中国建设银行（新西兰）
China Construction Bank (New Zealand) Ltd.

Disclosure Statement

For the year ended 31 December 2023

CCB 中国建设银行(新西兰) China Construction Bank (New Zealand) Ltd.

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Abbreviations

The following abbreviations are used throughout the report:

ALCO Asset and Liability Committee
ANZSIC Australia and New Zealand Standard Industrial Classifications
BARC Board Audit, Risk and Compliance Committee
BPR Banking Prudential Requirements
CBIRC China Banking and Insurance Regulatory Commission
CBRC China Banking Regulatory Commission
CCBC China Construction Bank Corporation
CCBNZL China Construction Bank (New Zealand) Limited
CCCFA Credit Contracts and Consumer Finance Act 2003
CET1 Common Equity Tier 1
CFP Contingency funding plan
EAD Exposure at default
ECL Expected credit losses
EWI Early warning indicator
FC Foreign currency
FVOCI Fair value through other comprehensive income
FVTPL Fair value through profit or loss
ICAAP Internal capital adequacy assessment process
IRB Internal rating based
IRRBB Interest rate risk in the banking book
ISDA International Swaps and Derivatives Association
LGD Loss given default
LVR Loan-to-valuation ratio
NAFR National Administration of Financial Regulation
NII Net interest income
NZ GAAP New Zealand Generally Accepted Accounting Principles
NZ IAS New Zealand equivalent to International Accounting Standards
NZ IFRS New Zealand equivalent to International Financial Reporting Standards
PD Probability of default
POCI Purchased and originated credit impaired
RWA Risk weighted assets
RBNZ Reserve Bank of New Zealand
RCD Registered Certificate of Deposit
RMB Chinese Yuan Renminbi
SICR Significant increase in credit risk

Disclosure Statement

For the year ended 31 December 2023

General information and definitions

This Disclosure Statement has been issued by China Construction Bank (New Zealand) Limited (the “Bank”) for the year ended 31 December 2023 in accordance with Section 81 of the Banking (Prudential Supervision) Act 1989 and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the “Order”).

In this Disclosure Statement:

- “Banking Group” refers to the Bank and its subsidiaries. As at the date of this Disclosure Statement, the Bank does not have any subsidiaries and is the only member of the Banking Group;
- “Ultimate Parent Bank”, “Immediate Parent Bank”, "Overseas Bank" and “CCBC” mean China Construction Bank Corporation;
- China Construction Bank Corporation New Zealand branch (the "branch”) – refers to the New Zealand branch of the Ultimate Parent Bank and includes all banking business transacted in New Zealand through the branch;
- “Board” means the Board of Directors of the Bank.

Words and phrases defined by the Order have the same meaning when used in this Disclosure Statement. All amounts referred to in this Disclosure Statement are in thousands of New Zealand dollars unless otherwise stated.

Corporate information

The Bank was incorporated under the Companies Act 1993 (Company Number 4929019) on 30 January 2014. It became a registered bank on 15 July 2014.

The Bank's registered office and address for service is Level 29, Vero Centre, 48 Shortland Street, Auckland 1010, New Zealand. The Bank's website address is: http://nz.ccb.com. The Disclosure Statement of the Bank is available for download, free of charge, on the Bank’s website. A printed copy will also be made available, free of charge, upon request and will be dispatched by the end of the second working day after the day on which the request is made.

Ultimate parent and holding company

The Bank is a wholly-owned subsidiary of CCBC which is the Bank’s Ultimate Parent Bank and Ultimate Holding Company. CCBC was incorporated in China and is subject to supervision by banking regulatory bodies empowered by the State Council of the People’s Republic of China. The address for service of CCB is No. 25, Financial Street, Xicheng District, Beijing 100033, the People's Republic of China.

Significant interest in the registered bank

The Ultimate Parent Bank has a direct qualifying interest in 100% of the voting securities of the Bank and has the power to directly appoint up to 100% of the Board. All appointments to the Board must be approved by the RBNZ.

Limits on material financial support by the Ultimate Parent Bank

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

Directorate

The Directors of the Bank at the time this Disclosure Statement was signed were: Dr. Murray Horn, Dr. Alan Bollard, Sir Robert Arnold McLeod, Jun Qi, Xingyao Li and Hong Yang.

	Dr. Murray Horn	Dr. Alan Bollard	Sir Robert Arnold McLeod
Non-executive	*Yes*	*Yes*	*Yes*
Independent Director	*Yes*	*Yes*	*Yes*
Qualifications	*CNZM, PhD (Harvard), CFInstD*	*CNZM, MA (hons), PhD, Hon LLD (University of Auckland), Hon D.Com (Massey University)*	*KNZM, LLB, BCom, FCA, CFInstD*
Country of Residence	*New Zealand*	*New Zealand*	*New Zealand*
Primary Occupation	*Director*	*Director*	*Director*
Secondary Occupations	*Advisor*	*Adjunct Research Fellow, Victoria University of Wellington*	*Barrister*
Board Audit, Risk and Compliance Committee Member	*Yes*	*Yes*	*Yes*
External Directorships	*Como Corp Limited* *HFT Co Limited* *Marisco Properties Limited* *Marisco Vineyards Limited*	*Chair, NZ Infrastructure Commission* *Chair, NZ Portrait Gallery* *Chair, NZ Centres for Asia-Pacific Excellence* *Trustee, Morel-Bollard Family Trust* *Chair, NZ Pacific Economic Cooperation Conference (PECC)*	*Sanford Ltd* *Sanford LTI Ltd* *Nati Growth Ltd* *MSJS NZ Ltd* *AZSTA NZ Ltd* *VCFA Ltd* *Point 76 Ltd* *Point Seventy Ltd* *Point Guard Ltd* *KLAM Trustee Ltd* *McLeod Koraha Ltd* *McLeod Totara Ltd* *McLeod Custodian Ltd* *Robert A McLeod Ltd* *Ram Custodian Ltd* *Ionian Holdings Ltd - (Trustee shareholder)* *Singita Holdings Ltd* *Singita Investments Ltd* *Nati Properties Ltd*

	Jun Qi	Xingyao Li	Hong Yang
Non-executive	*No*	*No*	*Yes*
Independent Director	*No*	*No*	*No*
Qualifications	*Masters Degree*	*Bachelor Degree*	*Doctorate Degree*
Country of Residence	*New Zealand*	*New Zealand*	*China*
Primary Occupation	*Executive Director and Chief Executive Officer, China Construction Bank (New Zealand) Limited, General Manager, China Construction Bank Corporation New Zealand branch*	*Executive Director and Deputy Chief Executive Officer, China Construction Bank (New Zealand) Limited, Deputy General Manager, China Construction Bank Corporation New Zealand branch*	*Deputy General Manager of the Finance and Accounting Department in CCBC.*
Secondary Occupations	*None*	*None*	*Director*
Board Audit, Risk and Compliance Committee Member	*No*	*No*	*Yes*
External Directorships	*None*	*None*	*None*

As at the date of signing this Disclosure Statement, there have been no changes in the Board since 31 December 2022.

Responsible Person

Mr Jun Qi (Executive Director), has been authorised in writing to sign this Disclosure Statement in accordance with section 82 of the Banking (Prudential Supervision) Act 1989 on behalf of the Directors, being:

Dr. Murray Horn (Chair), Dr. Alan Bollard, Sir Robert Arnold McLeod, Xingyao Li and Hong Yang.

Address for communications

All communications may be sent to the Directors and the Responsible Person at the registered office of the Bank, Level 29, Vero Centre, 48 Shortland Street, Auckland 1010, New Zealand.

Conflicts of interest

The Board is responsible for ensuring that actual and potential conflicts of interest between the Directors' duty to the 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) If required by the Board, take steps as are necessary and reasonable to resolve any conflict of interest within an appropriate period.

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.

Transactions with Directors

There have been no transactions entered into by any Director, or any immediate relative or close business associate of any Director, with the Bank:

(a) on terms other than on those which would, in the ordinary course of business of the Bank, be given to any other person of like circumstances or means; or
(b) which could otherwise be reasonably likely to materially influence the exercise of that Director's duties.

Guarantee Arrangements

(a) Details of Guaranteed Obligations

As at the date of this Disclosure Statement, under the terms of the Deed of Guarantee (the "Guarantee”), the obligations of the Bank are guaranteed by CCBC.

A copy of the Deed of Guarantee given by CCBC is provided on pages 74 to 79 of the Disclosure Statement.

There have been no changes to the Guarantee since the publication of the Bank’s full year Disclosure Statement for the year ended 31 December 2022.

Under the Guarantee:

(a) There are no limits on the amount of the obligations guaranteed.
(b) There are no material conditions applicable to the Guarantee other than non-performance by the Bank.
(c) There are no material legislative or regulatory restrictions in China that would have the effect of subordinating the claims under the Guarantee of any of the Bank’s creditors on the assets of the Ultimate Parent Bank, to other claims on the Ultimate Parent Bank in a winding up of the Ultimate Parent Bank.
(d) The Guarantee does not have an expiry date.

(b) Details of the Guarantor

The guarantor is CCBC, which is not a member of the Banking Group. The address for service of the guarantor is No. 25, Financial Street, Xicheng District, Beijing 100033, the People's Republic of China.

As disclosed in CCBC’s unaudited consolidated results for the nine months period ended 30 September 2023, CCBC Group’s total capital for capital adequacy purposes was RMB 3,906,041 million (NZD 839,614 million) and its total capital ratio was 17.57%. Capital ratios are calculated in accordance with the Capital Rules for Commercial Banks (Provisional) issued by CBIRC.

Effective May 2023, the regulatory oversight previously provided by the China Banking and Insurance Regulatory Commission ("CBIRC" and previously "CBRC") has transitioned to the National Administration of Financial Regulation ("NAFR"). As a result, all references to CBIRC and CBRC in the Disclosure Statement now pertain to NAFR.

CCBC has the following credit ratings applicable to its long-term senior unsecured obligations payable in RMB as at the date the Directors signed this Disclosure Statement:

Rating Agency	Current credit	Rating outlook
Standard & Poor's Ratings Services	A	Stable
Moody's Investors Service	A1	Negative
Fitch Ratings	A	Stable

A credit rating is not a recommendation to buy, sell or hold securities of the Bank. Such ratings are subject to revision, qualification, suspension or withdrawal at any time by the assigning rating agencies. Investors in the Bank’s securities are cautioned to evaluate each rating independently of any other rating. In May 2021, Standard & Poor's affirmed the Overseas Bank's A rating. On 6 December 2023, Moody's Investors Service affirmed the Overseas Bank's A1 rating and adjusted the outlook from stable to negative. In June 2021, Fitch affirmed the Overseas Bank's A rating.

Pending proceedings or arbitration

There are no pending legal proceedings or arbitration at the date of this Disclosure Statement involving the Bank, whether in New Zealand or elsewhere, that may have a material adverse effect on the Bank.

Priority of creditors’ claims

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

Auditor

Ernst & Young (“EY”), 2 Takutai Square, Britomart, Auckland 1010, New Zealand.

Items excluded by Shareholder Agreement

With agreement of the shareholder, the Bank has taken advantage of the concessions available to it under Section 211 (3) of the Companies Act 1993. Accordingly, there is no information to be provided in relation to remuneration received by the Directors and highly paid employees.

Directors' Statement

Each Director of the Bank believes, after due enquiry, that, as at the date on which this 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.

Each Director of the Bank believes, after due enquiry that, for the year ended 31 December 2023:

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

This Disclosure Statement is dated 27 March 2024 and has been signed by Mr Jun Qi as the responsible person for and on behalf of all the Directors (by Directors' resolution):

Mr Jun Qi
EXECUTIVE DIRECTOR

Historical summary of financial statements

For the year ended 31 December	2023 $000	2022 $000	2021 $000	2020 $000	2019 $000
Financial Performance					
Interest income	155,104	97,017	59,101	58,933	57,764
Interest expense	(110,580)	(56,866)	(22,059)	(26,648)	(33,257)
Other interest (expense) / income	-	-	-	(19)	(126)
Net interest income	**44,524**	**40,151**	**37,042**	**32,266**	**24,381**
Net fees and commission income	3,584	5,555	4,971	2,435	7,601
Other income / (expense)	(3,016)	1,728	498	(1,049)	1,379
Net operating income before operating expenses and impairment charges	**45,092**	**47,434**	**42,511**	**33,652**	**33,361**
Operating expenses	(12,377)	(10,756)	(10,556)	(11,154)	(14,485)
Impairment write-backs / (charges) on credit exposures	3,752	391	(1,095)	(4,600)	(1,803)
Profit before income tax	**36,467**	**37,069**	**30,860**	**17,898**	**17,073**
Income tax expense	(9,784)	(10,693)	(8,561)	(5,101)	(4,892)
Profit after income tax attributable to the owner of the Bank	**26,683**	**26,376**	**22,299**	**12,797**	**12,181**
Dividends paid on ordinary shares	**-**	-	-	-	-

As at 31 December	2023 $000	2022 $000	2021 $000	2020 $000	2019 $000
Financial Position					
Total assets	2,507,341	2,439,701	2,527,083	1,854,329	1,863,417
Total individually impaired assets	-	-	-	-	-
Total liabilities	2,194,734	2,152,108	2,264,056	1,613,475	1,635,760
Total shareholder's equity	312,607	287,593	263,027	240,854	227,657

The amounts disclosed in this historical summary of financial statements have been taken from the audited financial statements of the Bank.

Statement of comprehensive income

For the year ended 31 December	Note	2023 $000	2022 $000
Interest income	2	155,104	97,017
Interest expense	2	(110,580)	(56,866)
Net interest income	2	**44,524**	**40,151**
Net fees and commission income	3	3,584	5,555
Other income / (expense)	3	(3,016)	1,728
Net operating income before operating expenses and impairment charges		**45,092**	**47,434**
Operating expenses	4	(12,377)	(10,756)
Impairment write-backs / (charges) on credit exposures	5	3,752	391
Profit before income tax		**36,467**	**37,069**
Income tax expense	6 (a)	(9,784)	(10,693)
Profit after income tax attributable to the owner of the Bank		**26,683**	**26,376**
Other comprehensive income, net of tax			
Other comprehensive income / (expense) which may be reclassified to profit or loss			
Net change in cash flow hedge reserve		(1,955)	(1,739)
Net change in FVOCI reserve		286	(71)
Total other comprehensive income / (expense), net of tax		**(1,669)**	**(1,810)**
Total comprehensive income attributable to the owner of the Bank		**25,014**	**24,566**

These financial statements are to be read in conjunction with the notes on pages 13 - 73.

Statement of changes in equity

For the year ended 31 December 2023	Note	Share capital $000	Retained earnings $000	Cash flow hedge reserve $000	FVOCI reserve $000	Total $000
Balance at 1 January 2023	18	199,178	90,340	(1,773)	(152)	287,593
Profit after income tax		-	26,683	-	-	26,683
Other comprehensive income / (expense)		-	-	(1,955)	286	(1,669)
Total comprehensive income / (expense) for the period		**-**	**26,683**	**(1,955)**	**286**	**25,014**
Balance at 31 December 2023		**199,178**	**117,023**	**(3,728)**	**134**	**312,607**

For the year ended 31 December 2022	Note	Share capital $000	Retained earnings $000	Cash flow hedge reserve $000	FVOCI reserve $000	Total $000
Balance at 1 January 2022	18	199,178	63,964	(34)	(81)	263,027
Profit after income tax		-	26,376	-	-	26,376
Other comprehensive expense		-	-	(1,739)	(71)	(1,810)
Total comprehensive income / (expense) for the period		**-**	**26,376**	**(1,739)**	**(71)**	**24,566**
Balance at 31 December 2022		**199,178**	**90,340**	**(1,773)**	**(152)**	**287,593**

These financial statements are to be read in conjunction with the notes on pages 13 - 73.

Balance sheet

As at 31 December	Note	2023 $000	2022 $000
Assets			
Cash and balances with central banks	8	282,264	215,709
Due from other financial institutions	9	124,804	211,682
Investment securities	10	338,889	183,202
Loans and advances	11	1,745,571	1,803,022
Due from related parties	20	79	205
Derivative financial assets	12	8,430	15,576
Property, plant and equipment	13	4,058	4,937
Intangible assets		30	7
Deferred tax assets		2,855	5,211
Other assets		361	150
Total assets		**2,507,341**	**2,439,701**
Liabilities			
Due to other financial institutions	14	277,358	367,601
Deposits from customers	15	507,229	461,235
Debt securities issued	16	872,408	754,322
Due to related parties	20	508,462	502,383
Subordinated debt		-	15,189
Current tax liabilities		1,204	4,763
Derivative financial liabilities	12	19,658	37,703
Other liabilities	17	8,415	8,912
Total liabilities		**2,194,734**	**2,152,108**
Shareholder's equity			
Share capital	18	199,178	199,178
Retained earnings		117,023	90,340
Reserves		(3,594)	(1,925)
Total shareholder's equity		**312,607**	**287,593**
Total liabilities and shareholder's equity		**2,507,341**	**2,439,701**
Total interest earning and discount bearing assets		2,493,422	2,420,424
Total interest and discount bearing liabilities		2,163,282	2,117,804

These financial statements were approved by the Directors on 27 March 2024 and are signed on their behalf by:

Dr. Murray Horn
CHAIR

Mr Jun Qi
EXECUTIVE DIRECTOR

These financial statements are to be read in conjunction with the notes on pages 13 - 73.

Statement of cash flows

For the period ended	Note	2023 $000	2022 $000
Cash flows from operating activities			
Interest received		135,887	89,953
Interest paid		(106,846)	(48,166)
Income received from financial instruments designated as FVOCI		11,619	10,367
Non-interest income received		3,536	5,856
Non-interest expense paid		(5,297)	(8,373)
Operating expenses paid		(10,952)	(10,290)
Income taxes paid		(10,227)	(10,655)
Net cash flows from operating activities before changes in operating assets and liabilities		**17,720**	**28,692**
Net changes in operating assets and liabilities:			
Net change in GST receivable		(51)	36
Net change in other assets		(161)	(23)
Net change in loans and advances		65,998	27,454
Net change in due from related parties		(14)	-
Net change in due to other financial institutions		(90,243)	193,911
Net change in deposits from customers		44,422	52,362
Net changes in operating assets and liabilities		**19,951**	**273,740**
Net cash flows provided by / (used in) operating activities	7	**37,671**	**302,432**
Cash flows from investing activities			
Purchase of investment securities		(149,918)	(106,694)
Purchase of property, plant and equipment		(88)	(274)
Purchase of intangible assets		(25)	-
Net cash flows used in investing activities		**(150,031)**	**(106,968)**
Cash flows from financing activities			
Amount borrowed from related parties		2,590	63,235
Repayment of due to related parties		(4,696)	(35,588)
Issuance of debt securities	16	455,000	90,000
Repayment of debt securities	16	(345,000)	(478,178)
Repayment of subordinated debt		(15,000)	-
Repayment of principal portion of lease liabilities		(997)	(963)
Net cash flows (used in) / provided by financing activities		**91,897**	**(361,494)**
Net (decrease) / increase in cash and cash equivalents		(20,463)	(166,030)
Cash and cash equivalents at beginning of the year		427,596	593,626
Cash and cash equivalents at end of the year	28 (b)	**407,133**	**427,596**
Cash and cash equivalents at end of the year comprise:			
Cash and balances with central banks	28 (b)	282,264	215,709
Due from other financial institutions (call or original maturity of 3 months or less)	28 (b)	124,804	211,682
Due from related parties (nostro account)	28 (b)	65	205
Cash and cash equivalents at end of the year	28 (b)	**407,133**	**427,596**

These financial statements are to be read in conjunction with the notes on pages 13 - 73.

Notes to the Financial Statements

1. Statement of accounting policies

1.1 Reporting entity

The reporting entity is China Construction Bank (New Zealand) Limited (the "Bank") and its subsidiaries (the "Banking Group"). As at the date of this Disclosure Statement the Bank does not have any subsidiaries and is the only member of the Banking Group. The Bank became a registered bank on 15 July 2014 under the Banking (Prudential Supervision) Act 1989. The Bank is a company incorporated in New Zealand under the Companies Act 1993 on 30 January 2014 and is registered under Company Number 4929019 and is a FMC reporting entity for the purposes of Part 7 of the Financial Markets Conduct Act 2013.

These financial statements were approved for issue by the Board on 27 March 2024.

The principal activity of the Bank is the provision of a range of banking products and services to business, corporate, institutional and retail customers.

1.2 Basis of preparation

These financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order"). The financial statements comply with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP") and with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards as appropriate for Tier 1 for-profit entities. They also comply with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") applicable to companies reporting under IFRS.

These financial statements have been prepared under the historical cost convention, except by the application of fair value measurements required or allowed by relevant accounting standards.

The going concern and the accrual bases of accounting have been adopted.

1.3 Presentation currency and rounding

All amounts contained in the financial statements are presented in New Zealand Dollars, which is the Bank's functional and presentation currency. The amounts are rounded to the nearest thousand dollars.

1.4 Comparative data

Certain comparative information has been reclassified to ensure consistency with the current reporting period where appropriate.

1.5 Changes in accounting policies

The accounting policies and methods of computation are consistent with those of the Bank's financial statements for the full year ended 31 December 2022. There have been no material changes to the accounting policies for the year ended 31 December 2023.

(a) Standards and amendments issued but not yet effective

Management have considered amendments to NZ IFRS which became relevant for the Bank for the first time during the year ended 31 December 2023 and have concluded they have no material impact on the Bank's financial position or performance. No new standards, amendments or interpretations to existing standards that are not yet effective have been early adopted by the Bank in these financial statements.

1.6 Particular accounting policies

(a) Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when recognised in other comprehensive income ("OCI") as qualifying cash flow hedges.

Translation differences on non-monetary items measured at FVTPL are reported as part of the fair value gain or loss on these items.

(b) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

Interest income

Interest income for all interest earning financial assets excluding those measured through FVTPL is recognised in the profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments over the expected life of the financial instrument, or when appropriate, over a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, cash flows are estimated based upon all contractual terms of the financial instrument but do not consider expected credit losses. The calculation includes all fees and other amounts received or paid between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For financial assets that are POCI, the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset. For financial assets that are not POCI but have subsequently become credit-impaired (or stage 3), interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

Fee and commission income

Fees and commission income from contracts with customers is measured based on the consideration specified in the contract. The Bank recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of revenue	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition
Lending and credit facility related fee income	The Bank provides banking services to retail and corporate customers, including account management, provision of revolving facilities, foreign currency transactions, and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rate separately for retail and corporate banking customers.	Revenue from account service and servicing fees is recognised over time as the services are provided to customers.
Trade finance and other fee income	Transaction-based fees for interchange, foreign currency transactions and revolving facilities are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed and variable rates.	Revenue from trade finance and other fee income is recognised at the point in time when the transaction takes place.
Management fee income	Service fees charged to the branch for the outsourcing services provided by the Bank to the branch are charged monthly by the Bank and are calculated on a cost allocation basis, with reference to the total costs incurred by the Bank in providing the services and an agreed cost allocation methodology.	Revenue from service fees from related entities is recognised as the performance obligation is met (which is over the period of service).

Trading income

Realised gains and losses and unrealised gains and losses arising from changes in the fair value of trading assets and trading liabilities are recognised as trading income under Other income in Note 3 in the profit or loss in the period in which they arise, except for recognition of day one profits or losses which are deferred where certain valuation inputs are unobservable. Interest income or interest expense on the trading portfolio is recognised as part of net interest income.

Gain or loss on disposal of property, plant and equipment

The gain or loss arising on the disposal or retirement of property, plant and equipment is determined as the difference between the sale proceeds less costs of disposal and the carrying amount of the respective asset and is recognised in the profit or loss as non-interest income.

(c) Expense recognition

Interest expense

Interest expense, including premiums or discounts and associated expenses incurred on the issue of financial and lease liabilities, is recognised in the profit or loss using the effective interest method.

