INDUSTRIAL AND COMMERCIAL BANK OF CHINA
NEW ZEALAND BANKING GROUP

Disclosure Statement

For the year ended 31 December 2020

Disclosure Statement

This Disclosure Statement has been issued by Industrial and Commercial Bank of China Limited for the year ended 31 December 2020 in accordance with the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the “Order”).

In this Disclosure Statement, unless the context otherwise requires:

(a) “Overseas Bank”, “Registered Bank” or “ICBC” means Industrial and Commercial Bank of China Limited, incorporated in China;

(b) "Overseas Banking Group" means the total worldwide business of ICBC including its controlled entities;

(c) “Branch” means the New Zealand Branch of the Overseas Bank;

(d) "ICBC NZ” means Industrial and Commercial Bank of China (New Zealand) Limited, the locally incorporated subsidiary of the Overseas Bank;

(e) "NZ Banking Group" means the New Zealand operations of the Overseas Bank comprising the Branch and ICBC NZ;

(f) "NZD" means the New Zealand Dollar, "RMB" means the Chinese Yuan, "USD" means the United States Dollar, “HKD” means the Hong Kong Dollar, “EUR” means the European Dollar and "AUD" means the Australian Dollar;

(g) "Board" means the board of directors of the Overseas Bank; and

(h) Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.

The financial statements of the NZ Banking Group for the year ended 31 December 2020 form part of and should be read in conjunction with this Disclosure Statement.

This Disclosure Statement is available on the ICBC NZ’s website at www.icbcnz.com. In addition, any person can request a hard copy of the 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.

Contents

Industrial and Commercial Bank of China – NZ Banking Group Corporate Information

Address for Service

The Registered Bank is Industrial and Commercial Bank of China Limited, incorporated in China. ICBC is subject to regulatory oversight by the China Banking and Insurance Regulatory Commission (CBIRC) and the Government of the People's Republic of China. ICBC is the ultimate parent bank and ultimate holding company of NZ Banking Group.

(a) The registered address of ICBC is:

55 Fuxingmennei Avenue,
Xicheng District, 100140,
Beijing,
People's Republic of China

(b) Annual Report of ICBC

A copy of the latest ICBC annual report is available on the ICBC website: www.icbc.com.cn

(c) The address for service and place of business of the Branch is:

HSBC Tower, Level 11, 188 Quay Street,
Auckland 1010, New Zealand

Nature of Business

The Overseas Bank is granted a banking licence on 18 May 2020 by the Reserve Bank of New Zealand. The NZ Banking Group currently provides a range of banking and financial products to retail, corporate and institutional customers.

Limits on Material Financial Support by the Overseas 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 NZ Banking Group.

Subordination of Claims of Creditors

There are no material legislative or regulatory restrictions in China that, in a liquidation of the Overseas Bank, subordinate the claims of any class of unsecured creditors of the Branch on the assets of the Overseas Bank to those of any other class of unsecured creditors of the Overseas Bank.

Requirement to Hold Excess Assets over Deposit Liabilities

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

Requirement to Maintain Sufficient Assets to Cover Ongoing Obligation to Pay Deposit Liabilities

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

Guarantee Arrangements

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

Directorate

Directors of the Overseas Bank

The Board of Directors of ICBC is ultimately responsible for the governance of the Branch. As at the date of this Application, the Directors of ICBC are as follows:

NON-INDEPENDENT DIRECTORS	
Name: Siqing Chen(Chairman of the Board) Executive Director **Country of Residence:** China **Qualification:** MBA	**External Directorships:** None
Name: Lin Liao(Vice Chairman of the Board) Executive Director, President **Country of Residence:** China **Qualification:** PhD in Management Science	**External Directorships:** None
Name: Yongzhen Lu Non-executive Director **Country of Residence:** China **Qualification:** Doctorate degree in Economics, Master's degree in History	**External Directorships:** None
Name: Fuqing Zheng Non-executive Director **Country of Residence:** China **Qualification:** Master's degree in Law Theory	**External Directorships:** None
Name: Weidong Feng Non-executive Director **Country of Residence:** China **Qualification:** Doctorate degree in Economic	**External Directorships:** None
Name: Liqun Cao Non-executive Director **Country of Residence:** China **Qualification:** Master's degree in Finance, Master's degree in Public Administration, Bachelor's degree in Law	**External Directorships:** None

INDEPENDENT DIRECTORS	
Name: Anthony Francis Neoh Independent Non-executive Director **Country of Residence:** China **Qualification:** Honorary Doctorate of Law, Honorary Doctorate of Social Sciences, Barrister of England and Wales	**External Directorships:** Independent Non-executive Director of CITIC Limited Chairman of Hong Kong Independent Police Complaints Council
Name: Siu Shun Yang Independent Non-executive Director **Country of Residence:** China **Qualification:** Honorary Doctor of Social Sciences	**External Directorships:** Member of the board of directors of the Hong Kong Jockey Club Independent Non-executive Director of the Tencent Holdings Limited
Name: Si Shen Independent Non-executive Director **Country of Residence:** China **Qualification:** EMBA, Master's degree in Economics	**External Directorships:** None
Name: Nout Wellink Independent Non-executive Director **Country of Residence:** Netherlands **Qualification:** Doctorate degree in Economics, Master's degree in Law	**External Directorships:** None

Name: Fred Zuliu Hu Independent Non-executive Director **Country of Residence:** China **Qualification:** Master's degree and PhD in economics, Master's degree in engineering science	**External Directorships:** Chairman of Primavera Capital Group, Non-executive Chairman of Yum China Holdings Inc., Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited, Independent Non-executive director of Ant Group Co. Ltd., Director of UBS Group AG, Co-Chair of The Nature Conservancy's Asia Pacific Council, Director of the China Medical Board, Co-Director of the National Center for Economic Research and a professor at Tsinghua University.

Board Audit Committee

Members of the Board Audit Committee of the Overseas Bank at the date of this Disclosure Statement are:

Shen Si (chair)	Independent Non-executive Director
Anthony Francis Neoh	Independent Non-executive Director
Yang Siu Shun	Independent Non-executive Director
Nout Wellink	Independent Non-executive Director
Fred Zuliu Hu	Independent Non-executive Director
Weidong Feng	Non-executive Director
Liqun Cao	Non-executive Director

New Zealand Chief Executive Officer of the Branch

Qian Hou
Chief Executive Officer
Master degree in Economics
Auckland, New Zealand

Directorships:
Executive Director of ICBC NZ

Responsible Person

Each of the current directors of the Board of the Overseas Bank named above have authorised Qian Hou in writing to sign this Disclosure Statement on their behalf in accordance with section 82 of the Reserve Bank Act.

Address for Communications

Any document or communication may be sent to any Director, the New Zealand Chief Executive Officer of the Branch or the Responsible Person at HSBC Tower, Level 11, 188 Quay Street, Auckland 1010, New Zealand. The document or communication should be marked for the attention of the relevant Director, the New Zealand Chief Executive Officer of the Branch or the Responsible Person.

Policy for Avoiding and Dealing with Conflicts of Interest

The Board is responsible for ensuring actual and potential conflicts of interest between the Directors' duty to the Overseas Bank and their personal, professional or business interests are avoided or dealt with.

Accordingly, each Director must:

(a) disclose to the Board any actual or potential conflicts of interest that may exist or might reasonably be thought to exist as soon as the situation arises.

(b) abstain from discussion and voting on the relevant proposal, and will not be counted in the quorum of the relevant proposal.

The resolution of the Board of Directors that approves the proposed matter shall be passed by a majority of the Directors have no material interest, and the Board will determine whether or not the Director declaring a conflict should remain present when the Board discusses matters about which the conflict relates.

Interested Party Transactions

There have been no transactions which any Director, or the New Zealand Chief Executive Officer, or immediate relative or close business associate of any Director or the Chief Executive Officer, with the NZ Banking Group that either:

- have been entered into on terms other than those which would, in the ordinary course of business of the NZ Banking Group, be given to any person of like circumstances or means;
- could otherwise be reasonably likely to influence materially the exercise of that Director's or the NZ Chief Executive Officer's duties.

Information pertaining to loans to and other transactions with Directors is disclosed in note 29 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 Limited in New Zealand

These conditions of registration apply on and after 18 May 2020 as per RBNZ's letter.

The registration of Industrial and Commercial Bank of China Limited ("the registered bank") in New Zealand is subject to the following conditions:

1. 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.

2. 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.

3. That the business of the registered bank in New Zealand does not constitute a predominant proportion of the total business of the registered bank.

4. That no appointment to the position of the New Zealand Chief Executive Officer of the registered bank shall be made 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.

5. That Industrial and Commercial Bank of China Limited complies with the requirements imposed on it by the China Banking and Insurance Regulatory Commission.

6. That, with reference to the following table, each capital adequacy ratio of Industrial and Commercial Bank of China Limited must be equal to or greater than the applicable minimum requirement.

Capital adequacy ratio	Minimum requirement
Common Equity Tier 1 capital	5.0 percent
Tier 1 capital	6 percent
Total capital	8 percent

For the purposes of this condition of registration, the capital adequacy ratios—

(a) must be calculated as a percentage of the registered bank's risk weighted assets; and

(b) are otherwise as administered by China Banking and Insurance Regulatory Commission.

7. That liabilities of the registered bank in New Zealand, net of amounts due to related parties (including amounts due to a subsidiary or affiliate of the registered bank), do not exceed NZ$15 billion.

8. The registered bank may only undertake wholesale business in New Zealand – that is, business transacted with "wholesale investors" defined under the Financial Market Conduct Act 2013 (Clause 3(2), Schedule 1).

9. That any derivative contracts entered into by the registered bank in New Zealand may only be for the purposes of hedging a customer's positions with the registered bank, or the registered bank's own risk positions.

10. That the New Zealand assets of the registered bank do not exceed the consolidated total assets of Industrial and Commercial Bank of China (New Zealand) Limited and its subsidiaries.

In these conditions of registration,—

"banking group" means the New Zealand business of the registered bank and its subsidiaries as required to be reported in group financial statements for the group's New Zealand business under section 461B(2) of the Financial Markets Conduct Act 2013.

"business of the registered bank in New Zealand" means the New Zealand business of the registered bank as defined in the requirement for financial statements for New Zealand business in section 461B(1) of the Financial Markets Conduct Act 2013.

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

"liabilities of the registered bank in New Zealand" means the liabilities that the registered bank would be required to report in financial statements for its New Zealand business if section 461B(1) of the Financial Markets Conduct Act 2013 applied.

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 NZ Banking Group, or if publically available, the Overseas Banking Group, whether in New Zealand or elsewhere, that may have a material adverse effect on the Overseas Bank or any other member of the NZ Banking Group.

Credit Ratings

ICBC Rating Information

The Overseas Bank had 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 Ratings Ltd.
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

Rating movement history
There has not been any Standard & Poor's and Moody's Credit rating movement in the last 3 years.

On 29 Oct 2019, Fitch has upgraded ICBC's Short term Foreign currency bank deposits rating to F1+ from F1, reflecting the central government's 73% ownership, a long history of state support, and its status as the largest bank in China.

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

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 Ratings Ltd.	Standard & Poor's Corporation	Moody's Investors Service, Inc.	Description of Rating[1,2]
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.

[1] 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.
[2] Credit ratings are statements of opinion issues 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 2020 12 mths	31 December 2019 12 mths	31 December 2018 12 mths	31 December 2017 12 mths	31 December 2016 12 mths
Income Statement					
Interest Income	67,195	83,334	79,133	47,289	27,557
Interest Expense	(37,261)	(48,847)	(42,840)	(25,317)	(11,149)
Net Interest Income	29,934	34,487	36,293	21,972	16,408
Net gains/(losses) on financial instruments at fair value through P&L	24,565	123	12,804	7,432	(9,327)
Fees and other income	(19,163)	1,217	(11,068)	(6,402)	8,514
Total operating income	35,336	35,827	38,029	23,002	15,595
Operating expenses	(17,859)	(18,756)	(17,087)	(14,523)	(10,945)
Impairment provisioning on financial assets	(864)	14,919	(10,631)	(12,563)	(2,818)
Net profit/(loss) before taxation	16,613	31,990	10,311	(4,084)	1,832
Taxation (expense)/ benefit	(4,719)	(9,016)	(2,946)	2,885	(680)
Net profit/(loss) after taxation	11,894	22,974	7,365	(1,199)	1,152
Net profit or loss attributable to non-controlling interests	-	-	-	-	-
Ordinary Dividend	-	-	-	-	-
Significant balance sheet items					
Total Assets	2,302,177	2,281,516	2,135,815	1,662,033	903,544
Total Liabilities	1,948,914	2,024,467	1,901,740	1,522,738	763,050
Total Head Office Account and Equity	353,263	257,049	234,075	139,295	140,494
Asset Quality					
Individually Impaired Assets	5,905	8,492	35,397	32,824	-

Historical summary data shown above are extracted from audited financial statements.

Other Material Matters

The Directors of the Overseas Bank are of the opinion that there are no other matters relating to the business or affairs of the NZ 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 Overseas Bank or any member of its NZ Banking Group is the issuer.

Directors' and New Zealand Chief Executive Officer's Statements

Each Director of the Overseas Bank and the New Zealand Chief Executive Officer 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 Order; and
   (b) The Disclosure Statement is not false or misleading.

2. During the year ended 31 December 2020:

   (a) The Overseas Bank has complied with all conditions of registration that applied during the period;
   (b) The Branch and ICBC NZ have systems in place to monitor and control adequately relevant members of the NZ Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks, and that those systems are properly applied.

This Disclosure Statement is dated 29 March 2021 and has been signed by Qian Hou as the New Zealand Chief Executive Officer and as agent authorised in writing by each director of Overseas Bank.

Qian Hou
New Zealand Chief Executive Officer

Appendix 1 - Financial Statements

Industrial and Commercial Bank of China NZ Banking Group

Financial Statements for the year ended 31 December 2020

Contents

STATEMENT OF COMPREHENSIVE INCOME

Thousands of dollars	Note	Audited 31 December 2020	Audited 31 December 2019
Interest Income*	2	67,195	83,334
Interest Expense*	2	(37,261)	(48,847)
Net Interest Income		**29,934**	**34,487**
Net gains/(losses) on financial instruments at fair value through P&L	3	24,565	123
Fees and other Income	4	(19,163)	1,217
Total operating income		35,336	35,827
Operating expenses	5	(17,859)	(18,756)
Impairment provisioning on financial assets	6	(864)	14,919
Net profit/(loss) before taxation		16,613	31,990
Taxation expense	7	(4,719)	(9,016)
Net profit/(loss) after taxation		**11,894**	**22,974**

Other comprehensive income	-	-
Total comprehensive income	**11,894**	**22,974**

*All interest income and interest expense are calculated using the effective interest method.

