INDUSTRIAL AND COMMERCIAL BANK OF CHINA NEW ZEALAND BANKING GROUP

Disclosure Statement

For the year ended 31 December 2019

Disclosure Statement

This Disclosure Statement has been issued by Industrial and Commercial Bank of China Limited for the year ended 31 December 2019 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, "EURO" 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 2019 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.

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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 Street,
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:

PwC 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 not subject to any regulatory or legislative requirement in the People's Republic of China to maintain sufficient assets in China to cover an ongoing obligation to pay deposit liabilities in that country. However, the 'Administrative measures for the liquidity risk of commercial banks' revised in 2015 require the Overseas Banking Group to maintain certain liquid assets in order to cover an ongoing obligation to pay liabilities of the Overseas Banking Group. The requirement is based on the consolidated position of the Overseas Banking Group and any liquidity requirements of the NZ Banking Group will form part of the Overseas Banking Group's consolidated position. The liquidity of the Branch is therefore managed within the Overseas Banking Group and will be influenced by Group requirements.

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 and Supervisors 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: Shu Gu(Vice Chairman of the Board) Executive Director, President **Country of Residence:** China **Qualification:** Doctorate degree in Economics	**External Directorships:** Vice Chairman of Standard Bank Group Limited Chairman of ICBC (London) PLC and Chairman of Industrial and Commercial Bank of China (Argentina) S.A.
Name: Fuqing Zheng Non-executive Director **Country of Residence:** China **Qualification:** Master's degree in Law Theory, Economist	**External Directorships:** None
Name: Yingchun Mei Non-executive Director **Country of Residence:** China **Qualification:** PhD in Economics, Master's degree in International Affairs	**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: Weidong Feng Non-executive Director **Country of Residence:** China **Qualification:** Doctorate degree in Economic, Senior Accountant	**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 and New China Life Insurance Company Limited
Name: Siu Shun Yang Independent Non-executive Director **Country of Residence:** China **Qualification:** CA, senior member of the Institute of Chartered Accountants in England and Wales, Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants	**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, Senior Economist	**External Directorships:** None
Name: Nout Wellink Independent Non-executive Director **Country of Residence:** China	**External Directorships:** None

Qualification: Doctorate degree in Economics, Master's degree in Law	
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, Independent Non-Executive Director of Hong Kong Exchanges and Clearing Limited, Director of UBS Group, independent director of Dalian Wanda Commercial Management Group Co., Ltd, Non-Executive Director of China Asset Management Co., Ltd, and Independent director of Minsheng Financial Leasing Co, Ltd., co-chair of The Nature Conservancy's Asia Pacific Council, director of the China Medical Board

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

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 PwC 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.

Non-compliance with Conditions of Registration:

On 28 February 2020, ICBC NZ, as a member of the NZ Banking Group disclosed to the RBNZ that an independent review of their liquidity mismatch ratios identified that the ICBC NZ had incorrectly calculated its undrawn commitments as at 31 December 2019, which resulted in a change of the one week and one month liquidity mismatch ratios. The one week mismatch ratio was recalculated at 1.96% lower than originally reported and the one month mismatch ratio was recalculated at 1.95% lower than originally reported. As a result of the miscalculation the ICBC NZ was not compliant with BS13 and BS13A as at 31 December 2019. The miscalculation has now been corrected and reflected in the liquidity mismatch ratios reported in the year ended 31 December 2019 disclosure statement and in resubmission to the RBNZ. At all times the ICBC NZ remained above all RBNZ ratio requirements.

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 IBCA, Inc.
Long-term Foreign Currency Bank Deposits Rating	A1 (Upper-medium grade and low credit risk)	A (Strong Capacity to meet obligation but subject to adverse economic conditions)	A (Strong Capacity to meet obligation but vulnerable to adverse business or economic conditions)
Short-term Foreign Currency Bank Deposits Rating	P-1 (Superior ability to repay short-term debt)	A-1 (susceptible to adverse economic conditions but satisfactory capacity to meet obligations)	F1+ (strongest capacity for timely payment of financial commitments)
Outlook	Stable	Stable	Stable

Rating movement history
There has not been any Standard & Poor's and Moody's Credit rating movement in the last 2 years.

On 9 Jan 2020, 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 IBCA, Inc.	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 2019 12 mths	31 December 2018 12 mths	31 December 2017 12 mths	31 December 2016 12 mths	31 December 2015 12 mths
Income Statement					
Interest Income	83,334	79,133	47,289	27,557	12,903
Interest Expense	(48,847)	(42,840)	(25,317)	(11,149)	(6,838)
Net Interest Income	34,487	36,293	21,972	16,408	6,065
Net gains/(losses) on financial instruments at fair value through P&L	123	12,804	7,432	(9,327)	(9,778)
Fees and other income	1,217	(11,068)	(6,402)	8,514	10,443
Total operating income	35,827	38,029	23,002	15,595	6,730
Operating expenses	(18,756)	(17,087)	(14,523)	(10,945)	(8,918)
Impairment provisioning on financial assets	14,919	(10,631)	(12,563)	(2,818)	(768)
Net profit/(loss) before taxation	31,990	10,311	(4,084)	1,832	(2,956)
Taxation (expense)/ benefit	(9,016)	(2,946)	2,885	(680)	-
Net profit/(loss) after taxation	22,974	7,365	(1,199)	1,152	(2,956)
Net profit or loss attributable to non-controlling interests	-	-	-	-	-
Ordinary Dividend	-	-	-	-	-
Significant balance sheet items					
Total Assets	2,281,516	2,135,815	1,662,033	903,544	741,737
Total Liabilities	2,024,467	1,901,740	1,522,738	763,050	687,477
Total Equity	257,049	234,075	139,295	140,494	54,260
Asset Quality					
Individually Impaired Assets	8,492	35,397	32,824	-	-

The NZ Banking Group operations begin on 18 May 2020. The information presented in the above table has been extracted from audited financial statements of ICBC NZ, that have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS").

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 2019, except as noted on page 7:

   (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, operational risk and other business risks, and that those systems are properly applied. For this purpose, a relevant member of the NZ Banking Group means a member of the NZ Banking Group that is not a member of ICBC NZ's Banking Group.

This Disclosure Statement is dated 18 May 2020 and has been signed by Qian Hou as the New Zealand Chief Executive Officer and as agent authorized 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 2019

Contents

STATEMENT OF COMPREHENSIVE INCOME

Thousands of dollars	Note	Audited 31 December 2019	Audited 31 December 2018
Interest Income*	2	83,334	79,133
Interest Expense*	2	(48,847)	(42,840)
Net Interest Income		**34,487**	**36,293**
Net gains/ (losses) on financial instruments at fair value through P&L	3	123	12,804
Fees and other Income	4	1,217	(11,068)
Total operating income		35,827	38,029
Operating expenses	5	(18,756)	(17,087)
Impairment provisioning on financial assets	6	14,919	(10,631)
Net profit/(loss) before taxation		31,990	10,311
Taxation expense	7	(9,016)	(2,946)
Net profit/(loss) after taxation		**22,974**	**7,365**
Other comprehensive income		-	-
Total comprehensive income		**22,974**	**7,365**

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

The NZ Banking Group operations begin on 18 May 2020. The information presented in the above table has been extracted from audited financial statements of ICBC NZ.

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STATEMENT OF CHANGES IN EQUITY

		Branch 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 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	27	-	-	-	22,974	22,974
Balance at 31 December 2019		-	-	233,540	23,509	257,049
For the year ended 31 December 2018 (audited)						
Balance at 31 December 2017		-	-	145,460	(6,165)	139,295
Changes on initial application of NZ IFRS 9		-	-	-	(665)	(665)
Balance at the beginning of the year		-	-	145,460	(6,830)	138,630
Capital injection from shareholders		-	-	88,080	-	88,080
Net profit/(loss) for the year		-	-	-	7,365	7,365
Total equity movement for the year		-	-	88,080	7,365	95,445
Balance at 31 December 2018		-	-	233,540	535	234,075

The NZ Banking Group operations begin on 18 May 2020. The information presented in the above table has been extracted from audited financial statements of ICBC NZ.

