



Bank of China

New Zealand Banking Group

Disclosure Statement for the six months ended

30 June 2020

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1 GENERAL INFORMATION AND DEFINITIONS

The Disclosure Statement is for the six months ended the 30th of June 2020. Certain information contained in this Disclosure Statement is required by section 81 of the Reserve Bank of New Zealand Act 1989 ("Reserve Bank Act") and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

In this Disclosure Statement:

- The "Overseas Bank" and "BoC" mean Bank of China Limited;
- The "Overseas Banking Group" means the total worldwide business of BoC including its controlled entities;
- The "Branch" means the New Zealand Branch of the Overseas Bank;
- "BoC NZ" means Bank of China (New Zealand) Limited, the locally incorporated subsidiary of the Overseas Bank;
- The "NZ Banking Group" means the New Zealand operations of the Overseas Bank comprising the Branch and BoC NZ;
- "Board" means the board of directors of the Overseas Bank;
- "China" means the People's Republic of China;
- "RMB" means Renminbi, being the official currency of China; and
- "Reserve Bank" means the Reserve Bank of New Zealand.

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

The Disclosure Statement of the NZ Banking Group is available for download, free of charge, on BoC NZ's website (www.bankofchina.com/nz). A printed copy will also be made available, free of charge, upon request and will be dispatched by the end of the second working day after the day on which the request has been made.

2 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.

3 DIRECTORATE

Chen Chunhua was appointed as an independent non-executive director of the Overseas Bank on the 31st of December 2019 with the commencement date of the 20th of July 2020.

Chen Jianbo was appointed as a non-executive director of the Overseas Bank on the 30th of June 2020 effective immediately.

Wang Wei was appointed as an executive director of the Overseas Bank on the 30th of June 2020 effective immediately.

Wu Fulin resigned as an executive director of the Overseas Bank on the 27th of January 2020 effective immediately.

Liao Qiang resigned as a non-executive director of the Overseas Bank of the 5th of March 2020 effective immediately.

With the exception of the above, there have been no other changes to the composition of the Board since 31 December 2019.

The Directors of the Overseas Bank (the "Directors") at the date when this Disclosure Statement was signed were:

Liange Liu (Chairman of the Board), Wang Jiang, Wang Wei, Lin Jingzhen, Zhao Jie, Xiao Lihong, Wang Xiaoya, Zhang Jianguang, Chen Jianbo, Wang Changyun, Angela Chao, Jiang Guohua and Martin Cheung Kong Liao.

The Chief Executive Officer of Bank of China Limited, Auckland Branch ("New Zealand Chief Executive Officer") is Lei Wang.

Mr. Lei Wang is authorised in writing to sign this Disclosure Statement in accordance with section 82 of the Reserve Bank Act.

4 AUDITOR

The name of the NZ Banking Group's auditor whose audit or review statement is referred to in this Disclosure Statement is Ernst & Young. Ernst & Young's address is EY Building, 2 Takutai Square, Britomart, Auckland 1010, New Zealand.

5 CONDITIONS OF REGISTRATION

During the reporting period there were no changes to the Branch's conditions of registration.

6 PENDING PROCEEDINGS OR ARBITRATION

As at the date of this Disclosure Statement, there are no pending legal proceedings or arbitration 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.

7 CREDIT RATINGS

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

Credit ratings	Standard & Poor's	Moody's Investor Service	Fitch Ratings
Long-term counterparty credit rating	A	A1	A
Outlook	Stable	Stable	Stable

During the two-year period ended immediately before the signing date, there was no change to the Bank's credit ratings.

A credit rating is not a recommendation to buy, sell or hold securities of the Overseas Bank. Such ratings are subject to revision, qualification, suspension or withdrawal at any time by the assigning rating agency.

Investors in the Overseas Bank's securities are cautioned to evaluate each rating independently of any other rating.

8 OTHER MATERIAL MATTERS

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

9 DIRECTORS' AND NEW ZEALAND CHIEF EXECUTIVE OFFICER'S STATEMENTS

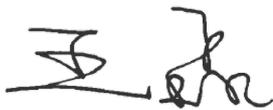
Each Director of the Overseas Bank and the New Zealand Chief Executive Officer believe, after due enquiry, that, as at the date on which this Disclosure Statement is signed:

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

Each Director of the Overseas Bank and the New Zealand Chief Executive Officer believe, after due enquiry, that, over the six months ended the 30th of June 2020:

- (1) the Overseas Bank has complied with all conditions of registration; and
- (2) the Branch had systems in place to monitor and control adequately the material risks of relevant members 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. For this purpose, a relevant member of the NZ Banking Group means a member of the NZ Banking Group that is not a member of BoC NZ's banking group.

This Disclosure Statement is dated the 26th of August 2020 and has been signed by Mr. Lei Wang as the New Zealand Chief Executive Officer and as agent authorised in writing by each director of Overseas Bank.



Lei Wang

New Zealand Chief Executive Officer

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STATEMENT OF COMPREHENSIVE INCOME

\$000	Note	Unaudited	Unaudited	Audited
		Six months ended 30-Jun-20	Six months ended 30-Jun-19	Year ended 31-Dec-19
Interest income		64,858	52,728	117,342
Interest expense		(40,604)	(34,502)	(75,732)
Net interest income		24,254	18,226	41,610
Other operating income	2	3,233	4,342	7,768
Net operating income		27,487	22,568	49,378
Operating expenses		(9,762)	(9,287)	(20,213)
Impairment (charges)/benefits	3	907	1,767	13,982
Profit/(loss) before tax		18,632	15,048	43,147
Income tax expense		(5,247)	(4,258)	(12,446)
Profit/(loss) after income tax		13,385	10,790	30,701
Other comprehensive income, net of tax				
Items that will not be reclassified to profit or loss:				
-				
Items that may be reclassified to profit or loss:				
Net change in FVTOCI revaluation reserve (net of tax)		1,549	203	21
Total other comprehensive income for the period, net of tax		1,549	203	21
Total comprehensive income for the period		14,934	10,993	30,722

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

As at \$000	Note	Unaudited 30-Jun-20	Unaudited 30-Jun-19	Audited 31-Dec-19
Assets				
Cash and liquid assets	4	532,547	90,790	198,160
Receivables due from other financial institutions	5	22,039	99,343	168,232
Derivative assets		11,986	5,757	7,246
FVTOCI securities		165,956	185,337	118,590
Loans and advances	6	3,426,380	2,612,619	3,129,285
Other assets		16,458	15,263	17,019
Right-of-use assets		4,149	3,877	4,625
Deferred tax assets		5,567	9,001	5,408
Property and equipment		2,364	2,491	2,767
Intangible assets		60	75	76
Total assets		4,187,506	3,024,553	3,651,408
Liabilities				
Payable due to other financial institutions	8	2,489,313	1,694,373	2,222,215
Derivative liabilities		11,608	4,617	12,487
Customer deposits	9	774,243	502,121	528,581
Debt securities on issue	10	619,359	569,560	604,298
Other liabilities		21,366	17,438	22,702
Current tax liabilities		3,480	3,542	7,535
Deferred tax liabilities		2	-	-
Lease liabilities		3,988	3,417	4,376
Total liabilities		3,923,359	2,795,068	3,402,194
Equity				
Head office account				
Retained earnings/(losses)		1,708	(2,240)	(861)
Total Head office account		1,708	(2,240)	(861)
Contributed equity		223,307	223,307	223,307
Reserves		1,562	195	13
Retained earnings/(losses)		37,570	8,223	26,755
Total equity		264,147	229,485	249,214
Total interest earning and discount bearing assets		4,158,380	2,866,879	3,762,388
Total interest and discount bearing liabilities		3,844,822	2,642,948	3,273,030
Total liabilities of the Branch, net of amounts due to related entities		475,684	263,565	370,439

The above statement of financial position should be read in conjunction with the accompanying notes.



