



Bank of China

New Zealand Banking Group

Disclosure Statement for the six months ended

30 June 2021

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1 GENERAL INFORMATION AND DEFINITIONS

The Disclosure Statement is for the six months ended the 30th of June 2021. 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 Auckland 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

Liu Jin was appointed as the Vice Chairman and President of the Overseas Bank on the 20th of May 2021 with the commencement date of the 16th of June 2021.

With the exception of the above, there have been no other changes to the composition of the Board since the 31st of December 2020.

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

Liu Liange (Chairman of the Board), Liu Jin (Vice Chairman & President), Wang Wei, Lin Jingzhen, Zhao Jie, Xiao Lihong, Wang Xiaoya, Zhang Jiangang, Chen Jianbo, Wang Changyun, Angela Chao, Jiang Guohua, Martin Cheung Kong Liao, Chen Chunhua and Chui Sai Peng Jose.

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 Bank's auditor is PricewaterhouseCoopers. Their address is PwC Tower, Level 27, 15 Customs Street West, 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 Overseas 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 Chief Executive Officer of the Auckland Branch 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 Chief Executive Officer of the Auckland Branch believe, after due enquiry, that, over the six months ended the 30th of June 2021:

- (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 30th of August 2021 and has been signed by Mr. Lei Wang as the Chief Executive Officer of the Auckland Branch and as agent authorised in writing by each director of the Overseas Bank.



Lei Wang

Chief Executive Officer of the Auckland Branch

FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

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STATEMENT OF COMPREHENSIVE INCOME

| \$000 | Note | Unaudited | Unaudited | Audited |
|--|------|------------------------------|------------------------------|------------------------|
| | | Six months ended 30/06/21 | Six months ended 30/06/20 | Year ended 31/12/20 |
| Interest income | | 60,266 | 64,858 | 127,069 |
| Interest expense | | (27,015) | (40,604) | (73,660) |
| Net interest income | | 33,251 | 24,254 | 53,409 |
| Other operating income | 2 | 4,019 | 3,233 | 6,054 |
| Net operating income | | 37,270 | 27,487 | 59,463 |
| Operating expenses | | (11,105) | (9,762) | (20,831) |
| Impairment (charges)/benefits | 3 | (2,505) | 907 | (3,036) |
| Profit before income tax | | 23,660 | 18,632 | 35,596 |
| Income tax expense | | (6,705) | (5,247) | (9,689) |
| Profit after income tax | | 16,955 | 13,385 | 25,907 |
| Other comprehensive income/(expense), 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) | | (584) | 1,549 | 1,403 |
| Total other comprehensive income/(expense) for the period, net of tax | | (584) | 1,549 | 1,403 |
| Total comprehensive income for the period | | 16,371 | 14,934 | 27,310 |

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

STATEMENT OF FINANCIAL POSITION

| As at \$000 | Note | Unaudited 30/06/21 | Unaudited 30/06/20 | Audited 31/12/20 |
|--|------|-----------------------|-----------------------|---------------------|
| Assets | | | | |
| Cash and liquid assets | 4 | 624,909 | 532,547 | 765,932 |
| Receivables due from other financial institutions | 5 | - | 22,039 | 5,728 |
| Derivative assets | | 6,301 | 11,986 | 8,139 |
| FVTOCI securities | | 98,022 | 165,956 | 162,029 |
| Loans and advances | 6 | 4,307,183 | 3,426,380 | 3,993,526 |
| Other assets | | 19,852 | 16,458 | 18,808 |
| Right-of-use assets | | 3,129 | 4,149 | 3,673 |
| Deferred tax assets | | 6,517 | 5,567 | 6,186 |
| Property and equipment | | 1,681 | 2,364 | 1,963 |
| Intangible assets | | 121 | 60 | 128 |
| Total assets | | 5,067,715 | 4,187,506 | 4,966,112 |
| Liabilities | | | | |
| Customer deposits | 8 | 945,658 | 774,243 | 861,602 |
| Payables due to other financial institutions | 9 | 3,449,717 | 2,489,313 | 3,253,806 |
| Derivative liabilities | | 4,559 | 11,608 | 14,735 |
| Current tax liabilities | | 3,232 | 3,480 | 6,100 |
| Debt securities on issue | 10 | 349,940 | 619,359 | 529,763 |
| Other liabilities | | 18,602 | 21,366 | 20,087 |
| Deferred tax liabilities | | - | 2 | - |
| Lease liabilities | | 3,112 | 3,988 | 3,495 |
| Total liabilities | | 4,774,820 | 3,923,359 | 4,689,588 |
| Net assets | | 292,895 | 264,147 | 276,524 |
| Equity | | | | |
| Head office account | | | | |
| Retained earnings | | 14,095 | 1,708 | 5,642 |
| Total Head office account | | 14,095 | 1,708 | 5,642 |
| Contributed equity | | 223,307 | 223,307 | 223,307 |
| Reserves | | 832 | 1,562 | 1,416 |
| Retained earnings | | 54,661 | 37,570 | 46,159 |
| Total equity | | 292,895 | 264,147 | 276,524 |
| Total interest earning and discount bearing assets | | 5,046,246 | 4,158,380 | 4,941,288 |
| Total interest and discount bearing liabilities | | 4,706,526 | 3,844,822 | 4,615,221 |

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



Lei Wang
Chief Executive Officer of the Auckland Branch

30 August 2021

For and on behalf of the Directors of the Bank of China Limited 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 2021 (Unaudited) \$000 | Branch Head Office Account | | Other members of the NZ Banking Group | | | Total equity |
|--|----------------------------|-------------------|---------------------------------------|------------|-------------------|----------------|
| | Branch capital | Retained earnings | Contributed equity | Reserves | Retained earnings | |
| Balance as at 1 January 2021 | - | 5,642 | 223,307 | 1,416 | 46,159 | 276,524 |
| Comprehensive income/(expense) | | | | | | |
| Profit after income tax | - | 8,453 | - | - | 8,502 | 16,955 |
| Other comprehensive income/(expense), net of tax | - | - | - | (584) | - | (584) |
| Total comprehensive income/(expense) | - | 8,453 | - | (584) | 8,502 | 16,371 |
| Balance as at 30 June 2021 | - | 14,095 | 223,307 | 832 | 54,661 | 292,895 |

| 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) | | | | | | |
| Profit after income tax | - | 2,569 | - | - | 10,815 | 13,384 |
| Other comprehensive income/(expense), 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 year ended 31 December 2020 (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 2020 | - | (861) | 223,307 | 13 | 26,755 | 249,214 |
| Comprehensive income/(expense) | | | | | | |
| Profit after income tax | - | 6,503 | - | - | 19,404 | 25,907 |
| Other comprehensive income/(expense), net of tax | - | - | - | 1,403 | - | 1,403 |
| Total comprehensive income/(expense) | - | 6,503 | - | 1,403 | 19,404 | 27,310 |
| Balance as at 31 December 2020 | - | 5,642 | 223,307 | 1,416 | 46,159 | 276,524 |