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STATEMENT OF FINANCIAL POSITION

Thousands of dollars	Note	Audited 31 December 2019	Audited 31 December 2018
Assets			
Cash, cash equivalents and balances with central banks	9	107,297	87,122
Amounts due from related parties	21	23,150	10,236
Due from banks and other financial institutions	10	226,362	214,655
Investment securities	12	182,868	111,330
Derivative financial assets	11,14	4,164	1,194
Loans and advances to customers	13,28	1,717,679	1,694,092
Right-of-use assets	17	8,119	-
Property, plant and equipment	16	52	102
Intangible assets	18	12	-
Deferred tax assets	8	4,832	8,810
Other assets	19	6,981	8,274
Total assets		**2,281,516**	**2,135,815**
Liabilities			
Due to central banks and other financial institutions	20	1	1
Amounts due to related parties	21	396,015	569,636
Derivative financial liabilities	11,14	3,815	1,140
Deposits from customers	22	814,845	635,989
Certificates of deposit	23	47,697	136,151
Subordinated loans due to related parties	24	70,000	70,000
Debt securities issued	23	661,440	461,826
Lease liabilities	17	8,356	-
Current tax payable	8	3,090	4,453
Deferred tax liabilities	8	-	19
Other liabilities	25	19,208	22,525
Total liabilities		**2,024,467**	**1,901,740**
Head office account			
Branch capital		-	-
Retained profit		-	-
NZ Banking Group's equity			
Share capital	27	233,540	233,540
Reserves	27	23,509	535
Total NZ Banking Group's equity		257,049	234,075
Total NZ Banking Group's equity and liabilities		**2,281,516**	**2,135,815**
Total interest earning and discount bearing assets	30	2,257,821	2,123,408
Total interest and discount bearing liabilities	31	1,942,090	1,806,278

The NZ Banking Group operations begin on 18 May 2020. The information presented in the above table has been extracted from audited financial statements of ICBC NZ.

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 18 May 2020 and are signed on their behalf by:

Qian Hou
New Zealand Chief Executive Officer

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STATEMENT OF CASH FLOWS

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Cash flows from operating activities		
Interest income	83,940	76,728
Other income	1,124	2,268
Interest expense	(51,638)	(36,276)
Long-term lease payments	(1,146)	-
Variable lease	(6)	-
Personnel expenses	(10,889)	(10,590)
Other operating expenses`	(5,208)	(6,429)
Taxes paid	(6,420)	(3,443)
Net cash flows from operating activities before changes in operating assets and liabilities	**9,757**	**22,258**
Changes in operating assets and liabilities arising from cash flow movements:		
(Increase)/decrease in loans and advances to customers	(9,165)	(434,659)
Increase / (decrease) in deposits from customers	178,856	216,469
Increase/(decrease) in amounts due to related parties	(90,700)	(57,095)
Increase/(decrease) in other liabilities	28	31
(Increase)/decrease in amounts due from related parties	(12,914)	2,369
Increase / (decrease) in certificates of deposit	(88,454)	81,471
Net change in operating assets and liabilities	**(22,349)**	**(191,414)**
Net cash flows from operating activities	**(12,592)**	**(169,156)**
Cash flows from investing activities		
Purchase of property, plant and equipment	(7)	(65)
Purchase of intangible assets	(14)	-
Purchase of investment securities	(72,216)	(71,620)
Net cash flows from investing activities	(72,237)	(71,685)
Cash flows from financing activities		
Capital injection from shareholders	-	88,080
Receipts from subordinated loans due to related parties	-	35,000
Receipts from issuance of debt securities	199,760	150,106
Net cash flows from financing activities	199,760	273,186
Increase/(Decrease) in cash and cash equivalents	114,931	32,345
Cash and cash equivalents at beginning of year	151,604	119,491
Effect of exchange rate changes on cash and cash equivalents	(128)	(232)
Cash and cash equivalents	**266,407**	**151,604**
Cash and cash equivalents at end of year comprised:		
Cash, cash equivalents and balances with central banks	107,297	87,122
Due from banks and other institutions classified as cash equivalents	226,362	214,655
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	(67,251)	(150,172)
Total cash and cash equivalents	**266,407**	**151,604**

The NZ Banking Group operations begin on 18 May 2020. The information presented in the above table has been extracted from audited financial statements of ICBC NZ.

STATEMENT OF CASH FLOWS (CONTINUED)

Thousands of Dollars	Audited 31 December 2019	Audited 31 December 2018
Reconciliation of net profit after taxation to net cash-flows from operating activities		
Net profit/(loss) after taxation	**22,974**	**7,366**
Non cash movements:		
Unrealised fair value adjustments	567	(115)
Depreciation	57	391
Amortisation of intangibles	2	-
Amortisation of ROU assets	1,040	-
Amortisation of financial instruments	676	510
Gain/loss on modification of lease contracts	124	-
Increase/(decrease) in allowance for impairment losses	(14,928)	10,632
Loss on written-off financial assets	9	-
Unrealised foreign exchange gain/(loss)	(906)	647
(Increase)/decrease in deferred taxation	3,959	(2,994)
Amortisation of debt securities issued	26	17
Increase in operating assets and liabilities	**(9,374)**	**9,088**
(Increase)/decrease in interest receivable	615	(3,119)
Increase/(decrease) in interest payable	(3,037)	6,532
(Increase)/decrease in loans and advances to customers	(9,165)	(434,659)
Increase/(decrease) in deposits from customers	178,856	216,469
Increase/(decrease) in certificates of deposit	(88,454)	81,471
Increase/(decrease) in lease liabilities	(927)	-
Increase/(decrease) in other liabilities	220	(94)
Increase/(decrease) in amounts due to related parties	(90,700)	(57,095)
(Increase)/decrease in current taxation	(1,363)	2,511
(Increase)/decrease in other assets	677	9
(Increase)/decrease in amounts due from related parties	(12,914)	2,369
Net cash flows from operating activities	**(12,592)**	**(169,156)**

The NZ Banking Group operations begin on 18 May 2020. The information presented in the above table has been extracted from audited financial statements of ICBC NZ.

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STATEMENT OF CASH FLOWS (CONTINUED)

Reconciliation of liabilities arising from financing activities

For the year ended 31 December 2019 (audited)

	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

For the year ended 31 December 2018 (audited)

	Balance at the beginning of the year	Net Cash flow	Non-cash changes Amortisation	Non-cash changes Foreign Exchange movement	31 December 2018
Subordinated loans due to related parties	35,000	35,000	-	-	70,000
Debt securities issued	311,305	150,106	17	398	461,826
Total liabilities from financing activities	346,305	185,106	17	398	531,826

The NZ Banking Group operations begin on 18 May 2020. The information presented in the above table has been extracted from audited financial statements of ICBC NZ.

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 begin on 18 May 2020. The financial statements are extracted from audited financial statements of ICBC NZ, and 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 18 May 2020.

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, amounts 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 ECL measurement model, including incorporation of forward-looking information and recoverable cash flows.
- Deferred Taxation:
- Fair value of derivatives
- NZ IFRS 16 application

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 Bank has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates.

During the period the NZ Banking Group received notice from the administrator of a previously provided borrower that recoveries would be received in the current period and in the future.

Note 1 - Accounting Policies (continued)

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

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 2019.

During the period, the NZ Banking Group has been consistent in applying the judgements, estimates and assumptions adopted in the annual financial statements for the year ended 31 December 2019, except as amended by the adoption of NZ IFRS 16. In adopting and applying NZ IFRS 16 and determining the accounting impacts (as described in note 17), several key estimates and assumptions were required. These include determining the lease term (which can be estimation of renewal), the discount rate applicable to each lease and the lease payments, which may not be fixed and may vary depending on an index.

(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.

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Note 1 - Accounting Policies (continued)

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

(iv) Other Income
Dividend income is recorded in the statement of comprehensive income when the 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

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 recognized 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:

Note 1 - Accounting Policies (continued)

(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

(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 recognized at fair value, with transaction costs being recognized in the income statement as incurred. Subsequently, they are measured at fair value with gains and losses recognized 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 realization 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%	20%
Computer hardware	3 years	33.3%	33.3%
Leasehold improvements	Lesser of 5 years or the remaining term of the lease		

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

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

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

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

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 recognizes 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
As at 31 December 2019, the Branch's capital is nil, however, the Oversea Bank will inject USD 50M equivalent NZ Dollars before end of June 2020 as the Branch's working 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 employ all staff.

(o) Change in Accounting Policies
Accounting policies are consistent with those applied in the Disclosure Statement for the year ended 31 December 2018, except as disclosed below.

