中國銀行
BANK OF CHINA

Bank of China

New Zealand Banking Group

Disclosure Statement for the year ended

31 December 2023

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1 GENERAL INFORMATION AND DEFINITIONS

This Disclosure Statement is for the year ended 31 December 2023. Certain information contained in this Disclosure Statement is required by section 81 of the Banking (Prudential Supervision) Act 1989 and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the “Order”).

In this Disclosure Statement:

- The “Overseas Bank” and "BoC" mean Bank of China Limited;
- The “Overseas Banking Group” means the total worldwide business of BoC including its controlled entities;
- The “Branch” means the Auckland Branch of the Overseas Bank;
- "BoC NZ" means Bank of China (New Zealand) Limited, the locally incorporated subsidiary of the Overseas Bank;
- The "NZ Banking Group" means the New Zealand operations of the Overseas Bank comprising the Branch and BoC NZ;
- "Board" means the board of directors of the Overseas Bank;
- “China” means the People's Republic of China;
- "RMB" means Renminbi, being the official currency of China; and
- “Reserve Bank” means the Reserve Bank of New Zealand.

Words and phrases not defined in this Disclosure Statement, but defined by the Order, have the meaning given by the Order when used in this Disclosure Statement. All amounts referred to in this Disclosure Statement are in New Zealand dollars unless otherwise stated.

The Disclosure Statement of the NZ Banking Group is available for download, free of charge, on BoC NZ’s website (www.bankofchina.com/nz). A printed copy will also be made available, free of charge, upon request and will be dispatched by the end of the second working day after the day on which the request has been made.

2 GENERAL MATTERS

2.1 Registered Bank

The Overseas Bank is incorporated in China and its principal regulator is the National Administration of Financial Regulation (“NAFR”) (formerly the China Banking and Insurance Regulatory Commission (“CBIRC”)). The Overseas Bank’s principal office and address for service is No. 1 Fuxingmen Nei Dajie, Beijing, 100818, People’s Republic of China.

The Branch’s registered office and principal place of business is Level 17, Tower 1, 205 Queen Street, Auckland 1010, New Zealand.

A copy of the Overseas Banking Group’s most recently published financial statements is available for download, free of charge, on the Overseas Bank’s website (www.boc.cn).

2.2 Limits on material financial support by the Overseas Bank

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

2.3 Subordination of claims of creditors

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

2.4 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.

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

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

3 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.

4 DIRECTORATE

4.1 Directors

The Directors of the Overseas Bank (the "Directors") at the date when this Disclosure Statement was signed were:

Name: Haijiao GE **Non-executive:** No **Qualifications:** Ph.D. in Management **Primary occupation:** Chairman Secondary occupation: None	**Country of residence:** People's Republic of China **Independent Director:** No **External Directorships:** None
Name: Jin LIU **Non-executive:** No **Qualifications:** Master of Arts Degree, Senior Economist **Primary occupation:** Vice Chairman and President **Secondary occupation:** None	**Country of residence:** People's Republic of China **Independent Director:** No **External Directorships:** None
Name: Jingzhen LIN **Non-executive**: No **Qualifications**: Master of Business Administration **Primary occupation**: Executive Director and Executive Vice President **Secondary occupation:** None	**Country of residence**: People's Republic of China **Independent Director**: No **External Directorships:** None
Name: Yong ZHANG **Non-executive**: Yes **Qualifications**: Master's Degree in Economics **Primary occupation**: Non-executive Director **Secondary occupation:** None	**Country of residence**: People's Republic of China **Independent Director**: No **External Directorships:** None

Name: Yongyan SHI **Non-executive**: Yes **Qualifications**: Ph.D. degree **Primary occupation**: Non-executive Director **Secondary occupation:** None	**Country of residence**: People's Republic of China **Independent Director**: No **External Directorships:** None
Name: Hui LIU **Non-executive**: Yes **Qualifications**: Ph.D. degree **Primary occupation**: Non-executive Director **Secondary occupation:** None	**Country of residence**: People's Republic of China **Independent Director**: No **External Directorships:** None
Name: Jiangang ZHANG **Non-executive**: Yes **Qualifications**: Master's Degree in Management, Senior Economist. **Primary occupation**: Non-executive Director **Secondary occupation:** None	**Country of residence**: People's Republic of China **Independent Director**: No **External Directorships:** None
Name: Binghua HUANG **Non-executive**: Yes **Qualifications**: Bachelor's Degree in Law **Primary occupation**: Non-executive Director **Secondary occupation:** None	**Country of residence**: People's Republic of China **Independent Director**: No **External Directorships:** None
Name: Martin Cheung Kong LIAO **Non-executive**: Yes **Qualifications**: Master of Laws **Primary occupation**: Barrister **Secondary occupation:** None	**Country of residence**: Hong Kong, SAR, People's Republic of China **Independent Director**: Yes **External Directorships:** Independent Non-executive Director of Hang Lung Group Limited.
Name: Sai Peng Jose CHUI **Non-executive**: Yes **Qualifications**: Doctorate in Urban Planning **Primary occupation**: President of CAA City Planning & Engineering Consultants Ltd. of Macao, and Da Chang (Zhuhai) Concrete Pile Co., Ltd., CEO of Parafuturo de Macau Investment and Development Ltd. **Secondary occupation:** None	**Country of residence**: Macao, SAR, People's Republic of China **Independent Director**: Yes **External Directorships:** Chairman of Board of Directors of Macao Young Entrepreneur Incubation Centre, Vice-President of Board of Directors of Macao Chamber of Commerce, Independent Director of Luso International Banking Ltd.
Name: Jean-Louis Ekra **Non-executive:** Yes **Qualifications:** Master of Business Administration and Economics **Primary occupation:** Founder of Ayipling Morrison Capital **Secondary occupation:** None	**Country of residence:** Côte d'Ivoire **Independent Director:** Yes **External Directorships:** The Board of several institutions including Africa Economic Research Consortium (AERC), and the Fund for Export Development in Africa (FEDA).

Name: Weinan E **Non-executive**: Yes **Qualifications**: Postdoctoral degree from Courant Institute of Mathematical Sciences **Primary occupation**: Academician of Chinese Academy of Sciences, Professor of School of Mathematical Sciences at Peking University. **Secondary occupation:** None	**Country of residence**: People's Republic of China **Independent Director**: Yes **External Directorships:** Director of Centre or Machine Learning Research at Peking University. Joint director of the National Engineering Laboratory of Big Data Analysis and Applied Technology of Peking University. Director of Beijing Institute of Big Data Research, and Director and Chief Scientific Advisor of Beijing Shenshi Technology Co., Ltd.
Name: Giovanni Tria **Non-executive:** Yes **Qualifications:** Degree in Law **Primary occupation:** Honorary professor at University of Rome Tor Vergata and President of the Foundation Enea Tech Biomedical. **Secondary occupation:** None	**Country of residence:** Italy **Independent Director:** Yes **External Directorships:** None
Name: Xiaolei LIU **Non-executive:** Yes **Qualifications:** Ph.D. degree **Primary occupation:** Professor of Finance and Accounting, the Deputy Director of the Faculty of Economics & Management and Chair of the Finance Department at Guanghua School of Management, Peking University. **Secondary occupation:** None	**Country of residence:** People's Republic of China **Independent Director:** Yes **External Directorships:** None

4.2 Change to Directorate

Ms. Liu Xiaolei has begun to serve as Independent Non-executive Director of the Overseas Bank as well as Chair and member of the Audit Committee, member of the Strategic Development Committee, member of the Risk Policy Committee, member of the Personnel and Remuneration Committee, and member of the Connected Transactions Control Committee of the Board with effect from 26 March 2024.

Mr. Jiang Guohua resigned as Independent Non-executive Director of the Overseas Bank, chair and member of the Audit Committee, member of the Strategic Development Committee, member of the Corporate Culture and Consumer Protection Committee, member of the Personnel and Remuneration Committee, and member of the Connected Transactions Control Committee of the Board with effect from 26 February 2024.

Mr. Yongyan Shi has begun to serve as Non-executive Director of the Board as well as member of the Strategic Development Committee, member of the Corporate Culture and Consumer Protection Committee, and member of the Personnel and Remuneration Committee of the Board with effect from 25 September 2023.

Mr. Hui Liu has begun to server as Non-executive Director of the Board as well as member of the Strategic Development Committee and member of the Risk Policy Committee of the Board with effect from 24 August 2023.

Ms. Lihong Xiao retired as Non-executive Director of the Board, chair and member of the Risk Policy Committee, member of the Strategic Development Committee of the Board with effect from 30 June 2023.

Ms. Xiaoya Wang retired as Non-executive Director of the Board, member of the Strategic Development Committee, member of the Corporate Culture and Consumer Protection Committee, and member of the Personnel and Remuneration Committee of the Board with effect from 30 June 2023.

Mr. Yong Zhang has begun to serve as Non-executive Director of the Board as well as member of the Strategic Development Committee, member of the Audit Committee and member of the Risk Policy Committee of the Board, with effect from 9 June 2023, while Non-executive Director Mr. Binghua Huang ceased to serve as member of the Audit Committee of the Board with effect from the same day.

Mr. Haijiao Ge has begun to serve as the Chairman, Executive Director, chair and member of the Strategic Development Committee of the Board as of 25 April 2023.

Mr. Jianbo Chen resigned as Non-executive Director of the Board, member of Strategic Development Committee, Corporate Culture and Consumer Protection Committee and Risk Policy Committee of the Board with effect from 17 April 2023.

4.3 Board Audit Committee

The Overseas Bank has a Board Audit Committee. The members of the Board Audit Committee as at the date when this Disclosure Statement was signed were:

Xiaolei LIU, Independent Director

Jiangang ZHANG, Non-executive Director

Yong ZHANG, Non-executive Director

Giovanni Tria, Independent Director

Martin Cheung Kong LIAO, Independent Director

4.4 Chief Executive Officer of Auckland Branch of Bank of China Limited ("New Zealand Chief Executive Officer")

Name: Beihai Hu

Country of residence: New Zealand

Primary occupation: Chief Executive Officer, both BoC NZ and the Branch

Secondary occupation: Director

External directorships: None

Qualifications: Master of Finance

4.5 Responsible person

All the Directors of the Overseas Bank named above have authorised in writing Mr. Beihai Hu, Chief Executive Officer of both BoC NZ and the Branch, to sign this Disclosure Statement on the Directors' behalf in accordance with section 82 of the Banking (Prudential Supervision) Act 1989.

4.6 Address for communications

All communications to the Directors of the Overseas Bank, the New Zealand Chief Executive Officer of the Branch or the Responsible Person may be sent to the registered office of the Branch at Level 17, Tower 1, 205 Queen Street, Auckland 1010, New Zealand.

5 CONFLICTS OF INTEREST

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

Accordingly, each Director must:

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

(b) If required by the Board, take steps as are necessary and reasonable to resolve any conflict of interest within an appropriate period.

The Board will determine whether or not the Director declaring a conflict should remain present when the Board discusses matters about which the conflict relates.

6 INTERESTED PARTY TRANSACTIONS

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:

(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 materially influence the exercise of that Director's or the New Zealand Chief Executive Officer's duties.

7 AUDITOR

The name of the NZ Banking Group's auditor is PricewaterhouseCoopers. Their address is PwC Tower, Level 17, 15 Customs Street West, Auckland 1010, New Zealand.

8 CONDITIONS OF REGISTRATION

Conditions of registration for the NZ Banking Group

The following conditions of registration came into effect on 29 March 2018. There have been no changes to the conditions of registration that have occurred since the reporting date for the previous disclosure statement. The registration of Bank of China Limited (the "Registered Bank") in New Zealand is subject to the following conditions:

1. That the NZ 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 NZ Banking Group's insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the NZ Banking Group's insurance business is the sum of the following amounts for entities in the NZ 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 NZ 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 NZ 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 NZ Banking Group's insurance business—

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

(d) 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 Bank of China Limited 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 Bank of China Limited must be equal to or greater than the applicable minimum requirement.

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

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

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

(b) are otherwise as administered by China Banking 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. That 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 Bank of China (New Zealand) Limited and its subsidiaries.

In these conditions of registration, —

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

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

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

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

9 PENDING PROCEEDINGS OR ARBITRATION

As at the date of this Disclosure Statement, there are no pending legal proceedings or arbitration 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.

10 CREDIT RATINGS

10.1 The Overseas Bank's credit ratings

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

Credit ratings	Standard & Poor's Global Ratings	Moody's Investors Service	Fitch Ratings
Long-term counterparty credit rating	A	A1	A
Outlook	Stable	Negative	Stable

During the two years period ended immediately before the signing date, there was no change to the Overseas Bank's credit ratings. Moody's Investors Service has adjusted the outlook for the Overseas Bank from stable to negative, reflecting changes in the sovereign rating outlook.

A credit rating is not a recommendation to buy, sell or hold securities of the Overseas Bank. Such ratings are subject to revision, qualification, suspension or withdrawal at any time by the assigning rating agency.

Investors in the Overseas Bank's securities are cautioned to evaluate each rating independently of any other rating.

10.2 Description of credit rating scales

The following is the description of the major rating category of each rating agency for the rating of long term senior unsecured obligations:

10.2.1 The following grades display investment grade characteristics:

Standard & Poor's Global Ratings	Moody's Investors Service	Fitch Ratings	Description of ratings[1]
AAA	Aaa	AAA	Ability to repay principal and interest is extremely strong. This is the highest investment category.
AA	Aa	AA	Very strong ability to repay principal and interest.
A	A	A	Strong ability to repay principal and interest although susceptible to adverse changes in economic, business or financial conditions.
BBB	Baa	BBB	Adequate ability to repay principal and interest. More vulnerable to adverse changes.

10.2.2 The following grades have predominantly speculative characteristics:

Standard & Poor's Global Ratings	Moody's Investors Service	Fitch Ratings	Description of ratings[1]
BB	Ba	BB	Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.
B	B	B	Greater vulnerability and therefore greater likelihood of default.
CCC	Caa	CCC	Likelihood of default considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.
CC	Ca	CC to C	Highest risk of default.
SD to D	C	RD to D	Obligation currently in default.

[1] This is a general description of the rating categories based on information published by Moody's Investors Service.

Moody's Investors Service apply numeric modifiers 1, 2 and 3 to show relative standing within the major ratings categories with 1 indicating the higher end of that category and 3 indicating the lower end.

Credit ratings by Standard & Poor's Global Ratings and Fitch Ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

11 OTHER MATERIAL MATTERS

In December 2022, the External Reporting Board published the Aotearoa New Zealand Climate Standards. These include a framework for considering climate-related risks and opportunities as well as principles and general requirements to enable disclosure of high-quality climate related disclosures. In particular, Aotearoa New Zealand Climate Standard 3 General Requirements for Climate-related Disclosures (NZ CS 3) will require the NZ Banking Group to produce climate-related disclosures from the year ending 31 December 2023. The NZ Banking Group's first mandatory climate-related disclosure will be published before 30 April 2024 and be available for download, free of charge, on the BoC NZ's website (www.bankofchina.com/nz).

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

12 HISTORICAL SUMMARY OF FINANCIAL STATEMENTS

For the year ended (Audited) $000	31/12/23	31/12/22	31/12/21	31/12/20	31/12/19
Statement of comprehensive income					
Interest income[1]	403,532	220,722	125,182	125,738	117,342
Interest expense[1]	(320,867)	(156,177)	(56,871)	(72,329)	(75,732)
Net interest income	**82,665**	**64,545**	**68,311**	**53,409**	**41,610**
Other operating income	7,001	4,966	6,413	6,054	7,768
Net operating income	**89,666**	**69,511**	**74,724**	**59,463**	**49,378**
Operating expenses	(29,098)	(24,843)	(22,811)	(20,831)	(20,213)
Impairment (charges)/benefits	(15,433)	(6,396)	(1,302)	(3,036)	13,982
Profit before income tax	**45,135**	**38,272**	**50,611**	**35,596**	**43,147**
Income tax expense	(12,654)	(10,726)	(14,180)	(9,689)	(12,446)
Profit after income tax	**32,481**	**27,546**	**36,431**	**25,907**	**30,701**
Profit after income tax attributable to non-controlling interests	-	-	-	-	-
Dividend paid on ordinary shares	**7,355**	-	-	-	-
Amount of Branch profits repatriated	**35,410**	-	**5,644**	-	-

As at (Audited) $000	31/12/23	31/12/22	31/12/21	31/12/20	31/12/19
Statement of financial position					
Total individually impaired assets	2,948	5,144	5,452	5,354	7,936
Total assets[1]	7,155,492	6,193,614	5,388,265	4,957,852	3,651,408
Total liabilities[1]	6,834,838	5,865,359	5,082,700	4,681,328	3,402,194
Head office account	15,600	36,234	16,043	5,642	(861)

[1] Comparative information for the year ended 31 December 2020 has been restated. Refer to the Disclosure Statement for the year ended 31 December 2021 for further information.

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

13 DIRECTORS' AND NEW ZEALAND CHIEF EXECUTIVE OFFICER'S STATEMENTS

Each Director of the Overseas Bank and the New Zealand Chief Executive Officer believe, after due enquiry, that, as at the date on which this Disclosure Statement is signed:

(1) the Disclosure Statement contains all the information that is required by the Order; and

(2) the Disclosure Statement is not false or misleading.

Each Director of the Overseas Bank and the New Zealand Chief Executive Officer believe, after due enquiry, that, over the full year accounting period ended 31 December 2023:

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

(2) the Branch had systems in place to monitor and control adequately the material risks of relevant members 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. For this purpose, a relevant member of the NZ Banking Group means a member of the NZ Banking Group that is not a member of BoC NZ's banking group.

This Disclosure Statement is dated 27 March 2024 and has been signed by Mr. Beihai Hu as the New Zealand Chief Executive Officer and as agent authorised in writing by each director of the Overseas Bank.

Beihai Hu

Chief Executive Officer

APPENDIX 1 - FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 December 2023

STATEMENT OF COMPREHENSIVE INCOME

For the year ended $000	Note	31/12/23	31/12/22
Interest income	2	403,532	220,722
Interest expense	3	(320,867)	(156,177)
Net interest income		**82,665**	**64,545**
Other operating income	4	7,001	4,966
Net operating income		**89,666**	**69,511**
Operating expenses	5	(29,098)	(24,843)
Impairment (charges)/benefits	6	(15,433)	(6,396)
Profit before income tax		**45,135**	**38,272**
Income tax expense	7	(12,654)	(10,726)
Profit after income tax		**32,481**	**27,546**
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss		-	-
Items that may be reclassified to profit or loss:			
Net change in FVTOCI revaluation reserve (net of tax)		2,683	(4,856)
Total other comprehensive income/(expense) for the year, net of tax		**2,683**	(4,856)
Total comprehensive income for the year		**35,164**	**22,690**

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

As at $000	Note	31/12/23	31/12/22
Assets			
Cash and liquid assets	8	1,115,569	1,036,435
Receivables due from other financial institutions	9	49,980	74,942
Derivative assets	10	11,937	13,080
FVTOCI securities	11	293,527	289,237
Loans and advances	12,13	5,634,465	4,748,009
Other assets	16	35,056	20,545
Right-of-use assets	15	771	1,702
Deferred tax assets	7	13,598	8,635
Property and equipment	14	560	924
Intangible assets		29	105
Total assets		**7,155,492**	**6,193,614**
Liabilities			
Customer deposits	18	884,194	971,075
Payables due to central banks and other financial institutions	17	5,532,995	4,649,158
Derivative liabilities	10	11,936	13,075
Current tax liabilities		5,447	2,658
Debt securities on issue	19	283,646	169,883
Provisions and other liabilities	20	115,779	57,759
Lease liabilities	15	841	1,751
Total liabilities		**6,834,838**	**5,865,359**
Net assets		**320,654**	**328,255**
Equity			
Head office account			
Retained earnings	21	15,600	36,234
Total Head office account		**15,600**	**36,234**
Contributed equity	21	223,307	223,307
Reserves	22	(2,503)	(5,186)
Retained earnings		84,250	73,900
Total equity		**320,654**	**328,255**
Total interest earning and discount bearing assets		7,122,032	6,168,981
Total interest and discount bearing liabilities		6,687,878	5,769,931

The above statement of financial position should be read in conjunction with the accompanying notes.