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

| For the period ended \$000 | Note | Unaudited 30/06/21 | Unaudited 30/06/20 | Audited 31/12/20 |
|--|------|-----------------------|-----------------------|---------------------|
| Cash flows from operating activities | | | | |
| Interest received | | 61,105 | 68,284 | 132,561 |
| Interest paid | | (28,329) | (43,331) | (81,349) |
| Other operating income received | | (4,260) | 1,779 | 6,393 |
| Operating expenses paid | | (10,141) | (13,582) | (20,307) |
| Income tax paid | | (9,676) | (10,044) | (12,415) |
| Net cash flows from operating activities before changes in operating assets and liabilities | | 8,699 | 3,106 | 24,883 |
| Net changes in operating assets and liabilities: | | | | |
| Net change in receivables due from other financial institutions | | 5,719 | 145,820 | 162,048 |
| Net change in FVTOCI securities | | 63,195 | (45,233) | (41,524) |
| Net change in loans and advances | | (316,085) | (296,139) | (866,595) |
| Net change in other assets | | (1,875) | (910) | (2,218) |
| Net change in customer deposits | | 84,056 | 245,662 | 333,021 |
| Net change in payables due to other financial institutions | | 196,662 | 268,375 | 1,033,163 |
| Net change in other liabilities | | (1,001) | (900) | 634 |
| Net change in operating assets and liabilities | | 30,671 | 316,675 | 618,529 |
| Net cash flows from operating activities | | 39,370 | 319,781 | 643,412 |
| Cash flows from investing activities | | | | |
| Purchase of property and equipment | | (154) | (25) | (144) |
| Net cash flows from investing activities | | (154) | (25) | (144) |
| Cash flows from financing activities | | | | |
| Issuance of debt securities | | - | 140,000 | 140,000 |
| Repayments of debt securities | | (179,822) | (124,939) | (214,535) |
| Principal elements of lease payments | | (417) | (430) | (961) |
| Net cash flows from financing activities | | (180,239) | 14,631 | (75,496) |
| Net change in cash and cash equivalents | | (141,023) | 334,387 | 567,772 |
| Cash and cash equivalents at beginning of the period | | 765,932 | 198,160 | 198,160 |
| Cash and cash equivalents at end of the period | 4 | 624,909 | 532,547 | 765,932 |

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") of Bank of China Limited and Bank of China (New Zealand) Limited ("BoC NZ"), a locally incorporated subsidiary of the Bank of China Limited (the "Overseas Bank").

1.2 Basis of preparation

These condensed interim financial statements of the NZ Banking Group (the "financial statements") have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP), the New Zealand equivalent to International Accounting Standard 34: *Interim Financial Reporting* and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) ("the Order") and should be read in conjunction with the Disclosure Statement for the year ended the 31st of December 2020.

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

These 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*.

1.3 Basis of measurement

These financial statements have been prepared on a going concern basis in accordance with historical cost concepts, except that the following assets and liabilities are stated at their fair value:

- derivative financial instruments; and
- financial instruments measured at fair value through other comprehensive income.

1.4 Presentation currency and rounding

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

1.5 Changes in accounting policy

The same accounting policies and methods of computation have been followed in preparing these financial statements as were used in preparing the financial statements for the year ended the 31st of December 2020.

1.6 Critical accounting estimates and judgements

The preparation of these financial statements requires the use of critical estimates, judgements and assumptions that affect the reported assets, liabilities, revenue and expenses. Information regarding the critical estimates, judgements and assumptions is provided in the financial statements for the year ended 31 December 2020.

The estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates. Except where explained below, there have been no significant changes to the accounting estimates, judgements and assumptions used in preparing the interim financial statements compared to those applied in the preparation of the Disclosure Statement for the year ended 31 December 2020.

The NZ Banking Group has considered the impact of COVID-19 in determining the estimates, judgements and assumptions used to prepare the financial statements. Consistent with the prior period the most significant area impacted by COVID-19 is the measurement of the provision for impairment. Refer to Note 7 for further details.

1.7 Restatement of prior year comparatives

There was a classification error identified and corrected in the comparative information of the statement of cash flows for the six months ended 30th of June 2020 in relation to interest paid on debt securities. This amount was incorrectly classified as interest paid on debt securities within cash flows from financing activities rather than as interest paid within cash flows from operating activities. This change to comparative information for the six months ended 30th of June 2020 has resulted in interest paid on debt securities within cash flows from financing activities being restated from (\$8,963 thousand) to \$nil and interest paid within cash flows from operating activities being restated from (\$34,368 thousand) to (\$43,331 thousand).

The impact of this correction had no impact on cash and cash equivalents, net assets or total comprehensive income previously reported in the prior period for the six months ended 30th of June 2020.