The following new amendment to standards relevant to the NZ Banking Group has been adopted from 1 January 2019 and have been applied in the preparation of these financial statement:

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

The NZ Banking Group initially applied NZ IFRS 16 on 1 January 2019, using the modified retrospective method. Applying this method, the comparative information for the 2018 financial year has not been restated.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the NZ Banking Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liabilitiy, adjusted by the amount of any prepaid or accrued lease payments – the NZ Banking Group applied this approach to all other leases. The weighted-average rate applied is 2.77%. There is no impact on retained earnings.

In the context of the transition to NZ IFRS 16, right-of-use assets of $8,250 and lease liabilities of $8,250 were recognised as at 1 January 2019. The NZ Banking Group transitioned to NZ IFRS 16 in accordance with the modified retrospective approach. The prior-year figures were not adjusted. In addition, the NZ Banking Group has decided to apply expemption for short-term leases to leases for which the lease term ends within 12 months of the date of initial application. 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 following reconciliation to the opening balance for the lease liabilities as at 1 January 2019 is based upon the operating lease oblications as at 31 December 2018:

Note 1 - Accounting Policies (continued)

Thousands of dollars	1 January 2019
Lease commitments as at 31 December 2018	1,930
Current leases with a lease term of 12 months or less (short-term leases)	-
Operating leases commitments as of 1 January 2019 (gross, without discounting)	**1,930**
Operating leases commitments as of 1 January 2019 (net, discounted)	1,764
Reasonably certain extension or termination options	6,486
Total lease liabilities as at 1 January 2019	**8,250**

Thousands of dollars	1 January 2019
Operating lease of buildings	8,137
Operating lease of vehicles	113
Total right-of-use assets	**8,250**

(p) NZ IFRS Accounting Standards Issued but Not Yet Effective
The following new standards and amendments to standards relevant to the NZ Banking Group are not yet effective and have not yet been applied in preparing the financial statements.

(7) Comparative Financial Statements
Certain comparative balances have been reclassified to ensure consistency with the current financial year's presentation. These reclassifications have no impact on the overall financial performance or financial position for the comparative reporting periods. Disclosure Statement note affected is Note 29(c).

Note 2 - Interest Income and Interest Expense

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Interest Income		
Loans and advances to customers	73,788	73,825
Government and local authority securities	694	923
From other financial institutions	3,751	1,702
Amounts due from related parties	58	433
Other securities	4,695	1,787
Cash and liquid assets	70	529
Income from derivative	278	(66)
Total interest income	83,334	79,133
Interest expense		
Deposits from customers	20,694	12,788
Debt securities issued	19,644	17,866
Secured and unsecured borrowings	459	38
Amounts due to related parties	7,831	12,134
Lease liabilities	219	-
Other interest expenses	-	14
Total interest expense	48,847	42,840

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

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Financial assets designated at fair value through profit or loss upon initial recognition	-	-
Derivative financial instruments	123	12,804
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	123	12,804

Note 4 – Fees and Other Income

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Banking and lending fee income	917	798
Payment services fee income	681	779
Net foreign exchange gains/(losses)	(276)	(12,646)
Gain/(loss) on modification of lease	(124)	-
Other revenue	19	1
Total other income	1,217	(11,068)

Note 5 - Operating Expenses

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Auditor's remuneration:		
Audit of financial statements	178	195
Prior Year Overruns on Audit of financial statements	31	75
Review of financial statements	32	31
Other assurance service	11	10
Taxation and other services	6	5
Fees paid to auditors	258	316
Amortisation and Depreciation:		
Computer hardware	29	30
Office equipment	1	20
Furniture, fittings, and leasehold improvements	27	341
Amortization of intangible assets	2	-
Total amortization and depreciation	59	391
Employee benefits:		
Wages and salaries	10,997	9,716
Kiwi Saver Contribution	65	47
Other Employment-Related Expenses	232	186
Total employee benefits	11,294	9,949
Lease expenses:		
Amortisation of Right-of-use assets	1,040	-
Short term lease payments	49	998
Variable lease payments	6	-
Total lease expenses	1,095	998
Other expenses:		
Tax advisory services	100	73
Donations	50	1
Directors' fees	270	270
Professional consulting fee	1,403	1,139
Building occupation costs	330	327
Promotion and marketing costs	466	351
Membership fee	281	254
Other operating expenses	3,150	3,018
Total other expenses	6,050	5,433
Total operating expenses	18,756	17,087

Note 6 - Impairment Allowance

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

Audited 31 December 2018

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 2018
Provision for credit impairment measured on a 12-month ECL (stage 1) - collective	-	2,898	3,789	7	-	1,475	-	8,169
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	14	307	19,675	-	-	-	-	19,996
Balance as at 31 December 2018	14	3,205	23,464	7	-	1,475	-	28,165

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
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	Stage 1 (Collective provision)	Stage 2 (Collective provision)	Stage 3 (Collective provision)	Stage 3 (Specific Provision)	Total
	Audited 31 December 2019				
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 among 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 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 2018				
Residential mortgage lending					
Balance at beginning of period	2,091	-	-	-	2,091
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	(13)	-	-	13	-
Charge/(Recovery) to statement of comprehensive income in current year	820	-	-	294	1,114
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2018	2,898	-	-	307	3,205
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	(14)	-	-	14	-
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2018	-	-	-	14	14
Corporate and institutional					
Balance at beginning of period	3,480	-	-	10,236	13,716
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	309	-	-	9,439	9,748
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2018	3,789	-	-	19,675	23,464
Investment securities					
Balance at beginning of period	3	-	-	-	3
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	4	-	-	-	4
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2018	7	-	-	-	7

Note 6 - Impairment Allowance (continued)

Movement in provision for credit impairment Thousands of dollars	Audited 31 December 2018 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	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2018	-	-	-	-	-
Provision for loan commitments and financial guarantee contracts					
Balance at beginning of period	1,710	-	-	-	1,710
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	(235)	-	-	-	(235)
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2018*	1,475	-	-	-	1,475
Total charge/(Recovery) to statement of comprehensive income in current year	884	-	-	9,747	10,631
Total impairment allowance as at 31 December 2018	8,169	-	-	19,996	28,165

Note 7 - Taxation

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Net profit/(loss) before taxation	31,990	10,311
Tax calculated at a tax rate of 28%	8,957	2,887
(Under)/over provision from prior period	-	7
Temporary differences not previously recognised	-	-
Utilisation of tax losses previously unrecognised	-	-
Other permanent differences	59	52
Taxation charge as per the statement of comprehensive income	9,016	2,946
Represented by:		
Current tax	5,057	5,940
Deferred tax	3,959	(2,994)
Taxation charge as per the statement of comprehensive income	9,016	2,946
The deferred tax charge in the statement of comprehensive income comprises the following temporary differences:		
Employee entitlements	(6)	66
Accelerated depreciation	9	(70)
Allowances for impairment losses	4,180	(2,977)
Other provisions and accruals	(84)	-
Other temporary differences	(140)	(13)
Tax effect of change in tax rate	-	-
Amortisation of intangibles	-	-
Recognised tax losses	-	-
Total temporary differences	3,959	(2,994)

Imputation credits

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Balances available for use in subsequent reporting periods		
Imputation credit account	14,371	9,315

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 2019	Audited 31 December 2018
Current income tax (payable)/receivable		
Balance at beginning of the year	(4,453)	(1,942)
(Under)/over provision from prior period	151	(14)
Tax on profits/(losses) taken to reserves	-	-
Transfer from/(to) deferred tax	-	-
Current Year Tax charge	(5,208)	(5,940)
Utilisation of tax losses	-	-
Related party purchase of tax losses	-	-
Refundable Tax credits	-	-
Tax refunded	-	-
Tax paid in current year	6,420	3,443
Balance at end of the year	(3,090)	(4,453)
Deferred tax		
Balance at beginning of the year	8,791	5,538
Impact of initial adoption of NZ IFRS 9	-	259
Under/(over) provision from prior period	(151)	(49)
Temporary differences for the year	(3,808)	3,043
Tax on losses carried forward	-	-
Tax effect of change in tax rate	-	-
Credit to current tax	-	-
Balance at end of the year	4,832	8,791
Deferred tax assets		
Employee entitlements	417	411
Accelerated depreciation	268	296
Other provisions and accruals	301	217
Other temporary differences	140	-
Losses recognised in deferred tax	-	-
Allowance for loan impairment	3,706	7,886
Total assets	4,832	8,810
Deferred tax liabilities		
Accelerated depreciation	-	19
Other temporary differences	-	-
Intangible assets	-	-
Total liabilities	-	19
Net deferred taxation	4,832	8,791

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 2018: nil).