STATEMENT OF CHANGES IN EQUITY

		Branch's Head Office Account		Other members of the NZ Banking Group		
Thousands of dollars	Note	Branch Capital	Retained Earnings	Share Capital	Retained Earnings	Total
For the year ended 31 December 2020 (audited)						
Balance at 31 December 2019		-	-	233,540	23,509	257,049
Impact of initial adoption of NZ IFRS 16		-	-	-	320	320
Balance at 1 January 2020		-	-	233,540	23,829	257,369
Capital injection from shareholders		84,000	-	-	-	84,000
Net profit/(loss) for the year		-	(644)	-	12,538	11,894
Total equity movement for the year	26,27	84,000	(644)	-	12,538	95,894
Balance at 31 December 2020	26,27	84,000	(644)	233,540	36,367	353,263
For the year ended 31 December 2019 (audited)						
Balance at 31 December 2018		-	-	233,540	535	234,075
Capital injection from shareholders		-	-	-	-	-
Net profit/(loss) for the year		-	-	-	22,974	22,974
Total equity movement for the year		-	-	-	22,974	22,974
Balance at 31 December 2019	26,27	-	-	233,540	23,509	257,049

Statement of Financial Position

Thousands of dollars	Note	Audited 31 December 2020	Audited 31 December 2019
Assets			
Cash, cash equivalents and balances with central banks	9	200,771	107,297
Amounts due from related parties	21	118,284	23,150
Due from banks and other financial institutions	10	10,000	226,362
Investment securities	12	197,210	182,868
Derivative financial assets	11,14	7,698	4,164
Loans and advances to customers	13,28	1,748,109	1,717,679
Right-of-use assets	17	9,212	8,119
Current tax assets	8	491	-
Property, plant and equipment	16	153	52
Intangible assets	18	7	12
Deferred tax assets	8	4,856	4,832
Other assets	19	5,386	6,981
Total assets		**2,302,177**	**2,281,516**
Liabilities			
Due to central banks and other financial institutions	20	1	1
Amounts due to related parties	21	596,873	396,015
Derivative financial liabilities	11,14	3,292	3,815
Deposits from customers	22	650,797	814,845
Certificates of deposit	23	79,750	47,697
Subordinated loans due to related parties	24	70,000	70,000
Debt securities issued	23	523,178	661,440
Lease liabilities	17	9,645	8,356
Current tax liabilities	8	-	3,090
Deferred tax liabilities	8	876	-
Other liabilities	25	14,502	19,208
Total liabilities		**1,948,914**	**2,024,467**
Branch's Head office account			
Branch capital	26	84,000	-
Retained profit	26	(644)	-
Other members of NZ Banking Group's equity			
Share capital	27	233,540	233,540
Reserves	27	36,367	23,509
Total NZ Banking Group's equity		353,263	257,049
Total NZ Banking Group's equity and liabilities		**2,302,177**	**2,281,516**
Total interest earning and discount bearing assets	30	2,285,394	2,257,821
Total interest and discount bearing liabilities	31	1,880,950	1,942,090

The accounting policies and other notes (1-39) form part of, and should be read in conjunction with, these Financial Statements.

These financial statements were approved by the directors on 29 March 2021 and are signed on their behalf by:

Qian Hou
New Zealand Chief Executive Officer

KPMG

STATEMENT OF CASH FLOWS

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Cash flows applied to operating activities		
Interest income	68,975	83,940
Other income	3,807	1,124
Interest expense	(39,360)	(51,638)
Long-term lease payments	(1,340)	(1,146)
Variable lease	(9)	(6)
Personnel expenses	(12,305)	(10,889)
Other operating expenses`	(4,450)	(5,208)
Taxes paid	(7,572)	(6,420)
Net cash flows applied to operating activities before changes in operating assets and liabilities	**7,746**	**9,757**
Changes in operating assets and liabilities arising from cash flow movements:		
(Increase)/decrease in loans and advances to customers	(31,949)	(9,165)
Increase/(decrease) in deposits from customers	(164,048)	178,856
Increase/(decrease) in amounts due to related parties	223,085	(90,700)
Increase/(decrease) in other liabilities	(410)	28
(Increase)/decrease in amounts due from related parties	(95,134)	(12,914)
Increase/(decrease) in certificates of deposit	32,053	(88,454)
Net change in operating assets and liabilities	**(36,403)**	**(22,349)**
Net cash flows applied to operating activities	**(28,657)**	**(12,592)**
Cash flows applied to investing activities		
Purchase of property, plant and equipment	(144)	(7)
Purchase of intangible assets	-	(14)
Purchase of investment securities	(15,146)	(72,216)
Net cash flows applied to investing activities	(15,290)	(72,237)
Cash flows applied to financing activities		
Capital injection from shareholders	84,000	-
Receipts from subordinated loans due to related parties	-	-
Receipts/(repayments) from issuance of debt securities	(138,696)	199,760
Net cash flows applied to financing activities	(54,696)	199,760
Increase/(decrease) in cash and cash equivalents	(98,643)	114,931
Cash and cash equivalents at beginning of year	266,407	151,604
Effect of exchange rate changes on cash and cash equivalents	(2,018)	(128)
Cash and cash equivalents	**165,746**	**266,407**
Cash and cash equivalents at end of year comprised:		
Cash, cash equivalents and balances with central banks	200,771	107,297
Due from banks and other institutions classified as cash equivalents	10,000	226,362
Due to central banks and other financial institutions classified as cash and cash equivalents	(1)	(1)
Amount due to related parties classified as cash and cash equivalents	(45,024)	(67,251)
Total cash and cash equivalents	**165,746**	**266,407**

STATEMENT OF CASH FLOWS (CONTINUED)

Thousands of Dollars	Audited 31 December 2020	Audited 31 December 2019
Reconciliation of net profit after taxation to net cash-flows from operating activities		
Net profit after taxation	**11,894**	**22,974**
Non cash movements:		
Unrealised fair value adjustments	(3,628)	567
Depreciation	43	57
Amortisation of intangibles	5	2
Amortisation of Right-of-use assets	1,317	1,040
Amortisation of financial instruments	804	676
Gain/loss on modification of lease contracts	-	124
Increase/(decrease) in allowance for impairment losses	870	(14,928)
Loss on written-off financial assets	-	9
Bad debts recovery	(6)	-
Unrealised foreign exchange gain/(loss)	2,033	(906)
(Increase)/decrease in deferred taxation	728	3,959
Amortisation of debt securities issued	(10)	26
Increase/(decrease) in operating assets and liabilities	**2,156**	**(9,374)**
(Increase)/decrease in interest receivable	1,554	615
Increase/(decrease) in interest payable	(2,309)	(3,037)
(Increase)/decrease in loans and advances to customers	(31,949)	(9,165)
Increase/(decrease) in deposits from customers	(164,048)	178,856
Increase/(decrease) in certificates of deposit	32,053	(88,454)
Increase/(decrease) in lease liabilities	(1,121)	(927)
Increase/(decrease) in other liabilities	(1,299)	220
Increase/(decrease) in amounts due to related parties	223,085	(90,700)
(Increase)/decrease in current taxation	(3,581)	(1,363)
(Increase)/decrease in other assets	42	677
(Increase)/decrease in amounts due from related parties	(95,134)	(12,914)
Net cash flows applied to operating activities	**(28,657)**	**(12,592)**

STATEMENT OF CASH FLOWS (CONTINUED)

Reconciliation of liabilities arising from financing activities

For the year ended 31 December 2020 (audited)

Thousands of Dollars	Balance at the beginning of the year	Net Cash flow	Non-cash changes Amortisation	Non-cash changes Foreign Exchange movement	31 December 2020
Subordinated loans due to related parties	70,000	-	-	-	70,000
Debt securities issued	661,440	(138,696)	(10)	444	523,178
Total liabilities from financing activities	731,440	(138,696)	(10)	444	593,178

For the year ended 31 December 2019 (audited)

Thousands of Dollars	Balance at the beginning of the year	Net Cash flow	Non-cash changes Amortisation	Non-cash changes Foreign Exchange movement	31 December 2019
Subordinated loans due to related parties	70,000	-	-	-	70,000
Debt securities issued	461,826	199,760	26	(172)	661,440
Total liabilities from financing activities	531,826	199,760	26	(172)	731,440

Note 1 - Accounting Policies

(1) Reporting Entity

The reporting entity is Industrial and Commercial Bank of China Limited, Auckland Branch (the "Branch"). The reporting group is the NZ Banking Group which is an aggregation of the Branch and Industrial and Commercial Bank of China (New Zealand) Limited ("ICBC NZ"), a locally incorporated subsidiary of Industrial and Commercial Bank of China Limited (the "Overseas Bank"). The NZ Banking Group operations began on 18 May 2020.

The financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order"). They were approved for issue by the Board of Directors of the Overseas Bank (the "Board") on 29 March 2021.

The NZ Banking Group provides its products and services to retail and wholesale/institutional customers.

(2) Basis of Preparation

The 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 measured at fair value through profit or loss and financial assets and liabilities measured at fair value through other comprehensive income 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) Basis of Aggregation

The NZ Banking Group is an aggregation of the individual financial statements of the Branch and ICBC NZ. All transactions and balances between entities within the NZ Banking Group have been fully eliminated where they exist.

(4) Presentation Currency

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

(5) 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: determining inputs into the Expected Credit Loss (ECL) measurement model, including incorporation of forward-looking information and recoverable cash flows.
- Deferred Taxation
- Fair value of derivatives

Estimation uncertainties:

Assumptions made as at each reporting date (e.g. the calculation of the provision for doubtful debts and fair value adjustments), are based on best estimates at that date. Although the NZ Banking Group has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates.

The most recent economic data (GDP, unemployment rate, business activity etc.) shows the NZ economy as having been resilient. However the period includes limited business disruption, with Covid-19 being largely well contained within NZ compared to most countries and a significant levels of government stimulus. There remains potential for further domestic economic impact through the disruptive impacts of Covid-19, for further impacts on some customers as relief packages taper off and for further economic impacts with New Zealand's trading partners (which ultimately impacts export weighted customers). We continue to closely monitor business borrowers and the performance of home loans. Applying judgement to the situation, there remains the potential for some retreat in economic performance, but more specifically that the full-term impact of Covid-19 remains: a) uncertain and b) the impact on individual borrowers is uneven. There remains the potential for credit risks beyond the current ECL to emerge in relation to individual borrowers, at least until such time as the global spread of Covid-19 is contained and reduced.

Note 1 - Accounting Policies (continued)

Based on this judgement and the performance of the loan portfolio to-date, we have identified a need to continue to apply an overlay of $3.3 million reflecting the remaining uncertainty.

The fair value of derivatives are measured from inputs that are observable for the assets and liabilities either directly or indirectly from the market.

Based on the latest forecast, the future taxable profits are in excess of the gross balance of the deductible temporary differences as at 31 December 2020.

(6) 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, and noted in (o) “change in accounting policy” below.

(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 NZ Banking Group 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, 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 NZ Banking Group 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 NZ Banking Group 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.

(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.

Note 1 - Accounting Policies (continued)

(iv) Other Income
Dividend income is recorded in the statement of comprehensive income when the NZ Banking Group'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
All other expenses, excluding interest expense, are recognised in the statement of comprehensive income on an accrual basis.

(d) Classification and Measurement of Financial Assets and Financial Liabilities

Classification
Financial assets are classified includes items such as cash and cash equivalents and balances with central banks, due from banks and other financial institutions, financial assets at fair value through profit or loss, loans and receivables, and investment securities.

According to NZ IFRS 9, financial assets are classified into the following categories:

- Those to be measured at amortised cost; and
- Those to be measured at fair value through profit or loss.

The classification depends on the NZ Banking Group’s business model for managing financial assets and the contractual characteristics of financial asset. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets measured at amortised cost
A financial asset is measured at amortised cost only if it meets both the following conditions:

- Business model objective: financial assets held in order to collect contractual cash flows; and
- Contractual cash flow characteristics: solely payments of principal and interest on the principal amount outstanding.

These assets are initially recognised at fair value plus direct attributable transaction costs and subsequently measured at amortised cost. Financial assets measured at amortised cost include:

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.

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

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 NZ Banking Group 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 NZ Banking Group 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.

Investment securities
Investments securities are non-derivative financial assets with fixed or determinable payments and a fixed maturity and which the NZ Banking Group has the positive intention and ability to hold to maturity, and which are not designated as at FVTPL or FVOCI.

Investment securities are 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 investment securities are derecognised or impaired, as well as through the amortisation process. All the financial investments are bond investments. A sale or reclassification of a more than insignificant amount of investment securities would result in the reclassification of all investment securities. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

(a) Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset’s fair value;
(b) Sales or reclassifications after the NZ Banking Group has collected substantially all of the asset’s original principal; and
(c) Sales are attributable to non-recurring isolated events beyond the NZ Banking Group’s control that could not have been reasonably anticipated

Note 1 - Accounting Policies (continued)

(ii) Financial assets measured at fair value through profit and loss

A financial asset is measured at fair value through profit and loss if it does not meet the amortised cost criteria. Financial assets held at fair value through profit or loss are initially recognised at fair value, with transaction costs being recognised in the income statement as incurred. Subsequently, they are measured at fair value with gains and losses recognised in the income statement as they arise.

Where a financial asset is held at fair value, the movement in fair value attributable to interest rate market movements is either an observable market value or calculated based on changes in observable market interest rates for swaps. The movement in fair value attributable to changes in credit risk is established through a statistical-based calculation to estimate expected losses attributable to adverse movements in credit risk.

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.

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) Financial liabilities held at amortised cost

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.

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.

Note 1 - Accounting Policies (continued)

(iv) 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 NZ Banking Group 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.

Derivative liabilities

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 liabilities are measured at fair value through profit or loss.