Beihai Hu
27 March 2024
For and on behalf of the Directors of Bank of China Limited by their attorney.
It is confirmed that the said powers of attorney appointing Beihai Hu are still in force and have not been revoked.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023 $000	Note	Branch Head Office		Other members of the NZ Banking			Total equity
		Branch capital	Retained earnings	Contributed equity	Reserves	Retained earnings	
Balance as at 1 January 2023	21,22	-	36,234	223,307	(5,186)	73,900	328,255
Comprehensive income/(expense)							
Profit after income tax		-	14,776	-	-	17,705	32,481
Other comprehensive expense, net of tax		-	-	-	2,683	-	2,683
Total comprehensive income/(expense)		**-**	**14,776**	**-**	**2,683**	**17,705**	**35,164**
Dividends paid on ordinary shares	21	-	-	-	-	(7,355)	(7,355)
Branch profit repartriated		-	(35,410)	-	-	-	(35,410)
Balance as at 31 December 2023		**-**	**15,600**	**223,307**	**(2,503)**	**84,250**	**320,654**

For the year ended 31 December 2022 $000	Note	Branch Head Office		Other members of the NZ Banking			Total equity
		Branch capital	Retained earnings	Contributed equity	Reserves	Retained earnings	
Balance as at 1 January 2022	21,22	-	16,043	223,307	(330)	66,545	305,565
Comprehensive income/(expense)							
Profit after income tax		-	20,191	-	-	7,355	27,546
Other comprehensive expense, net of tax		-	-	-	(4,856)	-	(4,856)
Total comprehensive income/(expense)		-	**20,191**	**-**	**(4,856)**	**7,355**	**22,690**
Branch profit repartriated			-	-	-	-	-
Balance as at 31 December 2022		**-**	**36,234**	**223,307**	**(5,186)**	**73,900**	**328,255**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

For the year ended $000	Note	31/12/23	31/12/22
Cash flows from operating activities			
Interest received		359,646	190,253
Interest paid		(262,251)	(118,475)
Other operating income received		7,413	5,053
Operating expenses paid		(27,440)	(23,076)
Income tax paid		(15,871)	(15,801)
Net cash flows from operating activities before changes in operating assets and liabilities		**61,497**	**37,954**
Net changes in operating assets and liabilities:			
Net change in cash collateral paid included in cash and liquid assets		-	(2,008)
Net change in receivables due from other financial institutions		25,000	(75,000)
Net change in FVTOCI securities		6,862	(202,562)
Net change in loans and advances		(878,212)	(223,413)
Net change in other assets		(335)	(758)
Net change in customer deposits		(86,881)	167,408
Net change in payables due to central banks and other financial institutions		883,838	777,307
Net change in provisions and other liabilities		1,150	637
Net changes in operating assets and liabilities		**(48,578)**	**441,611**
Net cash flows from operating activities		**12,919**	**479,565**
Cash flows from investing activities			
Purchase of property and equipment		(252)	(203)
Purchase of intangible assets		-	(13)
Net cash flows from investing activities		**(252)**	**(216)**
Cash flows from financing activities			
Issuance of debt securities		420,171	19,773
Repayments of debt securities		(310,000)	(220,000)
Principal elements of lease payments		(939)	(912)
Branch profit repatriated		(35,410)	-
Dividends paid		(7,355)	-
Net cash flows from financing activities		**66,467**	**(201,139)**
Net change in cash and cash equivalents		**79,134**	**278,210**
Cash and cash equivalents at beginning of the period		1,034,427	756,217
Cash and cash equivalents at end of the period		**1,113,561**	**1,034,427**
Cash and cash equivalents comprise:			
Cash and liquid assets	8	1,115,569	1,036,435
Less: cash collateral paid included in cash and liquid assets		(2,008)	(2,008)
Cash and cash equivalents at end of year		**1,113,561**	**1,034,427**

The above statement of cash flows should be read in conjunction with the accompanying notes.

1 ACCOUNTING POLICIES

General accounting policies

The reporting group is the NZ Banking Group which is an aggregation of the Bank of China Limited, Auckland Branch ("Branch") and Bank of China (New Zealand) Limited ("BoC NZ"), a locally incorporated subsidiary of Bank of China Limited (the "Overseas Bank" or "BoC"). The basis of aggregation is an addition of the NZ Banking Group entities' individual financial statements. All transactions and balances between entities within the NZ Banking Group have been fully eliminated. The principal activity is the provision of a range of banking products and services to retail, business, corporate and institutional customers.

These financial statements were approved for issue by the Directors of the Overseas Bank on 27 March 2024.

Statement of compliance

The financial statements are general purpose financial reports 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").

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

Basis of preparation

The financial statements have been prepared on a historical cost basis, except for the following financial assets and liabilities measured at their fair value:

- derivative financial instruments; and
- financial instruments measured at fair value through other comprehensive income.

Presentation currency and rounding

Items included in the financial statements of the NZ Banking Group are measured using the currency of the primary economic environment in which the NZ Banking Group operates ("the functional currency"). All amounts contained in the financial statements are presented in thousands of New Zealand dollars, which is the NZ Banking Group's functional and presentation currency, unless otherwise stated.

Assumptions and estimates

The preparation of these financial statements requires the NZ Banking Group to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the NZ Banking Group and that are believed to be reasonable under the circumstances. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are as follows:

Provision for Expected Credit Loss

The NZ Banking Group considers the provision for expected credit losses ("ECL") on loans and advances and off-balance sheet credit related commitments and contingencies as an area that requires the most significant management judgement and estimation. Estimation uncertainty remains at a heightened level, including the impact of rising interest rates and inflationary pressures, natural hazards, increased geopolitical tensions around the world, global supply chain issues and rising unemployment impact on the NZ Banking Group's customers. Actual credit losses may differ from the NZ Banking Group's current estimate. Refer to Note 1(i) and Note 13 for further details on the basis of the NZ Banking Group's provision for ECL.

New and amended standards

No new accounting standards have been adopted by the NZ Banking Group for the year ended 31 December 2023 that had a material impact on the NZ Banking Group. There have been no amendments to existing standards that had a material impact on the NZ Banking Group.

New standards and amendments not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2023 reporting periods and have not been early adopted by the NZ Banking Group. These standards, amendments or interpretations are not expected to have a material impact on the NZ Banking Group in the current or future reporting periods and on foreseeable future transactions.

Particular accounting policies

(a) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss within other operating income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. The gains or losses arising on translation of non-monetary items measured at fair value are treated in line with the recognition of gains or losses on changes in fair value of the item. For example, translation differences on non-monetary assets and liabilities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets classified as at fair value through other comprehensive income are recognised in other comprehensive income.

(b) Revenue and expense recognition

Interest income and expense

Interest income for all interest earning financial assets excluding those measured at fair value through profit or loss 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.

Revenue from contracts with customers

The NZ Banking Group identifies distinct performance obligations within a contract and allocates the transaction price of the contract to those performance obligations. Revenue is recognised as each performance obligation is satisfied. Variable amounts of revenue are only recognised if it is highly probable that a significant reversal of the variable amount will not be required in future periods. Where the transaction price is received before or after the NZ Banking Group has satisfied the performance obligation, a contract liability or contract asset is recognised as appropriate.

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

Type of revenue	Nature and timing of satisfaction of performance obligations	Revenue recognition
Lending and credit facility related fee income	The NZ Banking Group provides banking services to retail and corporate customers, including lending and credit related services. A fixed amount per transaction is charged to the home lending customers when the service is provided. A percentage of the amount of the letters of credit or guarantee is charged to the corporate customers when the service is provided.	Lending and credit related fee income not directly related to the origination of a loan are recognised as the performance obligation is met at the point of time when the transaction takes place.

Fund management fee income	Fees for asset management services are calculated based on a fixed percentage of the value of funds managed and deducted from the customer's account balance on a quarterly basis.	Funds management income represents fees earned from customers for asset management services. Revenue is recognised as the performance obligation is met (which is over the period of service).
Other fees and commissions – account management fees	Fees for ongoing account management are charged to the customer on a monthly basis. The NZ Banking Group sets the rates separately for retail and corporate banking customers.	Revenue from account management fees is recognised as the performance obligation is met (which is over the period of service).
Other fees and commissions – transaction fees	Transaction based fees for interchange, remittance and foreign currency transactions are charged to the customer when the transaction takes place.	Revenue related to transactions is recognised when the performance obligation is met (i.e., at the point in time when the transaction takes place).

(c) Expense recognition

Expenses are recognised in the profit or loss on an accrual basis except as otherwise described in these accounting policies.

(d) Financial assets

The NZ Banking Group recognises a financial asset when it becomes party to the contractual provisions of the instrument. Financial assets other than loans are recognised on trade date, being the date on which the NZ Banking Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrower.

The NZ Banking Group classifies its financial assets in the following measurement categories:

- those to be measured at amortised cost; and
- those to be measured at fair value (either through other comprehensive income or through profit or loss).

The classification depends on the NZ Banking Group's model for managing the financial assets and their contractual cash flow characteristics.

Financial assets at amortised cost

A financial asset will be measured at amortised cost if the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets at amortised cost are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method, less provision for ECL. Interest income from these financial assets is included in interest 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 operating income together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of comprehensive income.

Financial assets in this category include:

- Cash and liquid assets: comprise balances with an original maturity of three months or less, including cash and balances with central banks, current deposits with other financial institutions and transaction balances with other financial institutions.
- Receivables due from other financial institutions: defined by the nature of the counterparty and includes inter-bank lending due from other financial institutions.
- Loans and advances: include all forms of lending to customers and comprises of housing loans and corporate loans.
- Other financial assets: include accrued interest receivable and accrued fees receivable.

Financial assets at fair value through other comprehensive income (FVTOCI)

A financial asset will be measured at FVTOCI if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets at FVTOCI are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income 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 other comprehensive income is reclassified from equity to profit or loss and recognised in other operating income. 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 operating income and impairment losses are presented as a separate line item in the statement of comprehensive income.

Financial assets in this category include FVTOCI securities, which comprises government and other debt securities.

Financial assets at fair value through profit and loss (FVTPL)

All financial assets that are not measured at amortised cost or FVTOCI will be measured at FVTPL. All financial assets that are equity instruments will be measured at FVTPL unless the NZ Banking Group irrevocably elects to present subsequent changes in the fair value in other comprehensive income.

At initial recognition, the NZ Banking Group measures a financial asset at its fair value. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Subsequent to initial recognition, they are measured at fair value. 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 operating income in the period in which it arises.

Financial assets in this category include derivative assets. Refer to (f) below for more details on derivative financial instruments.

(e) Financial liabilities

The NZ Banking Group recognises a financial liability when it becomes party to the contractual provisions of the instrument.

Financial liabilities are measured at fair value through profit or loss or at amortised cost. Financial liabilities measured at fair value through profit or loss comprise instruments held for trading (which include derivative liabilities that are not accounted for as hedging instruments) and instruments designated at fair value through profit or loss on initial recognition because doing so either eliminates or significantly reduces an accounting mismatch or because they are managed and evaluated on a fair value basis in accordance with a documented risk management strategy. All other financial liabilities are measured at amortised cost.

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

Financial liabilities measured at FVTPL are initially recognised at fair value with transaction costs being recognised immediately in the profit or loss. Subsequent to initial recognition, they are measured at fair value and any gains and losses are recognised in the profit or loss and presented net within other operating income in the period in which they arise.

Financial liabilities in this category include derivative liabilities. Refer to (f) below for more details on derivative financial instruments.

Financial liabilities at amortised cost

Financial liabilities measured at amortised cost are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other operating income together with foreign exchange gains and losses.

Financial liabilities in this category include:

- Customer deposits: include term deposits, savings/demand deposits and margin deposits.
- Payables due to central banks and other financial institutions: is defined by the nature of the counterparty and includes repurchase agreements with central banks, inter-bank borrowings from financial institutions and vostro balances.
- Debt securities on issue: include certificates of deposit and medium-term notes.
- Other financial liabilities: include accrued interest payable and accounts payable.

(f) Derivative financial instruments

Derivative instruments are contracts whose value is derived from one or more underlying variables such as a specified interest rate or an index as defined in the contract. The NZ Banking Group enters into derivative transactions including spot, forward and swap foreign exchange contracts and interest rate swaps.

Derivatives are used to manage the NZ Banking Group's own exposure to market risk and for the sale to customers as risk management products. The NZ Banking Group recognises derivatives on the statement of financial position at their fair value. Measurement of derivatives at fair value is mandatory under NZ IFRS. Fair values are obtained from market yields and discounted cash flow models as appropriate. Derivative assets are those contracts which have a positive fair value. Derivative liabilities are those contracts which have a negative fair value.

All derivatives entered into by the NZ Banking Group are classified as held for trading. The NZ Banking Group does not apply hedge accounting at this stage. Held for trading derivatives are those entered into in order to meet customers' needs and for economic hedging without applying hedge accounting. Changes in the fair value of held for trading derivatives are included in other operating income. Interest income or interest expense relating to held for trading derivatives entered into for economic hedging are included in interest income or interest expense depending on the nature of the hedged transaction. Interest income or interest expense relating to held for trading derivatives for purposes other than economic hedging are included in other operating income.

(g) Repurchase Agreements

Under repurchase agreements, collateral in the form of securities is advanced to a third party and the NZ Banking Group receives cash in exchange. The counterparty is allowed to sell or repledge the collateral advanced under repurchase agreements in the absence of default by the NZ Banking Group but has an obligation to return the collateral at the maturity of the contract. The NZ Banking Group has determined that it retains substantially all the risks and rewards of these securities and therefore the securities advanced are not derecognised and are retained within the relevant security portfolio and accounted for accordingly. The obligation to repurchase is recorded within Payables due to central banks and other financial institutions. The difference between the sale and repurchase price represents interest expense and is recognised in the profit or loss over the term of the repurchase agreement.

(h) Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired. Derecognition also occurs when the rights to receive cash flows from financial assets have been transferred together with substantially all of their risks and rewards. For those transactions where substantially all the risk and rewards are neither retained nor transferred, the NZ Banking Group derecognises assets when control is no longer retained. When control is retained, the assets are recognised to the extent of the NZ Banking Group's continuing involvement.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts recognised in the profit or loss.

(i) Impairment of financial assets

The NZ Banking Group recognises a provision for expected credit losses ("ECL") on the financial instruments that are not measured at FVTPL. The ECL determined under NZ IFRS 9 is recognised as follows:

- Financial assets measured at amortised cost: as a reduction of the carrying value of the financial asset through an offsetting provision account;
- Financial assets measured at FVTOCI: in reserves in other comprehensive income with no reduction of the carrying value of the financial asset itself; and
- Credit commitments and financial guarantees: as a provision in other liabilities.

Measurement

The NZ Banking Group calculates the provision for expected credit losses ("ECL") based on a three stage approach. ECLs are probability-weighted credit losses estimated by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Model stages

ECLs are either measured over 12 months or the expected lifetime of the financial asset, depending on credit deterioration since initial recognition according to the following three-stage approach:

Stage 1: 12 months ECL – performing. Financial assets where there has been no significant increase in credit risk since initial recognition are included in Stage 1 to calculate their provision for ECL at an amount equivalent to the ECL of the financial instrument for the next 12 months;

Stage 2: Lifetime ECL not credit impaired – under performing. Financial assets that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their provision for ECL measured at an amount equivalent to the ECL over the lifetime of the financial instrument. The indicators of a significant increase in credit risk are described below.

Stage 3: Lifetime ECL credit impaired – non-performing. Financial assets with objective evidence of impairment at the financial reporting date are included in Stage 3, with their provision for ECL measured at an amount equivalent to the ECL over the lifetime of the financial instrument. Indicators include a breach of contract with the NZ Banking Group such as a default on interest or principal payments, a borrower experiencing significant financial difficulties or observable economic conditions that correlate to defaults on a group of loans.

For purchased or originated credit-impaired financial assets, the NZ Banking Group only recognises the cumulative change in lifetime expected credit losses since initial recognition at the financial reporting date as a provision for ECL for purchased or originated credit-impaired financial assets.

Assets may move in both directions through the stages of the impairment model. Assets previously in stage 2 may move back to stage 1 if it is no longer considered that there has been a significant increase in credit risk. Similarly, assets in stage 3 may move back to stage 1 or stage 2 if they are no longer assessed to be credit-impaired.

Interest income is recognised on gross carrying amounts for financial assets in Stage 1 and Stage 2, and gross carrying amount net of the provision for ECL of financial assets in Stage 3.

Collective and individual assessment

Financial assets that are in stages 1 and 2 are assessed on a collective basis. Financial assets that are collectively assessed are grouped in pools of similar assets with similar credit risk characteristics including the type of product and the customer risk grade. Financial assets in stage 3 are assessed on an individual basis or calculated collectively for those below a specified threshold or where NZ Banking Group are still working on a recovery plan during the initial stages of being classified as credit impaired. Loans that are individually assessed and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Where exposures are assessed for ECL individually, the provision for ECL is calculated directly as the difference between the defaulted asset's gross carrying amount and the present value of expected future cash flows (including cash flows from the realisation of collateral or guarantees, where applicable) discounted at the financial asset's original effective interest rate.

Modification of contractual cash flows

A modification or re-negotiation of a contract between the NZ Banking Group and a counterparty may result in a change to the contractual cash flows. Such restructuring activities may include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. Where a modification is considered non-substantial, the existing financial asset is not derecognised and its date of initial recognition continues to be used to determine significant increase in credit risk. Where a modification is considered substantial, the existing financial asset is derecognised and a new financial asset is recognised at its fair value on the modification date, which also becomes the date of initial recognition used to determine significant increase in credit risk for this new asset.

Significant increase in credit risk

The NZ Banking Group assesses whether the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each financial reporting date. In determining what constitutes a significant increase in credit risk, the NZ Banking Group considers both qualitative and quantitative information:

- Internal credit rating: The primary indicator of significant increase in credit risk is a significant deterioration (based on relative probability of default ("PD") change thresholds) in the customer's internal credit rating since initial recognition, which reflects the deterioration in the probability of default. Customers' internal credit ratings are subject to review at least annually or more frequently when an event occurs which could affect the credit risk of the customer.

