The Hongkong and Shanghai Banking Corporation Limited

New Zealand Banking Group

Disclosure Statement

31 December 2021

HSBC

Disclosure Statement
For the Year Ended 31 December 2021

General Disclosures

Registered Bank

The Hongkong and Shanghai Banking Corporation Limited ("HBAP")
1 Queen's Road Central
Hong Kong SAR

HBAP was incorporated in Hong Kong in 1866 under the Laws of Hong Kong.

New Zealand Branch

The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch ("Branch") is defined as the New Zealand business of HBAP (overseas incorporated bank).

New Zealand Head Office:
188 Quay Street
Auckland
New Zealand

New Zealand Banking Group

The New Zealand Banking Group ("Banking Group") is the New Zealand operations of HBAP and all New Zealand incorporated subsidiaries of HBAP. The entities that have been considered for aggregation to form the Banking Group are detailed in the Notes to and forming part of the Financial Statements, Note 1: Statement of significant accounting policies.

Overseas Banking Group

The Overseas Banking Group ("HBAP Group") includes all entities consolidated for the purposes of public reporting of Group financial statements in Hong Kong including HBAP and its subsidiaries.

Ultimate Non–Bank Holding Company

The ultimate non-bank holding company of HBAP is:
HSBC Holdings plc
8 Canada Square
London E14 5HQ
United Kingdom

Access to parental disclosures

The most recent publicly available financial statements of HBAP Group and HSBC Holdings plc ("Group" or "HSBC Group") can be found at HSBC Holdings plc's website, www.hsbc.com.

Ranking of Local Creditors in a Winding-up

Under Section 265(1) (db) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance of the Hong Kong SAR, as amended in 2010, which HBAP is subject to, in the event of a winding up of HBAP, there shall be paid in priority to all other unsecured debts the aggregate amount held on deposit, up to a maximum of HKD 500,000, to each depositor and this Section has no geographic limitation. No other material legislative or regulatory restrictions in Hong Kong SAR exist which would subordinate the claims of any class of New Zealand branch unsecured creditors on the assets of HBAP to those of any other class of unsecured creditors of HBAP in a winding up of HBAP.

Guarantee Arrangements

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

General Disclosures *(continued)*

Other Material Matters

The Reserve Bank of New Zealand ("RBNZ") is reviewing their policy in respect of branches of registered overseas banks. The objective of the review is to create a simple, coherent and transparent policy framework for branches that fosters a sound and efficient financial system. A consultation paper was issued on the 20 October 2021 with submissions provided on 2 March 2022. A second consultation is expected to be issued in 2022 setting out RBNZ's proposed approach to branches.

There are no other material matters that, if disclosed, would adversely affect the decision of a person to subscribe for Debt Securities of which HBAP and the Banking Group is the issuer.

Pending Proceedings and Arbitration

HBAP is named in and is defending legal actions in various jurisdictions arising from its normal business.

Auditor

New Zealand Banking Group
PricewaterhouseCoopers
PricewaterhouseCoopers Tower
15 Customs Street West
Auckland
New Zealand

Overseas Banking Group
PricewaterhouseCoopers
22nd floor
Prince's Building
10 Chater Road
Hong Kong SAR

New Zealand Chief Executive Officer /Responsible Person

The New Zealand Chief Executive Officer, Burcu Senel, has been authorised in writing by each Director named below, in accordance with section 82 of the Reserve Bank of New Zealand Act 1989, to sign this Disclosure Statement on the Directors' behalf. Accordingly, Burcu Senel is a Responsible Person under the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

Burcu Senel
Chief Executive Officer New Zealand Branch. Joined the HSBC Group in 2005 and resides in New Zealand.
She has a Master of Business Administration from Virginia Polytechnic Institute and State University.

Communications addressed to the responsible person may be sent to:
c/o The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch
PO Box 5947
Victoria Street West
Auckland 1142
New Zealand

Dealings with Responsible Person

No dealings with any Responsible Person or Director, the immediate relative or professional associate of a Responsible Person or Director, have been entered into by HBAP and the Banking Group other than those given in the ordinary course of business.