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

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Cash on hand	-	-
Cash with central banks	56,631	53,788
Call and overnight advances to financial institutions	50,666	33,334
Total cash and cash equivalents	107,297	87,122

Note 10 – Due from Banks and Other Financial Institutions

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
NZ Registered Banks	226,362	214,655
Overseas Registered Banks	-	-
Other	-	-
Total amount due from other financial institutions	226,362	214,655
Current	226,362	214,655
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 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

Audited 31 December 2018 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	1,194	(168)	1,026
	1,194	(168)	1,026
Financial Liabilities			
Derivative financial instruments	1,140	(168)	972
	1,140	(168)	972

Note 12 – Investment Securities

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Government stock and multilateral development banks	6,199	6,339
Local authority securities	63,245	68,733
Other debt securities	113,424	36,258
Total investment securities	182,868	111,330
Current	36,754	-
Non-Current	146,114	111,330

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 2019	Audited 31 December 2018
Residential mortgage loans	484,510	609,446
Corporate exposures	1,245,356	1,111,226
Credit Cards	65	103
Other exposures	-	-
Allowance for impairment losses	(12,252)	(26,683)
Total net loans and receivables	1,717,679	1,694,092
Current	379,897	295,306
Non-Current	1,337,782	1,398,786

Note 14 – Derivative Financial Instruments

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	423,287	4,164	3,815

Audited 31 December 2018	Notional Principal Amount	Fair Value	
Thousands of dollars		Assets	Liabilities
Forward exchange derivatives			
- Forward foreign exchange contracts	-	-	-
- Swaps	29,145	168	182
- Option Contracts	-	-	-
Total Foreign exchange derivatives	29,145	168	182
Interest Rate derivatives			
- Forward Rate Agreements	-	-	-
- Swaps	167,200	1,026	958
- Option Contracts	-	-	-
Total Interest Rate derivatives	167,200	1,026	958
Total	196,345	1,194	1,140

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 2019, the Branch and ICBC NZ do not have any subsidiaries (31 December 2018: Nil).

Note 16 – Property, Plant & Equipment

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

Audited 31 December 2018

Thousands of dollars	Computer Hardware	Office Equipment	Furniture, Fittings & Leasehold Improvements	Other Assets	Total
At cost	820	113	1,718	-	2,651
Accumulated depreciation	(794)	(92)	(1,337)	-	(2,223)
Opening carrying amount	26	21	381	-	428
Additions	65	-	-	-	65
Disposals	-	-	-	-	-
Depreciation	(30)	(20)	(341)	-	(391)
Write offs	-	-	-	-	-
Closing carrying amount	61	1	40	-	102
Total At cost	885	113	1,718	-	2,716
Total Accumulated depreciation	(824)	(112)	(1,678)	-	(2,614)
Total Closing carrying amount	61	1	40	-	102

Note 17 – Leases

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 NZ Banking Group leases its head office. During the year the option to extend the lease for a further 8 years has been exercised, and the lease expires on 31 July 2025. The lease payments are increased by 3.25% every year.

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

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

Short-term lease The NZ Banking Group leases two apartments with lease terms within 12 months of the date of initial application. The total remaining leases for the two apartments is $6,120.

Commitment of lease payments

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 2019	Audited 31 December 2018
Goodwill	-	-
Computer software	12	-
Computer software work in progress	-	-
Total intangible assets	12	-
Computer software		
Cost brought forward	11	11
Accumulated amortisation brought forward	(11)	(11)
Opening net book value	-	-
Additions	14	-
Amortisation	(2)	-
Closing net book value	12	-

Note 19 – Other Assets

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Other receivables	694	1,372
Commissions receivable	-	247
Interest receivable	6,287	6,655
Trade and other receivables	6,981	8,274
Current	6,764	8,177
Non-Current	217	97

Note 20 – Due to Central Banks and Other Financial Institutions

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
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 Entity

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Amounts due from ultimate parent	23,150	10,236
Amount due from controlled entities of ultimate parent	-	-
Total amount due from related entities	23,150	10,236
Current	23,150	10,236
Non-Current	-	-

Amounts due to ultimate parent	395,815	569,636
Amount due to controlled entities of ultimate parent	200	-
Total amount due to related entities	396,015	569,636
Current	93,044	179,961
Non-Current	302,971	389,675

Off Balance sheet transactions		
Due from parent	-	1,000
Due to parent	-	1,020
Due from controlled entities of ultimate parent	-	-
Due to controlled entities of ultimate parent	-	-

1. Nostro account balance held with parent and controlled entities of ultimate parent as at 31 December 2019 is NZ$6,448K (31 December 2018: NZ$11,045K). 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 Group which, from time to time, transfers payments through the ICBC NZ Vostro account. The balance of ICBC NZ Vostro account was NZ$67M as at 31 December 2019 (31 December 2018: NZ$150M).

3. As at 31 December 2019, ICBC NZ has issued NZ$70m 5-years subordinated loan to ICBC Head Office (note 24).The accrued interest of subordinated loan is NZ$354K as at 31 December 2019 (31 December 2018: $504K).

4. The total liabilities of the Branch, net of amounts due to related parties as at 31 December 2019 is nil (31 December 2018: nil).

Note 22 – Deposits from Customers

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Demand deposits not bearing interest	56,264	67,325
Demand deposits bearing interest	32,530	5,290
Term deposits	726,051	563,374
Total deposits	814,845	635,989
Current	732,633	532,340
Non-Current	82,212	103,649

Note 23 – Certificates of Deposit and Debt Securities Issued

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Certificates of deposit (CDs)	47,697	136,151
Other debt securities	661,440	461,826
Total debt securities issued	709,137	597,977
Current	306,576	136,151
Non-Current	402,561	461,826

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

Audited
31 December 2018
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	2.900 (fixed)	9 May 2019	4,000	3,887	3,887
New Zealand Dollar	2.760 (fixed)	30 July 2019	3,500	3,406	3,352
New Zealand Dollar	2.760 (fixed)	30 July 2019	6,500	6,326	6,226
New Zealand Dollar	2.735 (fixed)	8 August 2019	10,000	9,734	9,574
New Zealand Dollar	2.520 (fixed)	11 February 2019	15,000	14,816	14,816
New Zealand Dollar	2.635 (fixed)	25 February 2019	10,000	9,868	9,868
New Zealand Dollar	2.735 (fixed)	12 September 2019	3,000	2,920	2,864
New Zealand Dollar	2.735 (fixed)	12 September 2019	7,000	6,814	6,684
New Zealand Dollar	2.740 (fixed)	27 September 2019	20,000	19,468	19,074
New Zealand Dollar	2.720 (fixed)	10 October 2019	15,000	14,603	14,294
New Zealand Dollar	2.730 (fixed)	25 October 2019	4,000	3,894	3,807
New Zealand Dollar	2.730 (fixed)	25 October 2019	6,000	5,841	5,710
New Zealand Dollar	2.480 (fixed)	28 February 2019	10,000	9,939	9,939
New Zealand Dollar	2.825 (fixed)	29 November 2019	10,000	9,726	9,484
New Zealand Dollar	2.480 (fixed)	11 March 2019	15,000	14,909	14,909
				136,151	134,488

On 14 July 2015, Standard & Poor's assigned the NZ Banking Group's US$250Million Certificate of Deposit Programme a short-term issue credit rating of "A-1".