2 OTHER OPERATING INCOME

| \$000 | Unaudited | Unaudited | Audited |
|--|------------------------------|------------------------------|------------------------|
| | Six months ended 30/06/21 | Six months ended 30/06/20 | Year ended 31/12/20 |
| Lending and credit facility related fee income | 244 | 345 | 612 |
| Fund management fee and consulting fee income | 1,787 | 1,709 | 3,749 |
| Other fees and commissions ¹ | 108 | 578 | 744 |
| Net gains/(losses) on financial instruments | 1,880 | 601 | 949 |
| Total other operating income | 4,019 | 3,233 | 6,054 |

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

3 IMPAIRMENT (CHARGES)/BENEFITS

| For the six months ended 30 June 2021 (Unaudited) \$000 | Residential mortgages | Corporate exposures | Credit related | Total credit exposures |
|--|--------------------------|------------------------|-------------------------------------|---------------------------|
| | | | commitments and contingencies | |
| Movement in collective provision | (228) | (2,201) | (76) | (2,505) |
| Movement in individually assessed provision | - | - | - | - |
| Bad debts written-off directly to the profit or loss | - | - | - | - |
| Bad debts recovered | - | - | - | - |
| Total Impairment (charges)/benefits | (228) | (2,201) | (76) | (2,505) |
| For the six months ended 30 June 2020 (Unaudited) \$000 | | | | |
| Movement in collective provision | 1,165 | (22) | (48) | 1,095 |
| Movement in individually assessed provision | - | (188) | - | (188) |
| Bad debts written-off directly to the profit or loss | - | - | - | - |
| Bad debts recovered | - | - | - | - |
| Total Impairment (charges)/benefits | 1,165 | (210) | (48) | 907 |
| For the year ended 31 December 2020 \$000 | | | | |
| Movement in collective provision | 993 | (4,940) | 394 | (3,553) |
| Movement in individually assessed provision | - | 517 | - | 517 |
| Bad debts written-off directly to the profit or loss | - | - | - | - |
| Bad debts recovered | - | - | - | - |
| Total Impairment (charges)/benefits | 993 | (4,423) | 394 | (3,036) |

4 CASH AND LIQUID ASSETS

| As at \$000 | Unaudited 30/06/21 | Unaudited 30/06/20 | Audited 31/12/20 |
|--|-----------------------|-----------------------|---------------------|
| Cash and balances with central banks | 604,108 | 489,129 | 708,310 |
| Current deposits in other institutions | 7,271 | 7,166 | 1,392 |
| Transaction balances with other institutions | 13,530 | 36,252 | 56,230 |
| Total cash and liquid assets | 624,909 | 532,547 | 765,932 |

5 RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS

| As at \$000 | Unaudited 30/06/21 | Unaudited 30/06/20 | Audited 31/12/20 |
|--|-----------------------|-----------------------|---------------------|
| Due from other financial institutions | - | - | - |
| Due from related entities | - | 22,040 | 5,728 |
| Provision for impairment | - | (1) | - |
| Total receivables due from other financial institutions | - | 22,039 | 5,728 |

6 LOANS AND ADVANCES

| As at \$000 | Unaudited 30/06/21 | Unaudited 30/06/20 | Audited 31/12/20 |
|----------------------------------|-----------------------|-----------------------|---------------------|
| Gross loans and advances: | 4,324,469 | 3,437,930 | 4,008,385 |
| Housing loans | 1,437,032 | 1,011,105 | 1,241,721 |
| Corporate loans | 2,887,437 | 2,424,532 | 2,764,399 |
| Overdrafts | - | 2,293 | 2,265 |
| Provision for impairment: | (17,286) | (11,550) | (14,859) |
| Collective provision | (14,132) | (7,682) | (11,696) |
| Individually assessed provision | (3,154) | (3,868) | (3,163) |
| Net loans and advances | 4,307,183 | 3,426,380 | 3,993,526 |

7 ASSET QUALITY

The NZ Banking Group has individually assessed provisions and collectively assessed provisions. Individually assessed provisions are made against loans and advances that exceed specified thresholds and which have been individually assessed as impaired. If the NZ Banking Group determines that no objective evidence of impairment exists for an individually assessed loan, it includes that loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

a) Credit quality information

| As at 30 June 2021 (Unaudited) \$000 | Residential mortgages | Corporate exposures | Other exposures | Total |
|--|--------------------------|------------------------|--------------------|------------------|
| Neither past due nor impaired | 1,425,921 | 2,879,623 | - | 4,305,544 |
| Past due but not impaired | | | | |
| Less than 30 days past due | 11,111 | 2,475 | - | 13,586 |
| 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 assets | 11,111 | 2,475 | - | 13,586 |
| Individually impaired assets | | | | |
| Balance at beginning of the year | - | 5,354 | - | 5,354 |
| Additions | - | - | - | - |
| Amounts written off | - | - | - | - |
| Deletions/recoveries | - | (15) | - | (15) |
| Balance at end of the year | - | 5,339 | - | 5,339 |
| Total gross loans and advances | 1,437,032 | 2,887,437 | - | 4,324,469 |
| Individually assessed provisions | | | | |
| Balance at beginning of the year | - | 3,163 | - | 3,163 |
| Charge/(credit) to the statement of comprehensive income | - | - | - | - |
| Amounts written off | - | - | - | - |
| Recoveries | - | - | - | - |
| Reversal of previous impairment losses | - | - | - | - |
| Other movements | - | (9) | - | (9) |
| Balance at end of the year | - | 3,154 | - | 3,154 |
| Collectively assessed provisions | | | | |
| Balance at beginning of the year | 659 | 11,037 | - | 11,696 |
| Charge/(credit) to the statement of comprehensive income | 228 | 2,208 | - | 2,436 |
| Amounts written off | - | - | - | - |
| Recoveries | - | - | - | - |
| Reversal of previous impairment losses | - | - | - | - |
| Other movements | - | - | - | - |
| Balance at end of the year | 887 | 13,245 | - | 14,132 |
| Total provision for credit impairment | 887 | 16,399 | - | 17,286 |
| Total net loans and advances | 1,436,145 | 2,871,038 | - | 4,307,183 |

The NZ Banking Group had nil undrawn commitments (2020: \$nil) to counterparties for whom drawn balances are classified as individually impaired. The NZ Banking Group does not have other assets under administration as at the 30th of June 2021 (2020: nil).

