CAPITAL SECURITY BANK LIMITED

CSB Audited Financial Statements

2023

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Annual Chairman's Report
For the Year Ended 31 December 2023

Dear Stakeholders,

This report marks the conclusion of 2023, a year characterized by cautious optimism and solid progress amidst the ongoing recovery from the COVID-19 pandemic. The first year of unrestricted travel since the pandemic's onset has initiated a promising yet gradual economic rebound for the Cook Islands. Although the resurgence in visitor numbers and GDP growth signals recovery, these indicators have not fully returned to pre-pandemic levels. Our bank's performance mirrored this cautious yet positive economic trajectory, benefiting from increased economic activities and strategic adaptations.

Economic Outlook and Bank Performance

2023 was a critical year, witnessing a notable increase in economic activities spurred by the return of unrestricted travel. The anticipated expansion of direct flights and capacity from Australia in 2024 is expected to further stimulate our tourism sector and economic resilience. Our bank has navigated these changes with a focus on excellence, sustainability, and customer satisfaction, underpinned by strategic investments and risk management. Our commitment to leveraging technology for process efficiency and enhanced customer service continues to drive growth.

Leadership and Governance

The year brought a leadership transition with our CEO's departure and the promotion of a new CEO from within, ensuring continuity and internal talent utilisation. Additionally, the board's expansion with three new directors brought in extensive experience in international banking, private banking, risk, and compliance, significantly enhancing and strengthening our governance and strategic oversight.

Looking Forward

Looking into 2024, we are positioned for further growth and innovation, with a focus on technological advancements and strategic partnerships to expand our market presence. Our unwavering commitment to innovation aims to exceed customer expectations and sustain organic growth.

In closing, the progress of 2023 and the outlook for 2024 reflect our strategic resilience and adaptability in a changing economic landscape. We remain dedicated to delivering value to our stakeholders and contributing to the Cook Islands' economic growth.

Heinz Matysik
Chairman

CEO's Report

Dear Clients, Shareholders, and Stakeholders,

It is my privilege to present the annual report for the 2023 financial year on behalf of Capital Security Bank 'CSB.' At the outset, I extend my gratitude to our outgoing former CEO, John Evans, who departed the bank in Mid-January 2024. We appreciate his valuable contributions and wish him success in his future endeavours. I also wish to express my sincere thanks to all of you for your unwavering support and confidence in CSB. We remain committed to delivering the best possible products and services to our stakeholders and clients, ensuring sustained growth and profitability.

As a result of the challenging global financial environment faced in 2022 CSB conducted a Board-driven review of its treasury portfolio, pursuant to which a number of changes to portfolio management were implemented. These changes including the reduction and/or partial immunisation of duration risk via sales of longer-dated sovereign and corporate bonds and purchases of shorter-dated (lower-duration) sovereign bonds only, supplemented by investments in fixed-term deposits all now being actively managed through 2023 and into 2024. Whilst this action resulted in some short-term downside this decisive action has since seen CSB sustain strong profitability throughout 2023 and finished FY 2023 with a total capital ratio well above regulatory standards (current capital ratio exceeds 20%).

We have maintained our focus on delivering superior customer service while providing competitive returns for our investors. Key to this has been the continued product diversification of Fiduciary Deposit institutions and broker custodian relationships enabling CSB to find the right solution for each client's needs. This has seen CSB sustain assets under management and grow profitability YoY. This is a reflection of our continued efforts to think outside the norm and source investment solutions that meet the diverse needs of our clients.

Technology upgrades in Online Trading and Compliance verticals as well as increasing the overall staffing of CSB became a pivotal focus, with continued investments in cutting-edge technology to enhance capabilities and operational efficiency. HR development through staff training, ensuring our team possesses the skills and knowledge necessary to provide best-in-class service remains at key component to sustain the growth of CSB.

Looking ahead, I am excited to be leading CSB and optimistic about the leadership team, governance and guidance provided from our significantly increased board of directors. CSB is strategically positioned to capitalize on new opportunities and navigate challenges effectively. Our commitment to delivering sustainable growth and value to shareholders and clients remains unwavering.

In conclusion, I extend thanks to our employees, shareholders, and clients for their continuous support. We look forward to continued success in 2024

Joseph Horn-Smith
CEO

Report of the Directors to the Shareholders
For the year ended 31 December 2023

The Directors are pleased to present the annual report and consolidated financial statement of Capital Security Bank Limited (the Bank) and its subsidiary Capital Security Bank Cook Islands Limited (the Group) for the year ended 31 December 2023.

Results
Consolidated results for the year were a comprehensive profit after taxation of $ 5,257,401 (2022: loss $2,779,017)

Dividends
No dividends (2022: Nil) have been paid during the year.

Significant Changes in the State of Affair
There have been no significant changes in the operation of the group

There is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing the financial statements.

Auditor
In 2022, KPMG (Cook Islands) was appointed as auditors by the Directors. It is proposed for KPMG to remain in their current role.

Directors
Heinz Matysik, Phoebus Theologites, Andrew Yiangou and Brendon Stone continue in office.

David Steens resigned as a director effective as of 1 October 2023.

Daniel Gerber, Steffi Spitznagel and James Finkel, were appointed as directors in January 2024

Brendon Stone
Director
29 April 2024

Andrew Yiangou
Director
29 April 2024

Independent Auditor's Report

To the shareholder of Capital Security Bank Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Capital Security Bank and its subsidiaries (the 'Group') on pages: 9-26

i. i. present fairly, in all material respects the Group's company financial position as at 31 December 2023 and its financial performance and cash flows for the year ended on that date; and

ii. comply with International Financial Reporting Standards (IFRSs)

in accordance with the requirements of section 49(2) of the Banking Act 2011, we report that:

— we have obtained all information and explanations that we have required; and

— In our opinion, proper accounting records have been kept by the Group as far as appears from our examination of those records.

We have audited the accompanying financial statements which comprise:

— the consolidated statement of financial position as at 31 December 2023;

— the consolidated statements of comprehensive income, changes in equity and cash flows for the year the ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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Our responsibilities under ISAs (NZ) are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

The firm has no other relationship with, or interest in, the group.

Other Information

The Directors, on behalf of the Group, are responsible for the other information included in the Group's consolidated financial statements. Other information includes the Chairman's report, CEO report, Financial highlights and the Corporate directory. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards,
- implementing necessary internal control to enable the preparation of a set of consolidated financial statements that is free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

— to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate , they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), the auditor exercises professional judgement and maintains professional scepticism throughout the audit.

