China Construction Bank Corporation New Zealand Banking Group

Disclosure Statement

For the year ended 31 December 2018

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General Information and Definitions

Certain information contained in this Full Year Disclosure Statement for the year ended 31 December 2018, 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 Corporation New Zealand Branch referred to as (the "**Branch**") – refers to the New Zealand branch of the Overseas Bank and includes all banking business transacted in New Zealand through the Branch;
- 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 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) CCBNZL;
- Reserve Bank of New Zealand referred to as ("**RBNZ**") or ("**Reserve Bank**"); and
- 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.

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 for the year ended 31 December 2018 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 material legislative and regulatory restrictions in the Peoples Republic of China that, in the event of a liquidation of the Overseas Bank, may subordinate the claims of unsecured creditors of the Branch on the assets of the Overseas Bank to those of other unsecured creditors of the Overseas Bank. We refer to restrictions contained in such legislation and regulation as Article 113 of The Enterprise Bankruptcy Law of the People's Republic of China (promulgated in 2006), paragraph 2 of Article 71 of The Law of the People's Republic of China on Commercial Banks (Amended in 2015) and other applicable legislation and regulation.

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 required to hold sufficient high quality liquid asset as per the regulatory or legislative requirement in the Peoples Republic of China in order to cover an ongoing obligation to pay deposit liabilities under a stressed scenario.

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 the People's Republic of 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 Gengsheng Zhang, Ms Bing Feng, Mr Hailin Zhu, Mr Jun Li, Mr Min Wu, Mr Qi Zhang, Mr Kenneth Patrick Chung, 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:* President of China Banking Association *Independent Director:* No *Audit Committee Member:* No	***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:* Vice President of National Association of Financial Market Institutional Investors *Independent Director:* No *Audit Committee Member:* No	***External Directorships:*** None *Qualifications:* Doctorate 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	***External Directorships:*** None *Qualifications:* Master Degree
Name: **Ms Bing Feng** *Non-executive:* Yes *Country of Residence:* China *Primary Occupation:* Director (Employee of Huijin, the substantial shareholder of the Ultimate Parent Bank) *Secondary Occupations:* None *Independent Director:* No *Audit Committee Member:* No	***External Directorships:*** None *Qualifications:* Master Degree
Name: **Mr Hailin Zhu** *Non-executive:* Yes *Country of Residence:* China *Primary Occupation:* Director (Employee of Huijin, the substantial shareholder of the Ultimate Parent Bank) *Secondary Occupations:* None *Independent Director:* No *Audit Committee Member:* Yes	***External Directorships:*** None *Qualifications:* Doctorate Degree

NON-INDEPENDENT DIRECTORS	
Name: **Mr Jun Li** *Non-executive:* Yes *Country of Residence:* China *Primary Occupation:* Director (Employee of Huijin, the substantial shareholder of the Ultimate Parent Bank) *Secondary Occupations:* Supervisor of China Export and Credit Insurance Corporation *Independent Director:* No *Audit Committee Member:* Yes	***External Directorships:*** None *Qualifications:* Doctorate Degree
Name: **Mr Min Wu** *Non-executive:* Yes *Country of Residence:* China *Primary Occupation:* Director (Employee of Huijin, the substantial shareholder of the Ultimate Parent Bank) *Secondary Occupations:* None *Independent Director:* No *Audit Committee Member:* No	***External Directorships:*** None *Qualifications:* Doctorate Degree
Name: **Mr Qi Zhang** *Non-executive:* Yes *Country of Residence:* China *Primary Occupation:* Director (Employee of Huijin, the substantial shareholder of the Ultimate Parent Bank) *Secondary Occupations:* Part-time Doctorate supervisor of Dongbei University of Finance and Economics. *Independent Director:* No *Audit Committee Member:* No	***External Directorships:*** None *Qualifications:* Doctorate Degree

INDEPENDENT DIRECTORS	
Name: **Ms Anita Yuen Mei Fung** *Non-executive:* Yes *Country of Residence:* Hong Kong, China *Primary Occupation:* Director *Secondary Occupations:* Independent non-executive director of Hong Kong Exchanges and Clearing Limited, Independent non-executive director of Hang Lung Properties Limited and Independent non-executive director of Westpac Banking Corporation. *Audit Committee Member:* Yes *Independent Director:* Yes	***External Directorships*:** Independent non-executive director of Hong Kong Exchanges and Clearing Limited, Independent non-executive director of Hang Lung Properties Limited and Independent non-executive director of Westpac Banking Corporation. *Qualifications*: Master Degree
Name: **Sir Malcolm Christopher McCarthy** *Non-executive:* Yes *Country of Residence:* United Kingdom *Primary Occupation:* Chairman in the United Kingdom of Promontory Financial Group. *Secondary Occupations:* Director *Audit Committee Member:* No *Independent Director:* Yes	***External Directorships*:** Chairman in the United Kingdom of Promontory Financial Group. *Qualifications*: Doctorate Degree

INDEPENDENT DIRECTORS	
Name: **Mr Carl Walter** *Non-executive:* Yes *Country of Residence:* United States *Primary Occupation:* Consultant *Secondary Occupations:* Director *Audit Committee Member:* Yes *Independent Director:* Yes	***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:* Independent non-executive director of China Unicom (Hong Kong) Limited and etc. *Audit Committee Member:* Yes *Independent Director:* Yes	***External Directorships*:** Independent non-executive director of China Unicom (Hong Kong) Limited, Miramar Hotel and Investment Company Limited, Glorious Sun Enterprises Limited, China Overseas Grand Oceans Group Limited, China Everbright Limited, Jinmao (China) Investments Holdings Limited, and China Railway Group Limited. *Qualifications*: Master Degree
Name: **Mr Murray Horn** *Non-executive:* Yes *Country of Residence:* New Zealand *Primary Occupation:* Director *Secondary Occupations:* Consultant to multiple government agencies *Audit Committee Member:* Yes *Independent Director:* Yes	***External Directorships*:** Director of Como Corp Ltd and HFT Co Ltd *Qualifications*: Doctorate Degree
Name: **Mr Kenneth Patrick Chung** *Non-executive:* Yes *Country of Residence:* Hong Kong, China *Primary Occupation:* Director *Secondary Occupations:* None *Independent Director: Yes* *Audit Committee Member:* Yes	***External Directorships:*** Independent non-executive director of Prudential Asia Corporation and Sands China Ltd and trustee of Fu Tak Iam Foundation Limited. *Qualifications:* Bachelor Degree

Ms Aiqun Hao no longer served as director on 29 June 2018 due to expiry of term and Mr Xiusheng Pang resigned as director on 3 September 2018. Mr Kenneth Patrick Chung was appointed as director effective on 7 November 2018. There have been no other changes to the composition of the Board of the Overseas Bank since the publication of the full year Disclosure Statement for the year ended 31 December 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, China Construction Bank (NZ) Limited
Residence	Auckland, New Zealand
External directorship	None

Audit Committee under the Board

At the end of the reporting period, the Audit Committee under the Board consisted of six Directors. Mr. Timpson Shui Ming Chung, Independent non-executive Director of the Overseas Bank, currently serves as Chairman of the Audit Committee. Members include Mr. Hailin Zhu, Mr. Jun Li, Mr. Carl Walter, Mr. Murray Horn and Mr. Kenneth Patrick Chung. Three of these members are non-executive Directors and three are Independent non-executive Directors (details of whom are above).

Dealing with Conflicts of Interest

The Board is responsible for ensuring that actual and potential conflict 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:

(a) each Director, Supervisors, President and other members of the senior management must disclose to the Board any actual or potential conflict of interest that may exist or might reasonably be thought to exist as soon as the situation arises; and
(b) abstain from discussion and voting on the relevant proposal, and will not be counted in the quorum of the relevant proposal.

The resolution of the Board of Directors that approves the proposed matter shall be passed by a majority of the Directors who have no major interest, and 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 either:

(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 influence materially the exercise of that Directors' 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
S&P Global Ratings	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 the signing date of this Disclosure Statement.

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

Descriptions of the credit rating scales are as follows:

The following table describes the credit rating grades available:

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

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

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

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 2018 with gross claims of RMB 8,892 million (as at 31 December 2017: RMB 10,499 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 2018 the provisions made of RMB 2,329 million (as at 31 December 2017: RMB 2,946 million) are reasonable and adequate. The details above are extracted from the latest publicly available information of the Overseas Banking Group.

The contingent liabilities of the NZ Banking Group are set out in Note 25 *Commitments and contingent liabilities* of the financial statements for the year ended 31 December 2018 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 Commission.

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 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, there are no material matters relating to the business or affairs of the NZ Banking Group which are not contained elsewhere in this 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.

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 year ended 31 December 2018:

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

(b) the Branch and CCBNZL 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 the New Zealand Chief Executive Officer of China Construction Bank Corporation New Zealand Branch

Mr Jun QI
Dated: 25 March 2019

Signed by and on behalf of all the Directors of China Construction Bank Corporation

DIRECTOR Guoli TIAN

For himself and on behalf of each Director
Dated: 25 March 2019

Historical summary of financial statements

For the year ended	31 December 2018 $000	31 December 2017 $000	31 December 2016 $000	31 December 2015 $000	31 December 2014* $000
Statement of comprehensive income					
Interest income	84,191	57,340	22,990	7,318	1,492
Interest expense	(47,088)	(32,834)	(14,168)	(3,710)	(79)
Other interest (expense)/income	(4,406)	-	-	-	-
Net interest income	**32,697**	**24,506**	**8,822**	**3,608**	**1,413**
Net non-interest income/(expense)	1,176	2,770	1,691	(481)	6
Net operating income	**33,873**	**27,276**	**10,513**	**3,127**	**1,419**
Operating expenses	(16,106)	(12,113)	(9,658)	(7,567)	(2,123)
Impairment losses on credit exposures	(1,769)	(900)	(439)	(304)	(3)
Profit/(loss) before income tax	**15,998**	**14,263**	**416**	**(4,744)**	**(707)**
Income tax (expense)/benefit	(4,496)	(4,100)	1,384	-	-
Profit/(Loss) After Income Tax Attributable To Owners of the NZ Banking Group	**11,502**	**10,163**	**1,800**	**(4,744)**	**(707)**
Dividends paid on ordinary shares	**-**	**-**	**-**	**-**	**-**
Repatriation of profits to head office	**-**	**-**	**-**	**-**	**-**

As at	31 December 2018 $000	31 December 2017 $000	31 December 2016 $000	31 December 2015 $000	31 December 2014 $000
Balance sheet					
Total assets	2,577,219	1,826,241	887,719	401,944	92,349
Individually impaired assets	-	-	-	-	-
Total liabilities	2,361,324	1,620,596	692,121	348,765	34,426
Total shareholder's equity	215,668	205,931	195,598	53,179	57,923
Total head office account	227	(286)	-	-	-

** The Statement of Comprehensive Income for the period ended 31 December 2014 is from 30 January 2014, CCBNZL's date of incorporation.*

The amounts disclosed in this historical summary of financial statements for 2014, 2015, and 2016 have been taken from the audited financial statements of China Construction Bank (New Zealand) Limited. The historical summary of financial statements for 2017 and 2018 have been taken from the audited financial statements of the NZ Banking Group.

Statement of comprehensive income

For the year ended	Note	31 December 2018 $000	31 December 2017 $000
Interest income	2	84,191	57,340
Interest expense	2	(47,088)	(32,834)
Other interest (expense)/income	2	(4,406)	-
Net interest income	2	**32,697**	**24,506**
Net non-interest income	3	1,176	2,770
Total operating income		**33,873**	**27,276**
Operating expenses	4	(16,106)	(12,113)
Impairment losses on loans and advances	5	(1,769)	(900)
Profit before income tax		**15,998**	**14,263**
Income tax expense	6	(4,496)	(4,100)
Profit after income tax attributable to the owner of the NZ Banking Group		**11,502**	**10,163**
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		980	(116)
Total other comprehensive income, net of tax		**980**	**(116)**
Total comprehensive income		**12,482**	**10,047**

These financial statements are to be read in conjunction with the notes on pages 17 to 81.