b) Movement in loans and advances

| For the six months ended 30 June 2021 (Unaudited) \$000 | Stage 1 12 months ECL | Stage 2 ECL not credit impaired | Stage 3 Lifetime ECL credit impaired | Purchased credit- impaired | Total |
|--|-----------------------------|---------------------------------------|--|-------------------------------|------------------|
| Residential mortgages | | | | | |
| Gross balance at beginning of period | 1,235,766 | 5,955 | - | - | 1,241,721 |
| Change due to transfers between ECL stages | (647) | 647 | - | - | - |
| Additions | 331,866 | - | - | - | 331,866 |
| Deletions | (136,360) | (195) | - | - | (136,555) |
| Amounts written off | - | - | - | - | - |
| Gross balance as at end of period | 1,430,625 | 6,407 | - | - | 1,437,032 |
| Corporate exposures | | | | | |
| Gross balance at beginning of period | 2,761,310 | - | 5,354 | - | 2,766,664 |
| Change due to transfers between ECL stages | - | - | - | - | - |
| Additions | 723,804 | - | - | - | 723,804 |
| Deletions | (603,016) | - | (15) | - | (603,031) |
| Amounts written off | - | - | - | - | - |
| Gross balance as at end of period | 2,882,098 | - | 5,339 | - | 2,887,437 |
| Other exposures | | | | | |
| Gross balance at beginning of period | - | - | - | - | - |
| Change due to transfers between ECL stages | - | - | - | - | - |
| Additions | - | - | - | - | - |
| Deletions | - | - | - | - | - |
| Amounts written off | - | - | - | - | - |
| Gross balance as at end of period | - | - | - | - | - |
| Total | | | | | |
| Gross balance at beginning of period | 3,997,076 | 5,955 | 5,354 | - | 4,008,385 |
| Change due to transfers between ECL stages | (647) | 647 | - | - | - |
| Additions | 1,055,670 | - | - | - | 1,055,670 |
| Deletions | (739,376) | (195) | (15) | - | (739,586) |
| Amounts written off | - | - | - | - | - |
| Gross balance as at end of period | 4,312,723 | 6,407 | 5,339 | - | 4,324,469 |

c) Movement in provision for impairment

| For the six months ended 30 June 2021 (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 | 603 | 56 | - | - | 659 |
| Changes to the opening balance due to transfer between ECL stages: | | | | | |
| 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 | - | - | - | - | - |
| Charge/(credit) to profit or loss due to new and increased provisions (net of releases) | 129 | 99 | - | - | 228 |
| Amounts written off | - | - | - | - | - |
| Recoveries of amounts previously written off | - | - | - | - | - |
| Other movements | - | - | - | - | - |
| Total provision for residential mortgages | 732 | 155 | - | - | 887 |
| Corporate exposures | | | | | |
| Balance at beginning of period | 11,037 | - | - | 3,163 | 14,200 |
| Changes to the opening balance due to transfer between ECL stages: | | | | | |
| 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 | - | - | - | - | - |
| Charge/(credit) to profit or loss due to new and increased provisions (net of releases) | 2,201 | - | - | - | 2,201 |
| Amounts written off | - | - | - | - | - |
| Recoveries of amounts previously written off | - | - | - | - | - |
| Other movements | 7 | - | - | (9) | (2) |
| Total provision for corporate exposures | 13,245 | - | - | 3,154 | 16,399 |
| Off-balance sheet credit related commitments and contingencies | | | | | |
| Balance at beginning of period | 1,125 | - | - | - | 1,125 |
| Changes to the opening balance due to transfer between ECL stages: | | | | | |
| 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 | - | - | - | - | - |
| Charge/(credit) to profit or loss due to new and increased provisions (net of releases) | 76 | - | - | - | 76 |
| Amounts written off | - | - | - | - | - |
| Recoveries of amounts previously written off | - | - | - | - | - |
| Other movements | 1 | - | - | - | 1 |
| Total provision for off-balance sheet credit related commitments and contingencies¹ | 1,202 | - | - | - | 1,202 |
| Total | | | | | |
| Balance at beginning of period | 12,765 | 56 | - | 3,163 | 15,984 |
| Changes to the opening balance due to transfer between ECL stages: | | | | | |
| 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 | - | - | - | - | - |
| Charge/(credit) to profit or loss due to new and increased provisions (net of releases) | 2,406 | 99 | - | - | 2,505 |
| Amounts written off | - | - | - | - | - |
| Recoveries of amounts previously written off | - | - | - | - | - |
| Other movements | 8 | - | - | (9) | (1) |
| Total provision for impairment | 15,179 | 155 | - | 3,154 | 18,488 |

¹The total provision for off-balance sheet credit related commitments and contingencies is presented in other liabilities.

The above movements in the provision for impairment table does not include 'Other' credit exposures on the basis that the provision for impairment is nil.

COVID-19 impact on credit performance (unaudited)

The NZ Banking Group's approach to incorporate the effect of COVID-19 on our Expected Credit Loss (ECL) calculations was guided by NZ IFRS 9 *Financial Instruments* using the three-stage approach. The NZ Banking Group's assessment of ECLs on the 30th of June 2021 considered the impact of changes in the current economic environment on the ECL model, including the debtor's operation or financial status, creditworthiness, e.g., the likelihood of default (PD) by debtors and corresponding losses (LGD), the extent of the impact of the COVID-19 pandemic, and future macroeconomic conditions.

Given the NZ Banking Group's relatively simple customer base, our corporate customers are mainly in essential industries, such as food manufacturing, transport and logistics, energy and utilities sectors with an indirect impact from the COVID-19 pandemic. On the consumer side, the NZ Banking Group only offers residential mortgage loans, fully secured with origination LVR of no more than 80%, and most debtors have diversified sources of income. The NZ Banking Group does not offer any unsecured personal lending nor credit card products, with little impact from the COVID-19 pandemic.

The NZ Banking Group has granted deferred repayment and interest payment arrangements to some debtors affected by the pandemic, but a deferred principal and interest payment arrangement was not intended to be a judgment basis for automatically triggering a significant increase in the debtor's credit risk.

Basis of inputs and assumptions used in the calculation of allowance for ECL

The methodology used to estimate expected credit losses is consistent with that applied on the 31st of December 2020. The NZ Banking Group has reviewed its ECL model, updated the New Zealand GDP forecast and associated forward-looking factors by using the data from the International Monetary Fund (IMF). Although the market and economy showed a strong recovery globally, there is still uncertainty from the impact of the COVID-19 pandemic.

For the ECL calculation, the NZ Banking Group reviewed its loan book to assess whether there had been a significant increase in credit risk that may have required selected loans to be placed in Stage 2 or Stage 3. The NZ Banking Group concluded that it would place COVID-19 related mortgage payment deferral or interest only loans in Stage 1, and implemented the results in the half-year end ECL calculation.

As at the 30th of June 2021, the expected credit losses comprehensively reflected the NZ Banking Group's credit risk and the expectations for macroeconomic development of Senior Management.

