

**China
Construction
Bank
Corporation
New Zealand
Banking
Group**

Disclosure Statement

**For the six months ended
30 June 2019**

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Disclosure Statement

For the six months ended 30 June 2019

General Information and Definitions

Certain information contained in this Half Year Disclosure Statement for the period ended 30 June 2019, is as required by section 81 of the Reserve Bank of New Zealand Act 1989 and is in accordance with the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

In this Disclosure Statement:

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

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

Corporate Information

Registered Bank

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

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

The People's Republic of China

Address for Service - Branch:

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

New Zealand

A copy of the NZ Banking Group and the Overseas Banking Group's most recent published financial statements for the year ended 30 June 2019 will be made available, free of charge upon a request being made to the above address of the Branch. A copy of the NZ Banking Group's financial statements can also be obtained from the NZ Banking Group's website (<http://nz.ccb.com/newzealand/en/index.html>).

A copy of the Overseas Banking Group's financial statement can also be obtained from the Overseas Bank's website (<http://en.ccb.com/en/investorv3/annualreports/annals.html?ptId=6&ctId=1>).

Subordination of claims of creditors

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

Requirement to hold excess assets over deposit liabilities

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

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

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

Guarantee Arrangements

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

Limits on Material Financial Support by the Ultimate Parent Bank

There are no regulations, legislation or other restrictions of a legally enforceable nature in the People's Republic of China that may materially inhibit the legal ability of CCBC to provide material financial support to the NZ Banking Group.

Directorate

Directors of the Overseas Bank

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

- Mr. Zuji Wang retired as Executive Director of the Board on 27 March 2019
- Mr. Jun Li retired as a Non-executive Director of the Board on 28 May 2019
- Mr. Chung Shui Ming Timpson no longer served as Independent Non-executive Director of the Board on 21 June 2019
- Mr. Guiping Liu was appointed as Non-Independent, Executive Director of the Board on 12 July 2019
- Mr. Bo Tian was appointed as Non-executive Director of the Board on 5 August 2019
- Mr. Yang Xia was appointed as Non-executive Director of the Board on 9 August 2019

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

New Zealand Chief Executive Officer of the Branch

| | |
|-----------------------|------------------------------------------------------------------------|
| Name | Mr Jun Qi |
| Primary Occupation | Chief Executive Officer, China Construction Bank (New Zealand) Limited |
| Residence | Auckland, New Zealand |
| External directorship | None |

Credit Ratings of the Overseas Bank

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

| Rating Agency | Current credit rating | Rating outlook |
|---------------------------|-----------------------|----------------|
| S&P Global Ratings | A | Stable |
| Moody's Investors Service | A1 | Stable |
| Fitch Ratings | A | Stable |

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

Descriptions of the credit rating scales are as follows:

The following table describes the credit rating grades available:

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

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

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

Pending Proceedings or Arbitration

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

The contingent liabilities of the NZ Banking Group are set out in Note 19. Commitments and contingent liabilities of the financial statements for the six months ended 30 June 2019 included within this Disclosure Statement.

Conditions of Registration

The Branch and CCBNZL have complied with all conditions of registration over the accounting period.

There have been no changes to the conditions of registration between 1 January 2019 to 30 June 2019 for the Branch.

Other Material Matters

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

Auditor

The appointed auditor for the Bank is Ernst & Young ("EY") following resignation of PwC Auditors on 7 May 2019 in line with CCB's Auditor's rotational policy. The auditor's address is 2 Takutai Square, Britomart, Auckland 1010, New Zealand.

Directors' and New Zealand Chief Executive Officer's Statements

Each Director and the New Zealand Chief Executive Officer 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 and the New Zealand Chief Executive Officer believes, after due enquiry, that for the period ended 30 June 2019:

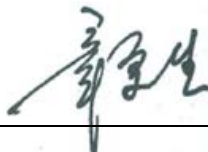
- (a) the Registered Bank has complied with all Conditions of Registration that applied during the year; and
- (b) the Branch and CCBNZL of the Registered Bank had systems in place to monitor and control adequately the material risks of the NZ Banking Group including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, and other business risks, and that those systems were being properly applied.

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



Mr Jun Qi
Dated: 26 August 2019

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



DIRECTOR - Mr Gengsheng Zhang
Dated: 26 August 2019

Statement of Comprehensive Income

| For the period ended | Note | Unaudited 30 Jun 2019 6 months \$000 | Unaudited 30 Jun 2018 6 months \$000 | Audited 31 Dec 2018 12 months \$000 |
|----------------------------------------------------------------------------------|------|-----------------------------------------------|-----------------------------------------------|----------------------------------------------|
| Interest income | 2 | 47,558 | 39,328 | 84,191 |
| Interest expense | 2 | (29,123) | (21,312) | (47,088) |
| Other interest (expense)/income | 2 | (2,022) | (1,859) | (4,406) |
| Net interest income | 2 | 16,413 | 16,157 | 32,697 |
| Net non-interest income | 3 | 5,858 | 2,365 | 1,176 |
| Total operating income | | 22,271 | 18,522 | 33,873 |
| Operating expenses | | (7,622) | (7,307) | (16,106) |
| Impairment (losses)/write-back on credit exposures | 4 | (322) | (784) | (1,769) |
| Profit/ (Loss) before income tax | | 14,327 | 10,431 | 15,998 |
| Income tax expense | | (4,019) | (3,187) | (4,496) |
| Profit after income tax attributable to the owner of the NZ Banking Group | | 10,308 | 7,244 | 11,502 |
| 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 | | (809) | 101 | 980 |
| Total other comprehensive income, net of tax | | (809) | 101 | 980 |
| Total comprehensive income attributable to the owner of the Bank | | 9,499 | 7,345 | 12,482 |

From 1 January 2018, the Bank has adopted and applied NZ IFRS 9 and consequently in order to comply with the requirements of NZ IAS 1, interest earned on financial assets measured at FVTPL and interest expenses on financial liabilities measured at FVTPL has been reclassified from "interest income" and "interest expense" to "Other interest (expense)/income" for the period ended 30 June 2018. Additionally, the interest earned on committed loans was also reclassified from non-interest income to interest income for the same period. Refer Note 2 and Note 3 on page 13 for further details.

These interim financial statements are to be read in conjunction with the notes on pages 11 - 32 accompanied with the auditor's Review Report on page 33.

Statement of Changes in Equity

| For the period ended 30 June 2019 (Unaudited) | NZ Banking Group | | | | | | | | Total \$000 |
|--------------------------------------------------|------------------------|----------------------------|----------------------------------|------------------------|----------------------------------|----------------------------|----------------------------------|------------------------|----------------|
| | NZ Branch | | | | Other member of NZ Banking Group | | | | |
| | Share Capital \$000 | Retained Earnings \$000 | Cash Flow Hedge Reserve \$000 | FVOCI Reserve \$000 | Share Capital \$000 | Retained Earnings \$000 | Cash Flow Hedge Reserve \$000 | FVOCI Reserve \$000 | |
| Balance at 01 January 2019 | - | (905) | 1,132 | - | 199,178 | 16,687 | (197) | - | 215,895 |
| Profit after income tax | - | 3,821 | - | - | - | 6,487 | - | - | 10,308 |
| Other comprehensive income | - | - | (920) | - | - | - | 113 | (2) | (809) |
| Total comprehensive income for the period | - | 3,821 | (920) | - | - | 6,487 | 113 | (2) | 9,499 |
| Transactions with owners: | | | | | | | | | |
| Dividends paid on ordinary shares | - | - | - | - | - | - | - | - | - |
| Balance at 30 June 2019 | - | 2,916 | 212 | - | 199,178 | 23,174 | (84) | (2) | 225,394 |

| For the period ended 30 June 2018 (Unaudited) | NZ Banking Group | | | | | | | | Total \$000 |
|----------------------------------------------------|------------------------|----------------------------|----------------------------------|------------------------|----------------------------------|----------------------------|----------------------------------|------------------------|----------------|
| | NZ Branch | | | | Other member of NZ Banking Group | | | | |
| | Share Capital \$000 | Retained Earnings \$000 | Cash Flow Hedge Reserve \$000 | FVOCI Reserve \$000 | Share Capital \$000 | Retained Earnings \$000 | Cash Flow Hedge Reserve \$000 | FVOCI Reserve \$000 | |
| Balance at 01 January 2018 | - | (286) | - | - | 199,178 | 6,798 | (45) | - | 205,645 |
| Change in accounting policy | - | - | - | - | - | (2,232) | - | - | (2,232) |
| Restated total equity as at 01 January 2018 | - | (286) | - | - | 199,178 | 4,566 | (45) | - | 203,413 |
| Profit after income tax | - | (912) | - | - | - | 8,156 | - | - | 7,244 |
| Other comprehensive income | - | - | 136 | - | - | - | (35) | - | 101 |
| Total comprehensive income for the period | - | (912) | 136 | - | - | 8,156 | (35) | - | 7,345 |
| Transactions with owners: | | | | | | | | | |
| Dividends paid on ordinary shares | - | - | - | - | - | - | - | - | - |
| Balance at 30 June 2018 | - | (1,198) | 136 | - | 199,178 | 12,722 | (80) | - | 210,758 |

| For the period ended 31 Dec 2018 (Audited) | NZ Banking Group | | | | | | | | Total \$000 |
|----------------------------------------------------|------------------------|----------------------------|----------------------------------|------------------------|----------------------------------|----------------------------|----------------------------------|------------------------|----------------|
| | NZ Branch | | | | Other member of NZ Banking Group | | | | |
| | Share Capital \$000 | Retained Earnings \$000 | Cash Flow Hedge Reserve \$000 | FVOCI Reserve \$000 | Share Capital \$000 | Retained Earnings \$000 | Cash Flow Hedge Reserve \$000 | FVOCI Reserve \$000 | |
| Balance at 01 January 2018 | - | (286) | - | - | 199,178 | 6,798 | (45) | - | 205,645 |
| Change in accounting policy | - | - | - | - | - | (2,232) | - | - | (2,232) |
| Restated total equity as at 01 January 2018 | - | (286) | - | - | 199,178 | 4,566 | (45) | - | 203,413 |
| Profit after income tax | - | (619) | - | - | - | 12,121 | - | - | 11,502 |
| Other comprehensive income | - | - | 1,132 | - | - | - | (152) | - | 980 |
| Total comprehensive income for the period | - | (619) | 1,132 | - | - | 12,121 | (152) | - | 12,482 |
| Transactions with owners: | | | | | | | | | |
| Dividends paid on ordinary shares | - | - | - | - | - | - | - | - | - |
| Balance at 31 December 2018 | - | (905) | 1,132 | - | 199,178 | 16,687 | (197) | - | 215,895 |

These interim financial statements are to be read in conjunction with the notes on pages 11 - 32 accompanied with the auditor's Review Report on page 33.