Board of Directors of HBAP

The Directors of HBAP at the time this Disclosure Statement was signed are:

Peter Tung Shun Wong, GBS, JP

Non-executive Chairman (since 7 June 2021)

He is also an advisor to the Group Chairman and the Group Chief Executive of HSBC Holdings plc, and Chairman and a non-executive Director of HSBC Bank (China) Company Limited. He holds a Bachelor of Arts, a Master of Business Administration and a Master of Science from Indiana University.
Before his retirement as an HSBC employee in June 2021, he was an executive Director, Chief Executive and Deputy Chairman of the Bank. He was also a non-executive Director of Hang Seng Bank Limited.

General Disclosures *(continued)*

Board of Directors of HBAP *(continued)*

David Gordon Eldon, GBS, CBE, JP

Non-executive Deputy Chairman (Director since 4 June 2021; Deputy Chairman since 7 June 2021)

He is also non-executive Chairman and a Director of Octopus Holdings Limited, Octopus Cards Limited and Octopus Cards Client Funds Limited. He holds an Honorary Doctor of Business Administration from City University of Hong Kong and is a Fellow of the UK Chartered Institute of Bankers and the Hong Kong Institute of Bankers.
Before his retirement as an HSBC employee in 2005 after 37 years of service, he was an executive Director, Chief Executive Officer and Chairman of the Bank. He was also non-executive Chairman of Hang Seng Bank Limited and a Director of HSBC Holdings plc.

David Yi Chien Liao

Co-Chief Executive Officer (since 7 June 2021)

He is also a member of the Group Executive Committee of HSBC Holdings plc. He is also a non-executive Director of Hang Seng Bank Limited and Bank of Communications Co., Ltd. He holds a Bachelor of Arts (major in Japanese and Economics) from the University of London.
He has previously held a number of senior positions within the Group, including the Head of Global Banking Coverage for Asia-Pacific and a Director and Chief Executive Officer of HSBC Bank (China) Company Limited.

Surendranath Ravi Rosha

Co-Chief Executive Officer (since 7 June 2021)

He is also a member of the Group Executive Committee of HSBC Holdings plc and a non-executive Director of HSBC Bank Australia Limited. He holds a Bachelor of Commerce from Sydenham College of Commerce & Economics, Bombay University and a Master of Business Administration from the Indian Institute of Management, Ahmedabad.
He has previously held a number of senior positions within the Group, including the Chief Executive Officer of HSBC India and Regional Head of Financial Institutions Group, Asia-Pacific.

*** Graham John Bradley**

Independent non-executive Director

He is also non-executive Chairman and a Director of Volt Bank Limited, Volt Corporation Limited, United Malt Group Limited and Shine Justice Ltd.; and Chairman and a Director of EnergyAustralia Holdings Limited, Infrastructure New South Wales and Virgin Australia International Holdings Limited. He holds a Bachelor of Arts and a Bachelor of Laws (Hons I) from Sydney University and a Master of Laws from Harvard University.
He was non-executive Chairman and a Director of HSBC Bank Australia Limited from 2004 to 2020. Before this, he was Managing Director and Chief Executive Officer of Perpetual Limited from 1995 until his retirement in 2003.

Dr Christopher Wai Chee Cheng, GBS, OBE

Independent non-executive Director

He is also Chairman of Wing Tai Properties Limited; and an independent non-executive Director of NWS Holdings Ltd. and Eagle Asset Management (CP) Limited. He holds a Bachelor of Business Administration from University of Notre Dame; a Master of Business Administration from Columbia University; a Doctorate in Social Sciences honoris cause from The University of Hong Kong; and an Honorary Degree of Doctor of Business Administration from The Hong Kong Polytechnic University.

Sonia Chi Man Cheng

Independent non-executive Director

She is also the Chief Executive Officer of Rosewood Hotel Group. She is also an executive Director of New World Development Company Limited and Chow Tai Fook Jewellery Group Limited; and a Director of New World China Land Limited. She holds a Bachelor of Arts degree with a field of concentration in Applied Mathematics from Harvard University.

General Disclosures *(continued)*

Board of Directors of HBAP (*continued*)

Yiu Kwan Choi

Independent non-executive Director

He is also an independent non-executive Director of HSBC Bank (China) Company Limited. He holds a higher certificate in Accountancy from The Hong Kong Polytechnic University and is a fellow member of The Hong Kong Institute of Bankers.
He was Deputy Chief Executive of the Hong Kong Monetary Authority ('HKMA') in charge of Banking Supervision when he retired in January 2010. Before this, he was Deputy Chief Executive of the HKMA in charge of Monetary Policy and Reserves Management from June 2005 to August 2007 and held various senior positions in the HKMA including Executive Director (Banking Supervision), Head of Administration, and Head of Banking Policy from 1993 to 2005.