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

Medium term notes issued			Audited 31 December 2019			Audited 31 December 2018		
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	5,000	5,257	5,257
AU Dollar	3 month BBSW+125bp	22 December 2020	10,000	10,399	10,399	10,000	10,514	10,514
New Zealand Dollar	3 month NZD BKBM+110bp	15 November 2020	140,000	140,000	140,000	140,000	140,000	140,000
New Zealand Dollar	3 month NZD BKBM+120bp	24 February 2020	100,000	100,000	100,000	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	143	140	140	140
New Zealand Dollar	3.47 (fixed)	13 March 2021	28,190	28,190	28,710	28,190	28,190	28,309
New Zealand Dollar	3.99 (fixed)	15 February 2020	1,000	1,000	1,000	1,000	1,000	1,018
New Zealand Dollar	3.47 (fixed)	13 October 2020	1,500	1,500	1,519	1,500	1,500	1,506
New Zealand Dollar	3.47 (fixed)	15 November 2020	780	780	788	780	780	781
New Zealand Dollar	3.47 (fixed)	27 February 2021	1,500	1,500	1,529	1,500	1,500	1,508
New Zealand Dollar	3.47 (fixed)	13 March 2021	500	500	509	500	500	502
New Zealand Dollar	3.47 (fixed)	15 March 2021	1,500	1,500	1,527	1,500	1,500	1,506
New Zealand Dollar	3.13 (fixed)	20 September 2021	10,000	10,000	10,145	10,000	10,000	9,924
New Zealand Dollar	3.20 (fixed)	31 May 2022	1,713	1,713	1,734	1,713	1,713	1,684
New Zealand Dollar	3.38 (fixed)	23 March 2023	432	432	444	432	432	428
New Zealand Dollar	3.25 (fixed)	24 August 2022	7,600	7,600	7,766	7,600	7,600	7,528
New Zealand Dollar	3.35 (fixed)	22 March 2022	6,200	6,200	6,333	6,200	6,200	6,170
New Zealand Dollar	3 month NZD B KBM+100bp	27 June 2022	100,000	99,892	100,000	-	-	-
New Zealand Dollar	2.61 (fixed)	27 June 2024	100,000	99,894	99,302	-	-	-
				661,440	662,048		461,826	461,775

On 1 September 2015, Standard & Poor's confirmed the NZ Banking Group's US$700Million Wholesale Debt Issuance Programme and Retail Medium Term Notes Programme Local Currency and Foreign Currency Long-term ratings are A.

On 16 August 2019, Moody's Investors Service affirmed the NZ Banking Group's senior unsecured MTN (medium term note) rating at A1. Short-term Bank deposits were affirmed at P-1 while the Bank's deposit note/CD Programme was also affirmed at P-1.

Note 24 – Subordinated Loans due to Related Parties

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

Audited
31 December 2018
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 loan due to related parties of NZ$70m as at 31 December 2019 is unsecured.

Note 25 – Other Liabilities

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Employee entitlements		
Accrued wages/salaries	68	68
Accrued Kiwi Saver Pension liability	-	-
Other Employee entitlements Accrued	2,933	2,258
Accounts payable	631	430
Interest payable	10,131	13,168
Provision for impairment on loan commitments and financial guarantee contracts	976	1,475
Other payables and deferred revenue	4,469	5,126
Total other liabilities	19,208	22,525
Current	17,580	17,668
Non-Current	1,628	4,857

Note 26 – Head Office Account

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Branch capital	-	-
Retained earnings/(losses)	-	-
Total head office account	-	-

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Branch capital		
Balance at the start of the period	-	-
Contributions during the period	-	-
Balance at the end of the period	-	-

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 – Equity

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Share capital	233,540	233,540
Retained earnings	23,509	535
Total equity	257,049	234,075

	31 December 2019	31 December 2018
Equity	Number of shares	Number of shares
Number of shares at the start of the period	233,539,975	145,459,975
Shares issued during the period	-	88,080,000
Number of shares at the end of the period	233,539,975	233,539,975

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

Note 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 2019 Thousands of dollars	Other exposures excluding sovereigns and central banks	Residential mortgage loans	Corporate and institutional exposures	Total
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 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 2019 (31 December 2018: 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 $555,133K as at 31 December 2019 (31 December 2018: $300,318K).

There has been $4,592 interest revenue foregone on restructured, individually impaired or greater than 90 days past due assets during the period ended 31 December 2019 (31 December 2018: nil).

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 2018	Other exposures excluding sovereigns and central banks	Residential mortgage loans	Corporate and institutional exposures	Total
Thousands of dollars				
Total neither past due nor impaired	86	606,007	1,078,511	1,684,604
Past due assets not impaired				
Less than 30 days past due	3	-	-	3
At least 30 days but less than 60 days past due	-	757	-	757
At least 60 days but less than 90 days past due	-	-	-	-
At least 90 days past due	14	-	-	14
Total past due assets not impaired	17	757	-	774
Individually impaired assets				
Balance at beginning of the year	-	-	32,824	32,824
Additions	-	2,682	-	2,682
Amounts written off	-	-	-	-
Deletions	-	-	(109)	(109)
Total individually impaired assets	-	2,682	32,715	35,397
Total gross loans and advances	103	609,446	1,111,226	1,720,775
Individually assessed provisions				
Balance at beginning of the year	-	-	10,236	10,236
Charge/(credit) to the statement of comprehensive income:				
New provisions	14	307	9,439	9,760
Reversals of previously recognised impairment losses	-	-	-	-
Amounts recovered	-	-	-	-
Amounts written off	-	-	-	-
Balance at end of the period	14	307	19,675	19,996
Collectively assessed provisions				
Balance at beginning of the year	14	2,091	3,480	5,585
Charge (credit) to the statement of comprehensive income	(14)	807	309	1,102
Other movements	-	-	-	-
Balance at end of the year	-	2,898	3,789	6,687
Total provisions for impairment losses	14	3,205	23,464	26,683
Net balance at end of the year	89	606,241	1,087,762	1,694,092

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 2019**	**Audited 31 December 2018**
Salaries and other short-term benefits	2,020*	2,055*
Other benefits	-	-
Total key management compensation	2,020	2,055

* 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 2019**	**Audited 31 December 2018**
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	-	-
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 2019 (31 December 2018: nil). Her senior management compensation is included within the salaries disclosed in note 27 A (i) above.

** Mr Hongbin Liu's director remuneration is borne by Overseas Banking Group.

*** Ms Mei Tao's director remuneration is borne by Overseas Banking Group.

The remuneration of the Branch's directors is paid by the Overseas Banking Group, and disclosed in the overseas banking group's financial statements.

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

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)

Audited 31 December 2018

Thousands of dollars	Opening Balance	Movement during the year	Closing Balance	Interest Received/ (Paid) by the Bank
Deposits	257	(31)	226	(3)
Loans and Advances	-	-	-	-
Total	257	(31)	226	(3)

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 2018:$80K). The amount owed on the card at 31 December 2019 was nil.(31 December 2018:nil).

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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.

As at 31 December 2019, 68.11% of total shares in ICBC were owned by the Chinese government. The remaining 31.89% of the shares in ICBC were held by the public. ICBC shares are listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange.

All the obligations of 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 IBCA, Inc.**
Long-term Foreign Currency Bank Deposits Rating	A1 (Upper-medium grade and low credit risk)	A (Strong capacity to meet obligations but subject to adverse economic conditions)	A (Strong Capacity to meet obligation but vulnerable to adverse business or economic conditions)
Short-term Foreign Currency Bank Deposits Rating	P-1 (Superior ability to repay short-term debt)	A-1 (susceptible to adverse economic conditions but satisfactory capacity to meet obligations	F1+ (strongest capacity for timely payment of financial commitments)
Outlook	Stable	Stable	Stable

ICBC guarantees due payment of all obligations of 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 2019**	**Audited 31 December 2018**
Interest income on amount due from related entities		
Ultimate parent	58	433
Subsidiaries of ultimate parent	-	-
Total interest income on amount due from related entities	58	433
Interest expense on amount due to related entities		
Ultimate parent	7,831	12,134
Subsidiaries of ultimate parent	-	-
Total interest expense on amount due to related entities	7,831	12,134
Other operating income		
Gain/(loss) on derivative contracts with ultimate parent	(468)	(319)
Gain/(loss) on derivative contracts with subsidiaries of ultimate parent	(169)	(28)
Other income	-	-
Other operating expense		
Other operating expense paid to ultimate parent	-	(83)

Interest payable to parent as at 31 December 2019 was $965K (31 December 2018:$4,867K), and interest payable to subsidiaries of the ultimate parent was nil (31 December 2018: 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 2018: nil).

As at 31 December 2019, there's no outstanding risk participation agreement. (31 December 2018: $45,580K).

