

# INDUSTRIAL AND COMMERCIAL BANK OF CHINA (NEW ZEALAND) LIMITED

## Disclosure Statement

For the year ended 31 December 2017



## Disclosure Statement

This Disclosure Statement has been issued by Industrial and Commercial Bank of China (New Zealand) Limited for the year ended 31 December 2017 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

In this Disclosure Statement, unless the context otherwise requires:

- (a) "Bank", "Registered Bank" or "ICBC (NZ)" means Industrial and Commercial Bank of China (New Zealand) Limited;
- (b) "Banking Group" and "Group" means the Bank and its subsidiaries. As at the date of this disclosure statement, the Bank does not have any subsidiaries and is the only member of the Banking Group;
- (c) "ICBC", the "Ultimate Parent Bank", the "Ultimate Holding Company", the "Parent" and the "Controlling Bank" mean the Industrial and Commercial Bank of China Limited, incorporated in China;
- (d) "NZD" means the New Zealand Dollar, "RMB" means the Chinese Yuan, "USD" means the United States Dollar, "EURO" means the European Dollar and "AUD" means the Australian Dollar;
- (e) "Board" means the board of directors of the Bank; and
- (f) Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.

The financial statements of ICBC( NZ) for the year ended 31 December 2017 form part of and should be read in conjunction with this Disclosure Statement.

This Disclosure Statement is available on the Registered Bank's website at [www.icbcnz.com](http://www.icbcnz.com). In addition, any person can request a hard copy of the Registered Bank's Disclosure Statement at no charge. The copy will be provided by the end of the second working day after the day on which the request is received.

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## Industrial and Commercial Bank of China (New Zealand) Limited Corporate Information

### Address for Service

- (a) The name of the Registered Bank is the Industrial and Commercial Bank of China (New Zealand) Limited and its registered address with the Companies Office is:

Industrial and Commercial Bank of China (New Zealand) Limited  
PWC Tower, Level 11, 188 Quay Street,  
Auckland 1010, New Zealand

- (b) The Bank's website address is [www.icbcnz.com](http://www.icbcnz.com)

### Nature of Business

The Bank was incorporated on 13 March 2013 and was granted a banking licence on 19 November 2013 by the Reserve Bank of New Zealand. The Bank currently provides a range of banking and financial products to retail, corporate and institutional customers.

### Details of Ultimate Parent Bank and Ultimate Holding Company

- (a) Ultimate Parent Bank

The Bank's ultimate parent bank is the Industrial and Commercial Bank of China Limited, incorporated in China (ICBC). ICBC is subject to regulatory oversight by the China Banking Regulatory Commission (CBRC) and the Government of the People's Republic of China (China). ICBC is not a New Zealand registered bank and is not subject to regulatory oversight by the Reserve Bank of New Zealand.

The registered address of ICBC is:

55 FuXingMenNei Street,  
Xicheng District, 100140,  
Beijing,  
People's Republic of China

- (b) Ultimate Holding Company

ICBC is the Ultimate Holding Company of the Bank.

- (c) Shareholding in ICBC

As at 31 December 2017, 68.11% of total shares in ICBC are owned by the Chinese government. The remaining 31.89% of the shares in ICBC is held by public shareholding. ICBC shares are listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange. Further details concerning the shareholdings in ICBC are on the ICBC website: [www.icbc.com.cn](http://www.icbc.com.cn)

- (d) Annual Report of ICBC

A copy of the latest ICBC annual report is on the ICBC website: [www.icbc.com.cn](http://www.icbc.com.cn)

- (e) Summary on restrictions of supporting the Bank

There are no legislative, regulatory or other restrictions of a legally enforceable nature in China that may materially inhibit the legal ability of ICBC to provide material financial support to the Bank.

### Interests in 5% or more of voting securities of Registered Bank

The Bank is a wholly-owned subsidiary of ICBC.

### Subordination of Claims of Creditors

#### Priority of claims in the event of liquidation

In the unlikely event that the Bank is put into liquidation or ceases trading, claims of secured creditors and those creditors set out in the Seventh Schedule of the Companies Act 1993 would rank ahead of the claims of unsecured creditors. Deposits from customers are unsecured and rank equally with other unsecured liabilities of the Bank.

### Guarantee

#### Guarantee arrangements

As at the date of this Disclosure Statement, the bank is fully guaranteed by ICBC.

A copy of the guarantee arrangement between the Bank and ICBC is attached (Appendix 2).

## Details of the guarantor (Parent)

- (a) The guarantor is ICBC. ICBC is the Bank's Ultimate Parent Bank and Ultimate Holding Company. ICBC is not a member of the Banking Group.

The address for service of ICBC is:

55 FuXingMenNei Street,  
Xicheng District, 100140,  
Beijing, People's Republic of China

As at 31 December 2017, the most recent publicly disclosed (audited) capital of ICBC was RMB 2,141,056 million (per year end report financial - audited) (NZ\$461,826 million), representing 15.14% of risk weighted exposure.

- (b) Credit Rating

ICBC "The Ultimate Parent Bank" has the following credit ratings applicable to its long-term senior unsecured obligations:

| Rating Agency/Rating Results                     | Moody's Investors Service, Inc.                 | Standard & Poor's Corporation  | Fitch IBCA, Inc.   |
|--|---|--|--|
| Long-term Foreign Currency Bank Deposits Rating  | A1 (Upper-medium grade and low credit risk)     | A (Strong Capacity to meet obligation but subject to adverse economic conditions)              | A (Strong Capacity to meet obligation but vulnerable to adverse business or economic conditions) |
| Short-term Foreign Currency Bank Deposits Rating | P-1 (Superior ability to repay short-term debt) | A-1 (susceptible to adverse economic conditions but satisfactory capacity to meet obligations) | F1 (strongest capacity for timely payment of financial commitments)                              |
| Outlook  | Stable  | Stable   | Stable   |

- (c) Rating movement history

There has not been any Standard & Poor's or Fitch Credit rating movement in the last 2 years.

On 2 March 2016, Moody's Investors Service changed the "Outlook" rating to "Negative" from "Stable", reflecting the change to outlook on Chinese Sovereign rating. No changes were made to any other ratings.

On 24 May 2017, Moody's Investors Service changed the "Outlook" rating to "Stable" from "Negative", reflecting the change to outlook on Chinese Sovereign rating. No changes were made to any other ratings.

## Details of the guaranteed obligations (Parent)

ICBC fully guarantees due payment of all indebtedness of the Bank to the Bank's depositors and other creditors.

- (a) There are no limits on the amount of the obligations guaranteed.
- (b) Termination of the guarantee under any of the circumstances outlined in clause 6 Termination of the Guarantee is subject to satisfaction of the relevant obligations in respect of each creditor which have been incurred on or prior to the date of termination.
- (c) There are no material legislative or regulatory restrictions in China that would have the effect of subordinating the claims of the Bank's creditors under the guarantee to other claims on ICBC in a winding up of ICBC.
- (d) The ICBC guarantee does not have an expiry date.

## Directors

The responsible person authorised to sign the Disclosure Statement on behalf of the Board, in accordance with section 82 of the Reserve Bank of New Zealand Act 1989, is Qian Hou (Executive Director).

The Board comprises:

- Donald Thomas Brash, Chairman, Independent Director
- Martin Philipsen, Independent Director
- John Glenn Dalzell, Independent Director
- Qian Hou, Executive Director
- Hongbin Liu, Non-Executive Director
- Mei Tao, Non-Executive Director

Details of the changes of the composition of the board are as follows:

- Mei Tao, on 13 June 2017, RBNZ issued a non-objection confirmation for the appointment of Ms. Mei Tao as a non-independent/non-executive Director. ICBC NZ Board approved Ms. Tao's appointment on 21 July 2017.
- Xuening Yang, resigned as Non-Executive Director, on 17 July 2017.

## Directors' Details

The name, occupation, technical or professional qualifications, country of residence, and directorships of each director of the Bank as at the date of this Disclosure Statement are as follows:

### Independent Director, Chairman

Donald Thomas Brash  
Consultant & Company Director  
Ph.D. in Economics  
Auckland  
New Zealand

### Directorships:

Troika Family Trust Nominees Limited, Brash Consultancy Services Limited, Brash Forestry Limited, Eljean's Orchard Limited, Hobson's Pledge Trustee Limited

### Executive Director

Qian Hou  
Executive Director & Chief Executive Officer  
Master of Economics  
Auckland  
New Zealand

### Directorships:

Nil

### Independent Directors

Martin Philipsen  
Company Director  
BCA, C.A., C.M.A.  
Auckland  
New Zealand

### Directorships:

Fundit Holdings Limited, Te Toroa Limited, Philipsen Consulting Limited, Fundit Limited, Angel Advisers Limited, Investit.co.nz Limited, Momentum Life Limited

John Glenn Dalzell  
Director  
BPA, Registered Valuer  
Auckland  
New Zealand

### Directorships:

China Machinery Engineering NZ Limited, Silk Road Construction (NZ) Limited, Ursus Holdings Limited, Bare Essentials Limited, Dalzell Family Trust, New Zealand Zhixiang Investments Limited, Cadenza Consortium Limited, Silk Road Funds Limited, Silk Road Management Limited

### Non-Executive Directors

Mei Tao.  
Senior Specialist, Accredited Non-executive Director to ICBC Subsidiaries, Administration Office of Directors and Supervisors to Subsidiaries, ICBC Head Office  
Beijing  
China

### Directorships:

ICBC PERU, ICBC Canada, ICBC ALMATY, ICBC Europe, ICBC Moscow

Hongbin Liu  
Chief Executive ICBC Sydney  
M.A., M.Applied Finance  
Sydney NSW  
Australia

### Directorships:

Guide Dogs NSW/ACT Australia

### Board Audit Committee

Members of the Board Audit Committee at the date of this Disclosure Statement were:

|                          |                        |
|--------------------------|------------------------|
| Martin Philipsen (Chair) | Independent Director   |
| Donald Thomas Brash      | Independent Director   |
| Mei Tao                  | Non-Executive Director |

### Board Remuneration Committee

Members of the Board Remuneration Committee at the date of this Disclosure Statement were:

|                            |                        |
|----------------------------|------------------------|
| John Glenn Dalzell (Chair) | Independent Director   |
| Donald Thomas Brash        | Independent Director   |
| Hongbin Liu                | Non-Executive Director |
| Qian Hou                   | Executive Director     |



## Board Risk Committee

Members of the Board Risk Committee at the date of this Disclosure Statement were:

|                             |                        |
|-----------------------------|------------------------|
| Donald Thomas Brash (Chair) | Independent Director   |
| Martin Philipsen            | Independent Director   |
| Qian Hou                    | Executive Director     |
| Mei Tao                     | Non-Executive Director |

Any document or communication may be sent to any Director at the Registered Office. The document or communication should be marked for the attention of that Director.

## Policy for Avoiding and Dealing with Conflicts of Interest

The policy and current practice of the Board of Directors of the Bank for avoiding or dealing with conflicts of interest which may arise from the personal, professional or business interests of the Directors, or any of them, are that, where a Director's judgement could potentially be impaired because a conflict of interest exists between the Director's business and personal affairs and the business affairs of the Bank, then that Director must declare that the conflict of interest exists and leave the meeting for the duration of the Board's discussion and voting on the relevant matter.

The Companies Act 1993 requires that each Director cause to be entered in the interests register and disclose to the Board of the Bank:

- The nature and monetary value of the Director's interest in a transaction or proposed transaction if its monetary value is able to be quantified; or
- The nature and extent of the Director's interest in a transaction or proposed transaction if its monetary value is not able to be quantified.

## Directors' Benefits

There is no transaction which any Director or immediate relative or close business associate of any Director has with the Bank or any member of the Banking Group which either has been entered into on terms other than those which would, in the ordinary course of business of the Bank or any member of the Banking Group, be given to any person of like circumstances or means, or could otherwise be reasonably likely to influence materially the exercise of their Director's duties.

Information pertaining to loans to and other transactions with Directors is disclosed in note 27 of this Disclosure Statement.

## Auditor

The name and address of the auditor whose independent auditor's report is referred to in this disclosure statement is:

KPMG  
KPMG Centre  
18 Viaduct Harbour Avenue  
Auckland 1140, New Zealand

## Conditions of Registration for Industrial and Commercial Bank of China (New Zealand) Limited

These conditions of registration apply on and after 1 October 2016. The registration of Industrial and Commercial Bank of China (New Zealand) Limited ("the bank") as a registered bank is subject to the following conditions:

### 1. That—

- (a) the Total capital ratio of the banking group is not less than 8%;
- (b) the Tier 1 capital ratio of the banking group is not less than 6%;
- (c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;
- (d) the Total capital of the banking group is not less than \$30 million;
- (e) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued after 1 January 2013 in the calculation of its capital ratios unless it has received a notice of non-objection to the instrument from the Reserve Bank; and
- (f) the bank meets the requirements of Part 3 of the Reserve Bank of New Zealand document "Application requirements for capital recognition or repayment and notification requirements in respect of capital" (BS16) dated November 2015 in respect of regulatory capital instruments.

For the purposes of this condition of registration, —

the Total capital ratio, the Tier 1 capital ratio, the Common Equity Tier 1 capital ratio and Total capital must be calculated in accordance with the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection 8(2)(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

a Tier 2 capital instrument is an instrument that meets the requirements of subsection 9(2)(a) or (c) of the Reserve Bank of New Zealand document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

### 1A. That—

- (a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ('ICAAP') (BS12) dated December 2007;

- (b) under its ICAAP the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015; and
- (c) the bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That, if the buffer ratio of the banking group is 2.5% or less, the bank must:

- (a) according to the following table, limit the aggregate distributions of the bank's earnings to the percentage limit to distributions that corresponds to the banking group's buffer ratio:

| Banking group's buffer ratio | Percentage limit to distributions of the bank's earnings |
|------------------------------|--|
| 0% – 0.625%                  | 0%   |
| >0.625 – 1.25%               | 20%  |
| >1.25 – 1.875%               | 40%  |
| >1.875 – 2.5%                | 60%  |

- (b) prepare a capital plan to restore the banking group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and
- (c) have the capital plan approved by the Reserve Bank.

For the purposes of this condition of registration,—

"buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated November 2015.

- 2. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

- 3. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

- (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and
- (b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the banking group's insurance business—

- (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
- (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,—

"insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance;

"insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

- 4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the banking group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

| Credit rating of the bank <sup>1</sup> | Connected exposure limit (% of the Banking Group's Tier 1 capital) |
|--|--|
| AA/Aa2 and above                       | 75   |
| AA-/Aa3                                | 70   |
| A+/A1                                  | 60   |
| A/A2                                   | 40   |
| A-/A3                                  | 30   |
| BBB+/Baa1 and below                    | 15   |

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the banking group's Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected Exposures Policy" (BS8) dated November 2015.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
6. That the bank complies with the following corporate governance requirements:
  - (a) the board of the bank must have at least five directors;
  - (b) the majority of the board members must be non-executive directors;
  - (c) at least half of the board members must be independent directors;
  - (d) an alternate director,—
    - (i) for a non-executive director must be non-executive; and
    - (ii) for an independent director must be independent;
  - (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
  - (f) the chairperson of the board of the bank must be independent;
  - (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank); and
  - (h) that the business and affairs of the bank are managed by, or under the direction or supervision of, the board of the bank.

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:
  - (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
  - (b) the Reserve Bank has advised that it has no objection to that appointment.
8. That a person must not be appointed as chairperson of the board of the bank unless:
  - (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
  - (b) the Reserve Bank has advised that it has no objection to that appointment.
9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
  - (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
  - (b) the committee must have at least three members;
  - (c) every member of the committee must be a non-executive director of the bank;
  - (d) the majority of the members of the committee must be independent; and
  - (e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated July 2014.

<sup>1</sup> This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's.)



10. That a substantial proportion of the bank's business is conducted in and from New Zealand.

11. That the banking group complies with the following quantitative requirements for liquidity-risk management:

- (a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
- (b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
- (c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated July 2014 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

12. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:

- (a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
- (b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
- (c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
- (d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

13. That no more than 10% of total assets may be beneficially owned by a SPV. For the purposes of this condition,—

"total assets" means all assets of the banking group plus any assets held by any SPV that are not included in the banking group's assets:

"SPV" means a person—

- (a) to whom any member of the banking group has sold, assigned, or otherwise transferred any asset;
- (b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
- (c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the banking group under a covered bond;

"covered bond" means a debt security issued by any member of the banking group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

14. That—

- (a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
  - (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
  - (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
- (b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
  - (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
  - (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
  - (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

15. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
16. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
17. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,—

"banking group" means Industrial and Commercial Bank of China (New Zealand) Limited (as reporting entity) and all other entities included in the group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In conditions of registration 15 to 17,—

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated October 2016:

"loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of March 2017.

## Pending Proceedings or Arbitration

As at the date of this Disclosure Statement, there are no pending legal proceedings or arbitrations concerning any member of the Registered Bank's Banking Group, whether in New Zealand or elsewhere, that may have a material adverse effect on the Registered Bank or any other member of the Banking Group.

## Credit Ratings

### ICBC NZ Rating Information

On 28 August 2015, Moody's Investors Service upgraded the Bank's long-term Bank deposits, senior unsecured and issuer ratings to A1 from A2. The Bank's Short-term Bank deposits and issuer ratings were affirmed at P-1.

On 4 March 2016, Moody's Investors Service changed the "Outlook" rating to "Negative" from "Stable", reflecting the change to the outlook on Chinese Sovereign rating. No changes were made to any other ratings.

On 26 May 2017, Moody's Investors Service changed the "Outlook" rating to "Stable" from "Negative", reflecting the change to the outlook on Chinese Sovereign rating. No changes were made to any other ratings.

| Rating Agency/Rating Results | Standard & Poor's Ratings Services | Moody's Investors Service, Inc. |
|------------------------------|------------------------------------|---------------------------------|
| Long-term credit Rating      | A                                  | A1                              |
| Short-term credit Rating     | A-1                                | P-1                             |
| Outlook                      | Stable                             | Stable                          |

There have been no changes to the credit ratings or rating outlook assigned by Standard & Poor's Ratings Services since the ratings were obtained on 2 July 2013.

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

## Rating Information

The following is a summary of the descriptions of the major ratings categories of each rating agency for the rating of long-term senior unsecured obligations:

| Fitch IBCA, Inc. | Standard & Poor's Corporation | Moody's Investors Service, Inc. | Description of Rating <sup>1,2</sup>  |
|------------------|-------------------------------|---------------------------------|---|
| AAA              | AAA                           | Aaa                             | Ability to repay principal and interest is extremely strong. This is the highest investment category.                                 |
| AA               | AA                            | Aa                              | Very strong ability to repay principal and interest in a timely manner.   |
| A                | A                             | A                               | Strong ability to repay principal and interest although susceptible to adverse changes in economic, business or financial conditions. |
| BBB              | BBB                           | Baa                             | Adequate ability to repay principal and interest. More vulnerable to adverse changes (lowest "investment grade").                     |
| BB               | BB                            | Ba                              | Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.                           |
| B                | B                             | B                               | Greater vulnerability and greater likelihood of default.  |
| CCC              | CCC                           | Caa                             | Likelihood of default considered high. Timely repayment of principal and interest depends on favourable financial conditions.         |
| CC-C             | CC – C                        | Ca-C                            | Highest risk of default.  |
| RD to D          | D                             | -                               | Obligation currently in default.  |

<sup>1</sup> Moody's applies numeric modifiers to each generic rating category from Aa to B, indicating that the counterparty is (1) in the higher end of its letter rating category, (2) in mid-range, or (3) in lower end. Fitch and S&P apply plus (+) or minus (-) signs to ratings from "AA" to "CCC" to indicate relative standing within the major rating categories.

<sup>2</sup> Credit ratings are statements of opinion issued by rating agencies. A credit rating is not a statement of fact, an endorsement of the rated entity, or a recommendation to buy, hold, or sell securities. Analytic services provided by rating agencies are the result of separate activities designed to preserve the independence and objectivity of rating opinions.

## Historical Summary of Financial Statements

| Thousands of dollars  | 31 December<br>2017<br>12 mths | 31 December<br>2016<br>12 mths | 31 December<br>2015<br>12 mths | 31 December<br>2014<br>12 mths | 31 December<br>2013<br>3 mths |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------------|
| <b>Income Statement</b>   |                                |                                |                                |                                |                               |
| Interest Income   | 47,289                         | 27,557                         | 12,903                         | 3,621                          | 462                           |
| Interest Expense  | (25,317)                       | (11,149)                       | (6,838)                        | (656)                          | (1)                           |
| <b>Net Interest Income</b>  | <b>21,972</b>                  | <b>16,408</b>                  | <b>6,065</b>                   | <b>2,965</b>                   | <b>461</b>                    |
| Net gains/(losses) on financial instruments at fair value through P&L | 7,432                          | (9,327)                        | (9,778)                        | 20                             | -                             |
| Other Operating Income  | (6,402)                        | 8,514                          | 10,443                         | 611                            | (4)                           |
| <b>Total operating income</b>   | <b>23,002</b>                  | <b>15,595</b>                  | <b>6,730</b>                   | <b>3,596</b>                   | <b>457</b>                    |
| Operating expenses  | (14,523)                       | (10,945)                       | (8,918)                        | (6,046)                        | (518)                         |
| Impairment charges on loans   | (12,563)                       | (2,818)                        | (768)                          | (483)                          | -                             |
| <b>Net profit/(loss) before taxation</b>                              | <b>(4,084)</b>                 | <b>1,832</b>                   | <b>(2,956)</b>                 | <b>(2,933)</b>                 | <b>(61)</b>                   |
| Taxation (expense)/ benefit   | 2,885                          | (680)                          | -                              | (42)                           | -                             |
| <b>Net profit/(loss) after taxation</b>                               | <b>(1,199)</b>                 | <b>1,152</b>                   | <b>(2,956)</b>                 | <b>(2,975)</b>                 | <b>(61)</b>                   |
| Net profit or loss attributable to non-controlling interests          | -                              | -                              | -                              | -                              | -                             |
| Ordinary Dividend   | -                              | -                              | -                              | -                              | -                             |
| <b>Significant balance sheet items</b>                                |                                |                                |                                |                                |                               |
| Total Assets  | 1,662,033                      | 903,544                        | 741,737                        | 670,476                        | 60,996                        |
| Total Liabilities   | 1,522,738                      | 763,050                        | 687,477                        | 613,260                        | 805                           |
| Total Equity  | 139,295                        | 140,494                        | 54,260                         | 57,216                         | 60,191                        |
| <b>Asset Quality</b>  |                                |                                |                                |                                |                               |
| Individually Impaired Assets  | 32,824                         | -                              | -                              | -                              | -                             |

The information presented in the above table has been extracted from audited financial statements that have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS").

## Other Material Matters

The Registered Bank's Directors are of the opinion that there are no other matters relating to the business or affairs of the Registered Bank or its Banking Group that are not contained elsewhere in this Disclosure Statement and which would, if disclosed, materially affect the decision of a person to subscribe for debt securities of which the Registered Bank or any member of the Banking Group is the issuer.



## Directors' Statements

Each Director of the Registered Bank states that he or she believes, after due enquiry, that:

1. As at the date on which the Disclosure Statement is signed:

- (a) The Disclosure Statement contains all the information that is required by the "Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended)", ("the Order"); and
- (b) The Disclosure Statement is not false or misleading.

2. During the year ended 31 December 2017:

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

This Disclosure Statement is dated 13 April 2018 and has been signed by Qian Hou as the responsible person for and on behalf of all the Directors (by Directors' resolution):

  
 Qian Hou  
 Executive Director

Appendix 1 - Financial Statements

**Industrial and Commercial Bank of China (New Zealand) Limited**

Financial Statements for the year ended 31 December 2017

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**STATEMENT OF COMPREHENSIVE INCOME**

| Thousands of dollars   | Note | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|--|------|-----------------------------|-----------------------------|
| Interest Income  | 2    | 47,289                      | 27,557                      |
| Interest Expense   | 2    | (25,317)                    | (11,149)                    |
| <b>Net interest income</b>   |      | <b>21,972</b>               | <b>16,408</b>               |
| Net gains/ (losses) on financial instruments at fair value through P&L | 3    | 7,432                       | (9,327)                     |
| Other Income   | 4    | (6,402)                     | 8,514                       |
| <b>Total operating income</b>  |      | <b>23,002</b>               | <b>15,595</b>               |
| Operating expenses   | 5    | (14,523)                    | (10,945)                    |
| Impairment provisioning on loans and advances to customers             | 6    | (12,563)                    | (2,818)                     |
| <b>Net profit/(loss) before taxation</b>                               |      | <b>(4,084)</b>              | <b>1,832</b>                |
| Taxation (expense)/ benefit  | 7    | 2,885                       | (680)                       |
| <b>Net profit/(loss) after taxation</b>                                |      | <b>(1,199)</b>              | <b>1,152</b>                |
| Net change in available-for sale reserve (net of tax)                  |      | -                           | -                           |
| Net change in cash-flow hedge reserve (net of tax)                     |      | -                           | -                           |
| Foreign currency translation reserve                                   |      | -                           | -                           |
| <b>Total other comprehensive income</b>                                |      | <b>-</b>                    | <b>-</b>                    |
| <b>Total comprehensive income</b>                                      |      | <b>(1,199)</b>              | <b>1,152</b>                |



## STATEMENT OF CHANGES IN EQUITY

| Thousands of dollars                                 | Note      | Share Capital  | Retained Earnings | Total          |
|--|-----------|----------------|-------------------|----------------|
| <b>For the year ended 31 December 2017 (audited)</b> |           |                |                   |                |
| Balance at the beginning of the year                 | 25        | 145,460        | (4,966)           | 140,494        |
| Capital injection from shareholders                  |           | -              | -                 | -              |
| Net profit/(loss) for the year                       |           | -              | (1,199)           | (1,199)        |
| <b>Total equity movement for the year</b>            | <b>25</b> | <b>-</b>       | <b>(1,199)</b>    | <b>(1,199)</b> |
| <b>Balance at 31 December 2017</b>                   |           | <b>145,460</b> | <b>(6,165)</b>    | <b>139,295</b> |
| <b>For the year ended 31 December 2016 (audited)</b> |           |                |                   |                |
| Balance at the beginning of the year                 | 25        | 60,378         | (6,118)           | 54,260         |
| Capital injection from shareholders                  |           | 85,082         | -                 | 85,082         |
| Net profit/(loss) for the year                       |           | -              | 1,152             | 1,152          |
| <b>Total equity movement for the year</b>            | <b>25</b> | <b>85,082</b>  | <b>1,152</b>      | <b>86,234</b>  |
| <b>Balance at 31 December 2016</b>                   |           | <b>145,460</b> | <b>(4,966)</b>    | <b>140,494</b> |

STATEMENT OF FINANCIAL POSITION

| Thousands of dollars   | Note  | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|--|-------|-----------------------------|-----------------------------|
| <b>Assets</b>  |       |                             |                             |
| Cash, cash equivalents and balances with central banks           | 9     | 328,294                     | 156,527                     |
| Amounts due from related parties                                 | 20    | 12,605                      | -                           |
| Due from banks and other financial institutions                  | 10    | -                           | 2,197                       |
| Financial assets designated at fair value through profit or loss | 14    | -                           | -                           |
| Financial assets held to maturity                                | 12    | 40,226                      | 40,676                      |
| Available-for-sale assets  | 12    | -                           | -                           |
| Derivative Financial Assets                                      | 11,14 | 273                         | 369                         |
| Loans and advances to customers                                  | 13,26 | 1,269,507                   | 700,323                     |
| Property, plant and equipment                                    | 16    | 428                         | 832                         |
| Intangible assets  | 17    | -                           | -                           |
| Current taxation   | 8     | -                           | -                           |
| Deferred tax assets  | 8     | 5,538                       | -                           |
| Other assets   | 18    | 5,162                       | 2,620                       |
| <b>Total assets</b>  |       | <b>1,662,033</b>            | <b>903,544</b>              |
| <b>Liabilities</b>   |       |                             |                             |
| Due to central banks and other financial institutions            | 19    | 1                           | 1                           |
| Amounts due to related parties                                   | 20    | 685,362                     | 467,386                     |
| Derivative Financial Liabilities                                 | 11,14 | 316                         | 245                         |
| Deposits from customers  | 21    | 419,520                     | 149,799                     |
| Certificates of Deposit  | 22    | 54,679                      | 33,450                      |
| Subordinated loans due to related parties                        | 23    | 35,000                      | -                           |
| Debt securities issued   | 22    | 311,305                     | 103,894                     |
| Deferred tax liabilities   | 8     | -                           | -                           |
| Current tax payable  | 8     | 1,942                       | 596                         |
| Other liabilities  | 24    | 14,613                      | 7,679                       |
| <b>Total liabilities</b>   |       | <b>1,522,738</b>            | <b>763,050</b>              |
| <b>Shareholder's equity</b>                                      |       |                             |                             |
| Share capital  | 25    | 145,460                     | 145,460                     |
| Reserves   | 25    | (6,165)                     | (4,966)                     |
| <b>Total shareholder's equity</b>                                |       | <b>139,295</b>              | <b>140,494</b>              |
| <b>Total shareholder's equity and liabilities</b>                |       | <b>1,662,033</b>            | <b>903,544</b>              |
| Total interest earning and discount bearing assets               | 28    | 1,631,335                   | 796,200                     |
| Total interest and discount bearing liabilities                  | 29    | 1,430,402                   | 682,867                     |

The accounting policies and other notes (1-37) form part of, and should be read in conjunction with, these Financial Statements.