*** Andrea Lisa Della Mattea**

Independent non-executive Director (since 11 March 2022)

She is also the APAC President of Microsoft Operations Pte Ltd and a non-executive Director of New South Wales Meals on Wheels Association Inc. She holds a Bachelor of Engineering from James Cook University of North Queensland, Australia.
She was APAC Managing Director of Insight Enterprises, Inc from 2007 to 2017. She held a number of senior leadership roles at Software Spectrum from 1996 to 2006.

*** Rajnish Kumar**

Independent non-executive Director (since 26 August 2021)

He is also non-executive Chairman of Resilient Innovations Pvt. Ltd.; an independent Director of Larsen & Toubro Infotech Limited; an adviser to Kotak Investment Advisors Ltd.; a Director of Lighthouse Communities Foundation; and a member of the Board of Governors of the Management Development Institute in India. He is also a senior adviser to Baring Private Equity Asia Pte Ltd. in Singapore. He holds a Master of Science in Physics from Meerut University and a Post Graduate Certificate in Business Management from XLRI Jamshedpur in India, and is a Certified Associate of the Indian Institute of Bankers. He was formerly Chairman of the State Bank of India until he retired in October 2020.

Beau Khoon Chen Kuok

Independent non-executive Director

He is also Chairman and Managing Director of Kerry Group Limited. He holds a Bachelor of Economics from Monash University. He was previously Chairman and Chief Executive Officer of Shangri-La Asia Limited; Chairman of Kerry Properties Limited; and Non-Executive Director of Wilmar International Limited.

Irene Yun-lien Lee

Independent non-executive Director

She is also an independent non-executive Director of HSBC Holdings plc and independent non-executive Chairman of the Board of Hang Seng Bank Limited. She is also executive Chairman of Hysan Development Company Limited. She holds a Bachelor of Arts (Distinction) in History of Art from Smith College, Northampton, Massachusetts, USA. She is also a member of the Honourable Society of Gray's Inn, UK and a Barrister-at-Law in England and Wales.

Victor Tzar Kuoi Li

Non-executive Director

He is also Chairman and Managing Director of CK Asset Holdings Limited; Chairman and a Group Co-Managing Director of CK Hutchison Holdings Limited; Chairman of CK Infrastructure Holdings Limited and CK Life Sciences Int'l., (Holdings) Inc.; a non-executive Director of Power Assets Holdings Limited and HK Electric Investments Manager Limited; and a non-executive Director and Deputy Chairman of HK Electric Investments Limited. He is also Deputy Chairman of Li Ka Shing Foundation Limited, Li Ka Shing (Global) Foundation and Member Deputy Chairman of Li Ka Shing (Canada) Foundation. He holds a Bachelor of Science degree in Civil Engineering, a Master of Science degree in Civil Engineering, both received from Stanford University; and a degree of Doctor of Laws, honoris causa (LL.D.) from The University of Western Ontario.

General Disclosures *(continued)*

Board of Directors of HBAP (*continued*)

*** Ewen James Stevenson**

Non-executive Director (since 5 October 2021)

He is also the Group Chief Financial Officer and an executive Director of HSBC Holdings plc. He holds a Bachelor of Commerce and Administration and a Bachelor of Law from Victoria University of Wellington, New Zealand.
He was Chief Financial Officer of Royal Bank of Scotland Group plc from 2014 to 2018. He held a number of roles at Credit Suisse, including co-Head of the Europe, the Middle East and Africa Investment Banking Division and co-Head of the Global Financial Institutions Group.

Kevin Anthony Westley, BBS

Independent non-executive Director

He is also an independent non-executive Director of Fu Tak lam Foundation Limited and a member of the investment committee of the West Kowloon Cultural District Authority. He holds a Bachelor of Arts (Hons) from the University of London (LSE) and is a Fellow of the Institute of Chartered Accountants in England and Wales.
He was Chairman (from 1996) and Chief Executive (from 1992) of HSBC Investment Bank Asia Limited (formerly named as Wardley Limited) until his retirement in 2000 and subsequently acted as an advisor to the Bank and the Group in Hong Kong.