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 2019**	**Audited 31 December 2018**
Government	126,769	129,662
Finance (including banks)	460,956	434,360
Households	485,487	610,843
Transport and storage	137,517	140,246
Communications	27,327	-
Electricity, gas and water	-	-
Construction	191,765	148,593
Property services	453,820	288,424
Agriculture	5,304	6,108
Forestry, fishing and mining	154,525	157,727
Health and community services	60,216	40,056
Personal and other services	-	-
Retail and wholesale trade	60,255	60,296
Manufacturing	91,236	95,071
Education	25,055	-
Administration and support services	-	41,038
Less: allowance for impairment provisioning	(12,261)	(26,690)
Total financial assets	2,267,971	2,125,734
Less: non-interest earning financial assets	(10,150)	(2,326)
Total interest earning and discount bearing financial assets	2,257,821	2,123,408

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

Thousands of dollars	**Audited 31 December 2019**	**Audited 31 December 2018**
New Zealand	1,940,403	1,838,899
Overseas	327,568	286,835
Total financial assets	2,267,971	2,125,734

Note 30 – Concentration of Credit Risk (continued)

Maximum Exposure to Credit Risk - On and Off Balance Sheet

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Loans and advances to customers	1,717,679	1,694,092
Derivative financial instruments	3,118	1,026
Trade and Other Receivables	-	-
Other financial assets	4,981	5,997
On Balance Sheet Credit Exposures (excluding credit exposure to connected parties and banks with long-term credit rating of A- or A3 or above)	1,725,778	1,701,115
Cash and cash equivalents	107,297	87,122
Amounts due from related parties	23,150	10,236
Due from other financial institutions	226,362	214,655
Investment securities	182,868	111,330
Derivative financial instruments	1,046	168
Loans and advances to customers	-	-
Tax Receivable	-	-
Other financial assets	1,470	1,108
Total on Balance Sheet Credit Exposures	2,267,971	2,125,734
Off Balance Sheet Exposures	585,212	321,011
Total Off Balance Sheet Credit Exposures	585,212	321,011

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

55.85% of the NZ Banking Group’s mortgage portfolio is owner-occupied residential properties (31 December 2018: 58.30%).

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 2018: 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 2019	Audited 31 December 2018
New Zealand		
Transport and storage	44,577	15,714
Financing investment and insurance	819,555	629,335
Electricity, gas and water	20,117	-
Food and other manufacturing	184,591	182,639
Construction	25,016	4,540
Communication	1,073	10
Government, local authorities and services	60,203	63,959
Agriculture	13	-
Forestry	69,410	75,293
Health and community services	55	-
Personal and other services	-	-
Property and business services	43,817	47,321
Education	20,491	-
Retail and wholesale trade	3,187	4,012
Other	19,945	17,298
Households	64,454	55,292
Overseas		
Amounts due to related parties	467,333	575,029
Financing investment and insurance (not including ICBC group)	66,209	118,996
Household	109,397	106,576
Other deposits	1,497	791
Total financial liabilities	2,020,940	1,896,805
Less: non-interest bearing financial liabilities	(78,850)	(90,527)
Total interest and discount bearing liabilities	1,942,090	1,806,278

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

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Deposits from customers	814,845	635,989
Registered Banks	1	1
Derivative financial liabilities	3,815	1,140
Financial Investors	-	-
Certificates of deposit	47,697	136,151
Subordinated loans due to related parties	70,000	70,000
Debts securities issued	661,440	461,826
Related Parties	396,015	569,636
Lease liabilities	8,356	-
Other	18,771	22,062
Total financial liabilities	2,020,940	1,896,805

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

Note 32 – Capital Commitments

As at 31 December 2019, there were nil capital commitments (31 December 2018: nil).

Note 33 – Contingent Liabilities and Commitments

Thousands of dollars	Audited 31 December 2019	Audited 31 December 2018
Performance/financial guarantees issued on behalf of customers	30,079	20,693
Total contingent liabilities	30,079	20,693
Undrawn Commitments	555,133	300,318

Note 34 – Subsequent Events after Balance Sheet Date

The Branch is granted a banking licence on 18 May 2020 by the Reserve Bank of New Zealand. The Oversea Bank will inject USD 50M equivalent NZ Dollars as the Branch's working capital. This injection is currently in the process of regulatory approval in China and is expected to be completed by the end of June 2020.

The Coronavirus/Covid-19 outbreak, which has become a global pandemic subsequent to the 31 December reporting date, presents strategic, operational and commercial uncertainties for the NZ Banking Group. The situation is changing rapidly and there are increased uncertainties around the duration, scale and impact of the Coronavirus/Covid-19 outbreak. While the NZ Banking Group is taking various measures to mitigate the impact of Coronavirus/Covid-19 on its operations including employees and customers the outbreak is having a significant impact on global markets and valuation models and creating uncertainty and volatility in global markets. The Board and management team continue to assess the potential impacts on the business, however given the continued uncertainties the financial impact cannot be determined at this stage.

As response to Covid-19, ICBC NZ has offered its retail customers whose income has been directly affected by the impacts of Covid-19, a suspension of principal and interest payments on their Home Loan of up to 6-months (Mortgage Holiday). As at 18 May 2020, ICBC NZ has approved 9 Mortgage Holiday applications totalling NZD14.3M. The interests on these loans are still accruing during the Mortgage Holiday period and not capitalised to the loan balance, it is added to the overall amount due. These loans are treated as performing loans as per the internal credit assessment and RBNZ guidance, and there is no material impact on ICBC NZ's accounts.

Given the likely negative economic consequences of both domestic and global impacts of Covid-19, ICBC NZ Banking Group is currently reviewing its level of IFRS9 provisioning. Given the high level of uncertainty as to both quantum and timing of impact, the preliminary estimation is an IFRS9 management overlay of $3.3M. The Bank will continue to regularly review its provisioning levels through this period as the impacts of Covid-19 become progressively clearer.

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.

B. Credit Risk
Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorized or inappropriate guarantee, commitment or investment of funds. The 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. Centralized credit management procedures; and
2. Risk management rules and procedures that focus on risk control throughout the entire credit business process, including customer investigation and credit rating, granting of credit limits, loan evaluation, loan review and approval and granting of loan and post-disbursement loan monitoring.

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Note 35 – Financial Risk Management (continued)

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

In addition to the credit risk exposures on credit-related assets and amounts due from or lending to banks and other financial institutions, credit risk also arises in other areas. For instance, credit risk exposure also arises from derivative financial instruments which is, however, limited to those with positive fair values, as recorded in the statement of financial position. In addition, the 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 agreements with its counterparties for documenting over-the-counter derivative activities. Each of these master agreements provides the contractual framework within which derivative dealing activities are conducted. Under each of these agreements, close-out netting shall be applied across all outstanding transactions covered by the agreement if either party defaults.

Refer to Note 30 on the disclosure of concentration of credit risk of counterparties by geographical and sector.

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 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

Note 35 – Financial Risk Management (continued)

Audited 31 December 2018	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	150,232	31,161	7,591	408,671	-	597,655
Derivative Financial Liabilities	-	1,140	-	-	-	1,140
Deposits from customers	74,009	286,124	182,139	107,896	-	650,168
Certificates of deposit	-	50,000	89,000	-	-	139,000
Subordinated loans due to related parties	-	495	1,495	76,467	-	78,457
Debt securities issued	-	4,092	10,481	477,655	-	492,228
Lease liabilities	-	-	-	-	-	-
Other financial liabilities	74	836	2,363	-	1,475	4,748
Total financial liabilities	224,316	373,848	293,069	1,070,689	1,475	1,963,397
Derivative cash flows						
Inflows from derivatives	-	30,263	2,878	8,484	54	41,679
Outflows from derivatives	-	(30,290)	(2,943)	(8,558)	(194)	(41,985)
Total	-	(27)	(65)	(74)	(140)	(306)
Off balance sheet cash flows						
Financial guarantees outflows	10,874	-	-	9,819	-	20,693
Commitments outflows	297,810	286	781	1,441	-	300,318
Total	308,684	286	781	11,260	-	321,011

Liquidity portfolio management Thousands of dollars	**Audited 31 December 2019 $’000**	**Audited 31 December 2018 $’000**
Cash, cash equivalents and balances with central banks	107,297	87,122
Amounts due from related parties	-	-
Due from banks and other financial institutions	226,362	214,655
Investment securities	182,868	111,330
Total liquidity portfolio	**516,527**	**413,107**

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 2019	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	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 liability	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)

