China Construction Bank Corporation New Zealand Banking Group

Disclosure Statement

For the year ended
31 December 2021

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Disclosure Statement

For the year ended 31 December 2021

General Information and Definitions

Certain information contained in this Full Year Disclosure Statement for the year ended 31 December 2021, is as required by section 81 of the Reserve Bank of New Zealand Act 1989 and is in accordance with the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the “Order”).

In this Disclosure Statement:

- China Construction Bank Corporation otherwise referred to as the (“Overseas Bank”), (“Registered Bank”), (“Ultimate Parent Bank”) or (“CCBC”), is domiciled in China – refers to the worldwide business of China Construction Bank Corporation excluding its controlled entities;
- China Construction Bank Corporation Group otherwise referred to as the (“Overseas Banking Group”) is domiciled in China – refers to the worldwide business of China Construction Bank Corporation including its controlled entities;
- China Construction Bank Corporation New Zealand Branch referred to as the (“Branch”) – refers to the New Zealand Branch of the Ultimate Parent Bank;
- China Construction Bank (New Zealand) Limited referred to as (“CCBNZL”) – refers to the locally incorporated subsidiary of the Overseas Bank;
- China Construction Bank Corporation New Zealand Banking Group referred to as the (“NZ Banking Group) – refers to the New Zealand banking operations of the Overseas Banking Group, including:
  (a) the Branch; and
  (b) CCBNZL;
- “Reserve Bank” means the Reserve Bank of New Zealand.
- The Board of Directors of the Overseas Bank referred to as (“Board”).

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

Registered Bank

Address for Service - Overseas Bank’s principal office outside of New Zealand is:

China Construction Bank Corporation
No. 25 Financial Street,
Xicheng District,
Beijing 100033,
The People's Republic of China

Address for Service - Branch:

China Construction Bank Corporation, New Zealand Branch
Level 29 Vero Centre,
48 Shortland Street,
Auckland 1010,
New Zealand

A copy of the NZ Banking Group and the Overseas Banking Group’s most recent published financial statements will be made available, free of charge upon a request being made to the above address of the Branch. A copy of the NZ Banking Group‘s financial statements can also be obtained from the NZ Banking Group’s website (http://nz.ccb.com).

A copy of the Overseas Banking Group’s financial statement can also be obtained from the Overseas Bank’s website (http://en.ccb.com/en/investorv3/interimreports/interim.html?ptId=5&ctId=2).

Subordination of claims of creditors

There are no material legislative and regulatory restrictions in the People’s Republic of China that, in the event of a liquidation of the Overseas Bank, may subordinate the claims of unsecured creditors of the Branch on the assets of the Overseas Bank to those of other unsecured creditors of the Overseas Bank.

Requirement to hold excess assets over deposit liabilities

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

Requirement to maintain sufficient assets to cover ongoing obligation to pay deposit liabilities

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

Guarantee Arrangements

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

Limits on Material Financial Support by the Ultimate Parent Bank

There are no regulations, legislation or other restrictions of a legally enforceable nature in the People's Republic of China that may materially inhibit the legal ability of CCBC to provide material financial support to the NZ Banking Group.

Directorate

Directors of the Overseas Bank

The Directors of the Bank at the time this Disclosure Statement was signed were:

Mr Guoli Tian (Chairman), Mr Jiandong Xu, Mr Qi Zhang, Mr Bo Tian, Mr Yang Xia, Ms Min Shao, Ms Fang Liu, Sir Malcolm Christopher McCarthy, Mr Kenneth Patrick Chung, Mr Graeme Wheeler, Mr Michel Madelain, Mr William Coen, and Mr Kam Chung Leung.

	Guoli Tian	Jiandong Xu	Qi Zhang
Non-executive	*No*	*Yes*	*Yes*
Independent Director	*No*	*No*	*No*
Qualifications:	*Bachelor Degree*	*Bachelor Degree*	*Doctorate Degree*
Country of Residence	*China*	*China*	*China*
Primary Occupation	*Chairman and Executive Director, China Construction Bank Corporation* *Chairman, Sino-German Bausparkasse* *President, China Banking Association* *Member, the Expert Committee for the 14th Five-Year Plan for Economic and Social Development of China* *Member, the PBC's Monetary Policy Committee*	*Director (Employee of Huijin, the substantial shareholder of the Ultimate Parent Bank)*	*Director (Employee of Huijin, the substantial shareholder of the Ultimate Parent Bank)*
Secondary Occupations	*None*	*None*	*None*
Board Audit Committee Member	*No*	*No*	*No*
Date of appointment	*October 2017*	*June 2020*	*July 2017*
External Directorships:	*None*	*None*	*None*

	Bo Tian	Yang Xia	Min Shao
Non-executive	*Yes*	*Yes*	*Yes*
Independent Director	*No*	*No*	*No*
Qualifications:	*Master Degree*	*Doctorate Degree*	*Bachelor Degree*
Country of Residence	*China*	*China*	*China*
Primary Occupation	*Director (Employee of Huijin, the substantial shareholder of the Ultimate Parent Bank)*	*Director (Employee of Huijin, the substantial shareholder of the Ultimate Parent Bank)*	*Director (Employee of Huijin, the substantial shareholder of the Ultimate Parent Bank)*
Secondary Occupations	*None*	*None*	*None*
Board Audit Committee Member	*Yes*	*No*	*No*
Date of appointment	*August 2019*	*August 2019*	*January 2021*
External Directorships:	*None*	*None*	*None*

	Fang Liu	**Sir Malcolm Christopher McCarthy**	**Kenneth Patrick Chung**
Non-executive	*Yes*	*Yes*	*Yes*
Independent Director	*No*	*Yes*	*Yes*
Qualifications:	*Master Degree*	*PhD*	*Bachelor Degree*
Country of Residence	*China*	*United Kingdom*	*Hong Kong, China*
Primary Occupation	*Director (Employee of Huijin, the substantial shareholder of the Ultimate Parent Bank)*	*Director*	*Director, trustee of Fu Tak Iam Foundation Limited*
Secondary Occupations	*None*	*None*	*None*
Board Audit Committee Member	*Yes*	*No*	*Yes*
Date of appointment	*January 2021*	*August 2017*	*November 2018*
External Directorships:	*None*	*None*	*Independent non-executive director of Sands China Ltd. Prudential Hong Kong Limited and Prudential General Insurance Hong Kong Limited*

	Graeme Wheeler	**Michel Madelain**	**William Coen**
Non-executive	*Yes*	*Yes*	*Yes*
Independent Director	*Yes*	*Yes*	*Yes*
Qualifications:	*Master Degree*	*Master Degree*	*Master Degree*
Country of Residence	*New Zealand*	*Paris, France*	*America*
Primary Occupation	*Director*	*Director, Trustee, the IFRS Foundation Member, the Supervisory Board of La Banque Postale in France*	*Director, Chairman of the IFRS Advisory Council, Technical Advisor of the International Monetary Fund*
Secondary Occupations	*None*	*None*	*None*
Board Audit Committee Member	*Yes*	*Yes*	*Yes*
Date of appointment	*October 2019*	*January 2020*	*June 2021*
External Directorships:	*Non-executive Director of Thyssen-Bornemisza Group*	*None*	*Member of the Board of Directors of the Toronto Leadership Centre*

	Kam Chung Leung
Non-executive	*Yes*
Independent Director	*Yes*
Qualifications:	*Bachelor Degree*
Country of Residence	*Hong Kong, China*
Primary Occupation	*Director, Chairman and CEO of Nan Fung Group, chairman and co-founder of New Frontier Group Chairman of two charity organizations, namely Heifer Hong Kong and Food Angel*
Secondary Occupations	*None*
Board Audit Committee Member	*No*
Date of appointment	*October 2021*
External Directorships:	*None*

Changes to Directorate

The following changes to the composition of the Board have occurred since the Overseas Bank's previous full year Disclosure Statement for the year ended 31 December 2020:

- Mr Jiang Wang was appointed as a Executive Director of the Board in March 2021.
- Ms Min Shao was appointed as a Non-executive Director of the Board in January 2021.
- Ms Fang Liu was appointed as a Non-executive Director of the Board in January 2021.
- Mr William Coen was appointed as a Non-executive Director of the Board in June 2021.
- Mr Kam Chung Leung was appointed as a Non-executive Director of the Board in October 2021.
- Mr Jiang Wang resigned as a Executive Director of the Board in March 2022.
- Mr Jiajin Lyu resigned as a Executive Director of the Board in May 2021.
- Ms Bing Feng resigned as a Non-executive Director of the Board in January 2021.
- Ms Anita Yuen Mei Fung retired as a Non-executive Director of the Board in June 2021.
- Mr Carl Walter retired as a Non-executive Director of the Board in June 2021.

Address for communications to the Directors of the Overseas Bank and the New Zealand Chief Executive Officer of the Branch

All communication may be sent to the Directors of the Overseas Bank and the New Zealand Chief Executive Officer of the Branch at Level 29 Vero Centre, 48 Shortland Street, Auckland 1010, New Zealand.

New Zealand Chief Executive Officer of the Branch

Name	Mr Jun Qi
Primary Occupation	Chief Executive Officer, China Construction Bank (New Zealand) Limited
Residence	Auckland, New Zealand
External directorship	None

Audit Committee under the Board

The audit committee consists of 6 directors. Mr. Kenneth Patrick Chung, an independent non-executive director, currently serves as chairman of the audit committee. Members include Mr. Tian Bo, Ms. Liu Fang, Mr. Graeme Wheeler, Mr. Michel Madelain and Mr. William Coen. Two of these members are non-executive Directors and four are Independent non-executive Directors (details of whom are above).

Dealing with Conflicts of Interest

The Board is responsible for ensuring that actual and potential conflict of interest between the Directors' duty to the Overseas Bank and their personal, professional or business interests are avoided or dealt with on the condition that NZ Banking Group provided sufficient information for each Director and the Board to make informed judgment.

Accordingly, in matters to be discussed by the Board of Directors:

(a) each Director, Supervisors, President and other members of the senior management must disclose to the Board any actual or potential conflict of interest that may exist or might reasonably be thought to exist as soon as the situation arises; and

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

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

Transactions with Directors

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

(a) on terms other than on those which would, in the ordinary course of business of the NZ Banking Group, be given to any other person of like circumstances or means; or

(b) which could otherwise be reasonably likely to influence materially the exercise of that Directors' or New Zealand Chief Executive Officer's duties.

Credit Ratings of the Overseas Bank

As at the date of signing this Disclosure Statement, the following credit ratings were assigned to the Overseas Bank applicable to its long-term senior unsecured obligations payable in foreign currency:

Rating Agency	Current credit	Rating outlook
Standard & Poor's Ratings Services	A	Stable
Moody's Investors Service	A1	Stable
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. There have been no changes to any of the above credit ratings in the two years prior to the signing date of this Disclosure Statement.

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	-	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.*

Pending Proceedings or Arbitration

There are no pending legal proceedings or arbitrations concerning any member of the NZ Banking Group or, if publicly available, the Overseas Banking Group, whether in New Zealand or elsewhere, that may have a material adverse effect on the Overseas Bank or the NZ Banking Group.

Conditions of Registration

These conditions of registration apply on and after 21 December 2017.

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

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

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

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

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

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

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

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

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

   For the purposes of this condition of registration,—

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

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

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

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

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

5. That China Construction Bank Corporation complies with the requirements imposed on it by the China Banking Regulatory Commission.

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

Capital adequacy ratio	Minimum requirement
Common Equity Tier 1 capital	5 percent
Tier 1 capital	6 percent
Total capital	8 percent

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

   (a) must be calculated as a percentage of the registered bank's risk weighted assets; and
   (b) are otherwise as administered by the China Banking Regulatory Commission.

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

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

9. That any derivative contracts entered into by the registered bank in New Zealand may only be for the purposes of hedging a customer's positions with the registered bank, or the registered bank's own risk positions.
10. That the New Zealand assets of the registered bank do not exceed the consolidated total assets of China Construction Bank (New Zealand) Limited and its subsidiaries.

In these conditions of registration,—

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

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

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

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

The Branch and CCBNZL have complied with all conditions of registration over the accounting period.

There have been no changes to the conditions of registration between 1 January 2021 to 31 December 2021 for the Branch.

Other Material Matters

The Board is of the opinion that there are no material matters relating to the business or affairs of the NZ Banking Group 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 NZ Banking Group is the issuer.

Auditor

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

Directors' and New Zealand Chief Executive Officer's Statements

Each Director and the New Zealand Chief Executive Officer 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 and the New Zealand Chief Executive Officer believes, after due enquiry, that, for the year ended 31 December 2021:

(a) the Registered Bank has complied in all material respects with each condition of registration that applied during that period;

(b) the Branch and CCBNZL of the Registered Bank had systems in place to monitor and control adequately the material risks of the NZ Banking Group including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, and other business risks, and that those systems were being properly applied.

