

China Construction Bank (New Zealand) Limited

Disclosure Statement

**For the six months ended
30 June 2018**

Table of Contents

General Information and Definitions	1
Corporate Information	1
Ultimate Parent and Holding Company	1
Significant Interest in the Registered Bank	1
Limits on Material Financial Support by the Ultimate Parent Bank	1
Directorate	2
Credit Ratings	2
Guarantee Arrangements	3
Pending Proceedings or Arbitration	4
Conditions of Registration	4
Other Material Matters	4
Auditor	4
Directors' Statement	4
Statement of Comprehensive Income	6
Statement of Changes in Equity	7
Balance Sheet	8
Cash Flow Statement	9
1. Statement of Accounting Policies	10
a) Reporting Entity	10
b) Basis of Preparation	10
c) Impact of Adoption of New Accounting Standards	11
2. Non-interest income	14
3. Impairment losses on credit exposures	14
4. Cash and balances with Central Bank	15
5. Financial Assets Pledged as Collateral	15
6. Loans and Advances	15
7. Asset Quality	15
8. Deposits from Customers	18
9. Debt securities issued	18
10. Related Party Transactions	19
11. Fair Value of Financial Instruments	20
12. Net Cash Flows used in Operating Activities	23
13. Commitments and Contingent Liabilities	24
14. Concentration of Credit Exposures	25
15. Concentration of Funding	27
16. Insurance Business, Securitisation, Funds Management, other Fiduciary Activities and the Marketing and Distribution of Insurance Products	28
17. Risk Management	28
18. Capital Adequacy	30
19. Events Subsequent To The Reporting Date	38
Independent Auditor's Review Report	39

General Information and Definitions

This Disclosure Statement has been issued by China Construction Bank (New Zealand) Limited (the "Bank") in accordance with Section 81 of the Reserve Bank of New Zealand Act 1989 and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

In this Disclosure Statement:

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

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

Corporate Information

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

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

Ultimate Parent and Holding Company

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

Significant Interest in the Registered Bank

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

Limits on Material Financial Support by the Ultimate Parent Bank

Since the publication of the 31 December 2017 Full Year Disclosure Statement, there has been no material change in 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 CCB to provide material financial support to the Bank.

Directorate

There have been no changes to the composition of the Board since the publication of the Bank's full year Disclosure Statement for the year ended 31 December 2017.

Responsible Person

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

Dame Jenny Shipley, John Shewan, Michael Allen, Xingyao Li and Yangtong Jin.

Credit Ratings

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

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

A credit rating is not a recommendation to buy, sell or hold securities of the Bank. Such ratings are subject to revision, qualification, suspension or withdrawal at any time by the assigning rating agencies. Investors in the Bank's securities are cautioned to evaluate each rating independently of any other rating.

Descriptions of the credit rating scales are as follows:

The following table describes the credit rating grades available:

Rating Agency	Standard & Poor's ^(a)	Moody's Investors Service ^(b)	Fitch Ratings ^(a)
The following grades display investment grade characteristics:			
Ability to repay principal and interest is extremely strong. This is the highest investment category.	AAA	Aaa	AAA
Very strong ability to repay principal and interest.	AA	Aa	AA
Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.	A	A	A
Adequate ability to repay principal and interest. More vulnerable to adverse changes.	BBB	Baa	BBB
The following grades have predominantly speculative characteristics:			
Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	BB	Ba	BB
Greater vulnerability and therefore greater likelihood of default.	B	B	B

Rating Agency	Standard & Poor's ^(a)	Moody's Investors Service ^(b)	Fitch Ratings ^(a)
Likelihood of default now considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.	CCC	Caa	CCC
Highest risk of default.	CC to C	Ca to C	CC to C
Obligations currently in default.	D	-	RD & D

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

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

Guarantee Arrangements

Details of Guaranteed Obligations

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

A copy of the Deed of Guarantee given by CCB is provided in the Bank's Disclosure Statement for the year ended 31 December 2017 which can be obtained from the Bank's website <http://nz.ccb.com> or the Bank's registered office.

There have been no changes to the Deed of Guarantee since the publication of the Bank's full year Disclosure Statement for the year ended 31 December 2017.

Under the Guarantee:

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

Details of the Guarantor

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

CCB has commenced implementation of the advanced measurement approaches for capital management from April 2014. As disclosed in CCB Group's unaudited consolidated results for the three months ended 31 March 2018, considering relevant rules under the transition period, CCB Group's total capital for capital adequacy purposes was RMB2,082,248million (NZD460,104million) and its total capital ratio was 15.63%. The capital ratio was calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* promulgated by the China Banking and Insurance Regulatory Commission ("CBIRC") in June 2012.

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

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

Pending Proceedings or Arbitration

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

The contingent liabilities of the Bank are set out in Note 13 *Commitments and contingent liabilities* of the financial statements for the six months ended 30 June 2018 included within this Disclosure Statement.

Conditions of Registration

The Bank has complied with all conditions of registration over the accounting period.

The RBNZ issued revised conditions of registration which took effect from 1 January 2018, to reflect changes in Framework for *BS 19 Restrictions on High-LVR Residential Mortgage Lending* and *BS 13 Liquidity Policy*.

Other Material Matters

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

Auditor

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

Directors' Statement

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

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

Each Director of the Bank believes, after due enquiry that, for the six months ended 30 June 2018:

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

This Disclosure Statement is dated 14 August 2018 and has been signed by Mr Jun Qi as the responsible person for and on behalf of all the Directors (by Directors' resolution):



Mr Jun Qi
Executive Director

Statement of Comprehensive Income

		Unaudited 30 June 2018 \$000	Unaudited Restated 30 June 2017 \$000
For the six months ended	Note		
Interest income ¹		38,242	22,422
Interest expense		(23,773)	(12,490)
Net Interest Income		14,469	9,932
Net non-interest income ¹	2	3,124	1,832
Total operating income		17,593	11,764
Operating expenses		(7,255)	(5,142)
Impairment recovery/ (losses) on credit exposures	3	1,005	(409)
Profit before income tax		11,343	6,213
Income tax expense		(3,187)	(1,740)
Profit after income tax		8,156	4,473
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		(35)	(1,362)
Total other comprehensive loss, net of tax		(35)	(1,362)
Total comprehensive income		8,121	3,111

¹ Comparative information has been reclassified to ensure consistency with current period reporting. Interest income of \$1,602,000 has been reclassified to lending and credit facility related fee income. The reclassification does not have any impact on profit after income tax.

Statement of Changes in Equity

For the six months ended 30 June 2018 (Unaudited)	Note	Share Capital \$000	Retained Earnings \$000	Cash Flow Hedge Reserve \$000	Total \$000
Balance at 1 January 2018		199,178	6,798	(45)	205,931
Change in accounting policy	1(c)(i)	-	(2,232)	-	(2,232)
Restated total equity as at 1 January 2018		199,178	4,566	(45)	203,699
Profit after income tax		-	8,156	-	8,156
Other comprehensive income		-	-	(35)	(35)
Total comprehensive income for the period		-	8,156	(35)	8,121
Transactions with owners:					
Dividends paid on ordinary shares		-	-	-	-
Balance as at 30 June 2018		199,178	12,722	(80)	211,820

For the six months ended 30 June 2017 (Unaudited)	Note	Share Capital \$000	Retained Earnings \$000	Cash Flow Hedge Reserve \$000	Total \$000
Balance at the beginning of the period		199,178	(3,651)	71	195,598
Profit after income tax		-	4,473	-	4,473
Other comprehensive income		-	-	(1,362)	(1,362)
Total comprehensive income for the period		-	4,473	(1,362)	3,111
Transactions with owners:					
Dividends paid on ordinary shares		-	-	-	-
Balance as at 30 June 2017		199,178	822	(1,291)	198,709