- Risk classification: The NZ Banking Group uses a five-tier risk classification, which are Normal, Special Mention, Substandard, Doubtful and Loss. A facility will be determined as having a significant increase in credit risk when it is classified into Special Mention category based on the NZ Banking Group's Risk Classification criteria, such as significant adverse change in borrower's operation or financial status, or material overdue. Facilities classified as Substandard, Doubtful or Loss will be classified as non-performing loans.
- Being listed on the watch-list.
- Contractual payments (including principal and interest) become more than 30 days past due but less than 90 days past due.

Definition of default

This definition of default is consistent with that used for internal credit risk management purposes and regulatory purposes, and has been utilised in the measurement of provision for ECL. Default occurs when there are indicators that a debtor is unlikely to fully satisfy its contractual credit obligations to the NZ Banking Group, or the exposure is 90 days past due.

Parameters of ECL measurement

The key parameters in ECL measurement include PD, loss given default ("LGD") and exposure at default ("EAD"). The models use these three credit risk parameters to determine the ECL (as well as the time value of money).

The PD refers to the probability that a debtor will default over a given time period. PD parameters used for corporate exposures are based on a credit rating migration matrix calibrated using historical data of all Bank of China Limited ("BoC")'s overseas entities. The PD parameters used for residential mortgages are calculated by vintage analysis using China domestic data, with the PD parameter used for each residential mortgage determined by its overdue status and month on books.

The LGD refers to the loss that is expected to arise in the event of a default. For corporate exposures, depending on the type of credit risk mitigation, a specific LGD parameter will be applied. For residential mortgages, the LGD parameters are calculated based on the average IRB LGD parameters of each residential mortgage in the China domestic portfolio.

The EAD is the estimated outstanding amount of credit exposure at the time of the default. EAD consists of the outstanding balance plus an assigned credit conversion factor multiplied by undrawn credit commitments. The credit conversion factor is the proportion of undrawn credit commitments ultimately utilised by debtors who end up in default.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. The key macroeconomic variables used by the NZ Banking Group are the New Zealand GDP growth rate, unemployment rate and Consumer Price Index (CPI), based from International Monetary Fund (IMF) forecasts, as well as the consideration of historical Official Cash Rate (OCR) volatility and the country group/regional non-performing loan (NPL) ratio sourced from the World Bank. A forecasted systematic risk factor is calculated based on the macroeconomic variables and the Merton model is used to adjust the PD parameter, which captures the relationship between the systematic risk factor and potential macroeconomic variables.

In addition to a base case economic scenario, the NZ Banking Group considers 3 alternative macroeconomic scenarios (upside, downside and severe downside) to ensure a sufficient representative sample of economic conditions when estimating the provision for ECL. The macroeconomic scenarios are then weighted based on the NZ Banking Group's best estimate of the relative likelihood of each scenario.

Where appropriate, adjustments will be made to modelled outcomes to reflect reasonable and supportable information not already incorporated in the models.

Write-offs

A loan is written-off, either partially or in full, when there is no reasonable expectation of recovery. Events which may indicate there is no longer a reasonable expectation of recovery include when the NZ Banking Group has received proceeds from all available security. A loan is either written-off against an individually assessed allowance, or directly to the profit or loss where no individually assessed provision is held. Where an individually assessed provision is less than the amount written-off, the excess is written-off directly to the profit or loss. While the NZ Banking Group may write-off financial assets that are still subject to enforcement activity, any recoveries of amounts previously written-off are credited directly to the profit or loss.

(j) Leasing

A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time. The NZ Banking Group's leased assets are comprised of property leases only. The NZ Banking Group recognises a right-of-use asset and a lease liability at the lease inception date.

Lease liabilities

The lease liability is initially measured at the net present value of lease payments, which include fixed payments less any lease incentives receivable, and variable lease payments that are based on a rate. Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined the incremental borrowing rate is used, being the rate that the NZ Banking Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Each lease payment is allocated between the lease liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets

Right-of-use assets are initially measured at cost comprising the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- An estimate of restoration or "make-good" costs.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Excluded leases

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise of office equipment and vehicle space.

(k) Property and equipment

Cost

All classes of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property and equipment comprises purchase price (including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates) and any directly attributable costs of bringing it to its present working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the NZ Banking Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation

Depreciation is calculated using the straight-line method to allocate the cost of the assets, net of their residual values, over their estimated useful lives as follows:

Leasehold improvements	Lesser of 5 years or the remaining lease term
Office furniture and equipment	5 years
Computer equipment	3 years
Motor vehicles	6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

Assets are reviewed at least annually to determine whether there is any indication that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount is determined and the asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The impairment loss is recognised within operating expenses in the statement of comprehensive income. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(l) Intangible assets

The NZ Banking Group's intangible assets comprise acquired computer software licences as well as certain acquired and internally generated application software.

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their expected useful lives on a straight-line basis over the period of three years.

Certain internal and external costs directly incurred in acquiring and developing software are capitalised when specific criteria are met. These intangible assets are amortised over their expected useful lives on a straight-line basis, which is a period of three years. Computer software costs that do not meet the capitalisation criteria are expensed in the period incurred.

Computer software is subject to the same impairment review process as Property and equipment.

(m) Contributed equity

Ordinary shares are classified as equity. Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs.

(n) Income tax

Income tax on the profit for the period comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted as at balance date taking advantage of all allowable deductions under current taxation legislation. It also includes any adjustment to tax payable in respect of previous financial years. Where transactions are assessed as having an uncertain tax outcome, provisions are held to reflect those tax uncertainties where appropriate. 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 is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted as at balance date.

A deferred tax asset is recognised only to the extent that it is probable (i.e. more likely than not) that a future taxable profit will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Current or deferred tax related to fair value measurement of FVTOCI securities, which is charged or credited to other comprehensive income is subsequently recognised in the profit or loss if and when the deferred gain or loss on the related asset or liability affects the profit or loss.

(o) Securitisation, fund management and other fiduciary activities

The NZ Banking Group is a manager of a managed investment scheme. The assets and liabilities of the scheme are not included in the financial statements of the NZ Banking Group as the NZ Banking Group does not have control of this scheme. Fund management fees are included in other operating income.

(p) Commitments and contingencies

Contingent liabilities are possible obligations, whose existence will be confirmed only by uncertain future events, or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised, but are disclosed, unless they are remote.

The NZ Banking Group issues commitments to extend credit, letters of credit, guarantees and other credit facilities. These financial instruments attract fees in line with market prices for similar arrangements. They are not sold or traded. Letters of credit and guarantees generally do not involve cash payments other than in the event of default. The fee pricing is set as part of the broader customer credit process and reflects the probability of default. They are disclosed as credit related commitments and contingencies at their face value.

(q) Provisions

A provision is recognised on the statement of financial position 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.

(r) Employee leave benefits

Employee benefits refer to all forms of consideration given by the NZ Banking Group in exchange for service rendered by employees or for the termination of employment.

Wages and salaries, annual leave and other employee entitlements expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. Where the liabilities are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, expected future payments are discounted using relevant market yields at the reporting date.

(s) The impact of climate change risks on the financial statements

The NZ Banking Group has identified its key climate-related risks through scenario analysis. These include transition risks stemming from investor expectations on carbon and climate issues which may impact the availability and cost of funding for the NZ Banking Group and some customers, impacts to residential mortgage collateral values arising from escalated insurance and property valuation risks due to awareness of physical climate impacts. Physical risks stemming from acute weather events also present risk to collateral particularly in relation to the NZ Banking Group's residential mortgage portfolio.

At 31 December 2023, the majority of the NZ Banking Group's credit exposures are in stage 1 (performing) so the NZ Banking group has recognised a 12-month ECL against those exposures. The NZ Banking Group believes that the reported 12-month Expected Credit Losses at 31 December 2023 are sufficient to cater for climate change impact over that 12-month period. For stage 2 and 3 customers, given the size of the exposures, the NZ Banking Group does not believe there to be a risk of a material climate change impact over the lifetime of stage 2 and 3 exposures reported at 31 December 2023.

Other than credit risk, the Bank is anticipating that there will be longer-term impacts on the following risks: market risk, liquidity risk, operational risk, reputational risk, country risk and IT risk. These longer-term impacts will become clearer in time and the Bank will continue to monitor climate change risks to customers and the Bank.

No balances in the financial statements for the year ended 31 December 2023 have been adjusted due to climate change risks. The Bank's first Climate-related Disclosures are expected to be published in April 2024.

2 INTEREST INCOME

For the year ended $000	31/12/23	31/12/22
Cash and liquid assets	46,962	16,623
Receivables due from other financial institutions	872	104
FVTOCI securities	11,739	5,723
Loans and advances	343,959	198,272
Total interest income	**403,532**	**220,722**

3 INTEREST EXPENSE

For the year ended $000	31/12/23	31/12/22
Customer deposits	46,593	17,894
Payables due to central banks and other financial institutions	261,658	125,422
Debt securities on issue	12,611	12,819
Other	5	42
Total interest expense	**320,867**	**156,177**

4 OTHER OPERATING INCOME

For the year ended $000	31/12/23	31/12/22
Lending and credit facility related fee income	414	211
Fund management fee income	2,380	2,766
Other fees and commissions[1]	343	225
Net gains on financial instruments mandatorily measured at FVTPL	3,737	1,819
Other	127	(55)
Total other operating income	**7,001**	**4,966**

[1]Other fees and commissions includes account management fees and transaction fees.

5 OPERATING EXPENSES

For the year ended $000	31/12/23	31/12/22
Professional fees[1]	790	914
Lease and rent expenses	174	166
Depreciation and amortisation expense	1,647	1,762
Promotion and marketing expenses	310	182
Salaries and other staff expenses	21,670	18,354
Other expenses	4,507	3,465
Total operating expenses	**29,098**	**24,843**

[1] The Professional fees includes Auditors' remuneration.

Auditor's Remuneration

For the year ended $000	31/12/23	31/12/22
Audit and review of financial statements[1]	315	315
Other services[2]	-	5
Total	**315**	**320**

[1] The fees for audit and review of financial statements include the limited assurance engagements on compliance with the information required on credit and market risk exposures and capital adequacy included within the relevant Disclosure Statements and the half-year review over the interim financial statements and the information required on capital adequacy and regulatory liquidity requirements included within BoC NZ's relevant Disclosure Statements and the half-year review over interim financial statements.

[2] No other services provided by the auditor for the year ended 31 December 2023 (year ended 31 December 2022: provision of general environmental, social and governance (ESG) training).

6 IMPAIRMENT (CHARGES)/BENEFITS

For the year ended 31 December 2023 $000	Other financial assets[1]	Residential mortgages	Corporate exposures	Credit related commitments and contingencies	Total
Movement in collective provision	23	(5,561)	(11,569)	(1,818)	(18,925)
Movement in individually assessed provision	-	(318)	3,810	-	3,492
Bad debts written-off directly to the profit or loss	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Total impairment (charges)/benefits	**23**	**(5,879)**	**(7,759)**	**(1,818)**	**(15,433)**

For the year ended 31 December 2022 $000	Other financial assets[1]	Residential mortgages	Corporate exposures	Credit related commitments and contingencies	Total
Movement in collective provision	(58)	(5,979)	(1,379)	859	(6,557)
Movement in individually assessed provision	-	-	161	-	161
Bad debts written-off directly to the profit or loss	-	-	-	-	-
Bad debts recovered	-	-	-	-	-
Total impairment (charges)/benefits	**(58)**	**(5,979)**	**(1,218)**	**859**	**(6,396)**

[1] Other financial assets includes impairment (charges)/benefits on Receivables due from other financial institutions.

7 INCOME TAX

For the year ended $000	31/12/23	31/12/22
Income tax expense		
Current tax:		
Current year	17,507	12,883
Prior year adjustments	110	-
Deferred tax:		
Current year	(4,855)	(2,157)
Prior year adjustments	(108)	-
Total income tax expense	**12,654**	**10,726**
Numerical reconciliation of income tax expense to prima facie tax payable:		
Total profit before income tax	45,135	38,272
Tax calculated at tax rate of 28%	12,638	10,717
Prior year adjustments	2	-
Expenses not deductible for tax purposes	14	9
Total income tax expense	**12,654**	**10,726**
Effective tax rate	28.0%	28.0%
Income tax expense/(credit) charged directly to other comprehensive income		
Current tax	1,043	(1,888)
Total income tax expense/(credit) charged directly to other comprehensive income	**1,043**	**(1,888)**

Deferred Tax Assets

As at $000	31/12/23	31/12/22
Balance at beginning of the year	8,635	6,478
Recognised in profit and loss	4,963	2,157
Balance at end of the year	**13,598**	**8,635**
Deferred tax relates to:		
Depreciation	485	440
Leases	217	211
Provision for expected credit losses	11,245	6,626
Provision for employee entitlements	1,651	1,358
Total deferred tax assets	**13,598**	**8,635**
Deferred tax recognised in profit and loss:		
Depreciation	44	88
Leases	6	6
Provision for expected credit losses	4,620	1,808
Provision for employee entitlements	293	255
Total deferred tax recognised in profit and loss	**4,963**	**2,157**

Imputation Credit Account

The amount of imputation credits available to the NZ Banking Group as at 31 December 2023 was $39,970,000 (31 December 2022: $36,310,000).

8 CASH AND LIQUID ASSETS

As at $000	31/12/23	31/12/22
Cash and balances with central banks[1]	1,081,777	938,121
Current deposits with other financial institutions	11,137	61,745
Transaction balances with related entities	22,655	36,569
Total cash and liquid assets	**1,115,569**	**1,036,435**

[1] Cash collateral paid of $2,008,000 is included within cash and balances with central banks (31 December 2022: $2,008,000).

Reconciliation from net profit after tax to the net cash flows from operating activities

For the year ended $000	31/12/23	31/12/22
Profit after income tax	32,481	27,546
Adjustments:		
Impairment charges/(benefits)	15,433	6,396
Movement in fair value of derivative financial instruments	3	(68)
Movement in accrued interest receivable	(14,325)	(8,590)
Movement in accrued interest payable	55,051	37,514
Movement in current and deferred tax	(3,218)	(5,076)
Depreciation and amortisation expense	1,647	1,762
Other non-cash items	(25,575)	(21,530)
Cash flows from operating activities before changes in operating assets and liabilities	**61,497**	**37,954**
Net change in cash collateral paid included in cash and liquid assets	-	(2,008)
Net change in receivables due from other financial institutions	25,000	(75,000)
Net change in FVTOCI securities	6,862	(202,562)
Net change in loans and advances	(878,212)	(223,413)
Net change in other assets	(335)	(758)
Net change in customer deposits	(86,881)	167,408
Net change in payables due to central banks and other financial institutions	883,838	777,307
Net change in provisions and other liabilities	1,150	637
Net changes in operating assets and liabilities	**(48,578)**	**441,611**
Net cash flows from operating activities	**12,919**	**479,565**

Changes in liabilities arising from financing activities

$000	Debt securities on issue (refer note 19)	Lease liabilities	Total
Balance as at 1 January 2023	169,883	1,751	171,634
Changes arising from financing cash flows	110,171	(939)	109,232
Other changes	3,592	29	3,621
Balance as at 31 December 2023	**283,646**	**841**	**284,487**
Balance as at 1 January 2022	369,878	2,663	372,541
Changes arising from financing cash flows	(200,227)	(912)	(201,139)
Other changes	232	-	232
Balance as at 31 December 2022	**169,883**	**1,751**	**171,634**

9 RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS

As at $000	31/12/23	31/12/22
Due from other financial institutions	50,000	75,000
Provision for expected credit losses	(20)	(58)
Total receivables due from other financial institutions	**49,980**	**74,942**

10 DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2023 $000	Notional principal amount	Fair value assets	Fair value liabilities
Exchange rate contracts			
Spot and forward contracts	11,426	7	6
Swaps	-	-	-
Total exchange rate contracts	**11,426**	**7**	**6**
Interest rate contracts			
Swaps	1,373,768	11,930	11,930
Total interest rate contracts	**1,373,768**	**11,930**	**11,930**
Total derivative financial instruments	**1,385,194**	**11,937**	**11,936**

As at 31 December 2022 $000	Notional principal amount	Fair value assets	Fair value liabilities
Exchange rate contracts			
Spot and forward contracts	3,032	52	47
Swaps	-	-	-
Total exchange rate contracts	**3,032**	**52**	**47**
Interest rate contracts			
Swaps	618,282	13,028	13,028
Total interest rate contracts	**618,282**	**13,028**	**13,028**
Total derivative financial instruments	**621,314**	**13,080**	**13,075**

11 FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME SECURITIES

As at $000	31/12/23	31/12/22
Government securities	263,161	289,237
Other debt securities	30,366	-
Total FVTOCI securities	**293,527**	**289,237**

12 LOANS AND ADVANCES

As at $000	31/12/23	31/12/22
Gross loans and advances:		
Residential mortgages	2,112,088	1,846,318
Corporate exposures	3,550,867	2,922,048
Subtotal	**5,662,955**	**4,768,366**
Unearned income	(7,621)	(8,260)
Capitalised brokerage and other origination costs	15,560	10,452
Gross loans and advances	**5,670,894**	**4,770,558**
Provision for expected credit losses:		
Collective provision	(35,470)	(19,405)
Individually assessed provision	(959)	(3,144)
Total provision for expected credit losses	**(36,429)**	**(22,549)**
Net loans and advances	**5,634,465**	**4,748,009**

13 ASSET QUALITY

Information is presented separately for the following categories of loans and advances, as prescribed by the Order:

- Residential mortgages
- Corporate exposures
- Other exposures

Information on total loans and advances is an aggregate of the above asset categorisations. Information is not presented in this note in respect of other financial assets as the related provision for ECL is not material to the NZ Banking Group.

a) Credit quality information

As at 31 December 2023 $000	Residential mortgages	Corporate exposures	Other exposures	Total
Neither past due nor impaired	**1,914,807**	**3,483,729**	**-**	**5,398,536**
Past due but not impaired				
Less than 30 days past due	194,967	66,504	-	261,471
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 assets	**194,967**	**66,504**	**-**	**261,471**
Individually impaired assets				
Balance at beginning of the period	-	5,144	-	5,144
Additions	2,314	-	-	2,314
Amounts written off	-	-	-	-
Deletions/recoveries	-	(4,510)	-	(4,510)
Other movements	-	-	-	-
Balance at end of the period	**2,314**	**634**	**-**	**2,948**
Subtotal	**2,112,088**	**3,550,867**	**-**	**5,662,955**
Unearned income	-	(7,621)	-	(7,621)
Capitalised brokerage and other origination costs	15,560	-	-	15,560
Total gross loans and advances	**2,127,648**	**3,543,246**	**-**	**5,670,894**
Individually assessed provisions				
Balance at beginning of the period	-	3,144	-	3,144
Change due to transfers between ECL stages	7	1,300	-	1,307
Charge/(credit) to the statement of comprehensive income	318	(3,810)	-	(3,492)
Amounts written off	-	-	-	-
Recoveries	-	-	-	-
Reversal of previous impairment losses	-	-	-	-
Other movements	-	-	-	-
Balance at end of the period	**325**	**634**	**-**	**959**
Collectively assessed provisions				
Balance at beginning of the period	6,867	12,538	-	19,405
Change due to transfers between ECL stages	(7)	(1,300)	-	(1,307)
Charge/(credit) to the statement of comprehensive income	5,561	11,569	-	17,130
Amounts written off	-	-	-	-
Recoveries	-	-	-	-
Reversal of previous impairment losses	-	-	-	-
Other movements	-	242	-	242
Balance at end of the period	**12,421**	**23,049**	**-**	**35,470**
Total provision for expected credit losses	**12,746**	**23,683**	**-**	**36,429**
Total net loans and advances	**2,114,902**	**3,519,563**	**-**	**5,634,465**