The auditor also:

— Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Concludes on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluates the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The auditor is responsible for the direction, supervision and performance of the Group audit. The auditor remains solely responsible for the audit opinion.
- The auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

KPMG

Rarotonga

30 April 2024

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2023

	Notes	2023	2022
Interest income		**2,619,412**	980,939
Interest expense		**(41,353)**	(54,150)
Net interest expense	2	**2,578,059**	926,789
Net (expense) / income from other financial instruments at fair value through profit or loss		**475,791**	(4,157,461)
Net income / (expense) from other financial instruments at Amortised cost		**3,166,532**	269,623
Other operating income	3	**3,444,291**	2,344,519
Total operating income		**9,664,673**	(616,530)
Operating expenses	4	**3,088,232**	2,843,850
(Loss) / Profit before income tax expense		**6,576,441**	(3,460,380)
Income tax benefit /(expense)	6	**(1,313,726)**	690,315
(Loss) / Profit for the year		**5,262,715**	(2,770,065)
Other comprehensive income			
Movement in foreign currency translation reserve, net of income tax		**(5,314)**	(8,952)
Total comprehensive (loss) / income		**5,257,401**	(2,779,017)

The notes on pages 14 to 26 are an integral part of these financial statements.

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Consolidated Statement of Changes in Equity
For the year ended 31 December 2023

	Note	Share Capital	Retained Earnings	Foreign Currency Translation Reserve	Total
Balance at 1 January 2023		**4,018,400**	**556,009**	**(11,593)**	**4,562,816**
Share Capital Issued		-	-	-	-
Profit After Taxation		-	5,262,715	-	5,262,715
Movement in Foreign Currency Translation Reserve		-	-	(5,314)	(5,314)
Total Comprehensive Income for the year		-	5,262,715	(5,314)	5,257,401
Dividends Paid		-	-	-	-
Balance at 31 December 2023		**4,018,400**	**5,818,724**	**(16,907)**	**9,820,217**
Balance at 1 January 2022		3,218,400	3,326,074	(2,641)	6,541,833
Share Capital Issued		800,000	-	-	800,000
Profit After Taxation		-	(2,770,065)	-	(2,770,065)
Movement in Foreign Currency Translation Reserve		-	-	(8,952)	(8,952)
Total Comprehensive Loss for the year		-	(2,770,065)	(8,952)	(2,779,017)
Dividends Paid		-	-	-	-
Balance at 31 December 2022		4,018,400	556,009	(11,593)	4,562,816

The notes on pages 14 to 26 are an integral part of these financial statements.

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Consolidated Balance Sheet
As at 31 December 2023

	Notes	2023	2022
Assets			
Cash and cash equivalents	7	**49,214,070**	20,653,574
Derivative financial asset		**9,386**	8,480
Investments	8	**78,873,225**	144,766,309
Loans and advances to customers	9	**342,825**	618,988
Other assets	10	**974,908**	822,861
Future Income Tax Benefit	6	-	690,315
Defferred Tax Asset	6	**9,838**	-
Property, plant and equipment	11	**106,550**	116,951
Intangibles		**31,287**	46,158
Right-of-use assets	5	**116,889**	147,369
Total assets		**129,678,978**	167,871,005
Liabilities			
Other liabilities	12	**996,046**	1,159,912
Derivative financial liability		**9,056**	8,106
Tax Liability	6 c	**633,250**	-
Income in advance		**298,574**	326,602
Client Funds on Deposit at Amortised Cost	13	**117,744,464**	161,593,837
Lease liability		**177,371**	219,732
Total liabilities		**119,858,761**	163,308,189
Equity			
Share capital	14	**4,018,400**	4,018,400
Foreign currency translation reserve	14	**(16,907)**	(11,593)
Retained earnings		**5,818,724**	556,009
Total equity		**9,820,217**	4,562,816
Total equity and liabilities		129,678,978	167,871,005

The notes on pages 14 to 26 are an integral part of these financial statements.

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Consolidated Statement of Cash flows
For the year ended 31 December 2023

	Notes	2023	2022
Cash flow from operating activities			
Interest received		**2,650,954**	344,277
Interest paid		**(43,056)**	(66,450)
Treasury cash income received		**354,031**	2,689,675
Fees and other income received		**3,220,374**	2,631,274
Payments to suppliers and employees		**(2,797,133)**	(2,633,446)
Net decrease / (increase) in investments		**69,186,748**	54,950,642
Client loan repayment		**247,134**	(118,988)
Net (decrease)/ increase in client funds		**(44,200,027)**	(87,172,634)
Net cash from operating activities		**28,619,025**	(29,375,650)
Cash flow from investing activities			
Purchase of intangibles and fixed assets		**(12,784)**	(17,699)
Net cash (used in) investing activities		**(12,784)**	(17,699)
Cash flow from financing activities			
Payment of lease liability		**(34,345)**	(41,152)
Increase in share capital		-	800,000
Dividends paid		-	-
Net cash (used in) financing activities		**(34,345)**	758,848
Net increase in cash and cash equivalent		**28,571,896**	(28,634,501)
Cash and cash equivalents at 1 January		**20,659,323**	49,302,776
Effect of exchange rate fluctuations on cash and cash equivalent held		**(5,314)**	(8,952)
Cash and cash equivalents at 31 December	7	**49,225,905**	20,659,323
Expected Credit Loss on Cash and cash equivalents		**(11,835)**	(5,749)
Cash and cash equivalents at year end comprised		**49,214,070**	20,653,574

The notes on pages 14 to 26 are an integral part of these financial statements.

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Notes to the Consolidated Financial Statements
For the year ended 31 December 2023

Note 1 Principal Accounting Policies

Reporting entity

The financial statements presented are the consolidated financial statements comprising Capital Security Bank Limited (the Bank) and its wholly owned subsidiary, Capital Security Bank Cook Islands Limited (the Group). The Group's principal activity is the provision of financial services.

The Bank was incorporated on 22 October 1997 under the Cook Islands International Companies Act 1981-82. The Group holds licenses to provide international and domestic banking services under the Banking Act 2011.
The consolidated financial statements are prepared for the statutory purpose of filing with the Registrar under the Cook Islands Banking Act 2011.

The consolidated financial statements were authorized for issue by the Board of Directors on the 29th April 2024.

Investment in subsidiary

The Group consists of the Bank and its following subsidiary:

	Holding	Balance Date	Country of Incorporation	Principal Activities
Capital Security Bank Cook Islands Limited	100%	31 December	Cook Islands	Financial Services

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention, modified by the application of fair value measurements required or allowed by relevant accounting standards. Accounting policies have been consistently applied by the Group to all periods presented, unless otherwise stated.

The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The reporting currency of the consolidated financial statements is United States dollars which is the Bank's functional currency and the Group's presentation currency. The functional currency of the subsidiary is New Zealand dollars. Unless otherwise indicated, amounts are rounded to the nearest dollar.