Signed by the New Zealand Chief Executive Officer of China Construction Bank Corporation New Zealand Branch

Mr Jun Qi
Dated: 25 March 2022

Signed by and on behalf of all the Directors of China Construction Bank Corporation

田國立

DIRECTOR - Mr Guoli Tian
Dated: 25 March 2022

Historical Summary of Financial Statements

For the year ended 31 December	2021 $000	2020 $000	2019 $000	2018 $000	2017 $000
Interest income	100,602	95,283	93,339	84,191	57,340
Interest expense	(39,497)	(46,618)	(57,369)	(47,088)	(32,834)
Other interest (expense)/income	-	(19)	(126)	(4,406)	-
Net interest Income	**61,105**	**48,646**	**35,844**	**32,697**	**24,506**
Net fees and commission income [1]	8,969	6,622	5,638	3,661	2,961
Other income (expense) [1]	(3,242)	(4,603)	5,439	(2,485)	(191)
Net operating income before operating expenses and impairr	**66,832**	**50,665**	**46,921**	**33,873**	**27,276**
Operating expenses	(18,328)	(18,273)	(17,156)	(16,106)	(12,113)
Impairment (losses)/write-back on credit exposures	(210)	(7,903)	(2,067)	(1,769)	(900)
Profit/ (Loss) before income tax	**48,294**	**24,489**	**27,698**	**15,998**	**14,263**
Income tax expense	(13,442)	(6,948)	(7,872)	(4,496)	(4,100)
Profit after income tax attributable to the owners of the NZ Banking Group	**34,852**	**17,541**	**19,826**	**11,502**	**10,163**
Dividends paid on ordinary shares	**-**	**-**	**-**	**-**	**-**
Repatriation of profits to head office	**-**	**-**	**-**	**-**	**-**

[1] *Presentation changes have been made to improve consistency and enhance comparability by reporting balances of similar nature together under the respective non-interest income categories.*

As at 31 December	2021 $000	2020 $000	2019 $000	2018 $000	2017 $000
Balance sheet					
Total assets	4,376,193	3,311,365	3,066,387	2,577,219	1,826,241
Total individually impaired assets	-	-	-	-	-
Total liabilities	4,089,161	3,059,143	2,831,986	2,361,324	1,620,596
Total shareholder's equity	263,027	240,854	227,657	215,668	205,931
Total head office account	24,005	11,368	6,744	227	(286)

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

Statement of Comprehensive Income

For the year ended 31 December	Note	2021 $000	2020 $000
Interest income	2	100,602	95,283
Interest expense	2	(39,497)	(46,618)
Other interest (expense)/income	2	-	(19)
Net interest Income	2	**61,105**	**48,646**
Net fees and commission income [1]	3	8,969	6,622
Other income (expense) [1]	3	(3,242)	(4,603)
Net operating income before operating expenses and impairment charges		**66,832**	**50,665**
Operating expenses	4	(18,328)	(18,273)
Impairment (losses) / write-back on credit exposures	5	(210)	(7,903)
Profit/ (Loss) before income tax		**48,294**	**24,489**
Income tax (expense) / benefit	6 (a)	(13,442)	(6,948)
Profit after income tax attributable to the owner of the NZ Banking Group		**34,852**	**17,541**
Other comprehensive income, net of tax			
Other comprehensive income which will not be reclassified to profit or loss		-	-
Other comprehensive income which may be reclassified to profit or loss		(42)	280
Total other comprehensive income, net of tax		**(42)**	**280**
Total comprehensive income attributable to the owner of the NZ Banking Group		**34,810**	**17,821**

[1] *Presentation changes have been made to improve consistency and enhance comparability by reporting balances of similar nature together under the respective non-interest income categories.*

These financial statements are to be read in conjunction with the notes on pages 16 - 60.

Statement of Changes in Equity

For the year ended 31 December 2021	NZ Banking Group								Total
	NZ Branch				CCBNZL				
	Share Capital	Retained Earnings	Cash Flow Hedge Reserve	FVOCI Reserve	Share Capital	Retained Earnings	Cash Flow Hedge Reserve	FVOCI Reserve	
	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at 1 January 2021	-	11,484	(116)	-	199,178	41,665	(194)	205	252,222
Profit after income tax	-	12,553	-	-	-	22,299	-	-	34,852
Other comprehensive income	-	-	84	-	-	-	160	(286)	(42)
Total comprehensive income for the period	**-**	**12,553**	**84**	**-**	**-**	**22,299**	**160**	**(286)**	**34,810**
Balance at 31 December 2021	**-**	**24,037**	**(32)**	**-**	**199,178**	**63,964**	**(34)**	**(81)**	**287,032**

For the year ended 31 December 2020	NZ Banking Group								Total
	NZ Branch				CCBNZL				
	Share Capital	Retained Earnings	Cash Flow Hedge Reserve	FVOCI Reserve	Share Capital	Retained Earnings	Cash Flow Hedge Reserve	FVOCI Reserve	
	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at 1 January 2020	-	6,740	4	-	199,178	28,868	(337)	(52)	234,401
Profit after income tax	-	4,744	-	-	-	12,797	-	-	17,541
Other comprehensive income	-	-	(120)	-	-	-	143	257	280
Total comprehensive income for the period	**-**	**4,744**	**(120)**	**-**	**-**	**12,797**	**143**	**257**	**17,821**
Balance at 31 December 2020	**-**	**11,484**	**(116)**	**-**	**199,178**	**41,665**	**(194)**	**205**	**252,222**

These financial statements are to be read in conjunction with the notes on pages 16 - 60.

Balance Sheet

As at 31 December	Note	2021 $000	2020 $000
Assets			
Cash and balances with central bank	8	706,758	151,469
Due from other financial institutions	9	100,946	379,473
Investment securities	10	82,729	32,739
Loans and advances	11	3,411,717	2,712,557
Due from related parties	21	24,077	1,332
Derivative financial assets	12	37,910	26,466
Property, plant and equipment	13	5,738	1,559
Intangible assets		10	39
Deferred tax assets	6 (b)	6,105	5,526
Other assets	14	203	205
Total assets		**4,376,193**	**3,311,365**
Liabilities			
Due to other financial institutions	15	569,112	503,118
Deposits from customers	16	415,027	419,719
Debt securities issued	17	1,138,356	1,074,472
Due to related parties	21	1,891,277	909,997
Subordinated debt	21	15,101	15,087
Current tax liabilities		7,501	5,349
Derivative financial liabilities	12	41,281	126,339
Other liabilities	18	11,506	5,062
Total liabilities		**4,089,161**	**3,059,143**
Head Office account			
Branch capital		-	-
Retained earnings/(loss)		24,037	11,484
Reserves		(32)	(116)
Total Head Office account		**24,005**	**11,368**
Equity			
Share capital	19	199,178	199,178
Retained earnings		63,964	41,665
Reserves		(115)	11
Total equity		**263,027**	**240,854**
Total equity attributable to the owner of the NZ Banking Group		**287,032**	**252,222**
Total liabilities and equity		**4,376,193**	**3,311,365**
Total interest earning and discount bearing assets		4,338,298	3,290,300
Total interest and discount bearing liabilities		4,021,122	2,898,115

These financial statements were approved and signed on behalf of the Board of Directors by:

田國立

DIRECTOR - Guoli TIAN
Dated: 25 March 2022

These financial statements are to be read in conjunction with the notes on pages 16 - 60.

Cash Flow Statement

For the year ended 31 December	Note	2021 $000	2020 $000
Cash flows from operating activities			
Interest received		99,354	95,243
Interest paid [1]		(38,053)	(50,174)
Income received from financial instruments designated at FVOCI / FVTPL		1,952	2,041
Non-interest income received		9,866	75,779
Non-interest expense paid		(28,101)	(4,305)
Operating expenses paid		(16,577)	(16,227)
Income taxes paid		(11,964)	(9,168)
Net cash flows from operating activities before changes in operating assets and liabilities		**16,477**	**93,189**
Net changes in operating assets and liabilities:			
Net decrease/(increase):			
GST receivable		4	(1)
Other assets		(2)	(19)
Loans and advances		(697,769)	(417,402)
Due from related parties		(4)	104,063
Net increase/(decrease):			
Due to other financial institutions		65,994	71,051
Deposits from customers		(3,762)	106,958
Net changes in operating assets and liabilities		**(635,539)**	**(135,350)**
Net cash flows provided by/ (used in) operating activities	7	**(619,062)**	**(42,161)**
Cash flows from investing activities			
Purchase of investment securities		(51,633)	167,720
Purchase of property, plant and equipment		(286)	(253)
Purchase of intangible assets		(8)	(1)
Net cash flows used in investing activities		**(51,927)**	**167,466**
Cash flows from financing activities			
Amount borrowed from related parties		1,978,044	195,377
Repayments of due to related parties		(1,070,456)	(299,083)
Issuance of debt issues	17	395,000	385,000
Repayments of debt securities	17	(331,552)	(270,500)
Repayment of principal portion of lease liabilities		(544)	(899)
Net cash flows (used in)/ provided by financing activities		**970,492**	**9,895**
Net increase/ (decrease) in cash and cash equivalents		299,503	135,200
Cash and cash equivalents at beginning of the year		532,278	397,078
Cash and cash equivalents at end of the year	28 (b)	**831,781**	**532,278**
Cash and cash equivalents at end of the year comprise:			
Due from other financial institutions (call or original maturity of 3 months or less)	28 (b)	100,946	379,473
Cash and balances with central banks	28 (b)	706,758	151,469
Due from related parties (nostro account)	28 (b)	24,077	1,336
Cash and cash equivalents at end of the year		**831,781**	**532,278**

[1] *Comparative information for 31 December 2020 has been reclassified to ensure consistency with current year reporting. Interest paid includes interest paid on financing activities previously classified under Cash flows from financing activities.*

These financial statements are to be read in conjunction with the notes on pages 16 - 60.

Notes to the Financial Statements

1. Statement of Accounting Policies

1.1 Reporting Entity

The reporting entity is the NZ Banking Group as described under General Information and Definitions. It is an aggregation of the China Construction Bank Corporation New Zealand Branch (the "Branch") and China Construction Bank (New Zealand) Limited (the "Subsidiary"). The principal activity of the NZ Banking Group is the provision of a range of banking products and services to business, corporate, institutional and retail customers.

These financial statements were approved for issue by the Board of Directors of the Overseas Bank (the "Board") on 25 March 2022.

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 (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order"). These financial statements comply with Generally Accepted Accounting Practice in New Zealand ("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")

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

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

1.3 Basis of Aggregation

The basis of aggregation is an addition of the Branch and the Subsidiary balances, with any transactions between the Branch and the Subsidiary eliminated to form the combined financial statements.

1.4 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.

1.5 Comparative data

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

1.6 Changes in accounting policies

The accounting policies and methods of computation are consistent with those of the NZ Banking Group 's financial statements for the full year ended 31 December 2020. There have been no material changes to the accounting policies during the year ended 31 December 2021.

The following amendments to accounting standards relevant to the NZ Banking Group have been adopted from the 1st of January 2021 and have been applied in the preparation of these financial statements.

Amendments to IFRS 9, IAS 39 and IFRS 7"Interest Rate Benchmark Reform"

The financial impact on the NZ Banking Group is immaterial from cessation of LIBOR on 31 December 2021, with the LIBOR settings on the small number of existing transactions to remain available until the maturity of these transactions, as confirmed by the United Kingdom Financial Conduct Authority in December 2020.

1.7 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 as qualifying cash flow hedges.

Translation differences on non-monetary items measured at fair value through profit or loss 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 NZ Banking Group and the revenue can be reliably measured.

Interest income

Interest income for all interest earning financial assets excluding those measured through "Fair value through profit & loss (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 purchased and originated credit impaired (“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).

Other interest (expense)/income

Interest earned on investment securities and interest expense incurred on borrowings from related parties that are measured at FVTPL is recognised and presented as ‘Other interest (expense)/income’ within net interest income.

Fee and commission income

Fee and commission income from contracts with customers is measured based on the consideration specified in the contract. The NZ Banking Group 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.

<table>
<tr><th>Type of product / service</th><th>Nature and timing of satisfaction of performance obligations, including significant payment terms</th><th>Revenue recognition</th></tr>
<tr><td rowspan="2">Retail and corporate banking service</td><td>The NZ Banking Group 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 NZ Banking Group sets the rate separately for retail and corporate banking customers.</td><td>Revenue from account service and servicing fees is recognised over time as the services are provided to customers.</td></tr>
<tr><td>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.</td><td>Revenue related to the transactions is recognised at the point in time when the transaction takes place.</td></tr>
</table>

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 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

On adoption of NZ IFRS 16 effective from 1 January 2019, interest expense on 'Lease liability' and depreciation on 'Right-of-use assets' is recognised in the profit and loss as an expense.

Prior to adoption of NZ IFRS 16, Operating lease payments were recognised in the profit or loss as an expense on a straight-line basis over the lease term. Incentives received on entering into operating leases are recognised as liabilities and amortised as a reduction of rental expense on a straight-line basis over the lease term.

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 income statement when they accrue to employees.

Obligations for contributions to defined contribution retirement plans are recognised as an expense in the income statement 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 NZ Banking Group 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 or liability giving rise to them is 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 NZ Banking Group, 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 NZ Banking Group 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 NZ Banking Group’s business model for managing the financial assets and the contractual terms of the cash flows.

The NZ Banking Group 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.

- Fair Value through Other Comprehensive Income (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 NZ Banking Group 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 NZ Banking Group 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 fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Transaction costs for financial instruments measured at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, the NZ Banking Group measures different categories of financial assets at amortised cost, fair value through other comprehensive income or fair value through profit or loss respectively. Financial liabilities other than those measured at fair value through profit or loss are measured at amortised cost using the effective interest method.

(i) Financial assets measured at fair value through profit or loss

Gains and losses from changes in the fair value of financial assets measured at fair value through profit or loss 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 effective interest method of financial assets measured at FVOCI are recognised in profit and loss. Other changes of carrying amount are recognised in other comprehensive income.

When 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 other comprehensive income.

(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 amortization 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 its 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 NZ Banking Group determines interest income based on the carrying amount of financial assets multiplied by the effective interest rate, except that (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 NZ Banking Group. 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 NZ Banking Group's business model for managing the investment securities and the contractual terms of the cash flows.

Derivative assets

Derivative assets are measured at fair value through profit or loss. 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 NZ Banking Group, 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 NZ Banking Group 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 expected credit loss 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 NZ Banking Group, that is, the present value of all cash shortages. Among them, financial assets that have been purchased or sourced by the NZ Banking Group and have suffered credit impairment are discounted according to the effective interest rate of the financial assets after credit adjustments.

The NZ Banking Group'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 NZ Banking Group assesses whether the credit risk of the relevant financial instruments has increased significantly since the initial recognition, and measures its expected credit losses ("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 NZ Banking Group measures its loss provision based on the amount equivalent to the expected credit loss 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 NZ Banking Group measures its loss provision based on the amount of lifetime expected credit loss of the financial instrument. Under the above circumstances, regardless of whether the NZ Banking Group'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 is included in the current profit and loss as an impairment loss or gain.

For Investment securities measured at FVOCI, the NZ Banking Group recognises the allowance for impairment in other comprehensive income and impairment losses or gains in profit and loss.

In cases where the loss provision is measured at the amount equivalent to the lifetime expected credit loss 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 NZ Banking Group measures its loss provision based on the amount of its expected credit losses for the next 12 months, and the reversal of the loss provision is recognised in profit or loss for the current reporting period.

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

- ***Segmentation of financial instruments***

The NZ Banking Group adopts a "three-stage" model for impairment, based on changes in credit quality since initial recognition, to estimate the expected credit losses.

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, expected credit losses 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 expected credit losses 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 expected credit losses are recognised.