As at 31 December 2022 $000	Residential mortgages	Corporate exposures	Other exposures	Total
Neither past due nor impaired	**1,783,627**	**2,872,231**	**-**	**4,655,858**
Past due but not impaired				
Less than 30 days past due	62,691	44,673	-	107,364
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 assets	**62,691**	**44,673**	**-**	**107,364**
Individually impaired assets				
Balance at beginning of the period	-	5,452	-	5,452
Additions	-	2,150	-	2,150
Amounts written off	-	-	-	-
Deletions/recoveries	-	(2,458)	-	(2,458)
Balance at end of the period	**-**	**5,144**	**-**	**5,144**
Subtotal	**1,846,318**	**2,922,048**	**-**	**4,768,366**
Unearned income	-	(8,260)	-	(8,260)
Capitalised brokerage and other origination costs	10,452	-	-	10,452
Total gross loans and advances	**1,856,770**	**2,913,788**	**-**	**4,770,558**
Individually assessed provisions				
Balance at beginning of the period	-	3,267	-	3,267
Change due to transfers between ECL stages	-	-	-	-
Charge/(credit) to the statement of comprehensive income	-	(161)	-	(161)
Amounts written off	-	-	-	-
Recoveries	-	-	-	-
Reversal of previous impairment losses	-	-	-	-
Other movements	-	38	-	38
Balance at end of the period	**-**	**3,144**	**-**	**3,144**
Collectively assessed provisions				
Balance at beginning of the period	888	11,126	-	12,014
Change due to transfers between ECL stages	-	-	-	-
Charge/(credit) to the statement of comprehensive income	5,979	1,379	-	7,358
Amounts written off	-	-	-	-
Recoveries	-	-	-	-
Reversal of previous impairment losses	-	-	-	-
Other movements	-	33	-	33
Balance at end of the period	**6,867**	**12,538**	**-**	**19,405**
Total provision for expected credit losses	**6,867**	**15,682**	**-**	**22,549**
Total net loans and advances	**1,849,903**	**2,898,106**	**-**	**4,748,009**

The NZ Banking Group does not have other assets under administration as at 31 December 2023 (31 December 2022: $500,000 to counterparties for whom drawn balances are classified as individually impaired).

b) Movement in loans and advances

For the year ended 31 December 2023 $000	Stage 1 Collective provision 12 months ECL	Stage 2 Collective provision lifetime ECL not credit impaired	Stage 3 Collective provision lifetime ECL credit impaired	Stage 3 Individual provision lifetime ECL credit impaired	Total
Residential mortgages					
Gross balance at beginning of period	1,842,602	3,716	-	-	1,846,318
Change due to transfers between ECL stages	(9,955)	7,641	-	2,314	-
Additions	499,502	-	-	-	499,502
Deletions	(233,484)	(248)	-	-	(233,732)
Amounts written off	-	-	-	-	-
Gross balance as at end of period	**2,098,665**	**11,109**	**-**	**2,314**	**2,112,088**
Corporate exposures					
Gross balance at beginning of period	2,871,390	45,514	2,000	3,144	2,922,048
Change due to transfers between ECL stages	-	-	(2,000)	2,000	-
Additions	1,852,341	6,177	-	-	1,858,518
Deletions	(1,207,859)	(17,330)	-	(4,510)	(1,229,699)
Amounts written off	-	-	-	-	-
Gross balance as at end of period	**3,515,872**	**34,361**	**-**	**634**	**3,550,867**
Other exposures					
Gross balance at beginning of period	-	-	-	-	-
Change due to transfers between ECL stages	-	-	-	-	-
Additions	-	-	-	-	-
Deletions	-	-	-	-	-
Amounts written off	-	-	-	-	-
Gross balance as at end of period	**-**	**-**	**-**	**-**	**-**
Total					
Gross balance at beginning of period	4,713,992	49,230	2,000	3,144	4,768,366
Change due to transfers between ECL stages	(9,955)	7,641	(2,000)	4,314	-
Additions	2,351,843	6,177	-	-	2,358,020
Deletions	(1,441,343)	(17,578)	-	(4,510)	(1,463,431)
Amounts written off	-	-	-	-	-
Subtotal	**5,614,537**	**45,470**	**-**	**2,948**	**5,662,955**
Unearned income					(7,621)
Capitalised brokerage and other origination costs					15,560
Gross balance as at end of period					**5,670,894**

For the year ended 31 December 2022 $000	Stage 1 Collective provision 12 months ECL	Stage 2 Collective provision lifetime ECL not credit impaired	Stage 3 Collective provision lifetime ECL credit impaired	Stage 3 Individual provision lifetime ECL credit impaired	Total
Residential mortgages					
Gross balance at beginning of period	1,761,634	3,986	-	-	1,765,620
Change due to transfers between ECL stages	-	-	-	-	-
Additions	266,198	-	-	-	266,198
Deletions	(185,230)	(270)	-	-	(185,500)
Amounts written off	-	-	-	-	-
Gross balance as at end of period	**1,842,602**	**3,716**	**-**	**-**	**1,846,318**
Corporate exposures					
Gross balance at beginning of period	2,747,014	2,300	-	5,452	2,754,766
Change due to transfers between ECL stages	(44,126)	41,976	2,150	-	-
Additions	2,049,272	1,388	-	-	2,050,660
Deletions	(1,880,770)	(150)	(150)	(2,308)	(1,883,378)
Amounts written off	-	-	-	-	-
Gross balance as at end of period	**2,871,390**	**45,514**	**2,000**	**3,144**	**2,922,048**
Other exposures					
Gross balance at beginning of period	-	-	-	-	-
Change due to transfers between ECL stages	-	-	-	-	-
Additions	-	-	-	-	-
Deletions	-	-	-	-	-
Amounts written off	-	-	-	-	-
Gross balance as at end of period	**-**	**-**	**-**	**-**	**-**
Total					
Gross balance at beginning of period	4,508,648	6,286	-	5,452	4,520,386
Change due to transfers between ECL stages	(44,126)	41,976	2,150	-	-
Additions	2,315,470	1,388	-	-	2,316,858
Deletions	(2,066,000)	(420)	(150)	(2,308)	(2,068,878)
Amounts written off	-	-	-	-	-
Subtotal	**4,713,992**	**49,230**	**2,000**	**3,144**	**4,768,366**
Unearned income					(8,260)
Capitalised brokerage and other origination costs					10,452
Gross balance as at end of period					**4,770,558**

c) Movement in provision for expected credit losses

For the year ended 31 December 2023 $000	Collective provision 12 months ECL	Collective provision lifetime ECL not credit impaired	Collective provision lifetime ECL credit impaired	Individual provision lifetime ECL credit impaired	Total
Residential mortgages					
Balance at beginning of period	6,723	144	-	-	6,867
Changes to the opening balance due to transfer between ECL stages:					-
Transferred to collective provision 12 months ECL	-	-	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	(24)	24	-	-	-
Transferred to collective provision lifetime ECL credit impaired	-	-	-	-	-
Transferred to individual provision lifetime ECL credit impaired	(7)	-	-	7	-
Charge/(credit) to profit or loss due to new and increased provisions (net of releases)	4,344	1,217	-	318	5,879
Amounts written off	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Other movements	-	-	-	-	-
Total provision for residential mortgages	**11,036**	**1,385**	**-**	**325**	**12,746**
Corporate exposures					
Balance at beginning of period	9,300	1,938	1,300	3,144	15,682
Changes to the opening balance due to transfer between ECL stages:					
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 individual provision lifetime ECL credit impaired	-	-	(1,300)	1,300	-
Charge/(credit) to profit or loss due to new and increased provisions (net of releases)	10,133	1,436	-	(3,810)	7,759
Amounts written off	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Other movements	242	-	-	-	242
Total provision for corporate exposures	**19,675**	**3,374**	**-**	**634**	**23,683**
Off-balance sheet credit related commitments and contingencies					
Balance at beginning of period	991	69	-	-	1,060
Changes to the opening balance due to transfer between ECL stages:					
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 individual provision lifetime ECL credit impaired	-	-	-	-	-
Charge/(credit) to profit or loss due to new and increased provisions (net of releases)	1,733	85	-	-	1,818
Amounts written off	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Other movements	-	-	-	-	-
Total provision for off-balance sheet credit related commitments and contingencies[1]	**2,724**	**154**	**-**	**-**	**2,878**
Total					
Balance at beginning of period	17,014	2,151	1,300	3,144	23,609
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12 months ECL	-	-	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	(24)	24	-	-	-
Transferred to collective provision lifetime ECL credit impaired	-	-	-	-	-
Transferred to individual provision lifetime ECL credit impaired	(7)	-	(1,300)	1,307	-
Charge/(credit) to profit or loss due to new and increased provisions (net of releases)	16,210	2,738	-	(3,492)	15,456
Amounts written off	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Other movements	242	-	-	-	242
Total provision for expected credit losses	**33,435**	**4,913**	**-**	**959**	**39,307**

For the year ended 31 December 2022 $000	Collective provision 12 months ECL	Collective provision lifetime ECL not credit impaired	Collective provision lifetime ECL credit impaired	Individual provision lifetime ECL credit impaired	Total
Residential mortgages					
Balance at beginning of period	851	37	-	-	888
Changes to the opening balance due to transfer between ECL stages:					
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 individual provision lifetime ECL credit impaired	-	-	-	-	-
Charge/(credit) to profit or loss due to new and increased provisions (net of releases)	5,872	107	-	-	5,979
Amounts written off	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Other movements	-	-	-	-	-
Total provision for residential mortgages	**6,723**	**144**	**-**	**-**	**6,867**
Corporate exposures					
Balance at beginning of period	10,810	316	-	3,267	14,393
Changes to the opening balance due to transfer between ECL stages:					
Transferred to collective provision 12 months ECL	-	-	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	(234)	234	-	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(316)	316	-	-
Transferred to individual provision lifetime ECL credit impaired	-	-	-	-	-
Charge/(credit) to profit or loss due to new and increased provisions (net of releases)	(1,309)	1,704	984	(161)	1,218
Amounts written off	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Other movements	33	-	-	38	71
Total provision for corporate exposures	**9,300**	**1,938**	**1,300**	**3,144**	**15,682**
Off-balance sheet credit related commitments and contingencies					
Balance at beginning of period	1,929	-	-	-	1,929
Changes to the opening balance due to transfer between ECL stages:					
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 individual provision lifetime ECL credit impaired	-	-	-	-	-
Charge/(credit) to profit or loss due to new and increased provisions (net of releases)	(928)	69	-	-	(859)
Amounts written off	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Other movements	(10)	-	-	-	(10)
Total provision for off-balance sheet credit related commitments and contingencies[1]	**991**	**69**	**-**	**-**	**1,060**
Total					
Balance at beginning of period	13,590	353	-	3,267	17,210
Changes to the opening balance due to transfer between ECL stages:	-	-	-	-	-
Transferred to collective provision 12 months ECL	-	-	-	-	-
Transferred to collective provision lifetime ECL not credit impaired	(234)	234	-	-	-
Transferred to collective provision lifetime ECL credit impaired	-	(316)	316	-	-
Transferred to individual provision lifetime ECL credit impaired	-	-	-	-	-
Charge/(credit) to profit or loss due to new and increased provisions (net of releases)	3,635	1,880	984	(161)	6,338
Amounts written off	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Other movements	23	-	-	38	61
Total provision for expected credit losses	**17,014**	**2,151**	**1,300**	**3,144**	**23,609**

[1] The total provision for off-balance sheet credit related commitments and contingencies is presented in other liabilities.

The above movements in the provision for expected credit losses table relate to loans and advances and credit related commitments and contingencies. Information is not presented in the table above in respect of other financial assets as the related provision for ECL is not material to the NZ Banking Group.

d) Explanation of movements in provision for expected credit losses

Key judgements and estimates

The following table summarises the key judgements and assumptions in relation to estimating the collectively assessed ECL and highlights significant changes during the current year. The judgements and associated assumptions have been made within the context of the current economic conditions and reflects historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances :

- Domestically, interest rates have risen to a 15-year peak to slow rising inflation; the increase in climate-related events, the negative quarterly GDP growth in December and the rising unemployment rate during the year also increase the uncertainty of domestic economic recovery.

- Internationally, increased geopolitical tensions around the world and the recent global supply chain issues may also bring New Zealand unpredicted impacts.

The NZ Banking Group's ECL estimates are inherently uncertain, hence, actual results may materially differ from these estimates.

Judgement/Assumption	Considerations for the year ended 31 December 2023
Determining when a significant increase in credit risk (SICR) has occurred	• There have been no changes to the approach in determining SICR in the current year.
Forward-looking macroeconomic variables	• There have been no changes to the approach of using the macroeconomic economic variables for the determination of the forward-looking adjustment to the probabilities of default (PDs). The latest forecasts were refreshed in October 2023. • The economic variables that the NZ Banking Group uses are including New Zealand GDP growth rate, unemployment rate and Consumer Price Index (CPI) based on International Monetary Fund (IMF) forecasts, as well as the consideration of historical Official Cash Rate (OCR) volatility and a country group/regional non-performing loan ratio based on historical observed value sourced from the World Bank.
Measuring ECL	• Due to the relatively short operating history of the NZ Banking Group and limited data on credit events, the NZ Banking Group used assigned PDs calibrated using historical data of Overseas Banking Group as the best estimate for the base PD to derive a forward-looking PD matrix based on New Zealand forward-looking macroeconomic variables. • The forward-looking PDs were calculated based on multiple macroeconomic scenario approach consisting of additional forward-looking macroeconomic variables described above. • There were no changes to the Loss Given Default (LGD), Exposure at Default (EAD) and PD methodology. <u>Residential mortgages:</u> • The combined effect of current economic conditions, updated forward-looking macroeconomic variables, and the natural portfolio growth has resulted in a \$5.88 million uplift in the final provision for residential mortgages through the year, including an increase of \$4.31 million in stage 1 ECL, \$1.24 million in stage 2 ECL and \$0.33 million in stage 3 ECL. <u>Corporate:</u> • Given the considerable uncertainty prevailing across the region and globe, there is an overall uplift on ECL for stage 1 and stage 2 customers, resulting in \$10.38 million and \$1.44 million increases in ECL respectively. • There were several repayments from the impaired loans during the year, resulting in a significant reduction in stage 3 ECL.

The NZ Banking Group's judgement	The NZ Banking Group has reviewed the modelled ECL outcome and the key movements over the year. The NZ Banking Group also performed an independent local assessment on customer's serviceability, dynamic collateral value, and unemployment based on different scenarios. The NZ Banking Group has also considered the following factors as part of their consideration on the reasonableness of the provision for ECL. <u>Residential mortgages:</u> ● Although most customers have diversified sources of income, the rising interest rate and living costs led to them having higher financing costs and reduced the net disposable income. ● Although the origination loan-to-valuation ratio (LVR) was capped at 80% by policy, a portion of the portfolio which was originated at the market peak back in 2021/2022 may have experienced reduction in value. ● As the last batch of customers go through the repricing journey, and the higher interest rates remain for longer, the NZ Banking Group expects higher delinquency rates over the coming 12 months, and associated costs of collection will further increase. <u>Corporate exposures:</u> ● The increase in the provision for ECL in relation to corporate exposures is primarily driven by the deteriorating economic environment, impacting consumer spending and market demands for goods and services. ● The NZ Banking Group has observed an increase of pressure on meeting the original interest coverage ratio (ICR) requirements from customers, resulting in credit reviews and/or change of conditions for some transactions. ● The continuing high interest rates have increased financing cost for corporates, leading to weaker cash flow positions and higher risk of default. ● The NZ Banking Group's corporate ECL also takes into account the forecasts of GDP growth, unemployment, inflation for the next 12 months, and the increase in provision of ECL of stage 1 and stage 2 customers reflects the Bank's expectation on the ECL provision for the next 12 months. The NZ Banking Group agrees to take a reasonable and supportable approach on ECL and is comfortable with the level of ECLs that have been raised for residential mortgages and corporate exposures as at 31 December 2023.

Macroeconomic variable forecast assumption

The key macroeconomic variables and their forecasts used in the base case at 31 December 2023 are set out below:

	2023	2024	2025	2026	2027	2028
Unemployment Rate %	3.8	4.9	4.5	4.5	4.5	4.4
GDP Growth Rate %	1.1	1.0	2.1	2.2	2.4	2.4
CPI (index)	4.9	2.7	2.5	2.3	2.1	2.0

Relative to the previous reporting period, the current unemployment rate and its near-term projections worsened from previous forecasts, while the near-term GDP Growth Rates have slightly improved, although the mid-long term projections have slightly lowered. Inflation remains high as evidenced by the CPI index. These factors may have eased slightly in the near-term when compared with the previous reporting period, but they are still signalling a recessionary period ahead.

Historical OCR volatility and an asset quality indicator are also used to derive the forward-looking PD matrix. The asset quality indicator is the average non-performing loan ratio from a developed country group[1], including New Zealand and Australia, reflecting the source of the NZ Banking Group's customers.

[1] This country group includes New Zealand, Australia, Canada, France, Germany, Japan, Korea, Luxemburg, Singapore, UK and Cayman Islands.

Probability weightings

The probability weightings for each macroeconomic scenario are derived based on the global GDP growth rate, on the assumption that New Zealand's economic environment is highly correlated with the global economy. The same four macroeconomic scenarios and the corresponding probability weightings apply across all portfolios.

Given the considerable uncertain outlook prevailing in the current economic landscape, the estimation of expected credit losses has been approached as a prudent assessment encompassing a spectrum of potential outcomes. To this end, the NZ Banking Group has opted to employ a mixed approach, consisting of a 30% probability assigned to a baseline scenario, a 25% probability assigned to both upside and downside scenario, and 20% to severe downside scenario, in determining its Expected Credit Loss (ECL) calculation. The selection of these scenario probabilities was informed by the NZ Banking Group's view of the range of potential outcomes based on the latest economic baseline, which was updated utilising financial and economic forecasts as of December 2023, while also closely aligned with internal risk measures.

The following table summarises the weightings, which have remained unchanged since 2022, that the NZ Banking Group has applied to each scenario in determining the provision for ECL:

As at	31/12/23
Base case	30%
Upside	25%
Downside	25%
Severe downside	20%

To derive the weighting for each scenario, the NZ Banking Group uses the global GDP growth rate as the core benchmark and applies the deviation of the forecast value under each scenario from the baseline forecast and the linear interpolation method to calculate the score of forecast value under each scenario.

For the upside, downside and severe downside scenarios, the NZ Banking Group applied +0.5, -0.5 and -1 standard deviation on top of the baseline forecast, respectively, based on the historical global GDP growth rate distribution sourced from the IMF, to construct macroeconomic forecasts for non-baseline scenarios and determine the weighting for each scenario by proportion of the score of each scenario with expert judgement applied.

Sensitivity analysis

The following table details the increase/(decrease) in the NZ Banking Group's provision for ECL in relation to loans and advances and credit related commitments and contingencies, assuming a 100% weighting on each scenario and holding all other assumptions constant. Information is not presented in the table below in respect of other financial assets as the related provision for ECL is not material to the NZ Banking Group.