The consolidated financial statements have been prepared on a going concern basis after considering the Group's funding and liquidity position.

There is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing the consolidated financial statements.

Principles of consolidation

The consolidated financial statements of the Group incorporate the assets, liabilities and results of all controlled entities. Controlled entities are all entities in which the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Intercompany transactions, balances and any unrealised income and expense (except for foreign currency transaction gains or losses) between controlled entities are eliminated.

The assets and liabilities of entities whose functional currency is not the United States dollar, are translated at the exchange rates ruling at balance sheet date. Revenue and expense items are translated at the average spot rate for the period reported. Exchange differences are taken to the foreign currency translation reserve.

Assumptions and estimates

The preparation of consolidated financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. It also requires management to exercise judgement in the process of applying accounting policies. The notes to the consolidated financial statements include areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the Group. Refer to Note 18.

Changes in accounting policies and disclosures

Standards, amendments and interpretations issued

New and amended standards, and interpretations mandatory for the first time for the financial year ended 31 December 2023

The following standards, amendments and interpretations to existing standards became applicable for the first time during the accounting period beginning 1 January 2023.

- Amendments to IFRS 17, IAS 1, IAS 8, and IAS 12

The above changes did not have any material impact on the Bank.

Assumptions made at each reporting date are based on best estimates at that date. Although the Group has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the reporting period in which the estimates are revised and in any future periods affected.

New standards, amendments and interpretations issued but not effective for the financial year ended 31 December 2023 and not early adopted.

- Amendment to IFRS 16,'Lease Liabilities ' – Sale and Leaseback
- Amendment to IFRS 17,'Insurance Contracts'.
- Amendment to IAS 7 and IFRS 7 - "Supplier Finance Arrangements"
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8
- Amendment to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction
- Amendment to IAS 12 – International Tax Reform - Pillar Two Model Rules

The Group has conducted investigations and does not consider that there are any measurement or recognition issues arising from the release of these new pronouncements that will have a significant impact on the reported Consolidated balance sheet or Consolidated financial performance of the Group.

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Note 1 Principal Accounting Policies *continued*

Foreign currency translation

Foreign currency transactions are recorded at the exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at balance sheet date are translated at closing rates. Gains and losses due to currency fluctuations on these items are included in the consolidated statement of comprehensive income.

The Bank owns one subsidiary, Capital Security Bank Cook Islands Limited, which has a functional currency of New Zealand dollars. The assets and liabilities of this subsidiary are translated into United States dollars at spot exchange rates at the reporting date. The income and expenses of this subsidiary are translated into United States dollars at the average spot rate for the period reported. Foreign currency differences on the translation of this subsidiary are recognised in the foreign currency translation reserve. If this subsidiary was disposed of, in part or in full, the relevant amount in the foreign currency translation reserve would be transferred to the consolidated statement of comprehensive income.

Fair value measurement

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. When available the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price.

The Group measures fair value using the following hierarchy:
Level 1 : inputs that are quoted market prices (unadjusted) in active markets for identical instruments
Level 2: inputs other than quoted prices included in Level 1 that are observable directly or indirectly
Level 3: inputs that are unobservable

Financial Instruments measured at fair value through profit or loss include Government Treasury Bonds.

Financial assets

Financial assets comprise items such as Cash and cash equivalents, Investments, Loans and advances to customers and Other assets.

Financial assets are classified into the following measurement categories:
- those to be measured at fair value through profit or loss; and
- those to be measured at amortised cost.

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

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

Items at fair value through profit or loss include items held for trading, items specifically designated as fair value through profit or loss on initial recognition and debt instruments with contractual terms that do not represent solely payments of principal and interest.

Financial assets held at fair value through profit or loss are initially recognised at fair value, with transaction costs being recognised in the Statement of Comprehensive Income as incurred. Subsequently, they are measured at fair value with gains and losses recognised in the Statement of Comprehensive Income as they arise.

Where a financial asset is held at fair value, the movement in fair value attributable to interest rate market movements is either an observable market value or calculated based on changes in observable market interest rates for swaps.

Financial assets designated at fair value through profit or loss

Upon initial recognition, financial assets may be designated at fair value through profit or loss. For a financial asset, the fair value option is only applied if it eliminates an accounting mismatch that would otherwise arise from measuring items on a different basis.

ii) Financial assets measured at amortised cost

A financial asset is measured at amortised cost only if:
- it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

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

Financial liabilities

Financial liabilities comprise Client funds on deposit and Amounts due to related entities.

Financial liabilities are either held at fair value through profit or loss or at amortised cost.

ii) Financial liabilities held at amortised cost

All other financial liabilities, Amounts due to related entities and certain amounts within Client funds on deposit are measured at amortised cost using the effective interest method.

Derecognition of financial instruments

The Group derecognises a financial asset when the contractual cash flows from the asset expire or it transfers its rights to receive contractual cash flows on the financial asset in a transaction in which substantially all risks and rewards of ownership are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

A financial liability is derecognised from the Consolidated Balance Sheet when the Group has discharged its obligation or the contract is cancelled or expired.

Offsetting

The Group offsets financial assets and financial liabilities and reports the net balance in the balance sheet when, and only when, there is currently a legally enforceable right to set off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

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Note 1 Principal Accounting Policies *continued*

Consolidated Statement of Cash flows

The Consolidated Statement of Cash flows has been prepared using the direct approach. Financing activities are those activities which result in changes to the size and composition of the capital structure of the Group. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities. Operating activities include all transactions and other events that are not investing or financing activities.

The composition of "Cash and cash equivalents" is described in Note 7.

Derivative financial assets

Derivative assets held-for-risk management purposes include all derivative assets that are not classified as trading assets and are measured at fair value in the Consolidated balance sheet.

Derivatives are classified as assets, when their fair value is positive or as liabilities, when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset, if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

Note 2 Net interest income

Accounting policy

Interest income and expense is recognised in profit or loss using the effective interest method. The effective interest rate is established on initial recognition of the financial assets and liabilities and is not revised subsequently. The calculation of the effective interest rate includes all yield related fees and commissions paid or received that are an integral part of the effective interest rate.

Note 3 Other operating income

Accounting policy

Fees and commissions

Unless included in the effective interest calculation, fees and commissions are recognised on an accrual basis as the service is provided. Fees and commissions not integral to the effective interest rate arising from negotiating, or participating in the negotiation of a transaction with a third party are recognised on completion of the underlying transaction.

Funds management and other fiduciary activities

Fees and commissions earned through the marketing of funds management products and other fiduciary activities are included in the income statement as they are earned.

