

# INDUSTRIAL AND COMMERCIAL BANK OF CHINA NEW ZEALAND BANKING GROUP

## Disclosure Statement

For the year ended 31 December 2021



## Disclosure Statement

This Disclosure Statement has been issued by Industrial and Commercial Bank of China Limited for the NZ Banking Group for the year ended 31 December 2021 in accordance with the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

In this Disclosure Statement, unless the context otherwise requires:

- (a) "Overseas Bank", "Registered Bank" or "ICBC" means Industrial and Commercial Bank of China Limited, incorporated in China;
- (b) "Overseas Banking Group" means the total worldwide business of ICBC including its controlled entities;
- (c) "Branch" means the New Zealand Branch of the Overseas Bank;
- (d) "ICBC NZ" means Industrial and Commercial Bank of China (New Zealand) Limited, the locally incorporated subsidiary of the Overseas Bank;
- (e) "NZ Banking Group" means the New Zealand operations of the Overseas Bank comprising the Branch and ICBC NZ;
- (f) "NZD" means the New Zealand Dollar, "RMB" means the Chinese Yuan, "USD" means the United States Dollar, "HKD" means the Hong Kong Dollar, "EUR" means the European Dollar and "AUD" means the Australian Dollar;
- (g) "Board" means the board of directors of the Overseas Bank; and
- (h) Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.

The financial statements of the NZ Banking Group for the year ended 31 December 2021 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](http://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 Avenue,  
Xicheng District, 100140,  
Beijing,  
People's Republic of China

- (b) Annual Report of ICBC

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

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

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

### Nature of Business

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

### Limits on Material Financial Support by the Overseas Bank

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

### Subordination of Claims of Creditors

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

### Requirement to Hold Excess Assets over Deposit Liabilities

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

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

The 'Administrative Measures for the Liquidity Risk of Commercial Banks' issued by China Banking and Insurance Regulatory Commission in July 2018 requires the Overseas Banking Group to hold adequate high quality liquid assets in order to cover liquidity needs under stress scenarios. The requirement is based on the consolidated position of the Overseas Banking Group and any liquidity requirement 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 the Overseas Banking 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 Disclosure Statement, the Directors of ICBC are as follows:

NON-INDEPENDENT DIRECTORS	
<b>Name:</b> Siqing Chen (Chairman of the Board) Executive Director <b>Country of Residence:</b> China <b>Qualification:</b> MBA	<b>External Directorships:</b> None
<b>Name:</b> Lin Liao (Vice Chairman of the Board) Executive Director, President <b>Country of Residence:</b> China <b>Qualification:</b> Doctorate degree in Management Science	<b>External Directorships:</b> None
<b>Name:</b> Guoyu Zheng Executive Director, Senior Executive Vice President <b>Country of Residence:</b> China <b>Qualification:</b> Master's degree in Business Administration	<b>External Directorships:</b> None
<b>Name:</b> Jingwu Wang Executive Director, Senior Executive Vice President, Chief Risk Officer <b>Country of Residence:</b> China <b>Qualification:</b> Doctorate degree in Economics	<b>External Directorships:</b> None
<b>Name:</b> Yongzhen Lu Non-executive Director <b>Country of Residence:</b> China <b>Qualification:</b> Doctorate degree in Economics, Bachelor's degree and Master's degree in History	<b>External Directorships:</b> None
<b>Name:</b> Weidong Feng Non-executive Director <b>Country of Residence:</b> China <b>Qualification:</b> Doctorate degree, Bachelor's degree in Economics	<b>External Directorships:</b> None
<b>Name:</b> Liqun Cao Non-executive Director <b>Country of Residence:</b> China <b>Qualification:</b> Master's degree in Finance, Master's degree in Public Administration, Bachelor's degree in Law	<b>External Directorships:</b> None
<b>Name:</b> Yifang Chen Non-executive Director <b>Country of Residence:</b> China <b>Qualification:</b> Bachelor's degree in Economics	<b>External Directorships:</b> None
<b>Name:</b> Yang Dong Non-executive Director <b>Country of Residence:</b> China <b>Qualification:</b> Master's degree in Management	<b>External Directorships:</b> None
INDEPENDENT DIRECTORS	
<b>Name:</b> Anthony Francis Neoh Independent Non-executive Director <b>Country of Residence:</b> China <b>Qualification:</b> Honorary Doctorate of Law, Honorary Doctorate of Social Sciences, Bachelor's degree in Law	<b>External Directorships:</b> Independent Non-executive Director of CITIC Limited

<b>Name:</b> Siu Shun Yang Independent Non-executive Director <b>Country of Residence:</b> China <b>Qualification:</b> Honorary Doctorate of Social Sciences	<b>External Directorships:</b> Member of the board of directors of the Hong Kong Jockey Club Independent Non-executive Director of Tencent Holdings Limited
<b>Name:</b> Si Shen Independent Non-executive Director <b>Country of Residence:</b> China <b>Qualification:</b> EMBA, Master's degree in Economics	<b>External Directorships:</b> None
<b>Name:</b> Nout Wellink Independent Non-executive Director <b>Country of Residence:</b> Netherlands <b>Qualification:</b> Doctorate degree in Economics, Honorary Doctorate, Master's degree in Law	<b>External Directorships:</b> None
<b>Name:</b> Fred Zulu Hu Independent Non-executive Director <b>Country of Residence:</b> China <b>Qualification:</b> Master's degree and PhD in economics, Master's degree in engineering science	<b>External Directorships:</b> Chairman of Primavera Capital Group, Non-executive Chairman of Yum China Holdings Inc., Independent Non-executive Director of Ant Group Co. Ltd., Director of UBS Group AG, Co-chair of The Nature Conservancy's Asia Pacific Council, Director of the China Medical Board, Member of the Global Board of Advisors for the Council on Foreign Relations, the 21st Century Council of the Berggruen Institute, the Harvard Global Advisory Council, the Harvard Kennedy School Mossavar-Rahmani Center for Business and Government, the Stanford Center for International Development, and the Jerome A. Chazen Institute of International Business at Columbia University etc.

#### Audit Committee of the Board of Directors

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

Si Shen(Chairman)	Independent Non-executive Director
Anthony Francis Neoh	Independent Non-executive Director
Siu Shun Yang	Independent Non-executive Director
Nout Wellink	Independent Non-executive Director
Fred Zulu Hu	Independent Non-executive Director
Weidong Feng	Non-executive Director
Liquan Cao	Non-executive Director

#### New Zealand Chief Executive Officer of the Branch

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

Directorships:  
Executive Director of ICBC NZ

#### Responsible Person

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

#### Address for Communications

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

#### Policy for Avoiding and Dealing with Conflicts of Interest

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

Accordingly, each Director must:

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

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

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

#### Interested Party Transactions

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

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

Information pertaining to loans to and other transactions with Directors is disclosed in note 29 of this Disclosure Statement.

#### Auditor

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

Deloitte Limited  
Deloitte Centre  
80 Queen Street  
Auckland 1010, New Zealand

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

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

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

1. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities.  
  
In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.
2. That the banking group's insurance business is not greater than 1% of its total consolidated assets.

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

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

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

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

For the purposes of this condition of registration,—

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

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

3. That the business of the registered bank in New Zealand does not constitute a predominant proportion of the total business of the registered bank.
4. That no appointment to the position of the New Zealand Chief Executive Officer of the registered bank shall be made unless:
  - (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
  - (b) the Reserve Bank has advised that it has no objection to that appointment.
5. That Industrial and Commercial Bank of China Limited complies with the requirements imposed on it by the China Banking and Insurance Regulatory Commission.
6. That, with reference to the following table, each capital adequacy ratio of Industrial and Commercial Bank of China Limited must be equal to or greater than the applicable minimum requirement.

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

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

- (a) must be calculated as a percentage of the registered bank's risk weighted assets; and
  - (b) are otherwise as administered by China Banking and Insurance Regulatory Commission.
7. That liabilities of the registered bank in New Zealand, net of amounts due to related parties (including amounts due to a subsidiary or affiliate of the registered bank), do not exceed NZ\$15 billion.
  8. The registered bank may only undertake wholesale business in New Zealand – that is, business transacted with “wholesale investors” defined under the Financial Market Conduct Act 2013 (Clause 3(2), Schedule 1).
  9. That any derivative contracts entered into by the registered bank in New Zealand may only be for the purposes of hedging a customer's positions with the registered bank, or the registered bank's own risk positions.
  10. That the New Zealand assets of the registered bank do not exceed the consolidated total assets of Industrial and Commercial Bank of China (New Zealand) Limited and its subsidiaries.

In these conditions of registration,—

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

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

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

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

## Pending Proceedings or Arbitration

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

## Credit Ratings

### ICBC Rating Information

The Overseas Bank had the following credit ratings applicable to its long-term senior unsecured obligations:

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

#### Rating movement history

On 10 January 2022, Standard & Poor's Ratings Services affirmed the long-term and short-term issuer credit rating and maintained a stable outlook.

There have been no changes to the credit ratings or rating outlook assigned by Moody's Investors Service.

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

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

### Rating Information

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

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

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

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



## Historical Summary of Financial Statements

Thousands of dollars	31 December 2021 12 mths	31 December 2020 12 mths	31 December 2019 12 mths	31 December 2018 12 mths	31 December 2017 12 mths
<b>Income Statement</b>					
Interest Income	74,965	67,195	83,334	79,133	47,289
Interest Expense	(25,988)	(37,261)	(48,847)	(42,840)	(25,317)
<b>Net Interest Income</b>	<b>48,977</b>	<b>29,934</b>	<b>34,487</b>	<b>36,293</b>	<b>21,972</b>
Net gains/(losses) on financial instruments at fair value through P&L	9,974	24,565	123	12,804	7,432
Fees and other income	(13,642)	(19,163)	1,217	(11,068)	(6,402)
<b>Total operating income</b>	<b>45,309</b>	<b>35,336</b>	<b>35,827</b>	<b>38,029</b>	<b>23,002</b>
Operating expenses	(19,540)	(17,859)	(18,756)	(17,087)	(14,523)
Impairment provisioning on financial assets	(2,592)	(864)	14,919	(10,631)	(12,563)
<b>Net profit/(loss) before taxation</b>	<b>23,177</b>	<b>16,613</b>	<b>31,990</b>	<b>10,311</b>	<b>(4,084)</b>
Taxation (expense)/ benefit	(6,531)	(4,719)	(9,016)	(2,946)	2,885
<b>Net profit/(loss) after taxation</b>	<b>16,646</b>	<b>11,894</b>	<b>22,974</b>	<b>7,365</b>	<b>(1,199)</b>
Net profit or loss attributable to non-controlling interests	-	-	-	-	-
Total amount of Branch profits repatriated	-	-	-	-	-
<b>Significant balance sheet items</b>					
Total Assets	3,434,842	2,302,177	2,281,516	2,135,815	1,662,033
Total Liabilities	3,064,933	1,948,914	2,024,467	1,901,740	1,522,738
Total Head Office Account and Equity	369,909	353,263	257,049	234,075	139,295
<b>Asset Quality</b>					
Individually Impaired Assets	5,436	5,905	8,492	35,397	32,824

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

## Other Material Matters

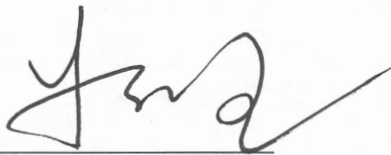
The Directors of the Overseas Bank are of the opinion that there are no other matters relating to the business or affairs of the NZ Banking Group that are not contained elsewhere in this Disclosure Statement and which would, if disclosed, materially affect the decision of a person to subscribe for debt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

## Directors' and New Zealand Chief Executive Officer's Statements

Each Director of the Overseas Bank and the New Zealand Chief Executive Officer states that he or she believes, after due enquiry, that:

1. As at the date on which the Disclosure Statement is signed:
  - (a) The Disclosure Statement contains all the information that is required by the Order; and
  - (b) The Disclosure Statement is not false or misleading.
2. During the year ended 31 December 2021:
  - (a) The Overseas Bank has complied in all material respects with each conditions of registration that applied during the period;
  - (b) The Branch and ICBC NZ had systems in place to monitor and control adequately relevant members of the NZ Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks, and that those systems were properly applied.

This Disclosure Statement is dated 29 March 2022 and has been signed by Qian Hou as the New Zealand Chief Executive Officer and as agent authorised in writing by each director of Overseas Bank.