As at 30 December 2023 $000	100% weighting	Difference to the reported probability-weighted ECL
Base case	37,201	(2,106)
Upside	30,687	(8,620)
Downside	43,192	3,885
Severe downside	48,386	9,079
Reported probability weighted ECL	**39,307**	**-**

Movements in provision for ECL

Movement of collective provision

For the financial year ended 31 December 2023, the NZ Banking Group had a net increase of $17.88 million in the total collective provision, as detailed below:

- Collective provision 12-months ECL (Stage 1) increased by $16.42 million during the year:
    - an increase of $4.31 million from residential mortgages, including $2.67 million predominantly due to the combined effect of current economic conditions, updated forward-looking macroeconomic variables, updated long-run PDs from Overseas Banking Group, the implementation of an enhanced modelled multiple macroeconomic scenario approach and the remaining $1.64 million was due to the growth of residential mortgages' portfolio;

  - an increase of $10.38 million predominantly due to the net growth of approximately $644 million of corporate loans and advances by the NZ Banking Group; and
  - an increase of $1.73 million predominantly due to the net increase in off-balance sheet credit related commitments and contingencies.
- Collective provision lifetime ECL not credit impaired (Stage 2) increased by $2.76 million, predominantly due to repayment arrears and the extension of the loan term for existing stage 2 customers.
- Collective provision lifetime ECL credit impaired (Stage 3) decreased by $1.30 million to nil.

Movement of individually assessed provision

Individually assessed provision lifetime ECL credit impaired (Stage 3) decreased by $2.19 million predominantly due to a provision movement from the recoveries of non-performing loans.

As at 31 December 2023, the impaired loans in this category have a carrying value of $2.95 million (31 December 2022: $3.14 million), gross of provision for expected credit losses. The loans were impaired on the basis of objective evidence indicating the recoverable amount of the loans is less than the carrying value. The individually assessed provision on the loans reflects the NZ Banking Group's best estimate of the expected credit loss as at 31 December 2023.

14 PROPERTY AND EQUIPMENT

As at 31 December 2023 $000	**Office furniture, equipment and motor vehicles**	**Leasehold improvements**	**Total**
Carrying value as at 1 January 2023	529	395	924
Additions	244	8	252
Depreciation	(279)	(337)	(616)
Carrying value as at 31 December 2023	**494**	**66**	**560**
Represented by			
Cost	2,879	2,708	5,587
Accumulated depreciation	(2,385)	(2,642)	(5,027)
Carrying value as at 31 December 2023	**494**	**66**	**560**

As at 31 December 2022 $000	**Office furniture, equipment and motor vehicles**	**Leasehold improvements**	**Total**
Carrying value as at 1 January 2022	672	776	1,448
Additions	193	10	203
Disposals	(4)	-	(4)
Depreciation	(332)	(391)	(723)
Carrying value as at 31 December 2022	**529**	**395**	**924**
Represented by			
Cost	2,756	2,700	5,456
Accumulated depreciation	(2,227)	(2,305)	(4,532)
Carrying value as at 31 December 2022	**529**	**395**	**924**

15 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Amounts recognised in the statement of financial position

As at $000	31/12/23
Assets	
As at 1 January 2023	1,702
Additions	29
Disposals	-
Depreciation	(960)
As at 31 December 2023	771
Liabilities	
Lease liabilities	841

As at $000	31/12/22
Assets	
As at 1 January 2022	2,653
Additions	-
Disposals	-
Depreciation	(951)
As at 31 December 2022	1,702
Liabilities	
Lease liabilities	1,751

Amounts recognised in the statement of comprehensive income

For the year ended $000	31/12/23
Depreciation	
Depreciation of right-of-use assets	960
Interest expense	
Interest expense on lease liabilities	27

For the year ended $000	31/12/22
Depreciation	
Depreciation of right-of-use assets	951
Interest expense	
Interest expense on lease liabilities	45

Amounts recognised in the statement of cash flows

For the year ended $000	31/12/23
The total cash outflow for leases	(966)

For the year ended $000	31/12/22
The total cash outflow for leases	(957)

16 OTHER ASSETS

As at $000	31/12/23	31/12/22
Accrued interest receivable on loans and advances	31,683	17,363
Accrued interest receivable on receivables due from other financial institutions	42	36
Accrued fees receivable	2,183	2,651
Prepaid expenses	1,148	495
Total other assets	**35,056**	**20,545**

17 PAYABLES DUE TO CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

As at $000	31/12/23	31/12/22
Due to other financial institutions	1,381,898	1,268,416
Due to related entities	3,983,097	3,287,742
Securities sold under agreements to repurchase from central banks [1]	168,000	93,000
Total payables due to central banks and other financial institutions	**5,532,995**	**4,649,158**

[1] Included in securities sold under agreements to repurchase from central banks was $93 million (31 December 2022: $93 million) relating to the Funding for Lending Programme. Refer to Note 23 for further information.

18 CUSTOMER DEPOSITS

As at $000	31/12/23	31/12/22
Term deposits	591,291	766,105
Savings/demand deposits	279,968	199,992
Margin deposits	12,935	4,978
Total customer deposits	**884,194**	**971,075**

The Branch held no retail deposits as at 31 December 2023 (31 December 2022: $nil).

19 DEBT SECURITIES ON ISSUE

As at $000	31/12/23	31/12/22
Certificates of deposit	83,803	19,904
Medium-term notes	199,843	149,979
Total debt securities issued	**283,646**	**169,883**
Movement in debt securities issued		
Balance at beginning of the year	169,883	369,878
Issuance during the year	420,171	19,773
Repayments during the year	(310,000)	(220,000)
Other movements	3,592	232
Balance at end of the year	**283,646**	**169,883**

Debt securities issued by currency

As at $000	31/12/23	31/12/22
New Zealand Dollar	283,646	169,883
Total debt securities issued by currency	**283,646**	**169,883**

20 PROVISIONS AND OTHER LIABILITIES

As at $000	31/12/23	31/12/22
Other liabilities		
Accrued interest payable on customer deposits	10,817	7,019
Accrued interest payable on payables due to central banks and other financial institutions	92,922	42,181
Accrued interest payable on debt securities on issue	1,738	1,226
Payables and accrued expenses	1,191	715
Other	13	6
Provisions		
Employee entitlements	5,517	4,849
Lease restoration obligations	703	703
Provision for credit commitments and financial guarantees	2,878	1,060
Total provisions and other liabilities	**115,779**	**57,759**

For the year ended 31 December 2023 $000	Employee entitlements	Lease restoration obligations	Provision for credit commitments and financial guarantees
Provisions			
Balance at beginning of the year	4,849	703	1,060
Additional provisions during the year	3,729	-	1,818
Amounts utilised during the year	(3,032)	-	-
Release of provisions during the year	(29)	-	-
Balance at end of the year	**5,517**	**703**	**2,878**

21 CONTRIBUTED EQUITY AND HEAD OFFICE ACCOUNT

As at	31/12/23 $000	31/12/23 Number of shares
Ordinary shares		
Balance at beginning of the period	223,307	223,307,266
Balance at end of the year	**223,307**	**223,307,266**

As at	31/12/22 $000	31/12/22 Number of shares
Ordinary shares		
Balance at beginning of the year	223,307	223,307,266
Balance at end of the year	**223,307**	**223,307,266**

As at	31/12/23 $000	31/12/22 $000
Head office account		
Balance at the beginning of the period	36,234	16,043
Net profit attributable to shareholders	14,776	20,191
Branch profit repatriated	(35,410)	-
Balance at end of the year	**15,600**	**36,234**

The authorised ordinary share capital of BoC NZ comprises 223,307,266 shares, which do not have a par value. On 16 June 2014, BoC NZ issued 100 ordinary shares without consideration when BoC NZ was first incorporated. On 30 October 2014 and 10 April 2017, BoC NZ further issued 63,307,166 ordinary shares and 160,000,000 ordinary shares to BoC respectively, being its ultimate parent bank for $1.00 per share, which have been fully paid.

Each of the 223,307,266 ordinary shares entitles the shareholder to one vote at meetings of shareholders and to share equally in dividends authorised in respect of the ordinary shares and any proceeds available to ordinary shareholders on winding up of BoC NZ.

On 28 December 2023, the BoC NZ declared and paid a dividend of $7,355,000 (31 December 2022: $nil) to BoC, being the immediate parent company and ultimate parent bank (equivalent to $0.03 per share). Total imputation credits of $2,860,000 (31 December 2022: $nil) were attached to the dividend declared and paid on 28 December 2023.

22 RESERVES

Fair value through other comprehensive income reserve

As at $000	31/12/23	31/12/22
Balance at beginning of the year	(5,186)	(330)
Net gains/(losses) from changes in fair value	3,726	(6,744)
Tax effect	(1,043)	1,888
Balance at end of the year	**(2,503)**	**(5,186)**

23 FINANCIAL ASSETS PLEDGED AS COLLATERAL

As at $000	31/12/23	31/12/22
Financial assets pledged as collateral	192,688	98,867

Funding for Lending Programme

From 7 December 2020, the Reserve Bank made available the Funding for Lending Programme ("FLP"). The FLP provided funding to banks at the prevailing Official Cash Rate for a term of three years, secured by high quality collateral. The size of funding available under the FLP included an initial allocation of 4% of each banks' eligible loans (as defined by the Reserve Bank). A conditional additional allocation of up to 2% of eligible loans was also made available, subject to growth in eligible loans, for a total size of up to 6% of eligible loans. The facility was available until 6 June 2022 for the initial allocation and up to 6 December 2022 for the conditional additional allocation.

As at 31 December 2023, the NZ Banking Group had utilised $93 million of this facility (31 December 2022 $93 million). This amount is included in securities sold under agreements to repurchase from central banks in Note 17 Payables due to central banks and other financial institutions.

As at 31 December 2023, government securities with a carrying amount of $101,523,000 and cash collateral with a carrying amount of $2,008,000 have been used as collateral for repurchase agreements with the Reserve Bank under the FLP facility (31 December 2022: $96,859,000 and $2,008,000 respectively).

Overnight Reverse Repurchase Facility

The Overnight Reverse Repurchase Facility (ORRF) is an RBNZ facility that provides banks with access to short-term liquidity at a rate of OCR + 0.25% in exchange for high-quality securities as collateral.

As at 31 December 2023, the NZ Banking Group has utilised $75 million of this facility (31 December 2022: $nil). This amount is included in securities sold under agreements to repurchase from central banks in Note 17 Payables due to central banks and other financial institutions.

As at 31 December 2023, government securities with a carrying amount of $89,157,000 have been used as collateral for repurchase agreements with the Reserve Bank under the Overnight Reverse Repo facility (31 December 2022: $nil).

24 COMMITMENTS AND CONTINGENCIES

As at $000	31/12/23	31/12/22
Credit related commitments and contingencies		
Commitments to extend credit	986,147	1,008,393
Letters of credit and guarantees	25,759	6,790
Total credit related commitments and contingencies	**1,011,906**	**1,015,183**

25 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below illustrates the amounts of financial instruments that are subject to offsetting agreements and any related financial collateral.

	Effect of Offsetting on Balance Sheet			Related Amounts not Offset		
As at 31 December 2023 $000	Gross Amounts	Amount Offset	Net Amounts Reported on Balance Sheet	Non-Cash Collateral	Cash Collateral	Net Amount[1]
Financial liabilities						
Securities sold under agreements to repurchase from central banks[2]	168,000	-	168,000	190,680	2,008	-

[1] Collateral amounts (cash and non-cash financial collateral) are reflected at their fair value. However, for the purposes of calculating the net amount, the total of these amounts is limited to the net balance sheet exposure in order to not include any overcollateralisation.

[2] Securities sold under agreements to repurchase from central banks are reported in the balance sheet within Payables due to central banks and other financial institutions of $168 million (31 December 2022: $93 million). Refer to Note 17 for further information.

26 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial assets and financial liabilities must be estimated for recognition, measurement or disclosure purposes.

Fair value hierarchy of financial instruments measured at fair value

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

(a) valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)

(b) valuations using inputs other than quoted prices included within Level 1 that are observable for a similar asset or liability, either directly or indirectly (Level 2), and

(c) valuations where significant unobservable inputs are used to measure the fair value of the asset or liability (Level 3).

As at 31 December 2023 $000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	11,937	-	11,937
FVTOCI securities	263,161	30,366	-	293,527
Total financial assets carried at fair value	**263,161**	**42,303**	**-**	**305,464**
Financial liabilities				
Derivative financial liabilities	-	11,936	-	11,936
Total financial liabilities carried at fair value	**-**	**11,936**	**-**	**11,936**

As at 31 December 2022 $000	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets	-	13,080	-	13,080
FVTOCI securities	289,237	-	-	289,237
Total financial assets carried at fair value	**289,237**	**13,080**	**-**	**302,317**
Financial liabilities				
Derivative financial liabilities	-	13,075	-	13,075
Total financial liabilities carried at fair value	**-**	**13,075**	**-**	**13,075**

Fair value of financial instrument not measured at fair value

NZ IFRS 7 requires the disclosure of fair value of those financial instruments not carried at fair value in the statement of financial position. 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 under current market conditions. The fair value disclosure does not cover those assets and liabilities that are not considered to be financial instruments, such as fixed assets.

The following table summarises the carrying amounts and the estimated fair values of those financial instruments not measured at fair value where the carrying amount is not considered a close approximation of fair value.

As at $000	31/12/23 Carrying Amount	31/12/23 Fair Value	31/12/22 Carrying Amount	31/12/22 Fair Value
Financial Assets				
Loans and advances	5,634,465	5,618,826	4,748,009	4,714,845
Total	**5,634,465**	**5,618,826**	**4,748,009**	**4,714,845**
Financial liabilities				
Customer deposits	884,194	884,644	971,075	970,570
Payables due to central banks and other financial institutions	5,532,995	5,527,454	4,649,158	4,610,781
Debt securities on issue	283,646	282,664	169,883	169,688
Total	**6,700,835**	**6,694,762**	**5,790,116**	**5,751,039**

The following methods and assumptions were used to estimate the fair values:

- **FVTOCI securities**

  FVTOCI securities include treasury bills and government bonds. These assets are recorded at fair value based on quoted closing market prices as at the reporting date.

- **Receivables due from other financial institutions**

  For receivables due from other financial institutions repricing within six months, the carrying amount is a reasonable approximation of fair value at the reporting date. For other receivables due from other financial institutions, the fair value is estimated by discounting the cash flows based on the maturity of the receivable, using current market rates for similar instruments with similar maturity profiles.

- **Loans and advances**

  Floating rate loans to customers generally reprice within six months, therefore, their fair value is assumed to equate to their carrying value. For fixed rate loans repricing longer than six months, the fair value is estimated by discounting the expected future cash flows based on maturity of the loans and advances, using current market interest rates of similar types of loans and advances in terms of credit, interest rate repricing and maturity profiles.

- **Derivative financial instruments**

  The fair value of derivative financial instruments, including exchange rate contracts and interest rate swaps are obtained from observable market prices as at the reporting date or discounted cash flow models as appropriate.

- **Payables due to central banks and other financial institutions**

  For payables due to central banks and other financial institutions repricing within six months, the carrying amount is a reasonable approximation of fair value at the reporting date. For other payables due to central banks and other financial institutions, the fair value is estimated by discounting the cash flows based on the maturity of the payable, using current market rates for similar instruments with similar maturity profiles.

- **Customers deposits**

  With respect to deposits from customers, the carrying amount of non-interest-bearing, call and variable rate deposits and fixed rate deposits repricing within six months approximate their fair value. For other fixed rate term deposits, the fair value is estimated by discounting the cash flows based on the maturity of the deposit, using current market rates for similar instruments with similar maturity profiles.

- **Debt securities on issue**

  The fair value of medium-term notes is based on a discounted cash flow model using a yield curve appropriate to the remaining maturity of the instruments. This is based on observable market prices as at the reporting date where available, otherwise alternative observable market source data is used. For certificates of deposit, the carrying amount is considered to approximate the fair value, as they are short term in nature.

27 RELATED PARTY TRANSACTIONS

The NZ Banking Group undertakes transactions with BoC and its controlled entities (the "Overseas Banking Group").

Transactions with related parties

For the year ended	**31/12/23**		**31/12/22**	
$000	**Overseas Bank**	**Other related parties**	**Overseas Bank**	**Other related parties**
Interest income	283	17	16	50
Interest expense	(191,811)	-	(92,547)	-
Other operating income				
Other fees and commissions	118	21	-	6
Net gains/(losses) on financial instruments	(3,492)	-	9,741	-
Operating expenses	(1,065)	-	(517)	-

There were no debts with any related parties written off or forgiven during the years ended 31 December 2023 and 31 December 2022.

Balances with related parties

As at	**31/12/23**		**31/12/22**	
$000	**Overseas Bank**	**Other related parties**	**Overseas Bank**	**Other related parties**
Cash and liquid assets	19,487	3,168	33,880	2,689
Derivative assets	5,348	-	13,055	-
Total related party assets	**24,835**	**3,168**	**46,935**	**2,689**
Payables due to central banks and other financial institutions	3,979,667	3,430	3,284,851	2,891
Derivative liabilities	5,281	-	22	-
Other liabilities	78,039	-	32,967	-
Total related party liabilities	**4,062,987**	**3,430**	**3,317,840**	**2,891**

No provisions for expected credit losses were recognised in respect of related party assets as at 31 December 2023 and 31 December 2022.

Other transactions and balances

The NZ Banking Group undertakes transactions, loan finance and current account banking facilities with the Overseas Bank and other members of the Overseas Banking Group on normal commercial terms and are settled in accordance with the terms of the arrangement. The interest earned on these loans and interest paid on deposits are at market rates. Loans and borrowings from related parties are unsecured.

The NZ Banking Group has entered into interest rate derivatives and exchange rate derivatives with the Overseas Bank with an aggregate notional principal amount as at 31 December 2023 of $686,884,000 and $6,969,000 respectively (31 December 2022: $309,141,000 and $1,518,000). The carrying amount of interest rate derivatives at 31 December 2023 is split between those with a positive fair value recognised as assets of $5,345,000 (31 December 2022: $13,028,000), and those with a negative fair value of $5,275,000 recognised as liabilities (31 December 2022: $nil). For exchange rate derivatives, $3,000 is recognised as assets (31 December 2022: $27,000) and $6,000 is recognised as liabilities (31 December 2022: $22,000).

Refer to note 21 for details of dividends paid to the shareholder.

Refer to note 28 for transactions and amounts with key management personnel and note 31 for information on managed investments schemes managed by the NZ Banking Group.

28 KEY MANAGEMENT PERSONNEL

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The key management personnel of the NZ Banking Group are defined as the Directors and members of the senior executive team of BoC NZ and the New Zealand Chief Executive Officer of the Branch.

The table below shows the amount of compensation paid to key management personnel of the NZ Banking Group.

For the year ended $000	31/12/23	31/12/22
Salaries and short-term benefits	2,307	2,193
Post-employment benefits	-	-
Other termination benefits	-	-
Share-based payments	-	-
Total key management personnel compensation	**2,307**	**2,193**

For the year ended $000	31/12/23	31/12/22
Loans to key management personnel and their related parties [1]	-	-
Deposits from key management personnel and their related parties [1]	-	-
Interest income on amounts due from key management personnel and their related parties [1]	-	39
Interest expense on amount due to key management personnel and their related parties [1]	-	-

[1] Includes close family members of key management personnel and entities that are controlled or jointly controlled by key management personnel or their close family members.