Statement of changes in equity

		NZ Banking Group						
		Branch			Other member of NZ Banking Group			
For the year ended 31 December 2018	**Note**	**Branch capital $000**	**Retained earnings $000**	**Cash flow hedge reserve $000**	**Share capital $000**	**Retained earnings $000**	**Cash flow hedge reserve $000**	**Total $000**
Balance at the beginning of the year		-	(286)	-	199,178	6,798	(45)	**205,645**
Change in accounting policy	1.5	-	-	-	-	(2,232)	-	(2,232)
Restated total equity as at 1 January 2018		**-**	**(286)**	**-**	**199,178**	**4,566**	**(45)**	**203,413**
Profit after income tax		-	(619)	-	-	12,121	-	11,502
Other comprehensive income		-	-	1,132	-	-	(152)	980
Total comprehensive income for the year		**-**	**(619)**	**1,132**	**-**	**12,121**	**(152)**	**12,482**
Transactions with owners:								
Ordinary share capital issued	19	-	-	-	-	-	-	**-**
Dividends paid		-	-	-	-	-	-	**-**
Balance as at 31 December 2018		**-**	**(905)**	**1,132**	**199,178**	**16,687**	**(197)**	**215,895**

		NZ Banking Group						
		Branch			Other member of NZ Banking Group			
For the year ended 31 December 2017	**Note**	**Branch capital $000**	**Retained loss $000**	**Cash flow hedge reserve $000**	**Share capital $000**	**Retained earnings $000**	**Cash flow hedge reserve $000**	**Total $000**
Balance at the beginning of the year		-	-	-	199,178	(3,651)	71	**195,598**
(Loss)/profit after income tax		-	(286)	-	-	10,449	-	**10,163**
Other comprehensive income		-	-	-	-	-	(116)	**(116)**
Total comprehensive income for the year		-	**(286)**	**-**	**-**	**10,449**	**(116)**	**10,047**
Transactions with owners:								
Ordinary share capital issued	19	-	-	-	-	-	-	**-**
Dividends paid		-	-	-	-	-	-	**-**
Balance as at 31 December 2017		-	**(286)**	**-**	**199,178**	**6,798**	**(45)**	**205,645**

These financial statements are to be read in conjunction with the notes on pages 17 to 81.

Balance sheet

As at	Note	31 December 2018 $000	31 December 2017 $000
Assets			
Cash and settlement balances with central bank	7	50,698	152,581
Due from other financial institutions	8	301,221	2,358
Investment securities	9	188,329	-
Loans and advances	10	1,930,813	1,646,146
Due from related parties	20	34,960	1,954
Derivative financial assets	12	68,081	20,529
Other assets	13	281	230
Property, plant and equipment		849	1,174
Intangible assets		126	279
Deferred tax assets	14	1,861	990
Total assets		**2,577,219**	**1,826,241**
Liabilities			
Due to other financial institutions	15	336,772	-
Deposits from customers	16	235,209	458,960
Debt securities issued	17	690,246	453,507
Due to related parties	20	1,069,322	680,978
Subordinated debt	20	15,129	15,128
Derivative financial liabilities	12	7,285	6,465
Current tax liabilities		4,858	3,687
Other liabilities	18	2,503	1,871
Total liabilities		**2,361,324**	**1,620,596**
Head Office account			
Branch capital	19	-	-
Retained earnings/(loss)		(905)	(286)
Cash flow hedge reserve		1,132	-
Total Head Office account		**227**	**(286)**
Equity			
Share capital	19	199,178	199,178
Retained earnings		16,687	6,798
Cash flow hedge reserve		(197)	(45)
Total equity		**215,668**	**205,931**
Total equity attributable to the owner of the NZ Banking Group		**215,895**	**205,645**
Total liabilities and equity		**2,577,219**	**1,826,241**
Total interest earning and discount bearing assets		2,508,842	1,803,795
Total interest and discount bearing liabilities		2,330,683	1,601,670

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

DIRECTOR Guoli TIAN
Dated: 25 March 2019

DIRECTOR Gengsheng ZHANG
Dated: 25 March 2019

These financial statements are to be read in conjunction with the notes on pages 17 to 81.

Cash flow statement

For the year ended	Note	31 December 2018 $000	31 December 2017 $000
Cash flows from operating activities			
Interest received		84,487	54,994
Interest paid		(10,667)	(6,440)
Income received from financial instruments designated at FVTPL		1,835	-
Non-interest income received		10,029	3,240
Non-interest expense paid		(67)	(740)
Operating expenses paid		(14,803)	(10,541)
Income taxes paid		(3,710)	-
Net cash flows generated from operating activities before changes in operating assets and liabilities		**67,104**	**40,513**
Net changes in operating assets and liabilities:			
Net decrease/(increase):			
GST receivable		(7)	(25)
Other assets		(45)	69
Loans and advances		(289,342)	(899,582)
Due from related parties		(32,131)	(174)
Net increase/(decrease):			
Due to other financial institutions		336,181	(28,000)
Deposits from customers		(223,102)	317,912
Net changes in operating assets and liabilities		**(208,446)**	**(609,800)**
Net cash flows from (used in) operating activities	24	**(141,342)**	**(569,287)**
Cash flows from investing activities			
Purchase of investment securities		(187,809)	-
Purchase of property, plant and equipment		(194)	(89)
Purchase of intangible assets		-	(178)
Net cash flows used in investing activities		**(188,003)**	**(267)**
Cash flows from financing activities			
Amount borrowed from related parties *		(1,943,719)	(136,829)
Repayments of due to related parties *		2,278,726	593,020
Issuance of debt issues *	17	563,943	328,500
Repayments of debt securities *	17	(333,000)	(170,500)
Interest paid on financing activities		(38,750)	(22,425)
Net cash flows (from) provided by financing activities		**527,200**	**591,766**
Net increase in cash and cash equivalents		197,855	22,212
Cash and cash equivalents at beginning of the period		156,719	134,507
Cash and cash equivalents at end of the period		**354,574**	**156,719**
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		301,221	2,358
Cash and balances with central banks		50,698	152,581
Due from related party (nostro balance held with the Ultimate Parent Bank)		2,655	1,780
Cash and cash equivalents at end of the period		**354,574**	**156,719**

* *Comparative information has been reclassified to ensure consistency with current year reporting.*

These financial statements are to be read in conjunction with the notes on pages 17 to 81.

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 25 March 2019.

1.2. Basis of preparation

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

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

1.3. Basis of aggregation

The NZ Banking Group as at 31 December 2018 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 31 December 2018, the Head Office account consisted of Equity for CCB NZ Branch $227,000 (31 December 2017: ($286,000)).

1.4. Presentation currency and rounding

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

1.5. Changes in accounting policies

Two new standards became applicable for the current reporting period and the NZ Banking Group has changed its accounting policies and made retrospective adjustments as a result of adopting the following standards:

- NZ IFRS 9 *Financial Instruments* ("**NZ IFRS 9**"); and
- NZ IFRS 15 *Revenue from Contracts with Customers* ("**NZ IFRS 15**").

The impact of the adoption of these standards and the new accounting policies is disclosed below.

(i) Impact on the financial statements upon adoption – NZ IFRS 9

NZ IFRS 9 replaces the provisions of NZ IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The NZ Banking Group has adopted NZ IFRS 9 from 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The NZ Banking Group did not early adopt NZ IFRS 9 in previous periods.

As permitted by the transitional provisions of NZ IFRS 9, the NZ Banking Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognised in the opening retained earnings of the current financial year. The NZ Banking Group has also elected to continue to apply the hedge accounting requirements of NZ IAS 39 on adoption of NZ IFRS 9.

Consequently, for notes disclosures, the consequential amendments to NZ IFRS 7 *Financial Instruments: Disclosures* disclosures have also only been applied to the current financial year. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of NZ IFRS 9 has resulted in changes in the NZ Banking Group's accounting policies for recognition, classification and measurement of financial assets and impairment of financial assets. NZ IFRS 9 also significantly amends other standards dealing with financial instruments such as NZ IFRS 7.

Restatement of opening equity

The only impact on the equity of the NZ Banking Group following the adoption of NZ IFRS 9 was an increase in impairment of credit exposure. The total impact on the NZ Banking Group's retained earnings as at 1 January 2018 is as follows:

Retained earnings	**1 January 2018 $000**
Balance as at 31 December 2017 under NZ IAS 39	**6,512**
Increase in impairment for loans and advances	(3,096)
Increase in impairment for due from other financial institutions	(3)
Increase in impairment for due from related parties	(1)
Increase in deferred tax assets relating to impairment provisions	868
Total impact of change in accounting policy	**(2,232)**
Balance as at 1 January 2018 under NZ IFRS 9	**4,280**

Classification and measurement

The NZ Banking Group's management has assessed which business models apply to the financial assets held by the NZ Banking Group and has classified its financial instruments into the appropriate NZ IFRS 9 categories. There are no changes to the classification of financial liabilities following the adoption of NZ IFRS 9. The effects of the reclassification of financial assets are as follows:

Disclosure Item	Classification under NZ IAS 39	Classification under NZ IFRS 9
Cash and balances with central bank	Loans and advances	Amortised Cost
Due from other financial institutions	Loans and advances	Amortised Cost
Derivative financial assets	Fair Value through Profit or Loss	Fair Value through Profit or Loss
Loans and advances	Loans and advances	Amortised Cost
Due from related parties	Loans and advances	Amortised Cost

Financial assets as at 1 January 2018	**Fair Value Through Profit or Loss $000**	**Amortised cost (Loans and advances under NZ IAS 39) $000**
Closing balance as at 31 December 2017 under NZ IAS 39	**20,529**	**1,803,039**
Effects of reclassification	-	-
Opening balance as at 1 January 2018 under NZ IFRS 9 (before credit loss adjustments)	**20,529**	**1,803,039**

Impairment

The NZ Banking Group has four types of financial assets that are subject to NZ IFRS 9's expected credit loss model as at 1 January 2018:

- Loans and advances;
- Cash and balances with central bank;
- Due from related parties;
- Due from other financial institutions; and
- Credit related commitments

The NZ Banking Group was required to revise its impairment methodology under NZ IFRS 9 for each of the classes of assets. The impact of the change in impairment methodology on the NZ Banking Group's retained earnings is disclosed in the first table on page 18. Although Cash and balances with central bank are subject to impairment requirements of NZ IFRS 9, the identified impairment loss was immaterial.

The loss allowances for loans and advances, due from related parties and due from other financial institutions as at 31 December 2017 were adjusted to opening loss allowances on 1 January 2018 as follows:

Loss Allowances	Loans and advances $000	Due from related parties $000	Due from other financial institutions $000	Total $000
Balance at 31 December 2017 under NZ IAS 39	1,645	-	-	**1,645**
Amount restated through opening retained earnings on adoption of NZ IFRS 9	3,096	1	3	**3,100**
Balance at 1 January 2018 under NZ IFRS 9	**4,741**	**1**	**3**	**4,745**

(ii) Impact on the financial statements upon adoption – NZ IFRS 15

The NZ Banking Group has adopted NZ IFRS 15 from 1 January 2018 which did not result in material changes to the accounting policies. No significant adjustments were recognised and no additional disclosures were made following the introduction of this new accounting standard. Please refer to Note 1.6 (b) for further details.

1.6. Particular accounting policies

a) Foreign currency

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

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

b) Revenue recognition

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

Interest income

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

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

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

Other interest (expense)/income

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

Fee and commission income

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

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

Type of product / service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under NZ IFRS 15 (applicable from 1 January 2018)
Retail and corporate banking service	The NZ Banking Group provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed and variable rates.	Revenue from account service and servicing fees is recognised over time as the services are provided to the customers. Revenue related to the transactions is recognised at the point in time when the transaction takes place.

Trading income

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

Gain or loss on disposal of property, plant and equipment

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

c) Expense recognition

Interest expense

Interest expense, including premiums or discounts and associated expenses incurred on the issue of financial 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 credit exposures

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

Commissions and other fees

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

Employee benefits

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

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

Other expenses

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

d) Taxation

Income tax expense

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

Current tax

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

Deferred tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences, other than those relating to taxable temporary differences arising from goodwill. They are also recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures, except where the 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 operating expense.

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

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

e) Financial Assets

Classification

The following accounting policy applies from 1 January 2018

The NZ Banking Group classifies its financial assets in the following measurement categories:

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

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

The NZ Banking Group reclassifies financial assets when and only when its business model for managing those assets changes.

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

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

The following accounting policy applied for the years ended 31 December 2017 and prior

Financial assets are classified into one of the following categories at initial recognition: financial assets at fair value through profit or loss and loans and advances. 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 at fair value through profit or loss

Financial assets held for trading - A financial asset 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, or if it is a derivative that is not a designated hedging instrument.