For the year ended 31 December 2017 (Audited)	Note	Share Capital \$000	Retained Earnings \$000	Cash Flow Hedge Reserve \$000	Total \$000
Balance at the beginning of the period		199,178	(3,651)	71	195,598
Profit after income tax		-	10,449	-	10,449
Other comprehensive income		-	-	(116)	(116)
Total comprehensive income for the period		-	10,449	(116)	10,333
Transactions with owners:					
Dividends paid on ordinary shares		-	-	-	-
Balance as at 31 December 2017		199,178	6,798	(45)	205,931

Balance Sheet

As at	Note	Unaudited 30 June 2018 \$000	Unaudited Restated 30 June 2017 \$000	Audited 31 December 2017 \$000
Assets				
Cash and balances with central bank	4	50,611	29,520	152,581
Due from other financial institutions		151,823	26,977	2,358
Financial assets at fair value through profit or loss		147,724	-	-
Derivative financial assets		22,970	3,362	20,529
Loans and advances	6,7	1,268,778	1,163,920	1,640,140
Due from related parties	10	1,558	2,183	1,954
Other assets		269	298	446
Property, plant and equipment		933	1,413	1,174
Intangible assets		183	201	279
Deferred tax assets		1,584	917	990
Total assets		1,646,433	1,218,791	1,826,457
Liabilities				
Due to other financial institutions		25,004	-	-
Derivative financial liabilities		4,452	11,015	6,495
Deposits from customers	8	347,751	252,779	458,960
Debt securities issued	9	547,766	289,556	453,507
Due to related parties	10	490,409	449,523	680,978
Subordinated debt	10	15,128	15,131	15,128
Current tax liabilities ¹		2,878	707	3,687
Other liabilities ¹		1,225	1,371	1,801
Total liabilities		1,434,613	1,020,082	1,620,526
Shareholder's equity				
Share capital		199,178	199,178	199,178
Retained earnings*		12,722	822	6,798
Cash flow hedge reserve		(80)	(1,291)	(45)
Total shareholder's equity		211,820	198,709	205,931
Total liabilities and shareholder's equity		1,646,433	1,218,791	1,826,457
Total interest earning and discount bearing assets		1,621,257	1,212,186	1,803,795
Total interest and discount bearing liabilities		1,418,794	1,002,535	1,601,670

¹ Comparative information has been reclassified to ensure consistency with current period reporting

*See Note 1(c) for details of a change in accounting policy.

Cash Flow Statement

For the six months ended	Note	Unaudited 30 June 2018 \$000	Unaudited 30 June 2017 \$000
Cash flows from operating activities			
Interest received		37,928	23,558
Interest paid		(5,636)	(1,936)
Non-interest income received		2,434	53
Non-interest expenses paid		(43)	(57)
Operating expenses paid		(7,464)	(4,479)
Income taxes paid		(3,710)	-
Net cash flows from operating activities before changes in operating assets and liabilities		23,509	17,139
Net changes in operating assets and liabilities:			
Net decrease/(increase):			
GST receivable		16	3
Other assets		161	(30)
Loans and advances		376,799	(408,356)
Due from related parties		(287)	-
Net increase/(decrease):			
Due to other financial institutions		25,000	(28,000)
Deposits from customers		(110,400)	112,847
Net changes in operating assets and liabilities		291,289	(323,536)
Net cash flows provided by/ (used in) operating activities	12	314,798	(306,397)
Cash flows from investing activities			
Purchase of property, plant and equipment		(28)	(15)
Purchase of intangible assets		-	(66)
Purchase of financial assets at fair value through profit or loss		(147,980)	-
Net cash flows used in investing activities		(148,008)	(81)
Cash flows from financing activities			
Net (decrease)/ increase in due to related parties		(192,724)	244,365
Net increase/ (decrease) in debt issues		92,000	(4,500)
Interest paid on financing activities		(19,249)	(9,215)
Net cash flows (used in)/ provided by financing activities		(119,973)	230,650
Net increase/ (decrease) in cash and cash equivalents		46,817	(75,828)
Cash and cash equivalents at beginning of the period		156,719	134,507
Cash and cash equivalents at end of the period		203,536	58,679
Cash and cash equivalents at end of the period comprise:			
Due from other financial institutions (call or original maturity of 3 months or less) excluding interest receivable ¹		151,825	26,976
Cash and balances with central banks		50,611	29,520
Due from related parties (nostro account) ²		1,100	2,183
Cash and cash equivalents at end of the period		203,536	58,679

¹ The amount 'Due from other financial institutions (call or original maturity of 3 months or less) excluding interest receivable' above does not equal the 'Due from other financial institutions' on the balance sheet due to accrued interest of \$16,000 as at 30 June 2018 and \$1,000 as at 30 June 2017 respectively.

² The amount 'Due from other financial institutions (call or original maturity of 3 months or less) excluding interest receivable' and 'Due from related parties (nostro account)' includes impairment losses of \$18,000 and \$1,000 respectively (30 June 2017: nil).

1. Statement of Accounting Policies

a) Reporting Entity

These condensed interim financial statements ("interim financial statements") are for China Construction Bank (New Zealand) Limited (the "Bank"), for the six months ended 30 June 2018, and have been prepared in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

They comply with New Zealand Generally Accepted Accounting Practice ("**NZ GAAP**") as appropriate for Tier 1 for-profit entities and the New Zealand equivalent to NZ IAS 34 *Interim Financial Reporting*. These financial statements also comply with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

They were approved for issue by the Board of Directors (the "Board") of the Bank on 14 August 2018.

As at 30 June 2018, China Construction Bank (New Zealand) Limited is a company registered under the Companies Act 1993, a registered bank under the Reserve Bank Act 1989 and a FMC reporting entity for the purposes of Part 7 of the Financial Markets Conduct Act 2013.

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

These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements and should therefore be read in conjunction with the Bank's financial statements for the full year ended 31 December 2017.

b) Basis of Preparation

These condensed interim financial statements have been prepared in accordance with the historical cost basis, as modified by applying fair value accounting to all derivative financial instruments, including in the case of fair value hedging, the fair value adjustment on the underlying hedged exposure.

The going concern and the accrual basis of accounting have been adopted. All amounts are expressed in thousands of New Zealand Dollars, unless otherwise stated.

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

The accounting policies and methods of computation are consistent with those of the Bank's financial statements for the full year ended 31 December 2017 and half year ended 30 June 2017, except for the adoption of new and amended standards as set out below.

(i) New and amended standards adopted

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

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

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 1 (c) below. The amendments to existing standards did not have any impact on the Bank's accounting policies and did not require retrospective adjustments.

c) Impact of Adoption of New Accounting Standards

(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 adoption of NZ IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out below. In accordance with the transitional provisions in NZ IFRS 9 (7.2.15) and IFRS 9 (7.2.26), comparative figures have not been restated.

The total impact on the Bank's retained earnings as at 1 January 2018 is as follows:

Retained earnings	1 January 2018 \$000
Balance as at 31 December under NZ IAS 39	6,798
Increase in impairment for loans and advances	(3,086)
Increase in impairment for due from other financial institutions	(3)
Increase in impairment for due from related parties	(1)
Increase in impairment for off balance sheet commitments	(10)
Increase in deferred tax assets relating to impairment provisions	868
Balance as at 1 January under NZ IFRS 9	4,566

The Bank has elected to exercise an accounting policy choice under NZ IFRS 9 to continue to apply hedge accounting requirements under NZ IAS 39.

The Bank's management has assessed which business models apply to the financial assets held by the Bank 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:

Financial assets as at 1 January 2018	Fair Value Through Profit or Loss \$000	Amortised cost (Loans and Receivables 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

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

The only impact on the equity of the Bank following the adoption of NZ IFRS 9 was for the increase in impairment of credit exposure.

The Bank has four types of financial assets that are subject to NZ IFRS 9's expected credit loss model as at 31 December 2017:

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

The Bank 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 Bank's retained earnings is disclosed in the table above. 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:

	Loans and advances \$000	Due from related parties \$000	Due from other financial institutions \$000	Off- balance sheet commit- ments \$000	Total \$000
Loss Allowances					
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	3,086	1	3	10	3,100
Balance at 1 January 2018 under NZ IFRS 9	4,731	1	3	10	4,745

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

The Bank has adopted NZ IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which did not result in material changes to the accounting policies. No significant adjustments were recognised following the introduction of this new accounting standard.