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

The NZ Banking Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition on a quarterly basis. The NZ Banking Group 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 NZ Banking Group 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 NZ Banking Group considers the change in probability of default (PD), whether the overdue exceeds 30 days, and other factors to determine whether there is significant increase in credit risk since initial recognition.

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

The NZ Banking Group 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 NZ Banking Group 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 NZ Banking Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the NZ Banking Group 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 NZ Banking Group, including adverse changes in the payment status of borrowers in the NZ Banking Group, 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;
- Significant changes in the technological, market, economic or legal environment 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 NZ Banking Group'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 significant increase in credit risk has occurred since initial recognition or a financial instrument is considered to be credit impaired. Expected credit losses are the discounted product of the weighted average of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (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 NZ Banking Group's expectation. It is expressed as a percentage of EAD.
- EAD is based on the total amount of risk exposure on and off balance 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 relating to the impact of COVID-19 (see note 24) 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 NZ Banking Group assesses ECL in positive, neutral and negative scenarios. Following this assessment, the NZ Banking Group measures ECL as a weighted average probability of ECL in the next 12-months 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 NZ Banking Group sometimes renegotiates or otherwise modifies contracts with counterparties. If the new terms are substantially different, the NZ Banking Group 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 NZ Banking Group 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 as follows:

- Leasehold improvements — Lesser of 5 years or the remaining lease term
- Furniture and equipment — 5 years
- Computer equipment — 3 years
- Motor vehicles — 5 years

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance date.

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

Property, plant and equipment also includes 'Right-of-use' assets under NZ IFRS 16 Leases. The NZ Banking Group recognises a Right-of-use asset at commencement date of a lease. The right-of-use asset is initially measured at cost, cost comprises 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 life of right-of-use asset is determined on the same basis as those of property 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 NZ Banking Group. These assets are amortised over their expected useful lives on a straight line basis.

(g) Financial liabilities

Classification

The NZ Banking Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortised cost.

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

Financial liabilities are classified as held for trading if they are: (i) acquired or incurred principally for the purpose of sale or repurchase 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 NZ Banking Group 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 changes in the fair value of the liability is 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 NZ Banking Group's own credit risk should be included in other comprehensive income; (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 NZ Banking Group 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 and 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, being a bank 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 fair value through profit or loss. 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 NZ Banking Group. They are either accounted for at amortised cost or at fair value through profit or loss. 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 fair value through profit or loss, the debt issue is initially recognised at the fair value of the consideration received. Debt issues are measured at fair value through profit or loss 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 NZ Banking Group'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 NZ Banking Group 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 NZ Banking Group. 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 NZ Banking Group. 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 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 includes Lease liability 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, the NZ Banking Group's incremental borrowing rate. Generally, the NZ Banking Group 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. The Lease liability is measured at amortised cost using the effective interest method. 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.

Guarantee from Ultimate Parent Bank

When the NZ Banking Group has obtained a benefit in the form of lower rates of interest on loans as a result of the guarantee from the Ultimate Parent Bank, the unit of account is the guaranteed loan and therefore the fair value equals the face value of the proceeds received.

(h) Derivative financial instruments and hedge accounting

Derivative financial instruments are contracts whose value is derived from one or more underlying price index or other variable. 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 NZ Banking Group 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 NZ Banking Group documents, at inception of the transaction, the relationship between the hedging instrument and the hedged item, the NZ Banking Group'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 NZ Banking Group 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 NZ Banking Group 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 NZ Banking Group also performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the NZ Banking Group 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 NZ Banking Group 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 other comprehensive income, 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 NZ Banking Group 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) 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.

(m) 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 NZ Banking Group, or are received and disbursed in transactions where the turnover is quick, the amounts are large and the maturities are short.

1.8 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 NZ Banking Group's accounting policies.

Although the NZ Banking Group has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. 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 expected credit loss allowance is based on the expected credit loss (ECL) model under NZ IFRS 9. 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 expected credit losses is further detailed in Note 1.7 (e).

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

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of expected credit losses;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated expected credit losses; and
- Establishing groups of similar financial assets for the purpose of measuring expected credit losses.

b) Fair value measurement

The valuation of financial instruments requires significant estimates and judgements. Refer to Note 20 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 2021, 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 NZ Banking Group's accounting policies that have a significant effect on the amounts recognised in the financial statements.

Financial Performance

2. Net interest income

	2021 $000	2020 $000
Interest income		
[1] Cash and balances with central bank	709	310
[1] Due from other financial institutions	8,586	1,749
[1] Loans and advances [*]	90,489	92,359
[1] Due from related parties	223	349
[2] Investment securities	595	516
Total interest income	**100,602**	**95,283**
Interest expense		
[3] Due to other financial institutions	(1,179)	(7,099)
[3] Deposits and other borrowings	(3,886)	(5,328)
[3] Due to related parties	(16,974)	(15,618)
[3] Debt securities issued	(17,387)	(18,541)
[3] Lease Liabilities	(71)	(32)
Total interest expense	**(39,497)**	**(46,618)**
Other interest (expense)/income		
[4] Investment securities	-	264
[4] Due to related party	-	(283)
Total other interest (expense)/income	**-**	**(19)**
Total net interest income	**61,105**	**48,646**

[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.*
[4] *Interest earned on financial assets and interest expense on financial liabilities classified and measured at FVTPL*
[*] *Interest earned on impaired assets is nil, (31 December 2020: nil).*

3. Non-interest income

	Note	2021 $000	2020 $000
Fees and commission income			
Lending and credit facility related fee income		8,637	6,231
Trade finance and other fee income		572	631
Total fees and commission income		**9,209**	**6,862**
Other fee expense		(240)	(240)
Net fees and commission income		**8,969**	**6,622**
Other income (expense)			
Net ineffectiveness on qualifying hedges	12	657	(79)
Net gain/(loss) on derivatives		(3,899)	(4,468)
Unrealised gain/(loss) on financial assets at fair value through profit or loss		-	(88)
Unrealised gain/(loss) on financial liabilities at fair value through profit or loss		-	32
Total other income (expense)		**(3,242)**	**(4,603)**
Total net non-interest income		**5,727**	**2,019**

Presentation changes have been made to improve consistency and enhance comparability by reporting balances of similar nature together under the respective non-interest income categories.

4. Operating expenses

	2021 $000	2020 $000
Depreciation and amortisation [1]	1,082	1,211
Directors' fees	326	320
Fees paid to external auditors	248	248
Personnel expenses	14,353	14,052
Purchased services	1,078	1,096
Marketing expenses	106	134
Other expenses	1,135	1,212
Total operating expenses	**18,328**	**18,273**

[1] *Depreciation and amortisation includes depreciation on leased assets of $887,000 (31 December 2020: $838,000).*

Presentation changes have been made to the above note to improve consistency and enhance comparability by reporting balances of similar nature together under the respective expense categories.

Fees paid to external auditors	2021 $000	2020 $000
Audit and review of financial statements [1]	248	248
Other services [2]	-	-
Total fees paid to the external auditors	**248**	**248**

[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 losses on credit exposures

	Other financial assets [1] $000	Loans and advances: Residential mortgage loans $000	Loans and advances: Corporate exposures $000	Loans and advances: Other exposures $000	Off-balance sheet credit related business [2] $000	Total impairment loss $000
For the year ended 31 Dec 2021						
Movement in collective provision 12-months ECL	(9)	598	(2,252)	562	1,311	210
Movement in collective provision Lifetime ECL not credit impaired	-	-	-	-	-	-
Movement in collective provision Lifetime ECL credit impaired	-	-	-	-	-	-
Movement in specific provision Lifetime ECL credit impaired	-	-	-	-	-	-
Bad debts written-off directly to the profit or loss	-	-	-	-	-	-
Bad debts recovered	-	-	-	-	-	-
Total impairment losses on credit exposures	**(9)**	**598**	**(2,252)**	**562**	**1,311**	**210**
For the year ended 31 December 2020						
Movement in collective provision 12-months ECL	(4)	2,726	5,181	-	-	7,903
Movement in collective provision Lifetime ECL not credit impaired	-	-	-	-	-	-
Movement in collective provision Lifetime ECL credit impaired	-	-	-	-	-	-
Movement in specific provision Lifetime ECL credit impaired	-	-	-	-	-	-
Bad debts written-off directly to the profit or loss	-	-	-	-	-	-
Bad debts recovered	-	-	-	-	-	-
Total impairment losses on credit exposures	**(4)**	**2,726**	**5,181**	**-**	**-**	**7,903**

[1] *Other financial assets includes impairment losses on Due from other financial institutions and Investments securities.*

[2] *The provision for Off-balance sheet credit related business is included in Other liabilities (Note 18).*

6. Taxation

(a) Income tax expense

	2021 $000	2020 $000
Current tax	14,118	9,379
Deferred tax	(674)	(2,431)
Total income tax expense	**13,444**	**6,948**
Reconciliation of the prima facie income tax payable on profit		
Profit before income tax	48,294	24,489
Tax at domestic rate (28%)	13,522	6,857
Tax effect of expenses not deductible for tax purposes	(62)	116
Tax effect of prior period adjustments	(18)	-
Recognition of prior tax losses	-	-
Other	-	(25)
Total income tax expense	**13,442**	**6,948**
Effective tax rate	**27.8%**	**28.4%**
Income tax credited directly to equity		
Current tax	-	-
Deferred tax	(94)	(31)
Total income tax credited directly to equity	**(94)**	**(31)**

(b) Deferred tax

	2021 $000	2020 $000
Deferred tax asset		
Balance at beginning of year	5,526	3,126
Recognised in profit or loss	673	2,431
Recognised directly in equity	(94)	(31)
Balance at end of year	**6,105**	**5,526**
Deferred tax assets / (liabilities) comprise the following temporary differences:		
Provision for impairment losses on loans and advances	4,589	4,519
Provision for employee entitlements	1,106	586
Property, plant and equipment	234	279
Intangible assets	-	-
Cash flow hedges	26	120
Fair value adjustment of bonds - IFRS method	-	-
Other temporary differences [1]	150	22
Total deferred tax assets (net) [2]	**6,105**	**5,526**
Deferred taxation recognised in profit or loss		
Provision for impairment losses on loans and advances	70	2,213
Provision for employee entitlements	520	212
Property, plant and equipment	(45)	5
Intangible assets	-	-
Other temporary differences	128	1
Tax losses recognised	-	-
Total deferred taxation recognised in in profit or loss	**673**	**2,431**
Deferred taxation recognised in equity		
Cash flow hedges	(94)	(10)
Fair value adjustment of bonds - IFRS method	-	(21)
Total deferred taxation recognised in equity	**(94)**	**(31)**

[1] *Included in Other temporary differences are deferred tax assets of $1,564,721 arising from Lease liabilities and deferred tax liabilities of $1,443,030 arising from Right-of-use asset.*

[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 NZ Banking Group does not have any unutilised tax losses that were available for offset against future taxable profits of the NZ Banking Group as at 31 December 2021 (31 December 2020: nil).

Imputation credit account

The amount of imputation credits available to the NZ Banking Group as at 31 December 2021 for use in subsequent reporting periods is $30.4m (31 December 2020: $20.8m).

7. Net Cash Flows used in Operating Activities

For the year ended 31 December	2021 $000	2020 $000
Reconciliation of profit after income tax to net cash flows from (used in) operating activities		
Profit after income tax	34,852	17,541
Adjustments:		
Impairment losses on credit exposures	210	7,903
Depreciation and amortisation	1,082	1,197
Deduct/(add) items reclassified as financing activities [1]	-	-
Income tax expense	1,478	(2,220)
Movement in fair value of financial assets and liabilities	(23,963)	69,455
Movement in interest accruals	2,819	(687)
Net (increase)/decrease in operating assets:		
GST receivable	4	(1)
Loans and advances	(697,769)	(417,402)
Due from related parties [2]	(4)	104,063
Other assets	(3)	(19)
Net increase/(decrease) in operating liabilities:		
Due to other financial institutions	65,994	71,051
Deposits from customers	(3,762)	106,958
Net cash flow from (used in) operating activities	**(619,062)**	**(42,161)**

[1] *Comparative information for 31 December 2020 has been restated to reclassify interest paid on financing activities to Cash flows from operating activities.*

[2] *The amount of due from related parties excludes nostro balances held with Ultimate Parent Bank.*

Financial Position

8. Cash and balances with central bank

As at 31 December	2021 $000	2020 $000
Settlement account balances with central bank	706,758	151,469
Total cash and balances with central bank	**706,758**	**151,469**

9. Due from other financial institutions

As at 31 December	2021 $000	2020 $000
Placements with other financial institutions – call	27,666	227,168
Placements with other financial institutions – term	73,287	152,321
Provision for impairment losses	(7)	(16)
Total amount due from other financial institutions	**100,946**	**379,473**

10. Investment securities

As at 31 December	2021 $000	2020 $000
At FVOCI		
Registered bank securities	20,626	6,536
Multilateral development banks and other international organisation	55,947	26,203
Government securities	6,156	-
Total investment securities at FVOCI	**82,729**	**32,739**

11. Loans and Advances

As at 31 December	2021 $000	2020 $000
Residential mortgages	761,979	742,263
Corporate exposures	2,254,628	1,987,885
Other exposures [1]	412,968	-
Total gross loans and advances	**3,429,575**	**2,730,148**
Unearned income	(3,985)	(2,841)
Loan origination fees	1,486	1,337
Fair value hedge adjustments	(328)	36
Loans and advances before provisions for impairment	**3,426,748**	**2,728,680**
Provision for impairment losses	(15,031)	(16,123)
Total net loans and advances	**3,411,717**	**2,712,557**

[1] *Other exposures include forfating lending to other banks.*

12. Derivative financial instruments

	As at 31 Dec 2021			As at 31 Dec 2020		
	Notional Amount $000	Fair Values Assets $000	Fair Values Liabilities $000	Notional Amount $000	Fair Values Assets $000	Fair Values Liabilities $000
Held for Trading						
Interest rate swap	195,617	1,747	(1,567)	195,617	6,730	(6,519)
Forward contracts	35,069	65	(1,385)	44,418	2,580	(2,563)
FX Swaps	20,774	-	(578)	1,610	35	(41)
Fair value hedges						
Interest rate swap	441,214	4,590	(2,848)	371,501	16,982	(48)
Dual fair value and cash flow hedges						
Cross Currency Interest rate swap	262,714	1,641	(13,460)	774,387	-	(65,752)
Economic Hedge						
Cross Currency Interest rate swap	272,084	-	(14,003)	-	-	-
Forward contracts	-	-	-	3,405	-	(157)
FX Swaps	1,421,428	29,867	(7,440)	825,796	139	(51,259)
Total derivative financial instruments	**2,648,900**	**37,910**	**(41,281)**	**2,216,734**	**26,466**	**(126,339)**

The use of derivatives and their sale to customers as risk management products is an integral part of the NZ Banking Group's trading activities. Derivatives are also used to manage the NZ Banking Group's own exposure to fluctuations in exchange and interest rates as part of its own asset and liability management activities.