Financial assets designated at fair value through profit or loss at inception – Upon initial recognition, financial assets may be designated at fair value through profit or loss. 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 advances

Loans and advances 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

The following accounting policy applies from 1 January 2018

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

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

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

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

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

(ii) Financial assets measured at FVOCI

The impairment losses, foreign exchange gains and losses and interest income calculated using effective interest method of financial assets measured at FVOCI are recognised in profit and loss. Other changes of carrying amount are recognised in other comprehensive income. When the financial assets measured at FVOCI are sold, gains or losses on disposal are recognised in profit or loss. Gains or losses on disposal include those previously recognised in other comprehensive income being transferred to the profit or loss.

(iii) Financial assets measured at amortised cost

The amortised cost of a financial asset should be measured with the initial recognition after the following adjustments: (i) deducting the repaid principal; (ii) adding or subtracting the cumulative amortisation, using the effective interest method, of any difference between that initial amount and the maturity amount; (iii) the loss provision for the accumulated accrual.
For financial assets measured at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortization process.

Effective interest rate

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected lifetime of the financial asset to the carrying amount of a financial asset less any impairment allowance. The calculation does not consider expected credit losses but includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate.

The NZ Banking Group determines interest income based on the book balance of financial assets multiplied by the effective interest rate, except (i) for purchased or sourced financial assets that have suffered credit impairment, from the initial recognition, interest income is calculated using the financial assets' amortised cost and credit-adjusted real interest rate; (ii) for a purchased or sourced financial asset that has not suffered credit impairment but has become credit impaired in subsequent periods, interest income is determined using the financial asset's amortised cost and the effective interest rate. If the financial asset no longer has credit impairment due to the improvement of its credit risk in the subsequent period, and this improvement can be objectively related to an event that occurs after the application of the above provisions, interest income should be recalculated using the effective interest rate multiplied by the book balance of the financial asset.

The following accounting policy applied for the years ended 31 December 2017 and prior

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 advances 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 advances 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 settlement account balances. These balances have an original maturity of less than three months. They are accounted for as financial assets at amortised cost (31 December 2017: loans and advances) and subsequently measured at amortised cost or the gross value of the outstanding balance, where appropriate.

Due from other financial institutions

Due from other financial institutions is defined by the nature of the counterparty and includes loans, nostro balances, deposit funds placed, collateral placed, reverse repurchase agreements, cash and cash at bank and due from other financial institutions. They are accounted for as financial assets at amortised cost (31 December 2017: loans and advances) and subsequently measured at amortised cost using the effective interest method, less impairment where applicable.

Investment securities

Investment securities are non-derivative financial assets, which includes short and long term public and other debt securities investments by the NZ Banking Group. The fair value of securities is based on quoted market prices, where available, or calculated using discounted cash flow models based on current market rates.

The classification depends on the business model of the NZ Banking Group's business model for managing the investment securities and the contractual terms of the cash flows.

Derivative assets

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

Loans and advances

Loans and advances cover all forms of lending provided to customers such as overdrafts, term loans and lease receivables. They are accounted for as financial assets at amortised cost (31 December 2017: loans and advances) 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 financial assets at amortised cost (31 December 2017: loans and advances), as above.

Other assets

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

Impairment of financial assets

The following accounting policy applies from 1 January 2018

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

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

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

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

For debt instruments measured at FVOCI, the NZ Banking Group recognises the allowance for impairment in other comprehensive income and impairment losses or gains in profit and loss.

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

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

- ***Segmentation of financial instruments***

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

The key definition of the three stages are summarised below:

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

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

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

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

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

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

– Significant financial difficulty of the borrower or issuer;
– Breach of contract term, such as a default or delinquency in interest or principal payments;
– The NZ Banking Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the NZ Banking Group would not otherwise consider;
– It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
– Disappearance of an active market for financial assets because of financial difficulties;
– Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the NZ Banking Group, including adverse changes in the payment status of borrowers in the NZ Banking Group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the NZ Banking Group;
– Significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer of an equity instrument;
– A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and
– Other objective evidence indicating there is an impairment of the financial asset.

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

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

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

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

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

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

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

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

Nature and effect of modifications on the measurement of doubtful debts

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

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

The following accounting policy applied for the years ended 31 December 2017 and prior

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:

i. 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.

ii. Loans and advances

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 advances 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 following accounting policy applies from 1 January 2018

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.

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

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

(ii) Other financial liabilities

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

The following accounting policy applied for the years ended 31 December 2017 and prior

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.

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

- Financial liabilities held for trading - A financial liability is classified in this category if incurred principally for repurchasing in the near term, if it is part of a portfolio of financial liabilities that are managed together and for which there is evidence of a recent pattern of short-term profit taking, or if it is a derivative that is not designated hedging instrument.
- Financial liabilities designated at fair value through profit or loss at inception - This designation may only be made if the financial 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 accounting mismatch. The NZ Banking Group cannot subsequently change the designation once a financial instrument has been designated at fair value through profit or loss.

(ii) 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 using the effective interest method.

Recognition and measurement of financial liabilities

The following accounting policy applies from 1 January 2018

Financial liabilities are recognised when the NZ Banking Group becomes a party to the contractual provisions of the instruments.

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

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

The following accounting policy applied for the years ended 31 December 2017 and prior

Financial liabilities are recognised when an obligation arises. Financial liabilities held at fair value through profit or loss is 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 which is a bank and includes deposits, vostro balances, collateral received, repurchase agreements and settlement account balances due to other financial institutions. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Deposits from customers

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

Derivative liabilities

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

Debt securities issued

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

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due. Financial guarantees are issued in the ordinary course of business, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given; typically, this is the premium received. Subsequent to initial recognition, the 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 initially recorded at fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Subordinated Debt

Subordinated Debt securities are notes that have been issued by the NZ Banking Group. They are initially recorded at 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. Other liabilities are initially recorded at fair value of the consideration received, net of transaction costs and subsequently measured at amortised cost using the effective interest method.

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. The NZ Banking Group also performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the NZ Banking Group uses the hypothetical derivative method to assess effectiveness. Hedge ineffectiveness represents the amount by which the changes in the fair value of the hedging instrument differ from changes in the fair value of the hedged item or the amount by which changes in the cash flows of the hedging instrument differ from changes (or expected changes) in the present value of the cash flows of the hedged item.

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

Fair value hedge accounting

Where the 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.

1.7. Comparatives

Certain comparative information has been reclassified to ensure consistency with current year reporting. Where there has been a material restatement of comparative information the nature of, and the reason for, the restatement has been disclosed in the relevant note.

1.8. Future accounting developments

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

NZ IFRS 16 *Leases* is effective for annual periods beginning on or after 1 January 2019 which replaces the current guidance in NZ IAS 17. Under NZ 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 NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. NZ IFRS 16 includes an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The accounting by lessors under NZ IFRS 16 is almost the same as NZ IAS 17. The NZ Banking Group intends to adopt NZ IFRS 16 on its effective date. The assessed impact of this change on the opening balance sheet adjustment as at 1 January 2019 is the recognition of a Right of Use of Asset and a corresponding Lease Liability in the ranges of $2,000,000 to $3,000,000 respectively. There is no impact on the opening retained earnings as the NZ Banking Group will utilise the simplified approach upon the adoption of NZ IFRS 16.

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

For the year ended 31 December 2018, the significant accounting estimates and judgements of NZ IFRS 9 used by the NZ Banking Group include the measurement of expected credit losses.

The measurement of the expected credit loss allowance is based on the standard's (NZ IFRS 9) expected credit loss (ECL) model, as against an incurred credit loss model under NZ IAS 39. This requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). An explanation of the inputs, assumptions and estimation techniques used in measuring expected credit losses is further detailed in Note 1.6 (e).

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

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

- Establishing groups of similar financial assets for the purpose of measuring expected credit losses.

Prior to 1 January 2018, following significant estimates and judgements as per NZ IAS 39 for the measurement of impairment of loans and advances were used by the NZ Banking Group.

Impairment allowance on each loan or advance is evaluated based on management's judgements in applying the accounting policy in 1.6 (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 judgements. Refer to Note 22 for more details on the valuation of financial instruments.

There are no other assumptions made about the future, and no other major sources of estimation uncertainty as at 31 December 2018, 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

	31 December 2018 $000	31 December 2017 $000
Interest income		
* Cash and balances with central bank	866	582
* Due from other financial institutions	2,332	922
* Loans and advances[1]	80,613	55,780
* Due from related parties	282	56
** Investment securities	98	-
Total interest income	**84,191**	**57,340**
Interest expense		
*** Due to other financial institutions	(1,930)	(501)
*** Deposits and other borrowings	(8,136)	(7,883)
*** Due to related parties	(19,333)	(12,375)
*** Debt securities issued	(17,689)	(12,075)
Total interest expense	**(47,088)**	**(32,834)**
Other interest (expense)/income		
****Investment securities	3,081	**-**
*****Due to related party (refer to Note 20)	(7,487)	**-**
Total other interest (expense)/income	**(4,406)**	**-**
Total net interest income	**32,697**	**24,506**

* *Interest earned on financial assets classified and measured at amortised cost.*
** *Interest earned on financial asset classified and measured at FVOCI.*
*** *Interest expense on financial liabilities classified and measured at amortised cost.*
**** *Interest earned on financial asset classified and measured at FVTPL.*
***** *Interest expense on financial liabilities classified and measured at FVTPL.*

(1) *Interest earned on impaired assets is nil (31 December 2017: nil).*

3. Net non-interest income

	31 December 2018 $000	31 December 2017 $000
Fees and commissions		
Lending and credit facility related fee income	3,608	3,216
Other fee expense	(67)	(315)
Commission income	120	60
Total fees and commissions [1]	**3,661**	**2,961**
Other expense		
Net ineffectiveness on qualifying hedges	1,356	73
Net gain/(loss) on derivatives [2]	(1,318)	(264)
Loss on disposal of financial assets at fair value through profit or loss	(444)	-
Unrealised loss on financial assets at fair value through profit or loss	(727)	-
Unrealised loss on financial liabilities at fair value through profit or loss	(1,352)	-
Total other expense	**(2,485)**	**(191)**
Total net non-interest income	**1,176**	**2,770**

(1) *Total fee and commission income received for financial assets not carried at fair value is $3,661,000 (31 December 2017: $2,961,000).*
(2) *Comparative information has been reclassified to ensure consistency with current year reporting.*

4. Operating expenses

	31 December 2018 $000	31 December 2017 $000
Amortisation of intangible assets	152	58
Depreciation of property, plant and equipment	523	675
Directors' fees	289	230
Fees Paid to External Auditors	340	318
Employee benefits:		
- Salaries and wages	9,593	6,549
- Defined contribution plan expense	100	438
- Other	177	50
Operating lease rentals	985	973
Purchased services:		
- Technology and information systems	478	352
- Legal	225	140
- Other professional services	1,229	1,101
GST expense	149	233
Other expenses	1,866	996
Total operating expenses	**16,106**	**12,113**

Fees paid to external auditors

	31 December 2018 $000	31 December 2017 $000
Audit and review of financial statements		
- PwC (audit of September first disclosure statement)	-	130
- PwC (audit of December disclosure statement)	235	145
- PwC (special purpose audit of December financial statements)	10	-
- PwC (review of June disclosure statement)	55	30
Total audit and review fees	**300**	**305**
Other services		
- PwC (procedures over off-quarter disclosure statements)	-	13
- PwC (business advisory services)	38	-
- PwC (advisory on tax matters)	2	-
Total other services	**40**	**13**
Total fees paid to the external auditors	**340**	**318**

5. Impairment losses on credit exposures

(refer note 1.5 about change in accounting policy)

31 December 2018	Residential mortgage loans $000	Corporate exposures $000	Other exposures [2] $000	Total credit exposures $000
Movement in collective provision 12-months ECL	3,270	(1,029)	70	2,311
Movement in collective provision Lifetime ECL not credit impaired	-	(688)	-	(688)
Movement in collective provision Lifetime ECL credit impaired	-	-	-	-
Movement in specific provision Lifetime ECL credit impaired [1]	-	-	-	-
Bad debts written-off directly to the profit or loss	-	-	146	146
Bad debts recovered	-	-	-	-
Total impairment losses on credit exposures	**3,270**	**(1,717)**	**216**	**1,769**

31 December 2017	Residential mortgage loans $000	Corporate exposures $000	Other exposures $000	Total credit exposures $000
Movement in collectively assessed provisions	352	548	-	900
Movement in individually assessed provisions [1]	-	-	-	-
Bad debts written-off directly to the profit or loss	-	-	-	-
Bad debts recovered	-	-	-	-
Total impairment losses on credit exposures	**352**	**548**	**-**	**900**

(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) *The impairment loss for other exposures also includes the impairment losses from the NZ Banking Group's credit exposure to amounts due from other financial institutions of $74,000 (31 December 2017: nil, 1 January 2018: $3,000) (refer to Note 8) and amounts due from related parties of nil (31 December 2017: nil, 1 January 2018: $1,000).*

6. Income tax expense

	31 December 2018 $000	31 December 2017 $000
Current tax	4,880	3,690
Deferred tax	(384)	410
Total income tax benefit	**4,496**	**4,100**
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	15,998	14,263
Tax at domestic rate (28%)	4,479	3,994
Tax effect of expenses not deductible for tax purposes	19	97
Tax effect of prior period adjustments	(2)	9
Recognition of prior tax losses	-	-
Total income tax expense	**4,496**	**4,100**
Effective tax rate	**28.1%**	**28.7%**
Income tax credited directly to equity		
Current tax	-	-
Deferred tax	487	44
Total income tax credited directly to equity	**487**	**44**

Imputation credit account

The amount of imputation credits available to the NZ Banking Group as at 31 December 2018 for use in subsequent reporting periods is $3.7m (31 December 2017: nil).