Balance Sheet

| As at | Note | Unaudited 30 Jun 2019 \$000 | Unaudited 30 Jun 2018 \$000 | Audited 31 Dec 2018 \$000 |
|-----------------------------------------------------------------------|------|--------------------------------------|--------------------------------------|------------------------------------|
| Assets | | | | |
| Cash and balances with central bank | 5 | 6,844 | 50,611 | 50,698 |
| Due from other financial institutions | 6 | 183,467 | 152,782 | 301,221 |
| Investment securities | 7 | 190,720 | 147,724 | 188,329 |
| Loans and advances | 8 | 2,064,831 | 1,640,670 | 1,930,813 |
| Due from related parties | 16 | 2,260 | 72,686 | 34,960 |
| Derivative financial assets | 10 | 75,298 | 51,439 | 68,081 |
| Other assets | | 274 | 276 | 281 |
| Property, plant and equipment | 11 | 2,240 | 933 | 849 |
| Intangible assets | | 104 | 183 | 126 |
| Deferred tax assets | | 2,351 | 2,032 | 1,861 |
| Total assets | | 2,528,389 | 2,119,336 | 2,577,219 |
| Liabilities | | | | |
| Due to other financial institutions | 12 | 215,121 | 25,004 | 336,772 |
| Deposits from customers | 13 | 214,678 | 350,541 | 235,209 |
| Debt securities issued | 14 | 691,130 | 547,766 | 690,246 |
| Due to related parties | 16 | 1,144,036 | 960,989 | 1,069,322 |
| Subordinated debt | 16 | 15,124 | 15,128 | 15,129 |
| Derivative financial liabilities | 10 | 17,458 | 4,487 | 7,285 |
| Current tax liabilities | | 2,188 | 3,379 | 4,858 |
| Other liabilities | 15 | 3,260 | 1,284 | 2,503 |
| Total liabilities | | 2,302,995 | 1,908,578 | 2,361,324 |
| Head Office account | | | | |
| Branch capital | | | - | - |
| Retained earnings/(loss) | | 2,916 | (1,198) | (905) |
| Reserves | | 212 | 136 | 1,132 |
| Total Head Office account | | 3,128 | (1,062) | 227 |
| Equity | | | | |
| Share capital | | 199,178 | 199,178 | 199,178 |
| Retained earnings | | 23,174 | 12,722 | 16,687 |
| Reserves | | (86) | (80) | (197) |
| Total equity | | 222,266 | 211,820 | 215,668 |
| Total equity attributable to the owner of the NZ Banking Group | | 225,394 | 210,758 | 215,895 |
| Total liabilities and equity | | 2,528,389 | 2,119,336 | 2,577,219 |
| Total interest earning and discount bearing assets | | 2,451,459 | 2,068,201 | 2,508,842 |
| Total interest and discount bearing liabilities | | 2,256,707 | 1,891,796 | 2,330,683 |

These interim financial statements are to be read in conjunction with the notes on pages 11 - 32 accompanied with the auditor's Review Report on page 33.

Cash Flow Statement

| For the period ended | Note | Unaudited 30 Jun 2019 6 months \$000 | Unaudited 30 Jun 2018 6 months \$000 | Audited 31 Dec 2018 12 months \$000 |
|---------------------------------------------------------------------------------------------------------------------|--------|-----------------------------------------------|-----------------------------------------------|----------------------------------------------|
| Cash flows from operating activities | | | | |
| Interest received | | 47,507 | 38,267 | 84,487 |
| Interest paid | | (6,104) | (5,637) | (10,667) |
| Income received from financial instruments designated at FVTPL | | 1,756 | - | 1,835 |
| Non-interest income received | | 2,696 | 4,725 | 10,029 |
| Non-interest expense paid | | (1,151) | (43) | (67) |
| Operating expenses paid | | (7,836) | (7,527) | (14,803) |
| Income taxes paid | | (6,866) | (3,710) | (3,710) |
| Net cash flows from operating activities before changes in operating assets and liabilities | | 30,002 | 26,075 | 67,104 |
| Net changes in operating assets and liabilities: | | | | |
| Net decrease/(increase): | | | | |
| GST receivable | | 25 | 5 | (7) |
| Other assets | | (21) | (51) | (45) |
| Loans and advances | | (134,774) | 2,246 | (289,342) |
| Due from related parties | | 32,301 | 27 | (32,131) |
| Net increase/(decrease): | | | | |
| Due to other financial institutions | | (121,652) | 25,000 | 336,181 |
| Deposits from customers | | (20,962) | (107,624) | (223,102) |
| Net changes in operating assets and liabilities | | (245,083) | (80,397) | (208,446) |
| Net cash flows provided by/ (used in) operating activities | 18 | (215,081) | (54,322) | (141,342) |
| Cash flows from investing activities | | | | |
| Purchase of investment securities | | (1,643) | (147,980) | (187,809) |
| Placements with other financial institutions | | (65,292) | - | - |
| Purchase of property, plant and equipment | | (10) | (28) | (194) |
| Purchase of intangible assets | | - | - | - |
| Net cash flows used in investing activities | | (66,945) | (148,008) | (188,003) |
| Cash flows from financing activities | | | | |
| Amount borrowed from related parties | | 1,043,005 | 1,683,128 | 2,278,726 |
| Repayments of due to related parties | | (956,103) | (1,433,809) | (1,943,719) |
| Issuance of debt issues | 14 | 97,834 | 260,000 | 563,943 |
| Repayments of debt securities | 14 | (104,000) | (168,000) | (333,000) |
| Repayment of lease liabilities | | (418) | - | - |
| Interest paid on financing activities | | (25,592) | (19,772) | (38,750) |
| Net cash flows (used in)/ provided by financing activities | | 54,726 | 321,547 | 527,200 |
| Net increase/ (decrease) in cash and cash equivalents | | (227,300) | 119,217 | 197,855 |
| Cash and cash equivalents at beginning of the period | | 354,574 | 156,719 | 156,719 |
| Cash and cash equivalents at end of the period | 23 (a) | 127,274 | 275,936 | 354,574 |
| 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 | 23 (a) | 118,175 | 152,782 | 301,221 |
| Cash and balances with central banks | 23 (a) | 6,844 | 50,611 | 50,698 |
| Due from related parties (nostro account) | 23 (a) | 2,255 | 72,543 | 2,655 |
| Cash and cash equivalents at end of the period | 23 (a) | 127,274 | 275,936 | 354,574 |

These interim financial statements are to be read in conjunction with the notes on pages 11 - 32 accompanied with the auditor's Review Report on page 33.

Notes to Accounts

1. Statement of Accounting Policies

a) Reporting Entity

These condensed interim financial statements are for China Construction Bank Corporation New Zealand Banking Group (the "NZ Banking Group"), for the six months ended 30 June 2019, and have been prepared in accordance with the Registered Bank Disclosure Statements (Overseas 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.

These financial statements were approved for issue by the Board of Directors of the Overseas Bank (the "Board") on 26 August 2019.

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 NZ Banking Group's financial statements for the full year ended 31 December 2018.

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 NZ Banking Group's financial statements for the full year ended 31 December 2018 and half year ended 30 June 2018, except for the adoption of new and amended standards as set out below.

(i) New and amended standards adopted

NZ IFRS 16 - Leases became applicable for the current reporting period and the NZ Banking Group has changed its accounting policies and made adjustments as a result of adopting this accounting standard.

NZ IFRS 16 requires a lessee to recognise a Lease liability reflecting future lease payments and a 'Right-of-use asset' for virtually all lease contracts.

The impact of the adoption of this standard and the new accounting policies is disclosed below.

c) Impact of Adoption of New Accounting Standards

(i) Impact on the financial statements upon adoption – NZ IFRS 16

The NZ Banking Group has adopted NZ IFRS 16 Leases which replaces NZ IAS 17 from 1 January 2019 which resulted in changes in accounting policies and recognition of Lease liability reflecting future lease payments and a Right-of-use asset for all lease contracts outstanding at this date.

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

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

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

(ii) Changes to accounting policies - NZ IFRS 16**(a) Right-of-use asset**

The NZ Banking Group recognises a right-of-use asset at commencement date of a lease. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

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

The NZ Banking Group presents Right-of-use assets under Property, Plant and Equipment in the Balance Sheet.