Lei Wang

For and on behalf of the Directors of the Bank of China by their attorney

It is confirmed that the said powers of attorney appointing Lei Wang are still in force and have not been revoked.

STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 (Unaudited) \$000	Branch Head Office Account		Other members of the NZ Banking Group			Total equity
	Branch capital	Retained earnings/(losses)	Contributed equity	Reserves	Retained earnings/(losses)	
Balance as at 1 January 2020	-	(861)	223,307	13	26,755	249,214
Comprehensive income/ (expense)						
Net profit attributable to shareholders	-	2,569	-	-	10,815	13,384
FVTOCI revaluation reserve (net of tax)	-	-	-	1,549	-	1,549
Total comprehensive income/(expense)	-	2,569	-	1,549	10,815	14,933
Balance as at 30 June 2020	-	1,708	223,307	1,562	37,570	264,147

For the six months ended 30 June 2019 (Unaudited) \$000	Branch Head Office Account		Other members of the NZ Banking Group			Total equity
	Branch capital	Retained earnings/(losses)	Contributed equity	Reserves	Retained earnings/(losses)	
Balance as at 31 December 2018	-	(906)	223,307	(8)	(3,901)	218,492
Balance adjusted on adoption of NZ IFRS 16	-	-	-	-	-	-
Balance as at 1 January 2019	-	(906)	223,307	(8)	(3,901)	218,492
Net profit/(loss) attributable to shareholders	-	(1,334)	-	-	12,124	10,790
FVTOCI revaluation reserve (net of tax)	-	-	-	203	-	203
Balance as at 30 June 2019	-	(2,240)	223,307	195	8,223	229,485

For the year ended 31 December 2019 (Audited) \$000	Branch Head Office Account		Other members of the NZ Banking Group			Total equity
	Branch capital	Retained earnings/(losses)	Contributed equity	Reserves	Retained earnings/(losses)	
Balance as at 1 January 2019	-	(906)	223,307	(8)	(3,901)	218,492
Comprehensive income/ (expense)						
Net profit attributable to shareholders	-	45	-	-	30,656	30,701
FVTOCI revaluation reserve (net of tax)	-	-	-	21	-	21
Total comprehensive income/(expense)	-	45	-	21	30,656	30,722
Balance as at 31 December 2019	-	(861)	223,307	13	26,755	249,214

STATEMENT OF CASH FLOWS

For the period ended \$000	Note	Unaudited 30-Jun-20	Unaudited 30-Jun-19	Audited 31-Dec-19
Cash flows from operating activities				
Interest received		68,284	51,356	115,028
Interest paid		(34,368)	(21,917)	(51,156)
Other operating income received		1,779	3,296	13,728
Operating expenses paid		(13,582)	(8,563)	(19,303)
Income tax paid		(10,044)	(6,922)	(7,486)
Net cash flows from operating activities before changes in operating assets and liabilities		12,069	17,250	50,811
Net changes in operating assets and liabilities:				
Net change in loans and advances		(296,139)	(709,343)	(1,213,096)
Net change in securities		(45,233)	(49,642)	16,885
Net change in customer deposits		245,662	147,350	173,810
Net change in payable due to other financial institutions		268,375	583,324	1,110,297
Net change in receivables due from other financial institutions		145,820	(11,862)	(80,398)
Net change in other assets		(910)	(344)	(1,539)
Net change in other liabilities		(900)	627	3,280
Net cash flow from operating activities		328,744	(22,640)	60,050
Cash flow from investing activities				
Purchase of property and equipment		(25)	(410)	(1,085)
Net cash flow from investing activities		(25)	(410)	(1,085)
Cash flow from financing activities				
Issuance of debt securities		140,000	130,000	305,000
Repayments of debt securities		(124,939)	(139,990)	(280,252)
Interest paid on debt securities		(8,963)	(9,389)	(18,559)
Lease payments		(430)	(427)	(640)
Net cash flow from financing activities		5,668	(19,806)	5,549
Net change in cash and cash equivalents		334,387	(42,856)	64,514
Cash and cash equivalents at beginning of the period		198,160	133,646	133,646
Cash and cash equivalents at end of the period	4	532,547	90,790	198,160

Reconciliation from net profit after tax to the net cash flows from operating activities

As at \$000	Unaudited 30-Jun-20	Unaudited 30-Jun-19	Audited 31-Dec-19
Profit/(loss) after income tax	13,385	10,790	30,701
Adjustment for non-operating activities (net of tax)	6,120	6,708	13,282
Net profit/(loss) for the period from operating activities	19,505	17,498	43,983
Adjustments for non-cash items:			
Impairment benefits	(907)	(1,767)	(13,982)
Fair value (gains)/losses on financial derivatives	(5,619)	(1,045)	5,337
Interest expense for lease	42	42	83
Income tax	5,247	4,258	12,446
Depreciation/disposal expense	920	725	1,533
Total adjustments for non-cash items	(317)	2,213	5,417
Changes in assets and liabilities			
Net change in payables due to other financial institutions	267,098	585,715	1,113,556
Net change in receivables due from other financial institutions	146,197	(11,922)	(80,813)
Net change in loans and advances	(296,140)	(709,343)	(1,213,096)
Net change in FVTOCI securities	(45,233)	(49,642)	16,885
Net change in customer deposits	245,662	147,350	173,810
Net change in current tax paid	(7,664)	(4,313)	(2,321)
Net change in other assets	561	(1,656)	(3,438)
Net change in other liabilities	(925)	1,460	6,067
Net changes in assets and liabilities	309,556	(42,351)	10,650
Net cash flows from operating activities	328,744	(22,640)	60,050

Changes in liabilities arising from financing activities

\$000	Debt securities on issue	Interest payable on securities	Lease	Total
Balance as at 1 January 2020	604,298	3,725	4,376	612,399
Changes arising from financing cash flows	15,061	(8,963)	(430)	5,668
Other changes	-	8,500	42	8,542
Balance as at 30 June 2020	619,359	3,262	3,988	626,609
Balance as at 1 January 2019	579,550	3,837	-	583,387
Impact of adoption of IFRS 16	-	-	5,016	5,016
Changes arising from financing cash flows	(9,990)	(9,389)	(426)	(19,805)
Non-cash changes	-	9,317	(1,173)	8,144
Balance as at 30 June 2019	569,560	3,765	3,417	576,742
Balance as at 1 January 2019	579,550	3,837	-	583,387
Impact of adoption of IFRS 16	-	-	5,016	5,016
Changes arising from cash flows	24,748	(18,559)	(640)	5,549
Non-cash changes	-	18,447	-	18,447
Balance as at 31 December 2019	604,298	3,725	4,376	612,399

The above statement of cash flows should be read in conjunction with the accompanying notes.