Audited 31 December 2018 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	20,876	66,246	-	-	-	-	87,122
Amounts due from related parties	-	10,236	-	-	-	-	10,236
Due from banks and other financial institutions	-	214,655	-	-	-	-	214,655
Investment securities	(7)	9,494	-	5,083	16,337	80,423	111,330
Derivative financial assets	1,194	-	-	-	-	-	1,194
Loans and advances to customers	(26,683)*	1,194,628	236,044	218,669	69,905	1,529	1,694,092
Other financial assets	6,946	-	-	159	-	-	7,105
Total financial Assets	2,326	1,495,259	236,044	223,911	86,242	81,952	2,125,734
Financial liabilities							
Due to central banks and other financial institutions	-	1	-	-	-	-	1
Amounts due to related parties	-	289,501	209,195	-	70,940	-	569,636
Derivative financial liability	1,140	-	-	-	-	-	1,140
Deposits from customers	67,325	304,773	58,539	117,582	86,179	1,591	635,989
Certificates of deposit	-	49,532	3,887	82,732	-	-	136,151
Subordinated loans due to related parties	-	35,000	35,000	-	-	-	70,000
Debt securities issued	-	400,771	-	-	3,280	57,775	461,826
Lease liabilities	-	-	-	-	-	-	-
Other financial liabilities	22,062	-	-	-	-	-	22,062
Total financial liabilities	90,527	1,079,578	306,621	200,314	160,399	59,366	1,896,805
On-balance sheet gap	(88,201)	415,681	(70,577)	23,597	(74,157)	22,586	228,929
Net derivative notional principals	-	3,200	-	-	(1,200)	(2,000)	-
Net effective interest rate gap	(88,201)	418,881	(70,577)	23,597	(75,357)	20,586	228,929

*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 2019

Thousands of dollars	Carrying amount	-0.1% Profit	+0.1% Profit	-0.1% Equity	+0.1% Equity
Financial assets					
Cash, cash equivalents and balances with central banks	107,297	-	-	-	-
Amounts due from related parties	23,150	-	-	-	-
Due from banks and other financial institutions	226,362	-	-	-	-
Investment securities	182,868	(16)	16	(16)	16
Derivative financial assets	4,164	107	13	107	13
Loans and advances to customers	1,717,679	(1,221)	1,221	(1,221)	1,221
Other financial assets	6,451	-	-	-	-
Total financial assets	2,267,971	(1,130)	1,250	(1,130)	1,250
Financial liabilities					
Due to central banks and other financial institutions	1	-	-	-	-
Amounts due to related parties	396,015	208	(208)	208	(208)
Derivative financial liability	3,815	(13)	(107)	(13)	(107)
Deposits from customers	814,845	2	(2)	2	(2)
Certificates of deposit	47,697	-	-	-	-
Subordinated loans due to related parties	70,000	53	(53)	53	(53)
Debt securities issued	661,440	416	(416)	416	(416)
Lease liabilities	8,356	-	-	-	-
Other financial liabilities	18,771	-	-	-	-
Total financial liabilities	2,020,940	666	(786)	666	(786)

Note 35 – Financial Risk Management (continued)

Audited 31 December 2018

Thousands of dollars	Carrying amount	-0.1% Profit	+0.1% Profit	-0.1% Equity	+0.1% Equity
Financial assets					
Cash, cash equivalents and balances with central banks	87,122	-	-	-	-
Amounts due from related parties	10,236	-	-	-	-
Due from banks and other financial institutions	214,655	-	-	-	-
Investment securities	111,330	(8)	8	(8)	8
Derivative financial assets	1,194	67	(67)	67	(67)
Loans and advances to customers	1,694,092	(1,083)	1,083	(1,083)	1,083
Other financial assets	7,105	-	-	-	-
Total financial assets	2,125,734	(1,024)	1,024	(1,024)	1,024
Financial liabilities					
Due to central banks and other financial institutions	1	-	-	-	-
Amounts due to related parties	569,636	238	(238)	238	(238)
Derivative financial liability	1,140	(70)	70	(70)	70
Deposits from customers	635,989	13	(13)	13	(13)
Certificates of deposit	136,151	-	-	-	-
Subordinated loans due to related parties	70,000	53	(53)	53	(53)
Debt securities issued	461,826	340	(340)	340	(340)
Lease liabilities	-	-	-	-	-
Other financial liabilities	22,062	-	-	-	-
Total financial liabilities	1,896,805	574	(574)	574	(574)

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 limitation management and risk hedging to hedge foreign exchange risk, and performing currency risk sensitivity analysis and stress testing regularly. The table below summarises the 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 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

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Note 35 – Financial Risk Management (continued)

Audited 31 December 2018

Thousands of dollars	HKD	EUR	CNY	USD	AUD	Total
Financial assets						
Cash, cash equivalents and balances with central banks	16	1,251	1,401	23,719	4,399	30,786
Amounts due from related parties	-	-	-	10,236	-	10,236
Due from banks and other financial institutions	-	-	-	44,655	-	44,655
Investment securities	-	-	-	-	-	-
Loans and advances to customers	-	62,442	950	147,834	40,957	252,183
Other financial assets	-	633	16	568	93	1,310
Total financial assets	16	64,326	2,367	227,012	45,449	339,170
Financial liabilities						
Due to central banks and other financial institutions	-	-	1	-	-	1
Amounts due to related parties	-	62,985	-	104,195	26,285	193,465
Deposits from customers	-	576	954	118,262	153	119,945
Certificates of deposit	-	-	-	-	-	-
Subordinated loans due to related parties	-	-	-	-	-	-
Debt securities issued	-	-	-	-	15,771	15,771
Other financial liabilities	-	127	-	3,572	1,214	4,913
Total financial liabilities	-	63,688	955	226,029	43,423	334,095
Net on balance sheet financial position	16	638	1,412	983	2,026	5,075
Net derivative position	-	5	(1,020)	-	-	(1,015)
Total open position	16	643	392	983	2,026	4,060

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 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 derivative position	(22,559)	2,256	(2,256)	2,256	(2,256)
Total open position	2,980	(298)	298	(298)	298

Note 35 – Financial Risk Management (continued)

Audited 31 December 2018

Thousands of dollars	Carrying amount	-10% Profit	+10% Profit	-10% Equity	+10% Equity
Financial assets					
Cash, cash equivalents and balances with central banks	30,786	(3,079)	3,079	(3,079)	3,079
Amounts due from related parties	8,303	(830)	830	(830)	830
Due from banks and other financial institutions	44,655	(4,465)	4,465	(4,465)	4,465
Investment securities	-	-	-	-	-
Loans and advances to customers	254,116	(25,412)	25,412	(25,412)	25,412
Other financial assets	1,310	(131)	131	(131)	131
Total financial assets	339,170	(33,917)	33,917	(33,917)	33,917
Financial liabilities					
Due to central banks and other financial institutions	1	-	-	-	-
Amounts due to related parties	193,465	19,347	(19,347)	19,347	(19,347)
Deposits from customers	119,945	11,995	(11,995)	11,995	(11,995)
Certificates of deposit	-	-	-	-	-
Subordinated loans due to related parties	-	-	-	-	-
Debt securities issued	15,771	1,577	(1,577)	1,577	(1,577)
Other financial liabilities	4,913	491	(491)	491	(491)
Total financial liabilities	334,095	33,410	(33,410)	33,410	(33,410)
Net derivative position	(1,015)	101	(101)	101	(101)
Total open position	4,060	406	(406)	406	(406)

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 2019 (31 December 2018: nil).