Other operating income

	2023	2022
Account management fees	**2,721,815**	1,482,460
FX Conversions and Translation Gains	**107,884**	160,248
Bank Fees Charged	**217,815**	276,692
Maintenance Fees	**396,777**	425,119
Total other operating income	**3,444,291**	**2,344,519**

Note 4 Operating expenses

Accounting policy

Operating expenses are recognised as the underlying service is rendered or over the period in which an asset is consumed or once a liability is incurred.

Employee entitlements

Wages and salaries, annual leave and other employee entitlements expected to be paid or settled within 12 months of providing the service are measured at their nominal amounts using remuneration rates that the Group expects to pay when the liabilities are settled.

Operating expenses includes;

	2023	2022
Amortisation and depreciation		
Amortisation of intangible assets	**7,821**	6,237
Depreciation on property, plant and equipment	**23,185**	27,305
Depreciation on right-of-use assets	**30,480**	51,194
Total amortisation and depreciation	**61,486**	84,736
Personnel expenses		
Salaries and other staff expenses	**969,735**	822,193
Total personnel expenses	**969,735**	822,193
Auditor's fees		
Audit and review of financial statements	**83,854**	54,301
Other assurance and risk related services	-	-
Total auditor's fees	**83,854**	54,301
Other		
Computer Costs	**265,140**	208,425
Lease liability expense	**8,016**	9,000
Fees and commission	**694,588**	656,463
Other expenses	**1,005,413**	1,008,732
Total other operating expenses	**1,973,157**	1,882,620
Total operating expenses	**3,088,232**	2,843,850

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Note 5 Leases

Accounting policy

IFRS 16 Leases was applied by the Group from 1 January 2019 using the modified retrospective approach, under which the cumulative effect of initial application was recognised in retained earnings at 1 January 2019.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

For leases of office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's assumed NZD incremental borrowing rate of 4%.

The Group determines its incremental borrowing rate by analysing various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liability, individually in the consolidated balance sheet.

The Group leases an office premises. The lease ran for an initial period of 5 years, with two options of 5 years to renew the lease after that date. Further, the Group has not entered into any new leases during the year ended 31 December 2023 (2022: Nil).

Information about leases for which the Group is a lessee is presented below.

i. Right-of use assets

Right-of-use assets relate to leased office premises.

	2023	2022
Balance at 1 January	**147,369**	198,563
Less depreciation charge for the period	**30,480**	51,194
Balance at period end	**116,889**	147,369

ii. Amounts recognised in profit or loss

Interest on lease liabilities	**8,016**	9,000
	8,016	9,000

iv.

The lease of office premises contains extension options exercisable by the Group up to 120 days before the end of the non-cancellable contract period. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control. The Group has exercised the renewal option for a further 5 years in November 2022. This is the last extension option under this lease.

v. Lease liability

The table below sets out the maturity analysis based on gross contractual cash flows to a final expiry date of 31 October 2027.

Less than one year	**51,027**	51,027
One to five years	**144,577**	195,604
	195,604	246,631

Note 6 Income tax

Accounting policy

On the 17th of December 2019 the Cook Islands parliament passed the following legislative amendments to both the Banking Act 2011 and International Companies Act 1981-82 affecting all International Companies registered in the Cook Islands;

Banking Act Section 55 – Repealed; International Companies Act Section 243 – Repealed

As a result of these changes all tax exemptions have been removed and the Bank as an International Company is now subject to income tax, stamp duty or other tax, or impost or deductions. Capital Security Bank Cook Islands Limited is subject to income tax under the Income Tax Act 1997.

On the 1st of June 2021 the Transitional Provisions Regulations 2021 was passed into law providing all International Companies established before the 18th of December 2019 a transitional period until the 31st of December 2021 before the removal of tax exemptions come into effect.

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Note 6 Income tax *continued*

Accounting policy *continued*

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in equity or other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. 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 substantially enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that the related tax benefit will be realised.

Note 6(a) Income tax on operating profit charged to the income statement	**2023**	2022
Taxable income / (loss)	**6,576,441**	(3,460,380)
Tax (credit)/charge at company rate of 20%	**1,315,288**	(692,076)
Accumulated domestic tax loss offset	-	-
Future income tax benefit not recognised for subsidiary	**(1,562)**	1,761
Income tax expense/(benefit)	**1,313,726**	(690,315)

Note 6(b) Future Income tax benefit	**2023**	2022
Opening future income tax benefit	**690,315**	-
Utilisation of prior year tax losses	**(690,315)**	-
Closing Future Income Tax Benefit	-	690,315

Note 6(c) Income Tax Receivable	**2023**	2022
Opening Income Tax Receivable / (Payable)	-	-
Tax Refund Received	-	-
Tax payments made during the year	-	-
Tax benefit to be utilized	**690,315**	-
Tax expense for the year	**(1,323,565)**	-
Closing Income Tax Receivable / (Payable)	**(633,250)**	-

Note 6(d) Deffered Tax	**2023**	2022
Opening deffered Tax	-	-
Increase or (decrease) in the year	**9,838**	-
Closing Deffered Tax	**9,838**	-

Defferred tax sset is attributed to the following:		
Provision for expected Credit Loss	**9,838**	-

Note 7 Cash and cash equivalents

Accounting policy

Cash and cash equivalents consists of cash, transaction balances with other institutions and deposits with an original term of 3 months or less to maturity.

	2023	2022
Gross cash and cash equivalents	**49,225,905**	20,659,323
	49,225,905	20,659,323
Expected credit loss provision	**(11,835)**	(5,749)
Net cash and cash equivalents	**49,214,070**	20,653,574

Note 8 Investments

Accounting policy

The Group holds investments in bank deposits and treasury bonds. (refer note 18).

These investments are classified as follows;

Bank Deposits	Amortised Cost
Treasury Bonds	Amortised Cost and Fair Value Through Profit or Loss

Investments includes;

	Note	**2023**	2022
Net investments in Treasury bonds - at FVTPL	**8(a)**	**50,656,364**	63,936,446
Net investments in Treasury bonds - at amortised cost	**8(b)**	**18,268,118**	30,715,021
Net investments in Term Deposits - at amortised cost	**8(c)**	**9,948,743**	50,114,842
		78,873,225	144,766,309

8(a) Investments in Treasury bonds - at FVTPL

During the period the Group has changed its business model for managing treasury asset investments held at Amortised Cost. The entity revised its Treasury Management Policy (TMP) and the adoption of active management. Segreagted portfolios were maintained to allow for the instruments purchased under the classifcation Amortised Cost to mature under Amortised Cost. Any new instruments purchased after September and going will be classified under FVTPL.