Movement of collective provision

For the 6 months ended the 30th of June 2021, the NZ Banking Group had a net increase of \$2,513 thousand in the total collective provision as detailed below:

- Collective provision 12-months ECL (Stage 1) increased by \$2,414 thousand during the period, with an increase of \$129 thousand from the net growth in residential mortgages, an increase of \$558 thousand from the net growth in corporate exposures, the inclusion of an overlay in relation to corporate exposures of \$1,650 thousand to address the potential risk not captured in the underlying modelled provision for impairment in relation to the probability-weighting of the estimate for a range of possible economic outcomes, and an increase of \$77 thousand from the net growth in off-balance sheet credit related commitments and contingencies.
- Collective provision lifetime ECL not credit impaired (Stage 2) increased by \$99 thousand, due to a residential mortgage loan being overdue. There were no corporate loans in Stage 2 on the reporting date.
- Collective provision lifetime ECL credit impaired (Stage 3) was nil.

Movement of individual assessed provision

Individually assessed provision lifetime ECL credit impaired (Stage 3) decreased by \$9 thousand due to the movement in exchange rates.

As at the 30th of June 2021, the NZ Banking Group had an impaired loan with a carrying value of €3.13 million (NZ\$5.34 million) (2020: €3.13 million, NZ\$5.35 million), gross of allowance 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 individually assessed provision on the loan reflects management's reasonable estimate of the expected credit loss as at the 30th of June 2021.

Residential mortgages

The NZ Banking Group's residential mortgages provision for impairment increased by \$228 thousand during the period, with increases in the collective provisions from both Stage 1 and Stage 2. There were no residential mortgages in Stage 3.

Corporate exposures

The NZ Banking Group's corporate provision for impairment increased by \$2,199 thousand during the period, with an increase in the Stage 1 collective provision of \$2,208 thousand and a decrease in the Stage 3 individually assessed provision of \$9 thousand. There were no corporate loans in Stage 2.

Off-balance sheet credit related commitments and contingencies

The NZ Banking Group's off-balance sheet credit related commitments and contingencies consist of undrawn commitments, guarantees and letters of credit. The Stage 1 collective provision increased by \$77 thousand during the period. There were no exposures in Stage 2 or Stage 3.

8 CUSTOMER DEPOSITS

| As at \$000 | Unaudited 30/06/21 | Unaudited 30/06/20 | Audited 31/12/20 |
|--------------------------------|-----------------------|-----------------------|---------------------|
| Term deposits | 827,661 | 724,343 | 720,857 |
| Saving/Demand deposits | 116,431 | 47,061 | 137,864 |
| Margin deposits | 1,566 | 2,839 | 2,881 |
| Total customer deposits | 945,658 | 774,243 | 861,602 |

9 PAYABLES DUE TO OTHER FINANCIAL INSTITUTIONS

| As at \$000 | Unaudited 30/06/21 | Unaudited 30/06/20 | Audited 31/12/20 |
|---|-----------------------|-----------------------|---------------------|
| Due to other financial institutions | 843,631 | 659,787 | 716,468 |
| Due to related entities | 2,606,086 | 1,669,497 | 2,377,212 |
| Securities sold under agreements to repurchase from central banks | - | 160,029 | 160,125 |
| Total payables due to other financial institutions | 3,449,717 | 2,489,313 | 3,253,806 |

10 DEBT SECURITIES ON ISSUE

| As at \$000 | Unaudited 30/06/21 | Unaudited 30/06/20 | Audited 31/12/20 |
|--|-----------------------|-----------------------|---------------------|
| Certificates of deposits | - | 120,000 | 30,000 |
| Medium-term notes | 350,000 | 500,000 | 500,000 |
| Total debt securities issued | 350,000 | 620,000 | 530,000 |
| Movement in debt securities issued | | | |
| Balance at beginning of period | 529,763 | 604,298 | 604,298 |
| Issuance during period | - | 140,000 | 140,000 |
| Repayments during period | (180,000) | (125,000) | (215,000) |
| Net effect of transaction costs and accruals | 177 | 61 | 465 |
| Balance at end of period | 349,940 | 619,359 | 529,763 |

11 COMMITMENTS AND CONTINGENCIES

| As at \$000 | Unaudited 30/06/21 | Unaudited 30/06/20 | Audited 31/12/20 |
|---|-----------------------|-----------------------|---------------------|
| Credit related commitments and contingencies | | | |
| Letters of credit and guarantees | 9,421 | 11,090 | 10,057 |
| Commitments to extend credit | 626,660 | 948,783 | 845,839 |
| Total credit related commitments and contingencies | 636,081 | 959,873 | 855,896 |

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 exchange traded derivatives and government 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 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 2021 (Unaudited) \$000 | Level 1 | Level 2 | Level 3 | Total |
|--|----------------|----------------|----------------|----------------|
| Financial assets | | | | |
| Derivative financial assets | - | 6,301 | - | 6,301 |
| FVTOCI securities | 98,022 | - | - | 98,022 |
| Total financial assets carried at fair value | 98,022 | 6,301 | - | 104,323 |
| Financial liabilities | | | | |
| Derivative financial liabilities | - | 4,559 | - | 4,559 |
| Total financial liabilities carried at fair value | - | 4,559 | - | 4,559 |
| 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 31 December 2020 (Audited) \$000 | Level 1 | Level 2 | Level 3 | Total |
| Financial assets | | | | |
| Derivative financial assets | - | 8,139 | - | 8,139 |
| FVTOCI securities | 162,029 | - | - | 162,029 |
| Total financial assets carried at fair value | 162,029 | 8,139 | - | 170,168 |
| Financial liabilities | | | | |
| Derivative financial liabilities | - | 14,735 | - | 14,735 |
| Total financial liabilities carried at fair value | - | 14,735 | - | 14,735 |