Derivatives are subject to the same types of credit and market risk as other financial instruments and the NZ Banking Group manages these risks in a consistent manner.

Derivatives, except for those that are specifically held for hedging purpose are classified as held for trading.

Derivatives held for trading

The held for trading classification includes those held as trading positions.

Trading positions

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.

Derivatives in hedging relationships

Economic Hedge

Derivatives which are used in the Balance Sheet risk management activities but do not qualify for hedge accounting are recognised as economic hedges.

Fair value hedges

The NZ Banking Group uses interest rate swaps to hedge interest rate risk exposure of a portion of its fixed rate mortgage assets, investment securities and debt issuances included in debt issues at amortised cost.

	Note	2021 $000	2020 $000
Gain/(loss) arising from fair value hedges			
hedged item		15,550	(5,986)
hedging instrument		(14,893)	5,907
Net ineffectiveness on qualifying hedges	3	**657**	**(79)**

Dual fair value and cash flow hedges

The NZ Banking Group hedges fixed rate foreign currency denominated liabilities, using a cross currency swap, designated as fair value hedge of foreign interest rates and cash flow hedge of foreign exchange rates.

The net ineffectiveness of cash flow hedges as at 31 December 2021 is $943,543 (31 December 2020: $ $3,931,989).

There were no transactions for which cash flow hedge accounting had to be ceased during the year ended 31 December 2021 as a result of highly probable cash flows no longer being expected to occur (31 December 2020: nil).

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

As at 31 December 2021	Less than 3 months $000	3 to 12 months $000	1 to 5 years $000	Total $000
Interest rate swaps				
Received fixed - Pay fixed	-	-	81,214	81,214
Received fixed - Pay floating	-	140,000	220,000	360,000
Total notional amount	**-**	**140,000**	**301,214**	**441,214**
Weighted average interest rate	-	*3.47%*	*2.35%*	*2.71%*
Cross currency interest rate swaps				
Received fixed - Pay fixed	-	61,144	-	61,144
Received fixed - Pay floating	-	-	43,966	43,966
Received floating - Pay floating	-	157,604	-	157,604
Total notional amount	**-**	**218,748**	**43,966**	**262,714**
Weighted average interest rate	-	*0.89%*	*0.94%*	*0.90%*

13. Property, plant and equipment

As at 31 December	2021 $000	2020 $000
Property, plant and equipment owned	4,021	3,735
Accumulated depreciation	(3,436)	(3,279)
Total Property, plant and equipment owned	**585**	**456**
Right-of-use asset	2,799	2,067
Accumulated depreciation	(2,583)	(1,696)
Additions to right-of-use assets	4,937	732
Total Right-of-use asset	**5,153**	**1,103**
Total Property, plant and equipment	**5,738**	**1,559**

Additions to the Right-of-use assets for the year ended 31 December 2021 is $4,937,000 (31 December 2020: $732,000). The NZ Banking Group had non-cash additions to right-of-use assets of $4,937,000 and lease liabilities of $4,937,000 in the financial year that related to the renewal of corporate office in Shortland street, Auckland and coffee machine leases effective from 1 July 2021.

14. Other assets

As at 31 December	2021 $000	2020 $000
Prepayments	79	79
Other	124	126
Total other assets	**203**	**205**

15. Due to other financial institutions

As at 31 December	2021 $000	2020 $000
Placements from other financial institutions	518,044	503,118
Securities sold under agreements to repurchase from central bank	51,068	-
Total amount due to other financial institutions	**569,112**	**503,118**

16. Deposits from customers

As at 31 December	2021 $000	2020 $000
Demand deposits bearing interest	45,102	50,816
Term deposits	368,280	366,329
Deposits not bearing interest	1,645	2,574
Total deposits from customers	**415,027**	**419,719**

The Branch held no retail deposits as at 31 December 2021 (31 December 2020: nil).

17. Debt securities issued

As at 31 December	2021 $000	2020 $000
Short term debt		
Registered certificate of deposits	30,000	160,000
Long term debt		
Medium-term notes [1]	1,121,552	911,932
Total debt securities issued at face value	**1,151,552**	**1,071,932**
Movement in debt securities issued		
Balance at beginning of the year	1,074,472	976,213
Issuance during the period	395,000	385,000
Repayments during the period	(331,552)	(270,500)
Foreign exchange translation impact [2]	16,173	(20,333)
Effect of fair value hedge adjustment	(16,682)	5,522
Net effect of transaction costs and accruals	945	(1,430)
Balance at end of the period	1,138,356	1,074,472
Total debt securities	**1,138,356**	**1,074,472**

[1] *Includes Subordinated debt*

[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 are fair value hedge adjustments of ($16,682,000)as at 31 December 2021 (31 December 2020: $5,522,000).

Details of the debt securities issued by the NZ Banking Group as at 31 December 2021 are:

Short term debt

The Bank's short term debt program includes a Registered Certificate of Deposits (RCD) debt program. The issuances occur in NZ Dollars only. RCD is issued under this program at a discount. Interest rate risks associated with the issuances are incorporated within the NZ Banking Group's risk management framework. Weighted Average Interest Rate ("WAIR") as at 31 December 2021 was 1.20% (31 December 2020: 1.27%).

Long term debt

The NZ Banking Group's long term debt includes notes issued under its Medium Term Note program. The issuances occur in NZD and USD and notes issued under this program have both fixed or variable interest rates. Interest rate risks associated with the issuances are incorporated within the NZ Banking Group's risk management framework. WAIR as at 31 December 2021 was 2.07% (31 December

The NZ Banking Group 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 2021 (31 December 2020: nil).

18. Other liabilities

As at 31 December	Note	2021 $000	2020 $000
Other Liabilities			
Trade creditors and other accrued expenses		480	431
Lease liability [1]		5,588	1,124
Employee entitlements		4,127	3,507
Provision for impairment on off-balance sheet credit related business	5	1,311	-
Other		-	-
Total Other Liabilities		**11,506**	**5,062**

[1] Includes leases for corporate office in Shortland street, Auckland and coffee machine which were renewed on 1 July 2021.

Other information about leases for which the NZ Banking Group is a lessee is presented below.

(a) Amounts recognised in Profit or loss	2021 $000	2020 $000
Interest on lease liabilities	71	32
Depreciation charge on Right-of-use asset	887	858
Total amounts recognised in profit or loss	**958**	**890**
(b) Maturity analysis contracted undiscounted cash flows		
Less than one year	963	489
One to five years	4,177	305
More than five years	819	402
Total undiscounted lease liabilities	**5,959**	**1,196**
(c) Lease liabilities included in Other liabilities		
Current	942	473
Non-current	4,646	651
Total Lease liabilities included in Other liabilities	**5,588**	**1,124**
(d) Amounts recognised in the Statement of cash flows		
Total cash outflow for leases	544	899

19. Share capital

As at 31 December	2021 $000	2020 $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 2021 for CCBNZL was 158,629,981 (31 December 2020: 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 NZ Banking Group. The ordinary shares do not have a par value.

During the year ended 31 December 2021 the Bank paid dividends of nil to CCB (equivalent to nil per share) (31 December 2020: nil per share).

Branch Capital

There was no contribution from the head office as at 31 December 2021 (31 December 2020: nil).

20. 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 NZ Banking Group determines the fair value of a financial instrument based on the quoted price.

Where no quoted price in an active market is available, the NZ Banking Group 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 NZ Banking Group 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 input

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 NZ Banking Group's financial instruments are recognised and measured at fair value on a recurring basis within Level 2. The NZ Banking Group 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 2021 (31 December 2020: nil). There have been no transfers into/out of Level 3 during the period ended 31 December 2021 (31 December 2020: nil).

(b) Fair value of financial instruments not measured at fair value

The following table below compares the fair value of financial instruments with their carrying amounts.

As at 31 December 2021	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	706,758	-	-	-	706,758	706,758
Due from other financial institutions	100,946	-	-	-	100,946	100,946
Investment securities	-	82,729	-	-	82,729	82,729
Loans and advances	3,411,717	-	-	-	3,411,717	3,524,386
Due from related parties	24,077	-	-	-	24,077	24,077
Derivative financial assets	-	-	-	37,910	37,910	37,910
Other assets	86	-	-	-	86	86
Total financial assets	**4,243,584**	**82,729**	**-**	**37,910**	**4,364,223**	**4,476,892**
Financial liabilities						
Due to other financial institutions	569,112	-	-	-	569,112	570,250
Deposits from customers	415,027	-	-	-	415,027	414,749
Debt securities issued	1,138,356	-	-	-	1,138,356	1,129,579
Due to related parties	1,891,277	-	-	-	1,891,277	1,890,239
Subordinated Debt	15,101	-	-	-	15,101	15,708
Derivative financial liabilities	-	-	-	41,281	41,281	41,281
Lease liabilities	5,588	-	-	-	5,588	5,588
Total financial liabilities	**4,034,461**	**-**	**-**	**41,281**	**4,075,742**	**4,067,394**

As at 31 December 2020	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	151,469	-	-	-	151,469	151,469
Due from other financial institutions	379,473	-	-	-	379,473	379,473
Investment securities	-	32,739	-	-	32,739	32,739
Loans and advances	2,712,557	-	-	-	2,712,557	3,012,815
Due from related parties	1,332	-	-	-	1,332	1,332
Derivative financial assets	-	-	-	26,466	26,466	26,466
Other assets	90	-	-	-	90	90
Total financial assets	**3,244,921**	**32,739**	**-**	**26,466**	**3,304,126**	**3,604,384**
Financial liabilities						
Due to other financial institutions	503,118	-	-	-	503,118	503,118
Deposits from customers	419,719	-	-	-	419,719	420,871
Debt securities issued	1,074,472	-	-	-	1,074,472	1,091,885
Due to related parties	909,997	-	-	-	909,997	919,151
Subordinated Debt	15,087	-	-	-	15,087	16,192
Derivative financial liabilities	-	-	-	126,339	126,339	126,339
Lease liabilities	1,124	-	-	-	1,124	1,124
Total financial liabilities	**2,923,517**	**-**	**-**	**126,339**	**3,049,856**	**3,078,680**

(c) Estimation of fair value

The fair value estimates of the NZ Banking Group'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) Derivative financial instruments

Fair value is obtained from quoted 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.

(iii) 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.

(iv) 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 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 NZ Banking Group's own credit risk based on observable market data.

(v) Debt securities issued (including subordinated debt)

For debt securities issued held at amortised cost with maturities of less than three months, 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 NZ Banking Group's own credit risk based on observable market data.

21. Related Party Transactions

During the period ended 31 December 2021, the NZ Banking Group has entered into or had in place various financial transactions with members of the Overseas Banking Group, represented by Ultimate Parent Bank.

Nature of transactions and balances with related parties

The NZ Banking Group undertakes transactions with the Overseas Banking 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 outside of the NZ Banking Group are conducted on an arm's length basis and on normal commercial terms. The settlement of the balances will be in cash consideration.

Ultimate Parent Bank

The amount due from Ultimate Parent Bank consists of nostro accounts held with the Ultimate Parent Bank and other receivables, which is reflected as *Cash and liquid assets* and *Other assets.*

The amount due to Ultimate Parent Bank consists of borrowed funds from the Ultimate Parent Bank measured at amortised cost. These borrowings are made in the normal course of business and are at arms-length.

CCBNZL raised NZD $15 million (issuing 15,000 redeemable, subordinated and unsecured medium term notes at a face value of NZD $1,000) from the Sydney Branch of the Ultimate Parent Bank in April 2016. The amount is expected to be settled on 28 April 2023.

The amount due from and due to Ultimate Parent Bank also includes derivative instruments held with the Ultimate Parent Bank, which are marked to market and reflected as *Derivative financial assets and liabilities* .

Recognised in	2021 $000	2020 $000
Statement of Comprehensive Income		
Interest income [1]	630	4,540
Interest expense [2]	(15,704)	(17,587)
Non-interest income / (expense)		
Unrealised gain/(loss) on derivatives	(1,282)	(2,371)
Total Profit or Loss impact	**(16,356)**	**(15,418)**
Balance Sheet		
Due from related parties		
Cash and liquid assets	24,077	1,336
Other assets / (liabilities) [3]	-	(4)
Derivative financial assets	9,933	6,511
Total Assets	**34,010**	**7,843**
Subordinated debt	15,101	15,087
Due to related parties		
Borrowings at amortised cost	1,891,277	909,997
Derivative financial liabilities	17,785	66,370
Total Liabilities	**1,924,163**	**991,454**

[1] *Included in related party interest income are interest earned on Liquid assets, Loans and advances 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.*
[3] *Included in Other assets / (liabilities) are liabilities payable to Ultimate Parent Bank for trade finance related services provided as part of service agreement.*

There were no debts with any related parties written off or forgiven during the year ended 31 December 2021 (31 December 2020: nil).

Provision for impairments on credit exposure of nil have been recognised in respect of the related party assets as at 31 December 2021 (31 December 2020: nil).

22. 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 are defined as the Directors and members of the senior executive team of the CCBNZL and the New Zealand Chief Executive Officer of the Branch. 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 NZ Banking Group.

	2021 $000	2020 $000
Key management personnel compensation		
Salaries and other short-term employee benefits	2,130	2,086
Post-employment benefits (pension scheme contribution)	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
Total key management personnel compensation	**2,130**	**2,086**

Out of the above, salaries paid by CCB was nil in the year ended 31 December 2021 (31 December 2020 : $37,740) and the rest of the costs were borne by the NZ Banking Group.

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 2021 (31 December 2020: nil). Consequently, no provisions have been recognised in respect of loans given to key management personnel and their related parties (31 December 2020: nil) and there were no debts written off or forgiven during the year (31 December 2020: nil).