(b) Lease Liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined by, the NZ Banking Group's incremental borrowing rate. Generally, the NZ Banking Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability includes fixed payments as per lease contracts.

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

The NZ Banking Group presents lease liabilities in "Other Liabilities" in the Balance Sheet.

2. Net interest income

| | Unaudited 30 Jun 2019 6 months \$000 | Unaudited 30 Jun 2018 6 months \$000 | Audited 31 Dec 2018 12 months \$000 |
|----------------------------------------------------|-----------------------------------------------|-----------------------------------------------|----------------------------------------------|
| Interest income | | | |
| ¹ Cash and balances with central bank | 327 | 424 | 866 |
| ¹ Due from other financial institutions | 3,829 | 603 | 2,332 |
| ¹ Loans and advances [*] | 42,893 | 38,268 | 80,613 |
| ¹ Due from related parties | 276 | 33 | 282 |
| ² Investments securities | 233 | - | 98 |
| Total interest income | 47,558 | 39,328 | 84,191 |
| Interest expense | | | |
| ³ Due to other financial institutions | (2,751) | (139) | (1,930) |
| ³ Deposits and other borrowings | (3,494) | (4,703) | (8,136) |
| ³ Due to related parties | (11,118) | (8,415) | (19,333) |
| ³ Debt securities issued | (11,730) | (8,055) | (17,689) |
| ³ Lease Liabilities | (30) | - | - |
| Total interest expense | (29,123) | (21,312) | (47,088) |
| Other interest (expense)/income | | | |
| ⁴ Investment securities | 1,526 | 1,477 | 3,081 |
| ⁴ Due to related party | (3,548) | (3,336) | (7,487) |
| Total other interest (expense)/income | (2,022) | (1,859) | (4,406) |
| Total net interest income | 16,413 | 16,157 | 32,697 |

¹ Interest earned on financial assets classified and measured at amortised cost.

² Interest earned on financial assets classified and measured at FVOCI.

³ Interest expense on financial liabilities classified and measured at amortised cost.

⁴ Interest earned on financial assets and interest expense on financial liabilities classified and measured at FVTPL.

^{*} Interest earned on impaired assets is nil, (30 June 2018: nil, 31 December 2018: nil).

| Comparative information for the period ended 30 June 2018 related to interest income and interest expense has been restated to reflect the "other interest (expense) / income", as detailed below. | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|----------------|
| | Old value | Restated value |
| Total interest income | 39,493 | 39,328 |
| Total interest expense | (24,648) | (21,312) |
| Total other interest (expense)/income | - | (1,859) |

Additionally, interest earned on committed loans amounting to \$1,312,000 is also restated from non-interest income to interest income to ensure consistency with the current period reporting (refer note 3 below).

3. Non-interest income

| | Unaudited 30 Jun 2019 6 months \$000 | Unaudited 30 Jun 2018 6 months \$000 | Audited 31 Dec 2018 12 months \$000 |
|--------------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------|----------------------------------------------|
| Fees and other income | | | |
| Lending and credit facility related fee income [*] | 1,910 | 3,030 | 3,608 |
| Other fee expense | (95) | (44) | (67) |
| Trade finance and other fee income | 305 | 20 | 120 |
| Total fees and other income | 2,120 | 3,006 | 3,661 |
| Other income (expense) | | | |
| Net ineffectiveness on qualifying hedges | (230) | (610) | 1,356 |
| Net gain/(loss) on derivatives | 1,505 | 192 | (807) |
| Loss on disposal of financial assets at fair value through profit or loss | - | (444) | (444) |
| Loss on early redemption of foreign currency borrowing | - | (18,341) | (26,135) |
| Gain on early termination of derivatives | - | 19,191 | 25,624 |
| Unrealised gain/(loss) on financial assets at fair value through profit or loss | 749 | (847) | (727) |
| Unrealised gain/(loss) on financial liabilities at fair value through profit or loss | 1,714 | 218 | (1,352) |
| Total other income (expense) | 3,738 | (641) | (2,485) |
| Total net non-interest income | 5,858 | 2,365 | 1,176 |

^{*} Comparative information for the period ended 30 June 2018 has been reclassified to ensure consistency with current year reporting where interest earned on committed loans totalling \$1,312,000 was reclassified from non-interest income to interest income (refer Note 2).

4. Impairment losses on credit exposures

| | Due from other financial institutions \$000 | Loans and advances | | | Total impairment loss \$000 |
|-------------------------------------------------------------------|------------------------------------------------|-------------------------------------|------------------------------|--------------------------|--------------------------------|
| | | Residential mortgage loans \$000 | Corporate exposures \$000 | Other exposures \$000 | |
| For the six months ended 30 Jun 2019 (Unaudited) | | | | | |
| Movement in collective provision 12-months ECL | (53) | 64 | 293 | 18 | 322 |
| Movement in collective provision Lifetime ECL not credit impaired | - | - | - | - | - |
| Movement in collective provision Lifetime ECL credit impaired | - | - | - | - | - |
| Movement in specific provision Lifetime ECL credit impaired | - | - | - | - | - |
| Bad debts written-off directly to the profit or loss | - | - | - | - | - |
| Bad debts recovered | - | - | - | - | - |
| Total impairment losses on loans and advances | (53) | 64 | 293 | 18 | 322 |

For the six months ended 30 Jun 2018 (Unaudited)

| | | | | | |
|-------------------------------------------------------------------|-----------|--------------|------------|------------|------------|
| Movement in collective provision 12-months ECL | 21 | 19 | 92 | 24 | 156 |
| 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 losses on loans and advances | 21 | (212) | 720 | 255 | 784 |

For the year ended 31 Dec 2018 (Audited)

| | | | | | |
|-------------------------------------------------------------------|-----------|--------------|----------------|------------|--------------|
| Movement in collective provision 12-months ECL | 74 | 3,270 | (1,103) | 70 | 2,311 |
| Movement in collective provision Lifetime ECL not credit impaired | - | - | (688) | - | (688) |
| Movement in collective provision Lifetime ECL credit impaired | - | - | - | - | - |
| Movement in specific provision Lifetime ECL credit impaired | - | - | - | - | - |
| Bad debts written-off directly to the profit or loss | - | - | - | 146 | 146 |
| Bad debts recovered | - | - | - | - | - |
| Total impairment losses on loans and advances | 74 | 3,270 | (1,791) | 216 | 1,769 |

5. Cash and balances with Central Bank

| | Unaudited 30 Jun 2019 \$000 | Unaudited 30 Jun 2018 \$000 | Audited 31 Dec 2018 \$000 |
|--------------------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| As at | | | |
| Settlement account balances with central bank | 6,844 | 50,611 | 50,698 |
| Total cash and balances with central bank | 6,844 | 50,611 | 50,698 |

6. Due from other financial institutions

| | Unaudited 30 Jun 2019 \$000 | Unaudited 30 Jun 2018 \$000 | Audited 31 Dec 2018 \$000 |
|-----------------------------------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| As at | | | |
| Loans and advances due from other financial institutions – call | 8,425 | 13,506 | 14,073 |
| Loans and advances due from other financial institutions – term | 175,063 | 139,297 | 287,222 |
| Provision for impairment losses | (21) | (21) | (74) |
| Total amount due from other financial institutions | 183,467 | 152,782 | 301,221 |

7. Investment securities

| As at | Unaudited 30 Jun 2019 \$000 | Unaudited 30 Jun 2018 \$000 | Audited 31 Dec 2018 \$000 |
|----------------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| At FVOCI | | | |
| Registered bank securities | 27,266 | - | - |
| RBNZ bills | 12,986 | - | 38,986 |
| Provision for impairment losses [*] | (4) | - | - |
| Total investment securities at FVOCI | 40,248 | - | 38,986 |
| At FVTPL | | | |
| Government securities | 150,472 | 147,724 | 149,343 |
| Total investment securities at FVTPL | 150,472 | 147,724 | 149,343 |
| Total investment securities | 190,720 | 147,724 | 188,329 |

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

8. Loans and Advances

| As at | Unaudited 30 Jun 2019 \$000 | Unaudited 30 Jun 2018 \$000 | Audited 31 Dec 2018 \$000 |
|---------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| Residential mortgages | 666,565 | 717,673 | 658,502 |
| Corporate exposures [*] | 1,383,989 | 930,543 | 1,280,403 |
| Other exposures ^{*1} | 23,074 | 371 | - |
| Subtotal | 2,073,628 | 1,648,587 | 1,938,905 |
| Unearned income | (4,834) | (3,660) | (4,494) |
| Loan origination fees | 1,127 | 1,434 | 1,095 |
| Fair value hedge adjustments | 1,345 | (182) | 1,367 |
| Total gross loans and advances | 2,071,266 | 1,646,179 | 1,936,873 |
| Provision for impairment losses | (6,435) | (5,509) | (6,060) |
| Total net loans and advances | 2,064,831 | 1,640,670 | 1,930,813 |

¹ Other exposures^{*} includes loans to related party totalling \$12.1m (refer note 16).

^{*} Comparative information for 30 June 2018 and 31 December 2018 has been reclassified to ensure consistency with current year reporting.