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 on the 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 | 30 June 21 (Unaudited) | | 30 June 20 (Unaudited) | | 31/12/20 (Audited) | |
|---|---------------------------|------------------|---------------------------|------------------|-----------------------|------------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial Assets | | | | | | |
| Cash and liquid assets | 624,909 | 624,909 | 532,547 | 532,547 | 765,932 | 765,932 |
| Receivables due from other financial institutions | - | - | 22,039 | 22,039 | 5,728 | 5,728 |
| Loans and advances | 4,307,183 | 4,237,598 | 3,426,380 | 3,419,198 | 3,993,526 | 3,944,463 |
| Other financial assets | 19,743 | 19,743 | 9,290 | 9,290 | 10,147 | 10,147 |
| Total financial assets | 4,951,835 | 4,882,250 | 3,990,256 | 3,983,074 | 4,775,333 | 4,726,270 |
| Financial liabilities | | | | | | |
| Customer deposits | 945,658 | 945,676 | 774,243 | 774,247 | 861,602 | 861,593 |
| Payables due to other financial institutions | 3,449,717 | 3,449,828 | 2,489,313 | 2,489,887 | 3,253,806 | 3,253,729 |
| Debt securities on issue | 349,940 | 365,326 | 619,359 | 643,025 | 529,763 | 551,457 |
| Other financial liabilities | 15,604 | 15,604 | 13,972 | 13,972 | 5,219 | 5,219 |
| Total financial liabilities | 4,760,919 | 4,776,434 | 3,896,887 | 3,921,131 | 4,650,390 | 4,671,998 |

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

- **Receivables 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 reprice within six months, therefore, their fair value is assumed to equate to 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.

- **Payables 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”).

Transactions with related parties

| \$000 | Unaudited Six months ended 30/06/21 | | Unaudited Six months ended 30/06/20 | | Audited Year ended 31/12/20 | |
|--|---|---------------------------|---|---------------------------|-----------------------------------|---------------------------|
| | Overseas Bank | Other related entities | Overseas Bank | Other related entities | Overseas Bank | Other related entities |
| Interest income | - | 13 | 892 | 15 | 1,190 | 36 |
| Interest expense | 9,991 | 589 | 14,087 | 2,973 | 25,321 | 4,443 |
| Other operating income ¹ | - | - | - | - | - | - |
| Lending and credit facility related fee income | - | - | - | - | - | - |
| Fund management fee and consulting fee income | - | - | - | - | - | - |
| Other fees and commissions | - | 1 | - | 4 | - | 4 |
| Net gains/(losses) on financial instruments | (3,871) | - | (7,990) | - | (10,224) | - |
| Operating expenses | - | - | 62 | - | 123 | - |

¹ Certain comparative information has been restated to ensure consistency with presentation in the current period.

There were no debts with any related parties written off or forgiven during the six months ended the 30th of June 2021 or during the year ended 31st of December 2020.

Balances with related parties

| As at \$000 | Unaudited 30/06/21 | | Unaudited 30/06/20 | | Audited 31/12/20 | |
|---|-----------------------|---------------------------|-----------------------|---------------------------|---------------------|---------------------------|
| | Overseas Bank | Other related entities | Overseas Bank | Other related entities | Overseas Bank | Other related entities |
| Cash and liquid assets | 9,667 | 3,864 | 35,832 | 2,419 | 53,684 | 2,552 |
| Receivables due from other financial institutions | - | - | 22,039 | - | 5,728 | - |
| Loans and advances | - | 3,594 | - | 3,679 | 4,246 | 3,637 |
| Derivative assets | 3,124 | - | 2,063 | - | 868 | - |
| Total related party assets | 12,791 | 7,458 | 59,934 | 6,098 | 64,526 | 6,189 |
| Payables due to other financial institutions | 2,605,422 | 664 | 1,479,220 | 191,201 | 2,325,673 | 52,343 |
| Derivative liabilities | 3,176 | - | 11,392 | - | 14,003 | - |
| Total related party liabilities | 2,608,598 | 664 | 1,490,612 | 191,201 | 2,339,676 | 52,343 |

No provisions for impairment losses were recognised in respect of related party assets as at the 30th of June 2021 (31st of December 2020: \$Nil and 30th of June 2020: \$Nil).

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 2021 (Unaudited) \$000 | On-balance sheet financial assets | Off-balance sheet credit related commitments |
|---|-----------------------------------|--|
| Industry sector | | |
| Agriculture | 21,302 | 9,313 |
| Forestry and Fishing | 101,222 | 16,362 |
| Mining | 200,574 | - |
| Manufacturing | 275,560 | 140,982 |
| Electricity, gas, water and waste services | 536,487 | 140,000 |
| Construction | 258,299 | 31,632 |
| Wholesale trade | 47,624 | 6,425 |
| Retail trade | 67,934 | 56,107 |
| Accommodation and food services | 15,330 | 58 |
| Transport, postal and warehousing | 145,764 | 35,567 |
| Information media and telecommunications | 262,480 | 31,176 |
| Financial and insurance services | 755,983 | 2,925 |
| Rental, hiring and real estate services | 718,757 | 99,969 |
| Professional, scientific and technical services | 419 | - |
| Administrative and support services | - | - |
| Public administration and safety | - | 46,857 |
| Education and training | - | - |
| Health care and social assistance | 213,942 | 1,214 |
| Arts and recreation services | - | - |
| Personal lending | 1,449,082 | 17,461 |
| Other Services | 2,685 | 33 |
| Subtotal | 5,073,444 | 636,081 |
| Provisions for impairment | 17,286 | 1,202 |
| Total credit exposures | 5,056,158 | 634,879 |
| Geographic area | | |
| New Zealand | 4,647,883 | 631,955 |
| Overseas | 408,275 | 2,924 |
| Total credit exposures | 5,056,158 | 634,879 |

15 CONCENTRATION OF FUNDING

The NZ Banking Group's 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 30/06/21 |
|--|-----------------------|
| Funding comprises | |
| Customer deposits | 945,658 |
| Payables due to other financial institutions | 3,449,717 |
| Debt securities on issue | 349,940 |
| Total funding | 4,745,315 |
| Concentration of funding by industry sector | |
| Agriculture, Forestry and Fishing | 43,315 |
| Mining | - |
| Manufacturing | 39,836 |
| Electricity, Gas, Water and Waste Services | 2 |
| Construction | 29,434 |
| Wholesale trade | 13,759 |
| Retail trade | 67 |
| Accommodation and Food Services | 34,560 |
| Transport, Postal and Warehousing | 33,757 |
| Information Media and Telecommunication | 284 |
| Financial and Insurance Services | 3,817,659 |
| Rental, Hiring and Real Estate Services | 121,070 |
| Professional, Scientific and Technical Services | 165,216 |
| Administrative and Support Services | - |
| Public Administration and safety | 204,002 |
| Education and Training | 55,872 |
| Health Care and Social Assistance | 50,001 |
| Arts and Recreation Services | - |
| Households | 76,754 |
| Other Services | 59,727 |
| Total funding | 4,745,315 |
| Concentration of funding by geographical location | |
| New Zealand | 1,854,754 |
| Other countries | 2,890,561 |
| Total funding | 4,745,315 |

16 INSURANCE BUSINESS

The NZ Banking Group does not conduct any insurance business, as defined in the Overseas Bank's Conditions of Registration. The Overseas Bank's Conditions of Registration can be obtained by referring to the NZ Banking Group's Disclosure Statement for the year ended the 31st of December 2020.

