities.

Requirement to maintain sufficient assets to cover ongoing obligation to pay deposit liabilities

The Overseas Bank is not subject to any regulatory or legislative requirement in the Peoples Republic of China to maintain sufficient assets in China to cover an ongoing obligation to pay deposit liabilities in that country. However, the 'Administrative measures for the liquidity risk of commercial banks' revised in 2015 require the Overseas Banking Group to maintain certain liquid assets in order to cover an ongoing obligation to pay liabilities of the Overseas Banking Group. The requirement is based on the consolidated position of the Overseas Banking Group and any liquidity requirements of the Banking Group will form part of the Overseas Banking Group's consolidated position. This requirement has the potential to impact on the management of the liquidity of the Branch.

Guarantee Arrangements

No material obligations of the Overseas Bank that relate to the Branch are guaranteed as at the date of signing this Disclosure Statement.

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 CCBC to provide material financial support to the NZ Banking Group.

Directorate

Directors of the Overseas Bank

The Directors of the Overseas Bank at the time this Disclosure Statement was signed were: Mr Guoli Tian, (Chairman), Mr Zuji Wang, Mr Xiusheng Pang, Mr Gensheng Zhang, Ms Bing Feng, Mr Hailin Zhu, Mr Jun Li, Mr Min Wu, Mr Qi Zhang, Ms Aiqun Hao, Ms Anita Yuen Mei Fung, Sir Malcolm Christopher McCarthy, Mr Carl Walter, Mr Timpson Shui Ming Chung and Mr Murray Horn.

NON-INDEPENDENT DIRECTORS	
Name: **Mr Guoli Tian (Chairman of the Board)** *Non-executive:* No *Country of Residence:* China *Primary Occupation:* Chairman, China Construction Bank Corporation and Executive Director, China Construction Bank Corporation *Secondary Occupations:* None *Independent Director:* No *Audit Committee Member:* No *Date of appointment:* 9 October 2017	***External Directorships*:** None *Qualifications*: Bachelor Degree
Name: **Mr Zuji Wang** *Non-executive:* No *Country of Residence:* China *Primary Occupation:* Vice Chairman, China Construction Bank Corporation, Executive Director, China Construction Bank Corporation and President, China Construction Bank Corporation *Secondary Occupations:* None *Independent Director:* No *Audit Committee Member:* No *Date of appointment:* Incumbent on 30 September 2017	***External Directorships:*** None *Qualifications:* Doctorate Degree
Name: **Mr Xiusheng Pang** *Non-executive:* No *Country of Residence:* China *Primary Occupation:* Executive Director, China Construction Bank Corporation and Executive Vice President, China Construction Bank Corporation *Secondary Occupations:* None *Independent Director:* No *Audit Committee Member:* No *Date of appointment:* Incumbent on 30 September 2017	***External Directorships:*** None *Qualifications:* Master Degree
Name: **Mr Gengsheng Zhang** *Non-executive:* No *Country of Residence:* China *Primary Occupation:* Executive Director, China Construction Bank Corporation and Executive Vice President, China Construction Bank Corporation *Secondary Occupations:* Chairman, CCB Life *Independent Director:* No *Audit Committee Member:* No *Date of appointment:* Incumbent on 30 September 2017	***External Directorships:*** None *Qualifications:* Master Degree
Name: **Ms Bing Feng** *Non-executive:* Yes *Country of Residence:* China *Primary Occupation:* Director *Secondary Occupations:* None *Independent Director:* No *Audit Committee Member:* No *Date of appointment:* Incumbent on 30 September 2017	***External Directorships:*** None *Qualifications:* Master Degree

NON-INDEPENDENT DIRECTORS	
Name: **Mr Hailin Zhu** *Non-executive:* Yes *Country of Residence:* China *Primary Occupation:* Director *Secondary Occupations:* None *Independent Director:* No *Audit Committee Member:* Yes *Date of appointment:* Incumbent on 30 September 2017	***External Directorships:*** None *Qualifications:* Doctorate Degree
Name: **Mr Jun Li** *Non-executive:* Yes *Country of Residence:* China *Primary Occupation:* Director *Secondary Occupations:* None *Independent Director:* No *Audit Committee Member:* Yes *Date of appointment:* Incumbent on 30 September 2017	***External Directorships:*** None *Qualifications:* Doctorate Degree
Name: **Mr Min Wu** *Non-executive:* Yes *Country of Residence:* China *Primary Occupation:* Director *Secondary Occupations:* None *Independent Director:* No *Audit Committee Member:* No *Date of appointment:* Incumbent on 30 September 2017	***External Directorships:*** None *Qualifications:* Doctorate Degree
Name: **Mr Qi Zhang** *Non-executive:* Yes *Country of Residence:* China *Primary Occupation:* Director *Secondary Occupations:* None *Independent Director:* No *Audit Committee Member:* No *Date of appointment:* Incumbent on 30 September 2017	***External Directorships:*** None *Qualifications:* Doctorate Degree
Name: **Ms Aiqun Hao** *Non-executive:* Yes *Country of Residence:* China *Primary Occupation:* Director *Secondary Occupations:* None *Independent Director: No* *Audit Committee Member:* Yes *Date of appointment:* Incumbent on 30 September 2017	***External Directorships:*** None *Qualifications:* Bachelor Degree

INDEPENDENT DIRECTORS	
Name: **Ms Anita Yuen Mei Fung** *Non-executive:* Yes *Country of Residence:* Hong Kong, China *Primary Occupation:* Director *Secondary Occupations:* Serves in several positions in institutions including Airport Authority Hong Kong, Hong Kong Housing Authority and Hong Kong University of Science and Technology *Audit Committee Member:* No *Independent Director:* Yes *Date of appointment:* Incumbent on 30 September 2017	***External Directorships*:** Independent non-executive director of Hong Kong Exchanges and Clearing Limited, Independent non-executive director of Hang Lung Properties Limited *Qualifications*: Master Degree
Name: **Sir Malcolm Christopher McCarthy** *Non-executive:* Yes *Country of Residence:* United Kingdom *Primary Occupation:* Director *Secondary Occupations:* Trustee of International Financial Reporting Standards Foundation *Audit Committee Member:* No *Independent Director:* Yes *Date of appointment:* Incumbent on 30 September 2017	***External Directorships*:** Non-Executive Chairman of Promontory Financial Group (UK) Ltd of Promontory Financial Group and Director of *Qualifications*: Doctorate Degree
Name: **Mr Carl Walter** *Non-executive:* Yes *Country of Residence:* United States *Primary Occupation:* Director *Secondary Occupations:* None *Audit Committee Member:* Yes *Independent Director:* Yes *Date of appointment:* Incumbent on 30 September 2017	***External Directorships*:** None *Qualifications*: Doctorate Degree
Name: **Mr Timpson Shui Ming Chung** *Non-executive:* Yes *Country of Residence:* Hong Kong, China *Primary Occupation:* Director *Secondary Occupations:* None *Audit Committee Member:* Yes *Independent Director:* Yes *Date of appointment:* Incumbent on 30 September 2017	***External Directorships*:** Independent non-executive director of China Unicom (Hong Kong) Limited, Miramar Hotel and Investment Company Limited, Glorious Sun Enterprises Limited, China State Construction Engineering Corporation, China Overseas Grand Oceans Group Limited, Jinmao Hotels Limited and China Everbright Limited. *Qualifications*: Master Degree
Name: **Mr Murray Horn** *Non-executive:* Yes *Country of Residence:* New Zealand *Primary Occupation:* Director *Secondary Occupations:* None *Audit Committee Member:* Yes *Independent Director:* Yes *Date of appointment:* Incumbent on 30 September 2017	***External Directorships*:** Director of Como Corp Ltd and HFT Co Ltd *Qualifications*: Doctorate Degree

There have been no other changes to the composition of the Board since the signing of the NZ Banking Group's first full year Disclosure Statement for the nine month period ended 30 September 2017.

Address for communications to the Directors of the Overseas Bank and the New Zealand Chief Executive Officer of the Branch

All communication may be sent to the Directors of the Overseas Bank and the New Zealand Chief Executive Officer of the Branch at Level 29 Vero Centre, 48 Shortland Street, Auckland 1010, New Zealand.

New Zealand Chief Executive Officer of the Branch

Name	**Mr Jun Qi**
Primary Occupation	Chief Executive Officer, CCBNZL
Residence	Auckland, New Zealand

Board Audit Committee

The Board's Audit Committee consists of six Directors (details of whom are set out above). They are:

three Independent non-executive Directors of the Overseas Bank being Mr Timpson Shui Ming Chung (Chairman), Mr Carl Walter, Mr Murray Horn; *and*

three Non-executive Directors of the Overseas Bank being Mr Jun Li, Ms Aiqun Hao and Mr Hailin Zhu.

Dealing with Conflicts of Interest

The Board is responsible for ensuring that actual and potential conflicts of interest between the Directors' duty to the Overseas Bank and their personal, professional or business interests are avoided or dealt with on the condition that NZ Banking Group provided sufficient information for each Director and the Board to make informed judgment.
Accordingly, in matters to be discussed by the Board of Directors 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) abstain from discussion and voting on the relevant proposal, and will not be counted in the quorum of the relevant proposal; and
(c) If required by the Board, take steps as are necessary and reasonable to resolve any conflict of interest within an appropriate period.

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

Transactions with Directors

There have been no transactions entered into by any Director or the New Zealand Chief Executive Officer, or any immediate relative or close business associate of any Director or the New Zealand Chief Executive Officer, with the NZ Banking Group:

(a) on terms other than on those which would, in the ordinary course of business of the NZ Banking Group, 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 or New Zealand Chief Executive Officer's duties.

Credit Ratings of the Overseas Bank

As at the date of signing this Disclosure Statement, the following credit ratings were assigned to the Overseas Bank applicable to its long-term senior unsecured obligations payable in foreign currency:

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 credit ratings in the two years prior to 30 September 2017.

On 24 May 2017, Moody's Investors Service revised the outlook from negative to stable on the Overseas Bank's credit ratings while affirming the current ratings.

Descriptions of the credit rating scales are as follows:

The following table describes the credit rating grades available:

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

(a) Standard & Poor's and Fitch Ratings may be modified by the addition of "+" or "-" to show the relative standing within the "AA" to "B" categories.

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

Pending Proceedings or Arbitration

Except as set out below, there are no pending legal proceedings or arbitrations concerning any member of the NZ Banking Group or, if publicly available, the Overseas Banking Group, whether in New Zealand or elsewhere, that may have a material adverse effect on the Overseas Bank or the NZ Banking Group.

NZ Banking Group

There are no pending legal proceedings or arbitrations concerning any member of the NZ Banking Group that may have a material adverse effect on the NZ Banking Group.

Overseas Banking Group

The Overseas Banking Group was the defendant in certain pending litigation and disputes as at 30 June 2017 with gross claims of RMB 7,329 million (as at 31 December 2016: RMB 7,783 million). Provisions have been made for the estimated losses arising from such litigations based upon the opinions of the Group's internal and external legal counsels. The Group considers that as at 30 June 2017 the provisions made of RMB 2,214 million (as at 31 December 2016: RMB 2,292 million) are reasonable and adequate.

The contingent liabilities of the NZ Banking Group are set out in Note 27 *Commitments and contingent liabilities* and Note 14 *Intangible Assets* of the financial statements for the nine month period ended 30 September 2017 included within this Disclosure Statement.

Conditions of Registration

Conditions of registration for China Construction Bank Corporation in New Zealand

These conditions of registration apply on and after 21 December 2017.

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

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

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

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

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

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

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

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

(a) all amounts must relate to on-balance sheet items only, and must comply with generally accepted accounting practice; and

(b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,—

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

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

3. That the business of the registered bank in New Zealand does not constitute a predominant proportion of the total business of the registered bank.

4. That no appointment to the position of the New Zealand Chief Executive Officer of the registered bank shall be made unless:

(a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

(b) the Reserve Bank has advised that it has no objection to that appointment.

5. That China Construction Bank Corporation complies with the requirements imposed on it by the China Banking Regulatory Authority.

6. That, with reference to the following table, each capital adequacy ratio of China Construction Bank Corporation must be equal to or greater than the applicable minimum requirement.

Capital adequacy ratio	Minimum requirement
Common Equity Tier 1 capital	5.0 percent
Tier 1 capital	6 percent
Total capital	8 percent

For the purposes of this condition of registration, the capital adequacy ratios—

(a) must be calculated as a percentage of the registered bank's risk weighted assets; and

(b) are otherwise as administered by China Banking Regulatory Commission.

7. That liabilities of the registered bank in New Zealand, net of amounts due to related parties (including amounts due to a subsidiary or affiliate of the registered bank), do not exceed NZ$15 billion.

8. The registered bank may only undertake wholesale business in New Zealand – that is, business transacted with "wholesale investors" defined under the Financial Market Conduct Act 2013 (Clause 3(2), Schedule 1).

9. That any derivative contracts entered into by the registered bank in New Zealand may only be for the purposes of hedging a customer's positions with the registered bank, or the registered bank's own risk positions.

10. That the New Zealand assets of the registered bank do not exceed the consolidated total assets of China Construction Bank (New Zealand) Limited and its subsidiaries.

In these conditions of registration,—

"banking group" means the New Zealand business of the registered bank and its subsidiaries as required to be reported in group financial statements for the group's New Zealand business under section 461B(2) of the Financial Markets Conduct Act 2013.

"business of the registered bank in New Zealand" means the New Zealand business of the registered bank as defined in the requirement for financial statements for New Zealand business in section 461B(1) of the Financial Markets Conduct Act 2013.

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

"liabilities of the registered bank in New Zealand" means the liabilities that the registered bank would be required to report in financial statements for its New Zealand business if section 461B(1) of the Financial Markets Conduct Act 2013 applied.

Other Material Matters

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

Core banking system

The Overseas Bank is undertaking a global upgrade of its core banking system. This is a significant change programme which will include the NZ Banking Group and is being actively managed.

Auditor

The appointed auditor for the NZ Banking Group is PricewaterhouseCoopers ("PwC"). The auditor's address is PwC Tower, 188 Quay Street, Auckland 1010, New Zealand.

Directors' and New Zealand Chief Executive Officer's Statements

Each Director and the New Zealand Chief Executive Officer, 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 and the New Zealand Chief Executive Officer believes, after due enquiry that, for the nine month period ended 30 September 2017:

(a) the Registered Bank has complied with all Conditions of Registration that applied during the period; and

(b) the New Zealand business of the Registered Bank had systems in place to monitor and control adequately the material risks of the Registered Bank's Banking Group including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, and other business risks, and that those systems were being properly applied.