Derecognition of financial assets and liabilities

Financial assets

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 NZ Banking Group 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 NZ Banking Group has transferred substantially all the risks and rewards of ownership of the financial asset; or the NZ Banking Group 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 NZ Banking Group 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 NZ Banking Group’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 NZ Banking Group could be required to repay.

Financial liabilities

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.

Derivative financial instruments

The NZ Banking Group 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.

(e) 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 NZ Banking Group 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.

Note 1 - Accounting Policies (continued)

(f) Asset quality

The NZ Banking Group recognises loss allowances for expected credit losses (“ECL”) on the following financial instruments that are not measured at FVTPL:

- cash and cash equivalent;
- due from banks and other financial instruments;
- investment securities;
- loans and receivables; and
- loan commitments and financial guarantee contracts.

The NZ Banking Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’. The NZ Banking Group also apply the low credit risk exemption credit business secured with the pledge of high-quality financial assets or credit support provided by high-quality financial institution and sovereign entities is known as ”high-quality credit business”:

- the pledge of high-quality financial assets means the conduct that the borrower or a third person(hereafter referred to as the “pledgor”)hands over financial assets that are legally held, acceptable to the NZ Banking Group and have good risk mitigation capacity to the lending branch (including the branch accepting bank acceptance draft, the branch issuing the L/C and the branch issuing the L/C or standby L/C) for possession or completion of the pledge registration procedure according to the low and provides a pledge guarantee for the lending branch for the purpose of applying for the credit business.
- the credit support of high-quality financial institutions and sovereign entities (hereafter referred to as the “high-quality institutional credit support”)means the credit risk mitigation mode that a high-quality financial institution with good solvency or a high-quality sovereign entity directly takes the credit risk of the customer while the NZ Banking Group bears the credit risk of the high-quality financial institution or sovereign entity, so that the NZ Banking Group can seek a recourse against the third-party institution bearing the credit risk of the customer when the customer defaults to assure timely realisation of the creditor’s right in full amount.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as “Stage 1 financial instruments”.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as “Stage 2 financial instruments”.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the NZ Banking Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the NZ Banking Group if the commitment is drawn down and the cash flows that the NZ Banking Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the NZ Banking Group expects to recover.

Credit-impaired financial assets

At each reporting date, the NZ Banking Group assesses whether financial assets carried at amortised cost are credit-impaired (referred to as “Stage 3 financial assets”). A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the NZ Banking Group on terms that the NZ Banking Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the NZ Banking Group considers the following factors.

Note 1 - Accounting Policies (continued)

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as "lender of last resort" to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as other financial liabilities;

Write-off
Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the NZ Banking Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in "impairment losses on financial instruments" in the statement of profit or loss.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the NZ Banking Group's procedures for recovery of amounts due.

Measurement of impairment
Impairment losses on assets measured at amortised cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Reversal of impairment
If an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.

(g) 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%
Computer hardware	3 years	-	33.3%
Leasehold improvements	Lesser of 5 years or the remaining term of the lease	-	20%

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.

Note 1 - Accounting Policies (continued)

(h) 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 NZ Banking Group generally expenses computer software costs in the period incurred. However, some costs associated with developing identifiable and unique software products controlled by the NZ Banking Group, 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.

(i) 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.

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.

(j) 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 NZ Banking Group. 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 NZ Banking Group 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.

(k) Leases
The NZ Banking Group leases many assets, including properties, motor vehicles, and office equipment.

As a lessee, the NZ Banking Group previously classified leases as operating leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under NZ IFRS 16, the NZ Banking Group recognises right-of-use assets and lease liabilities for most leases on balance sheet. However, the NZ Banking Group has elected not to recognise right-of-use assets and lease liabilities for some short-term leases (less than 12 months). In such cases, the leases will be accounted for as short-term leases and the lease payments associated with them will be recognised as an expense from short-term leases.

The right-of-use assets is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liabilitiy.

Note 1 - Accounting Policies (continued)

The lease liability is initially measured at the present value of the lease payments that at not paid at the commencement date, discounted using the interest rate implicit in the lease or if that rate cannot be reality determinded, the NZ Banking Group's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability, and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

(l) Share capital

(i) Share issue costs
Issued and paid up share capital is recognised at the fair value of the consideration received by the NZ Banking Group. 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 NZ Banking Group's shareholders. Dividends for the year that are declared after the balance sheet date are addressed in the subsequent events note (if applicable).

(ii) Branch capital
The Branch's working capital is interest free and will be repayable at the discretion of the Branch.

(m) 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.

(n) Employee Benefits
Employee benefits refer to all forms of consideration and other related expenditure given by the NZ Banking Group 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 NZ Banking Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the NZ Banking Group will present them at their present value. The employee benefits in the financial statements are incurred by ICBC NZ, who employs all staff.

(o) Change in Accounting Policies
Accounting policies are consistent with those applied in the Disclosure Statement for the year ended 31 December 2019.

(p) NZ IFRS Accounting Standards Issued but Not Yet Effective
There is no new amendment to standard relevant to the Banking Group as at 31 December 2020.

(7) Comparative Financial Statements
Certain comparative balances have been recalculated to ensure consistency with the current financial year's presentation. These recalculation have no impact on the overall financial performance or financial position for the comparative reporting periods. Disclosure Statement note affected is Note 35(D).

Note 2 - Interest Income and Interest Expense

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Interest Income		
Loans and advances to customers	58,761	73,788
Government and local authority securities	773	694
Due from other financial institutions	1,687	3,751
Amounts due from related parties	58	58
Other securities	4,989	4,695
Cash and liquid assets	13	70
Income from derivative	914	278
Total interest income	67,195	83,334
Interest expense		
Deposits from customers	15,783	20,694
Debt securities issued	13,801	19,644
Secured and unsecured borrowings	12	459
Amounts due to related parties	7,443	7,831
Lease liabilities	219	219
Other interest expenses	3	-
Total interest expense	37,261	48,847

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

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Financial assets designated at fair value through profit or loss upon initial recognition	-	-
Derivative financial instruments	24,565	123
Financial liabilities designated at fair value through profit or loss upon initial recognition	-	-
Total net gains/(losses) on financial instruments at fair value through profit or loss	24,565	123

Note 4 – Fees and Other Income

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Banking and lending fee income	755	917
Payment services fee income	506	681
Net foreign exchange gains/(losses)	(20,425)	(276)
Gains/(losses) on modification of lease	-	(124)
Other revenue	1	19
Total other income	(19,163)	1,217

Note 5 - Operating Expenses

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Auditor's remuneration:		
Audit of financial statements	324*	178
Review of financial statements	53	32
Other assurance services	11	11
Taxation and other services	-	6
Fees paid to auditors	388	227
Amortisation and Depreciation:		
Computer hardware	35	29
Office equipment	1	1
Furniture, fittings, and leasehold improvements	7	27
Amortisation of intangible assets	5	2
Total amortisation and depreciation	48	59
Employee benefits:		
Wages and salaries	11,627	10,997
Kiwi Saver Contribution	88	65
Other Employment-Related Expenses	198	232
Total employee benefits	11,913	11,294
Lease expenses:		
Amortisation of Right-of-use assets	1,317	1,040
Short term lease payments	31	49
Variable lease payments	9	6
Total lease expenses	1,357	1,095
Other expenses:		
Tax advisory services	108	100
Donations	3	50
Directors' fees	270	270
Professional consulting fee	414	1,403
Building occupation costs	347	330
Promotion and marketing costs	213	466
Membership fee	153	281
Other operating expenses	2,645	3,181
Total other expenses	4,153	6,081
Total operating expenses	17,859	18,756

* The auditor’s remuneration on audit of financial statements includes $73,200 for the audit fee of NZ Banking Group’s first disclosure statement and overrun.

Note 6 - Impairment Allowance

Audited 31 December 2020

Impairment allowance

Thousands of dollars	Other exposures excluding sovereigns and central banks	Retail Mortgage Lending	Corporate and institutional	Investment securities	Due from banks and other financial institutions	Loan commitments and financial guarantee contracts	Cash and cash equivalents	Total as at 31 December 2020
Provision for credit impairment measured on a 12-month ECL (stage 1) - collective	1	2,166	7,598	9	-	321	-	10,095
Provision for credit impairment measured on a lifetime ECL not credit impaired (stage 2) - collective	-	17	-	-	-	-	-	17
Provision for credit impairment measured on a lifetime ECL credit impaired (stage 3) - collective	-	-	-	-	-	-	-	-
Provision for credit impairment measured on a lifetime ECL credit impaired (stage 3) - specific	-	570	3,425	-	-	-	-	3,995
Balance as at 31 December 2020	1	2,753	11,023	9	-	321	-	14,107

Audited 31 December 2019

Impairment allowance

Thousands of dollars	Other exposures excluding sovereigns and central banks	Retail Mortgage Lending	Corporate and institutional	Investment securities	Due from banks and other financial institutions	Loan commitments and financial guarantee contracts	Cash and cash equivalents	Total as at 31 December 2019
Provision for credit impairment measured on a 12-month ECL (stage 1) - collective	1	2,314	5,942	8	1	976	-	9,242
Provision for credit impairment measured on a lifetime ECL not credit impaired (stage 2) - collective	-	-	-	-	-	-	-	-
Provision for credit impairment measured on a lifetime ECL credit impaired (stage 3) - collective	-	-	-	-	-	-	-	-
Provision for credit impairment measured on a lifetime ECL credit impaired (stage 3) - specific	-	570	3,425	-	-	-	-	3,995
Balance as at 31 December 2019	1	2,884	9,367	8	1	976	-	13,237

Note 6 - Impairment Allowance (continued)

Movement in provision for credit impairment Thousands of dollars	Audited 31 December 2020 Stage 1 (Collective provision)	Stage 2 (Collective provision)	Stage 3 (Collective provision)	Stage 3 (Specific Provision)	Total
Residential mortgage lending					
Balance at beginning of period	2,314	-	-	570	2,884
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	(17)	17	-	-	-
Transfer to stage 3	-	-	-	-	-
Charge/(recovery) to statement of comprehensive income in current year	(131)	-	-	-	(131)
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2020	2,166	17	-	570	2,753
Other exposures excluding sovereigns and central banks					
Balance at beginning of period	1	-	-	-	1
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Charge/(recovery) to statement of comprehensive income in current year	-	-	-	(6)	(6)
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	6	6
Balance as at 31 December 2020	1	-	-	-	1
Corporate and institutional					
Balance at beginning of period	5,942	-	-	3,425	9,367
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Charge/(recovery) to statement of comprehensive income in current year	1,656	-	-	-	1,656
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2020	7,598	-	-	3,425	11,023
Investment securities					
Balance at beginning of period	8	-	-	-	8
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Charge/(recovery) to statement of comprehensive income in current year	1	-	-	-	1
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2020	9	-	-	-	9

Note 6 - Impairment Allowance (continued)

Movement in provision for credit impairment Thousands of dollars	Audited 31 December 2020 Stage 1 (Collective provision)	Stage 2 (Collective provision)	Stage 3 (Collective provision)	Stage 3 (Specific Provision)	Total
Due from banks and other financial institutions					
Balance at beginning of period	1	-	-	-	1
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Charge/(recovery) to statement of comprehensive income in current year	(1)	-	-	-	(1)
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2020	-	-	-	-	-
Provision for loan commitments and financial guarantee contracts					
Balance at beginning of period	976	-	-	-	976
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Charge/(recovery) to statement of comprehensive income in current year	(655)	-	-	-	(655)
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2020*	321	-	-	-	321
Total charge/(recovery) to statement of comprehensive income in current year	870	-	-	(6)	864
Total impairment allowance as at 31 December 2020	10,095	17	-	3,995	14,107

*The provision for loan commitments and financial guarantee contracts is included in other liabilities (note 25).

Note 6 - Impairment Allowance (continued)

Movement in provision for credit impairment Thousands of dollars	Stage 1 (Collective provision)	Stage 2 (Collective provision)	Stage 3 (Collective provision)	Stage 3 (Specific Provision)	Total
	Audited 31 December 2019				
Residential mortgage lending					
Balance at beginning of period	2,898	-	-	307	3,205
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Charge/(recovery) to statement of comprehensive income in current year	(584)	-	-	263	(321)
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2019	2,314	-	-	570	2,884
Other exposures excluding sovereigns and central banks					
Balance at beginning of period	-	-	-	14	14
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Charge/(recovery) to statement of comprehensive income in current year	1	-	-	(5)	(4)
Bad debts written off	-	-	-	(9)	(9)
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2019	1	-	-	-	1
Corporate and institutional					
Balance at beginning of period	3,789	-	-	19,675	23,464
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Charge/(recovery) to statement of comprehensive income in current year	2,153	-	-	(16,250)	(14,097)
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2019	5,942	-	-	3,425	9,367
Investment securities					
Balance at beginning of period	7	-	-	-	7
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Charge/(recovery) to statement of comprehensive income in current year	1	-	-	-	1
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2019	8	-	-	-	8

Note 6 - Impairment Allowance (continued)

Movement in provision for credit impairment Thousands of dollars	**Audited 31 December 2019** Stage 1 (Collective provision)	Stage 2 (Collective provision)	Stage 3 (Collective provision)	Stage 3 (Specific Provision)	Total
Due from banks and other financial institutions					
Balance at beginning of period	-	-	-	-	-
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Charge/(recovery) to statement of comprehensive income in current year	1	-	-	-	1
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2019	1	-	-	-	1
Provision for loan commitments and financial guarantee contracts					
Balance at beginning of period	1,475	-	-	-	1,475
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Charge/(recovery) to statement of comprehensive income in current year	(499)	-	-	-	(499)
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2019*	976	-	-	-	976
Total charge/(recovery) to statement of comprehensive income in current year	1,073	-	-	(15,992)	(14,919)
Total impairment allowance as at 31 December 2019	9,242	-	-	3,995	13,237

*The provision for loan commitments and financial guarantee contracts is included in other liabilities (Note 25).

The following explains how significant changes in the gross carrying amount of financial assets during the year have contributed to the changes in the impairment allowance.

- Specific provision lifetime ECL – credit impaired (stage 3) decreased by $15,992K. This is due to a recovery of credit impaired loan in prior years.