17 RISK MANAGEMENT

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

Additional mortgage information

Residential mortgages by loan-to-valuation ratio

| As at 30 June 2021 (Unaudited) | Does not exceed 80% | Exceeds 80% and not 90% | Exceed 90% | Total |
|---|---------------------|-------------------------|--------------|------------------|
| Loan-to-valuation ratio | | | | |
| On-balance sheet exposures | 1,432,903 | 1,590 | 2,539 | 1,437,032 |
| Undrawn commitments and other off-balance sheet exposures | 17,461 | - | - | 17,461 |
| Value of exposures | 1,450,364 | 1,590 | 2,539 | 1,454,493 |

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

Reconciliation of residential mortgage-related amounts

| As at \$000 | 30/06/2021 (Unaudited) |
|---|------------------------|
| Total of Residential Mortgages amounts disclosed in table for On-balance sheet exposures | 1,437,682 |
| Less: Interest receivable | (1,537) |
| Add: Provision for impairment | 887 |
| Housing loans and Residential mortgages - total gross loans and advances | 1,437,032 |
| Add: Undrawn commitments and other off-balance sheet exposures | 17,461 |
| Total Residential mortgages | 1,454,493 |

Market risk

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

| As at 30 June 2021 (Unaudited) \$000 | End-period capital charge | | Peak end-of-day capital charge | |
|--------------------------------------|--------------------------------|--------------------------|--------------------------------|--------------------------|
| | Implied risk weighted exposure | Aggregate capital charge | Implied risk weighted exposure | Aggregate capital charge |
| Interest rate risk | 37,401 | 2,992 | 58,975 | 4,718 |
| Foreign currency risk | 768 | 61 | 1,140 | 91 |
| Equity risk | - | - | - | - |
| Total | 38,169 | 3,053 | 60,115 | 4,809 |

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 2021 is as follows:

| As at 30 June 2021 (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 |
|---|------------------|---|--------------------------------------|-------------------------------------|----------------|-------------------------|------------------|
| Assets | | | | | | | |
| Cash and liquid assets | 624,909 | - | - | - | - | - | 624,909 |
| Receivables due from other financial institutions | - | - | - | - | - | - | - |
| Derivative assets | - | - | - | - | - | 6,301 | 6,301 |
| FVTOCI securities | - | - | - | 98,022 | - | - | 98,022 |
| Loans and advances | 3,152,849 | 371,454 | 598,758 | 179,877 | 21,531 | (17,286) | 4,307,183 |
| Other financial assets | - | - | - | - | - | 19,743 | 19,743 |
| Total financial assets | 3,777,758 | 371,454 | 598,758 | 277,899 | 21,531 | 8,758 | 5,056,158 |
| Non-financial assets | | | | | | | 11,557 |
| Total assets | | | | | | | 5,067,715 |
| Liabilities | | | | | | | |
| Customer deposits | 606,677 | 267,350 | 36,072 | 411 | - | 35,148 | 945,658 |
| Payables due to other financial institutions | 3,210,193 | 188,646 | 14,126 | - | 30,000 | 6,752 | 3,449,717 |
| Derivative liabilities | - | - | - | - | - | 4,559 | 4,559 |
| Debt securities on issue | - | - | - | 349,940 | - | - | 349,940 |
| Other financial liabilities | 224 | 225 | 453 | 921 | 1,288 | 12,493 | 15,604 |
| Total financial liabilities | 3,817,094 | 456,221 | 50,651 | 351,272 | 31,288 | 58,952 | 4,765,478 |
| Non-financial liabilities | | | | | | | 9,342 |
| Total liabilities | | | | | | | 4,774,820 |
| Net Gap | (39,336) | (84,767) | 548,107 | (73,373) | (9,757) | (50,194) | 290,680 |

Liquidity portfolio management

The NZ Banking 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 NZ Banking Group's present requirements:

| As at \$000 | Unaudited 30/06/21 |
|-----------------------------------|-----------------------|
| Cash and cash equivalents: | |
| Cash and liquid assets | 624,909 |
| Government securities | 98,022 |
| Total liquidity portfolio | 722,931 |

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 NZ Banking Group and its counterparties such as early repayments or refinancing of underlying instruments.

The contractual maturity analysis for off-balance sheet credit related commitments and contingencies has been prepared using the earliest date at which the NZ Banking Group can be called upon to pay. The liquidity risk of off-balance sheet credit related commitments and contingencies 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 2021 (Unaudited) \$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 | | | | | | | |
| Customer deposits | 139,520 | 502,503 | 268,883 | 36,385 | 411 | - | 947,702 |
| Payables due to other financial institutions | 320,863 | 1,868,913 | 300,487 | 420,180 | 375,493 | 186,650 | 3,472,586 |
| Debt securities on issue | - | - | 4,257 | 7,105 | 360,120 | - | 371,482 |
| Lease liabilities | - | 239 | 239 | 478 | 956 | 1,307 | 3,219 |
| Other financial liabilities | - | 1,808 | 2,848 | - | - | - | 4,656 |
| Total non-derivative financial liabilities | 460,383 | 2,373,463 | 576,714 | 464,148 | 736,980 | 187,957 | 4,799,645 |
| Derivative financial liabilities | | | | | | | |
| Net settled | - | (5,497) | - | - | - | - | (5,497) |
| Gross settled – cash inflow | - | 6,952 | 1,572 | 616 | - | - | 9,140 |
| Gross settled – cash outflow | - | (6,986) | (1,593) | (620) | - | - | (9,199) |
| Total derivative financial liabilities | - | (5,531) | (21) | (4) | - | - | (5,556) |
| Off-balance sheet credit related commitments and contingencies | | | | | | | |
| Letters of credit and guarantees | 9,421 | - | - | - | - | - | 9,421 |
| Commitments to extend credit | 626,660 | - | - | - | - | - | 626,660 |
| Total off-balance sheet credit related commitments and contingencies | 636,081 | - | - | - | - | - | 636,081 |