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Note 8 Investments *continued*

8(b) Investments in Treasury bonds - at amortised cost

	2023	2022
Investments in Treasury bonds - at amortised cost	**18,275,188**	30,721,834
Expected credit loss provision on Investments in Treasury bonds - at amortised cost	**(7,070)**	(6,813)
Net Investments in Treasury bonds - at amortised cost	**18,268,118**	30,715,021

8(c) Investments in term deposits - at amortised cost

	2023	2022
Investments in term deposits - at amortised cost	**9,950,000**	50,121,729
Expected credit loss provision on Investments in term deposits - at amortised cost	**(1,257)**	(6,887)
Net Investments in term deposits - at amortised cost	**9,948,743**	50,114,842

Note 9 Loans and advances to customers

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money or services directly to a customer and has no intention of trading the loan.

Loans and advances are measured at amortised cost using the effective interest method, net of any provision for credit impairment. Under the effective interest method, fee income and costs directly related to the origination of the loan are deferred over the expected life of the assets or, where appropriate, a shorter period. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument and excluding future credit losses.

	2023	2022
Gross loans and advances	**371,854**	618,988
Provision for doubtful debts	**(29,029)**	-
Loans and advances to customers	**342,825**	618,988

All loans and advances to customers require collateral in the form of cash, interest bearing deposits and marketable securities. There are no arrears (2022: nil), with a credit impairment of $29,029(2022: nil). The percentage of exposure that is subject to collateral requirements at period end was 100% (2022: 100%)

Note 10 Other assets

	2023	2022
Accrued interest receivable	**622,278**	653,820
Sundry debtors	**196,692**	758
Prepayments	**135,593**	143,492
Prepaid commission	**20,345**	24,791
Total other assets	**974,908**	822,861

Note 11 Property, plant and equipment

Accounting policy

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is being provided by the diminishing value method at the

Office building improvements	20%
Vehicles	20%
Office equipment	20%
Office furniture and fittings*	0% or 20%

*Includes Artworks which are not depreciated.

Note 11 Property, plant and equipment continued

Property, plant and equipment are comprised of the following:

	Office Building Improvements	Vehicles	Office Equipment	Office Furniture and Fittings	Total
Balance as at December 31, 2022					
at Cost	11,085	81,376	125,569	67,847	285,877
Additions	-	-	11,698	1,087	12,785
Disposals	-	-	-	-	-
Balance as at December 31, 2023	**11,085**	**81,376**	**137,267**	**68,934**	**298,662**
Accumulated Depreciation					
Balance as at December 31, 2022	9,827	20,314	87,333	51,454	168,928
Additions	252	12,212	8,902	1,819	23,185
Disposals	-	-	-	-	-
Balance as at December 31, 2023	**10,079**	**32,526**	**96,235**	**53,273**	**192,112**
Net Book Value					
As at December 31, 2022	1,259	61,062	38,237	16,393	116,951
As at December 31, 2023	**1,006**	**48,850**	**41,032**	**15,661**	**106,550**

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Note 12 Other liabilities
Accounting policy
An accrual is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable

	2023	2022
Employee entitlements	18,182	15,170
Uncleared deposits	360,231	710,885
Accrued interest payable	-	1,703
Other accruals	617,633	432,154
	996,046	1,159,912

Note 13 Client funds on deposits at amortised cost

	2023	2022
On demand and short-term deposits	117,744,464	150,631,373
Time deposits	-	10,962,464
	117,744,464	161,593,837

Note 14 Capital and Reserves

(a) Share Capital	2023	2022
Balance 1 January	4,018,400	3,218,400
Movement during the year	-	800,000
Balance period end	4,018,400	4,018,400

The authorised and paid up capital of the Company is 2,000,000 (2022: 2,000,000) Class A ordinary shares with a par value of NZ$1.00 each, and 2,800,000 (2022: 2,800,000) Class B ordinary shares with a par value of USD$1.00 each. All shares rank equally with respect to dividends and the Company's residual assets.

	2023	2022
Class A ordinary shares authorised and paid up at 1 January	2,000,000	2,000,000
Issued and authorised for Cash	-	-
Class A ordinary shares authorised and paid up at 31 December	2,000,000	2,000,000
Class B ordinary shares authorised and paid up at 1 January	2,800,000	2,000,000
Issued and authorised for Cash	-	800,000
Class B ordinary shares authorised and paid up at 31 December	2,800,000	2,800,000

(b) Reserves
Foreign Currency Translation Reserve
This contains all foreign currency differences arising from the translation of the financial statements of subsidiaries where the operating currency is NZD.

Note 15 Related entity transactions
Note 15.1 Parent and Ultimate controlling party
The ultimate parent company of the Bank is CSB Investor Group B.V. During the period ended 31 December 2023, there were dealings between the Bank and its related entities as well as other related parties (including key management personnel). Details of these transactions are outlined below.

No provisions have been recognised in respect of loans provided to related entities, as these are supported by correspondeing security sufficent to cover the loan balance. (2022: nil). There were no debts with any of the above parties written off or forgiven during the period ended 31 December 2023 (2022: nil). During the period ended 31 December 2023, the ultimate parent held an account under standard terms and conditions with a balance at 31 December 2023 of $6,143,391 (2022: $6,985,610).

Note 15.2 Transactions with related entities
The Group provides banking and other administrative services to related entities on normal terms and conditions.

During the financial year, there have been dealings between the Bank and its controlled entities, and the Group and its related entities. The Bank provides a range of services to related entities including the provision of banking facilities. These transactions are subject to commercial terms and conditions. The Bank provides some accounting administration and banking services to controlled and related entities for which fees may not be charged.

The Bank is a subsidiary of CSB Investors Group , which also owns Investors Europe (Mauritius) Ltd. These subsidiaries are considered related parties due to common control by the parent company. All related party transactions are recorded at their agreed-upon amounts, reflecting the terms negotiated between the parties. At the period ended 31 December 2023 the bank held a balance of $4,717,006 (2022: 1,082,110) with the subsidiary. These balances are disclosded in the consolidated balance sheet and there were no intercompany charges between the two subsidiaries during the period.

Dividends paid to shareholders are disclosed in the consolidated statement of changes in equity.

Included in other expenses is $7,735 of professional legal services made to a Director of the Group.

Loans have also been made to the following related companies by the Group:
The Bank and Group have a right of set off in respect to client funds on deposit and loans made to clients of $11,938,781 (2022: $11,145,867). These balances are not recorded in the Consolidated Balance Sheet.

The terms of these loans require that security is held over a deposit with the Bank for the same amount of the loan and the Bank has the right and ability to settle both simultaneously and therefore loss given default is nil. These loans are related through common ownership.