Qian Hou  
New Zealand Chief Executive Officer

## Appendix 1 - Financial Statements

### Industrial and Commercial Bank of China NZ Banking Group

Financial Statements for the year ended 31 December 2021

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## STATEMENT OF COMPREHENSIVE INCOME

Thousands of dollars	Note	Audited 31 December 2021	Audited 31 December 2020
Interest Income*	2	74,965	67,195
Interest Expense*	2	(25,988)	(37,261)
<b>Net Interest Income</b>		<b>48,977</b>	<b>29,934</b>
Net gains/(losses) on financial instruments at fair value through P&L	3	9,974	24,565
Fees and other Income	4	(13,642)	(19,163)
<b>Total operating income</b>		<b>45,309</b>	<b>35,336</b>
Operating expenses	5	(19,540)	(17,859)
Impairment provisioning on financial assets	6	(2,592)	(864)
<b>Net profit/(loss) before taxation</b>		<b>23,177</b>	<b>16,613</b>
Taxation expense	7	(6,531)	(4,719)
<b>Net profit/(loss) after taxation</b>		<b>16,646</b>	<b>11,894</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income</b>		<b>16,646</b>	<b>11,894</b>

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

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

## STATEMENT OF CHANGES IN EQUITY

Thousands of dollars	Note	Branch's Head Office Account		Other members of the NZ Banking Group		Total
		Branch Capital	Retained Earnings	Share Capital	Retained Earnings	
<b>For the year ended 31 December 2021 (audited)</b>						
<b>Balance at 31 December 2020</b>		84,000	(644)	233,540	36,367	353,263
Capital injection from shareholders		-	-	-	-	-
Net profit/(loss) and other comprehensive income for the year		-	5,120	-	11,526	16,646
<b>Total equity movement for the year</b>		-	5,120	-	11,526	16,646
<b>Balance at 31 December 2021</b>	26,27	84,000	4,476	233,540	47,893	369,909
<b>For the year ended 31 December 2020 (audited)</b>						
<b>Balance at 31 December 2019</b>		-	-	233,540	23,509	257,049
Impact of initial adoption of NZ IFRS 16		-	-	-	320	320
<b>Balance at 1 January 2020</b>		-	-	233,540	23,829	257,369
Capital injection from shareholders		84,000	-	-	-	84,000
Net profit/(loss) and other comprehensive income for the year		-	(644)	-	12,538	11,894
<b>Total equity movement for the year</b>	26,27	84,000	(644)	-	12,538	95,894
<b>Balance at 31 December 2020</b>	26,27	84,000	(644)	233,540	36,367	353,263

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

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

Thousands of dollars	Note	Audited 31 December 2021	Audited 31 December 2020
<b>Assets</b>			
Cash, cash equivalents and balances with central banks	9	289,771	200,771
Amounts due from related parties	21	207,356	118,284
Due from banks and other financial institutions	10	149,999	10,000
Investment securities	12	194,281	197,210
Derivative financial assets	11,14	2,038	7,698
Loans and advances to customers	13,28	2,568,657	1,748,109
Right-of-use assets	17	7,747	9,212
Current tax assets	8	-	491
Property, plant and equipment	16	590	153
Intangible assets	18	2	7
Deferred tax assets	8	6,391	4,856
Other assets	19	8,010	5,386
<b>Total assets</b>		<b>3,434,842</b>	<b>2,302,177</b>
<b>Liabilities</b>			
Due to central banks and other financial institutions	20	1	1
Amounts due to related parties	21	1,566,153	596,873
Derivative financial liabilities	11,14	5,129	3,292
Deposits from customers	22	600,741	650,797
Certificates of deposit	23	257,823	79,750
Subordinated loans due to related parties	24	70,000	70,000
Debt securities issued	23	536,011	523,178
Lease liabilities	17	8,277	9,645
Current tax liabilities	8	3,250	-
Deferred tax liabilities	8	-	876
Other liabilities	25	17,548	14,502
<b>Total liabilities</b>		<b>3,064,933</b>	<b>1,948,914</b>
<b>Branch's Head office account</b>			
Branch capital	26	84,000	84,000
Retained profit	26	4,476	(644)
<b>Other members of NZ Banking Group's equity</b>			
Share capital	27	233,540	233,540
Reserves	27	47,893	36,367
<b>Total NZ Banking Group's equity</b>		<b>369,909</b>	<b>353,263</b>
<b>Total NZ Banking Group's equity and liabilities</b>		<b>3,434,842</b>	<b>2,302,177</b>
<b>Total interest earning and discount bearing assets</b>			
	30	3,423,106	2,285,394
<b>Total interest and discount bearing liabilities</b>			
	31	2,960,600	1,880,950
<b>Total liabilities of the Branch, net of amounts due to related parties</b>			
		72,159	608

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

These financial statements were approved by the directors on 29 March 2022 and are signed on their behalf by:



Qian Hou  
New Zealand Chief Executive Officer

## STATEMENT OF CASH FLOWS

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
<b>Cash flows applied to operating activities</b>		
Interest income	75,979	68,975
Other income	3,829	1,789
Interest expense	(27,158)	(39,360)
Long-term lease payments	(1,511)	(1,340)
Variable lease	(12)	(9)
Personnel expenses	(13,238)	(12,305)
Other operating expenses`	(4,660)	(4,450)
Taxes paid	(5,201)	(7,572)
<b>Net cash flows applied to operating activities before changes in operating assets and liabilities</b>	<b>28,028</b>	<b>5,728</b>
<b>Changes in operating assets and liabilities arising from cash flow movements:</b>		
(Increase)/decrease in loans and advances to customers	(822,034)	(31,949)
Increase/(decrease) in deposits from customers	(50,056)	(164,048)
Increase/(decrease) in amounts due to related parties	992,171	223,085
Increase/(decrease) in other liabilities	(87)	(410)
(Increase)/decrease in amounts due from related parties	(89,076)	(95,134)
Increase/(decrease) in certificates of deposit	178,073	32,053
<b>Net change in operating assets and liabilities</b>	<b>208,991</b>	<b>(36,403)</b>
<b>Net cash flows applied to operating activities</b>	<b>237,019</b>	<b>(30,675)</b>
<b>Cash flows applied to investing activities</b>		
Purchase of property, plant and equipment	(548)	(144)
Purchase of intangible assets	-	-
(Purchase)/disposal of investment securities	2,250	(15,146)
<b>Net cash flows applied to investing activities</b>	<b>1,702</b>	<b>(15,290)</b>
<b>Cash flows applied to financing activities</b>		
Capital injection from shareholders	-	84,000
Receipts from subordinated loans due to related parties	-	-
Receipts/(repayments) from issuance of debt securities	13,170	(138,696)
<b>Net cash flows applied to financing activities</b>	<b>13,170</b>	<b>(54,696)</b>
Increase/(decrease) in cash and cash equivalents	251,891	(100,661)
Cash and cash equivalents at beginning of year	165,746	266,407
<b>Cash and cash equivalents</b>	<b>417,637</b>	<b>165,746</b>
<b>Cash and cash equivalents at end of year comprised:</b>		
Cash, cash equivalents and balances with central banks	289,771	200,771
Due from banks and other institutions classified as cash equivalents	150,000	10,000
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	(22,133)	(45,024)
<b>Total cash and cash equivalents</b>	<b>417,637</b>	<b>165,746</b>

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



## STATEMENT OF CASH FLOWS (CONTINUED)

Thousands of Dollars	Audited 31 December 2021	Audited 31 December 2020
<b>Reconciliation of net profit after taxation to net cash-flows from operating activities</b>		
<b>Net profit after taxation</b>	<b>16,646</b>	<b>11,894</b>
<b>Non cash movements:</b>		
Unrealised fair value adjustments	5,574	(3,628)
Depreciation	111	43
Amortisation of intangibles	5	5
Amortisation of Right-of-use assets	1,425	1,317
Amortisation of financial instruments	651	804
Gain/loss on modification of lease contracts	-	-
Increase/(decrease) in allowance for impairment losses	2,587	870
Loss on written-off financial assets	5	-
Bad debts recovery	-	(6)
Unrealised foreign exchange gain/(loss)	1,923	15
(Increase)/decrease in deferred taxation	(2,411)	728
Amortisation of debt securities issued	(337)	(10)
<b>Increase/(decrease) in operating assets and liabilities</b>	<b>9,533</b>	<b>138</b>
(Increase)/decrease in interest receivable	(2,008)	1,554
Increase/(decrease) in interest payable	(1,015)	(2,309)
(Increase)/decrease in loans and advances to customers	(822,034)	(31,949)
Increase/(decrease) in deposits from customers	(50,056)	(164,048)
Increase/(decrease) in certificates of deposit	178,073	32,053
Increase/(decrease) in lease liabilities	(1,328)	(1,121)
Increase/(decrease) in other liabilities	2,988	(1,299)
Increase/(decrease) in amounts due to related parties	992,171	223,085
(Increase)/decrease in current taxation	3,741	(3,581)
(Increase)/decrease in other assets	(616)	42
(Increase)/decrease in amounts due from related parties	(89,076)	(95,134)
<b>Net cash flows applied to operating activities</b>	<b>237,019</b>	<b>(30,675)</b>

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

## STATEMENT OF CASH FLOWS (CONTINUED)

## Reconciliation of liabilities arising from financing activities

## For the year ended 31 December 2021 (audited)

Thousands of Dollars	Balance at the beginning of the year	Net Cash flow	Non-cash changes		31 December 2021
			Amortisation	Foreign Exchange movement	
Subordinated loans due to related parties	70,000	-	-	-	70,000
Debt securities issued	523,178	13,170	(337)	-	536,011
Total liabilities from financing activities	593,178	13,170	(337)	-	606,011

## For the year ended 31 December 2020 (audited)

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

## Note 1 - Accounting Policies

### (1) Reporting Entity

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

The financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order"). They were approved for issue by the Board of Directors of the Overseas Bank (the "Board") on 29 March 2022.

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

### (2) Basis of Preparation

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

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

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

### (3) Basis of Aggregation

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

### (4) Presentation Currency

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

### (5) Critical accounting estimates and judgements

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

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

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

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

Estimation uncertainties:

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

The most recent economic data (GDP, unemployment rate, business activity etc.) shows the NZ economy to have been resilient. There was greater disruption from the Auckland restrictions in Q4 2021, however the NZ Banking Group's lending portfolio has shown limited impact from this.

The NZ Banking Group continues to closely monitor business borrowers and the performance of home loans. Applying judgement to the situation, there remains the potential for some retreat in economic performance beyond 31 December 2021, but more specifically that the long term impact of Covid-19 remains: uncertain and the impact on individual borrowers is uneven. There remains the potential for credit risks beyond the current ECL to emerge in relation to individual borrowers, at least until such time as the global spread of Covid-19 is reduced. The global economic impact of Covid-19 is particularly apparent through ongoing supply chain disruptions, product shortages and now inflationary pressures.

## Note 1 - Accounting Policies (continued)

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 2021.

### (6) Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated, and noted in (o) "change in accounting policy" below.

#### (a) Foreign currency translation

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

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

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

#### (b) Revenue recognition

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

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

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

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

##### (ii) Lending Fees

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

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

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

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

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

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

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

##### (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.

## Note 1 - Accounting Policies (continued)

### (c) Expense recognition

All other expenses, excluding interest expense, are recognised in the statement of comprehensive income on an accrual basis.

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

#### Classification

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

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

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

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

#### (i) Financial assets measured at amortised cost

A financial asset is measured at amortised cost only if it meets both the following conditions:

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

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

#### Cash, cash equivalents and balances with central banks

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

#### Due from banks and other financial institutions

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

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the NZ Banking Group has no intention of trading the assets immediately or in the near term. After initial measurement, such assets are subsequently carried at amortised cost using the effective interest rate method, less any allowance for expected credit losses (ECL). 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 financial assets measured at fair value through profit or loss (FVTPL) or fair value through other comprehensive income (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.

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

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

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

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

## Note 1 - Accounting Policies (continued)

- (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.

### **(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:

## Note 1 - Accounting Policies (continued)

- 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.

### (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’.

### Measurement of ECL

The expected credit loss (ECL) model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. ECLs are measured over two different time horizons, depending on whether the credit risk of the financial assets has increased significantly since the exposure was first recognised:

- 12-month ECLs (Stage 1), which apply to the financial assets of which the credit risk does not increase significantly in current classification period comparing with the initial judgement;



## Note 1 - Accounting Policies (continued)

12-month ECLs are defined as a portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. The standard explains further that the 12-month ECLs are a portion of the lifetime ECLs that will result if a default occurs in the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring.