(iii) Changes to accounting policies – NZ IFRS 9

Classification and measurement

From 1 January 2018, the Bank classifies its financial assets in the following measurement categories:

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

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

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

At initial recognition, the Bank measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. In the case of a financial asset at fair value through profit or loss (FVTPL), transaction costs are expensed in profit or loss.

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: 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 the statement of profit or loss.

- Fair Value through Other Comprehensive Income (FVOCI): 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 finance 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 the statement of profit or loss.
- FVTPL: 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.

Impairment

The Bank applies the NZ IFRS 9 general approach to measuring expected credit losses ("ECL") which uses a lifetime expected loss allowance from initial recognition. Assets move through three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method.

- Stage 1: 12-months ECL – For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.
- Stage 2: Lifetime ECL – not credit impaired – For exposures where there been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.
- Stage 3: Lifetime ECL-credit impaired – Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

Credit risk assessment and ECL estimates must reflect unbiased and probability-weighted amounts, and incorporate all available information relevant to the assessments, including reasonable and supportable information on past events, and current and forecasted economic conditions.

Hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other income/(expenses).

(iv) Changes to accounting policies – NZ IFRS 15

Fee and commission income

There are no material changes to the accounting policy in relation to the recognition of fee and commission income.

2. Non-interest income

	30 June 2018	Restated 30 June 2017
For the six months ended (Unaudited)	\$000	\$000
Fees and commissions		
Lending and credit facility related fee income ¹	4,172	1,635
Other expense	(44)	(57)
Other income	20	20
Total fees and commissions	4,148	1,598
Other income/(expense)		
Net ineffectiveness on qualifying hedges	(610)	321
Net (losses)/ gains on derivatives used for hedging purposes that do not qualify for hedge accounting	(443)	209
Net gains/ (losses) on other derivatives at fair value	252	(296)
Loss on disposal of financial assets at fair value through profit or loss	(444)	-
Loss on early redemption of foreign currency borrowing (refer to Note 10)	(18,341)	-
Gain on early termination of derivatives (refer to Note 10)	19,191	-
Unrealised loss on financial assets designated at fair value through profit or loss	(847)	-
Unrealised gain on financial liabilities designated at fair value through profit or loss	218	-
Total other income/(expense)	(1,024)	234
Total net non-interest income	3,124	1,832

¹ Comparative information has been restated to ensure consistency with current period reporting. Interest income of \$1,602,000 has been reclassified to lending and credit facility related fee income. The reclassification does not have any impact on profit after income tax

3. Impairment (recovery)/ losses on credit exposures

For the six months ended 30 June 2018 (Unaudited)	Residential mortgage loans \$000	Corporate exposures \$000	Other exposures ¹ \$000	Total credit exposures \$000
Movement in collective provision 12-months ECL	19	(1,660)	8	(1,633)
Movement in collective provision Lifetime ECL not credit impaired	-	628	-	628
Movement in collective provision Lifetime ECL credit impaired	(231)	-	-	(231)
Movement in specific provision Lifetime ECL credit impaired	-	-	231	231
Bad debts written-off directly to the profit or loss	-	-	-	-
Bad debts recovered	-	-	-	-
Total impairment (recovery)/ losses on credit exposures	(212)	(1,032)	239	(1,005)

For the six months ended 30 June 2017 (Unaudited)	Residential mortgage loans \$000	Corporate exposures \$000	Other exposures \$000	Total credit exposures \$000
Movement in collectively assessed provisions	233	176	-	409
Movement in individually assessed provisions	-	-	-	-
Bad debts written-off directly to the profit or loss	-	-	-	-
Bad debts recovered	-	-	-	-
Total impairment losses on credit exposures	233	176	-	409

¹ The impairment loss for other exposure also includes the impairment losses from the Bank's credit exposure to amount due from other financial institutions of \$18,000 (30 June 2017: nil, 1 January 2018: \$3,000) and amount due from related parties of \$1,000

(30 June 2017: nil, 1 January 2018: \$1,000) and off balance sheet commitments of \$3,000 (30 June 2017: nil, 1 January 2018: \$10,000).

4. Cash and balances with Central Bank

As at	Unaudited 30 June 2018 \$000	Unaudited 30 June 2017 \$000	Audited 31 December 2017 \$000
Call deposits and settlement account balances with central bank	50,611	29,520	152,581
Total cash and balances with central bank	50,611	29,520	152,581

5. Financial Assets Pledged as Collateral

The Bank did not have any collateral pledged to derivative counterparties or arising from reverse repurchase agreements as at 30 June 2018 (30 June 2017: nil, 31 December 2017: nil).

The fair value of any collateral held which has been sold or re-pledged as at 30 June 2018 is nil (30 June 2017: nil, 31 December 2017: nil).

6. Loans and Advances

As at	Unaudited 30 June 2018 \$000	Unaudited 30 June 2017 \$000	Audited 31 December 2017 \$000
Residential mortgages	717,673	616,394	734,982
Corporate exposures	554,455	538,680	912,809
Other exposures	371	-	-
Total gross loans and advances	1,272,499	1,155,074	1,647,791
Provisions for impairment losses on credit exposures on residential mortgages ¹	(301)	(613)	(732)
Provisions for impairment losses on credit exposures on Corporate exposures ¹	(3,186)	(541)	(913)
Provisions for impairment losses on credit exposures on Other exposures ¹	(234)	-	-
Total net loans and advances	1,268,778	1,153,920	1,646,146

¹ Comparative information has been restated to ensure consistency with current year reporting

7. Asset Quality

As at 30 June 2018 (Unaudited)	Residential mortgages \$000	Corporate exposures \$000	Other exposures \$000	Total credit exposures \$000
Neither past due nor impaired	717,673	514,003	-	1,231,676
Past due but not impaired				
Less than 30 days past due	-	40,452	-	40,452
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	-	40,452	-	40,452
Individually impaired assets				
Balance at beginning of period	-	-	-	-
Additions	-	-	371	371
Amounts written off	-	-	-	-
Deletions	-	-	-	-
Total individually impaired assets	-	-	371	371

Total gross loans and advances	717,673	554,455	371	1,272,499
Total loss allowance for the period	(301)	(3,186)	(234)	(3,721)
Total net loans and advances	717,372	551,269	137	1,268,778

	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
As at 30 June 2018 (Unaudited)	\$000	\$000	\$000	\$000	\$000
Movement in provision for doubtful debts					
Residential mortgages					
Balance at beginning of period	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	-	-	-	-	-
Charge to income statement excluding transfer between ECL stages	19	-	-	-	19
Amounts written off	-	-	-	-	-
Reversals of previously recognised impairment losses ³	-	-	(231)	-	(231)
Recovery of amounts written off	-	-	-	-	-
Balance at end of period – Residential mortgages	301	-	-	-	301
Corporate exposures					
Balance at beginning of period	3,700	518	-	-	4,218
Changes to the opening balance due to transfer between ECL					
Transferred to collective provision 12-months ECL	(237)	237	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	-	-	-	-	-
Transferred to collective provision lifetime ECL credit impaired	-	-	-	-	-
Transferred to specific provision lifetime ECL credit impaired	-	-	-	-	-
Charge/ (credit) to income statement excluding transfer between ECL stages	(1,423)	391	-	-	(1,032)
Amounts written off	-	-	-	-	-
Reversals of previously recognised impairment losses	-	-	-	-	-
Recovery of amounts written off	-	-	-	-	-
Balance at end of period – Corporate exposures	2,040	1,146	-	-	3,186
Other exposures ⁴					
Balance at beginning of period	10	-	-	-	10
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	-	-	-	-	-
Charge to income statement excluding transfer between ECL stages ³	(7)	-		231	224
Amounts written off	-	-	-	-	-
Reversals of previously recognised impairment losses	-	-	-	-	-
Recovery of amounts written off	-	-	-	-	-
Balance at end of period – Other exposures⁴	3	-	-	231	234
Total					
Balance at beginning of period	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	(237)	237	-	-	-
Transferred to collective provision lifetime ECL credit impaired	-	-	-	-	-
Transferred to specific provision lifetime ECL credit impaired	-	-	-	-	-
Charge/ (credit) to income statement excluding transfer between ECL stages	(1,411)	391	-	231	(789)
Amounts written off	-	-	-	-	-
Reversals of previously recognised impairment losses	-	-	(231)	-	(231)
Recovery of amounts written off	-	-	-	-	-
Total loss allowance at the end of period for loans and advances	2,344	1,146	-	231	3,721

Gross loans and advances have decreased by \$375,292,000 from 1 January 2018, resulting in a reduction in loss allowance at the end of the period to \$3,721,000 (1 January 2018: \$4,741,000) and impairment recovery of \$1,020,000 on credit exposures. \$109,536,000 of gross loans and advances were transferred from Stage 1⁵ to Stage 2⁵ and no loans and advances were written off during the period.