1 ACCOUNTING POLICIES

1.1 Reporting Entity

The reporting group is the NZ Banking Group which is an aggregation of the Auckland Branch (“Branch”) and Bank of China (New Zealand) Limited (“BoC NZ”), a locally incorporated subsidiary of the Bank of China (the “Overseas Bank”), whose principal activity is the provision of a range of banking products and services to business, retail, corporate and institutional customers.

The financial statements are general purpose financial reports prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (“the Order”). They were approved for issue by the Board of Directors of the Bank (the “Board”) in August 2020.

1.2 Basis of preparation

(a) Statement of compliance

The interim financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP), the requirements of the Financial Markets Conduct Act 2013 and the Order and should be read in conjunction with the Disclosure Statement for the year ended 31 December 2019.

For the purposes of complying with NZ GAAP the NZ Banking Group is a for-profit entity.

These interim financial statements comply with the requirements of International Accounting Standard 34: Interim Financial Reporting, and New Zealand equivalent to International Accounting Standard 34: Interim Financial Reporting.

(b) Basis of measurement

These interim financial statements have been prepared on a going concern basis in accordance with historical cost concepts, except by the application of fair value measurements required or allowed by relevant accounting standards.

(c) Presentation currency and rounding

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

1.3 Changes in accounting policies

The same accounting policies and methods of computation have been followed in preparing these interim financial statements as were used in preparing the financial statements for the year ended the 31st of December 2019, except as disclosed below.

The following amendments to accounting standards relevant to the Bank have not been adopted from the 1st of January 2020 and have not been applied in the preparation of these financial statements.

Interest Rate Benchmark Reform – amendments to NZ IFRS 9 *Financial Instruments*, NZ IAS 39 *Financial Instruments: Recognition and Measurement* and NZ IFRS 7 *Financial Instruments: Disclosures*

Background

Interbank offered rates (IBOR’s) play a key role in global financial markets. A wide range of financial contracts such as derivatives, bonds, loans, securitisations, and deposits are directly dependent on IBORs. The London Interbank Offered Rate (LIBOR) is one IBOR that is very prevalently used in global markets. The global financial services industry has determined that there are inherent flaws with IBOR rates due to the possibility that they can be manipulated. As a result of the lack of reliability of these IBOR rates, there are plans to phase out IBORs and move to new benchmark rates, known as alternative risk-free benchmark reference rates (RFRs) by the end of 2021.

The move away from IBOR's in preference for RFR's will most likely impact banks by:

- **Renegotiation of contracts:** Banks will have existing contracts referencing these IBOR rates. These contracts will need to be amended or renegotiated. These renegotiations could have an accounting impact on the financial asset or liability with which it is associated.
- **Hedging relationships:** Banks in hedging relationships (under NZ IFRS 9 or NZ IAS 39) will need to assess whether their hedge remains highly effective and still qualifies for hedge accounting after the change in rates.
- **Valuation models:** Any valuation model that employs a discounting technique based on an IBOR rate will need to be re-worked and adjusted to consider a more relevant and reliable RFR.

Accounting Amendments

The International Accounting Standards Board (IASB) has created a project, IBOR Reform and its Effects on Financial Reporting and divided it into two phases:

Phase 1: The IASB issued an amendment to NZ IFRS 9, NZ IAS 39, and NZ IFRS 7 in September 2019 (effective January 1, 2020). This phase deals with pre-replacement issues, most notably as it relates to hedge accounting and the assessment of whether a forecast transaction is highly probable and effectiveness testing. The amendment also introduces some additional disclosure requirements related to Reference Rate Reform and the transition away from IBORs.

Phase 2: This phase deals with issues that affect financial reporting when an IBOR is replaced with an RFR. This phase of the project is still ongoing, but the IASB plans to address issues such as determining whether a modification has occurred and the accounting implications related to that decision (modification accounting, derecognition accounting, etc.).

The Impact of Interest Rate Benchmark Reform on the Bank

The Bank has potential exposure to IBOR through its issuance of debt, related party borrowing, customer derivative positions, and all other products issued in a foreign currency. The Bank is analysing the possible effects of various scenarios and continuously monitoring further developments. The Bank intends to keep its stakeholders informed on technical and economic implications as soon as regulatory uncertainties diminish. The Bank is not currently hedge accounting but is preparing for the discounting change of customer derivatives and for possible discontinuations of interest rate benchmarks by January 2022.

2 OTHER OPERATING INCOME

\$000	Unaudited	Unaudited	Audited
	Six months ended 30-Jun-20	Six months ended 30-Jun-19	Year ended 31-Dec-19
Lending and credit facility related fee income	345	425	1,044
Fund management fee and consulting fee income	1,709	1,680	3,561
Other fees and commissions ¹	578	1,552	1,567
Gains/(losses) on FX contracts and derivatives	601	685	1,596
Total other operating income	3,233	4,342	7,768

¹ Other fees and commissions includes account management fees and transaction fees

3 PROVISION FOR CREDIT IMPAIRMENT

For the six months ended 30 June 2020 Unaudited \$000	Residential mortgages	Corporate exposures	Other exposures ¹	Total credit exposures
Financial assets and credit commitments				
<i>Collective Provision 12 months ECL</i>	412	7,195	1,590	9,197
<i>Provision for assets measured on a lifetime ECL</i>				
Collective provision lifetime ECL not credit impaired	75	-	-	75
Collective provision lifetime ECL credit impaired	-	-	-	-
Individual provision lifetime ECL credit impaired	-	3,868	-	3,868
Total provision for impairment losses	487	11,063	1,590	13,140

¹ Excludes sovereigns and central banks and includes credit commitments.

COVID-19 impact on credit performance

Our approach to incorporate the effect of COVID-19 on our Expected Credit Loss (ECL) calculations was guided by NZ IFRS 9 using the three-stage approach.

Given the relatively simple customer base, our corporate customers are primarily in essential industries, such as the food manufacturing, supply chain, utilities with indirect impact from the COVID-19. Corporate loans in real estate sectors are fully secured. There are no customers from the Agriculture or Tourism sectors. We participate in the Government Business Financing Guarantee Scheme (BFGS) to further support our corporate customers. As at 30 June 2020, the NZ Banking Group did not have any BFGS loans.