Signed by all Directors of China Construction Bank Corporation

Mr Guoli Tian
Chairman
Dated: 20/12/2017

Mr Zuji Wang
Executive Director
Dated: 20/12/2017

Mr Xiusheng Pang
Executive Director,
Dated: 20/12/2017

Mr Gengsheng Zhang
Executive Director
Dated: 20/12/2017

Ms Bing Feng
Non-Executive Director
Dated: 20/12/2017

Mr Hailin Zhu
Non-Executive Director
Dated: 20/12/2017

Mr Jun Li
Non-Executive Director
Dated: 20/12/2017

Mr Min Wu
Non-Executive Director
Dated: 20/12/2017

Mr Qi Zhang
Non-Executive Director
Dated: 20/12/2017

Ms Aiqun Hao
Non-Executive Director
Dated: 20/12/2017

Ms Anita Yuen Mei Fung
Independent Director
Dated: 20/12/2017

Sir Malcolm Christopher McCarthy
Independent Director
Dated: 20/12/2017

Mr Carl Walter
Independent Director
Dated: 20/12/2017

Mr Timpson Shui Ming Chung
Independent Director
Dated: 20/12/2017

Mr Murray Horn
Independent Director
Dated: 20/12/2017

Signed by the New Zealand Chief Executive Officer of China Construction Bank Corporation New Zealand Branch

Mr Jun Qi
Dated: 20 December 2017

Historical Summary of Financial Statements

For the nine month period ended	Audited 30 September 2017 $000	Unaudited 30 September 2016 $000	Unaudited 30 September 2015 $000	Unaudited 30 September 2014 $000
Statement of comprehensive income				
Interest income	38,789	14,517	3,824	912
Interest expense	(20,774)	(9,484)	(1,755)	(28)
Net Interest Income	**18,015**	**5,033**	**2,069**	**884**
Net non-interest income/(expense)	1,370	1,428	(193)	1
Net operating income	**19,385**	**6,461**	**1,876**	**885**
Operating expenses	(8,612)	(7,023)	(5,274)	(731)
Impairment losses on loans and advances	(700)	(216)	(289)	-
Profit/(loss) before income tax	**10,073**	**(778)**	**(3,687)**	**154**
Income tax benefit/(expense)	(2,913)	-	-	-
Profit/(loss) after income tax	**7,160**	**(778)**	**(3,687)**	**154**

As at	Audited 30 September 2017 $000	Unaudited 30 September 2016 $000	Unaudited 30 September 2015 $000	Unaudited 30 September 2014 $000
Statement of financial position				
Total assets	1,605,454	711,662	323,297	69,258
Total liabilities	1,402,951	518,713	269,061	10,474
Total shareholder's equity	202,503	192,949	54,236	58,784

The amounts disclosed in this historical summary of financial statements are for 2014, 2015, 2016 and 2017, as the Bank has less than 5 consecutive full year accounting periods, and have been taken from the financial statements of CCBNZL.

Statement of Comprehensive Income

For the nine month period ended	Note	30 September 2017 $000	30 September 2016 $000
Interest income	*2*	38,789	14,517
Interest expense	*2*	(20,774)	(9,484)
Net Interest Income	*2*	**18,015**	**5,033**
Net non-interest income	3	1,370	1,428
Total operating income		**19,385**	**6,461**
Operating expenses	4	(8,612)	(7,023)
Impairment losses on loans and advances	5	(700)	(216)
Profit/(Loss) before income tax		**10,073**	**(778)**
Income tax expense	6	(2,913)	**-**
Profit/(Loss) after income tax		**7,160**	**(778)**
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	21	(255)	-
Total other comprehensive income, net of tax		**(255)**	**-**
Total comprehensive income/(loss)		**6,905**	**(778)**

These financial statements are to be read in conjunction with the notes on pages 20 to 85.

Statement of Changes in Equity

For the nine month period ended 30 September 2017	Note	Share Capital $000	Retained Earnings $000	Cash Flow Hedge Reserve $000	Total $000
Balance at the beginning of the period		199,178	(3,651)	71	195,598
Profit after income tax		-	7,160	-	7,160
Other comprehensive income	21	-	-	(255)	(255)
Total comprehensive income for the period		**-**	**7,160**	**(255)**	**6,905**
Transactions with owners:					
Ordinary share capital issued	20	-	-	-	-
Dividends paid on ordinary shares		-	-	-	-
Balance as at 30 September 2017		**199,178**	**3,509**	**(184)**	**202,503**

For the nine month period ended 30 September 2016	Note	Share Capital $000	Retained Earnings $000	Cash Flow Hedge Reserve $000	Total $000
Balance at the beginning of the period		58,630	(5,451)	-	53,179
Loss after income tax		-	(778)	-	(778)
Other comprehensive income	21	-	-	-	-
Total comprehensive income for the period		**-**	**(778)**	**-**	**(778)**
Transactions with owners:					
Ordinary share capital issued	20	140,548	-	-	140,548
Dividends paid on ordinary shares		-	-	-	-
Balance as at 30 September 2016		**199,178**	**(6,229)**	**-**	**192,949**

These financial statements are to be read in conjunction with the notes on pages 20 to 85.

Balance Sheet

As at	Note	30 September 2017 $000	30 September 2016 $000
Assets			
Cash and balances with central bank	7	40,320	22,908
Due from other financial institutions	8	102,415	157,596
Derivative financial assets	9	14,153	3,972
Loans and advances	10	1,445,343	522,897
Due from related parties	22	569	2,139
Other assets	12	329	169
Property, plant and equipment	13	1,291	1,929
Intangible assets	14	198	52
Deferred tax assets	15	836	-
Total assets		**1,605,454**	**711,662**
Liabilities			
Due to other financial institutions	16	24,020	-
Derivative financial liabilities	9	5,831	380
Deposits from customers	17	258,999	119,022
Debt securities issued	18	292,441	279,982
Due to related parties	22	802,611	103,391
Subordinated debt	22	15,132	15,141
Current tax liabilities	6	2,294	-
Other liabilities	19	1,623	797
Total liabilities		**1,402,951**	**518,713**
Shareholder's equity			
Share capital	20	199,178	199,178
Retained earnings		3,509	(6,229)
Cash flow hedge reserve	21	(184)	-
Total shareholder's equity		**202,503**	**192,949**
Total liabilities and shareholder's equity		**1,605,454**	**711,662**
Total interest earning and discount bearing assets		1,589,499	704,357
Total interest and discount bearing liabilities		1,388,624	513,019

These financial statements are signed on behalf of the Board of Directors by:

DIRECTOR ZuJi Wang

Date: 20/12/2017

DIRECTOR XiuSheng Pang

Date: 20/12/2017

These financial statements are to be read in conjunction with the notes on pages 20 to 85.

Cash Flow Statement

For the nine month period ended	Note	30 September 2017 $000	30 September 2016 $000
Cash flows from operating activities			
Interest received		37,500	13,663
Interest paid		(3,860)	(2,473)
Non-interest income received		205	1,703
Non-interest expenses paid		(265)	(66)
Operating expenses paid		(8,030)	(6,483)
Income taxes paid		-	-
Net cash flows from operating activities before changes in operating assets and liabilities		**25,550**	**6,344**
Net changes in operating assets and liabilities:			
Net decrease/(increase):			
GST receivable		(36)	(1)
Other assets		(20)	(59)
Loans and advances		(698,473)	(215,987)
Due from related parties		(62)	(856)
Net increase/(decrease):			
Due to other financial institutions		(4,000)	(14,500)
Other liabilities		595	76
Deposits from customers		118,889	21,247
Net changes in operating assets and liabilities		**(583,107)**	**(210,080)**
Net cash flows used in operating activities	26	**(557,557)**	**(203,736)**
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(76)	(85)
Purchase of intangible assets	14	(78)	-
Net cash flows used in investing activities		**(154)**	**(85)**
Cash flows from financing activities			
Issue of ordinary share capital		-	140,548
Net increase in due to related parties		581,932	8,706
Net increase in debt issues		(2,000)	150,646
Interest paid on financing activities		(13,492)	(6,463)
Net cash flows provided by financing activities		**566,440**	**293,437**
Net (decrease)/increase in cash and cash equivalents		8,729	89,616
Cash and cash equivalents at beginning of the period		134,507	91,670
Cash and cash equivalents at end of the period		**143,236**	**181,286**
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]		102,409	157,202
Cash and balances with central banks		40,320	22,908
Due from related party (nostro balance held with the Ultimate Parent Bank) [2]		507	1,176
Cash and cash equivalents at end of the period		**143,236**	**181,286**

[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 $6k as at 30 September 2017 and $394k as at 30 September 2016.
[2] The amount 'Due from related parties (nostro balance account held with Ultimate Parent Bank) above does not equal the 'Due from related parties' on the balance sheet due to receivables of $62k as at 30 September 2017 and nil as at 30 September 2016.

These financial statements are to be read in conjunction with the notes on pages 20 to 85.

1. Statement of Accounting Policies

1.1. Reporting Entity

The reporting entity for the purpose of this Disclosure Statement is the China Construction Bank New Zealand Branch, the ("**Branch**"). The reporting group is the NZ Banking Group which is an aggregation of the Branch and China Construction Bank (New Zealand) Limited, ("**CCBNZL**"), (a locally incorporated subsidiary of the Overseas Bank whose principal activity is the provision of a range of banking products and services to business, corporate, institutional and retail customers). The basis of aggregation is an addition of the NZ Banking Group entities' individual financial statements. All transactions and balances between entities within the NZ Banking Group have been fully eliminated where they exist.

These financial statements were approved for issue by the Board of Directors of the Overseas Bank (the "**Board**") on 20 December 2017.

1.2. Basis of Preparation

The NZ Banking Group's financial statements for the nine month period ended 30 September 2017 have been prepared in accordance with instructions from the Reserve Bank of New Zealand. In accordance with those instructions the comparatives in the Balance Sheet are as at 30 September 2016 and not as of the end of the immediately preceding financial year as prescribed by NZ IAS 34 and IAS 34 Interim Financial Reporting. Apart from this the NZ Banking Group's financial statements for the nine month period ended 30 September 2017 have been prepared in accordance with the requirements of:

- The Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order");
- Generally Accepted Accounting Practice in New Zealand ("NZ GAAP");
- New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as appropriate for Tier 1 for-profit entities; and
- International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

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;

1.3. Basis of Aggregation

The NZ Banking Group as at 30 September 2017 has been aggregated by combining the sum of the capital and reserves of the Branch, and the consolidated capital and reserves of CCBNZL. For New Zealand entities acquired by the Overseas Banking Group, capital and reserves at acquisition are netted and recognised as capital contributed to the NZ Banking Group. As at 30 September 2017, the head office account and reserves of the Branch were nil.

1.4. Presentation currency and rounding

All amounts contained in the financial statements are presented in thousands of New Zealand Dollars, which is the NZ Banking Group's functional and presentation currency, unless otherwise stated.

1.5. Particular accounting policies

a) Foreign currency

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

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

b) Revenue recognition

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

Interest income

Interest income for all interest earning financial assets including those at fair value is recognised in the profit or loss using the effective interest method.

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

Fee and commission income

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis as the service is provided. Fees and commissions not integral to the effective interest rate arising from negotiating, or participating in the negotiation of a transaction with a third party, such as purchase or sale of businesses, are recognised on completion of the underlying transaction in other income.

Trading income

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

Gain or loss on disposal of property, plant and equipment

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

c) Expense recognition

Interest expense

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

Loan origination expenses

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

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

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

Leasing

Operating lease payments are recognised in the profit or loss as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit received. Incentives received on entering into operating leases are recognised as liabilities and amortised as a reduction of rental expense on a straight-line basis over the lease term.

Impairment losses on loans and receivables carried at amortised cost

The loss recognised in the profit or loss for impairment on loans and receivables carried at amortised cost reflects the net movement in the provisions for individually assessed and collectively assessed loans, write-offs and recoveries of impairments previously written off.

Commissions and other fees

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

Other expenses

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

d) Taxation

Income tax expense

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

Current tax

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

Deferred tax

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

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

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

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

Offsetting

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

Goods and services tax

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

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

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

e) Financial Assets

Classification

Financial assets are classified into one of the following categories at initial recognition: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification at initial recognition depends on the purpose and management's intention for which the financial assets were acquired and their characteristics.

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

This category has two sub-categories: first, financial assets or liabilities held for trading and second, those designated at fair value through profit or loss at inception. A financial asset or liability is classified in this category if acquired or incurred principally for the purpose of selling or repurchasing it in the near term, if it is part of a portfolio of financial assets or liabilities that are managed together and for which there is evidence of a recent pattern of short-term profit taking, if it is a derivative that is not a designated hedging instrument, or if so designated on acquisition by management. This designation may only be made if the financial asset or liability contains an embedded derivative, it is managed on a fair value basis in accordance with a documented risk management strategy, or if designating it at fair value reduces an accounting mismatch.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the NZ Banking Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Recognition and measurement of financial assets

Purchases and sales of financial assets at fair value through profit or are recognised on the trade-date, the date on which the NZ Banking Group commits to purchase or sell the asset. Loans and receivables are recognised when cash is advanced to the borrower. Financial assets at fair value through profit or loss are recognised initially at fair value, with transaction costs being recognised in profit or loss immediately. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method less impairment. Realised and unrealised gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the profit or loss in the period in which they arise.

The fair values of quoted investments in active markets are based on prices within the bid-ask spreads that are most representative of fair value in the circumstances. If the market for a financial asset is not active, the NZ Banking Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

De-recognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the entity has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full, without material delay, to a third party under a 'pass-through' arrangement and cannot sell or re-pledge the asset other than to the transferee; and
- either the NZ Banking Group has transferred substantially all the risks and rewards of the

asset, or the NZ Banking Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the NZ Banking Group transfers its right to receive cash flows from an asset or has entered into a pass-through arrangement without transferring or retaining substantially all the risks and rewards of ownership or transferred control of these assets, the asset continues to be recognised on the balance sheet to the extent of the NZ Banking Group's continuing involvement in the asset.

Cash and balances with central banks

Cash and balances with central banks include cash and cash at bank, cash in transit and call deposit and settlement account balances with central banks. These balances have an original maturity of less than three months. They are accounted for as loans and receivables and subsequently measured at amortised cost or the gross value of the outstanding balance, where appropriate.

Due from other financial institutions

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

Derivative assets

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

Loans and advances

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

Due from related parties

This amount includes all amounts due from related parties of the NZ Banking Group, and is accounted for as loans and receivables, as above.

Other assets

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

Impairment of Financial Assets

Individually impaired assets are defined as any credit exposures against which an individually assessed provision has been recorded in accordance with NZ IAS 39 *Financial Instruments: Recognition and Measurement*.

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

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

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

The following accounting policies apply to the impairment of financial assets:

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are not assessed for impairment as their fair value reflects the credit quality of the instrument and changes in fair value are recognised in the profit or loss.

(b) Loans and receivables

The NZ Banking Group assesses at each reporting date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets held at amortised cost is impaired and impairment losses are incurred if, and only if:

- there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the reporting date (a “loss event”); and
- that loss event has had an impact on the estimated future cash flows of the financial asset or the portfolio of financial assets that can be reliably estimated.

Objective evidence that a financial asset of group of financial assets is impaired includes observable data that comes to the attention of the NZ Banking Group about the following loss events:

a) significant financial difficulty of the issuer or obligor;

b) a breach of contract, such as a default or delinquency in interest or principal payments;

c) the NZ Banking Group granting to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, a concession that the NZ Banking Group would not otherwise consider;

d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

e) the disappearance of an active market for that financial asset because of financial difficulties; or

f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the NZ Banking Group, including:

    i. adverse changes in the payment status of borrowers in the group; or

    ii. national or local economic conditions that correlate with defaults on the assets in the group.

The NZ Banking Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the NZ Banking Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment of loans and receivables has occurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate. As this discount unwinds during the period between recognition of the impairment and recovery of the cash flow, it is recognised in interest income. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics, taking into account asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based, and to remove the effects of conditions in the historical period that do not currently exist.

The process of estimating the amount and timing of cash flows involves considerable management judgment. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the profit or loss.

When a loan or part of a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised through the profit or loss.

A provision is also raised for off-balance sheet items such as commitments that are considered likely to result in an expected loss.

f) Non-financial assets

Property, plant and equipment

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

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

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

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

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

Intangible assets

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

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

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

g) Financial liabilities

Classification

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

Financial liabilities at amortised cost

This category includes all financial liabilities other than those at fair value through profit or loss. Liabilities in this category are measured at amortised cost.