¹ The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present value using the original effective interest rate for the asset. This discount unwinds as interest income over the period the asset is held.

² Undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired were nil as at 30 June 2018 (30 June 2017: nil, 31 December 2017: nil). The Bank did not have other assets under administration as at 30 June 2018 (30 June 2017: nil, 31 December 2017: nil).

³ The loan exposure was reclassified from residential mortgage exposure to other exposure due to change in structure of facility.

⁴ Impairment loss for other exposures also consists of impairment loss for off balance sheet commitments.

⁵ Please refer to Note 1 (c) (iii) for definition of Stage 1 and Stage 2.

8. Deposits from Customers

	Unaudited 30 June 2018 \$000	Unaudited 30 June 2017 \$000	Audited 31 December 2017 \$000
As at			
Demand deposits not bearing interest	512	1,565	3,038
Demand deposits bearing interest	73,846	76,204	87,383
Term deposits	273,393	175,010	368,539
Total deposits from customers	347,751	252,779	458,960

9. Debt securities issued

	Unaudited 30 June 2018 \$000	Unaudited 30 June 2017 \$000	Audited 31 December 2017 \$000
As at			
Short term debt			
Registered certificate of deposits	100,000	40,500	53,000
Total short term debt	100,000	40,500	53,000
Long term debt			
Long term debt issued with less than 1 year to maturity	11,500	-	65,000
Domestic medium-term notes	431,800	248,300	333,300
Total long term debt	443,300	248,300	398,300
Total debt securities issued	543,300	288,800	451,300
Debt securities issued at amortised cost ¹	543,300	288,800	451,300
Total debt securities issued	543,300	288,800	451,300
Movement in debt securities issued			
Balance at beginning of the period/year	453,507	292,638	292,638
Issuance during the period/year	260,000	82,500	328,500
Repayments during the period/year	(168,000)	(87,000)	(170,500)
Effect of fair value hedge adjustment	2,436	1,322	2,150
Net effect of transaction costs and accruals	(177)	96	719
Balance at end of the period/year	547,766	289,556	453,507
Total debt securities issued	547,766	289,556	453,507

¹ Debt securities issued at amortised cost is presented at face value and differs with the Debt securities issued on Balance Sheet which include fair value hedge adjustment, transaction costs and accruals.

10. Related Party Transactions

The Bank is a wholly owned subsidiary of CCB. The Ultimate Parent Bank Group refers to the Ultimate Parent Bank and its subsidiaries.

Transactions with related parties

	Unaudited 30 June 2018 \$000	Unaudited 30 June 2017 \$000
For the six months ended		
Interest income		
Received from Ultimate Parent Bank	25	6
Received from other related parties	-	-
Interest expense		
Paid to Ultimate Parent Bank	(10,496)	(3,704)
Paid to other related parties	-	-
Non-interest income		
Unrealised gains on derivatives with Ultimate Parent Bank	13,506	164
Loss on early redemption of foreign currency borrowing with Ultimate Parent Bank	(18,341)	-
Gain on early termination of derivatives with Ultimate Parent Bank	19,191	-

Balances with related parties

	Unaudited 30 June 2018 \$000	Unaudited 30 June 2017 \$000	Audited 31 December 2017 \$000
As at			
Due from related parties			
Due from Ultimate Parent Bank	1,390	2,183	1,954
Due from other related entities	168	-	-
Total Related Party Assets	1,558	2,183	1,954
Due to related parties			
Due to Ultimate Parent Bank at amortised cost	342,517	449,523	680,978
Due to Ultimate Parent Bank Liability at fair value through profit or loss	147,892	-	-
Total Related Party Liabilities	490,409	449,523	680,978
Subordinated Debt			
Subordinated Debt with Ultimate Parent Bank	15,128	15,131	15,128
Total Subordinated Debt with Ultimate Parent Bank	15,128	15,131	15,128
Derivative financial assets			
Derivative with Ultimate Parent Bank	17,185	1,773	17,045
Total derivative financial assets with Related Parties	17,185	1,773	17,045
Derivative financial liabilities			
Derivative with Ultimate Parent Bank	1,212	2,584	4,255
Total derivative financial liabilities with Related Parties	1,212	2,584	4,255

There were no debts with any related parties written off or forgiven during the six months ended 30 June 2018 (30 June 2017: nil, 31 December 2017: nil).

Provisions for impairment on credit exposure of \$1,000 have been recognised in respect of amount due from related parties as at 30 June 2018 (30 June 2017: nil, 31 December 2017: nil).

Nature of transactions and balances with related parties

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

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

Ultimate Parent Bank

The amount due from Ultimate Parent Bank consists of nostro accounts held with the Ultimate Parent Bank. The total balance as at 30 June 2018 is \$928,000 (30 June 2017: \$2,183,000, 31 December 2017: \$1,780,000). The receivable owed by the Ultimate Parent Bank is \$147,000 as at 30 June 2018 (30 June 2017: nil, 31 December 2017: \$174,000).

The amount due to Ultimate Parent Bank consists of borrowed funds from the Ultimate Parent Bank measured at amortised cost and at fair value through profit or loss. These borrowings are made in the normal course of business and are at arms-length. The total balance as at 30 June 2018 is \$477,215,000 (30 June 2017: \$449,523,000, 31 December 2017: \$680,978,000).

The Bank raised NZD \$15 million (issuing 15,000 redeemable, subordinated and unsecured medium term notes at a face value of NZD \$1,000) to the Sydney Branch of the Ultimate Parent Bank (Sydney Branch) in April 2016. The accrued interest on the subordinated note is \$128,000 as at 30 June 2018. (30 June 2017: \$131,000, 31 December 2017: \$128,000).

The Bank early redeemed US\$260 million of liabilities in the form of money market borrowings and early terminated US\$195 million notional of financial derivatives with the Ultimate Parent Bank during the period. A net gain of \$850,000 was recognised as part of the early redemption exercise.

The Bank also sold approximately \$257,000,000 (30 June 2017: nil, 31 December 2017: nil) of loans and receivables to the Branch. The loans and receivables were transferred at fair value. The book value of the loans and receivables was deemed as an approximation of fair value after due consideration at the date of transfer and no corresponding fair value gains or losses were recognised.

The amount due from Branch is \$315,000 as at 30 June 2018 (30 June 2017: nil, 31 December 2017: \$216,000). The Branch's Vostro balance with the Bank amounted to \$13,144,000 as at 30 June 2018 (30 June 2017: nil, 31 December 2017: nil).

11. Fair Value of Financial Instruments

Classification of financial instruments and estimates of fair value

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methods and assumptions used in the fair value estimates are described on page 52 and 53 of the Bank's full year Disclosure Statement for the year ended 31 December 2017.

Fair value hierarchy of financial instruments measured at fair value

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

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

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

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

“Level 1” – Quoted market price

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

“Level 2” – Valuation technique using observable inputs

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

“Level 3” – Valuation technique with significant non-observable input

Fair value measurement where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data.