Loan origination expenses

Certain loan origination expenses are an integral part of the effective interest rate of a financial asset measured at amortised cost. These loan origination expenses include:

- fees and commissions payable to brokers and certain customer incentive payments in respect of originating lending business; and
- other expenses of originating lending business, such as external legal costs and valuation fees, provided these are direct and incremental costs related to the issue of a financial asset.

Such loan origination expenses are initially recognised as part of the cost of acquiring the financial asset and amortised as part of the effective yield of the financial asset over its expected life using the effective interest method.

Leasing

Interest expense on lease liabilities and depreciation on right-of-use assets is recognised in the profit or loss as an expense.

Impairment losses on credit exposures

The loss recognised in the profit or loss for impairment on credit exposures reflects the net movement in the provisions for credit exposures, write-offs and recoveries of impairments previously written off.

Commissions and other fees

All other fees and commissions are recognised in the profit or loss over the period in which the related service is received.

Employee benefits

Employee entitlements to salaries and wages, bonus, annual leave, long service leave, retirement and other similar benefits are recognised in the profit or loss when they accrue to employees.

Obligations for contributions to defined contribution retirement plans are recognised as an expense in the profit or loss as they fall due.

Other expenses

All other expenses are recognised in the profit or loss on an accruals basis as the related service is received.

(d) Taxation

Income tax expense

Income tax on profit or loss for the period comprises current and deferred tax and is based on the applicable tax law. It is recognised in the profit or loss as tax expense or benefit, except when it relates to items recognised in other comprehensive income or directly in equity, in which case it is recorded in other comprehensive income or directly in equity respectively, or where it arises from the initial accounting for a business combination, in which case it is included in the determination of goodwill.

Current tax

Current tax is the expected tax payable on taxable income for the period, based on tax rates (and tax laws) which are enacted or substantively enacted by the reporting date and including any adjustment for tax payable in previous periods. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive tax balance sheet method. It is generated by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credits can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences, other than those relating to taxable temporary differences arising from goodwill. They are also recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures, except where the Bank is able to control the reversal of the temporary differences and it is probable that temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and there will be sufficient taxable profits against which to utilise the benefits of the temporary difference.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Bank, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

Offsetting

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes levied by the same taxation authority, there is a legal right and intention to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.

Goods and services tax

Income, expenses and assets are recognised net of the amount of goods and services tax (“GST”) except where the amount of GST incurred is not recoverable from Inland Revenue. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the operating expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, Inland Revenue is included as other assets or other liabilities in the balance sheet.

Cash flows are included in the cash flow statement on a net basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from or payable to Inland Revenue, are classified as operating cash flows.

(e) Financial assets

Classification

The Bank classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through Other Comprehensive Income ("OCI"), or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the Bank’s business model for managing the financial assets and the contractual terms of the cash flows.

The Bank reclassifies financial assets when and only when its business model for managing those assets changes.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

- Amortised cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in profit or loss.
- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the asset’s cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in interest income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as a separate line item in profit or loss.
- FVTPL: Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a financial asset that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Recognition and measurement of financial assets

Financial assets are recognised when the Bank becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets are recognised on trade-date or the date on which the Bank commits to purchase or sell the asset.

Financial instruments are measured initially at fair value plus, in the case of a financial instrument not measured at FVTPL, transaction costs that are directly attributable to the acquisition or issue of the instrument. Transaction costs for financial instruments measured at FVTPL are expensed immediately.

Subsequent to initial recognition, the Bank measures different categories of financial assets at amortised cost, FVOCI or FVTPL respectively. Financial liabilities other than those measured at FVTPL are measured at amortised cost using the effective interest method.

(i) Financial assets measured at FVTPL

Gains and losses from changes in the fair value of financial assets measured at FVTPL are recognised in profit or loss. Interest earned on financial assets measured at FVTPL is recognised as net income from financial instruments designated at FVTPL and does not form part of interest income in profit or loss.

(ii) Financial assets measured at FVOCI

The impairment losses, foreign exchange gains and losses and interest income calculated using the effective interest method of financial assets measured at FVOCI are recognised in profit or loss. Other changes in carrying amount are recognised in OCI.

When the financial assets measured at FVOCI are sold, gains or losses on disposal are recognised in profit or loss. Gains or losses on disposal include those previously recognised in OCI being transferred to the profit or loss.

(iii) Financial assets measured at amortised cost

The amortised cost of a financial asset should be measured with the initial recognition after the following adjustments: (i) deducting the repaid principal; (ii) adding or subtracting the cumulative amortisation, using the effective interest method, of any difference between that initial amount and the maturity amount; (iii) the loss provision for the accumulated accrual.

For financial assets measured at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Effective interest rate

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected lifetime of the financial asset to the carrying amount of a financial asset less any impairment allowance. The calculation does not consider expected credit losses but includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate. The Bank determines interest income based on the carrying amount of financial assets multiplied by the effective interest rate, except: (i) for purchased or sourced financial assets that have suffered credit impairment, from the initial recognition, interest income is calculated using the financial assets' amortised cost and credit-adjusted real interest rate; (ii) for a purchased or sourced financial asset that has not suffered credit impairment but has become credit impaired in subsequent periods, interest income is determined using the financial asset's amortised cost and the effective interest rate. If the financial asset no longer has credit impairment due to the improvement of its credit risk in the subsequent period, and this improvement can be objectively related to an event that occurs after the application of the above provisions, interest income should be recalculated using the effective interest rate multiplied by the carrying amount of the financial asset.

Cash and balances with central banks

Cash and balances with central banks include settlement account balances. These balances have an original maturity of less than three months. They are accounted for as financial assets at amortised cost and subsequently measured at amortised cost or the gross value of the outstanding balance, where appropriate.

Due from other financial institutions

Due from other financial institutions is defined by the nature of the counterparty and includes loans, nostro balances, deposit funds placed, collateral placed, reverse repurchase agreements, cash and cash at bank and due from other financial institutions. They are accounted for as financial assets at amortised cost and subsequently measured at amortised cost using the effective interest method, less impairment where applicable.

Investment securities

Investment securities are non-derivative financial assets, which includes short and long term public and other debt securities investments by the Bank. The fair value of securities is based on quoted market prices, where available, or calculated using discounted cash flow models based on current market rates.
The classification depends on the business model of the Bank's business model for managing the investment securities and the contractual terms of the cash flows.

Derivative assets

Derivative assets are measured at FVTPL. The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is used as a hedging instrument and, if so, the nature of the item being hedged. Refer to (h) below for more details on derivatives.

Loans and advances

Loans and advances cover all forms of lending provided to customers such as revolving credit facilities and term loans. They are accounted for as financial assets at amortised cost and subsequently measured at amortised cost using the effective interest method, less impairment where applicable.

Due from related parties

This amount includes all amounts due from related parties of the Bank, and is accounted for as financial assets at amortised cost as above.

Other assets

Other assets include fees and commissions receivable, receivables relating to unsettled transactions and trade debtors.

Impairment of financial assets

At the end of each reporting period, the Bank performs an impairment assessment based on expected credit loss on financial assets measured at amortised cost and FVOCI, as well as loan commitments and financial guarantee contracts.

The ECL refers to the weighted average of the credit losses of financial instruments that are weighted by the risk of default. Credit loss refers to the difference between all contractual cash flows receivable from the contract and all cash flows expected to be received discounted at the original real interest rate by the Bank, that is, the present value of all cash shortages. Among them, financial assets that have been purchased or sourced by the Bank and have suffered credit impairment shall be discounted according to the effective interest rate of the financial assets after credit adjustments.

The Bank's method of measuring expected credit losses of financial instruments reflects the following elements: (i) unbiased weighted average probability determined by the results of evaluating a range of possible outcomes; (ii) time value of money; (iii) reasonable and evidence-based information about past events, current conditions, and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

At the end of each reporting period, the Bank assesses whether the credit risk of the relevant financial instruments has increased significantly since the initial recognition, and measures its ECL and recognises its loss provision and changes from the prior period in the following cases: (i) if the credit risk of the financial instrument has not increased significantly since the initial recognition, the Bank measures its loss provision based on the amount equivalent to the ECL of the financial instrument in the next 12 months; (ii) if the credit risk of the financial instrument has increased significantly since the initial recognition, the Bank measures its loss provision based on the amount of lifetime ECL of the financial instrument. Under the above circumstances, regardless of whether the Bank's assessment of credit losses is based on a single financial instrument or a combination of financial instruments, the increase or reversal of the loss provision resulting therefrom should be included in the current profit or loss as an impairment loss or gain.

For investment securities measured at FVOCI, the Bank recognises the allowance for impairment in OCI and impairment losses or gains in profit or loss.

In cases where the loss provision measured at the amount equivalent to the lifetime ECL of the financial instrument and the financial instrument is no longer having significant increase in credit risk at the end of the current reporting period, the Bank measures its loss provision based on the amount of its ECL for the next 12 months, and the reversal of the loss provision arising from it is recognised in profit or loss for the current reporting period.

For financial assets that have been purchased or sourced with credit impairment, the Bank only recognises cumulative changes in lifetime ECL after initial recognition at the end of the reporting period as loss provision. At the end of each reporting period, the Bank recognises the amount of the change in lifetime ECL as an impairment loss or gain in current profit or loss.

- ***Segmentation of financial instruments***

The Bank adopts a "three-stage" model for impairment, based on changes in credit quality since initial recognition, to estimate the ECL.

The key definition of the three stages are summarised below:

- Stage 1: 12-months ECL – for financial instruments with no significant increase in credit risk after initial recognition, ECL in the next 12 months are recognised.
- Stage 2: Lifetime ECL – not credit impaired – for financial instruments with significant increase in credit risk since initial recognition, but no objective evidence of impairment, lifetime ECL are recognised.
- Stage 3: Lifetime ECL – credit impaired – for financial assets that show objective evidence of impairment at the end of the reporting period, lifetime ECL are recognised.

- ***Significant increase in credit risk ("SICR")***

The Bank assesses whether the credit risk of a financial instrument has increased significantly since initial recognition on a quarterly basis. The Bank considers all reasonable and supportable information, including forward-looking information, which reflects the significant increase in credit risk. The major factors considered include regulatory and business environment, internal and external credit grading, repayment ability, operation capacity, contract terms of the loan, repayment behaviours, etc. The Bank compares the risk of a default occurring as at the end of the reporting period with that as at the date of initial recognition of one financial instrument or a portfolio of financial instruments that shares the similar credit risk characteristics. The Bank considers the change in probability of default ("PD"), whether the overdue exceeds 30 days and other factors to determine whether there is SICR since initial recognition.

- ***Definition of default and credit-impaired assets***

The Bank considers a financial instrument is in default when it is credit-impaired. Additionally, overdue for more than 90 days on contractual payment terms is considered default.

In order to evaluate whether a financial asset is impaired, the Bank considers the following criteria:

- Significant financial difficulty of the borrower or issuer;
- Breach of contract term, such as a default or delinquency in interest or principal payments;
- The Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Bank would not otherwise consider;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- Disappearance of an active market for financial assets because of financial difficulties;
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including adverse changes in the payment status of borrowers in the Bank, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the Bank;
- Significant changes in the technological, market, economic or legal environments that have an adverse effect on the issuer of an equity instrument;
- A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and
- Other objective evidence indicating there is an impairment of the financial asset.

The Bank's definition of default has been consistently applied to the modelling process of PD, EAD and LGD during the ECL calculation.

- ***Measuring ECL – Explanation of inputs, assumptions and estimation techniques***

The ECL is recognised on either a 12-month or lifetime basis. Lifetime basis is used only where a SICR has occurred since initial recognition or a financial instrument is considered to be credit impaired. ECL are the discounted product of the weighted average of PD, LGD and EAD under the three scenarios, defined as follows:

- PD represents the consideration of forward-looking information on the likelihood of a borrower defaulting on its financial obligation in the future.
- LGD represents an estimate of loss arising, after consideration of forward-looking information on the Bank's expectation. It is expressed as a percentage of EAD.
- EAD is based on the total amount of risk exposure on and off balances sheet at the time of default. The exposure is determined by the repayment plan according to different types of product.
- The discount rate used in the ECL calculation is the effective interest rate.

The assumptions underlying the ECL calculation, such as how the maturity profile of the PDs and how the collateral values change etc. are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques. Assumptions have been updated to reflect change in market conditions, global economic uncertainties (see Note 23) and country risk considerations made during the reporting period.

- ***Forward looking information incorporated in the ECL***

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank assesses ECL in positive, neutral and negative scenarios. Following this assessment, the Bank measures ECL as a weighted average probability of ECL in the next 12-month under the three scenarios for Stage 1 financial instruments, and a weighted average probability of lifetime ECL for Stage 2 and 3 financial instruments.

Nature and effect of modifications on the measurement of doubtful debts

The Bank sometimes renegotiates or otherwise modifies contracts with counterparties. If the new terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset under the revised terms.

If the renegotiation or modification does not result in derecognition, but leads to changes in contractual cash flows, the Bank assesses whether a significant increase in credit risk has occurred, based on comparing the risk of a default occurring under the revised terms as at the end of the reporting period with that as at the date of initial recognition under the original terms.

(f) Non-financial assets

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. Cost is the fair value of the consideration provided plus any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the profit or loss as an expense as incurred. Impairment is recognised as an operating expense in the profit or loss.

Depreciation is calculated using the straight-line method to allocate the cost of assets less any residual value over their estimated useful lives. Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance date. During the current financial year, the Bank made adjustments to the useful lives of certain fixed asset categories to align with the accounting policies established by CCBC. The impact of these adjustments on prior periods has been assessed, and is deemed immaterial. Accordingly, the live to date impacts have all been recognised in the current financial year. Therefore, no restatements were made to the financial statements of prior periods.

The following provides a summary of the change in useful lives for the respective asset categories from the prior year ending 31 December 2022.

	2023	**2022**
• Furniture and equipment	8 years	5 years
• Computer equipment	5 years	3 years
• Motor vehicles	8 years	5 years
• Leasehold improvements	Lesser of 8 years or remaining lease term	Lesser of 5 years or remaining lease term

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Property, plant and equipment also include right-of-use assets upon adoption of NZ IFRS 16 *Leases* . The Bank recognises a right-of-use asset at commencement date of a lease. The right-of-use asset is initially measured at cost, with cost being the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Intangible assets

Intangible assets comprise computer software licences and computer software costs and are carried at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These assets are amortised over their expected useful lives on a straight line basis over periods generally ranging from 3 to 5 years.

Internal and external costs directly incurred in the development of computer software, including subsequent upgrades and enhancements, are recognised as intangible assets when it is probable that they will generate future economic benefits attributable to the Bank. These assets are amortised over their expected useful lives on a straight line basis.

(g) Financial liabilities

Classification

The Bank classifies its financial liabilities in the following categories: FVTPL and financial liabilities at amortised cost.

(i) Financial liabilities at FVTPL

Financial liabilities are classified as held for trading if they are: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract).

(ii) Other financial liabilities

Other financial liabilities are financial liabilities other than those measured at FVTPL.

Recognition and measurement of financial liabilities

Financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instruments.

Financial liabilities measured at FVTPL: this classification is applied to derivatives and other financial liabilities designated as such at initial recognition. Gains or losses arising due to the changes in the fair value of the liability are recognised in profit or loss. Financial liabilities designated as measured at FVTPL are accounted for in accordance with the following requirements: (i) the amount of changes in the fair value of the financial liability arising from changes in the Bank's own credit risk should be included in OCI; (ii) other changes in fair value of the financial liabilities are recognised in current profit or loss. If the treatment of the impact of changes in the financial liabilities' own credit risk will create or enlarge the accounting mismatch in profit or loss in accordance with (i), the Bank shall recognise the entire gain or loss of the financial liabilities (including the amount of the impact of changes in its own credit risk) in profit or loss.

Financial liabilities measured at amortised cost are initially measured at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. A gain or loss is recognised in profit or loss when the financial liability is derecognised.

Due to other financial institutions

Due to other financial institutions is defined by the nature of the counterparty and includes deposits, vostro balances, collateral received, repurchase agreements and settlement account balances due to other financial institutions. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Deposits from customers

Deposits and other borrowings cover all forms of funding from customers including transactional and savings accounts, term deposits and foreign currency accounts. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Derivative liabilities

Derivative liabilities are measured at FVTPL. The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is used as a hedging instrument and, if so, the nature of the item being hedged. Refer to (h) below for more details on derivatives.

Debt securities issued

Debt securities are certificates of deposit, commercial paper, bonds and notes that have been issued by the Bank. They are either accounted for at amortised cost or at FVTPL. If the liability is accounted for at amortised cost, it is initially recorded at the fair value of the consideration received, net of transaction costs. Subsequently, the debt is measured at amortised cost using the effective interest method. If the liability is accounted for at FVTPL, the debt issue is initially recognised at the fair value of the consideration received. Debt issues are measured at FVTPL to eliminate or significantly reduce an accounting mismatch.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due. Financial guarantees are issued in the ordinary course of business, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given; typically, this is the premium received. Subsequent to initial recognition, the Bank’s liabilities under such guarantees are measured at the higher of:

- the amount initially recognised less, when appropriate, amortisation of the fee which is recognised over the life of the guarantee; and
- where it is likely the Bank will incur a loss as a result of issuing the contract, the estimated amount of the loss payable. These estimates are determined based on experience of similar transactions and history of past losses.

Due to related parties

This amount includes all amounts due to related parties of the Bank. They are initially recorded at fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Subordinated debt

Subordinated debt securities are notes that have been issued by the Bank. They are initially recorded at the fair value of the consideration received, net of transaction costs. Subsequently, the subordinated debt is measured at amortised cost using the effective interest method.

Other liabilities

Other liabilities include provision for off-balance sheet credit related business, fees payable, payables relating to unsettled transactions and trade creditors. Other liabilities are recorded at fair value of the consideration received, net of transaction costs and subsequently measured at amortised cost using the effective interest method.

Other liabilities also include lease liabilities upon adoption of NZ IFRS 16 *Leases* . 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 readily determined by, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability includes fixed payments as per lease contracts. It is remeasured when there is a change in future lease payments arising from changes in lease contracts. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(h) Derivative financial instruments and hedge accounting

Derivative financial instruments are contracts whose value is derived from one or more underlying price indices or other variables. They include swaps (interest rate and currency), forward rate agreements, futures, options and combinations of these instruments.

All derivatives are recognised in the balance sheet at fair value on trade date and are classified as held-for-trading except where they are used as part of an effective hedge relationship. The carrying value of a derivative is re-measured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative.

The method of recognising the resulting fair value gain or loss on a derivative depends on whether the derivative is used as a hedging instrument and, if so, the nature of the item being hedged. The Bank designates certain derivatives as either hedges of movements in the fair value of recognised assets and liabilities or firm commitments (fair value hedge) or hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way, provided certain criteria are met. The Bank continues to apply the hedger accounting requirements of NZ IAS

The Bank documents, at inception of the transaction, the relationship between the hedging instrument and the hedged item, the Bank's risk management objective and strategy for undertaking the hedge transaction and the methods that will be used to assess the effectiveness of the hedging relationship. The Bank formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging instrument has been highly effective in offsetting changes in the fair value or cash flows of the hedged item.

A hedge is regarded as highly effective if, at inception and throughout its life, the Bank can expect changes in the fair value or cash flows of the hedged item to be almost fully offset by the changes in the fair value or cash flows of the hedging instrument, and actual results of the hedge are within a range of 80% to 125% of these changes. The Bank also performs a qualitative assessment of effectiveness. The Bank uses the hypothetical derivative method to assess effectiveness. Hedge ineffectiveness represents the amount by which the changes in the fair value of the hedging instrument differ from changes in the fair value of the hedged item or the amount by which changes in the cash flows of the hedging instrument differ from changes (or expected changes) in the present value of the cash flows of the hedged item.

Any derivative that is de-designated as a hedging derivative will be accounted for as held-for-trading from the time that it is de-designated, with all subsequent movements in fair value recognised in the profit or loss.

Fair value hedge accounting

Where the Bank hedges the fair value of a recognised asset or liability or firm commitment, changes in the fair value of the derivative designated as a fair value hedge are recognised in the profit or loss. Changes in the fair value of the hedged item attributable to the hedged risk are reflected in adjustments to the carrying value of the hedged item, which are also recognised in the profit or loss.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The resulting adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the profit or loss on an effective yield basis over the period to maturity of the hedged item. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the profit or loss.

Cash flow hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify for cash flow hedge accounting are recognised in OCI, while the gain or loss relating to any ineffective portion is recognised immediately in the profit or loss. Amounts accumulated in reserves are transferred to the profit or loss in the period in which the hedged item will affect the profit or loss.

When a hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting, any cumulative gain or loss existing in reserves at that time remains in reserves and is recognised in the profit or loss when the forecast transaction ultimately affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in reserves is immediately transferred to the profit or loss.

(i) Offsetting

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income generated by the financial instrument;
- where gains and losses relating to fair value hedges are assessed as effective; or
- where gains and losses arise from a group of similar transactions, such as foreign exchange gains and losses.

Offsetting of financial assets and financial liabilities

Assets and liabilities are offset and the net amount reported in the balance sheet only where there is:

- a legally enforceable right to offset the asset and liability; and
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(j) Provisions

A provision is recognised in the balance sheet when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(k) Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but are disclosed, unless the possibility of payment is remote.

(l) Leases

A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time. In its capacity as a lessee, the Bank mainly leases assets which includes property and office equipment leases.

The Bank recognises right-of use assets and lease liabilities for most leases on balance sheet. However, the Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases (less than 12 months) and low-value assets. 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 in the profit or loss.

The right-of-use asset 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 right-of-use asset is depreciated over the lease term on a straight-line basis.

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 the incremental borrowing rate. The lease liability is subsequently increased by the interest cost of the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from renewal of leases upon expiry of the lease asset contracts.

(m) Equity

Shares

Issued shares are recognised at the amount paid per share net of directly attributable issue costs.

Cash flow hedge reserve

This reserve includes the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments.

Dividend distribution

Dividends are recognised in equity in the period in which they are approved. Proposed dividends which are declared and approved after the end of each reporting period are not recognised in the balance sheet and are instead disclosed as a subsequent event in a note to the financial statements.

(n) Statement of cash flows

Cash and cash equivalents

For presentation purposes within the cash flow statement, cash and cash equivalents include cash and cash at bank, cash in transit, call deposits and settlement account balances with the central bank (with an original maturity of three months or less) and money at short call (deposit and settlement accounts with other financial institutions with an original maturity of three months or less). Cash and cash equivalents do not include any accrued interest.

Interest paid

Interest paid on debt securities issued, due to related parties, and all other interest paid is included as cash flows used in operating activities.

Netting of cash flows

Certain cash flows have been netted in order to provide more meaningful disclosure, as many of the cash flows are received and disbursed on behalf of customers and reflect the activities of those customers rather than those of the Bank, or are received and disbursed in transactions where the turnover is quick, the amounts are large and the maturities are short.

1.7 Critical accounting estimates, assumptions and judgements

The preparation of these financial statements in accordance with NZ IFRS requires management to make estimates and assumptions that affect the amounts reported. It also requires management to make judgements in the process of applying the Bank’s accounting policies.

Although the Bank has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. It is not anticipated that such differences would be material. Estimates 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.

a) Impairment of loans and advances

The measurement of the ECL allowance is based on ECL model, under NZ IFRS 9 *Financial Instruments* . This requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). An explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 1.6 (e).

A number of significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for SICR;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purpose of measuring ECL.

b) Fair value measurement

The valuation of financial instruments requires significant estimates and judgements. Refer to Note 19 for more details on the valuation of financial instruments.

There are no other assumptions made about the future, and no other major sources of estimation uncertainty as at 31 December 2023, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. There are also no other judgements that management has made in the process of applying the Bank's accounting policies that have a significant effect on the amounts recognised in the financial statements.