7. Cash and settlement balances with central bank

	31 December 2018 $000	31 December 2017 $000
Call deposits and settlement account balances with central bank	50,698	152,581
Total cash and balances with central bank	**50,698**	**152,581**
Amounts expected to be recovered within 12 months	50,698	152,581
Amounts expected to be recovered after 12 months	-	-
Total cash and balances with central banks	**50,698**	**152,581**

8. Due from other financial institutions

	31 December 2018 $000	31 December 2017 $000
Loans and advances due from other financial institutions – call	14,073	2,358
Loans and advances due from other financial institutions – term	287,222	-
Less: Provision for impairment losses	(74)	-
Total amount due from other financial institutions	**301,221**	**2,358**
Amounts expected to be recovered within 12 months	301,221	2,358
Amounts expected to be recovered after 12 months	-	-
Total amount due from other financial institutions	**301,221**	**2,358**

9. Investment securities

	31 December 2018 $000	31 December 2017 $000
RBNZ bills [1]	38,986	-
Government securities [2]	149,343	-
Total investment securities	**188,329**	**-**
Amounts expected to be recovered within 12 months	38,986	-
Amounts expected to be recovered after 12 months	149,343	-
Total investment securities	**188,329**	**-**

(1) *These bills are classified as financial assets at fair value through other comprehensive income.*
(2) *These Government securities are classified as financial assets at fair value through profit or loss.*

10. Loans and advances

(refer note 1.5 about change in accounting policy)

	31 December 2018 $000	31 December 2017 $000
Residential mortgages	658,496	733,385
Corporate exposures	1,275,993	912,809
Others[1]	2,384	1,597
Total gross loans and advances	**1,936,873**	**1,647,791**
Provisions for impairment losses on credit exposures on residential mortgages[2]	(3,552)	(732)
Provisions for impairment losses on credit exposures on corporate exposures[2]	(2,508)	(913)
Total net loans and advances	**1,930,813**	**1,646,146**
Amounts expected to be recovered within 12 months	790,215	542,971
Amounts expected to be recovered after 12 months	1,140,598	1,103,175
Total net loans and advances	**1,930,813**	**1,646,146**

(1) *'Others' includes deferred loan acquisition cost and fair value hedging adjustment.*
(2) *Comparative information has been split between residential and corporate exposure to ensure consistency with current year reporting.*

11. Asset quality

31 December 2018	Residential mortgages $000	Corporate exposures $000	Other exposures $000	Total credit exposures $000
Neither past due nor impaired	658,496	1,275,993	2,384	**1,936,873**
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	**658,496**	**1,275,993**	**2,384**	**1,936,873**
Total provisions for impairment losses on loans and advances	**(3,552)**	**(2,508)**	-	**(6,060)**
Total net loans and advances	**654,944**	**1,273,485**	**2,384**	**1,930,813**

Due from financial institutions past due nil (31 December 2017: nil), impaired asset nil (31 December 2017: nil) and provision for impairment losses $74,000 (31 December 2017: nil) (refer to Note 8).

(refer note 1.5 about change in accounting policy)

31 December 2018	Stage 1 $000	Stage 2 $000	Stage 3 $000	Credit Impaired $000	Total $000
Movement in loans and advances					
Residential mortgages					
Gross balance as at beginning of year	733,043	-	342	-	733,385
Additions	43,844	-	-	-	43,844
Amounts written off	-	-	(342)	-	(342)
Deletions	(118,391)	-	-	-	(118,391)
Gross balance as at end of year	**658,496**	**-**	**-**	**-**	**658,496**
Corporate exposures					
Gross balance as at beginning of year	900,573	12,236	-	-	912,809
Additions	3,655,735	-	-	-	3,655,735
Amounts written off	-	-	-	-	-
Deletions	(3,287,525)	(5,026)	-	-	(3,292,551)
Gross balance as at end of year	**1,268,783**	**7,210**	**-**	**-**	**1,275,993**
Other exposures					
Gross balance as at beginning of year	1,597	-	-	-	1,597
Additions	787	-	-	-	787
Amounts written off	-	-	-	-	-
Deletions	-	-	-	-	-
Gross balance as at end of year	**2,384**	**-**	**-**	**-**	**2,384**
Total					
Gross balance as at beginning of year	1,635,213	12,236	342	-	1,647,791
Additions	3,700,366	-	-	-	3,700,366
Amounts written off	-	-	(342)	-	(342)
Deletions	(3,405,916)	(5,026)	-	-	(3,410,942)
Gross balance as at end of year	**1,929,663**	**7,210**	**-**	**-**	**1,936,873**

Due from financial institutions balances were all represented in Stage 1 - 12 months ECL

31 December 2018	Collective provision 12-months ECL $000	Collective provision lifetime ECL not credit impaired $000	Collective Provision Lifetime ECL Credit Impaired $000	Specific Provision Lifetime ECL Credit Impaired $000	Total $000
Movement in provision for impairment losses					
Residential mortgages					
Balance at beginning of year	282	-	231	-	**513**
Changes to the opening balance due to transfer between ECL					
Transferred to collective provision 12-months ECL	-	-	-	-	**-**
Transferred to collective provision lifetime ECL not credit impaired	-	-	-	-	**-**
Transferred to collective provision lifetime ECL credit impaired	-	-	-	-	**-**
Transferred to specific provision lifetime ECL credit impaired	-	-	(231)	-	**(231)**
Charge to profit or loss excluding transfer between ECL stages	3,270	-	-	-	**3,270**
Amounts written off	-	-	-	-	**-**
Reversals of previously recognised impairment losses [2]	-	-	-	-	**-**
Recovery of amounts written off	-	-	-	-	**-**

Balance at end of year – Residential mortgages	**3,552**	**-**	**-**	**-**	**3,552**
Corporate exposures					
Balance at beginning of year	3,710	518	-	-	**4,228**
Changes to the opening balance due to transfer between ECL					
Transferred to collective provision 12-months ECL	-	-	-	-	**-**
Transferred to collective provision lifetime ECL not credit impaired	(220)	220	-	-	**-**
Transferred to collective provision lifetime ECL credit impaired	-	-	-	-	**-**
Transferred to specific provision lifetime ECL credit impaired	-	-	-	-	**-**
Charge/ (credit) to profit or loss excluding transfer between ECL stages	(1,032)	(688)	-	-	**(1,720)**
Amounts written off	-	-	-	-	**-**
Reversals of previously recognised impairment losses	-	-	-	-	**-**
Recovery of amounts written off	-	-	-	-	**-**
Balance at end of year – Corporate exposures	**2,458**	**50**	**-**	**-**	**2,508**
Other exposures [3]					
Balance at beginning of year	-	-	-	-	**-**
Changes to the opening balance due to transfer between ECL					
Transferred to collective provision 12-months ECL	-	-	-	-	**-**
Transferred to collective provision lifetime ECL not credit impaired	-	-	-	-	**-**
Transferred to collective provision lifetime ECL credit impaired	-	-	-	-	**-**
Transferred to specific provision lifetime ECL credit impaired	-	-	-	231	**231**
Charge to profit or loss excluding transfer between ECL stages [2]	-	-	-	-	**-**
Amounts written off	-	-	-	(231)	**(231)**
Reversals of previously recognised impairment losses	-	-	-	-	**-**
Recovery of amounts written off	-	-	-	-	**-**
Balance at end of year – Other exposures	**-**	**-**	**-**	**-**	**-**
Total					
Balance at beginning of year	3,992	518	231	-	**4,741**
Changes to the opening balance due to transfer between ECL	-	-	-	-	**-**
Transferred to collective provision 12-months ECL	-	-	-	-	**-**
Transferred to collective provision lifetime ECL not credit impaired	(220)	220	-	-	**-**
Transferred to collective provision lifetime ECL credit impaired	-	-	-	-	**-**
Transferred to specific provision lifetime ECL credit impaired	-	-	(231)	231	**-**
Charge/ (credit) to profit or loss excluding transfer between ECL stages	2,238	(688)	-	-	**1,550**
Amounts written off	-	-	-	(231)	**(231)**
Reversals of previously recognised impairment losses	-	-	-	-	**-**
Recovery of amounts written off	-	-	-	-	**-**
Total provision for impairment losses at the end of year for loans and advances	**6,010**	**50**	**-**	**-**	**6,060**

(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) The loan exposure was reclassified from residential mortgage exposure to other exposure due to change in structure of facility.
(3) There was no transfer of collective provision for 'Due from financial institutions' between the stages and the total provision of $74,000 (31 December 2017: nil) (refer Note 8) was represented in 'Collective provision 12-months ECL' during the year.

31 December 2017	Residential mortgages $000	Corporate exposures $000	Other exposures $000	Total credit exposures $000
Neither past due nor impaired	726,646	908,590	1,597	1,636,833
Past due but not impaired				
Less than 30 days past due	6,397	-	-	6,397
At least 30 days but less than 60 days past due	-	4,219	-	4,219
At least 60 days but less than 90 days past due	-	-	-	-
At least 90 days past due	342	-	-	342
Total past due but not impaired	**6,739**	**4,219**	**-**	**10,958**
Individually impaired assets				
Balance at beginning of the year	-	-	-	-
Additions	-	-	-	-
Amounts written off	-	-	-	-
Deletions	-	-	-	-
Total individually impaired assets	**-**	**-**	**-**	**-**
Total gross loans and advances	**733,385**	**912,809**	**1,597**	**1,647,791**
Individually assessed provisions				
Balance at beginning of the year	-	-	-	-
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 year	**-**	**-**	**-**	**-**
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	352	548	-	900
Balance at end of the year	**732**	**913**	**-**	**1,645**
Total provisions for impairment losses on loans and advances	**732**	**913**	**-**	**1,645**
Total net loans and advances	**732,653**	**911,896**	**1,597**	**1,646,146**

Undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired were nil as at 31 December 2018 (31 December 2017: nil). The NZ Banking Group did not have any assets under administration as at 31 December 2018 (31 December 2017: nil).

12. Derivative financial instruments

	31 December 2018			31 December 2017		
	Notional Principal Amount $000	Fair value Assets $000	Fair value Liabilities $000	Notional Principal Amount [2] $000	Fair value Assets $000	Fair value Liabilities $000
Held for trading derivatives [1]						
Foreign exchange contracts						
Forward contracts	13,162	251	(123)	13,169	69	(79)
Swaps	703,644	5,973	(2,719)	220,773	1,538	(1,004)
Interest rate contracts						
Swaps	318,741	3,169	(2,690)	248,886	1,714	(1,206)
Total held for trading derivatives	**1,035,547**	**9,393**	**(5,532)**	**482,828**	**3,321**	**(2,289)**
Held for hedging derivatives						
Designated as fair value hedges						
Exchange rate contracts						
Swaps	188,848	4,355	-	112,412	1,329	(1,907)
Interest rate contracts						
Swaps	1,030,207	7,029	(870)	1,054,653	1,163	(918)
Total fair value hedges	**1,219,055**	**11,384**	**(870)**	**1,167,065**	**2,492**	**(2,825)**
Cash flow hedging derivatives						
Foreign exchange derivatives						
Swaps	627,649	47,304	(883)	420,530	14,716	(1,351)
Total cash flow hedging derivatives	**627,649**	**47,304**	**(883)**	**420,530**	**14,716**	**(1,351)**
Total derivative assets/(liabilities)	**2,882,251**	**68,081**	**(7,285)**	**2,070,423**	**20,529**	**(6,465)**
Amounts due for settlement within 12 months		24,855	(3,389)		2,791	(2,427)
Amounts due for settlement after 12 months		43,226	(4,318)		17,738	(4,038)

(1) *Held-for-trading derivative financial instruments include some derivatives that are used for hedging purposes that are not in designated hedge accounting relationships.*
(2) *Comparative information related to the notional principal amount has been restated using the correct calculations.*

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.