Note 7 - Taxation

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Net profit/(loss) before taxation	16,613	31,990
Tax calculated at a tax rate of 28%	4,652	8,957
(Under)/over provision from prior period	-	-
Temporary differences not previously recognised	-	-
Utilisation of tax losses previously unrecognised	-	-
Other permanent differences	67	59
Taxation charge as per the statement of comprehensive income	4,719	9,016
Represented by:		
Current tax	3,991	5,057
Deferred tax	728	3,959
Taxation charge as per the statement of comprehensive income	4,719	9,016
The deferred tax charge in the statement of comprehensive income comprises the following temporary differences:		
Employee entitlements	(57)	(6)
Accelerated depreciation	36	9
Allowances for impairment losses	(243)	4,180
Other provisions and accruals	35	(84)
Other temporary differences	1,016	(140)
Tax effect of change in tax rate	-	-
Amortisation of intangibles	-	-
Recognised tax losses	(59)	-
Total temporary differences	728	3,959

Imputation credits

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Balances available for use in subsequent reporting periods		
Imputation credit account	18,857	14,371

The above amount represent the balance of the imputation account as at the end of the reporting period, adjusted for imputation credits that will arise from the payment of the amount of the provision for income tax.

Note 8 – Current and Deferred Taxation

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Current income tax (payable)/receivable		
Balance at beginning of the year	(3,090)	(4,453)
(Under)/over provision from prior period	(2)	151
Tax on profits/(losses) taken to reserves	-	-
Transfer from/(to) deferred tax	-	-
Current Year Tax charge	(3,989)	(5,208)
Utilisation of tax losses	-	-
Related party purchase of tax losses	-	-
Refundable Tax credits	-	-
Tax refunded	-	-
Tax paid in current year	7,572	6,420
Balance at end of the year	491	(3,090)
Deferred tax		
Balance at beginning of the year	4,832	8,791
Impact of initial adoption of NZ IFRS 9	(124)	-
Under/(over) provision from prior period	2	(151)
Temporary differences for the year	(789)	(3,808)
Utilisation of tax losses	59	-
Tax effect of change in tax rate	-	-
Credit to current tax	-	-
Balance at end of the year	3,980	4,832
Deferred tax assets		
Employee entitlements	474	417
Accelerated depreciation	231	268
Other provisions and accruals	142	301
Other temporary differences	-	140
Losses recognised in deferred tax	59	-
Allowance for loan impairment	3,950	3,706
Total deferred tax assets	4,856	4,832
Deferred tax liabilities		
Accelerated depreciation	-	-
Other temporary differences	(876)	-
Intangible assets	-	-
Total deferred tax liabilities	(876)	-
Net deferred taxation	3,980	4,832

These tax benefits relate solely to temporary differences and are only available to the NZ Banking Group if the income tax legislation's requirements are met, and the bank continues to remain profitable. There were no tax losses carried forward (31 December 2019: nil).

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

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Cash on hand	-	-
Cash with central banks	176,621	56,631
Call and overnight advances to financial institutions	24,150	50,666
Total cash and cash equivalents	200,771	107,297

Note 10 – Due from Banks and Other Financial Institutions

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
NZ Registered Banks	10,000	226,362
Overseas Registered Banks	-	-
Other	-	-
Total amount due from other financial institutions	10,000	226,362
Current	10,000	226,362
Non-Current	-	-

Note 11 – Offsetting financial assets and financial liabilities

The NZ Banking Group 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.

Audited 31 December 2020 Thousands of dollars	Gross amount of financial instruments in the statements of financial position	Related financial instruments not offset	Net Amount
Financial Assets			
Derivative financial instruments	7,698	(1,227)	6,471
	7,698	(1,227)	6,471
Financial Liabilities			
Derivative financial instruments	3,292	(1,227)	2,065
	3,292	(1,227)	2,065

Audited 31 December 2019 Thousands of dollars	Gross amount of financial instruments in the statements of financial position	Related financial instruments not offset	Net Amount
Financial Assets			
Derivative financial instruments	4,164	(1,046)	3,118
	4,164	(1,046)	3,118
Financial Liabilities			
Derivative financial instruments	3,815	(1,046)	2,769
	3,815	(1,046)	2,769

Note 12 – Investment Securities

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Government stock and multilateral development banks	6,053	6,199
Local authority securities	64,421	63,245
Other debt securities	126,736	113,424
Total investment securities	197,210	182,868
Current	18,135	36,754
Non-Current	179,075	146,114

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

Note 13 – Loans and Advances to Customers

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Residential mortgage loans	457,688	484,510
Corporate exposures	1,304,137	1,245,356
Credit Cards	61	65
Other exposures	-	-
Allowance for impairment losses	(13,777)	(12,252)
Total net loans and receivables	1,748,109	1,717,679
Current	375,149	379,897
Non-Current	1,372,960	1,337,782

Note 14 – Derivative Financial Instruments

Audited 31 December 2020	Notional Principal Amount	Fair Value	
Thousands of dollars		Assets	Liabilities
Foreign exchange derivatives			
- Forward foreign exchange contracts	-	-	-
- Swaps	79,752	1,276	-
- Option Contracts	-	-	-
Total Foreign exchange derivatives	79,752	1,276	-
Interest Rate derivatives			
- Forward Rate Agreements	-	-	-
- Swaps	366,000	6,422	3,292
- Option Contracts	-	-	-
Total Interest Rate derivatives	366,000	6,422	3,292
Total		7,698	3,292

Audited 31 December 2019	Notional Principal Amount	Fair Value	
Thousands of dollars		Assets	Liabilities
Forward exchange derivatives			
- Forward foreign exchange contracts	-	-	-
- Swaps	81,087	1,559	711
- Option Contracts	-	-	-
Total Foreign exchange derivatives	81,087	1,559	711
Interest Rate derivatives			
- Forward Rate Agreements	-	-	-
- Swaps	342,200	2,605	3,104
- Option Contracts	-	-	-
Total Interest Rate derivatives	342,200	2,605	3,104
Total		4,164	3,815

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 2020, the Branch and ICBC NZ do not have any subsidiaries (31 December 2019: Nil).

Note 16 – Property, Plant & Equipment

Audited 31 December 2020

Thousands of dollars	Computer Hardware	Office Equipment	Furniture, Fittings & Leasehold Improvements	Other Assets	Total
At cost	885	114	1,724	-	2,723
Accumulated depreciation	(853)	(113)	(1,705)	-	(2,671)
Opening carrying amount	32	1	19	-	52
Additions	136	8	-	-	144
Disposals	-	-	-	-	-
Depreciation	(35)	(1)	(7)	-	(43)
Write offs	-	-	-	-	-
Closing carrying amount	133	8	12	-	153
Total At cost	1,021	122	1,724	-	2,867
Total Accumulated depreciation	(888)	(114)	(1,712)	-	(2,714)
Total Closing carrying amount	133	8	12	-	153

Audited 31 December 2019

Thousands of dollars	Computer Hardware	Office Equipment	Furniture, Fittings & Leasehold Improvements	Other Assets	Total
At cost	885	113	1,718	-	2,716
Accumulated depreciation	(824)	(112)	(1,678)	-	(2,614)
Opening carrying amount	61	1	40	-	102
Additions	-	1	6	-	7
Disposals	-	-	-	-	-
Depreciation	(29)	(1)	(27)	-	(57)
Write offs	-	-	-	-	-
Closing carrying amount	32	1	19	-	52
Total At cost	885	114	1,724	-	2,723
Total Accumulated depreciation	(853)	(113)	(1,705)	-	(2,671)
Total Closing carrying amount	32	1	19	-	52

Note 17 – Leases

Audited 31 December 2020

Thousands of dollars	Real estate	Motor Vehicles	Office Equipment	Total
Right-of-Use assets				
Balance as at 1 January 2020	7,997	77	45	8,119
Additions	838	-	-	838
Adjustment due to lease review	1,572	-	-	1,572
Disposals	-	-	-	-
Depreciation	(1,271)	(37)	(9)	(1,317)
Balance as at 31 December 2020	9,136	40	36	9,212
Lease Liabilities				
Balance as at 1 January 2020	8,231	78	47	8,356
Additions	838	-	-	838
Adjustment due to lease review	1,572	-	-	1,572
Lease payments	(1,292)	(38)	(10)	(1,340)
Interest expense on lease liabilities	217	1	1	219
Balance as at 31 December 2020	9,566	41	38	9,645

Audited 31 December 2019

Thousands of dollars	Real estate	Motor Vehicles	Office Equipment	Total
Right-of-Use assets				
Balance as at 1 January 2019	8,137	113	-	8,250
Additions	-	-	51	51
Adjustment due to lease review	858	-	-	858
Disposals	-	-	-	-
Depreciation	(998)	(36)	(6)	(1,040)
Balance as at 31 December 2019	7,997	77	45	8,119
Lease Liabilities				
Balance as at 1 January 2019	8,137	113	-	8,250
Additions	-	-	51	51
Adjustment due to lease review	982	-	-	982
Lease payments	(1,105)	(37)	(4)	(1,146)
Interest expense on lease liabilities	217	2	-	219
Balance as at 31 December 2019	8,231	78	47	8,356

The NZ Banking Group's lease portfolio:

Real estate leases

Head Office: The Bank leases its head office. During the year the area of the head office had been extended, and the new office was available from 1st July 2020. The lease payments have increased by 3.25% every year.

Branch Office: The NZ Banking Group leases its branch office. In 2019, the Bank opted to extend the lease for a further 6 years, and no further rights of renewal were granted. The lease payments are adjusted every year, based on the change in the consumer price index in the preceding year.

BCP Office: There is a new 5 years' lease of BCP office started on 21st February 2020, which has option to extend the lease for a further 5 years.

Leases of vehicles The NZ Banking Group leases vehicles that are used mainly for staff's daily business transport. The non-cancellable lease terms are between three to four years with fixed lease payments.

Leases of office equipment The NZ Banking Group leases some office equipment. The non-cancellable period of the lease is 5 years, with fixed lease payments.

Short-term lease The short-term lease contracts have been matured, and there are no short-term lease by the end of 2020.

Note 17 – Leases (continued)

Commitment of lease payments

Audited 31 December 2020

Thousands of dollars	Real estate	Motor Vehicles	Office Equipment	Short term Leases	Total
Not later than One year	1,477	36	11	-	1,524
Later than One Year and Not Later than Two Years	1,503	5	11	-	1,519
Later than Two Years and Not Later than Five Years	4,424	-	18	-	4,442
Later than Five Years	2,851	-	-	-	2,851
Total	10,255	41	40	-	10,336

Audited 31 December 2019

Thousands of dollars	Real estate	Motor Vehicles	Office Equipment	Short term Leases	Total
Not later than One year	1,169	37	11	6	1,223
Later than One Year and Not Later than Two Years	1,208	36	11	-	1,255
Later than Two Years and Not Later than Five Years	3,876	5	28	-	3,909
Later than Five Years	2,900	-	-	-	2,900
Total	9,153	78	50	6	9,287

Note 18 – Intangible Assets

Thousands of dollars	**Audited 31 December 2020**	**Audited 31 December 2019**
Goodwill	-	-
Computer software	7	12
Computer software work in progress	-	-
Total intangible assets	7	12
Computer software		
Cost brought forward	25	11
Accumulated amortisation brought forward	(13)	(11)
Opening net book value	12	-
Additions	-	14
Amortisation	(5)	(2)
Closing net book value	7	12

Note 19 – Other Assets

Thousands of dollars	**Audited 31 December 2020**	**Audited 31 December 2019**
Other receivables	653	694
Commissions receivable	-	-
Interest receivable	4,733	6,287
Trade and other receivables	5,386	6,981
Current	5,214	6,764
Non-Current	172	217

Note 20 – Due to Central Banks and Other Financial Institutions

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Loans from other banks	-	-
Loans from central bank	-	-
Items in course of settlement	1	1
ATM cash at other banks	-	-
Total due to other financial institutions	1	1
Current	1	1
Non-Current	-	-

Note 21 – Balances with Related Parties

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Amounts due from ultimate parent	118,284	23,150
Amount due from controlled entities of ultimate parent	-	-
Total amount due from related parties	118,284	23,150
Current	118,284	23,150
Non-Current	-	-
Amounts due to ultimate parent	596,445	395,815
Amount due to controlled entities of ultimate parent	428	200
Total amount due to related parties	596,873	396,015
Current	291,299	93,044
Non-Current	305,574	302,971

1. Nostro account balance held with parent and controlled entities of ultimate parent as at 31 December 2020 is NZ$17,226K (31 December 2019: NZ$6,448K). This is included in cash and cash equivalents balance. Parent includes ICBC Head Office and other branches. Refer to Note 29 for transactions with related parties.

2. ICBC NZ operations are guaranteed by the parent ICBC which, from time to time, transfers payments through the ICBC NZ Vostro account. The balance of ICBC NZ Vostro account was NZ$45,000K as at 31 December 2020 (31 December 2019: NZ$67,000K).

3. As at 31 December 2020, ICBC NZ has issued NZ$70m 5-years subordinated loan to ICBC Head Office (Note 24).The accrued interest of subordinated loan is NZ$199K as at 31 December 2020 (31 December 2019: $354K).

4. The total liabilities of the Branch, net of amounts due to related parties as at 31 December 2020 is nil (31 December 2019: nil).