Financial Performance

2. Net interest income

	2023 $000	2022 $000
Interest income		
[1] Cash and balances with central banks	8,363	5,575
[1] Due from other financial institutions	2,473	2,511
[1] Loans and advances	127,054	84,607
[1] Due from related parties	3	11
[2] Investment securities	17,211	4,313
Total interest income	**155,104**	**97,017**
Interest expense		
[3] Due to other financial institutions	(8,281)	(3,146)
[3] Deposits and other borrowings	(21,946)	(9,493)
[3] Due to related parties	(31,327)	(13,549)
[3] Debt securities issued	(48,932)	(30,565)
[3] Lease liabilities	(94)	(113)
Total interest expense	**(110,580)**	**(56,866)**
Total net interest income	**44,524**	**40,151**

[1] *Interest earned on financial assets classified and measured at amortised cost.*
[2] *Interest earned on financial assets classified and measured at FVOCI.*
[3] *Interest expense on financial liabilities classified and measured at amortised cost.*

3. Non-interest income

	2023 $000	2022 $000
Fees and commission income		
Lending and credit facility related fee income	3,114	5,014
Trade finance and other fee income	87	92
Management fee income [1]	584	589
Total fees and commission income	**3,785**	**5,695**
Other fee expense	(201)	(140)
Net fees and commission income	**3,584**	**5,555**
Other income / (expense)		
Net ineffectiveness on fair value hedges	(235)	161
Net ineffectiveness on cash flow hedges	(320)	(401)
Other gains / (losses) on financial instruments [2]	(2,461)	1,968
Total other income / (expense)	**(3,016)**	**1,728**
Total net non-interest income	**568**	**7,283**

[1] *Includes management fee received from the branch for provision of management services.*
[2] *Includes customer driven trading income used for hedging purpose.*

4. Operating expenses

	2023 $000	2022 $000
Depreciation and amortisation [1]	1,056	1,078
Directors' fees	344	335
Fees paid to external auditors	152	135
Personnel expenses	15,171	14,149
Purchased services	1,540	1,228
Marketing expenses	319	152
Management service expense reimbursement [2]	(7,784)	(7,850)
Other expenses	1,579	1,529
Total operating expenses	**12,377**	**10,756**

[1] Depreciation and amortisation includes depreciation on leased assets of $898,000 (31 December 2022: $898,000).

[2] Management service expense reimbursement is from the branch for provision of management services.

Fees paid to external auditors	2023 $000	2022 $000
Audit and review of financial statements [1]	152	135
Other services [2]	-	-
Total fees paid to external auditors	**152**	**135**

[1] The audit fee includes the audit fees for both the annual audit of the financial statements and the review of the interim financial statements.

[2] Other services relate to regulatory, risk advisory and technical accounting services.

5. Impairment (charges) / write-backs on credit exposures

	Other financial assets [1] $000	Loans and advances: Residential mortgage loans $000	Loans and advances: Corporate exposures $000	Off-balance sheet credit related business [2] $000	Total impairment loss $000
For the year ended 31 December 2023					
Movement in collectively assessed provisions	22	2,211	1,610	49	3,892
Movement in individually assessed provisions	-	-	-	-	-
Bad debts written-off directly to the profit or loss	(140)	-	-	-	(140)
Bad debts recovered	-	-	-	-	-
Total impairment (charges) / write-backs	**(118)**	**2,211**	**1,610**	**49**	**3,752**
For the year ended 31 December 2022					
Movement in collectively assessed provisions	(234)	649	(98)	74	391
Movement in individually assessed provisions	-	-	-	-	-
Bad debts written-off directly to the profit or loss	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Total impairment (charges) / write-backs	**(234)**	**649**	**(98)**	**74**	**391**

[1] Other financial assets includes impairment losses on due from other financial institutions and investment securities.

[2] The provision for off-balance sheet credit related business is included in other liabilities (Note 17).

6. Taxation

(a) Income tax expense

	2023 $000	2022 $000
Current tax	8,117	10,325
Deferred tax	1,667	368
Total income tax expense	**9,784**	**10,693**
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	**36,467**	**37,069**
Tax at domestic rate (28%)	10,211	10,379
Tax effect of expenses not deductible for tax purposes	82	(42)
Tax effect of prior period adjustments	(509)	356
Total income tax expense	**9,784**	**10,693**
Effective tax rate	**26.8%**	**28.8%**
Income tax credited directly to equity		
Deferred tax	(689)	676
Total income tax credited directly to equity	**(689)**	**676**

(b) Deferred tax

	2023 $000	2022 $000
Deferred tax asset		
Balance at beginning of year	5,211	4,903
Recognised in profit or loss	(1,667)	(368)
Recognised directly in equity	(689)	676
Balance at end of year	**2,855**	**5,211**
Deferred tax assets / (liabilities) comprise the following temporary differences:		
Provision for impairment losses on loans and advances	2,146	3,302
Provision for employee entitlements	837	902
Property, plant and equipment	107	174
Cash flow hedges	(1,044)	689
Other temporary differences [1]	809	144
Total deferred tax assets (net) [2]	**2,855**	**5,211**
Deferred taxation recognised in profit or loss		
Provision for impairment losses on loans and advances	(1,156)	(111)
Provision for employee entitlements	(65)	(204)
Property, plant and equipment	(67)	(60)
Cash flow hedges	(1,044)	-
Other temporary differences	665	7
Total deferred taxation recognised in profit or loss	**(1,667)**	**(368)**
Deferred taxation recognised in equity		
Cash flow hedges	(689)	676
Fair value adjustment of bonds - IFRS method	-	-
Total deferred taxation recognised in equity	**(689)**	**676**

[1] *Included in other temporary differences are deferred tax assets of $1,073,721 (31 December 2022: $1,326,643) arising from lease liabilities and deferred tax liabilities of $940,301 (31 December 2022: $1,191,664) arising from right-of-use assets, $658,403 of deferred tax assets arising from deferred revenues being treated as taxable up front, and $17,441 of deferred tax assets arising from expense provisions.*

[2] *Deferred tax assets and deferred tax liabilities are set-off where they relate to income tax levied by the same taxation authority, there is a legal right and intention to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction.*

The Bank does not have any unutilised tax losses that were available for offset against future taxable profits of the Bank as at 31 December 2023 (31 December 2022: nil).

Imputation credit account

The amount of imputation credits available to the Bank as at 31 December 2023 for use in subsequent reporting periods is $50.5m (31 December 2022: $40.4m).

7. Net cash flows used in operating activities

For the year ended 31 December	2023 $000	2022 $000
Reconciliation of profit after income tax to net cash flows from / (used in) operating activities		
Profit after income tax	26,683	26,376
Adjustments:		
Impairment losses on credit exposures	(3,752)	(391)
Depreciation and amortisation	969	1,078
Income tax expense	(443)	39
Movement in fair value of financial assets and liabilities	(2,328)	(9,801)
Movement in interest accruals	(3,409)	11,391
Net (increase) / decrease in operating assets:		
GST receivable	(51)	36
Loans and advances	65,998	27,454
Due from related parties [1]	(14)	-
Other assets	(161)	(23)
Net increase / (decrease) in operating liabilities:		
Due to other financial institutions	(90,243)	193,911
Deposits from customers	44,422	52,362
Net cash flow (used in) / from operating activities	**37,671**	**302,432**

[1] *The Due from related parties amount excludes nostro balances held with the Ultimate Parent Bank.*

Financial Position

8. Cash and balances with central banks

As at 31 December	2023 $000	2022 $000
Settlement account balances with central banks	282,264	215,709
Total cash and balances with central banks	**282,264**	**215,709**

9. Due from other financial institutions

As at 31 December	2023 $000	2022 $000
Placements with other financial institutions – call	9,833	40,426
Placements with other financial institutions – term	114,987	171,403
Provision for impairment losses	(16)	(147)
Total amount due from other financial institutions	**124,804**	**211,682**

10. Investment securities

As at 31 December	2023 $000	2022 $000
At FVOCI		
Registered bank securities	85,685	30,160
Multilateral development banks and other international organisations	247,334	147,278
Government securities	5,870	5,764
Total investment securities at FVOCI	**338,889**	**183,202**

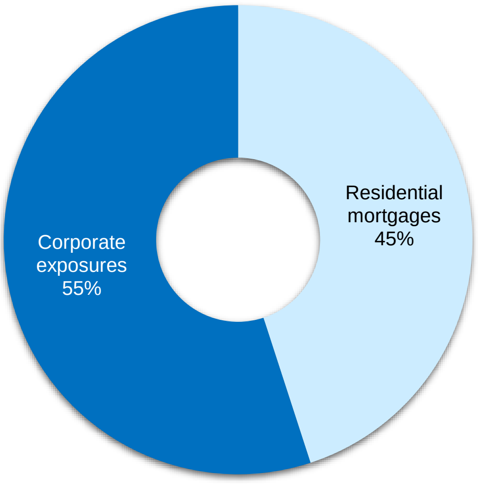
Included in Total investment securities as at 31 December 2023 was $51m encumbered through repurchase agreements (31 December 2022: $51m). These securities have not been derecognised by the Bank as the Bank retains substantially all the risks and rewards of ownership. Counterparties have the right to sell or repledge these encumbered securities. The Bank's obligation to repurchase securities is classified under Note 13.

11. Loans and advances

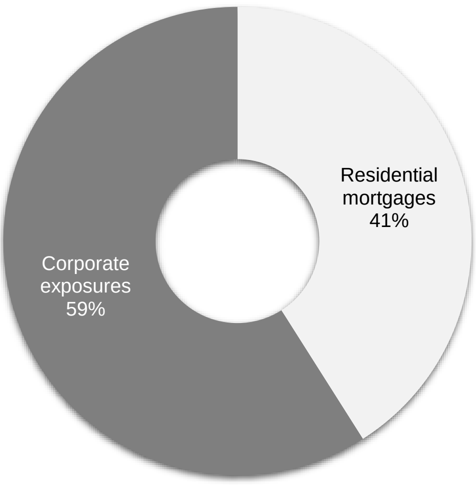
As at 31 December	2023 $000	2022 $000
Residential mortgages	792,174	738,651
Corporate exposures	965,471	1,079,732
Total gross loans and advances	**1,757,645**	**1,818,383**
Unearned income	(4,874)	(903)
Loan origination fees	1,554	846
Fair value hedge adjustments	(1,319)	(4,048)
Loans and advances before provision for impairment	**1,753,006**	**1,814,278**
Provision for impairment losses	(7,435)	(11,256)
Total net loans and advances	**1,745,571**	**1,803,022**

The charts below show the percentage (%) breakdown of the gross loans and advances to customers.

As at 31 December 2023



As at 31 December 2022



12. Derivative financial instruments

	As at 31 December 2023			As at 31 December 2022		
	Notional principal amount $000	Fair values Assets $000	Fair values Liabilities $000	Notional principal amount $000	Fair values Assets $000	Fair values Liabilities $000
Held for trading						
Interest rate swaps	29,600	524	523	189,224	1,657	1,508
Forward contracts	32,584	512	506	-	-	-
FX swaps	-	-	-	-	-	-
Fair value hedges						
Interest rate swaps	377,521	6,796	3,411	508,121	11,838	8,195
Dual fair value and cash flow hedges						
Cross currency interest rate swaps	746,927	598	15,216	523,301	571	14,295
Economic hedges						
Forward contracts	-	-	-	1,083	-	52
FX swaps	6,682	-	2	227,625	1,510	13,653
Total derivative financial instruments [1]	**1,193,314**	**8,430**	**19,658**	**1,449,354**	**15,576**	**37,703**

[1] *Includes derivative financial instruments held with related parties (refer Note 20)*

The Bank uses derivatives for risk management purposes. These derivatives include hedges that either meet the hedge accounting requirements or hedges that are economic hedges, but do not meet the hedge accounting requirements. The treatment of changes in the derivative's fair value depends on their classification. Provided certain criteria are met for hedge accounting, either fair value or cash flow hedge accounting can be applied. Hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item.

Purpose

The Bank's derivative financial instruments have been categorised as follows:

(a) Held for trading	These are derivatives held in order to meet customer needs for managing their own risks, and manage risks in the Bank that are not in a designated hedge accounting relationship. The held for trading positions consist of sales to customers. Sales to customers include the structuring and marketing of derivative products to customers which enable them to take or mitigate risks. Positions may be traded actively or held over a period of time to benefit from expected changes in market rates.
(b) Designated in hedging relationships (Fair value hedges and Dual fair value and cash flow hedges)	These are derivatives designated as being in hedge accounting relationships in order to minimise profit or loss volatility by matching movements in underlying positions relating to: (a) hedges of the Bank's exposures to meet interest rate risk and currency risk; (b) hedges of other exposures relating to non-trading positions.
(c) Economic hedges	Derivatives which are used in balance sheet risk management activities but do not qualify for hedge accounting are recognised as economic hedges.

Types of instruments

The Bank offers or uses the following types of derivative financial instruments:

(a) Interest rate swaps	These are contracts to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates (for example, fixed rate for floating rate). No exchange of principal takes place.
(b) Cross currency swaps	These are contracts to exchange interest payments and principal denominated in two different currencies.

Risks managed

The Bank offers and uses the instruments described above to manage fluctuations in the following market factors:

(a) Interest rate risk	The Bank is exposed to interest rate risk primarily due to the inherent mismatches between the durations of its assets and liabilities and fluctuations in the term structure of interest rates. To quantify this exposure, the Bank employs interest rate repricing schedules. Customer advances are categorized into time buckets based on their anticipated repricing dates. Interest rate derivatives are then designated to offset the net asset/liability positions within these time buckets, addressing the unhedged portion. Additionally, the Bank utilizes swap benchmark interest rates to hedge fixed rate assets and liabilities.
(b) Foreign currency risk	The Bank is exposed to foreign currency cash flows stemming from discrepancies in foreign currency asset and liability positions. To manage this risk, the Bank employs cross-currency derivatives. Unhedged positions in specific currencies introduce foreign currency risk. The aggregate of net asset and net liability positions in a given currency constitutes the net foreign currency exposure, representing the unhedged position in that currency. Currency mismatch exposures on the balance sheet are hedged using FX spot, forwards, and FX options.
(c) Credit risk	The Bank’s credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis within treasury policy guidelines, and with reference to a proportion of the notional amount of the contracts and the term to expiry of the contracts. To control the level of credit risk taken, the Bank assesses counterparties based on their published credit rating compared with treasury policy limits.

Derivatives in hedging relationships

The Bank has two types of hedge accounting relationships:

	Fair value hedge	Cash flow hedge
(a) Objective of this hedging arrangement	To hedge the Bank's exposure to changes in the fair value of a recognised asset or liability, or unrecognised firm commitment caused by interest rate or foreign currency movements. The Bank uses interest rate and cross currency swaps to hedge interest rate risk exposure of a portion of its fixed rate mortgage assets, investment securities, deposits from customers, borrowings and debt issuances included in debt issues at amortised cost.	To hedge the Bank's exposure to variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecast transaction caused by interest rate, foreign currency and other price movements. The Bank hedges fixed rate foreign currency denominated liabilities using a cross currency swap, designated as fair value hedges of interest rates and cash flow hedges of foreign exchange rates.
(b) Recognition of effective hedge portion	The following are recognised in profit or loss at the same time: (a) all changes in the fair value of the underlying item related to the hedged risk; and (b) the change in the fair value of the derivative.	The effective portion of changes in the fair value of derivatives designated as a cash flow hedge is recognised in the cash flow hedge reserve.
(c) Recognition of ineffective hedge portion	Is recognised immediately in the profit or loss	Is recognised immediately in the profit or loss
(d) If a hedging instrument expires, or is sold, terminated, or exercised; or no longer qualifies for hedge accounting	The resulting adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the profit or loss on an effective yield basis over the period to maturity of the hedged item. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the profit or loss.	The cumulative gain or loss on the hedging derivative remains in the cash flow hedge reserve until the forecast transaction occurs and affects income, at which point it is transferred to the corresponding income or expense line.
(e) Hedged item sold or repaid	The unamortised fair value adjustment is recognised immediately in the profit or loss.	If the forecasted transaction is no longer expected to occur, the cumulative gain or loss on the hedging derivative previously reported in the cash flow hedge reserve is immediately transferred to the profit or loss.

The Bank continues to apply the hedge accounting requirements of NZ IAS 39 Financial Instruments: Recognition and Measurement (NZ IAS 39) to assess hedge effectiveness. To qualify for hedge accounting a hedge is expected to be highly effective. A hedge is highly effective only if the following conditions are met:
(a) the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated; and
(b) the actual results of the hedge are within the range of 80% - 125%. The range of 80% to 125% allows for a reasonable level of deviation between the expected and actual results of our hedges due to various factors such as market volatility or changes in economic conditions.

The profile of the timing of the notional amount and average price of derivatives designated in hedge relationships is outlined in the following table.

As at 31 December 2023	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000	Total $000
Interest rate swaps				
Receive floating - pay fixed	22,000	76,116	144,405	242,521
Receive fixed - pay floating	-	135,000	-	135,000
Total notional amount	**22,000**	**211,116**	**144,405**	**377,521**
Weighted average interest rate	*4.26%*	*4.18%*	*4.41%*	*4.27%*
Cross currency interest rate swaps				
Receive fixed - pay floating	-	-	746,927	746,927
Total notional amount	**-**	**-**	**746,927**	**746,927**
Weighted average interest rate	-	-	*3.90%*	*3.90%*

As at 31 December 2022				
Interest rate swaps				
Receive floating - pay fixed	-	45,600	242,521	288,121
Receive fixed - pay floating	-	135,000	85,000	220,000
Total notional amount	**-**	**180,600**	**327,521**	**508,121**
Weighted average interest rate	-	*4.68%*	*3.39%*	*3.85%*
Cross currency interest rate swaps				
Receive fixed - pay floating	-	-	523,301	523,301
Total notional amount	**-**	**-**	**523,301**	**523,301**
Weighted average interest rate	-	-	*3.90%*	*3.90%*

There were no transactions for which cash flow hedge accounting had to be ceased during the year ended 31 December 2023 as a result of highly probable cash flows no longer being expected to occur (31 December 2022: nil).

The impact of ineffectiveness from our designated hedge relationships by type of hedge relationship and type of risk being hedged are:

	Change in value of hedging instrument		**Change in value of hedged item**		**Hedge ineffectiveness recognised in non-interest income**	
	2023 $000	2022 $000	**2023 $000**	2022 $000	**2023 $000**	2022 $000
Fair value hedge (interest rate risk)	5,213	(26,396)	(5,448)	26,557	(235)	161
Cash flow hedges (currency risk)	(5,078)	20,125	4,758	(20,526)	(320)	(401)
Total [1]	**135**	**(6,271)**	**(690)**	**6,031**	**(555)**	**(240)**

[1] *Presentation changes have been made to improve consistency and enhance comparability by reporting balances of a similar nature under the respective hedge categories.*

The following table shows the carrying amount of hedged items in a fair value hedge relationship and the component of the carrying amount related to the accumulated fair value hedge accounting adjustments. The Bank does not hedge its entire exposure to a class of financial instruments, therefore the carrying amounts below do not equal the total carrying amounts disclosed in other notes.

As at 31 December	**Balance sheet presentation**	**Hedged risk**	**Carrying amount of hedged item 2023 $000**	**Carrying amount of hedged item 2022 $000**	**Accumulated fair value hedge adjustments 2023 $000**	**Accumulated fair value hedge adjustments 2022 $000**
Assets						
Fixed rate investment securities at FVOCI	Investment securities	Interest rate	152,157	147,240	(3,464)	(8,381)
Fixed rate residential mortgages and corporate exposures	Loans and advances (Residential mortgages)	Interest rate	85,581	128,452	(1,319)	(4,048)
Total			**237,738**	**275,692**	**(4,783)**	**(12,429)**
Liabilities						
Fixed rate foreign currency borrowings	Due to other financial institutions	Interest rate	221,963	-	(62)	-
Fixed rate time deposit	Deposits from customers	Interest rate	49,962	-	38	-
Fixed rate debt issuance	Debt securities issued	Interest rate	81,989	212,113	3,011	7,887
Fixed rate foreign currency borrowings	Due to related parties	Interest rate	498,547	492,451	21,342	29,536
Total			**852,461**	**704,564**	**24,329**	**37,423**

13. Property, plant and equipment

As at 31 December	2023 $000	2022 $000
Property, plant and equipment	4,383	4,295
Accumulated depreciation	(3,683)	(3,614)
Total property, plant and equipment	**700**	**681**
Right-of-use assets [1]	7,736	7,736
Accumulated depreciation	(4,378)	(3,480)
Total right-of-use assets	**3,358**	**4,256**
Total property, plant and equipment	**4,058**	**4,937**

[1] *Includes leases for corporate offices in Auckland and a kitchen appliance.*

Additions to the Right-of-use assets for the year ended 31 December 2023 is nil (31 December 2022: nil).

14. Due to other financial institutions

As at 31 December	2023 $000	2022 $000
Placements from other financial institutions	222,495	315,389
Securities sold under agreements to repurchase from central banks	54,863	52,212
Total due to other financial institutions	**277,358**	**367,601**

15. Deposits from customers

As at 31 December	2023 $000	2022 $000
Demand deposits bearing interest	38,376	36,971
Deposits not bearing interest	7,261	5,689
Term deposits	461,592	418,575
Total deposits from customers	**507,229**	**461,235**

16. Debt securities issued

As at 31 December	2023 $000	2022 $000
Short term debt		
Registered certificates of deposit	60,000	40,000
Long term debt		
Medium-term notes [1]	810,000	735,000
Total debt securities issued at face value	**870,000**	**775,000**
Movement in debt securities issued		
Balance at beginning of the year	754,322	1,138,356
Issuance during the year	455,000	90,000
Repayments during the year	(345,000)	(478,178)
Foreign exchange translation impact [2]	-	11,625
Effect of fair value hedge adjustment	4,876	(7,683)
Net effect of transaction costs and accruals	3,210	202
Balance at end of the year	872,408	754,322
Total debt securities	**872,408**	**754,322**

[1] *Comparatives for period ending 31 December 2022 include $15m subordinated debt. The subordinated debt was fully repaid in April 2023.*
[2] *FX translation impact on debt issued in USD currency.*

The distinction between short-term and long-term debt is based on the maturity of the underlying security at origination.

Included in total debt securities issued were fair value hedge adjustments of -($4,876,000) as at 31 December 2023 (31 December 2022: ($7,683,000)).

Details of the debt securities issued by the Bank as at 31 December 2023 were as follows:

Short term debt

The Bank's short term debt programme includes a RCD debt programme. The issuances occur in NZD only. RCD is issued under this programme at a discount. Interest rate risks associated with the issuances are incorporated within the Bank's risk management framework. Weighted Average Interest Rate ("WAIR") as at 31 December 2023 was 6.38% (31 December 2022: 5.10%).

Long term debt

The Bank's long term debt includes notes issued under its Medium Term Note programme. The issuances occur in NZD and USD and notes issued under this programme have either fixed or variable interest rates. Interest rate risks associated with the issuances are incorporated within the Bank's risk management framework. WAIR as at 31 December 2023 was 6.09% (31 December 2022: 3.62%).

The Bank has not had any defaults of principal, interest or other breaches with regard to all long and short term debt liabilities during the year ended 31 December 2023 (31 December 2022: nil).

17. Other liabilities

As at 31 December	2023 $000	2022 $000
Other liabilities		
Trade creditors and other accrued expenses	475	284
Lease liabilities [1]	3,835	4,738
Employee entitlements	3,895	3,631
Provision for impairment on off-balance sheet credit related business	210	259
Total other liabilities	**8,415**	**8,912**

[1] *Includes leases for a corporate offices in Auckland and a kitchen appliance.*

Other information about leases for which the Bank is a lessee is presented below.