Recognition and measurement of financial liabilities

Financial liabilities are recognised when an obligation arises. Financial liabilities held at fair value through profit or loss are initially recognised at fair value with transaction costs being recognised in the profit or loss immediately. Subsequently, they are measured at fair value with any gains and losses included in the profit or loss in the period in which they arise. All other financial liabilities are initially recognised at fair value less transaction costs and subsequently measured at amortised cost using the effective interest method.

De-recognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing financial liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

Due to other financial institutions

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

Deposits from customers

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

Derivative liabilities

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

Debt securities issued

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

Financial guarantee contracts

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

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

Due to related parties

This amount includes all amounts due to related parties of the NZ Banking Group. They are measured at amortised cost using the effective interest method.

Subordinated Debt

Subordinated Debt securities are notes that have been issued by the NZ Banking Group. They are accounted for at amortised cost. It is initially recorded at cost, which is the fair value of the consideration received, net of transaction costs. Subsequently, the Subordinated Debt is measured using the effective interest method.

Other liabilities

Other liabilities include fees payable, payables relating to unsettled transactions and trade creditors.

Guarantee from Ultimate Parent Bank

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

h) Derivative financial instruments and hedge accounting

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

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

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

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

A hedge is regarded as highly effective if, at inception and throughout its life, the NZ Banking Group can expect changes in the fair value or cash flows of the hedged item to be almost fully offset by the changes in the fair value or cash flows of the hedging instrument, and actual results of the hedge are within a range of 80% to 125% of these changes. Hedge ineffectiveness represents the amount by which the changes in the fair value of the hedging instrument differ from changes in the fair value of the hedged item or the amount by which changes in the cash flows of the hedging instrument differ from changes (or expected changes) in the present value of the cash flows of the hedged item.

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

Fair value hedge accounting

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

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

Cash flow hedge accounting

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

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

i) Offsetting

Offsetting of income and expenses

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

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

Offsetting of financial assets and financial liabilities

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

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

j) Provisions

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

k) Contingent liabilities

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

l) Leases

Leases are classified as either finance leases or operating leases. Leases which transfer substantially all the risks and rewards of ownership of the assets to the lessees are classified as finance leases. Leases where substantially all the risks and rewards of the assets remain with the lessor are classified as operating leases.

In its capacity as a lessee, the NZ Banking Group mainly leases property, plant and equipment under operating leases. Payments due to the lessor under operating leases are charged to the profit or loss on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern of the benefit received.

m) Equity

Shares

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

Cash flow hedge reserve

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

Dividend distribution

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

n) Statement of cash flows

Cash and cash equivalents

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

Interest paid

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

Netting of cash flows

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

1.6. Comparatives

Certain comparative information has been disclosed for the prior period.

1.7. Changes in accounting policies

There have been no changes to accounting policies in the nine month period ended 30 September 2017.

1.8. Future accounting developments

The following new standards and amendments to standards relevant to the NZ Banking Group have been issued. The NZ Banking Group does not intend to apply these standards until their effective dates.

NZ IFRS 9 *Financial Instruments* addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2015. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The NZ Banking Group intends to adopt NZ IFRS 9 on its effective date and the impact is described as follows:

a) Impact of hedge accounting

Disclosure Item	Classification under IAS 39	Classification under IFRS 9	Impact on net profit	Impact on equity
Cash and balances with central bank	Loans & Receivables	Amortised Cost	-	-
Due from other financial institutions	Loans & Receivables	Amortised Cost	-	-
Derivative financial assets	Fair Value through Profit or Loss	Fair Value through Profit or Loss	-	-
Loans and advances	Loans & Receivables	Amortised Cost	-	-

b) Impact of expected credit loss model that replaces the incurred loss impairment model

The NZ Banking Group has fully assessed the impact of the change from an incurred loss impairment model to an expected credit loss model. The assessed impact of this change is an approximate increase of 0.13% or circa $2.3m in Provisions on impairment losses on loans and advances; a decrease of circa $1.7m to equity; and circa $0.6m increase to deferred tax asset.

NZ IFRS 15 *Revenue from Contracts with Customers* is effective for annual periods beginning on or after 1 January 2018 and addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in IAS 18 *Revenue* and is applicable to all entities with revenue. It sets out a five step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The NZ Banking Group has considered the full impact of NZ IFRS 15 and determined that there is no material impact resulting from the introduction of the five step model to revenue recognition on the financial statements.

IFRS 16 *Leases* is effective for annual periods beginning on or after 1 January 2019 which replaces the current guidance in IAS 17. It was published by the International Accounting Standards Board (IASB) in January 2016. The standard has been issued in February 2016 by the External Reporting Board in New Zealand. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. If applicable, the accounting by lessors under IFRS 16 is almost the same as IAS 17. However, lessors will also be affected by this new standard as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts). Early adoption of this standard is permitted but only in conjunction with NZ IFRS 15 *Revenue from Contracts with Customers*. The NZ Banking Group intends to adopt IFRS 16 on its effective date and has yet to assess its full impact.

The NZ Banking Group has also considered all other standards issued but not yet effective and determined that they have no material impact on the financial statements.

1.9. Critical accounting estimates, assumptions and judgements

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

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

a) Impairment of loans and advances

Impairment allowance on each loan or advance is evaluated based upon management's judgments in applying the accounting policy in 1.5(e). The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

b) Fair value measurement

The valuation of financial instruments requires significant estimates and judgment. Refer to Note 24 for more details on the valuation of financial instruments.

There are no other assumptions made about the future, and no other major sources of estimation uncertainty as at 30 September 2017, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. There are also no other judgements that management has made in the process of applying the NZ Banking Group's accounting policies that have a significant effect on the amounts recognised in the financial statements.

2. Net Interest Income

For the nine month period ended	30 September 2017 $000	30 September 2016 $000
Interest Income		
Due from other financial institutions	864	1,131
Loans and advances[1]	37,908	13,331
Due from related parties	17	55
Others	-	-
Total interest income	**38,789**	**14,517**
Interest expense		
Due to other financial institutions	(189)	(570)
Deposits and other borrowings	(4,796)	(2,206)
Due to related parties	(6,744)	(2,474)
Debt securities issued	(9,045)	(4,234)
Others	-	-
Total interest expense	**(20,774)**	**(9,484)**
Total net interest income	**18,015**	**5,033**

[1] *Interest income on loans and advances includes interest earned of nil on individually impaired assets of the NZ Banking Group in 2017 and 2016.*

3. Net Non-Interest Income/(expense)

For the nine month period ended	30 September 2017 $000	30 September 2016 $000
Fees and commissions		
Lending and credit facility related fee income	1,267	1,685
Other fee expense	(197)	(67)
Commission income	34	19
Total fees and commissions	**1,104**	**1,637**
Other income/(expense)		
Net ineffectiveness on qualifying hedges	254	(63)
Net gains on derivatives used for hedging purposes that do not qualify for hedge accounting	67	42
Net losses on other derivatives at fair value	(55)	(188)
Total other income/(expense)	**266**	**(209)**
Total net non-interest income	**1,370**	**1,428**

4. Operating Expenses

For the nine month period ended	30 September 2017 $000	30 September 2016 $000
Amortisation of intangible assets	39	12
Depreciation:		
- Leasehold improvements	201	201
- Furniture and equipment	95	93
- Computer equipment	217	202
- Motor vehicles	31	31
Directors' fees	172	172
Fees Paid to External Auditors	168	35
Employee benefits:		
- Salaries and wages	4,711	4,281
- Defined contribution plan expense	100	65
- Other	33	38
Operating lease rentals	724	720
Purchased services:		
- Technology and information systems	246	219
- Legal	38	28
- Other professional services	1,007	357
GST expense	151	155
Other expenses	679	414
Total operating expenses	**8,612**	**7,023**

Fees Paid to External Auditors

For the nine month period ended	30 September 2017 $000	30 September 2016 $000
Audit of disclosure statements		
- PwC (audit of September disclosure statement)	130	-
Total audit fees	**130**	**-**
Other services		
- PwC (review of June disclosure statement)	25	25
- PwC (procedures over off-quarter disclosure statements)	13	10
Total other services	**38**	**35**
Total fees paid to the external auditors	**168**	**35**

5. Impairment Losses on Loans and Advances

For the nine month period ended 30 September 2017	Residential mortgage $000	Corporate exposures $000	Other exposures $000	Total credit exposures $000
Movement in collectively assessed provisions	315	385	-	700
Movement in individually assessed provisions [1, 2]	-	-	-	-
Bad debts written-off directly to the profit or loss	-	-	-	-
Bad debts recovered	-	-	-	-
Total impairment losses on loans and advances	**315**	**385**	**-**	**700**

For the nine month period ended 30 September 2016	Residential mortgage $000	Corporate exposures $000	Other exposures $000	Total credit exposures $000
Movement in collectively assessed provisions	141	75	-	216
Movement in individually assessed provisions [1, 2]	-	-	-	-
Bad debts written-off directly to the profit or loss	-	-		-
Bad debts recovered	-	-	-	-
Total impairment losses on loans and advances	**141**	**75**	**-**	**216**

[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 their present value using the original effective interest rate for the asset. This discount unwinds as interest income over the period the asset is held.

[2] Undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired were nil as at 30 September 2017 (30 September 2016: nil). The NZ Banking Group did not have other assets under administration as at 30 September 2017 (30 September 2016: nil).

6. Income Tax Expense

For the nine month period ended	30 September 2017 $000	30 September 2016 $000
Current tax	(2,294)	-
Deferred tax	(619)	-
Total income tax benefit	**(2,913)**	**-**
Reconciliation of the prima facie income tax payable on profit/(loss)		
Profit/(loss) before income tax	10,073	-
Tax at domestic rate (28%)	(2,820)	-
Tax effect of expenses not deductible for tax purposes	(86)	-
Tax effect of timing differences	-	-
Recognition of prior tax losses/(tax losses not recognised)	(7)	-
Total income tax benefit/(expense)	**(2,913)**	**-**
Effective tax rate	**29%**	**0%**
Income tax (charged) / credited directly to equity		
Current tax	-	-
Deferred tax	99	-
Total income tax (charged) / credited directly to equity	**99**	**-**

Imputation credit account

The amount of imputation credits available to the NZ Banking Group as at 30 September 2017 for use in subsequent reporting periods is nil (30 September 2016: nil).

7. Cash and Balances with Central Bank

As at	30 September 2017 $000	30 September 2016 $000
Call deposits and settlement account balances with central bank	40,320	22,908
Total cash and balances with central bank	**40,320**	**22,908**
Amounts expected to be recovered within 12 months	40,320	22,908
Amounts expected to be recovered after 12 months	-	-
Total cash and balances with central banks	**40,320**	**22,908**

8. Due from other Financial Institutions

As at	30 September 2017 $000	30 September 2016 $000
Loans and advances due from other financial institutions – call	28,818	1,166
Loans and advances due from other financial institutions – term	73,597	156,430
Other unsettled receivables	-	-
Total amount due from other financial institutions	**102,415**	**157,596**
Amounts expected to be recovered within 12 months	102,415	157,596
Amounts expected to be recovered after 12 months	-	-
Total amount due from other financial institutions	**102,415**	**157,596**

9. Derivative Financial Instruments

As at 30 September	2017			2016		
	Notional Principal Amount $000	Fair value Assets $000	Fair value Liabilities $000	Notional Principal Amount $000	Fair value Assets $000	Fair value Liabilities $000
Held for trading derivatives [1]						
Foreign exchange contracts						
Forward contracts	17,270	39	(43)	714	4	-
Swaps	395,564	1,296	(1,507)	211,376	290	-
Interest rate contracts						
Swaps	497,772	1,690	(1,180)	33,300	7	-
Total held for trading derivatives	**910,606**	**3,025**	**(2,730)**	**245,390**	**301**	**-**
Held for hedging derivatives						
Designated as fair value hedges						
Exchange rate contracts						
Swaps	137,741	940	(754)	-	-	-
Interest rate contracts						
Swaps	1,375,125	1,840	(2,347)	439,600	3,671	(380)
Total designated as fair value hedging derivatives	**1,512,866**	**2,780**	**(3,101)**	**439,600**	**3,671**	**(380)**
Total held for hedging derivatives	**1,512,866**	**2,780**	**(3,101)**	**439,600**	**3,671**	**(380)**
Cash flow hedging derivatives						
Foreign exchange derivatives						
Swaps	753,978	8,348	-	-	-	-
Interest rate derivatives						
Swaps	-	-	-	-	-	-
Total cash flow hedging derivatives	**753,978**	**8,348**	**-**	**-**	**-**	**-**
Total derivative assets/(liabilities)	**3,177,450**	**14,153**	**(5,831)**	**684,990**	**3,972**	**(380)**
Amounts due for settlement within 12 months		2,316	(3,963)		2,067	(334)
Amounts due for settlement after 12 months		11,837	(1,868)		1,905	(46)

[1] Held-for-trading derivative financial instruments include some derivatives that are used for hedging purposes that are not in designated hedge accounting relationships.

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

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

Derivatives, except for those that are specifically designated as effective hedging instruments, are classified as held for trading.

Derivatives held for trading

The held for trading classification includes two categories of derivative instruments: those held as trading positions and those used for the NZ Banking Group's balance sheet risk management.

Trading positions

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

Balance sheet risk management

The NZ Banking Group designates certain balance sheet risk management derivatives into hedging relationships in order to minimise income statement volatility. This volatility is created by differences in the timing of recognition of gains and losses between the derivative and the hedged item. Hedge accounting is not applied to all balance sheet risk management positions as some balance sheet risk management derivatives are classified as held for trading.

Derivatives in hedging relationships

Fair value hedges

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

Dual fair value and cash flow hedges

The NZ Banking Group hedges fixed rate foreign currency denominated deposits due to related party, using a cross currency swap, designated as fair value hedge of foreign interest rates and cash flow hedge of foreign exchange rates.

For the nine month period ended	30 September 2017 $000	30 September 2016 $000
Gain/(loss) arising from fair value hedges		
- hedged item	(1,189)	(1,766)
- hedging instrument	1,443	1,703
Net ineffectiveness on qualifying fair value hedges	**254**	**(63)**

10. Loans and Advances

As at	Audited 30 September 2017 $000	Audited 30 September 2016 $000
Residential mortgages	698,295	213,873
Corporate	748,493	309,546
Total gross loans and advances	**1,446,788**	**523,419**
Provisions for impairment losses on loans and advances	(1,445)	(522)
Total net loans and advances	**1,445,343**	**522,897**
Amounts expected to be recovered within 12 months	502,885	220,262
Amounts expected to be recovered after 12 months	942,458	302,635
Total net loans and advances	**1,445,343**	**522,897**

11. Asset Quality

As at 30 September 2017	Residential mortgages $000	Corporate exposures $000	Other exposures $000	Total credit exposures $000
Neither past due nor impaired	697,181	748,493	-	1,445,674
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	1,114	-	-	1,114
Total past due but not impaired	**1,114**	-	-	**1,114**
Individually impaired assets				
Balance at beginning of the period	-	-	-	-
Additions	-	-	-	-
Amounts written off	-	-	-	-
Deletions	-	-	-	-
Total individually impaired assets	**-**	**-**	**-**	**-**
Total gross loans and advances	**698,295**	**748,493**	**-**	**1,446,788**
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	-	-	-	-
Amounts written off	-	-	-	-
Discount unwind	-	-	-	-
Balance at end of the period	**-**	**-**	**-**	**-**
Collectively assessed provisions				
Balance at beginning of the period	380	365	**-**	745
Charge (credit) to impairment losses on loans and advances in profit or loss	315	385	-	700
Balance at end of the period	**695**	**750**	**-**	**1,445**
Total provisions for impairment losses on loans and advances	**695**	**750**	**-**	**1,445**
Total net loans and advances	**697,600**	**747,743**	-	**1,445,343**

Undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired were nil as at 30 September 2017 (30 September 2016: nil). The NZ Banking Group did not have other assets under administration as at 30 September 2017 (30 September 2016: nil).