The following table presents an analysis by level in the fair value hierarchy of the financial instruments that are recognised and measured at fair value on a recurring basis.

	Level 1	Level 2	Level 3	Total
As at 30 June 2018 (Unaudited)	\$000	\$000	\$000	\$000
Financial assets				
Derivative financial assets	-	22,970	-	22,970
Financial assets at fair value through profit or loss	147,724	-	-	147,724
Total financial assets carried at fair value	147,724	22,970	-	170,694
Financial liabilities				
Derivative financial liabilities	-	4,452	-	4,452
Financial liabilities at fair value through profit or loss	-	147,892	-	147,892
Total financial liabilities carried at fair value	-	152,344	-	152,344

	Level 1	Level 2	Level 3	Total
As at 30 June 2017 (Unaudited)	\$000	\$000	\$000	\$000
Financial assets				
Derivative financial assets	-	3,362	-	3,362
Total financial assets carried at fair value	-	3,362	-	3,362
Financial liabilities				
Derivative financial liabilities	-	11,015	-	11,015
Total financial liabilities carried at fair value	-	11,015	-	11,015

	Level 1	Level 2	Level 3	Total
As at 31 December 2017 (Audited)	\$000	\$000	\$000	\$000
Financial assets				
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

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

There have been no transfers between level 1 and 2 during the period ended 30 June 2018 (30 June 2017: nil, 31 December 2017: nil). There have been no transfers into/out of level 3 during the period ended 30 June 2018 (30 June 2017: nil, 31 December 2017: nil).

Fair value of financial instruments not measured at fair value

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

	Fair Value Hierarchy LEVEL	Unaudited 30 June 2018		Unaudited 30 June 2017		Audited 31 December 2017	
As at		Fair Value \$000	Carrying amount \$000	Fair Value \$000	Carrying amount \$000	Fair Value \$000	Carrying amount \$000
Financial assets							
Cash and balances with central bank	1	50,611	50,611	29,520	29,520	152,581	152,581
Due from other financial institutions	2	151,823	151,823	26,977	26,977	2,358	2,358
Loans and advances	3	1,435,539	1,268,778	1,277,966	1,153,920	1,836,837	1,646,146
Due from related parties	2	1,558	1,558	2,183	2,183	1,954	1,954
Total financial assets not measured at fair value		1,639,531	1,472,770	1,336,646	1,212,600	1,993,730	1,803,039
Financial liabilities							
Due to other financial institutions	2	25,004	25,004	-	-	-	-
Deposits from customers	2	348,955	347,751	253,089	252,779	458,054	458,960
Due to related parties measured at amortised cost	2	349,293	342,517	455,545	449,523	691,697	680,978
Debt securities issued at amortised cost	2	563,543	547,766	294,105	289,556	465,606	453,507
Subordinated Debt	2	17,177	15,128	17,421	15,131	17,242	15,128
Total financial liabilities not measured at fair value		1,303,972	1,278,166	1,020,160	1,006,989	1,632,599	1,608,573

For cash and balances with central banks, due from/to other financial institutions and non-derivative balances due from related parties which are carried at amortised cost and other types of short term financial instruments recognised in the balance sheet under "other assets" and "other liabilities", the carrying amounts are considered to approximate the fair values. These financial instruments are either short-term in nature, or re-price frequently and are of a high credit rating. A detailed description of how fair value is derived for financial instruments not measured at fair value is disclosed in Note 24 "Fair Value of Financial Instruments" in the Bank's full year Disclosure Statement for the year ended 31 December 2017.

The Bank determines the valuation of financial instruments classified as level 2 as per the following:

Derivative financial instruments

Fair value is obtained from quoted market prices and discounted cash flow models or option pricing models as appropriate.

12. Net Cash Flows used in Operating Activities

	Unaudited 30 June 2018 \$000	Unaudited 30 June 2017 \$000
For the six months ended		
Reconciliation of profit after income tax to net cash flows used in operating activities		
Profit after income tax	8,156	4,473
Adjustments:		
Non-Interest income	1,682	-
Impairment losses on credit exposures	(1,005)	409
Depreciation and amortisation	366	387
Deduct items reclassified as financial activities	19,249	9,169
Income tax expense	3,187	1,740
Net (increase)/decrease in operating assets:		
GST receivable	16	3
Due from other financial institutions	(15)	324
Financial assets at fair value through profit or loss	(1,231)	-
Due from related parties ¹	(289)	-
Loans and advances	374,860	(409,145)
Other assets	161	(30)
Derivative financial assets	-	(189)
Net increase/(decrease) in operating liabilities:		
Due to other financial institutions	25,004	(28,006)
Deposits from customers	(111,209)	113,781
Debt securities issued	129	(3)
Subordinated Debt	-	(6)
Due to related parties	22	264
Derivative financial liabilities	-	345
Current tax liabilities	(3,710)	-
Other liabilities	(575)	87
Net cash flows used in operating activities	314,798	(306,397)

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

13. Commitments and Contingent Liabilities

Capital commitments

	Unaudited 30 June 2018 \$000	Unaudited 30 June 2017 \$000	Audited 31 December 2017 \$000
As at			
Capital expenditure commitments			
Property, plant and equipment	-	10	-
Intangible assets	-	-	-
Total	-	10	-

Leasing commitments

The following non-cancellable operating lease commitments existed as at balance date.

	Unaudited 30 June 2018 \$000	Unaudited 30 June 2017 \$000	Audited 31 December 2017 \$000
As at			
Future aggregate minimum lease payments under non-cancellable operating leases:			
No later than 1 year	1,000	1,003	1,012
Later than 1 year and no later than 5 years	1,998	2,961	2,603
Later than 5 years	-	-	-
Total	2,998	3,964	3,615

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

Credit related commitments and contingent liabilities

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

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

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

	Unaudited 30 June 2018 \$000	Unaudited 30 June 2017 \$000	Audited 31 December 2017 \$000
As at			
Financial guarantees	2,063	1,997	2,063
Standby letters of credit	-	-	-
Trade letters of credit	-	-	-
Non-financial guarantees	5,158	405	6,170
Total contingent liabilities	7,221	2,402	8,233
Undrawn Commitments	178,552	356,655	514,477
Total contingent liabilities and undrawn commitments	185,773	359,057	522,710

Other contingent liabilities

There were no other contingent liabilities as at 30 June 2018 (30 June 2017: nil, 31 December 2017: nil).

14. Concentration of Credit Exposures

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

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

As at 30 June 2018 (Unaudited)	Cash and balances with central bank \$000	Due from other financial institutions \$000	Financial assets at fair value through profit or loss \$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	-	-	-	361	69,114	-	69,475	2,766
Mining	-	-	-	-	30,003	-	30,003	-
Manufacturing	-	-	-	-	77,209	-	77,209	31,600
Electricity, gas, water and waste services	-	-	-	-	-	-	-	15,489
Construction	-	-	-	1,520	237,348	-	238,868	105,316
Wholesale trade	-	-	-	758	1,280	-	2,038	150
Retail trade	-	-	-	-	-	-	-	295
Accommodation and food services	-	-	-	-	2,810	-	2,810	-
Transport, postal and warehousing	-	-	-	-	-	-	-	-
Information media and telecommunications	-	-	-	-	13,538	-	13,538	-
Financial and insurance services	50,611	151,841	-	20,151	-	-	222,603	-
Rental, hiring and real estate services	-	-	-	-	114,085	-	114,085	1,800
Arts and Recreation Services	-	-	-	-	7,328	-	7,328	-
Professional, scientific and technical services	-	-	-	-	1,740	-	1,740	-
Public administration and safety	-	-	147,724	-	-	-	147,724	25,000
Household	-	-	-	180	-	-	180	-
Personal lending	-	-	-	-	718,044	-	718,044	3,360
Subtotal	50,611	151,841	147,724	22,970	1,272,499	-	1,645,645	185,776
Provisions for impairment losses on credit exposures	-	(18)	-	-	(3,721)	(1)	(3,740)	(3)
Due from related parties	-	-	-	-	-	1,559	1,559	-
Total credit exposures	50,611	151,823	147,724	22,970	1,268,778	1,558	1,643,464	185,773
Geographical area								
New Zealand	50,611	151,823	-	5,785	1,268,778	315	1,477,312	185,773
Overseas	-	-	147,724	17,185	-	1,243	166,152	-
Total credit exposures	50,611	151,823	147,724	22,970	1,268,778	1,558	1,643,464	185,773