Loans made to and deposits held from key management personnel were made in the ordinary course of business on normal commercial terms and conditions, no more favourable than those given to other employees of the NZ Banking Group. Interest is received on loans and paid on deposits at market rates. There were no other transactions with key management personnel during the years ended 31 December 2023 and 31 December 2022.

29 CONCENTRATION OF CREDIT EXPOSURES

The NZ Banking Group's concentrations of credit exposures arise where the NZ Banking Group is exposed to risk in activities or industries of a similar nature, and in particular geographies. Australia and New Zealand Standard Industrial Classification (ANZSIC) 2006 codes have been used as the basis for disclosing customer and industry sectors. The credit concentration is monitored as part of the NZ Banking Group's credit risk management framework on a regular basis.

The analysis by industry and by geographical location is as follows:

As at 31 December 2023 $000	On-balance sheet financial assets	Off-balance sheet credit related commitments
Industry sector		
Agriculture	23,091	8,258
Forestry and Fishing	89,978	34,216
Mining	99,263	42,000
Manufacturing	223,310	276,039
Electricity, gas, water and waste services	486,417	221,000
Construction	443,921	45,128
Wholesale trade	42,006	13,745
Retail trade	173,278	49,866
Accommodation and food services	43,942	1,308
Transport, postal and warehousing	239,302	81,460
Information media and telecommunications	271,454	11,250
Financial and insurance services	1,468,437	22,447
Rental, hiring and real estate services	954,814	38,122
Professional, scientific and technical services	-	-
Administrative and support services	-	-
Public administration and safety	-	45,000
Education and training	-	-
Health care and social assistance	475,401	106,411
Arts and recreation services	-	-
Personal lending	2,118,030	15,623
Other services	15,596	33
Subtotal	**7,168,240**	**1,011,906**
Provision for expected credit losses [1]	(36,463)	(2,878)
Unearned income	(7,621)	-
Capitalised brokerage and other origination costs	15,560	-
Total credit exposures	**7,139,716**	**1,009,028**
Geographic area		
New Zealand	6,870,627	989,459
Overseas	297,613	22,447
Subtotal	**7,168,240**	**1,011,906**
Provision for expected credit losses [1]	(36,463)	(2,878)
Unearned income	(7,621)	-
Capitalised brokerage and other origination costs	15,560	-
Total credit exposures	**7,139,716**	**1,009,028**

As at 31 December 2022 $000	On-balance sheet financial assets	Off-balance sheet credit related commitments
Industry sector		
Agriculture	7,139	16,505
Forestry and Fishing	83,788	34,216
Mining	151,555	-
Manufacturing	397,960	74,950
Electricity, gas, water and waste services	431,818	340,000
Construction	361,073	25,202
Wholesale trade	75,187	13,482
Retail trade	128,901	54,090
Accommodation and food services	20,073	58
Transport, postal and warehousing	154,777	42,414
Information media and telecommunications	164,054	117,999
Financial and insurance services	1,403,603	3,217
Rental, hiring and real estate services	727,977	59,300
Professional, scientific and technical services	439	-
Administrative and support services	-	-
Public administration and safety	-	45,000
Education and training	-	-
Health care and social assistance	228,398	183,834
Arts and recreation services	-	-
Personal lending	1,849,230	4,880
Other services	16,196	36
Subtotal	**6,202,168**	**1,015,183**
Provision for expected credit losses [1]	(22,607)	(1,060)
Unearned income	(8,260)	-
Capitalised brokerage and other origination costs	10,452	-
Total credit exposures	**6,181,753**	**1,014,123**

Geographic area		
New Zealand	5,834,984	1,011,966
Overseas	367,184	3,217
Subtotal	**6,202,168**	**1,015,183**
Provision for expected credit losses [1]	(22,607)	(1,060)
Unearned income	(8,260)	-
Capitalised brokerage and other origination costs	10,452	-
Total credit exposures	**6,181,753**	**1,014,123**

[1] The provision for expected credit losses in the table relates to loans and advances (refer to Note 12) and receivables due from other financial institutions (refer to Note 9).

30 CONCENTRATION OF FUNDING

The NZ Banking Groups 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 customer and industry sector and in terms of geographical area.

The analysis by industry and by geographical location is as follows:

As at $000	31/12/23	31/12/22
Funding comprises		
Customer deposits	884,194	971,075
Payables due to central banks and other financial institutions	5,532,995	4,649,158
Debt securities on issue	283,646	169,883
Total funding	**6,700,835**	**5,790,116**
Concentration of funding by industry sector		
Agriculture, foresty and fishing	8,449	6,968
Mining	-	-
Manufacturing	13,986	87,126
Electricity, gas, water and waste services	63	14
Construction	46,651	18,317
Wholesale trade	119,386	13,544
Retail trade	405	3,291
Accommodation and food services	34,304	56,112
Transport, postal and warehousing	58,201	82,294
Information media and telecommunication	604	130,304
Financial and insurance services	5,816,645	4,829,043
Rental, hiring and real estate services	151,041	93,655
Professional, scientific and technical services	16,717	14,969
Administrative and support services	7,841	5,856
Public administration and safety	65,376	178,215
Education and training	54,857	32,249
Health care and social assistance	-	-
Arts and recreation services	-	-
Households	277,077	192,641
Other services	29,232	45,518
Total funding	**6,700,835**	**5,790,116**
Concentration of funding by geographical location		
New Zealand	2,470,199	2,339,682
Other countries	4,230,636	3,450,434
Total funding	**6,700,835**	**5,790,116**

31 INSURANCE, SECURITISATION, FUNDS MANAGEMENT, OTHER FIDUCIARY ACTIVITIES AND THE MARKETING AND DISTRIBUTION OF INSURANCE PRODUCTS

(a) Insurance business

The NZ Banking Group does not conduct any insurance business.

(b) Involvement in securitisation, funds management, other fiduciary activities, and marketing and distribution of insurance products

Other than as noted below in relation to BoC NZ's involvement in funds management, the NZ Banking Group had no involvement in:

(i) the establishment, marketing, or sponsorship of trust, custodial, funds management, and other fiduciary activities;

(ii) the origination of securitised assets, and the marketing or servicing of securitisation schemes; and

(iii) the marketing and distribution of insurance products.

Funds management and other fiduciary activities

BoC NZ is a scheme manager of a managed investment scheme established under a Master Trust Deed with Public Trust as trustee dated 7 March 2016. BNP Paribas Fund Services Australasia Ltd (BNP) provide independent administration services for the managed investment scheme and the trustee has appointed BNP as custodian. BoC NZ and the trustee are permitted to establish managed investment funds (unit trusts) under the Master Trust Deed and BoC NZ has elected to distribute any managed investment fund so established as wholesale funds management products to a range of approved institutional customers.

Bank of China (NZ) Wholesale Fund Number One (No 1 Fund) was established under the Master Trust Deed and launched to investors on 1 August 2016. BoC NZ is the Manager and Issuer of the No 1 Fund and the No 1 Fund currently invests into a selection of New Zealand shares and New Zealand bonds via the pooled wholesale investment products offered by a pre-approved mix of local external fund managers.

The NZ Banking Group does not provide banking services in respect of the managed investment funds established under the Master Trust Deed. The trustee, however, holds an account with the NZ Banking Group in which money from investors applying to buy units in the managed investment funds accumulate prior to allocation to the underlying fund managers. This banking service is conducted on arm’s length commercial terms.

The NZ Banking Group does not otherwise provide private banking services to investment management clients, who are institutions, not individuals. The NZ Banking Group, however, may transact foreign exchange requirements for institutional investors redeeming units in the managed investment funds who seek remittances made abroad, typically back to China.

BoC NZ has a handful of individual investors that are recorded as wholesale customers, being eligible investors, with investments in their own name held on an administrative wealth platform owned by a third party, Apex Investment Administration (NZ) Limited (previously named MMC Limited). BoC NZ is identified as “advisor” on that platform in relation to those clients and those clients continue to complete their eligibility requirements for immigration. Those clients represent a past initiative to provide high net worth individuals with wealth management solutions that was not pursued as a viable business channel.

The NZ Banking Group is not responsible for any decline in performance due to market forces of the underlying assets of any investors in BoC NZ’s managed investment scheme or via the wealth management platforms of any third party.

Funds under management in BoC NZ’s managed investment scheme or on the wealth management platform of a third party are neither assets nor liabilities of BoC NZ and are, therefore, not recorded on BoC NZ’s statement of financial position. Accordingly, they are not included in these financial statements.

The NZ Banking Group derives fee income as fund management fees for BoC NZ managing the managed investment funds established under the Master Trust Deed. BoC NZ also receives a small sum of money as commission from the few clients remaining on the third party’s wealth management platform.

As stated, investments made in the No 1 Fund do not represent deposits or other liabilities of BoC NZ. Investors in the funds are subject to investment risk, including possible delays in repayment and loss of income and principal invested. None of BoC NZ, or the trustee (Public Trust), any Director of any of them, the Crown, or any other person guarantees (either fully or in part) the performance or returns of the No 1 Fund or the repayment of capital.

The value of assets related to fund management activities is set out in the table below.

As at $000	31/12/23	31/12/22
Bank of China (NZ) Wholesale Fund Number One	211,468	225,515
Discretionary Investment Management Service (DIMS)	-	134
Total funds under management	**211,468**	**225,649**

Risk management

The NZ Banking Group has policies and procedures in place to ensure that the above activities are conducted in an appropriate manner. These include, where appropriate, disclosure of information regarding products and formal and regular review of products and processes. These policies and procedures are designed to minimise the risk of the activities being conducted in a way that will adversely impact the NZ Banking Group.

Provision of financial services

Financial services provided by the NZ Banking Group during the year to entities which are involved in the above activities are provided on arm's length terms and conditions and at fair value. The NZ Banking Group has not purchased any assets from or provided any funding to such entities during the year.

32 RISK MANAGEMENT

The NZ Banking Group is committed to the management of risk and has management structure and information systems to manage individual risks at all levels of its business.

32.1 Risk management structure and governance

The NZ Banking Group's risk management framework is established to be commensurate with the Head Office's risk management strategies and policies for overseas branches, and ensuring compliance with all regulatory requirements.

The relevant risk owner within each business unit monitors the NZ Banking Group's risk management on an on-going basis, and report their risk performance and risk positions to management. By collecting these reports, management can monitor a range of risk measures, including credit quality and credit rating, repricing gap, maturity mismatch, foreign currency exposure, and other dimensional risk information.

The NZ Banking Group includes BoC NZ and the Branch. Management and governance of BoC NZ are separate from those of the Branch. Although the policies are consistent, their execution is undertaken by independent management and governance.

As the top decision-making body for risk management in BoC NZ, the Board of Directors of BoC NZ is responsible for the overall risk management approach, including determining the risk management framework, overall risk strategy, risk appetites and risk tolerance, and supervising management. The Board of Directors of BoC NZ has reviewed and approved BoC NZ's Risk Appetite Statement and the Comprehensive Risk Management Framework during the year. The Board of Directors of BoC NZ has the responsibility to monitor the overall risk process within BoC NZ and has appointed a Board Risk Committee to carry out this function.

As a special committee of management, the BoC NZ Risk Management and Internal Control Committee (RMICC) conducts overall risk management on behalf of management, and has the overall responsibility for the developing and implementing the risk strategy and appetites, frameworks, policies and limits designed by the Board of Directors of BoC NZ, establishing and improving various risk management procedures, guiding and supervising the implementation of the risk strategies throughout BoC NZ, and maintaining the operation of the internal control system.

The Risk and Compliance Department is the leading department for BoC NZ's comprehensive risk management, and responsible for the management of various risks under the direction of management, including managing risk decisions, monitoring risk levels and reporting to management on a regular basis.

The risk ownership is assigned to associated business units which are responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The business unit works closely with the Risk and Compliance Department to ensure that procedures are compliant with the overall framework.

The NZ Banking Group has a three lines of defence approach to risk management to ensure the NZ Banking Group is operating within the NZ Banking Group's desired risk profile. The NZ Banking Group embeds risk culture and maintains an awareness of risk management responsibilities through regular communication, training and other targeted approaches that support its risk management.

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

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

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

Regular reviews of loans by both frontline and management ensure the NZ Banking Group is well positioned to assess the financial position of customers. Risks such as credit risk, market risk, operational risk, compliance risk, money laundering risk, liquidity and funding risk are monitored, reviewed and reported to management and BoC NZ RMICC on a monthly basis and the Board of Directors of BoC NZ on a quarterly basis.

32.2 Credit risk

Credit risk arises from the potential inability of a debtor or counterparty to meet their contractual obligations. Credit risk mainly arises within the NZ Banking Group from its core business of providing lending facilities. The NZ Banking Group evaluates credit requests by undertaking detailed customer and transaction risk analysis, and non-retail customers are assigned an internal credit rating based on their financial portfolio. Loans are generally secured by full General Security Agreement ("GSA") and/or 1st ranking mortgage over land and properties. Customers must satisfy a number of conditions when applying for credit including an ability to service the loan.

32.2(a) Credit risk exposures by risk grade

The NZ Banking Group has an internal credit rating system, using measurements of the probability of default ("PD") within one year based on regression analysis. The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into AAA, AA, A, BBB, BB, B, C and D. These are mapped to internal credit rating descriptions. A rating of AAA represents a "Very Low" probability of default occurring, while a C rating reflects a "Very high" probability of default occurring. The NZ Banking Group performs back testing to actual default rates and refines the model according to the results.

Credit ratings are calculated based upon available quantitative and qualitative information specific to the customer inputted into an internal model.

The NZ Banking Group's internal credit rating categories and internal credit rating descriptions are show below:

Internal risk grade	Probability of default
AAA	Low
AA	Medium Low
A	Medium
BBB	Medium
BB	High
B	Very high
C	Very high
D	Default

The following table presents the NZ Banking Group's loans and advances and credit related commitments and contingencies by risk grade:

For the year ended 31 December 2023 $000	Loans and advances and credit related commitments and contingencies for which the provision for expected credit losses is measured at:			
	12-months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Total
Credit risk exposure by risk grade				
AAA	1,960,179	-	-	1,960,179
AA	1,518,207	-	-	1,518,207
A	2,809,581	11,108	2,314	2,823,003
BBB	324,785	-	-	324,785
BB	34	-	-	34
B	58	38,677	-	38,735
C	-	-	-	-
Default	-	-	634	634
Total credit risk exposure by risk grade	**6,612,844**	**49,785**	**2,948**	**6,665,577**

For the year ended 31 December 2022 $000	Loans and advances and credit related commitments and contingencies for which the provision for expected credit losses is measured at:			
	12-months ECL	Lifetime ECL Not Credit Impaired	Lifetime ECL Credit Impaired	Total
Credit risk exposure by risk grade				
AAA	1,759,165	-	-	1,759,165
AA	1,279,429	-	-	1,279,429
A	2,516,471	3,716	-	2,520,187
BBB	169,928	-	-	169,928
BB	34	-	-	34
B	496	48,666	-	49,162
C	-	-	-	-
Default[1]	500	-	5,144	5,644
Total credit risk exposure by risk grade	**5,726,023**	**52,382**	**5,144**	**5,783,549**

[1] The $500,000 relates to an undrawn commitment with a customer in default fully secured by cash with no credit risk, hence was placed under 12-month ECL.

Given residential mortgage customers are not allocated a credit risk grade, the NZ Banking Group has put them into “A” rating category. In addition, unrated corporate customers are also assigned in the “A” rated category until they are rated. The amount of unrated corporate customers assigned an A rating as at 31 December 2023 was $4,469,000 (31 December 2022: $8,562,000).

For cash and liquid assets and receivables due from other financial institutions which are the other significant exposures to credit risk to which the ECL model is applied, the risk grades were all AAA as at 31 December 2023 (31 December 2022: all AAA). The provision for ECL is measured at an amount equal to 12-month ECL for both cash and liquid assets and receivables due from other financial institutions.

32.2(b) Maximum exposure to credit risk

For financial assets recognised on the statement of financial position, the maximum exposure to credit risk is the carrying amount. Other credit exposures include irrevocable lending commitments, standby letters of credit and other off balance sheet credit commitments. The maximum exposure to credit risk for irrevocable lending commitments and other credit commitments is the full amount of the committed facilities. For standby letters of credit, the maximum exposure to credit risk is the maximum amount that the NZ Banking Group would have to pay if the facilities were called upon.

The table below shows the maximum exposure to credit risk of on-balance sheet and off-balance sheet positions before taking account of any collateral held or other credit enhancements.

As at $000	31/12/23	31/12/22
On-balance sheet		
Cash and liquid assets	1,115,569	1,036,436
Receivables due from other financial institutions	49,980	74,942
FVTOCI securities	293,527	289,237
Loans and advances	5,634,465	4,748,009
Derivative assets	11,937	13,080
Other financial assets	33,907	20,050
Total on-balance sheet exposures	**7,139,385**	**6,181,753**
Off-balance sheet		
Commitments to extend credit	986,147	1,008,393
Letters of credit and guarantees	25,759	6,790
Total off-balance sheet exposures	**1,011,906**	**1,015,183**
Total exposures	**8,151,291**	**7,196,936**

32.2(c) Credit risk mitigation, collateral and other credit enhancements

The NZ Banking Group uses a variety of techniques to reduce the credit risk arising from its lending activities. It takes collateral where it is considered necessary to support credit risk on financial instruments. An evaluation is undertaken of the customer's credit risk on a case-by-case basis and the amount of collateral taken, if deemed necessary, is based on management's credit evaluation of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The collateral for retail lending is mortgages over residential properties. In terms of the NZ Banking Group's home lending, credit is extended within predetermined loan-to-valuation ratios, and independent credit evaluations are undertaken where this is deemed necessary.

In terms of corporate lending, credit is granted based on the mixture of collateral, GSA, Specific Security Agreement (SSA) and guarantee, and also includes unsecured portion to highly rated corporate entities.

Management considers the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the provision for expected credit losses. The market value is assessed independently by professional property valuers.

It is the NZ Banking Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the NZ Banking Group does not occupy repossessed properties for business use.

The section below discloses the NZ Banking Group's policies and procedures for collateral taken to mitigate credit risk.

Receivables due from other financial institutions:

This balance sheet category may include 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.

Derivative financial assets:

Credit risk from derivatives is mitigated where possible through netting agreements whereby derivate 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. As per Note 25 there are no netting agreements which reduce the credit risk.

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); and other security over business assets including specific plant and equipment, inventory, accounts receivable and guarantees.

32.2(d) Credit risk mitigation

The NZ Banking Group generally takes collateral security in the form of real estate property for which it can enter into credit exposures arising from on and off-balance sheet transactions. The NZ Banking Group revalues exposures related to financial markets positions on a daily basis to monitor the net risk position. The NZ Banking Group recognises cash deposits as eligible collateral for credit risk mitigation by way of risk reduction.

32.3 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It also includes legal and regulatory risk to the extent that the impacts are related to operational risk events.

The NZ Banking Group recognises the need for Operational Risk Management ("ORM") as a consideration in strategic and operational planning, day-to-day and operational risk management and decision making at all levels in the organisation.