(b) Other key management personnel transactions

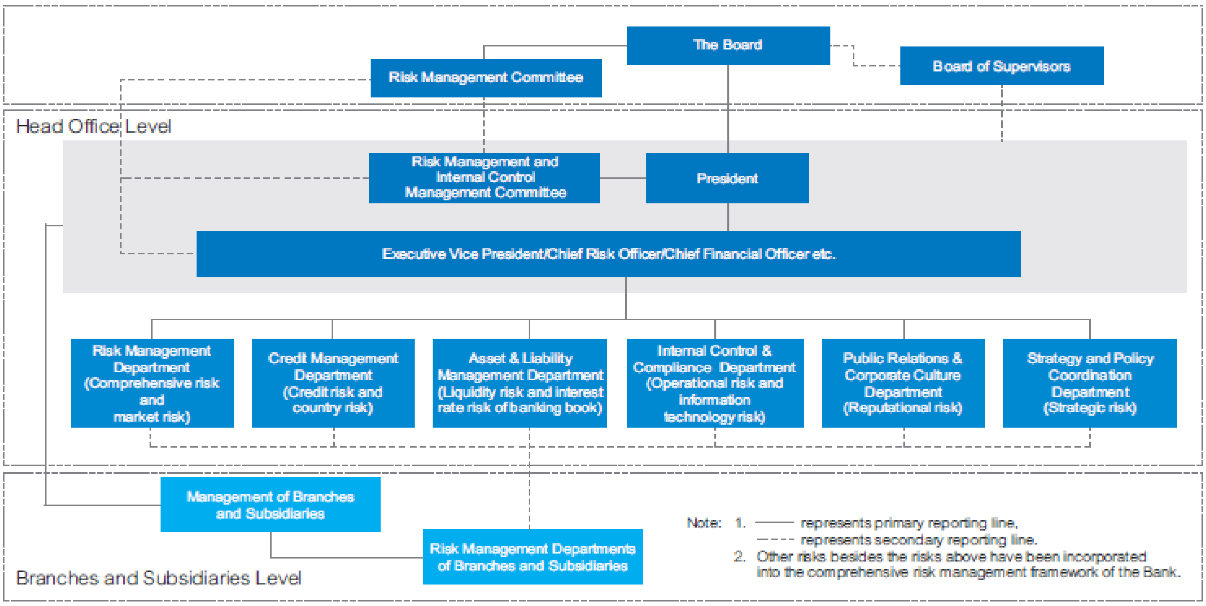
There were no other transactions with key management personnel during the year ended 31 December 2021 (31 December 2020: nil).

Risk Management

23. Risk Governance

(a) Introduction

The risk management organisational structure of the Overseas Bank comprises the Board and its special committees, the senior management and its special committees, and the risk management departments, etc. The basic structure is as follows:



The Board carries out the risk management responsibility pursuant to the Articles of Association of the Overseas Bank and other related regulatory requirements. The Risk Management Committee under the Board is responsible for making risk management strategies, monitoring their implementation, and evaluating the overall risk profile on a regular basis. The Board reviews the statements of risk appetite regularly, sets the appetite as the core component in the risk management structure, and incorporates it into and communicates it through relevant capital management policies, risk management policies and business policies, to ensure that the business operations of the Overseas Bank adhere to the risk appetite. The Board of Supervisors oversees the building of the comprehensive risk management system, as well as the performance of the Board and the senior management in delivering their comprehensive risk management responsibilities. The senior management is responsible for carrying out the risk strategies adopted by the Board and organising the comprehensive risk management activities across the Overseas Banking Group.

The senior management appoints Chief Risk Officer who assists the President with the corresponding risk management work within designated responsibilities. Risk Management Department is the leading management department responsible for the Overseas Banking Group's comprehensive risk management, and its subordinate department, Market Risk Management Department, is the leading management department responsible for market risk management. Credit Management Department is the leading management department responsible for the overall credit risk management and country risk management. Asset and Liability Management Department is the leading management department responsible for the management of liquidity risk and interest rate risk of banking book. Internal Control & Compliance Department is the leading management department responsible for operational risk and information technology risk management. Public Relations & Corporate Culture Department is the leading management department responsible for reputational risk management. Strategic Planning Department is the leading management department responsible for strategic risk management. Other specialised departments are responsible for other respective risks.

The Overseas Bank places high priority on the risk management of subsidiaries, and conducts overall risk assessment of subsidiaries on a regular basis. The subsidiaries comply with the risk management requirements of the Ultimate Parent Bank through their corporate governance mechanisms, establishing and improving the comprehensive risk management system.

The NZ Banking Group 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 NZ Banking Group to both increase financial growth opportunities and mitigate potential loss or damage. The NZ Banking Group only takes on controlled amounts of risk when considered appropriate.

The primary categories of risks managed by the NZ Banking Group include credit, country, market, liquidity and funding risk, operational, strategic/business and reputational risks.

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

(b) Board Audit, Risk and Compliance Committee

CCBNZL's risk and control functions are the responsibility of the Chief Risk Officer, who reports to the Chief Executive Officer. CCBNZL's risk management strategy is set by the Board of Directors through the Board Audit, Risk and Compliance Committee ("BARC"). All non-executive Directors are members of the BARC (refer to the Directory in the CCBNZL disclosure statement for details). Formal executive committees are in place governing all primary risk types. The Chief Risk Officer is responsible for the implementation of risk management strategy and all executives have responsibility for the day-to- day management of risk across the NZ Banking Group.

The NZ Banking Group has management structures and information systems to manage individual risks. Risk initiation and monitoring tasks are separated where feasible, and all material information systems are subjected to regular internal audits.

c) Internal audit

In order to promote the establishment of a sound and effective risk management mechanism, internal control system and corporate governance procedures, the Overseas Banking Group's Internal Audit Department evaluates the effectiveness of the internal control system and risk management mechanism, the effect of corporate governance procedures, the efficiency of business operations, and the economic responsibilities of relevant personnel, and puts forward suggestions for improvement based on its internal audit. The Internal Audit Department works in a relatively independent manner, and it is managed vertically. It is responsible to and reports to the Board and the Audit Committee, as well as reports to the Board of Supervisors and senior management. There is an internal audit department at the head office, and 37 audit offices at tier-one branches, responsible for managing and conducting audit projects.

CCBNZL maintains an independent internal audit function which is accountable to the Overseas Banking Group's Internal Audit Department and the CCBNZL Board of Directors through the CCBNZL BARC. The BARC of CCBNZL meets on a regular basis to consider CCBNZL financial reporting, internal control and corporate governance matters. In doing so, the BARC reviews internal audit findings and opinions, and the activities of the internal audit function.

The following notes contain information about the risk management framework: Credit Risk, Market Risk, and Liquidity and Funding Risk. Operational and strategic business risks are discussed below.

d) Review of risk management systems

The risk management system and architecture of the NZ Banking Group are reviewed annually by senior management and the relevant committees.

The NZ Banking Group has updated its Retail credit policy and processes to ensure that it meets the requirements of the Credit Contracts and Consumer Finance Act 2003 (CCCFA) which came into force on 1 December 2021. These changes were approved by the Risk Management Committee and Board of Directors.

e) Areas of risk management

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

(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 Overseas Banking Group. It can arise from the Overseas Banking Group's lending activities and from inter-bank, treasury and international trade activities. The Overseas Banking Group 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 NZ Banking Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates and equity prices. Interest rate risk and foreign exchange rate risk are the main market risks faced by the NZ Banking Group.

(iii) Liquidity and Funding risk

Liquidity risk is the risk that the NZ Banking Group 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 NZ Banking Group is such that the NZ Banking Group 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. This definition includes legal risk, but excludes strategic and reputational risk.

Each business manager of the NZ Banking Group is responsible for the identification and assessment of these risks and for maintaining appropriate internal controls, and is supported by the NZ Banking Group's governance structures, operational risk framework and operational risk policies.

The NZ Banking Group's applies a fixed floor (as a % of its total weighted exposures) as its operational risk regulatory capital requirements, as required by the Reserve Bank, due to insufficient historical observation points from the length of time in operation. The Operational Risk capital floor was lowered from 10% to 8% on the 13th April 2021 by the Reserve Bank.

(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 managed by:

- 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 NZ Banking Group 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 NZ Banking Group on the part of existing or potential

- 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 NZ Banking Group'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) 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 NZ Banking Group.

24. Credit Risk Management and Asset Quality

a) Credit risk management

Credit risk principally arises within the NZ Banking Group from its core business in providing lending facilities. Credit risk also arises from the NZ Banking Group assuming contingent liabilities, participating in financial market transactions and assuming underwriting commitments. The NZ Banking Group is selective in targeting credit risk exposures and avoids exposures to high risk areas.

The BARC of the CCBNZL and the Risk Management Committee of Overseas Banking Group operate under a charter by which they oversee the credit risk framework, credit management policies and practices. The committees ensure that the credit policies and portfolio standards designed to achieve portfolio outcomes consistent with the risk/return expectations of CCBNZL and the Branch respectively, are in place and maintained.

A system of industry limits and a large credit exposure policy assist in the diversification of the credit portfolio. These policies are an important part of portfolio management objectives to create a diversified portfolio avoiding significantly large concentrations of economically related credit risk exposures.

The NZ Banking Group has comprehensive, clearly defined credit policies for the approval and management of all credit risk including risk from other banks and related counterparties. Lending standards and criteria are clearly defined across different business sectors for all NZ Banking Group products and incorporate income/repayment capacity, acceptable terms and security and loan documentation tests.

While the NZ Banking Group applies policies, standards and procedures in governing the credit process, the management of credit risk also relies on the application of judgement and the exercise of good faith and due care by relevant staff within their delegated authority.

(b) 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 Reserve Bank of New Zealand.
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 NZ Banking Group subject to an agreement to resell for a fixed price. There are no repurchase agreements as at 31 December 2021 (31 December 2020: 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.

(c) Credit quality of financial assets that are neither past due nor impaired

The credit quality of financial assets that were neither past due nor impaired as at 31 December 2021 has been assessed to be normal in that the customer or counterparty can honour the terms of their contractual obligation. There is no reason to doubt their ability to repay principal and interest in full on a timely basis (31 December 2020: normal).

The NZ Banking Group also uses International Swaps and Derivatives Association (“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.

(i) 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 NZ Banking Group Risk Management Department undertakes regular and comprehensive analysis of the credit portfolio. Using the NZ Banking Group's Risk Management Department for analysis and reporting ensures an efficient and independent conduit to identify and communicate emerging credit issues to the NZ Banking Group executive team and the CCBNZL Board.

(ii) Problem credit facility management

Credit exposures are monitored regularly through the examination of irregular and delinquent accounts. This enables doubtful debts to be immediately 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.

(iii) 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 NZ Banking Group 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.

Refer to Note 26 for the disclosure of concentration of credit exposures by industry and geographical area and to individual counterparties.

(d) 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 NZ Banking Group holds over a borrower's specific asset (or assets) where the NZ Banking Group 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 NZ Banking Group 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 2021.

	Credit exposure		Total value of collateral		Unsecured portion of credit exposure	
	2021	2020	2021	2020	2021	2020
As at 31 December	$000	$000	$000	$000	$000	$000
On-balance sheet financial instruments						
Cash and balances with central banks	706,758	151,469	706,758	151,469	-	-
Due from other financial institutions	100,946	379,473	-	-	100,946	379,473
Investment securities	82,729	32,739	-	-	82,729	32,739
Loans and advances	3,411,717	2,712,557	1,954,210	1,713,088	1,457,507	999,469
Due from related parties	24,077	1,332	-	-	24,077	1,332
Derivative financial assets	37,910	26,466	-	-	37,910	26,466
Total On-balance sheet financial instruments	**4,364,137**	**3,304,036**	**2,660,968**	**1,864,557**	**1,703,169**	**1,439,479**
Off-balance sheet financial instruments						
Credit related commitments and contingent liabilities	748,598	863,078	226,455	202,298	522,143	660,780
Market related contracts	73,157	66,235	-	-	73,157	66,235
Total off-balance sheet financial instruments	**821,755**	**929,313**	**226,455**	**202,298**	**595,300**	**727,015**
Total exposure to credit risk	**5,185,892**	**4,233,349**	**2,887,423**	**2,066,855**	**2,298,469**	**2,166,494**

(e) Covid-19 Pandemic

COVID-19 has had a significant impact on global and domestic economies. It has also introduced a considerable amount of uncertainty for New Zealand households and businesses, including the NZ Banking Group's customers. The nationwide lockdown in August 2021 has dampened the improved business confidence observed in the first half of 2021, and reintroduced a level of new uncertainties in the economic outlook.

In the August 2021 lockdown, the NZ Banking Group has provided support options to its customers, which includes options for a loan repayment deferral and/or amendment to loan structure.

Customers accessing these support packages have not been automatically assessed as being subject to a significant increase in credit risk. Uptake on these support options was low, with only one retail and two wholesale customers still remaining on the support packages as at 31 December 2021.

The impact of the pandemic on the local and international businesses is expected to depend on the effectiveness of its containment, its duration, and the implementation of related regulatory policies and the timing and speed on the easing of these policies.

The NZ Banking Group continues to closely monitor the developments of COVID-19 and actively manage the impact on the NZ Banking Group's financial position and performance. At the date of this document, this evaluation remains a subject of close attention but given the nature of the current environment (with the emergent of new COVID-19 strains, and the resurgence of infection volumes which may lead to tighter control measures) and the number of variables which impact on the environment, significant uncertainty around the future impact on the NZ Banking Group remains.

As detailed in Note 25, the NZ Banking Group has assessed the impact of COVID-19 on credit impairment and has adjusted its forward looking view of potential loss outcomes due to the current and prospective deterioration in the economy. The more certain and optimistic economic outlook in 2021 in general, has resulted in a decrease in the overall impairment expense by $7.7m relative to the equivalent period in 2020.