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Note 15 Related entity transactions *continued*

Note 15.3 Key management personnel

Key management personnel are defined as being Directors and the executive team of the Bank. The information relating to key management personnel disclosed below includes transactions with those individuals, their close family members and their controlled entities.

Deposits with both non-executive and executive key management personnel of the Bank are made in the ordinary course of business on commercial terms and conditions.

Payments to key management personnel	Number of KMPs	2023	2022
Short-Term employee benefits	5	**481,460**	458,020
Post-employment benefits	5	**48,146**	37,188
Deposits due to key management personnel		**6,357,173**	7,259,771

Note 16 Contingent liabilities and other commitments

Accounting policy

Contingent liabilities are possible obligations whose existence will only be confirmed by uncertain events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Where some loss is probable, provisions have been made. Contingent liabilities are not recognised in the consolidated balance sheet, but are disclosed unless the likelihood of payment is remote.

There are no contingent liabilities for the Group as at balance sheet date (2022: nil).

Credit related commitments

For commitments to extend credit, the maximum credit exposure to the Group is the full amount of the commitment. Irrevocable commitments to extend credit are agreements to lend to a customer which can be drawn down at any time before the commitments expire as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiry dates or other termination clauses and may require payment of a fee by the customer. At 31 December 2023 there were no credit related commitments (2022: nil).

Other commitments

At year end the bank holds 20 forward exchange contracts to sell $200,000 USD for $331,937 NZD at various dates within the next 12 months. Followed by 20 forward exchange contracts to buy $200,000 USD for $331,407 NZD at various dates within the next 12 months. The associated Derivative asset and Derivative liability related to these contracts has been recognised on the balance sheet.

Note 17 Capital adequacy

The Group's capital includes Share Capital, Reserves, and Retained earnings. The Group's policy is to exceed regulatory requirements for capital so as to

The Group is subject to the following prudential capital requirements by the regulator, Financial Supervisory Commission:

- Tier-One Capital must be at least 10% of Risk-Weighted Assets
- Total Capital and Reserves must be at least 15% of Risk-Weighted Assets

At balance date the Group's Tier-One Capital represented 72% (2022: 28%) of Risk-Weighted Assets.

The Group's Total Capital and Reserves represented 72% (2022: 28%) of Risk-Weighted Assets.

The Group's policies in respect of the capital management are regularly reviewed by the Directors.

Note 18 Classification of financial instruments and fair value measurement

Categories of financial assets and financial liabilities

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. For the purposes of this note, carrying amount refers to amounts reflected in the consolidated balance sheet. The methodologies and assumptions used in the fair value estimates are described in the Fair value measurement part of this note.

Derivative financial instruments such as forward foreign exchange contracts and currency swaps are valued using a valuation technique with market observable inputs (level 2). The most frequently applied valuation technique is forward pricing model which incorporates various inputs, including foreign exchange spot and forward premiums.

The fair value of customer deposits with contractual maturity of more than one year, is estimated as the present value of future cash flows expected from such deposits calculated based on interest rate at the reporting date for similar types of deposits.

The fair value of customer deposits which are repayable on demand or having a remaining contractual maturity of less than one year, approximates to the carrying value of such deposits.

	2023 Fair Value Amount	2022 Fair Value Amount	**2023 Carrying Amount**	2022 Carrying Amount
	(USD 000's)		**(USD 000's)**	
Financial Assets				
At amortised cost				
Cash and cash equivalents	**49,214**	20,640	**49,214**	20,654
Investments in term deposits	**9,951**	49,917	**9,949**	50,115
Investments in treasury assets	**18,267**	30,631	**18,268**	30,715
Loans and advances to customers	**343**	619	**343**	619
Other assets	**819**	654	**819**	654
Fair Value through profit or loss				
Investments in treasury assets	**50,656**	63,936	**50,656**	63,936
Derivative financial assets	**9**	8	**9**	8
	129,259	166,405	**129,258**	166,701

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Note 18 Classification of financial instruments and fair value measurement *continued*

Categories of financial assets and financial liabilities *continued*

Financial Liabilities				
At amortised Cost				
Client Funds on Deposit	**117,744**	161,594	**117,744**	161,594
Other financial liabilities	**996**	1,160	**996**	1,160
Fair Value through profit or loss				
Derivative financial liabilities	**9**	8	**9**	8
	118,749	**162,762**	**118,749**	**162,762**

The fair value estimates are based on the following methodologies and assumptions:
Cash and cash equivalents
These are liquid in nature and therefore equate to fair value.

Investments in term deposits and treasury assets at amortised cost
These are valued at fair value based on market rates.

These assets are primarily short term in nature or are receivable on demand. In such cases the carrying amounts approximate their fair value.
Loans and advances to customers
These are measured at amortised cost using the effective interest method, less any impairment. This is materially the same as fair value as the interest rate of these loans are not materially different to the current market rates.

Other financial assets/liabilities
These include accrued interest and uncleared client funds. Given they are short term in nature their carrying amounts approximate their fair value.

Investments in treasury assets at fair value through profit or loss
These are carried at fair value based on market rates.

Derivative financial assets/liabilities
These are carried at fair value based on market rates.

Client funds on deposit at amortised cost
The fair value of client funds on deposit at amortised cost is calculated using the effective interest method, and is materially the same as the carrying amount as these all mature within 12 months and there is no material difference between the interest rate of these liabilities and current market rates.

Note 19 Risk management
The Group's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management evaluation is carried out by the Directors, which involves the identification and evaluation of financial risks.

Exposure to credit, liquidity, currency, price risk and interest rate risk arises in the normal course of the Group's business.

Credit Risk
The Group applies ECL model separately for each financial asset category measured at amortised cost.
The Group measures, Expected Credit Loss (ECL) provision based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the provision is based on the 12 months expected credit loss (12mECL). The 12mECL is the portion of LTECLs that represent the ECLs resulting from default events of a financial instrument that are possible within the 12 months after the reporting date.

The Group determines whether there has been significant increase in credit risk when contractual payments of an underlying assets are more than 30 days past due in accordance with the IFRS 9.

LTECLs and 12mECLs are calculated either on an individual basis or on a collective basis, depending on the nature of the underlying portfolio of financial instruments.
The Banks's ECL is calculated with corresponding to PD, LGD and EAD and is the sum of segment ECLs. Where,

- Probability of default (PD) : the probability that a counterparty will default
- Loss given default (LGD): the loss that is expected to arise in the event of default
- Exposure at default: the estimated outstanding amount of credit exposure at the time of default, which is the outstanding amount that is at risk of default at a certain point in time.