	31 December 2018 $000	31 December 2017 $000
Gain/(loss) arising from fair value hedges		
- hedged item	(3,204)	(1,641)
- hedging instrument	4,560	1,714
Net ineffectiveness on qualifying hedges (refer to Note 3)	**1,356**	**73**

The profile of the timing of the notional amount of derivatives designated in fair value hedge relationships is outlined in the following tables.

31 December 2018	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000	Total $000
Interest rate swaps				
Pay fixed	83,386	393,850	285,042	762,278
Received fixed	-	32,125	554,545	586,670
Total notional amount	**83,386**	**425,975**	**839,587**	**1,348,948**
Weighted average interest rate	2.05%	3.27%	1.92%	

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.

The net ineffectiveness of cash flow hedges as at 31 December 2018 is nil (31 December 2017: nil).

There were no transactions for which cash flow hedge accounting had to be ceased during the year ended 31 December 2018 as a result of highly probable cash flows no longer being expected to occur (31 December 2017: nil).

The profile of the timing of the notional amount of derivatives designated in cash flow hedge relationships is outlined in the following tables.

31 December 2018	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000	Total $000
Cross currency interest rate swaps				
Received fixed - Pay floating	-	68,870	43,541	112,411
Received floating - Pay floating	-	137,212	566,874	704,086
Total notional amount	**-**	**206,082**	**610,415**	**816,497**
Weighted average interest rate		2.83%	3.06%	

The profile of the timing of the notional amount of derivatives designated in Foreign exchange contracts is outlined in the following tables.

31 December 2018	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000	Total $000
Foreign exchange contracts				
Forward contracts	11,147	2,015	-	13,162
Swaps	264,377	439,267	-	703,644
Total notional amount	**275,524**	**441,282**	**-**	**716,806**
Weighted average USD rate	*0.6733*	*0.6923*	-	
Weighted average CNY rate	*4.6200*	*4.6200*	-	

13. Other assets

	31 December 2018 $000	31 December 2017 $000
Trade debtors	15	3
Prepayments	159	166
Other	107	61
Total other assets	**281**	**230**
Amounts expected to be recovered within 12 months	281	230
Amounts expected to be recovered after 12 months	-	-
Total other assets	**281**	**230**

14. Deferred tax

	31 December 2018 $000	31 December 2017 $000
Deferred tax asset		
Balance at beginning of period	990	1,356
Recognised in profit or loss	384	(410)
Recognised directly in equity	487	44
Balance at end of period	**1,861**	**990**
Deferred tax assets / (liabilities) comprise the following temporary differences:		
Provision for impairment losses on loans and advances	1,717	462
Provision for employee entitlements	278	313
Property, plant and equipment	219	145
Cash flow hedges	(365)	16
Other temporary differences	12	54
Total deferred tax assets (net)[1]	**1,861**	**990**
Deferred taxation recognised in profit or loss		
Provision for impairment losses on loans and advances	388	253
Provision for employee entitlements	(35)	212
Property, plant and equipment	74	76
Other temporary differences	(43)	18
Tax losses recognised	-	(969)
Total deferred taxation recognised in the income statement	**384**	**(410)**

Deferred taxation recognised in equity		
Cash flow hedges	(381)	44
IFRS9 transition adjustment	868	-
Total deferred taxation recognised in equity	**487**	**44**

(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.*

The NZ Banking Group does not have any unutilised tax losses that were available for offset against future taxable profits of the NZ Banking Group as at 31 December 2018 (31 December 2017: nil).

15. Due to other financial institutions

	31 December 2018 $000	31 December 2017 $000
Placements from other financial institutions	336,772	-
Transaction balances with other financial institutions	-	-
Total amount due to other financial institutions	**336,772**	**-**
Amounts expected to be settled within 12 months	336,772	-
Amounts expected to be settled after 12 months	-	-
Total amount due to other financial institutions	**336,772**	**-**

16. Deposits from customers

	31 December 2018 $000	31 December 2017 $000
Demand deposits not bearing interest	1,376	3,038
Demand deposits bearing interest	34,267	87,383
Term deposits	199,566	368,539
Total deposits from customers	**235,209**	**458,960**
Amounts expected to be settled within 12 months	216,175	440,680
Amounts expected to be settled after 12 months	19,034	18,280
Total deposits from customers	**235,209**	**458,960**

17. Debt securities issued

Presented below are the NZ Banking Group's debt securities issued through CCBNZL at 31 December 2018. The distinction between short-term and long-term debt is based on the maturity of the underlying security at origination.

	31 December 2018 $000	31 December 2017 $000
Short term debt		
Registered certificate of deposits	55,000	53,000
Total short term debt	**55,000**	**53,000**
Long term debt		
Domestic medium-term notes	627,243	398,300
Total long term debt	**627,243**	**398,300**
Total debt securities issued	**682,243**	**451,300**
Debt securities issued at amortised cost	682,243	451,300
Total debt securities issued at face value	**682,243**	**451,300**
Movement in debt securities issued		
Balance at beginning of the year	453,507	292,638
Issuance during the year	563,943	328,500
Repayments during the year	(333,000)	(170,500)
Effect of fair value hedge adjustment	5,406	2,150
Net effect of transaction costs and accruals	390	719
Balance at end of the year	690,246	453,507
Total debt securities issued	**690,246**	**453,507**
Amounts expected to be settled within 12 months	88,926	120,383
Amounts expected to be settled after 12 months	601,320	333,124
Total debt securities issued	**690,246**	**453,507**

Details of the debt securities held by the NZ Banking Group issued through CCBNZL as at 31 December 2018 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. 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**") as at 31 December 2018 was 2.45% (31 December 2017: 2.38%).

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. WAIR as at 31 December 2018 was 3.61%, (31 December 2017: 3.63%).

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 31 December 2018 (31 December 2017: nil).

18. Other liabilities

	31 December 2018 $000	31 December 2017 $000
Employee entitlements	1,982	1,114
Trade creditors and other accrued expenses	120	338
Other	401	419
Total other liabilities	**2,503**	**1,871**
Amounts expected to be settled within 12 months	2,414	1,723
Amounts expected to be settled after 12 months	89	148
Total other liabilities	**2,503**	**1,871**

19. Share capital and branch capital

Ordinary Capital

	31 December 2018		31 December 2017	
	Number of shares	$000	Number of shares	$000
Ordinary shares issued and fully paid				
Balance at beginning of the year	158,629,981	199,178	158,629,981	199,178
Shares issued during the year	-	-	-	-
Balance at end of the year	**158,629,981**	**199,178**	**158,629,981**	**199,178**

The total number of ordinary shares on issue as at 31 December 2018 was 158,629,981 (31 December 2017: 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 31 December 2018, CCBNZL paid dividends of nil to CCBC (equivalent to nil per share) (31 December 2017: nil, nil per share).

Branch Capital

There was no contribution from the head office as at 31 December 2018 (31 December 2017: nil).

20. Related party transactions

During the year ended 31 December 2018, the NZ Banking Group has entered into or had in place various financial transactions with members of the Overseas Banking Group.

Transactions with related parties

	31 December 2018 $000	31 December 2017 $000
Interest income		
Received from Ultimate Parent Bank	282	56
Interest expense		
Paid to Ultimate Parent Bank	(26,820)	(12,375)
Non-interest income / (expense)		
Unrealised gain/loss on derivatives with Ultimate Parent Bank	92	(587)

Balances with related parties

	Counterparty	31 December 2018 $000	31 December 2017 $000
Due from related parties[2]			
Cash and liquid assets	Ultimate Parent Bank	2,655	1,780
Loans and advances	Ultimate Parent Bank	32,229	-
Other assets	Ultimate Parent Bank	76	174
Total related party assets		**34,960**	**1,954**
Amounts expected to be recovered within 12 months		34,960	1,954
Amounts expected to be recovered after 12 months		-	-
Total related party assets		**34,960**	**1,954**
Due to related parties			
Deposits and overnight placement	Ultimate Parent Bank	-	-
Long term borrowings at fair value through profit or loss	Ultimate Parent Bank	151,082	-
Long term borrowings at amortised cost	Ultimate Parent Bank	918,240	680,978
Total related party liabilities		**1,069,322**	**680,978**
Amounts expected to be settled within 12 months		369,148	1,418
Amounts expected to be settled after 12 months		700,174	679,560
Total related party liabilities		**1,069,322**	**680,978**
Derivative financial assets			
Interest rates contracts	Ultimate Parent Bank	55,512	17,045
Exchange rate contracts	Ultimate Parent Bank	124	-
Total derivative financial assets with related party		**55,636**	**17,045**
Amounts expected to be recovered within 12 months[1]		16,681	120
Amounts expected to be recovered after 12 months		38,955	16,925
Total derivative financial assets with related party		**55,636**	**17,045**
Derivative financial liabilities			
Interest rates contract	Ultimate Parent Bank	3,537	4,255
Exchange rate contracts	Ultimate Parent Bank	43	-
Total derivative financial liabilities with related party		**3,580**	**4,255**
Amounts expected to be settled within 12 months[1]		52	(833)
Amounts expected to be settled after 12 months		3,528	5,088
Total derivative financial liabilities with related party		**3,580**	**4,255**
Subordinated Debt			
Subordinated Debt	Ultimate Parent Bank	15,129	15,128
Total Subordinated Debt with related party		**15,129**	**15,128**
Amounts expected to be settled within 12 months		129	128
Amounts expected to be settled after 12 months		15,000	15,000
Total Subordinated Debt with related party		**15,129**	**15,128**

(1) The amounts expected to settle within 12 months consists of net accrued interest on derivatives with Ultimate Parent Bank.
(2) Comparative information has been reclassified to ensure consistency with current year reporting.

There were no debts with any related parties written off or forgiven during the period ended 31 December 2018 (31 December 2017: nil).

Provision for impairments on credit exposure of nil have been recognised in respect of the related party assets (31 December 2017: 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 (interest bearing) and hedging transactions (interest bearing) 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. The settlement of the balances will be in cash consideration.

Ultimate Parent Bank

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

The Branch

The total liabilities of the Branch, net of amounts due to related entities as at 31 December 2018 were $582,717,000 (31 December 2017: $70,000).

21. Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The key management personnel 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

	31 December 2018 $000	31 December 2017 $000
Key management personnel compensation		
Salaries and other short-term employee benefits	1,551	1,084
Post-employment benefits (pension scheme contribution)	-	65
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
Total key management personnel compensation	**1,551**	**1,149**

Out of the above, CCBC paid $35,005 of the salaries and the rest of the costs were borne by the NZ Banking Group (31 December 2017: $27,600 of the salaries was paid by CCBC).

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

Loans and deposits with key management personnel

There were no loans or deposits with key management personnel in the year ended 31 December 2018 (31 December 2017: nil).

As at 31 December 2018, no provisions have been recognised in respect of loans given to key management personnel and their related parties (31 December 2017: nil). There were no debts written off or forgiven during the year ended 31 December 2018 (31 December 2017: nil).

Other key management personnel transactions

There were no other transactions with key management personnel during the year ended 31 December 2018 (31 December 2017: nil).

22. Fair value of financial instruments

Classification of financial instruments and estimates of fair value

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methods and assumptions used in the fair value estimates are described below.

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.

31 December 2018	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial assets at fair value				
Investment securities carried at fair value through profit or loss	-	149,343	-	149,343
Investment securities carried at fair value through other comprehensive income	-	38,986	-	38,986
Derivative financial assets	-	68,081	-	68,081
Total financial assets carried at fair value		**256,410**	-	**256,410**
Financial liabilities				

Financial liabilities at fair value through profit or loss	-	151,082	-	151,082
Derivative financial liabilities	-	7,285	-	7,285
Total financial liabilities carried at fair value	-	**158,367**	-	**158,367**

31 December 2017	**Level 1 $000**	**Level 2 $000**	**Level 3 $000**	**Total $000**
Financial assets at fair value				
Derivative financial assets	-	20,529	-	20,529
Total financial assets carried at fair value	**-**	**20,529**	**-**	**20,529**
Financial liabilities				
Derivative financial liabilities	-	6,465	-	6,465
Total financial liabilities carried at fair value	**-**	**6,465**	**-**	**6,465**

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 31 December 2018 (31 December 2017: nil). There have been no transfers into/out of level 3 during the year ended 31 December 2018 (31 December 2017: nil).