25. Asset Quality

a) Credit quality information

As at 31 December 2021	FVTPL Investment securities $000	Amortised cost Residential mortgage loans $000	Corporate exposures $000	Other exposures $000	Total loans and advances $000
Neither past due nor impaired	-	761,979	2,254,628	412,968	**3,429,575**
Past due but not impaired:					
Less than 30 days past due	-	-	-	-	-
At least 30 days but less than 60 days past due	-	-	-	-	-
At least 60 days but less than 90 days past due	-	-	-	-	-
At least 90 days past due	-	-	-	-	-
Total past due but not impaired	-	-	-	-	-
Movements in Individually impaired assets					
Balance at beginning of the year	-	-	-	-	-
Additions	-	-	-	-	-
Amounts written off	-	-	-	-	-
Deletions	-	-	-	-	-
Total individually impaired assets	-	-	-	-	-
Total gross loans and advances	-	**761,979**	**2,254,628**	**412,968**	**3,429,575**
Total Provision for impairment losses	-	(7,478)	(6,991)	(562)	(15,031)
Unearned income	-	-	-	-	(3,985)
Loan origination fees	-	-	-	-	1,486
Fair value hedge adjustments	-	-	-	-	(328)
Total net loans and advances	-	**754,501**	**2,247,637**	**412,406**	**3,411,717**

b) Movement in loans and advances

As at 31 December 2021	Stage 1 12-month ECL $000	Stage 2 Lifetime 12-month ECL $000	Stage 3 Lifetime 12-month ECL $000	Specific Lifetime ECL Credit Impaired $000	Total $000
Residential mortgages					
Gross balance as at 1 January 2021	742,263	-	-	-	**742,263**
Additions	212,002	2,037	-	-	**214,039**
Amounts written off	-	-	-	-	-
Deletions	(192,286)	(2,037)	-	-	**(194,323)**
Gross balance as at 31 December 2021	**761,979**	-	-	-	**761,979**
Corporate exposures					
Gross balance as at 1 January 2021	1,894,719	93,166	-	-	**1,987,885**
Additions	1,407,652	133,731	-	-	**1,541,383**
Amounts written off	-	-	-	-	-
Deletions	(1,160,872)	(113,768)	-	-	**(1,274,640)**
Gross balance as at 31 December 2021	**2,141,499**	**113,129**	-	-	**2,254,628**
Other exposures					
Gross balance as at 1 January 2021	-	-	-	-	-
Additions	1,222,002	-	-	-	**1,222,002**
Amounts written off	-	-	-	-	-
Deletions	(809,034)	-	-	-	**(809,034)**
Gross balance as at 31 December 2021	**412,968**	-	-	-	**412,968**
Total					
Gross balance as at 1 January 2021	**2,636,982**	**93,166**	-	-	**2,730,148**
Additions	**2,841,656**	**135,768**	-	-	**2,977,424**
Amounts written off	-	-	-	-	-
Deletions	**(2,162,192)**	**(115,805)**	-	-	**(2,277,997)**
Gross balance as at 31 December 2021	**3,316,446**	**113,129**	-	-	**3,429,575**

Due from financial institutions' and 'Investment securities' balances (refer to Note 9 and 10) were all represented in Stage 1 - 12 months ECL.

c) Movement in provision for impairment losses

As at 31 December 2021	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 Specific Provision Lifetime ECL Credit Impaired $000	Total Provision $000
Due from other financial institutions [1]	7	-	-	-	**7**
Investment securities [2]	1	-	-	-	**1**
Loans and advances	14,379	652	-	-	**15,031**
Off-balance sheet credit related commitments	1,060	251	-	-	**1,311**
Total provision for impairment losses as at 31 December 2021	15,447	903	-	-	**16,350**
Residential mortgages					
Balance as at 1 January 2021	6,880	-	-	-	**6,880**
Transferred to collective provision 12-months ECL	-	-	-	-	**-**
Transferred to collective provision lifetime ECL not credit impaired	(302)	302	-	-	**-**
Transferred to collective provision lifetime ECL credit impaired	-	-	-	-	**-**
Transferred to specific provision lifetime ECL credit impaired	-	-	-	-	**-**
Charge to profit or loss excluding transfer between ECL stages	3,997	-	-	-	**3,997**
Amounts written off	-	-	-	-	**-**
Reversals of previously recognised impairment losses	(3,097)	(302)	-	-	**(3,399)**
Recovery of amounts written off	-	-	-	-	**-**
Balance as at 31 December 2021	**7,478**	**-**	**-**	**-**	**7,478**
Corporate exposures					
Balance as at 1 January 2021	7,708	1,535	-	-	**9,243**
Transferred to collective provision 12-months ECL	-	-	-	-	**-**
Transferred to collective provision lifetime ECL not credit impaired	(653)	653	-	-	**-**
Transferred to collective provision lifetime ECL credit impaired	-	-	-	-	**-**
Transferred to specific provision lifetime ECL credit impaired	-	-	-	-	**-**
Charge to profit or loss excluding transfer between ECL stages	7,298	258	-	-	**7,556**
Amounts written off	-	-	-	-	**-**
Reversals of previously recognised impairment losses	(8,014)	(1,794)	-	-	**(9,808)**
Recovery of amounts written off	-	-	-	-	**-**
Balance as at 31 December 2021	**6,339**	**652**	**-**	**-**	**6,991**
Other exposures					
Balance as at 1 January 2021	-	-	-	-	**-**
Transferred to collective provision 12-months ECL	-	-	-	-	**-**
Transferred to collective provision lifetime ECL not credit impaired	-	-	-	-	**-**
Transferred to collective provision lifetime ECL credit impaired	-	-	-	-	**-**
Transferred to specific provision lifetime ECL credit impaired	-	-	-	-	**-**
Charge to profit or loss excluding transfer between ECL stages	1,340	-	-	-	**1,340**
Amounts written off	-	-	-	-	**-**
Reversals of previously recognised impairment losses	(778)	-	-	-	**(778)**
Recovery of amounts written off	-	-	-	-	**-**
Balance as at 31 December 2021	**562**	**-**	**-**	**-**	**562**
Total Loans and Advances					
Balance as at 1 January 2021	**14,588**	**1,535**	**-**	**-**	**16,123**
Transferred to collective provision 12-months ECL	**-**	**-**	**-**	**-**	**-**
Transferred to collective provision lifetime ECL not credit impaired	**(955)**	**955**	**-**	**-**	**-**
Transferred to collective provision lifetime ECL credit impaired	**-**	**-**	**-**	**-**	**-**
Transferred to specific provision lifetime ECL credit impaired	**-**	**-**	**-**	**-**	**-**
Charge to profit or loss excluding transfer between ECL stages	**12,635**	**258**	**-**	**-**	**12,893**
Amounts written off	**-**	**-**	**-**	**-**	**-**
Reversals of previously recognised impairment losses	**(11,889)**	**(2,096)**	**-**	**-**	**(13,985)**
Recovery of amounts written off	**-**	**-**	**-**	**-**	**-**
Total provision for impairment losses on Loans & advances as at 31 December 2021	**14,379**	**652**	**-**	**-**	**15,031**

[1] *There was no transfer of collective provision for 'Due from financial institutions' between the stages. The total provision of $7,000 (31 December 2020: $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 $1,000 (31 December 2020: nil) was represented in 'Collective provision 12-months ECL' during the period.*

As at 31 December 2021	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 Specific Provision Lifetime ECL Credit Impaired $000	Total Provision $000
Off-balance sheet credit related business [1]					
Balance as at 1 January 2021	-	-	-	-	**-**
Transferred to collective provision 12-months ECL	475	625	-	-	**1,100**
Transferred to collective provision lifetime ECL not credit impaired	-	-	-	-	**-**
Transferred to collective provision lifetime ECL credit impaired	-	-	-	-	**-**
Transferred to specific provision lifetime ECL credit impaired	-	-	-	-	**-**
Charge to profit or loss excluding transfer between ECL stages	1,623	315	-	-	**1,938**
Amounts written off	-	-	-	-	**-**
Reversals of previously recognised impairment losses	(1,038)	(689)	-	-	**(1,727)**
Recovery of amounts written off	-	-	-	-	**-**
Balance as at 31 December 2021	**1,060**	**251**	**-**	**-**	**1,311**

[1] *The provision for Off-balance sheet credit related business is included in Other liabilities (Note 18).*

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.

The economic outlook has improved in 2021, which has resulted in a decrease in the overall impairment expense by $7.7m relative to the equivalent period in 2020.

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 2021 (31 December 2020: nil).

Assets under administration

The NZ Banking Group does not have any assets under administration as at 31 December 2021 (31 December 2020: nil).

Restructured asset

The NZ Banking Group does not have any restructured assets as at 31 December 2021 (31 December 2020: nil).

26. Concentration of Credit Exposures

Concentrations of credit exposures arise where the NZ Banking Group is exposed to risk in industries of a similar nature or in particular geographies. The following table presents the NZ Banking Group's concentrations of credit exposures reported by industry and geographic area.

Australian and New Zealand Standard Industrial Classifications ("ANZSIC") have been used as the basis for disclosing industry sectors.

	On-balance sheet credit exposures		Off-balance sheet credit related commitments	
	2021	2020	2021	2020
As at 31 December	$000	$000	$000	$000
Industry sector				
Agriculture, Forestry and Fishing	94,810	77,240	12,264	8,462
Mining	30,044	30,026	-	-
Manufacturing	461,366	242,174	3,600	232,442
Electricity, gas, water and waste services	114,572	224,282	244,771	237,579
Construction	406,102	361,372	147,457	130,566
Retail trade	1,003	-	144	144
Accommodation and food services	-	50,452	-	2,500
Health care and social assistance	-	11,200	-	3,832
Transport, postal and warehousing	69,143	149,246	211,000	141,500
Information media and telecommunications	116,842	111,393	-	-
Financial and insurance services	596,534	413,823	-	-
Rental, hiring and real estate services	960,746	730,500	118,926	75,042
Public administration and safety	768,861	177,672	3,571	7,143
Personal lending	761,979	742,263	8,176	23,868
Subtotal	**4,382,002**	**3,321,643**	**749,909**	**863,078**
Unearned income	(3,985)	(2,841)	-	-
Loan origination fees	1,486	1,337	-	-
Fair value hedge adjustments	(328)	36	-	-
Provisions for impairment losses	(15,038)	(16,139)	(1,311)	-
Total credit exposures	**4,364,137**	**3,304,036**	**748,598**	**863,078**
Geographical area [1]				
New Zealand	3,530,068	2,801,062	616,701	738,459
Overseas	834,069	502,974	131,897	124,619
Total credit exposures	**4,364,137**	**3,304,036**	**748,598**	**863,078**

[1] *Geographic area classification is based on customers' tax residency status.*

27. Market Risk Management

The NZ Banking Group has established a market risk management framework in line with management and regulatory requirements. The NZ Banking Group's Risk Management Department is responsible for the day-to-day oversight of market risk, monitoring and reporting market risk limit utilisation based on limits set out in the respective entities' Market Risk Policies.

Day-to-day responsibility for the management of market risk is performed and reported by the NZ Banking Group's Treasury function, with independent monitoring by the NZ Banking Group's Risk Management Department with oversight provided by the Risk Management Committee and the Asset and Liability Committee ("ALCO") of the NZ Banking Group.

For the purposes of market risk management, NZ Banking Group makes a distinction between traded and non-traded market risks. Traded Market Risk is generated through the NZ Banking Group'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. The NZ Banking Group 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 NZ Banking Group 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 NZ Banking Group'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 NZ Banking Group's book. The NZ Banking Group 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 net interest income (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 with management ensuring positions remain within prescribed management limits. Additional stressed interest rate scenarios are also considered and modelled.

(b) Interest rate repricing gap analysis

The following table presents the NZ Banking Group's assets and liabilities at their carrying amounts as at 31 December 2021, 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 NZ Banking Group's exposure to interest rate movements, are included under the heading "Non-interest bearing".

As at 31 December 2021	0-3 months $000	3-6 months $000	6-12 months $000	1-2 years $000	Over 2 years $000	Non-interest interest bearing [1] $000	Total $000
Financial assets							
Cash and balances with central banks	706,758	-	-	-	-	-	706,758
Due from other financial institutions	100,919	-	-	-	-	27	100,946
Investment securities	20,622	-	-	5,065	56,676	366	82,729
Loans and advances [1]	2,576,622	170,374	274,914	292,508	109,763	(12,464)	3,411,717
Due from related parties	24,077	-	-	-	-	-	24,077
Derivative financial assets	-	-	-	-	-	37,910	37,910
Total financial assets	**3,428,998**	**170,374**	**274,914**	**297,573**	**166,439**	**25,839**	**4,364,137**
Non-financial assets	-	-	-	-	-	12,056	12,056
Total assets	**3,428,998**	**170,374**	**274,914**	**297,573**	**166,439**	**37,895**	**4,376,193**
Financial liabilities							
Due to other financial institutions	350,457	-	218,345	-	-	310	569,112
Deposits from customers	169,184	122,677	65,744	55,778	-	1,644	415,027
Debt securities issued	616,552	-	150,000	285,000	85,000	1,804	1,138,356
Due to related parties	1,131,362	124,714	323,549	175,863	131,897	3,892	1,891,277
Subordinated debt	15,000	-	-	-	-	101	15,101
Derivative financial liabilities	-	-	-	-	-	41,281	41,281
Total financial liabilities	**2,282,555**	**247,391**	**757,638**	**516,641**	**216,897**	**49,032**	**4,070,154**
Non-financial liabilities	-	-	-	-	-	19,007	19,007
Total liabilities	**2,282,555**	**247,391**	**757,638**	**516,641**	**216,897**	**68,039**	**4,089,161**
On-balance sheet interest rate repricing gap	**1,146,443**	**(77,017)**	**(482,724)**	**(219,068)**	**(50,458)**	**(30,144)**	**287,032**
Net derivative notional amount	(592,537)	-	140,000	302,858	149,679	-	-
Net interest rate repricing gap	**553,906**	**(77,017)**	**(342,724)**	**83,790**	**99,221**	**(30,144)**	**287,032**

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

As at 31 December 2020	0-3 months $000	3-6 months $000	6-12 months $000	1-2 years $000	Over 2 years $000	Non-interest interest bearing [1] $000	Total $000
Financial assets							
Cash and balances with central banks	151,469	-	-	-	-	-	151,469
Due from other financial institutions	379,461	-	-	-	-	12	379,473
Investment securities	6,536	-	20,648	-	5,272	283	32,739
Loans and advances [1]	1,998,337	192,443	270,073	202,562	62,167	(13,025)	2,712,557
Due from related parties	1,332	-	-	-	-	-	1,332
Derivative financial assets	-	-	-	-	-	26,466	26,466
Total financial assets	**2,537,135**	**192,443**	**290,721**	**202,562**	**67,439**	**13,736**	**3,304,036**
Non-financial assets	-	-	-	-	-	7,329	7,329
Total assets	**2,537,135**	**192,443**	**290,721**	**202,562**	**67,439**	**21,065**	**3,311,365**
Financial liabilities							
Due to other financial institutions	503,087	-	-	-	-	31	503,118
Deposits from customers	266,740	91,070	58,864	470	-	2,575	419,719
Debt securities issued	426,858	109,483	-	150,000	370,272	17,859	1,074,472
Due to related parties	318,415	138,466	144,766	55,386	249,238	3,726	909,997
Subordinated debt	15,000	-	-	-	-	87	15,087
Derivative financial liabilities	-	-	-	-	-	126,339	126,339
Total financial liabilities	**1,530,100**	**339,019**	**203,630**	**205,856**	**619,510**	**150,617**	**3,048,732**
Non-financial liabilities	-	-	-	-	-	10,411	10,411
Total liabilities	**1,530,100**	**339,019**	**203,630**	**205,856**	**619,510**	**161,028**	**3,059,143**
On-balance sheet interest rate repricing gap	**1,007,035**	**(146,576)**	**87,091**	**(3,294)**	**(552,071)**	**(139,963)**	**252,222**
Net derivative notional amount	(620,584)	-	(11,500)	140,000	492,084	-	-
Net interest rate repricing gap	**386,451**	**(146,576)**	**75,591**	**136,706**	**(59,987)**	**(139,963)**	**252,222**

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

(c) Interest rate sensitivity

The table below summarises the pre-tax for Profit or loss and post-tax for Equity 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 NZ Banking Group'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	2021 $000	2020 $000
Total funding comprises		
Impact on equity of increase or decrease to market interest rates		
100 bp parallel increase	5,488	5,680
100 bp parallel decrease	(5,488)	(5,680)
Impact on profit or loss of increase or decrease to market interest rates		
100 bp parallel increase	7,622	7,889
100 bp parallel decrease	(7,622)	(7,889)

(d) Foreign exchange risk

Foreign Exchange Risk is the risk to earnings and/or portfolio value due to fluctuations in foreign exchange rates. The NZ Banking Group defines foreign exchange rate risk as both traded and non-traded foreign exchange risk.