All residential mortgage loans were fully secured with policies of origination LVR of no more than 80%. The NZ Banking Group does not offer any unsecured personal loan nor credit card products. We offer residential mortgage customers to switch lending to interest only or to defer payments completely for up to six months as part of the COVID-19 response. As at 30 June 2020, the NZ Banking Group had provided mortgage repayment deferral on \$12.7 million loans, with another \$35.6 million of loans moving to interest only.

For the ECL calculation, the NZ Banking Group reviewed the lending to assess whether there had been a significant increase in credit risk that would require loans to be placed in Stage 2 or Stage 3, also taking into the consideration customer LVRs and any applicable government wage subsidy support, the NZ Banking Group concluded that it would place these COVID-19 related mortgage payment deferrals or interest only loans in Stage 1.

The following explains the changes in the gross carrying amount of financial assets during the period:

Collectively assessed ECL

For the six months ended 30 June 2020, the NZ Banking Group has a net reduction of \$0.907 million in the total provision for credit impairment. This was mainly driven by the improvement of the overall asset quality and the transfer from stage 2, detailed below:

- Collective provision 12-months ECL (Stage 1) decreased by \$0.936 million due to improvement of asset quality. Apart from the non-performing loan, there was no other overdue customers as at the reporting date.

- Collective provision lifetime ECL not credit impaired (Stage 2) decreased by \$0.159 million, due to full repayment of stage 2 loan customers. There were no corporate loans in stage 2 on the reporting date.
- Collective provision lifetime ECL credit impaired (Stage 3) was nil.

Individually assessed ECL

Individual provision lifetime ECL credit impaired (Stage 3) increased by \$188 thousand due to the Euro exchange rate appreciating against the New Zealand dollar exchange rate. There was no change on the impaired loan amount or the provision ratio over the reporting period.

At 30 June 2020, the NZ Banking Group has an impaired loan with a carrying value of €4.77 million (NZ\$8.34 million) (2019: €4.77 million, NZ\$7.94 million), gross of provisions for impairment losses. The loan is impaired on the basis of objective evidence indicating the recoverable amount of the loan is less than the carrying value. The provision for impairment loss on the loan reflects management's reasonable estimate of the expected credit loss at 30 June 2020.

The following table reconciles the opening balance to the closing balance of provision for impairment losses and shows the movement in opening balance where financial assets have transferred between provision stages during the reporting period.

For the six months ended 30 June 2020 Unaudited \$000	Collective Provision 12 months ECL	Collective provision lifetime ECL not credit impaired	Collective provision lifetime ECL credit impaired	Individual provision lifetime ECL credit impaired	Total
Residential mortgages					
Balance at beginning of period	1,418	234	-	-	1,652
Charge to income statement excluding transfer between ECL stages	(1,006)	(159)	-	-	(1,165)
<i>Movement to the opening balance due to transfer between ECL classification</i>					
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 individual provision lifetime ECL credit impaired	-	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period	-	-	-	-	-
Total provision for residential mortgages	412	75	-	-	487
Corporate exposure					
Balance at beginning of period	7,172	-	-	3,680	10,852
Charge to income statement excluding transfer between ECL stages	22	-	-	188	210
<i>Movement to the opening balance due to transfer between ECL classification</i>					
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 individual provision lifetime ECL credit impaired	-	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period	-	-	-	-	-
Total provision for corporate exposure	7,194	-	-	3,868	11,062
Other exposures¹					
Balance at beginning of period	1,542	-	-	-	1,542
Charge to income statement excluding transfer between ECL stages	48	-	-	-	48
<i>Movement to the opening balance due to transfer between ECL classification</i>					
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 individual provision lifetime ECL credit impaired	-	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period	-	-	-	-	-
Total provision for other exposures	1,590	-	-	-	1,590
Total					
Balance at beginning of period	10,133	234	-	3,680	14,047
Charge to income statement excluding transfer between ECL stages	(936)	(159)	-	188	(907)
<i>Movement to the opening balance due to transfer between ECL classification</i>					
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 individual provision lifetime ECL credit impaired	-	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period	-	-	-	-	-
Total provision for impairment losses	9,197	75	-	3,868	13,140

¹ Excludes sovereigns and central banks and includes credit commitments.

The following table shows the movement in corresponding gross carrying amounts by stages:

For the six months ended 30 June 2020 Unaudited \$000	Collective Provision 12 months ECL	Collective provision lifetime ECL not credit impaired	Collective provision lifetime ECL credit impaired	Individual provision lifetime ECL credit impaired	Total
Residential mortgages					
Balance at beginning of period	911,156	9,361	-	-	920,517
Net additions/(deletions)	91,736	(1,148)	-	-	90,588
<i>Movement to the opening balance due to transfer between ECL classification</i>					
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 individual provision lifetime ECL credit impaired	-	-	-	-	-
Impact on period end exposures transferred between stages during the period	-	-	-	-	-
Total amount for residential mortgages	1,002,892	8,213	-	-	1,011,105
Corporate exposure					
Balance at beginning of period	2,213,336	-	-	7,936	2,221,272
Net additions/(deletions)	205,147	-	-	405	205,552
<i>Movement to the opening balance due to transfer between ECL classification</i>					
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 individual provision lifetime ECL credit impaired	-	-	-	-	-
Impact on period end exposures transferred between stages during the period	-	-	-	-	-
Total amount for corporate exposure	2,418,483	-	-	8,341	2,426,824
Other exposures¹					
Balance at beginning of period	978,176	-	-	-	978,176
Net additions/(deletions)	10,810	-	-	-	10,810
<i>Movement to the opening balance due to transfer between ECL classification</i>					
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 individual provision lifetime ECL credit impaired	-	-	-	-	-
Impact on period end exposures transferred between stages during the period	-	-	-	-	-
Total amount for other exposures	988,986	-	-	-	988,986
Total					
Balance at beginning of period	4,102,668	9,361	-	7,936	4,119,965
Net additions/(deletions)	307,692	(1,148)	-	405	306,949
<i>Movement to the opening balance due to transfer between ECL classification</i>					
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 individual provision lifetime ECL credit impaired	-	-	-	-	-
Impact on period end exposures transferred between stages during the period	-	-	-	-	-
Total amount for impairment losses	4,410,360	8,213	-	8,341	4,426,914

¹ Excludes sovereigns and central banks and includes credit commitments.