*** Tan Sri (Sir) Francis Sock Ping Yeoh, KBE, CBE**

Independent non-executive Director

He is also executive Chairman of YTL Corporation Berhad, YTL Land &r Development Berhad, YTL Power International Berhad, YTL Cement Berhad, Malayan Cement Berhad and YTL E-Solutions Berhad. He holds a Bachelor of Science (Hons) in Civil Engineering and an Honorary Doctorate of Engineering from the University of Kingston.

Country of Residence

With the exception of those denoted with an *, all directors reside in Hong Kong. Graham John Bradley resides in Australia, Rajnish Kumar resides in India, Andrea Lisa Della Mattea resides in Singapore, Ewen James Stevenson resides in United Kingdom and Tan Sri (Sir) Francis Sock Ping Yeoh resides in Malaysia.

Communications addressed to the Directors may be sent to:
c/o The Hongkong and Shanghai Banking Corporation Limited
GPO Box 64
Hong Kong

Change in Board of Directors for HBAP

During the year, David Gordon Eldon was appointed as a non-executive Director with effect from 4 June 2021. At the conclusion of the 2021 Annual General Meeting ('AGM') held on 7 June 2021: Laura May Lung Cha, Jennifer Xinzhe Li, Zia Mody and Bin Hwee Quek (née Chua) stepped down as Directors; Peter Tung Shun Wong, the former Deputy Chairman and Chief Executive, was redesignated as a non-executive Director and was appointed Chairman; David Gordon Eldon was appointed as Deputy Chairman; and David Yi Chien Liao and Surendranath Ravi Rosha were appointed as executive Directors and co-Chief Executive Officers. Rajnish Kumar was appointed as an independent non-executive Director with effect from 26 August 2021. Ewen James Stevenson was appointed as a non-executive Director with effect from 5 October 2021. Andrea Lisa Della Mattea was appointed as a non-executive Director with effect from 11 March 2022. Save for the above, all the Directors served throughout the year.

Directors' Policy on Conflicts of Interests

The Board has a conflicts of interest policy. It sets out HBAP's policy on the notification, review or approval process of Directors' conflicts or potential conflicts of interest and the Board's approach to dealing with any non-compliance with the policy. Directors are required to notify all external directorships and appointments, and any other conflict or potential conflicts of interest. The notified matter will be referred to the Board for its noting or consideration in accordance with the conflicts of interest policy. In addition, under Division 5 of Part 11 of the Companies Ordinance (Cap. 622) of the Laws of Hong Kong, Directors who are interested either directly or indirectly in a transaction, arrangement or contract, or a proposed transaction, arrangement or contract that is significant to HBAP's business shall, if such Director's interest is material, declare the nature and extent of their interest as soon as reasonably practicable.

General Disclosures *(continued)*

Directors' Policy on Conflicts of Interests *(continued)*

Article 100(h) of HBAP's Articles of Association states:

"The office of a Director shall automatically be vacated if the Director acts in contravention of the Company's conflicts of interest policy adopted by the Board from time to time and the Board has resolved that his or her office be vacated."

Audit Committee

The Banking Group does not have an Audit Committee. The Audit Committee of HBAP has non-executive responsibility for oversight of and advice to the Board on matters relating to financial reporting and internal financial controls. The current members of the Committee are Kevin Westley (Chairman of the Committee), Graham Bradley, Yiu Kwan Choi, David Eldon, Rajnish Kumar, and Irene Lee. Except David Eldon who is a non-executive Director, all members are independent non-executive Directors. The Committee met four times in 2021.

The Audit Committee monitors the integrity of HBAP's Consolidated Financial Statements and disclosures relating to financial performance, the effectiveness of the internal audit function and the external audit process, and the effectiveness of internal financial control systems. The Committee reviews the adequacy of resources and expertise as well as succession planning for the finance function. It reviews, and considers changes to, the Bank's accounting policies. The Committee advises the Board on the appointment, re-appointment, or removal of the external auditor and reviews and monitors the external auditor's independence and objectivity. The Committee reviews matters escalated for its attention by subsidiaries' audit committees and receives minutes of meetings of the HBAP Asset and Liability Committee.