An expected credit loss provision has been recognized for cash and cash equivalents, term deposits and treasury bonds measured at amortised cost at year end. The PD and LGD are calculated based on industry rates in line with the counterparty's credit rating for which these financial assets are held. There are no other past due or impaired assets and no impairment provision has been recognised, except for the expected credit loss provision on cash and cash equivalents, term deposits and treasury bonds measured at amortised cost due to the following:

Credit risk is the possibility that a loss may occur from the failure of a counterparty to perform according to the terms of contract. The Group deals with reputable financial institutions for investing and cash handling purposes and the probability of default is considered very low.

The terms of Loans to clients require that security is held over balances invested with the Bank that cover the full amount of the loan facility made by the Bank and therefore loss given default is always nil (refer Note 9).

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

The maximum exposure to credit risk approximates to the carrying amount of each financial asset in the consolidated balance sheet. Loans and deposits that have the right of set off (Note 15) do not carry risk.

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Note 19 Risk management *continued*

The Directors consider that none of the Bank's or Group's financial assets are impaired or past due.

	Standard & Poor's Credit rating	2023	2022
Concentrations of credit risk:			
Cash and cash equivalents - rated	AA-	**24,782,292**	10,406,414
	A+	**12,460,074**	3,566,548
	A	-	-
	A-	-	-
	BBB-	**149,744**	-
		37,392,110	13,972,962
Cash and cash equivalents - unrated		**11,810,124**	6,674,864
		49,214,070	20,653,574
Investments due from other institutions - rated	AA-	**8,000,000**	41,524,487
	A+	**1,948,743**	8,590,355
	A-	-	-
		9,948,743	50,114,842
Investments due from other institutions - unrated		-	-
		9,948,743	50,114,842

The following table shows the credit quality of treasury assets included in Investments.

	Standard & Poor's Credit rating	2023	2022
Investments due from treasury assets - rated	AAA	-	-
	AA+	-	-
	AA	-	-
	AA-	-	19,328,210
	A+	**9,237,506**	71,996,406
	A	-	-
	A-	-	-
	BBB+	-	-
	BBB	-	-
	Not Rated	**59,686,976**	3,326,852
		68,924,482	94,651,467

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash at bank and marketable securities and the ability to close out market positions. The Directors ensure that sufficient cash reserves are maintained at all times to meet any liquidity requirements deemed likely to arise, giving due consideration to historical experience as well as the prevailing market conditions. Where cash reserves are nevertheless found to be inadequate to meet client requirements the Group has the right to close out interest-bearing deposits held at other financial institutions within 48 hours. The Bank's documented investment strategy and practical management of treasury asset investments is based on the view and practical testing that the Bank has the ability to readily sell its treasury assets when required.

Liquidity Maturity Analysis

The following tables present the Group's financial assets and liabilities by relevant maturity groupings based upon contractual maturity date. The amounts disclosed in the tables represent discounted principal only. As a result, the amounts in the tables below align with the amounts reported on the Consolidated Balance Sheet.

The cash flows presented below may differ significantly from actual cash flows. This occurs as a result of future actions by the Group and its counterparties, such as early repayment or refinancing of term loans and borrowings. Deposits include customer savings deposits and transactional accounts, which are at call. History demonstrates that such accounts provide a stable source of long term funding for the Group.

31 December 2023 (USD 000's)	0 to 1 Month	2 to 12 Months	1 to 3 years	3+ years	Total	Carrying Amount
Financial Assets						
Cash and cash equivalents	39,214	10,000	-	-	49,214	49,214
Derivative financial assets	1	8	-	-	9	9
Investments	16,816	62,057	-	-	78,873	78,873
Loans and advances to customers	43	300	-		343	343
Other assets excluding prepayments	452	367	-	-	819	819
	56,526	72,732	0	0	129,258	129,258
Financial Liabilities						
Client Funds on Deposit at amortised cost	117,744	-	-	-	117,744	117,744
Amounts due to related entities	-	-	-	-	-	-
Derivative financial liabilities	1	8	-	-	9	9
Other liabilities	790	206	-	-	996	996
Total	118,535	214	-	-	118,749	118,749
Gap	(62,009)	72,518	0	0	10,509	10,509

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Note 19 Risk management *continued*

31 December 2022 (USD 000's)	0 to 1 Month	2 to 12 Months	1 to 3 years	3+ years	Total	Carrying Amount
Financial Assets						
Cash and cash equivalents	19,654	1,000	-	-	20,654	20,654
Derivative financial assets	-	8	-	-	8	8
Investments	4,608	137,770	2,388	-	144,766	144,766
Loans and advances to customers	87	232	300		619	619
Other assets excluding prepayments	249	406	-	-	655	655
	24,598	139,416	2,688	-	166,702	166,702
Financial Liabilities						
Client Funds on Deposit at amortised cost	150,632	10,962	-	-	161,594	161,594
Amounts due to related entities	-	-	-	-	-	-
Derivative financial liabilities	-	8	-	-	8	8
Other liabilities	1,004	156	-	-	1,160	1,160
Total	151,636	11,126	-	-	162,762	162,762
Gap	(127,038)	128,290	2,688	0	3,940	3,940

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's income and operating cash flows are substantially dependent on changes in market interest rates. All deposits received from customers are invested on comparable terms to minimise the impact on the Group's financial performance of adverse movements in market interest rates and exposures are monitored by the Directors on an ongoing basis.

The following table below shows the potential impact of changes in yield on the Group's fixed income investment securities. The table uses the duration-convexity approach by which we assume a scenario consisting of a parallel shift in yield curve equivalent to 100 bps.

	Rate shift -100 b.p.	**Rate shift +100 b.p.**
31 December 2023		
Investment securities	**139,808**	**(139,808)**
31 December 2022		
Investment securities	259,104	(259,104)

Foreign Currency Risk

The Group is exposed to currency risk through transactions in foreign currencies. These currencies include the New Zealand dollar, Australian dollar, Canadian dollar, Euro, British pound and other currencies which include Singapore dollar, Swedish krona, Norwegian krone, Japanese yen, Hong Kong dollar, Danish krone, Chinese yuan, Thai Baht and Swiss franc that the Group deals in. As the currency in which the Group presents its consolidated financial statements is the United States dollar, the Group's financial statements are affected by movements in the exchange rates between these currencies and the United States dollar.