4 CASH AND LIQUID ASSETS

As at \$000	Unaudited 30-Jun-20	Unaudited 30-Jun-19	Audited 31-Dec-19
Cash and balances with central banks	489,129	65,626	125,414
Current deposits in other institutions	7,166	9,540	38,027
Transaction balances with other institutions	36,252	15,624	34,719
Total cash and liquid assets	532,547	90,790	198,160

5 RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS

As at \$000	Unaudited 30-Jun-20	Unaudited 30-Jun-19	Audited 31-Dec-19
Due from other financial institutions	-	81,961	20,062
Due from related entities	22,040	17,384	148,174
Provision for impairment	(1)	(2)	(4)
Total receivables due from other financial institutions	22,039	99,343	168,232

6 LOANS AND ADVANCES

As at \$000	Unaudited 30-Jun-20	Unaudited 30-Jun-19	Audited 31-Dec-19
Gross loans and advances:	3,437,930	2,638,036	3,141,790
Housing loans	1,011,105	841,833	920,517
Corporate loans	2,424,532	1,793,052	2,218,952
Overdrafts	2,293	3,151	2,321
Provision for impairment:	(11,550)	(25,417)	(12,505)
Collective provision	(7,682)	(5,917)	(8,825)
Individually assessed provision	(3,868)	(19,500)	(3,680)
Net loans and advances	3,426,380	2,612,619	3,129,285

7 ASSET QUALITY

As at 30 June 2020 \$000	Residential mortgages	Other retail exposures	Corporate exposures	Total credit exposures
Neither past due nor impaired	1,011,105	-	2,418,483	3,429,588
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 assets	-	-	-	-
Individually impaired assets				
Balance at beginning of period	-	-	7,936	7,936
Additions	-	-	405	405
Amounts written off	-	-	-	-
Return to performing or repaid	-	-	1	1
Balance at end of period	-	-	8,342	8,342
Total gross loans and advances	1,011,105	-	2,426,825	3,437,930
Individually assessed provisions				
Balance at beginning of period	-	-	3,680	3,680
New provision	-	-	188	188
Recoveries	-	-	-	-
Write-back of impairment charges on loan	-	-	-	-
Bad debts written off	-	-	-	-
Other	-	-	-	-
Balance at end of period	-	-	3,868	3,868
Collectively assessed provisions				
Balance at beginning of period	1,652	-	7,173	8,825
New provision	(1,165)	-	22	(1,143)
Recoveries	-	-	-	-
Write-back of impairment charges on loan	-	-	-	-
Bad debts written off	-	-	-	-
Other	-	-	-	-
Balance at end of period	487	-	7,195	7,682
Total provision for credit impairment	487	-	11,063	11,550
Total net loans and advances	1,010,618	-	2,415,762	3,426,380

8 PAYABLES DUE TO OTHER FINANCIAL INSTITUTIONS

As at \$000	Unaudited 30-Jun-20	Unaudited 30-Jun-19	Audited 31-Dec-19
Due to other financial institutions	659,787	641,428	687,985
Due to related entities	1,669,497	1,052,945	1,534,230
Securities sold under agreements to repurchase from central banks	160,029	-	-
Total payables due to other financial institutions	2,489,313	1,694,373	2,222,215

9 CUSTOMER DEPOSITS

As at \$000	Unaudited 30-Jun-20	Unaudited 30-Jun-19	Audited 31-Dec-19
Term deposits	724,343	422,039	480,604
Saving/Demand deposits	47,061	73,029	44,470
Margin deposits	2,839	7,053	3,507
Total customer deposits	774,243	502,121	528,581

10 DEBT SECURITIES ON ISSUE

As at \$000	Unaudited 30-Jun-20	Unaudited 30-Jun-19	Audited 31-Dec-19
Certificates of deposits	120,000	70,000	105,000
Medium-term notes	500,000	500,000	500,000
Total debt securities issued	620,000	570,000	605,000
Debt securities issued at fair value	-	-	-
Debt securities issued at amortised cost	620,000	570,000	605,000
Total debt securities issued	620,000	570,000	605,000
Movement in debt securities issued			
Balance at beginning of period	604,298	579,550	579,550
Issuance during period	140,000	130,000	305,000
Repayments during period	(125,000)	(140,000)	(280,000)
Net effect of transaction costs and accruals	61	10	(252)
Balance at end of period	619,359	569,560	604,298

11 COMMITMENTS AND CONTINGENCIES

As at \$000	Unaudited 30-Jun-20	Unaudited 30-Jun-19	Audited 31-Dec-19
Contingent liabilities			
Letters of credit and guarantees	11,090	15,907	9,200
Credit related commitments			
Commitments to extend credit	948,783	426,686	786,988
Total contingent liabilities and credit related commitments	959,873	442,593	796,188

12 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and fair value through other comprehensive income securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the NZ Banking Group is the current bid price. Derivative contracts classified as held for trading are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity. The fair value of currency swaps and forwards are calculated using an interpolation method which is a method of constructing new data points within the range of a discrete set of known data points determined by using forward exchange market rates at the reporting date.

Fair value hierarchy of financial instruments measured at fair value

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable (level 2), and
- (c) valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable (level 3).

As at 30 June 2020 (Unaudited) \$000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	11,986	-	11,986
FVTOCI securities	165,956	-	-	165,956
Total financial assets carried at fair value	165,956	11,986	-	177,942
Financial liabilities				
Derivative financial liabilities	-	11,608	-	11,608
Total financial liabilities carried at fair value	-	11,608	-	11,608
As at 30 June 2019 (Unaudited) \$000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	5,757	-	5,757
FVTOCI securities	185,337	-	-	185,337
Total financial assets carried at fair value	185,337	5,757	-	191,094
Financial liabilities				
Derivative financial liabilities	-	4,617	-	4,617
Total financial liabilities carried at fair value	-	4,617	-	4,617
As at 31 December 2019 (Audited) \$000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	7,246	-	7,246
FVTOCI securities	118,590	-	-	118,590
Total financial assets carried at fair value	118,590	7,246	-	125,836
Financial liabilities				
Derivative financial liabilities	-	12,487	-	12,487
Total financial liabilities carried at fair value	-	12,487	-	12,487

Fair value of financial instrument not measured at fair value

New Zealand equivalent to International Financial Reporting Standard 7 Financial Instruments: Disclosure (NZ IFRS 7) requires the disclosure of fair value of those financial instruments not carried at fair value in balance sheet. 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 under current market conditions. The fair value disclosure does not cover those assets and liabilities that are not considered to be financial instruments, such as fixed assets.