Credit Rating

HBAP has the following long term debt ratings for non-HK$ long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars:

	Current Rating	Previous Rating (if changed in the previous two years)	Date of Change
Moody's Investor Service Inc.	Aa3 (stable outlook)	Aa3 (negative outlook)	9 June 2021
Standard & Poor's Corporation	AA- (stable outlook)	Not changed	-
Fitch IBCA Inc.	AA- (negative outlook)	AA- (stable outlook)	1 April 2020

Rating scales are:

Credit Ratings	Moody's (a)	S&P (b)	Fitch (b)
Highest quality/Extremely strong capacity to pay interest and principal	Aaa	AAA	AAA
High quality/Very strong	Aa	AA	AA
Upper medium grade/Strong	A	A	A
Medium grade (lowest investment grade)/Adequate	Baa	BBB	BBB
Predominantly speculative/Less near term vulnerability to default	Ba	BB	BB
Speculative, low grade/Great vulnerability	B	B	B
Poor to default/identifiable vulnerability	Caa	CCC	CCC
Highest speculations	Ca	CC	CC
Lowest quality, no interest	C	C	C
Defaulted on obligations	-	D	D

(a) Moody's - A numeric modifier is applied to each generic rating category from Aa to B, indicating that the counterparty is (1) in the higher end of its letter-rating category, (2) in mid-range, (3) in lower end.

(b) Standard & Poor's and Fitch - Ratings are modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Conditions of Registration

Conditions of registration for The Hongkong and Shanghai Banking Corporation Limited in New Zealand

These conditions of registration apply on and after 1 October 2021.

The registration of The Hongkong and Shanghai Banking Corporation Limited ("the registered bank") in New Zealand is subject to the following conditions:

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

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

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

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

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

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

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

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

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

   For the purposes of this condition of registration, –

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

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

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

4. That no appointment to the position of the New Zealand chief executive officer of the registered bank shall be made unless:

   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

   (b) the Reserve Bank has advised that it has no objection to that appointment.

Conditions of Registration *(continued)*

5. That The Hongkong and Shanghai Banking Corporation Limited complies with the requirements imposed on it by the Hong Kong Monetary Authority.

6. That, with reference to the following table, each capital adequacy ratio of The Hongkong and Shanghai Banking Corporation Limited must be equal to or greater than the applicable minimum requirement.

Capital adequacy ratio	Minimum requirement on and after 1 January 2015
Common Equity Tier 1 capital	4.5 %
Tier 1 capital	6 %
Total capital	8 %

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

(a) must be calculated as a percentage of the registered bank's risk weighted assets; and
(b) are otherwise as administered by the Hong Kong Monetary Authority.

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, for a loan-to-valuation measurement period ending on or after 31 October 2021, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

9. That, for a loan-to-valuation measurement period ending on or before 31 March 2022, the total of the bank's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to- valuation measurement period.

10. That, for a loan-to-valuation measurement period ending on or after 30 April 2022, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of non-property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of non-property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

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

In these conditions of registration, –

"banking group" means 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.

Conditions of Registration *(continued)*

In conditions of registration 8 to 11,-

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non-property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated October 2021, and where the version dates of the Reserve Bank of New Zealand Banking Prudential Requirement (BPR) documents referred to in BS19 for the purpose of defining these terms are –

BPR document	**Version date**
BPR131: Standardised credit risk RWAs	1 October 2021
BRP001: Glossary	1 July 2021

"loan-to-valuation measurement period" means—
(a) the six calendar month period ending on the last day of March 2022; and
(b) thereafter a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of April 2022.

Changes to Conditions of Registration since the 30 June 2021 Disclosure Statement

The Conditions of Registration were amended on 1 October 2021 to amend conditions 8 to 10 to increase restrictions on loan-to-value ratios applying to new non-property investment residential mortgage lending. Additionally, references to supporting Reserve Bank of New Zealand documents were updated to reflect new versions, and the introduction of the Banking Prudential Requirement documents.