These financial statements were approved by the directors on 13 April 2018 and are signed on their behalf by:

  
Qian Hou  
Executive Director

# STATEMENT OF CASH FLOWS

| Thousands of dollars   | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|--|-----------------------------|-----------------------------|
| <b>Cash flows from operating activities</b>  |                             |                             |
| Interest income  | 47,869                      | 28,433                      |
| Other income   | 1,121                       | (9,211)                     |
| Personnel expenses   | (8,486)                     | (6,118)                     |
| Other operating expenses   | (5,920)                     | (3,533)                     |
| Interest expense   | (22,136)                    | (10,604)                    |
| Taxes paid   | (1,307)                     | (3)                         |
| <b>Net cash flows from operating activities before changes in operating assets and liabilities</b> | <b>11,141</b>               | <b>(1,036)</b>              |
| <b>Changes in operating assets and liabilities arising from cash flow movements:</b>               |                             |                             |
| (Increase)/decrease in financial assets held for trading   | -                           | -                           |
| (Increase)/decrease in loans and advances to customers   | (581,747)                   | (323,252)                   |
| (Increase)/decrease in amounts due from other financial institutions                               | -                           | -                           |
| Increase / (decrease) in deposits from customers   | 269,721                     | 22,462                      |
| Increase/(decrease) in amounts due to related parties  | 217,976                     | 6,410                       |
| Increase/ (decrease) in amounts due to financial institutions                                      | -                           | -                           |
| (Increase) / decrease in other assets  | -                           | 3                           |
| Increase/(decrease) in other liabilities   | 260                         | 63                          |
| (Increase)/decrease in amounts due from related parties  | (12,605)                    | -                           |
| Increase / (decrease) in certificates of deposit   | 21,229                      | 18,566                      |
| <b>Net change in operating assets and liabilities</b>  | <b>(85,166)</b>             | <b>(275,748)</b>            |
| <b>Net cash flows from operating activities</b>  | <b>(74,025)</b>             | <b>(276,784)</b>            |
| <b>Cash flows from investing activities</b>  |                             |                             |
| Purchase of property, plant and equipment  | (10)                        | (25)                        |
| Purchase of financial assets held to maturity  | -                           | (35,918)                    |
| <b>Net cash flows from investing activities</b>  | <b>(10)</b>                 | <b>(35,943)</b>             |
| <b>Cash flows from financing activities</b>  |                             |                             |
| Issue of shares  | -                           | -                           |
| Capital injection from shareholders  | -                           | 85,082                      |
| Proceeds from related parties  | -                           | -                           |
| Increase in subordinated loans due to related parties  | 35,000                      | -                           |
| Increase in debt securities issued   | 208,605                     | 33,645                      |
| <b>Net cash flows from financing activities</b>  | <b>243,605</b>              | <b>118,727</b>              |
| Increase/(Decrease) in cash and cash equivalents   | 169,570                     | (194,000)                   |
| Cash and cash equivalents at beginning of year   | 158,724                     | 352,724                     |
| Effect of exchange rate changes on cash and cash equivalents                                       | -                           | -                           |
| <b>Cash and cash equivalents</b>   | <b>328,294</b>              | <b>158,724</b>              |
| <b>Cash and cash equivalents at end of year comprised:</b>   |                             |                             |
| Cash, cash equivalents and balances with central banks*  | 328,294                     | 156,527                     |
| Due from banks and other institutions classified as cash equivalents                               | -                           | 2,197                       |
| <b>Total cash and cash equivalents</b>   | <b>328,294</b>              | <b>158,724</b>              |

\* Nostro account balance held with parent and controlled entities of ultimate parent as at 31 December 2017 is \$3,284K (31 December 2016: \$1,640K). This is included in cash and cash equivalents balance. Parent includes ICBC Head Office and other branches.

STATEMENT OF CASH FLOWS (CONTINUED)

| Thousands of Dollars   | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|--|-----------------------------|-----------------------------|
| <b>Reconciliation of net profit after taxation to net cash-flows from operating activities</b> |                             |                             |
| <b>Net profit/(loss) after taxation</b>  | <b>(1,199)</b>              | <b>1,152</b>                |
| <b>Non cash movements:</b>   |                             |                             |
| Unrealised fair value adjustments  | 171                         | (297)                       |
| Depreciation   | 414                         | 594                         |
| Amortisation of intangibles  | -                           | 4                           |
| Amortisation of financial instruments  | 450                         | 184                         |
| Increase in collective allowance for impairment losses   | 12,552                      | 2,807                       |
| Loss on written-off financial assets   | 17                          | 11                          |
| Gain on bad debts recovery   | (6)                         | -                           |
| (Increase)/decrease in deferred expenditure  | -                           | -                           |
| Unsecured lending losses   | -                           | -                           |
| Unrealised foreign exchange loss/(gain)  | (79)                        | (8,144)                     |
| (Increase)/decrease in deferred taxation   | (5,538)                     | -                           |
| Interest expense on debt securities issued   | (1,118)                     | (162)                       |
| <b>Increase in operating assets and liabilities</b>  | <b>6,863</b>                | <b>(5,003)</b>              |
| (Increase)/decrease in interest receivable   | (1,458)                     | (544)                       |
| Increase/(decrease) in interest payable  | 4,297                       | 546                         |
| (Increase)/decrease in loans and advances to customers   | (581,747)                   | (323,252)                   |
| (Increase)/decrease in amounts due from other financial institutions                           | -                           | -                           |
| Increase/(decrease) in deposits from customers   | 269,721                     | 22,462                      |
| Increase/(decrease) in certificates of deposit   | 21,229                      | 18,566                      |
| Increase/(decrease) in amounts due to other financial institutions                             | -                           | -                           |
| Increase/(decrease) in other liabilities   | 2,636                       | 2,247                       |
| Increase/(decrease) in amounts due to related parties  | 217,976                     | 6,410                       |
| (Increase)/decrease in current taxation  | 1,346                       | 677                         |
| (Increase)/decrease in other assets  | (1,084)                     | (45)                        |
| (Increase)/decrease in amounts due from related parties  | (12,605)                    | -                           |
| <b>Net cash flows from operating activities</b>  | <b>(74,025)</b>             | <b>(276,784)</b>            |

**Reconciliation of liabilities arising from financing activities**

For the year ended 31 December 2017 (audited)

|   | 31 December<br>2016 | Net Cash flow | Non-cash changes |                                 | 31 December<br>2017 |
|---|---------------------|---------------|------------------|---------------------------------|---------------------|
|   |                     |               | Amortisation     | Foreign<br>Exchange<br>movement |                     |
| Subordinated loans due to related parties   | -                   | 35,000        | -                | -                               | 35,000              |
| Debt securities issued                      | 103,894             | 208,605       | (1,118)          | (76)                            | 311,305             |
| Total liabilities from financing activities | 103,894             | 243,605       | (1,118)          | (76)                            | 346,305             |



## Note 1 - Statement of Accounting Policies

### (1) Reporting Entity

The reporting entity is Industrial and Commercial Bank of China (New Zealand) Limited (the "Bank"). The Bank does not prepare group financial statements as the Bank does not have any subsidiaries. The Bank is registered under the Companies Act 1993 and is incorporated in New Zealand. The Bank was incorporated on 13 March 2013. The financial statements are for the twelve months ended 31 December 2017.

These financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Markets Conduct Act 2013, and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

They were approved for issue by the Directors on 13 April 2018. The address of the Bank's registered office is Level 11, 188 Quay Street, Auckland 1010, New Zealand. The Bank provides its products and services to retail and wholesale/institutional customers.

### (2) Basis of Preparation

The Bank's financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to the International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. These financial statements also comply with the International Financial Reporting Standards.

The financial statements have been prepared on a going concern basis in accordance with the historical cost convention, except for derivative financial instruments, financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through profit or loss and available-for-sale financial assets that have been measured at fair value, as further explained in the respective accounting policies below. The carrying values of recognised assets and liabilities, that are hedged in fair value hedges and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

For the purpose of the Statement of Cash Flows, due from banks and other financial institutions are treated as cash and cash equivalents as these are short-term highly liquid investments with original maturities of less than three months from the date of acquisition.

### (3) Presentation Currency

The reporting currency of these financial statements is New Zealand dollars, the currency of the primary economic environment in which the Bank operates ("the functional currency"). The financial statements are presented in New Zealand dollars and rounded to the nearest thousands (\$'000) unless otherwise stated.

### (4) Critical accounting estimates and judgements

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. Management is required to make judgements on accounting policies and estimates concerning the carrying values of assets and liabilities that are not readily available from other sources. These estimates and associated assumptions are based on historical experience and various other facts appropriate to the particular circumstances. Actual results may differ from these estimates.

Estimates, judgements and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The information about estimates and assumptions in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following accounting policies and notes:

- Impairment Allowance (Note 6)
- Deferred Taxation (Note 8)
- Classification of Financial Instruments (Accounting Policies and Note 12)

#### Estimation uncertainties:

Subsequent to the year-end, a borrower Group operating in multiple jurisdictions, entered into voluntary administration as a result of on-going investigations that had been carried out by regulators in those jurisdictions during the year. The total amount of lending to the Group amounted to \$32.8 million as at 31 December 2017. As at the date of approval of the Bank's disclosure statements, the various administrators were still in the process of evaluating the estimated recovery from the assets of the Group. The various administrators have requested additional time to prepare their first administrator report due to the complexity of the Group and their recent appointment, and as such no report is available as at the date of approval of these disclosure statements.

The on-going regulator investigations during the year represent an indicator of impairment as at the year-end, and the Bank has made a specific provision amounting to \$10.2 million, of the total outstanding principal financed to the Group. The determination of provision is highly judgemental and is subject to significant estimation uncertainty due to the following reasons:

## Note 1 - Statement of Accounting Policies (continued)

- Significant complexity in the Group structure, due to its presence in multiple jurisdictions and the inter-relation of operations amongst subsidiaries. This will require additional time for the administrators to form a conclusive view on the level of recovery of available funds to pay creditors;
- Multiple administrators involved in the assessment of valuation and recoverability of the Group's assets; and
- The involvement and oversight of different regulators in the process

Given the uncertain timing of the administrators' final assessment and amount of the expected loan recovery, the eventual provision could vary substantially from the amounts shown in these financial statements. The provision, however, represents management's best estimate based on the most recent information available as at the date of approval of the disclosure statements.

The Bank's buffer ratio, after incorporating the aforementioned provision, is 3.3% as at 31 December 2017, which remains in compliance with the minimum statutory buffer ratio requirement. Considering the uncertainty in determining the provision, the buffer ratio remains at risk of deterioration from any future adverse movements to the provision and may result in the buffer ratio going below the minimum buffer ratio requirement of 2.50%. The Bank is closely monitoring the buffer ratio and is preparing a capital funding plan for submission to the RBNZ, in the event additional provisioning is required against the loan. This includes a range of alternatives including booking exposures to a related party balance sheet and receipt of further capital from the Parent.

### (5) Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### (a) Foreign currency translation

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rates prevailing at the date of the transaction or valuation where items are re-measured.

Monetary assets and liabilities denominated in foreign currencies are translated into NZD at the applicable exchange rates ruling at the end of the reporting period. Exchange differences arising on the settlement of monetary items or on translating monetary items at period end rates are recognised in the profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as at the date when the fair value is determined.

#### (b) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### (i) Interest income and expense

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as available-for-sale financial assets, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded in profit or loss.

Once a financial asset or a book of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

##### (ii) Lending Fees

Fees and direct costs relating to loan origination, financing or restructuring and to loan commitments are deferred and amortised to interest income over the life of the loan using the effective interest method. Lending fees not directly related to the origination of a loan are recognised over the period of service.

##### (iii) Commission and Other Fees

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

###### (i) Fee income on transactions conducted or from services provided over a period of time

Fee income is recognised on the basis of when the transaction is completed or on an accrual basis when the service is provided over a period of time. These fees mainly include fee income on settlement and clearing business, commission income and fee income on asset management, custody and other management advisory services.



## Note 1 - Statement of Accounting Policies (continued)

### (ii) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

### (iv) Other Income

Dividend income is recorded in the statement of comprehensive income when the Bank's right to receive the dividend is established. Realised and unrealised gains and losses from re-measurement of financial instruments at fair value through profit or loss are disclosed separately in the profit and loss.

### (c) Expense recognition

Operating lease payments are recognised in the profit and loss on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern of the benefit received. All other expenses, excluding interest expense, are recognised in the statement of comprehensive income on an accrual basis.

### (d) Financial Assets

#### Classification

At initial recognition, financial assets are classified into four categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity financial investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### (i) Cash, cash equivalents and balances with central banks

Cash, cash equivalents, and balances with central banks include cash and cash at bank, settlement account balance with central bank and other financial institutions, cash in transit, bank overdrafts.

#### (ii) Due from banks and other financial institutions

Due from banks and other financial institutions includes term deposits with other financial institutions.

#### (iii) (a) Financial assets at fair value through profit or loss

Assets in this category are either held for trading or designated at fair value through profit or loss at inception. A financial instrument may be designated as a financial asset or financial liability at fair value through profit or loss upon initial recognition, if it meets any of the criteria set out below:

- (a) It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial asset or from recognising the gains and losses on them on different bases;
- (b) It applies to a group of financial assets, financial liabilities or both which is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or
- (c) The financial instrument contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it cannot be designated as a financial asset at fair value through profit or loss. Financial assets designated at fair value through profit or loss might include debt securities and other debt instruments. Financial liabilities designated at fair value through profit or loss might include wealth management products, structured deposits, notes payable, and certificates of deposit.

These assets are measured at fair value after initial recognition. Realised and unrealised income or expenses are recognised in the profit or loss.

#### (iii) (b) Financial assets held for trading

A financial asset is classified as held for trading if:

- (a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking; or
- (c) it is a derivative.

Financial assets held for trading might include debt securities, equity investments and derivatives that are not designated as effective hedging instruments.

Financial assets held for trading are measured at fair value after initial recognition. Realised or unrealised income or expenses are recognised in the profit or loss. Derivatives are separately presented and disclosed in the financial statements.

## Note 1 - Statement of Accounting Policies (continued)

### (iii) (c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank has no intention of trading the assets immediately or in the near term. After initial measurement, such assets are subsequently carried at amortised cost using the effective interest rate method, less any allowance for impairment losses. Gains and losses are recognised in the profit or loss when such assets are derecognised or impaired, as well as through the amortisation process. Loans and receivables mainly include loans and advances to customers, receivables and discounted bills.

Discounted bills are granted by the Bank to its customers based on the bank acceptance held which has not matured. Discounted bills are carried at face value less unrealised interest income and the interest income of the discounted bills is recognised using the effective interest rate method.

### (iii) (d) Available for Sale

Available-for-sale financial assets are non-derivative financial assets which are designated as such or are not classified as loans and receivables, held to maturity or financial assets at fair value through profit or loss. After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Premiums and discounts on available-for-sale financial assets are amortised using the effective interest rate method and are taken to the profit or loss as interest income. Changes in fair value of available-for-sale financial assets are recognised as a separate component of other comprehensive income until the financial asset is derecognised or determined to be impaired at which time the cumulative gains or losses previously recorded in other comprehensive income are transferred to the profit or loss. Dividend and interest income on available-for-sale financial assets are recorded in the profit or loss.

In the case of an equity investment classified as available for sale, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it will be measured at cost less any impairment loss.

### (iii) (e) Derivative Assets

Derivative instruments are contracts whose value is derived from one or more underlying variables such as a special interest rate or index as defined in the contract. Derivative assets are measured at fair value through profit or loss.

### (iii) (f) Held to Maturity

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity and which the Bank has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Gains and losses are recognised in the profit or loss when the held-to-maturity financial investments are derecognised or impaired, as well as through the amortisation process. All the held-to-maturity financial investments are bond investments. The Bank shall reclassify any remaining held-to-maturity investments as available for sale and shall not classify any financial assets as held to maturity during the current financial year or during the two preceding financial years, if the Bank has sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) except for sale or reclassification that:

- (i) is so close to maturity or the financial asset's call date (for example, less than three month before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- (ii) occurs after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- (iii) is attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

### Impairment of Financial Assets

An assessment on carrying amount of financial assets is made at the end of each reporting period. Impairment is recognised if there is objective evidence of impairment of financial assets, i.e., one or more events that occur after the initial recognition of those assets and have an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, they would probably enter into bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

### Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate and shall include the value of any relevant collateral. The original effective interest rate is the rate used to determine the values of financial assets at initial recognition. With respect to floating-rate loans, receivables and held-to-maturity investments, the discount rate could be the current effective interest rate determined under the contract. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the profit or loss.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.



## Note 1 - Statement of Accounting Policies (continued)

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit or loss, to the extent that the carrying value of the assets does not exceed its amortised cost at the reversal date.

When an item of loans and receivables is uncollectible, it is written off against the related allowance for impairment losses. Such loans and receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off decrease the amount of the provision for loan impairment in the profit or loss.

### **Financial assets carried at cost**

If there is objective evidence that an impairment loss has been incurred on the financial asset, the amount of impairment loss, measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, is recognised in the profit or loss. In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, the amount of impairment loss is recognised in the profit or loss. Impairment losses on these assets are not reversed.

### **Available-for-sale financial assets**

If there is objective evidence that the financial asset is impaired, the cumulative loss, measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss, is removed from other comprehensive income and recognised in the profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The Bank considers the period and consistency of the decline in evaluating whether a decline in fair value is prolonged. The Bank considers the time period and continuity of the magnitude of the decline to evaluate whether the decline in fair value is prolonged. More significantly the fair value declines relative to the cost, the less the volatility moves, and the longer the decline lasts or the more obvious the continuity of the magnitude of the decline is, the more likely the equity investment impairs. Impairment losses on equity investments are not reversed through the profit or loss; increases in their fair value after impairment are recognised as other comprehensive income.

In the case of debt instruments classified as available for sale, if, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impaired loss is reversed through the profit or loss.

## **(e) Financial Liabilities**

### **Classification**

At initial recognition, financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss, and other financial liabilities. Management determines the classification of its financial liabilities at initial recognition. Liabilities are recorded initially at fair value, plus transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit before taxation over the period of borrowing using the effective interest method.

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

Liabilities in this category are either held for trading or designated at fair value through the profit or loss at inception. A financial liability is classified in this category if entered into principally for the purpose of selling in the short-term, if it eliminates an accounting mismatch or if it is managed by the Bank on a fair value basis.

Derivative liabilities that do not meet the criteria for hedge accounting are classified as held for trading and measured at fair value through profit or loss.

### **(ii) Other financial liabilities**

This category includes all financial liabilities other than those at fair value through profit or loss. Liabilities in this category are measured at amortised cost and include:

### **Due to central banks and other financial institutions/Amount due to related parties**

This represents amounts due to other banks, apart from those designated as at fair value through profit or loss.

### **Deposits from customers**

Deposits from customers cover all forms of funding, apart from those classified as at fair value through profit or loss and include transactional and savings accounts, term deposits and credit balances on cards.

### **Other liabilities**

Other liabilities include the accrual of interest coupons and fees payable. For derivatives, any accrued interest is recognised and measured as part of the derivative's fair value.

## Note 1 - Statement of Accounting Policies (continued)

### **Debt Securities Issued/Certificates of deposit**

Debt Securities Issued is recognised in the balance sheet including accrued interest. When fair value hedge accounting is applied to fixed rate debt securities issued, the carrying value at amortised cost is adjusted for changes in fair value related to the hedged risk.

Other financial liabilities are recognised initially at fair value net of transaction costs incurred. Other financial liabilities are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Transaction cost, specifically debt issue costs, include costs incurred directly attributable to the issuance of the debt, such as legal costs and lead manager fee.

### **Derecognition of financial assets and liabilities**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset; or has retained its rights to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either the Bank has transferred substantially all the risks and rewards of ownership of the financial asset; or the Bank has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has retained its rights to receive cash flows from the asset but has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

### **(f) Derivative financial instruments and hedge accounting**

#### **Derivatives**

The Bank uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the profit or loss.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the profit or loss.

For less complex derivative products, the fair values are principally determined by valuation models which are commonly used by market participants. Inputs to valuation models are determined from observable market data wherever possible, including foreign exchange spot and forward rates and interest rate yield curves. For more complex derivative products, the fair values are mainly determined by quoted prices from dealers.

#### **Hedge Accounting**

At the inception of a hedge relationship, the Bank formally designates and documents the hedge relationship to which the Bank wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they have actually been highly effective throughout the financial reporting periods for which they were designated.

Derivative transactions, which provide effective economic hedges under the Bank's risk management positions, but do not qualify for hedge accounting under IAS 39 are treated as derivatives held for trading with fair value gains or losses recognised in the profit or loss. Hedges which meet the strict criteria for hedge accounting are accounted for in accordance with the Bank's accounting policy as set out below.



## Note 1 - Statement of Accounting Policies (continued)

### (I) Cash flow hedge accounting

Cash flow hedges are hedges of the Bank's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in other comprehensive income. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the profit or loss.

When the hedged cash flow affects the profit or loss, the gain or loss on the hedging instrument recognised directly in other comprehensive income is recycled in the corresponding income or expense line of the profit or loss. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income until the hedged forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the profit or loss.

### (II) Fair Value hedge accounting

Fair value hedges are hedges of the Bank's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or unrecognised firm commitment, that is attributable to a particular risk and could affect the profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and the gains and losses from both are taken to the profit or loss.

For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item and the face value is amortised over the remaining term of the original hedge using the effective interest rate method.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the profit or loss. The changes in the fair value of the hedging instrument are also recognised in the profit or loss.

The Bank discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation. If the hedged items are derecognised, the unamortised fair value is recorded in the profit or loss.

### (g) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position if, and only if, the Bank has a legally enforceable right to offset such amounts with the same counterparty and an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### (h) Asset quality

#### (i) Impaired Assets

Impaired assets consist of restructured assets, assets acquired through the enforcement of security and other impaired assets.

A restructured asset is any credit exposure for which:

- the original terms have been changed to grant the counterparty a concession that would not otherwise have been available, due to the counterparty's difficulties in complying with the original terms;
- the revised terms of the facility are not comparable with the terms of new facilities with comparable risks; and
- the yield on the asset following restructuring is equal to, or greater than, the Bank's average cost of funds, or that a loss is not otherwise expected to be incurred.

Other impaired assets means any credit exposures for which an impairment loss is required in accordance with NZ IAS 39, paragraphs 58 to 62, but is not a restructured asset or an asset acquired through the enforcement of security. Financial assets acquired through the enforcement of security are those real estate and other assets acquired in full or partial satisfaction of a debt.

#### (ii) Past Due Assets

A past due asset is any credit exposure where a counterparty has failed to make a payment when contractually due, and is not an impaired asset.

#### (iii) Assets under administration

An asset under administration is any credit exposure which is not an impaired asset or a past due asset, but which is to a counterparty:

- who is in receivership, liquidation, bankruptcy, statutory management or any form of administration in New Zealand; or
- who is in any other equivalent form of voluntary or involuntary administration in an overseas jurisdiction.

#### (iv) Renegotiated Assets

A renegotiated asset is any credit exposure that would otherwise be past due or impaired whose terms have been renegotiated.

## Note 1 - Statement of Accounting Policies (continued)

### (i) Property, Plant and Equipment

Property and equipment, other than construction in progress are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price, tax and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment, less any estimated residual value, over the estimated useful life. The estimated useful life, estimated residual value and the annual depreciation rate of each item of property and equipment are as follows:

| Classification                           | Estimated Useful Life                                | Estimated Residual Value | Annual Depreciation Rate |
|--|--|--------------------------|--------------------------|
| Office equipment, furniture and fittings | 5 years  | 20%                      | 20%                      |
| Computer Hardware                        | 3 years  | 33.3%                    | 33.3%                    |
| Leasehold improvements                   | Lesser of 5 years or the remaining term of the lease |                          |                          |

For an item of impaired fixed assets, the depreciation is calculated based on the carrying value less the cumulative impairment losses.

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial period end.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognised.

### (j) Intangible Assets

Intangible assets comprise computer software costs and computer software licences. Computer software licences are amortised over their expected useful lives. Amortisation is calculated on a straight line basis over periods generally ranging from 3 to 5 years.

The Bank generally expenses computer software costs in the period incurred. However, some costs associated with developing identifiable and unique software products controlled by the Bank, including employee costs and an appropriate portion of relevant overheads are capitalised and treated as intangible assets. These assets are amortised using the straight line method over their useful lives.

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

### (k) Taxation

Income tax comprises current and deferred income tax. Income tax is recognised in the profit or loss except when it relates to items recognised directly in equity, in which case it is recognised in equity.

#### (i) Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of each reporting period.

#### (ii) Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax liabilities are recognised for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses.



## Note 1 - Statement of Accounting Policies (continued)

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilised. When it is probable that sufficient taxable income will be available, the reduced amount can be reversed accordingly.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

### (l) Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the profit or loss net of any reimbursement. Impairment losses on assets except for deferred tax assets, financial assets and goodwill are determined based on the following:

The Bank assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, or when impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined on an individual basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash generating unit (CGU) to which the asset belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use of an asset, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### (m) Contingent liabilities and credit commitments

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

The Bank issues financial guarantee contracts, including letters of credit, letters of guarantee and acceptance. These financial guarantee contracts provide for specified payments to be made to reimburse the holders for the losses they incur when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or any other obligation. They are disclosed as contingent liabilities at their face value.

### (n) Leases

Leases which transfer substantially all the risks and rewards of ownership of the assets to the lessees are classified as finance leases. Leases where substantially all the rewards and risks of the assets remain with the lessor are accounted for as operating leases.

#### Finance leases

When the Bank is a lessor under finance leases, an amount representing the minimum lease payment receivables and initial direct costs is included in the statement of financial position as loans and advances to customers. Any unguaranteed residual value is also recognised at the inception of the lease. The difference between the sum of the minimum lease payment receivables, initial direct costs, the unguaranteed residual value and their present value is recognised as unearned finance income. Unearned finance income is recognised over the period of the lease using the effective interest rate method.

#### Operating leases

Rental payments applicable to operating leases are charged to the profit or loss on the straight-line basis over the lease terms. When the Bank is the lessor under operating leases, the assets subject to operating leases are accounted for as the Bank's assets. Rental income is recognised as "other income" in the profit or loss on the straight-line basis over the lease term.



## Note 1 - Statement of Accounting Policies (continued)

### (o) Share capital

#### (i) Share issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

#### (ii) Dividend distribution

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the balance sheet date are addressed in the subsequent events note (if applicable).

#### (p) Goods and Services Tax ("GST")

The financial statements have been prepared so that all components are stated exclusive of GST except where the GST is not recoverable from the IRD. In these circumstances the GST component is recognised as part of the underlying item. Trade and other receivables and payables are stated GST inclusive. The net amount of GST recoverable from or payable to the IRD is included within these categories.

#### (q) Employee Benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Bank in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Bank. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Bank will present them at their present value.

#### (r) Repurchase and reverse repurchase transactions (including securities borrowing and lending)

Assets sold under agreements to repurchase at a specified future date ("repos") are not derecognised from the statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position as a "repurchase agreement", reflecting its economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, assets purchased under agreements to resell at a specified future date ("reverse repos") are not recognised on the statement of financial position. The corresponding cash paid, including accrued interest, is recognised on the statement of financial position as a "reverse repurchase agreement". The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest rate method.

Securities borrowing and lending transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognised on the statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a financial liability held for trading and measured at fair value with any gains or losses included in the profit or loss.

#### (s) Change in Accounting Policies

Accounting policies are consistent with those applied in the Disclosure Statement for the year ended 31 December 2016, except as disclosed below.

The following new amendment to standards relevant to the Banking has been adopted from 1 January 2017 and has been applied in the preparation of these financial statement:

NZ IAS 7 Disclosure Initiative and NZ IAS 12 Income Tax effective for periods on or after 1 January 2017 has been adopted. Adoption of this standard has not resulted in any impact on the Bank's reported results or financial position.

#### (t) NZ IFRS Accounting Standards Issued but Not Yet Effective

The following new standards and amendments to standards relevant to the Bank are not yet effective and have not yet been applied in preparing the financial statements.