- Lifetime ECLs (Stages 2 and 3), which apply to financial assets of which the credit risk does increase significantly in current classification period comparing with the initial judgement (Stage 2) or with objective impairment evidence (Stage 3).

Lifetime ECLs are the losses that result from all possible default events over the expected life of a financial instrument. The Bank needs to estimate the risk of a default occurring on the financial instrument during its expected life.

ECLs are a probability-weighted estimate of the present value of cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of a default occurring used as the weights). The NZ Banking Group's approach leveraged the existing processes for the NZ Banking Group's loan portfolios that use the existing Internal Rating based and behavioural credit models. IFRS 9 considers the calculation of ECL by multiplying the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD):

**Probability of Default ("PD")** – This is an estimate of the likelihood of default over a given time horizon (e.g. 12 months or lifetime). PD is the possibility that a customer will default on its obligation within a certain period of time in light of forward-looking information. PD is adjusted based on the results of the Internal Ratings-Based Approach, taking the forward-looking information into account to reflect the debtor's point-in-time ("PIT") PD under the current macroeconomic environment.

**Loss Given Default ("LGD")** – This is an estimate of the loss arising on default. The LGD is depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals.

**Exposure at Default ("EAD")** – This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

The ECL calculation considers all reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Each parameter is calibrated to reflect current and future macro- and micro- economic conditions and obligor-specific considerations.

The methodology used to estimate expected credit losses is consistent with that applied in the Disclosure Statement for the year ended 31 December 2020. The NZ Banking Group has reviewed its ECL model, updated the macroeconomic indicators and associated forward-looking factors by using Gross Domestic Product ("GDP") and other data from the international Monetary Fund (IMF), which incorporate the impact of COVID-19. The Bank reversed a \$3.3M overlay provision booked in the year 2020, which has been reflected in the result of updated ECL model.

### Criteria for determining significant increase in credit risk

At each reporting date, the NZ Banking Group assesses whether or not the credit risk of the financial assets it holds has increased significantly since the initial recognition. The NZ Banking Group takes into consideration all reasonable and supportable information (including forward-looking information) that reflects significantly change in credit risk for the purposes of classifying financial instruments. The main consideration includes:

- regulatory and operating environment;
- internal and external credit risk gradings;
- debt-serving capacity, operating capabilities;
- contractual terms;
- contractual repayments overdue for more than 30 days.

The NZ Banking Group compares the risk of default of a single financial instrument or a portfolio of financial instruments with similar credit risk characteristics as at the reporting date to the risk of default at initial recognition to determine changes in the risk of default during the lifetime of a financial instrument or a portfolio of financial instruments.

### 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.



## Note 1 - Accounting Policies (continued)

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.

- 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.

### **Forward-looking information**

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. Macroeconomic factors and forward-looking information are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since initial recognition. The NZ Banking Group is using three scenarios that are probability weighted to determine ECL.

The NZ Banking Group's ECL allowance methodology, requires the NZ Banking Group to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

### **Presentation of allowance for ECL in the statement of financial position**

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

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

### **Write-off**

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

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

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

### **Measurement of impairment**

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

### **Reversal of impairment**

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

### **(g) Property, Plant and Equipment**

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

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

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

## Note 1 - Accounting Policies (continued)

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.

### (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.

## Note 1 - Accounting Policies (continued)

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.

The NZ Banking Group recognises right-of-use assets and lease liabilities for most leases on balance sheet. However, the NZ Banking Group has elected not to recognise right-of-use assets and lease liabilities for some short-term leases (less than 12 months). In such cases, the leases will be accounted for as short-term leases and the lease payments associated with them will be recognised as an expense from short-term leases.

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

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

### (l) Share capital

#### (i) Share issue costs

Issued and paid up share capital is recognised at the fair value of the consideration received by the NZ Banking Group. Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

#### (ii) Dividend distribution

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

#### (ii) Branch capital

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

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

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

### (n) Employee Benefits

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

### (o) Change in Accounting Policies

Accounting policies are consistent with those applied in the Disclosure Statement for the year ended 31 December 2020.

The NZ Banking Group has applied, where relevant, all new or revised accounting standards and interpretations effective for the year ended 31 December 2021.

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

The new Standards and amendments to existing standards are not expected to have a material impact on the Banking Group 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 comparative affected is: Statement of Cashflow as at 31 December 2020.

## Note 2 - Interest Income and Interest Expense

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
<b>Interest Income</b>		
Loans and advances to customers	65,676	58,761
Government and local authority securities	870	773
Due from other financial institutions	405	1,687
Amounts due from related parties	2,350	58
Other securities	4,710	4,989
Cash and liquid assets	-	13
Income from derivative	954	914
<b>Total interest income</b>	<b>74,965</b>	<b>67,195</b>
<b>Interest expense</b>		
Deposits from customers	5,971	15,783
Debt securities issued	11,345	13,801
Secured and unsecured borrowings	-	12
Amounts due to related parties	8,489	7,443
Lease liabilities	183	219
Other interest expenses	-	3
<b>Total interest expense</b>	<b>25,988</b>	<b>37,261</b>

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

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Financial assets designated at fair value through profit or loss upon initial recognition	-	-
Derivative financial instruments	9,974	24,565
Financial liabilities designated at fair value through profit or loss upon initial recognition	-	-
<b>Total net gains/(losses) on financial instruments at fair value through profit or loss</b>	<b>9,974</b>	<b>24,565</b>

## Note 4 – Fees and Other Income

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Banking and lending fee income	378	755
Payment services fee income	472	506
Net foreign exchange gains/(losses)	(14,493)	(20,425)
Gains/(losses) on modification of lease	-	-
Other revenue	1	1
<b>Total other income</b>	<b>(13,642)</b>	<b>(19,163)</b>

## Note 5 - Operating Expenses

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
<b>Auditor's remuneration:</b>		
Audit of financial statements	222	324*
Review of financial statements	40	53
Other assurance services	-	11
Fees paid to auditors	262	388
<b>Amortisation and Depreciation:</b>		
Computer hardware	73	35
Office equipment	2	1
Furniture, fittings, and leasehold improvements	36	7
Amortisation of intangible assets	5	5
Total amortisation and depreciation	116	48
<b>Employee benefits:</b>		
Wages and salaries	12,870	11,627
Kiwi Saver Contribution	120	88
Other Employment-Related Expenses	387	198
Total employee benefits	13,377	11,913
<b>Lease expenses:</b>		
Amortisation of Right-of-use assets	1,425	1,317
Short term lease payments	-	31
Variable lease payments	12	9
Total lease expenses	1,437	1,357
<b>Other expenses:</b>		
Tax advisory services	144	108
Donations	-	3
Directors' fees	340	270
Professional consulting fee	462	414
Building occupation costs	401	347
Promotion and marketing costs	228	213
Membership fee	172	153
Other operating expenses	2,601	2,645
Total other expenses	4,348	4,153
<b>Total operating expenses</b>	<b>19,540</b>	<b>17,859</b>

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

## Note 6 - Impairment Allowance

### Audited 31 December 2021

#### 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	Amounts due from related parties	Total as at 31 December 2021
Provision for credit impairment measured on a 12-month ECL (stage 1) - collective	1	2,464	8,112	37	1	1,394	4	12,013
Provision for credit impairment measured on a lifetime ECL not credit impaired (stage 2) - collective	-	686	-	-	-	-	-	686
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) - Individual	-	570	3,425	-	-	-	-	3,995
<b>Balance as at 31 December 2021</b>	<b>1</b>	<b>3,720</b>	<b>11,537</b>	<b>37</b>	<b>1</b>	<b>1,394</b>	<b>4</b>	<b>16,694</b>

### Audited 31 December 2020

#### Impairment allowance

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

Note 6 - Impairment Allowance (continued)

Audited 31 December 2021					
Movement in provision for credit impairment	Collective provision			Individual Provision	
Thousands of dollars	Stage 1	Stage 2	Stage 3	Stage 3	Total
<b>Residential mortgage lending</b>					
<b>Balance at beginning of period</b>	2,166	17	-	570	2,753
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	17	(17)	-	-	-
Transfer to stage 2	(1)	1	-	-	-
Transfer to stage 3	-	-	-	-	-
Charge/(recovery) to statement of comprehensive income in current year	282	685	-	-	967
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
<b>Balance as at 31 December 2021</b>	<b>2,464</b>	<b>686</b>	<b>-</b>	<b>570</b>	<b>3,720</b>
<b>Other exposures excluding sovereigns and central banks</b>					
<b>Balance at beginning of period</b>	1	-	-	-	1
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Charge/(recovery) to statement of comprehensive income in current year	-	-	-	5	5
Bad debts written off	-	-	-	(5)	(5)
Bad debts recovered	-	-	-	-	-
<b>Balance as at 31 December 2021</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>
<b>Corporate and institutional</b>					
<b>Balance at beginning of period</b>	7,598	-	-	3,425	11,023
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	514	-	-	-	514
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
<b>Balance as at 31 December 2021</b>	<b>8,112</b>	<b>-</b>	<b>-</b>	<b>3,425</b>	<b>11,537</b>
<b>Investment securities</b>					
<b>Balance at beginning of period</b>	9	-	-	-	9
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	28	-	-	-	28
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
<b>Balance as at 31 December 2021</b>	<b>37</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37</b>

Note 6 - Impairment Allowance (continued)

Audited 31 December 2021

Movement in provision for credit impairment	Collective provision			Individual Provision	Total
	Stage 1	Stage 2	Stage 3	Stage 3	
Thousands of dollars					
<b>Due from banks and other financial institutions</b>					
<b>Balance at beginning of period</b>	-	-	-	-	-
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	-	-	-	-	-
<b>Balance as at 31 December 2021</b>	1	-	-	-	1
<b>Amount due from related parties</b>					
<b>Balance at beginning of period</b>	-	-	-	-	-
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	-	-	-	-	-
<b>Balance as at 31 December 2021</b>	4	-	-	-	4
<b>Total</b>					
<b>Balance at beginning of period</b>	9,774	17	-	3,995	13,786
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	17	(17)	-	-	-
Transfer to stage 2	(1)	1	-	-	-
Transfer to stage 3	-	-	-	-	-
Charge/(recovery) to statement of comprehensive income in current year	829	685	-	5	1,519
Bad debts written off	-	-	-	(5)	(5)
Bad debts recovered	-	-	-	-	-
<b>Balance as at 31 December 2021</b>	10,619	686	-	3,995	15,300
<b>Provision for loan commitments and financial guarantee contracts</b>					
<b>Balance at beginning of period</b>	321	-	-	-	321
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	1,073	-	-	-	1,073
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
<b>Balance as at 31 December 2021*</b>	1,394	-	-	-	1,394

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



Note 6 - Impairment Allowance (CONTINUED)

Movement in corresponding gross carrying amounts by stages	Audited 31 December 2021				Total
	Collective provision			Individual provision	
Thousands of dollars	Stage 1	Stage 2	Stage 3	Stage 3	
<b>Residential mortgage lending</b>					
<b>Balance at beginning of period</b>	453,468	3,675	-	545	457,688
Net drawdown/(repayment)	60,515	-	-	(320)	60,195
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	3,675	(3,675)	-	-	-
Transfer to stage 2	(1,611)	1,611	-	-	-
Transfer to stage 3	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
<b>Balance as at 31 December 2021</b>	<b>516,047</b>	<b>1,611</b>	<b>-</b>	<b>225</b>	<b>517,883</b>
<b>Other exposures excluding sovereigns and central banks</b>					
<b>Balance at beginning of period</b>	61	-	-	-	61
Net drawdown/(repayment)	(39)	-	-	-	(39)
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	(5)	-	-	5	-
Bad debts written off	-	-	-	(5)	(5)
Bad debts recovered	-	-	-	-	-
<b>Balance as at 31 December 2021</b>	<b>17</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17</b>
<b>Corporate and institutional</b>					
<b>Balance at beginning of period</b>	1,298,777	-	-	5,360	1,304,137
Net drawdown/(repayment)	762,027	-	-	(149)	761,878
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
<b>Balance as at 31 December 2021</b>	<b>2,060,804</b>	<b>-</b>	<b>-</b>	<b>5,211</b>	<b>2,066,015</b>
<b>Investment securities</b>					
<b>Balance at beginning of period</b>	197,219	-	-	-	197,219
Net purchase/(disposal)	(2,901)	-	-	-	(2,901)
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
<b>Balance as at 31 December 2021</b>	<b>194,318</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>194,318</b>