There is no movement in fair value of financial liabilities designated at fair value through profit or loss on initial recognition attributable to changes in credit risk of the NZ Banking Group.

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

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

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.

		31 December 2018		**31 December 2017**	
	Fair value hierarchy level	**Fair Value $000**	**Carrying amount $000**	**Fair Value $000**	**Carrying amount $000**
Financial assets at amortised cost					
Cash and balances with central banks	2	50,698	50,698	152,581	152,581
Due from other financial institutions	2	301,221	301,221	2,358	2,358
Loans and advances	3	2,118,627	1,930,813	1,836,837	1,646,146
Due from related parties	2	34,960	34,960	1,954	1,954
Other assets	2	67	67	61	61
Total financial assets at amortised cost		**2,505,573**	**2,317,759**	**1,993,791**	**1,803,100**
Financial liabilities at amortised cost					
Due to other financial institutions	2	336,772	336,772	-	-
Deposits from customers	2	236,232	235,209	458,054	458,960
Debt securities issued at amortised cost	2	748,765	690,246	465,606	453,507
Due to related parties	2	958,324	918,240	691,697	680,978
Subordinated debt	2	15,733	15,129	17,242	15,128
Total financial liabilities at amortised cost		**2,295,826**	**2,195,596**	**1,632,599**	**1,608,573**

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 (including subordinated debt)

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

23. Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities

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

	Effect of netting in Balance Sheet					
	Gross amounts	Amount Offset	Net amount reported on the balance sheet	Financial Collateral	Amounts Subject to Enforceable Master netting Agreements but not offset	Carrying Value
31 December 2018	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Derivative financial assets	68,081	-	68,081	-	-	68,081
Total financial assets	**68,081**	**-**	**68,081**	**-**	**-**	**68,081**
Derivative financial liabilities	7,285	-	7,285	-	-	7,285
Total financial liabilities	**7,285**	**-**	**7,285**	**-**	**-**	**7,285**

	Effect of netting in Balance Sheet					
	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
31 December 2017	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Derivative financial assets	20,529	-	20,529	-	-	20,529
Total financial assets	**20,529**	**-**	**20,529**	**-**	**-**	**20,529**
Derivative financial liabilities	6,465	-	6,465	-	-	6,465
Total financial liabilities	**6,465**	**-**	**6,465**	**-**	**-**	**6,465**

24. Net cash flows from (used in) operating activities

For the year ended	31 December 2018 $000	31 December 2017 $000
Reconciliation of profit after income tax to net cash flows from (used in) operating activities		
Profit after income tax	11,502	10,163
Adjustments:		
Impairment losses on credit exposures	1,769	900
Depreciation and amortisation	675	733
Deduct/(add) items reclassified as financing activities	38,750	22,425
Income tax expense	786	4,100
Movement in fair value of financial assets and liabilities*	14,212	445
Movement in interest accruals*	(590)	1,747
Net (increase)/decrease in operating assets:		
GST receivable	(7)	(25)
Loans and advances *	(289,342)	(899,582)
Due from related parties[1]	(32,131)	(174)
Other assets	(45)	69
Net increase/(decrease) in operating liabilities		
Due to other financial institutions	336,181	(28,000)
Deposits from customers *	(223,102)	317,912
Net cash flow from (used in) operating activities	**(141,342)**	**(569,287)**

** Comparative information has been reclassified to ensure consistency with current year reporting.*

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

25. Commitments and contingent liabilities

Leasing commitments

The following non-cancellable operating lease commitments existed as at 31 December 2018.

	31 December 2018 $000	31 December 2017 $000
Future aggregate minimum lease payments under non-cancellable operating leases:		
No later than 1 year	1,022	1,012
Later than 1 year and no later than 5 years	1,508	2,603
Later than 5 years	-	-
Total	**2,530**	**3,615**

Leasing commitments relate to rental of the NZ Banking Group's premises and computer equipment. Operating lease expenses are charged to the profit or loss on a straight-line basis over the term of the lease. However, the accounting treatment will change upon the adoption of NZ IFRS 16 by the NZ Banking Group on 1 January 2019. Please refer to Note 1.8.

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.

Credit related commitments and contingent liabilities arising in respect of the NZ Banking Group's operations as at 31 December 2018 were:

	Contract or notional amount 31 December 2018 $000	Contract or notional amount 31 December 2017 $000
Credit related commitments and contingent liabilities		
Commitments to extend credit[1]	567,955	514,477
Financial guarantees[2]	383	2,063
Standby letters of credit[3]	134,048	-
Trade letters of credit[4]	.	-
Non-financial guarantees[5]	6,953	6,170
Other commitments[6]	-	-
Total	**709,339**	**522,710**

[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 31 December 2017, the NZ Banking Group has offered nil facilities to customers, which had not yet been accepted (31 December 2016: nil).
[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.

There were no restrictions existing on title to property, plant and equipment and intangible assets as at 31 December 2018 (31 December 2017: nil). No property, plant and equipment and intangible assets were pledged as security for liabilities as at 31 December 2018 (31 December 2017: nil).

As at 31 December 2018 contractual commitments relating to the purchase of furniture and computer equipment and intangible assets were nil (31 December 2017: nil).

26. 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.

31 December 2018	Cash and balances with central banks $000	Due from other financial institutions $000	Investment securities $000	Derivative financial assets $000	Loans and advances $000	Other financial assets $000	Total (on-balance sheet) $000	Credit commitments and contingent liabilities $000
Industry sector								
Agriculture, Forestry and Fishing	-	-	-	-	18,449	-	18,449	23,102
Mining					30,084		30,084	-
Manufacturing	-	-	-	-	331,560	-	331,560	34,353
Electricity, gas, water, and waste services					243,501		243,501	247,174
Construction	-	-	-	-	262,530	-	262,530	197,282
Retail trade	-	-	-	-	-	-	-	295
Accommodation and food services	-	-	-	-	48,364	-	48,364	2,500
Transport, postal and warehousing					30,109		30,109	85,500
Information media and telecommunications	-	-	-	-	9,787	-	9,787	-
Financial and insurance services	50,698	301,291	188,329	68,081	-	-	608,399	6,953
Rental, hiring and real estate services	-	-	-	-	297,507	-	297,507	86,506
Arts and Recreation Services	-	-	-	-	7,210	-	7,210	-
Professional, scientific and technical services	-	-	-	-	1,009	-	1,009	-
Public administration and safety	-	-	-	-	-	-	-	25,000
Personal lending	-	-	-		658,496	-	658,496	674
Subtotal	**50,698**	**301,291**	**188,329**	**68,081**	**1,938,606**	**-**	**2,547,005**	**709,339**
Unearned income	-	-	-	-	(4,194)	-	(4,194)	-
Mortgage origination fees	-	-	-	-	1,094	-	1,094	-
Fair value hedge adjustments	-	-	-	-	1,367	-	1,367	-
Provisions for impairment losses	-	(70)	-	-	(6,060)	-	(6,130)	-
Due from related parties	-	-	-	-	-	34,960	34,960	-
Total credit exposures	**50,698**	**301,221**	**188,329**	**68,081**	**1,930,813**	**34,960**	**2,574,102**	**709,339**

Geographical area								
New Zealand	50,698	21,876	38,986	12,031	1,683,969	-	1,807,560	709,339
Overseas	-	279,345	149,343	56,050	246,844	34,960	766,542	-
Total credit exposures	**50,698**	**301,221**	**188,329**	**68,081**	**1,930,813**	**34,960**	**2,574,102**	**709,339**

	Cash and balances with central banks	Due from other financial institutions	Investment securities	Derivative financial assets	Loans and advances	Other financial assets	Total (on-balance sheet)	Credit commit-ments and contingent liabilities
31 December 2017[1]	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Industry sector								
Agriculture, Forestry and Fishing	-	-	-	51	81,353	-	81,404	1,089
Mining	-	-	-	-	30,050	-	30,050	-
Manufacturing	-	-	-	-	171,344	-	171,344	23,015
Electricity, gas, water and waste services	-	-	-	-	24,269	-	24,269	100,682
Construction	-	-	-	829	19,223	-	20,052	85,255
Wholesale trade	-	-	-	-	1,279	-	1,279	8,773
Retail trade	-	-	-	-	-	-	-	295
Accommodation and food services	-	-	-	-	48,710	-	48,710	2,500
Transport, postal and warehousing	-	-	-	-	20,097	-	20,097	15,000
Information media and telecommunications	-	-	-	-	16,433	-	16,433	-
Financial and insurance services	152,581	2,358	-	19,649	-	-	174,588	-
Rental, hiring and real estate services	-	-	-	-	494,523	-	494,523	174,672
Arts and Recreation Services	-	-	-	-	7,659	-	7,659	-
Professional, scientific and technical services	-	-	-	-	2,454	-	2,454	-
Public administration and safety	-	-	-	-	-	-	-	40,000
Personal lending	-	-	-	-	733,384	-	733,384	71,429
Subtotal	**152,581**	**2,358**	-	**20,529**	**1,650,778**	**-**	**1,826,246**	**522,710**
Unearned income	-	-	-	-	(4,584)	-	(4,584)	-
Mortgage origination fees	-	-	-	-	1,363	-	1,363	-
Fair value hedge adjustments	-	-	-	-	234	-	234	-
Provisions for impairment losses on loans and advances	-	-	-	-	(1,645)	-	(1,645)	-
Due from related parties	-	-	-	-	-	1,954	1,954	-
Total credit exposures	**152,581**	**2,358**	-	**20,529**	**1,646,146**	**1,954**	**1,823,568**	**522,710**

Geographical area								
New Zealand	152,581	2,358	-	20,529	1,646,146	-	1,821,614	522,710
Overseas	-	-	-	-	-	1,954	1,954	-
Total credit exposures	**152,581**	**2,358**	-	**20,529**	**1,646,146**	**1,954**	**1,823,568**	**522,710**

(1) *Comparative information has been reclassified to ensure consistency with current year reporting.*

27. 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.

	31 December 2018 $000	31 December 2017 $000
Total funding comprises		
Due to other financial institutions	336,772	-
Deposits from customers	235,209	458,960
Debt securities issued	690,246	453,507
Due to related parties	1,069,322	680,978
Subordinated debt *	15,129	15,128
Total funding	**2,346,678**	**1,608,573**
Concentration of funding by industry sector		
Accommodation and food services	4	98,076
Agriculture, Forestry and Fishing	2,849	5,540
Construction	8,620	3,514
Electricity, gas, water, and waste services	30,079	-
Financial and insurance services *	1,140,341	487,738
Households	24,835	106,731
Manufacturing	417	1,412
Public administration and safety	20,051	100,407
Rental, hiring and real estate services	5,577	66,090
Retail trade	327	335
Transport, postal and warehousing	16,947	20,917
Wholesale trade	631	1,659
Other	11,549	20,048
Subtotal	**1,262,227**	**912,467**
Due to related parties (including Subordinated debt)	1,084,451	696,106
Total funding	**2,346,678**	**1,608,573**
Concentration of funding by geographical areas[1]		
New Zealand	392,235	658,530
China	1,666,377	807,792
Australia	246,027	50,311
Rest of Overseas	42,039	91,940
Total funding	**2,346,678**	**1,608,573**

[1] *The geographic area used for debt securities issued is based on the nature of the debt programmes.*
* *Comparative information has been reclassified to ensure consistency with current year reporting.*

28. Insurance business, securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products

Insurance

The NZ Banking Group does not conduct any insurance business.

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

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.