9. Asset Quality

a) Credit quality information

| As at 30 June 2019 (Unaudited) | Residential mortgage loans \$000 | Corporate exposures \$000 | Other exposures \$000 | Total credit exposures \$000 |
|-------------------------------------------------|-------------------------------------|------------------------------|--------------------------|---------------------------------|
| Neither past due nor impaired | 666,565 | 1,383,989 | 23,074 | 2,073,628 |
| Past due but not impaired | | | | |
| Less than 30 days past due | - | - | - | - |
| At least 30 days but less than 60 days past due | - | - | - | - |
| At least 60 days but less than 90 days past due | - | - | - | - |
| At least 90 days past due | - | - | - | - |
| Total past due but not impaired | - | - | - | - |
| Individually impaired assets | | | | |
| Balance at beginning of the year | - | - | - | - |
| Additions | - | - | - | - |
| Amounts written off | - | - | - | - |
| Deletions | - | - | - | - |
| Total individually impaired assets | - | - | - | - |
| Total gross loans and advances | 666,565 | 1,383,989 | 23,074 | 2,073,628 |
| Total provisions for impairment losses | (3,616) | (2,801) | (18) | (6,435) |
| Unearned income | - | - | - | (4,834) |
| Loan origination fees | - | - | - | 1,127 |
| Fair value hedge adjustments | - | - | - | 1,345 |
| Total net loans and advances | 662,949 | 1,381,188 | 23,056 | 2,064,831 |

b) Movement in loans and advances

| As at 30 June 2019 (Unaudited) | Stage 1 12-month ECL \$000 | Stage 2 Lifetime 12-month ECL \$000 | Stage 3 Lifetime 12-month ECL \$000 | Purchased credit- impaired \$000 | Total \$000 |
|------------------------------------------|-------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------|------------------|
| Residential mortgages | | | | | |
| Gross balance as at beginning of year | 658,502 | - | - | - | 658,502 |
| Additions | 53,980 | - | - | - | 53,980 |
| Amounts written off | - | - | - | - | - |
| Deletions | (45,917) | - | - | - | (45,917) |
| Gross balance as at end of period | 666,565 | - | - | - | 666,565 |
| Corporate exposures | | | | | |
| Gross balance as at beginning of year | 1,273,193 | 7,210 | - | - | 1,280,403 |
| Additions | 2,559,159 | 236 | - | - | 2,559,395 |
| Amounts written off | - | - | - | - | - |
| Deletions | (2,448,363) | (7,446) | - | - | (2,455,809) |
| Gross balance as at end of period | 1,383,989 | - | - | - | 1,383,989 |
| Other exposures | | | | | |
| Gross balance as at beginning of year | - | - | - | - | - |
| Additions | 26,566 | - | - | - | 26,566 |
| Amounts written off | - | - | - | - | - |
| Deletions | (3,492) | - | - | - | (3,492) |
| Gross balance as at end of period | 23,074 | - | - | - | 23,074 |
| Total | | | | | |
| Gross balance as at beginning of year | 1,931,695 | 7,210 | - | - | 1,938,905 |
| Additions | 2,639,705 | 236 | - | - | 2,639,941 |
| Amounts written off | - | - | - | - | - |
| Deletions | (2,497,772) | (7,446) | - | - | (2,505,218) |
| Gross balance as at end of period | 2,073,628 | - | - | - | 2,073,628 |

¹ Due from other financial institutions balances (refer to Note 4) were all represented in Stage 1 - 12 months ECL.

c) Movement in provision for impairment losses

| | 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 2019 (Unaudited) | | | | | |
| Residential mortgages | | | | | |
| Balance at beginning of year | 3,552 | - | - | - | 3,552 |
| Transferred to collective provision 12-months ECL | - | - | - | - | - |
| Transferred to collective provision lifetime ECL not credit impaired | - | - | - | - | - |
| Transferred to collective provision lifetime ECL credit impaired | - | - | - | - | - |
| Transferred to specific provision lifetime ECL credit impaired | - | - | - | - | - |
| Charge to profit or loss excluding transfer between ECL stages | 313 | - | - | - | 313 |
| Amounts written off | - | - | - | - | - |
| Reversals of previously recognised impairment losses 2 | (249) | - | - | - | (249) |
| Recovery of amounts written off | - | - | - | - | - |
| Balance at end of period – Residential mortgages | 3,616 | - | - | - | 3,616 |
| Corporate exposures | | | | | |
| Balance at beginning of year | 2,458 | 50 | - | - | 2,508 |
| 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/ (credit) to profit or loss excluding transfer between ECL stage | 3,590 | 7 | - | - | 3,597 |
| Amounts written off | - | - | - | - | - |
| Reversals of previously recognised impairment losses | (3,247) | (57) | - | - | (3,304) |
| Recovery of amounts written off | - | - | - | - | - |
| Balance at end of period – Corporate exposures | 2,801 | - | - | - | 2,801 |
| Other exposures | | | | | |
| Balance at beginning of year | - | - | - | - | - |
| Transferred to collective provision 12-months ECL | - | - | - | - | - |
| Transferred to collective provision lifetime ECL not credit impaired | - | - | - | - | - |
| Transferred to collective provision lifetime ECL credit impaired | - | - | - | - | - |
| Transferred to specific provision lifetime ECL credit impaired | - | - | - | - | - |
| Charge to profit or loss excluding transfer between ECL stages 2 | 20 | - | - | - | 20 |
| Amounts written off | - | - | - | - | - |
| Reversals of previously recognised impairment losses | (2) | - | - | - | (2) |
| Recovery of amounts written off | - | - | - | - | - |
| Balance at end of period – Other exposures | 18 | - | - | - | 18 |
| Total | | | | | |
| Balance at beginning of year | 6,010 | 50 | - | - | 6,060 |
| 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/ (credit) to profit or loss excluding transfer between ECL stage | 3,923 | 7 | - | - | 3,930 |
| Amounts written off | - | - | - | - | - |
| Reversals of previously recognised impairment losses | (3,498) | (57) | - | - | (3,555) |
| Recovery of amounts written off | - | - | - | - | - |
| Total provision for impairment losses at the end of period for loa | 6,435 | - | - | - | 6,435 |

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

There was no transfer of collective provision for 'Due from financial institutions' between the stages. The total provision of \$21,000 (30 June 2018: \$21,000; 31 December 2018: \$74,000) (refer Note 6) was represented in 'Collective provision 12-months ECL' during the period.

10. Derivative financial instruments

| | As at 30 Jun 2019 (Unaudited) | | | As at 30 Jun 2018 (Unaudited) | | |
|-----------------------------------------------|-------------------------------|-----------------------------|----------------------------------|-------------------------------|-----------------------------|----------------------------------|
| | Notional Amount \$000 | Fair Values Assets \$000 | Fair Values Liabilities \$000 | Notional Amount \$000 | Fair Values Assets \$000 | Fair Values Liabilities \$000 |
| Held for Trading | | | | | | |
| Interest rate swap | 212,267 | 6,044 | (5,647) | 288,646 | 1,993 | (1,494) |
| Forward contracts | 3,882 | 31 | (32) | 49,074 | 1,128 | (752) |
| FX Swaps | 6,886 | 46 | (22) | 23,046 | 477 | (559) |
| Fair value hedges | | | | | | |
| Interest rate swap | 872,221 | 14,677 | (1,450) | 1,025,630 | 3,207 | (650) |
| Dual fair value and cash flow hedges | | | | | | |
| Cross Currency Interest rate swap | 486,776 | 21,876 | (778) | 621,887 | 43,582 | - |
| Economic Hedge | | | | | | |
| Interest rate swap | - | - | - | 25,600 | - | (35) |
| Cross Currency Interest rate swap | 365,726 | 32,315 | - | - | - | - |
| FX Swaps | 776,640 | 309 | (9,529) | 113,163 | 1,052 | (997) |
| Total derivative financial instruments | 2,724,398 | 75,298 | (17,458) | 2,147,046 | 51,439 | (4,487) |

| | As at 31 Dec 2018 (Audited) | | |
|-----------------------------------------------|-----------------------------|-----------------------------|----------------------------------|
| | Notional Amount \$000 | Fair Values Assets \$000 | Fair Values Liabilities \$000 |
| Held for Trading | | | |
| Interest rate swap | 318,741 | 3,169 | (2,690) |
| Forward contracts | 8,037 | 89 | (180) |
| FX Swaps | 7,860 | 153 | - |
| Fair value hedges | | | |
| Interest rate swap | 1,030,207 | 7,029 | (870) |
| Dual fair value and cash flow hedges | | | |
| Cross Currency Interest rate swap | 816,497 | 51,659 | (883) |
| Economic Hedge | | | |
| Forward contracts | 5,125 | 162 | 57 |
| FX Swaps | 695,784 | 5,820 | (2,719) |
| Total derivative financial instruments | 2,882,251 | 68,081 | (7,285) |

11. Property, plant and equipment

The effects of the reclassification of Right-of-use of asset on the Balance sheet is as follows:

| As at | Unaudited 30 Jun 2019 \$000 | Unaudited 30 Jun 2018 \$000 | Audited 31 Dec 2018 \$000 |
|--------------------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| Property, plant and equipment owned | 3,324 | 3,148 | 3,313 |
| Accumulated depreciation | (2,732) | (2,215) | (2,464) |
| Total Property, plant and equipment owned | 592 | 933 | 849 |
| Right-of-use asset | 2,067 | - | - |
| Accumulated depreciation | (419) | - | - |
| Total Right-of-use asset | 1,648 | - | - |
| Total Property, plant and equipment | 2,240 | 933 | 849 |

Additions to the Right-of-use assets for the six months ended 30 June 2019 is \$ nil.