	2023 $000	2022 $000
(a) Amounts recognised in profit or loss		
Interest on lease liabilities	94	113
Depreciation charge on right-of-use assets	898	898
Total amounts recognised in profit or loss	**992**	**1,011**
(b) Maturity analysis of contracted undiscounted cash flows		
Less than one year	1,032	997
One to five years	2,824	3,768
More than five years	143	231
Total undiscounted lease liabilities	**3,999**	**4,996**
(c) Lease liabilities included in other liabilities		
Current	965	953
Non-current	2,870	3,785
Total lease liabilities included in other liabilities	**3,835**	**4,738**
(d) Amounts recognised in the statement of cash flows		
Total cash outflow for leases [1]	**1,091**	**1,076**

[1] *Comparative information for 31 December 2022 has been restated to include interest paid on lease liabilities.*

18. Share capital

As at 31 December	2023 $000	2022 $000
Issued and fully paid capital:		
158,629,981 ordinary shares	199,178	199,178
Total share capital	**199,178**	**199,178**

The total number of ordinary shares on issue as at 31 December 2023 was 158,629,981 (31 December 2022: 158,629,981). All issued ordinary shares are fully paid. All ordinary shares carry the right to one vote on a poll at meetings of shareholders and share equally in dividends authorised in respect of the ordinary shares and any proceeds available to ordinary shareholders on a winding up of the Bank. The ordinary shares do not have a par value.

During the year ended 31 December 2023 the Bank paid dividends of nil to CCBC (equivalent to nil per share) (31 December 2022: nil per share).

19. Fair value of financial instruments

Classification of financial instruments and estimates of fair value

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methods and assumptions used in the fair value estimates are described below.

(a) Fair value hierarchy of financial instruments measured at fair value

The best evidence of fair value is a quoted price in an active market. Wherever possible the Bank determines the fair value of a financial instrument based on the quoted price. Where no quoted price in an active market is available, the Bank applies present value estimates or other valuation techniques based on current market conditions.

These valuation techniques rely on market observable inputs wherever possible or in a limited number of instances rely on inputs which are unobservable but are reasonable assumptions based on market conditions.

The Bank categorises all fair value measurements according to the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

"Level 1" – Quoted market price

Fair value measurement where inputs are quoted market prices (unadjusted) in an active market for identical financial assets or financial liabilities.

"Level 2" – Valuation technique using observable inputs

Where quoted market prices are not available in active markets for similar instruments, fair values have been estimated using present value or valuation techniques using significant inputs that are observable for the financial asset or financial liability, either directly or indirectly from market data.

"Level 3" – Valuation technique with significant non-observable inputs

Fair value measurement where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. All of the Bank's financial instruments measured at FVTPL and FVOCI are recognised on a recurring basis within Level 2. The Bank considers transfers between levels, if any, are deemed to have occurred at the beginning of the reporting period.

There have been no transfers between Level 1 and 2 of the fair value hierarchy during the period ended 31 December 2023 (31 December 2022: nil). There have been no transfers into/out of Level 3 during the period ended 31 December 2023 (31 December 2022: nil).

(b) Estimation of fair value

The fair value estimates of the Bank's financial instruments were determined by application of the methods and assumptions described below:

(i) Cash and balances with central banks, Due from other financial institutions, Due from related parties, Other financial assets and Lease liabilities

Where these financial instruments are short-term in nature, defined as those that re-price or mature in three months or less, or are receivable or payable on demand, the carrying amounts are considered to approximate the fair values. When longer term in nature, fair value is calculated using discounted cash flow models based on the interest rate repricing and maturity. Discount rates applied in this calculation are based on current market interest rates for similar instruments with similar credit and maturity profiles.

(ii) Investment securities

Estimates of fair value for investment securities are based on observable market prices or dealer price quotations for financial instruments traded in financial markets, or by using valuation techniques. Where a market price in a liquid market is not readily available, the fair value is determined by reference to the market price available for a security with similar credit, maturity and yield characteristics or by using industry standard pricing models incorporating observable market inputs.

(iii) Derivative financial instruments

Fair value is obtained from observable market prices, discounted cash flow models and option pricing models as appropriate, which incorporate current market and contractual prices for the underlying instrument, time to expiry yield curves and volatility of the underlying instrument.

(iv) Loans and advances

For floating rate loans and advances, the carrying amounts are considered to approximate the fair values. For fixed rate loans and advances, fair value is estimated using discounted cash flow models based on the interest rate repricing and maturity of the loans and advances. Discount rates applied in this calculation are based on current market interest rates for loans and advances with similar credit and maturity profiles.

(v) Deposits from customers

With respect to deposits from customers, the fair value of non-interest bearing, call and variable rate deposits and fixed rate deposits repricing within three months or less is considered to approximate the carrying amount. For other fixed rate term deposits, the fair value is estimated using discounted cash flow models based on the maturity of the instruments. The discount rates applied in this calculation are based on current market interest rates for similar instruments with similar maturity profiles. The fair value includes a calculation of the Bank's own credit risk based on observable market data.

(vi) Debt securities issued (including subordinated debt)

For debt securities issued held at amortised cost with maturities of three months or less, the carrying amount is considered to approximate the fair value. For all other debt securities issued, fair values have been calculated based on quoted market prices. For those debt securities issued where quoted market prices are not available, fair value is estimated using discounted cash flow models based on the interest rate repricing and maturity of the instruments. The discount rates applied in this calculation are based on current market interest rates for similar instruments with similar maturity profiles. The fair value includes a calculation of the Bank's own credit risk based on observable market data.

(vii) Due to related parties

For borrowings from related parties issued held at amortised cost with maturities of three months or less, the carrying amount is considered to approximate the fair value. For all other borrowings from related parties, fair value is estimated using discounted cash flow models based on the interest rate repricing and maturity of the instruments. The discount rates applied in this calculation are based on current market interest rates for similar instruments with similar maturity profiles. The fair value includes a calculation of the Bank's own credit risk based on observable market data.

The table below shows the fair value of the Bank's financial instruments measured at fair value on a recurring basis according to the fair value hierarchy described above.

As at 31 December	Valuation Hierarchy	2023 $000	2022 $000
Financial assets			
Investment securities	Level 2	338,889	183,202
Derivative financial assets	Level 2	8,430	15,576
Total financial assets measured at fair value		**347,319**	**198,778**
Financial liabilities			
Derivative financial liabilities	Level 2	19,658	37,703
Total financial liabilities measured at fair value		**19,658**	**37,703**

(c) Fair value of financial instruments

The following tables compare the fair value of financial instruments with their carrying amounts.

As at 31 December 2023	At amortised cost $000	At FVOCI $000	At FVTPL $000	Fair value - derivative instruments $000	Total carrying amount $000	Fair value $000
Financial assets						
Cash and balances with central banks	282,264	-	-	-	282,264	282,264
Due from other financial institutions	124,804	-	-	-	124,804	124,804
Investment securities	-	338,889	-	-	338,889	338,889
Loans and advances	1,745,571	-	-	-	1,745,571	2,083,209
Due from related parties	79	-	-	-	79	79
Derivative financial assets	-	-	-	8,430	8,430	8,430
Other assets	99	-	-	-	99	99
Total financial assets	**2,152,817**	**338,889**	**-**	**8,430**	**2,500,136**	**2,837,774**
Financial liabilities						
Due to other financial institutions	277,358	-	-	-	277,358	271,956
Deposits from customers	507,229	-	-	-	507,229	511,051
Debt securities issued	872,408	-	-	-	872,408	917,937
Due to related parties	508,462	-	-	-	508,462	515,423
Derivative financial liabilities	-	-	-	19,658	19,658	19,658
Lease liabilities	3,835	-	-	-	3,835	3,835
Total financial liabilities	**2,169,292**	**-**	**-**	**19,658**	**2,188,950**	**2,239,860**

As at 31 December 2022	At amortised cost $000	At FVOCI $000	At FVTPL $000	Fair value - derivative instruments $000	Total carrying amount $000	Fair value $000
Financial assets						
Cash and balances with central banks	215,709	-	-	-	215,709	215,709
Due from other financial institutions	211,682	-	-	-	211,682	211,682
Investment securities	-	183,202	-	-	183,202	183,202
Loans and advances	1,803,022	-	-	-	1,803,022	1,908,262
Due from related parties	205	-	-	-	205	205
Derivative financial assets	-	-	-	15,576	15,576	15,576
Other assets	48	-	-	-	48	48
Total financial assets	**2,230,666**	**183,202**	**-**	**15,576**	**2,429,444**	**2,534,684**
Financial liabilities						
Due to other financial institutions	367,601	-	-	-	367,601	365,160
Deposits from customers	461,235	-	-	-	461,235	467,201
Debt securities issued	754,322	-	-	-	754,322	755,797
Due to related parties	502,383	-	-	-	502,383	504,513
Subordinated debt	15,189	-	-	-	15,189	15,315
Derivative financial liabilities	-	-	-	37,703	37,703	37,703
Lease liabilities	4,738	-	-	-	4,738	4,738
Total financial liabilities	**2,105,468**	**-**	**-**	**37,703**	**2,143,171**	**2,150,427**

20. Related party transactions and balances

The Bank is a wholly owned subsidiary of CCBC, a company incorporated in China. The Ultimate Parent Bank of the Bank is also CCBC. The Ultimate Parent Bank Group refers to the Ultimate Parent Bank and its subsidiaries.

(a) Nature of transactions and balances with related parties

The Bank undertakes transactions with the Ultimate Parent Bank and other members of the Ultimate Parent Bank Group. These transactions principally consist of funding (interest bearing) and hedging transactions (interest bearing) and the provision of technology and process support transactions with related parties, and are conducted on an arm's length basis and on normal commercial terms.

(b) Ultimate Parent Bank

The amount due from the Ultimate Parent Bank consists of nostro accounts held with the Ultimate Parent Bank, which is reflected as cash and liquid assets. The amounts due to the Ultimate Parent Bank consists of placements and borrowed funds from the Ultimate Parent Bank measured at amortised cost. These placements are reflected as deposits and overnight placements, and borrowings are reflected as borrowings. These placements and borrowings are made in the normal course of business and interest earned on these placements and interest paid on borrowings are at market rates.

The amounts due from and due to the Ultimate Parent Bank also include derivative instruments held with the Ultimate Parent Bank, which are marked to market and reflected as derivative financial assets and liabilities. The Bank raised NZ$15 million (issuing 15,000 redeemable, subordinated and unsecured medium term notes at a face value of NZ$1,000) from the Sydney branch of the Ultimate Parent Bank in April 2016. The amount was settled on 28 April 2023.

Recognised in	31 Dec 2023 NZ Branch $000	31 Dec 2023 Ultimate Parent Bank $000	31 Dec 2022 NZ Branch $000	31 Dec 2022 Ultimate Parent Bank $000
(a) Transactions with related parties				
Interest income [1]	-	301	-	714
Interest expense [2]	-	(23,642)	-	(14,485)
Non-interest income / (expense)				
Management fee income *(refer Note 3)*	584	-	589	-
Unrealised gain / (loss) on derivatives	-	(240)	-	30
Operating expenses				
Management service expense reimbursement	7,784	-	7,850	-
Total profit or loss impact	**8,368**	**(23,581)**	**8,439**	**(13,741)**
(b) Balances with related parties				
Due from related parties				
Cash and liquid assets	-	65	-	205
Other assets	-	14	-	-
Total due from related parties	**-**	**79**	**-**	**205**
Derivative financial assets	-	346	-	2,269
Total related party assets	**-**	**425**	**-**	**2,474**
Due to related parties				
Deposits and overnight placements	199	-	208	-
Borrowings at amortised cost	-	508,263	-	502,175
Total due to related parties	**199**	**508,263**	**208**	**502,175**
Subordinated debt	-	-	-	15,189
Derivative financial liabilities	-	2,390	-	4,187
Total related party liabilities	**199**	**510,653**	**208**	**521,551**

[1] *Included in related party interest income are interest earned on liquid assets and derivative financial assets.*
[2] *Included in related party interest expense are interest paid on subordinated debt, borrowings with related parties and derivative financial liabilities.*

Transactions and balances with the branch are not included in the balances with the Ultimate Parent Bank. There were no debts with any related parties written off or forgiven during the year ended 31 December 2023 (31 December 2022: nil).

Provision for impairments on credit exposure of nil have been recognised in respect of the related party assets as at 31 December 2023 (31 December 2022: nil).

21. 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 Bank are defined as the Directors and members of the senior executive team of the Bank. 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.

The table below shows the amount of compensation paid to key management personnel of the Bank.

	2023 $000	2022 $000
Key management personnel compensation		
Salaries and other short-term employee benefits	2,413	1,903
Post-employment benefits (pension scheme contribution)	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
Total key management personnel compensation	**2,413**	**1,903**

Out of the above, salaries paid by CCBC was nil in the year ended 31 December 2023 (31 December 2022: nil) with all costs being borne by the Bank.

The total maximum remuneration payable to the Directors is approved by the Shareholder at the Annual General Meeting. No Director received any other benefit that was additional to his or her total remuneration.

(a) Loans and deposits with key management personnel

There were no loans or deposits with key management personnel in the year ended 31 December 2023 (31 December 2022: nil). Consequently, no provisions have been recognised in respect of loans given to key management personnel and their related parties (31 December 2022: nil) and there were no debts written off or forgiven during the year (31 December 2022: nil).

(b) Other key management personnel transactions

There were no other transactions with key management personnel during the year ended 31 December 2023 (31 December 2022: nil).

Risk Management

22. Risk governance

(a) Introduction

The Bank is committed to the management of risk and regards it as a fundamental activity performed at all levels of its business. The Bank also recognises the importance of effective risk management to its business success. Effective risk management is about achieving a balanced approach to risk and reward and enables the Bank to both increase financial growth opportunities and mitigate potential loss or damage. The Bank only takes on controlled amounts of risk when considered appropriate.

The Board is responsible for determining the Bank's risk appetite. The Board and the BARC of the Bank have set the risk management policy control framework, including the implementation, monitoring and evaluation of the overall risk profile of the Bank on a regular basis. The Bank is a wholly owned subsidiary of the Ultimate Parent Bank and accordingly its risk management strategies and policies are closely aligned with those of the Ultimate Parent Bank.

The Bank has an ALCO, which meets monthly. This is a specialised principal management committee that leads the management of balance sheet structure and oversees market risk, liquidity and funding risk and capital management within the context of the Bank's risk appetite as determined by the Board.

In addition, the Bank's executive team, under delegated authority from the Board and oversight by the BARC, has responsibility for overseeing all other aspects of risk at the Internal Control and Compliance Committee and Risk Management Committee. This includes overseeing credit risk, country risk, operational risk, compliance risk, conduct risk, strategic/business risk and reputational risk within the context of the Bank's risk appetite as determined by the Board.

(b) Board Audit, Risk and Compliance Committee and internal audit function

The Board is supported by the BARC. The BARC comprises of four Directors of the Bank, all of whom are non-executive and three of whom are independent. The BARC assists the Board in fulfilling its responsibilities to set the Bank's risk management strategy and risk appetite, ensure the integrity and effectiveness of the Bank's controls frameworks, reporting systems and internal audit standards. It also oversees the integrity of the financial statements, compliance with legal and regulatory requirements relating to financial reporting, performance of the internal audit function and the external auditor's qualifications, independence, performance and remuneration.

The Bank has an internal audit function, whose role is to provide the Board and management with an effective and independent appraisal of the internal controls established by management. The internal audit function is accountable to CCBC's internal audit department and has a dual reporting line to senior management and the BARC of the Bank.

(c) Review of risk management systems

The Bank has a reporting process to provide detailed information to the Ultimate Parent Bank relating to the Bank's risk management systems as part of the Ultimate Parent Bank's review process.

The risk management systems and architecture of the Bank are reviewed annually by management.

(d) Areas of risk management

The primary categories of risk managed by the Bank include credit, market, liquidity and funding, operational, strategic and business, reputational, capital, country, compliance, and risk culture and conduct.

(i) Credit risk

Credit risk is the risk of financial loss arising from the failure of a customer or counterparty to meet its contractual obligations to the Bank. It can arise from the Bank's lending activities and from inter-bank, treasury and international trade activities. The Bank has an overall lending objective of sound growth for appropriate returns.

(ii) Market risk

Market risk is the risk of loss, in respect of the Bank's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates and equity prices.

(iii) Liquidity and funding risk

Liquidity risk is the risk that the Bank will be unable to fund assets and meet its obligations as they fall due, leading to an inability to support normal business activity and meet liquidity regulatory requirements. Funding risk is the risk that the funding mix of the Bank is such that the Bank will have to pay higher than market rates for its funding or have difficulty raising funds. Liquidity and funding risk is caused by mismatches of assets and liabilities in terms of their amounts and maturity dates.

(iv) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It also includes legal and regulatory risk to the extent that the impacts are related to operational risk events. However, it does not cover risks related to strategy or goodwill.

The Bank's operational risk management framework sets out the business requirements for managing operational risks across the Bank with respect to governance, risk and control assessments, incident and loss management, and reporting and monitoring.

Effective operational risk management within the Bank is based on a three lines of defence model. The Bank's business line management are the first line of defence and are accountable for the management of their operational risks (including identification, measurement, monitoring and mitigation) on a day-to-day basis. Oversight and support is provided by the Bank's Risk Management Department (who report to the Bank's CRO) and the Bank's Finance Department (who report to the Bank's CFO). The Bank's Risk Management Department is responsible for establishing the Bank's Operational Risk Management Framework. Assurance is provided by the internal audit function.

(v) Strategic and business risk

Strategic and business risk is the risk of loss resulting from changes in the business environment caused by factors such as economic conditions, competitive forces, social trends, technology or regulatory changes. Strategic and business risk is primarily

- Establishment and maintenance of structures, measurement basis and risk management processes, including strategic planning and financial management, for the evaluation and management of strategic and business risks.
- Building capability within the Bank to enable both the pursuit of opportunities and mitigation of vulnerability.

(vi) Reputational risk

Reputational risk is the risk of loss arising from an adverse perception of the Bank on the part of existing or potential stakeholders including customers, counterparties, employees, suppliers, and regulators. Reputational risk is primarily managed by:

- Awareness and application of policies and procedures regarding reputational risk and other material risks.
- Business line management and support functions (including the Risk Management Department) taking account of the Bank's reputation in all decision-making, including dealings with customers and suppliers.
- Reporting systems to ensure awareness of all potential reputational issues.
- Effective and proactive stakeholder management through on-going engagement.

(vii) Capital risk

The Bank's objectives when managing capital are: (i) to safeguard the Bank's ability to continue as a going concern; (ii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the conditions of registration (see pages 69 to 73); and (iiii) to comply with the capital requirements set by the RBNZ. The amount of Tier 1 capital that the Bank managed as at 31 December 2023 was $313,450,000 (31 December 2022: $284,148,000). Compliance with capital adequacy ratios set by the RBNZ is actively monitored and reported on a regular basis to senior management, ALCO and the Board.

(viii) Country risk

Country risk refers to the uncertainty associated with operating and doing business with and in a particular country, and more specifically the degree to which that uncertainty could lead to losses for the Bank.

(ix) Compliance risk

Compliance risk is the risk of damage to the Bank by failing to comply with financial services regulations, rules, guidelines, industry codes of conduct, organisational standards, professional ethics, Board and senior management standards or guidelines applicable to its business activities.

(x) Risk culture and conduct risk

Risk culture refers to the risk that poor structural (systems, policies and processes) or behavioural (role modelling and team dynamics) mechanisms within the Bank could lead to behavioural norms that result in adverse risk outcomes. Conduct risk is the risk of damage to the Bank's corporate value as a result of negative impact on public benefit, effective competition, market integrity or customer protection due to the inappropriate execution of our business activities through failure to comply with laws & regulations, breach of a social norm, improper business or market practice or lack of consideration of customer's viewpoints.

23. Credit risk management and asset quality

(a) Credit risk management

The Bank has a credit risk management framework for the approval and management of credit risk. The framework applies to all activities of the Bank that give rise to credit risk exposure (including on-balance sheet, off-balance sheet and derivatives) and applies to all customers and counterparties. Its aim is to ensure a structured and disciplined approach is maintained in achieving the objectives set by the Board.

(b) Organisational structure

The Bank's senior management team is responsible for the effective management of credit risk in accordance with the policy and risk appetite set by the Board and CCBC group practices.

In relation to credit risk, the Bank's Risk Management Department, which includes credit risk specialists, exists to: (i) provide independent credit decisions; (ii) support front-line lending staff in the application of sound credit practices; (iii) provide centralised remedial management of arrears; and (iv) undertake portfolio monitoring and loan asset quality analysis and reporting.

The integrity and effectiveness of the Bank's credit risk management practices, asset quality and compliance with policy is supported by independent assessments by the credit risk function (within the Bank's Risk Management Department) and the internal audit function.

(c) Credit approval

The Bank has clearly defined credit underwriting policies and standards for all lending, which incorporate income and repayment capacity, acceptable terms, security and loan documentation criteria. In the first instance, the Bank relies on the assessed integrity of the customer or counterparty and their ability to meet their contractual obligations for repayment. For wholesale credit facilities, a credit risk grade is assigned to the customer using the Bank's credit risk grading system, which has been developed by the Ultimate Parent Bank.

Credit facilities are approved through a hierarchy of delegated approval authorities that reflect the skill and experience of lending management.

(d) Credit risk mitigation

The Bank has policies and procedures in place setting out the circumstances where acceptable and appropriate collateral is to be taken to mitigate credit risk. The policies and procedures are designed to ensure collateral is managed, legally enforceable, conservatively valued and adequately insured where appropriate. The credit risk policy sets out the type of acceptable collateral, including cash, mortgages over property, charges over business assets (e.g. premises, inventory and accounts receivable), charges over financial instruments (e.g. debt securities and equities) and financial guarantees.

The Bank also uses ISDA Master Agreements to document derivative activities to limit exposure to credit losses. The credit risk is reduced by a master agreement to the extent that, if an event of default or predetermined event occurs, all contracts with the counterparty are terminated and settled on a net basis.

(e) Credit risk monitoring

Monitoring of compliance with loan covenants is performed on a monthly basis by the Bank's Risk Management Department. In addition, all loans and advances are required to be reviewed on an annual basis with any recommendations for action to be approved by the appropriate delegated authority. The Bank's Risk Management Department may also initiate an earlier review if market conditions change in a way that may significantly affect the risk profile of the customer or counterparty.

(f) Portfolio analysis and reporting

Credit portfolios are actively monitored at each layer of the risk structure to ensure credit deterioration is quickly detected and mitigated through the implementation of remediation strategies.

The Bank's Risk Management Department undertakes regular and comprehensive analysis of the credit portfolio. Issue identification and adherence to performance benchmarks are reported to the Bank's CRO through a series of regular reports, with the Bank's CRO providing a comprehensive report analysing the credit portfolio to the Board.

(g) Problem credit facility management

Credit exposures are monitored regularly through the examination of irregular and delinquent accounts. This enables doubtful debts to be timely identified so that specific provisions for potential losses can be established as early as possible. Problem credit facilities are monitored to ensure workout and collection and recovery strategies are established and enacted promptly to minimise risk of potential losses.

(h) Concentration of credit risk

Concentration of credit risk arises when a number of customers are engaged in similar business activities or activities within the same geographic region or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Bank monitors its portfolio to identify and assess risk concentrations. Concentration limits are used to guard against large single customer or correlated credit risks in relation to industry and country. These policies and limits are an important part of portfolio management objectives to create a diversified portfolio avoiding significantly large concentrations of economically related credit risk exposures. The Bank's executive team monitor large exposure concentrations and adherence to concentration limits through monthly reporting provided by the Bank's Risk Management Department. Any exceptions to the limits require prior Board approval.

Refer to Note 25 for the disclosure of concentration of credit exposures by industry and geographical area and to individual counterparties.

(i) Maximum credit exposure and effect of collateral and other credit enhancements

The following table presents the maximum exposure to credit risk for on and off-balance sheet financial instruments before taking account of the financial effect of any collateral held or other credit enhancements, unless such collateral meets the offsetting criteria in NZ IAS 32 *Financial Instruments: Presentation* .

The table also provides a quantification of the value of the financial charges the Bank holds over a borrower's specific asset (or assets) where the Bank is able to enforce the collateral in satisfying a debt in the event of the borrower failing to meet its contractual obligations. For the purposes of this disclosure, where the collateral held is valued at more than the corresponding credit exposure, the financial effect is capped at the value of the credit exposure. In respect of derivative financial instruments, the assessed collateral is the amount of cash collateral received and does not include the effect of any netting arrangements under ISDAs. There are currently no netting arrangements under the ISDAs.