The ORM policy aims at assisting the formation of an effective internal controls system to sustain a safe banking environment residing in compliance with other internal policies, applicable laws and regulations. Effective operational risk management within the NZ Banking Group is based upon a three lines of defence model. The NZ Banking Group's business unit management is the first line of defence and accountable for the identification of risk and the implementation of control strategies and follow up on a day-to-day basis. Oversight and support is provided by the NZ Banking Group's Risk and Compliance Department, the CEO and the Board.

The NZ Banking Group's Risk and Compliance Department, as the second line of defence, facilitates the development and implementation of an operational risk management framework. Assurance is provided by the internal audit function as the third line of defence.

32.4 Market risk

Market risk of the NZ Banking Group is defined as the risk of losses in the value of the balance sheet and earnings as a result of changes in financial market rates and prices. The market risks faced by the NZ Banking Group comprise the following risks: interest rate risk and foreign exchange risk. The NZ Banking Group has assessed other market risks such as equity price risk, and concluded there is no material impact for the NZ Banking Group. The NZ Banking Group does not take any trading positions on its own behalf.

Market risk management is an important part of the NZ Banking Group's risk management framework. The Board holds the ultimate supervision authority with appropriate delegation to the Chief Executive Officer ("CEO") and Asset and Liability Management Committee. All levels of management and related business units apply functions and responsibilities with reference to the relevant policies and procedures.

32.4(a) Interest rate risk

Interest rate risk is defined as the risk of loss to the NZ Banking Group arising from adverse movements in market interest rates.

The NZ Banking Group manages its exposure to interest rate risk in accordance with the NZ Banking Group's relevant market risk management policies and procedures. The objective of these documents is to support the delivery of the NZ Banking Group's financial targets whilst protecting future financial security.

Interest rate risk arises mainly from mismatches in the repricing periods of financial assets and liabilities. The NZ Banking Group manages interest rate risk primarily through repricing gap analysis. Gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that mature or must be repriced within certain periods. The NZ Banking Group also uses the data generated by repricing gap analysis to perform sensitivity analysis, which provides relevant information in adjusting the repricing profile of interest-earning assets and interest-bearing liabilities. The NZ Banking Group closely follows local and foreign currency interest rate trends and where possible promptly adjusts the interest rates of local and foreign currency deposits and loans in order to reduce interest rate risk.

The NZ Banking Group's interest repricing gap analysis as at 31 December 2023 and 31 December 2022 is as follows:

As at 31 December 2023 $000	Up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years	Non-interest bearing	Total
Financial assets							
Cash and liquid assets	1,115,569	-	-	-	-	-	1,115,569
Receivables due from other financial institutions	49,980	-	-	-	-	-	49,980
Derivative assets	-	-	-	-	-	11,937	11,937
FVTOCI securities	141,332	-	-	48,913	103,282	-	293,527
Loans and advances	3,782,414	447,235	894,551	453,148	85,608	(28,491)	5,634,465
Other financial assets	-	-	-	-	-	33,907	33,907
Total financial assets	**5,089,295**	**447,235**	**894,551**	**502,061**	**188,890**	**17,353**	**7,139,385**
Non-financial assets							15,876
Total assets							**7,155,261**
Financial liabilities							
Customer deposits	553,411	182,955	91,595	28,206	15,070	12,957	884,194
Payables due to central banks and other financial institutions	4,029,135	669,151	257,669	342,040	235,000	-	5,532,995
Derivative liabilities	-	-	-	-	-	11,936	11,936
Debt securities on issue	244,562	39,084	-	-	-	-	283,646
Other financial liabilities	-	-	-	-	-	106,668	106,668
Total finanical liabilities	**4,827,108**	**891,190**	**349,264**	**370,246**	**250,070**	**131,561**	**6,819,439**
Non-financial liabilities							15,168
Total liabilites							**6,834,607**
Net Gap	**262,187**	**(443,955)**	**545,287**	**131,815**	**(61,180)**	**(114,208)**	**319,946**

As at 31 December 2022 $000	Up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years	Non-interest bearing	Total
Financial assets							
Cash and liquid assets	1,036,435	-	-	-	-	-	1,036,435
Receivables due from other financial institutions	74,942	-	-	-	-	-	74,942
Derivative assets	-	-	-	-	-	13,080	13,080
FVTOCI securities	11,861	130,808	-	-	146,568		289,237
Loans and advances	3,195,788	300,909	647,160	532,085	92,424	(20,357)	4,748,009
Other financial assets	-	-	-	-	-	20,050	20,050
Total financial assets	**4,319,026**	**431,717**	**647,160**	**532,085**	**238,992**	**12,773**	**6,181,753**
Non-financial assets							11,861
Total assets							**6,193,614**
Financial liabilities							
Customer deposits	666,836	203,105	70,697	10,152	100	20,185	971,075
Payables due to central banks and other financial institutions	3,723,986	93,447	24,725	450,000	357,000	-	4,649,158
Derivative liabilities	-	-	-	-	-	13,075	13,075
Debt securities on issue	19,904	149,979	-	-	-	-	169,883
Other financial liabilities	-	-	-	-	-	51,142	51,142
Total finanical liabilities	**4,410,726**	**446,531**	**95,422**	**460,152**	**357,100**	**84,402**	**5,854,333**
Non-financial liabilities							11,026
Total liabilites							**5,865,359**
Net Gap	**(91,700)**	**(14,814)**	**551,738**	**71,933**	**(118,108)**	**(71,629)**	**327,420**

Interest rate sensitivity analysis

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 200 basis point parallel fall or rise in market interest rates across all yield curves. The sensitivity analysis is based on the NZ Banking Group's interest-earning financial assets and interest-bearing financial liabilities held at reporting date, 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.

For financial instruments at fair value through profit and loss, changes in interest rates will directly result in changes in fair value (mark-to-market), however the impact of the mark-to-market has not been included in the below sensitivity analysis.

The NZ Banking Group has assessed what is a reasonable possible change in interest rates and have applied it to the sensitivity analysis. Although the portfolio originates from different countries with different interest rate expectations, a 200 basis point change in interest rates is considered to be a reasonably possible change at 31 December 2023 (31 December 2022: 200 basis point change) and has been applied consistently to all classifications in order to compare the impact consistently.

As at $000	31/12/23	31/12/22
Impact on profit or loss of increase or decrease to market interest rates		
200 bp parallel increase	8,683	7,981
200 bp parallel decrease	(8,683)	(7,981)
Impact on equity of increase or decrease to market interest rates		
200 bp parallel increase	6,252	5,746
200 bp parallel decrease	(6,252)	(5,746)

32.4(b) Foreign exchange risk

Foreign exchange risk is the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities.

The NZ Banking Group is mainly engaged in the transactions of foreign exchange related to foreign trade settlement and customer foreign exchange deals facilitation. The cumulative daytime and overnight limits for foreign exchange and foreign exchange derivatives open positions are established and monitored closely.

The NZ Banking Group seeks to reduce the foreign exchange exposure by matching the sources and utilisation of funds on a currency-by-currency basis. In addition, exchange risk is managed and controlled through settlement or economic hedging transactions.

Net open foreign currency position

The net open position in each foreign currency detailed in the table below 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. The amounts are stated in New Zealand dollar equivalents translated using the exchange rates as at reporting date.

As at $000	31/12/23	31/12/22
Net open position		
Australian Dollar (AUD)	308	410
Chinese Yuan Renminbi (CNY)	267	(25)
Euro (EUR)	34	142
Hong Kong Dollar (HKD)	(465)	45
Japanese Yen (JPY)	2	-
US Dollar (USD)	(283)	(1,039)
Total (NZD)	**(137)**	**(467)**

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 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.

The NZ Banking Group has assessed what is a reasonable possible change in foreign exchange rates and have applied it to the sensitivity analysis. Although the portfolio originates from different countries with different foreign currency expectations, a 10% change in foreign exchange rates is considered to be a reasonably possible change at 31 December 2023 (31 December 2022: 10% change in foreign exchange rates) and has been applied consistently to all currencies in order to compare the impact consistently.

As at $000	31/12/23	31/12/22
Net open position		
Impact on profit or loss of increase or decrease in foreign exchange rates		
10% appreciation (increase)	(14)	(47)
10% depreciation (decrease)	14	47
Impact on equity of increase or decrease in foreign exchange rates		
10% appreciation (increase)	(10)	(34)
10% depreciation (decrease)	10	34

32.5 Compliance Management

Compliance risk management is one of the NZ Banking Group's core risk management activities, and is an important component of the comprehensive risk management system. The term "compliance risk", means the risk that the NZ Banking group may fall under legal sanctions, regulatory penalties, financial losses or reputational losses resulting from failure to abide by compliance requirements. The NZ Banking Group adopts a three lines of defence model to govern its operational risk management. The AML/CTF risk management framework forms part of the overall compliance risk management framework of the NZ Banking Group. The organisational structure of the NZ Banking Group's compliance risk management structure includes the Board of Directors (Governance and Oversight), Senior Management, Heads of Department, Country Compliance Manager, Internal Audit function and all other staff.

32.6 Liquidity and funding risk

Liquidity risk is the risk of not being able to meet financial obligations as they fall due and that liquidity in financial markets, such as the market for debt securities, may reduce significantly. Funding risk contributes to overall liquidity risk and is the risk of over-reliance on a funding source to the extent that a change in that funding source could increase overall funding costs or cause difficulty in raising funds. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The NZ Banking Group manages liquidity risk by continuously monitoring forecast and actual cash flows. The NZ Banking Group holds a portfolio of high-quality liquid assets as a buffer against unexpected funding requirements. These assets are readily realisable investment assets and deposits with high credit quality counterparties. The level of liquid asset holdings is reviewed frequently and is consistent with the both the requirements of the balance sheet and market conditions.

32.6(a) Liquidity portfolio management

The NZ Banking Group held the following financial assets for the purpose of managing liquidity risk. Liquid assets include high quality assets readily convertible to cash to meet the NZ Banking Group's liquidity requirements. In management's opinion, liquidity is sufficient to meet the NZ Banking Group's present requirements.

As at $000	31/12/23	31/12/22
Cash and liquid assets	1,115,569	1,036,435
Receivables due from other financial institutions	49,980	74,942
Government securities	263,161	289,237
Other debt securities	30,366	-
Total liquidity portfolio	**1,459,076**	**1,400,614**

32.6(b) Contractual maturity analysis of financial liabilities

The table below presents the NZ Banking Group's cash flows associated with financial liabilities 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 statement of financial position.

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 underlying instruments.

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.

As at 31 December 2023 $000	On demand	Up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years	Total
Non-derivative financial liabilities							
Customer deposits	280,472	292,577	186,995	95,467	30,608	17,898	904,017
Payables due to central banks and other financial institutions	717,697	2,165,868	765,453	861,726	912,863	290,923	5,714,530
Debt securities on issue	-	48,423	43,348	6,846	13,580	206,734	318,931
Lease liabilities	-	243	243	270	94	-	850
Other financial liabilities	-	40,364	12,154	14,693	27,781	11,676	106,668
Total non-derivative financial liabilities	**998,169**	**2,547,475**	**1,008,193**	**979,002**	**984,926**	**527,231**	**7,044,996**
Derivative financial liabilities							
Net settled	-	(77)	(178)	(93)	2,532	5,280	7,464
Gross settled – cash inflow	-	5,578	-	-	-	-	5,578
Gross settled – cash outflow	-	(5,582)	-	-	-	-	(5,582)
Total derivative financial liabilities	**-**	**(81)**	**(178)**	**(93)**	**2,532**	**5,280**	**7,460**
Off-balance sheet credit related commitments and contingencies							
Commitments to extend credit	986,147	-	-	-	-	-	986,147
Letters of credit and guarantees	25,759	-	-	-	-	-	25,759
Total off-balance sheet credit related commitments and contingencies	**1,011,906**	**-**	**-**	**-**	**-**	**-**	**1,011,906**

As at 31 December 2022 $000	On demand	Up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years	Total
Non-derivative financial liabilities							
Customer deposits	201,291	487,898	206,678	73,061	10,476	125	979,529
Payables due to central banks and other financial institutions	258,036	1,771,905	110,392	952,082	1,057,024	677,940	4,827,379
Debt securities on issue	-	20,000	153,015	-	-	-	173,015
Lease liabilities	-	239	239	478	741	88	1,785
Other financial liabilities	-	16,769	4,397	4,398	14,721	10,857	51,142
Total non-derivative financial liabilities	**459,327**	**2,296,811**	**474,721**	**1,030,019**	**1,082,962**	**689,010**	**6,032,850**
Derivative financial liabilities							
Net settled	-	1,121	1,245	2,483	3,888	1,312	10,049
Gross settled – cash inflow	-	294	1,195	-	-	-	1,489
Gross settled – cash outflow	-	(308)	(1,231)	-	-	-	(1,539)
Total derivative financial liabilities	**-**	**1,107**	**1,209**	**2,483**	**3,888**	**1,312**	**9,999**

Off-balance sheet credit related commitments and contingencies							
Commitments to extend credit	1,008,393	-	-	-	-	-	1,008,393
Letters of credit and guarantees	6,790	-	-	-	-	-	6,790
Total off-balance sheet credit related commitments and contingencies	**1,015,183**	**-**	**-**	**-**	**-**	**-**	**1,015,183**

32.7 Expected recovery or settlement

The below table discloses the amounts expected to be recovered or settled within 12 months and after 12 months from the reporting period.

As at $000	31/12/23			31/12/22		
	Due for recovery or settlement within 12 months	Due for recovery or settlement after 12 months	Total	Due for recovery or settlement within 12 months	Due for recovery or settlement after 12 months	Total
Assets						
Cash and liquid assets	1,115,569	-	1,115,569	1,036,435	-	1,036,435
Receivables due from other financial institutions	49,980	-	49,980	74,942	-	74,942
Derivative assets	2,100	9,837	11,937	319	12,761	13,080
FVTOCI securities	110,966	182,561	293,527	143,036	146,201	289,237
Loans and advances	1,101,632	4,532,833	5,634,465	670,674	4,077,335	4,748,009
Right-of-use assets	590	181	771	-	1,702	1,702
Other assets	35,056	14,187	49,243	20,545	9,664	30,209
Total assets	**2,415,893**	**4,739,599**	**7,155,492**	**1,945,951**	**4,247,663**	**6,193,614**
Liabilities						
Customer deposits	840,549	43,645	884,194	960,823	10,252	971,075
Payables due to central banks and other financial institutions	4,403,955	1,129,040	5,532,995	2,998,158	1,651,000	4,649,158
Derivative liabilities	2,100	9,836	11,936	314	12,761	13,075
Debt securities on issue	83,803	199,843	283,646	169,883	-	169,883
Other liabilities	121,226	-	121,226	60,417	-	60,417
Lease liabilities	640	201	841	930	821	1,751
Total liabilities	**5,452,273**	**1,382,565**	**6,834,838**	**4,190,525**	**1,674,834**	**5,865,359**

32.8 Internal Audit

The Internal Audit function is the third line of defence of the NZ Banking Group, and plays a significant role in identifying risks, assessing the design effectiveness of policies, assessing the design and operating effectiveness of internal controls, as well as assessing the compliance to regulatory requirements and internal policies.

The internal audit plan of the Branch is proposed by the internal audit function of BoC NZ and evaluated by the Overseas Banking Group's Internal Audit Department. Internal audit reports of the Branch are submitted to the Overseas Banking Group's Internal Audit Department.

The internal audit plan of BoC NZ is proposed by the internal audit function of BoC NZ on an annual basis, evaluated by the Overseas Banking Group's Internal Audit Department, and endorsed by the Board Audit Committee of BoC NZ. Audit engagements are conducted as per annual internal audit plan. These reviews are generally not conducted by a party external to the NZ Banking Group. However, parties external to the NZ Banking Group may be used by the Internal Audit function in relation to reviews of the NZ Banking Group's risk management systems and were used during the year ended 31 December 2023 and the year ended 31 December 2022. Internal audit reports of BoC NZ are submitted to the Board Audit Committee of BoC NZ.

Internal control assessment results and internal audit function development progress of NZ Banking Group are reported to the Overseas Banking Group's Internal Audit Department for oversight.

33 OTHER INFORMATION ON THE OVERSEAS BANKING GROUP

As at	30/09/23
Profitability	
Net profit after tax for the 9 month period ended 30 September 2023 (RMB millions)	186,503
Net profit after tax for the 12 month period as a percentage of average total assets	0.80%
Size	
Total assets (RMB millions)	31,764,820
Percentage change in total assets over the 12 months ending 30 September 2023	10.91%

As at	30/06/23
Asset quality	
Total individually impaired assets (RMB millions)	246,882
Total individually impaired assets as a percentage of total assets	0.79%
Total individual credit impairment allowance (RMB millions)	172,406
Total individually assessed provisions as a percentage of total gross individually impaired assets	69.83%
Total collective credit impairment allowance (RMB millions)	292,339
Total assets (RMB millions)	31,085,240

Note: The amounts included in this note have been taken from the most recent publicly available information.

34 CREDIT AND MARKET RISK EXPOSURES AND CAPITAL ADEQUACY

Other than the reconciliation of mortgage-related amounts disclosed in accordance with clause 6 of Schedule 4 to the Order in note 34.4(a), this note is subject to limited assurance procedures which do not constitute an audit. Refer to the Independent Auditor's Report and the Independent Assurance Report for further information.

The NZ Banking Group is subject to the capital adequacy requirements for registered banks as specified by the Reserve Bank for two banking licences, one for BoC NZ and another in relation to the Branch. The Branch and BoC NZ must comply with Reserve Bank's registration requirements, including any minimum capital ratios under the conditions of registration for each respective banking licence.

34.1 Capital management

The NZ Banking Group has developed a Capital Policy to enable effective and controlled management of the capital. Capital management involves the measurement, monitoring and reporting of the capital position from both a current and future perspective.

The Capital Policy along with the Internal Capital Adequacy Assessment Process (ICAAP) forms the basis of effective capital management within the NZ Banking Group. Together they provide the framework that is used by the Boards of BoC NZ and the Overseas Bank to understand and manage capital adequacy.

The ICAAP uses the current capital requirements and risks of BoC NZ and the Overseas Bank, as well as forecasted capital levels to determine whether the level of capital held by BoC NZ and the Overseas Bank is adequate.

The Board of BoC NZ and the Overseas Bank hold ultimate responsibility for ensuring that capital adequacy is maintained. This includes: setting, monitoring and obtaining assurance for the NZ Banking Group's capital management policy and framework; risk definitions for all material risks; materiality thresholds; capital adequacy targets; and risk appetite. BoC NZ and the Overseas Bank actively monitor capital adequacy as the part of the ICAAP, and report this on a regular basis to the respective senior management and Boards.

34.2 BoC NZ capital adequacy requirements

BoC NZ is subject to the capital adequacy requirements for registered banks as specified by the Reserve Bank. The Reserve Bank has set minimum regulatory capital requirements for banks that 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 BoC NZ.