Traded foreign exchange risk is generated through the NZ Banking Group's participation in foreign exchange markets to service its customers.

Non-traded foreign exchange risk is primarily due to the mismatch of non-NZ dollar assets and liabilities held by the NZ Banking Group's balance sheet and cash flows generated from these.

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

(e) Net open foreign currency position

The net open position of major foreign currency held at 31 December 2021 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	2021 $000	2020 $000
Net open position		
US Dollar (USD)	(681)	643
Euro (EUR)	268	62
Chinese Yuan Renminbi (RMB)	2,709	2,434
Australian Dollar (AUD)	277	199
Japanese Yen (JPY)	737	553
Hong Kong Dollar (HKD)	(178)	356

(f) Foreign exchange rate sensitivity

The table below summarises the pre-tax for Profit or loss and post-tax for Equity 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 NZ Banking Group's financial instruments held in foreign currency at reporting date. It is assumed that all other variables remain constant.

As at 31 December	2021 $000	2020 $000
Net open position		
Impact on equity of increase or decrease in foreign exchange rates		
10% appreciation (increase)	24	129
10% depreciation (decrease)	(24)	(129)
Impact on profit or loss of increase or decrease in foreign exchange rates		
10% appreciation (increase)	34	180
10% depreciation (decrease)	(34)	(180)

(g) Equity risk

The NZ Banking Group does not have any equity risk exposure as at 31 December 2021 (31 December 2020: nil).

28. Liquidity and Funding Risk Management

Day-to-day responsibility for the management of liquidity and funding risks is performed and reported by the NZ Banking Group's Treasury function, with independent monitoring by the NZ Banking Group's Risk Management Department with oversight provided by the NZ Banking Group's ALCO.

The NZ Banking Group's Liquidity and Funding Policies have the following key objectives:

- To ensure that cash flow commitments can be met as they fall due under both normal operating and stressed conditions.
- To ensure that the NZ Banking Group develops and protects a resilient and diversified funding base that is responsive to its 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 NZ Banking Group 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 NZ Banking Group of any liquidity and funding gaps in particular time bands. The cash flow projections take 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 funding / counterparty concentration limits for CCBNZL.
- 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 Reserve Bank's one-week mismatch ratio, one-month mismatch ratio and core funding ratio requirements on a daily basis.

- Quarterly liquidity scenario analysis and stress tests to support the NZ Banking Group's understanding of its liquidity and funding risk and whether the NZ Banking Group has the ability to meet cash outflows over a range of time horizons in a range of scenarios
- Developing, maintaining and regularly testing a liquidity Early Warning Indicator ("EWI") framework and a Contingency Funding Plan ("CFP") to enable the NZ Banking Group 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 NZ Banking Group to a robust position within its risk tolerance as quickly as possible.

(b) Liquidity portfolio management

The NZ Banking Group held the following financial assets for the purpose of managing liquidity risk:

As at 31 December	Note	2021 $000	2020 $000
Cash and cash equivalents:			
Cash and balances with central banks	8	706,758	151,469
Due from other financial institutions (call or original maturity of 3 months or less)[1]	9	100,946	379,473
Due from related parties[2]	21	24,077	1,336
Total Cash and cash equivalent		**831,781**	**532,278**
Investment securities			
Registered bank securities	10	20,626	6,536
Multilateral development banks and other international organisation	10	55,947	26,203
Government securities	10	6,156	-
Total liquidity portfolio		**914,510**	**565,017**

[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 balance held with the Ultimate Parent Bank.

(c) Contractual maturity analysis of financial liabilities

The table below presents the NZ Banking Group'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.

Actual cash flows may differ significantly from the contractual cash flows presented below as a result of future actions of the NZ Banking Group and its counterparties such as early repayments or refinancing of term loans.

The contractual maturity analysis for off-balance sheet commitments and contingent liabilities has been prepared using the earliest date at which the NZ Banking Group 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 NZ Banking Group does not manage its liquidity risk based on the analysis presented in the below table.

As at 31 December 2021	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	-	299,709	219,427	51,655	-	570,791	569,112
Deposits from customers	45,102	114,302	200,340	56,800	-	416,544	415,027
Debt securities issued	-	31,276	399,354	728,202	-	1,158,832	1,138,356
Due to related parties	-	1,136,744	452,830	313,964	-	1,903,538	1,891,277
Subordinated Debt	-	168	377	15,168	-	15,713	15,101
Lease liabilities	-	240	723	4,177	819	5,959	5,588
Total non-derivative financial liabilities	**45,102**	**1,582,439**	**1,273,051**	**1,169,966**	**819**	**4,071,377**	**4,034,461**
Derivative financial liabilities							
Net settled	-	-	1,964	1,566	-	3,530	
Gross settled – cash inflow	-	(731,833)	(211,035)	(395,558)	-	(1,338,426)	
Gross settled – cash outflow	-	740,251	228,716	407,742	-	1,376,710	
Total derivative financial liabilities	**-**	**8,418**	**19,645**	**13,750**	**-**	**41,813**	**41,281**

As at 31 December 2020	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	-	503,146	-	-	-	503,146	503,118
Deposits from customers	50,816	217,974	151,711	494	-	420,995	419,719
Debt securities issued	-	61,793	262,520	771,438	-	1,095,751	1,074,472
Due to related parties	-	243,269	425,336	313,471	-	982,076	909,997
Subordinated Debt	-	165	371	15,659	-	16,195	15,087
Lease liabilities	-	228	261	305	402	1,196	1,124
Total non-derivative financial liabilities	**50,816**	**1,026,575**	**840,199**	**1,101,367**	**402**	**3,019,359**	**2,923,517**
Derivative financial liabilities							
Net settled	-	-	41	9,082	-	9,123	
Gross settled – cash inflow	-	(475,296)	(559,618)	(434,995)	-	(1,469,909)	
Gross settled – cash outflow	-	507,754	599,985	478,107	-	1,585,846	
Total derivative financial liabilities	**-**	**32,458**	**40,408**	**52,194**	**-**	**125,060**	**126,339**

(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 12 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	2021 Current $000	2021 Non-current $000	Total $000	2020 Current $000	2020 Non-current $000	Total $000
Assets						
Cash and balances with central bank	706,758	-	706,758	151,469	-	151,469
Due from other financial institutions	100,946	-	100,946	379,473	-	379,473
Investment securities	20,626	62,103	82,729	20,920	11,819	32,739
Loans and advances	1,431,190	1,980,527	3,411,717	794,698	1,917,859	2,712,557
Due from related parties	24,077	-	24,077	1,332	-	1,332
Derivative financial assets	31,404	6,506	37,910	2,567	23,899	26,466
Property, plant and equipment	-	5,738	5,738	-	1,559	1,559
Intangible assets	-	10	10	-	39	39
Deferred tax assets	-	6,105	6,105	-	5,526	5,526
Other assets	203	-	203	205	-	205
Total assets	**2,315,204**	**2,060,989**	**4,376,193**	**1,350,664**	**1,960,701**	**3,311,365**
Liabilities						
Due to other financial institutions	518,044	51,068	569,112	503,118	-	503,118
Deposits from customers	358,910	56,117	415,027	419,240	479	419,719
Debt securities issued	416,912	721,444	1,138,356	323,781	750,691	1,074,472
Due to related parties	1,582,191	309,086	1,891,277	603,953	306,044	909,997
Subordinated debt	101	15,000	15,101	87	15,000	15,087
Current tax liabilities	7,501	-	7,501	5,349	-	5,349
Derivative financial liabilities	22,863	18,418	41,281	68,354	57,985	126,339
Other liabilities	6,860	4,646	11,506	5,062	-	5,062
Total liabilities	**2,913,382**	**1,175,779**	**4,089,161**	**1,928,944**	**1,130,199**	**3,059,143**

29. Concentration of Funding

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

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

As at 31 December	2021 $000	2020 $000
Total funding comprises		
Due to other financial institutions	569,112	503,118
Deposits from customers	415,027	419,719
Debt securities issued	1,138,356	1,074,472
Due to related parties	1,891,277	909,997
Subordinated debt	15,101	15,087
Total funding	**4,028,873**	**2,922,393**
Concentration of funding by industry sector		
Accommodation and food services	7,070	-
Agriculture, forestry and fishing	2,696	1,830
Mining	-	-
Construction	23,136	27,374
Electricity, gas, water and waste services	-	-
Financial and insurance services	1,920,733	1,738,693
Households	7,156	19,597
Manufacturing	1,795	754
Local government administration	105,459	60,026
Public administration and safety	-	-
Rental, hiring and real estate services	12,681	7,611
Retail trade	239	494
Transport, postal and warehousing	7,070	120,387
Wholesale trade	191	462
Other	34,269	20,081
Subtotal	**2,122,495**	**1,997,309**
Due to related parties (including Subordinated debt)	1,906,378	925,084
Total funding	**4,028,873**	**2,922,393**
Concentration of funding by geographic region [1]		
New Zealand	1,608,320	1,474,457
China	2,305,305	1,431,602
Australia	115,172	15,087
Rest of Overseas	76	1,247
Total funding	**4,028,873**	**2,922,393**

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

30. Capital Adequacy

For the purposes of this Disclosure Statement the NZ Banking Group is subject to regulations for registered banks as specified by the Reserve Bank for two banking licenses, one for CCBNZL and another for the Branch. Following the final decisions of the Capital Review by the Reserve Bank, the minimum regulatory capital requirements, which were set in the Capital Adequacy Framework (Internal Models Based Approach, BS2B) and Capital Adequacy Framework (Standardised Approach, BS2A) until 30 September 2021, were replaced by the new Banking Prudential Requirements (BPRs) documents that set out the capital adequacy requirements for New Zealand incorporated banks.

Both the previous and new frameworks are 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 Branch and CCBNZL must comply with RBNZ registration requirements, including any minimum capital ratios (as applicable) under the conditions of registration for each respective banking licence.

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 One covers the capital requirements for banks for credit, operational and market risks. Pillar Two covers all other material risks not already included in Pillar One, and Pillar Three relates to market disclosure.

Capital management

The primary objectives of the NZ Banking Group's capital management is to ensure that the NZ Banking Group complies with the externally imposed capital requirements set by the Reserve Bank and 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.

The Boards of Directors for CCBNZL and the Overseas Bank have ultimate responsibility for ensuring 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 regulatory requirements. CCBNZL and the Overseas Bank each actively monitor its capital adequacy as part of the Internal Capital Adequacy Assessment Process ("ICAAP"), for CCBNZL, which complies with the requirements set out in BPR100: Capital Adequacy document on Internal Capital Adequacy Assessment Process (ICAAP), and the "Internal Capital Assessment" for the Overseas Bank, and reports this on a regular basis to senior management and the respective Boards.

The key features of the Internal Capital Assessment and ICAAP include:

- Development of a capital management strategy, including preferred capital range, capital buffers and contingency plans;
- Consideration of regulatory capital requirements, the Overseas Banking Group's strategy and risk appetite;
- Identifying and evaluating all risk types, estimating capital utilisation and incorporating the impact of adverse economic scenarios; and
- Consideration of the perspectives of external stakeholders including rating agencies, equity investors and debt investors.

CCBNZL regulatory requirement

Capital ratios are used to define minimum capital requirements for each of: Common Equity (CET1), Tier 1 capital (CET1 plus AT1), and Total capital (Tier 1 plus Tier 2), as a percentage of risk-weighted assets. CCBNZL calculated its regulatory capital requirements in accordance with the Reserve Bank's revised Capital Adequacy Framework (Standardised Approach). As a condition of registration, CCBNZL must comply with the following minimum requirements set by the Reserve Bank:

- 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 CCBNZL must not be less than $30 million.

During the reporting period, CCBNZL has complied with all the RBNZ minimum capital ratios to which it is subject.

In addition to the minimum capital requirements, BPR100 Capital Adequacy prescribes a Prudential Capital Buffer (PCB) ratio of 2.5% above the minimum CET1 capital ratio requirement. Prior to 2nd April 2020, there were restrictions on capital distributions in increasing steps once the buffer ratio was below 2.5%. This was replaced by a complete ban on distributions regardless of the size of the buffer ratio from 2nd April 2020. This restriction was eased on 22 April 2021, which allowed the bank to pay up to 50% of its earnings as dividends to its shareholders based on its capital position in relation to the PCB ratio.