#### (i) NZ IFRS 9 Financial Instruments: Classification and Measurement (Effective for periods on or after 1 January 2018)

IFRS 9, published in September 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Based on the initial impact assessment performed by the Bank, the impact on loan provision on transition to NZ IFRS 9 is expected to be within the range from \$4.4 million to \$13.6 million..

## Note 1 - Statement of Accounting Policies (continued)

The Bank has not been able to determine the impact of transitioning to NZ IFRS 9 as a result of both:

- having not fully finalised their analysis of the impact of transitioning of IFRS 9; and
- the late provision adjustment in relation to the loan discussed in Note 1(4) of these disclosure statements.

As a result, the eventual impact of NZ IFRS 9 could vary substantially from the impact shown in these disclosure statements and management has elected to provide a range of the possible impact.

### (ii) NZ IFRS 16 Leases (Effective for periods on or after 1 January 2019)

NZ IFRS 16 removes the classification of leases as either operating leases or finance leases – for the lessee – effectively treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements. There are also changes in accounting over the life of the lease. In particular, companies will now recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. The standard is effective for annual reporting periods beginning on or after 1 January 2019.

The extent of the impact of adoption of the above standards and amendments has not yet been determined.

## (6) Comparative Financial Statements

Certain comparative balances have been reclassified to ensure consistency with the current financial year's presentation. These reclassifications have no impact on the overall financial performance or financial position for the comparative reporting periods. Notes effected are: Deposits from customers have been reclassified based on the deposit types, instead of customers' types and locations (Note 21); Concentration of credit risk – December 2016 figures changed due to the reclassification of customer industry (Administration and support services previously included in Finance – Note 28).

## Note 2 - Interest Income and Interest Expense

| Thousands of dollars   | Audited          | Audited          |
|--|------------------|------------------|
|  | 31 December 2017 | 31 December 2016 |
| <b>Interest income</b>   |                  |                  |
| Loans and advances to customers  | 38,986           | 22,448           |
| Government and local authority securities  | 842              | 552              |
| From other financial institutions  | 1,107            | 1,224            |
| Amounts due from related parties   | 24               | 18               |
| Other securities   | 1,219            | 865              |
| Cash and liquid assets   | 246              | 150              |
| Bank lending fees  | 4,640            | 2,300            |
| Income from impaired assets  | -                | -                |
| Income from restructured assets  | -                | -                |
| Income from derivative   | 225              | -                |
| <b>Total interest income</b>   | <b>47,289</b>    | <b>27,557</b>    |
| Within this balance, interest earned on restructured and impaired assets is: nil (2016: nil) |                  |                  |
| <b>Interest expense</b>  |                  |                  |
| Deposits from customers  | 4,614            | 1,312            |
| Debt securities issued   | 9,613            | 3,736            |
| Secured and unsecured borrowings   | 28               | 36               |
| Amounts due to related parties   | 11,062           | 6,065            |
| <b>Total interest expense</b>  | <b>25,317</b>    | <b>11,149</b>    |

## Note 3 - Net Gains/ (Losses) on Financial Instruments at Fair Value through Profit or Loss

| Thousands of dollars   | Audited          | Audited          |
|--|------------------|------------------|
|  | 31 December 2017 | 31 December 2016 |
| Financial assets designated at fair value through profit or loss upon initial recognition      | -                | -                |
| Derivative financial instruments held for trading  | 7,432            | (9,327)          |
| Financial liabilities designated at fair value through profit or loss upon initial recognition | -                | -                |
| Financial assets held for trading  | -                | -                |
| Net ineffectiveness on qualifying cash flow hedges   | -                | -                |
| Net ineffectiveness on qualifying fair value hedges  | -                | -                |
| Cumulative gain/(loss) transferred from the available-for-sale reserve                         | -                | -                |
| Cumulative loss transferred from the cash flow hedge reserve                                   | -                | -                |
| <b>Total net gains/(losses) on financial instruments at fair value through profit or loss</b>  | <b>7,432</b>     | <b>(9,327)</b>   |

## Note 4 - Other Income

| Thousands of dollars                                | Audited          | Audited          |
|---|------------------|------------------|
|   | 31 December 2017 | 31 December 2016 |
| Banking and lending fee income                      | 691              | 499              |
| Payment services fee income                         | 772              | 693              |
| Bad debts recovered                                 | -                | -                |
| Net foreign exchange gains/(losses) and commissions | (7,881)          | 7,117            |
| Gain on sale of property, plant and equipment       | -                | -                |
| Other revenue                                       | 16               | 205              |
| <b>Total other income</b>                           | <b>(6,402)</b>   | <b>8,514</b>     |

Note 5 - Operating Expenses

| Thousands of dollars                                 | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|--|-----------------------------|-----------------------------|
| Auditor's remuneration:                              |                             |                             |
| Audit of financial statements                        | 118                         | 121                         |
| Prior Year Overruns on Audit of financial statements | -                           | 60                          |
| Review of financial statements                       | 54                          | 58                          |
| Accounting advice fee                                | -                           | 3                           |
| Other assurance service                              | 49                          | 11                          |
| Taxation and other services                          | 3                           | -                           |
| Tax advisory services                                | 89                          | 87                          |
| Donations  | -                           | -                           |
| Directors' fees                                      | 270                         | 270                         |
| Depreciation:  |                             |                             |
| Computer hardware                                    | 49                          | 229                         |
| Office equipment                                     | 23                          | 23                          |
| Furniture, fittings, and leasehold improvements      | 342                         | 342                         |
| Amortization of intangible assets                    | -                           | 4                           |
| Employee benefits                                    |                             |                             |
| Wages and salaries                                   | 8,923                       | 6,402                       |
| Kiwi Saver Contribution                              | 35                          | 20                          |
| Other Employment-Related Expenses                    | 172                         | 134                         |
| Rental and lease costs                               | 1,002                       | 1,002                       |
| Loss on sale of property, plant and equipment        | -                           | -                           |
| Professional consulting fee                          | 399                         | 360                         |
| Building occupation costs                            | 289                         | 286                         |
| Promotion and marketing costs                        | 327                         | 268                         |
| Membership fee                                       | 239                         | 186                         |
| Other operating expenses                             | 2,140                       | 1,079                       |
| <b>Total operating expenses</b>                      | <b>14,523</b>               | <b>10,945</b>               |

## Note 6 - Impairment Allowance

Audited 31 December 2017

### Individually impaired assets

| Thousands of dollars  | Other exposures<br>excluding<br>sovereigns and<br>central banks | Retail Mortgage<br>Lending | Corporate and<br>institutional | Total as at<br>31 December<br>2017 |
|---|---|----------------------------|--------------------------------|------------------------------------|
| Balance at the beginning of the period                        | -   | -                          | -                              | -                                  |
| Charge to statement of comprehensive income in current period | (6)   | 17                         | 10,236                         | 10,247                             |
| Bad debts written off   | -   | (17)                       | -                              | (17)                               |
| Bad debts recovered   | 6   | -                          | -                              | 6                                  |
| <b>Balance as at 31 December 2017</b>                         | -   | -                          | 10,236                         | 10,236                             |

### Collective allowance for impairment losses

| Thousands of dollars  | Other exposures<br>excluding<br>sovereigns and<br>central banks | Retail Mortgage<br>Lending | Corporate and<br>institutional | Total as at<br>31 December<br>2017 |
|---|---|----------------------------|--------------------------------|------------------------------------|
| Balance at the beginning of the period                        | 10  | 303                        | 3,745                          | 4,058                              |
| Charge to statement of comprehensive income in current period | 12  | 545                        | 1,759                          | 2,316                              |
| Advances written off  | -   | -                          | -                              | -                                  |
| <b>Balance as at 31 December 2017</b>                         | 22  | 848                        | 5,504                          | 6,374                              |
| <b>Total charge to statement of comprehensive income</b>      | 6   | 562                        | 11,995                         | 12,563                             |

Audited 31 December 2016

### Individually impaired assets

| Thousands of dollars  | Other exposures<br>excluding<br>sovereigns and<br>central banks | Retail Mortgage<br>Lending | Corporate and<br>institutional | Total as at<br>31 December<br>2016 |
|---|---|----------------------------|--------------------------------|------------------------------------|
| Balance at the beginning of the year                          | -   | -                          | -                              | -                                  |
| Charge to statement of comprehensive income in current period | 11  | -                          | -                              | 11                                 |
| Bad debts written off   | (11)  | -                          | -                              | (11)                               |
| Bad debts recovered   | -   | -                          | -                              | -                                  |
| <b>Balance as at 31 December 2016</b>                         | -   | -                          | -                              | -                                  |

### Collective allowance for impairment losses

| Thousands of dollars  | Other exposures<br>excluding<br>sovereigns and<br>central banks | Retail Mortgage<br>Lending | Corporate and<br>institutional | Total as at<br>31 December<br>2016 |
|---|---|----------------------------|--------------------------------|------------------------------------|
| Balance at the beginning of the year                        | 4   | 179                        | 1,068                          | 1,251                              |
| Charge to statement of comprehensive income in current year | 6   | 124                        | 2,677                          | 2,807                              |
| Advances written off  | -   | -                          | -                              | -                                  |
| <b>Balance as at 31 December 2016</b>                       | 10  | 303                        | 3,745                          | 4,058                              |
| <b>Total charge to statement of comprehensive income</b>    | 17  | 124                        | 2,677                          | 2,818                              |



Note 7 - Taxation

| Thousands of dollars   | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|--|-----------------------------|-----------------------------|
| Net profit/(loss) before taxation  | (4,084)                     | 1,832                       |
| Tax calculated at a tax rate of 28%  | (1,144)                     | 513                         |
| (Under)/over provision from prior period   | 6                           | -                           |
| Temporary differences not previously recognised  | (1,791)                     | 928                         |
| Utilisation of tax losses previously unrecognised  | -                           | (803)                       |
| Other permanent differences  | 44                          | 42                          |
| <b>Taxation charge as per the statement of comprehensive income</b>  | <b>(2,885)</b>              | <b>680</b>                  |
| <b>Represented by:</b>   |                             |                             |
| Current tax  | 2,653                       | 680                         |
| Deferred tax   | (5,538)                     | -                           |
| <b>Taxation charge as per the statement of comprehensive income</b>  | <b>(2,885)</b>              | <b>680</b>                  |
| <b>The deferred tax charge in the statement of comprehensive income comprises the following temporary differences:</b> |                             |                             |
| Employee entitlements  | (477)                       | -                           |
| Accelerated depreciation   | (226)                       | -                           |
| Allowances for impairment losses   | (4,650)                     | -                           |
| Other provisions and accruals  | (172)                       | -                           |
| Other temporary differences  | (13)                        | -                           |
| Tax effect of change in tax rate   | -                           | -                           |
| Amortisation of intangibles  | -                           | -                           |
| Recognised tax losses  | -                           | -                           |
| <b>Total temporary differences</b>   | <b>(5,538)</b>              | <b>-</b>                    |

Imputation credits

| Thousands of dollars  | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|---|-----------------------------|-----------------------------|
| <b>Balances available for use in subsequent reporting periods</b> |                             |                             |
| Imputation credit account   | 3,376                       | 725                         |

The above amount represent the balance of the imputation account as at the end of the reporting period, adjusted for:

1. Imputation credits that will arise from the payment of the amount of the provision for income tax
2. Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
3. Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

Note 8 – Current and Deferred Taxation

| Thousands of dollars                           | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|--|-----------------------------|-----------------------------|
| <b>Current income tax (payable)/receivable</b> |                             |                             |
| Balance at beginning of the year               | (596)                       | 81                          |
| (Under)/over provision from prior period       | 6                           | -                           |
| Tax on profits/(losses) taken to reserves      | -                           | -                           |
| Transfer from/(to) deferred tax                | -                           | -                           |
| Current Year Tax charge                        | (2,659)                     | (1,483)                     |
| Utilisation of tax losses                      | -                           | 803                         |
| Related party purchase of tax losses           | -                           | -                           |
| Refundable Tax credits                         | -                           | -                           |
| Tax refunded                                   | -                           | -                           |
| Tax paid in current year                       | 1,307                       | 3                           |
| <b>Balance at end of the year</b>              | <b>(1,942)</b>              | <b>(596)</b>                |
| <b>Deferred tax</b>                            |                             |                             |
| Balance at beginning of the year               | -                           | -                           |
| Under/(over) provision from prior period       | (6)                         | -                           |
| Temporary differences for the year             | 5,544                       | -                           |
| Tax on losses carried forward                  | -                           | -                           |
| Tax effect of change in tax rate               | -                           | -                           |
| Credit to current tax                          | -                           | -                           |
| <b>Balance at end of the year</b>              | <b>5,538</b>                | <b>-</b>                    |
| <b>Deferred tax assets</b>                     |                             |                             |
| Employee entitlements                          | 477                         | -                           |
| Accelerated depreciation                       | 226                         | -                           |
| Other provisions and accruals                  | 172                         | -                           |
| Other temporary differences                    | 13                          | -                           |
| Losses recognised in deferred tax              | -                           | -                           |
| Allowance for loan impairment                  | 4,650                       | -                           |
| <b>Total assets</b>                            | <b>5,538</b>                | <b>-</b>                    |
| <b>Deferred tax liabilities</b>                |                             |                             |
| Accelerated depreciation                       | -                           | -                           |
| Net commissions receivable                     | -                           | -                           |
| Intangible assets                              | -                           | -                           |
| <b>Total liabilities</b>                       | <b>-</b>                    | <b>-</b>                    |
| <b>Net deferred taxation</b>                   | <b>5,538</b>                | <b>-</b>                    |

Due to the recognition in the current year of the full deductible temporary differences that were not fully recognised in the prior year, the effective tax rate on the Bank's profit before tax has been calculated at -71%. Tax benefits not recognised in these financial statements amounted to nil at 31 December 2017 (31 December 2016: \$1,791K). These tax benefits relate solely to temporary differences and are only available to the Bank if the income tax legislation's requirements are met. There were no tax losses carried forward (31 December 2016: \$803k).

Note 9 – Cash, Cash Equivalents and Balances with Central Banks

| Thousands of dollars                                  | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|---|-----------------------------|-----------------------------|
| Cash on hand  | -                           | -                           |
| Cash with central banks                               | 46,448                      | 50,454                      |
| Call and overnight advances to financial institutions | 281,846                     | 106,073                     |
| <b>Total cash and cash equivalents</b>                | <b>328,294</b>              | <b>156,527</b>              |

Note 10 – Due from Banks and Other Financial Institutions

| Thousands of dollars                                      | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|---|-----------------------------|-----------------------------|
| NZ Registered Banks                                       | -                           | -                           |
| Overseas Registered Banks                                 | -                           | 2,197                       |
| Other   | -                           | -                           |
| <b>Total amount due from other financial institutions</b> | -                           | 2,197                       |
| Current   | -                           | 2,197                       |
| Non-Current   | -                           | -                           |

Note 11 – Offsetting financial assets and financial liabilities

Under NZ IAS 32, a financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity:

- (a) currently has a legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Bank does not offset its financial assets and financial liabilities in the balance sheet as both requirements are not met.

Derivative assets and liabilities

Derivative financial instrument contracts are typically subject to International Swaps and Derivatives Association("ISDA") master netting agreements.

Derivative amounts rights of offset may typically relate to some exchange and central clearing counterparty settled contracts where the bank has a legal right to offset for both payments netting and close out netting.

| Audited 31 December 2017         | Gross amount of<br>financial instruments<br>in the statements of<br>financial position | Related financial<br>instruments not<br>offset | Net Amount |
|----------------------------------|--|--|------------|
| Thousands of dollars             |  |  |            |
| <b>Financial Assets</b>          |  |  |            |
| Derivative financial instruments | 273  | (86)   | 187        |
|                                  | 273  | (86)   | 187        |
| <b>Financial Liabilities</b>     |  |  |            |
| Derivative financial instruments | 316  | (86)   | 230        |
|                                  | 316  | (86)   | 230        |

| Audited 31 December 2016         | Gross amount of<br>financial instruments<br>in the statements of<br>financial position | Related financial<br>instruments the<br>not offset | Net Amount |
|----------------------------------|--|--|------------|
| Thousands of dollars             |  |  |            |
| <b>Financial Assets</b>          |  |  |            |
| Derivative financial instruments | 369  | (100)  | 269        |
|                                  | 369  | (100)  | 269        |
| <b>Financial Liabilities</b>     |  |  |            |
| Derivative financial instruments | 245  | (100)  | 145        |
|                                  | 245  | (100)  | 145        |

## Note 12 – Financial Assets Held to Maturity and Available for Sales Assets

### A. Financial Assets Held to Maturity

| Thousands of dollars                                | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|---|-----------------------------|-----------------------------|
| Government stock and multilateral development banks | 6,471                       | 6,598                       |
| Local authority securities                          | 28,079                      | 28,412                      |
| Other debt securities                               | 5,676                       | 5,666                       |
| <b>Total held-to-maturity assets</b>                | <b>40,226</b>               | <b>40,676</b>               |
| Current   | -                           | -                           |
| Non-Current   | 40,226                      | 40,676                      |

These assets have been categorised as Financial Assets held to maturity, on the basis that they form a portfolio complying with RBNZ's BS13A and there is an active market for such assets.

### B. Available for Sale Assets

| Thousands of dollars                                | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|---|-----------------------------|-----------------------------|
| Government stock and multilateral development banks | -                           | -                           |
| Local authority securities                          | -                           | -                           |
| Other debt securities                               | -                           | -                           |
| <b>Total available-for-sale assets</b>              | <b>-</b>                    | <b>-</b>                    |
| Current   | -                           | -                           |
| Non-Current   | -                           | -                           |

## Note 13 – Loans and Advances to Customers

| Thousands of dollars                   | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|--|-----------------------------|-----------------------------|
| Residential mortgage loans             | 437,925                     | 172,926                     |
| Corporate exposures                    | 848,100                     | 531,368                     |
| Credit Cards                           | 92                          | 87                          |
| Other exposures                        | -                           | -                           |
| Allowance for impairment losses        | (16,610)                    | (4,058)                     |
| <b>Total net loans and receivables</b> | <b>1,269,507</b>            | <b>700,323</b>              |
| Current                                | 296,020                     | 201,769                     |
| Non-Current                            | 973,487                     | 498,554                     |

## Note 14 – Financial Assets Designated at Fair Value, Financial Assets Held for Trading, Derivative Financial Instruments and Financial Liabilities Held for Trading

### (a) Financial Assets Designated at Fair Value

| Thousands of dollars          | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|-------------------------------|-----------------------------|-----------------------------|
| Debt Securities - Listed      | -                           | -                           |
| Debt Securities - Unlisted    | -                           | -                           |
| Equity Investments - Listed   | -                           | -                           |
| Equity Investments - Unlisted | -                           | -                           |
| <b>Total</b>                  | <b>-</b>                    | <b>-</b>                    |

### (b) Financial Assets Held for Trading

| Thousands of dollars          | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|-------------------------------|-----------------------------|-----------------------------|
| Debt Securities - Listed      | -                           | -                           |
| Debt Securities - Unlisted    | -                           | -                           |
| Equity Investments - Listed   | -                           | -                           |
| Equity Investments - Unlisted | -                           | -                           |
| <b>Total</b>                  | <b>-</b>                    | <b>-</b>                    |



**Note 14 – Financial Assets Designated at Fair Value, Financial Assets Held for Trading, Derivative Financial Instruments and Financial Liabilities Held for Trading (continued)**

**(c) Derivative Financial Instruments**

| Audited 31 December 2017                  | Notional<br>Principal Amount | Fair Value |             |
|---|------------------------------|------------|-------------|
|   |                              | Assets     | Liabilities |
| Thousands of dollars                      |                              |            |             |
| <b>Forward exchange derivatives</b>       |                              |            |             |
| - Forward foreign exchange contracts      | 9,721                        | 172        | 168         |
| - Swaps                                   | -                            | -          | -           |
| - Option Contracts                        | -                            | -          | -           |
| <b>Total Foreign exchange derivatives</b> | <b>9,721</b>                 | <b>172</b> | <b>168</b>  |
| <b>Interest Rate derivatives</b>          |                              |            |             |
| - Forward Rate Agreements                 | -                            | -          | -           |
| - Swaps                                   | 119,200                      | 101        | 148         |
| - Option Contracts                        | -                            | -          | -           |
| <b>Total Interest Rate derivatives</b>    | <b>119,200</b>               | <b>101</b> | <b>148</b>  |
| <b>Total</b>                              |                              | <b>273</b> | <b>316</b>  |

| Audited 31 December 2016                  | Notional<br>Principal Amount | Fair Value |             |
|---|------------------------------|------------|-------------|
|   |                              | Assets     | Liabilities |
| Thousands of dollars                      |                              |            |             |
| <b>Forward exchange derivatives</b>       |                              |            |             |
| - Forward foreign exchange contracts      | -                            | -          | -           |
| - Swaps                                   | -                            | -          | -           |
| - Option Contracts                        | -                            | -          | -           |
| <b>Total Foreign exchange derivatives</b> | <b>-</b>                     | <b>-</b>   | <b>-</b>    |
| <b>Interest Rate derivatives</b>          |                              |            |             |
| - Forward Rate Agreements                 | -                            | -          | -           |
| - Swaps                                   | 81,100                       | 369        | 245         |
| - Option Contracts                        | -                            | -          | -           |
| <b>Total Interest Rate derivatives</b>    | <b>81,100</b>                | <b>369</b> | <b>245</b>  |
| <b>Total</b>                              |                              | <b>369</b> | <b>245</b>  |

**(d) Financial Liabilities Held for Trading**

| Thousands of dollars          | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|-------------------------------|-----------------------------|-----------------------------|
|                               |                             |                             |
| Debt Securities - Listed      | -                           | -                           |
| Debt Securities - Unlisted    | -                           | -                           |
| Equity Investments - Listed   | -                           | -                           |
| Equity Investments - Unlisted | -                           | -                           |
| <b>Total</b>                  | <b>-</b>                    | <b>-</b>                    |

The notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts of risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the company in an orderly market transaction at balance sheet date. The replacement cost is considered to be the same as the positive or negative fair value.

**Note 15 – Subsidiaries**

As at 31 December 2017, the Bank does not have any subsidiaries (31 December 2016: Nil).

Note 16 – Property, Plant & Equipment

**Audited 31 December 2017**

| Thousands of dollars                 | Computer<br>Hardware | Office<br>Equipment | Furniture, fittings<br>& Leasehold<br>Improvements | Other<br>Assets | Total      |
|--------------------------------------|----------------------|---------------------|--|-----------------|------------|
| At cost                              | 820                  | 113                 | 1,708  | -               | 2,641      |
| Accumulated depreciation             | (745)                | (69)                | (995)  | -               | (1,809)    |
| <b>Opening carrying amount</b>       | <b>75</b>            | <b>44</b>           | <b>713</b>   | <b>-</b>        | <b>832</b> |
| Additions                            | -                    | -                   | 10   | -               | 10         |
| Disposals                            | -                    | -                   | -  | -               | -          |
| Depreciation                         | (49)                 | (23)                | (342)  | -               | (414)      |
| Write offs                           | -                    | -                   | -  | -               | -          |
| <b>Closing carrying amount</b>       | <b>26</b>            | <b>21</b>           | <b>381</b>   | <b>-</b>        | <b>428</b> |
| Total At cost                        | 820                  | 113                 | 1,718  | -               | 2,651      |
| Total Accumulated depreciation       | (794)                | (92)                | (1,337)  | -               | (2,223)    |
| <b>Total Closing carrying amount</b> | <b>26</b>            | <b>21</b>           | <b>381</b>   | <b>-</b>        | <b>428</b> |

**Audited 31 December 2016**

| Thousands of dollars                 | Computer<br>Hardware | Office<br>Equipment | Furniture, fittings<br>& Leasehold<br>Improvements | Other<br>Assets | Total        |
|--------------------------------------|----------------------|---------------------|--|-----------------|--------------|
| At cost                              | 795                  | 113                 | 1,708  | -               | 2,616        |
| Accumulated depreciation             | (516)                | (46)                | (653)  | -               | (1,215)      |
| <b>Opening carrying amount</b>       | <b>279</b>           | <b>67</b>           | <b>1,055</b>                                       | <b>-</b>        | <b>1,401</b> |
| Additions                            | 25                   | -                   | -  | -               | 25           |
| Disposals                            | -                    | -                   | -  | -               | -            |
| Depreciation                         | (229)                | (23)                | (342)  | -               | (594)        |
| Write offs                           | -                    | -                   | -  | -               | -            |
| <b>Closing carrying amount</b>       | <b>75</b>            | <b>44</b>           | <b>713</b>   | <b>-</b>        | <b>832</b>   |
| Total At cost                        | 820                  | 113                 | 1,708  | -               | 2,641        |
| Total Accumulated depreciation       | (745)                | (69)                | (995)  | -               | (1,809)      |
| <b>Total Closing carrying amount</b> | <b>75</b>            | <b>44</b>           | <b>713</b>   | <b>-</b>        | <b>832</b>   |

## Note 17 – Intangible Assets

| Thousands of dollars                      | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|---|-----------------------------|-----------------------------|
| Goodwill                                  | -                           | -                           |
| Computer software                         | -                           | -                           |
| Computer software work in progress        | -                           | -                           |
| <b>Total Intangible assets</b>            | -                           | -                           |
| <b>Goodwill</b>                           |                             |                             |
| Balance at beginning of the year          | -                           | -                           |
| Additions                                 | -                           | -                           |
| Impairment                                | -                           | -                           |
| <b>Balance at end of the year</b>         | -                           | -                           |
| <b>Computer software</b>                  |                             |                             |
| Cost brought forward                      | 11                          | 11                          |
| Accumulated amortisation brought forward  | (11)                        | (7)                         |
| Opening net book value                    | -                           | 4                           |
| Additions                                 | -                           | -                           |
| Amortisation                              | -                           | (4)                         |
| <b>Closing net book value</b>             | -                           | -                           |
| <b>Computer software work in progress</b> |                             |                             |
| Cost                                      | -                           | -                           |
| Accumulated amortisation                  | -                           | -                           |
| <b>Closing net book value</b>             | -                           | -                           |

## Note 18 – Other Assets

| Thousands of dollars               | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|------------------------------------|-----------------------------|-----------------------------|
| Other receivables                  | 1,377                       | 293                         |
| Commissions receivable             | 137                         | 59                          |
| Interest receivable                | 3,648                       | 2,268                       |
| <b>Trade and other receivables</b> | <b>5,162</b>                | <b>2,620</b>                |
| Current                            | 5,005                       | 2,463                       |
| Non-Current                        | 157                         | 157                         |

## Note 19 – Due to Central Banks and Other Financial Institutions

| Thousands of dollars                             | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|--|-----------------------------|-----------------------------|
| Loans from other banks                           | -                           | -                           |
| Loans from central bank                          | -                           | -                           |
| Items in course of settlement                    | 1                           | 1                           |
| ATM cash at other banks                          | -                           | -                           |
| <b>Total due to other financial institutions</b> | <b>1</b>                    | <b>1</b>                    |
| Current  | 1                           | 1                           |
| Non-Current                                      | -                           | -                           |

## Note 20 – Balances with Related Entity

| Thousands of dollars                                   | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|--|-----------------------------|-----------------------------|
| Amounts due from ultimate parent                       | 12,605                      | -                           |
| Amount due from controlled entities of ultimate parent | -                           | -                           |
| <b>Total amount due from related entities</b>          | <b>12,605</b>               | <b>-</b>                    |
| Current  | 12,605                      | -                           |
| Non-Current  | -                           | -                           |
| Amounts due to ultimate parent                         | 685,362                     | 467,386                     |
| Amount due to controlled entities of ultimate parent   | -                           | -                           |
| <b>Total amount due to related entities</b>            | <b>685,362</b>              | <b>467,386</b>              |
| Current  | 208,801                     | 190,201                     |
| Non-Current  | 476,561                     | 277,185                     |
| <b>Off Balance sheet transactions</b>                  |                             |                             |
| Due from parent  | 3,222                       | -                           |
| Due to parent  | 3,115                       | -                           |
| Due from controlled entities of ultimate parent        | 1,730                       | -                           |
| Due to controlled entities of ultimate parent          | 1,653                       | -                           |

1. Nostro account balance held with parent and controlled entities of ultimate parent as at 31 December 2017 is NZ\$3,284K (31 December 2016: NZ\$1,640K). This is included in cash and cash equivalents balance. Parent includes ICBC Head Office and other branches. Refer to Note 27 for transactions with related parties.

2. ICBC (NZ) operations are guaranteed by the parent ICBC Group which, from time to time, transfers payments through the ICBC (NZ) vostro account. These payment transfers are to optimise the management of currency exposures on the ICBC Group's balance sheet and/or manage counter party and country level exposures at financial reporting period ends, and/or to facilitate international payments to New Zealand correspondent banks. Such transfers were approximately NZ\$70m as at 31 December 2017 (31 December 2016: NZ\$120m).