The following table summarises the carrying amounts and the estimated fair values of those financial instruments not measured at fair value:

As at \$000	Carrying Amount	Fair Value Total	Unaudited 30 June 20		
			Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Financial Assets					
Cash and liquid assets	532,547	532,547	532,547	-	-
Receivables due from other financial institutions	22,039	22,039	-	22,039	-
Loans and advances	3,426,380	3,419,198	-	714,256	2,704,942
Other financial assets	9,290	9,290	-	-	9,290
Total financial assets	3,990,256	3,983,074	532,547	736,295	2,714,232
Financial liabilities					
Payable due to other financial institutions	2,489,313	2,489,887	-	1,829,857	660,030
Customer deposits	774,243	774,247	-	29,872	744,374
Debt securities on issue	619,359	643,025	-	523,525	119,500
Other financial liabilities	13,972	13,972	-	-	13,972
Total financial liabilities	3,896,887	3,921,131	-	2,383,254	1,537,876

As at \$000	Carrying Amount	Fair Value Total	Unaudited 30 June 19		
			Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Financial Assets					
Cash and liquid assets	90,790	90,790	90,790	-	-
Receivables due from other financial institutions	99,343	99,343	-	99,343	-
Loans and advances	2,612,619	2,613,699	-	838,959	1,774,740
Other financial assets	9,265	9,265	-	-	9,265
Total financial assets	2,812,017	2,813,097	90,790	938,302	1,784,004
Financial liabilities					
Payable due to other financial institutions	1,694,373	1,693,858	-	1,253,123	440,735
Customer deposits	502,121	502,027	-	124,749	377,278
Debt securities on issue	569,560	588,711	-	518,915	69,797
Other financial liabilities	6,142	6,142	-	-	6,142
Total financial liabilities	2,772,196	2,790,738	-	1,896,787	893,952

As at \$000	Carrying Amount		Audited 31 December 19		
			Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Financial Assets					
Cash and liquid assets	198,160	198,160	198,160	-	-
Receivables due from other financial institutions	168,232	168,232	-	168,232	-
Loans and advances	3,129,285	3,109,680	-	490,419	2,619,261
Other financial assets	10,387	10,387	-	-	10,387
Total financial assets	3,506,064	3,486,459	198,160	658,651	2,629,648
Financial liabilities					
Payable due to other financial institutions	2,222,215	2,221,888	-	141,679	2,080,209
Customer deposits	528,581	528,563	-	32,703	495,860
Debt securities on issue	604,298	622,574	-	518,088	104,486
Other financial liabilities	8,055	8,055	-	-	8,055
Total financial liabilities	3,363,149	3,381,080	-	692,470	2,688,610

The following methods and assumptions were used to estimate the fair values:

- **Receivable due from other financial institutions**

These assets are primarily short term in nature or are receivable on demand. In such cases the carrying amounts approximate their fair value or have been determined using discounting cash flow models based on observable market prices as appropriate.

- **FVTOCI securities**

FVTOCI securities include government bonds and treasury bills. These assets are recorded at fair value based on quoted closing market prices as at the reporting date.

- **Loans and advances**

The carrying value of loans and advances is net of allowance for impairment losses, unearned and deferred income. Floating rate loans to customers generally repriced within six months, therefore, their fair value is assumed to equate their carrying value. For fixed rate loans repricing longer than six months, the fair value is estimated by discounting the expected future cash flows based on maturity of the loans and advances, using current market interest rates of similar types of loans and advances or interest rate swap rates.

- **Derivative financial instruments**

The fair value of trading derivatives (including economic hedges), including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from observable market prices as at the reporting date, discounted cash flow models or option pricing models as appropriate.

- **Payable due to other financial institutions**

For interbank borrowing transactions, the liabilities are primarily short term in nature or payable on demand. In such cases the carrying amounts approximate their fair value or have been determined using discounting cash flow models based on observable market prices as appropriate. For deposits from financial institutions repricing within six months, the fair value is approximated as the carrying value as at the reporting date. For other financial institution deposits, the fair value is estimated by discounting the cash flow based on the maturity of the deposit, using current market rates.

- **Customers deposits**

With respect to deposits from customers, the fair value of non-interest-bearing, call and variable rate deposits and fixed rate deposits repricing within six months is approximated as the carrying value as at the reporting date. For other fixed rate term deposits, the fair value is estimated by discounting the cash flow based on the maturity of the deposit, using current market rates.

- **Debt securities on issue**

Bonds and notes are recorded at fair value based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments. For medium-term notes, it is based on observable market prices as at the

reporting date where available, otherwise alternative observable market source data is used. For certificates of deposits, the carrying amount is considered to approximate the fair value, as they are short term in nature or are receivable/payable on demand.

- **Other financial assets and liabilities**

For these balances, such as receivable and payable accrued interest, the carrying amount is considered to approximate the fair value, as they are short term in nature or are receivable/payable on demand.

13 RELATED PARTY TRANSACTIONS

The NZ Banking Group undertakes transactions with BoC and its controlled entities (the “Overseas Banking Group”).

As at the 30th of June 2020, the NZ Banking Group had no controlled entities.

Transactions with related parties

\$000	Unaudited	Unaudited	Audited
	Six months ended 30-Jun-20	Six months ended 30-Jun-19	Year ended 31-Dec-19
Interest income received from Overseas Bank	892	22	702
Interest income from other controlled entities of the Overseas Banking Group	15	15	24
Interest expense paid to Overseas Bank	14,087	10,837	24,105
Interest expense paid to other controlled entities of the Overseas Banking Group	2,973	236	2,539
Net non-interest income received from Overseas Bank	(1,459)	60	-
Net non-interest income received from other controlled entities of the Overseas Banking Group	4	14	34
Operating expenses paid to Overseas Bank	62	1	95

There were no debts with any related parties written off or forgiven during the six months ended the 30th of June 2020 or during the year ended 31st of December 2019.

Balances with related parties

As at \$000	Unaudited	Unaudited	Audited
	30-Jun-20	30-Jun-19	31-Dec-19
Due from Overseas Bank	59,934	31,544	196,766
Due from other controlled entities of the Overseas Banking Group	6,098	8,767	6,079
Total related party assets	66,032	40,311	202,845
Due to Overseas Bank	1,490,612	812,206	1,536,770
Due to other controlled entities of the Overseas Banking Group	191,201	245,217	9,601
Total related party liabilities	1,681,813	1,057,423	1,546,371

No provisions for impairment losses were recognised in respect of loans given to related parties as at the 30th of June 2020 and the 31st of December 2019.

The NZ Banking Group undertakes transactions, loan finance and current account banking facilities with the Overseas Bank and other members of the Overseas Banking Group on normal commercial terms and are settled in accordance with the terms of the arrangement. The interest earned on these loans and interest paid on deposits are at market rates. Loans and borrowings from related parties are unsecured.

14 CONCENTRATION OF CREDIT EXPOSURES

The NZ Banking Group's concentrations of credit exposures arise where the NZ Banking Group is exposed to risk in activities or industries of a similar nature, and in particular geographies. Australia and New Zealand Standard Industrial Classification (ANZSIC) 2006 codes have been used as the basis for disclosing customer and industry sectors. The credit concentration is monitored as part of the NZ Banking Group's credit risk management framework on a regular basis.