As at 30 September 2016	Residential mortgages $000	Corporate exposures $000	Other exposures $000	Total credit exposures $000
Neither past due nor impaired	213,873	309,546	-	523,419
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	**213,873**	**309,546**	**-**	**523,419**
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	-	-	-	-
Amounts written off	-	-	-	-
Discount unwind	-	-	-	-
Balance at end of the period	**-**	**-**	**-**	**-**
Collectively assessed provisions				
Balance at beginning of the period	72	234	-	306
Charge (credit) to impairment losses on loans and advances in profit or loss	141	75	-	216
Balance at end of the period	**213**	**309**	**-**	**522**
Total provisions for impairment losses on loans and advances	**213**	**309**	**-**	**522**
Total net loans and advances	**213,660**	**309,237**	**-**	**522,897**

12. Other Assets

As at	30 September 2017 $000	30 September 2016 $000
Trade debtors	19	5
Prepayments	238	64
Other	72	100
Total other assets	**329**	**169**
Amounts expected to be recovered within 12 months	329	169
Amounts expected to be recovered after 12 months	-	-

13. Property, Plant and Equipment

As at	30 September 2017 $000	30 September 2016 $000
Leasehold improvements for assets used under operating lease	742	1,002
Furniture and equipment	337	434
Computer equipment	123	362
Motor vehicles	89	131
Total property, plant and equipment	**1,291**	**1,929**

As at 30 September 2017	Leasehold improvements for assets used under operating lease $000	Furniture and equipment $000	Computer Equipment $000	Motor vehicles $000	Total $000
Cost brought forward	1,338	625	859	210	3,032
Accumulated depreciation brought forward	(401)	(221)	(561)	(89)	(1,272)
Opening net carrying amount	**937**	**404**	**298**	**121**	**1,760**
Additions	6	28	42	-	76
Disposals	-	-	-	-	-
Depreciation	(203)	(94)	(217)	(31)	(545)
Closing net carrying amount	**740**	**338**	**123**	**90**	**1,291**
Cost	1,344	653	901	210	3,108
Accumulated depreciation	(604)	(315)	(778)	(120)	(1,817)
Closing net carrying amount	**740**	**338**	**123**	**90**	**1,291**

As at 30 September 2016	Leasehold improvements for assets used under operating lease $000	Furniture and equipment $000	Computer Equipment $000	Motor vehicles $000	Total $000
Cost brought forward	1,338	610	780	209	2,937
Accumulated depreciation brought forward	(135)	(97)	(287)	(47)	(566)
Opening net carrying amount	**1,203**	**513**	**493**	**162**	**2,371**
Additions	-	14	71	-	85
Disposals	-	-	-	-	-
Depreciation	(201)	(93)	(202)	(31)	(527)
Closing net carrying amount	**1,002**	**434**	**362**	**131**	**1,929**
Cost	1,338	624	851	209	3,022
Accumulated depreciation	(336)	(190)	(489)	(78)	(1,093)
Closing net carrying amount	**1,002**	**434**	**362**	**131**	**1,929**

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 2017 (30 September 2016: nil).

As at 30 September 2017 contractual commitments relating to the purchase of furniture and computer equipment was nil (30 September 2016: nil).

14. Intangible Assets

As at	30 September 2017 $000	30 September 2016 $000
Computer software	198	52
Total intangible assets	**198**	**52**
Computer software		
Cost brought forward	192	80
Accumulated amortisation brought forward	(33)	(16)
Opening net carrying amount	**159**	**64**
Additions	78	-
Disposals	-	-
Amortisation	(39)	(12)
Closing net carrying amount	**198**	**52**
Cost	270	80
Accumulated amortisation	(72)	(28)
Closing net carrying amount	**198**	**52**

There were no restrictions existing on title to intangible assets and no intangible assets were pledged as security for liabilities as at 30 September 2017 (30 September 2016: nil).

There were contractual commitments for the acquisition of intangible assets as at 30 September 2017 of $100k (30 September 2016: nil).

15. Deferred Tax

As at	30 September 2017 $000	30 September 2016 $000
Deferred tax asset		
Balance at beginning of period	1,356	-
Recognised in profit or loss	(619)	-
Recognised in other comprehensive income	-	-
Recognised directly in equity	99	-
Balance at end of period	**836**	**-**
Deferred tax assets / (liabilities) comprises the following temporary differences:		
Provision for impairment losses on loans and advances	405	-
Provision for employee entitlements	189	-
Property, plant and equipment	134	-
Intangible assets	-	-
Cash flow hedges	71	-
Tax losses recognised	-	-
Other temporary differences	37	-
Total deferred tax assets (net)[1]	**836**	**-**
To be recovered within 12 months	836	-
To be recovered after 12 months	-	-
Total deferred tax assets (net)[1]	**836**	**-**

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

At the end of the reporting periods December 2014 and December 2015, the NZ Banking Group had tax losses of approximately $560,000 and $4,318,000 respectively that were available for offset against future taxable profits of the NZ Banking Group, for which no deferred tax asset was recognised due to uncertainty of its recoverability. As such, no comparative is presented.

16. Due to other Financial Institutions

As at	30 September 207 $000	30 September 2016 $000
Loans and advances due to other financial institutions – term	24,000	-
Accrued Interest	20	-
Total amount due to other financial institutions	**24,020**	**-**
Amounts expected to be settled within 12 months	24,020	-
Amounts expected to be settled after 12 months	-	-
Total amount due to other financial institutions	**24,020**	**-**

Included in due to other financial institutions as at 30 September 2017 was nil (30 September 2016: nil) of collateral pledged by counterparties in respect of its credit support annex obligations to the NZ Banking Group.

17. Deposits from Customers

As at	30 September 2017 $000	30 September 2016 $000
Demand deposits not bearing interest	9,164	1,987
Demand deposits bearing interest	69,906	57,098
Term deposits	179,929	59,937
Total deposits from customers	**258,999**	**119,022**
Amounts expected to be settled within 12 months	226,394	118,932
Amounts expected to be settled after 12 months	32,605	90
Total deposits from customers	**258,999**	**119,022**

18. Debt Securities Issued

Presented below are the NZ Banking Group's debt securities issued through CCBNZL at 30 September 2017. The distinction between short-term and long-term debt is based on the maturity of the underlying security at origination.

As at	30 September 2017 $000	30 September 2016 $000
Short term debt		
Registered certificate of deposits	43,000	40,000
Total short term debt	**43,000**	**40,000**
Long term debt		
Long term debt issued with less than 1 year to maturity	65,000	-
Domestic medium-term notes	183,300	236,800
Total long term debt	**248,300**	**236,800**
Total debt securities issued	**291,300**	**276,800**
Debt securities issued at amortised cost [1]	291,300	276,800
Total debt securities issued at face value	**291,300**	**276,800**
Movement in debt securities issued		
Balance at beginning of the period/year	292,638	124,541
Issuance during the period/year	125,500	183,000
Repayments during the period/year	(127,500)	(30,000)
Effect of fair value hedge adjustment	1,904	1,766
Net effect of Transaction costs and accruals	(101)	675
Balance at end of the period/year	292,441	279,982
Total debt securities issued	**292,441**	**279,982**
Amounts expected to be settled within 12 months	109,335	41,222
Amounts expected to be settled after 12 months	183,106	238,760
Total debt securities issued	**292,441**	**279,982**

[1] *Debt securities issued at amortised cost is presented at face value and does not tie to the Debt securities issued on Balance Sheet which include the fair value hedge adjustment, transaction costs and accruals.*

Details of the debt securities held by the NZ Banking Group issued through CCBNZL as at 30 September 2017 were as follows:

Short term debt

The NZ Banking Group's short term debt program issued through CCBNZL includes a Registered Certificate of Deposits (RCD) debt program. The issuances occur in NZ Dollars only. CCBNZL issued RCD as at 30 September 2017 NZD $125,500,000, (30 September 2016: $70,000,000), and settled during the period upon scheduled maturity date NZD $127,500,000, (30 September 2016: $30,000,000). The remaining balance settles within the next 12 months. RCD is issued under this program at a discount. Interest rate risks associated with the issuances are incorporated within the NZ Banking Group's risk management framework. Weighted Average Interest Rate ("**WAIR**"): 2017 2.37% (2016 2.61%).

Long term debt

The NZ Banking Group's long term debt issued through CCBNZL includes notes issued under its Medium Term Note program. The issuances occur in NZD and notes issued under this program have both fixed or variable interest rates. Interest rate risks associated with the issuances are incorporated within the NZ Banking Group's risk management framework.

During the year ended 30 September 2017: Nil, (30 September 2016: NZD $113,000,000) of long term debt securities were issued by CCBNZL. The Long term debt expected to settle within 12 months is $65,000,000, (30 September 2016: Nil) and settle after 12 months is $183,100,000, (30 September 2016: NZD 238,700,000). WAIR 2017: 3.46%, (2016: 3.50%).

The NZ Banking Group has not had any defaults of principal, interest or other breaches with regard to all Long and Short term debt liabilities during the year ended 30 September 2017 (30 September 2016: Nil).

19. Other Liabilities

As at	30 September 2017 $000	30 September 2016 $000
Employee entitlements	676	209
Trade creditors and other accrued expenses	533	79
Other	414	509
Total other liabilities	**1,623**	**797**
Amounts expected to be settled within 12 months	1,623	797
Amounts expected to be settled after 12 months	-	-
Total other liabilities	**1,623**	**797**

20. Share Capital and Initial Head Office Account

As at	30 September 2017 Number of shares	30 September 2017 $000	30 September 2016 Number of shares	30 September 2016 $000
Ordinary shares issued and fully paid				
Balance at beginning of the period	158,629,981	199,178	58,629,981	58,630
Shares issued during the period	-	-	100,000,000	140,548
Balance at end of the period	**158,629,981**	**199,178**	**158,629,981**	**199,178**

Ordinary Capital

On 20 July 2016, CCBNZL issued 100,000,000 ordinary shares to its Ultimate Parent Company, China Construction Bank Corporation and raised NZD $140,548,000 from the issuance. The ordinary shares qualify for Common Equity Tier 1 capital for the purposes of “Capital Adequacy Framework (Standardised Approach)”.

The total number of ordinary shares on issue as at 30 September 2017 was 158,629,981 (30 September 2016: 158,629,981). All issued ordinary shares are fully paid. All ordinary shares carry the right to one vote on a poll at meetings of shareholders and share equally in dividends authorised in respect of the ordinary shares and any proceeds available to ordinary shareholders on a winding up of the NZ Banking Group. The ordinary shares do not have a par value.

During the year ended 30 September 2017 CCBNZL paid dividends of nil to CCBC (equivalent to nil per share) (30 September 2016: nil).

21. Reserves

As at	30 September 2017 $000	30 September 2016 $000
Cash flow hedge reserve		
Balance at beginning of the period	71	-
Net gains/(losses) from changes in fair value	(354)	-
Transferred to profit or loss:		
Interest income	191	-
Interest expense	(191)	-
Income tax effect (deferred tax)	99	-
Balance at end of the period	**(184)**	**-**
Income tax effect (deferred tax)	99	-

22. Related Party Transactions

During the nine month period ended 30 September 2017, CCBNZL has entered into or had in place various financial transactions with the Ultimate Parent Bank.

Transactions with related parties

For the nine month period ended	30 September 2017 $000	30 September 2016 $000
Interest income		
Received from Ultimate Parent Bank	17	89
Received from other related parties	-	-
Interest expense		
Paid to Ultimate Parent Bank	(6,744)	(1,368)
Paid to other related parties	-	(145)
Non-interest income / (expense)		
Unrealised gains / (loss) on derivatives with Ultimate Parent Bank	113	(18)
Unrealised gains / (loss) on derivatives with related parties	-	-
Operating expenses		
Paid to Ultimate Parent Bank	-	-
Paid to other related parties (branches)	-	-

Balances with related parties

As at	30 September 2017 $000	30 September 2016 $000
Due from related parties		
Due from Ultimate Parent Bank	569	2,139
Due from other related parties	-	-
Total Related Party Assets	**569**	**2,139**
Amounts expected to be recovered within 12 months	569	2,139
Amounts expected to be recovered after 12 months	-	-
Total Related Party Assets	**569**	**2,139**
Due to related parties		
Due to Ultimate Parent Bank [1]	802,611	103,391
Due to other related parties	-	-
Total Related Party Liabilities	**802,611**	**103,391**
Amounts expected to be settled within 12 months	256,662	27,532
Amounts expected to be settled within 36 months	545,949	75,859
Total Related Party Liabilities	**802,611**	**103,391**
Derivative financial assets		
Derivative with Ultimate Parent Bank	10,439	362
Total derivative financial assets with Ultimate Parent Bank	**10,439**	**362**
Amounts expected to be recovered within 12 months	-	-
Amounts expected to be recovered after 12 months	10,439	362
Total derivative financial assets with Ultimate Parent Bank	**10,439**	**362**
Derivative financial liabilities		
Derivative with Ultimate Parent Bank	2,200	380
Total derivative financial liabilities with Ultimate Parent Bank	**2,200**	**380**
Amounts expected to be settled within 12 months	-	-
Amounts expected to be settled after 12 months	2,200	380
Total derivative financial liabilities with Ultimate Parent Bank	**2,200**	**380**
Subordinated Debt		
Subordinated Debt with Ultimate Parent Bank	15,132	15,141
Total Subordinated Debt with Ultimate Parent Bank	**15,132**	**15,141**
Amounts expected to be settled within 12 months	132	141
Amounts expected to be settled after 12 months	15,000	15,000
Total Subordinated Debt with Ultimate Parent Bank	**15,132**	**15,141**

There were no debts with any related parties written off or forgiven during the period ended 30 September 2017 (30 September 2016: nil).

No provisions for impairment loss have been recognised in respect of loans given to related parties as at 30 September 2017 (30 September 2016: nil).

Nature of transactions and balances with related parties

The NZ Banking Group undertakes transactions with the Overseas Banking Group.

These transactions principally consist of funding and hedging transactions and the provision of technology and process support. Transactions with related parties outside of the NZ Banking Group are conducted on an arm's length basis and on normal commercial terms.

Ultimate Parent Bank

From time to time the NZ Banking Group makes loans to the Ultimate Parent Bank. Where such loans were made, they were made in the normal course of business and were at arms-length. Where such loans are made, interest income is derived on these loans and is included within the Statement of Comprehensive Income. The loan balance as at 30 September 2017 is nil (30 September 2016: nil).

The NZ Banking Group holds nostro accounts with the Ultimate Parent Bank. The total balance as at 30 September 2017 is $507k (30 September 2016: $1,176k). NZ Banking Group has receivables with the Overseas Bank. The total balance as at 30 September 2017 is $62k (30 September 2016: nil). Also, the NZ Banking Group has a placement and accrued interest with the Ultimate Parent Bank of nil (30 September 2016: $963,000, inclusive of accrued interest).

The NZ Banking Group has borrowed funds from the Ultimate Parent Bank. These borrowings are made in the normal course of business and are at arms-length. The table below represents the movement of borrowing from the Ultimate Parent Bank during the period.