Concentration of credit exposure to individual counterparties

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

The number of individual bank counterparties which are not members of a group of closely related counterparties, or groups of closely related counterparties of which a bank is the parent, to which the Bank has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Bank's Common Equity Tier 1 capital:

Unaudited 30 June 2018					Unaudited 30 June 2018				
Percentage of Common Equity Tier 1 Capital	Number of Bank Counterparties				Percentage of Common Equity Tier 1 Capital	Number of Bank Counterparties			
	"A" Rated	"B" Rated	Un- rated	Total		"A" Rated	"B" Rated	Un- rated	Total
As at Balance Date					Peak Exposure				
10% - 14%	-	-	-	-	10% - 14%	1	-	-	1
15% - 19%	-	-	-	-	15% - 19%	-	-	-	-
20% - 24%	-	-	-	-	20% - 24%	-	-	-	-
25% - 29%	1	-	-	1	25% - 29%	1	-	-	1
30% - 34%	-	-	-	-	30% - 34%	-	-	-	-
35% - 39%	1	-	-	1	35% - 39%	1	-	-	1
Total	2	-	-	2	Total	3	-	-	3

The number of individual non-bank counterparties which are not members of a group of closely related counterparties, or groups of closely related counterparties of which a bank is not the parent, to which the Bank has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Bank's Common Equity Tier 1 capital:

Unaudited 30 June 2018					Unaudited 30 June 2018				
Percentage of Common Equity Tier 1 Capital	Number of Non-Bank Counterparties				Percentage of Common Equity Tier 1 Capital	Number of Non-Bank Counterparties			
	"A" Rated	"B" Rated	Un- rated	Total		"A" Rated	"B" Rated	Un- rated	Total
As at Balance Date					Peak Exposure				
10% - 14%	1	-	2	3	10% - 14%	-	-	7	7
15% - 19%	-	-	2	2	15% - 19%	1	-	-	1
20% - 24%	-	-	1	1	20% - 24%	-	-	2	2
25% - 29%	-	-	1	1	25% - 29%	-	-	1	1
30% - 34%	-	-	-	-	30% - 34%	-	-	1	1
35% - 39%	-	-	1	1	35% - 39%	-	1	1	2
40% - 44%	-	-	-	-	40% - 44%	-	-	1	1
45% - 49%	-	-	1	1	45% - 49%	-	1	1	2
50% - 54%	-	-	-	-	50% - 54%	-	-	-	-
Total	1	-	8	9	Total	1	2	14	17

The peak end-of-day exposure aggregate credit exposure to an individual counterparty or a group of closely related counterparties has been calculated by determining the maximum end-of-day aggregate

amount of actual credit exposure for the period six months ended 30 June 2018 and then dividing that by the Bank's Common Equity Tier 1 capital as at the reporting date for the disclosure statement.

Notes:

"A" Rated - those counterparties that have a long-term credit rating of A- or A3 or above, or its equivalent

"B" Rated - those counterparties that have a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent

Unrated - those counterparties that have a long-term credit rating lower than BBB- or Baa3, or its equivalent and those counterparties that do not have a long-term credit rating.

As at Balance Date - The as at balance date aggregate credit exposure to an individual counterparty or not members of a group of closely related counterparties has been calculated by determining the end-of-day aggregate amount of actual credit exposure for the relevant reporting date and then dividing that by the Bank's Common Equity Tier 1 capital as at the date of the reporting date for the Disclosure Statement.

15. Concentration of Funding

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

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

As at	Unaudited 30 June 2018 \$000
Total funding comprises	
Due to other financial institutions	25,004
Deposits from customers	347,751
Debt securities issued	547,766
Due to related parties	505,537
Total funding	1,426,058
Concentration of funding by industry sector	
Accommodation and food services	4
Agriculture	2
Construction	19,697
Financial and insurance services	552,018
Forestry and fishing	14,757
Households	165,535
Manufacturing	999
Public administration and safety	90,143
Rental, hiring and real estate services	22,094
Retail trade	343
Transport, postal and warehousing	19,172
Wholesale trade	5,614
Other	30,143
Subtotal	920,521
Due to related parties	505,537
Total funding	1,426,058
Concentration of funding by geographical areas¹	
New Zealand	732,500
China	618,845

Australia	52,051
Rest of Overseas	24,662
Total funding	1,426,058

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

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

The Bank does not conduct any insurance business.

The Bank is also not involved in:

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

17. Risk Management

There have been no material changes to the risk management policies and no new categories of risk to which the Bank has become exposed since 31 December 2017.

Liquidity portfolio management

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

	Unaudited 30 June 2018 \$000	Unaudited 30 June 2017 \$000	Audited 31 December 2017 \$000
As at			
Cash and cash equivalents:			
Cash and balances with central banks	50,611	29,520	152,581
Due from other financial institutions (call or original maturity of 3 months or less)	151,825	26,977	2,358
Due from related parties ¹	1,100	2,183	1,780
Total liquidity portfolio	203,536	58,680	156,719

¹ Due from related parties includes Nostro account balance held with the Ultimate Parent Bank as at 30 June 2018, 30 June 2017 and 31 December 2017.

Contractual maturity analysis of financial liabilities

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

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

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

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

As at 30 June 2018 (Unaudited)	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	-	25,009	-	-	-	25,009	25,004
Deposits from customers	74,330	174,923	63,181	38,486	-	350,920	347,751
Debt securities issued	-	102,504	24,460	372,897	102,003	601,864	547,766
Due to related parties	13,144	1,687	7,745	490,888	-	513,464	490,409
Subordinated Debt	-	188	563	18,001	-	18,752	15,128
Total non-derivative financial liabilities	87,474	304,311	95,949	920,272	102,003	1,510,009	1,426,058
Derivative financial liabilities							
Net settled	-	(4,144)	-	-	-	(4,144)	-
Gross settled - cash inflow	-	995	3,003	6,728	-	10,726	-
Gross settled - cash outflow	-	(1,094)	(3,186)	(6,777)	-	(11,057)	-
Total derivative financial liabilities	-	(4,243)	(183)	(49)	-	(4,475)	4,452
Off-balance sheet commitments and contingent liabilities							
Capital Commitments	-	-	-	-	-	-	-
Leasing commitments	-	250	750	1,998	-	2,998	-
Commitments to extend credit	178,552	-	-	-	-	178,552	-
Financial guarantees	2,063	-	-	-	-	2,063	-
Standby letters of credit	-	-	-	-	-	-	-
Trade letters of credit	-	-	-	-	-	-	-
Non-Financial guarantees	5,158	-	-	-	-	5,158	-
Other Commitments	-	-	-	-	-	-	-
Total off-balance sheet commitments and contingent liabilities	185,773	250	750	1,998	-	188,771	-

Interest rate risk

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

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

Hedging of the Bank'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. The Bank monitors the continuing effectiveness of hedges on a quarterly basis.

Interest rate repricing gap analysis

The following table presents the Bank's assets and liabilities at their carrying amounts as at 30 June 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 Bank's exposure to interest rate movements, are included under the heading "Non-interest bearing".