3. On 23 November 2017, ICBC (NZ) issued NZ\$35m subordinated loan to ICBC Head Office (note 23 and 37). The accrued interest of subordinated loan is NZ\$106K as at 31 December 2017 (31 December 2016: nil).

## Note 21 – Deposits from Customers

| Thousands of dollars                 | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|--------------------------------------|-----------------------------|-----------------------------|
| Demand deposits not bearing interest | 75,465                      | 71,663                      |
| Demand deposits bearing interest     | 3,114                       | -                           |
| Term deposits                        | 340,941                     | 78,136                      |
| <b>Total deposits</b>                | <b>419,520</b>              | <b>149,799</b>              |
| Current                              | 325,979                     | 107,136                     |
| Non-Current                          | 93,541                      | 42,663                      |



Note 22 – Certificates of Deposit and Debt Securities Issued

| Thousands of dollars                | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|-------------------------------------|-----------------------------|-----------------------------|
| Certificates of deposit (CDs)       | 54,679                      | 33,450                      |
| Other debt securities               | 311,305                     | 103,894                     |
| <b>Total debt securities issued</b> | <b>365,984</b>              | <b>137,344</b>              |
| Current                             | 74,394                      | 108,800                     |
| Non-Current                         | 291,590                     | 28,544                      |

**Audited  
31 December 2017  
Certificates of deposits (CDs) issued**

| Issue Currency     | Coupon Rate<br>% | Maturity Date    | Face Value<br>Issue Currency<br>\$'000 | Carrying Value<br>NZ \$'000 | Fair Value<br>NZ \$'000 |
|--------------------|------------------|------------------|--|-----------------------------|-------------------------|
| New Zealand Dollar | 2.3300 (fixed)   | 18 January 2018  | 20,000                                 | 19,883                      | 19,883                  |
| New Zealand Dollar | 2.4100 (fixed)   | 23 February 2018 | 15,000                                 | 14,909                      | 14,909                  |
| New Zealand Dollar | 2.3100 (fixed)   | 28 February 2018 | 20,000                                 | 19,887                      | 19,887                  |
|                    |                  |                  |  | <b>54,679</b>               | <b>54,679</b>           |

**Audited  
31 December 2016  
Certificates of deposits (CDs) issued**

| Issue Currency     | Coupon Rate<br>% | Maturity Date   | Face Value<br>Issue Currency<br>\$'000 | Carrying Value<br>NZ \$'000 | Fair Value<br>NZ \$'000 |
|--------------------|------------------|-----------------|--|-----------------------------|-------------------------|
| New Zealand Dollar | 2.2675 (fixed)   | 24 January 2017 | 11,000                                 | 10,966                      | 10,966                  |
| New Zealand Dollar | 2.4350 (fixed)   | 21 March 2017   | 6,300                                  | 6,259                       | 6,259                   |
| New Zealand Dollar | 2.4350 (fixed)   | 16 March 2017   | 1,300                                  | 1,292                       | 1,292                   |
| New Zealand Dollar | 2.4200 (fixed)   | 20 March 2017   | 10,000                                 | 9,940                       | 9,940                   |
| New Zealand Dollar | 2.4000 (fixed)   | 13 January 2017 | 5,000                                  | 4,993                       | 4,993                   |
|                    |                  |                 |  | <b>33,450</b>               | <b>33,450</b>           |

Note 22 – Certificates of Deposit and Debt Securities Issued (continued)

| Medium term notes issued |                           |                   | Audited<br>31 December 2017               |                                |                         | Audited<br>31 December 2016               |                                |                         |
|--------------------------|---------------------------|-------------------|---|--------------------------------|-------------------------|---|--------------------------------|-------------------------|
| Issue<br>Currency        | Coupon<br>Rate<br>%       | Maturity Date     | Face Value<br>Issue<br>Currency<br>\$'000 | Carrying<br>Value<br>NZ \$'000 | Fair Value<br>NZ \$'000 | Face Value<br>Issue<br>Currency<br>\$'000 | Carrying<br>Value<br>NZ \$'000 | Fair Value<br>NZ \$'000 |
| New Zealand Dollar       | 4.74 (fixed)              | 22 December 2017  | -   | -                              | -                       | 50,000                                    | 50,349                         | 51,319                  |
| New Zealand Dollar       | 3 month NZD BKBm+85bp     | 22 December 2017  | -   | -                              | -                       | 25,000                                    | 25,000                         | 25,000                  |
| US Dollar                | 3 month USD LIBOR + 110bp | 5 November 2018   | 14,000                                    | 19,715                         | 19,715                  | 14,000                                    | 20,067                         | 20,067                  |
| AU Dollar                | 3 month BBSW+135bp        | 22 December 2020  | 5,000                                     | 5,493                          | 5,493                   | 5,000                                     | 5,198                          | 5,198                   |
| AU Dollar                | 3 month BBSW+125bp        | 22 December 2020  | 10,000                                    | 10,987                         | 10,987                  | -   | -                              | -                       |
| New Zealand Dollar       | 3 month NZD BKBm+110bp    | 15 November 2020  | 140,000                                   | 140,000                        | 140,000                 | -   | -                              | -                       |
| New Zealand Dollar       | 3 month NZD BKBm+120bp    | 24 February 2020  | 100,000                                   | 100,000                        | 100,000                 | -   | -                              | -                       |
| New Zealand Dollar       | 3.47 (fixed)              | 27 September 2021 | 140                                       | 140                            | 138                     | -   | -                              | -                       |
| New Zealand Dollar       | 3.47 (fixed)              | 13 March 2021     | 28,190                                    | 28,190                         | 27,948                  | -   | -                              | -                       |
| New Zealand Dollar       | 3.99 (fixed)              | 15 February 2020  | 1,000                                     | 1,000                          | 1,013                   | 1,000                                     | 1,000                          | 1,042                   |
| New Zealand Dollar       | 3.47 (fixed)              | 13 October 2020   | 1,500                                     | 1,500                          | 1,486                   | 1,500                                     | 1,500                          | 1,532                   |
| New Zealand Dollar       | 3.47 (fixed)              | 15 November 2020  | 780                                       | 780                            | 770                     | 780                                       | 780                            | 795                     |
| New Zealand Dollar       | 3.47 (fixed)              | 27 February 2021  | 1,500                                     | 1,500                          | 1,489                   | -   | -                              | -                       |
| New Zealand Dollar       | 3.47 (fixed)              | 13 March 2021     | 500                                       | 500                            | 496                     | -   | -                              | -                       |
| New Zealand Dollar       | 3.47 (fixed)              | 15 March 2021     | 1,500                                     | 1,500                          | 1,487                   | -   | -                              | -                       |
|                          |                           |                   |   | 311,305                        | 311,022                 |   | 103,894                        | 104,953                 |

On 28 August 2015, Moody's Investors Service upgraded the Bank's senior unsecured MTN (medium term note) rating to (P)A1 from (P)A2. Short-term Bank deposits and issuer ratings were affirmed at P-1 while the Bank's deposit note/CD Programme was also affirmed at (P)P-1.

On 14 July 2015, Standard & Poor's assigned the Bank's US\$100Million Certificate of Deposit Programme a short-term issue credit rating of "A-1".

On 1 September 2015, Standard & Poor's confirmed the Bank's US\$400Million Wholesale Debt Issuance Programme and Retail Medium Term Notes Programme Local Currency and Foreign Currency Long-term ratings are A.

## Note 23 – Subordinated Loans due to Related Parties

**Audited**  
**31 December 2017**  
**Subordinated loans due to related parties**

| Issue Currency     | Coupon Rate %              | Maturity Date       | Face Value<br>Issue Currency<br>\$'000 | Carrying Value<br>NZ \$'000 | Fair Value<br>NZ \$'000 |
|--------------------|----------------------------|---------------------|--|-----------------------------|-------------------------|
| New Zealand Dollar | 6 months NZD<br>BKBM+80bps | 23 November<br>2022 | 35,000                                 | 35,000                      | 35,000                  |
|                    |                            |                     |  | 35,000                      | 35,000                  |

**Audited**  
**31 December 2016**  
**Subordinated loans due to related parties**

| Issue Currency | Coupon Rate % | Maturity Date | Face Value<br>Issue Currency<br>\$'000 | Carrying Value<br>NZ \$'000 | Fair Value<br>NZ \$'000 |
|----------------|---------------|---------------|--|-----------------------------|-------------------------|
|                | -             | -             | -                                      | -                           | -                       |
|                |               |               |  | -                           | -                       |

The subordinated loan due to related parties of NZ\$35m as at 31 December 2017 is unsecured, and matures on 23 November 2022 (note 37).

## Note 24 – Other Liabilities

| Thousands of dollars                 | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|--------------------------------------|-----------------------------|-----------------------------|
| <b>Employee entitlements</b>         |                             |                             |
| Accrued wages/salaries               | 68                          | 68                          |
| Accrued Kiwi Saver Pension liability | -                           | -                           |
| Other Employee entitlements Accrued  | 2,628                       | 1,714                       |
| Accounts payable                     | 302                         | 353                         |
| Interest payable                     | 6,636                       | 2,339                       |
| Other payables and deferred revenue  | 4,979                       | 3,205                       |
| <b>Total other liabilities</b>       | <b>14,613</b>               | <b>7,679</b>                |
| Current                              | 12,258                      | 6,869                       |
| Non-Current                          | 2,355                       | 810                         |

## Note 25 – Equity

| Thousands of dollars       | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|----------------------------|-----------------------------|-----------------------------|
| Share capital              | 145,460                     | 145,460                     |
| Retained earnings          | (6,165)                     | (4,966)                     |
| Cash flow hedge reserve    | -                           | -                           |
| Available-for-sale reserve | -                           | -                           |
| FX translation reserve     | -                           | -                           |
| <b>Total equity</b>        | <b>139,295</b>              | <b>140,494</b>              |

|  | 31 December 2017        | 31 December 2016        |
|--|-------------------------|-------------------------|
| <b>Equity</b>                                    | <b>Number of shares</b> | <b>Number of shares</b> |
| Number of shares at the start of the period      | 145,459,975             | 60,377,729              |
| Shares issued during the period                  | -                       | 85,082,246              |
| <b>Number of shares at the end of the period</b> | <b>145,459,975</b>      | <b>145,459,975</b>      |

All shares have equal voting rights and share equally in dividends and any profits on winding up. Shares do not have a par value.

## Note 26 – Asset Quality

| Audited 31 December 2017   | Other<br>exposures<br>excluding<br>sovereigns<br>and central<br>banks | Residential<br>mortgage<br>loans | Corporate<br>and<br>institutional<br>exposures | Total            |
|--|---|----------------------------------|--|------------------|
| Thousands of dollars   |   |                                  |  |                  |
| <b>Total neither past due nor impaired</b>                       | <b>48</b>   | <b>437,925</b>                   | <b>815,276</b>                                 | <b>1,253,249</b> |
| <b>Past due assets not impaired</b>                              |   |                                  |  |                  |
| Less than 30 days past due                                       | 7   | -                                | -  | 7                |
| At least 30 days but less than 60 days past due                  | 27  | -                                | -  | 27               |
| At least 60 days but less than 90 days past due                  | 10  | -                                | -  | 10               |
| At least 90 days past due  | -   | -                                | -  | -                |
| <b>Total past due assets not impaired</b>                        | <b>44</b>   | <b>-</b>                         | <b>-</b>                                       | <b>44</b>        |
| <b>Individually impaired assets</b>                              |   |                                  |  |                  |
| Balance at beginning of the year                                 | -   | -                                | -  | -                |
| Additions  | -   | 17                               | 32,824   | 32,841           |
| Amounts written off  | -   | (17)                             | -  | (17)             |
| Deletions  | -   | -                                | -  | -                |
| <b>Total individually impaired assets</b>                        | <b>-</b>  | <b>-</b>                         | <b>32,824</b>                                  | <b>32,824</b>    |
| <b>Total gross loans and advances</b>                            | <b>92</b>   | <b>437,925</b>                   | <b>848,100</b>                                 | <b>1,286,117</b> |
| <b>Individually assessed provisions</b>                          |   |                                  |  |                  |
| Balance at beginning of the year                                 | -   | -                                | -  | -                |
| <b>Charge/(credit) to the statement of comprehensive income:</b> |   |                                  |  |                  |
| New provisions   | -   | 17                               | 10,236   | 10,253           |
| Reversals of previously recognised impairment losses             | 6   | -                                | -  | 6                |
| Amounts recovered  | (6)   | -                                | -  | (6)              |
| Amounts written off  | -   | (17)                             | -  | (17)             |
| <b>Balance at end of the period</b>                              | <b>-</b>  | <b>-</b>                         | <b>10,236</b>                                  | <b>10,236</b>    |
| <b>Collectively assessed provisions</b>                          |   |                                  |  |                  |
| Balance at beginning of the year                                 | 10  | 303                              | 3,745  | 4,058            |
| Charge (credit) to the statement of comprehensive income         | 12  | 545                              | 1,759  | 2,316            |
| Other movements  | -   | -                                | -  | -                |
| <b>Balance at end of the period</b>                              | <b>22</b>   | <b>848</b>                       | <b>5,504</b>                                   | <b>6,374</b>     |
| <b>Total provisions for impairment losses</b>                    | <b>22</b>   | <b>848</b>                       | <b>15,740</b>                                  | <b>16,610</b>    |
| <b>Total net loans and advances</b>                              | <b>70</b>   | <b>437,077</b>                   | <b>832,360</b>                                 | <b>1,269,507</b> |



## Note 26 – Asset Quality (continued)

The Bank does not have any restructured assets, any financial, real estate or other assets acquired through security enforcement or any other assets under administration as at 31 December 2017 (31 December 2016: nil). Therefore, the Bank does not have any such collateral sold or re-pledged and does not have an obligation to return it.

Undrawn balances on lending commitments to counterparties were \$412,642K as at 31 December 2017 (31 December 2016: \$169,074K).

There has been no interest revenue foregone on restructured, individually impaired or greater than 90 days past due assets during the period ended 31 December 2017 (31 December 2016: nil).

The Bank is wholly owned by the Industrial and Commercial Bank of China Limited, a company incorporated in China. No related party debts have been written off or forgiven during the period.

| <b>Audited 31 December 2016</b>                                  | Other exposures excluding sovereigns and central banks | Residential mortgage loans | Corporate and institutional exposures | Total   |
|--|--|----------------------------|---------------------------------------|---------|
| Thousands of dollars   |  |                            |                                       |         |
| <b>Total neither past due nor impaired</b>                       | 60   | 172,926                    | 531,368                               | 704,354 |
| <b>Past due assets not impaired</b>                              |  |                            |                                       |         |
| Less than 30 days past due                                       | 7  | -                          | -                                     | 7       |
| At least 30 days but less than 60 days past due                  | 11   | -                          | -                                     | 11      |
| At least 60 days but less than 90 days past due                  | 9  | -                          | -                                     | 9       |
| At least 90 days past due  | -  | -                          | -                                     | -       |
| <b>Total past due assets not impaired</b>                        | 27   | -                          | -                                     | 27      |
| <b>Individually impaired assets</b>                              |  |                            |                                       |         |
| Balance at beginning of the year                                 | -  | -                          | -                                     | -       |
| Additions  | 11   | -                          | -                                     | 11      |
| Amounts written off  | (11)   | -                          | -                                     | (11)    |
| Deletions  | -  | -                          | -                                     | -       |
| <b>Total individually impaired assets</b>                        | -  | -                          | -                                     | -       |
| <b>Total gross loans and advances</b>                            | 87   | 172,926                    | 531,368                               | 704,381 |
| <b>Individually assessed provisions</b>                          |  |                            |                                       |         |
| Balance at beginning of the year                                 | -  | -                          | -                                     | -       |
| <b>Charge/(credit) to the statement of comprehensive income:</b> |  |                            |                                       |         |
| New provisions   | 11   | -                          | -                                     | 11      |
| Reversals of previously recognised impairment losses             | -  | -                          | -                                     | -       |
| Amounts recovered  | -  | -                          | -                                     | -       |
| Amounts written off  | (11)   | -                          | -                                     | (11)    |
| <b>Balance at end of the year</b>                                | -  | -                          | -                                     | -       |
| <b>Collectively assessed provisions</b>                          |  |                            |                                       |         |
| Balance at beginning of the year                                 | 4  | 179                        | 1,068                                 | 1,251   |
| Charge (credit) to the statement of comprehensive income         | 6  | 124                        | 2,677                                 | 2,807   |
| Other movements  | -  | -                          | -                                     | -       |
| <b>Balance at end of the year</b>                                | 10   | 303                        | 3,745                                 | 4,058   |
| <b>Total provisions for impairment losses</b>                    | 10   | 303                        | 3,745                                 | 4,058   |
| <b>Total net loans and advances</b>                              | 77   | 172,623                    | 527,623                               | 700,323 |

## Note 27 – Transactions with Related Parties

### (a) Key Management Personnel

Key management personnel are defined as being the Directors and senior management of the Bank. The information relating to the key management personnel disclosed includes transactions with those individuals, their close family members and their controlled entities.

#### (i) Senior management compensation

| Thousands of dollars                     | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|--|-----------------------------|-----------------------------|
| Salaries and other short-term benefits   | 1,746                       | 1,417                       |
| Other benefits                           | -                           | -                           |
| <b>Total key management compensation</b> | <b>1,746</b>                | <b>1,417</b>                |

#### (ii) Directors' Remuneration

The name of each person holding office as a Director of the Bank throughout the financial period ended 31 December 2017 and the total remuneration received by each Director were as follows:

| Thousands of dollars               | Date<br>Appointed | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|------------------------------------|-------------------|-----------------------------|-----------------------------|
| Donald Thomas Brash                | 30-Sep-13         | 95                          | 95                          |
| Martin Philipsen                   | 30-Sep-13         | 85                          | 85                          |
| John Glenn Dalzell                 | 30-Sep-13         | 90                          | 90                          |
| Qian Hou *                         | 23-Apr-15         | -                           | -                           |
| Hongbin Liu **                     | 30-Sep-13         | -                           | -                           |
| Xuening Yang ***                   | 28-May-15         | -                           | -                           |
| Mei Tao ****                       | 21-Jul-17         | -                           | -                           |
| <b>Total Director Remuneration</b> |                   | <b>270</b>                  | <b>270</b>                  |

The Bank has purchased Directors' and Officers' Liability insurance to indemnify the Directors. No Directors received any other benefit that was additional to his or her total remuneration.

\* Ms Qian Hou did not receive director remuneration for the financial period ended 31 December 2017 (31 December 2016: nil). Her senior management compensation is included within the salaries disclosed in note 27 A (i) above.

\*\* Mr Hongbin Liu's director remuneration is borne by ICBC head office.

\*\*\* Mr Xuening Yang's director remuneration is borne by ICBC head office. He resigned as Non-Executive Director, on 17 July 2017

\*\*\*\* Ms Mei Tao's director remuneration is borne by ICBC head office.

#### (iii) Key Management Personnel Deposits and Loans with the Bank/ Banking Group

##### Audited 31 December 2017

| Thousands of dollars | Opening Balance | Movement during<br>the year | Closing Balance | Interest Received/<br>(Paid) by the Bank |
|----------------------|-----------------|-----------------------------|-----------------|--|
| Deposits             | 1,303           | (1,046)                     | 257             | (20)                                     |
| Loans and Advances   | -               | -                           | -               | -  |
| <b>Total</b>         | <b>1,303</b>    | <b>(1,046)</b>              | <b>257</b>      | <b>(20)</b>                              |

##### Audited 31 December 2016

| Thousands of dollars | Opening Balance | Movement during<br>the year | Closing Balance | Interest Received/<br>(Paid) by the Bank |
|----------------------|-----------------|-----------------------------|-----------------|--|
| Deposits             | 10              | 1,293                       | 1,303           | (4)                                      |
| Loans and Advances   | -               | -                           | -               | -  |
| <b>Total</b>         | <b>10</b>       | <b>1,293</b>                | <b>1,303</b>    | <b>(4)</b>                               |

The above deposits, loans and advances (including interest rates and collateral) transactions were conducted on an arm's length basis in the normal course of business and on commercial terms and conditions.

The Bank issued credit cards to directors and senior management with total of \$80K credit limit.(31 December 2016:\$80K). The amount owed on the card at 31 December 2017 was nil.(31 December 2016:nil).

ICBC (NZ) paid \$20K consulting fee to one of the independent directors.

## Note 27 – Transactions with Related Parties (continued)

### (b) Guarantees

The Bank's ultimate parent company is the Industrial and Commercial Bank of China Limited, a Chinese incorporated bank (ICBC). ICBC is subject to regulatory oversight by the China Banking Regulatory Commission (CBRC) under its rules and guidelines. ICBC is not a New Zealand registered bank and is not subject to regulatory oversight by the Reserve Bank of New Zealand.

As at 31 December 2017, 68.11% of total shares in ICBC were owned by the Chinese government. The remaining 31.89% of the shares in ICBC were held by the public. ICBC shares are listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange.

All the obligations of the Bank are guaranteed by ICBC. There are no legislative, regulatory or other restrictions of a legally enforceable nature in China (ICBC's country of incorporation) that may materially inhibit the legal ability of ICBC to provide material financial support to the Bank.

ICBC has the following credit rating applicable to its long-term senior unsecured obligations:

| Rating Agency/Rating Results                     | Moody's Investors Service, Inc.                 | Standard & Poor's Corporation  | Fitch IBCA, Inc.   |
|--|---|--|--|
| Long-term Foreign Currency Bank Deposits Rating  | A1 (Upper-medium grade and low credit risk)     | A (Strong capacity to meet obligations but subject to adverse economic conditions)             | A (Strong Capacity to meet obligation but vulnerable to adverse business or economic conditions) |
| Short-term Foreign Currency Bank Deposits Rating | P-1 (Superior ability to repay short-term debt) | A-1 (susceptible to adverse economic conditions but satisfactory capacity to meet obligations) | F1 (strongest capacity for timely payment of financial commitments)                              |
| Outlook  | Stable  | Stable   | Stable   |

ICBC guarantees due payment of all obligations of the Bank to the Bank's depositors and other creditors.

(i) There are no limits on the amount of the obligations guaranteed.

(ii) Termination of the guarantee under any of the circumstances outlined in clause 6 Termination of the Guarantee is subject to satisfaction of the relevant obligations in respect of each creditor which have been incurred on or prior to the date of termination.

(iii) There are no material legislative or regulatory restrictions in China that would have the effect of subordinating the claims of the Bank's creditors under the guarantee to other claims on ICBC in a winding up of ICBC.

(iv) The ICBC guarantee does not have an expiry date.

### (c) Related party transactions

| Thousands of dollars   | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|--|-----------------------------|-----------------------------|
| <b>Interest income on amount due from related entities</b>       |                             |                             |
| Ultimate parent  | 96                          | 18                          |
| Subsidiaries of ultimate parent                                  | -                           | -                           |
| <b>Total interest income on amount due from related entities</b> | <b>96</b>                   | <b>18</b>                   |
| <b>Interest expense on amount due to related entities</b>        |                             |                             |
| Ultimate parent  | 11,062                      | 5,444                       |
| Subsidiaries of ultimate parent                                  | -                           | 621                         |
| <b>Total interest expense on amount due to related entities</b>  | <b>11,062</b>               | <b>6,065</b>                |
| <b>Other operating income</b>                                    |                             |                             |
| Gain/(loss) on derivative contracts with ultimate parent         | (550)                       | (321)                       |
| Other income   | 75                          | -                           |
| <b>Other operating expense</b>                                   |                             |                             |
| Other operating expense paid to ultimate parent                  | (28)                        | -                           |

Interest payable to parent as at 31 December 2017 was NZ\$3,318K (31 December 2016: \$1,062K), and interest payable to subsidiaries of the ultimate parent was nil (31 December 2016: nil). This is included in interest payable balance and interest paid expense.

Parent includes ICBC Head Office and other branches.

There are no loans guaranteed by related parties (31 December 2016: \$17,950K).

## Note 27 – Transactions with Related Parties (continued)

On 28 April 2016 the Bank entered into a risk participation agreement with the Hong Kong branch of ICBC. The agreement had the commercial effect of transferring the Bank's rights and risks in an undrawn loan commitment of EUR 23,000K to ICBC, Hong Kong branch.

On 31 August 2017 the Bank entered into a risk participation agreement with the Hong Kong branch of ICBC. The agreement had the commercial effect of transferring the Bank's rights and risks in an undrawn loan commitment of NZD 70,000K to ICBC, Hong Kong branch.

## Note 28 – Concentration of Credit Risk

The following table breaks down the Bank's main credit exposures at their carrying amounts, as categorised by the industry sectors of its counterparties. Industry analysis as at balance date is as follows. For further details on how credit risk is managed and for On Balance Sheet and Off Balance Sheet credit exposure details, refer to notes 37.

| Thousands of dollars  | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|---|-----------------------------|-----------------------------|
| Government  | 81,263                      | 85,630                      |
| Finance (including banks)   | 402,123                     | 174,846                     |
| Households  | 438,911                     | 173,367                     |
| Transport and storage   | 37,138                      | 71,757                      |
| Communications  | 15,096                      | 15,111                      |
| Electricity, gas and water  | 54,301                      | 49,235                      |
| Construction  | 167,874                     | 73,531                      |
| Property services   | 126,881                     | 25,701                      |
| Agriculture   | 6,107                       | 6,108                       |
| Forestry, fishing and mining  | 151,573                     | 181,845                     |
| Health and community services                                       | 38,978                      | -                           |
| Personal and other services   | -                           | 31                          |
| Retail and wholesale trade  | 60,308                      | 18,036                      |
| Manufacturing   | 46,868                      | -                           |
| Administration and support services                                 | 44,040                      | 31,466                      |
| Less: allowance for impairment provisioning                         | (16,610)                    | (4,058)                     |
| <b>Total financial assets</b>                                       | <b>1,654,851</b>            | <b>902,606</b>              |
| Less: non-interest earning financial assets                         | (23,516)                    | (106,406)                   |
| <b>Total interest earning and discount bearing financial assets</b> | <b>1,631,335</b>            | <b>796,200</b>              |

An analysis of financial assets by geographical sector at balance date is as follows:

| Thousands of dollars          | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|-------------------------------|-----------------------------|-----------------------------|
| <b><u>New Zealand</u></b>     |                             |                             |
| North Island                  | 1,356,903                   | 670,939                     |
| South Island                  | 6,075                       | 6,077                       |
| <b><u>Overseas</u></b>        |                             |                             |
| China                         | 262,299                     | 92,159                      |
| USA                           | 16,973                      | 97,801                      |
| Singapore                     | 400                         | 127                         |
| Hong Kong                     | 1,867                       | 18,862                      |
| Australia                     | 2,192                       | 5,404                       |
| Europe                        | 6,741                       | 6,702                       |
| Other countries               | 1,401                       | 4,535                       |
| <b>Total financial assets</b> | <b>1,654,851</b>            | <b>902,606</b>              |



Note 28 – Concentration of Credit Risk (continued)

Maximum Exposure to Credit Risk - On and Off Balance Sheet

| Thousands of dollars  | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|---|-----------------------------|-----------------------------|
| Loans and advances to customers   | 1,269,507                   | 700,323                     |
| Trade and Other Receivables   | -                           | -                           |
| Other financial assets  | 3,664                       | 2,227                       |
| <b>On Balance Sheet Credit Exposures (excluding credit exposure to connected parties and banks with long-term credit rating of A- or A3 or above)</b> | <b>1,273,171</b>            | <b>702,550</b>              |
| Cash and cash equivalents   | 328,294                     | 156,527                     |
| Amounts due from related parties  | -                           | -                           |
| Due from other financial institutions   | 12,605                      | 2,197                       |
| Financial assets held for trading   | -                           | -                           |
| Financial assets held to maturity   | 40,226                      | 40,676                      |
| Available-for-sale assets   | -                           | -                           |
| Derivative financial instruments  | 273                         | 369                         |
| Loans and advances to customers   | -                           | -                           |
| Tax Receivable  | -                           | -                           |
| Other financial assets  | 282                         | 287                         |
| <b>Total on Balance Sheet Credit Exposures</b>  | <b>1,654,851</b>            | <b>902,606</b>              |
| Off Balance Sheet Exposures   | 436,017                     | 176,317                     |
| <b>Total Off Balance Sheet Credit Exposures</b>   | <b>436,017</b>              | <b>176,317</b>              |

The credit exposures shown are based on actual credit exposures and are calculated net of allowances for impairment loss.

65.02% of the Bank's mortgage portfolio is owner-occupied residential properties (31 December 2016: 58.87%).

As at the reporting date, of the drawn balances on credit facilities with undrawn commitments, there are none that are classified as individually impaired, or balances under administration (31 December 2016: nil).