Significant gross exposures in USD are as follows:

31 December 2023	**AUD**	**CAD**	**EUR**	**GBP**	**NZD**	**Other**
Assets						
Cash and cash equivalents	**1,348,892**	**473,667**	**1,915,822**	**753,457**	**655,244**	**1,483,463**
Derivative financial assets	-	-	-	-	**15,076**	
Investments	**1,430,810**	**906,002**	**1,112,422**	-	**632,711**	-
Other assets	**13,840**	**2,229**	**0**	**35,882**	**51,199**	-
Total assets	**2,793,542**	**1,381,898**	**3,028,244**	**789,339**	**1,354,230**	**1,483,463**
Liabilities						
Other liabilities	-	-	-	-	**272,569**	-
Derivative financial liabilities	-	-	-	-	**14,546**	
Client Funds on Deposit at Amortised Cost	**2,798,064**	**1,376,044**	**3,038,266**	**769,151**	**1,115,450**	**1,508,374**
Lease liability	-	-	-	-	**(165,189)**	-
Total liabilities	**2,798,064**	**1,376,044**	**3,038,266**	**769,151**	**1,237,376**	**1,508,374**
Net statement of financial position exposure	**(4,522)**	**5,854**	**(10,022)**	**20,188**	**116,854**	**(24,911)**
Reporting date spot rate	**0.6813**	**0.7550**	**1.1040**	**1.2732**	**0.6327**	

Significant gross exposures in USD are as follows:

31 December 2022	**AUD**	**CAD**	**EUR**	**GBP**	**NZD**	**Other**
Assets						
Cash and cash equivalents	1,301,023	93,571	1,301,751	240,110	2,277,655	1,146,342
Derivative financial assets	-	-	-	-	13,342	
Investments	754,550	886,394	856,990	797,242	1,524,487	-
Other assets	4,150	2,512	1,774	34,314	58,134	-
Total assets	2,059,723	982,477	2,160,515	1,071,666	3,873,618	1,146,342

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Note 19 Risk management *continued*

Liabilities						
Other liabilities	0	-	267,809	-	120,243	-
Derivative financial liabilities	-	-	-	-	12,751	
Client Funds on Deposit at Amortised Cost	2,067,383	980,099	1,900,757	1,054,866	3,757,371	1,182,193
Lease liability	-	-	-	-	(114,812)	-
Total liabilities	2,067,383	980,099	2,168,566	1,054,866	3,775,553	1,182,193
Net statement of financial position exposure	(7,660)	2,378 -	8,052	16,800	98,065	(35,851)
Reporting date spot rate	0.6816	0.7387	1.0712	1.2098	0.6352	

Sensitivity analysis:

A 10 percent strengthening of the Australian dollar, Canadian dollar, Euro, British pound and New Zealand dollar against the United States dollar at 31 December would have increased (decreased) profit or loss by the amounts shown below. This assumes that all other variables, in particular interest rates, remain constant.

Effect in USD	2023	2022
Australian dollar	**(452)**	(766)
Canadian dollar	**585**	238
Euro	**(1,002)**	(805)
British pound	**2,019**	1,680
New Zealand dollar	**11,685**	9,806

Price Risk

Price risk is the risk that changes in market prices will adversely affect the value of the Group's treasury assets. The objective of the Group's price risk management is to manage and control price risk by engaging multiple investment managers and specifying the range of investment grades in which they can invest.

Interest Rate Repricing Analysis

The following is a summary of the Group's interest rate gap position and has been prepared on the basis of the next repricing date:

	Less than 3 months (USD 000)	3 to 6 months (USD 000)	7 months to 1 year (USD 000)	1 to 3 years (USD 000)	Over 3 years (USD 000)	Not bearing interest (USD 000)	Total (USD 000)
At 31 December 2023							
Assets							
Cash and cash equivalents	**49,214**	-	-	-	-	-	**49,214**
Derivative financial assets	-	-	-	-	-	**9**	**9**
Investments	**40,886**	**37,237**	**750**	-	-	-	**78,873**
Loans and advances to customers	**43**	**300**	-	-	-	-	**343**
Other assets	-	-	-	-	-	**819**	**819**
Total assets	**90,143**	**37,537**	**750**	-	-	**828**	**129,258**
Liabilities							
Client Funds on Deposit at Amortised Cost	**117,744**	-	-	-	-	-	**117,744**
Derivative financial liabilities	-	-	-	-	-	**8**	**8**
Other Liabilities	-	-	-	-	-	**996**	**996**
Total Liabilities	**117,744**	-	-	-	-	**1,004**	**118,748**
Interest Sensitivity Gap	**(27,601)**	**37,537**	**750**	-	-	**(176)**	**10,510**
At 31 December 2022							
Assets							
Cash and cash equivalents	20,654	-	-	-	-	-	20,654
Derivative financial assets	-	-	-	-	-	8	8
Investments	27,686	24,168	10,200	-	50	82,662	144,766
Loans and advances to customers	87	32	200	300	-	-	619
Other assets	-	-	-	-	-	655	655
Total assets	48,427	24,200	10,400	300	50	83,325	166,702
Liabilities							
Client Funds on Deposit at Amortised Cost	150,632	8,901	2,061	-	-	-	161,594
Derivative financial liabilities	-	-	-	-	-	8	8
Other Liabilities	-	-	-	-	-	1,160	1,160
Total Liabilities	150,632	8,901	2,061	-	-	1,168	162,762
Interest Sensitivity Gap	(102,205)	15,299	8,339	300	50	82,157	3,940

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Note 20 Fiduciary Operations

The Group provide a fiduciary service for investments on behalf of clients with third party institutions in segregated accounts. The clients bear all the risk and responsibility for activities carried out by the Group on their behalf. The depositors agree to indemnify and hold harmless the Group, its directors, employees, agents and representatives against all liability, losses or damages arising out of or in connection with the fiduciary investments. Fees charged for fiduciary services and activities are recognised in revenue in the period earned. The value of these investments is noted below.

	2023	2022
Value of fiduciary investments	**369,642,725**	328,803,404
Income/Expenses earned on Fiduciary Investments		
Income	**2,721,815**	1,482,460
Expenses	**825,368**	599,207
	1,896,447	883,253

Included within fiduciary investments are portfolios made up of cash, interest bearing deposits, bonds, shares and precious metals.

Note 21 Subsequent events

Other than the above, there has not arisen in the interval between the end of financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

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Corporate directory

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Heinz Matysik

Chair and Independent Non-Executive Director

Phoebus Theologites

Non-Executive Director

Brendon Stone

Independent Non-Executive Director

Andrew Yiangou

Independent Non-Executive Director

Daniel Gerger

Independent Non-Executive Director

James Finkel

Independent Non-Executive Director

Steffi Spitznagel

Independent Non-Executive Director

Audit and risk committee

Brendon Stone

Chair

Phoebus Theologites

Member

Andrew Yiangou

Member

Daniel Gerber

Member

Senior management

Joe Horn-Smith

Chief Executive Officer

Jacquiline Urlich

Finance Manager

Anthony Hill

Operations Manager

Sharon Katoa

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