Note 6 - Impairment Allowance (CONTINUED)

	Audited 31 December 2021				
Movement in corresponding gross carrying amounts by stages	Collective provision			Individual provision	
Thousands of dollars	Stage 1	Stage 2	Stage 3	Stage 3	Total
<b>Due from banks and other financial institutions</b>					
Balance at beginning of period	10,000	-	-	-	10,000
Net drawdown/(repayment)	140,000	-	-	-	140,000
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2021	150,000	-	-	-	150,000
<b>Amount due from related parties</b>					
Balance at beginning of period	118,284	-	-	-	118,284
Net drawdown/(repayment)	89,076	-	-	-	89,076
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2021	207,360	-	-	-	207,360
<b>Total</b>					
Balance at beginning of period	2,077,809	3,675	-	5,905	2,087,389
Net addition/(deletion)	1,048,678	-	-	(469)	1,048,209
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	3,675	(3,675)	-	-	-
Transfer to stage 2	(1,611)	1,611	-	-	-
Transfer to stage 3	(5)	-	-	5	-
Bad debts written off	-	-	-	(5)	(5)
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2021*	3,128,546	1,611	-	5,436	3,135,593
<b>Commitments and financial guarantee contracts</b>					
Balance at beginning of period	530,724	-	-	-	530,724
Net increase/(decrease) facilities	334,173	-	-	-	334,173
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2021	864,897	-	-	-	864,897

Note 6 - Impairment Allowance (continued)

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

Note 6 - Impairment Allowance (continued)

Audited 31 December 2020

Movement in provision for credit impairment	Collective provision			Individual Provision	Total
	Stage 1	Stage 2	Stage 3	Stage 3	
Thousands of dollars					
<b>Due from banks and other financial institutions</b>					
<b>Balance at beginning of period</b>	1	-	-	-	1
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Charge/(recovery) to statement of comprehensive income in current year	(1)	-	-	-	(1)
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
<b>Balance as at 31 December 2020</b>	-	-	-	-	-
<b>Amount due from related parties</b>					
<b>Balance at beginning of period</b>	-	-	-	-	-
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	-	-	-	-	-
<b>Balance as at 31 December 2020*</b>	-	-	-	-	-
<b>Total</b>					
<b>Balance at beginning of period</b>	8,266	-	-	3,995	12,261
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	(17)	17	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Charge/(recovery) to statement of comprehensive income in current year	1,525	-	-	6	1,531
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	(6)	(6)
<b>Balance as at 31 December 2020*</b>	9,774	17	-	3,995	13,786
<b>Provision for loan commitments and financial guarantee contracts</b>					
<b>Balance at beginning of period</b>	976	-	-	-	976
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Charge/(recovery) to statement of comprehensive income in current year	(655)	-	-	-	(655)
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
<b>Balance as at 31 December 2020*</b>	321	-	-	-	321

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

Note 6 - Impairment Allowance (CONTINUED)

	Audited 31 December 2020				
Movement in corresponding gross carrying amounts by stages	Collective provision			Individual provision	
Thousands of dollars	Stage 1	Stage 2	Stage 3	Stage 3	Total
<b>Residential mortgage lending</b>					
Balance at beginning of period	483,965	-	-	545	484,510
Net drawdown/(repayment)	(26,822)	-	-	-	(26,822)
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	(3,675)	3,675	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2020	453,468	3,675	-	545	457,688
<b>Other exposures excluding sovereigns and central banks</b>					
Balance at beginning of period	65	-	-	-	65
Net drawdown/(repayment)	(4)	-	-	-	(4)
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2020	61	-	-	-	61
<b>Corporate and institutional</b>					
Balance at beginning of period	1,237,409	-	-	7,947	1,245,356
Net drawdown/(repayment)	61,368	-	-	(2,587)	58,781
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2020	1,298,777	-	-	5,360	1,304,137
<b>Investment securities</b>					
Balance at beginning of period	182,876	-	-	-	182,876
Net purchase/(disposal)	14,343	-	-	-	14,343
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Balance as at 31 December 2020	197,219	-	-	-	197,219

Note 6 - Impairment Allowance (CONTINUED)

Movement in corresponding gross carrying amounts by stages	Audited 31 December 2020				Total
	Collective provision			Individual provision	
Thousands of dollars	Stage 1	Stage 2	Stage 3	Stage 3	
<b>Due from banks and other financial institutions</b>					
<b>Balance at beginning of period</b>	226,362	-	-	-	226,362
Net drawdown/(repayment)	(216,362)	-	-	-	(216,362)
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
<b>Balance as at 31 December 2020</b>	10,000	-	-	-	10,000
<b>Amount due from related parties</b>					
<b>Balance at beginning of period</b>	23,150	-	-	-	23,150
Net drawdown/(repayment)	95,134	-	-	-	95,134
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
<b>Balance as at 31 December 2020</b>	118,284	-	-	-	118,284
<b>Total</b>					
<b>Balance at beginning of period</b>	2,153,827	-	-	8,492	2,162,319
Net addition/(deletion)	(72,343)	-	-	(2,587)	(74,930)
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	(3,675)	3,675	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
<b>Balance as at 31 December 2020</b>	2,077,809	3,675	-	5,905	2,087,389
<b>Commitments and financial guarantee contracts</b>					
<b>Balance at beginning of period</b>	585,212	-	-	-	585,212
Net increase/(decrease) facilities	(54,488)	-	-	-	(54,488)
Changes to the opening balance due to transfer between ECL stages					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
<b>Balance as at 31 December 2020</b>	530,724	-	-	-	530,724

## Note 7 - Taxation

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Net profit/(loss) before taxation	23,177	16,613
Tax calculated at a tax rate of 28%	6,490	4,652
(Under)/over provision from prior period	-	-
Temporary differences not previously recognised	-	-
Utilisation of tax losses previously unrecognised	-	-
Other permanent differences	41	67
<b>Taxation charge as per the statement of comprehensive income</b>	<b>6,531</b>	<b>4,719</b>
<b>Represented by:</b>		
Current tax	8,942	3,991
Deferred tax	(2,411)	728
<b>Taxation charge as per the statement of comprehensive income</b>	<b>6,531</b>	<b>4,719</b>
<b>The deferred tax charge in the statement of comprehensive income comprises the following temporary differences:</b>		
Employee entitlements	(159)	(57)
Accelerated depreciation	28	36
Allowances for impairment losses	(724)	(243)
Other provisions and accruals	(54)	35
Other temporary differences	(1,561)	1,016
Tax effect of change in tax rate	-	-
Amortisation of intangibles	-	-
Recognised tax losses	59	(59)
<b>Total temporary differences</b>	<b>(2,411)</b>	<b>728</b>

### Imputation credits

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
<b>Balances available for use in subsequent reporting periods</b>		
Imputation credit account	25,443	18,857

The above amount represent the balance of the imputation account as at the end of the reporting period, adjusted for imputation credit account 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 2021	Audited 31 December 2020
<b>Current income tax (payable)/receivable</b>		
Balance at beginning of the year	491	(3,090)
(Under)/over provision from prior period	(24)	(2)
Tax on profits/(losses) taken to reserves	-	-
Transfer from/(to) deferred tax	-	-
Current Year Tax charge	(8,918)	(3,989)
Utilisation of tax losses	-	-
Related party purchase of tax losses	-	-
Refundable Tax credits	-	-
Tax refunded	-	-
Tax paid in current year	5,201	7,572
<b>Balance at end of the year</b>	<b>(3,250)</b>	<b>491</b>
<b>Deferred tax</b>		
Balance at beginning of the year	3,980	4,832
Impact of initial adoption of NZ IFRS 9	-	(124)
Under/(over) provision from prior period	24	2
Temporary differences for the year	2,387	(789)
Utilisation of tax losses	-	59
Tax effect of change in tax rate	-	-
Credit to current tax	-	-
<b>Balance at end of the year</b>	<b>6,391</b>	<b>3,980</b>
<b>Deferred tax assets</b>		
Employee entitlements	634	474
Accelerated depreciation	204	231
Other provisions and accruals	196	142
Other temporary differences	684	-
Losses recognised in deferred tax	-	59
Allowance for loan impairment	4,673	3,950
<b>Total deferred tax assets</b>	<b>6,391</b>	<b>4,856</b>
<b>Deferred tax liabilities</b>		
Accelerated depreciation	-	-
Other temporary differences	-	(876)
Intangible assets	-	-
<b>Total deferred tax liabilities</b>	<b>-</b>	<b>(876)</b>
<b>Net deferred taxation</b>	<b>6,391</b>	<b>3,980</b>

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 Banking Group continues to remain profitable.

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

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Cash on hand	-	-
Cash with central banks	253,778	176,621
Call and overnight advances to financial institutions	35,993	24,150
<b>Total cash and cash equivalents</b>	<b>289,771</b>	<b>200,771</b>



## Note 10 – Due from Banks and Other Financial Institutions

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
NZ Registered Banks	149,999	10,000
Overseas Registered Banks	-	-
Other	-	-
<b>Total amount due from other financial institutions</b>	<b>149,999</b>	<b>10,000</b>
Current	149,999	10,000
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.

### Derivative assets and liabilities

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

Audited 31 December 2021	Gross amount of financial instruments in the statements of financial position	Related financial instruments not offset	Net Amount
Thousands of dollars			
<b>Financial Assets</b>			
Derivative financial instruments	2,038	(1,864)	174
	2,038	(1,864)	174
<b>Financial Liabilities</b>			
Derivative financial instruments	5,129	(1,864)	3,265
	5,129	(1,864)	3,265
<b>Audited 31 December 2020</b>	<b>Gross amount of financial instruments in the statements of financial position</b>	<b>Related financial instruments not offset</b>	<b>Net Amount</b>
Thousands of dollars			
<b>Financial Assets</b>			
Derivative financial instruments	7,698	(1,227)	6,471
	7,698	(1,227)	6,471
<b>Financial Liabilities</b>			
Derivative financial instruments	3,292	(1,227)	2,065
	3,292	(1,227)	2,065

## Note 12 – Investment Securities

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Government stock and multilateral development banks	-	6,053
Local authority securities	57,004	64,421
Other debt securities	137,277	126,736
<b>Total investment securities</b>	<b>194,281</b>	<b>197,210</b>
Current	15,102	18,135
Non-Current	179,179	179,075

## Note 13 – Loans and Advances to Customers

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Residential mortgage loans	517,883	457,688
Corporate exposures	2,066,015	1,304,137
Credit Cards	17	61
Other exposures	-	-
Allowance for impairment losses	(15,258)	(13,777)
<b>Total net loans and receivables</b>	<b>2,568,657</b>	<b>1,748,109</b>
Current	439,801	375,149
Non-Current	2,128,856	1,372,960

## Note 14 – Derivative Financial Instruments

Audited 31 December 2021	Notional Principal Amount	Fair Value	
Thousands of dollars		Assets	Liabilities
<b>Foreign exchange derivatives</b>			
- Forward foreign exchange contracts	-	-	-
- Swaps	288,008	723	1,369
- Option Contracts	-	-	-
<b>Total Foreign exchange derivatives</b>	<b>288,008</b>	<b>723</b>	<b>1,369</b>
<b>Interest Rate derivatives</b>			
- Forward Rate Agreements	-	-	-
- Swaps	265,000	1,315	3,760
- Option Contracts	-	-	-
<b>Total Interest Rate derivatives</b>	<b>265,000</b>	<b>1,315</b>	<b>3,760</b>
<b>Total</b>		<b>2,038</b>	<b>5,129</b>

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

The notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts of risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the Banking Group 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 2021, the Branch and ICBC NZ do not have any subsidiaries (31 December 2020: Nil).