## Note 29 – Concentration of Funding

Concentrations of funding arise where the Bank is funded by industries of a similar nature or in particular geographies. An analysis of financial liabilities by industry sector and geography at balance date is as follows:

| Thousands of dollars  | Audited<br>31 December 2017<br>\$'000 | Audited<br>31 December 2016<br>\$'000 |
|---|---------------------------------------|---------------------------------------|
| <b><u>New Zealand</u></b>                                     |                                       |                                       |
| Transport and storage   | 103,276                               | -                                     |
| Financing investment and insurance                            | 375,490                               | 109,157                               |
| Electricity, gas and water                                    | -                                     | -                                     |
| Food and other manufacturing                                  | 6,221                                 | 2,093                                 |
| Construction  | 434                                   | 2,028                                 |
| Communication   | 10                                    | 10                                    |
| Government, local authorities and services                    | 55,850                                | 1,371                                 |
| Agriculture   | 74                                    | 464                                   |
| Forestry  | 75,188                                | 100,383                               |
| Health and community services                                 | 106                                   | 101                                   |
| Personal and other services                                   | -                                     | -                                     |
| Property and business services                                | 16,840                                | 1,693                                 |
| Education   | -                                     | -                                     |
| Retail and wholesale trade                                    | 9,867                                 | 2,182                                 |
| Other   | 6,987                                 | 4,552                                 |
| Households  | 40,821                                | 31,482                                |
| <b><u>Overseas</u></b>  |                                       |                                       |
| Amounts due to related parties                                | 705,289                               | 468,448                               |
| Financing investment and insurance (not including ICBC group) | 58,684                                | 25,375                                |
| Household   | 63,547                                | 12,874                                |
| Other deposits  | 1,701                                 | 6                                     |
| <b>Total financial liabilities</b>                            | <b>1,520,385</b>                      | <b>762,219</b>                        |
| Less: non-interest bearing financial liabilities              | (89,983)                              | (79,352)                              |
| <b>Total interest and discount bearing liabilities</b>        | <b>1,430,402</b>                      | <b>682,867</b>                        |

An analysis of financial liabilities by funding type at balance date is as follows:

| Thousands of dollars                      | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|---|-----------------------------|-----------------------------|
| Deposits from customers                   | 419,520                     | 149,799                     |
| Registered Banks                          | 1                           | 1                           |
| Derivative financial liabilities          | 316                         | 245                         |
| Financial Investors                       | -                           | -                           |
| Certificates of deposit                   | 54,679                      | 33,450                      |
| Subordinated loans due to related parties | 35,000                      | -                           |
| Debts securities issued                   | 311,305                     | 103,894                     |
| Related Parties                           | 685,362                     | 467,386                     |
| Other                                     | 14,202                      | 7,444                       |
| <b>Total financial liabilities</b>        | <b>1,520,385</b>            | <b>762,219</b>              |

All deposits are unsecured unsubordinated bank deposits issued by the Registered Bank.

### Note 30 – Lease Commitments

| Thousands of dollars  | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|---|-----------------------------|-----------------------------|
| Operating lease commitments under non-cancellable operating leases: |                             |                             |
| Not later than One year   | 974                         | 1,002                       |
| Later than One Year and Not Later than Two Years                    | 764                         | 974                         |
| Later than Two Years and Not Later than Five Years                  | 1,044                       | 1,728                       |
| Later than Five Years   | -                           | 80                          |
| <b>Total</b>  | <b>2,782</b>                | <b>3,784</b>                |

### Current Leasing and Rental Expenses

The Bank leases various premises under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. All leases relate to property rental with renewal options on the lease expiry date.

### Note 31 – Capital Commitments

As at 31 December 2017, there were nil capital commitments (31 December 2016: nil).

### Note 32 – Contingent Liabilities and Commitments

| Thousands of dollars   | Audited<br>31 December 2017 | Audited<br>31 December 2016 |
|--|-----------------------------|-----------------------------|
| Performance/financial guarantees issued on behalf of customers | 23,375                      | 7,243                       |
| <b>Total contingent liabilities</b>                            | <b>23,375</b>               | <b>7,243</b>                |
| <b>Undrawn Commitments</b>                                     | <b>412,642</b>              | <b>169,074</b>              |

### Note 33 – Subsequent Events after Balance Sheet Date

Subsequent to balance date, on 9th February 2018 ICBC NZ issued additional NZ\$35m subordinated loan to ICBC Head Office. (31 December 2016: nil).

Subsequent to balance date, on 23th February 2018, the borrower discussed in Note 1(4) went into administration. The credit exposure to this borrower is approximately \$32.8 million as at 31 December 2017. Please refer to Note 1(4) for details.

Subsequent to the balance date, the bank entered into an agreement with its Parent for an additional capital injection amounting from the Parent to US\$60 million.

## Note 34 – Financial Risk Management

### (a) Introduction

The Bank is committed to the management of financial risk to achieve sustainability of service, employment and profits and therefore takes on controlled amounts of financial risks when considered appropriate.

The primary financial risks of the Bank are credit, liquidity, interest rate, foreign exchange and operational risk.

The Board of Directors is responsible for the review and ratification of the Bank's systems of risk management, internal compliance and control, code of conduct and legal compliance.

The Board maintains a formal set of delegated authorities that clearly define the responsibilities delegated to Management and those retained by the Board. Credit and Treasury delegated authorities are contained within their respective policy documents. The Board approves these delegated authorities and reviews them annually.

Management formally reports on key credit, treasury and operational risks to the Board on a monthly basis. In addition, the following management committees review and manage key risks:

- The Senior Leadership Team meets regularly to consider new and emerging risks, reviews actions required to manage and mitigate key risks, and to monitor progress; and
- The Risk Management Committee meets monthly to consider, monitor and review exposure to interest rate risk, liquidity risk, foreign currency risk, and credit risk.

### (b) Credit Risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorized or inappropriate guarantee, commitment or investment of funds. The Bank is exposed to credit risk primarily due to loans, guarantees and other credit related commitments.

The principal features of the Bank's credit risk management function include:

1. Centralized credit management procedures; and
2. Risk management rules and procedures that focus on risk control throughout the entire credit business process, including customer investigation and credit rating, granting of credit limits, loan evaluation, loan review and approval and granting of loan and post-disbursement loan monitoring.

To enhance the credit risk management practices, the Bank also runs training program periodically for credit officers at different levels.

In addition to the credit risk exposures on credit-related assets and amounts due from or lending to banks and other financial institutions, credit risk also arises in other areas. For instance, credit risk exposure also arises from derivative financial instruments which is, however, limited to those with positive fair values, as recorded in the statement of financial position. In addition, the Bank also makes available to its customers guarantees which may require the Bank to make payments on their behalf. Such payments are collected from customers based on the terms of the agreements signed. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The Bank will enter into agreements with its counterparties for documenting over-the-counter derivative activities. Each of these master agreements provides the contractual framework within which derivative dealing activities are conducted. Under each of these agreements, close-out netting shall be applied across all outstanding transactions covered by the agreement if either party defaults.

Refer to Note 28 and Note 37 on the disclosure of concentration of credit risk of counterparties by geographical and sector classifications and the maximum On-balance sheet credit risk exposure and Off-balance sheet credit risk exposure.

## Note 34 – Financial Risk Management (continued)

### (I) Credit exposure to individual counterparties

Credit exposure concentrations are disclosed on the basis of actual exposures and gross of set-offs. Peak end-of-day aggregate credit exposures have been calculated using the Bank's equity at the reporting date.

The number of individual counterparties, excluding connected persons, where the period end and peak end-of-day aggregate actual credit exposures, net of individual credit impairment allowances, equaled or exceeded 10% of the Bank's shareholder's equity was:

| Peak End of Day Credit Exposures | Audited<br>During the 3 months<br>period ended<br>31 December 2017 |           |         | Audited<br>During the 3 months period ended<br>31 December 2016 |           |         |
|----------------------------------|--|-----------|---------|---|-----------|---------|
|                                  | Number of Bank Counterparties                                      |           |         | Number of Bank Counterparties                                   |           |         |
| Percentage of Bank's Equity      | "A" Rated  | "B" Rated | Unrated | "A" Rated   | "B" Rated | Unrated |
| 10% - 14%                        | -  | -         | -       | -   | -         | 1       |

| Peak End of Day Credit Exposures | Audited<br>During the 3 months<br>period ended<br>31 December 2017 |           |                | Audited<br>During the 3 months period ended<br>31 December 2016 |           |                |
|----------------------------------|--|-----------|----------------|---|-----------|----------------|
|                                  | Number of Counterparties   |           |                | Number of Counterparties  |           |                |
| Percentage of Bank's Equity      | "A" Rated  | "B" Rated | Unrated        | "A" Rated   | "B" Rated | Unrated        |
| 10% - 14%                        | -  | -         | 4              | -   | -         | 6              |
| 15% - 19%                        | -  | -         | 4              | -   | -         | 2              |
| 20% - 24%                        | -  | -         | 3              | -   | -         | 2              |
| 25% - 29%                        | -  | -         | 3              | -   | -         | 1              |
| 30% - 34%                        | -  | -         | 4              | -   | -         | 1              |
| 35% - 39%                        | -  | -         | 1              | -   | -         | -              |
| 40% - 44%                        | 1  | -         | 2              | -   | -         | 1              |
| 45% - 49%                        | -  | -         | 2              | -   | -         | -              |
| 50% - 54%                        | -  | -         | -              | -   | -         | -              |
| 55% - 59%                        | -  | -         | 3 <sup>1</sup> | -   | -         | 1              |
| 60% - 64%                        | -  | -         | -              | -   | -         | -              |
| 65% - 69%                        | -  | -         | 1              | -   | -         | 1              |
| 70% - 74%                        | -  | -         | -              | -   | -         | -              |
| 75% - 79%                        | -  | -         | -              | -   | -         | -              |
| 80% - 84%                        | -  | -         | -              | -   | -         | 1 <sup>2</sup> |

<sup>1</sup> One of the loans classified within the 55%-59% category is 98.13% collateralised by cash deposits.

<sup>2</sup> The loan classified within the 80%-84% category is 98.64% collateralised by cash deposits.

#### Note 34 – Financial Risk Management (continued)

Peak end of day credit exposure is calculated by determining the maximum end of day aggregate amount of credit exposure over the financial period for individual counterparties, and then dividing that amount by the Bank's Equity as at the reporting date.

| Credit Exposures as at Reporting Date | Audited<br>As at 31 December 2017<br>Number of Bank Counterparties |           |         | Audited<br>As at 31 December 2016<br>Number of Bank Counterparties |           |         |
|---------------------------------------|--|-----------|---------|--|-----------|---------|
|                                       | "A" Rated  | "B" Rated | Unrated | "A" Rated  | "B" Rated | Unrated |
| Percentage of Bank's Equity           |  |           |         |  |           |         |
| 10% - 14%                             | -  | -         | -       | -  | -         | 1       |

| Credit Exposures as at Reporting Date | Audited<br>As at 31 December 2017<br>Number of Non-Bank Counterparties |           |                | Audited<br>As at 31 December 2016<br>Number of Non-Bank Counterparties |           |                |
|---------------------------------------|--|-----------|----------------|--|-----------|----------------|
|                                       | "A" Rated  | "B" Rated | Unrated        | "A" Rated  | "B" Rated | Unrated        |
| Percentage of Bank's Equity           |  |           |                |  |           |                |
| 10% - 14%                             | -  | -         | 3              | -  | -         | 5              |
| 15% - 19%                             | -  | -         | 3              | -  | -         | 2              |
| 20% - 24%                             | -  | -         | 3              | -  | -         | 3              |
| 25% - 29%                             | -  | -         | 3              | -  | -         | 1              |
| 30% - 34%                             | -  | -         | 4              | -  | -         | 1              |
| 35% - 39%                             | -  | -         | 1              | -  | -         | -              |
| 40% - 44%                             | 1  | -         | 2              | -  | -         | 1              |
| 45% - 49%                             | -  | -         | 3 <sup>1</sup> | -  | -         | -              |
| 50% - 54%                             | -  | -         | -              | -  | -         | -              |
| 55% - 59%                             | -  | -         | 3              | -  | -         | 1              |
| 60% - 64%                             | -  | -         | -              | -  | -         | 1 <sup>2</sup> |
| 65% - 69%                             | -  | -         | -              | -  | -         | 1              |

Individual counterparties in the bank category exclude credit exposures to connected persons and any bank with a long-term credit rating of A- or A3 or above, or its equivalent. Individual counterparties in the "Other" category exclude credit exposures to connected persons and credit exposure to any central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent.

These calculations are gross and do not include any individually assessed provisions, which are assessed as Nil.

<sup>1</sup> One of the loans classified within the 45%-49% category is 97.84% collateralised by cash deposits.

<sup>2</sup> The loan classified within the 60%-64% category is 98.23% collateralised by cash deposits.



## Note 34 – Financial Risk Management (continued)

### (ii) Credit exposures to connected persons

The Reserve Bank defines connected persons to be other members of the ICBC Group and Directors of the Bank. Credit exposures to connected persons are based on actual credit exposures rather than internal limits. The information on credit exposure to connected persons has been derived in accordance with the Reserve Bank of New Zealand's Connected Exposures Policy (BS8). Peak end-of-day aggregate credit exposures to connected persons expressed as a percentage of Tier One Capital of the Bank has been derived by determining the maximum end-of-day aggregate amount of credit exposure over the relevant accounting period and then dividing that amount by the Bank's Tier One Capital as at the end of the period. The rating-contingent limit, which is applicable to the Bank as at balance date, is 40%. There have been no changes to the limit during the period. Within the rating-contingent limit there is a sub-limit of 15% which applies to non-bank connected persons. The aggregate credit exposures below have been calculated on a gross basis, net of individual credit impairment allowances and excludes advances to connected persons of a capital nature. There are no individual impairment credit allowances against credit exposures to connected persons nor are there any contingent exposures arising from risk lay-off arrangements to connected persons as at 31 December 2017.

|   | Audited<br>During the 12 months<br>period ended<br>31 December 2017<br>\$'000 | Audited<br>During the 12 months<br>period ended<br>31 December 2016<br>\$'000 |
|---|---|---|
| <b>Peak End of Day Credit Exposures</b>         |   |   |
| Credit exposures to connected persons           | 48,513  | 11,684  |
| As a percentage of Tier One Capital of the Bank | 36.27%  | 8.32%   |

|   | Audited<br>As at 31 December 2017<br>\$'000 | Audited<br>As at 31 December 2016<br>\$'000 |
|---|---|---|
| <b>Credit Exposures as at Reporting Date</b>    |   |   |
| Credit exposures to connected persons           | 16,224                                      | 1,640                                       |
| As a percentage of Tier One Capital of the Bank | 12.13%                                      | 1.17%                                       |

|   | Audited<br>During the 12 months<br>period ended<br>31 December 2017<br>\$'000 | Audited<br>During the 12 months<br>period ended<br>31 December 2016<br>\$'000 |
|---|---|---|
| <b>Peak End of Day Credit Exposures</b>         |   |   |
| Credit exposures to non-bank connected persons  | -   | -   |
| As a percentage of Tier One Capital of the Bank | -   | -   |

|   | Audited<br>As at 31 December 2017<br>\$'000 | Audited<br>As at 31 December 2016<br>\$'000 |
|---|---|---|
| <b>Credit Exposures as at Reporting Date</b>    |   |   |
| Credit exposures to non-bank connected persons  | -   | -   |
| As a percentage of Tier One Capital of the Bank | -   | -   |

The limits on aggregate credit exposure to all connected persons and to non-bank connected persons in the Bank's conditions of registration have been complied with at all times during the period ended 31 December 2017.

## Note 34 – Financial Risk Management (continued)

### C. Liquidity Risk

Liquidity risk is the risk that funds will not be sufficient or will not be raised at a reasonable cost in a timely manner to meet the needs of asset growth or repayment of debts due, although remaining solvent. This may arise from amount or maturity mismatches of assets and liabilities.

The Bank manages its liquidity risk through the Treasury Department and aims at:

- 1 Optimising the structure of assets and liabilities;
- 2 Maintaining the stability of the deposit base;
- 3 Projecting cash flows and evaluating the level of current assets; and
- 4 Maintaining an efficient internal fund transfer mechanism/agreement with the Parent Bank for liquidity.

The tables below summarise the cash flows payable or receivable by the Bank under financial assets and liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are contractual undiscounted cash flows and include both principal and associated future interest payments and therefore will not agree to the carrying values on the balance sheet. Actual cash flows can differ significantly from contractual cash flows as a result of future events.

Accrued interest within the other financial assets/ liabilities captions in the statement of financial position is included in this table in the row in which the related financial instrument is presented.

| <b>Audited 31 December 2017</b>                                  | On Demand        | Up to 3 months  | 3 to 12 months | Between 1 & 5 years | More than 5 years | Total            |
|--|------------------|-----------------|----------------|---------------------|-------------------|------------------|
| Thousands of dollars   |                  |                 |                |                     |                   |                  |
| <b>Financial assets</b>  |                  |                 |                |                     |                   |                  |
| Cash, cash equivalents and balances with central banks           | 328,297          | -               | -              | -                   | -                 | 328,297          |
| Amounts due from related parties                                 | -                | 12,605          | -              | -                   | -                 | 12,605           |
| Due from banks and other financial institutions                  | -                | -               | -              | -                   | -                 | -                |
| Financial assets designated at fair value through profit or loss | -                | -               | -              | -                   | -                 | -                |
| Financial assets held to maturity                                | -                | 35              | 1,580          | 41,818              | -                 | 43,433           |
| Available-for-sale assets  | -                | -               | -              | -                   | -                 | -                |
| Loans and advances to customers                                  | 44               | 124,411         | 219,353        | 708,895             | 646,514           | 1,699,217        |
| Other financial assets   | -                | 141             | -              | 161                 | -                 | 302              |
| <b>Total financial assets</b>                                    | <b>328,341</b>   | <b>137,192</b>  | <b>220,933</b> | <b>750,874</b>      | <b>646,514</b>    | <b>2,083,854</b> |
| <b>Financial liabilities</b>                                     |                  |                 |                |                     |                   |                  |
| Due to central banks and other financial institutions            | 1                | -               | -              | -                   | -                 | 1                |
| Amounts due to related parties                                   | 208,873          | 2,387           | 5,715          | 497,209             | -                 | 714,184          |
| Financial liabilities held for trading                           | -                | -               | -              | -                   | -                 | -                |
| Deposits from customers  | 79,035           | 171,758         | 79,112         | 96,452              | -                 | 426,357          |
| Certificates of deposit  | -                | 55,000          | -              | -                   | -                 | 55,000           |
| Subordinated loans due to related parties                        | -                | -               | 964            | 38,857              | -                 | 39,821           |
| Debt securities issued   | -                | 2,317           | 25,616         | 305,105             | -                 | 333,038          |
| Other financial liabilities                                      | 95               | 146             | 2,853          | 531                 | -                 | 3,625            |
| <b>Total financial liabilities</b>                               | <b>288,004</b>   | <b>231,608</b>  | <b>114,260</b> | <b>938,154</b>      | <b>-</b>          | <b>1,572,026</b> |
| <b>Net non-derivative cash flows</b>                             | <b>40,337</b>    | <b>(94,416)</b> | <b>106,673</b> | <b>(187,280)</b>    | <b>646,514</b>    | <b>511,828</b>   |
| <b>Derivative cash flows</b>                                     |                  |                 |                |                     |                   |                  |
| Inflows from derivatives   | -                | 7,417           | 4,984          | 6,635               | -                 | 19,036           |
| Outflows from derivatives  | -                | (7,403)         | (4,311)        | (6,683)             | -                 | (18,397)         |
| <b>Total</b>   | <b>-</b>         | <b>14</b>       | <b>673</b>     | <b>(48)</b>         | <b>-</b>          | <b>639</b>       |
| <b>Off balance sheet cash flows</b>                              |                  |                 |                |                     |                   |                  |
| Financial guarantees inflows                                     | -                | 1               | 37             | 4                   | -                 | 42               |
| Financial guarantees outflows                                    | (20,206)         | -               | -              | (3,169)             | -                 | (23,375)         |
| Commitments outflows   | (408,268)        | (697)           | (1,169)        | (2,508)             | -                 | (412,642)        |
| <b>Total</b>   | <b>(428,474)</b> | <b>(696)</b>    | <b>(1,132)</b> | <b>(5,673)</b>      | <b>-</b>          | <b>(435,975)</b> |
| <b>Net cash flows</b>  | <b>(388,137)</b> | <b>(95,098)</b> | <b>106,214</b> | <b>(193,001)</b>    | <b>646,514</b>    | <b>76,492</b>    |

Note 34 – Financial Risk Management (continued)

| Audited 31 December 2016   | On Demand        | Up to 3 months | 3 to 12 months  | Between 1 & 5 years | More than 5 years | Total            |
|--|------------------|----------------|-----------------|---------------------|-------------------|------------------|
| Thousands of dollars   |                  |                |                 |                     |                   |                  |
| <b>Financial assets</b>  |                  |                |                 |                     |                   |                  |
| Cash, cash equivalents and balances with central banks           | 156,527          | -              | -               | -                   | -                 | 156,527          |
| Amounts due from related parties                                 | -                | -              | -               | -                   | -                 | -                |
| Due from banks and other financial institutions                  | -                | 2,208          | -               | -                   | -                 | 2,208            |
| Financial assets designated at fair value through profit or loss | -                | -              | -               | -                   | -                 | -                |
| Financial assets held to maturity                                | -                | 265            | 1,355           | 43,447              | 1,500             | 46,567           |
| Available-for-sale assets  | -                | -              | -               | -                   | -                 | -                |
| Loans and advances to customers                                  | 33               | 67,389         | 160,908         | 411,546             | 247,387           | 887,263          |
| Other financial assets   | -                | 90             | -               | 157                 | -                 | 247              |
| <b>Total financial assets</b>                                    | <b>156,560</b>   | <b>69,952</b>  | <b>162,263</b>  | <b>455,150</b>      | <b>248,887</b>    | <b>1,092,812</b> |
| <b>Financial liabilities</b>                                     |                  |                |                 |                     |                   |                  |
| Due to central banks and other financial institutions            | 1                | -              | -               | -                   | -                 | 1                |
| Amounts due to related parties                                   | 156,552          | 17,172         | 21,892          | 296,880             | -                 | 492,496          |
| Financial liabilities held for trading                           | -                | -              | -               | -                   | -                 | -                |
| Deposits from customers  | 17,471           | 24,864         | 65,544          | 43,844              | -                 | 151,723          |
| Certificates of deposit  | -                | 33,600         | -               | -                   | -                 | 33,600           |
| Subordinated loans due to related parties                        | -                | -              | -               | -                   | -                 | -                |
| Debt securities issued   | -                | 360            | 78,448          | 29,907              | -                 | 108,715          |
| Other financial liabilities                                      | 11               | 202            | 1,933           | 607                 | -                 | 2,753            |
| <b>Total financial liabilities</b>                               | <b>174,035</b>   | <b>76,198</b>  | <b>167,817</b>  | <b>371,238</b>      | <b>-</b>          | <b>789,288</b>   |
| <b>Net non-derivative cash flows</b>                             | <b>(17,475)</b>  | <b>(6,246)</b> | <b>(5,554)</b>  | <b>83,912</b>       | <b>248,887</b>    | <b>303,524</b>   |
| <b>Derivative cash flows</b>                                     |                  |                |                 |                     |                   |                  |
| Inflows from derivatives   | -                | 245            | 1,482           | 236                 | -                 | 1,963            |
| Outflows from derivatives  | -                | (456)          | (1,014)         | (417)               | -                 | (1,887)          |
| <b>Total</b>   | <b>-</b>         | <b>(211)</b>   | <b>468</b>      | <b>(181)</b>        | <b>-</b>          | <b>76</b>        |
| <b>Off balance sheet cash flows</b>                              |                  |                |                 |                     |                   |                  |
| Financial guarantees inflows                                     | -                | 50             | 22              | 22                  | -                 | 94               |
| Financial guarantees outflows                                    | -                | -              | (4,615)         | (2,950)             | -                 | (7,565)          |
| Commitments outflows   | (160,124)        | (930)          | (2,703)         | (5,317)             | -                 | (169,074)        |
| <b>Total</b>   | <b>(160,124)</b> | <b>(880)</b>   | <b>(7,296)</b>  | <b>(8,245)</b>      | <b>-</b>          | <b>(176,545)</b> |
| <b>Net cash flows</b>  | <b>(177,599)</b> | <b>(7,337)</b> | <b>(12,382)</b> | <b>75,486</b>       | <b>248,887</b>    | <b>127,055</b>   |

## Note 34 – Financial Risk Management (continued)

### D. Interest Rate Risk

The Bank's interest rate risk mainly arises from the mismatches between the repricing dates of interest generating assets and interest-bearing liabilities. The Bank manages its interest rate risk by:

1. Regularly monitoring the macroeconomic factors that may have impact on the benchmark interest rates;
2. Optimising the differences in timing between contractual repricing (maturities) of interest-generating assets and interest-bearing liabilities; and
3. Managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the benchmark interest rates.

A principal part of the Bank's management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). The Bank aims to mitigate the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such hedging on the current revenue.