The Bank also manages its credit risk by accepting other types of collateral and credit enhancement such as guarantees and security interests over the assets of a customer's business. The assignable value of such credit mitigants is less certain and their financial effect has not been quantified for disclosure purposes. Credit exposures shown as not fully secured may benefit from such credit mitigants.

There were no material changes to the risk management policies in the financial year ended 31 December 2023.

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
As at 31 December	2023 $000	2022 $000	2023 $000	2022 $000	2023 $000	2022 $000
On-balance sheet financial instruments						
Cash and balances with central banks	282,264	215,709	282,264	215,709	-	-
Due from other financial institutions	124,804	211,682	-	-	124,804	211,682
Investment securities	338,889	183,202	-	-	338,889	183,202
Loans and advances	1,745,571	1,803,022	1,262,840	1,446,496	482,731	356,526
Due from related parties	79	205	-	-	79	205
Derivative financial assets	8,430	15,576	-	-	8,430	15,576
Total on-balance sheet financial instruments	**2,500,037**	**2,429,396**	**1,545,104**	**1,662,205**	**954,933**	**767,191**
Off-balance sheet financial instruments						
Credit related commitments and contingent liabilities	127,652	137,569	96,064	129,646	31,588	7,923
Total off-balance sheet financial instruments	**127,652**	**137,569**	**96,064**	**129,646**	**31,588**	**7,923**
Total exposure to credit risk	**2,627,689**	**2,566,965**	**1,641,168**	**1,791,851**	**986,521**	**775,114**

(j) Nature of collateral and other credit enhancements

The nature of collateral or other credit enhancements taken to mitigate each financial asset class to which collateral is held as security or other credit enhancements exist is described below:

Cash and balances with central banks	This category includes deposits with the RBNZ.
Due from other financial institutions	This balance sheet category includes reverse repurchase agreements which are fully collateralised by highly liquid debt securities which have been legally transferred to the Bank subject to an agreement to resell for a fixed price. There are no repurchase agreements as at 31 December 2023 (31 December 2022: nil).
Derivative financial assets	Credit risk from derivatives is mitigated where possible through netting agreements whereby derivative assets and liabilities with the same counterparty can be offset. All netting arrangements are legally documented. The ISDA Master Agreements contractually bind both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other predetermined events occur.
Loans and advances	The most common types of collateral mitigating credit risk over loans and advances include security over real estate (including residential, commercial, industrial and rural property); cash (usually in the form of a charge over a deposit); guarantees; and other security over business assets including specific plant and equipment, inventory and accounts receivable.

(k) Market disruption

The volatility impacting the financial services sector remains elevated as a result of persistently high inflation and interest rates, supply chain disruptions, and the more moderate economic outlooks both locally and globally. To date, the impact on the Bank's existing customer base remains minimal. The Bank intends to continue to closely monitor the operating environment and actively manage the impact on its operating strategy, financial position, portfolio quality and performance.

(l) Impacts of climate change on credit risk

The Bank recognises the potential compounding effects climate-related risks may pose to the financial system and the Bank's other risks. As a responsible financial institution, the Bank is committed to understanding and applying a risk-based approach to the management of the risks and opportunities associated with climate change. The Bank's climate risk appetite is designed therefore to ensure that it can effectively manage and mitigate climate-related risks while balancing the needs of its key stakeholders. This includes having clear processes to identify and assess the physical, transition and other climate related risks across its business activities. Additionally, the Bank embraces the opportunity to work with its customers in this area to deliver better customer outcomes.

The Bank's approach to managing climate risk is outlined in the Bank's Risk Appetite Statement. This commits the Bank to addressing climate change by:

- Reducing its operational footprint;
- Better understanding the risk and impacts of climate risk on the Bank;
- Seeking to increase the resilience of the Bank's business to climate risk;
- Pursuing the opportunities created through the Bank's adaptation to climate risk.

Refer to the Bank’s Climate Report for more climate-related disclosures which can be accessed on the Bank’s website, via the link provided below.
Climate Report

24. Asset quality

(a) Credit quality information

As at 31 December 2023	Residential mortgage loans $000	Corporate exposures $000	Other exposures $000	Total loans and advances $000
(a) Asset quality - advances to customers				
Neither past due nor impaired	792,174	965,471	-	**1,757,645**
Past due but not impaired	-	-	-	**-**
Individually impaired assets	-	-	-	**-**
Provision for credit impairment	(4,618)	(2,817)	-	**(7,435)**
Unearned income	-	-	-	**(4,874)**
Loan origination fees	-	-	-	**1,554**
Fair value hedge adjustments	-	-	-	**(1,319)**
Net carrying amount	**787,556**	**962,654**	**-**	**1,745,571**
(b) Ageing of past due but not impaired				
Less than 30 days	-	-	-	**-**
30 to 59 days	-	-	-	**-**
60 to 89 days	-	-	-	**-**
90 days and over	-	-	-	**-**
Net carrying amount	**-**	**-**	**-**	**-**
(c) Individually impaired assets				
Balance at beginning of the year	-	-	-	**-**
Additions	-	-	-	**-**
Amounts written off	-	-	-	**-**
Deletions	-	-	-	**-**
Net carrying amount	-	-	-	-
As at 31 December 2022				
(a) Asset quality - advances to customers				
Neither past due nor impaired	738,651	1,079,732	-	**1,818,383**
Past due but not impaired	-	-	-	**-**
Individually impaired assets	-	-	-	**-**
Provision for credit impairment	(6,829)	(4,427)	-	**(11,256)**
Unearned income	-	-	-	**(903)**
Loan origination fees	-	-	-	**846**
Fair value hedge adjustments	-	-	-	**(4,048)**
Net carrying amount	**731,822**	**1,075,305**	**-**	**1,803,022**
(b) Ageing of past due but not impaired				
Less than 30 days	-	-	-	**-**
30 to 59 days	-	-	-	**-**
60 to 89 days	-	-	-	**-**
90 days and over	-	-	-	**-**
Net carrying amount	**-**	**-**	**-**	**-**
(c) Individually impaired assets				
Balance at beginning of the year	-	-	-	**-**
Additions	-	-	-	**-**
Amounts written off	-	-	-	**-**
Deletions	-	-	-	**-**
Net carrying amount	-	-	-	-

Asset quality for financial assets designated at FVTPL

The Bank does not have any financial assets designated as FVTPL as at 31 December 2023 (31 December 2022: nil).

(b) Movement in loans and advances

	Stage 1	Stage 2	Stage 3		
As at 31 December 2023	12-months ECL $000	Lifetime ECL not credit impaired $000	Lifetime ECL credit impaired $000	Individually assessed Lifetime ECL $000	Total $000
(a) Residential mortgages					
Gross balance as at 1 January 2023	738,651	-	-	-	**738,651**
Additions	222,372	1,953	1,027	-	**225,352**
Deletions	(168,849)	(1,953)	(1,027)	-	**(171,829)**
Gross balance as at 31 December 2023	**792,174**	**-**	**-**	**-**	**792,174**
(b) Corporate exposures					
Gross balance as at 1 January 2023	1,076,768	2,964	-	-	**1,079,732**
Additions	418,428	15	-	-	**418,443**
Deletions	(529,725)	(2,979)	-	-	**(532,704)**
Gross balance as at 31 December 2023	**965,471**	**-**	**-**	**-**	**965,471**
(c) Total loans and advances					
Gross balance as at 1 January 2023	**1,815,419**	**2,964**	**-**	**-**	**1,818,383**
Additions	**640,800**	**1,968**	**1,027**	**-**	**643,795**
Deletions	**(698,574)**	**(4,932)**	**(1,027)**	**-**	**(704,533)**
Gross balance as at 31 December 2023	**1,757,645**	**-**	**-**	**-**	**1,757,645**
As at 31 December 2022					
(a) Residential mortgages					
Gross balance as at 1 January 2022	761,979	-	-	-	**761,979**
Additions	89,295	-	-	-	**89,295**
Deletions	(112,623)	-	-	-	**(112,623)**
Gross balance as at 31 December 2022	**738,651**	**-**	**-**	**-**	**738,651**
(b) Corporate exposures					
Gross balance as at 1 January 2022	1,080,995	-	-	-	**1,080,995**
Additions	290,920	2,964	-	-	**293,884**
Deletions	(295,147)	-	-	-	**(295,147)**
Gross balance as at 31 December 2022	**1,076,768**	**2,964**	**-**	**-**	**1,079,732**
(c) Total loans and advances					
Gross balance as at 1 January 2022	1,842,974	-	-	-	**1,842,974**
Additions	380,215	2,964	-	-	**383,179**
Deletions	(407,770)	-	-	-	**(407,770)**
Gross balance as at 31 December 2022	**1,815,419**	**2,964**	**-**	**-**	**1,818,383**

Due from other financial institutions and investment securities balances were all represented in Stage 1 12-months ECL.

(c) Movement in provision for impairment losses

As at 31 December 2023	Stage 1 Collective provision 12-months ECL $000	Stage 2 Collective provision Lifetime ECL not credit impaired $000	Stage 3 Collective provision Lifetime ECL credit impaired $000	Stage 3 Individually assessed Lifetime ECL credit impaired $000	Total provision $000
Due from other financial institutions [1]	16	-	-	-	**16**
Investment securities [2]	205	-	-	-	**205**
Loans and advances	7,435	-	-	-	**7,435**
Off-balance sheet credit related commitments	210	-	-	-	**210**
Total provision for impairment losses as at 31 December 2023	**7,866**	**-**	**-**	**-**	**7,866**
(a) Residential mortgages					
Balance as at 1 January 2023	6,829	-	-	-	**6,829**
Transferred to Stage 1	106	(106)	-	-	**-**
Transferred to Stage 2	(224)	224	-	-	**-**
Transferred to Stage 3	-	(118)	118	-	**-**
Charged / (credited) to profit or loss	2,043	-	168	-	**2,211**
Reversals of previously recognised impairment losses	(4,136)	-	(286)	-	**(4,422)**
Balance as at 31 December 2023	**4,618**	**-**	**-**	**-**	**4,618**
(b) Corporate exposures					
Balance as at 1 January 2023	3,975	452	-	-	**4,427**
Transferred to Stage 1	-	-	-	-	**-**
Transferred to Stage 2	-	-	-	-	**-**
Transferred to Stage 3	-	-	-	-	**-**
Charged / (credited) to profit or loss	3,258	-	-	-	**3,258**
Reversals of previously recognised impairment losses	(4,416)	(452)	-	-	**(4,868)**
Balance as at 31 December 2023	**2,817**	**-**	**-**	**-**	**2,817**
(c) Total loans and advances					
Balance as at 1 January 2023	**10,804**	**452**	**-**	**-**	**11,256**
Transferred to Stage 1	**106**	**(106)**	**-**	**-**	**-**
Transferred to Stage 2	**(224)**	**224**	**-**	**-**	**-**
Transferred to Stage 3	**-**	**(118)**	**118**	**-**	**-**
Charged / (credited) to profit or loss	**5,301**	**-**	**168**	**-**	**5,469**
Reversals of previously recognised impairment losses	**(8,552)**	**(452)**	**(286)**	**-**	**(9,290)**
Total provision for impairment losses on loans & advances as at 31 December 2023	**7,435**	**-**	**-**	**-**	**7,435**

[1] There was no transfer of collective provision for due from other financial institutions between the stages. The total provision of $16,000 (refer Note 9) was represented in 'Collective provision 12-months ECL' during the period.

[2] There was no transfer of collective provision for investment securities between the stages. The total provision of $205,000 was represented in 'Collective provision 12-months ECL' during the period.

(c) Movement in provision for impairment losses (continued)

As at 31 December 2022	Stage 1 Collective provision 12-months ECL $000	Stage 2 Collective provision Lifetime ECL not credit impaired $000	Stage 3 Collective provision Lifetime ECL credit impaired $000	Stage 3 Individually assessed Lifetime ECL credit impaired $000	Total provision $000
Due from other financial institutions [1]	147	-	-	-	**147**
Investment securities [2]	96	-	-	-	**96**
Loans and advances	10,804	452	-	-	**11,256**
Off-balance sheet credit related commitments	259	-	-	-	**259**
Total provision for impairment losses as at 31 December 2022	**11,306**	**452**	**-**	**-**	**11,758**
(a) Residential mortgages					
Balance as at 1 January 2022	7,478	-	-	-	**7,478**
Transferred to Stage 1	-	-	-	-	**-**
Transferred to Stage 2	-	-	-	-	**-**
Transferred to Stage 3	-	-	-	-	**-**
Charged / (credited) to profit or loss	1,147	-	-	-	**1,147**
Reversals of previously recognised impairment losses	(1,796)	-	-	-	**(1,796)**
Balance as at 31 December 2022	**6,829**	**-**	**-**	**-**	**6,829**
(b) Corporate exposures					
Balance as at 1 January 2022	4,329	-	-	-	**4,329**
Transferred to Stage 1	-	-	-	-	**-**
Transferred to Stage 2	-	-	-	-	**-**
Transferred to Stage 3	-	-	-	-	**-**
Charged / (credited) to profit or loss	2,545	452	-	-	**2,997**
Reversals of previously recognised impairment losses	(2,899)	-	-	-	**(2,899)**
Balance as at 31 December 2022	**3,975**	**452**	**-**	**-**	**4,427**
(c) Total loans and advances					
Balance as at 1 January 2022	11,807	-	-	-	**11,807**
Transferred to Stage 1	-	-	-	-	**-**
Transferred to Stage 2	-	-	-	-	**-**
Transferred to Stage 3	-	-	-	-	**-**
Charged / (credited) to profit or loss	3,692	452	-	-	**4,144**
Reversals of previously recognised impairment losses	(4,695)	-	-	-	**(4,695)**
Total provision for impairment losses on loans & advances as at 31 December 2022	**10,804**	**452**	**-**	**-**	**11,256**

[1] *There was no transfer of collective provision for due from other financial institutions between the stages. The total provision of $147,000 (refer Note 6) was represented in 'Collective provision 12-months ECL' during the period.*

[2] *There was no transfer of collective provision for investment securities between the stages. The total provision of $96,000 was represented in 'Collective provision 12-months ECL' during the period.*

As at 31 December 2023	Stage 1 Collective provision 12-months ECL $000	Stage 2 Collective provision Lifetime ECL not credit impaired $000	Stage 3 Collective provision Lifetime ECL credit impaired $000	Stage 3 Individually assessed Lifetime ECL credit impaired $000	Total provision $000
Off-balance sheet credit related business [1]					
Balance as at 1 January 2023	259	-	-	-	**259**
Transferred to Stage 1	-	-	-	-	**-**
Transferred to Stage 2	-	-	-	-	**-**
Transferred to Stage 3	-	-	-	-	**-**
Charged / (credited) to profit or loss	558	-	-	-	**558**
Reversals of previously recognised impairment losses	(607)	-	-	-	**(607)**
Balance as at 31 December 2023	**210**	**-**	**-**	**-**	**210**
As at 31 December 2022					
Off-balance sheet credit related business [1]					
Balance as at 1 January 2022	333	-	-	-	333
Transferred to Stage 1	-	-	-	-	-
Transferred to Stage 2	-	-	-	-	-
Transferred to Stage 3	-	-	-	-	-
Charged / (credited) to profit or loss	991	-	-	-	991
Reversals of previously recognised impairment losses	(1,065)	-	-	-	(1,065)
Balance as at 31 December 2022	**259**	**-**	**-**	**-**	**259**

[1] *The provision for off-balance sheet credit related business is included in other liabilities (Note 17).*

The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to their present value using the original effective interest rate for the asset. This discount unwinds as interest income over the period the asset is held.

In December 2023, the Bank reversed a management overlay on the ECL provisions on its residential mortgages. The overlay took the form of a higher PD factor over the generated factor in its provisioning model, and was first raised in December 2021 at a time when the full impacts of COVID-19 were still not fully felt and when there was plausible anticipated material deterioration of the general credit environment and in property prices. The last two years have provided time for these uncertainties to unfold and with a stabilising forward outlook, the Bank has decided to remove the use of such an overlay. This has resulted in a reduction in the residential mortgages ECL by $2.2m in December 2023. The stabilising forward outlook has resulted in slight decreases in the modelled PD factors used in the ECL provisions for corporate loan exposures. The changes in the 31 December 2023 ECL outputs are the combined results of the movements in the portfolio balances compared to the start of the year, under the improved PD factors.

(a) Credit commitments to counterparties

Undrawn balances on credit commitments to counterparties for whom drawn balances are classified as individually impaired were nil as at 31 December 2023 (31 December 2022: nil).

(b) Assets under administration

The Bank does not have any assets under administration as at 31 December 2023 (31 December 2022: nil).

(c) Restructured assets

The Bank does not have any restructured assets as at 31 December 2023 (31 December 2022: nil).

25. Concentration of credit exposures

Concentration of credit exposures arise where the Bank is exposed to risk in industries of a similar nature or in particular geographies. The following table presents the Bank's concentration of credit exposures reported by industry and geographic area.

ANZSIC codes have been used as the basis for disclosing industry sectors.

	On-balance sheet credit exposures		Off-balance sheet credit related commitments	
As at 31 December	2023 $000	2022 $000	2023 $000	2022 $000
Industry sector				
Accommodation and food services	14,849	-	-	-
Agriculture, forestry and fishing	25,459	25,434	7,552	4,500
Construction	208,235	325,042	64,983	84,896
Electricity, gas, water and waste services	165,140	80,246	-	-
Financial and insurance services	219,014	257,770	-	-
Information media and telecommunications	149,035	98,909	20,976	-
Manufacturing	87,090	89,603	4,860	3,518
Personal lending	792,174	738,651	5,766	1,120
Public administration and safety	535,468	368,751	-	-
Rental, hiring and real estate services	311,916	458,967	23,598	43,592
Retail trade	3,747	1,004	127	202
Wholesale trade	-	527	-	-
Subtotal	**2,512,127**	**2,444,904**	**127,862**	**137,828**
Unearned income	(4,874)	(903)	-	-
Loan origination fees	1,554	846	-	-
Fair value hedge adjustments	(1,319)	(4,048)	-	-
Provision for impairment losses [1]	(7,451)	(11,403)	(210)	(259)
Total credit exposures	**2,500,037**	**2,429,396**	**127,652**	**137,569**
Geographic area [2]				
New Zealand	2,088,343	2,069,362	127,652	137,569
Other countries	411,694	360,034	-	-
Total credit exposures	**2,500,037**	**2,429,396**	**127,652**	**137,569**

[1] *Provision for impairment losses on On-balance credit exposures includes Loans and advances and Due from other financial institutions.*

[2] *Geographic area classification is based on customer's tax residency status.*

Concentration of credit exposures to individual counterparties

Concentrations of credit exposures are disclosed on the basis of actual exposures. Credit exposures to individual counterparties (not being members of a group of closely related counterparties) and to groups of closely related counterparties, exclude exposures to connected persons, to the central government or central bank of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or to any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

The following disclosures show the number of individual counterparties (Bank and non-Bank) or groups of closely related counterparties where the period end and peak end-of-day credit exposures equalled or exceeded 10% of the Bank's CET1 capital as at balance date.

The peak end-of-day exposure aggregate credit exposure to an individual counterparty or a group of closely related counterparties has been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure for the relevant six months ended 31 December 2023 and then dividing that by the Bank's CET1 capital as at the reporting date for the Disclosure Statement.

As at 31 December 2023								
% of CET1	Number of Bank Counterparties				Number of Non-Bank Counterparties			
End of period exposure	"A" Rated	"B" Rated	Unrated	Total	"A" Rated	"B" Rated	Unrated	Total
15% - 19%	1	-	-	1	-	-	1	1
20% - 24%	-	-	-	-	-	-	2	2
25% - 29%	-	-	-	-	-	-	2	2
30% - 34%	-	-	-	-	-	-	1	1
45% - 49%	1	-	-	1	-	-	-	-
Total	2	-	-	2	-	-	6	6
Peak exposure								
15% - 19%	1	-	-	1	-	-	2	2
20% - 24%	-	-	-	-	-	-	2	2
25% - 29%	-	-	-	-	-	-	1	1
30% - 34%	-	-	-	-	-	-	2	2
45% - 49%	1	-	-	1	-	-	-	-
50% - 54%	1	-	-	1	-	-	-	-
Total	3	-	-	3	-	-	7	7
As at 31 December 2022								
10% - 14%	2	-	-	2	-	-	-	-
15% - 19%	-	-	-	-	-	-	1	1
20% - 24%	-	-	-	-	-	-	1	1
25% - 29%	-	-	-	-	-	-	1	1
30% - 34%	-	-	-	-	-	-	1	1
35% - 39%	-	-	-	-	-	-	1	1
60% - 64%	1	-	-	1	-	-	-	-
Total	3	-	-	3	-	-	5	5
Peak exposure								
10% - 14%	1	-	-	1	-	-	-	-
15% - 19%	-	-	-	-	-	-	1	1
20% - 24%	-	-	-	-	-	-	1	1
25% - 29%	-	-	-	-	-	-	1	1
35% - 39%	-	-	-	-	-	-	2	2
60% - 64%	1	-	-	1	-	-	-	-
115% -119%	1	-	-	1	-	-	-	-
Total	3	-	-	3	-	-	5	5

Notes:
"A" Rated - those counterparties that have a long-term credit rating of A- or A3 or above, or its equivalent.
"B" Rated - those counterparties that have a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent.
Unrated - those counterparties that have a long-term credit rating lower than BBB- or Baa3, or its equivalent and those counterparties that do not have a long-term credit rating.

26. Credit exposure to connected persons and non-bank connected persons

The Bank's credit exposure to connected persons is derived in accordance with the Bank's conditions of registration and the RBNZ document Connected Exposures Policy (BS8). The RBNZ defines connected persons to be other members of the Ultimate Parent Bank Group and Directors of the Bank.

Credit exposures to connected persons are based on actual credit exposures and are calculated on a gross basis, net of individual credit impairment allowances and excluding advances to connected persons of a capital nature. The Bank does not have credit exposures to non-bank connected persons other than members of the Ultimate Parent Bank Group.

Peak end-of-day aggregate credit exposures to connected persons expressed as a percentage of Tier 1 capital of the Bank have been derived by determining the maximum end-of-day aggregate amount of credit exposure over the year ended 31 December 2023 and then dividing that amount by the Bank's Tier 1 capital as at 31 December 2023.

	2023	2022
As at 31 December		
Credit exposures to connected persons at year end	5,990	8,061
Credit exposures to connected persons at year end (expressed as % of total tier 1 capital)	1.91%	2.84%
Peak for the year ended		
Peak credit exposures to connected persons during the year	12,485	40,114
Peak credit exposures to connected persons during the year (expressed as % of total tier 1 capital)	3.98%	14.12%

In accordance with its conditions of registration, the rating-contingent limit applicable to the Bank is 40% of Tier 1 capital. Within the overall rating-contingent limit there is a sub-limit of 15% of Tier 1 capital which applies to the aggregate credit exposure to non-bank connected persons. There was no change to the rating-contingent limit during the year ended 31 December 2023.

The limits on aggregate credit exposures to all connected persons and to non-bank connected persons in the Bank's conditions of registration have been complied with at all times during the year ended 31 December 2023.

The Bank may enter into an unfunded contingent credit protection arrangement (e.g. guarantee, credit derivative and indemnity) with a connected person to reduce the value of its underlying exposure to an unconnected counterparty, to the extent of the portion protected under the unfunded contingent credit protection arrangement. Such arrangements give rise to contingent credit exposures to connected persons.

As at 31 December 2023, the Bank did not have any contingent exposures to connected persons arising from unfunded contingent credit protection arrangements in respect of credit exposures to counterparties (excluding counterparties that are connected persons).

The aggregate amount of the Bank's loss allowance for credit exposures to connected persons that are credit impaired was nil as at 31 December 2023 (31 December 2022: nil).

27. Market risk management

The Bank has a policy which is approved by the Board to manage market risk. Day-to-day management of market risk is performed and reported by the Bank's Treasury function, with independent monitoring performed by the Bank's Risk Management Department whereby it ensures that market risk positions remain within prescribed limits. Oversight is provided by the Bank's ALCO, which receives monthly reporting to ensure market risk remains within the risk appetite specified by the Board.