12. Due to other financial institutions

| As at | Unaudited 30 Jun 2019 \$000 | Unaudited 30 Jun 2018 \$000 | Audited 31 Dec 2018 \$000 |
|---------------------------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| Placements from other financial institutions | 215,121 | 25,004 | 336,772 |
| Transaction balances with other financial institutions | - | - | - |
| Total amount due to other financial institutions | 215,121 | 25,004 | 336,772 |

13. Deposits from Customers

| As at | Unaudited 30 Jun 2019 \$000 | Unaudited 30 Jun 2018 \$000 | Audited 31 Dec 2018 \$000 |
|--------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| Demand deposits not bearing interest | 2,327 | 512 | 1,376 |
| Demand deposits bearing interest | 40,287 | 74,421 | 34,267 |
| Term deposits | 172,064 | 275,608 | 199,566 |
| Total deposits from customers | 214,678 | 350,541 | 235,209 |

14. Debt securities issued

| As at | Unaudited 30 Jun 2019 \$000 | Unaudited 30 Jun 2018 \$000 | Audited 31 Dec 2018 \$000 |
|---------------------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| Short term debt | | | |
| Registered certificate of deposits | 60,000 | 100,000 | 55,000 |
| Total short term debt | 60,000 | 100,000 | 55,000 |
| Long term debt | | | |
| Domestic medium-term notes | 616,076 | 431,800 | 627,243 |
| Total long term debt | 616,076 | 443,300 | 627,243 |
| Total debt securities issued | 676,076 | 543,300 | 682,243 |
| Debt securities issued at face value | 676,076 | 543,300 | 682,243 |
| Total debt securities issued at face value | 676,076 | 543,300 | 682,243 |
| Movement in debt securities issued | | | |
| Balance at beginning of the year | 690,246 | 453,507 | 453,507 |
| Issuance during the period | 97,834 | 260,000 | 563,943 |
| Repayments during the period | (104,000) | (168,000) | (333,000) |
| Effect of fair value hedge adjustment | 7,401 | 2,436 | 5,406 |
| Net effect of transaction costs and accruals | (351) | (177) | 390 |
| Balance at end of the period | 691,130 | 547,766 | 690,246 |
| Total debt securities | 691,130 | 547,766 | 690,246 |

15. Other liabilities

| As at | Unaudited 30 Jun 2019 \$000 | Unaudited 30 Jun 2018 \$000 | Audited 31 Dec 2018 \$000 |
|--------------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| Other Liabilities | | | |
| Trade creditors and other accrued expenses | 362 | 232 | 375 |
| Lease liability | 1,679 | - | - |
| Employee entitlements | 1,219 | 924 | 1,982 |
| Other | - | 128 | 146 |
| Total Other Liabilities | 3,260 | 1,284 | 2,503 |

Other information about leases for which the NZ Banking Group is a lessee is presented below.

| | Unaudited 30 Jun 2019 | Unaudited 30 Jun 2018 | Audited 31 Dec 2018 |
|--------------------------------------------------------------------------------------------------|--------------------------|--------------------------|------------------------|
| | \$000 | \$000 | \$000 |
| Amounts recognised in Profit or loss | | | |
| Interest on lease liabilities | 30 | - | - |
| Depreciation charge on Right-of-use asset | 419 | - | - |
| Expenses relating to short-term leases | - | - | - |
| Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets | - | - | - |
| Total amounts recognised in profit or loss | 449 | - | - |

| | Unaudited 30 Jun 2019 | Unaudited 30 Jun 2018 | Audited 31 Dec 2018 |
|--------------------------------------------------------------|--------------------------|--------------------------|------------------------|
| | \$000 | \$000 | \$000 |
| Maturity analysis contracted undiscounted cash flows | | | |
| Less than one year | 879 | - | - |
| One to five years | 851 | - | - |
| More than five years | - | - | - |
| Total undiscounted lease liabilities | 1,730 | - | - |
| Lease liabilities included in Other liabilities | | | |
| Current | 849 | - | - |
| Non-current | 830 | - | - |
| Total Lease liabilities included in Other liabilities | 1,679 | - | - |

| | Unaudited 30 Jun 2019 | Unaudited 30 Jun 2018 | Audited 31 Dec 2018 |
|----------------------------------------------------------|--------------------------|--------------------------|------------------------|
| | \$000 | \$000 | \$000 |
| Amounts recognised in the Statement of cash flows | | | |
| Total cash outflow for leases | 418 | - | - |

16. Related Party Transactions

During the period ended 30 June 2019, the NZ Banking Group has entered into or had in place various financial transactions with members of the Overseas Banking Group, represented by Ultimate Parent Bank.

Nature of transactions and balances with related parties

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

These transactions principally consist of funding (interest bearing) and hedging transactions (interest bearing) and the provision of technology and process support. Transactions with related parties outside of the NZ Banking Group are conducted on an arm's length basis and on normal commercial terms. The settlement of the balances will be in cash consideration.

Ultimate Parent Bank

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

The amount due 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 are reflected below.

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

| Recognised in | Unaudited 30 Jun 2019 \$000 | Unaudited 30 Jun 2018 \$000 | Audited 31 Dec 2018 \$000 |
|-------------------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| Statement of Comprehensive Income | | | |
| Interest income | 276 | 40 | 282 |
| Interest expense | (15,022) | (11,378) | (26,820) |
| Non-interest income / (expense) | | | |
| Unrealised gain/(loss) on derivatives | 2,203 | 21,620 | 92 |
| Loss on early redemption of FC borrowing | - | (18,341) | - |
| Gain on early termination of derivatives | - | 19,191 | - |
| Total Profit or Loss impact | (10,829) | 11,350 | (27,798) |
| Balance Sheet | | | |
| Due from related parties | | | |
| Cash and liquid assets | 2,255 | 168 | 2,655 |
| Loans and advances | - | 12,234 | 32,229 |
| Other assets | 5 | 60,284 | 76 |
| Loans and advances | 12,112 | - | - |
| Derivative financial assets | 62,209 | 44,859 | 55,636 |
| Total Assets | 76,581 | 117,545 | 90,596 |
| Subordinated Debt | 15,124 | 15,128 | 15,129 |
| Due to related parties | | | |
| Deposits and overnights placements | - | - | - |
| Borrowings at fair value through profit or loss | 152,767 | 147,892 | 151,082 |
| Borrowings at amortised cost | 991,269 | 813,097 | 918,240 |
| Derivative financial liabilities | 8,970 | 1,247 | 3,580 |
| Total Liabilities | 1,168,130 | 977,364 | 1,088,031 |

There were no debts with any related parties written off or forgiven during the six months ended 30 June 2019 (30 June 2018: nil, 31 December 2018: nil).

Provision for impairments on credit exposure of nil have been recognised in respect of the related party assets as at 30 June 2019 (30 June 2018: nil, 31 December 2018: nil).

17. Fair Value of Financial Instruments

Classification of financial instruments and estimates of fair value

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

Fair value hierarchy of financial instruments measured at fair value

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

Where no quoted price in an active market is available, the NZ Banking Group applies present value estimates or other market accepted valuation techniques. The use of a market accepted valuation technique will typically involve the use of a valuation model and appropriate inputs to the model.

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 NZ Banking Group categorises all fair value measurements according to the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

“Level 1” – Quoted market price

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.

All of the NZ Banking Group's financial instruments are recognised and measured at fair value on a recurring basis within Level 2.

The NZ Banking Group 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 of the fair value hierarchy during the period ended 30 June 2019 (30 June 2018: nil, 31 December 2018: nil). There have been no transfers into/out of Level 3 during the period ended 30 June 2019 (30 June 2018: nil, 31 December 2018: nil).

Fair value of financial instruments not measured at fair value

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

| As at 30 June 2019 (Unaudited) | At amortised cost \$000 | At FVOCI \$000 | At FVTPL \$000 | Fair value - Derivative instruments \$000 | Total Carrying amount \$000 | Fair value \$000 |
|------------------------------------------------------|----------------------------|-------------------|-------------------|----------------------------------------------|--------------------------------|---------------------|
| Financial assets at amortised cost | | | | | | |
| Cash and balances with central banks | 6,844 | - | - | - | 6,844 | 6,844 |
| Due from other financial institutions | 183,467 | - | - | - | 183,467 | 183,471 |
| Investment securities | - | 40,248 | 150,472 | - | 190,720 | 190,720 |
| Loans and advances | 2,064,831 | - | - | - | 2,064,831 | 2,242,963 |
| Due from related parties | 2,260 | - | - | - | 2,260 | 5,795 |
| Derivative financial assets | - | - | - | 75,298 | 75,298 | 75,298 |
| Other assets | 41 | - | - | - | 41 | 41 |
| Total financial assets at amortised cost | 2,257,443 | 40,248 | 150,472 | 75,298 | 2,523,461 | 2,705,133 |
| Financial liabilities at amortised cost | | | | | | |
| Deposits from customers | 214,678 | - | - | - | 214,678 | 216,067 |
| Debt securities issued | 691,130 | - | - | - | 691,130 | 712,735 |
| Due to other financial institutions | 215,121 | - | - | - | 215,121 | 215,229 |
| Due to related parties | 991,269 | - | 152,767 | - | 1,144,036 | 1,141,569 |
| Subordinated Debt | 15,124 | - | - | - | 15,124 | 16,881 |
| Derivative financial liabilities | - | - | - | 17,458 | 17,458 | 17,458 |
| Other liabilities | 1,679 | - | - | - | 1,679 | 1,679 |
| Total financial liabilities at amortised cost | 2,129,001 | - | 152,767 | 17,458 | 2,299,226 | 2,321,617 |
| As at 30 June 2018 (Unaudited) | | | | | | |
| Financial assets at amortised cost | | | | | | |
| Cash and balances with central banks | 50,611 | - | - | - | 50,611 | 50,611 |
| Due from other financial institutions | 152,782 | - | - | - | 152,782 | 152,782 |
| Investment securities | - | - | 147,724 | - | 147,724 | 147,724 |
| Loans and advances | 1,640,670 | - | - | - | 1,640,670 | 1,822,831 |
| Due from related parties | 72,686 | - | - | - | 72,686 | 72,686 |
| Derivative financial assets | - | - | - | 51,439 | 51,439 | 51,439 |
| Other assets | 56 | - | - | - | 56 | 56 |
| Total financial assets at amortised cost | 1,916,805 | - | 147,724 | 51,439 | 2,115,968 | 2,298,129 |
| Financial liabilities at amortised cost | | | | | | |
| Deposits from customers | 350,541 | - | - | - | 350,541 | 351,791 |
| Debt securities issued | 547,766 | - | - | - | 547,766 | 563,543 |
| Due to other financial institutions | 25,004 | - | - | - | 25,004 | 25,004 |
| Due to related parties | 1,069,322 | - | 147,892 | - | 1,217,214 | 977,518 |
| Subordinated Debt | 15,128 | - | - | - | 15,128 | 17,177 |
| Derivative financial liabilities | - | - | - | 4,487 | 4,487 | 4,487 |
| Total financial liabilities at amortised cost | 2,007,761 | - | 147,892 | 4,487 | 2,160,140 | 1,939,520 |