The following table demonstrates the contractual repricing or maturity dates, whichever is earlier, of the Bank's assets and liabilities:

| Audited 31 December 2017   | Non-interest bearing | 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     | Total            |
|--|----------------------|------------------|----------------------------------|--------------------------------|-------------------------------|------------------|------------------|
| Thousands of dollars   |                      |                  |                                  |                                |                               |                  |                  |
| <b>Financial assets</b>  |                      |                  |                                  |                                |                               |                  |                  |
| Cash, cash equivalents and balances with central banks           | 19,454               | 308,840          | -                                | -                              | -                             | -                | 328,294          |
| Amounts due from related parties                                 | -                    | 12,605           | -                                | -                              | -                             | -                | 12,605           |
| Due from banks and other financial institutions                  | -                    | -                | -                                | -                              | -                             | -                | -                |
| Financial assets designated at fair value through profit or loss | -                    | -                | -                                | -                              | -                             | -                | -                |
| Financial assets held to maturity                                | -                    | 4,476            | -                                | -                              | 5,000                         | 30,750           | 40,226           |
| Available-for-sale assets  | -                    | -                | -                                | -                              | -                             | -                | -                |
| Derivative financial assets                                      | 273                  | -                | -                                | -                              | -                             | -                | 273              |
| Loans and advances to customers                                  | -                    | 851,041          | 33,467                           | 193,989                        | 190,060                       | 950              | 1,269,507        |
| Other financial assets   | 3,789                | -                | -                                | -                              | 157                           | -                | 3,946            |
| <b>Total financial Assets</b>                                    | <b>23,516</b>        | <b>1,176,962</b> | <b>33,467</b>                    | <b>193,989</b>                 | <b>195,217</b>                | <b>31,700</b>    | <b>1,654,851</b> |
| <b>Financial liabilities</b>                                     |                      |                  |                                  |                                |                               |                  |                  |
| Due to central banks and other financial institutions            | -                    | 1                | -                                | -                              | -                             | -                | 1                |
| Amounts due to related parties                                   | -                    | 505,271          | 32,824                           | -                              | 21,141                        | 126,126          | 685,362          |
| Financial liabilities held for trading                           | -                    | -                | -                                | -                              | -                             | -                | -                |
| Derivative financial liability                                   | 316                  | -                | -                                | -                              | -                             | -                | 316              |
| Deposits from customers  | 75,465               | 212,395          | 36,621                           | 16,498                         | 77,766                        | 775              | 419,520          |
| Certificates of deposit  | -                    | 54,679           | -                                | -                              | -                             | -                | 54,679           |
| Subordinated loans due to related parties                        | -                    | -                | 35,000                           | -                              | -                             | -                | 35,000           |
| Debt securities issued   | -                    | 276,195          | -                                | -                              | -                             | 35,110           | 311,305          |
| Other financial liabilities                                      | 14,202               | -                | -                                | -                              | -                             | -                | 14,202           |
| <b>Total financial liabilities</b>                               | <b>89,983</b>        | <b>1,048,541</b> | <b>104,445</b>                   | <b>16,498</b>                  | <b>98,907</b>                 | <b>162,011</b>   | <b>1,520,385</b> |
| <b>On-balance sheet gap</b>                                      | <b>(66,467)</b>      | <b>128,421</b>   | <b>(70,978)</b>                  | <b>177,491</b>                 | <b>96,310</b>                 | <b>(130,311)</b> | <b>134,466</b>   |
| Net derivative notional principals                               | -                    | 5,200            | (2,000)                          | -                              | -                             | (3,200)          | -                |
| <b>Net effective interest rate gap</b>                           | <b>(66,467)</b>      | <b>133,621</b>   | <b>(72,978)</b>                  | <b>177,491</b>                 | <b>96,310</b>                 | <b>(133,511)</b> | <b>134,466</b>   |



Note 34 – Financial Risk Management (continued)

Audited 31 December 2016

| Thousands of dollars   | Non-interest bearing | 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    | Total          |
|--|----------------------|----------------|----------------------------------|--------------------------------|-------------------------------|-----------------|----------------|
| <b>Financial assets</b>  |                      |                |                                  |                                |                               |                 |                |
| Cash, cash equivalents and balances with central banks           | 103,680              | 52,847         | -                                | -                              | -                             | -               | 156,527        |
| Amounts due from related parties                                 | -                    | -              | -                                | -                              | -                             | -               | -              |
| Due from banks and other financial institutions                  | -                    | 2,197          | -                                | -                              | -                             | -               | 2,197          |
| Financial assets designated at fair value through profit or loss | -                    | -              | -                                | -                              | -                             | -               | -              |
| Financial assets held to maturity                                | -                    | 4,466          | -                                | -                              | -                             | 36,210          | 40,676         |
| Available-for-sale assets  | -                    | -              | -                                | -                              | -                             | -               | -              |
| Derivative financial assets                                      | 369                  | -              | -                                | -                              | -                             | -               | 369            |
| Loans and advances to customers                                  | -                    | 525,452        | 66,836                           | 79,012                         | 27,946                        | 1,077           | 700,323        |
| Other financial assets   | 2,357                | -              | -                                | -                              | -                             | 157             | 2,514          |
| <b>Total financial Assets</b>                                    | <b>106,406</b>       | <b>584,962</b> | <b>66,836</b>                    | <b>79,012</b>                  | <b>27,946</b>                 | <b>37,444</b>   | <b>902,606</b> |
| <b>Financial liabilities</b>                                     |                      |                |                                  |                                |                               |                 |                |
| Due to central banks and other financial institutions            | -                    | 1              | -                                | -                              | -                             | -               | 1              |
| Amounts due to related parties                                   | -                    | 356,925        | 9,276                            | -                              | -                             | 101,185         | 467,386        |
| Financial liabilities held for trading                           | -                    | -              | -                                | -                              | -                             | -               | -              |
| Derivative financial liability                                   | 245                  | -              | -                                | -                              | -                             | -               | 245            |
| Deposits from customers  | 71,663               | 24,536         | 9,846                            | 1,091                          | 42,663                        | -               | 149,799        |
| Certificates of deposit  | -                    | 33,450         | -                                | -                              | -                             | -               | 33,450         |
| Subordinated loans due to related parties                        | -                    | -              | -                                | -                              | -                             | -               | -              |
| Debt securities issued   | -                    | 50,614         | -                                | 50,000                         | -                             | 3,280           | 103,894        |
| Other financial liabilities                                      | 7,444                | -              | -                                | -                              | -                             | -               | 7,444          |
| <b>Total financial liabilities</b>                               | <b>79,352</b>        | <b>465,526</b> | <b>19,122</b>                    | <b>51,091</b>                  | <b>42,663</b>                 | <b>104,465</b>  | <b>762,219</b> |
| <b>On-balance sheet gap</b>                                      | <b>27,054</b>        | <b>119,436</b> | <b>47,714</b>                    | <b>27,921</b>                  | <b>(14,717)</b>               | <b>(67,021)</b> | <b>140,387</b> |
| Net derivative notional principals                               | -                    | (47,200)       | (2,500)                          | 54,900                         | (2,000)                       | (3,200)         | -              |
| <b>Net effective interest rate gap</b>                           | <b>27,054</b>        | <b>72,236</b>  | <b>45,214</b>                    | <b>82,821</b>                  | <b>(16,717)</b>               | <b>(70,221)</b> | <b>140,387</b> |

#### Note 34 – Financial Risk Management (continued)

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risks primarily result from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates, mortgage prepayment speeds and credit spreads. The Bank takes an exposure to the effects of fluctuations in the prevailing levels of market interest rate cash flow risks. The fair value risk is not material.

The tables below summarise the before-tax sensitivity of financial assets and liabilities to changes in interest rate. The market value of the assets and liabilities were used as the basis for the analysis and financial modelling was used to determine the impact on those values of changes in each risk scenario. The sensitivity analysis is performed based on the reporting of interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

#### Audited 31 December 2017

| Thousands of dollars   | Carrying amount  | -0.1% Profit   | +0.1% Profit | -0.1% Equity   | +0.1% Equity |
|--|------------------|----------------|--------------|----------------|--------------|
| <b>Financial assets</b>  |                  |                |              |                |              |
| Cash, cash equivalents and balances with central banks           | 328,294          | (1)            | 1            | (1)            | 1            |
| Amounts due from related parties                                 | 12,605           | -              | -            | -              | -            |
| Due from banks and other financial institutions                  | -                | -              | -            | -              | -            |
| Financial assets designated at fair value through profit or loss | -                | -              | -            | -              | -            |
| Financial assets held to maturity                                | 40,226           | (5)            | 5            | (5)            | 5            |
| Available-for-sale assets  | -                | -              | -            | -              | -            |
| Derivative financial assets                                      | 273              | 57             | (57)         | 57             | (57)         |
| Loans and advances to customers                                  | 1,269,507        | (1,114)        | 1,114        | (1,114)        | 1,114        |
| Other financial assets   | 3,946            | -              | -            | -              | -            |
| <b>Total financial assets</b>                                    | <b>1,654,851</b> | <b>(1,063)</b> | <b>1,063</b> | <b>(1,063)</b> | <b>1,063</b> |
| <b>Financial liabilities</b>                                     |                  |                |              |                |              |
| Due to central banks and other financial institutions            | 1                | -              | -            | -              | -            |
| Amounts due to related parties                                   | 685,362          | 332            | (332)        | 332            | (332)        |
| Financial liabilities held for trading                           | -                | -              | -            | -              | -            |
| Derivative financial liability                                   | 316              | (62)           | 62           | (62)           | 62           |
| Deposits from customers  | 419,520          | 31             | (31)         | 31             | (31)         |
| Certificates of deposit  | 54,679           | -              | -            | -              | -            |
| Subordinated loans due to related parties                        | 35,000           | 35             | (35)         | 35             | (35)         |
| Debt securities issued   | 311,305          | 265            | (265)        | 265            | (265)        |
| Other financial liabilities                                      | 14,202           | -              | -            | -              | -            |
| <b>Total financial liabilities</b>                               | <b>1,520,385</b> | <b>601</b>     | <b>(601)</b> | <b>601</b>     | <b>(601)</b> |

Note 34 – Financial Risk Management (continued)

Audited 31 December 2016

| Thousands of dollars   | Carrying amount | -0.1% Profit | +0.1% Profit | -0.1% Equity | +0.1% Equity |
|--|-----------------|--------------|--------------|--------------|--------------|
| <b>Financial assets</b>  |                 |              |              |              |              |
| Cash, cash equivalents and balances with central banks           | 156,527         | -            | -            | -            | -            |
| Amounts due from related parties                                 | -               | -            | -            | -            | -            |
| Due from banks and other financial institutions                  | 2,197           | -            | -            | -            | -            |
| Financial assets designated at fair value through profit or loss | -               | -            | -            | -            | -            |
| Financial assets held to maturity                                | 40,676          | (5)          | 5            | (5)          | 5            |
| Available-for-sale assets  | -               | -            | -            | -            | -            |
| Derivative financial assets                                      | 369             | 24           | (24)         | 24           | (24)         |
| Loans and advances to customers                                  | 700,323         | (590)        | 590          | (590)        | 590          |
| Other financial assets   | 2,514           | -            | -            | -            | -            |
| <b>Total financial assets</b>                                    | <b>902,606</b>  | <b>(571)</b> | <b>571</b>   | <b>(571)</b> | <b>571</b>   |
| <b>Financial liabilities</b>                                     |                 |              |              |              |              |
| Due to central banks and other financial institutions            | 1               | -            | -            | -            | -            |
| Amounts due to related parties                                   | 467,386         | 184          | (184)        | 184          | (184)        |
| Financial liabilities held for trading                           | -               | -            | -            | -            | -            |
| Derivative financial liability                                   | 245             | 18           | (18)         | 18           | (18)         |
| Deposits from customers  | 149,799         | -            | -            | -            | -            |
| Certificates of deposit  | 33,450          | -            | -            | -            | -            |
| Subordinated loans due to related parties                        | -               | -            | -            | -            | -            |
| Debt securities issued   | 103,894         | 50           | (50)         | 50           | (50)         |
| Other financial liabilities                                      | 7,444           | -            | -            | -            | -            |
| <b>Total financial liabilities</b>                               | <b>762,219</b>  | <b>252</b>   | <b>(252)</b> | <b>252</b>   | <b>(252)</b> |

## Note 34 – Financial Risk Management (continued)

### E. Foreign Currency Risk

Foreign exchange risk is the risk that the Bank would be adversely impacted from unfavourable movements in foreign currency rates. The Bank manages its currency risk through various methods including limitation management and risk hedging to hedge foreign exchange risk, and performing currency risk sensitivity analysis and stress testing regularly. The table below summarises the Bank's exposure to foreign currency exchange rate risk as at year end. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

Audited 31 December 2017

| Thousands of dollars   | HKD       | EUR             | CNY          | USD            | AUD           | Total          |
|--|-----------|-----------------|--------------|----------------|---------------|----------------|
| <b>Financial assets</b>  |           |                 |              |                |               |                |
| Cash, cash equivalents and balances with central banks           | 17        | 228             | 1,275        | 223,367        | 1,989         | 226,876        |
| Amounts due from related parties                                 | -         | -               | -            | 12,605         | -             | 12,605         |
| Due from banks and other financial institutions                  | -         | -               | -            | -              | -             | -              |
| Financial assets designated at fair value through profit or loss | -         | -               | -            | -              | -             | -              |
| Financial assets held to maturity                                | -         | -               | -            | -              | -             | -              |
| Available-for-sale assets  | -         | -               | -            | -              | -             | -              |
| Loans and advances to customers                                  | -         | 22,588          | 16           | 95,008         | 43,698        | 161,310        |
| Other financial assets   | -         | 80              | -            | 12             | 361           | 453            |
| <b>Total financial assets</b>                                    | <b>17</b> | <b>22,896</b>   | <b>1,291</b> | <b>330,992</b> | <b>46,048</b> | <b>401,244</b> |
| <b>Financial liabilities</b>                                     |           |                 |              |                |               |                |
| Due to central banks and other financial institutions            | -         | -               | 1            | -              | -             | 1              |
| Amounts due to related parties                                   | -         | 32,824          | -            | 190,269        | 27,468        | 250,561        |
| Financial liabilities held for trading                           | -         | -               | -            | -              | -             | -              |
| Deposits from customers  | -         | 15              | 1,147        | 118,528        | 281           | 119,971        |
| Certificates of deposit  | -         | -               | -            | -              | -             | -              |
| Subordinated loans due to related parties                        | -         | -               | -            | -              | -             | -              |
| Debt securities issued   | -         | -               | -            | 19,715         | 16,480        | 36,195         |
| Other financial liabilities                                      | -         | 175             | -            | 3,146          | 589           | 3,910          |
| <b>Total financial liabilities</b>                               | <b>-</b>  | <b>33,014</b>   | <b>1,148</b> | <b>331,658</b> | <b>44,818</b> | <b>410,638</b> |
| <b>Net on balance sheet financial position</b>                   | <b>17</b> | <b>(10,118)</b> | <b>143</b>   | <b>(666)</b>   | <b>1,230</b>  | <b>(9,394)</b> |
| <b>Net derivative position</b>                                   | <b>-</b>  | <b>-</b>        | <b>-</b>     | <b>-</b>       | <b>-</b>      | <b>-</b>       |
| <b>Total open position</b>                                       | <b>17</b> | <b>(10,118)</b> | <b>143</b>   | <b>(666)</b>   | <b>1,230</b>  | <b>(9,394)</b> |



Note 34 – Financial Risk Management (continued)

Audited 31 December 2016

| Thousands of dollars   | HKD | EUR | CNY   | USD     | AUD    | Total   |
|--|-----|-----|-------|---------|--------|---------|
| <b>Financial assets</b>  |     |     |       |         |        |         |
| Cash, cash equivalents and balances with central banks           | -   | 63  | 969   | 98,918  | 5,403  | 105,353 |
| Amounts due from related parties                                 | -   | -   | -     | -       | -      | -       |
| Due from banks and other financial institutions                  | -   | -   | -     | 2,197   | -      | 2,197   |
| Financial assets designated at fair value through profit or loss | -   | -   | -     | -       | -      | -       |
| Financial assets held to maturity                                | -   | -   | -     | -       | -      | -       |
| Available-for-sale assets  | -   | -   | -     | -       | -      | -       |
| Loans and advances to customers                                  | -   | -   | 1,535 | 63,772  | 31,185 | 96,492  |
| Other financial assets   | -   | -   | 10    | 167     | 281    | 458     |
| <b>Total financial assets</b>                                    | -   | 63  | 2,514 | 165,054 | 36,869 | 204,500 |
| <b>Financial liabilities</b>                                     |     |     |       |         |        |         |
| Due to central banks and other financial institutions            | -   | -   | 1     | -       | -      | 1       |
| Amounts due to related parties                                   | -   | -   | -     | 33,688  | 31,185 | 64,873  |
| Financial liabilities held for trading                           | -   | -   | -     | -       | -      | -       |
| Deposits from customers  | -   | 1   | 2,454 | 109,827 | 135    | 112,417 |
| Certificates of deposit  | -   | -   | -     | -       | -      | -       |
| Subordinated loans due to related parties                        | -   | -   | -     | -       | -      | -       |
| Debt securities issued   | -   | -   | -     | 20,067  | 5,198  | 25,265  |
| Other financial liabilities                                      | -   | -   | 1     | 768     | 187    | 956     |
| <b>Total financial liabilities</b>                               | -   | 1   | 2,456 | 164,350 | 36,705 | 203,512 |
| <b>Net on balance sheet financial position</b>                   | -   | 62  | 58    | 704     | 164    | 988     |
| Net derivative position  | -   | -   | -     | -       | -      | -       |
| <b>Total open position</b>                                       | -   | 62  | 58    | 704     | 164    | 988     |

**Note 34 – Financial Risk Management (continued)**

The tables below summarise the before-tax sensitivity of financial assets and liabilities to changes in currency risks. The market value of the assets and liabilities was used as the basis for the analysis and financial modelling was used to determine the impact on those values of changes in each risk scenario. The sensitivity analysis is performed based on the reporting of foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

**Audited 31 December 2017**

| Thousands of dollars   | Carrying amount | -10% Profit     | +10% Profit     | -10% Equity     | +10% Equity     |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Financial assets</b>  |                 |                 |                 |                 |                 |
| Cash, cash equivalents and balances with central banks           | 226,876         | (22,688)        | 22,668          | (22,688)        | 22,668          |
| Amounts due from related parties                                 | 12,605          | (1,260)         | 1,260           | (1,260)         | 1,260           |
| Due from banks and other financial institutions                  | -               | -               | -               | -               | -               |
| Financial assets designated at fair value through profit or loss | -               | -               | -               | -               | -               |
| Financial assets held to maturity                                | -               | -               | -               | -               | -               |
| Available-for-sale assets  | -               | -               | -               | -               | -               |
| Loans and advances to customers                                  | 161,310         | (16,131)        | 16,131          | (16,131)        | 16,131          |
| Other financial assets   | 453             | (45)            | 45              | (45)            | 45              |
| <b>Total financial assets</b>                                    | <b>401,244</b>  | <b>(40,124)</b> | <b>40,124</b>   | <b>(40,124)</b> | <b>40,124</b>   |
| <b>Financial liabilities</b>                                     |                 |                 |                 |                 |                 |
| Due to central banks and other financial institutions            | 1               | -               | -               | -               | -               |
| Amounts due to related parties                                   | 250,561         | 25,056          | (25,056)        | 25,056          | (25,056)        |
| Financial liabilities held for trading                           | -               | -               | -               | -               | -               |
| Deposits from customers  | 119,971         | 11,997          | (11,997)        | 11,997          | (11,997)        |
| Certificates of deposit  | -               | -               | -               | -               | -               |
| Subordinated loans due to related parties                        | -               | -               | -               | -               | -               |
| Debt securities issued   | 36,195          | 3,620           | (3,620)         | 3,620           | (3,620)         |
| Other financial liabilities                                      | 3,910           | 391             | (391)           | 391             | (391)           |
| <b>Total financial liabilities</b>                               | <b>410,638</b>  | <b>41,064</b>   | <b>(41,064)</b> | <b>41,064</b>   | <b>(41,064)</b> |
| Net derivative position  | -               | -               | -               | -               | -               |
| <b>Total open position</b>                                       | <b>(9,394)</b>  | <b>(940)</b>    | <b>940</b>      | <b>(940)</b>    | <b>940</b>      |

Note 34 – Financial Risk Management (continued)

Audited 31 December 2016

| Thousands of dollars   | Carrying amount | -10% Profit     | +10% Profit     | -10% Equity     | +10% Equity     |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Financial assets</b>  |                 |                 |                 |                 |                 |
| Cash, cash equivalents and balances with central banks           | 105,354         | (10,535)        | 10,535          | (10,535)        | 10,535          |
| Amounts due from related parties                                 | -               | -               | -               | -               | -               |
| Due from banks and other financial institutions                  | 2,197           | (220)           | 220             | (220)           | 220             |
| Financial assets designated at fair value through profit or loss | -               | -               | -               | -               | -               |
| Financial assets held to maturity                                | -               | -               | -               | -               | -               |
| Available-for-sale assets  | -               | -               | -               | -               | -               |
| Loans and advances to customers                                  | 96,492          | (9,649)         | 9,649           | (9,649)         | 9,649           |
| Other financial assets   | 458             | (46)            | 46              | (46)            | 46              |
| <b>Total financial assets</b>                                    | <b>204,501</b>  | <b>(20,450)</b> | <b>20,450</b>   | <b>(20,450)</b> | <b>20,450</b>   |
| <b>Financial liabilities</b>                                     |                 |                 |                 |                 |                 |
| Due to central banks and other financial institutions            | 1               | -               | -               | -               | -               |
| Amounts due to related parties                                   | 64,874          | 6,487           | (6,487)         | 6,487           | (6,487)         |
| Financial liabilities held for trading                           | -               | -               | -               | -               | -               |
| Deposits from customers  | 112,417         | 11,242          | (11,242)        | 11,242          | (11,242)        |
| Certificates of deposit  | -               | -               | -               | -               | -               |
| Subordinated loans due to related parties                        | -               | -               | -               | -               | -               |
| Debt securities issued   | 25,302          | 2,530           | (2,530)         | 2,530           | (2,530)         |
| Other financial liabilities                                      | 956             | 96              | (96)            | 96              | (96)            |
| <b>Total financial liabilities</b>                               | <b>203,550</b>  | <b>20,355</b>   | <b>(20,355)</b> | <b>20,355</b>   | <b>(20,355)</b> |
| Net derivative position  | -               | -               | -               | -               | -               |
| <b>Total open position</b>                                       | <b>951</b>      | <b>(95)</b>     | <b>95</b>       | <b>(95)</b>     | <b>95</b>       |

**F. Operational Risk**

The Bank defines operational risks as risks of loss resulting from inadequate or failed internal processes, controls, systems and/or from external parties. It is a pervasive risk that involves all aspects of the Bank as well as other counterparties with whom the Bank deals under day to day operations. The Bank's policy is to ensure that the risk of losses from operational failure is minimised. To this purpose the Bank has a variety of control systems. Operational procedures are reviewed regularly by Senior Management and Internal Audit, and with a frequency determined by the level of risks involved.

**G. Equity Risk**

The Bank did not have any equity risk exposure as at balance date 31 December 2017 (31 December 2016: nil).

Note 34 – Financial Risk Management (continued)

H. Financial Instruments by Category

Audited 31 December 2017

| Thousands of dollars  | Loans and<br>receivables | Available<br>for sale | Held for<br>Trading | Designated<br>at FVTPL | Held to<br>Maturity | Total            |
|---|--------------------------|-----------------------|---------------------|------------------------|---------------------|------------------|
| <b>Financial assets</b>   |                          |                       |                     |                        |                     |                  |
| Cash, cash equivalents and balances<br>with central banks           | 328,294                  | -                     | -                   | -                      | -                   | 328,294          |
| Amounts due from related parties                                    | 12,605                   | -                     | -                   | -                      | -                   | 12,605           |
| Due from banks and other financial<br>institutions                  | -                        | -                     | -                   | -                      | -                   | -                |
| Financial assets designated at fair value<br>through profit or loss | -                        | -                     | -                   | -                      | -                   | -                |
| Financial assets held to maturity                                   | -                        | -                     | -                   | -                      | 40,226              | 40,226           |
| Available-for-sale assets   | -                        | -                     | -                   | -                      | -                   | -                |
| Derivative financial assets   | -                        | -                     | 273                 | -                      | -                   | 273              |
| Loans and advances to customers                                     | 1,269,507                | -                     | -                   | -                      | -                   | 1,269,507        |
| Other financial assets  | 3,946                    | -                     | -                   | -                      | -                   | 3,946            |
| <b>Total financial assets</b>                                       | <b>1,614,352</b>         | <b>-</b>              | <b>273</b>          | <b>-</b>               | <b>40,226</b>       | <b>1,654,851</b> |

| Thousands of dollars                                     | Held for<br>Trading | Designated<br>at FVTPL | Derivatives<br>used for<br>hedging | Other financial<br>liabilities at<br>amortised cost | Total            |
|--|---------------------|------------------------|------------------------------------|---|------------------|
| <b>Financial liabilities</b>                             |                     |                        |                                    |   |                  |
| Due to central banks and other financial<br>institutions | -                   | -                      | -                                  | 1   | 1                |
| Amounts due to related parties                           | -                   | -                      | -                                  | 685,362   | 685,362          |
| Financial liabilities held for trading                   | -                   | -                      | -                                  | -   | -                |
| Derivative financial liability                           | 316                 | -                      | -                                  | -   | 316              |
| Deposits from customers                                  | -                   | -                      | -                                  | 419,520   | 419,520          |
| Certificates of deposit                                  | -                   | -                      | -                                  | 54,679  | 54,679           |
| Subordinated loans due to related parties                | -                   | -                      | -                                  | 35,000  | 35,000           |
| Debt securities issued                                   | -                   | -                      | -                                  | 311,305   | 311,305          |
| Other financial liabilities                              | -                   | -                      | -                                  | 14,202  | 14,202           |
| <b>Total financial liabilities</b>                       | <b>316</b>          | <b>-</b>               | <b>-</b>                           | <b>1,520,069</b>                                    | <b>1,520,385</b> |



Note 34 – Financial Risk Management (continued)

Audited 31 December 2016

| Thousands of dollars  | Loans and<br>receivables | Available<br>for sale | Held for<br>Trading | Designated<br>at FVTPL | Held to<br>Maturity | Total          |
|---|--------------------------|-----------------------|---------------------|------------------------|---------------------|----------------|
| <b>Financial assets</b>   |                          |                       |                     |                        |                     |                |
| Cash, cash equivalents and balances<br>with central banks           | 156,527                  | -                     | -                   | -                      | -                   | 156,527        |
| Amounts due from related parties                                    | -                        | -                     | -                   | -                      | -                   | -              |
| Due from banks and other financial<br>institutions                  | 2,197                    | -                     | -                   | -                      | -                   | 2,197          |
| Financial assets designated at fair value<br>through profit or loss | -                        | -                     | -                   | -                      | -                   | -              |
| Financial assets held to maturity                                   | -                        | -                     | -                   | -                      | 40,676              | 40,676         |
| Available-for-sale assets   | -                        | -                     | -                   | -                      | -                   | -              |
| Derivative financial assets   | -                        | -                     | 369                 | -                      | -                   | 369            |
| Loans and advances to customers                                     | 700,323                  | -                     | -                   | -                      | -                   | 700,323        |
| Other financial assets  | 2,514                    | -                     | -                   | -                      | -                   | 2,514          |
| <b>Total financial assets</b>                                       | <b>861,561</b>           | <b>-</b>              | <b>369</b>          | <b>-</b>               | <b>40,676</b>       | <b>902,606</b> |

| Thousands of dollars                                     | Held for<br>Trading | Designated<br>at FVTPL | Derivatives<br>used for<br>hedging | Other financial<br>liabilities at<br>amortised cost | Total          |
|--|---------------------|------------------------|------------------------------------|---|----------------|
| <b>Financial liabilities</b>                             |                     |                        |                                    |   |                |
| Due to central banks and other financial<br>institutions | -                   | -                      | -                                  | 1   | 1              |
| Amounts due to related parties                           | -                   | -                      | -                                  | 467,386   | 467,386        |
| Financial liabilities held for trading                   | -                   | -                      | -                                  | -   | -              |
| Derivative financial liability                           | 245                 | -                      | -                                  | -   | 245            |
| Deposits from customers                                  | -                   | -                      | -                                  | 149,799   | 149,799        |
| Certificates of deposit                                  | -                   | -                      | -                                  | 33,450  | 33,450         |
| Subordinated loans due to related parties                | -                   | -                      | -                                  | -   | -              |
| Debt securities issued                                   | -                   | -                      | -                                  | 103,894   | 103,894        |
| Other financial liabilities                              | -                   | -                      | -                                  | 7,444   | 7,444          |
| <b>Total financial liabilities</b>                       | <b>245</b>          | <b>-</b>               | <b>-</b>                           | <b>761,974</b>                                      | <b>762,219</b> |

Note 34 – Financial Risk Management (continued)

I. Fair value of Financial Instruments

Audited 31 December 2017

| Thousands of dollars   | Carrying amount  | Estimated Fair Value |
|--|------------------|----------------------|
| <b>Financial assets</b>  |                  |                      |
| Cash, cash equivalents and balances with central banks           | 328,294          | 328,294              |
| Amounts due from related parties                                 | 12,605           | 12,605               |
| Due from banks and other financial institutions                  | -                | -                    |
| Financial assets designated at fair value through profit or loss | -                | -                    |
| Financial assets held to maturity                                | 40,226           | 40,395               |
| Available-for-sale assets  | -                | -                    |
| Derivative financial assets                                      | 273              | 273                  |
| Loans and advances to customers                                  | 1,269,507        | 1,270,304            |
| Other financial assets   | 3,946            | 3,946                |
| <b>Total financial assets</b>                                    | <b>1,654,851</b> | <b>1,655,817</b>     |
| <b>Financial liabilities</b>                                     |                  |                      |
| Due to central banks and other financial institutions            | 1                | 1                    |
| Amounts due to related parties                                   | 685,362          | 684,078              |
| Financial liabilities held for trading                           | -                | -                    |
| Derivative financial liability                                   | 316              | 316                  |
| Deposits from customers  | 419,520          | 419,433              |
| Certificates of deposit  | 54,679           | 54,679               |
| Subordinated loans due to related parties                        | 35,000           | 35,000               |
| Debt securities issued   | 311,305          | 311,022              |
| Other financial liabilities                                      | 14,202           | 14,202               |
| <b>Total financial liabilities</b>                               | <b>1,520,385</b> | <b>1,518,731</b>     |

Audited 31 December 2016

| Thousands of dollars   | Carrying amount | Estimated Fair Value |
|--|-----------------|----------------------|
| <b>Financial assets</b>  |                 |                      |
| Cash, cash equivalents and balances with central banks           | 156,527         | 156,527              |
| Amounts due from related parties                                 | -               | -                    |
| Due from banks and other financial institutions                  | 2,197           | 2,197                |
| Financial assets designated at fair value through profit or loss | -               | -                    |
| Financial assets held to maturity                                | 40,676          | 39,829               |
| Available-for-sale assets  | -               | -                    |
| Derivative financial assets                                      | 369             | 369                  |
| Loans and advances to customers                                  | 700,323         | 700,754              |
| Other financial assets   | 2,514           | 2,514                |
| <b>Total financial assets</b>                                    | <b>902,606</b>  | <b>902,190</b>       |
| <b>Financial liabilities</b>                                     |                 |                      |
| Due to central banks and other financial institutions            | 1               | 1                    |
| Amounts due to related parties                                   | 467,386         | 468,165              |
| Financial liabilities held for trading                           | -               | -                    |
| Derivative financial liability                                   | 245             | 245                  |
| Deposits from customers  | 149,799         | 150,254              |
| Subordinated loans due to related parties                        | -               | -                    |
| Certificates of deposit  | 33,450          | 33,450               |
| Debt securities issued   | 103,894         | 104,953              |
| Other financial liabilities                                      | 7,444           | 7,444                |
| <b>Total financial liabilities</b>                               | <b>762,219</b>  | <b>764,512</b>       |

## Note 34 – Financial Risk Management (continued)

### J. Fair value Assumptions

- i. The carrying value of cash and cash equivalents is the fair value.
- ii. For on demand and deposits from customers maturing within six months, due from/to other financial institutions, the carrying value is considered to be the fair value; for those categories with maturities more than six months, the fair value is calculated on a discounted cash flow basis using the current interest rate offered for a similar maturity.
- iii. The carrying value of loans and advances to customers is net of allowance for impairment loss. For loans and advances to customers maturing or repricing within six months, the carrying value is considered to be fair value; for those categories with maturities more than six months, the fair value are calculated on a discounted cash flow basis using the current interest rate offered for a similar maturity.
- iv. For amounts due from/to related parties maturing or repricing within six months, the carrying value is considered to be fair value; for those categories with maturities more than six months, the fair value is calculated on a discounted cash flow basis using the current interest rate offered for a similar maturity.
- v. The fair value of financial assets held to maturity, derivative financial instruments, and debt securities is determined by a discounted cash flow basis, which is based on the interest rate repricing and maturity of the instruments.
- vi. The carrying value of other financial assets and liabilities is considered to be the fair value.