	USD $000	NZD $000	Total NZD Equiv. $000
Balance at 1 January 2017	140,000	9,500	210,707
New borrowing during the period	716,873	-	993,586
Repayments during the period	(279,000)	(9,500)	(396,194)
Effect of foreign exchange	-	-	(7,167)
Balance at 30 September 2017	**577,873**	**-**	**800,932** [1]

[1] *The Balance at end of the period does not equal Due to Related Parties in the Balance Sheet due to accrued interest and fair value hedge adjustment of $1,679k not being included in the above table.*

The amount due to the Ultimate Parent Bank of $256,410,000 due to be settled within 12 months and $544,521,000 to be settled within 24 months. (30 September 2016: $27,529,000 settled within 12 months and $75,705,000 settled within 24 months).

On 28 April 2016, CCBNZL raised NZD $15 million, issuing 15,000 redeemable, subordinated and unsecured medium term notes at a face value of NZD $1,000.00 each to the Sydney Branch of the Ultimate Parent Bank (Sydney Branch). The accrued interest on the subordinated note is $132,000 as at 30 September 2017. (30 September 2016: $141,000).

NZ Banking Group has a $10,439,000 unrealised revaluation gain on derivative deals with the Ultimate Parent Bank as at 30 September 2017. This is included in derivative financial assets in the Balance sheet (30 September 2016: $362,000).

NZ Banking Group has a $2,200,000 unrealised revaluation loss on derivative deals with the Ultimate Parent Bank as at 30 September 2017. This is included in derivative financial liabilities in the Balance sheet (30 September 2016: $380,000).

23. Key Management Personnel

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

The table below shows the amount of compensation paid to key management personnel of the NZ Banking Group.

Key Management Personnel Compensation

For the nine month period ended	30 September 2017 $000	30 September 2016 $000
Key management personnel compensation		
Salaries and other short-term employee benefits	819	764
Post-employment benefits (pension scheme contribution)	46	16
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
Total key management personnel compensation	**865**	**780**

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

Loans and deposits with key management personnel

There were no loans or deposits with key management personnel in the nine month period ended 30 September 2017 (30 September 2016: nil).

As at 30 September 2017, no provisions have been recognised in respect of loans given to key management personnel and their related parties (30 September 2016: nil). There were no debts written off or forgiven during the nine month period ended 30 September 2017 (30 September 2016: nil).

Other key management personnel transactions

There were no other transactions with key management personnel during the nine month period ended 30 September 2017 (30 September 2016: nil).

24. 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 55.

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 NZ Banking Group determines the fair value of a financial instrument based on the quoted price.

Where no quoted price in an active market is available, the NZ Banking Group 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 NZ Banking Group 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 NZ Banking Group 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 2017	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Derivative financial assets	-	14,153	-	14,153
Total financial assets carried at fair value	**-**	**14,153**	**-**	**14,153**
Financial liabilities				
Derivative financial liabilities	-	5,831	-	5,831
Total financial liabilities carried at fair value	**-**	**5,831**	**-**	**5,831**

As at 30 September 2016	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets				
Derivative financial assets	-	3,972	-	3,972
Total financial assets carried at fair value	**-**	**3,972**	**-**	**3,972**
Financial liabilities				
Derivative financial liabilities	-	380	-	380
Total financial liabilities carried at fair value	**-**	**380**	**-**	**380**

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 year ended 30 September 2017 (30 September 2016: nil). There have been no transfers into/out of level 3 during the year ended 30 September 2017 (30 September 2016: nil).

Fair value and Fair Value Hierarchy of financial instruments not measured at fair value

The following table below compares the fair value of financial instruments not measured at fair value with their carrying amounts and analyses them by level in their fair value hierarchy.

As at		30 September 2017		30 September 2016	
	Fair Value Hierarchy LEVEL	Fair Value $000	Carrying amount $000	Fair Value $000	Carrying amount $000
Financial assets					
Cash and balances with central banks	1	40,320	40,320	22,908	22,908
Due from other financial institutions	2	102,415	102,415	157,596	157,596
Loans and advances	3	1,609,270	1,445,343	572,920	522,897
Due from related parties	2	569	569	2,139	2,139
Total financial assets not measured at fair value		**1,752,574**	**1,588,647**	**755,563**	**705,540**
Financial liabilities					
Due to other financial institutions	2	24,020	24,020	-	-
Deposits from customers	2	259,905	258,999	117,159	119,022
Due to related parties	2	811,809	802,611	104,310	103,391
Debt securities issued at amortised cost	2	295,977	292,441	286,955	279,982
Subordinated Debt	2	17,334	15,132	17,898	15,141
Other liabilities	2	533	533	79	79
Total financial liabilities not measured at fair value		**1,409,578**	**1,393,736**	**526,401**	**517,615**

Estimation of fair value

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

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

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

Derivative financial instruments

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

Loans and advances

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

Deposits from customers

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

25. Offsetting of Financial Assets and Financial Liabilities

Financial Assets and Financial Liabilities

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

	Effect of netting in Balance Sheet					
As at 30 September 2017	Gross amounts	Amount Offset	Net amount reported on the balance sheet	Financial Collateral	Amounts Subject to Enforceable Master netting Agreements but not offset	Carrying Value
	$000	$000	$000	$000	$000	$000
Derivative financial assets	14,153	-	14,153	-	-	14,153
Total	**14,153**	**-**	**14,153**	**-**	**-**	**14,153**
Derivative financial liabilities	5,831	-	5,831	-	-	5,831
Total	**5,831**	**-**	**5,831**	**-**	**-**	**5,831**

As at 30 September 2016	Effect of netting in Balance Sheet: Gross amounts $000	Amount Offset $000	Net amount reported on the balance sheet $000	Financial Collateral $000	Amounts Subject to Enforceable Master netting Agreements but not offset $000	Carrying Value $000
Derivative financial assets	3,972	-	3,972	-	-	3,972
Total	**3,972**	**-**	**3,972**	**-**	**-**	**3,972**
Derivative financial liabilities	380	-	380	-	-	380
Total	**380**	**-**	**380**	**-**	**-**	**380**

26. Net Cash Flows used in Operating Activities

For the nine month period ended	30 September 2017 $000	30 September 2016 $000
Reconciliation of profit/(loss) after income tax to net cash flows used in operating activities		
Profit/(Loss) after income tax	7,160	(778)
Adjustments:		
Non Interest income	(334)	-
Impairment losses on loans and advances	700	216
Depreciation and amortisation	583	540
Deduct/(add) items reclassified as financial activities	13,490	7,553
Income tax expense/(benefit)	2,913	-
Net (increase)/decrease in operating assets:		
Due from other financial institutions	319	(395)
GST receivable	(36)	(1)
Loans and advances	(701,177)	(216,447)
Due from related parties [1]	(62)	(856)
Other assets	(20)	(59)
Derivative financial assets	(451)	(884)
Net increase/(decrease) in operating liabilities:		
Due to other financial institutions	(3,986)	(14,512)
Deposits from customers	120,000	21,562
Debt securities issued	(101)	1,514
Subordinated Debt	(5)	-
Due to related parties	1,217	-
Derivative financial liabilities	1,638	(1,265)
Other liabilities	595	76
Net cash flows used in operating activities	**(557,557)**	**(203,736)**

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

27. Commitments and Contingent Liabilities

Leasing commitments

The following non-cancellable operating lease commitments existed as at 30 September 2017.

As at	30 September 2017 $000	30 September 2016 $000
Future aggregate minimum lease payments under non-cancellable operating leases:		
No later than 1 year	980	1,006
Later than 1 year and no later than 5 years	2,756	3,551
Later than 5 years	-	-
Total	**3,736**	**4,557**

Leasing commitments relate to rental of the NZ Banking Group's premises and computer equipment.

Credit related commitments and contingent liabilities

The NZ Banking Group 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 NZ Banking Group'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 NZ Banking Group 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 NZ Banking Group has credit related commitments as at 30 September 2017 of $601,413,000 (30 September 2016: $146,498,000).

Credit related commitments and contingent liabilities arising in respect of the NZ Banking Group's operations as at 30 September 2017 were:

As at	Contract or notional amount 30 September 2017 $000	Contract or notional amount 30 September 2016 $000
Credit related commitments and contingent liabilities		
Commitments to extend credit[1]	593,736	145,041
Financial guarantees[2]	2,522	950
Standby letters of credit[3]	-	-
Trade letters of credit[4]	-	-
Non-financial guarantees[5]	5,155	507
Other commitments[6]	-	-
Total	**601,413**	**146,498**

[1] Commitments to extend credit include all obligations on the part of the NZ Banking Group 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 2017, the NZ Banking Group 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 NZ Banking Group 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 NZ Banking Group 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 NZ Banking Group to pay third parties should a customer fail to fulfil a contractual non-monetary obligation.*
[6] *Other commitments include underwriting facilities.*

28. Concentration of Credit Exposures

Concentrations of credit exposures arise where the NZ Banking Group is exposed to risk in industries of a similar nature or in particular geographies. The following table presents the NZ Banking Group'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 2017	Cash and balances with central banks $000	Due from other financial institutions $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	-	-	62	58,282	-	58,344	89
Mining	-	-	-	29,990	-	29,990	-
Manufacturing	-	-	-	117,759	-	117,759	44,396
Electricity, gas, water and waste services	-	-	-	44,498	-	44,498	80,821
Construction	-	-	539	11,706	-	12,245	91,678
Wholesale trade	-	-	-	1,280	-	1,280	-
Retail trade	-	-	-	2	-	2	153
Accommodation and food services	-	-	-	2,814	-	2,814	-
Transport, postal and warehousing	-	-	-	20,044	-	20,044	-
Information media and telecommunications	-	-	-	16,569	-	16,569	-
Financial and insurance services	40,320	102,415	13,390	1,115	-	157,240	-
Rental, hiring and real estate services	-	-	162	433,875	-	434,037	259,522
Arts and Recreation Services	-	-	-	7,769	-	7,769	-
Professional, scientific and technical services	-	-	-	2,805	-	2,805	-
Public administration and safety	-	-	-	-	-	-	40,000
Personal lending	-	-	-	698,280	-	698,280	84,754
Subtotal	**40,320**	**102,415**	**14,153**	**1,446,788**	**-**	**1,603,676**	**601,413**
Provisions for impairment losses on loans and advances	-	-	-	(1,445)	-	(1,445)	-
Due from related parties	-	-	-	-	569	569	-
Total credit exposures	**40,320**	**102,415**	**14,153**	**1,445,343**	**569**	**1,602,800**	**601,413**
Geographical area							
New Zealand	40,320	102,415	14,153	1,445,343	-	1,602,231	601,413
Overseas	-	-	-	-	569	569	-
Total credit exposures	**40,320**	**102,415**	**14,153**	**1,445,343**	**569**	**1,602,800**	**601,413**

As at 30 September 2016	Cash and balances with central banks $000	Due from other financial institutions $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	-	-	-	45,081	-	45,081	89
Mining	-	-	-	-	-	-	-
Manufacturing	-	-	-	20,102	-	20,102	1,150
Electricity, gas, water and waste services	-	-	-	94,377	-	94,377	45,327
Construction	-	-	-	-	-	-	-
Wholesale trade	-	-	-	-	-	-	-
Retail trade	-	-	-	-	-	-	79
Accommodation and food services	-	-	-	2,962	-	2,962	-
Transport, postal and warehousing	-	-	-	-	-	-	-
Information media and telecommunications	-	-	-	-	-	-	-
Financial and insurance services	22,908	157,596	3,695	-	-	184,199	103
Rental, hiring and real estate services	-	-	277	142,479	-	142,756	41,706
Arts and Recreation Services	-	-	-	2,488	-	2,488	5,996
Other Commercial & Industrial	-	-	-	-	-	-	-
Professional, scientific and technical services	-	-	-	2,081	-	2,081	-
Public administration and safety	-	-	-	-	-	-	20,000
Education and training	-	-	-	-	-	-	-
Health care and social assistance	-	-	-	-	-	-	-
Investment/Property and business services	-	-	-	-	-	-	-
Personal lending	-	-	-	213,849	-	213,849	32,048
Subtotal	**22,908**	**157,596**	**3,972**	**523,419**	**-**	**707,895**	**146,498**
Provisions for impairment losses on loans and advances	-	-	-	(522)	-	(522)	-
Due from related parties	-	-	-	-	2,139	2,139	-
Total credit exposures	**22,908**	**157,596**	**3,972**	**522,897**	**2,139**	**709,512**	**146,498**
Geographical area							
New Zealand	22,908	157,596	3,972	522,897	-	707,373	146,498
Overseas	-	-	-	-	2,139	2,139	-
Total credit exposures	**22,908**	**157,596**	**3,972**	**522,897**	**2,139**	**709,512**	**146,498**

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 that have a long-term credit rating of BBB+ or Baa1, or its equivalent and or below, (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 NZ Banking Group has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Overseas Banking Group's equity as at 30 September 2017:

- Was nil; and
- In respect of peak end-of-day aggregate credit exposure for the relevant three month period ended 30 September 2017 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 NZ Banking Group has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Overseas Banking Group's equity as at 30 September 2017:

- Was nil; and
- In respect of peak end-of-day aggregate credit exposure for the relevant three month period ended 30 September 2017 was nil.

29. Concentration of Funding

Concentrations of funding arise where the NZ Banking Group is funded by industries of a similar nature or in particular geographies. The following table presents the NZ Banking Group'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 2017 $000	30 September 2016 $000
Total funding comprises		
Due to other financial institutions	24,020	-
Deposits from customers	258,999	119,022
Debt securities issued	292,441	279,982
Due to related parties	817,743	118,532
Total funding	**1,393,203**	**517,536**
Concentration of funding by industry sector		
Accommodation and food services	5,863	-
Administrative and support services	10,020	-
Agriculture	311	2
Construction	833	4,528
Electricity, gas, water and waste services	-	80
Financial and insurance services	269,950	182,423
Forestry and fishing	2,512	210
Households	182,181	155,591
Manufacturing	1,275	16,541
Rental, hiring and real estate services	76,758	38,357
Retail trade	60	248
Transport, postal and warehousing	25,200	-
Wholesale trade	497	964
Other	-	60
Subtotal	**575,460**	**399,004**
Due to related parties	817,743	118,532
Total funding	**1,393,203**	**517,536**
Concentration of funding by geographical areas[1]		
New Zealand	392,739	241,756
China	927,418	240,674
Australia	72,807	35,031
Rest of Overseas	239	75
Total funding	**1,393,203**	**517,536**

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

30. Insurance Business, Securitisation, Funds Management, Other Fiduciary Activities and The Marketing and Distribution Of Insurance Products

The NZ Banking Group does not conduct any insurance business.