## Note 16 – Property, Plant & Equipment

### Audited 31 December 2021

Thousands of dollars	Computer Hardware	Office Equipment	Furniture, Fittings & Leasehold Improvements	Other Assets	Total
At cost	1,021	122	1,724	-	2,867
Accumulated depreciation	(888)	(114)	(1,712)	-	(2,714)
<b>Opening carrying amount</b>	133	8	12	-	153
Additions	79	20	449	-	548
Disposals	-	-	-	-	-
Depreciation	(73)	(2)	(36)	-	(111)
Write offs	-	-	-	-	-
<b>Closing carrying amount</b>	139	26	425	-	590
Total At cost	1,100	142	2,173	-	3,415
Total Accumulated depreciation	(961)	(116)	(1,748)	-	(2,825)
<b>Total Closing carrying amount</b>	139	26	425	-	590

### Audited 31 December 2020

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

## Note 17 – Leases

### Audited 31 December 2021

Thousands of dollars	Real estate	Motor Vehicles	Office Equipment	Total
<b>Right-of-Use assets</b>				
Balance as at 31 December 2020	9,136	40	36	9,212
Additions	-	91	-	91
Adjustment due to lease review	(131)	-	-	(131)
Disposals	-	-	-	-
Depreciation	(1,378)	(37)	(10)	(1,425)
<b>Balance as at 31 December 2021</b>	<b>7,627</b>	<b>94</b>	<b>26</b>	<b>7,747</b>

### Lease Liabilities

Balance as at 31 December 2020	9,566	41	38	9,645
Additions	-	91	-	91
Adjustment due to lease review	(131)	-	-	(131)
Lease payments	(1,465)	(36)	(10)	(1,511)
Interest expense on lease liabilities	181	1	1	183
<b>Balance as at 31 December 2021</b>	<b>8,151</b>	<b>97</b>	<b>29</b>	<b>8,277</b>

### Audited 31 December 2020

Thousands of dollars	Real estate	Motor Vehicles	Office Equipment	Total
<b>Right-of-Use assets</b>				
Balance as at 31 December 2019	7,997	77	45	8,119
Additions	838	-	-	838
Adjustment due to lease review	1,572	-	-	1,572
Disposals	-	-	-	-
Depreciation	(1,271)	(37)	(9)	(1,317)
<b>Balance as at 31 December 2020</b>	<b>9,136</b>	<b>40</b>	<b>36</b>	<b>9,212</b>

### Lease Liabilities

Balance as at 31 December 2019	8,231	78	47	8,356
Additions	838	-	-	838
Adjustment due to lease review	1,572	-	-	1,572
Lease payments	(1,292)	(38)	(10)	(1,340)
Interest expense on lease liabilities	217	1	1	219
<b>Balance as at 31 December 2020</b>	<b>9,566</b>	<b>41</b>	<b>38</b>	<b>9,645</b>

### The NZ Banking Group's lease portfolio:

#### Real estate leases

**Head Office:** The Bank leases its head office. In 2020, the Bank opted to extend the lease for a further 8 years, and no further rights of renewal were granted. The lease payments have increased by 3.25% every year.

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

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

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

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

## Note 18 – Intangible Assets

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Computer software	2	7
<b>Total intangible assets</b>	<b>2</b>	<b>7</b>
<b>Computer software</b>		
Cost brought forward	25	25
Accumulated amortisation brought forward	(18)	(13)
Opening net book value	7	12
Additions	-	-
Amortisation	(5)	(5)
<b>Closing net book value</b>	<b>2</b>	<b>7</b>

## Note 19 – Other Assets

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Other receivables	1,269	653
Commissions receivable	-	-
Interest receivable	6,741	4,733
<b>Trade and other receivables</b>	<b>8,010</b>	<b>5,386</b>
Current	7,668	5,214
Non-Current	342	172

## Note 20 – Due to Central Banks and Other Financial Institutions

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Loans from other banks	-	-
Loans from central bank	-	-
Items in course of settlement	1	1
ATM cash at other banks	-	-
<b>Total due to other financial institutions</b>	<b>1</b>	<b>1</b>
Current	1	1
Non-Current	-	-

## Note 21 – Balances with Related Parties

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Amounts due from ultimate parent	207,356	118,284
Amount due from controlled entities of ultimate parent	-	-
<b>Total amount due from related parties</b>	<b>207,356</b>	<b>118,284</b>
Current	207,356	118,284
Non-Current	-	-
Amounts due to ultimate parent	1,565,757	596,445
Amount due to controlled entities of ultimate parent	396	428
<b>Total amount due to related parties</b>	<b>1,566,153</b>	<b>596,873</b>
Current	791,153	291,299
Non-Current	775,000	305,574

1. Nostro account balance held with parent and controlled entities of ultimate parent as at 31 December 2021 is NZ\$30M (31 December 2020: NZ\$17M). This is included in cash and cash equivalents balance. Parent includes ICBC Head Office and other branches. Refer to Note (29) for transactions with related parties.

2. ICBC NZ operations are guaranteed by the parent ICBC which, from time to time, transfers payments through the ICBC NZ Vostro account. The balance of ICBC NZ Vostro account was NZ\$22M as at 31 December 2021 (31 December 2020: NZ\$45M).

3. As at 31 December 2021, ICBC NZ has issued NZ\$70m 5-year subordinated loan to ICBC Head Office (Note 24). The accrued interest of subordinated loan is NZ\$310K as at 31 December 2021 (31 December 2020: \$199K).

## Note 22 – Deposits from Customers

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Demand deposits not bearing interest	78,406	49,294
Demand deposits bearing interest	28,390	13,680
Term deposits	493,945	587,823
<b>Total deposits</b>	<b>600,741</b>	<b>650,797</b>
Current	590,217	626,940
Non-Current	10,524	23,857

## Note 23 – Certificates of Deposit and Debt Securities Issued

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Certificates of deposit (CDs)	257,823	79,750
Other debt securities	536,011	523,178
<b>Total debt securities issued</b>	<b>793,834</b>	<b>602,928</b>
Current	493,493	266,580
Non-Current	300,341	336,348

### Audited 31 December 2021 Certificates of deposits (CDs) issued

Issue Currency	Coupon Rate %	Maturity Date	Face Value Issue Currency \$'000	Carrying Value NZ \$'000	Fair Value NZ \$'000
New Zealand Dollar	0.965 (fixed)	24 May 2022	10,000	9,905	9,905
New Zealand Dollar	2.2 (fixed)	26 October 2022	10,000	9,786	9,786
New Zealand Dollar	1.245 (fixed)	23 March 2022	15,000	14,907	14,907
New Zealand Dollar	2.2 (fixed)	26 October 2022	15,000	14,679	14,679
New Zealand Dollar	1.11 (fixed)	13 January 2022	10,000	9,972	9,972
New Zealand Dollar	1.035 (fixed)	6 January 2022	20,000	19,948	19,948
New Zealand Dollar	1.06 (fixed)	7 January 2022	20,000	19,947	19,947
New Zealand Dollar	0.8 (fixed)	23 February 2022	20,000	19,842	19,842
New Zealand Dollar	0.985 (fixed)	13 May 2022	10,000	9,903	9,903
New Zealand Dollar	1.255 (fixed)	12 April 2022	10,000	9,938	9,938
New Zealand Dollar	1.215 (fixed)	8 February 2022	15,000	14,955	14,955
New Zealand Dollar	0.85 (fixed)	22 March 2022	15,000	14,874	14,874
New Zealand Dollar	2.12 (fixed)	20 October 2022	15,000	14,688	14,680
New Zealand Dollar	2.2 (fixed)	26 October 2022	5,000	4,893	4,893
New Zealand Dollar	2.12 (fixed)	20 October 2022	5,000	4,896	4,893
New Zealand Dollar	1.035 (fixed)	6 January 2022	15,000	14,961	14,961
New Zealand Dollar	1.44 (fixed)	29 April 2022	10,000	9,929	9,929
New Zealand Dollar	1.25 (fixed)	1 February 2022	15,000	14,953	14,953
New Zealand Dollar	1.235 (fixed)	6 April 2022	25,000	24,847	24,847
				257,823	257,812

### Audited 31 December 2020 Certificates of deposits (CDs) issued

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

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

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

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

Medium term notes issued			Audited 31 December 2021			Audited 31 December 2020		
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
New Zealand Dollar	3 month NZD BKBM+110bp	11 June 2021	-	-	-	100,000	100,000	100,000
New Zealand Dollar	3 month NZD BKBM+110bp	15 February 2021	-	-	-	45,000	45,000	45,000
New Zealand Dollar	3.47 (fixed)	27 September 2021	-	-	-	140	140	144
New Zealand Dollar	3.47 (fixed)	13 March 2021	-	-	-	28,190	28,190	28,190
New Zealand Dollar	3.47 (fixed)	27 February 2021	-	-	-	1,500	1,500	1,500
New Zealand Dollar	3.47 (fixed)	13 March 2021	-	-	-	500	500	500
New Zealand Dollar	3.47 (fixed)	15 March 2021	-	-	-	1,500	1,500	1,500
New Zealand Dollar	3.13 (fixed)	20 September 2021	-	-	-	10,000	10,000	10,247
New Zealand Dollar	3.20 (fixed)	31 May 2022	1,713	1,713	1,713	1,713	1,713	1,773
New Zealand Dollar	3.38 (fixed)	23 March 2023	432	432	441	432	432	460
New Zealand Dollar	3.25 (fixed)	24 August 2022	7,600	7,600	7,735	7,600	7,600	7,971
New Zealand Dollar	3.35 (fixed)	22 March 2022	6,200	6,200	6,200	6,200	6,200	6,442
New Zealand Dollar	3 month NZD B KBM+100bp	27 June 2022	220,000	220,158	220,000	220,000	220,524	220,000
New Zealand Dollar	2.61 (fixed)	27 June 2024	100,000	99,908	99,148	100,000	99,879	105,895
New Zealand Dollar	3 month NZD BKBM+68bp	29 February 2024	200,000	200,000	200,000	-	-	-
				536,011	535,237		523,178	529,622

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



## Note 24 – Subordinated Loans due to Related Parties

### Audited 31 December 2021 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 2020 Subordinated loans due to related parties

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

The subordinated loans due to related parties of NZ\$70m as at 31 December 2021 are 5-year term of unsecured debts.

## Note 25 – Other Liabilities

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
<b>Employee entitlements</b>		
Accrued wages/salaries	58	68
Accrued Kiwi Saver Pension liability	-	-
Other Employee entitlements Accrued	3,096	2,749
Accounts payable	871	11
Interest payable	6,807	7,822
Provision for impairment on loan commitments and financial guarantee contracts	1,394	321
Other payables and deferred revenue	5,322	3,531
<b>Total other liabilities</b>	<b>17,548</b>	<b>14,502</b>
Current	16,121	13,619
Non-Current	1,427	883

## Note 26 – Branch's Head Office Account

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Branch capital	84,000	84,000
Retained earnings/(losses)	4,476	(644)
<b>Total Branch's head office account</b>	<b>88,476</b>	<b>83,356</b>

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Branch capital		
Balance at the start of the period	84,000	-
Contributions during the period	-	84,000
<b>Balance at the end of the period</b>	<b>84,000</b>	<b>84,000</b>

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

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

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Share capital	233,540	233,540
Retained earnings	47,893	36,367
<b>Total equity</b>	<b>281,433</b>	<b>269,907</b>

	31 December 2021	31 December 2020
Equity	Number of shares	Number of shares
Number of shares at the start of the period	233,539,975	233,539,975
Shares issued during the period	-	-
<b>Number of shares at the end of the period</b>	<b>233,539,975</b>	<b>233,539,975</b>

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

## Note 28 – Asset Quality

The Bank has disclosed certain component of its loan portfolio as impaired assets according to the classification below:

- Individually assessed provision is the allowance assessed individually against impaired credit exposures.
- Collective assessed provision is to both assess the staging of exposures and measure a loss allowance on a collective basis, the Bank groups its exposures on the basis of shared credit risk characteristics.

The NZ Banking Group assesses the impairment of financial assets classified into stage 1 and stage 2 collectively, and assesses the impairment of stage 3 financial assets individually.

A past due asset not impaired is any credit exposure where a counterparty has failed to make a payment when contractually due, but is not impaired. The provision of a past due asset is assessed collectively.

<b>Audited 31 December 2021</b>	Other exposures excluding sovereigns and central banks	Residential mortgage loans	Corporate and institutional exposures	Total
Thousands of dollars				
<b>Total neither past due nor impaired</b>	11	517,650	2,060,804	2,578,465
<b>Past due assets not impaired</b>				
Less than 30 days past due	6	8	-	14
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	-	-	-	-
<b>Total past due assets not impaired</b>	6	8	-	14
<b>Individually impaired assets</b>				
Balance at beginning of the year	-	545	5,360	5,905
Additions	5	-	-	5
Amounts written off	(5)	-	-	(5)
Deletions	-	(320)	(149)	(469)
<b>Total individually impaired assets</b>	-	225	5,211	5,436
<b>Total gross loans and advances</b>	17	517,883	2,066,015	2,583,915
<b>Individually assessed provisions</b>				
Balance at beginning of the year	-	570	3,425	3,995
<b>Charge/(credit) to the statement of comprehensive income:</b>				
New provisions	5	-	-	5
Reversals of previously recognised impairment losses	-	-	-	-
Amounts recovered	-	-	-	-
Amounts written off	(5)	-	-	(5)
<b>Balance at end of the period</b>	-	570	3,425	3,995
<b>Collectively assessed provisions</b>				
Balance at beginning of the year	1	2,183	7,598	9,782
Charge/(credit) to the statement of comprehensive income	-	967	514	1,481
Other movements	-	-	-	-
<b>Balance at end of the year</b>	1	3,150	8,112	11,263
<b>Total provisions for impairment losses</b>	1	3,720	11,537	15,258
<b>Net balance at end of the year</b>	16	514,163	2,054,478	2,568,657

Note 28 – Asset Quality (continued)

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

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 2021 (31 December 2020: 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 \$865M as at 31 December 2021 (31 December 2020: \$522M).