| As at 31 December 2018 (Audited) | At amortised cost \$000 | At FVOCI \$000 | At FVTPL \$000 | Fair value - Derivative instruments \$000 | Total Carrying amount \$000 | Fair value \$000 |
|------------------------------------------------------|----------------------------------|-------------------|-------------------|----------------------------------------------------|--------------------------------------|---------------------|
| Financial assets at amortised cost | | | | | | |
| Cash and balances with central banks | 50,698 | - | - | - | 50,698 | 50,698 |
| Due from other financial institutions | 301,221 | - | - | - | 301,221 | 301,221 |
| Investment securities | - | 38,986 | 149,343 | - | 188,329 | 188,329 |
| Loans and advances | 1,930,813 | - | - | - | 1,930,813 | 2,118,627 |
| Due from related parties | 34,960 | - | - | - | 34,960 | 34,960 |
| Derivative financial assets | - | - | - | 68,081 | 68,081 | 68,081 |
| Other assets | 67 | - | - | - | 67 | 67 |
| Total financial assets at amortised cost | 2,317,759 | 38,986 | 149,343 | 68,081 | 2,574,169 | 2,761,983 |
| Financial liabilities at amortised cost | | | | | | |
| Deposits from customers | 235,209 | - | - | - | 235,209 | 236,232 |
| Debt securities issued | 690,246 | - | - | - | 690,246 | 748,765 |
| Due to other financial institutions | 336,772 | - | - | - | 336,772 | 336,772 |
| Due to related parties | 918,240 | - | 151,082 | - | 1,069,322 | 1,109,406 |
| Subordinated Debt | 15,129 | - | - | - | 15,129 | 15,733 |
| Derivative financial liabilities | - | - | - | 7,285 | 7,285 | 7,285 |
| Total financial liabilities at amortised cost | 2,195,596 | - | 151,082 | 7,285 | 2,353,963 | 2,454,193 |

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 22 "Fair Value of Financial Instruments" in the NZ Banking Group's full year Disclosure Statement for the year ended 31 December 2018.

18. Net Cash Flows used in Operating Activities

| For the six months ended | Unaudited 30 Jun 2019 \$000 | Unaudited 30 Jun 2018 \$000 | Audited 31 Dec 2018 \$000 |
|--------------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| Reconciliation of profit after income tax to net cash flows from (used in) operating activities | | | |
| Profit after income tax | 10,308 | 7,244 | 11,502 |
| Adjustments: | | | |
| Impairment losses on credit exposures | 322 | 784 | 1,769 |
| Depreciation and amortisation | 709 | 366 | 675 |
| Deduct/(add) items reclassified as financing activities | 25,592 | 19,772 | 38,750 |
| Income tax expense * | (2,847) | (523) | 786 |
| Movement in fair value of financial assets and liabilities * | (4,313) | 777 | 14,212 |
| Movement in interest accruals * | 231 | (2,345) | (590) |
| Net (increase)/decrease in operating assets: | | | |
| GST receivable | 25 | 5 | (7) |
| Loans and advances * | (134,774) | 2,246 | (289,342) |
| Due from related parties ¹ | 32,301 | 27 | (32,131) |
| Other assets | (21) | (51) | (45) |
| Net increase/(decrease) in operating liabilities: | | | |
| Due to other financial institutions * | (121,652) | 25,000 | 336,181 |
| Deposits from customers * | (20,962) | (107,624) | (223,102) |
| Net cash flow from (used in) operating activities | (215,081) | (54,322) | (141,342) |

* Comparative information for 30 June 2018 has been reclassified to ensure consistency with current year reporting.

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

19. Commitments and Contingent Liabilities

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

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

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

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

Credit related and other commitments (contractual or notional amount) and contingent liabilities arising in respect of the Bank's operations as at 30 June 2019 were:

| As at | Unaudited 30 Jun 2019 \$000 | Unaudited 30 Jun 2018 \$000 | Audited 31 Dec 2018 \$000 |
|--------------------------------------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| Credit related commitments and contingent liabilities | | | |
| Commitments to extend credit | 668,742 | 178,552 | 167,106 |
| Financial guarantees | 383 | 2,063 | 383 |
| Standby letters of credit | 134,348 | - | - |
| Trade letters of credit | - | - | - |
| Non-financial guarantees | 6,959 | 5,158 | 4,744 |
| Total Credit related commitments and contingent liabilities | 810,432 | 185,773 | 172,233 |
| Other commitments | | | |
| Rental / lease commitments less than 1 year | N/A | 1,000 | 1,022 |
| Rental / lease commitments greater than 1 year | N/A | 1,998 | 1,508 |
| Capital commitment | - | - | - |
| Total Other commitments | - | 2,998 | 2,530 |
| Total commitments | 810,432 | 188,771 | 174,763 |

There were no other contingent liabilities as at 30 June 2019 (30 June 2018: nil, 31 December 2018: nil).

20. Concentration of Credit Exposures

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

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

| As at 30 June 2019 Unaudited | Cash and balances with central banks \$000 | Due from other financial institutions \$000 | Investment securities \$000 | Derivative financial assets \$000 | Loans and advances \$000 | Due from related parties \$000 | Total (on- balance sheet) \$000 | Credit commitments & contingent liabilities \$000 |
|-------------------------------------------------|--------------------------------------------------------|---------------------------------------------------------|-----------------------------------|--------------------------------------------|--------------------------------|-----------------------------------------|------------------------------------------|---------------------------------------------------------------|
| Industry sector | | | | | | | - | |
| Agriculture, Forestry and Fishing | - | - | - | - | 23,886 | - | 23,886 | 21,638 |
| Mining | - | - | - | - | 30,039 | - | 30,039 | - |
| Manufacturing | - | - | - | - | 345,528 | - | 345,528 | 2,366 |
| Electricity, gas, water and waste services | - | - | - | - | 244,445 | - | 244,445 | 293,048 |
| Construction | - | - | - | - | 310,783 | - | 310,783 | 306,455 |
| Retail trade | - | - | - | - | - | - | - | 295 |
| Accommodation and food services | - | - | - | - | 48,302 | - | 48,302 | 2,500 |
| Transport, postal and warehousing | - | - | - | - | 55,278 | - | 55,278 | 90,500 |
| Information media and telecommunications | - | - | - | - | 6,293 | - | 6,293 | - |
| Financial and insurance services | 6,844 | 183,488 | 190,720 | 75,298 | 23,074 | - | 479,424 | 6,671 |
| Rental, hiring and real estate services | - | - | - | - | 319,031 | - | 319,031 | 15,775 |
| Arts and Recreation Services | - | - | - | - | - | - | - | - |
| Professional, scientific and technical services | - | - | - | - | 404 | - | 404 | - |
| Public administration and safety | - | - | - | - | - | - | - | 28,497 |
| Personal lending | - | - | - | - | 666,565 | - | 666,565 | 42,687 |
| Subtotal | 6,844 | 183,488 | 190,720 | 75,298 | 2,073,627 | - | 2,529,977 | 810,432 |
| Unearned income | - | - | - | - | 4,833 | - | 4,833 | - |
| Loan origination fees | - | - | - | - | 1,127 | - | 1,127 | - |
| Fair value hedge adjustments | - | - | - | - | 1,345 | - | 1,345 | - |
| Provisions for impairment losses | - | 21 | - | - | 6,435 | - | 6,456 | - |
| Due from related parties | - | - | - | - | - | 2,260 | 2,260 | - |
| Total credit exposures | 6,844 | 183,467 | 190,720 | 75,298 | 2,064,831 | 2,260 | 2,523,420 | 810,432 |
| Geographical area * | | | | | | | | |
| New Zealand | 6,844 | 77,266 | 40,251 | 6,428 | 1,607,415 | 5 | 1,738,209 | 669,412 |
| Overseas | - | 106,201 | 150,469 | 68,870 | 457,416 | 2,255 | 785,211 | 141,020 |
| Total credit exposures | 6,844 | 183,467 | 190,720 | 75,298 | 2,064,831 | 2,260 | 2,523,420 | 810,432 |