Note 22 – Deposits from Customers

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Demand deposits not bearing interest	49,294	56,264
Demand deposits bearing interest	13,680	32,530
Term deposits	587,823	726,051
Total deposits	650,797	814,845
Current	626,940	732,633
Non-Current	23,857	82,212

Note 23 – Certificates of Deposit and Debt Securities Issued

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Certificates of deposit (CDs)	79,750	47,697
Other debt securities	523,178	661,440
Total debt securities issued	602,928	709,137
Current	266,580	306,576
Non-Current	336,348	402,561

Audited
31 December 2020
Certificates of deposits (CDs) issued

Issue Currency	Coupon Rate %	Maturity Date	Face Value Issue Currency $'000	Carrying Value NZ $'000	Fair Value NZ $'000
New Zealand Dollar	0.68 (fixed)	4 February 2021	10,000	9,983	9,983
New Zealand Dollar	0.63 (fixed)	5 February 2021	10,000	9,984	9,984
New Zealand Dollar	0.60 (fixed)	23 February 2021	20,000	19,968	19,968
New Zealand Dollar	0.64 (fixed)	25 May 2021	30,000	29,905	29,905
New Zealand Dollar	1.068 (fixed)	14 May 2021	10,000	9,910	9,910
				79,750	79,750

Audited
31 December 2019
Certificates of deposits (CDs) issued

Issue Currency	Coupon Rate %	Maturity Date	Face Value Issue Currency $'000	Carrying Value NZ $'000	Fair Value NZ $'000
New Zealand Dollar	2.425 (fixed)	8 May 2020	4,000	3,905	3,905
New Zealand Dollar	1.720 (fixed)	9 October 2020	10,000	9,831	9,751
New Zealand Dollar	1.820 (fixed)	25 September 2020	8,000	7,857	7,803
New Zealand Dollar	2. 325 (fixed)	10 June 2020	2,000	1,955	1,955
New Zealand Dollar	2.685 (fixed)	11 February 2020	4,500	4,383	4,383
New Zealand Dollar	1.975 (fixed)	27 November 2020	10,000	9,807	9,735
New Zealand Dollar	1.690 (fixed)	11 March 2020	10,000	9,959	9,959
				47,697	47,491

On 28 March 2020, S&P Global Ratings confirmed a credit rating of "A-1" for Industrial and Commercial Bank of China (New Zealand) Limited's Certificate of Deposit Programme.

On 4 December 2020, S&P Global Ratings assigned a credit rating of "A-1" for Industrial and Commercial Bank of China Ltd. (Auckland Branch)'s Certificate of Deposit Programme.

Note 23 – Certificates of Deposit and Debt Securities Issued (continued)

Medium term notes issued			Audited 31 December 2020			Audited 31 December 2019		
Issue Currency	Coupon Rate %	Maturity Date	Face Value Issue Currency $'000	Carrying Value NZ $'000	Fair Value NZ $'000	Face Value Issue Currency $'000	Carrying Value NZ $'000	Fair Value NZ $'000
AU Dollar	3 month BBSW+135bp	22 December 2020	-	-	-	5,000	5,200	5,200
AU Dollar	3 month BBSW+125bp	22 December 2020	-	-	-	10,000	10,399	10,399
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 month NZD BKBM+110bp	11 June 2021	100,000	100,000	100,000	100,000	100,000	100,000
New Zealand Dollar	3 month NZD BKBM+110bp	15 February 2021	45,000	45,000	45,000	45,000	45,000	45,000
New Zealand Dollar	3.47 (fixed)	27 September 2021	140	140	144	140	140	143
New Zealand Dollar	3.47 (fixed)	13 March 2021	28,190	28,190	28,190	28,190	28,190	28,710
New Zealand Dollar	3.99 (fixed)	15 February 2020	-	-	-	1,000	1,000	1,000
New Zealand Dollar	3.47 (fixed)	13 October 2020	-	-	-	1,500	1,500	1,519
New Zealand Dollar	3.47 (fixed)	15 November 2020	-	-	-	780	780	788
New Zealand Dollar	3.47 (fixed)	27 February 2021	1,500	1,500	1,500	1,500	1,500	1,529
New Zealand Dollar	3.47 (fixed)	13 March 2021	500	500	500	500	500	509
New Zealand Dollar	3.47 (fixed)	15 March 2021	1,500	1,500	1,500	1,500	1,500	1,527
New Zealand Dollar	3.13 (fixed)	20 September 2021	10,000	10,000	10,247	10,000	10,000	10,145
New Zealand Dollar	3.20 (fixed)	31 May 2022	1,713	1,713	1,773	1,713	1,713	1,734
New Zealand Dollar	3.38 (fixed)	23 March 2023	432	432	460	432	432	444
New Zealand Dollar	3.25 (fixed)	24 August 2022	7,600	7,600	7,971	7,600	7,600	7,766
New Zealand Dollar	3.35 (fixed)	22 March 2022	6,200	6,200	6,442	6,200	6,200	6,333
New Zealand Dollar	3 month NZD B KBM+100bp	27 June 2022	100,000	99,955	100,000	100,000	99,892	100,000
New Zealand Dollar	2.61 (fixed)	27 June 2024	100,000	99,879	105,895	100,000	99,894	99,302
New Zealand Dollar	3 month NZD BKBM+100bp	27 June 2022	120,000	120,569	120,000	-	-	-
				523,178	529,622		661,440	662,048

On 28 March 2020, S&P Global Ratings confirmed a credit rating of "A" for Industrial and Commercial Bank of China (New Zealand) Limited's Medium Term Note Programme.

Note 24 – Subordinated Loans due to Related Parties

Audited
31 December 2020
Subordinated loans due to related parties

Issue Currency	Coupon Rate %	Maturity Date	Face Value Issue Currency $'000	Carrying Value NZ $'000	Fair Value NZ $'000
New Zealand Dollar	6 months NZD BKBM+80bps	23 November 2022	35,000	35,000	35,000
New Zealand Dollar	6 months NZD BKBM+80bps	9 February 2023	35,000	35,000	35,000
				70,000	70,000

Audited
31 December 2019
Subordinated loans due to related parties

Issue Currency	Coupon Rate %	Maturity Date	Face Value Issue Currency $'000	Carrying Value NZ $'000	Fair Value NZ $'000
New Zealand Dollar	6 months NZD BKBM+80bps	23 November 2022	35,000	35,000	35,000
New Zealand Dollar	6 months NZD BKBM+80bps	9 February 2023	35,000	35,000	35,000
				70,000	70,000

The subordinated loans due to related parties of NZ$70,000K as at 31 December 2020 are unsecured.

Note 25 – Other Liabilities

Thousands of dollars	**Audited 31 December 2020**	**Audited 31 December 2019**
Employee entitlements		
Accrued wages/salaries	68	68
Accrued Kiwi Saver Pension liability	-	-
Other Employee entitlements Accrued	2,749	2,933
Accounts payable	11	631
Interest payable	7,822	10,131
Provision for impairment on loan commitments and financial guarantee contracts	321	976
Other payables and deferred revenue	3,531	4,469
Total other liabilities	14,502	19,208
Current	13,619	17,580
Non-Current	883	1,628

Note 26 – Branch's Head Office Account

Thousands of dollars	**Audited 31 December 2020**	**Audited 31 December 2019**
Branch capital	84,000	-
Retained earnings/(losses)	(644)	-
Total Branch's head office account	83,356	-

Thousands of dollars	**Audited 31 December 2020**	**Audited 31 December 2019**
Branch capital		
Balance at the start of the period	-	-
Contributions during the period	84,000	-
Balance at the end of the period	84,000	-

Head office account comprises funds provided by the Overseas Bank to support its New Zealand branch. It is non-interest bearing and there is no fixed date for repatriation.

Note 27 – Other Members of NZ Banking Group's Equity

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Share capital	233,540	233,540
Retained earnings	36,367	23,509
Total equity	269,907	257,049

	31 December 2020	**31 December 2019**
Equity	Number of shares	Number of shares
Number of shares at the start of the period	233,539,975	233,539,975
Shares issued during the period	-	-
Number of shares at the end of the period	233,539,975	233,539,975

The NZ Banking Group has equal voting rights and share equally in dividends and any profits on winding up. Shares do not have a par value.

Note 28 – Asset Quality

The NZ Banking Group measure the ECL of the financial assets based on the portfolio homogeneous of the assets. The basic consideration of portfolio homogeneous is mainly focused on the following three factors:

1. Portfolio classification: Financial asset portfolios are classified mainly based on the existing business category.

2. Business model: For each portfolio of financial assets need to be categorised into one of the following models:

- "Hold-to-collect" business model
- "Both hold to collect and sell" business model: Portfolio of debt instruments used both to collect contractual cash flows and to sell the financial assets
- "Other strategy" business model: Portfolio of debt instruments that is neither A nor B. (e.g. held for trading or managed with objective of realising cash flows through active and frequent sales)

3. Contractual cash flows characteristics: Whether the cash flow under the contract is interest and principal.

According to the above classification and judgment creteria, the similar type of financial assets are classfied into one basket and adopted same ECL model.

Audited 31 December 2020	Other exposures excluding sovereigns and central banks	Residential mortgage loans	Corporate and institutional exposures	Total
Thousands of dollars				
Total neither past due nor impaired	60	457,143	1,298,777	1,755,980
Past due assets not impaired				
Less than 30 days past due	1	-	-	1
At least 30 days but less than 60 days past due	-	-	-	-
At least 60 days but less than 90 days past due	-	-	-	-
At least 90 days past due	-	-	-	-
Total past due assets not impaired	1	-	-	1
Individually impaired assets				
Balance at beginning of the year	-	545	7,947	8,492
Additions	6	-	-	6
Amounts written off	-	-	-	-
Deletions	(6)	-	(2,587)	(2,593)
Total individually impaired assets	-	545	5,360	5,905
Total gross loans and advances	61	457,688	1,304,137	1,761,886
Individually assessed provisions				
Balance at beginning of the year	-	570	3,425	3,995
Charge/(credit) to the statement of comprehensive income:				
New provisions	6	-	-	6
Reversals of previously recognised impairment losses	-	-	-	-
Amounts recovered	(6)	-	-	(6)
Amounts written off	-	-	-	-
Balance at end of the period	-	570	3,425	3,995
Collectively assessed provisions				
Balance at beginning of the year	1	2,314	5,942	8,257
Charge/(credit) to the statement of comprehensive income	-	(131)	1,656	1,525
Other movements	-	-	-	-
Balance at end of the year	1	2,183	7,598	9,782
Total provisions for impairment losses	1	2,753	11,023	13,777
Net balance at end of the year	60	454,935	1,293,114	1,748,109

Note 28 – Asset Quality (continued)

The NZ Banking Group 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 2020 (31 December 2019: nil). Therefore, the NZ Banking Group 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 $522,062K as at 31 December 2020 (31 December 2019: $555,133K).

There has been $14,317 interest revenue foregone on individually impaired or greater than 90 days past due assets during the period ended 31 December 2020 (31 December 2019: $4,592).

The NZ Banking Group 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.

Audited 31 December 2019	Other exposures excluding sovereigns and central banks	Residential mortgage loans	Corporate and institutional exposures	Total
Thousands of dollars				
Total neither past due nor impaired	63	483,965	1,237,409	1,721,437
Past due assets not impaired				
Less than 30 days past due	2	-	-	2
At least 30 days but less than 60 days past due	-	-	-	-
At least 60 days but less than 90 days past due	-	-	-	-
At least 90 days past due	-	-	-	-
Total past due assets not impaired	2	-	-	2
Individually impaired assets				
Balance at beginning of the year	-	2,682	32,715	35,397
Additions	14	-	-	14
Amounts written off	(9)	-	-	(9)
Deletions	(5)	(2,137)	(24,768)	(26,910)
Total individually impaired assets	-	545	7,947	8,492
Total gross loans and advances	65	484,510	1,245,356	1,729,931
Individually assessed provisions				
Balance at beginning of the year	14	307	19,675	19,996
Charge/(credit) to the statement of comprehensive income:				
New provisions	-	263	-	263
Reversals of previously recognised impairment losses	(5)	-	(16,250)	(16,255)
Amounts recovered	-	-	-	-
Amounts written off	(9)	-	-	(9)
Balance at end of the period	-	570	3,425	3,995
Collectively assessed provisions				
Balance at beginning of the year	-	2,898	3,789	6,687
Charge/(credit) to the statement of comprehensive income	1	(584)	2,153	1,570
Other movements	-	-	-	-
Balance at end of the year	1	2,314	5,942	8,257
Total provisions for impairment losses	1	2,884	9,367	12,252
Net balance at end of the year	64	481,626	1,235,989	1,717,679

Note 29 – Transactions with Related Parties

(a) Key Management Personnel

Key management personnel are defined as being the Directors and senior management of the ICBC NZ, and the Chief Executive of the Branch, including spouse, close relatives, and dependents. 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 31 December 2020**	**Audited 31 December 2019**
Salaries and other short-term benefits	2,070*	2,020*
Other benefits	-	-
Total key management compensation	2,070	2,020

* Senior management compensation was incurred and paid by ICBC NZ, who employed all staff.

(ii) Directors' Remuneration

The name of each person holding office as a Director of ICBC NZ throughout the financial period ended 31 December 2019 and the total remuneration received by each Director were as follows:

Thousands of dollars	Date Appointed	**Audited 31 December 2020**	**Audited 31 December 2019**
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	-	-
Mei Tao ***	21-Jul-17	-	-
Wei Luo ****	6-Aug-20	-	-
Total Director Remuneration		270	270

ICBC NZ 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 2020 (31 December 2019: nil). Her senior management compensation is included within the salaries disclosed in note 29 a (i) above.

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

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

**** Mr Wei Luo's director remuneration is borne by ICBC head office.

The remuneration of the Branch's directors is disclosed in Overseas Banking Group's disclosure statements.

(iii) Key Management Personnel Deposits and Loans with the NZ Banking Group

Audited 31 December 2020

Thousands of dollars	Opening Balance	Movement during the year	Closing Balance	Interest Received/ (Paid) by the Bank
Deposits	154	258	412	(5)
Loans and Advances	-	-	-	-
Total	154	258	412	(5)

Audited 31 December 2019

Thousands of dollars	Opening Balance	Movement during the year	Closing Balance	Interest Received/ (Paid) by the Bank
Deposits	226	(72)	154	(2)
Loans and Advances	-	-	-	-
Total	226	(72)	154	(2)

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

The NZ Banking Group issued credit cards to ICBC NZ's directors and senior management, and the Chief Executive of the Branch with total of $80K credit limit (31 December 2019: $80K). The amount owed on the card at 31 December 2020 was nil (31 December 2019: nil).

Note 29 – Transactions with Related Parties (continued)

(b) Guarantees

The NZ Banking Group'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 and Insurance Regulatory Commission (CBIRC) under its rules and guidelines.