There has been \$18,394 interest revenue foregone on individually impaired or greater than 90 days past due assets during the period ended 31 December 2021 (31 December 2020: \$14,317).

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.

## Note 29 – Transactions with Related Parties

### (a) Key Management Personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The key management personnel of the NZ Banking Group are defined as the Directors and members of the senior executive team of the NZ Banking Group. The information relating to the key management personnel disclosed in the tables below includes transactions with those individuals, their close family members and their controlled entities.

#### (i) Key Management Personnel Compensation

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Salaries and other short-term benefits	2,160*	2,340*
Other benefits	-	-
<b>Total key management compensation</b>	<b>2,160</b>	<b>2,340</b>

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

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

##### Audited 31 December 2021

Thousands of dollars	Opening Balance	Movement during the year	Closing Balance	Interest Received/ (Paid) by the Bank
Deposits	412	(5)	407	(2)
Loans and Advances	-	-	-	-
<b>Total</b>	<b>412</b>	<b>(5)</b>	<b>407</b>	<b>(2)</b>

##### Audited 31 December 2020

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

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 \$50K credit limit (31 December 2020: \$80K). The amount owed on the card at 31 December 2021 was nil (31 December 2020: nil).

### (b) Guarantees

The NZ Banking Group's ultimate parent company is the Industrial and Commercial Bank of China Limited, a Chinese incorporated bank (ICBC). ICBC is subject to regulatory oversight by the China Banking and Insurance Regulatory Commission (CBIRC) under its rules and guidelines.

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

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

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

## Note 29 – Transactions with Related Parties (continued)

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 2021	Audited 31 December 2020
<b>Interest income on amount due from related entities</b>		
Ultimate parent	2,350	58
Subsidiaries of ultimate parent	-	-
<b>Total interest income on amount due from related entities</b>	<b>2,350</b>	<b>58</b>
<b>Interest expense on amount due to related entities</b>		
Ultimate parent	8,489	7,443
Subsidiaries of ultimate parent	-	-
<b>Total interest expense on amount due to related entities</b>	<b>8,489</b>	<b>7,443</b>
<b>Other operating income</b>		
Gain/(loss) on derivative contracts with ultimate parent	(691)	(1,030)
Gain/(loss) on derivative contracts with subsidiaries of ultimate parent	(482)	(432)
Other income	-	-
<b>Total other operating income</b>	<b>(1,173)</b>	<b>(1,462)</b>
<b>Other operating expense</b>		
Other operating expense paid to ultimate parent	-	-

Interest payable to parent as at 31 December 2021 was \$2,258K (31 December 2020: \$310K), and interest payable to subsidiaries of the ultimate parent was nil (31 December 2020: 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 2020: nil).

### Note 30 – Concentration of Credit Risk

The following table breaks down the NZ Banking Group's main credit exposures at their carrying amounts, as categorised by the industry sectors of its counterparties. Industry analysis as at balance date is as follows.

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Government	311,387	247,768
Finance (including banks)	557,263	304,758
Households	518,766	458,453
Transport and storage	69,212	85,590
Communications	27,287	27,285
Construction	162,375	145,850
Property services	920,968	571,262
Agriculture	4,901	5,303
Forestry, fishing and mining	75,369	91,585
Health and community services	192,062	165,048
Retail and wholesale trade	60,175	70,129
Manufacturing	260,720	83,073
Education	3,006	22,665
Administration and support services	50,236	21,984
Electricity, Gas & Water	195,096	-
Other Industries	25,696	-
Less: allowance for impairment provisioning	(15,300)	(13,786)
<b>Total financial assets</b>	<b>3,419,219</b>	<b>2,286,967</b>
Less: non-interest earning financial assets	3,887	(1,573)
<b>Total interest earning and discount bearing financial assets</b>	<b>3,423,106</b>	<b>2,285,394</b>

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

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
New Zealand	3,012,178	1,935,810
Overseas	407,041	351,157
<b>Total financial assets</b>	<b>3,419,219</b>	<b>2,286,967</b>

Note 30 – Concentration of Credit Risk (continued)

Maximum Exposure to Credit Risk - On and Off Balance Sheet

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Loans and advances to customers	2,568,657	1,748,109
Derivative financial instruments	130	3,333
Trade and Other Receivables	-	-
Other financial assets	5,683	3,452
<b>On Balance Sheet Credit Exposures (excluding credit exposure to connected parties and banks with long-term credit rating of A- or A3 or above)</b>	<b>2,574,470</b>	<b>1,754,894</b>
Cash and cash equivalents	289,771	200,771
Amounts due from related parties	207,356	118,284
Due from other financial institutions	149,999	10,000
Investment securities	194,281	197,210
Derivative financial instruments	1,908	4,365
Loans and advances to customers	-	-
Tax Receivable	-	-
Other financial assets	1,434	1,443
<b>Total on Balance Sheet Credit Exposures</b>	<b>3,419,219</b>	<b>2,286,967</b>
Off Balance Sheet Exposures	864,897	530,724
<b>Total Off Balance Sheet Credit Exposures</b>	<b>864,897</b>	<b>530,724</b>

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

50.57% of the NZ Banking Group's mortgage portfolio is owner-occupied residential properties (31 December 2020: 53.97%).

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 2020: 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 2021	Audited 31 December 2020
<b><u>New Zealand</u></b>		
Transport and storage	51,304	26,208
Financing investment and insurance	745,799	716,865
Electricity, gas and water	27	51
Food and other manufacturing	1,897	171,552
Construction	27,620	11,006
Communication	362	880
Government, local authorities and services	114,211	59,198
Agriculture	8	1
Forestry	558	279
Health and community services	76	21
Personal and other services	-	-
Property and business services	18,109	19,340
Education	17,371	9,121
Retail and wholesale trade	17,088	3,039
Accommodation and food services	1,251	134
Other	29,484	14,420
Households	61,939	73,482
<b><u>Overseas</u></b>		
Amounts due to related parties	1,640,196	669,412
Financing investment and insurance (not including ICBC group)	259,581	64,249
Households	73,921	106,663
Other deposits	847	1,984
<b>Total financial liabilities</b>	<b>3,061,649</b>	<b>1,947,905</b>
Less: non-interest bearing financial liabilities	(101,049)	(66,955)
<b>Total interest and discount bearing liabilities</b>	<b>2,960,600</b>	<b>1,880,950</b>

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

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Deposits from customers	600,741	650,797
Registered Banks	1	1
Derivative financial liabilities	5,129	3,292
Financial Investors	-	-
Certificates of deposit	257,823	79,750
Subordinated loans due to related parties	70,000	70,000
Debts securities issued	536,011	523,178
Amounts due to related parties	1,566,153	596,873
Lease liabilities	8,277	9,645
Other	17,514	14,369
<b>Total financial liabilities</b>	<b>3,061,649</b>	<b>1,947,905</b>

## Note 32 – Capital Commitments

As at 31 December 2021, there were nil capital commitments (31 December 2020: nil).

## Note 33 – Contingent Liabilities and Commitments

Thousands of dollars	Audited 31 December 2021	Audited 31 December 2020
Performance/financial guarantees issued on behalf of customers	-	8,662
<b>Total contingent liabilities</b>	-	8,662
<b>Undrawn Commitments</b>	864,897	522,062

## Note 34 – Subsequent Events after Balance Sheet Date

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

## Note 35 – Financial Risk Management

### A. Introduction

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

The primary financial risks of the NZ Banking Group are credit, liquidity, interest rate, foreign exchange, operational risk, conduct risk, and reputation risks.

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

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

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

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

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

### B. Credit Risk

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

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

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

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

The NZ Banking Group will enter into master agreements which provides the contractual framework within which derivative dealing activities are conducted. Under each of these agreements, close-out netting shall be applied across all outstanding transactions covered by the agreement if either party defaults.

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

## Note 35 – Financial Risk Management (continued)

### C. Liquidity Risk

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

The NZ Banking Group manages its liquidity risk through the Treasury Department and aims at:

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

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

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

<b>Audited 31 December 2021</b>	On Demand	Up to 3 months	3 to 12 months	Between 1 & 5 years	More than 5 years	Total
Thousands of dollars						
<b>Financial liabilities</b>						
Due to central banks and other financial institutions	1	-	-	-	-	1
Amounts due to related parties	22,133	490,826	292,019	797,169	-	1,602,147
Derivative Financial Liabilities	-	-	-	-	-	-
Deposits from customers	108,795	314,758	171,088	11,017	-	605,658
Certificates of deposit	-	145,000	115,000	-	-	260,000
Subordinated loans due to related parties	-	290	35,992	35,290	-	71,572
Debt securities issued	-	8,221	235,397	308,065	-	551,683
Lease liabilities	-	337	1,148	5,487	1,813	8,785
Other financial liabilities	-	220	10,487	-	-	10,707
<b>Total financial liabilities</b>	<b>130,929</b>	<b>959,652</b>	<b>861,131</b>	<b>1,157,028</b>	<b>1,813</b>	<b>3,110,553</b>
<b>Derivative cash flows</b>						
Inflows from derivatives	-	288,426	3,885	7,396	-	299,707
Outflows from derivatives	-	(289,682)	(2,955)	(6,819)	-	(299,456)
<b>Total</b>	<b>-</b>	<b>(1,256)</b>	<b>930</b>	<b>577</b>	<b>-</b>	<b>251</b>
<b>Off balance sheet cash flows</b>						
Financial guarantees outflows	-	-	-	-	-	-
Commitments outflows	864,897	-	-	-	-	864,897
<b>Total</b>	<b>864,897</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>864,897</b>

Note 35 – Financial Risk Management (continued)

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

**Liquidity portfolio management**

Thousands of dollars	<b>Audited 31 December 2021</b>	<b>Audited 31 December 2020</b>
Cash, cash equivalents and balances with central banks	289,771	200,771
Amounts due from related parties	-	-
Due from banks and other financial institutions	149,999	10,000
Investment securities	194,281	197,210
<b>Total liquidity portfolio</b>	<b>634,051</b>	<b>407,981</b>

## 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:

<b>Audited 31 December 2021</b>	Not interest- bearing	Up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years	Total
Thousands of dollars							
<b>Financial assets</b>							
Cash, cash equivalents and balances with central banks	2,417	287,354	-	-	-	-	289,771
Amounts due from related parties	(4)	35,308	172,052	-	-	-	207,356
Due from banks and other financial institutions	(1)*	150,000	-	-	-	-	149,999
Investment securities	(37)*	9,000	-	6,103	35,417	143,798	194,281
Derivative financial assets	2,038	-	-	-	-	-	2,038
Loans and advances to customers	(15,258)*	2,085,296	205,310	136,894	130,721	25,694	2,568,657
Other financial assets	6,958	-	-	-	-	159	7,117
<b>Total financial Assets</b>	<b>(3,887)</b>	<b>2,566,958</b>	<b>377,362</b>	<b>142,997</b>	<b>166,138</b>	<b>169,651</b>	<b>3,419,219</b>
<b>Financial liabilities</b>							
Due to central banks and other financial institutions	-	1	-	-	-	-	1
Amounts due to related parties	-	766,153	600,000	100,000	-	100,000	1,566,153
Derivative financial liabilities	5,129	-	-	-	-	-	5,129
Deposits from customers	78,406	363,626	111,758	36,428	10,360	163	600,741
Certificates of deposit	-	144,359	64,521	48,943	-	-	257,823
Subordinated loans due to related parties	-	35,000	35,000	-	-	-	70,000
Debt securities issued	-	426,175	1,713	7,600	432	100,091	536,011
Lease liabilities	-	5	-	-	-	8,272	8,277
Other financial liabilities	17,514	-	-	-	-	-	17,514
<b>Total financial liabilities</b>	<b>101,049</b>	<b>1,735,319</b>	<b>812,992</b>	<b>192,971</b>	<b>10,792</b>	<b>208,526</b>	<b>3,061,649</b>
<b>On-balance sheet gap</b>	<b>(104,936)</b>	<b>831,639</b>	<b>(435,630)</b>	<b>(49,974)</b>	<b>155,346</b>	<b>(38,875)</b>	<b>357,570</b>
Net derivative notional principals	-	(100,000)	-	-	-	100,000	-
<b>Net effective interest rate gap</b>	<b>(104,936)</b>	<b>731,639</b>	<b>(435,630)</b>	<b>(49,974)</b>	<b>155,346</b>	<b>61,125</b>	<b>357,570</b>