For the purposes of market risk management, the Bank makes a distinction between traded and non-traded market risks. Traded market risk is generated through the Bank's participation in financial markets to service its customers and any discretionary trading activities. Non-traded market risk covers all market risks which are not designated as traded market risk. With the exception of bond trading (in the branch) in line with the Overseas Banking Group's global strategy, the Bank does not currently conduct any discretionary trading activity and fully hedges its customer interest rate and foreign exchange product flows, hence the market risks faced by the Bank are mainly of a non-traded nature.

(a) Interest rate risk

Interest rate risk is the risk of loss in earnings or in economic value as a consequence of movements in interest rates. All traded market interest rate risk is derived from customer deals that are systematically hedged at the time of trading, leaving no residual risk. The Bank's non-traded interest rate risk mainly comprises of yield curve, repricing, basis and optionality risks arising from mismatch of term structure and pricing basis of assets and liabilities in the banking book. The Bank uses the following tools to monitor and manage its interest rate risk:

- Interest rate repricing gap limits: This includes both limits on the aggregate net position, curve risk and limits applied to the short or long position for each repricing time bucket.
- Simulations using interest rate scenarios are used to provide a series of potential NII outcomes. NII is modelled using a 100 basis point parallel shift in the yield curve above and below current levels. NII outcomes from these yield curve shocks are monitored and reported internally against a prescribed monitoring trigger. Additional stressed interest rate scenarios are also considered and modelled.

(b) Interest rate repricing gap analysis

The following table presents the Bank's assets and liabilities at their carrying amounts as at 31 December 2023, categorised by the earlier of the contractual repricing or maturity dates. The carrying amounts of derivative financial instruments, which are principally used to reduce the Bank's exposure to interest rate movements, are included under the heading "Non-interest bearing".

As at 31 December 2023	Up to 3 months $000	Over 3 to 6 months $000	Over 6 to 12 months $000	Over 1 to 2 years $000	Over 2 years $000	Non-interest bearing $000	Total $000
Financial assets							
Cash and balances with central banks	282,264	-	-	-	-	-	282,264
Due from other financial institutions	124,607	-	-	-	-	197	124,804
Investment securities	85,100	110,975	11,864	32,012	97,009	1,929	338,889
Loans and advances [1]	1,070,656	179,897	253,825	203,107	42,027	(3,941)	1,745,571
Due from related parties	79	-	-	-	-	-	79
Derivative financial assets	-	-	-	-	-	8,430	8,430
Total financial assets	**1,562,706**	**290,872**	**265,689**	**235,119**	**139,036**	**6,615**	**2,500,037**
Non-financial assets	-	-	-	-	-	7,304	7,304
Total assets	**1,562,706**	**290,872**	**265,689**	**235,119**	**139,036**	**13,919**	**2,507,341**
Financial liabilities							
Due to other financial institutions	51,320	-	-	-	221,902	4,136	277,358
Deposits from customers	298,893	114,999	63,144	19,784	3,151	7,258	507,229
Debt securities issued	745,000	40,000	85,000	-	-	2,408	872,408
Due to related parties	199	-	-	204,805	315,085	(11,627)	508,462
Subordinated debt	-	-	-	-	-	-	-
Derivative financial liabilities	-	-	-	-	-	19,658	19,658
Total financial liabilities	**1,095,412**	**154,999**	**148,144**	**224,589**	**540,138**	**21,833**	**2,185,115**
Non-financial liabilities	-	-	-	-	-	9,619	9,619
Total liabilities	**1,095,412**	**154,999**	**148,144**	**224,589**	**540,138**	**31,452**	**2,194,734**
On-balance sheet interest rate repricing gap	**467,294**	**135,873**	**117,545**	**10,530**	**(401,102)**	**(17,533)**	**312,607**
Net derivative notional amount	(633,405)	11,045	47,839	165,194	409,327	-	-
Net interest rate repricing gap	**(166,111)**	**146,918**	**165,384**	**175,724**	**8,225**	**(17,533)**	**312,607**

[1] *Included in Loans and advances under the "Non-interest bearing" category are provisions for impairment losses and accrued interest on loans.*

As at 31 December 2022	Up to 3 months $000	Over 3 to 6 months $000	Over 6 to 12 months $000	Over 1 to 2 years $000	Over 2 years $000	Non-interest bearing $000	Total $000
Financial assets							
Cash and balances with central banks	215,709	-	-	-	-	-	215,709
Due from other financial institutions	210,288	-	-	-	-	1,394	211,682
Investment securities	35,000	-	-	23,033	123,916	1,253	183,202
Loans and advances [1]	1,041,611	229,234	299,982	203,220	38,226	(9,251)	1,803,022
Due from related parties	205	-	-	-	-	-	205
Derivative financial assets	-	-	-	-	-	15,576	15,576
Total financial assets	**1,502,813**	**229,234**	**299,982**	**226,253**	**162,142**	**8,972**	**2,429,396**
Non-financial assets	-	-	-	-	-	10,305	10,305
Total assets	**1,502,813**	**229,234**	**299,982**	**226,253**	**162,142**	**19,277**	**2,439,701**
Financial liabilities							
Due to other financial institutions	308,360	56,700	-	-	-	2,541	367,601
Deposits from customers	282,185	115,121	43,977	14,266	-	5,686	461,235
Debt securities issued	390,000	135,000	150,000	85,000	-	(5,678)	754,322
Due to related parties	208	-	-	-	521,987	(19,812)	502,383
Subordinated debt	15,000	-	-	-	-	189	15,189
Derivative financial liabilities	-	-	-	-	-	37,703	37,703
Total financial liabilities	**995,753**	**306,821**	**193,977**	**99,266**	**521,987**	**20,629**	**2,138,433**
Non-financial liabilities	-	-	-	-	-	13,675	13,675
Total liabilities	**995,753**	**306,821**	**193,977**	**99,266**	**521,987**	**34,304**	**2,152,108**
On-balance sheet interest rate repricing gap	**507,060**	**(77,587)**	**106,005**	**126,987**	**(359,845)**	**(15,027)**	**287,593**
Net derivative notional amount	(440,835)	135,000	(45,600)	(13,116)	364,551	-	-
Net interest rate repricing gap	**66,225**	**57,413**	**60,405**	**113,871**	**4,706**	**(15,027)**	**287,593**

[1] *Included in Loans and advances under the "Non-interest bearing" category are provisions for impairment losses and accrued interest on loans.*

(c) Interest rate sensitivity

The table below summarises the pre-tax for equity and post-tax for profit or loss sensitivity of interest bearing financial assets and financial liabilities to an incremental 100 basis points parallel fall or rise in market interest rates across all yield curves. The sensitivity analysis is based on the Bank's financial instruments held at reporting date excluding accrued interest, which are assumed to remain constant. It is also assumed that all other variables remain constant and that the changes in market rates are effective for a twelve-month period.

As at 31 December	2023 $000	2022 $000
Total funding comprises		
Impact on equity of increase or decrease to market interest rates		
100 bp parallel increase	4,129	3,093
100 bp parallel decrease	(4,129)	(3,093)
Impact on profit or loss of increase or decrease to market interest rates		
100 bp parallel increase	5,735	4,295
100 bp parallel decrease	(5,735)	(4,295)

(d) Foreign exchange risk

Foreign exchange risk is the risk of loss due to changes in foreign exchanges rates as a result of a mismatch of foreign currency assets and liabilities. Foreign exchange mismatches can arise from the day to day purchase and sale of foreign currency (on its own account or on behalf of customers), from deposit and lending activity in foreign currencies, international trade finance activities and from offshore funding by the Bank.

The Bank manages its foreign currency risk by using specified maximum aggregate exposure limits for defined currencies. Foreign currency risk is managed by using spot and forward exchange transactions, by matching foreign currency denominated assets with corresponding liabilities in the same currency, and derivatives (principally foreign exchange swaps and cross currency swaps).

Structural foreign exchange risk is the potential impact arising from a change in exchange rate for investments in foreign currency based operations. The Bank operates solely in New Zealand.

(e) Net open foreign currency position

The net open position of major foreign currencies held at 31 December are detailed in the table below. It represents the net of the non-derivative assets and liabilities in that foreign currency aggregated with the net expected future cash flows from derivative financial instrument purchases and sales from foreign exchange transactions in that foreign currency.

As at 31 December	2023 $000	2022 $000
Net open position		
US Dollar (USD)	120	(912)
Euro (EUR)	10	160
Chinese Yuan Renminbi (RMB)	13	2,627
Australian Dollar (AUD)	194	198
Japanese Yen (JPY)	759	741
Hong Kong Dollar (HKD)	191	191

(f) Foreign exchange rate sensitivity

The table below summarises the pre-tax for equity and post-tax for profit or loss sensitivity of financial assets and financial liabilities to a 10% depreciation or appreciation in foreign exchange rates against the New Zealand dollar. The sensitivity analysis is based on the Bank's financial instruments held in foreign currency at reporting date. It is assumed that all other variables remain constant.

As at 31 December	2023 $000	2022 $000
Net open position		
Impact on equity of increase or decrease in foreign exchange rates		
10% appreciation (increase)	34	(23)
10% depreciation (decrease)	(34)	23
Impact on profit or loss of increase or decrease in foreign exchange rates		
10% appreciation (increase)	47	(32)
10% depreciation (decrease)	(47)	32

(g) Equity and commodity price risk

The risk stems from trading activities and is the risk to the Bank's earnings arising from fluctuations in commodity or equity prices. The Bank does not have any equity or commodity instruments risk exposure as at 31 December 2023 (31 December 2022: nil).

28. Liquidity and funding risk management

The Bank has a policy to manage liquidity and funding risk which is approved by the Board. Day-to-day management of liquidity and funding risk is performed and reported by the Bank's Treasury function, with independent monitoring by the Bank's Risk Management Department. Oversight is provided by the Bank's ALCO, which receives monthly reporting to ensure liquidity and funding risk remains within the risk appetite specified by the Board.

The key objectives of the policy are:

- To ensure that cash flow commitments can be met as they fall due under both normal, stressed and crisis conditions.
- To ensure that the Bank develops and protects a resilient and diversified funding base that is responsive to the Bank's needs.
- To ensure that policies and procedures in relation to liquidity and funding risk management are clearly documented and understood by those in the organisation with responsibility for managing liquidity and funding risk.

(a) Monitoring and managing liquidity and funding risk

The Bank uses the following tools to monitor and manage its liquidity and funding risk including:

- Forecasting future cash requirements on a daily basis by constructing a maturity profile analysis to determine the net mismatch figure and informing the Bank of any liquidity and funding gaps in particular time bands. The cash flow projections take into account the expected behaviour of assets and liabilities where contractual maturities are unlikely to be a useful guide, and also consider contingent demands on liquidity.
- Limits to ensure the holding of readily realisable investment assets and deposits with high credit quality counterparties do not fall below prudent levels, as well as counterparty concentration limits.
- Limits to ensure a diverse and stable funding base, including in relation to source of funding and maturity profile mismatch gaps.
- Monitoring of compliance with the RBNZ's one-week mismatch ratio, one-month mismatch ratio and core funding ratio requirements on a daily basis.
- Scenario analysis (including stress scenarios) to support the Bank's understanding of its liquidity and funding risk and whether the Bank has the ability to meet cash outflows over a range of time horizons in a range of scenarios (including stress scenarios).
- Developing, maintaining and regularly testing a liquidity EWI framework and a CFP to enable the Bank to monitor, deal promptly and act decisively in response to a liquidity and funding crisis. EWIs are a set of carefully chosen metrics designed to aid in the process of identifying the emergence of increased risk, potential funding needs, or other vulnerabilities in the liquidity position. The CFP establishes the trigger levels of select EWIs for invoking the CFP, policies, responsibilities and plans designed to return the Bank to a robust position within its risk tolerance as quickly as possible.
- Maintaining an internal funding arrangement with the Ultimate Parent Bank to support the Bank's liquidity management.

(b) Liquidity portfolio management

The Bank held the following financial assets for the purpose of managing liquidity risk:

As at 31 December	Note	2023 $000	2022 $000
Cash and cash equivalents			
Cash and balances with central banks	8	282,264	215,709
Due from other financial institutions (call or original maturity of 3 months or less)[1]	9	124,804	211,682
Due from related parties[2]	20	65	205
Total cash and cash equivalents		**407,133**	**427,596**
Investment securities			
Registered bank securities	10	85,685	30,160
Multilateral development banks and other international organisations	10	247,334	147,278
Government securities	10	5,870	5,764
Total investment securities		**338,889**	**183,202**
Total liquidity portfolio		**746,022**	**610,798**

[1] Due from other financial institutions includes nostro accounts and short-term placements held with other financial institutions.
[2] Due from related parties includes nostro account balances held with the Ultimate Parent Bank.

(c) Contractual maturity analysis of financial liabilities

The table below presents the Bank's cash flows by remaining period to contractual maturity as at reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows and include principal and future interest cash flows and therefore will not agree to the carrying amounts on the balance sheet, except for derivatives held for trading where the full mark to market amount has been included.

Actual cash flows may differ significantly from the contractual cash flows presented below as a result of future actions of the Bank and its counterparties such as early redemptions of term deposits.

The contractual maturity analysis for off-balance sheet commitments and contingent liabilities has been prepared using the earliest date at which the Bank can be called upon to pay. The liquidity risk of credit related commitments and contingent liabilities may be less than the contract amount and does not necessarily represent future cash requirements as many of these facilities are expected to be only partially used or to expire unused.

The Bank does not manage its liquidity risk based on the analysis presented in the table below:

As at 31 December 2023	On demand $000	0-3 months $000	3-12 months $000	1-5 years $000	Over 5 years $000	Total $000	Carrying amount $000
Non-derivative financial liabilities							
Due to other financial institutions	-	611	54,590	239,299	-	294,500	277,358
Deposits from customers	38,376	265,110	187,813	25,952	-	517,251	507,229
Debt securities issued	-	181,946	239,934	548,700	-	970,580	872,408
Due to related parties	199	3,383	11,708	550,408	-	565,698	508,462
Lease liabilities	-	258	774	2,824	143	3,999	3,835
Total non-derivative financial liabilities	**38,575**	**451,308**	**494,819**	**1,367,183**	**143**	**2,352,028**	**2,169,292**
Derivative financial liabilities							
Held for trading	-	-	-	1,029	-	1,029	
Gross settled – cash inflow	-	(10,180)	(98,635)	(695,831)	-	(804,646)	
Gross settled – cash outflow	-	15,868	117,101	687,329	-	820,298	
Total derivative financial liabilities	**-**	**5,688**	**18,466**	**(7,473)**	**-**	**16,681**	**19,658**
Lending commitments (off-balance sheet)	**127,652**	**-**	**-**	**-**	**-**	**127,652**	
As at 31 December 2022							
Non-derivative financial liabilities							
Due to other financial institutions	-	258,954	57,703	51,000	-	367,657	367,601
Deposits from customers	36,971	250,116	164,795	15,318	-	467,200	461,235
Debt securities issued	-	42,565	295,401	445,237	-	783,203	754,322
Due to related parties	208	3,380	11,716	567,781	-	583,085	502,383
Subordinated debt	-	189	15,300	-	-	15,489	15,189
Lease liabilities	-	241	756	3,768	231	4,996	4,738
Total non-derivative financial liabilities	**37,179**	**555,445**	**545,671**	**1,083,104**	**231**	**2,221,630**	**2,105,468**
Derivative financial liabilities							
Held for trading	-	-	1,508	-	-	1,508	
Gross settled – cash inflow	-	(66,634)	(168,985)	(577,858)	-	(813,477)	
Gross settled – cash outflow	-	78,310	187,615	583,970	-	849,895	
Total derivative financial liabilities	**-**	**11,676**	**20,138**	**6,112**	**-**	**37,926**	**37,703**
Lending commitments (off-balance sheet)	137,569	-	-	-	-	**137,569**	

(d) Current and non-current assets and liabilities

Assets and liabilities are classified as current if it is expected they will be recovered, or due for settlement or expected to be settled within twelve months of the reporting date.

Non-current assets include property, plant and equipment and intangible assets as well as financial assets of a long term nature. Non-current liabilities include financial and non-financial liabilities which are expected to be settled after twelve months from reporting date. For the purposes of this disclosure, the fair value of derivatives has been classified as current or non-current based on the contractual maturity of the derivative deals.

As at 31 December	2023 Current $000	2023 Non-current $000	2023 Total $000	2022 Current $000	2022 Non-current $000	2022 Total $000
Assets						
Cash and balances with central banks	282,264	-	282,264	215,709	-	215,709
Due from other financial institutions	124,804	-	124,804	211,682	-	211,682
Investment securities	123,274	215,615	338,889	5,056	178,146	183,202
Loans and advances	408,827	1,336,744	1,745,571	603,739	1,199,283	1,803,022
Due from related parties	79	-	79	205	-	205
Derivative financial assets	3,448	4,982	8,430	4,031	11,545	15,576
Property, plant and equipment	-	4,058	4,058	-	4,937	4,937
Intangible assets	-	30	30	-	7	7
Current tax assets	-	-	-	-	-	-
Deferred tax assets	-	2,855	2,855	-	5,211	5,211
Other assets	361	-	361	150	-	150
Total assets	**943,057**	**1,564,284**	**2,507,341**	**1,040,572**	**1,399,129**	**2,439,701**
Liabilities						
Due to other financial institutions	55,200	222,158	277,358	315,389	52,212	367,601
Deposits from customers	484,104	23,125	507,229	446,839	14,396	461,235
Debt securities issued	372,522	499,886	872,408	316,924	437,398	754,322
Due to related parties	199	508,263	508,462	208	502,175	502,383
Subordinated debt	-	-	-	15,189	-	15,189
Current tax liabilities	1,204	-	1,204	4,763	-	4,763
Derivative financial liabilities	3,413	16,245	19,658	16,900	20,803	37,703
Other liabilities	5,545	2,870	8,415	5,127	3,785	8,912
Total liabilities	**922,187**	**1,272,547**	**2,194,734**	**1,121,339**	**1,030,769**	**2,152,108**

(e) Regulatory liquidity ratios

The Bank is subject to the conditions of the RBNZ's liquidity policy as set out in BS13 *Liquidity Policy* . The Bank has the appropriate internal framework and tools for liquidity risk management to ensure compliance with these regulatory requirements, as well as internal targets and limits.

The following table shows the average regulatory liquidity ratios over the three months ended on 31 December 2023 and the three months ended on 30 September 2023.

As at	RBNZ minimum ratio requirements %	Unaudited 31 Dec 2023 %	Unaudited 30 Sep 2023 %
Liquidity ratios			
Quarterly average 1-week mismatch ratio	0%	16.3%	16.5%
Quarterly average 1-month mismatch ratio	0%	19.8%	18.1%
Quarterly average core funding ratio	75%	91.7%	89.5%

The average value of a ratio was calculated at the close of each working day in the relevant three-month period in accordance with the conditions of registration of the Bank relating to liquidity risk management and calculating the arithmetic average of all of the daily ratio figures.

29. Concentrations of funding

Concentrations of funding arise where the Bank is funded by industries of a similar nature or in particular geographies. The following table presents the Bank's concentrations of funding, which are reported by industry and geographic area.

ANZSIC codes have been used as the basis for disclosing industry sectors.

As at 31 December	2023 $000	2022 $000
Total funding comprises		
Due to other financial institutions	277,358	367,601
Deposits from customers	507,229	461,235
Debt securities issued	872,408	754,322
Due to related parties	508,462	502,383
Subordinated debt	-	15,189
Total funding	**2,165,457**	**2,100,730**
Concentration of funding by industry sector		
Accommodation and food services	31,115	-
Agriculture, forestry and fishing	5,200	3,930
Construction	20,126	29,043
Financial and insurance services	1,331,240	1,349,614
Households	13,153	11,270
Local government administration	82,316	51,000
Manufacturing	547	1,516
Other	55,815	74,064
Rental, hiring and real estate services	26,067	11,884
Retail trade	156	303
Transport, postal and warehousing	90,596	50,490
Wholesale trade	664	44
Subtotal	**1,656,995**	**1,583,158**
Due to related parties (including subordinated debt)	508,462	517,572
Total funding	**2,165,457**	**2,100,730**
Concentration of funding by geographic area [1]		
New Zealand	1,412,514	1,338,303
Other countries	752,943	762,427
Total funding	**2,165,457**	**2,100,730**

[1] *The geographic area used for debt securities issued is based on the nature of the debt programmes.*

30. Capital adequacy

The Bank is subject to the capital adequacy requirements for registered banks as specified by the RBNZ. Locally incorporated registered banks in New Zealand using the RBNZ's standardised approach under Pillar 1 are required to calculate capital adequacy using the RBNZ's BPR frameworks. In September 2023, the RBNZ published their final decisions about amendments to the BPR documents (effective 1 October 2023), with no material impact on the Bank to meet regulatory requirements.

The framework is consistent with the internationally agreed framework (commonly known as Basel III) developed by the Basel Committee on Banking Supervision. These requirements define what is acceptable as capital and provide methods for measuring the risks incurred by the Bank.

The objective of the Basel III framework is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profile of banks. Basel III consists of three pillars – Pillar 1 covers the capital requirements for banks for credit, operational and market risks. Pillar 2 covers all other material risks not already included in Pillar 1, and Pillar 3 relates to market disclosure.

Other than for operational risk (BPR150), the Bank applied the RBNZ's standardised approach set out in BPR131 - 160, for calculating its regulatory capital requirements. The Bank currently applies a fixed floor (as a percentage of its total weighted exposures) of 8% of its operational risk regulatory capital requirement, as required by the RBNZ, due to insufficient historical observation points from the length of time in operation.

The Basel III standards for bank capital distinguish between Tier 1 and Tier 2 capital. Tier 1 capital is permanently and freely available to absorb losses without the bank being obliged to cease trading, while Tier 2 capital generally only absorbs losses in a winding up. Within Tier 1 capital, Common Equity (CET1) has greater loss absorbing capability than the other Tier 1 instruments referred to as Additional Tier 1 (AT1) capital. CET1 and AT1 capital primarily consists of shareholders' equity and other capital instruments acceptable to the RBNZ less intangible and deferred tax assets and other prescribed deductions. Tier 2 can comprise other capital instruments acceptable to the RBNZ.

Capital ratios are used to define minimum capital requirements for each of: CET1, Tier 1 capital (CET1 plus AT1), and Total capital (Tier 1 plus Tier 2), as a percentage of risk-weighted assets calculated in accordance with the RBNZ standardised approach.

As a condition of registration, the Bank must comply with the following minimum requirements set by the RBNZ:

- Total capital ratio must not be less than 8% of risk weighted exposures;
- Tier 1 capital ratio must not be less than 6% of risk weighted exposures;
- Common Equity Tier 1 capital ratio must not be less than 4.5% of risk weighted exposures;
- Capital of the Bank must not be less than NZ$30 million.

The Bank has complied with all the relevant RBNZ minimum capital ratios to which it was subject during the reporting period. The Bank's total capital ratio was 19.44% as at 31 December 2023.

Capital management

The primary objectives of the Bank's capital management programme are to ensure that the Bank maintains strong credit ratings and healthy capital ratios in order to support the future development and growth of the business and to maximise shareholder value and comply with the regulatory capital requirements set by the RBNZ.

The Board has ultimate responsibility for ensuring that the Bank has adequate overall capital in relation to its risk profile and establishes minimum internal capital levels and limits above the regulatory minimum to reduce the risk of breaching its conditions of registration. The Bank actively monitors its capital adequacy as part of the Bank's ICAAP, which complies with the requirements set out in BPR100: Capital Adequacy, and reports this on a regular basis to senior management and the Board.

The Bank's ICAAP is a documented process that evaluates all material risk types and estimates and ensures appropriate levels of capital are held against these key risks, including the impacts of adverse economic scenarios and future strategic requirements. The Bank's ICAAP is set to be reviewed and approved at least annually by senior management and the Board.

The Bank manages its capital structure and makes adjustments according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders, return/issue capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes during the year ended 31 December 2023. There were no significant capital initiatives undertaken during the year ended 31 December 2023.