All the obligations of ICBC NZ 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 Ratings Ltd.**
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 ICBC NZ to the ICBC NZ'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 ICBC NZ'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 31 December 2020**	**Audited 31 December 2019**
Interest income on amount due from related entities		
Ultimate parent	58	58
Subsidiaries of ultimate parent	-	-
Total interest income on amount due from related entities	58	58
Interest expense on amount due to related entities		
Ultimate parent	7,443	7,831
Subsidiaries of ultimate parent	-	-
Total interest expense on amount due to related entities	7,443	7,831
Other operating income		
Gain/(loss) on derivative contracts with ultimate parent	(1,030)	(468)
Gain/(loss) on derivative contracts with subsidiaries of ultimate parent	(432)	(169)
Other income	-	-
Total other operating income	**(1,462)**	**(637)**
Other operating expense		
Other operating expense paid to ultimate parent	-	-

Interest payable to parent as at 31 December 2020 was $310K (31 December 2019: $965K), and interest payable to subsidiaries of the ultimate parent was nil (31 December 2019: nil). This is included in interest payable balance and interest paid expense.

Overseas Bank includes ICBC Head Office and other branches.

There are no loans guaranteed by related parties (31 December 2019: nil).

Note 29 – Transactions with Related Parties (continued)

During the year, the Bank entered into risk participation agreements with the ICBC Hong Kong Branch. The agreements had the commercial effect of transferring the Bank's rights and risks in loans to ICBC Hong Kong Branch. As at 31 December 2020, there are $186,790K outstanding risk participation agreements. (31 December 2019: nil).

Note 30 – Concentration of Credit Risk

The following table breaks down the NZ Banking Group'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.

Thousands of dollars	**Audited 31 December 2020**	**Audited 31 December 2019**
Government	247,768	126,769
Finance (including banks)	304,758	460,956
Households	458,453	485,487
Transport and storage	85,590	137,517
Communications	27,285	27,327
Construction	145,850	191,765
Property services	571,262	453,820
Agriculture	5,303	5,304
Forestry, fishing and mining	91,585	154,525
Health and community services	165,048	60,216
Retail and wholesale trade	70,129	60,255
Manufacturing	83,073	91,236
Education	22,665	25,055
Administration and support services	21,984	-
Less: allowance for impairment provisioning	(13,786)	(12,261)
Total financial assets	2,286,967	2,267,971
Less: non-interest earning financial assets	(1,573)	(10,150)
Total interest earning and discount bearing financial assets	2,285,394	2,257,821

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

Thousands of dollars	**Audited 31 December 2020**	**Audited 31 December 2019**
New Zealand	1,935,810	1,940,403
Overseas	351,157	327,568
Total financial assets	2,286,967	2,267,971

Note 30 – Concentration of Credit Risk (continued)

Maximum Exposure to Credit Risk - On and Off Balance Sheet

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Loans and advances to customers	1,748,109	1,717,679
Derivative financial instruments	3,333	3,118
Trade and Other Receivables	-	-
Other financial assets	3,452	4,981
On Balance Sheet Credit Exposures (excluding credit exposure to connected parties and banks with long-term credit rating of A- or A3 or above)	1,754,894	1,725,778
Cash and cash equivalents	200,771	107,297
Amounts due from related parties	118,284	23,150
Due from other financial institutions	10,000	226,362
Investment securities	197,210	182,868
Derivative financial instruments	4,365	1,046
Loans and advances to customers	-	-
Tax Receivable	-	-
Other financial assets	1,443	1,470
Total on Balance Sheet Credit Exposures	2,286,967	2,267,971
Off Balance Sheet Exposures	530,724	585,212
Total Off Balance Sheet Credit Exposures	530,724	585,212

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

53.97% of the NZ Banking Group's mortgage portfolio is owner-occupied residential properties (31 December 2019: 55.85%).

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 2019: nil).

Note 31 – Concentration of Funding

Concentrations of funding arise where the NZ Banking Group 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 31 December 2020	Audited 31 December 2019
New Zealand		
Transport and storage	26,208	44,577
Financing investment and insurance	716,865	819,555
Electricity, gas and water	51	20,117
Food and other manufacturing	171,552	184,591
Construction	11,006	25,016
Communication	880	1,073
Government, local authorities and services	59,198	60,203
Agriculture	1	13
Forestry	279	69,410
Health and community services	21	55
Personal and other services	-	-
Property and business services	19,340	43,817
Education	9,121	20,491
Retail and wholesale trade	3,039	3,187
Accommodation and food services	134	-
Other	14,420	19,945
Households	73,482	64,454
Overseas		
Amounts due to related parties	669,412	467,333
Financing investment and insurance (not including ICBC group)	64,249	66,209
Households	106,663	109,397
Other deposits	1,984	1,497
Total financial liabilities	1,947,905	2,020,940
Less: non-interest bearing financial liabilities	(66,955)	(78,850)
Total interest and discount bearing liabilities	1,880,950	1,942,090

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

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Deposits from customers	650,797	814,845
Registered Banks	1	1
Derivative financial liabilities	3,292	3,815
Financial Investors	-	-
Certificates of deposit	79,750	47,697
Subordinated loans due to related parties	70,000	70,000
Debts securities issued	523,178	661,440
Amounts due to related parties	596,873	396,015
Lease liabilities	9,645	8,356
Other	14,369	18,771
Total financial liabilities	1,947,905	2,020,940

All deposits are unsecured unsubordinated bank deposits issued by the ICBC NZ.

Note 32 – Capital Commitments

As at 31 December 2020, there were nil capital commitments (31 December 2019: nil).

Note 33 – Contingent Liabilities and Commitments

Thousands of dollars	Audited 31 December 2020	Audited 31 December 2019
Performance/financial guarantees issued on behalf of customers	8,662	30,079
Total contingent liabilities	8,662	30,079
Undrawn Commitments	522,062	555,133

Note 34 – Subsequent Events after Balance Sheet Date

There were no subsequent events after balance date which would materially affect the financial statements.

Note 35 – Financial Risk Management

A. Introduction
The NZ Banking Group 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 NZ Banking Group are credit, liquidity, interest rate, foreign exchange, operational risk, conduct risk, and reputation risks.

The Board of Directors is responsible for the review and ratification of the NZ Banking Group'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.

There has been no external review of the risk management systems during the period.

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 unauthorised or inappropriate guarantee, commitment or investment of funds. The NZ Banking Group is exposed to credit risk primarily due to loans, guarantees and other credit related commitments.

The principal features of the NZ Banking Group's credit risk management function include:

1. Centralised 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.

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 NZ Banking Group also makes available to its customers guarantees which may require the NZ Banking Group to make payments on their behalf. Such payments are collected from customers based on the terms of the agreements signed. They expose the NZ Banking Group to similar risks to loans and these are mitigated by the same control processes and policies.

The NZ Banking Group will enter into master agreements which 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 30 on the disclosure of concentration of credit risk of counterparties by geographical and sector.

Note 35 – 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 NZ Banking Group 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 NZ Banking Group 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.

Audited 31 December 2020	On Demand	Up to 3 months	3 to 12 months	Between 1 & 5 years	More than 5 years	Total
Thousands of dollars						
Financial liabilities						
Due to central banks and other financial institutions	1	-	-	-	-	1
Amounts due to related parties	45,024	187,118	63,076	309,928	-	605,146
Derivative Financial Liabilities	-	-	-	-	-	-
Deposits from customers	66,313	367,457	202,104	24,600	-	660,474
Certificates of deposit	-	40,000	40,000	-	-	80,000
Subordinated loans due to related parties	-	197	566	70,961		71,724
Debt securities issued	-	78,809	115,645	344,248	-	538,702
Lease liabilities	-	378	1,146	5,961	2,851	10,336
Other financial liabilities	-	53	448	-	-	501
Total financial liabilities	111,338	674,012	422,985	755,698	2,851	1,966,884
Derivative cash flows						
Inflows from derivatives	-	80,561	3,945	9,462	-	93,968
Outflows from derivatives	-	(79,555)	(2,549)	(6,874)	-	(88,978)
Total	-	1,006	1,396	2,588	-	4,990
Off balance sheet cash flows						
Financial guarantees outflows	-	5,523	3,139	-	-	8,662
Commitments outflows	522,062	-	-	-	-	522,062
Total	522,062	5,523	3,139	-	-	530,724

Note 35 – Financial Risk Management (continued)

Audited 31 December 2019	On Demand	Up to 3 months	3 to 12 months	Between 1 & 5 years	More than 5 years	Total
Thousands of dollars						
Financial liabilities						
Due to central banks and other financial institutions	1	-	-	-	-	1
Amounts due to related parties	67,250	26,404	5,878	312,823	-	412,355
Derivative Financial Liabilities	-	-	-	-	-	-
Deposits from customers	91,281	348,785	304,848	85,962	-	830,876
Certificates of deposit	-	14,500	34,000	-	-	48,500
Subordinated loans due to related parties	-	351	1,057	73,165	-	74,573
Debt securities issued	-	105,041	168,514	418,496	-	692,051
Lease liabilities	2	304	917	5,164	2,900	9,287
Other financial liabilities	24	309	3,281	-	-	3,614
Total financial liabilities	158,558	495,694	518,495	895,610	2,900	2,071,257
Derivative cash flows						
Inflows from derivatives	-	53,651	34,474	15,513	-	103,638
Outflows from derivatives	-	(53,416)	(33,695)	(15,436)	-	(102,547)
Total	-	235	779	77	-	1,091
Off balance sheet cash flows						
Financial guarantees outflows	-	10,463	16,402	3,214	-	30,079
Commitments outflows	553,692	247	1,194	-	-	555,133
Total	553,692	10,710	17,596	3,214	-	585,212

Liquidity portfolio management

Thousands of dollars	**Audited 31 December 2020**	**Audited 31 December 2019**
Cash, cash equivalents and balances with central banks	200,771	107,297
Amounts due from related parties	-	-
Due from banks and other financial institutions	10,000	226,362
Investment securities	197,210	182,868
Total liquidity portfolio	**407,981**	**516,527**

Note 35 – Financial Risk Management (continued)

D. Interest Rate Risk

The NZ Banking Group's interest rate risk mainly arises from the mismatches between the repricing dates of interest generating assets and interest-bearing liabilities. The NZ Banking Group 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 NZ Banking Group's management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). The NZ Banking Group 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 NZ Banking Group's assets and liabilities:

Audited 31 December 2020	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							
Financial assets							
Cash, cash equivalents and balances with central banks	2,925	197,846	-	-	-	-	200,771
Amounts due from related parties	-	3,024	115,260	-	-	-	118,284
Due from banks and other financial institutions	-	10,000	-	-	-	-	10,000
Investment securities	(9)*	14,001	13,135	-	6,221	163,862	197,210
Derivative financial assets	7,698	-	-	-	-	-	7,698
Loans and advances to customers	(13,777)*	1,355,378	185,372	170,402	45,089	5,645	1,748,109
Other financial assets	4,736	-	-	-	-	159	4,895
Total financial Assets	1,573	1,580,249	313,767	170,402	51,310	169,666	2,286,967
Financial liabilities							
Due to central banks and other financial institutions	-	1	-	-	-	-	1
Amounts due to related parties	-	481,299	115,574	-	-	-	596,873
Derivative financial liabilities	3,292	-	-	-	-	-	3,292
Deposits from customers	49,294	379,365	126,070	72,211	22,234	1,623	650,797
Certificates of deposit	-	39,936	39,814	-	-	-	79,750
Subordinated loans due to related parties	-	35,000	35,000	-	-	-	70,000
Debt securities issued	-	397,214	-	10,140	15,513	100,311	523,178
Lease liabilities	-	-	-	14	27	9,604	9,645
Other financial liabilities	14,369	-	-	-	-	-	14,369
Total financial liabilities	66,955	1,332,815	316,458	82,365	37,774	111,538	1,947,905
On-balance sheet gap	(65,382)	247,434	(2,691)	88,037	13,536	58,128	339,062
Net derivative notional principals	-	(98,000)	(2,000)	-	-	100,000	-
Net effective interest rate gap	(65,382)	149,434	(4,691)	88,037	13,536	158,128	339,062

*The whole amount relates to the impairment of financial assets.

Note 35 – Financial Risk Management (continued)

Audited 31 December 2019 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
Financial assets							
Cash, cash equivalents and balances with central banks	11,954	95,343	-	-	-	-	107,297
Amounts due from related parties	-	23,150	-	-	-	-	23,150
Due from banks and other financial institutions	(1)*	226,363	-	-	-	-	226,362
Investment securities	(8)*	49,560	1,200	-	13,499	118,617	182,868
Derivative financial assets	4,164	-	-	-	-	-	4,164
Loans and advances to customers	(12,252)*	1,360,871	158,898	107,892	84,059	18,211	1,717,679
Other financial assets	6,293	-	-	-	-	158	6,451
Total financial Assets	10,150	1,755,287	160,098	107,892	97,558	136,986	2,267,971
Financial liabilities							
Due to central banks and other financial institutions	-	1	-	-	-	-	1
Amounts due to related parties	-	168,044	227,971	-	-	-	396,015
Derivative financial liabilities	3,815	-	-	-	-	-	3,815
Deposits from customers	56,264	381,515	164,250	131,103	80,499	1,214	814,845
Certificates of deposit	-	14,342	5,860	27,495	-	-	47,697
Subordinated loans due to related parties	-	35,000	35,000	-	-	-	70,000
Debt securities issued	-	501,599	-	2,280	41,830	115,731	661,440
Lease liabilities	-	-	-	-	30	8,326	8,356
Other financial liabilities	18,771	-	-	-	-	-	18,771
Total financial liabilities	78,850	1,100,501	433,081	160,878	122,359	125,271	2,020,940
On-balance sheet gap	(68,700)	654,786	(272,983)	(52,986)	(24,801)	11,715	247,031
Net derivative notional principals	-	(121,800)	-	(1,200)	23,000	100,000	-
Net effective interest rate gap	(68,700)	532,986	(272,983)	(54,186)	(1,801)	111,715	247,031

*The whole amount relates to the impairment of financial assets.