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

Note 35 – Financial Risk Management (continued)

Audited 31 December 2020	Not interest- bearing	Up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years	Total
Thousands of dollars							
<b>Financial assets</b>							
Cash, cash equivalents and balances with central banks	2,925	197,846	-	-	-	-	200,771
Amounts due from related parties	-	3,024	115,260	-	-	-	118,284
Due from banks and other financial institutions	-	10,000	-	-	-	-	10,000
Investment securities	(9)*	14,001	13,135	-	6,221	163,862	197,210
Derivative financial assets	7,698	-	-	-	-	-	7,698
Loans and advances to customers	(13,777)*	1,355,378	185,372	170,402	45,089	5,645	1,748,109
Other financial assets	4,736	-	-	-	-	159	4,895
<b>Total financial Assets</b>	<b>1,573</b>	<b>1,580,249</b>	<b>313,767</b>	<b>170,402</b>	<b>51,310</b>	<b>169,666</b>	<b>2,286,967</b>
<b>Financial liabilities</b>							
Due to central banks and other financial institutions	-	1	-	-	-	-	1
Amounts due to related parties	-	481,299	115,574	-	-	-	596,873
Derivative financial liabilities	3,292	-	-	-	-	-	3,292
Deposits from customers	49,294	379,365	126,070	72,211	22,234	1,623	650,797
Certificates of deposit	-	39,936	39,814	-	-	-	79,750
Subordinated loans due to related parties	-	35,000	35,000	-	-	-	70,000
Debt securities issued	-	397,214	-	10,140	15,513	100,311	523,178
Lease liabilities	-	-	-	14	27	9,604	9,645
Other financial liabilities	14,369	-	-	-	-	-	14,369
<b>Total financial liabilities</b>	<b>66,955</b>	<b>1,332,815</b>	<b>316,458</b>	<b>82,365</b>	<b>37,774</b>	<b>111,538</b>	<b>1,947,905</b>
<b>On-balance sheet gap</b>	<b>(65,382)</b>	<b>247,434</b>	<b>(2,691)</b>	<b>88,037</b>	<b>13,536</b>	<b>58,128</b>	<b>339,062</b>
Net derivative notional principals	-	(98,000)	(2,000)	-	-	100,000	-
<b>Net effective interest rate gap</b>	<b>(65,382)</b>	<b>149,434</b>	<b>(4,691)</b>	<b>88,037</b>	<b>13,536</b>	<b>158,128</b>	<b>339,062</b>

\*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 2021

Thousands of dollars	Carrying amount	-1% Profit	+1% Profit	-1% Equity	+1% Equity
<b>Financial assets</b>					
Cash, cash equivalents and balances with central banks	289,771	(8)	8	(8)	8
Amounts due from related parties	207,356	-	-	-	-
Due from banks and other financial institutions	149,999	-	-	-	-
Investment securities	194,281	(45)	45	(45)	45
Derivative financial assets	2,038	(91)	91	(91)	91
Loans and advances to customers	2,568,657	(18,354)	18,354	(18,354)	18,354
Other financial assets	7,117	-	-	-	-
<b>Total financial assets</b>	<b>3,419,219</b>	<b>(18,498)</b>	<b>18,498</b>	<b>(18,498)</b>	<b>18,498</b>
<b>Financial liabilities</b>					
Due to central banks and other financial institutions	1	-	-	-	-
Amounts due to related parties	1,566,153	4,453	(4,453)	4,453	(4,453)
Derivative financial liabilities	5,129	853	91	853	91
Deposits from customers	600,741	1	(1)	1	(1)
Certificates of deposit	257,823	-	-	-	-
Subordinated loans due to related parties	70,000	494	(494)	494	(494)
Debt securities issued	536,011	3,352	(3,352)	3,352	(3,352)
Lease liabilities	8,277	-	-	-	-
Other financial liabilities	17,514	-	-	-	-
<b>Total financial liabilities</b>	<b>3,061,649</b>	<b>9,153</b>	<b>(8,209)</b>	<b>9,153</b>	<b>(8,209)</b>

Note 35 – Financial Risk Management (continued)

Audited 31 December 2020

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



## Note 35 – Financial Risk Management (continued)

### E. Foreign Currency Risk

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

#### Audited 31 December 2021

Thousands of dollars	HKD	EUR	CNY	USD	AUD	Total
<b>Financial assets</b>						
Cash, cash equivalents and balances with central banks	16	510	12,717	18,578	488	32,309
Amounts due from related parties	-	-	-	203,028	-	203,028
Due from banks and other financial institutions	-	-	-	-	-	-
Investment securities	-	-	-	-	-	-
Loans and advances to customers	-	24,940	7	56,679	16,986	98,612
Other financial assets	-	294	-	594	10	898
<b>Total financial assets</b>	16	25,744	12,724	278,879	17,484	334,847
<b>Financial liabilities</b>						
Due to central banks and other financial institutions	-	-	1	-	-	1
Amounts due to related parties	-	-	-	439,020	-	439,020
Deposits from customers	-	178	12,633	21,058	214	34,083
Certificates of deposit	-	-	-	-	-	-
Subordinated loans due to related parties	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-
Other financial liabilities	-	-	-	468	154	622
<b>Total financial liabilities</b>	-	178	12,634	460,546	368	473,726
<b>Net on balance sheet financial position</b>	16	25,566	90	(181,667)	17,116	(138,879)
Net derivative position	-	(24,860)	-	189,218	(16,720)	147,638
<b>Total open position</b>	16	706	90	7,551	396	8,759

Note 35 – Financial Risk Management (continued)

**Audited 31 December 2020**

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

## 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 2021

Thousands of dollars	Carrying amount	-10% Profit	+10% Profit	-10% Equity	+10% Equity
<b>Financial assets</b>					
Cash, cash equivalents and balances with central banks	32,309	(3,231)	3,231	(3,231)	3,231
Amounts due from related parties	203,028	(20,303)	20,303	(20,303)	20,303
Due from banks and other financial institutions	-	-	-	-	-
Investment securities	-	-	-	-	-
Loans and advances to customers	98,612	(9,861)	9,861	(9,861)	9,861
Other financial assets	898	(90)	90	(90)	90
<b>Total financial assets</b>	<b>334,847</b>	<b>(33,485)</b>	<b>33,485</b>	<b>(33,485)</b>	<b>33,485</b>
<b>Financial liabilities</b>					
Due to central banks and other financial institutions	1	-	-	-	-
Amounts due to related parties	439,020	43,902	(43,902)	43,902	(43,902)
Deposits from customers	34,083	3,409	(3,409)	3,409	(3,409)
Certificates of deposit	-	-	-	-	-
Subordinated loans due to related parties	-	-	-	-	-
Debt securities issued	-	-	-	-	-
Other financial liabilities	622	62	(62)	62	(62)
<b>Total financial liabilities</b>	<b>473,726</b>	<b>47,373</b>	<b>(47,373)</b>	<b>47,373</b>	<b>(47,373)</b>
<b>Net on balance sheet financial position</b>	<b>(138,879)</b>	<b>(13,888)</b>	<b>13,888</b>	<b>(13,888)</b>	<b>13,888</b>
Net derivative position	147,638	(14,764)	14,764	(14,764)	14,764
<b>Total open position</b>	<b>8,759</b>	<b>(876)</b>	<b>876</b>	<b>(876)</b>	<b>876</b>

## Note 35 – Financial Risk Management (continued)

### Audited 31 December 2020

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

### 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 2021 (31 December 2020: nil).

## Note 35 – Financial Risk Management (continued)

### H. Financial Instruments by Category

Audited 31 December 2021

Thousands of dollars	Financial assets at amortised cost	Fair value through profit and loss	Fair value through other comprehensive income	Total
<b>Financial assets</b>				
Cash, cash equivalents and balances with central banks	289,771	-	-	289,771
Amounts due from related parties	207,356	-	-	207,356
Due from banks and other financial institutions	149,999	-	-	149,999
Investment securities	194,281	-	-	194,281
Derivative financial assets	-	2,038	-	2,038
Loans and advances to customers	2,568,657	-	-	2,568,657
Other financial assets	7,117	-	-	7,117
<b>Total financial assets</b>	<b>3,417,181</b>	<b>2,038</b>	<b>-</b>	<b>3,419,219</b>
<b>Financial liabilities</b>				
Due to central banks and other financial institutions	1	-	-	1
Amounts due to related parties	1,566,153	-	-	1,566,153
Derivative financial liabilities	-	5,129	-	5,129
Deposits from customers	600,741	-	-	600,741
Certificates of deposit	257,823	-	-	257,823
Subordinated loans due to related parties	70,000	-	-	70,000
Debt securities issued	536,011	-	-	536,011
Lease liabilities	8,277	-	-	8,277
Other financial liabilities	17,514	-	-	17,514
<b>Total financial liabilities</b>	<b>3,056,520</b>	<b>5,129</b>	<b>-</b>	<b>3,061,649</b>

Note 35 – Financial Risk Management (continued)

Audited 31 December 2020

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

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

## 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.

#### 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 2021

**Audited 31 December 2021**

	Estimated Fair Value				
Thousands of dollars	Carrying amount	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>					
Cash, cash equivalents and balances with central banks	289,771	-	289,771	-	289,771
Amounts due from related parties	207,356	-	207,356	-	207,356
Due from banks and other financial institutions	149,999	-	149,999	-	149,999
Investment securities	194,281	192,933	-	-	192,933
Derivative financial assets	2,038	-	2,038	-	2,038
Loans and advances to customers	2,568,657	-	2,566,108	-	2,566,108
Other financial assets	7,117	-	7,117	-	7,117
<b>Total financial assets</b>	<b>3,419,219</b>	<b>192,933</b>	<b>3,222,389</b>	<b>-</b>	<b>3,415,322</b>
<b>Financial liabilities</b>					
Due to central banks and other financial institutions	1	-	1	-	1
Amounts due to related parties	1,566,153	-	1,568,002	-	1,568,002
Derivative financial liabilities	5,129	-	5,129	-	5,129
Deposits from customers	600,741	-	600,644	-	600,644
Certificates of deposit	257,823	-	257,812	-	257,812
Subordinated loans due to related parties	70,000	-	70,000	-	70,000
Debt securities issued	536,011	-	535,237	-	535,237
Lease liabilities	8,277	-	8,277	-	8,277
Other financial liabilities	17,514	-	17,514	-	17,514
<b>Total financial liabilities</b>	<b>3,061,649</b>	<b>-</b>	<b>3,062,616</b>	<b>-</b>	<b>3,062,616</b>

Audited 31 December 2020

Audited 31 December 2020

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



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

As at balance date neither the Registered Bank nor the NZ Banking Group were involved in:

- The establishment, marketing, or sponsorship of trust, custodial, funds management or other fiduciary activities; or
- The origination of securitised assets; or
- The marketing or servicing of securitisation schemes; or
- Any insurance business or non-financial activities in New Zealand within or outside the NZ Banking Group.

## Note 37 – Risk Management Policies

The NZ Banking Group's objective is to appropriately manage all the risks that arise from its activities. A review of the risk appetite of the NZ Banking Group is conducted periodically having regard to prevailing market conditions and strategy. Based upon this review, an assessment of the relevant policies, systems, and reporting is undertaken to ensure that they are consistent with the stated risk appetite of the NZ Banking Group.

### A. Specific Areas of Risk Management

The NZ Banking Group's Key areas of risk are Strategic and Business risk (managed by the Board through annual and three and five year business plans); Financial Risks including Credit Risk, Interest Rate Risk, Liquidity Risk, Foreign Exchange Risk and Operational Risk (managed through internal controls and procedures), Financial and operational risk management appetites, objectives, policies, strategies, and processes are documented in Note 35 of the financial statements.