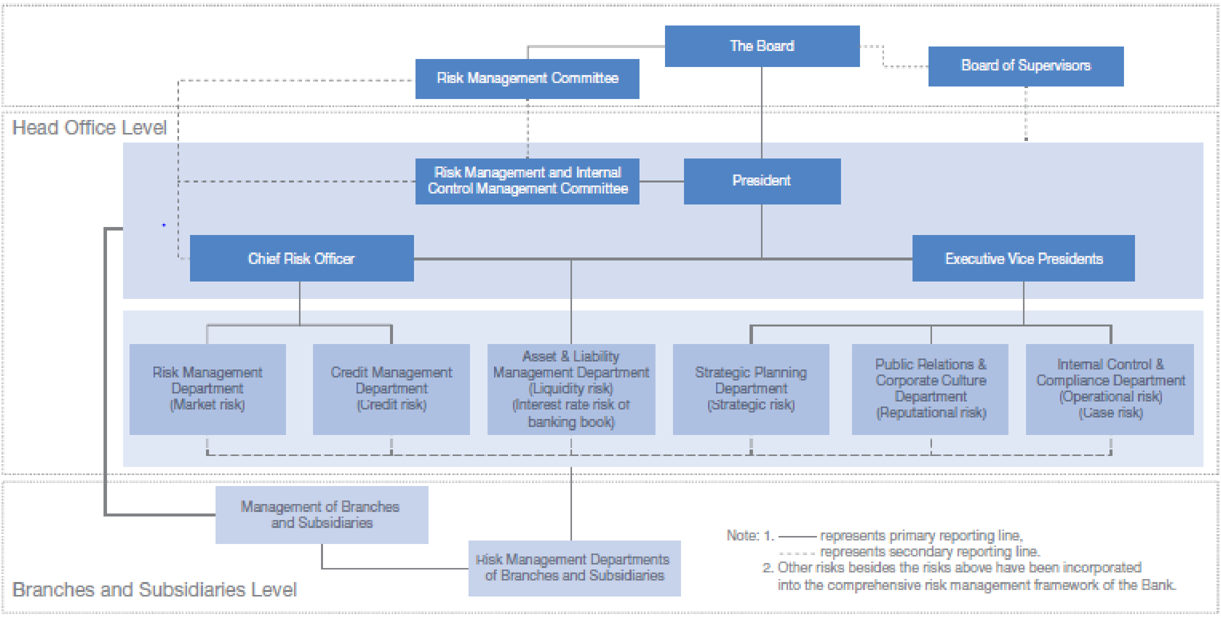
The NZ Banking Group is also not involved in:

- 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

31. Risk Management

General

The risk management organisational structure of the Overseas Banking Group constitutes the Board and its special committee, the senior management and its special committee, the Risk Management Department as well as a number of other departments. The basic risk management structure of the Overseas Banking Group is as follows:



The Board carries out the risk management responsibility pursuant to the Articles of Association of the Overseas Banking Group and other related regulatory requirements. The Risk Management Committee under the Board is responsible for making risk management strategies, monitoring the implementation, and evaluating the overall risk profile on a regular basis. As the core component of the risk management structure, the Board deliberates and approves the statements of risk appetite regularly, and delivers and communicates its risk appetite through corresponding capital management policies, risk management policies and business policies, to ensure that the business operation of the Overseas Banking Group adheres to its risk appetite. The board of supervisors' oversights the establishment of the comprehensive risk management system as well as the performance of the Board and the senior management in assuming their comprehensive risk management responsibilities. The senior management is responsible for carrying out the risk strategy established by the Board and organising the implementation of the comprehensive risk management of the Group.

The senior management appoints a Chief Risk Officer who assists the President with the corresponding risk management work. Risk Management Department is the comprehensive management department responsible for the overall business risk management, and its subordinate department, Market Risk Management Department, is the comprehensive management department responsible for market risk management. Credit Management Department is the comprehensive management department responsible for the overall credit risk management. Asset and Liability Management Department is the comprehensive management department responsible for the management of liquidity risk and interest rate risk of banking book. Internal Control and Compliance Department is the comprehensive management department responsible for internal control, compliance management, operational risk and case risk management. Other specialised departments are responsible for other respective risks.

Subsidiaries, implement the risk management requirements of the Ultimate Parent Bank through corporate governance mechanism, establish and improve internal risk appetite, risk management system and risk policies.

The NZ Banking Group recognises the importance of effective risk management to its business success. Effective risk management is about achieving a balanced approach to risk and reward and enables the NZ Banking Group to both increase financial growth opportunities and mitigate potential loss or damage. The NZ Banking Group only takes on controlled amounts of risk when considered appropriate.

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

Management and governance of the Subsidiary are separate from those of the Branch. Although the policies are consistent, their execution is undertaken by independent management and governance.

CCBNZL's risk and control functions are the responsibility of the Chief Risk Officer, who reports to the Chief Executive Officer. CCBNZL's risk management strategy is set by the Board of Directors through the Board Audit Risk Committee ("BARC"). All non-executive Directors are members of the BARC (refer to the Directory in the CCBNZL disclosure statement for details). Formal executive committees are in place governing all primary risk types. The Chief Risk Officer is responsible for the implementation of risk management strategy and all executives have responsibility for the day-to- day management of risk across the NZ Banking Group.

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

The following notes contain information about the risk management framework: Credit Risk, Market Risk, and Liquidity and Funding Risk. Operational and strategic business risks are discussed below.

Review of risk management systems

During the year ended 31 December 2016 there was a reporting process implemented which provided detailed information to the Ultimate Parent Bank relating to the NZ Banking Group's risk management systems as part of the Ultimate Parent Bank's review process.

Credit Risk

Credit Risk Management

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

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

The BARC of the CCBNZL and the Risk Management and Internal Control Management Committee of Overseas Banking Group operate under a charter by which they oversee the credit risk framework, credit management policies and practices. The committees ensure that the credit policies and portfolio standards designed to achieve portfolio outcomes consistent with the risk/return expectations of CCBNZL and the Branch respectively, are in place and maintained.

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

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

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

Nature of collateral and other credit enhancements

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

Cash and balances with central banks	This category includes deposits with the Reserve Bank of New Zealand and People's Bank of China.
Due from other financial institutions	This balance sheet category includes reverse repurchase agreements which are fully collateralised by highly liquid debt securities which have been legally transferred to the NZ Banking Group subject to an agreement to resell for a fixed price. There are no repurchase agreements as at 30 September 2017 (30 September 2016: nil).
Derivative financial assets	Credit risk from derivatives is mitigated where possible through netting agreements whereby derivative assets and liabilities with the same counterparty can be offset. All netting arrangements are legally documented. The ISDA Master Agreements contractually bind both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other predetermined events occur.
Loans and advances	The most common types of collateral mitigating credit risk over loans and advances include security over real estate (including residential, commercial, industrial and rural property); cash (usually in the form of a charge over a deposit); and other security over business assets including specific plant and equipment, inventory, accounts receivable and guarantees.

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

The credit quality of financial assets that were neither past due nor impaired as at 30 September 2017 has been assessed to be normal in that the customer or counterparty can honour the terms of their contractual obligation. There is no reason to doubt their ability to repay principal and interest in full on a timely basis (30 September 2016: normal).

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

Portfolio analysis

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

The NZ Banking Group Risk Management Department undertakes regular and comprehensive analysis of the credit portfolio. Using the NZ Banking Group's Risk Management Department for analysis and reporting ensures an efficient and independent conduit to identify and communicate emerging credit issues to the NZ Banking Group executive team and the CCBNZL Board.

Problem credit facility management

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

Concentration of credit risk

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

The NZ Banking Group monitors its portfolio to identify and assess risk concentrations. Concentration limits are used to guard against large single customer or correlated credit risks in relation to industry and country. These policies and limits are an important part of portfolio management objectives to create a diversified portfolio avoiding significantly large concentrations of economically related credit risk exposures.

Refer to Note 28 for the disclosure of concentration of credit exposures by industry and geographical area and to individual counterparties.

Maximum credit exposure and effect of collateral and other credit enhancements

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

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

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

As at 30 September 2017	Maximum exposure to credit risk $000	Financial effect of collateral $000	Unsecured portion of credit exposure $000
On-balance sheet financial instruments			
Cash and balances with central banks	40,320	40,320	-
Due from other financial institutions	102,415	-	102,415
Derivative financial assets	14,153	-	14,153
Loans and advances	1,445,343	1,135,620	309,723
Due from related parties	569	-	569
Total on-balance sheet financial instruments	**1,602,800**	**1,175,940**	**426,860**
Off-balance sheet financial instruments			
Credit related commitments and contingent liabilities	601,412	223,917	377,495
Market related contracts	45,640	-	45,640
Total off-balance sheet financial instruments	**647,052**	**223,917**	**423,135**
Total exposure to credit risk	**2,249,852**	**1,399,857**	**849,995**

As at 30 September 2016	Maximum exposure to credit risk $000	Financial effect of collateral $000	Unsecured portion of credit exposure $000
On-balance sheet financial instruments			
Cash and balances with central banks	22,908	22,908	-
Due from other financial institutions	157,596	-	157,596
Derivative financial assets	3,972	-	3,972
Loans and advances	522,897	359,206	163,691
Due from related parties	2,139	-	2,139
Total on-balance sheet financial instruments	**709,512**	**382,114**	**327,398**
Off-balance sheet financial instruments			
Credit related commitments and contingent liabilities	146,498	71,521	74,977
Market related contracts	5,398	-	5,398
Total off-balance sheet financial instruments	**151,896**	**71,521**	**80,375**
Total exposure to credit risk	**861,408**	**453,635**	**407,773**

Market Risk

Market risk is the risk of loss, in respect of the NZ Banking Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates and equity prices. Interest rate risk and foreign exchange rate risk are the main market risks faced by the NZ Banking Group.

The NZ Banking Group has established a market risk management framework in line with management and regulatory requirements. The NZ Banking Group's Risk Management Department is responsible for the day-to-day oversight of market risk and monitors and reports market risk limit utilisation based on limits set out in the respective entities' Market Risk Policies.

Day-to-day responsibility for the management of market risks is performed and reported by the NZ Banking Group's Treasury function, with independent monitoring by the NZ Banking Group's Risk Management Department with oversight provided by the NZ Banking Group's Risk Management

Committee. The Risk Management Department at the head office is accountable for the NZ Banking Group's market risk management.

For the purposes of market risk management, NZ Banking Group makes a distinction between traded and non-traded market risks. Traded Market Risk is generated through the NZ Banking Group's participation in financial markets to service its customers and any discretionary trading activities. Non-traded market risk covers all market risks which are not designated as traded market risk. The NZ Banking Group does not currently conduct any discretionary trading activity and fully hedges its customer interest rate and foreign exchange product flows, hence the market risks faced by the NZ Banking Group are only of a non-traded nature.

Market Risk Measurement

The NZ Banking Group has divided on- and off-balance sheet activities into two major categories, i.e., trading book and banking book. The NZ Banking Group uses Value-at-Risk ("VaR") as one of the measures of Traded and Non-traded market risk. VaR measures and monitors the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices. VaR is a statistical measure of potential loss using historically observed market movements.

VaR is modelled at a 99% confidence level. This means that there is a 99% probability that any potential loss will not exceed the VaR estimate on any given day. The VaR measured for market risk uses two years of daily movement in market rates. A 1-day and 20-day holding period is used for all positions.

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

Interest rate risk

The NZ Banking Group categorises interest rate risk into both traded interest rate risk and interest rate risk in the banking book.

Traded Interest Rate Risk is the risk to earnings and/or portfolio value due to adverse changes in the level of one or more interest rates. The most common interest rate risks are from basis risk, yield curve risk, and volatility risk. Traded interest rate risk is generated through the NZ Banking Group's participation in interest rate markets to service its customers.

Interest Rate Risk in the Banking Book (IRRBB) is the risk of loss in the overall income and economic value of the banking book as a result of adverse movements in interest rates, term structure and other interest-related factors. The NZ Banking Group's non-traded interest rate risk mainly comprises of yield curve, repricing basis and optionality risks arising from mismatch of term structure and pricing basis of assets and liabilities in the banking book.

Day-to-day responsibility for the management of IRRBB is performed and reported by the NZ Banking Group's Treasury function, with independent monitoring by the NZ Banking Group's Risk Management Department with oversight provided by the NZ Banking Group's Asset and Liability Committee ("ALCO"). The Asset and Liability Management Department at the head office is accountable for the NZ Banking Group's daily IRRBB management.

The overall objective of the NZ Banking Group's IRRBB management is to minimise the decrease of net interest income caused by interest rate changes, while keeping interest rate risk within a tolerable range in accordance with the risk appetite and risk management capability.

The NZ Banking Group measures and analyses it's IRRBB by employing a range of methods including VaR, interest rate gap analysis, sensitivity analysis on net interest income and stress testing.

Hedging of the NZ Banking Group's exposure to interest rate risk is undertaken using derivatives. The hedge accounting strategy adopted is to utilise a combination of the cash flow and fair value hedge approaches. Some derivatives held for economic hedging purposes may not meet the criteria for hedge accounting and therefore are accounted for in the same way as derivatives held for trading.

Interest rate repricing gap analysis

The following table presents the NZ Banking Group's assets and liabilities at their carrying amounts as at 30 September 2017 and 30 September 2016, categorised by the earlier of the contractual repricing or maturity dates. The carrying amounts of derivative financial instruments, which are principally used to reduce the NZ Banking Group's exposure to interest rate movements, are included under the heading "Non-interest bearing".

As at 30 September 2017	Up to 3 months $000	Over 3 months and up to 6 months $000	Over 6 months and up to 1 year $000	Over 1 year and up to 2 years $000	Over 2 years $000	Non-interest bearing $000	Total $000
Financial assets							
Cash and balances with central banks	40,320	-	-	-	-	-	40,320
Due from other financial institutions	102,410	-	-	-	-	5	102,415
Derivative financial assets	-	-	-	-	-	14,153	14,153
Loans and advances	774,499	93,872	266,627	208,462	102,803	(920)	1,445,343
Due from related parties	507	-	-	-	-	62	569
Other financial assets	-	-	-	-	-	-	-
Total financial assets	**917,736**	**93,872**	**266,627**	**208,462**	**102,803**	**13,300**	**1,602,800**
Non-financial assets	-	-	-	-	-	2,654	2,654
Total assets	**917,736**	**93,872**	**266,627**	**208,462**	**102,803**	**15,954**	**1,605,454**
Financial liabilities							
Due to other financial institutions	24,000	-	-	-	-	20	24,020
Trading liabilities	-	-	-	-	-	-	-
Derivative financial liabilities	-	-	-	-	-	5,831	5,831
Deposits from customers	151,691	29,784	43,659	15,170	17,089	1,606	258,999
Debt securities issued	68,000	-	65,000	23,800	134,500	1,141	292,441
Due to related parties	690,052	-	-	41,580	69,300	1,679	802,611
Subordinated Debt	15,000	-	-	-	-	132	15,132
Current tax liabilities	-	-	-	-	-	2,294	2,294
Other financial liabilities	-	-	-	-	-	-	-
Total financial liabilities	**948,743**	**29,784**	**108,659**	**80,550**	**220,889**	**12,703**	**1,401,328**
Non-financial liabilities	-	-	-	-	-	1,623	1,623
Total liabilities	**948,743**	**29,784**	**108,659**	**80,550**	**220,889**	**14,326**	**1,402,951**
On-balance sheet interest rate repricing gap	(31,007)	64,088	157,968	127,912	(118,086)	1,628	202,503
Net derivative notional principals	46,780	(53,734)	(56,122)	(99,162)	162,238	-	-
Net interest rate repricing gap	**15,773**	**10,354**	**101,846**	**28,750**	**44,152**	**1,628**	**202,503**