Note 35 – 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 NZ Banking Group 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 2020

Thousands of dollars	Carrying amount	-1% Profit	+1% Profit	-1% Equity	+1% Equity
Financial assets					
Cash, cash equivalents and balances with central banks	200,771	(5)	5	(5)	5
Amounts due from related parties	118,284	-	-	-	-
Due from banks and other financial institutions	10,000	-	-	-	-
Investment securities	197,210	(88)	88	(88)	88
Derivative financial assets	7,698	1,292	538	1,292	538
Loans and advances to customers	1,748,109	(11,516)	11,516	(11,516)	11,516
Other financial assets	4,895	-	-	-	-
Total financial assets	2,286,967	(10,317)	12,147	(10,317)	12,147
Financial liabilities					
Due to central banks and other financial institutions	1	-	-	-	-
Amounts due to related parties	596,873	2,375	(2,375)	2,375	(2,375)
Derivative financial liabilities	3,292	(538)	(1,292)	(538)	(1,292)
Deposits from customers	650,797	1	(1)	1	(1)
Certificates of deposit	79,750	-	-	-	-
Subordinated loans due to related parties	70,000	531	(531)	531	(531)
Debt securities issued	523,178	1,922	(1,922)	1,922	(1,922)
Lease liabilities	9,645	-	-	-	-
Other financial liabilities	14,369	-	-	-	-
Total financial liabilities	1,947,905	4,291	(6,121)	4,291	(6,121)

Note 35 – Financial Risk Management (continued)

Audited 31 December 2019

Thousands of dollars	Carrying amount	-1% Profit	+1% Profit	-1% Equity	+1% Equity
Financial assets					
Cash, cash equivalents and balances with central banks	107,297	(3)	3	(3)	3
Amounts due from related parties	23,150	-	-	-	-
Due from banks and other financial institutions	226,362	-	-	-	-
Investment securities	182,868	(159)	159	(159)	159
Derivative financial assets	4,164	1,069	130	1,069	130
Loans and advances to customers	1,717,679	(12,209)	12,209	(12,209)	12,209
Other financial assets	6,451	-	-	-	-
Total financial assets	2,267,971	(11,302)	12,501	(11,302)	12,501
Financial liabilities					
Due to central banks and other financial institutions	1	-	-	-	-
Amounts due to related parties	396,015	2,078	(2,078)	2,078	(2,078)
Derivative financial liabilities	3,815	(130)	(1,069)	(130)	(1,069)
Deposits from customers	814,845	19	(19)	19	(19)
Certificates of deposit	47,697	-	-	-	-
Subordinated loans due to related parties	70,000	530	(530)	530	(530)
Debt securities issued	661,440	4,160	(4,160)	4,160	(4,160)
Lease liabilities	8,356	-	-	-	-
Other financial liabilities	18,771	-	-	-	-
Total financial liabilities	2,020,940	6,657	(7,856)	6,657	(7,856)

Note 35 – Financial Risk Management (continued)

E. Foreign Currency Risk

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

Audited 31 December 2020

Thousands of dollars	HKD	EUR	CNY	USD	AUD	Total
Financial assets						
Cash, cash equivalents and balances with central banks	16	509	683	18,812	208	20,228
Amounts due from related parties	-	-	-	118,284	-	118,284
Due from banks and other financial institutions	-	-	-	-	-	-
Investment securities	-	-	-	-	-	-
Loans and advances to customers	-	28,621	7	62,846	-	91,474
Other financial assets	-	109	-	156	-	265
Total financial assets	16	29,239	690	200,098	208	230,251
Financial liabilities						
Due to central banks and other financial institutions	-	-	1	-	-	1
Amounts due to related parties	-	5,574	-	121,275	-	126,849
Deposits from customers	-	246	695	18,984	25	19,950
Certificates of deposit	-	-	-	-	-	-
Subordinated loans due to related parties	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-
Other financial liabilities	-	2	-	251	-	253
Total financial liabilities	-	5,822	696	140,510	25	147,053
Net on balance sheet financial position	16	23,417	(6)	59,588	183	83,198
Net derivative position	-	(23,012)	-	(55,440)	-	(78,452)
Total open position	16	405	(6)	4,148	183	4,746

Note 35 – Financial Risk Management (continued)

Audited 31 December 2019

Thousands of dollars	HKD	EUR	CNY	USD	AUD	Total
Financial assets						
Cash, cash equivalents and balances with central banks	12	701	582	15,601	1,614	18,510
Amounts due from related parties	-	-	-	23,150	-	23,150
Due from banks and other financial institutions	-	-	-	13,362	-	13,362
Investment securities	-	-	-	-	-	-
Loans and advances to customers	-	33,159	14	77,362	-	110,535
Other financial assets	-	407	-	175	6	588
Total financial assets	12	34,267	596	129,650	1,620	166,145
Financial liabilities						
Due to central banks and other financial institutions	-	-	1	-	-	1
Amounts due to related parties	-	33,765	-	-	-	33,765
Deposits from customers	-	18	414	89,809	37	90,278
Certificates of deposit	-	-	-	-	-	-
Subordinated loans due to related parties	-	-	-	-	-	-
Debt securities issued	-	-	-	-	15,598	15,598
Other financial liabilities	-	54	-	846	64	964
Total financial liabilities	-	33,837	415	90,655	15,699	140,606
Net on balance sheet financial position	12	430	181	38,995	(14,079)	25,539
Net derivative position	-	-	-	(37,118)	14,559	(22,559)
Total open position	12	430	181	1,877	480	2,980

Note 35 – 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 2020

Thousands of dollars	Carrying amount	-10% Profit	+10% Profit	-10% Equity	+10% Equity
Financial assets					
Cash, cash equivalents and balances with central banks	20,228	(2,022)	2,022	(2,022)	2,022
Amounts due from related parties	118,284	(11,828)	11,828	(11,828)	11,828
Due from banks and other financial institutions	-	-	-	-	-
Investment securities	-	-	-	-	-
Loans and advances to customers	91,474	(9,147)	9,147	(9,147)	9,147
Other financial assets	265	(27)	27	(27)	27
Total financial assets	230,251	(23,024)	23,024	(23,024)	23,024
Financial liabilities					
Due to central banks and other financial institutions	1	-	-	-	-
Amounts due to related parties	126,849	12,685	(12,685)	12,685	(12,685)
Deposits from customers	19,950	1,995	(1,995)	1,995	(1,995)
Certificates of deposit	-	-	-	-	-
Subordinated loans due to related parties	-	-	-	-	-
Debt securities issued	-	-	-	-	-
Other financial liabilities	253	25	(25)	25	(25)
Total financial liabilities	147,053	14,705	(14,705)	14,705	(14,705)
Net on balance sheet financial position	83,198	(8,319)	8,319	(8,319)	8,319
Net derivative position	(78,452)	7,845	(7,845)	7,845	(7,845)
Total open position	4,746	(474)	474	(474)	474

Note 35 – Financial Risk Management (continued)

Audited 31 December 2019

Thousands of dollars	Carrying amount	-10% Profit	+10% Profit	-10% Equity	+10% Equity
Financial assets					
Cash, cash equivalents and balances with central banks	18,510	(1,851)	1,851	(1,851)	1,851
Amounts due from related parties	23,150	(2,315)	2,315	(2,315)	2,315
Due from banks and other financial institutions	13,362	(1,336)	1,336	(1,336)	1,336
Investment securities	-	-	-	-	-
Loans and advances to customers	110,535	(11,053)	11,053	(11,053)	11,053
Other financial assets	588	(59)	59	(59)	59
Total financial assets	166,145	(16,614)	16,614	(16,614)	16,614
Financial liabilities					
Due to central banks and other financial institutions	1	-	-	-	-
Amounts due to related parties	33,765	3,376	(3,376)	3,376	(3,376)
Deposits from customers	90,278	9,028	(9,028)	9,028	(9,028)
Certificates of deposit	-	-	-	-	-
Subordinated loans due to related parties	-	-	-	-	-
Debt securities issued	15,598	1,560	(1,560)	1,560	(1,560)
Other financial liabilities	964	96	(96)	96	(96)
Total financial liabilities	140,606	14,060	(14,060)	14,060	(14,060)
Net on balance sheet financial position	25,539	(2,554)	2,554	(2,554)	2,554
Net derivative position	(22,559)	2,256	(2,256)	2,256	(2,256)
Total open position	2,980	(298)	298	(298)	298

F. Operational Risk

The NZ Banking Group 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 NZ Banking Group as well as other counterparties with whom the NZ Banking Group deals under day to day operations. The NZ Banking Group's policy is to ensure that the risk of losses from operational failure is minimised. To this purpose the NZ Banking Group 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 NZ Banking Group did not have any equity risk exposure as at balance date 31 December 2020 (31 December 2019: nil).

Note 35 – Financial Risk Management (continued)

H. Financial Instruments by Category

Audited 31 December 2020

Thousands of dollars	Financial assets at amortised cost	Fair value through profit and loss	Fair value through other comprehensive income	Total
Financial assets				
Cash, cash equivalents and balances with central banks	200,771	-	-	200,771
Amounts due from related parties	118,284	-	-	118,284
Due from banks and other financial institutions	10,000	-	-	10,000
Investment securities	197,210	-	-	197,210
Derivative financial assets	-	7,698	-	7,698
Loans and advances to customers	1,748,109	-	-	1,748,109
Other financial assets	4,895	-	-	4,895
Total financial assets	2,279,269	7,698	-	2,286,967

Thousands of dollars	Financial liabilities at amortised cost	Fair value through profit and loss	Fair value through other comprehensive income	Total
Financial liabilities				
Due to central banks and other financial institutions	1	-	-	1
Amounts due to related parties	596,873	-	-	596,873
Derivative financial liabilities	-	3,292	-	3,292
Deposits from customers	650,797	-	-	650,797
Certificates of deposit	79,750	-	-	79,750
Subordinated loans due to related parties	70,000	-	-	70,000
Debt securities issued	523,178	-	-	523,178
Lease liabilities	9,645	-	-	9,645
Other financial liabilities	14,369	-	-	14,369
Total financial liabilities	1,944,613	3,292	-	1,947,905

Note 35 – Financial Risk Management (continued)

Audited 31 December 2019

Thousands of dollars	Financial assets at amortised cost	Fair value through profit and loss	Fair value through other comprehensive income	Total
Financial assets				
Cash, cash equivalents and balances with central banks	107,297	-	-	107,297
Amounts due from related parties	23,150	-	-	23,150
Due from banks and other financial institutions	226,362	-	-	226,362
Investment securities	182,868	-	-	182,868
Derivative financial assets	-	4,164	-	4,164
Loans and advances to customers	1,717,679	-	-	1,717,679
Other financial assets	6,451	-	-	6,451
Total financial assets	2,263,807	4,164	-	2,267,971

Thousands of dollars	Financial liabilities at amortised cost	Fair value through profit and loss	Fair value through other comprehensive income	Total
Financial liabilities				
Due to central banks and other financial institutions	1	-	-	1
Amounts due to related parties	396,015	-	-	396,015
Derivative financial liabilities	-	3,815	-	3,815
Deposits from customers	814,845	-	-	814,845
Certificates of deposit	47,697	-	-	47,697
Subordinated loans due to related parties	70,000	-	-	70,000
Debt securities issued	661,440	-	-	661,440
Lease liabilities	8,356	-	-	8,356
Other financial liabilities	18,771	-	-	18,771
Total financial liabilities	2,017,125	3,815	-	2,020,940

Note 35 – Financial Risk Management (continued)

I. Fair value of Financial Instruments

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 investment securities, 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.

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).

The following valuation techniques have been applied to determine the fair values of financial instruments where there is no quoted price (level 1) for the instrument:

- For instruments classified as derivative financial assets and liabilities fair value measurements are derived by using a valuation technique with market observable inputs are mainly interest rate swaps, foreign exchange forwards, swaps and options, etc. The most frequently applied valuation techniques include discounted cash flow model and Black-Scholes model. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc.;

- For net loans and advances, deposits and due to related parties, borrowings and debt securities issued, discounted cash flow techniques are used where contractual future cash flows of the instrument are discounted using discount rates incorporating wholesale market rates or market borrowing rates of debt with similar maturity or a yield curve appropriate for the remaining term to maturity.

There have been no substantial changes in the valuation techniques applied to different classes of financial instruments during the year.

Note 35 – Financial Risk Management (continued)

Audited 31 December 2020

Thousands of dollars	Carrying amount	Estimated Fair Value Level 1	Level 2	Level 3	Total
Financial assets					
Cash, cash equivalents and balances with central banks	200,771	-	200,771	-	200,771
Amounts due from related parties	118,284	-	118,284	-	118,284
Due from banks and other financial institutions	10,000	-	10,000	-	10,000
Investment securities	197,210	208,083	-	-	208,083
Derivative financial assets	7,698	-	7,698	-	7,698
Loans and advances to customers	1,748,109	-	1,750,363	-	1,750,363
Other financial assets	4,895	-	4,895	-	4,895
Total financial assets	2,286,967	208,083	2,092,011	-	2,300,094
Financial liabilities					
Due to central banks and other financial institutions	1	-	1	-	1
Amounts due to related parties	596,873	-	596,873	-	596,873
Derivative financial liabilities	3,292	-	3,292	-	3,292
Deposits from customers	650,797	-	651,615	-	651,615
Certificates of deposit	79,750	-	79,750	-	79,750
Subordinated loans due to related parties	70,000	-	70,000	-	70,000
Debt securities issued	523,178	-	529,622	-	529,622
Lease liabilities	9,645	-	9,645	-	9,645
Other financial liabilities	14,369	-	14,369	-	13,761
Total financial liabilities	1,947,905	-	1,955,167	-	1,955,167

Audited 31 December 2019

Thousands of dollars	Carrying amount	Estimated Fair Value Level 1	Level 2	Level 3	Total
Financial assets					
Cash, cash equivalents and balances with central banks	107,297	-	107,297	-	107,297
Amounts due from related parties	23,150	-	23,150	-	23,150
Due from banks and other financial institutions	226,362	-	226,362	-	226,362
Investment securities	182,868	187,730	-	-	187,730
Derivative financial assets	4,164	-	4,164	-	4,164
Loans and advances to customers	1,717,679	-	1,720,585	-	1,720,585
Other financial assets	6,451	-	6,451	-	6,451
Total financial assets	2,267,971	187,730	2,088,009	-	2,275,739
Financial liabilities					
Due to central banks and other financial institutions	1	-	1	-	1
Amounts due to related parties	396,015	-	396,015	-	396,015
Derivative financial liabilities	3,815	-	3,815	-	3,815
Deposits from customers	814,845	-	815,969	-	815,969
Certificates of deposit	47,697	-	47,491	-	47,491
Subordinated loans due to related parties	70,000	-	70,000	-	70,000
Debt securities issued	661,440	-	662,048	-	662,048
Lease liabilities	8,356	-	8,356	-	8,356
Other financial liabilities	18,771	-	18,771	-	18,771
Total financial liabilities	2,020,940	-	2,022,466	-	2,022,466

Note 36 - Securitisation, Funds Management, Other Fiduciary Activities and the Marketing and Distribution of Insurance Products

As at balance date neither the Registered Bank nor the NZ Banking Group were 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
- Any insurance business or non-financial activities in New Zealand within or outside the NZ Banking Group.