### B. Risk management structure

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

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

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

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

Further information on the risk management structure and governance of ICBC NZ is available in the ICBC NZ year end disclosure statement which is available on the ICBC NZ website ([www.icbcnz.com](http://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](http://www.icbc.com.cn)).

### C. Internal Audit Function

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

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

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

### D. Credit Risk Mitigation and Collateral

The NZ Banking Group uses various risk mitigation techniques to reduce the credit risk arising from its lending activities.

- Corporate loans and discounted bills are mainly collateralised by properties or other assets and are assessed taking into account the customers stability of earnings and other factors.
- Retail loans are collateralised by residential properties.

The NZ Banking Group prefers more liquid collateral with relatively stable market value and does not accept collateral that is illiquid, with difficulties in registration or high fluctuations in market value. The value of collateral is assessed and confirmed by the NZ Banking Group or valuation agents identified by the NZ Banking Group.

## Note 37 – Risk Management Policies (continued)

The loan-to-value ratio depends on types of collateral, usage condition, liquidity and price volatility. For retail loans, regulatory restrictions also apply from time to time. All collateral has to be registered in accordance with the relevant laws and regulations. The relationship managers inspect the collateral and assess the changes in the value of collateral regularly.

Management monitors the market value of collateral periodically and requests additional collateral in accordance with the underlying agreement when it is considered necessary.

It is the NZ Banking Group's policy to dispose of assets in an orderly manner, where mortgage defaults occur. In general, the NZ Banking Group does not occupy or take possession of assets.

As at 31 December 2021, the gross carrying amount of corporate loans amounted to NZD 2,066M (31 December 2020: NZD 1,304M), of which credit exposure covered by collateral amounted to NZD 1,256M (31 December 2020: NZD 867M). Retail loans are fully collateralised by residential properties. As at 31 December 2021, the gross carrying amount of retail loans amounted to NZD 518M (31 December 2020: NZD 458M).

## 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 2021, ICBC NZ has complied in full with its regulatory and internal capital adequacy requirements.

### (b) Overseas Banking Group capital adequacy requirements

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

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

Both the Overseas Bank and the Overseas Banking Group are required by the CBIRC to hold minimum capital at least equal to that specified under the Basel II Standardised Approach and are required to publicly disclose this capital adequacy information on a quarterly basis. This information is available via the Overseas Bank's website ([www.icbc.com.cn](http://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 2021.

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.

	30 September 2021	31 December 2020
<b>Overseas Banking Group</b>		
Common Equity Tier 1 Capital Ratio	13.14%	13.18%
Tier 1 Capital Ratio	14.68%	14.28%
Total Capital Ratio	17.45%	16.88%
<b>Overseas Bank</b>		
Common Equity Tier 1 Capital Ratio	13.03%	13.14%
Tier 1 Capital Ratio	14.60%	14.24%
Total Qualifying Capital Ratio	17.55%	17.02%

## Note 38 – Capital Adequacy (continued)

### (c) Additional mortgage information

#### Residential mortgages by loan-to-valuation ratio

##### 31 December 2021

Thousands of dollars

Loan-to-valuation ratio	Does not exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and not 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
Value of exposures	238,666	171,613	103,884	-	-	514,163

##### 31 December 2020

Thousands of dollars

Loan-to-valuation ratio	Does not exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and not 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
Value of exposures	184,135	159,673	111,127	-	-	454,935

#### Reconciliation of residential mortgage-related amounts

Thousands of dollars	31 December 2021	31 December 2020
<b>Residential mortgage loans (as disclosed in Note 13 and Note 28)</b>		
<b>On balance sheet exposures</b>		
Residential – owner occupied	261,883	247,025
Residential - investment	256,000	210,663
Residential – corporate lending	-	-
Provisions for impairment losses on loans and advances	(3,720)	(2,753)
Residential mortgages by loan-to-valuation ratio	514,163	454,935
<b>Off balance sheet exposures</b>	-	-
<b>Total</b>	<b>514,163</b>	<b>454,935</b>

### (d) Market Risk

Market risk exposures have been calculated in accordance with the methodology detailed in Part 10 of BPR140 of the RBNZ's Banking Prudential Requirements, and schedule 9 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"). Peak end-of-day aggregate capital charge for each category of market risk is derived by determining the maximum over the relevant period of the aggregate capital charge at the close of each business day derived in accordance with BPR140 of the Reserve Bank's Banking Prudential Requirements.

31 December 2021	End-period notional capital charges		Peak end-of-day notional capital charges	
	Implied risk weighted exposure	Notional capital charge	Implied risk weighted exposure	Notional capital charge
Thousands of dollars				
Interest rate risk	74,550	5,964	108,638	8,691
Foreign currency risk	8,763	701	14,163	1,133
Equity risk	-	-	-	-
<b>Total capital requirements</b>	<b>83,313</b>	<b>6,665</b>	<b>122,801</b>	<b>9,824</b>

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

## Note 39 – Other information on the Overseas Banking Group

As at 30 September 2021

### Profitability

Net profit after tax for the 12 month period (RMB millions)	340,842
Net profit after tax for the 12 month period as a percentage of average total assets	0.99%

### Size

Total assets (RMB millions)	35,398,066
Percentage change in total assets over the previous 12 month period	5.75%

As at 31 December 2020

### Asset quality

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

## Independent Auditor's Report

To the Directors of Industrial and Commercial Bank of China Limited

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION (EXCLUDING SUPPLEMENTARY INFORMATION RELATING TO CREDIT AND MARKET RISK EXPOSURES AND CAPITAL ADEQUACY)

#### Opinion

We have audited the consolidated financial statements and supplementary information (excluding supplementary information relating to Credit and Market Risk Exposures and Capital Adequacy) of the New Zealand Banking Group (the 'Banking Group'). The Banking Group incorporates the Industrial and Commercial Bank of China Limited Auckland Branch and Industrial and Commercial Bank of China (New Zealand) Limited.

The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

The supplementary information (excluding the information related to Credit and Market Risk Exposures and Capital Adequacy) comprises the information required to be disclosed under Schedules 4, 7, 11 and 13 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the 'Order').

In our opinion, the accompanying consolidated financial statements, on pages 13 to 76:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the financial position of the Banking Group as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

In our opinion, the supplementary information (excluding the information relating to Credit and Market Risk Exposures and Capital Adequacy) disclosed in accordance with Schedules 4, 7, 11 and 13 of the Order (the 'Supplementary Information'):

- 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;
- is in accordance with the books and records of the Banking Group in all material respects; and
- fairly states in all material respects the matters to which it relates in accordance with those Schedules.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (excluding supplementary information relating to Credit and Market Risk Exposures and Capital Adequacy)* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, we have no relationship with or interests in the Banking Group, except that partners and employees of our firm deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements (excluding supplementary information relating to Credit and Market Risk Exposures and Capital Adequacy) of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>Allowance for expected credit losses</b></p> <p>As described in Notes 1(f) and 6, the provision for expected credit losses (ECL) has been estimated as \$16.7 million as at 31 December 2021.</p> <p>The collective ECL is a probability-weighted estimate of the losses that are expected to occur from default events over a relevant timeframe. Using a number of inherently complex models, management applies significant judgement and estimation to incorporate both historical information and forward-looking information to determine the ECL.</p> <p>Further, the stressed economic environment caused by Covid-19 limits the relevance of historical information used in calibrating the ECL models and increases the uncertainty around forecast future economic scenarios.</p> <p>Individual ECL provisions are estimated by applying judgement as to the cash flows receivable from the recoveries of individual assets, which is inherently uncertain.</p> <p>We considered this a key audit matter due to the significant judgements made by management, as well as the inherently high complexity in the models used to calculate ECL.</p> <p>Other principal considerations for having determined that the ECL is a key audit matter include the extent of effort applied to audit the balance.</p>	<p>We performed the following audit procedures, amongst others:</p> <ul style="list-style-type: none"> <li>• Evaluated the systems, processes and controls in place over the critical data elements used in the ECL model, including general IT controls for key applications used by the Banking Group in estimating the ECL;</li> <li>• Assessed the Banking Group's significant accounting policies and ECL methodologies against the requirements of NZ IFRS 9;</li> <li>• Evaluated the appropriateness of the criteria used to determine when a Significant Increase in Credit Risk (SICR) has occurred;</li> <li>• Tested the completeness and accuracy of key inputs used in the collective provision model, including reconciling the drawn down balance of exposures in the model to source systems and reports;</li> <li>• For a sample of exposures, recalculated the ECL including validating key inputs against supporting documentation;</li> <li>• For a sample of exposures for which a 12-month ECL is recognised, reviewed the respective loan files and concluded on the appropriateness of the borrower's credit rating to assess whether, in our judgement, there was evidence of either SICR or impairment;</li> <li>• For loans identified as impaired, evaluated the sufficiency of the recorded provision based on expected recoveries, including assessing the reasonableness of those expected recoveries; and</li> <li>• Assessed the disclosures in the Disclosure Statement against the requirements of NZ IFRS 7.</li> </ul>

## **Other information**

The directors are responsible on behalf of the Banking Group for the other information. The other information comprises the information in the Disclosure Statement in accordance with Schedule 2 of the Order on pages 2 to 10 that accompanies the consolidated financial statements, supplementary information, and the audit report.

Our opinion on the consolidated financial statements and supplementary information does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements and supplementary information or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

## **Directors' responsibilities for the consolidated financial statements (excluding supplementary information relating to Credit and Market Risk Exposures and Capital Adequacy)**

The directors are responsible on behalf of the Banking Group for the preparation and fair presentation of the consolidated financial statements in accordance with Clause 22 of the Order, NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are also responsible on behalf of the Banking Group for the preparation of supplementary information which fairly states the matters required to be disclosed under Schedules 2, 4, 7, 11 and 13 of the Order and which is prepared in accordance with any guidelines issued pursuant to Section 78(3) of the Reserve Bank of New Zealand Act 1989; any Conditions of Registration; and in accordance with the books and records of the Banking Group.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Banking Group for assessing the Banking Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Banking Group or to cease operations, or have no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements (excluding supplementary information relating to Credit and Market Risk Exposures and Capital Adequacy) as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2>

This description forms part of our auditor's report.



## REPORT ON THE REVIEW OF THE SUPPLEMENTARY INFORMATION RELATING TO CREDIT AND MARKET RISK EXPOSURES AND CAPITAL ADEQUACY

### Conclusion

We have reviewed the supplementary information related to Credit and Market Risk Exposures and Capital Adequacy on pages 74 to 76 of the Disclosure Statement for the year ended 31 December 2021. The supplementary information relating to Credit and Market Risk Exposures and Capital Adequacy comprises the information that is required to be disclosed in accordance with Schedule 9 of the Order.

Based on our review, nothing has come to attention that causes us to believe that the supplementary information relating to Credit and Market Risk Exposures and Capital Adequacy is not, 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.

### Basis for Conclusion

We conducted our review in accordance with NZ SRE 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* ('NZ SRE 2410 (Revised)'). Our responsibilities are further described in the Auditor's Responsibilities for the Review of the supplementary information relating to Credit and Market Risk Exposures and Capital Adequacy section of our report.

We are independent of the Banking Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Directors' responsibilities for the supplementary information relating to Credit and Market Risk Exposures and Capital Adequacy

The directors are responsible on behalf of the Banking Group for the preparation and fair presentation of the supplementary information relating to Credit and Market Risk Exposures and Capital Adequacy in accordance with Schedule 9 of the Order, and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the supplementary information relating to Credit and Market Risk Exposures and Capital Adequacy that is free from material misstatement, whether due to fraud or error.

### Auditor's responsibilities for the review of the supplementary information relating to Credit and Market Risk Exposures and Capital Adequacy

Our responsibility is to express a conclusion on the supplementary information relating to Credit and Market Risk Exposures and Capital Adequacy based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the supplementary information relating to Credit and Market Risk Exposures and Capital Adequacy is not, 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 Credit and Market Risk Exposures and Capital Adequacy in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently do not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on the supplementary information relating to Credit and Market Risk Exposures and Capital Adequacy.

### Restriction of use

This report is made solely to the Banking Group's directors, as a body. Our audit has been undertaken so that we might state to the Banking Group's directors those matters we are required to state to them in an 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 Banking Group's directors as a body, for our audit work, for this report, or for the opinions we have formed.



Jason Stachurski  
Partner  
for Deloitte Limited  
Auckland, New Zealand  
29 March 2022