As at 30 September 2016	Up to 3 months $000	Over 3 months and up to 6 months $000	Over 6 months and up to 1 year $000	Over 1 year and up to 2 years $000	Over 2 years $000	Non-interest bearing $000	Total $000
Financial assets							
Cash and balances with central banks	22,908	-	-	-	-	-	22,908
Due from other financial institutions	157,201	-	-	-	-	395	157,596
Derivative financial assets	-	-	-	-	-	3,972	3,972
Loans and advances	314,369	37,859	123,926	41,714	4,240	789	522,897
Due from related parties	2,139	-	-	-	-	-	2,139
Other financial assets	-	-	-	-	-	-	-
Total financial assets	**496,617**	**37,859**	**123,926**	**41,714**	**4,240**	**5,156**	**709,512**
Non-financial assets	-	-	-	-	-	2,150	2,150
Total assets	**496,617**	**37,859**	**123,926**	**41,714**	**4,240**	**7,306**	**711,662**
Financial liabilities							
Due to other financial institutions	-	-	-	-	-	-	-
Trading liabilities	-	-	-	-	-	-	-
Derivative financial liabilities	-	-	-	-	-	380	380
Deposits from customers	102,110	7,987	7,799	-	89	1,037	119,022
Debt securities issued	45,000	20,000	-	65,000	146,800	3,182	279,982
Due to related parties	103,235	-	-	-	-	156	103,391
Subordinated Debt	15,000	-	-	-	-	141	15,141
Current tax liabilities	-	-	-	-	-	-	-
Other financial liabilities	-	-	-	-	-	-	-
Total financial liabilities	**265,345**	**27,987**	**7,799**	**65,000**	**146,889**	**4,896**	**517,916**
Non-financial liabilities	-	-	-	-	-	797	797
Total liabilities	**265,345**	**27,987**	**7,799**	**65,000**	**146,889**	**5,693**	**518,713**
On-balance sheet interest rate repricing gap	231,272	9,872	116,127	(23,286)	(142,649)	1,613	192,949
Net derivative notional principals	(211,800)	-	-	65,000	146,800	-	-
Net interest rate repricing gap	**19,472**	**9,872**	**116,127**	**41,714**	**4,151**	**1,613**	**192,949**

Interest rate sensitivity

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

As at 30 September 2017	Carrying Amount $000	-1% Profit or loss $000	+1% Profit or loss $000	-1% Equity $000	+1% Equity $000
Financial assets					
Cash and balances with central banks	40,320	(353)	353	(254)	254
Due from other financial institutions	102,415	(896)	896	(645)	645
Derivative financial assets	14,153	-	-	-	-
Loans and advances	1,445,343	(8,030)	8,030	(5,782)	5,782
Due from related parties	569	(4)	4	(3)	3
Other financial assets	-	-	-	-	-
Total financial assets	**1,602,800**	**(9,283)**	**9,283**	**(6,684)**	**6,684**
Non-financial assets	2,655	-	-	-	-
Total assets	**1,605,455**	**(9,283)**	**9,283**	**(6,684)**	**6,684**
Financial liabilities					
Due to other financial institutions	24,020	210	(210)	151	(151)
Trading liabilities	-	-	-	-	-
Derivative financial liabilities	5,831	-	-	-	-
Deposits from customers	258,999	1,623	(1,623)	1,168	(1,168)
Debt securities issued	292,441	758	(758)	545	(545)
Due to related parties	802,611	6,038	(6,038)	4,347	(4,347)
Subordinated Debt	15,132	131	(131)	95	(95)
Current tax liabilities	2,294	-	-	-	-
Other financial liabilities	-	-	-	-	-
Total financial liabilities	**1,401,328**	**8,760**	**(8,760)**	**6,306**	**(6,306)**
Non-financial liabilities	1,625	-	-	-	-
Total liabilities	**1,402,953**	**8,760**	**(8,760)**	**6,306**	**(6,306)**

As at 30 September 2016	Carrying Amount $000	-1% Profit or loss $000	+1% Profit or loss $000	-1% Equity $000	+1% Equity $000
Financial assets					
Cash and balances with central banks	22,908	(200)	200	(144)	144
Due from other financial institutions	157,596	(1,376)	1,376	(990)	990
Derivative financial assets	3,972	-	-	-	-
Loans and advances	522,897	(3,297)	3,297	(2,374)	2,374
Due from related parties	2,139	(19)	19	(13)	13
Other financial assets	-	-	-	-	-
Total financial assets	**709,512**	**(4,892)**	**4,892**	**(3,521)**	**3,521**
Non-financial assets	2,150	-	-	-	-
Total assets	**711,662**	**(4,892)**	**4,892**	**(3,521)**	**3,521**
Financial liabilities					
Due to other financial institutions	-	-	-	-	-
Trading liabilities	-	-	-	-	-
Derivative financial liabilities	380	-	-	-	-
Deposits from customers	119,022	(963)	963	(693)	693
Debt securities issued	279,982	(519)	519	(374)	374
Due to related parties	103,391	(903)	903	(650)	650
Subordinated Debt	15,141	(131)	131	(95)	95
Current tax liabilities	-	-	-	-	-
Other financial liabilities	-	-	-	-	-
Total financial liabilities	**517,916**	**(2,516)**	**2,516**	**(1,812)**	**1,812**
Non-financial liabilities	797	-	-	-	-
Total liabilities	**518,713**	**(2,516)**	**2,516**	**(1,812)**	**1,812**

Foreign Exchange Risk

Foreign Exchange Risk is the risk to earnings and/or portfolio value due to fluctuations in foreign exchange rates. The NZ Banking Group defines foreign exchange rate risk as both traded and non-traded foreign exchange risk.

Traded foreign exchange risk is generated through the NZ Banking Group's participation in foreign exchange markets to service its customers.

Non-traded foreign exchange risk is primarily due to the mismatch of non-NZ dollar assets and liabilities held by the NZ Banking Group's balance sheet and cash flows generated from these.

The NZ Banking Group manages its foreign currency risk by using specified maximum aggregate exposure limits for defined currencies. It is also managed by using spot and forward foreign exchange transactions, by matching its foreign currency denominated assets with corresponding liabilities in the same currency and by utilising derivatives (principally foreign exchange swaps and cross currency swaps) in the management of its own foreign currency asset and liability positions.

Net open foreign currency position

The net open position in each foreign currency detailed in the table below represents the net of the non-derivative assets and liabilities in that foreign currency aggregated with the net expected future cash flows from derivative financial instrument purchases and sales from foreign exchange transactions in that foreign currency. The amounts are stated in currency as at reporting date.

As at	30 September 2017 $000	30 September 2016 $000
Net open position		
Australian Dollar (AUD)	1,862	69
Canadian Dollar (CAD)		
Chinese Yuan Renminbi (CNY)	136	394
Euro (EUR)		
British Pound (GBP)		
Hong Kong Dollar (HKD)		
Japanese Yen (JPY)	95	12
Singapore Dollar (SGD)		
US Dollar (USD)	(3,067)	(139)

Foreign exchange rate sensitivity

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

As at 30 September 2017	Carrying Amount $000	-10% Profit or loss $000	+10% Profit or loss $000	-10% Equity $000	+10% Equity $000
Financial assets					
Cash and balances with central banks	-	-	-	-	-
Due from other financial institutions	100,935	(10,094)	10,094	(7,267)	7,267
Derivative financial assets	186,801	(18,680)	18,680	(13,450)	13,450
Loans and advances	79,777	(7,978)	7,978	(5,744)	5,744
Due from related parties	507	(51)	51	(37)	37
Other financial assets	159	(16)	16	(11)	11
Total financial assets	**368,179**	**(36,819)**	**36,819**	**(26,509)**	**26,509**
Financial liabilities					
Due to other financial institutions	-	-	-	-	-
Trading liabilities	-	-	-	-	-
Derivative financial liabilities	-	-	-	-	-
Deposits from customers	20,044	2,004	(2,004)	1,443	(1,443)
Debt securities issued	-	-	-	-	-
Due to related parties	348,031	34,803	(34,803)	25,058	(25,058)
Other financial liabilities	105	10	(10)	8	(8)
Total financial liabilities	**368,180**	**36,817**	**(36,817)**	**26,509**	**(26,509)**

As at 30 September 2016	Carrying Amount $000	-10% Profit or loss $000	+10% Profit or loss $000	-10% Equity $000	+10% Equity $000
Financial assets					
Cash and balances with central banks	8	(1)	1	(1)	1
Due from other financial institutions	27,232	(2,723)	2,723	(1,961)	1,961
Derivative financial assets	85,742	(8,574)	8,574	(6,173)	6,173
Loans and advances	17	(2)	2	(1)	1
Due from related parties	964	(96)	96	(69)	69
Other financial assets	-	-	-	-	-
Total financial assets	**113,963**	**(11,396)**	**11,396**	**(8,205)**	**8,205**
Financial liabilities					
Due to other financial institutions	-	-	-	-	-
Trading liabilities	-	-	-	-	-
Derivative financial liabilities	-	-	-	-	-
Deposits from customers	10,550	1,055	(1,055)	760	(760)
Debt securities issued	-	-	-	-	-
Due to related parties	103,391	10,339	(10,339)	7,444	(7,444)
Other financial liabilities	22	2	(2)	2	(2)
Total financial liabilities	**113,963**	**11,396**	**(11,396)**	**8,206**	**(8,206)**

Equity Risk

The NZ Banking Group does not have any equity risk exposure as at 30 September 2017 (30 September 2016: nil).

Liquidity and Funding Risk

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

Day-to-day responsibility for the management of liquidity and funding risks is performed and reported by the NZ Banking Group's Treasury function, with independent monitoring by the NZ Banking Group's Risk Management Department with oversight provided by the NZ Banking Group's Asset and Liability Committee ("ALCO"). The Asset and Liability Management Department at the head office is accountable for the NZ Banking Group's daily liquidity and funding risk management.

Objectives and Policy of Liquidity and Funding Risk Management

The NZ Banking Group's Liquidity and Funding Policies have the following key objectives:

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

Monitoring and managing liquidity and funding risk

The NZ Banking Group uses the following tools to monitor and manage its liquidity and funding risk including:

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

Liquidity portfolio management

The NZ Banking Group held the following financial assets for the purpose of managing liquidity risk:

As at	30 September 2017 $000	30 September 2016 $000
Cash and cash equivalents:		
Cash and balances with central banks	40,320	22,908
Due from other financial institutions (call or original maturity of 3 months or less)	102,415	157,202
Due from related parties[1]	507	1,176
Total liquidity portfolio	**143,242**	**181,286**

[1] Due from related parties includes the Nostro account balance held with the Ultimate Parent Bank as at 30 September 2017, 30 September 2016 and 31 December 2016.

Contractual maturity analysis of financial assets and financial liabilities

The table below presents the NZ Banking Group's cash flows by remaining period to contractual maturity as at reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows and include principal and future interest cash flows and therefore will not agree to the carrying amounts on the balance sheet.

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

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

The NZ Banking Group does not manage its liquidity risk based on the analysis presented in the below table.

As at 30 September 2017	On Demand $000	Up to 3 months $000	Over 3 months and up to 1 year $000	Over 1 year and up to 5 years $000	Over 5 years $000	Total $000	Carrying Amount $000
Non derivative financial assets							
Cash and balances with central banks	40,320	-	-	-	-	40,320	40,320
Due from other financial institutions	28,816	73,608	-	-	-	102,424	102,415
Loans and advances	1,255	373,476	185,421	467,833	1,079,822	2,107,807	1,445,343
Due from related parties	507	62	-	-	-	569	569
Total non-derivative financial assets	**70,898**	**447,146**	**185,421**	**467,833**	**1,079,822**	**2,251,120**	**1,588,647**
Derivative financial assets							
Net settled	-	3,025	-	-	-	3,025	-
Gross settled – cash inflow	-	4,661	88,464	458,543	-	551,668	-
Gross settled – cash outflow	-	(4,602)	(89,243)	(446,279)	-	(540,124)	-
Total derivative financial assets	**-**	**3,084**	**(779)**	**12,264**	**-**	**14,569**	**14,153**
Non derivative financial liabilities							
Due to other financial institutions	-	24,069	-	-	-	24,069	24,020
Deposits from customers	79,070	136,043	45,198	301	-	260,612	258,999
Debt securities issued	-	44,944	71,639	193,640	-	310,223	292,441
Due to related parties	-	260,202	8,617	608,165	-	876,984	802,611
Subordinated Debt	-	191	562	3,527	15,741	20,021	15,132
Total non-derivative financial liabilities	**79,070**	**465,449**	**126,016**	**805,633**	**15,741**	**1,491,909**	**1,393,203**
Derivative financial liabilities							
Net settled	-	(2,729)	-	-	-	(2,729)	-
Gross settled - cash inflow	-	1,389	5,062	152,414	-	158,865	-
Gross settled – cash outflow	-	(3,176)	(4,777)	(154,332)	-	(162,285)	-
Total derivative financial liabilities	**-**	**(4,516)**	**285**	**(1,918)**	**-**	**(6,149)**	**5,831**
Off-balance sheet commitments and contingent liabilities							
Capital commitments	-	100	-	-	-	100	-
Leasing commitments	-	249	731	2,756	-	3,736	-
Commitments to extent credit	593,736	-	-	-	-	593,736	-
Financial guarantees	2,522	-	-	-	-	2,522	-
Standby letters of credit	-	-	-	-	-	-	-
Trade letters of credit	-	-	-	-	-	-	-
Non-Financial guarantees	5,155	-	-	-	-	5,155	-
Other commitments	-	-	-	-	-	-	-
Total off-balance sheet commitments and contingent liabilities	**601,413**	**349**	**731**	**2,756**	**-**	**605,249**	**-**

As at 30 September 2016	On Demand $000	Up to 3 months $000	Over 3 months and up to 1 year $000	Over 1 year and up to 5 years $000	Over 5 years $000	Total $000	Carrying Amount $000
Non derivative financial assets							
Cash and balances with central banks	22,908	-	-	-	-	22,908	22,908
Due from other financial institutions	-	158,028	-	-	-	158,028	157,596
Loans and advances	99	199,462	91,527	157,689	315,650	764,427	522,897
Due from related parties	1,176	967	-	-	-	2,143	2,139
Total non-derivative financial assets	**24,183**	**358,457**	**91,527**	**157,689**	**315,650**	**947,506**	**705,540**
Derivative financial assets							
Net settled	-	637	-	-	-	637	-
Gross settled – cash inflow	-	1,438	3,281	119,298	-	124,017	-
Gross settled – cash outflow	-	(780)	(2,510)	(117,354)	-	(120,644)	-
Total derivative financial assets	**-**	**1,295**	**771**	**1,944**	**-**	**4,010**	**3,972**
Non derivative financial liabilities							
Due to other financial institutions	-	-	-	-	-	-	-
Deposits from customers	59,085	44,160	11,031	5,258	-	119,534	119,022
Debt securities issued	-	21,772	26,445	254,499	-	302,716	279,982
Due to related parties	-	28,594	1,170	77,967	-	107,731	103,391
Subordinated Debt	-	200	569	3,069	16,474	20,312	15,141
Total non-derivative financial liabilities	**59,085**	**94,726**	**39,215**	**340,793**	**16,474**	**550,293**	**517,536**
Derivative financial liabilities							
Net settled	-	(266)	-	-	-	(266)	-
Gross settled - cash inflow	-	-	3,157	116,470	-	119,627	-
Gross settled – cash outflow	-	(847)	(2,377)	(116,608)	-	(119,832)	-
Total derivative financial liabilities	**-**	**(1,113)**	**780**	**(138)**	**-**	**(471)**	**380**
Off-balance sheet commitments and contingent liabilities							
Capital commitments	-	-	-	-	-	-	-
Leasing commitments	-	255	751	3,551	-	4,557	-
Commitments to extent credit	145,041	-	-	-	-	145,041	-
Financial guarantees	950	-	-	-	-	950	-
Standby letters of credit	-	-	-	-	-	-	-
Trade letters of credit	-	-	-	-	-	-	-
Non-Financial guarantees	507	-	-	-	-	507	-
Other commitments	-	-	-	-	-	-	-
Total off-balance sheet commitments and contingent liabilities	**146,498**	**255**	**751**	**3,551**	**-**	**151,055**	**-**

Operational Risk

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

Each business manager of the NZ Banking Group is responsible for the identification and assessment of these risks and for maintaining appropriate internal controls, and is supported by the NZ Banking Group's governance structures, operational risk framework and operational risk policies.