### K. Measurement of Fair Value Measurements

Under NZ IFRS 7, the fair value of financial instruments is determined on a hierarchical basis that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is:

- Level 1 fair value measurement are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

#### Fair value measurements recognised in the balance sheet

| Audited 31 December 2017         | Audited<br>31 December 2017 |         |         |       | Audited<br>31 December 2016 |         |         |       |
|----------------------------------|-----------------------------|---------|---------|-------|-----------------------------|---------|---------|-------|
| Thousands of dollars             | Level 1                     | Level 2 | Level 3 | Total | Level 1                     | Level 2 | Level 3 | Total |
| <b>Financial assets</b>          |                             |         |         |       |                             |         |         |       |
| Derivative financial assets      | -                           | 273     | -       | 273   | -                           | 369     | -       | 369   |
| <b>Financial liabilities</b>     |                             |         |         |       |                             |         |         |       |
| Derivative financial liabilities | -                           | 316     | -       | 316   | -                           | 245     | -       | 245   |

#### Fair value measurements not recognised in the balance sheet<sup>1</sup>

| Audited 31 December 2017          | Audited<br>31 December 2017 |           |         |           | Audited<br>31 December 2016 |         |         |         |
|-----------------------------------|-----------------------------|-----------|---------|-----------|-----------------------------|---------|---------|---------|
| Thousands of dollars              | Level 1                     | Level 2   | Level 3 | Total     | Level 1                     | Level 2 | Level 3 | Total   |
| <b>Financial assets</b>           |                             |           |         |           |                             |         |         |         |
| Financial assets held to maturity | -                           | 40,395    | -       | 40,395    | -                           | 39,829  | -       | 39,829  |
| Loans and advances to customers   | -                           | 1,270,304 | -       | 1,270,304 | -                           | 700,754 | -       | 700,754 |
| Total                             | -                           | 1,310,699 | -       | 1,310,699 | -                           | 740,583 | -       | 740,583 |
| <b>Financial liabilities</b>      |                             |           |         |           |                             |         |         |         |
| Amounts due to related parties    | -                           | 684,078   | -       | 684,078   | -                           | 468,165 | -       | 468,165 |
| Deposits from customers           | -                           | 419,433   | -       | 419,433   | -                           | 150,254 | -       | 150,254 |
| Debt securities issued            | -                           | 311,022   | -       | 311,022   | -                           | 104,953 | -       | 104,953 |
| Total                             | -                           | 1,414,533 | -       | 1,414,533 | -                           | 723,372 | -       | 723,372 |

<sup>1</sup> Fair values, where the carrying amount is not considered a close approximation of fair value.

## Note 35 - Securitisation, Funds Management, Other Fiduciary Activities and the Marketing and Distribution of Insurance Products

As at balance date the Bank was not involved in:

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

## Note 36 – Risk Management Policies

The Bank's objective is to appropriately manage all the risks that arise from its activities. A review of the risk appetite of the Bank is conducted at least annually by the Board. Based upon this review, an assessment of the relevant policies, systems, and reporting is undertaken to ensure that they are consistent with the stated risk appetite of the Bank.

### A. Specific Areas of Risk Management

The Bank's Key areas of risk are Strategic and Business risk (managed by the Board through annual and three and five year business plan); Financial Risks including Credit risk, interest rate risk, liquidity risk, Foreign Exchange risk and Operational Risk (managed through internal controls and procedures), Financial and operational risk management appetites, objectives, policies, strategies, and processes are documented in note 34 of the financial statements.

### B. Role of the Board and its Committees

The Board has responsibility for setting the Bank's risk appetite, governance, and formulating risk management policy. The Board is assisted in meeting this responsibility through the operation of three committees responsible for various facets of risk. Each committee can advise and make recommendations however decision making rests with the Board of Directors.

### C. Audit Committee

The Board through the Audit Committee is primarily responsible for:

1. Overseeing the effectiveness and integrity of the Bank's financial controls; financial reporting process; and internal audit functions;
2. Providing assurance on the governance and controls covering key business processes;
3. Ensuring the quality and independence of the external audit process;
4. Reviewing the annual audit plan with the external auditor;
5. Reviewing audit findings;
6. Reviewing interim financial information and the annual financial statements;
7. Reviewing accounting policies;
8. Overseeing the legal compliance and statutory responsibilities of the Bank;
9. Reviewing the appointment of the external auditor and their fees;
10. Reviewing the internal auditors and their activities;
11. Ensuring that recommendations highlighted in internal audit reports are actioned by management; and
12. Supervising special investigations when requested by the Board.

### D. Risk Committee

The Board through the Risk Committee is primarily responsible for:

1. Overseeing the effectiveness and integrity of the Financial, Operational and Reputational risk management framework and risk reporting in the context of the approved strategic objectives and risk appetite of the Bank;
2. Reviewing the appropriate Financial, Operational and Reputational risk appetite of the Bank;
3. Reviewing the Financial, Operational and Reputational risk management policies, limits, and delegations of the Bank;
4. Monitoring management's operation within the approved risk management programme including the identification and evaluation of Financial, Operational and Reputational risks, the establishment of plans to manage and mitigate those risks and the monitoring of their implementation;
5. Reviewing and monitoring the Anti-Money Laundering/Counter Financing of Terrorism Compliance Programme, policies and risks of the Bank.

### E. Remuneration Committee

The Board through the Appointment and Remuneration Committee is primarily responsible for:

1. Overseeing the effectiveness and integrity of human resource policies of the Bank;
2. Providing governance oversight and assurance on the controls surrounding Executive management and Board human resource processes, including appointments, remuneration and performance processes;
3. Reviewing the people risk management policies, limits, and delegations of the Bank;
4. Reviewing and making annual recommendations to the Board regarding the performance of the CEO, CEO's assessment report of other senior executives who report directly to the CEO and any other person considered to be in a role with material influence;
5. Reviewing the recruitment policy of the Bank and undertaking an assessment of persons captured by the policy to ensure integrity of the recruitment process.



## Note 36 – Risk Management Policies (continued)

### F. Internal Audit Function

The Bank utilises ICBC's internal audit function as a control measure to enable both ICBC and senior management of the Bank to monitor and review the Bank on an ongoing basis. The internal audit function of the Bank is part of ICBC's policy to ensure that all ICBC branches and subsidiaries have appropriate systems and procedures in place and comply with all applicable home and host country regulations.

The Bank will be subject to an on-site internal audit measure every three years by senior executives from ICBC (for example, a general manager and an executive officer).

The Bank has an internal audit function, which is independent of management and provides objective assurance and consulting activity. It assists the Bank in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management and internal control system.

### G. Capital Adequacy

The Board and senior management undertake capital planning, in accordance with the Bank's internal capital adequacy assessment policy. As part of the capital planning process, the Board reviews:

1. The current capital requirements of the Bank;
2. The targeted and sustainable capital in terms of business strategy and risk appetite; and
3. Future capital planning (with a three year outlook).

The capital plan is revised on an annual basis or more regularly, if necessary, to meet the Bank's obligations under the Capital Adequacy Framework (BS2A). For further information see Note 37.

### H. Credit Risk Mitigation and Collateral

The Bank uses different risk mitigation techniques to reduce the credit risk arising from its lending activities.

## Note 37 – Capital Adequacy

### (a) Issued Capital

The Bank had 145,459,975 fully paid up ordinary shares (tier one capital) issued at NZ \$1 per share as at 31 December 2017.

ICBC is the sole shareholder. Each share confers on the holder the right to:

- one vote on a poll at a meeting of the shareholders on any resolution to:
  - appoint or remove a Director or auditor; or
  - alter the Bank's constitution; or
  - approve a major transaction; or
  - approve an amalgamation under section 221 of the Companies Act 1993; or
  - put the Bank into liquidation;
- a proportionate share in dividends authorized by the Board; and
- a proportionate share in the distribution of the surplus assets of the Bank.

### (b) Other Classes of Capital Instrument

On 23 November 2017, the Bank issued subordinated loan of NZ\$35m ("The loan") to ICBC Head Office. The loan is subordinated, unsecured loan of the Bank, and will matured on 23 November 2022. The loan issued by the Bank qualifies for Tier 2 capital instruments subject to phase-out in accordance with BS2A, and the allowance for tax in accordance with section 10f(5) of subpart 2F under BS2A.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of risk weighted exposures. As a condition of registration, the Bank must comply with the following minimum capital requirements set by the RBNZ:

- The Total capital ratio of the Banking Group is not less than 8%;
- The Tier 1 capital ratio of the Banking Group is not less than 6%;
- The Common Equity Tier 1 capital ratio of the Banking Group is not less than 4.5%; and
- The Total capital of the Banking Group is not less than \$30 million.

### Note 37 – Capital Adequacy (continued)

The capital adequacy tables set out below summarise the composition of regulatory capital and capital adequacy ratios as at 31 December 2017, and 31 December 2016. The Bank has complied with both regulatory and internal capital adequacy requirements.

The Bank has considered other material risks not included below and whether to allocate any capital to cover these risks and concluded that these risks are not significant and has therefore not allocated any capital to cover them.

#### (c) Tier one and two Capital

| Thousands of dollars  | 31 December 2017 | 31 December 2016 |
|---|------------------|------------------|
| <b>Tier one capital</b>   |                  |                  |
| <b>Common Equity Tier one capital</b>                               |                  |                  |
| Issued and fully paid up share capital                              | 145,460          | 145,460          |
| Retained earnings   | (6,165)          | (4,966)          |
| Accumulated other comprehensive income and other disclosed reserves | -                | -                |
| Interest from issue of ordinary shares                              | -                | -                |
| Less:   | -                | -                |
| Goodwill and other intangible assets                                | -                | -                |
| Regulatory adjustments  | -                | -                |
| Deferred tax assets   | (5,538)          | -                |
| <b>Total common equity tier one capital</b>                         | <b>133,757</b>   | <b>140,494</b>   |
| <b>Additional Tier one capital</b>                                  |                  |                  |
| High-quality capital  | -                | -                |
| Instruments issued  | -                | -                |
| Share premium from issue of instruments                             | -                | -                |
| Associated retained earnings  | -                | -                |
| Less: Regulatory adjustments  | -                | -                |
| <b>Total additional tier one capital</b>                            | <b>-</b>         | <b>-</b>         |
| <b>Total tier one capital</b>                                       | <b>133,757</b>   | <b>140,494</b>   |
| <b>Tier two capital</b>   |                  |                  |
| Subordinated loans due to related parties                           | 35,000           | -                |
| Share premium from issue of instruments                             | -                | -                |
| Revaluation reserves  | -                | -                |
| Foreign currency translation reserves                               | -                | -                |
| Less: Regulatory adjustments  | -                | -                |
| <b>Total tier two capital</b>                                       | <b>35,000</b>    | <b>-</b>         |
| <b>Total capital</b>  | <b>168,757</b>   | <b>140,494</b>   |

The Bank currently has NZ\$35M capital instruments subject to phase-out eligibility as capital in terms of RBNZ's Basel III transitional arrangement.

Note 37 – Capital Adequacy (continued)

(d) Credit Risk

| 31 December 2017  | Total exposure<br>after credit risk<br>mitigation | Risk<br>weight | Risk<br>weighted<br>exposure | Minimum<br>Pillar 1<br>capital<br>requirement |
|---|---|----------------|------------------------------|---|
| Calculation of on-balance-sheet exposures                                       | \$'000  | %              | \$'000                       | \$'000  |
| Cash and gold bullion   | -   | -              | -                            | -   |
| Sovereigns and central banks  | 46,440  | 0%             | -                            | -   |
| Multilateral development banks and other international organization             | -   | -              | -                            | -   |
| Public sector entities  | 34,551  | 20%            | 6,910                        | 553   |
| Banks rating grade 1  | 312,883   | 20%            | 62,577                       | 5,006   |
| Banks rating grade 2 (≤3 months)  | 8,684   | 20%            | 1,737                        | 139   |
| Banks rating grade 2 (>3 months)  | 13,685  | 50%            | 6,842                        | 547   |
| Banks rating grade 3 (≤3 months)  | -   | 20%            | -                            | -   |
| Banks rating grade 3 (>3 months)  | -   | 100%           | -                            | -   |
| Banks rating grade 4 (≤3 months)  | -   | -              | -                            | -   |
| Banks rating grade 4 (>3 months)  | -   | -              | -                            | -   |
| Banks unrated (≤3 months)   | -   | 20%            | -                            | -   |
| Banks unrated (>3 months)   | 18,588  | 50%            | 9,294                        | 744   |
| Corporate-without recognized mitigation   | 715,568   | 100%           | 715,568                      | 57,246  |
| Corporate-secured by collateral   | 63,089  | 20%            | 12,618                       | 1,009   |
| Corporate-guaranteed  | -   | -              | -                            | -   |
| Residential mortgages (owner occupied) not past due -LVR up to 80%.             | 284,225   | 35%            | 99,479                       | 7,958   |
| Residential mortgages (investment) not past due -LVR up to 80%.                 | 152,852   | 40%            | 61,141                       | 4,891   |
| Residential mortgages not past due -LVR over 80% less than 90% (owner occupied) | -   | 50%            | -                            | -   |
| Residential mortgages not past due -LVR over 80% less than 90% (Investment)     | -   | 70%            | -                            | -   |
| Past due residential mortgages  | -   | -              | -                            | -   |
| Other past due assets   | -   | 100%           | -                            | -   |
| Equity holdings (not deducted from capital) that are publicly traded            | -   | -              | -                            | -   |
| All other equity holdings (not deducted from capital)                           | -   | -              | -                            | -   |
| Other assets  | 11,468  | 100%           | 11,468                       | 918   |
| <b>Total on balance sheet exposures after credit risk mitigation</b>            | <b>1,662,033</b>                                  | <b>-</b>       | <b>987,634</b>               | <b>79,011</b>                                 |

Note 37 – Capital Adequacy (continued)

| 31 December 2017   | Total exposure | Credit Conversion Factor | Credit equivalent amount | Average Risk weight | Risk weighted exposure | Minimum Pillar 1 capital requirement |
|--|----------------|--------------------------|--------------------------|---------------------|------------------------|--------------------------------------|
| Calculation of off-balance-sheet exposures   | \$'000         | %                        | \$'000                   | %                   | \$'000                 | \$'000                               |
| Direct credit substitute   | -              | -                        | -                        | -                   | -                      | -                                    |
| Asset sale with recourse   | -              | -                        | -                        | -                   | -                      | -                                    |
| Forward asset purchase   | -              | -                        | -                        | -                   | -                      | -                                    |
| Commitment with certain drawdown   | -              | -                        | -                        | -                   | -                      | -                                    |
| Note issuance facility   | -              | -                        | -                        | -                   | -                      | -                                    |
| Revolving underwriting facility  | -              | -                        | -                        | -                   | -                      | -                                    |
| Performance-related contingency  | 3,169          | 50%                      | 1,584                    | 100%                | 1,584                  | 127                                  |
| Trade-related contingency  | 20,206         | 20%                      | 4,041                    | 100%                | 4,041                  | 323                                  |
| Placements of forward deposits   | -              | -                        | -                        | -                   | -                      | -                                    |
| Other commitments where original maturity is more than one year  | 350,453        | 50%                      | 175,227                  | 100%                | 175,227                | 14,018                               |
| Other commitments where original maturity is more than one year  | 60,000         | 50%                      | 30,000                   | 20%                 | 6,000                  | 480                                  |
| Other commitments where original maturity is less than or equal to one year  | 2,189          | 20%                      | 438                      | 100%                | 438                    | 35                                   |
| Other commitments that cancel automatically when the creditworthiness of the counterparty deteriorates or that can be cancelled unconditionally at any time without prior notice | -              | -                        | -                        | -                   | -                      | -                                    |
| <b>Market related contracts</b>  |                |                          |                          |                     |                        |                                      |
| (a) Foreign exchange contracts   | 9,721          | 1%                       | 97                       | 100%                | 97                     | 8                                    |
| (b) Interest rate contracts (exposure less than 1 year)  | 2,000          | 0%                       | -                        | -                   | -                      | -                                    |
| Interest rate contracts (exposure more than 1 year and less than or equal to 5 years)  | 117,200        | 0.50%                    | 586                      | 100%                | 586                    | 47                                   |
| Interest rate contracts (exposure more than 5 years)   | -              | -                        | -                        | -                   | -                      | -                                    |
| (c) Other - OTC, etc.  | -              | -                        | -                        | -                   | -                      | -                                    |
| <b>Total off-balance sheet exposures</b>   | <b>564,938</b> | <b>-</b>                 | <b>211,973</b>           | <b>-</b>            | <b>187,973</b>         | <b>15,038</b>                        |



Note 37 – Capital Adequacy (continued)

| 31 December 2016  | Total exposure<br>after credit risk<br>mitigation | Risk<br>weight | Risk<br>weighted<br>exposure | Minimum<br>Pillar 1<br>capital<br>requirement |
|---|---|----------------|------------------------------|---|
| Calculation of on-balance-sheet exposures                                       | \$'000  | %              | \$'000                       | \$'000  |
| Cash and gold bullion   | -   | -              | -                            | -   |
| Sovereigns and central banks  | 50,348  | 0%             | -                            | -   |
| Multilateral development banks and other international organisation             | -   | -              | -                            | -   |
| Public sector entities  | 35,010  | 20%            | 7,002                        | 560   |
| Banks rating grade 1  | 112,384   | 20%            | 22,477                       | 1,798   |
| Banks rating grade 2 (≤3 months)  | 2,549   | 20%            | 510                          | 41  |
| Banks rating grade 2 (>3 months)  | 11,844  | 50%            | 5,922                        | 474   |
| Banks rating grade 3 (≤3 months)  | -   | 20%            | -                            | -   |
| Banks rating grade 3 (>3 months)  | 2,080   | 100%           | 2,080                        | 166   |
| Banks rating grade 4 (≤3 months)  | -   | -              | -                            | -   |
| Banks rating grade 4 (>3 months)  | -   | -              | -                            | -   |
| Banks unrated (≤3 months)   | 7,685   | 20%            | 1,537                        | 123   |
| Banks unrated (>3 months)   | 24,702  | 50%            | 12,351                       | 988   |
| Corporate-without recognized mitigation   | 394,144   | 100%           | 394,144                      | 31,532  |
| Corporate-secured by collateral   | 86,277  | 20%            | 17,255                       | 1,380   |
| Corporate-guaranteed  | -   | -              | -                            | -   |
| Residential mortgages (owner occupied) not past due -LVR up to 80%.             | 101,619   | 35%            | 35,567                       | 2,845   |
| Residential mortgages (investment) not past due -LVR up to 80%.                 | 71,004  | 40%            | 28,401                       | 2,272   |
| Residential mortgages not past due -LVR over 80% less than 90% (owner occupied) | -   | 50%            | -                            | -   |
| Residential mortgages not past due -LVR over 80% less than 90% (Investment)     | -   | 70%            | -                            | -   |
| Past due residential mortgages  | -   | -              | -                            | -   |
| Other past due assets   | -   | 100%           | -                            | -   |
| Equity holdings (not deducted from capital) that are publicly traded            | -   | -              | -                            | -   |
| All other equity holdings (not deducted from capital)                           | -   | -              | -                            | -   |
| Other assets  | 3,898   | 100%           | 3,898                        | 312   |
| <b>Total on balance sheet exposures after credit risk mitigation</b>            | <b>903,544</b>                                    | <b>-</b>       | <b>531,144</b>               | <b>42,491</b>                                 |

Note 37 – Capital Adequacy (continued)

| 31 December 2016   | Total exposure | Credit Conversion Factor | Credit equivalent amount | Average Risk weight | Risk weighted exposure | Minimum Pillar 1 capital requirement |
|--|----------------|--------------------------|--------------------------|---------------------|------------------------|--------------------------------------|
| Calculation of off-balance-sheet exposures   | \$'000         | %                        | \$'000                   | %                   | \$'000                 | \$'000                               |
| Direct credit substitute   | -              | -                        | -                        | -                   | -                      | -                                    |
| Asset sale with recourse   | -              | -                        | -                        | -                   | -                      | -                                    |
| Forward asset purchase   | -              | -                        | -                        | -                   | -                      | -                                    |
| Commitment with certain drawdown   | -              | -                        | -                        | -                   | -                      | -                                    |
| Note issuance facility   | -              | -                        | -                        | -                   | -                      | -                                    |
| Revolving underwriting facility  | -              | -                        | -                        | -                   | -                      | -                                    |
| Performance-related contingency  | 7,243          | 50%                      | 3,621                    | 100%                | 3,621                  | 290                                  |
| Trade-related contingency  | -              | -                        | -                        | -                   | -                      | -                                    |
| Placements of forward deposits   | -              | -                        | -                        | -                   | -                      | -                                    |
| Other commitments where original maturity is more than one year  | 164,296        | 50%                      | 82,148                   | 100%                | 82,148                 | 6,572                                |
| Other commitments where original maturity is less than or equal to one year  | 4,778          | 20%                      | 956                      | 100%                | 956                    | 76                                   |
| Other commitments that cancel automatically when the creditworthiness of the counterparty deteriorates or that can be cancelled unconditionally at any time without prior notice | -              | -                        | -                        | -                   | -                      | -                                    |
| <b>Market related contracts</b>  |                |                          |                          |                     |                        |                                      |
| (a) Foreign exchange contracts   | -              | 1%                       | -                        | 100%                | -                      | -                                    |
| (b) Interest rate contracts (exposure less than 1 year)  | 75,900         | 0%                       | -                        | -                   | -                      | -                                    |
| Interest rate contracts (exposure more than 1 year and less than or equal to 5 years)  | 5,200          | 0.50%                    | 26                       | 100%                | 26                     | 2                                    |
| Interest rate contracts (exposure more than 5 years)   | -              | -                        | -                        | -                   | -                      | -                                    |
| (c) Other - OTC, etc.  | -              | -                        | -                        | -                   | -                      | -                                    |
| <b>Total off-balance sheet exposures</b>   | <b>257,417</b> | <b>-</b>                 | <b>86,751</b>            | <b>-</b>            | <b>86,751</b>          | <b>6,940</b>                         |

**Credit Risk Mitigation**

The Bank recognizes on- and off-balance sheet netting in a simple and limited form. It is used to measure the mitigating effects of collateral for corporate loans secured by deposits and mortgage loans secured by charge over residential property.

**(e) Residential mortgages by loan-to-valuation ratio**

**31 December 2017**

Thousands of dollars

| Loan-to-valuation ratio | Does not exceed 80% | Exceeds 80% and not 90% | Exceeds 90% | Total   |
|-------------------------|---------------------|-------------------------|-------------|---------|
| Value of exposures      | 437,077             | -                       | -           | 437,077 |

**31 December 2016**

Thousands of dollars

| Loan-to-valuation ratio | Does not exceed 80% | Exceeds 80% and not 90% | Exceeds 90% | Total   |
|-------------------------|---------------------|-------------------------|-------------|---------|
| Value of exposures      | 172,623             | -                       | -           | 172,623 |

Note 37 – Capital Adequacy (continued)

(f) Reconciliation of residential mortgage-related amounts

| Thousands of dollars                                   | 31 December 2017 | 31 December 2016 |
|--|------------------|------------------|
| Residential mortgage loans (as disclosed in Note 13)   | 437,925          | 172,926          |
| Reconciling Items:                                     |                  |                  |
| Provisions for impairment losses on loans and advances | (848)            | (303)            |
| Residential mortgages by loan-to-valuation ratio       | 437,077          | 172,623          |

(g) Credit risk mitigation

| 31 December 2017              | Total value of on-and-off-balance sheet exposures covered by eligible collateral (after haircutting) | Total value of on-and-off-balance sheet exposures covered by guarantees or credit derivatives |
|-------------------------------|--|---|
| Thousands of dollars          |  |   |
| <b>Exposure Class</b>         |  |   |
| Sovereign or central bank     | -  | -   |
| Multilateral development bank | -  | -   |
| Public sector entities        | -  | -   |
| Bank                          | -  | -   |
| Corporate                     | 63,089   | -   |
| Residential mortgage          | -  | -   |
| Other                         | -  | -   |
| <b>Total</b>                  | <b>63,089</b>  | <b>-</b>  |

| 31 December 2016              | Total value of on-and-off-balance sheet exposures covered by eligible collateral (after haircutting) | Total value of on-and-off-balance sheet exposures covered by guarantees or credit derivatives |
|-------------------------------|--|---|
| Thousands of dollars          |  |   |
| <b>Exposure Class</b>         |  |   |
| Sovereign or central bank     | -  | -   |
| Multilateral development bank | -  | -   |
| Public sector entities        | -  | -   |
| Bank                          | -  | -   |
| Corporate                     | 86,277   | -   |
| Residential mortgage          | -  | -   |
| Other                         | -  | -   |
| <b>Total</b>                  | <b>86,277</b>  | <b>-</b>  |

Note 37 – Capital Adequacy (continued)

(h) Operational risk capital requirement

31 December 2017

| Thousands of dollars | Implied risk weighted exposure | Total operational risk capital requirement |
|----------------------|--------------------------------|--|
| Operational risk     | 172,575                        | 13,806                                     |

31 December 2016

| Thousands of dollars | Implied risk weighted exposure | Total operational risk capital requirement |
|----------------------|--------------------------------|--|
| Operational risk     | 87,888                         | 7,031                                      |

(i) Market Risk

Market risk exposures have been calculated in accordance with the methodology detailed in Part 10 of the RBNZ's BS2A Capital Adequacy framework, and schedule 9 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"). Peak exposures are calculated using the Bank's shareholders equity at the end of the period.

31 December 2017

| Thousands of dollars              | End-period capital charges     |                          | Peak end-to-day capital charges |                          |
|-----------------------------------|--------------------------------|--------------------------|---------------------------------|--------------------------|
|                                   | Implied risk weighted exposure | Aggregate capital charge | Implied risk weighted exposure  | Aggregate capital charge |
| Interest rate risk                | 88,475                         | 7,078                    | 94,863                          | 7,589                    |
| Foreign currency risk             | 1,488                          | 119                      | 12,600                          | 1,008                    |
| Equity risk                       | -                              | -                        | -                               | -                        |
| <b>Total capital requirements</b> | <b>89,963</b>                  | <b>7,197</b>             | <b>107,463</b>                  | <b>8,597</b>             |

31 December 2017

| Thousands of dollars       | Total exposure after credit risk mitigation | Risk weighted exposure or implied risk weighted exposure | Capital Requirement |
|----------------------------|---|--|---------------------|
| Total credit risk + equity | 2,226,971                                   | 1,175,607  | 94,049              |
| Operational risk           | -   | 172,575  | 13,806              |
| Market risk                | -   | 89,963   | 7,197               |
| <b>Total</b>               | <b>2,226,971</b>                            | <b>1,438,145</b>   | <b>115,052</b>      |

31 December 2016

| Thousands of dollars              | End-period capital charges     |                          | Peak end-to-day capital charges |                          |
|-----------------------------------|--------------------------------|--------------------------|---------------------------------|--------------------------|
|                                   | Implied risk weighted exposure | Aggregate capital charge | Implied risk weighted exposure  | Aggregate capital charge |
| Interest rate risk                | 25,588                         | 2,047                    | 57,975                          | 4,638                    |
| Foreign currency risk             | 988                            | 79                       | 17,575                          | 1,406                    |
| Equity risk                       | -                              | -                        | -                               | -                        |
| <b>Total capital requirements</b> | <b>26,576</b>                  | <b>2,126</b>             | <b>75,550</b>                   | <b>6,044</b>             |

31 December 2016

| Thousands of dollars       | Total exposure after credit risk mitigation | Risk weighted exposure or implied risk weighted exposure | Capital Requirement |
|----------------------------|---|--|---------------------|
| Total credit risk + equity | 1,160,961                                   | 617,895  | 49,431              |
| Operational risk           | -   | 87,888   | 7,031               |
| Market risk                | -   | 26,576   | 2,126               |
| <b>Total</b>               | <b>1,160,961</b>                            | <b>732,359</b>   | <b>58,588</b>       |



Note 37 – Capital Adequacy (continued)

Capital ratios

| Regulatory Capital Ratios          | Regulatory Minimum | 31 December 2017 | 31 December 2016 |
|------------------------------------|--------------------|------------------|------------------|
| Common Equity Tier 1 Capital Ratio | 4.50%              | 9.30%            | 19.18%           |
| Tier 1 Capital Ratio               | 6.00%              | 9.30%            | 19.18%           |
| Total Qualifying Capital Ratio     | 8.00%              | 11.73%           | 19.18%           |
| RBNZ required Buffer Ratio         | 2.50%              | 3.30%            | 11.18%           |

(j) Capital for Other Material Risks

The Bank's Internal Capital Adequacy Assessment Process (ICAAP) captures all material risks that the Bank faces including those not captured by Pillar 1 regulatory capital requirements, namely strategic risk, reputational risk and start-up business risk. Noting this, the Bank has set additional buffer at 2% (31 December 2016:2%) within the board target to mitigate all the Pillar II risks in its ICAAP as a prudent treatment.