The analysis by industry and by geographical location is as follows:

As at 30 June 2020 \$000	Cash and liquid assets	Due from other financial institutions	Loans and advances	FVTOCI securities	Derivative assets	Other financial assets	Total (on- balance sheet)	Credit commitments and contingent liabilities
Industry sector								
Agriculture	-	-	-	-	-	-	-	-
Forestry and Fishing	-	-	77,417	-	-	48	77,465	28,362
Mining	-	-	200,000	-	-	-	200,000	-
Manufacturing	-	-	219,084	-	2,018	482	221,584	249,076
Electricity, gas, water and waste services	-	-	424,800	-	1,978	34	426,812	275,200
Construction	-	-	336,116	-	-	404	336,520	52,165
Wholesale trade	-	-	43,294	-	406	294	43,994	11,983
Retail trade	-	-	91,192	-	-	25	91,217	80,026
Accommodation and food services	-	-	21,113	-	-	21	21,134	58
Transport, postal and warehousing	-	-	97,686	-	-	17	97,703	54,096
Information media and telecommunications	-	-	91,800	-	2,067	-	93,867	-
Financial and insurance services	532,547	22,039	41,442	165,957	2,063	1,537	765,585	3,120
Rental, hiring and real estate services	-	-	572,293	-	3,454	497	576,244	108,868
Professional, scientific and technical services	-	-	-	-	-	-	-	-
Administrative and support services	-	-	17,000	-	-	63	17,063	-
Public administration and safety	-	-	-	-	-	-	-	63,292
Education and training	-	-	-	-	-	-	-	-
Health care and social assistance	-	-	191,168	-	-	7	191,175	23,832
Arts and recreation services	-	-	-	-	-	-	-	-
Personal lending	-	-	1,011,105	-	-	1,522	1,012,627	9,761
Other Services	-	-	2,420	-	-	4,339	6,759	34
Subtotal	532,547	22,039	3,437,930	165,957	11,986	9,290	4,179,749	959,873
Provisions for impairment losses on financial assets and other credit commitments	-	-	11,550	1	-	-	11,551	1,589
Total credit exposures	532,547	22,039	3,426,380	165,956	11,986	9,290	4,168,198	958,284
Geographic area								
New Zealand	492,266	-	3,327,183	165,956	9,923	9,197	4,004,525	906,916
Overseas	40,281	22,039	99,197	-	2,063	93	163,673	51,368
Total credit exposures	532,547	22,039	3,426,380	165,956	11,986	9,290	4,168,198	958,284

15 CONCENTRATION OF FUNDING

The NZ Banking Groups 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 customer and industry sector and in terms of geographical area.

The analysis by industry and by geographical location is as follows:

As at \$000	Unaudited 30-Jun-20
Funding comprises	
Payable due to other financial institutions	2,489,313
Deposits from customers	774,243
Debt securities issued	619,359
Total funding	3,882,915
Concentration of funding by industry sector	
Agriculture, Forestry and Fishing	7,555
Mining	40,200
Manufacturing	80,525
Electricity, Gas, Water and Waste Services	50,074
Construction	21,311
Wholesale trade	11,237
Retail trade	5,001
Accommodation and Food Services	45,099
Transport, Postal and Warehousing	60,711
Financial and Insurance Services	3,108,671
Rental, Hiring and Real Estate Services	106,853
Professional, Scientific and Technical Services	206,319
Administrative and Support Services	814
Public Administration and safety	382
Education and Training	46,100
Health Care and Social Assistance	35,000
Households	56,335
Other Services	728
Total funding	3,882,915
Concentration of funding by geographical location	
New Zealand	2,160,354
China	1,717,210
Other countries	5,351
Total funding	3,882,915

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

Funds management and other fiduciary activities

There has been no material change in the nature of our Fund management and other fiduciary activities since the last reporting period.

Financial services provided by the Bank to entities which are involved in trust, custodial, funds management and other fiduciary activities are provided on arm's length terms and conditions and at fair value.

The Bank did not purchase assets from any member of the Banking group during the reporting period.

The Bank does not conduct any insurance business. The Bank is also not involved in:

- (1) The establishment, marketing, or sponsorship of trust, custodial activities;
- (2) The origination of securitised assets; and the marketing or servicing of securitisation schemes; and the marketing and distribution of insurance products.

17 RISK MANAGEMENT

There have been no material changes to the Banking Group's policies for managing risk, or material exposures to new categories of risk since previous Disclosure Statement.

Additional mortgage information

Residential mortgages by loan-to-valuation ratio

As at 30 June 2020	Does not exceed 80%	Exceeds 80% and not 90%	Exceed 90%	Total
Loan-to-valuation ratio				
On-balance sheet exposures	1,006,553	1,716	4,358	1,012,627
Undrawn commitments and other off-balance sheet exposures	9,761	-	-	9,761
Value of exposures	1,016,314	1,716	4,358	1,022,388

The information in the above table relates to the NZ Banking Group and is in respect of the total residential mortgage loans derived in accordance with the definition of loan-to-valuation ratio specified in the Reserve Bank document 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 \$000	30-Jun-20
Total of Residential Mortgages amounts disclosed in table for on-balance sheet exposures	1,012,140
Less: Accrued interest	(1,522)
Add: Provision for impairment losses	487
Housing loans (as disclosed in Note 6) and Residential mortgages - total gross loans and advances (as disclosed in Note 7)	1,011,105
Add: Off-balance sheet exposures	9,761
Total Residential mortgages	1,020,866

Market risk

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

As at 30 June 2020 \$000	End-period capital charge		Peak end-of-day capital charge	
	Implied risk weighted exposure	Aggregated capital charge	Implied risk weighted exposure	Aggregated capital charge
Interest rate risk	42,404	3,392	72,203	5,776
Foreign currency risk	722	58	1,056	84
Equity risk	-	-	-	-
Total	43,126	3,450	73,259	5,860

Interest rate risk

Interest rate risk is defined as the risk of loss to the NZ Banking Group arising from adverse movements in market interest rates.

The NZ Banking Group manages its exposure to interest rate risk in accordance with the NZ Banking Group's relevant market risk management policies and procedures. The objective of these documents is to support the delivery of the NZ Banking Group's financial targets whilst protecting future financial security.

Interest rate risk arises mainly from mismatches in the repricing periods of financial assets and liabilities. The NZ Banking Group manages interest rate risk primarily through repricing gap analysis. Gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that mature or must be repriced within certain periods. The NZ Banking Group also uses the data generated by repricing gap analysis to perform sensitivity analysis, which provides relevant information in adjusting the repricing profile of interest-earning assets and interest-bearing liabilities. The NZ Banking Group closely follows local and foreign currency interest rate trends and where possible promptly adjusts the interest rates of local and foreign currency deposits and loans in order to reduce interest rate risk.