The RBNZ released its final decisions on capital requirements applicable to New Zealand registered banks on 5th December 2019. Due to the COVID-19 pandemic, the RBNZ has delayed the start date for the increased capital requirements to 1 July 2021. The revised framework requires CCBNZL, as a standardised registered bank, to increase its Total Capital Ratio to 16% over a seven year period starting from the revised start date of 1 July 2021.

CCBNZL's Total Capital Ratio was 14.47% as at 31 December 2021. It does not expect the revised Framework to result in any changes to the underlying business model or its approach to raising equity.

Overseas Banking Group regulatory requirement

From 1 January 2013, in accordance with the China Banking and Insurance Regulatory Commission's ("CBIRC") "Measures for Capital Management of Commercial Banks (Trial)" and relevant regulations, commercial banks should meet the minimum capital requirements of Common Equity Tier 1 ratio at or above a minimum of 5%, Tier 1 ratio at or above a minimum of 6% and total capital ratio at or above a minimum of 8%, in addition to a 2.5% buffer ratio and 1% additional capital requirement for global systemically important banks, the additional requirement is for Common Equity Tier 1. If a countercyclical buffer is required or the Pillar 2 capital requirement is raised by the regulator to a specific commercial bank, the minimum requirements should be met within the transitional period.

On 2 April 2014, CBIRC had officially approved the implementation of the advanced approach of capital management by the Overseas Bank. In this approach, the Overseas Bank has elected to use foundation internal rating based ("IRB") approach for corporate risk exposure which is compliant with regulatory requirements, IRB approach for retail risk exposure, internal models approach for market risk and standardised approach for operational risk exposure in the calculation of the relevant capital charges.

Both the Overseas Bank and the Overseas Banking Group are required to hold minimum capital and disclose capital adequacy ratios in accordance with both the Capital Rules for Commercial Banks (Provisional) (CBIRC Order [2012] No. 1) 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 Overseas Bank and the Overseas Banking Group each met the capital requirements imposed on them by the CBIRC as at 30 September 2021, the latest reporting date.

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

As at 30 September	Unaudited 2021	Unaudited 2020
Ultimate Parent Bank Group		
Common Equity Tier 1 capital ratio	13.40%	13.15%
Tier 1 capital ratio	13.96%	13.86%
Total capital ratio	17.25%	16.88%
Ultimate Parent Bank		
Common Equity Tier 1 capital ratio	13.46%	13.12%
Tier 1 capital ratio	13.94%	13.79%
Total capital ratio	17.45%	16.99%

Capital instruments

Ordinary shares

In accordance with Reserve Bank Capital Adequacy Framework (Standardised Approach), ordinary share capital is classified as Common Equity Tier 1 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.

Subordinated notes

On 28 April 2016, CCBNZL issued NZD $15 million (15,000 subordinated and unsecured medium term notes at a face value of NZD $1,000.00 “the Notes”) to the Sydney Branch of the Ultimate Parent Bank (Sydney Branch). The Notes will mature on 28 April 2023. The Notes are redeemable, subordinated and unsecured securities of CCBNZL. The Notes are subordinated to the claims of depositors and other unsubordinated creditors of CCBNZL and qualify for Tier 2 regulatory recognition in accordance with BPR110: Capital Definitions and is subject to the allowance for tax in accordance with section 10f(5), of subpart 2F under BS2A. CCBNZL may redeem all the Notes on any interest payment date, subject to certain conditions including the Reserve Bank's written approval (“Redemption of Term Subordinated Notes”). Early redemption of all but not some of the Notes for tax reasons or regulatory reasons is permitted subject to Redemption of Term Subordinated Notes.

This instrument is subject to phase-out from Tier 2 in accordance with Part D3 of BPR110: Capital Definitions. The phase-out will be over five consecutive years, with the amount of the instrument qualifying as Tier 2 capital reducing by 20% each year commencing April 2018 to maturity in April 2023.

The Notes bear interest at a rate based on the 3 month Bank Bill Rate plus a fixed margin of 3.00% per annum. Interest is payable quarterly in arrears and commenced on 28 July 2016. If a Non-Viability Trigger Event occurs, CCBNZL must apply the conditions of (“Write-off”). A Non-Viability Trigger Event occurs if:

a) the Reserve Bank has reasonable grounds to believe that CCBNZL meets any of the grounds of section 113(a) to (e) of the Reserve Bank Act 1989 requiring CCBNZL to write off (in whole or in part) a class of capital instrument that includes the Notes; or

b) CCBNZL is subject to statutory management and the statutory manager decides to write off the Notes (in whole or in part).

Credit and market risk
Additional mortgage information

Residential mortgages by loan-to-valuation ratio

As at 31 December 2021	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	372,786	-	-	372,786
Residential mortgages - Investment	381,715	-	-	381,715
Total On-balance sheet exposures	**754,501**	**-**	**-**	**754,501**
Off-balance sheet exposures	8,176	-	-	8,176
Value of exposures	**762,677**	**-**	**-**	**762,677**

The information in the above table is in respect of the total residential mortgage loans used to calculate the NZ Banking Group'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 2021	Note	$000
Total Residential mortgages	11	761,979
Reconciling items:		
Less: - Provision for impairment losses on credit exposures	25 (a)	(7,478)
On-balance sheet exposures	25 (a)	**754,501**
Off-balance sheet exposures		**8,176**
Total Residential mortgages exposures		**762,677**

Market risk

	End-period capital charges		Peak end-of-day capital charge	
As at 31 December 2021	Implied risk weighted exposure $000	Aggregate capital charge $000	Implied risk weighted exposure $000	Aggregate capital charge $000
Interest rate risk	194,563	15,565	194,563	15,565
Foreign currency risk	1,413	113	1,446	116
Equity risk	-	-	-	-
Total	**195,976**	**15,678**	**196,009**	**15,681**

Peak end-of-day aggregate capital charge for each category of market risk is derived by determining the maximum over the 6 month period ended 31 December 2021 of the aggregate capital charge at the close of each business day derived in accordance with Part A of BPR140: Market Risk.

Other Disclosures

31. Insurance Business, Securitisation, Funds Management, other Fiduciary Activities and the Marketing and Distribution of Insurance Products

Insurance

The NZ Banking Group does not conduct any insurance business.

Securitisation, Funds Management, Other Fiduciary Activities and Marketing and Distribution of Insurance Products

The NZ Banking Group is not involved in:
- the establishment, marketing, or sponsorship of trust, custodial, funds management and other fiduciary activities;
- the origination of securitised assets or the marketing or servicing of securitisation schemes; and
- the marketing or distribution of insurance products.

32. Commitments and Contingent Liabilities

The NZ Banking Group 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 NZ Banking Group'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 NZ Banking Group 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 NZ Banking Group's operations as at 31 December 2021 were:

As at 31 December	2021 $000	2020 $000
Credit related commitments and contingent liabilities		
Commitments to extend credit [1]	613,737	730,564
Standby letters of credit	131,897	124,619
Non-financial guarantees	2,964	7,895
Total Credit related commitments and contingent liabilities	**748,598**	**863,078**

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

There were no other contingent liabilities and capital commitments as at 31 December 2021 (31 December 2020: 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 2021 and 31 December 2020.

34. Other information on the Overseas Banking Group

As at	30 September 2021
Profitability	
Net Profit after tax for the period ended 30 September 2021	RMB 233,173 million
Net Profit after tax for the 12 months ended 30 September 2021 as a % of average total assets	1.02%
Size	
Total assets	RMB 30,135,551 million
% change in total assets from 30 September 2020	6.49%
As at	**31 December 2020**
Asset Quality	
Total gross individually impaired assets	RMB 260,729 million
Total individually impaired assets as a % of Total Assets	0.93%
Total Individual credit impairment allowance	RMB 172,536 million
Total individual credit impairment allowance as a % of total gross individually impaired assets	66.17%
Total collective impairment allowance	RMB 383,527 million

The amounts included in this summary have been taken from the most recent publicly available data.

35. 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.

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
CBIRC	China Banking and Insurance Regulatory Commission
CBRC	China Banking Regulatory Commission
CCCFA	Credit Contracts and Consumer Finance Act 2003
CET1	Common Equity Tier 1
CFP	Contingency funding plan
EAD	Exposure at default
ECL	Expected credit loss
EWI	Early warning indicator
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 Swap and Derivatives Association
LGD	Loss given default
LVR	Loan-to-valuation ratio
NII	Net interest income
NZ GAAP	New Zealand Generally Accepted Accounting Principles
IAS	International Accounting Standards
NZ IFRS	New Zealand equivalent to International Financial Reporting Standards
PD	Probability of default
POCI	Purchased and originated credit impaired
RBNZ	Reserve Bank of New Zealand
RMB	Chinese Yuan Renminbi
SICR	Significant increase in credit risk
VaR	Value at risk

Building a better working world

Independent auditor's report to the Directors of China Construction Bank Corporation

Report on the audit of the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy) of China Construction Bank Corporation

China Construction Bank Corporation New Zealand Banking Group (the "Group") comprises the New Zealand business of China Construction Bank Corporation, incorporated in China and trading as China Construction Bank Corporation New Zealand Branch, and China Construction Bank (New Zealand) Limited.

Opinion

We have audited the financial statements required by Clause 25 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information required by Schedules 4, 7, 11 and 13 of the Order of the Group. The financial statements and supplementary information comprise:

- the balance sheet of the Group as at 31 December 2021;
- the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended of the Group;
- the notes to the financial statements including a summary of significant accounting policies; and
- the supplementary information required by Schedules 4, 7, 11 and 13 of the Order.

In our opinion, the financial statements on pages 12 to 60 (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 9, 11 and 13 of the Order) give a true and fair view of the financial position of the Group as at 31 December 2021 and its financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

In our opinion, the supplementary information disclosed in accordance with Schedules 4, 7, 11 and 13 of the Order and included within notes 23 to 29, 31 and 34:

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

This report is made solely to the Directors of China Construction Bank Corporation, as a body. Our audit has been undertaken so that we might state to the Directors of China Construction Bank Corporation 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 Directors of China Construction Bank Corporation, as a body, for our audit work, for this report, or for the opinions we have formed.

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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 (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)* section of our report.

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and 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 review services to the Group. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. We have no other relationship with, or interest in, the Group.

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 (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)* 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.

Collective 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 losses 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 provision for impairment losses on corporate credit exposures includes both collectively assessed provisions and individually assessed provisions.	We assessed the alignment of the Group's expected credit loss model for collectively assessed provisions and its underlying methodology with the requirements of NZ IFRS 9. We assessed: ▶ the significant modelling and macroeconomic assumptions; and ▶ the sensitivity of the collective provisions to changes in modelling assumptions.

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The collectively assessed provision was a key audit matter due to:

- the value and subjectivity of timing of the recognition of the provision; and
- the degree of judgement and estimation uncertainty associated with the calculations.

Key areas of judgement included:

- the application of the impairment requirements of NZ IFRS 9 within the Group's expected credit loss methodology;
- the identification of exposures with a significant deterioration in credit quality;
- the assumptions used in the expected credit loss model; and
- the incorporation of forward-looking information to reflect expected future factors such as gross domestic product. These future estimates reflect scenarios dependent on future economic performance, including potential COVID-19 impacts.

We involved our actuarial specialists to test the mathematical accuracy of the model and to consider key assumptions, including forward-looking estimates and the relative weightings given to different scenarios.

We examined a sample of exposures by assessing the internal credit quality assessments based on the borrowers' circumstances and considered COVID-19 impacts on these assessments.

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
- expected credit loss model, including functionality, model governance and validation and ongoing monitoring.

We considered the adequacy and appropriateness of the disclosures related to the collective provision for impairment losses within the Disclosure Statement.

Information other than the financial statements, supplementary information and auditor's report

The Directors of China Construction Bank Corporation are responsible, on behalf of the Group, for the Disclosure Statement, which includes information other than the financial statements, the supplementary information required by Schedules 4, 7, 11 and 13 of the Order and the auditor's report.

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.

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.

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Directors' responsibilities for the financial statements and supplementary information (excluding supplementary information relating to credit and market risk exposures and capital adequacy)

The Directors of China Construction Bank Corporation are responsible, on behalf of the Group, for the preparation and fair presentation of the financial statements in accordance with Clause 25 of the Order, New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors of China Construction Bank Corporation are responsible, on behalf of the Group, for the preparation and fair presentation of the supplementary information in the Disclosure Statement which complies with Clause 25 and Schedules 2, 4, 7, 11 and 13 of the Order.

In preparing the financial statements, the Directors of China Construction Bank Corporation are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors of China Construction Bank Corporation either intend to liquidate the Group 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 (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole and the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Note 30) disclosed in accordance with Clause 25 and Schedules 4, 7, 11 and 13 of the Order 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.

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.

Report on other legal and regulatory requirements (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)

We also report in accordance with the requirements of Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Note 30) for the year ended 31 December 2021:

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

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Report on the review of supplementary information relating to credit and market risk exposures and capital adequacy

Conclusion

We have reviewed the supplementary information relating to credit and market risk exposures and capital adequacy required by Schedule 9 of the Order as disclosed in Note 30 of the financial statements of the Group for the year ended 31 December 2021.

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to credit and market risk exposures and capital adequacy (disclosed in Note 30) is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

This report is made solely to the Directors of China Construction Bank Corporation, as a body. Our review has been undertaken so that we might state to the Directors of China Construction Bank Corporation those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors of China Construction Bank Corporation, as a body, for our review work, for this report, or for our findings.

Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410"). Our responsibilities under this standard are further described in the *Auditor's responsibilities for the review of the supplementary information relating to credit and market risk exposures and capital adequacy* section of this report. We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other responsibilities in accordance with these ethical requirements as described above.

Directors' responsibility for the supplementary information relating to credit and market risk exposures and capital adequacy

The Directors of China Construction Bank Corporation are responsible, on behalf of the Group, for the preparation and fair presentation of the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order. The Directors of China Construction Bank Corporation are also responsible for such internal control as the Directors of China Construction Bank Corporation determine is necessary to enable the preparation of the supplementary information relating to credit and market risk exposures and capital adequacy that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the supplementary information relating to credit and market risk exposures and capital adequacy

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

Our responsibility is to express a conclusion on the supplementary information relating to credit and market risk exposures and capital adequacy (disclosed in Note 30) based on our review. NZ SRE 2410 (Revised) requires us to conclude whether, on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

A review of the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Note 30 in accordance with NZ SRE 2410 is a limited assurance engagement.

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We perform procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Note 30.

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

Ernst + Young

Chartered Accountants
Auckland
25 March 2022