(k) Capital adequacy of Ultimate Parent Bank

The Ultimate Parent Bank of the Industrial and Commercial Bank of China (New Zealand) Limited is ICBC. The Ultimate Parent Bank Group comprises the Ultimate Parent Bank and its subsidiaries.

Both the Ultimate Parent Bank and the Ultimate Parent Bank Group are required by the China Banking Regulatory Commission (CBRC) to hold minimum capital at least equal to that specified under the standardized Basel approach and are required to publicly disclose this capital adequacy information on a quarterly basis. This information is made available to users via the ICBC website ([www.icbc.com.cn](http://www.icbc.com.cn)).

The Ultimate Parent Bank and the Ultimate Parent Bank Group each met the capital requirements imposed on them by the CBRC as at 31 December 2017, the latest reporting date.

The capital ratios below have been calculated in accordance with the Measures for Capital Management of Commercial Banks (Trial), issued by the CBRC.

|                                    | 31 December 2017 | 31 December 2016 |
|------------------------------------|------------------|------------------|
| <b>Ultimate Parent Bank Group</b>  |                  |                  |
| Common Equity Tier 1 Capital Ratio | 12.77%           | 12.87%           |
| Tier 1 Capital Ratio               | 13.27%           | 13.42%           |
| Total Capital Ratio                | 15.14%           | 14.61%           |
| <b>Ultimate Parent Bank</b>        |                  |                  |
| Common Equity Tier 1 Capital Ratio | 12.88%           | 12.90%           |
| Tier 1 Capital Ratio               | 13.44%           | 13.49%           |
| Total Qualifying Capital Ratio     | 15.39%           | 14.67%           |



# Independent Auditor's Report

To the Shareholder of Industrial and Commercial Bank of China (New Zealand) Limited

## Report on the disclosure statement

### Opinion

In our opinion, the accompanying financial statements (excluding supplementary information relating to Capital Adequacy) of Industrial and Commercial Bank of China (New Zealand) Limited (the Bank) on pages 16 to 81.

- i. give a true and fair view of the Bank's financial position as at 31 December 2017 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Generally Accepted Accounting Practice, which in this instance means New Zealand Equivalents to International Financial Reporting Standards ("NZIFRS").

In our opinion, the supplementary information (excluding supplementary information relating to Capital Adequacy) that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"):

- i. has been prepared, in all material respects, in accordance with the guidelines issued pursuant to section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration;
- ii. is in accordance with the books and records of the Bank in all material respects; and
- iii. fairly states the matters to which it relates in accordance with those Schedules

We have audited the accompanying financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy) which comprise:

- the statement of financial position as at 31 December 2017;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended,
- notes, including a summary of significant accounting policies and other explanatory information; and
- the information that is required to be disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order



### Basis for Opinion

We conducted our Audit in accordance with International Standards on Auditing (New Zealand) (ISA's (NZ)). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Bank in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA



Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISA (NZ) are further described in the auditor's responsibilities for the audit of the financial statements (excluding supplementary information relating to Capital Adequacy) section of our report.

Our firm has also provided other services to the Bank in relation to a review of the Bank's compliance with its conditions of registration, review of half year and off-quarter disclosure statements, review of the Bank's anti-money laundering framework and tax advice on the Bank's obligation under Common Reporting Standards ('CRS') and FATCA. Subject to certain restrictions, partners and employees of our firm may also deal with the Bank on normal terms within the ordinary course of trading activities of the business of the Bank. These matters have not impaired our independence as auditor of the Bank. The firm has no other relationship with, or interest in, the Bank.



### **Emphasis of matter – valuation of loan**

We draw attention to Note 1(4) to the financial statements which describes the significant estimation uncertainty that exists in measuring the specific provision against the loan of a significant borrower Group going into voluntary administration. Due to the complexity and uncertainty around the valuation of the loan, the final provision may vary substantially from the provision recorded in the disclosure statements. Our opinion is not modified in respect of this matter.



### **Emphasis of matter – regulatory compliance**

We draw attention to Note 1(4) to the financial statements which describes the uncertainty over the Bank's compliance with regulatory buffer ratio requirements in future periods resulting from the potential for additional loan impairment as noted above. The note also includes a description of management's plan to rectify a breach (if any) in future periods including the lodging of a capital plan with the Reserve Bank of New Zealand and the support of the Parent Bank. Our opinion is not modified in respect of this matter.



### **Emphasis of matter – impact of NZ IFRS 9**

We draw attention to Note 1(5)(t)(i) to the financial statements which describes the significant uncertainty that exists in measuring the impact of NZ IFRS 9 as:

- The Bank has not fully completed their analysis of the impact of transitioning to NZ IFRS 9; and
- The impact of the voluntary administration of the borrower as disclosed in the Note 1(4).

Our opinion is not modified in respect of this matter.



### **Other matter**

The disclosure statement and the audit opinion dated 28 March 2018 have been re-issued as a result of incorrect references made to the applicable legislation in Note 1(1) of the disclosure statement. The references have been updated accordingly.

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## **Other information**

The Directors, on behalf of the Bank, are responsible for the other information included in the Bank's disclosure statement. Other information includes the supplementary information that is required to be disclosed in accordance with Schedule 2 of the Order. Our opinion on the Bank's disclosure statement does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Bank's disclosure statement our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the disclosure statement or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



## **Report on other legal and regulatory requirements**

In accordance with the requirements of clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order, we report that:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by the Bank, as far as appears from our examination of those records.



## **Responsibilities of Directors for the financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy)**

The Directors, on behalf of the Bank, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with Clause 24 of the Order, NZIFRS;
- the preparation and fair presentation of supplementary information (excluding the supplementary information relating to Capital Adequacy), in accordance with Schedules 2, 4, 7, 13, 14, 15 and 17 of the Order;
- implementing necessary internal control to enable the preparation of financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



## **Auditor's responsibilities for the audit of the financial statements and supplementary information (excluding supplementary information relating to Capital Adequacy)**

Our objective is:

- to obtain reasonable assurance about whether the disclosure statement, including the financial statements prepared in accordance with Clause 24 of the Order, and supplementary information (excluding the supplementary information relating to Capital Adequacy), in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order as a whole is free from material misstatement, whether due to fraud or error; and





— to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/>

This description forms part of our independent auditor's report.

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### **Review conclusion on the supplementary information relating to Capital Adequacy**

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to Capital Adequacy, disclosed in note 37 to the disclosure statement, is not, in all material respects:

- i prepared in accordance with the Bank's conditions of registration; and
- ii disclosed in accordance with Schedule 9 of the Order

We have reviewed the supplementary information relating to Capital Adequacy, as disclosed in note 37 of the disclosure statement for the year ended 31 December 2017. The supplementary information relating to Capital Adequacy comprises the information that is required to be disclosed in accordance with Schedule 9 of the Order.



### **Basis for conclusion on the supplementary information relating to Capital Adequacy**

A review of the supplementary information relating to Capital Adequacy in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("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. Our responsibilities under that standard are further described in the Auditor's Responsibilities for the Review of the supplementary information relating to capital adequacy section of our report.

As the auditor of Industrial and Commercial Bank of China (New Zealand) Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.



### **Emphasis of matter – regulatory compliance**

We draw attention to Note 1(4) to the financial statements which describes the uncertainty over the Bank's compliance with regulatory buffer ratio requirements in future periods resulting from the potential for additional loan impairment as noted above. The note also includes a description of management's plan to rectify a breach



(if any) in future periods including the lodging of a capital plan with the Reserve Bank of New Zealand and the support of the Parent Bank. Our opinion is not modified in respect of this matter.



## **Responsibilities of Directors for the supplementary information relating to capital adequacy**

The directors are responsible for the preparation of supplementary information relating to Capital Adequacy that is required to be disclosed under Schedule 9 of the Order and prepared in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) and described in note 37 to the disclosure statement.



## **Auditor's responsibilities for the review of the supplementary information relating to capital adequacy**

Our responsibility is to express a conclusion on the Capital Adequacy information based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity ("NZ SRE 2410") issued by the New Zealand External Reporting Board. As the auditor of Industrial and Commercial Bank of China (New Zealand) Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and plan and perform the review to obtain limited assurance about whether the capital adequacy information is, in all material respects:

- prepared in accordance with the Bank's conditions of registration; and
- disclosed in accordance with Schedule 9 of the Order.

A review of the Capital Adequacy information 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 the supplementary information relating to Capital Adequacy disclosures.



## **Use of this independent auditor's report**

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

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

For and on behalf of

KPMG

KPMG  
Auckland

13 April 2018

Appendix 2 - Deed of Guarantee

Dated

27 August

2015

DEED OF GUARANTEE

By

INDUSTRIAL AND COMMERCIAL BANK OF  
CHINA LIMITED

In respect of the obligations of:

INDUSTRIAL AND COMMERCIAL BANK OF  
CHINA (NEW ZEALAND) LIMITED

Certified "true copy" of the original

A Solicitor of the High Court of  
New Zealand

Nathan Edwin Hansen-Thorpe  
Solicitor  
Auckland

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THIS DEED is made on 27 August 2015

BY

- (1) INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED a body corporate constituted under The Company Law of PRC and Law of the PRC on Commercial Banks, having its registered office at No.55 Fuxingmennei Ave, Xicheng District, Beijing, China (hereinafter referred to as the "Bank")
- AND
- (2) INDUSTRIAL AND COMMERCIAL BANK OF CHINA (NEW ZEALAND) LIMITED a company incorporated in New Zealand having its registered office at Level 11, 188 Quay Street, Auckland 1010, New Zealand (hereinafter referred to as "ICBC NZ")

IN FAVOUR OF

- (3) EACH CREDITOR OF ICBC NZ

WHEREAS:

- A. ICBC NZ is a wholly owned subsidiary of the Bank and set up for the purpose of doing the business of banking in New Zealand.
- B. The Bank enters into this Deed of Guarantee for the purpose of guaranteeing the obligations of its subsidiary, ICBC NZ, to the extent provided for by the terms of this Deed.

## 1. DEFINITIONS AND INTERPRETATION

1.1 In this Deed and in the Recitals, unless the context otherwise requires:

"Authorized Officer" means, where a Creditor is a Person other than a natural person, a director or secretary of that Person or a person duly authorised by the Creditor under the resolution and seal of the Person;

"Business Day" means any day, other than a Saturday or Sunday or public holiday, on which banks are open for general business in Wellington and Auckland;

"Creditor" means each and any Person to whom an Obligation is due and owed by ICBC NZ ;

"Guarantee" means the guarantee by the Bank for the benefit of the Creditors pursuant and subject to the terms and conditions of this Deed;

"Obligation" means all payment obligations of any nature to or for the benefit of Creditors ranking at least pari passu with the claims of unsecured unsubordinated creditors of ICBC NZ, whether actual or contingent, present or future, secured or unsecured and whether incurred alone, severally or jointly as principal, surety or otherwise, but which, in each case, has been incurred by ICBC NZ prior to termination of the Guarantee in accordance with clause 6;

"Person" means any person, firm, trust, estate, corporation, association, co-operative, government or governmental agency;

"Rating Agencies" means, as at the date of this Deed, Standard & Poor's (Australia) Pty Limited and Moody's Investors Services Inc. and any successor or replacement thereto and includes from time to time, such other reputable internally recognised rating agency as ICBC NZ may wish to designate;

"Repayment Obligation" means an Obligation incurred by ICBC NZ in relation to one or more of the following:

- (a) accepting deposits of any kind from any person;
- (b) at the request of its customer, issuing a guarantee, indemnity, letter of credit, performance bond or like instrument in favour of a third party Creditor;
- (c) raising money by whatever means but on terms that (and only to the extent that) the recourse comprises a direct and unconditional payment obligation of ICBC NZ;
- (d) issuing any redeemable preference shares; or
- (e) entering into any swap, foreign exchange contract, hedging or other derivative or risk management transaction or product, to the extent of the net settlement amount if such transaction or product is or was to be terminated or such a settlement amount is or was otherwise to become payable at the relevant time.

1.2 Words importing the singular number or plural number shall include the plural number and singular number respectively. Words importing any gender shall include every gender.

1.3 References to laws, statutes or legislation are to the laws, statutes or legislation for the time being in force in New Zealand, unless the contrary appears from the context of this Deed.

## 2. GUARANTEE

2.1 The Bank hereby irrevocably and unconditionally guarantees for the benefit of each Creditor the due and punctual payment by ICBC NZ of each and every Obligation as and when it becomes due and payable (whether at stated maturity or upon acceleration or otherwise) incurred by ICBC NZ to the Creditor prior to the termination of this Guarantee in accordance with clause 6, to the intent that should ICBC NZ default in the due and punctual payment of any such Obligation, the Bank shall, upon written demand by the relevant Creditor under clause 3, forthwith pay or cause to be paid to the Creditor all amounts then due and unpaid with respect to such Obligation together with all costs and expenses incurred by the Creditor in enforcing the Guarantee. For the avoidance of doubt, the Guarantee is a payment guarantee.

2.2 The Guarantee is a continuing guarantee and shall not be considered as satisfied by any intermediate payment and shall remain in force in respect of each and every Obligation incurred by ICBC NZ to the Creditor prior to the termination of the Guarantee in accordance with clause 6 until the relevant Obligation has been satisfied in full.

2.3 Subject to the terms of this Deed, neither the liability of the Bank, nor any of the rights of any Creditor, under this Guarantee shall be affected or discharged by anything which, but for this clause,

might operate to affect or discharge the liability of, or otherwise provide a defence to, the Bank (whether or not known to, or done or omitted to be done by, the Bank), including:

- (a) the granting of time, credit, accommodation, indulgence, waiver or other concession to ICBC NZ or any other person whether by the Creditor or any other person (whether at the request of the Bank, ICBC NZ or any other person);
- (b) any insolvency, administration, liquidation, receivership or reorganisation of ICBC NZ;
- (c) any liability of ICBC NZ or any other person ceasing from any cause whatever (including any release or discharge by a Creditor or by operation of law);
- (d) the Guarantee or any other agreement or right held or available to the Creditor, at any time being or becoming in whole or in part void, voidable, defective, illegal or unenforceable for any reason or being released, discharged or varied in whole or in part;
- (e) any variation, amendment, compromise, release, abandonment, relinquishment or renewal (whether or not having the effect of increasing the liability of the Bank or any other person) of any Obligation;
- (f) anything done or omitted or neglected to be done by a Creditor under this Deed or any other agreement; or
- (g) any other thing whatever, other than a release of the Bank's obligations under and in accordance with this Deed.

2.4 The Bank waives in favour of each Creditor all rights and defences whatsoever against ICBC NZ and each other person (including rights of subrogation, contribution, marshalling, set-off or counterclaim or any other contractual defences) to the extent strictly necessary to give effect to the Guarantee.

2.5 Notwithstanding clause 2.2, a Creditor may at any time by an instrument in writing, release the Bank from its liability under the Guarantee in relation to that Creditor.

### 3. DEMAND

3.1 A Creditor shall be entitled to make a demand under the Guarantee by delivering a certificate signed by an Authorised Officer of that Creditor, to the address set out in clause 9 setting out the below:

- (a) the residency and place of business of the Creditor;
- (b) particulars of the Obligation in respect of which demand is being made by the Creditor;
- (c) that ICBC NZ has defaulted in payment and that there is a debt immediately due and payable which remains unpaid beyond its due date (taking into account any relevant grace periods) and that there are no prior conditions to payment which remain unsatisfied;
- (d) for any Obligation which is not a Repayment Obligation, that ICBC NZ has had the opportunity to dispute the existence of the Obligation and if, after such opportunity, that dispute has been fully and finally resolved and the Obligation has become indisputably payable by ICBC NZ;

- (e) the outstanding amount and currency of that Obligation;
- (f) that the Obligation rank at least pari passu with the claims of other unsecured unsubordinated creditors of ICBC NZ generally; and
- (g) the account to which the amount of the claim is to be paid,

accompanied by a copy, verified by an Authorised Officer of the Creditor, of any agreement, instrument or statement of account or other document which is evidence of the due and payable Obligation.

- 3.2 Service of the Creditors Demand and all accompanying documents under clause 3.1 on the Bank shall constitute a written demand by the Creditor under clause 2.1.
- 3.3 Upon receipt of a written demand under clause 3.1 (such demand being accompanied with all relevant requirements set out in clause 3.1 and in the case of clause 3.1(d), the Bank shall be entitled to first verify the matters certified within a reasonable timeframe), the Bank hereby covenants for the benefit of each Creditor to pay to the bank account nominated by the Creditor within five Business Days of receipt of all such requirements (and in the case of clause 3.1(d), following verification process as mentioned above), the amount claimed by the Creditor in the relevant written demand in accordance with clause 4.

#### 4. PAYMENTS

- 4.1 All payments by the Bank under this Deed shall be made in the currency or currencies in which the relevant Obligation is denominated.
- 4.2 Payments hereunder shall be made:
  - (a) free and clear of any restrictions or condition;
  - (b) free and clear of and (except to the extent required by law) without any deduction or withholding on account of any taxes or any other amount, whether by way of set-off or otherwise (but excluding any taxes on overall net income).
- 4.3 In the event that the Bank is prohibited by law from making payments hereunder free of deductions or withholdings (but excluding any taxes on overall net income), then the Bank shall pay such additional amount to the relevant Creditor as may be necessary in order that the actual amount received after all applicable deductions and withholdings shall equal the amount that would have been received if such deductions or withholdings were not required.

#### 5. REPRESENTATIONS

- 5.1 The Bank represents and warrants that:
  - (a) it is a registered bank duly organised and validly existing under the laws of China;
  - (b) it has the corporate power to enter into this Deed and to perform the obligations imposed upon it under this Deed in accordance with its terms; and
  - (c) this Deed constitutes a valid, binding and enforceable obligation upon it.



## 6. TERMINATION OF GUARANTEE

6.1 Notwithstanding anything to the contrary in this Deed, the Guarantee shall terminate on the first to occur of the following events:

- (a) if:
  - (i) any substantial asset of ICBC NZ; or
  - (ii) any share in the issued capital of ICBC NZ, is expropriated or nationalised by the Government of New Zealand or by any political subdivision thereof (the "Government") or any entity succeeding to the powers of any such Government or any agency of any such Government or any such successor entity or any authority which is owned or controlled by any such Government or any such successor entity except where such expropriation or nationalisation results from the default by ICBC NZ of any statute, regulation or other binding law; or
- (b) a change in any law or regulation in any jurisdiction which renders the Guarantee illegal or inoperative in New Zealand; or
- (c) ICBC NZ ceasing to be a wholly owned subsidiary of the Bank; or
- (d) following by notice in writing by the Bank to ICBC NZ (specifying a termination date for the Guarantee which shall be at least three months following the giving of notice by ICBC NZ to its Creditors by an advertisement circulating generally throughout New Zealand in accordance with clause 6.2).

6.2 On receipt of notice of termination of the Guarantee pursuant to clause 6.1, ICBC NZ shall give notice of such termination by an advertisement in a newspaper circulating generally throughout New Zealand and to each Rating Agency.

6.3 Any termination of the Guarantee must be subject to:

- (a) the Guarantee remaining in place for the benefit of each Creditor owed Obligations which have been incurred on or prior to the date of termination described in clause 6.1, but only in relation to and to the extent of those Obligations; and
- (b) the Guarantee shall only terminate in respect of each Creditor referred to in clause 6.3(a) once the relevant Obligations have been satisfied in full (whether by action taken by the Bank, ICBC NZ, the relevant Creditor or by operation of law) and following expiration of any bankruptcy or other regulatory preference periods (as applicable).

## 7. SUBROGATION

7.1 Subject to clauses 2.3 and 2.4, the Bank and ICBC NZ expressly agree that the Bank is and shall be entitled to all the rights and remedies of a guarantor under law including, without limiting the generality of the foregoing, all rights of subrogation which shall accrue to the Bank by virtue of any payment hereunder by the Bank to or for the benefit of any Creditor and, subject to the law, the Bank shall be entitled to claim the benefit of and participate in any security now or hereafter held by that Creditor from ICBC NZ either in whole or upon a pro-rata basis, as the case may be, where the



Bank has paid all moneys owing to that Creditor in respect of an Obligation in accordance with this Deed. Notwithstanding the generality of the foregoing, the Bank shall not exercise or seek to enforce any claim against ICBC NZ (whether or not in liquidation) for reimbursement to the Bank of any moneys paid pursuant to this Deed by the Bank to a Creditor in respect of an Obligation until the default of ICBC NZ in respect of that Obligation has been fully remedied by ICBC NZ or the Bank.

## 8. DEALINGS BETWEEN THE BANK AND THE CREDITORS

- 8.1 After receipt of a written demand from a Creditor under clause 3 the Bank and that Creditor shall deal with one another as principal in relation to all matters under or in relation to this Deed, the Guarantee and ICBC NZ.
- 8.2 Without limiting the generality of clause 9, the Bank shall be and is entitled to serve any notice, demands or statements in connection with this Deed upon that Creditor (at its place of business specified in the Creditor's written demand to the Bank under clause 3) and the Bank shall be and is entitled to make any payment which it is liable to pay to the Creditor under this Deed directly to that Creditor and not through any other Person.

## 9. NOTICES

- 9.1 Any notice to the Creditors generally in respect of this Deed will be validly given if published in a newspaper circulating generally throughout New Zealand. Any such notice shall be deemed to have been given on the date of publication or, if published more than once, on the date of first publication.
- 9.2 Any notice, demand, statement or other document required to be served on or delivered to the Bank or ICBC NZ under or in relation to this Deed ("Notice") shall be in writing signed by the party giving the Notice or by an Authorised Officer of that party, shall be made, served or given (subject in the case of the Bank to clause 11.2) by being left at or sent by prepaid mail or by facsimile as follows:

to the Bank:

**Industrial and Commercial Bank of China Limited**  
No.55 Fuxingmennei Ave, Xicheng District, Beijing, China

Attention: Head of Asia-Pacific Institutions Management Division, International Banking Department

to ICBC NZ:

**Industrial and Commercial Bank of China (New Zealand) Limited**  
Level 11, 188 Quay Street, Auckland 1010, New Zealand

Attention: Managing Director

or to such other address or facsimile number as shall have been notified (in accordance with this clause) to the other party hereto. No Notice shall be deemed to have been received by the Bank or ICBC NZ until actually received by the relevant party to whom it is addressed at its designated address.

## 10. AMENDMENT

- 10.1 Subject to clause 10.3, any provision of this Deed may be amended or supplemented by agreement in writing between the Bank and ICBC NZ.
- 10.2 Subject to clause 10.3, the Bank may, from time to time and without any authority or assent of ICBC NZ or the Creditors, alter, modify, or add to this Deed if in the reasonable opinion of the Bank:
- (a) the alteration, modification or addition is made to correct a manifest error or is of a formal or technical nature;
  - (b) the modification, alteration or addition is necessary to comply with the provisions of any statute, whether or not required by any statutory authority; or
  - (c) the alteration, modification or addition is desirable for the purpose of more advantageously administering the rights and obligations established under this Deed,
- and in any case such modification, alteration or addition is considered by the Bank, acting in good faith, not to be materially prejudicial to the Creditors as whole, so far as known to it.
- 10.3 No further consent from Creditors shall be required to any amendment or supplement to this Deed, provided that notice of such amendment or supplement shall be given by ICBC NZ to the Creditors by an advertisement circulating generally throughout New Zealand.
- 10.4 The Bank and ICBC NZ shall ensure that a copy of any proposed amendment or supplement to this Deed is provided to each Rating Agency at least 10 Business Days prior to the amendment or variation taking effect.
- 10.5 The Guarantee is issued in replacement of and in substitution for the Deed of Guarantee by the Bank dated 2 September 2013 and, for the avoidance of doubt, all amounts guaranteed under that guarantee shall be Obligations for the purposes of this Deed.

## 11. GOVERNING LAW

- 11.1 This Deed shall be governed by and construed in accordance with the laws for the time being in force in New Zealand. The Bank and ICBC NZ each hereby submit, for the purposes of this Deed, to the non-exclusive jurisdiction of the Courts of New Zealand in respect of all legal actions arising under or in relation to this Deed.
- 11.2 The Bank hereby irrevocably appoints ICBC NZ (and ICBC NZ hereby accepts such appointment) to be the agent of the Bank to accept service of process on behalf of the Bank in respect of all matters in New Zealand arising under or in relation to this Deed and the Bank agrees that any such process shall be properly served upon the Bank if delivered to ICBC NZ at its address for the service of Notices set out in clause 9.2.

## 12. ASSIGNMENT

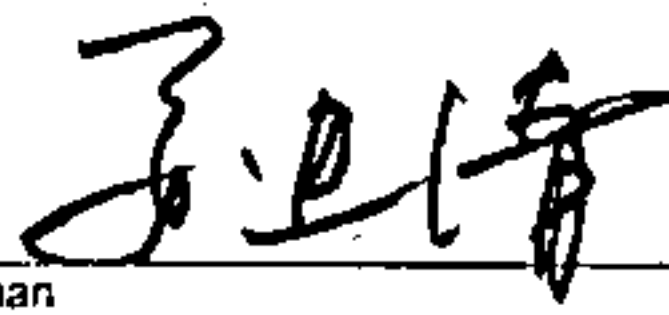
- 12.1 No party to this Deed may assign its rights or obligations hereunder without the consent in writing of the other party and without first having given prior written notice to each Rating Agency.

### 13. CERTIFICATE

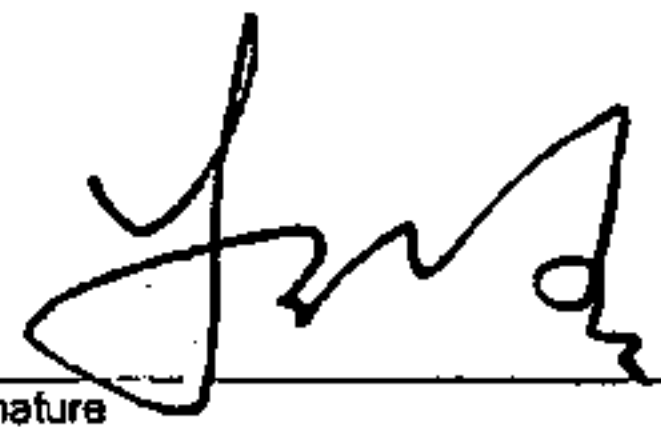
13.1 ICBC NZ shall advise the Bank in writing within fourteen (14) days of a request in writing from the Bank (made no more frequently than quarterly or following receipt by it of any demand for payment from a Creditor) to do so, of its best estimate of the aggregate principal amount of the Obligations for which it is indebted as at such date to either all of the Creditors generally or to those Creditors specified by the Bank in its request.

#### EXECUTED as a Deed

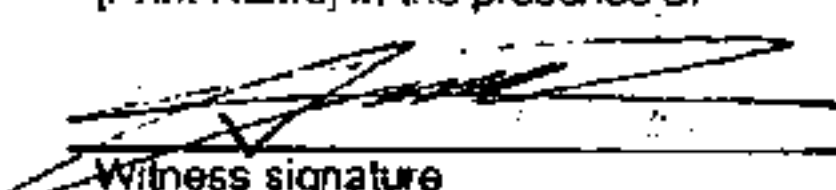
EXECUTED as a DEED for and on behalf  
of INDUSTRIAL AND COMMERCIAL  
BANK OF CHINA LIMITED

  
Chairman

EXECUTED as a DEED for and on behalf  
of INDUSTRIAL AND COMMERCIAL  
BANK OF CHINA (NEW ZEALAND)  
LIMITED  
by its Authorised Signatory / Attorney

  
Signature

[Print Name] in the presence of

  
Witness signature

Full name

Nathan Edwin Hansen-Thorpe  
Solicitor  
Auckland

Occupation