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

21. Concentration of Funding

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

| As at | Unaudited 30 Jun 2019 \$000 | Unaudited 30 Jun 2018 \$000 | Audited 31 Dec 2018 \$000 |
|-------------------------------------------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| Total funding comprises | | | |
| Due to other financial institutions | 215,121 | 25,004 | 336,772 |
| Deposits from customers | 214,678 | 350,541 | 235,209 |
| Debt securities issued | 691,130 | 547,766 | 690,246 |
| Due to related parties | 1,144,036 | 960,989 | 1,069,322 |
| Subordinated debt | 15,124 | 15,128 | 15,129 |
| Total funding | 2,280,089 | 1,899,428 | 2,346,678 |
| Concentration of funding by industry sector | | | |
| Accommodation and food services | 1 | 4 | 4 |
| Agriculture, forestry and fishing | 313 | 14,759 | 2,849 |
| Construction | 15,897 | 22,487 | 8,620 |
| Electricity, gas, water and waste services | - | - | 30,079 |
| Financial and insurance services | 1,035,485 | 552,018 | 1,140,341 |
| Households | 4,604 | 165,535 | 24,835 |
| Manufacturing | 1,275 | 999 | 417 |
| Local government administration | - | - | - |
| Public administration and safety | - | 90,143 | 20,051 |
| Rental, hiring and real estate services | 3,492 | 22,094 | 5,577 |
| Retail trade | 6,513 | 343 | 327 |
| Transport, postal and warehousing | 24,650 | 19,172 | 16,947 |
| Wholesale trade | 219 | 5,614 | 631 |
| Other | 28,480 | 30,143 | 11,549 |
| Subtotal | 1,120,929 | 923,311 | 1,262,227 |
| Due to related parties (including Subordinated debt) | 1,159,160 | 976,117 | 1,084,451 |
| Total funding | 2,280,089 | 1,899,428 | 2,346,678 |
| Concentration of funding by geographical areas¹ | | | |
| New Zealand* | 877,307 | 722,147 | 980,244 |
| China* | 1,176,938 | 1,100,568 | 1,264,742 |
| Australia* | 52,484 | 52,051 | 59,653 |
| Rest of Overseas | 173,360 | 24,662 | 42,039 |
| Total funding | 2,280,089 | 1,899,428 | 2,346,678 |

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

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

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

Insurance

The NZ Banking Group does not conduct any insurance business.

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

The NZ Banking Group is also not involved in:

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

23. Risk Management

There have been no material changes to the risk management policies and no new categories of risk to which the NZ Banking Group has become exposed since 31 December 2018.

(a) Liquidity portfolio management

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

| As at | Note | Unaudited 30 Jun 2019 \$000 | Unaudited 30 Jun 2018 \$000 | Audited 31 Dec 2018 \$000 |
|---------------------------------------------------------------------------------------|------|-----------------------------------|-----------------------------------|---------------------------------|
| Cash and cash equivalents: | | | | |
| Cash and balances with central banks | 5 | 6,844 | 50,611 | 50,698 |
| Due from other financial institutions (call or original maturity of 3 months or less) | | 118,175 | 152,782 | 301,221 |
| Due from related parties ¹ | | 2,255 | 72,543 | 2,655 |
| Total Cash and cash equivalent | | 127,274 | 275,936 | 354,574 |
| Investment securities | | | | |
| Registered bank securities (net of provision) | 7 | 27,262 | - | - |
| RBNZ Bills | 7 | 12,986 | - | 38,986 |
| Total liquidity portfolio | | 167,522 | 275,936 | 393,560 |

¹ Due from related parties includes Nostro account balance held with the Ultimate Parent Bank as at 30 June 2019, 30 June 2018 and 31 December 2018.

(b) Contractual maturity analysis of financial liabilities

The table below presents the NZ Banking Group's cash flows by remaining period to contractual maturity as at reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows and include principal and future interest cash flows and therefore will not agree to the carrying amounts on the balance sheet, 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 NZ Banking Group and its counterparties such as early repayments or refinancing of term loans.

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

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

| As at 30 June 2019 Unaudited | On Demand \$000 | Up to 3 months \$000 | Over 3 months & up to 1 year \$000 | Over 1 year & up to 5 years \$000 | Over 5 years \$000 | Total \$000 | Carrying Amount \$000 |
|---------------------------------------------------|--------------------|----------------------------|---------------------------------------------|--------------------------------------------|-----------------------|------------------|-----------------------------|
| Non derivative financial liabilities | | | | | | | |
| Due to other financial institutions | - | 215,229 | - | - | - | 215,229 | 215,121 |
| Deposits from customers | 33,750 | 79,550 | 102,584 | 781 | - | 216,665 | 214,678 |
| Debt securities issued | - | 46,137 | 98,577 | 596,603 | - | 741,317 | 691,130 |
| Due to related parties | 2,756 | 360,110 | 509,003 | 284,226 | - | 1,156,094 | 1,144,036 |
| Subordinated Debt | - | 124 | 372 | 16,447 | - | 16,943 | 15,124 |
| Total non-derivative financial liabilities | 36,506 | 701,150 | 710,536 | 898,057 | - | 2,346,248 | 2,280,089 |
| Derivative financial liabilities | | | | | | | |
| Net settled | - | 4,990 | - | - | - | 4,990 | |
| Gross settled – cash inflow | - | 199 | (526) | 62,337 | - | 62,010 | |
| Gross settled – cash outflow | - | 240 | 1,470 | (60,130) | - | (58,420) | |
| Total derivative financial liabilities | - | 5,429 | 944 | 2,207 | - | 8,580 | 17,458 |

(c) 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 NZ Banking Group's non-traded interest rate risk mainly comprises of yield curve, repricing, basis and optionality risks arising from mismatch of term structure and pricing basis of assets and liabilities in the NZ Banking Grouping book. The NZ Banking Group 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.

(d) Interest rate repricing gap analysis

The following table presents the NZ Banking Group's assets and liabilities at their carrying amounts as at 30 June 2019, categorised by the earlier of the contractual repricing or maturity dates. The carrying amounts of derivative financial instruments, which are principally used to reduce the NZ Banking Group's exposure to interest rate movements, are included under the heading "Non-interest bearing".

| As at 30 June 2019 Unaudited | Up to 3 months \$000 | Over 3 months & up to 6 months \$000 | Over 6 months & up to 1 year \$000 | Over 1 year & up to 2 years \$000 | Over 2 years \$000 | Non- interest bearing \$000 | Total \$000 |
|---------------------------------------------------------|----------------------------|--------------------------------------------------|---------------------------------------------|--------------------------------------------|-----------------------|--------------------------------------|------------------|
| Financial assets | | | | | | | |
| Cash and balances with central banks | 6,844 | - | - | - | - | - | 6,844 |
| Due from other financial institutions | 133,115 | 50,000 | - | - | - | 352 | 183,467 |
| Investment securities | 40,254 | - | 149,224 | - | - | 1,242 | 190,720 |
| Derivative financial assets | - | - | - | - | - | 75,298 | 75,298 |
| Loans and advances | 1,340,036 | 209,259 | 279,897 | 201,001 | 39,570 | (4,932) | 2,064,831 |
| Due from related parties | 2,260 | - | - | - | - | - | 2,260 |
| Total financial assets | 1,522,509 | 259,259 | 429,121 | 201,001 | 39,570 | 71,960 | 2,523,420 |
| Non-financial assets | - | - | - | - | - | 4,969 | 4,969 |
| Total assets | 1,522,509 | 259,259 | 429,121 | 201,001 | 39,570 | 76,929 | 2,528,389 |
| Financial liabilities | | | | | | | |
| Due to other financial institutions | 214,957 | - | - | - | - | 164 | 215,121 |
| Derivative financial liabilities | - | - | - | - | - | 17,458 | 17,458 |
| Deposits from customers | 128,926 | 37,080 | 45,758 | 588 | - | 2,326 | 214,678 |
| Debt securities issued | 216,478 | 10,000 | 49,496 | 114,500 | 285,426 | 15,230 | 691,130 |
| Due to related parties | 859,046 | 85,603 | 149,066 | 44,783 | - | 5,538 | 1,144,036 |
| Subordinated debt | 15,000 | - | - | - | - | 124 | 15,124 |
| Total financial liabilities | 1,434,407 | 132,683 | 244,320 | 159,871 | 285,426 | 40,839 | 2,297,547 |
| Non-financial liabilities | - | - | - | - | - | 5,448 | 5,448 |
| Total liabilities | 1,434,407 | 132,683 | 244,320 | 159,871 | 285,426 | 46,287 | 2,302,995 |
| On-balance sheet interest rate repricing gap | | | | | | | |
| Net derivative notional amount | 88,102 | 126,576 | 184,801 | 41,130 | (245,856) | 30,642 | 225,394 |
| Net interest rate repricing gap | (129,463) | (95,111) | (97,483) | 47,057 | 275,000 | - | - |
| Net interest rate repricing gap | (41,361) | 31,465 | 87,318 | 88,187 | 29,144 | 30,642 | 225,394 |

24. Capital Adequacy

The NZ Banking Group is subject to regulations for registered banks as specified by the Reserve Bank for two banking licenses, one for CCBNZL and another for the Branch. The Reserve Bank has set minimum regulatory capital requirements that are consistent with the internationally agreed framework (commonly known as Basel III), developed by the Basel Committee on Banking Supervision. These requirements define what is acceptable as capital and provide methods for measuring the risks incurred by banks. The Branch and CCBNZL must comply with RBNZ registration requirements, including any minimum capital ratios (as applicable) under the conditions of registration for each respective banking licence.

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

Capital management

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

The Boards of Directors for CCBNZL and the Overseas Bank have ultimate responsibility for ensuring adequate overall capital in relation to its risk profile and establishes minimum internal capital levels and limits above the regulatory minimum to reduce the risk of breaching its regulatory requirements. CCBNZL and the Overseas Bank each actively monitor its capital adequacy as part of the Internal Capital Adequacy Assessment Process ("ICAAP"), for CCBNZL, which complies with the requirements set out in the Reserve Bank document BS12 Guidelines on Internal Capital Adequacy Assessment Process (ICAAP), and the "Internal Capital Assessment" for the Overseas Bank, and reports this on a regular basis to senior management and the respective Boards.