The capital adequacy tables set out on the following pages summarise the composition of regulatory capital, risk-weighted assets and the capital adequacy ratios for the Bank as at 31 December 2023. During the year ended 31 December 2023, the Bank complied in full with all externally imposed RBNZ capital requirements as set out in the Bank's conditions of registration.

Capital

The table below shows the qualifying capital for the Bank.

Regulatory Capital As at 31 December	Unaudited 2023 $000	Unaudited 2022 $000
Tier 1 capital		
Common equity tier 1 capital		
Issued and fully paid-up ordinary share capital	199,178	199,178
Retained earnings (net of appropriations)	117,023	90,340
Accumulated other comprehensive income and other disclosed reserves [1]	(3,594)	(1,925)
Less deductions from common equity tier 1 capital		
Intangible assets	30	7
Cash flow hedge reserve	(3,728)	(1,773)
Deferred tax assets	2,855	5,211
Total common equity tier 1 capital	**313,450**	**284,148**
Total tier 1 capital	**313,450**	**284,148**
Tier 2 capital		
Subordinated notes	-	3,000
Total tier 2 capital	**-**	3,000
Total capital	**313,450**	**287,148**

[1] *Accumulated other comprehensive income and other disclosed reserves consist of FVOCI revaluation reserve of $134,000 and cash flow hedge reserve of ($3,728,000).*

Capital instruments

Ordinary shares

In accordance with the RBNZ Capital Adequacy Framework (Standardised Approach), ordinary share capital is classified as CET1 capital.

In relation to the ordinary shares:

- there are no options or facilities for early redemptions, conversion, write-down or capital repayment;
- there is no predetermined dividend rate;
- there is no maturity date;
- there are no options granted or to be granted pursuant to any arrangement;
- they have equal voting rights and share equally in dividends and profit on winding up. They represent the most subordinated claim on winding up; and
- dividends are declared and paid out from distributable items (including retained earnings), subject to restrictions as per the conditions of registration applicable to the Bank.

Credit risk

a) On-balance sheet exposures

As at 31 December 2023 (Unaudited)	Total exposure after credit risk mitigation $000	Risk weight %	Risk weighted exposure $000
Sovereigns and central banks	288,134	0%	-
Multilateral development banks and other international organisations	247,334	0%	-
Banks - 20% weighting	124,883	20%	24,977
Banks - 50% weighting	85,685	50%	42,843
Corporate - 100% weighting	962,654	100%	962,654
Residential mortgages owner occupied not past due			
< 80% loan to value ratio (LVR)	402,521	35%	140,882
Residential mortgages property investment not past due			
< 80% loan to value ratio (LVR)	385,035	40%	154,014
Other assets	9,528	100%	9,528
Non-risk weighted assets	1,567	-	-
Total on-balance sheet exposures	**2,507,341**		**1,334,898**

(b) Off-balance sheet exposures and market related contracts

As at 31 December 2023 (Unaudited)	Total exposure $000	Credit conversion factor $000	Credit equivalent amount $000	Average risk weight %	Risk weighted exposure $000
Revolving underwriting facility	24,167	50%	12,084	100%	12,084
Performance-related contingency	196	50%	98	0%	-
Other commitments where original maturity is less than or equal to one year	5,766	20%	1,153	38%	438
Other commitments where original maturity is more than one year	97,525	50%	48,763	100%	48,763
Market related contracts [1]					
(a) Foreign exchange contracts	786,193	n/a	40,152	52%	20,879
(b) Interest rate contracts	407,121	n/a	8,190	50%	4,095
(c) Credit valuation adjustment	-	n/a	-	-	16,405
Total off-balance sheet exposures	**1,320,968**		**110,440**		**102,664**

[1] *The credit equivalent amount for market related contracts was calculated as set out in BPR131 Standardised Credit Risk RWAs and the Bank uses the simple approach for credit risk mitigation with regards to measurement of fair value of collaterals.*

Additional mortgage information

Residential mortgages by loan-to-valuation ratio

As at 31 December 2023 (Unaudited)	Does not exceed 80% $000	Exceeds 80% and not 90% $000	Exceeds 90% $000	Total $000
Loan-to-valuation ratio				
On-balance sheet exposures				
Residential mortgages - owner occupied	402,521	-	-	402,521
Residential mortgages - investment	385,035	-	-	385,035
Total on-balance sheet exposures	**787,556**	**-**	**-**	**787,556**
Off-balance sheet exposures	5,766	-	-	5,766
Value of exposures	**793,322**	**-**	**-**	**793,322**

The information in the above table is in respect of the total residential mortgage loans used to calculate the Bank's Pillar 1 capital requirement for credit risk, categorised by loan-to-valuation ratio.

Any residential mortgage loan for which no loan-to-valuation ratio is available is included in the category for loan-to-valuation ratios that exceed 90%.

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

Reconciliation of residential mortgage related amount

As at 31 December 2023 (Unaudited)	Note	$000
Total residential mortgages	11	792,174
Reconciling items:		
Less: Provision for impairment losses on credit exposures	24 (a)	(4,618)
On-balance sheet exposures	24 (a)	**787,556**
Off-balance sheet exposures		**5,766**
Total residential mortgage exposures		**793,322**

Credit risk mitigation

The Bank's dominant activity is the provision of corporate and residential mortgage finance which, at 31 December 2023, comprised 55% and 45% of the Bank's loan portfolio respectively. These exposures are typically secured by charges over business assets and first-ranking registered mortgages over residential property. Investment security exposures are carried at fair value which reflects the credit risk. The Bank does not hold guarantees or any other forms of collateral against these investments.
The Bank does not currently take into consideration any credit risk mitigants in its capital adequacy calculations.

Operational risk

As at 31 December 2023 (Unaudited)	Implied weighted exposure $000	Total operational risk capital requirement $000
Operational risk	128,972	10,318

Market risk

As at 31 December 2023 (Unaudited)	End of period capital charge		Peak end-of-day capital charge	
	Implied risk weighted exposure $000	Aggregate capital charge $000	Implied risk weighted exposure $000	Aggregate capital charge $000
Interest rate risk	45,146	3,612	86,695	6,936
Foreign currency risk	465	37	1,363	109
Total market risk	**45,611**	**3,649**	**88,058**	**7,045**

Peak end-of-day aggregate capital charge for each category of market risk is derived by determining the maximum over the six months ended 31 December 2023 of the aggregate capital charge at the close of each business day derived in accordance with Part A of BPR140: Market Risk.

Total capital requirements

As at 31 December 2023 (Unaudited)	Total exposure after credit risk mitigation $000	Risk weighted exposure or implied risk weighted exposure $000	Total capital requirement $000
Total credit risk + equity	2,617,781	1,437,562	115,004
Operational risk	n/a	128,972	10,318
Market risk	n/a	45,611	3,649
Total capital requirements	**2,617,781**	**1,612,145**	**128,971**

Capital requirements for other material risks

The Basel III capital adequacy regime seeks to ensure that banks have adequate capital to support all material risks inherent in their business activities. Consequently, the Bank's ICAAP captures all material risks that the Bank faces including those not captured by Pillar 1 regulatory capital requirements. These other material risks for the Bank include liquidity and funding risk, strategic and business risk, and reputational risk.

The Bank's internal capital allocation for other material risks as at 31 December 2023 is $39.6 million (31 December 2022: $34.5 million). No material adjustments were made to the ICAAP methodologies during the year ended 31 December 2023. The Board's approval for an extra 2% capital buffer to cover the additional material risks remains in place, taking the total capital ratio to a minimum of 12.5%.

Capital ratios of the Bank

As at 31 December	Unaudited 2023	Unaudited 2022
Capital adequacy ratios		
Common equity tier 1 capital ratio	19.44%	16.70%
Tier 1 capital ratio	19.44%	16.70%
Total capital ratio	19.44%	16.87%
RBNZ minimum ratio requirements		
Common equity tier 1 capital ratio	4.50%	4.50%
Tier 1 capital ratio	6.00%	6.00%
Total capital ratio	8.00%	8.00%
Prudential capital buffer ratio		
Prudential capital buffer ratio	11.44%	8.87%
Conservation buffer	2.50%	2.50%

Capital adequacy of the Ultimate Parent Bank Group and Ultimate Parent Bank

The Ultimate Parent Bank of the Bank is CCBC. The Ultimate Parent Bank Group comprises the Ultimate Parent Bank and its subsidiaries.

Both the Ultimate Parent Bank and the Ultimate Parent Bank Group are required to hold minimum capital and disclose capital adequacy ratios in accordance with both the *Capital Rules for Commercial Banks (Provisional)* promulgated by the NAFR in June 2012 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.ccb.com).

The Ultimate Parent Bank and the Ultimate Parent Bank Group each met the capital requirements imposed on them by the NAFR as at 30 September 2023, the latest reporting date.

The capital ratios below have been calculated in accordance with the Capital Rules for Commercial Banks (Provisional), issued by the NAFR.

As at 30 September	Unaudited 2023	Unaudited 2022
Ultimate Parent Bank Group		
Common equity tier 1 capital ratio	12.92%	13.86%
Tier 1 capital ratio	13.82%	14.60%
Total capital ratio	17.57%	18.67%
Ultimate Parent Bank		
Common equity tier 1 capital ratio	12.77%	13.82%
Tier 1 capital ratio	13.66%	14.49%
Total capital ratio	17.57%	18.76%

Other Disclosures

31. Insurance business, securitisation, funds management, other fiduciary activities and the marketing and distribution of insurance products

Insurance

The Bank does not conduct any insurance business.

Securitisation, funds management, other fiduciary activities and marketing and distribution of insurance products

The Bank is also not involved in:

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

32. Commitments and contingent liabilities

The Bank is party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, financial guarantees, standby letters of credit, trade letters of credit, non-financial guarantees and underwriting facilities.

The Bank's exposure to credit loss in the event of non-performance by the other party is represented by the contract or notional amount of those financial instruments. The Bank uses the same credit policies in making commitments and conditional obligations for off-balance sheet risk as it does for on-balance sheet financial instruments.

Credit related and other commitments (contractual or notional amount) and contingent liabilities arising in respect of the Bank's operations were:

As at 31 December	2023 $000	2022 $000
Credit related commitments and contingent liabilities		
Commitments to extend credit [1]	127,456	135,345
Non-financial guarantees	196	2,224
Total credit related commitments and contingent liabilities	**127,652**	**137,569**

[1] *Commitments to extend credit includes provision for off-balance sheet credit related business.*

There were no other capital commitments and contingent liabilities as at 31 December 2023 (31 December 2022: nil).

33. Offsetting of financial assets and financial liabilities

There were no assets and liabilities which were subject to offsetting, enforceable master netting arrangements and similar agreements at 31 December 2023 or 31 December 2022.

34. Events subsequent to the reporting date

There was no material event that occurred subsequent to the reporting date that requires recognition or additional disclosure in these financial statements.

35. Other material matters

(a) Climate statements

The External Reporting Board ("XRB") issued the following climate-related standards in December 2022:

- Aotearoa New Zealand Climate Standard 1: Climate-related Disclosures ("NZ CS 1") - provides a framework for entities to consider climate-related risks and opportunities;
- Aotearoa New Zealand Climate Standard 2: Adoption of Climate-related Disclosures ("NZ CS 2") - outlines a limited number of adoption provisions; and
- Aotearoa New Zealand Climate Standard 3: General Requirements for Climate-related Disclosures ("NZ CS 3") - establishes principles and general requirements.

These standards are applicable for annual reporting periods starting on or after 1 January 2023, except for the assurance of greenhouse gas ("GHG") emission requirements, which apply to reporting periods ending on or after 27 October, 2024. As a designated climate reporting entity ("CRE") under the climate-related disclosure regime, the Bank will issue its first mandatory climate statement under the Financial Markets Conduct Act 2013 ("FMCA") and the Aotearoa New Zealand Climate Standards ("NZ CS") for the year ending 31 December 2023.

(b) Revisions to capital requirements for banks in New Zealand

Effective from 1 July 2023, the RBNZ issued a new capital adequacy framework that has increased the amount of capital registered banks must have, and also made changes to the definitions of regulatory capital. These new capital adequacy requirements are applicable to the Bank and are being implemented in stages through to July 2028.

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

36. Credit ratings

The Bank has the following credit ratings as at the date the Directors signed this Disclosure Statement.

	Moody's Investors Service	Fitch Ratings
Long-term credit rating	A1	A
Short-term credit rating	P-1	F1+
Outlook	Negative	Stable

A credit rating is not a recommendation to buy, sell or hold securities of the Bank. Such ratings are subject to revision, qualification, suspension or withdrawal at any time by the assigning rating agencies. Investors in the Bank's securities are cautioned to evaluate each rating independently of any other rating. On 27 November 2023, Fitch Ratings affirmed the Bank's A rating, and Stable outlook. On 8 December 2023, Moody's Investors Service affirmed the Bank's A1 rating and adjusted the outlook from Stable to Negative.

Descriptions of the credit rating scales are as follows:

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:

Rating Agency	S&P Global Ratings[1]	Moody's Investors Service[2]	Fitch Ratings[1]
Investment grade:			
Ability to repay principal and interest is extremely strong. This is the highest investment category.	AAA	Aaa	AAA
Very strong ability to repay principal and interest.	AA	Aa	AA
Strong ability to repay principal and interest although somewhat susceptible to adverse changes in economic, business or financial conditions.	A	A	A
Adequate ability to repay principal and interest. More vulnerable to adverse changes.	BBB	Baa	BBB
Speculative grade:			
Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	BB	Ba	BB
Greater vulnerability and therefore greater likelihood of default.	B	B	B
Likelihood of default now considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.	CCC	Caa	CCC
Highest risk of default.	CC to C	Ca to C	CC to C
Obligations currently in default.	D	C	RD & D

[1] *S&P Global Ratings and Fitch Ratings may be modified by the addition of "+" or "-" to show the relative standing within the "AA" to "B" categories.*

[2] *Moody's Investors Service applies numerical modifiers 1, 2, and 3 to each of the "Aa" to "Caa" classifications with 1 indicating the higher end and 3 the lower end of the rating category.*

S&P Global Ratings

A-1	A short-term obligation rated 'A-1' is rated in the highest category by S&P Global Ratings. The obligor's capacity to meet its financial commitments on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitments on these obligations is extremely strong.
A-2	A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitments on the obligation is satisfactory.
A-3	A short-term obligation rated 'A-3' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken an obligor's capacity to meet its financial commitments on the obligation.
B	A short-term obligation rated 'B' is regarded as vulnerable and has significant speculative characteristics. The obligor currently has the capacity to meet its financial commitments; however, it faces major ongoing uncertainties that could lead to the obligor's inadequate capacity to meet its financial commitments.

C	A short-term obligation rated 'C' is currently vulnerable to non-payment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitments on the obligation.
D	A short-term obligation rated 'D' is in default or in breach of an imputed promise. For non-hybrid capital instruments, the 'D' rating category is used when payments on an obligation are not made on the date due, unless S&P Global Ratings believes that such payments will be made within any stated grace period. However, any stated grace period longer than five business days will be treated as five business days. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. A rating on an obligation is lowered to 'D' if it is subject to a distressed exchange offer.

Moody's Investors Service

P-1	Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.
P-2	Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.
P-3	Issuers (or supporting institutions) rated Prime-3 have an acceptable ability to repay short-term obligations.
NP	NP Issuers (or supporting institutions) rated Not Prime do not fall within any of the Prime rating categories.

Fitch Ratings

F1	Highest Short-Term Credit Quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good Short-Term Credit Quality. Good intrinsic capacity for timely payment of financial commitments.
F3	Fair Short-Term Credit Quality. The intrinsic capacity for timely payment of financial commitments is adequate.
B	Speculative Short-Term Credit Quality. Minimal capacity for timely payment of financial commitments, plus heightened vulnerability to near term adverse changes in financial and economic conditions.
C	High Short-Term Default risk. Default is a real possibility.
RD	Restricted Default. Indicates an entity that has defaulted on one or more of its financial commitments, although it continues to meet other financial obligations. Typically applicable to entity ratings only.
D	Default. Indicates a broad-based default event for an entity, or the default of a short-term obligation.

37. Conditions of registration

The following conditions of registration were applicable as at 31 December 2023, and have applied from 1 October 2023 as per RBNZ's letter.

The registration of China Construction Bank (New Zealand) Limited ("the bank") as a registered bank is subject to the following conditions:

1. That

(a) the Total capital ratio of the banking group is not less than 8%;
(b) the Tier 1 capital ratio of the banking group is not less than 6%;
(c) the Common Equity Tier 1 capital ratio of the banking group is not less than 4.5%;
(d) the Total capital of the banking group is not less than $30 million.

For the purposes of this condition of registration,

"Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy;

"Total capital" has the same meaning as in BPR110: Capital Definitions.

1A. That

(a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out Part D of BPR100: Capital Adequacy;
(b) under its ICAAP the bank identifies and measures its "other material risks" defined in Part D of BPR100: Capital Adequacy; and
(c) the bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That, if the Prudential Capital Buffer (PCB) ratio of the banking group is 2.5% or less, the bank must

(a) according to the following table, limit the aggregate distributions of the bank's earnings, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to the percentage limit on distributions that corresponds to the banking group's PCB ratio; and

Banking group's PCB ratio	Percentage limit on distributions of the bank's earnings	Capital Buffer Response Framework stage
0% - 0.5%	0%	Stage 3
>0.5 - 1%	30%	Stage 2
>1 - 2%	60%	Stage 1
>2 - 2.5%	100%	None

(b) comply with the Capital Buffer Response Framework requirements as set out in Part D of BPR120: Capital Adequacy Process Requirements.

For the purposes of this condition of registration,

"prudential capital buffer ratio", "distributions", and "earnings" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy;

an Additional Tier 1 capital instrument is an instrument that meets the requirements of B2.2(2)(a), (c) or (d) of BPR110: Capital Definitions.

1BA. That the bank must not make any distribution on a transitional AT1 capital instrument on or after the date on which on any conversion or write-off provision in the terms and conditions of the instrument is triggered due to either a loss absorption trigger event or a non-viability trigger event.

For the purposes of this condition of registration, "transitional AT1 capital instrument" has the meaning given in section A2.3 of BPR110: Capital Definitions and "loss absorption trigger event" and "non-viability trigger event" have the meanings given in sub-section C2.2(3) of BPR120: Capital Adequacy Requirements.

1C. That

(a) the bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued on or after 1 July 2021 in the calculation of its capital ratios unless it has completed the notification requirements in Part B of BPR120: Capital Adequacy Process Requirements in respect of the instrument; and
(b) the bank meets the requirements of Part C of BPR120: Capital Adequacy Process Requirements in respect of regulatory capital instruments.

For the purposes of this condition of registration,

an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection B2.2(2)(a) or (c) of BPR110: Capital Definitions;

a Tier 2 capital instrument is an instrument that meets the requirements of subsection B3.2(2)(a) or (c) of BPR110: Capital Definitions.

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

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

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

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

(a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

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

In determining the total amount of the banking group’s insurance business

(a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

(b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,

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

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

4. That the aggregate credit exposures of the banking group to all connected persons must not exceed the rating-contingent limit outlined in the following matrix at the end of each working day at all times.

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

[1] *This table uses the rating scales of Standard & Poor’s, Fitch Ratings and Moody’s Investors Service. (Fitch Ratings’ scale is identical to Standard & Poor’s.)*

Within the rating-contingent limit, credit exposures to non-bank connected persons must not exceed 15 percent of the banking group’s tier 1 capital at the end of each working day at all times.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled “Connected Exposures Policy” (BS8) dated October 2023.

4A. That full year disclosure statements are prepared on the basis that clause 6(2)(b), Schedule 14 of the Order does not apply.

For the purposes of this condition of registration, “Order” means the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014, and “disclosure statement” means a disclosure statement to be prepared under the Order.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the bank complies with the following corporate governance requirements:

   (a) the board of the bank must have at least five directors;
   (b) the majority of the board members must be non-executive directors;
   (c) at least half the board members must be independent directors;
   (d) an alternate director,
      (i) for a non-executive director must be non-executive; and
      (ii) for an independent director must be independent;
   (e) at least half of the independent directors of the bank must be ordinarily resident in New Zealand;
   (f) the chairperson of the board of the registered bank must be an independent director; and
   (g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

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

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the bank unless:

   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the bank unless:

   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:

   (a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
   (b) the committee must have at least three members;
   (c) every member of the committee must be a non-executive director of the bank
   (d) at least one member of the committee must be independent; and
   (e) the chairperson of the committee must not be the chairperson of the bank.

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

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

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

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

   For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated July 2022 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated July 2022.

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

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

13. That no more than 10% of total assets may be beneficially owned by a SPV.

   For the purposes of this condition,

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

"SPV" means a person

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

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

14. That

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

(b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
   (i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
   (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and
   (iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

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

15. That, for a loan-to-valuation measurement period ending on or after 30 November 2023, the total of the bank's qualifying new mortgage lending amount in respect of property investment residential mortgage loans with a loan-to-valuation ratio of more than 65%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

16. That, for a loan-to-valuation measurement period ending on or after 30 November 2023, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 15% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

17. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration,

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

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

In these conditions of registration, the version dates of the Reserve Bank of New Zealand Banking Prudential Requirement (BPR) documents that are referred to in the capital adequacy conditions 1 to 1C, or are referred to in turn by those documents or by Banking Supervision Handbook (BS) documents, are:

BPR document	Version date
BPR100: Capital adequacy	1 October 2021
BPR110: Capital definitions	1 October 2023
BPR120: Capital adequacy process requirements	1 October 2023
BPR130: Credit risk RWAs overview	1 October 2023
BPR131: Standardised credit risk RWAs	1 October 2023
BPR132: Credit risk mitigation	1 October 2023
BPR133: IRB credit risk RWAs	1 October 2023
BPR134: IRB minimum system requirements	1 July 2021
BPR140: Market risk exposure	1 October 2021
BPR150: Standardised operational risk	1 July 2021
BPR151: AMA operational risk	1 July 2021
BPR160: Insurance, securitisation, and loan transfers	1 July 2021
BPR001: Glossary	1 October 2023

In conditions of registration 15 to 17,

“loan-to-valuation ratio”, “non property-investment residential mortgage loan”, “property investment residential mortgage loan”, “qualifying new mortgage lending amount in respect of property-investment residential mortgage loans”, “qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans”, and “residential mortgage loan” have the same meaning as in the Reserve Bank of New Zealand document entitled “Framework for Restrictions on High-LVR Residential Mortgage Lending” (BS19) dated October 2021:

“loan-to-valuation measurement period” means a period of six calendar months ending on the last day of the sixth calendar month.

Changes to Conditions of Registration since 31 December 2022

The Bank’s conditions of registration have been amended to:

(a) include changes to ease restrictions on high loan-to-valuation residential mortgages lending to owner occupiers and investors (effective 1 June 2023);

(b) incorporate changes regarding RBNZ's review of the connected exposures policy (BS8) and refer to updated versions of BPR's 100, 110, 120, 130, 131, 132 and 133 to implement changes to risk weights; and introduce a new capital instrument for mutual banks (effective 1 October 2023).

Deed of Guarantee

Date: 30 May 2014

PARTIES

China Construction Bank Corporation, a body corporate constituted under The Company Law of PRC and Law of the PRC on Commercial Banks, having its registered office at No. 25, Financial Street, Xicheng District, Beijing 100033, China (the Bank)

CCB New Zealand Limited, a Company incorporated in New Zealand having its registered office at C/- Minter Ellison Rudd Watts, 88 Shortland Street, Auckland, 1010, New Zealand (CCB NZ)

BACKGROUND

A The shares in CCB NZ are held by the Bank.

B The Bank has agreed to give the Guarantee to the Creditors as an unconditional guarantee for the benefit of the Creditors of all the present and future obligations of CCB NZ.

BY THIS DEED the parties agree as follows:

1 **DEFINITIONS AND INTERPRETATION**

1.1 **Defined terms**

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

Authorised Person means in relation to any Person:

(a) who is not a natural person, an individual who is a director thereof or another officer who has been expressly authorised to carry out tasks in connection with the Obligations; or

(b) who is a natural person, that person or his/her duly authorised representative.