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 2021, 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 | (Unaudited) 31/03/21 | (Unaudited) 31/03/20 | (Unaudited) 31/12/20 |
|------------------------------------|-------------------------|-------------------------|-------------------------|
| Ultimate Parent Bank Group | | | |
| Common equity tier 1 capital ratio | 11.12% | 11.24% | 11.28% |
| Tier 1 capital ratio | 12.77% | 12.80% | 13.19% |
| Total capital ratio | 15.71% | 15.34% | 16.22% |
| Ultimate Parent Bank | | | |
| Common equity tier 1 capital ratio | 10.87% | 10.94% | 10.99% |
| Tier 1 capital ratio | 12.69% | 12.66% | 13.10% |
| Total capital ratio | 15.97% | 15.48% | 16.47% |

19 OTHER INFORMATION OF THE OVERSEAS BANKING GROUP

The most recent period for which net profit after tax for the Overseas Banking Group is publicly available is the 3 months ended 31st of March 2021 and the Overseas Banking Group achieved a profit of RMB57.309 billion.

The most recent period for which information on the net profit after tax for the Overseas Banking Group over the previous 12 month period expressed as a percentage of the average of total assets is publicly available is for the year ended 31st of December 2020 and it was 0.87%.

The most recent date for which the total assets balance of the Overseas Banking Group is available is the 31st of March 2021 and it was 25,834.286 billion. The percentage change in total assets over the 12 months ended on that date was 7.53%.

| As at | 31/12/2020 (Audited) |
|--|-------------------------|
| Asset quality | |
| Total individually impaired assets (RMB millions) | 207,273 |
| Total individually impaired assets as a percentage of total assets | 0.85% |
| Total individual credit impairment allowance (RMB millions) | 162,895 |
| Total individually assessed provisions as a percentage of total gross individually impaired assets | 78.59% |
| Total collective credit impairment allowance (RMB millions) | 205,278 |
| Total assets (RMB millions) | 24,402,659 |

20 EVENTS SUBSEQUENT TO THE REPORTING DATE

COVID-19 pandemic update

Following the confirmation of community spread of the COVID-19 Delta variant, the Government announced on the 17th of August New Zealand's COVID-19 Alert Levels changed, with the Auckland region and Coromandel Peninsula moving to Alert Level 4 for seven days and the rest of New Zealand moving to Alert Level 4 for three days. Subsequent announcements were made extending the lockdown for all of New Zealand until the 31st of August 2021, with the Auckland and Northland regions to remain at Alert Level 4 for longer and the rest of the country moving to Alert Level 3 at this time. As described in note 7, the provision for impairment of the NZ Banking Group and other judgements and estimates at the 30th of June 2021 were estimated based on information and expectations, including the forecast economic conditions, as at that date. Therefore, the recent changes in COVID-19 Alert Levels did not result in changes in the provision for impairment recognised as at the 30th of June 2021. However, the magnitude of the impact to the economy and the NZ Banking Group of these changes in COVID-19 Alert Levels is uncertain. The NZ Banking Group will continuously and closely monitor the developments of the Delta variant, evaluate and proactively address its impact on the NZ Banking Group's financial position and performance.

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



Independent auditor's review report

To the Directors of Bank of China Limited

Report on the Bank of China New Zealand Banking Group Disclosure Statement

Our conclusion

We have reviewed the Disclosure Statement for the six months ended 30 June 2021 (the 'Disclosure Statement') of Bank of China Limited (the 'Company') in respect of the New Zealand Banking Group (the 'NZ Banking Group'), comprising the New Zealand operations of the Company, which includes the condensed interim financial statements (the '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 financial statements comprise the statement of financial position as at 30 June 2021, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended on that date, and significant accounting policies and other explanatory information.

We have examined the financial statements and supplementary information and based on our review, nothing has come to our attention that causes us to believe that:

- a) the financial statements (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* (NZ IAS 34) and International Accounting Standard 34: *Interim Financial Reporting* (IAS 34);
- b) the supplementary information that is required to be disclosed under Schedules 5, 7, 12 and 14 of the Order, does not fairly state the matters to which it relates in accordance with those schedules; and
- c) the supplementary information relating to credit and market risk exposures and capital adequacy 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.

Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibilities are further described in the *Auditor's responsibilities for the review of the financial statements and supplementary information* section of our report.

We are independent of the NZ Banking Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. Certain partners and employees of our firm may deal with the NZ Banking Group on normal terms within the ordinary course of trading activities of the NZ Banking Group. These relationships have not impaired our independence as auditor of the NZ Banking Group. Other than in our capacity as auditor we have no other relationships with, or interests in, the NZ Banking Group.

Directors' responsibility for the Disclosure Statement

The Directors of the Company (the 'Directors') are responsible on behalf of the Company for the preparation and fair presentation of the Disclosure Statement, which includes 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 financial statements that are free from material misstatement, whether due to fraud or error.



In addition, the Directors are responsible, on behalf of the Company, for the preparation and fair presentation of supplementary information in the Disclosure Statement which complies with Schedules 3, 5, 7, 9, 12 and 14 of the Order.

Auditor's responsibility for the review of the financial statements and supplementary information

Our responsibility is to express a conclusion on the financial statements and supplementary information based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that:

- the financial statements (excluding the supplementary information), taken as a whole, have not been prepared, in all material respects, in accordance with NZ IAS 34 and IAS 34;
- the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy), taken as a whole, does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 12 and 14 of the Order; and
- the supplementary information relating to credit and market risk exposures and capital adequacy, taken as a whole, is not, in all material respects disclosed in accordance with Schedule 9 of the Order.

A review in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on the financial statements and the supplementary information.

Who we report to

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

The engagement partner on the review resulting in this independent auditor's review report is Callum Dixon.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
30 August 2021

Auckland