Provision of Financial Services

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

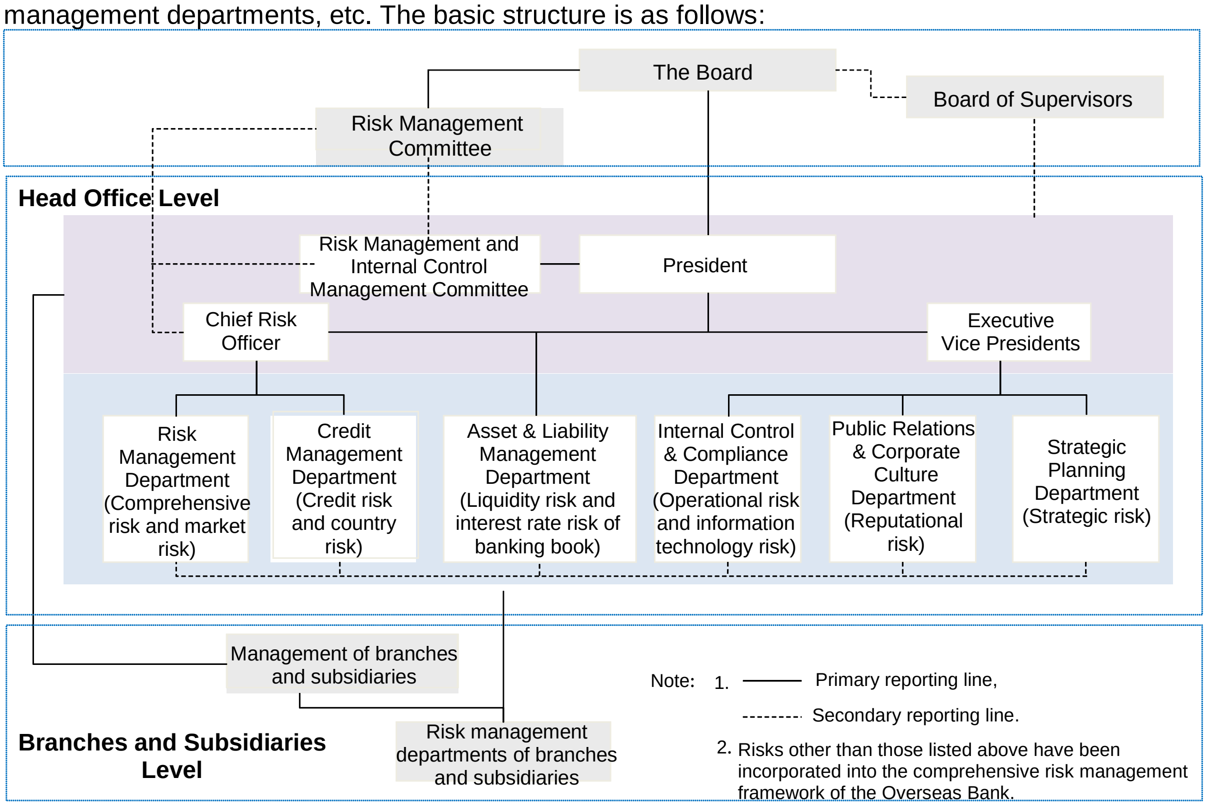
Non-consolidated activities

The Branch does not conduct any insurance business or non-financial activities in New Zealand that are outside the NZ Banking Group.

29. Risk management

General

The risk management organisational structure of the Overseas Bank comprises the Board and its special committees, the senior management and its special committees, and the relevant risk management departments, etc. The basic structure is as follows:



The Board carries out the risk management responsibility pursuant to the Articles of Association of the Overseas Bank and other related regulatory requirements. The Risk Management Committee under the Board is responsible for making risk management strategies, monitoring their implementation, and evaluating the overall risk profile on a regular basis. The Board reviews the statements of risk appetite regularly, sets the appetite as the core component in the risk management structure, and incorporates it into and communicates it through relevant capital management policies, risk management policies and business policies, to ensure that the business operations of the Overseas Bank adhere to the risk appetite. The Board of Supervisors oversees the building of the comprehensive risk management system, as well as the performance of the Board and the senior management in delivering their comprehensive risk management responsibilities. The senior management is responsible for carrying out the risk strategies adopted by the Board and organising the comprehensive risk management activities across the Overseas Banking Group.

The senior management appoints Chief Risk Officer who assists the President with the corresponding risk management work within designated responsibilities. Risk Management Department is the leading management department responsible for the Overseas Banking Group's comprehensive risk management, and its subordinate department, Market Risk Management Department, is the leading management department responsible for market risk management. Credit Management Department is the leading management department responsible for the overall credit risk management and country risk management. Asset and Liability Management Department is the leading management department responsible for the management of liquidity risk and interest rate risk of banking book. Internal Control & Compliance Department is the leading management department responsible for operational risk and information technology risk management. Public Relations & Corporate Culture Department is the leading management department responsible for reputational risk management. Strategic Planning Department is the leading management department responsible for strategic risk management. Other specialised departments are responsible for other respective risks.

The Overseas Bank places high priority on the risk management of subsidiaries, monitors their adherence to the risk appetite and conducts overall risk assessment of subsidiaries on a regular basis. The subsidiaries comply with the risk management requirements of the Ultimate Parent Bank through their corporate governance mechanisms, establishing and improving the comprehensive risk management system.

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

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 2018 a reporting process was implemented to provide 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.

The risk management system and architecture of the NZ Banking Group are reviewed annually by senior management and the relevant committees.

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.

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 31 December 2018 (31 December 2017: 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 31 December 2018 has been assessed to be normal in that the customer or counterparty can honour the terms of their contractual obligation. There is no reason to doubt their ability to repay principal and interest in full on a timely basis (31 December 2017: 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 arises when a number of customers are engaged in similar business activities or activities within the same geographic region or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The 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 26 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 ISDAs.

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.

31 December 2018	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	50,698	50,698	-
Due from other financial institutions	301,221	-	301,221
Investment securities	188,329	-	188,329
Derivative financial assets	68,081	-	68,081
Loans and advances	1,930,813	1,159,619	771,194
Due from related parties	34,960	-	34,960
Total on-balance sheet financial instruments	**2,574,102**	**1,210,317**	**1,363,785**
Off-balance sheet financial instruments			
Credit related commitments and contingent liabilities	709,339	105,619	603,720
Market related contracts	110,137	-	110,137
Total off-balance sheet financial instruments	**819,476**	**105,619**	**713,857**
Total exposure to credit risk	**3,393,578**	**1,315,936**	**2,077,642**

31 December 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	152,581	152,581	-
Due from other financial institutions	2,358	-	2,358
Derivative financial assets	20,529	-	20,529

Loans and advances	1,646,146	1,253,365	392,781
Due from related parties	1,954	-	1,954
Total on-balance sheet financial instruments	**1,823,568**	**1,405,946**	**417,622**
Off-balance sheet financial instruments			
Credit related commitments and contingent liabilities	522,710	145,285	377,425
Market related contracts	58,728	-	58,728
Total off-balance sheet financial instruments	**581,438**	**145,285**	**436,153**
Total exposure to credit risk	**2,405,006**	**1,551,231**	**853,775**

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, monitoring and reporting 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 risk 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 Risk Management Committee and the Asset and Liability Committee ("ALCO") of the NZ Banking Group.

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 simulating price movements based off 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 ("IRRBB").

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 traded interest rate risks are from yield curve and basis risk. Traded interest rate risk is generated through the NZ Banking Group's participation in interest rate markets to service its customers.

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 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 31 December 2018, 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".

31 December 2018	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	50,698	-	-	-	-	-	50,698
Due from other financial institutions	301,095	-	-	-	-	126	301,221
Investment securities	38,986	-	-	148,096	-	1,247	188,329
Derivative financial assets	-	-	-	-	-	68,081	68,081
Loans and advances	1,272,375	151,337	306,487	179,926	24,880	(4,192)	1,930,813
Due from related parties	32,520	2,431	-	-	-	9	34,960
Total financial assets	**1,695,674**	**153,768**	**306,487**	**328,022**	**24,880**	**65,271**	**2,574,102**
Non-financial assets	-	-	-	-	-	3,117	3,117
Total assets	**1,695,674**	**153,768**	**306,487**	**328,022**	**24,880**	**68,388**	**2,577,219**
Financial liabilities							
Due to other financial institutions	336,181	-	-	-	-	591	336,772
Derivative financial liabilities	-	-	-	-	-	7,285	7,285
Deposits from customers	144,952	33,647	52,795	1,919	-	1,896	235,209

Debt securities issued	213,943	11,500	37,300	124,500	295,000	8,003	690,246
Due to related parties	748,930	44,683	76,917	193,416	-	5,376	1,069,322
Subordinated Debt	15,000	-	-	-	-	129	15,129
Total financial liabilities	**1,459,006**	**89,830**	**167,012**	**319,835**	**295,000**	**23,280**	**2,353,963**
Non-financial liabilities	-	-	-	-	-	7,361	7,361
Total liabilities	**1,459,006**	**89,830**	**167,012**	**319,835**	**295,000**	**30,641**	**2,361,324**
On-balance sheet interest rate repricing gap	236,668	63,938	139,475	8,187	(270,120)	37,747	215,895
Net derivative notional amount	92,220	(96,529)	(265,196)	6,005	263,500	-	-
Net interest rate repricing gap	**328,888**	**(32,591)**	**(125,721)**	**14,192**	**(6,620)**	**37,747**	**215,895**

31 December 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	152,581	-	-	-	-	-	152,581
Due from other financial institutions	2,358	-	-	-	-	-	2,358
Derivative financial assets	-	-	-	-	-	20,529	20,529
Loans and advances	845,770	136,605	333,975	246,862	83,860	(926)	1,646,146
Due from related parties	1,780	-	-	-	-	174	1,954
Total financial assets	**1,002,489**	**136,605**	**333,975**	**246,862**	**83,860**	**19,777**	**1,823,568**
Non-financial assets	-	-	-	-	-	2,673	2,673
Total assets	**1,002,489**	**136,605**	**333,975**	**246,862**	**83,860**	**22,450**	**1,826,241**
Financial liabilities							
Due to other financial institutions	-	-	-	-	-	-	-
Derivative financial liabilities	-	-	-	-	-	6,465	6,465
Deposits from customers	372,912	10,625	54,598	1,191	17,089	2,545	458,960
Debt securities issued	78,000	65,000	-	33,800	274,500	2,207	453,507
Due to related parties	524,287	42,182	-	112,486	-	2,023	680,978
Subordinated Debt	15,000	-	-	-	-	128	15,128
Total financial liabilities	**990,199**	**117,807**	**54,598**	**147,477**	**291,589**	**17,055**	**1,618,725**
Non-financial liabilities	-	-	-	-	-	5,558	5,558
Total liabilities	**990,199**	**117,807**	**54,598**	**147,477**	**291,589**	**22,613**	**1,624,283**
On-balance sheet interest rate repricing gap	12,290	18,798	279,377	99,385	(207,729)	(163)	201,958
Net derivative notional amount	19,743	(10,191)	(213,956)	(58,311)	262,715	-	-
Net interest rate repricing gap	**32,033**	**8,607**	**65,421**	**41,074**	**54,986**	**(163)**	**201,958**

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.

	31 December 2018 $000	31 December 2017 $000
Impact on equity of increase or decrease to market interest rates		
100 bp parallel increase	2,031	664
100 bp parallel decrease	(2,031)	(664)
Impact on profit or loss of increase or decrease to market interest rates		
100 bp parallel increase	2,820	924
100 bp parallel decrease	(2,820)	(924)

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 foreign currency denominated assets with corresponding liabilities in the same currency and by utilising derivatives (principally foreign exchange swaps and cross currency swaps).

Net open foreign currency position

The net open position of major foreign currency held at 31 December 2018 are detailed in the table below. It represents the net of the non-derivative assets and liabilities in that foreign currency aggregated with the net expected future cash flows from derivative financial instrument purchases and sales from foreign exchange transactions in that foreign currency.

	31 December 2018 $000	31 December 2017 $000
Net open position		
US Dollar (USD)	(5,184)	18,087
Euro (EUR)	201	-
Chinese Yuan Renminbi (CNY)	1,592	208

Foreign exchange rate sensitivity

The table below summarises the 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 in foreign currency at reporting date. It is assumed that all other variables remain constant.

	31 December 2018 $000	31 December 2017* $000
Impact on equity of increase or decrease to foreign exchange rates		
10% appreciation (increase)	(497)	1,835
10% depreciation (decrease)	497	(1,835)
Impact on profit or loss of increase or decrease to foreign exchange rates		
10% appreciation (increase)	(691)	2,549
10% depreciation (decrease)	691	(2,549)

** 2017 figures have been restated using the correct calculation of foreign exchange rate sensitivity.*

Equity risk

The NZ Banking Group does not have any equity risk exposure as at 31 December 2018 (31 December 2017: 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 ALCO.

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 stressed 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 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:

	31 December 2018 $000	31 December 2017 $000
Cash and cash equivalents:		
Cash and balances with central banks	50,698	152,581
Due from other financial institutions (call or original maturity of 3 months or less)	301,221	2,358
Due from related parties[1]	2,655	1,780
Total Cash and cash equivalent	**354,574**	**156,719**
Investment securities		
RBNZ Bills	38,986	-
Total liquidity portfolio	**393,560**	**156,719**

[1] *Due from related parties includes the Nostro account balance held with the Ultimate Parent Bank as at 31 December 2018 and 31 December 2017.*

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.