As at 30 June 2018 (Unaudited)	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	50,611	-	-	-	-	-	50,611
Due from other financial institutions	151,826	-	-	-	-	(3)	151,823
Financial assets at fair value through profit or loss	-	-	-	147,536	-	188	147,724
Derivative financial assets	-	-	-	-	-	22,970	22,970
Loans and advances	593,049	208,967	277,976	178,269	11,923	(1,406)	1,268,778
Due from related parties	1,100	-	-	-	-	458	1,558
Total financial assets	796,586	208,967	277,976	325,805	11,923	22,207	1,643,464
Non-financial assets	-	-	-	-	-	2,909	2,909
Total assets	796,586	208,967	277,976	325,805	11,923	25,176	1,646,433
Financial liabilities							
Due to other financial institutions	25,000	-	-	-	-	4	25,004
Derivative financial liabilities	-	-	-	-	-	4,452	4,452
Deposits from customers	247,733	22,819	38,294	37,081	89	1,735	347,751
Debt securities issued	125,000	-	11,500	42,300	364,500	4,466	547,766
Due to related parties	224,121	-	-	221,097	44,260	931	490,409
Subordinated Debt	15,000	-	-	-	-	128	15,128
Total financial liabilities	636,854	22,819	49,794	300,478	408,849	11,716	1,430,510
Non-financial liabilities	-	-	-	-	-	4,103	4,103
Total liabilities	636,854	22,819	49,794	300,478	408,849	15,819	1,434,613
On-balance sheet interest rate repricing gap	159,732	186,148	228,182	25,327	(396,926)	9,357	211,820
Net derivative notional principals	36,975	(173,051)	(179,916)	(37,043)	353,035	-	-
Net interest rate repricing gap	196,707	13,097	48,266	(11,716)	(43,891)	9,357	211,820

18. Capital Adequacy

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

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

a bank adopting a Standardised approach under the Basel III regime, the Bank applies the Reserve Bank's *BS2A Capital Adequacy Framework (Standardised Approach)* for calculating regulatory capital requirements.

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

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

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

In addition to minimum capital requirements, Basel III introduces a capital conservation buffer of 2.5 per cent of risk-weighted assets. There are 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 6 to 12 of the Bank's full year Disclosure Statement for the year ended 31 December 2017. The RBNZ issued new conditions of registration which took effect on 1 January 2018, to reflect changes in Framework for *BS 19 Restrictions on High-LVR Residential Mortgage Lending* and *BS 13 Liquidity Policy*.

Capital management

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

The Board has ultimate responsibility for ensuring that the Bank has adequate overall capital in relation to its risk profile and establishes minimum internal capital levels and limits above the regulatory minimum to reduce the risk of breaching its conditions of registration. The Bank actively monitors its capital adequacy as part of the Bank's Internal Capital Adequacy Assessment Process ("ICAAP"), which complies with the requirements set out in the Reserve Bank document *BS12 Guidelines on Internal Capital Adequacy Assessment Process (ICAAP)*, and reports this on a regular basis to senior management and the Board. The Bank's ICAAP is a documented process that describes not only the risk appetite and tolerances of the Bank, but also the levels of capital held against risks, including credit, market, operational and other material risks.

The Bank's ICAAP is reviewed and approved at least annually by senior management and the Board and the process includes consideration of stress tests and future strategic requirements. The Bank also considers other stakeholders' requirements when managing capital.

The Bank manages its capital structure and makes adjustments according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholder, return/issue capital to shareholder or issue capital securities. No changes were made in the objectives, policies and processes during the six months ended 30 June 2018.

The capital adequacy tables set out on the following pages summarise the composition of regulatory capital, risk-weighted assets and the capital adequacy ratios for the Bank as at 30 June 2018. During

the period, the Bank complied in full with all externally imposed Reserve Bank capital requirements as set out in the Bank's conditions of registration.

There are no significant capital initiatives undertaken during the period ended 30 June 2018.

Capital

The table below shows the qualifying capital for the Bank.

As at 30 June 2018 (Unaudited)	\$000
Tier 1 Capital	
Common Equity Tier 1 capital	
Issued and fully paid-up ordinary share capital	199,178
Retained earnings (net of appropriations)	12,722
Accumulated other comprehensive expense and other disclosed reserves ¹	(80)
Less deductions from Common Equity Tier 1 capital	
Intangible assets	183
Cash flow hedge reserve	(80)
Deferred tax assets	1,584
Total Common Equity Tier 1 capital	210,133
Additional Tier 1 capital	
Nil	-
Total Additional Tier 1 capital	-
Total Tier 1 capital	210,133
Tier 2 capital	
Subordinated notes (face value)	15,000
Less deductions from Tier 2 capital	
Allowance for tax under BS2A	-
Total Tier 2 capital	15,000
Total capital	225,133

¹ Accumulated other comprehensive expense and other disclosed reserves consist of available-for-sale revaluation reserve of nil and cash flow hedge reserve of (\$80,000).

Capital instruments

Ordinary Shares

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

In relation to the ordinary shares:

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

Subordinated Notes

On 28 April 2016, the Bank issued NZD \$15 million (15,000 subordinated and unsecured medium term notes at a face value of NZD \$1,000 "the Notes") to the Sydney Branch of the Ultimate Parent Bank (Sydney Branch). The Notes will mature on 28th April 2023. The Notes are redeemable, subordinated, and unsecured securities of the Bank. The Notes are subordinated to the claims of depositors and

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

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

This instrument is subject to amortisation in accordance with BS2A. The amortisation will occur over five consecutive years, with the Tier 2 capital reducing by 20% each year commencing on 29 April 2019 to maturity being 28 April 2023.

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

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

Credit risk

On-balance sheet exposures

	Total exposure after credit risk mitigation	Risk weight	Risk weighted exposure	Minimum Pillar 1 capital requirement
As at 30 June 2018 (Unaudited)	\$000	%	\$000	\$000
Cash and gold bullion	-	-	-	-
Sovereigns and central banks	198,335	0%	-	-
Multilateral development banks and other international organisation	-	-	-	-
Public sector entities	-	-	-	-
Banks rating grade 1	152,938	20%	30,588	2,447
Banks rating grade 2 (≤ 3 months)	-	-	-	-
Corporate-without recognised mitigation	552,429	100%	552,429	44,194
Corporate-secured by financial guarantee	3,996	20%	799	64
Residential mortgages (owner occupied) not past due-LVR up to 80%	479,411	35%	167,794	13,424
Residential mortgages (investment) not past due-LVR up to 80%	236,766	40%	94,706	7,576
Past due residential mortgages	-	-	-	-
Other past due assets	371	100%	371	30
Equity holdings (not deducted from capital) that are publicly traded	-	-	-	-
All other equity holdings (not deducted from capital)	-	-	-	-
Other assets	3,176	100%	3,176	254
Total on-balance sheet exposures	1,627,422	-	849,863	67,989

Off-balance sheet exposures and market related contracts

As at 30 June 2018 (Unaudited)	Total exposure \$000	Credit conversion factor %	Credit equivalent amount \$000	Average risk weight %	Risk weighted exposure \$000	Minimum Pillar 1 capital requirement \$000
Direct credit substitute	2,063	100%	2,063	81%	1,671	134
Asset sale with recourse	-	100%	-	0%	-	-
Forward asset purchase	-	100%	-	0%	-	-
Commitment with certain drawdown	-	100%	-	0%	-	-
Note issuance facility	-	50%	-	0%	-	-
Revolving underwriting facility	71,543	50%	35,772	62%	22,179	1,774
Performance-related contingency	5,158	50%	2,579	100%	2,579	206
Trade-related contingency	-	20%	-	0%	-	-
Placements of forward deposits	-	100%	-	0%	-	-
Other commitments where original maturity is more than one year	103,570	50%	51,785	100%	51,785	4,143
Other commitments where original maturity is less than or equal to one year	79	20%	16	100%	16	1
Other commitments where original maturity is less than or equal to one year	3,360	20%	672	38%	255	20
Other commitments that cancel automatically when the creditworthiness of the counterparty deteriorates or that can be cancelled unconditionally at any time without prior notice	-	0%	-	0%	-	-
Market related contracts ¹						
(a) Foreign exchange contracts	45,680	n/a	45,680	51%	23,297	1,864
(b) Interest rate contracts (exposure more than 1 year and less than or equal to 5 years)	11,316	n/a	11,316	58%	6,563	525
(c) Other – OTC etc.	-	n/a	-	-	-	-
Total off-balance sheet exposures	242,769		149,883		108,345	8,667

¹ The credit equivalent amount for market related contracts was calculated using the current exposure method under BS2A.