BoC NZ uses the standardised approach as it has not been accredited by the Reserve Bank to use the internal models approach. BoC NZ applies the Reserve Bank's Banking Prudential Requirements ("BPRs") for calculating regulatory capital requirements as applicable to a standardised bank.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of risk-weighted exposures. As a condition of registration, the BoC NZ Banking Group must comply with the following minimum capital requirements set by the Reserve Bank:

- Total capital ratio must not be less than 8.0% of risk-weighted exposures.
- Tier 1 capital ratio must not be less than 6.0% of risk-weighted exposures.
- The Common Equity Tier 1 capital ratio is not less than 4.5%.
- Capital of the BoC NZ Banking Group must not be less than NZ$30 million.

Regulatory capital

The Basel III standards for bank capital distinguish between Tier 1 and Tier 2 capital. Tier 1 capital is permanently and freely available to absorb losses without the bank being obliged to cease trading, while Tier 2 capital generally only absorbs losses in a winding up. Within Tier 1 capital, Common Equity Tier 1 capital ("CET 1") has greater loss-absorbing capability than the other Tier 1 instruments referred to as Additional Tier 1 capital ("AT 1"). BoC NZ's CET1 capital includes paid up ordinary shares, retained earnings, accumulated other comprehensive income and other disclosed reserves less certain deductions. BoC NZ does not have any AT1 or Tier 2 capital.

Capital ratios are used to define minimum capital requirements for each of: Common Equity Tier 1 capital, Tier 1 capital (CET 1 plus AT 1), and Total capital (Tier 1 plus Tier 2), as a percentage of risk-weighted assets. There are increasing constraints on capital distributions where a bank's capital level falls within the prudential capital buffer ratio bands, which are specified in the conditions of registration.

Risk-weighted exposures

Risk-weighted exposures are derived by assigning risk-weight percentages to certain risk categories of exposures. BoC NZ's current capital requirements based on an assessment of its risk classes commonly referred to as Pillar 1 risk classes under Basel III can be summarised as follows:

- Credit risk – total RWAs for credit risk are calculated in accordance with BPR 130 *Credit risk RWAs overview*, BRP 131 *Standardised credit risk RWAs*, BPR 132 *Credit risk mitigation* and BPR 160 *Insurance, securitisation, and loan transfers*.

- Market risk – the total capital requirement for market risk exposure is calculated in accordance with BRP 140 *Market risk exposure*.
- Operational risk - total capital requirement for operational risk must be calculated in accordance with BPR150 *Standardised operational risk*.

34.3 Overseas Banking Group capital adequacy requirements

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

As a Systemically Important Bank, the Overseas Banking Group's capital adequacy ratios are required to meet the lowest requirements of the CBIRC, that is, the common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio should be no less than 9.00%, 10.00% and 12.00%, respectively.

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

The Overseas Bank and the Overseas Banking Group each met the capital requirements imposed on them by the CBIRC as at the latest reporting date.

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

As at	Unaudited 30/09/23	Unaudited 31/12/22
Ultimate Parent Bank Group		
Common equity tier 1 capital ratio	11.41%	11.84%
Tier 1 capital ratio	13.64%	14.11%
Total capital ratio	17.30%	17.52%
Ultimate Parent Bank		
Common equity tier 1 capital ratio	10.75%	11.37%
Tier 1 capital ratio	13.20%	13.89%
Total capital ratio	17.23%	17.67%

34.4 Market risk

Peak end-of-day aggregate capital charge for each category of market risk is derived by determining the maximum over the relevant period of the aggregate capital charge at the close of each business day derived in accordance with BPR140: Market risk exposure.

As at 31 December 2023 (Unaudited) $000	End-period capital charge		Peak end-of-day capital charge	
	Implied risk weighted exposure	Aggregated capital charge	Implied risk weighted exposure	Aggregated capital charge
Interest rate risk	54,821	4,386	84,745	6,780
Foreign currency risk	748	60	3,612	289
Equity risk	-	-	-	-
Total	**55,569**	**4,446**	**88,357**	**7,069**

34.4(a) Additional mortgage information

Residential mortgages by loan-to-value ratio

As at 31 December 2023 (Unaudited)	Does not exceed 80%	Exceeds 80% and not 90%	Exceed 90%	Total
Loan-to-value ratio				
On-balance sheet exposures	2,118,775	2,070	-	2,120,845
Undrawn commitments and other off-balance sheet exposures	15,592	-	-	15,592
Value of exposures	**2,134,367**	**2,070**	**-**	**2,136,437**

The information in the above table relates to the NZ Banking Group and is in respect of the total residential mortgage loans and has been derived in accordance with the definition of loan-to-valuation ratio specified in BPR131: Standardised Credit Risk RWAs. 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 amounts

As at $000	Unaudited 31/12/23
Residential mortgages - total gross loans and advances (as disclosed in Notes 6 and 7)	2,112,088
Add: Interest receivable	5,943
Add: Capitalised brokerage and other origination costs	15,560
Less: Provision for expected credit losses (loans and advances)	(12,746)
Total of Residential Mortgages amounts disclosed in table for On-balance sheet exposures	**2,120,845**
Add: Undrawn commitments and other off-balance sheet exposures	15,623
Less: Provision for expected credit losses (off-balance sheet credit related commitments and contingencies)	(31)
Total Residential mortgages exposures disclosed in residential mortgages by loan-to-valuation ratio table	**2,136,437**

35 EVENTS SUBSEQUENT TO THE REPORTING DATE

The NZ Banking Group has finalised a new lease agreement and intends to relocate to a new office premises around the time of the current lease agreement's expiration. The specific moving date is yet to be determined.

There were no other material events that occurred subsequent to the reporting date, that require recognition or additional disclosure in these financial statements.

Independent auditor's report

To the Directors of Bank of China Limited

Our opinion

In our opinion, the accompanying:

- financial statements, excluding the information disclosed in accordance with Schedules 4, 7, 9, 11 and 13 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the Order), of Bank of China Limited (the Overseas Bank) in respect of the New Zealand operations (the NZ Banking Group) present fairly, in all material respects, the financial position of the NZ Banking Group as at 31 December 2023, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards Accounting Standards (IFRS Accounting Standards); and
- information disclosed in accordance with Schedules 4, 7, 11 and 13 of the Order (the Supplementary Information), in all material respects:
  - presents fairly the matters to which it relates; and
  - is disclosed in accordance with those schedules.

What we have audited

- The NZ Banking Group's financial statements (the Financial Statements) required by clause 25 of the Order, comprising:
  - the statement of financial position as at 31 December 2023;
  - the statement of comprehensive income for the year then ended;
  - the statement of changes in equity for the year then ended;
  - the statement of cash flows for the year then ended; and
  - the notes to the Financial Statements, excluding the information disclosed in accordance with Schedules 4, 7, 9, 11 and 13 of the Order within the statement of financial position and notes 13, 29, 31, 32, 33 and 34, which include material accounting policies and other explanatory information.
- The Supplementary Information within the statement of financial position and notes 13, 29, 31, 32, 33 and 34 of the Financial Statements for the year ended 31 December 2023 of the NZ Banking Group.

We have not audited the information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order within note 34 of the Financial Statements and our opinion does not extend to this information.

Basis for opinion

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

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

Independence

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

We are independent of the NZ Banking Group. In addition to our role as auditor, our firm carries out other services for the NZ Banking Group in the areas of a limited assurance engagement on compliance with the information required on credit and market risk exposures and capital adequacy included within the NZ Banking Group's Disclosure Statement and the information required on capital adequacy and regulatory liquidity requirements included within the Bank of China (New Zealand) Limited's Disclosure Statement and generic training on sustainability reporting. In addition, certain partners and employees of our firm may deal with the NZ Banking Group on normal terms within the ordinary course of trading activities. The provision of these other services and these relationships have not impaired our independence as auditor of the NZ Banking Group.

Key audit matters

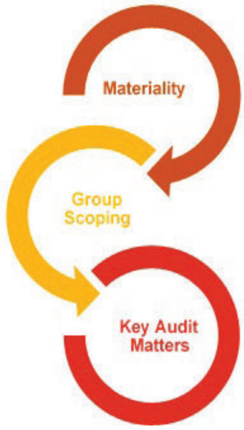
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements and the Supplementary Information of the current year. These matters were addressed in the context of our audit of the Financial Statements and the Supplementary Information as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the key audit matter	How our audit addressed the key audit matter
Provision for expected credit losses on loans and advances As disclosed in Notes 12 and 13 of the Financial Statements, the NZ Banking Group's provision for expected credit losses (ECL) on loans and advances as at 31 December 2023 is $36,429,000 (31 December 2022: $22,549,000). NZ IFRS 9 *Financial Instruments* (NZ IFRS 9) requires estimation of a provision for ECL to be measured based on unbiased and probability-weighted possible outcomes, the time value of money, and reasonable and supportable information at the reporting date about past events, current conditions, and forecasts of future economic conditions. The determination of the provision for ECL requires the use of complex credit risk methodologies that are applied in models and based on historic experience of correlations between defaults and losses, customer creditworthiness, segmentation of customers or portfolios, and economic conditions. It also requires the determination of assumptions which involve estimation uncertainty. The assumptions that we focused our audit on include those with greater levels of management judgement and for which variations have the most significant impact on the provision for ECL. Specifically, these included the	Our audit procedures included assessing the design and testing the operating effectiveness of relevant controls in place in relation to the NZ Banking Group's process for estimating the provision for ECL. Specifically, these included controls over review and approval of corporate customer credit ratings and risk classifications, the automated staging classification in accordance with predefined criteria, system interfaces to transfer data between systems, review and approval of ECL parameter updates prior to upload and the automated calculation of the provision for ECL. In addition to controls testing, we, along with PwC actuarial experts, performed the following audit procedures, amongst others: • Assessed the appropriateness of methodologies and their application in the related model against the requirements of NZ IFRS 9 and the results of model monitoring performed; • Assessed the reasonableness of the customer credit risk rating assigned for a sample of corporate loan exposures considering the latest financial information provided to the NZ Banking Group; • Tested a sample of risk classifications of residential mortgages loan exposures; • Tested a sample of relevant critical data in the source systems to the source documents, and the flow of data between source systems to the ECL models; • Challenged the basis for determining the significant assumptions applied;

Description of the key audit matter	How our audit addressed the key audit matter
model inputs for the probability of default (PD) and loss given default (LGD) parameters, the forward-looking adjustments to the PD parameters, the macroeconomic scenarios used (including the macroeconomic variable forecasts and weightings of macroeconomic scenarios), and whether or not any adjustments are required to the modelled output, including as a result of the known model and data limitations in relation to the ECL models. There have been no changes to the methodologies in the ECL model in the current year in relation to PD parameters, the forward-looking adjustments to the PD parameters, and the use of macroeconomic scenarios (including the macroeconomic variables used and how the macroeconomic scenarios and weightings are derived). Additional subjectivity and judgement has also been introduced into the measurement of the provision for ECL due to the heightened uncertainty associated with the impact of rising interest rates and inflationary pressures, natural hazards, climate change, increasing geopolitical tensions around the world, global supply chain issues and rising unemployment. We determined this is a key audit matter due to the estimation uncertainties involved in this area and the nature and extent of audit effort needed. The nature and extent of audit effort involved the use of professionals with specialised skills and knowledge and testing of critical data used in the models. **Relevant references in the financial statements** Refer Note 1 *Accounting Policies*, Note 12 *Loans and Advances* and Note 13 *Asset Quality*.	• Assessed the appropriateness of certain forward-looking information incorporated into the ECL models, including the macroeconomic scenarios developed, underlying forecasts and probability weightings applied against current market conditions, and other available evidence; • Challenged and assessed the appropriateness of management's conclusions and adjustments to the modelled output against internal and external supporting information; • Performed a peer bank comparison of ECL coverage ratios and considered whether, given the specific risks inherent in the NZ Banking Group's portfolio of loan and advances, the provision for ECL sits within a range of acceptable outcomes; • For individually assessed loans identified as impaired, validated management's assumptions about the expected recoveries to test the basis of measuring individually assessed provisions; and • Considered whether there were any events occurring subsequent to the balance date that impact on the provision for ECL. We also assessed the adequacy of the NZ Banking Group's disclosures in the financial statements in the context of the applicable financial reporting framework.

Our audit approach

Overview



The overall NZ Banking Group materiality is $3.206 million, which represents approximately 1% of net assets.

We chose net assets because, in our view, it is the benchmark against which the performance of the NZ Banking Group is most commonly measured by users, and is a generally accepted benchmark.

We performed a full scope audit over the aggregated financial information of the NZ Banking Group.

As reported above, we have one key audit matter, being the *Provision for expected credit losses on loans and advances*.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the Financial Statements and the Supplementary Information. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality
The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the Financial Statements and the Supplementary Information are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements and the Supplementary Information.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall NZ Banking Group materiality for the Financial Statements and the Supplementary Information, as a whole, as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the Financial Statements and the Supplementary Information, as a whole.

How we tailored our group audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the Financial Statements and the Supplementary Information, as a whole, taking into account the structure of the NZ Banking Group, the financial reporting processes and controls, and the industry in which the NZ Banking Group operates.

Certain operational processes which are critical to financial reporting for the NZ Banking Group are undertaken outside of New Zealand. We worked with a PwC network firm engaged in the Bank of China Limited group audit to understand and examine certain processes, test controls and perform other substantive audit procedures that supported material balances, classes of transactions and disclosures within the NZ Banking Group's Financial Statements and the Supplementary Information. We evaluated the results of this work to determine whether there were any implications for the remainder of our audit work.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Disclosure Statement presented in accordance with Schedule 2 of the Order on pages 1 to 10, the information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order within note 34 and the NZ Banking Group's climate statement prepared in accordance with Section 461ZB of the Financial Market Conduct Act 2013 (the Climate Statement), but does not include the Financial Statements, the Supplementary Information and our auditor's report thereon. The other information we obtained prior to the date of this auditor's report comprised the Disclosure Statement and the information relating to credit and market risk exposures and capital adequacy. The remaining other information, comprising the NZ Banking Group's Climate Statement, is expected to be made available to us after that date.

Our opinion on the Financial Statements and the Supplementary Information does not cover the other information and we do not and will not express any form of audit opinion or assurance conclusion thereon. We issue a separate limited assurance report on the information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order.

In connection with our audit of the Financial Statements and the 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 and the Supplementary Information or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the Directors for the Disclosure Statement

The Directors of the Overseas Bank (the Directors) are responsible, on behalf of the Overseas Bank, for the preparation and fair presentation of the Financial Statements in accordance with clause 25 of the Order, NZ IFRS and IFRS Accounting Standards, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements and Supplementary Information that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible, on behalf of the Overseas Bank, for the preparation and fair presentation of the Disclosure Statement which includes:

- all of the information prescribed in Schedule 2 of the Order; and
- the information prescribed in Schedules 4, 7, 9, 11, and 13 of the Order.

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

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

Our objectives are to obtain reasonable assurance about whether the Financial Statements and the Supplementary Information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs 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 the Financial Statements and the Supplementary Information.

A further description of our responsibilities for the audit of the Financial Statements and the Supplementary Information is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Directors, as a body. Our work has been undertaken so that we might state those matters which 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, as a body, for our work, for this report, or for the opinions we have formed.

The engagement partner on the engagement resulting in this independent auditor's report is Philip Taylor.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
27 March 2024

Auckland, New Zealand

Independent assurance report

To the Directors of Bank of China Limited

Limited assurance report on compliance with the information required on credit and market risk exposures and capital adequacy

Our conclusion

We have undertaken a limited assurance engagement on the New Zealand banking operations of Bank of China Limited (the NZ Banking Group)'s compliance, in all material respects, with clause 22 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the Order) which requires information prescribed in Schedule 9 of the Order relating to credit and market risk exposures and capital adequacy to be disclosed in its full year Disclosure Statement for the year ended 31 December 2023 (the Disclosure Statement). The Disclosure Statement containing the information prescribed in Schedule 9 of the Order relating to credit and market risk exposures and capital adequacy will accompany our report, for the purpose of reporting to the Directors of Bank of China Limited.

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the NZ Banking Group's information relating to credit and market risk exposures and capital adequacy, included in the Disclosure Statement in compliance with clause 22 of the Order and disclosed in note 34, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

Basis for conclusion

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

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

Directors' responsibilities

The Directors are responsible on behalf of Bank of China Limited for compliance with the Order, including clause 22 of the Order which requires information relating to credit and market risk exposures and capital adequacy prescribed in Schedule 9 of the Order to be included in the NZ Banking Group's Disclosure Statement, for the identification of risks that may threaten compliance with that clause, controls that would mitigate those risks and monitoring ongoing compliance.

Our independence and quality management

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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

We are independent of the NZ Banking Group. In addition to our role as auditor and providers of other related assurance services, our firm carries out other services for the NZ Banking Group in the area of generic training on sustainability reporting. In addition, certain partners and employees of our firm may deal with the NZ Banking Group on normal terms within the ordinary course of trading activities of the NZ Banking Group. The provision of these other services and these relationships have not impaired our independence.

Assurance practitioner's responsibilities
Our responsibility is to express a limited assurance conclusion on whether the NZ Banking Group's information relating to credit and market risk exposures and capital adequacy, included in the Disclosure Statement in compliance with clause 22 of the Order is not, in all material respects, disclosed in accordance with Schedule 9 of the Order. SAE 3100 (Revised) requires that we plan and perform our procedures to obtain limited assurance about whether anything has come to our attention that causes us to believe that the NZ Banking Group's information relating to credit and market risk exposures and capital adequacy, included in the Disclosure Statement in compliance with clause 22 is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

In a limited assurance engagement, the assurance practitioner performs procedures, primarily consisting of discussion and enquiries of management and others within the entity, as appropriate, and observation and walk-throughs, and evaluates the evidence obtained. The procedures selected depend on our judgement, including identifying areas where the risk of material non-compliance with clause 22 of the Order in respect of the information relating to credit and market risk exposures and capital adequacy is likely to arise.

Given the circumstances of the engagement we:

- obtained an understanding of the process, models, data and internal controls implemented over the preparation of the information relating to credit and market risk exposures and capital adequacy;
- obtained an understanding of the NZ Banking Group's compliance framework and internal control environment to ensure the information relating to credit and market risk exposures and capital adequacy is in compliance with the Reserve Bank of New Zealand's (the RBNZ) prudential requirements for banks;
- obtained an understanding and assessed the impact of any matters of non-compliance with the RBNZ's prudential requirements for banks that relate to credit and market risk exposures and capital adequacy and inspected relevant correspondence with the RBNZ;
- performed analytical and other procedures on the information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order, and considered its consistency with the annual financial statements; and
- agreed the information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order to information extracted from the NZ Banking Group's models, accounting records or other supporting documentation, which included publicly available information as prescribed by clauses 5 and 6 of Schedule 9 of the Order.

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

Inherent limitations
Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error or non-compliance with the compliance requirements may occur and not be detected.

A limited assurance engagement on the NZ Banking Group's information relating to credit and market risk exposures and capital adequacy prescribed in Schedule 9 of the Order to be included in the Disclosure Statement in compliance with clause 22 of the Order does not provide assurance on whether compliance will continue in the future.

Use of report
This report has been prepared for use by Bank of China Limited's Directors, as a body, for the purpose of establishing that these compliance requirements have been met.

Our report should not be used for any other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for any reliance on this report to anyone other than the Directors, as a body, or for any purpose other than that for which it was prepared.

The engagement partner on the engagement resulting in this independent assurance report is Philip Taylor.

PricewaterhouseCoopers

Chartered Accountants
27 March 2024

Auckland, New Zealand