31 December 2018	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 liabilities							
Due to other financial institutions	-	337,192	-	-	-	337,192	336,772
Deposits from customers	35,434	88,368	62,678	17,465	-	203,945	235,209
Debt securities issued	-	43,739	67,580	675,769	-	787,088	690,246
Due to related parties	-	11,607	44,262	379,733	-	435,602	1,069,322
Subordinated Debt	-	185	-	16,857	-	17,042	15,129
Total non-derivative financial liabilities	**35,434**	**481,091**	**174,520**	**1,089,824**	**-**	**1,780,869**	**2,346,678**
Derivative financial liabilities							
Net settled	-	(5,532)	-	-	-	(5,532)	-
Gross settled – cash inflow	-	557	2,752	62,758	-	66,067	-
Gross settled – cash outflow	-	(1,024)	(3,785)	(65,281)	-	(70,090)	-
Total derivative financial liabilities	**-**	**(5,999)**	**(1,033)**	**(2,523)**	**-**	**(9,555)**	**7,285**
Off-balance sheet commitments and contingent liabilities							
Capital commitments	-	-	-	-	-	-	-
Leasing commitments	-	256	767	1,507	-	2,530	-
Commitments to extend credit	567,955	-	-	-	-	567,955	-
Financial guarantees	383	-	-	-	-	383	-
Standby letters of credit	134,048	-	-	-	-	134,048	-
Trade letters of credit	-	-	-	-	-	-	-
Non-Financial guarantees	6,953	-	-	-	-	6,953	-
Other commitments	-	-	-	-	-	-	-
Total off-balance sheet commitments and contingent liabilities	**709,339**	**256**	**767**	**1,507**	**-**	**711,869**	**-**

31 December 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 liabilities							
Due to other financial institutions	-	-	-	-	-	-	-
Deposits from customers	90,421	283,841	66,820	19,186	-	460,268	458,960
Debt securities issued	-	55,333	75,773	366,598	-	497,704	453,507
Due to related parties	-	3,102	13,477	711,971	-	728,550	680,978
Subordinated Debt	-	187	558	3,485	15,475	19,705	15,128
Total non-derivative financial liabilities	**90,421**	**342,463**	**156,628**	**1,101,240**	**15,475**	**1,706,227**	**1,608,573**
Derivative financial liabilities							
Net settled	-	(2,289)	-	-	-	(2,289)	-
Gross settled – cash inflow	-	3,143	13,250	406,312	-	422,705	-
Gross settled – cash outflow	-	(4,129)	(12,402)	(410,539)	-	(427,070)	-
Total derivative financial liabilities	**-**	**(3,275)**	**848**	**(4,227)**	**-**	**(6,654)**	**6,465**

Off-balance sheet commitments and contingent liabilities							
Capital commitments	-	-	-	-	-	-	-
Leasing commitments	-	262	750	2,603	-	3,615	-
Commitments to extend credit	514,477	-	-	-	-	514,477	-
Financial guarantees	2,063	-	-	-	-	2,063	-
Standby letters of credit	-	-	-	-	-	-	-
Trade letters of credit	-	-	-	-	-	-	-
Non-Financial guarantees	6,170	-	-	-	-	6,170	-
Other commitments	-	-	-	-	-	-	-
Total off-balance sheet commitments and contingent liabilities	**522,710**	**262**	**750**	**2,603**	**-**	**526,325**	**-**

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. The NZ Banking Group's internal audit operates on a three-year audit programme and schedules between two to four audit assignments annually.

30. 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. The Reserve Bank has set minimum regulatory capital requirements that are consistent with the internationally agreed framework (commonly known as Basel III), developed by the Basel Committee on Banking Supervision. These requirements define what is acceptable as capital and provide methods for measuring the risks incurred by banks. The Branch and CCBNZL must comply with RBNZ registration requirements, including any minimum capital ratios (as applicable) 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 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 the Overseas Bank 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 the Overseas Bank, 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 CCBNZL must not be less than $30 million.

In addition to minimum capital requirements, Basel III introduces a capital conservation buffer of 2.5 per cent of risk-weighted assets. There are increasing constraints on capital distributions where a bank's capital level falls within the buffer range, which are specified in the conditions of registration on pages 8 to 10 of the China Construction Bank (New Zealand) Limited's full year ended 31 December 2018 Disclosure Statement.

Overseas Banking Group regulatory requirement

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

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

Both the Overseas Bank and the Overseas Banking Group are required to calculate and disclose capital adequacy ratios in accordance with both the *Capital Rules for Commercial Banks (Provisional)* (CBRC Order [2012] No. 1) and the *Measures for the Management of Capital Adequacy Rations of Commercial Banks* (CBNC Order [2004] No. 2) 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 CBIRC as at 30 September 2018, the latest reporting date.

The capital ratios below have been calculated in accordance with *the Capital Rules for Commercial Banks (Provisional)*, issued by the CBIRC.

As at	30 September 2018 %	30 September 2017 %
Ultimate Parent Bank Group		
Common Equity Tier 1 capital ratio	13.34%	12.84%
Tier 1 capital ratio	13.92%	12.99%
Total capital ratio	16.23%	14.67%
Ultimate Parent Bank		
Common Equity Tier 1 capital ratio	13.17%	12.62%

Tier 1 capital ratio	13.72%	12.78%
Total capital ratio	16.14%	14.52%

Capital instruments

Ordinary shares

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

In relation to the ordinary shares:

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

There were no significant Tier 1 capital initiatives undertaken during the year ended 31 December 2018.

Refer to Note 19 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 CCBNZL. The Notes are subordinated to the claims of depositors and other unsubordinated creditors of CCBNZL and qualify for Tier 2 regulatory recognition subject to the allowance for tax in accordance with section 10f(5), of subpart 2F under BS2A. CCBNZL 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.

This instrument is subject to phase-out from Tier 2 in accordance with BS2A. The phase-out will be over five consecutive years, with the amount of the instrument qualifying as Tier 2 capital reducing by 20% each year commencing April 2018 to maturity in April 2023.

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

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

31 December 2018	Does not exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
Loan-to-valuation ratio				
On-balance sheet exposures	654,944	-	-	**654,944**
Off-balance sheet exposures	674	-	-	**674**
Value of exposures	**655,618**	**-**	**-**	**655,618**

The information in the above table is in respect of the total residential mortgage loans used to calculate the NZ Banking Group'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

31 December 2018	Note	$000
Residential mortgages	10, 11	658,496
Reconciling items:		
Less: - Provision for impairment losses on credit exposures	10, 11	**(3,552)**
On-balance sheet exposures		**654,944**
Off-balance sheet exposures		**674**
Residential mortgages by loan-to-valuation ratio		**655,618**

Market risk

	End-period capital charges		Peak end-of-day capital charge	
31 December 2018	Implied risk weighted exposure $000	Aggregate capital charge $000	Implied risk weighted exposure $000	Aggregate capital charge $000
Interest rate risk	39,468	3,157	39,468	3,157
Foreign currency risk	48,952	3,916	48,952	3,916
Equity risk	-	-	-	-
Total	**88,420**	**7,073**	**88,420**	**7,073**

Peak end-of-day aggregate capital charge for each category of market risk is derived by determining the maximum over the 6 month period ended 31 December 2018 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)*.

31. Overseas banking group

	Overseas Banking Group
Asset Quality	
As at 31 December 2017	
Total gross individually impaired assets	RMB 169,798 million
Total individually impaired assets as a % of Total Assets	1.32%
Total Individual credit impairment allowance	RMB 113,820 million
Total individual credit impairment allowance as a % of total gross individually impaired assets	67.03%
Total collective impairment allowance	RMB 215,148 million
Profitability	
Net Profit after tax for the period ended 30 September 2018	RMB 256,198 million
Net Profit after tax for the 12 months ended 30 September 2018 as a % of average total assets	1.13%
Size	
As at 30 September 2018	
Total assets	RMB 23,354,078 million
% change in total assets from 30 September 2017	5.90%

32. 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 Banking Group (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 Clause 25 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Bank) Order 2014 (as amended) (the 'Order'), New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').
- audit opinion on the supplementary information prepared in accordance with Schedules 4, 7, 11 and 13 of the Order.
- audit opinion on other legal and regulatory requirements in accordance with Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order.
- 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 NZ Banking Group's financial statements required by Clause 25 of the Order and supplementary information required by Schedules 4, 7, 11 and 13 of the Order which comprise:

- the balance sheet as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a statement of accounting policies; and
- the supplementary information required by Schedules 4, 7, 11 and 13 of the Order.

Our opinion

In our opinion:

- the NZ Banking Group's financial statements (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 9, 11 and 13 of the Order and included within the Balance Sheet and Notes 11, 26, 27, 28, 29, 30, and 31);
  - (i) comply with generally accepted accounting practice in New Zealand;
  - (ii) comply with NZ IFRS and IFRS; and
  - (iii) give a true and fair view of the financial position of the NZ Banking Group as at 31 December 2018, and its financial performance and cash flows for the year then ended.

- The supplementary information disclosed in accordance with Schedules 4, 7, 11 and 13 of the Order and included within the Balance Sheet and Notes 11, 26, 27, 28, 29, and 31;
    - (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 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 consolidated 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.

Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall materiality: $800,000, which represents 5% of profit before income tax.

We chose profit before income tax as the benchmark because, in our view, it is the benchmark against which the performance of the NZ Banking Group is most commonly measured by users, and is a generally accepted benchmark.

We have determined that there is one key audit matter:

- *Impairment losses on credit exposures*

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the NZ Banking Group, the accounting processes and controls, and the industry in which the NZ Banking Group operates.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment losses on credit exposures (Refer to notes 1, 5, 10 and 11 of the financial statements) Effective 1 January 2018 the NZ Banking Group adopted NZ IFRS 9 Financial Instruments replacing the existing financial instrument standard NZ IAS 39. NZ IFRS 9 is a forward looking impairment model providing information about expected credit loss (ECL). The NZ Banking Group has developed new models (ECL models) which are reliant on significant estimates including the impact of multiple economic scenarios. We considered this a key audit matter because: 1) The models used to calculate ECLs are inherently complex and assumptions and estimation techniques are applied in the ECL models; and 2) There has been a significant increase in the number of data points required for the calculation of ECL. This increases the risk around completeness and accuracy of the critical data inputs used in the models.	We assessed the governance over the development, validation and approval of the Bank's ECL models. We tested controls over the inputs of critical data into source systems and the input of data from source systems to the Bank's ECL models. We also tested the accuracy and completeness of critical data inputs used in the ECL models by testing reconciliations between source systems and the ECL models. We performed the following audit procedures to assess the reasonableness of assumptions used in the ECL models: 1) considered the methodology inherent within the ECL models against the requirements of NZ IFRS 9; 2) assessed key assumptions and judgements in the ECL models, including staging, probability of default('PD') and loss given default('LGD') with reference to broader industry experience and the Bank's historical experience. We utilised the expertise of our credit modelling specialists to assist us with this assessment; and 3) assessed the reasonableness of economic information used within, and weightings applied to, forward looking scenarios by checking the relevancy and sufficiency of the data used in the model and validating external data used in the model to external economic data. We assessed the disclosure of expected credit losses in the financial statements for compliance with NZ IFRS 9.

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

The Directors of the China Construction Bank Corporation (the 'Directors') are responsible for the other information included in the Disclosure Statement. The other information comprises the information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order and is included on pages i to ii and pages 1 to 11.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 (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 of the financial statements in accordance with Clause 25 of the Order, NZ IFRS and IFRS and that give a true and fair view of the matters to which they relate. The Directors are also responsible for such internal 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, 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 (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 the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 29 and 30) disclosed in accordance with Clause 25 and Schedules 4, 7, 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-1/

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 29 and 30) for the year ended 31 December 2018:

(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 examined the supplementary information relating to credit and market risk exposures and capital adequacy required by Schedule 9 of the Order as disclosed in Notes 29 and 30 of the financial statements of the NZ Banking Group for the year ended 31 December 2018.

Our conclusion

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to capital adequacy disclosed in Notes 29 and 30 is not, in all material respects, 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 of the supplementary information relating to credit and market risk exposures and capital adequacy 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 29 and 30 is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

A review of the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 29 and 30 in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with 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 29 and 30.

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 respect of advisory services provided over the NZ Banking Group's home loan business in the context of the New Zealand market and the management's consideration of establishing a GST group and its potential impact. 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 and conclusion we have formed.

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
25 March 2019

Auckland