Note 35 – Financial Risk Management (continued)

H. Financial Instruments by Category

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 liability	-	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)

Audited 31 December 2018

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	87,122	-	-	87,122
Amounts due from related parties	10,236	-	-	10,236
Due from banks and other financial institutions	214,655	-	-	214,655
Investment securities	111,330	-	-	111,330
Derivative financial assets	-	1,194	-	1,194
Loans and advances to customers	1,694,092	-	-	1,694,092
Other financial assets	7,105	-	-	7,105
Total financial assets	2,124,540	1,194	-	2,125,734

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	569,636	-	-	569,636
Derivative financial liability	-	1,140	-	1,140
Deposits from customers	635,989	-	-	635,989
Certificates of deposit	136,151	-	-	136,151
Subordinated loans due to related parties	70,000	-	-	70,000
Debt securities issued	461,826	-	-	461,826
Lease liabilities	-	-	-	-
Other financial liabilities	22,062	-	-	22,062
Total financial liabilities	1,895,665	1,140	-	1,896,805

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 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 liability	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

Audited 31 December 2018

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	87,122	-	87,122	-	87,122
Amounts due from related parties	10,236	-	10,236	-	10,236
Due from banks and other financial institutions	214,655	-	214,655	-	214,655
Investment securities	111,330	112,311	-	-	112,311
Derivative financial assets	1,194	-	1,194	-	1,194
Loans and advances to customers	1,694,092	-	1,694,827	-	1,694,827
Other financial assets	7,105	-	7,105	-	7,105
Total financial assets	2,125,734	112,311	2,015,139	-	2,127,450
Financial liabilities					
Due to central banks and other financial institutions	1	-	1	-	1
Amounts due to related parties	569,636	-	568,949	-	568,949
Derivative financial liability	1,140	-	1,140	-	1,140
Deposits from customers	635,989	-	635,745	-	635,745
Certificates of deposit	136,151	-	134,488	-	134,488
Subordinated loans due to related parties	70,000	-	70,000	-	70,000
Debt securities issued	461,826	-	461,775	-	461,775
Lease liabilities	-	-	-	-	-
Other financial liabilities	22,062	-	22,062	-	22,062
Total financial liabilities	1,896,805	-	1,894,160	-	1,894,160

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

As at balance date the NZ Banking Group was not involved in:

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

Note 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 condition s 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 34 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.

Management and governance of ICBC NZ are separate from those of the Branch. Although the policies are consistent, the execution is undertaken by independent management and governance.

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 internal audit function of the NZ Banking Group is independent from its respective business, risk management, and internal control and compliance practice. The internal audit function of the NZ Banking Group assists the NZ Banking Group in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management and internal control system.

The Branch 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 urge to promote the rectification work of the audit findings. The internal audit department of the Branch follows 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 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.

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 2019, 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 the CBIRC by the end of 2019, that is, the common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio should be no less than 8.50%, 9.50% and 11.50%, respectively.

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 2019, the latest reporting date.

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

	31 December 2019	31 December 2018
Overseas Banking Group		
Common Equity Tier 1 Capital Ratio	13.20%	12.98%
Tier 1 Capital Ratio	14.27%	13.45%
Total Capital Ratio	16.77%	15.39%
Overseas Bank		
Common Equity Tier 1 Capital Ratio	13.29%	13.23%
Tier 1 Capital Ratio	14.37%	13.63%
Total Qualifying Capital Ratio	17.06%	15.68%

(c) Additional mortgage information

Residential mortgages by loan-to-valuation ratio

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

Note 38 – Capital Adequacy (continued)

Reconciliation of residential mortgage-related amounts

Thousands of dollars	31 December 2019	31 December 2018
Residential mortgage loans (as disclosed in Note 5)		
On balance sheet exposures		
Residential – owner occupied	270,622	355,292
Residential - investment	213,888	254,154
Provisions for impairment losses on loans and advances	(2,884)	(3,205)
Residential mortgages by loan-to-valuation ratio	481,626	606,241
Off balance sheet exposures	-	-
Total	481,626	606,241

(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 2019	End-period capital charges		Peak end-to-day capital charges	
Thousands of dollars	Implied risk weighted exposure	Aggregate capital charge	Implied risk weighted exposure	Aggregate 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 2019	
Profitability	
Net profit after tax for the 12 month period (RMB millions)	**313,361**
Net profit after tax for the 12 month period as a percentage of average total assets	1.08%
Size	
Total assets (RMB millions)	30,109,436
Percentage change in total assets over the previous 12 month period	8.70%
Asset quality	
Total gross individually impaired assets (RMB millions)	240,899
Total individually impaired assets as a percentage of total assets	0.80%
Total individually assessed provisions (RMB millions)	185,486
Total individually assessed provisions as a percentage of total gross individually impaired assets	77.00%
Total collective provision (RMB millions)	330,023

Independent Auditor's Report

To the shareholder of Industrial and Commercial Bank of China New Zealand Banking Group

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

Opinion

In our opinion, the accompanying consolidated financial statements (excluding supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements) of Industrial and Commercial Bank of China Limited, Auckland Branch (the 'branch') and its subsidiaries (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 2019 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, 10, 11 and 13 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 banking group in all material respects; and

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

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 2019;

— 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, 10, 11 and 13 of the Order.

KPMG

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 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISA (NZ) are further described in the auditor's responsibilities for the audit of the 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 relation to a review of the Bank's compliance with its conditions of registration, review of half year disclosure statements, review of the Bank's anti-money laundering framework and tax advice on the Bank's obligation under Common Reporting Standards ('CRS') and Foreign Account Tax Compliance Act ('FATCA'). 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.

Emphasis of matter

We draw attention to note 34 to the disclosure statements which describes the significant strategic, operational and commercial uncertainties arising from the Coronavirus/Covid-19 outbreak, which has become a global pandemic subsequent to the 31 December 2019 reporting date. Due to the rapidly changing situation and uncertainties around the duration, scale and impact of the outbreak, the financial impact is not able to be determined by the bank at this time. Our opinion is not modified in respect of this matter.

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 shareholder 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.

The key audit matter	How the matter was addressed in our audit
Valuation of a specific loan in administration *Refer to notes 1(5), 6, 13 and 30 to the financial statements.*	
We draw attention to Note 1(5) to the financial statements which describes the significant estimation uncertainty that exists in measuring both the likely further recovery and specific provision against a loan in administration. We consider this a key audit matter due to the complexity and uncertainty around measuring the extent that the loan may be recovered and the range of possible outcomes, particularly given the final provision may vary substantially from the provision recorded.	Our audit procedures included: — review of documents supporting amounts received to date; — review of the administrators report to the bank syndicate as to the level of provision required based on the most likely outcome of the significant loan in administration. Further considerations of the administrators underlying assumptions and of alterative scenarios in relation to the most likely outcomes; and — review of the Bank syndicate meeting minutes to corroborate the position of the bank and the likely outcome.
Valuation of loans and advances *Refer to notes 1(5), 6, 13, and 33 to the financial statements.*	
Valuation of loans and advances is considered to be a key audit matter as: — loans and advances represent a significant portion of the Bank's total assets; — 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. Provision for specific impairment as at 31 December 2019 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 Bank 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 Bank 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 key audit matter	How the matter was addressed in our audit
Provision for collective impairment is \$9.2 million. 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 — significant judgements and estimates are required including whether information is sufficiently reliable that it can be disclosed.	***Collective impairment*** Our audit procedures included: — reliance on work performed by our global audit team around the client IFRS 9 collective provision model and obtain sign off from the KPMG China group audit team; — testing the accuracy of key inputs used in the IFRS 9 collective provision calculation. This includes reconciling the loan balance used in the calculation to general ledger and testing the exclusion of fully cash-collateralised loans by vouching the collateral value to source documents; — 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; — due to the bank's limited NZ loss history, we have reviewed management's paper supporting the suitability of the use of U.S loss data as a proxy for NZ data; — benchmarking collective provision rates against other relevant Banks; — engagement of our FRM specialists to review the IFRS 9 collective provision model; and — reviewing the completeness of NZ IFRS 9 related disclosures, including appropriateness of accounting policies, of the full year disclosure statement. Disclosures were also reviewed in accordance with consequential disclosure amendments to other standards.

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 consolidated disclosure statement (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 consolidated 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 consolidated 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 consolidated 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, NZIFRS 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, 10, 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 consolidated 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 consolidated disclosure statement, including the 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, 10, 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

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 consolidated 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.

We have reviewed the supplementary information relating to Capital Adequacy and Regulatory Liquidity Requirements, as disclosed in note 38 of the consolidated disclosure statement for the year ended 31 December 2019. 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.

Emphasis of matter

We draw attention to the conditions of registration on page 7 of the year end 31 December 2019 consolidated disclosure statement which reference the Banking group's identification of adjustments to the one week and one month mismatch ratio, as required under conditions of registration 11(a) and 11(b). The banking group remained above the RBNZ ratio requirements after the adjustment. Our conclusion is not modified in respect of this matter.

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 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 consolidated 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 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (“NZ SRE 2410”) issued by the New Zealand External Reporting Board. As the auditor of the Banking group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and plan and perform the review to obtain limited assurance about whether the 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 shareholder as a body. Our work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our work, this independent auditor’s report, or any of the opinions or conclusions we have formed.

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

For and on behalf of

KPMG

KPMG
Auckland

18 May 2020