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

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

CCBNZL regulatory requirement

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

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

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

In addition to minimum capital requirements, Basel III introduces a capital conservation buffer of 2.5 per cent of risk-weighted assets. There are increasing constraints on capital distributions where a bank's capital level falls within the buffer range, which are specified in the conditions of registration on pages 6 to 12 of the China Construction Bank (New Zealand) Limited's full year ended 31 December 2018 Disclosure Statement.

Overseas Banking Group regulatory requirement

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

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

Both the Overseas Bank and the Overseas Banking Group are required to calculate and disclose capital adequacy ratios in accordance with both the Capital Rules for Commercial Banks (Provisional) (CBRC Order [2012] No. 1) and the Measures for the Management of Capital Adequacy Ratios of Commercial Banks (CBNC Order [2004] No. 2) and are required to publicly disclose this capital adequacy information on a quarterly basis. This information is available via the Overseas Bank's website (www.ccb.com).

The Overseas Bank and the Overseas Banking Group each met the capital requirements imposed on them by the CBIRC as at 30 September 2018, the latest reporting date.

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

| As at | Unaudited 31 Mar 2019 % | Unaudited 30 Jun 2018 % | Audited 31 Dec 2018 % |
|------------------------------------|-------------------------------|-------------------------------|-----------------------------|
| Ultimate Parent Bank Group | | | |
| Common Equity Tier 1 capital ratio | 13.83% | 13.08% | 13.83% |
| Tier 1 capital ratio | 14.39% | 13.68% | 14.42% |
| Total capital ratio | 17.14% | 15.64% | 17.19% |
| Ultimate Parent Bank | | | |
| Common Equity Tier 1 capital ratio | 13.71% | 12.87% | 13.74% |
| Tier 1 capital ratio | 14.25% | 13.43% | 14.30% |
| Total capital ratio | 17.17% | 15.49% | 17.22% |

Capital instruments

Ordinary shares

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

In relation to the ordinary shares:

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

Subordinated notes

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

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

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

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

Residential mortgages by loan-to-valuation ratio

| As at 30 June 2019 (Unaudited) | Does not exceed 80% | Exceeds 80% and not 90% | Exceeds 90% | Total |
|--------------------------------|------------------------|-------------------------------|----------------|----------------|
| Loan-to-valuation ratio | | | | - |
| On-balance sheet exposures | 662,949 | - | - | 662,949 |
| Off-balance sheet exposures | 42,687 | - | - | 42,687 |
| Value of exposures | 705,636 | - | - | 705,636 |

The information in the above table is in respect of the total residential mortgage loans used to calculate the NZ Banking Group's Pillar 1 capital requirement for credit risk, categorised by loan-to-valuation ratio specified in Capital Adequacy Framework (Standardised Approach) (BS2A).

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

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

Reconciliation of residential mortgage-related amount

| As at 30 June 2019 (Unaudited) | Note | \$000 |
|-------------------------------------------------------------|--------|----------------|
| Residential mortgages | 8 | 666,565 |
| Reconciling items: | | |
| Less: - Provision for impairment losses on credit exposures | 9. (a) | (3,616) |
| On-balance sheet exposures | | 662,949 |
| Off-balance sheet exposures | | 42,687 |
| Total Residential mortgage exposures | | 705,636 |

Market risk

| As at 30 June 2019 (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 | 32,296 | 2,584 | 37,850 | 3,028 |
| Foreign currency risk | 3,224 | 258 | 15,298 | 1,224 |
| Equity risk | - | - | - | - |
| Total | 35,520 | 2,842 | 53,148 | 4,252 |

Peak end-of-day aggregate capital charge for each category of market risk is derived by determining the maximum over the 6 month period ended 30 June 2019 of the aggregate capital charge at the close of each business day derived in accordance with Part 10 of the Reserve Bank document BS2A Capital Adequacy Framework (Standardised Approach).

25. Overseas Banking group

| Overseas Banking Group | |
|----------------------------------------------------------------------------------------------------------|------------------------|
| Asset quality | |
| As at 31 December 2018 | |
| Total gross individually impaired assets (Stage 3) | RMB 200,881 million |
| Total individually impaired assets as at % of total assets | 0.87% |
| Total individually assessed provisions (Stage 3) | RMB 140,384 million |
| Total individually assessed provisions as at % of total gross individually impaired assets | 69.88% |
| Total collective provision | RMB 277,239 million |
| Profitability | |
| Net profit after tax for the period ended 31 March 2019 | RMB 77,925 million |
| Net profit after tax as a percentage of average total assets for the 12-month period ended 31 March 2019 | 1.10% |
| Size | |
| Total assets as at 31 March 2019 | RMB 24,190,914 million |
| % of change in total assets from 31 March 2018 | 5.87% |

26. Events subsequent to the reporting date

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

Abbreviations

| | |
|---------|-----------------------------------------------------------------------|
| ANZSIC | Australia and New Zealand Standard Industrial Classifications |
| CBIRC | China Banking and Insurance Regulatory Commission |
| CBRC | China Banking Regulatory Commission |
| CET1 | Common Equity Tier 1 |
| ECL | Expected credit loss |
| FC | Foreign Currency |
| FVOCI | Fair value through other comprehensive income |
| FVTPL | Fair value through profit or loss |
| ICAAP | Internal capital adequacy assessment process |
| IRB | Internal rating based |
| LVR | Loan-to-valuation ratio |
| NII | Net interest income |
| NZ GAAP | New Zealand Generally Accepted Accounting Principles |
| NZ IAS | New Zealand equivalent to International Accounting Standards |
| NZ IFRS | New Zealand equivalent to International Financial Reporting Standards |
| RMB | Chinese Yuan Renminbi |

Independent Review Report to the Directors of China Construction Bank Corporation

We have reviewed pages 7 to 32 of the Disclosure Statement of China Construction Bank Corporation New Zealand Banking Group (the “NZ Banking Group”), for the six month period ended 30 June 2019 which includes the interim financial statements required by Clause 26 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the “Order”) and the supplementary information required by Schedules 5, 7, 9, 12 and 14 of the Order. The NZ Banking Group comprises the New Zealand operations of China Construction Bank Corporation. The interim financial statements comprise the balance sheet as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and cash flow statement for the six months then ended, and the notes to the interim financial statements that include the statement of accounting policies and selected explanatory information for the NZ Banking Group.

This report is made solely to the Directors of China Construction Bank Corporation. Our review has been undertaken so that we might state to the Directors those matters we are required to state to them in an independent 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 NZ Banking Group and the Directors as a body, for our review work, for this report, or for our findings.

Directors' responsibilities

The Directors are responsible, on behalf of the China Construction Bank Corporation, for the preparation and fair presentation of the Disclosure Statement, which includes interim financial statements prepared in accordance with Clause 26 of the Order and for such internal control as the Directors determine is necessary to enable the preparation of the Disclosure Statement that is free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible, on behalf of the China Construction Bank Corporation, for including supplementary information in the Disclosure Statement which complies with Schedules 3, 5, 7, 9, 12 and 14 of the Order.

Reviewer's responsibilities

Our responsibility is to express a conclusion on the interim financial statements and the supplementary information, disclosed in accordance with Clause 26 and Schedules 5, 7, 9, 12 and 14 of the Order, presented by the Directors based on our review.

Our responsibility in relation to the interim financial statements (excluding the supplementary information disclosed in Notes 4, 9, 20 to 25 and the 'Interest earning and discount bearing assets' and 'Interest and discount bearing liabilities' disclosed on page 9 (“supplementary information”)) is to express a conclusion as to whether, on the basis of procedures performed by us, anything has come to our attention that would cause us to believe that the interim financial statements 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*.

Our responsibility in relation to the supplementary information (excluding information relating to credit and market risk exposures and capital adequacy in Note 24) prescribed by Schedules 5, 7, 12 and 14 of the Order is to express a conclusion as to whether, on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that this supplementary information does not fairly state, in all material respects, the matters to which it relates in accordance with those Schedules.

Our responsibility in relation to supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Note 24 that is required to be disclosed in accordance with Schedule 9 of the Order is to express a conclusion as to whether, on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

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



**Building a better
working world**

Basis of statement

A review of interim 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). Accordingly we do not express an audit opinion on any element of this Disclosure Statement.

Other than in our capacity as auditor this review and the audit of the annual Disclosure Statement of the NZ Banking Group, we have no relationship with, or interest in, the NZ Banking Group. Partners and employees of our firm may deal with the NZ Banking Group on normal terms within the ordinary course of trading activities of the business of the NZ Banking Group. These matters have not impaired our independence as auditors of the NZ Banking Group. We have no other relationship with, or interest in, the NZ Banking Group.

Statement of review findings

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

- ▶ the interim financial statements on pages 7 to 32 (excluding the 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*;
- ▶ the supplementary information (excluding information relating to credit and market risk exposures and capital adequacy in Note 24) prescribed by Schedules 5, 7, 12 and 14 of the Order does not fairly state, in all material respects, the matters to which it relates in accordance with those Schedules; and
- ▶ the supplementary information relating to credit and market risk exposures and capital adequacy (disclosed in Note 24) that is required to be disclosed under Schedule 9 of the Order, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

The signature 'Ernst & Young' is written in a black, cursive script.

Chartered Accountants
26 August 2019
Auckland