Additional mortgage information

Residential mortgages by loan-to-valuation ratio

As at 30 June 2018 (Unaudited)	Does not exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
Loan-to-valuation ratio				
On-balance sheet exposures	716,177	-	-	716,177
Off-balance sheet exposures	3,360	-	-	3,360
Value of exposures	719,537	-	-	719,537

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

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

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

Reconciliation of residential mortgage-related amount

As at 30 June 2018 (Unaudited)	Note	\$000
Residential mortgages	6,7	717,673
Reconciling items:		
Less: - Deferred fees on Residential Mortgages		(1,678)
Less: - Underlying fair value hedge adjustment on Residential Mortgages		182
On-balance sheet exposures		716,177
Off-balance sheet exposures		3,360
Residential mortgages by loan-to-valuation ratio		719,537
The On-balance sheet residential mortgages comprise:		
Residential - Investment		479,411
Residential - Owner Occupied		236,766
Total		716,177

Credit risk mitigation

As at 30 June 2018 (Unaudited)	Total value of on- and off-balance sheet exposures covered by eligible collateral (after haircutting) \$000	Total value of on- and off-balance sheet exposures covered by guarantees or credit derivatives \$000
Sovereign or central bank	-	-
Multilateral development bank	-	-
Public sector entities	-	-
Bank	-	-
Corporate	383	3,996
Residential mortgage	-	-
Other	-	-
Total	383	3,996

Operational risk

As at 30 June 2018 (Unaudited)	Implied weighted exposure \$000	Total operational risk capital requirement \$000
Operational risk	111,710	8,937

Market risk

As at 30 June 2018 (Unaudited)	End-period capital charges		Peak end-of-day capital charge	
	Implied risk weighted exposure \$000	Aggregate capital charge \$000	Implied risk weighted exposure \$000	Aggregate capital charge \$000
Interest rate risk	31,841	2,547	31,841	2,547
Foreign currency risk	15,345	1,228	15,345	1,228
Equity risk	-	-	-	-
Total	47,186	3,775	47,186	3,775

Peak end-of-day aggregate capital charge for each category of market risk is derived by determining the maximum over the relevant period of the aggregate capital charge at the close of each business day derived in accordance with Part 10 of the Reserve Bank document BS2A Capital Adequacy Framework (Standardised Approach), and Schedule 9 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended).

Total capital requirements

As at 30 June 2018 (Unaudited)	Total exposure after credit risk mitigation \$000	Risk weighted exposure or implied risk weighted exposure \$000	Total capital requirement \$000
Total credit risk + equity	1,777,305	958,208	76,656
Operational risk	n/a	111,710	8,937
Market risk	n/a	47,186	3,775
Total	1,777,305	1,117,104	89,368

Capital requirements for other material risks (Pillar II)

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

The Bank's internal capital allocation for other material risks is nil as at 30 June 2018 (30 June 2017: nil). The Board has included an extra 2% capital buffer to cover these risks taking the total capital ratio to a minimum of 12.5%.

Capital ratios of the Bank

As at	Unaudited 30 June 2018 %	Unaudited 30 June 2017 %
Capital adequacy ratios		
Common Equity Tier 1 capital ratio	18.81%	18.56%
Tier 1 capital ratio	18.81%	18.56%
Total capital ratio	20.15%	19.57%
Reserve Bank minimum ratio requirements		
Common Equity Tier 1 capital ratio	4.50%	4.50%
Tier 1 capital ratio	6.00%	6.00%
Total capital ratio	8.00%	8.00%
Buffer ratio		
Buffer ratio	12.15%	11.57%
Buffer ratio requirement	2.50%	2.50%

Capital adequacy of Ultimate Parent Bank Group and Ultimate Parent Bank

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

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

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

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

The Ultimate Parent Bank and the Ultimate Parent Bank Group each met the capital requirements imposed on them by the CBIRC as at 31 March 2018, the latest reporting date.

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

	Unaudited 31 March 2018 %	Unaudited 30 June 2017 %
As at		
Ultimate Parent Bank Group		
Common Equity Tier 1 capital ratio	13.12%	12.68%
Tier 1 capital ratio	13.71%	12.84%
Total capital ratio	15.63%	14.50%
Ultimate Parent Bank		
Common Equity Tier 1 capital ratio	12.98%	12.56%
Tier 1 capital ratio	13.55%	12.72%
Total capital ratio	15.54%	14.45%

Regulatory Liquidity Ratio

The following table shows the average regulatory liquidity ratios over the three month period ended on 30 June 2018 and the three month period ended on 31 March 2018.

	Reserve Bank minimum ratio requirements	Unaudited 30 June 2018 %	Unaudited 31 March 2018 %
For the three-month period ended			
Liquidity ratios			
The one-week mismatch ratio	0%	6.10%	7.02%
The one month mismatch ratio	0%	17.29%	16.62%
The core funding ratio	75%	92.48%	92.65%

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

19. Events Subsequent To The Reporting Date

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



Independent review report

To the shareholder of China Construction Bank (New Zealand) Limited

Report on the financial statements

We have reviewed pages 6 to 38 of the half year Disclosure Statement of China Construction Bank (New Zealand) Limited (the "Bank"), which consist of the financial statements required by Clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information required by Schedules 5, 7, 9, 13, 16 and 18 of the Order. The financial statements comprise the financial position as at 30 June 2018, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the six months ended on that day, and a summary of significant accounting policies and selected explanatory notes.

Directors' responsibility for the financial statements

The Directors of China Construction Bank (New Zealand) Limited (the "Directors") are responsible on behalf of the Bank, for the preparation and presentation of the half year Disclosure Statement, which includes financial statements prepared in accordance with Clause 25 of the Order and that present fairly the financial position of the Bank as at 30 June 2018, and its financial performance and cash flows for the period ended on that date. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation and fair presentation of the 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 half year Disclosure Statement which complies with Schedules 3, 5, 7, 9, 13, 16 and 18 of the Order.

Our responsibility

Our responsibility is to express a conclusion on the accompanying financial statements and the supplementary information, disclosed in accordance with Clause 25 and Schedules 5, 7, 9, 13, 16 and 18 of the Order, presented by Directors based on our review.

Our responsibility is to express a conclusion on the financial statements whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that causes us to believe that the financial statements have not been prepared, in all material respects, in accordance with the New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting*.

Our responsibility is to express a conclusion on the supplementary information (excluding the supplementary information relating to capital adequacy) whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not state the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order.

Our responsibility is to express a conclusion on the supplementary information relating to capital adequacy whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe the supplementary information is not in all material respects:

- a) prepared in accordance with the Bank's Conditions of Registration;
- b) prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A); and
- c) disclosed in accordance with Schedule 9 of the Order.



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). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34. As the auditors of the Bank, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

We are independent of the Bank. Our firm carries out other services for the Bank in the areas Tax Consulting and Analysis of home loan business in New Zealand context. In addition, certain partners and employees of our firm may deal with the Bank on normal terms within the ordinary course of trading activities of the Bank. These matters have not impaired our independence. We have no other interests in the Bank.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that:

- a) the financial statements on pages 6 to 38 (excluding supplementary information) have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting*;
- b) the supplementary information prescribed by Schedules 5, 7, 13, 16 and 18 of the Order, does not fairly state the matters to which it relates in accordance with those Schedules; and
- c) the supplementary information relating to capital adequacy prescribed by Schedule 9 of the Order is not, in all material respects:
 - i. prepared in accordance with the Bank's Conditions of Registration;
 - ii. prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A); and
 - iii. disclosed in accordance with Schedule 9 of the Order.

Who we report to

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

For and on behalf of:

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive, flowing script.

PricewaterhouseCoopers
14 August 2018

Auckland