The NZ Banking Group's interest repricing gap analysis as at 30th of June 2020 is as follows:

As at 30 June 2020 (Unaudited) \$000	Up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years	Non-interest bearing	Total
Financial Assets							
Cash and liquid assets	532,547	-	-	-	-	-	532,547
Receivables due from other financial institutions	17,686	4,261	-	-	-	92	22,039
Derivative assets	-	-	-	-	-	11,986	11,986
FVTOCI securities	-	-	63,066	-	100,705	2,185	165,956
Gross loans and advances	2,425,409	291,385	465,181	250,742	5,213	-	3,437,930
Deductions from loans and advances	-	-	-	-	-	(11,550)	(11,550)
Property and equipment	-	-	-	-	-	2,364	2,364
Deferred tax assets	-	-	-	-	-	5,567	5,567
Other assets	-	-	-	-	-	20,668	20,668
Total assets	2,975,642	295,646	528,247	250,742	105,918	31,312	4,187,507
Financial Liabilities							
Payables due to other financial institutions	2,076,275	155,084	209,870	15,000	20,000	13,084	2,489,313
Derivative liabilities	-	-	-	-	-	11,608	11,608
Customer deposits	572,396	146,970	27,758	2,110	-	25,009	774,243
Debt securities on issue	219,840	19,921	29,681	-	349,917	-	619,359
Current tax liabilities	-	-	-	-	-	3,480	3,480
Deferred tax liabilities	-	-	-	-	-	2	2
Other liabilities	-	-	-	-	-	25,354	25,354
Total liabilities	2,868,511	321,975	267,309	17,110	369,917	78,537	3,923,359
Net Gap	107,131	(26,329)	260,938	233,632	(263,999)	(47,225)	264,148

Liquidity portfolio management

The NZ Bank Group held the following financial assets for the purpose of managing liquidity risk. Liquid assets include high quality assets readily convertible to cash to meet the NZ Banking Group's liquidity requirements. In management's opinion, liquidity is sufficient to meet the Bank's present requirements:

As at \$000	Unaudited 30-Jun-20
Cash and cash equivalents:	
Cash and liquid assets	532,547
Receivables due from other financial institutions	22,039
Government securities	165,956
Total liquidity portfolio	720,542

Contractual maturity analysis of financial liabilities

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

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

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.

As at 30 June 2020 \$000	On demand	Up to 3 months and up to 6 months	Over 3 months and up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years	Total
Non-derivative financial liabilities							
Payable due to other financial institutions	155,024	1,089,022	263,273	329,954	427,276	244,592	2,509,141
Customer deposits	49,218	551,167	147,479	27,889	2,113	-	777,866
Debt securities on issue	-	70,551	27,630	188,155	14,210	360,120	660,666
Lease liabilities	72	159	239	478	956	2,264	4,168
Total non-derivative financial liabilities	204,314	1,710,899	438,621	546,476	444,555	606,976	3,951,841
Derivative financial liabilities							
Net settled	-	6,289	-	-	-	-	6,289
Gross settled – cash inflow	-	132,191	-	-	-	-	132,191
Gross settled – cash outflow	-	133,197	-	-	-	-	133,197
Total derivative financial liabilities	-	7,295	-	-	-	-	7,295
Total financial liabilities	204,314	1,718,194	438,621	546,476	444,555	606,976	3,959,136
Off balance sheet commitments and contingent liabilities							
Letters of credit and guarantees	11,090	-	-	-	-	-	11,090
Commitments to extent credit	948,783	-	-	-	-	-	948,783
Total off-balance sheet commitments and contingent liabilities	959,873	-	-	-	-	-	959,873

18 CAPITAL ADEQUACY

Overseas Banking Group capital adequacy requirements

The Overseas Banking Group's capital adequacy ratios are calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations promulgated by the China Banking and Insurance Regulatory Commission ("CBIRC"). With the approval of the CBIRC, the Overseas Banking Group adopts the advanced capital measurement approaches, which include Foundation Internal Ratings-based Approach for corporate exposures, Internal Ratings-based Approach for retail exposures, Internal Models Approach for market risk and Standardised Approach for operational risk. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated adopting non-advanced approaches.

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

The Overseas Bank and the Overseas Banking Group each met the capital requirements imposed on them by the CBIRC as at the 31st of March 2020, the latest reporting date.

The table below summarises the Overseas Bank's and Overseas Banking Group's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations promulgated by the CBIRC.

As at	31-Mar-20	31-Dec-19
Overseas Banking Group		
Common equity tier 1 capital ratio	11.24%	11.30%
Tier 1 capital ratio	12.80%	12.79%
Total capital ratio	15.34%	15.59%
Overseas Bank		
Common equity tier 1 capital ratio	10.94%	10.99%
Tier 1 capital ratio	12.66%	12.62%
Total capital ratio	15.48%	15.72%

19 OTHER INFORMATION OF THE OVERSEAS BANKING GROUP

As at	31-Mar-20
Profitability	
Net profit after tax for the 3 month period (RMB millions)	56,322
Net profit after tax for the 12 month period as a percentage of average total assets	0.96%
Size	
Total assets (RMB millions)	24,024,645
Percentage change in total assets over 12 month period	5.51%
As at	31-Dec-19
Asset quality	
Total individually impaired assets (RMB millions)	178,235
Total individually impaired assets as a percentage of total assets	0.78%
Total individual credit impairment allowance (RMB millions)	136,544
Total individually assessed provisions as a percentage of total gross individually impaired assets	76.61%
Total collective credit impairment allowance (RMB millions)	188,816
Total assets (RMB millions)	22,769,744

Note: the most recent publicly available data for Profitability was the 30th of March 2020, and Asset Quality was the 31st of December 2019.

20 EVENTS SUBSEQUENT TO THE REPORTING DATE

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

Independent Auditor's Review Report To the Directors of Bank of China Limited

We have reviewed pages 7 to 31 of the Disclosure Statement of Bank of China 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 the Bank of China Limited group. The interim financial statements comprise the statement of financial position as at 30 June 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 Bank of China Limited ("the Directors"), as a body. 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 Bank of China Limited, 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 Bank of China Limited, 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 3, 7, 11, 14, 15, 16, 17, 18, 19 and 20 ("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 Notes 17 and 18) 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 the 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 the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 17 and 18 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.

Basis for conclusion

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 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 auditor of the NZ Banking Group. We have no other relationship with, or interest in, the NZ Banking Group.

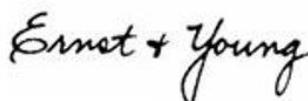
Emphasis of Matter - Specific Loan Provision

As explained in Note 3 to the interim financial statements, the NZ Banking Group has identified a loan with carrying value of \$8.34m, gross of impairment losses, as impaired. A specific provision of \$3.87m has been recorded against this loan. However, as explained in Note 3, there is a high degree of judgement and uncertainty involved in this provision and the loss ultimately suffered by the NZ Banking Group may be significantly greater or less than the amount provided. Our conclusion is not modified in respect of this matter.

Conclusion

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

- the interim financial statements on pages 7 to 31 (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 related to credit and market risk exposures and capital adequacy disclosed in Notes 17 and 18) 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 Notes 17 and 18) 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.



Chartered Accountants

26 August 2020
Auckland