Note 37 – Risk Management Policies

The NZ Banking Group's objective is to appropriately manage all the risks that arise from its activities. A review of the risk appetite of the NZ Banking Group is conducted periodically having regard to prevailing market conditions and strategy. 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 NZ Banking Group.

A. Specific Areas of Risk Management
The NZ Banking Group's Key areas of risk are Strategic and Business risk (managed by the Board through annual and three and five year business plans); 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 35 of the financial statements.

B. Risk management structure
The Branch's risk management framework is established to commensurate with the Overseas Bank Head Office's risk management strategies and policies, and ensuring compliance with all Reserve Bank requirements.

The relevant risk owner within each Overseas Bank business unit monitors the Branch's risk management on an on-going basis, and Branch business functions report their risk performance and risk positions to the Overseas Bank. By collecting these reports, the Overseas Bank is able to monitor a range of Branch risk measures, including interest repricing gap, maturity mismatch, foreign currency exposure, credit quality and grading and other dimensional risk information.

ICBC NZ employs management, management have specific responsibilities for ICBC Auckland Branch.

As the top decision-making body for risk management in ICBC NZ, the Local Board is responsible for the overall risk management approach, including determining risk management framework, overall risk strategy, general principles of risk management, risk appetites and risk tolerance, and supervising the daily work of management. The Local Board has reviewed and approved the ICBC NZ's revised General Principles of Risk Management and Risk Appetite Statement. The Local Board has the responsibility to monitor the overall risk process within the ICBC NZ and has appointed a Local Board Risk Committee to carry out this function.

Further information on the risk management structure and governance of ICBC NZ is available in the ICBC NZ year end disclosure statement which is available on the ICBC NZ website (www.icbcnz.com).

Further information on the risk management processes implemented by the Overseas Banking Group is accessible to users on the Overseas Bank's website (www.icbc.com.cn).

C. Internal Audit Function
The NZ Banking Group establishes an independent internal audit department, on the basis of abiding by the local regulatory requirements and group policies, conducting the internal audit supervision and evaluation of the institution independently, objectively and effectively, and reports internal audit work timely and normatively, and promotes the rectification work of the audit findings. The internal audit function of the NZ Banking Group is independent from its respective business, risk management, and internal control and compliance practice, and assists the NZ Banking Group in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's governance, risk management and internal control system. The Internal Audit department follows a risk based approach in scheduling audits.

The Internal Audit function for the Branch has a dual-track reporting line and reports the audit work and results to the CEO of the Branch and the Internal Audit Bureau of the Head Office (ICBC Ltd) at the same time. By doing so, it performs the duties of administrative reporting to the CEO of the Branch, and performs the functions reporting duties to the Internal Audit Bureau of the Head Office (ICBC Ltd).

The Internal Audit function for the ICBC NZ reports its work directly to the Board Audit Committee of ICBC NZ. At the same time, it is subject to guidance from the Internal Audit Bureau of the Head Office (ICBC Ltd) and notifies Head Office of major audit plans and findings.

Note 38 – Capital Adequacy

(a) ICBC NZ capital adequacy requirements

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of risk weighted exposures. As a condition of registration, ICBC NZ 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.

The 'Banking Group' means ICBC NZ and its subsidiaries. As at the date of this disclosure statement, ICBC NZ does not have any subsidiaries and is the only member of the Banking Group.

For the financial year ended 31 December 2020, ICBC NZ has complied in full with its regulatory and internal capital adequacy requirements.

(b) Overseas Banking Group capital adequacy requirements

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

As a Systemically Important Bank, the Overseas Banking Group's capital adequacy ratios are required to meet the lowest requirements of CBIRC, that is, the common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio should be no less than 5.0%, 6.0% and 8.0% respectively, in addition to a 2.5% buffer ratio and 1.5% additional capital required for global Systemically Important Banks.

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

The Overseas Bank and the Overseas Banking Group each met the capital requirements imposed on them by the CBIRC as at 31 December 2020.

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

	31 December 2020	31 December 2019
Overseas Banking Group		
Common Equity Tier 1 Capital Ratio	13.18%	13.20%
Tier 1 Capital Ratio	14.28%	14.27%
Total Capital Ratio	16.88%	16.77%
Overseas Bank		
Common Equity Tier 1 Capital Ratio	13.14%	13.29%
Tier 1 Capital Ratio	14.24%	14.37%
Total Qualifying Capital Ratio	17.02%	17.06%

(c) Additional mortgage information

Residential mortgages by loan-to-valuation ratio

31 December 2020

Thousands of dollars

Loan-to-valuation ratio	Does not exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
Value of exposures	454,935	-	-	454,935

Note 38 – Capital Adequacy (continued)

31 December 2019

Thousands of dollars				
Loan-to-valuation ratio	Does not exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
Value of exposures	481,626	-	-	481,626

Reconciliation of residential mortgage-related amounts

Thousands of dollars	31 December 2020	31 December 2019
Residential mortgage loans (as disclosed in Note 13 and Note 28)		
On balance sheet exposures		
Residential – owner occupied	247,025	270,622
Residential - investment	210,663	213,888
Provisions for impairment losses on loans and advances	(2,753)	(2,884)
Residential mortgages by loan-to-valuation ratio	454,935	481,626
Off balance sheet exposures	-	-
Total	454,935	481,626

(d) 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 2020	End-period notional capital charges		Peak end-of-day notional capital charges	
Thousands of dollars	Implied risk weighted exposure	Notional capital charge	Implied risk weighted exposure	Notional capital charge
Interest rate risk	60,150	4,812	78,313	6,265
Foreign currency risk	4,750	380	5,525	442
Equity risk	-	-	-	-
Total capital requirements	64,900	5,192	83,838	6,707

31 December 2019	End-period notional capital charges		Peak end-of-day notional capital charges	
Thousands of dollars	Implied risk weighted exposure	Notional capital charge	Implied risk weighted exposure	Notional capital charge
Interest rate risk	61,525	4,922	86,550	6,924
Foreign currency risk	2,975	238	6,300	504
Equity risk	-	-	-	-
Total capital requirements	64,500	5,160	92,850	7,428

Note 39 – Other information on the Overseas Banking Group

As at 31 December 2020	
Profitability	
Net profit after tax for the 12 month period (RMB millions)	317,685
Net profit after tax for the 12 month period as a percentage of average total assets	1.00%
Size	
Total assets (RMB millions)	33,345,058
Percentage change in total assets over the previous 12 month period	10.75%

As at 31 December 2020	
Asset quality	
Total gross individually impaired assets (RMB millions)	294,352
Total individually impaired assets as a percentage of total assets	0.88%
Total individually assessed provisions (RMB millions)	220,293
Total individually assessed provisions as a percentage of total gross individually impaired assets	74.84%
Total collective provision (RMB millions)	347,166

Independent auditor's report

To the directors of Industrial and Commercial Bank of China Limited

This report is in respect of the New Zealand Banking Group (the "Banking Group"), comprising the aggregation of the New Zealand operations of Industrial and Commercial Bank of China Limited, incorporating the New Zealand Branch of Industrial and Commercial Bank of China Limited (the "Branch") and Industrial and Commercial Bank of China (New Zealand) Limited (the "NZ Bank").

Report on the audit of the New Zealand Banking Group's disclosure statement

Opinion

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

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated 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, 11 and 13 of the Order.

In our opinion, the accompanying consolidated financial statements (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) of the Banking Group on pages 13 to 72:

i. give a true and fair view of the Banking Group's financial position as at 31 December 2020 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 ("NZ IFRS") and International Financial Reporting Standards.

In our opinion, the supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) that is required to be disclosed in accordance with Schedules 4, 7, 11 and 13 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and is included within note 38 of the disclosure statement:

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 in all material respects; and

iii. fairly states the matters to which it relates in accordance with those Schedules.

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 Banking Group in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (the "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 consolidated financial statements (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) section of our report.

Our firm has also provided other services to the Banking Group in relation to a review of the 30 June 2020 half-year disclosure statements of the NZ Bank and Banking Group, an audit of the 31 December 2020 half-year disclosure statement of the NZ Bank, and a limited assurance engagement on the NZ Bank's compliance with its conditions of registration. Subject to certain restrictions, partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. These matters have not impaired our independence as auditor of the Banking Group. The firm has no other relationship with, or interest in, the Banking Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the directors as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

Key changes in the assessment of audit risks

Covid-19

The economic impacts of the ongoing Covid-19 pandemic remain uncertain but have the potential to significantly impact the valuation of loans and advances. The judgement applied by the Banking Group in determining a collectively assessed allowance for expected credit losses associated with the Covid-19 pandemic should be considered as a best estimate within a range of possible estimates. Forward-looking assumptions, such as the estimation of expected credit losses, are inherently more uncertain during these unprecedented times. While the key audit matter "Valuation of loans and advances", detailed below, is unchanged from last year, the underlying audit risk has increased which influenced the extent and nature of audit evidence that we had to gather.

The key audit matter	How the matter was addressed in our audit
Valuation of loans and advances *Refer to notes 1(5), 6, 13, and 30 to the consolidated financial statements.*	
The valuation of loans and advances is considered to be a key audit matter as: — loans and advances represent a significant portion of the Banking Group's total assets; — the provisioning involves a high degree of subjectivity and estimation uncertainty; and — the extent of provisioning is affected by a number of historical and external factors. The provision for specific impairment as at 31 December 2020 is $4.0 million.	***Specific impairment*** Our audit procedures included: — testing key controls over management's monthly credit review process, including review of arrears reports and underlying collateral valuations; — review of arrears reports to identify any past due loans. This included testing of the arrears report to ensure all past due loans were included, and past due days were calculated correctly. For past due exposures, we also agreed a sample of payments received by the Banking Group subsequent to balance date; and — review of loan files for a sample of loans to identify high risk credit exposures showing signs of stress, either due to internal factors specific to the counterparty or external macroeconomic factors. This included reviewing the: – security documentation to ensure that the Banking Group holds a valid charge on security and verifying the security valuation from external valuation reports; – borrowers' payment history indicating difficulties in the borrowers' ability to meet the loan obligations; and – review security valuation when the loan will be repaid from proceeds of the security sale.
The calculation of the collective provision under IFRS 9 is considered to be a key audit matter as: — there are complex accounting requirements underlying the determination of quantitative amounts in disclosures; and — the collective provision is estimated through the expected credit loss ("ECL") models which uses historical data, adjusted for forward looking information. In addition, management applies judgement in the determination of provision overlays to adjust for future market conditions.	***Collective impairment*** Together with our financial risk specialists, our audit procedures included: — assessing the Banking Group's significant accounting policies and modelling methodology for expected credit losses against the requirements of the standards and underlying accounting records; — testing the accuracy of key inputs used in the IFRS 9 collective provision calculation; including reconciling the loan balance used in the calculation to general ledger and data reconciliation between the provision models and source systems; — assessing individually significant loans in arrears not specifically provided for, to determine whether they were being appropriately monitored and incorporated into the provision for collectively impaired assets; — benchmarking the level of collective provision against other registered banks;

The key audit matter	How the matter was addressed in our audit
— significant judgements and estimates are required to incorporate forward-looking information to reflect future economic conditions, including the potential economic impact of the Covid-19 pandemic. The provision for collective impairment is $10.1 million.	— examining the methodology and key assumptions of the NZ IFRS 9 collective provisions recorded at the reporting date, including: — review of the suitability of the continued use of United States index loss data, due to the Banking Group's limited New Zealand loss history, including an assessment of data correlations between the United States index loss data and available New Zealand data; and — consideration of testing results from new collective provision models, developed by the Head Office bank, run in parallel at the 31 December 2020 reporting date.

Other information

The Directors, on behalf of the Banking Group, are responsible for the other information included in the Banking Group'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 disclosure statement and supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the disclosure statement and supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the disclosure statement and supplementary information (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) 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 Banking Group, 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 and Regulatory Liquidity Requirements)

The Directors, on behalf of the Banking Group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with Clause 22 of the Order, NZ IFRS and International Financial Reporting Standards;

- the preparation and fair presentation of supplementary information (excluding the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements), in accordance with Schedules 2, 4, 7, 11 and 13 of the Order;
- implementing necessary internal control to enable the preparation of consolidated 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 and Regulatory Liquidity Requirements)

Our objective is:

- to obtain reasonable assurance about whether the disclosure statement, including the consolidated financial statements prepared in accordance with Clause 22 of the Order, and supplementary information (excluding the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements), in accordance with Schedules 4, 7, 11 and 13 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 ISA's (NZ) 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 consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated 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-1/

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

Review conclusion on the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

We have reviewed the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, as disclosed in note 38 of the disclosure statement for the year ended 31 December 2020. The supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements comprises the information that is required to be disclosed in accordance with Schedule 9 of the Order.

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, disclosed in note 38 to the disclosure statement, is not, in all material respects:

i. prepared in accordance with the Banking Group's conditions of registration; and

ii. disclosed in accordance with Schedule 9 of the Order.

Basis for conclusion on the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

A review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements 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 and Regulatory Liquidity Requirements section of our report.

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

Responsibilities of Directors for the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

The directors are responsible for the preparation of supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements 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 38 to the disclosure statement.

Auditor's responsibilities for the review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements

Our responsibility is to express a conclusion on the supplementary information relating Capital Adequacy and Regulatory Liquidity Requirements based on our review. We conducted our review in accordance with NZ SRE 2410, issued by the New Zealand External Reporting Board. As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual consolidated financial statements, and plan and perform the review to obtain limited assurance about whether the supplementary information relating Capital Adequacy and Regulatory Liquidity Requirements is, in all material respects:

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

A review of the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements 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 ISA's (NZ). Accordingly we do not express an audit opinion on the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements disclosures.

Use of this independent auditor's report

This independent auditor's report is made solely to the directors as a body. Our work has been undertaken so that we might state to the directors 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 directors 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 Jamie Munro.

For and on behalf of

KPMG

KPMG
Auckland

29 March 2021