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

Creditor means each and any Person to whom an Obligation is due and owed by CCB NZ during the term of the Guarantee.

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

Guaranteed Amount means, in relation to a claim made by any Creditor, the amount stated in a Creditors Demand in accordance with the procedure set out under clause 3 .2.

Immediate Termination Event means the occurrence of any of following events:

(a) any substantial asset of, or any share in the issued capital of, CCB NZ is expropriated or nationalized by the Government of New Zealand or by any sub-division, agency or department thereof;

(b) any change in any law or regulation in any jurisdiction which renders this Guarantee illegal or inoperative in New Zealand; or

(c) CCB NZ ceasing to be a wholly owned subsidiary (as that term is defined in the Companies Act 1993) of the Bank.

Obligation means a legally enforceable, claim, liability or obligation of CCB NZ to a Creditor ranking at least pari passu with the claims of unsecured creditors of CCB NZ, provided that an "Obligation" shall not include any claim, liability or obligation:

(a) in respect of special, exemplary or punitive damages; and/or

(b) for the payment of taxes, levies, rates, imposts, duties or similar government charges; and/or

(c) which is subject to a bona fide dispute; and/or

(d) in respect of which the Creditor has not submitted proper proof or other documents and security in accordance with this Deed so as to enable CCB NZ to discharge such claim, liability or obligation; and/or

(e) in respect of a contingent liability; and/or

(f) which is barred by the laws of limitation or such similar laws.

Person means any person, firm, partnership, body corporate, trust, estate, corporation, association, co-operative, government or governmental agency.

Rating Agency means, at the date of this Deed, Standard & Poor's (Australia) Pty Limited, any successor thereto and includes from time to time, such other reputable internationally recognised securities rating agency as CCB NZ may wish to designate.

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

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

2 **GUARANTEE**

2.1 *The Bank hereby irrevocably and unconditionally guarantees for the benefit of each Creditor the due and punctual payment by CCB NZ of each and every Obligation (whether at stated maturity or upon acceleration) now owing or to become owing by CCB NZ to the Creditor during the term of the Guarantee to the intent that should CCB NZ default in the due and punctual payment of any such Obligation, the Bank shall, upon written demand by the relevant Creditor under clause 3.2, forthwith pay or cause to be paid to the Creditor the Guaranteed Amount together with all costs and expenses incurred by the Creditor in enforcing the Guarantee.*

2.2 *The Guarantee is a continuing guarantee and shall not be considered as satisfied by any intermediate payment and shall remain in force until the termination or expiry of the Guarantee.*

2.3 *Subject to the terms of this Deed, neither the liability of the Bank, nor any of the rights of any Creditor, under the Guarantee shall be affected or discharged by anything which, but for this clause, might operate to affect or discharge the liability of, or otherwise provide a defence to, the Bank (whether or not known to, or done or omitted to be done by, the Bank).*

2.4 *The Bank's obligations under this Guarantee shall rank at all times at least pari passu with all its other present and future unsecured creditors, except indebtedness preferred solely by operation of law.*

2.5 *Notwithstanding clause 2.2, a Creditor may at any time by an instrument in writing, release the Bank from its liability under the Guarantee in relation to that Creditor. In addition, the Guarantee shall not apply to an Obligation if the terms of the Obligation expressly provide in writing that the Obligation will not have the benefit of the Guarantee.*

3 **DEMAND AND PAYMENT**

3.1 *A Creditor shall be entitled to make a demand under this Deed if and only if:*

(a) the Creditor has served written demand (a Primary Demand) on CCB NZ with proper proof for the payment of an Obligation which remains unpaid beyond its due date; and

(b) the Creditor has complied with all of the requirements of CCB NZ, including with regard to documentation and security, and the Primary Demand remains unsatisfied in whole or in part for a period of five (5) Business Days after service of the Primary Demand on CCB NZ in accordance with this Deed.

3.2 *A demand by a Creditor under this Deed (a Creditors Demand) shall be served on the Bank and shall be accompanied by a statutory declaration made by the Creditor or by an Authorised Officer of the Creditor stating:*

(a) the residency and place of business of the Creditor;

(b) that CCB NZ has failed to meet an Obligation;

(c) that a Primary Demand in respect of that Obligation has been given to CCB NZ (accompanied by a verified copy of that Primary Demand);

(d) that the Primary Demand has remained unsatisfied for a period of five (5) Business Days as stated in clause 3.l(b);

(e) brief particulars of the nature of that Obligation (accompanied by a verified copy of any document giving rise to that Obligation);

(f) that the Obligation ranks at least pari passu with the claims of unsecured creditors of CCB NZ generally;

(g) the outstanding amount and currency of that Obligation; and

(h) that there is no bona fide dispute relating to that Obligation.

3.3 *Service of the Creditors Demand and all accompanying documents under clause 3.2 on the Bank shall constitute a written demand by the Creditor under clause 2.1.*

4 **PAYMENTS**

4.1 *All payments by the Bank under this Deed shall be made in the currency or currencies in which the relevant Obligation is denominated.*

4.2 *All payments by the Bank under this Deed shall be made to a Creditor free and clear of and without deduction for or on account of, except to the extent required by law, any present or future taxes, levies, impost, duties, charges, fees, deductions or withholdings of any nature and whatever called (excluding taxes on overall net income) imposed, levied, collected, withheld or assessed by or on behalf of New Zealand or any political subdivision or any authority thereof or therein having power to tax (Taxes).*

4.3 *If any withholding or deduction for or on account of any Tax (a Tax Deduction) is required by law to be made by the Bank from a payment to a Creditor under this Deed, the Bank shall pay such additional amounts in order that (after making any Tax Deduction) the Creditor receives an amount equal to the payment which would have been due if no Tax Deduction had been required. No increased payment will be required under this clause in respect of a payment of any Guaranteed Amount if, had that Guaranteed Amount been paid by CCB NZ, no increased payment would have been payable by CCB NZ in respect of any deduction or withholding for or on account of any Tax.*

4.4 *In determining and making any payment the Bank shall be entitled to deduct the amounts (if any) which the Bank is entitled in law or in equity to set-off or counterclaim against the Creditor to whom the Obligation is owed and the amounts (if any) which CCB NZ could have set-off or counterclaimed in law or in equity against the Creditor to whom such Obligation is owed.*

5 **REPRESENTATIONS**

5.1 The Bank represents and warrants that:

(a) it is a registered bank duly organised and validly existing under the laws of China;

(b) it has the corporate power to enter into this Deed and to perform the obligations imposed upon it under this Deed in accordance with its terms; and

(c) this Deed constitutes a valid, binding and enforceable obligation upon it.

6 **TERMINATION OF GUARANTEE**

6.1 The Bank may terminate the Guarantee for any reason by notice in writing to CCB NZ. The Bank will promptly provide a copy of such notice to each Rating Agency. Such termination shall take effect on the date described in clause 6.2, but subject to clause 6.3.

6.2 On receipt of a notice of termination under clause 6.1, CCB NZ shall give notice to the Creditors of:

(a) the termination of the Guarantee; and

(b) the date of termination, which shall be:
   (i) in the case of an Immediate Termination Event, immediately on the giving notice to the Creditors in accordance with clause 9.1; and
   (ii) in the case of any event other than an immediate Termination Event, not less than three (3) months after the giving notice to the Creditors in accordance with clause 9.1, (being, in each case, the Termination Date).

6.3 Any termination of the Guarantee as contemplated by this clause 6 must be on terms that:

(a) the Guarantee shall remain in place for the benefit of each Creditor that is owed Obligations as at the Termination Date, but only in relation to, and to the extent of, those Obligations; and

(b) the Guarantee shall terminate, in relation to each Creditor referred to in sub- clause (a) above, at such time as those Obligations existing as at the Termination Date in favour of the relevant Creditor have been satisfied in full (whether by action taken by the Bank, CCB NZ, the relevant Creditor or by operation of law).

7 **SUBROGATION**

The Bank and CCB NZ expressly agree that the Bank is and shall be entitled to all the rights and remedies of a guarantor under law including, without limiting the generality of the foregoing, all rights of subrogation which shall accrue to the Bank by virtue of any payment hereunder by the Bank to or for the benefit of any Creditor and, subject to the law, the Bank shall be entitled to claim the benefit of and participate in any security now or hereafter held by that Creditor from CCB NZ either in whole or upon a pro-rata basis, as the case may be, where the Bank has paid all moneys to or for the benefit of that Creditor under this Deed. Notwithstanding the generality of the foregoing, the Bank shall not exercise or seek to enforce any claim against CCB NZ (whether or not in liquidation) for reimbursement to the Bank of any moneys paid pursuant to this Deed by the Bank to a Creditor in respect of an Obligation until the default of CCB NZ in respect of that Obligation has been fully remedied by CCB NZ or the Bank.

8 **DEALINGS BETWEEN THE BANK AND THE CREDITORS**

8.1 After receipt of a written demand from a Creditor under clause 3.2 the Bank and that Creditor shall deal with one another as principal in relation to all matters under or in relation to this Deed, the Guarantee and CCB NZ.

8.2 Without limiting the generality of clause 9, the Bank shall be and is entitled to serve any notice, demands or statements in connection with this Deed upon that Creditor (at its place of business specified in the Creditor's Demand) and the Bank shall be and is entitled to make any payment which it is liable to pay to the Creditor under this Deed directly to that Creditor and not through any other Person.

9 **NOTICES**

9.1 Any notice to the Creditors generally in respect of this Deed will be validly given if published in a newspaper circulating generally throughout New Zealand. Any such notice shall be deemed to have been given on the date of publication or, if published more than once, on the date of first publication.

9.2 Any notice, demand, statement or other document required to be served on or delivered to the Bank or CCB NZ under or in relation to this Deed (Notice) shall be in writing signed by the party giving the Notice or by an Authorised Officer of that party, shall be made, served or given (subject in the case of the Bank to clause 12.2) by being left at or sent by prepaid mail or by facsimile (if applicable) as follows:

China Construction Bank Corporation
No. 25, Financial Street
Xicheng District
Beijing 100033
China

Attention: International Business Department

CCB New Zealand Limited
C/ - Minter Ellison Rudd Watts
88 Shortland Street
Auckland 1010
New Zealand

Attention: Managing Director

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

10 **AMENDMENTS, WAIVERS AND CONSENTS**

10.1 Any provision of this Deed may be amended or supplemented by agreement in writing between the Bank and CCB NZ after having given prior notice to each Rating Agency. No further consent from the Creditors shall be required to any such amendment or supplement provided that notice of any such amendment or supplement shall be given to the Creditors in accordance with clause 9.1.

10.2 Any waiver may be given under this Deed at any time after having given prior notice to each Rating Agency. Any consent under any provision of this Deed must be in writing. Any such waiver or consent may be given subject to any conditions thought fit by any person giving it and shall only be effective in the instance and for the purpose for which it was given.

10.3 Any amendment or supplement made pursuant to clause 10.1 shall become effective on the later of the date that the relevant documentation is signed and the date upon which notice is deemed to be given to the Creditors pursuant to clause 9.1. Any waiver or consent shall become effective on the date that waiver or consent is given in writing. In each case, the Bank shall cause a duly executed original of the document evidencing the relevant amendment, supplement, waiver or consent to be deposited with the original of this Guarantee.

11 **ASSIGNMENT**

11.1 The Bank may not assign or transfer all or any of its rights and obligations under or in relation to this Deed, without first having given prior notice to each Rating Agency. No consent from the Creditors shall be required to any such assignment or transfer.

11.2 No Creditor may assign or transfer its rights or obligations hereunder without the prior written consent of the Bank.

12 **GOVERNING LAW**

12.1 This Deed shall be governed by and construed in accordance with the laws for the time being in force in New Zealand. The Bank and CCB NZ each hereby submit, for the purposes of this Deed, to the non-exclusive jurisdiction of the Courts of New Zealand in respect of all legal actions arising under or in relation to this Deed.

12.2 The Bank hereby irrevocably appoints CCB NZ (and CCB NZ hereby accepts such appointment) to be the agent of the Bank to accept service of process on behalf of the Bank in respect of all matters in New Zealand arising under or in relation to this Deed and the Bank agrees that any such process shall be properly served upon the Bank if delivered to CCB NZ at its address for the service of Notices set out in clause 9.2.

13 **DELIVERY**

13.1 Without limiting any other mode of delivery, this Deed will be delivered by each of the parties to this Deed immediately on the earlier of:

(a) physical delivery of an original to this Deed, executed by that party, into the custody of each of the other parties or its solicitors; or

(b) transmission by that party or its solicitors (or any other person authorised in writing by that party) of a facsimile, photocopied or scanned copy of an original of this Deed, executed by that party, to each of the other parties or its solicitors.

EXECUTION as a Deed

Signed by **China Construction Bank Corporation**

President

Signed by **CCB New Zealand Limited**

Director

in the presence of:

Witness

Name: ANDREW POOLE

Occupation: LAWYER

Address: 23 ALBERT ST
AUCKLAND CITY.

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Assurance engagements performed by Ernst & Young

Our assurance procedures in relation to China Construction Bank (New Zealand) Limited (the "Bank") consisted of the following:

- Audit of the financial statements (the "Financial Statements") of the Bank for the year ended 31 December 2023 that are required by Clause 24 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") included on pages 9 to 66 of the Disclosure Statement. These pages also include the Supplementary Information, and the Capital Adequacy and Regulatory Liquidity Information which are subject to a separate opinion and conclusion respectively as described below and so are not covered by the Financial Statement audit.
- Audit of the information required by Clause 21 of the Order to be disclosed in accordance with Schedule 4 (being the additional information on statement of financial position that is presented on the Balance Sheet, additional information on concentrations of credit risk (Note 25), additional information on interest rate sensitivity (Note 27), additional information on liquidity risk (Note 28), and reconciliation of mortgage-related amounts (Note 30)), Schedule 7 (Asset quality in Note 24), Schedule 13 (Concentration of credit exposures to individual counterparties in Note 25), Schedule 14 (Credit exposures to connected persons in Note 26), Schedule 15 (Insurance business, securitisation, funds management, other fiduciary activities, and marketing and distribution of insurance products in Note 31) and Schedule 17 (Risk management policies in Notes 22 to 29) of the Order (together the "Supplementary Information"). The Supplementary Information is presented for the year ended 31 December 2023 or as at that date, as applicable.
- Limited assurance engagement in relation to the information required by Clause 21 to be disclosed in accordance with Schedule 9 of the Order which is disclosed in Notes 30 and Note 28(e) (the "Capital Adequacy and Regulatory Liquidity Ratios Information"). The Capital Adequacy and Regulatory Liquidity Ratios Information is presented for the year ended 31 December 2023 or as at that date, as applicable.

Independent auditor's report to the Shareholder of China Construction Bank (New Zealand) Limited

Report on the audit of the Financial Statements and Supplementary Information

Opinion

We have audited the Financial Statements and the Supplementary Information (as defined above). The Financial Statements comprise:

- ➢ the balance sheet of the Bank as at 31 December 2023;
- ➢ the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended of the Bank; and
- ➢ the notes to the Financial Statements including material accounting policy information.

In our opinion:

- the Financial Statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023 and its financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards; and
- the Supplementary Information for the year ended 31 December 2023 or as at that date, as applicable:
  - presents fairly the matters to which it relates; and
  - is disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order.

We have not audited the Capital Adequacy and Regulatory Liquidity Ratios Information (as defined above) and our opinion does not extend to this information.

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This report is made solely to the Bank's shareholder. Our audit has been undertaken so that we might state to the Bank's shareholder 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 Bank and the Bank's shareholder, for our audit work, for this report, or for the opinions we have formed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Statements and Supplementary Information* section of our report.

We are independent of the Bank 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 we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Ernst & Young provides interim financial statement and supplementary information review and other assurance services to the Bank. Partners and employees of our firm may deal with the Bank on normal terms within the ordinary course of trading activities of the business of the Bank. We have no other relationship with, or interest in, the Bank.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements of the current year. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the Financial Statements and Supplementary Information* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying Financial Statements.

Provision for impairment losses on corporate credit exposures

Why significant	How our audit addressed the key audit matter
As described in Notes 1 Statement of accounting policies, 5 Impairment (charges) / write-backs on credit exposures and 11 Loans and advances, the provision for impairment losses on corporate credit exposures is determined in accordance with New Zealand equivalent to International Financial Reporting Standard 9 *Financial Instruments* (NZ IFRS 9). The assessment of the provision for impairment losses on corporate credit exposures is complex and requires significant judgement and estimation. Key areas of judgement included: ▶ the application of the impairment requirements under NZ IFRS 9 within the Bank's provision for impairment losses methodology;	We assessed the alignment of the Bank's provision for impairment losses model and its underlying methodology with the requirements of NZ IFRS 9. We assessed the following for exposures evaluated on a collective basis: ▶ the significant modelling and macroeconomic assumptions including the reasonableness of forward-looking information and scenarios; ▶ the determination and assessment of significant increase in credit risk; ▶ the basis for and data used to determine forward looking adjustments, including the probabilities assigned to each scenario; and

- the identification of exposures with a significant increase in credit risk;
- the assumptions used in the provision for impairment losses model in relation to exposures assessed on a collective basis; and
- the incorporation of forward-looking information to reflect current and anticipated future external factors, with multiple economic scenarios considered and a probability weighting assigned to each of these.

This was a key audit matter due to the value of the provision for impairment losses and the degree of judgement and estimation uncertainty associated with the calculations.

- the sensitivity of the provision for impairment losses on corporate credit exposures to changes in modelling assumptions.

We involved our actuarial specialists to test the mathematical accuracy of the model and to consider key assumptions and significant judgements.

We examined a sample of exposures by assessing the reasonability of internal credit quality assessments based on the borrowers' circumstances and the valuation of collateral held by the Bank.

We assessed the effectiveness of relevant controls relating to the:

- capture of data, including loan origination and transactional data, ongoing internal credit quality assessments and data used in the models; and
- provision for impairment losses model, including functionality, ongoing monitoring/validation and model governance.

We assessed the adequacy and appropriateness of the disclosures related to provision for impairment losses on corporate credit exposures within the Financial Statements.

Information other than the Financial Statements, Supplementary Information and auditor's report

The Directors of the Bank are responsible, on behalf of the Bank, for the Disclosure Statement, which includes information other than the Financial Statements, Supplementary Information and auditor's report. The other information includes the Climate Report which is referenced in the Disclosure Statement.

Our opinion on the Financial Statements and Supplementary Information does not cover the other information and we do not express any form of assurance conclusion thereon, except as otherwise stated. We have performed a limited assurance engagement on the Capital Adequacy and Regulatory Liquidity Ratios Information as explained below.

In connection with our audit of the Financial Statements and Supplementary Information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or Supplementary Information or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the Financial Statements and Supplementary Information

The Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the Financial Statements in accordance with Clause 24 of the Order, New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and the Supplementary Information in accordance with Clause 21 of the Order and Schedules 4, 7, 13, 14, 15 and 17 of the Order, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements and Supplementary Information that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements and Supplementary Information, the Directors are responsible for assessing on behalf of the Bank, the Bank'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 Bank or cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements and Supplementary Information

Our objectives are to obtain reasonable assurance about whether the Financial Statements, as a whole, and Supplementary Information 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 International Standards on Auditing (New Zealand) 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 Financial Statements and Supplementary Information.

A further description of the auditor's responsibilities for the audit of the Financial Statements is located at the External Reporting Board's website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/. This description forms part of our auditor's report.

The engagement partner on the engagement resulting in this independent auditor's report is Emma Winsloe.

Ernst + Young

Chartered Accountants
Auckland
28 March 2024

Independent Assurance Report to the Shareholder of China Construction Bank (New Zealand) Limited

Limited assurance report on the Capital Adequacy and Regulatory Liquidity Ratios Information

Conclusion

We have undertaken a limited assurance engagement on the compliance of the Bank's Capital Adequacy and Regulatory Liquidity Ratios Information for the year ended 31 December 2023 or as at that date, as applicable, in all material respects, with Schedule 9 of the Order.

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Capital Adequacy and Regulatory Liquidity Ratios Information for the year ended 31 December 2023 or as at that date, as applicable, disclosed in Note 30 and Note 28(e) to the Financial Statements is not disclosed, in all material respects, in accordance with Schedule 9 of the Order.

Basis for Conclusion

We conducted our engagement in accordance with Standard on Assurance Engagements 3100 (Revised) *Compliance Engagements* (SAE 3100 (Revised)) issued by the New Zealand Auditing and Assurance Standards Board.

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

Directors' Responsibilities

The directors are responsible on behalf of the Bank for:

1. Compliance with the Order, including Clause 21 which requires the Capital Adequacy and Regulatory Liquidity Ratios Information to be included in the Disclosure Statement in accordance with Schedule 9 of the Order.
2. Identification of risks that threaten compliance with Clause 21 and Schedule 9 of the Order being met, controls which will mitigate those risks and monitoring ongoing compliance.

Our Independence and Quality Management

We have complied with the independence and other requirements of 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 which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Assurance Practitioner's Responsibilities

Our responsibility is to express a limited assurance conclusion on whether the Bank's Capital Adequacy and Regulatory Liquidity Ratios Information is not disclosed, in all material respects, in accordance with Schedule 9 of the Order. SAE 3100 (Revised) requires that we plan and perform our procedures to obtain limited assurance about whether anything has come to our attention that causes us to believe that the Bank's Capital Adequacy and Regulatory Liquidity Ratios Information is not disclosed, in all material respects, in accordance with Schedule 9 of the Order.

In a limited assurance engagement the assurance practitioner performs procedures, primarily consisting of discussion and enquiries of management and others within the entity, as appropriate, and observation and walk-throughs and evaluates the evidence obtained. The procedures selected depend on our judgement, including identifying areas where the risk of material non-compliance with Schedule 9 of the Order is likely to arise.

Given the circumstances of the engagement, in performing the procedures listed above we:

- Obtained an understanding of the Bank's compliance framework and internal control environment to meet the Capital Adequacy and Regulatory Liquidity Ratios Information requirements in accordance with the Reserve Bank of New Zealand's (RBNZ) prudential requirements for banks.
- Obtained an understanding of the processes, models, data and internal controls implemented over the preparation of the Capital Adequacy and Regulatory Liquidity Ratios Information.
- Agreed selected elements of the Capital Adequacy and Regulatory Liquidity Ratios Information to information extracted from the Bank's models, accounting records or other supporting documentation or, in relation to Clause 14 of Schedule 9 of the Order, publicly available information.
- Performed analytical and other procedures on the Capital Adequacy and Regulatory Liquidity Ratios Information disclosed in accordance with Schedule 9 and considered its consistency with the Financial Statements of the Bank.
- Obtained an understanding and assessed the impact of any matters of non-compliance, either advised to us or of which we otherwise became aware, with the RBNZ's prudential requirements for banks that relate to capital adequacy and regulatory liquidity ratios information and inspected relevant correspondence with RBNZ.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion on compliance with Schedule 9 of the Order.

Ernst & Young provides financial statement and supplementary information audit and interim review services, and other assurance services to the Bank. Partners and employees of our firm may deal with the Bank on normal terms within the ordinary course of trading activities of the business of the Bank. We have no other relationship with, or interest in, the Bank.

Inherent Limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that fraud, error, or non-compliance with compliance requirements may occur and not be detected. A limited assurance engagement on the Bank's disclosure of Capital Adequacy and Regulatory Liquidity Ratios Information in the Disclosure Statement for the year ended 31 December 2023 or as at that date, as applicable, does not provide assurance on whether compliance will continue in the future.

Restrictions on Use of Report

This report has been prepared for the Bank's shareholder for the purpose of providing limited assurance that the Bank's Capital Adequacy and Regulatory Liquidity Ratios Information has complied with Schedule 9 of the Order. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's Shareholder for our limited assurance work, for this report, or for the conclusions we have formed. We acknowledge that our report will be included in the Bank's Disclosure Statement.

Ernst + Young

Chartered Accountants
Auckland
28 March 2024