The NZ Banking Group's applies the standardised approach detailed in RBNZ BS2A for calculating the capital requirements for operational risk measurement.

Strategic and Business Risk

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

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

Reputational Risk

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

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

Internal Audit

In order to promote the establishment of a sound and effective risk management mechanism, internal control system and corporate governance procedures, the Overseas Banking Group’s Internal Audit Department evaluates the effectiveness of the internal control system and risk management mechanism, the effect of corporate governance procedures, the efficiency of business operations, and the economic responsibilities of relevant personnel, and puts forward suggestions for improvement based on its internal audit. The Internal Audit Department works in a relatively independent manner, and it is managed vertically. It is responsible to and reports to the Board and the Audit Committee, as well as reports to the Board of Supervisors and senior management. There is an internal audit department at the head office, and 37 audit offices at tier-one branches, responsible for managing and conducting audit projects.

CCBNZL maintains an independent internal audit function which is ultimately accountable to the CCBNZL Board of Directors through the CCBNZL BARC. The BARC of CCBNZL meets on a regular basis to consider CCBNZL financial reporting, internal control and corporate governance matters. In doing so, the BARC reviews internal audit findings and opinions, and the activities of the internal audit function.

32. Capital Adequacy

For the purposes of this Disclosure Statement the NZ Banking Group is subject to regulations for registered banks as specified by the Reserve Bank for two banking licenses, one for CCBNZL and another for the Branch applicable when registered. 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 banks. The Branch & CCBNZL must comply with RBNZ registration requirements, including any minimum capital ratios under the conditions of registration for each respective banking licence.

The objective of the Basel III Framework is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profile of banks. Basel III consists of three pillars – Pillar One covers the capital requirements for banks for credit, operational and market risks. Pillar Two covers all other material risks not already included in Pillar One, and Pillar Three relates to market disclosure.

Capital management

The primary objectives of the NZ Banking Group's capital management is to ensure that the NZ Banking Group 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 Boards of Directors for CCBNZL and CCBC the ("Overseas Bank") have ultimate responsibility for ensuring 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 regulatory requirements. CCBNZL and CCBC each actively monitor its capital adequacy as part of the Internal Capital Adequacy Assessment Process ("ICAAP"), for CCBNZL, which complies with the requirements set out in the Reserve Bank document BS12 *Guidelines on Internal Capital Adequacy Assessment Process (ICAAP)*, and the "Internal Capital Assessment" for CCBC, and reports this on a regular basis to senior management and the respective Boards.

The key features of the Internal Capital Assessment and ICAAP include:

- Development of a capital management strategy, including preferred capital range, capital buffers and contingency plans;
- Consideration of regulatory capital requirements, the Overseas Banking Group's strategy and risk appetite;
- Identifying and evaluating all risk types, estimating capital utilisation and incorporating the impact of adverse economic scenarios; and
- Consideration of the perspectives of external stakeholders including rating agencies, equity investors and debt investors.

CCBNZL Regulatory Requirement

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, CCBNZL must comply with the following minimum requirements set by the Reserve Bank:

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

In addition to minimum capital requirements, Basel III introduces a capital conservation buffer of 2.5 per cent of risk-weighted assets. There are increasing constraints on capital distributions where a bank's capital level falls within the buffer range, which are specified in the conditions of registration on pages 79 to 85 of the China Construction Bank (New Zealand) Limited's full year ended 31 December 2016 Disclosure Statement.

Overseas Banking Group Regulatory Requirement

In accordance with the China Banking Regulatory Commission's ("**CBRC**") "Measures for Capital Management of Commercial Banks (Trial)" and relevant regulations, commercial banks should meet the minimum capital requirements from 1 January 2013. The Common Equity Tier 1 ratio should be at or above a minimum of 5%, Tier 1 ratio at or above a minimum of 6% and total capital ratio at or above a minimum of 8%. Systematically important domestic banks should also meet the 1% additional capital requirement, with their Common Equity Tier 1 capital. Meanwhile, in accordance with CBRC's "Notice of relevant transitional arrangement for implementation of Measures for Capital Management of Commercial Banks (Trial)", a capital conservation buffer will be introduced progressively during the transitional period, which will be raised through Common Equity Tier 1 capital. If a countercyclical buffer is required or the Pillar 2 capital requirement is raised by the regulator to a specific commercial bank, the minimum requirements should be met within the transitional period.

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

Both the Overseas Bank and the Overseas Banking Group are required by the CBRC to hold minimum capital at least equal to that specified under the Basel II standardised approach and are required to publicly disclose this capital adequacy information on a quarterly basis. This information is available via the Overseas Bank's website (www.ccb.com).

The Overseas Bank and the Overseas Banking Group each met the capital requirements imposed on them by the CBRC as at 30 September 2017, the latest reporting date.

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

As at	Unaudited 30 September 2017 %	Unaudited 30 September 2016 %
Overseas Banking Group		
Common Equity Tier 1 capital ratio	12.84%	13.37%
Tier 1 capital ratio	12.99%	13.54%
Total capital ratio	14.67%	15.36%
Overseas Bank		
Common Equity Tier 1 capital ratio	12.62%	13.25%
Tier 1 capital ratio	12.78%	13.43%
Total capital ratio	14.52%	15.31%

Capital instruments

Ordinary Shares

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

In relation to the ordinary shares:

- there are no options or facilities for early redemptions, conversion, write-down or capital repayment;
- there is no predetermined dividend rate;
- there is no maturity date;
- there are no options granted or to be granted pursuant to any arrangement; and
- they have equal voting rights and share equally in dividends and profit on winding up. Dividends are declared, subject in all cases to the applicable directors' resolutions being passed.

The following Tier 1 capital initiative was undertaken during the reporting period:

a) On 20 July 2016, CCBNZL issued 100,000,000 ordinary shares to China Construction Bank Corporation and raised $140,548,000 from the issuance. The ordinary shares qualify for Common Equity Tier 1 capital for the purposes of "Capital Adequacy Framework (Standardised Approach)". These ordinary shares have the same terms as, and rank from time of issue pari passu with, the existing ordinary shares in the Company.

Refer to Note 20 for the material terms and conditions of the ordinary share capital.

Subordinated Notes

On 28 April 2016, CCBNZL issued NZD $15 million (15,000 subordinated and unsecured medium term notes at a face value of NZD $1,000.00 **"the Notes"**) to the Sydney Branch of the Ultimate Parent Bank (**Sydney Branch**). The Notes will mature on 28 April 2023. The Notes are redeemable, subordinated and unsecured securities of the Bank. The Notes are subordinated to the claims of depositors and other unsubordinated creditors of the Bank and qualify for Tier 2 regulatory recognition subject to the allowance for tax in accordance with section 10f(5) of subpart 2F under BS2A. The Bank may redeem all the Notes on any interest payment date, subject to certain conditions including the Reserve Bank's written approval ("**Redemption of Term Subordinated Notes"**). Early redemption of all but not some of the Notes for tax reasons or regulatory reasons is permitted subject to Redemption of Term Subordinated Notes.

The Notes bear interest at a rate based on the 3 month Bank Bill Rate plus a fixed margin of 3.00% per annum. Interest is payable quarterly in arrears and commenced on 28 July 2016. If a Non-Viability Trigger Event occurs, the Bank must apply the conditions of (“**Write-off”**). A Non-Viability Trigger Event occurs if:

a) the Reserve Bank has reasonable grounds to believe that the Bank meets any of the grounds of section 113(a) to (e) of the Reserve Bank Act 1989 requiring the Bank to write off (in whole or in part) a class of capital instrument that includes the Notes; or
b) the Bank is subject to statutory management and the statutory manager decides to write off the Notes (in whole or in part).

Credit and Market risk

Additional mortgage information

Residential mortgages by loan-to-valuation ratio

As at 30 September 2017	Does not exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
Loan-to-valuation ratio				
On-balance sheet exposures	696,811	-	-	**696,811**
Off-balance sheet exposures	84,754	-	-	**84,754**
Value of exposures	**781,565**	**-**	**-**	**781,565**

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 specified in Capital Adequacy Framework (Standardised Approach) (BS2A).

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 2017	Note	$000
Residential mortgages	10, 11	698,295
Reconciling items:		
Less: - Deferred fees on Residential Mortgages		(1,179)
Less: - Underlying fair value hedge adjustment on Residential Mortgages		(305)
On-balance sheet exposures		**696,811**
Off-balance sheet exposures		**84,754**
Residential mortgages by loan-to-valuation ratio		**781,565**
The On-balance sheet residential mortgages comprise:		
Residential - Investment		207,500
Residential - Owner Occupied		489,311
Total		**696,811**

Market risk

	End-period capital charges		Peak end-of-day capital charge	
	Implied risk weighted exposure	Aggregate capital charge	Implied risk weighted exposure	Aggregate capital charge
As at 30 September 2017	$000	$000	$000	$000
Interest rate risk	14,569	1,166	31,329	2,506
Foreign currency risk	20	2	65,955	5,276
Equity risk	-	-	-	-
Total	**14,589**	**1,168**	**97,284**	**7,782**

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)*.

33. Overseas Banking Group

	Overseas Banking Group
Asset Quality	
As at 30 June 2017	
Total gross individually impaired assets	RMB 188,752 million
Total individually impaired assets as a % of Total Assets	1.31%
Total Individually assessed provisions	RMB 106,222 million
Total individually assessed provisions as a % of total gross individually impaired assets	65%
Total Collective provision	RMB 196,069 million

Profitability	
For the nine month period ended 30 September 2017	
Net Profit after tax	RMB 202,273 million
Net Profit after tax as a % of average total assets	0.94%

Size	
As at 30 September 2017	
Total Assets	RMB 22,053,943 million
% change in total assets from 30 September 2016	8%

34. Events Subsequent to the Reporting Date

There was no material event that occurred subsequent to the reporting date that requires recognition or additional disclosure in these financial statements.

Independent auditor's report

To the Directors of China Construction Bank Corporation

This report is for China Construction Bank Corporation New Zealand Operations (the 'NZ Banking Group'), comprising the aggregation of China Construction Bank Corporation New Zealand Branch and China Construction Bank (New Zealand) Limited.

This report includes:

- our audit opinion on the financial statements prepared in accordance with the basis of preparation set out in note 1.2 of the financial statements.

- our audit opinion on the supplementary information prepared in accordance with Schedules 4, 7, 10, 11 and 13 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the 'Order').

- our audit opinion on other legal and regulatory requirements in accordance with Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order.

- our review conclusion on the supplementary information relating to credit and market risk exposures and capital adequacy prepared in accordance with Schedule 9 of the Order.

Report on the audit of the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)

We have audited the financial statements required by Clause 25 of the Order and the supplementary information required by Schedules 4, 7, 10, 11 and 13 of the Order.

The financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy) comprise:

- the Balance Sheet as at 30 September 2017;
- the Statement of Comprehensive Income for the period then ended;
- the Statement of Changes in Equity for the period then ended;
- the Cash Flow Statement for the period then ended;
- the notes to the financial statements, which include the Statement of Accounting Policies; and
- the supplementary information required by Schedules 4, 7, 10, 11 and 13 of the Order.

Our opinion

In our opinion:

- The financial statements (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 9, 10, 11 and 13 of the Order and included within the balance sheet and Notes 11, 28, 30, 31, 32 and 33) are prepared, in all material respects, in accordance with the basis of preparation set out in note 1.2 to the financial statements.

- The supplementary information disclosed in accordance with Schedules 4, 7, 10, 11 and 13 of the Order and included within the balance sheet and Notes 11, 28, 30, 31, and 33:

(i) has been prepared, in all material respects, in accordance with the guidelines issued under section 78(3) of the Reserve Bank of New Zealand Act 1989 or any conditions of registration;

(ii) is in accordance with the books and records of the NZ Banking Group; and

(iii) fairly states, in all material respects, the matters to which it relates in accordance with those Schedules.

Basis for our opinion

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

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

Emphasis of matter – basis of preparation

We draw attention to note 1.2 of the financial statements which describes the basis of preparation. The financial statements have been prepared to support the licence application of China Construction Bank Corporation to operate a New Zealand Branch. As a result, the financial statements may not be suitable for other purposes. Our opinion is not modified in respect of this matter.

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

The Directors of China Construction Bank Corporation (the 'Directors') are responsible, on behalf of China Construction Bank Corporation, for the other information included in the Disclosure Statement. Our opinion on the financial statements and supplementary information does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements and supplementary information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)

The Directors are responsible, on behalf of China Construction Bank Corporation, for the preparation and fair presentation of the financial statements in accordance with the basis of preparation described in note 1.2 to the financial statements. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible for the preparation and fair presentation of supplementary information in the Disclosure Statement which complies with Schedules 2, 4, 7, 10, 11 and 13 of the Order.

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

Auditor's responsibilities for the audit of the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)

Our objectives are to obtain reasonable assurance about whether the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 31 and 32) disclosed in accordance with Clause 25 and Schedules 4, 7, 10, 11 and 13 of the Order, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5/

This description forms part of our auditor's report.

Report on other legal and regulatory requirements (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)

We also report in accordance with the requirements of Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 31 and 32) for the period ended 30 September 2017:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the NZ Banking Group as far as appears from an examination of those records.

Report on the review of the supplementary information relating to credit and market risk exposures and capital adequacy

We have reviewed the supplementary information relating to credit and market risk exposures and capital adequacy required by Schedule 9 of the Order as disclosed in Notes 31 and 32 of the financial statements of the NZ Banking Group for the period ended 30 September 2017.

Our conclusion

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 31 and 32, is not in all material respects:

(i) prepared in accordance with Capital Adequacy Framework (Standardised Approach) (BS2A); and

(ii) disclosed in accordance with Schedule 9 of the Order.

This conclusion is to be read in the context of what we say in the remainder of this report.

Basis for our conclusion

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

Responsibilities of the Directors for the supplementary information relating to credit and market risk exposures and capital adequacy

The Directors are responsible, on behalf of China Construction Bank Corporation, for the preparation and fair presentation of the supplementary information relating to credit and market risk exposures and capital adequacy that is prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) and is disclosed in accordance with Schedule 9 of the Order. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of the supplementary information relating to credit and market risk exposures and capital adequacy that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the supplementary information relating to credit and market risk exposures and capital adequacy

Our responsibility is to express a conclusion, whether, based on our review, the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 31 and 32, is not, in all material respects:

(i) prepared in accordance with Capital Adequacy Framework (Standardised Approach) (BS2A); and

(ii) disclosed in accordance with Schedule 9 of the Order.

A review in accordance with NZ SRE 2410 of the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 31 and 32 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with ISAs (NZ) and ISAs. Accordingly, we do not express an audit opinion on the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 31 and 32.

Auditor independence

We are independent of the NZ Banking Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the NZ Banking Group in the area of other assurance services in respect of the half-year and off-quarter Disclosure Statements. In addition, certain partners and employees of our firm may deal with the NZ Banking Group on normal terms within the ordinary course of trading activities of the NZ Banking Group. These matters have not impaired our independence as auditor of the NZ Banking Group.

Who we report to

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

The engagement partner on the engagement resulting in this independent auditor's report is Karl Deutschle.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants Auckland
20 December 2017