FINANCIAL STATEMENTS CONTENTS

HISTORICAL SUMMARY OF FINANCIAL STATEMENTS

FIVE YEAR COMPARISON

	Banking Group				
	Audited Year ended 31 December				
Dollars in Thousands	**2021**	2020	2019	2018	2017
Summary of Financial Results					
Interest income	**102,458**	127,842	176,484	188,819	167,356
Interest expense	**(33,730)**	(59,175)	(96,884)	(104,098)	(79,554)
Net interest income	**68,728**	68,667	79,600	84,721	87,802
Net trading income	**9,306**	9,153	8,732	11,085	6,868
Other net operating income	**41,762**	37,092	36,850	37,905	35,453
Net operating income before credit impairment charges	**119,796**	114,912	125,182	133,711	130,123
Loan impairment (charges) / releases	-	-	-	-	(3,288)
Change in expected credit loss and other credit impairment charges	**3,074**	(1,569)	2,494	3,844	-
Net operating income	**122,870**	113,343	127,676	137,555	126,835
Operating expenses	**(71,990)**	(73,477)	(71,672)	(66,001)	(61,331)
Operating profit before tax	**50,880**	39,866	56,004	71,554	65,504
Income tax expense	**(14,446)**	(11,188)	(15,840)	(20,132)	(18,394)
Profit after tax	**36,434**	28,678	40,164	51,422	47,110
Retained profit repatriated	**(41,867)**	(27,473)	(42,133)	(46,584)	(47,174)
Balance Sheet					
Total assets	**7,540,127**	7,085,529	6,641,631	6,029,755	6,404,765
of which: Individually impaired assets[1]	**-**	894	2,657	2,613	9,384
Total Liabilities	**7,526,770**	7,054,393	6,617,609	6,003,914	6,379,409
Head Office Account	**16,902**	22,335	21,130	23,099	22,747
Total Equity	**13,357**	31,136	24,022	25,841	25,356

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

1. Balances reported for 2018 and subsequent years are calculated under NZ IFRS 9, all balances prior to 2018 are calculated under NZ IAS 39 and are not directly comparable. The balance reported for 2018 has been restated to show individually assessed impaired assets following clarified guidance from the Reserve Bank of New Zealand.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

		Banking Group	
		12 months ended	
Dollars in Thousands	Note	**31.12.21**	31.12.20
Interest income	3	**102,458**	127,842
Interest expense	3	**(33,730)**	(59,175)
Net interest income		**68,728**	68,667
Net trading income	3	**9,306**	9,153
Other net operating income	3	**41,762**	37,092
Net operating income before credit impairment charges		**119,796**	114,912
Change in expected credit loss and other credit impairment charges	9	**3,074**	(1,569)
Net operating income		**122,870**	113,343
Operating expenses	4	**(71,990)**	(73,477)
Operating profit before tax		**50,880**	39,866
Income tax expense	19	**(14,446)**	(11,188)
Profit after tax attributable to owner of the Banking Group		**36,434**	28,678
Other comprehensive income / (expense)			
Items that may be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income:			
Fair value gains / (losses) other comprehensive income		**(17,216)**	7,759
Income taxes		**4,814**	(2,163)
Total comprehensive income for the year attributable to owner of the Banking Group		**24,032**	34,274

The accompanying notes form part of and should be read in conjunction with these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Banking Group	
	12 months ended	
Dollars in Thousands	**31.12.21**	31.12.20
Head Office Account *		
At beginning of the year	**22,335**	21,130
Repatriation to Head Office	**(41,867)**	(27,473)
Profit after tax	**36,434**	28,678
At end of the year	**16,902**	22,335
Financial assets at Fair Value through Other Comprehensive Income Reserve		
At beginning of the year	**6,830**	1,234
Fair value changes taken to equity	**(14,067)**	6,712
Transferred to the profit or loss	**(3,149)**	1,047
Tax on movements and transfers	**4,814**	(2,163)
At end of the year	**(5,572)**	6,830
Share-based Payment Reserve		
At beginning of the year	**1,971**	1,658
Transferred to the profit or loss	**(6)**	2
Movement in share-based payment arrangements	**62**	311
At end of the year	**2,027**	1,971
Equity at end of the year	**13,357**	31,136

* The Head Office account is interest free, repayable at the discretion of the Branch and subordinated to all other debts.

The accompanying notes form part of and should be read in conjunction with these financial statements.

BALANCE SHEET
AS AT 31 DECEMBER 2021

		Banking Group	
Dollars in Thousands	Note	**31.12.21**	31.12.20
ASSETS			
Cash and demand balances with central banks		**1,926,921**	1,423,970
Advances to banks		**2,792**	3,928
Financial investments		**460,317**	528,528
Derivative financial instruments	22	**16,734**	74,733
Advances to customers	6	**4,393,189**	4,093,974
Amounts due from related parties	21	**669,437**	894,455
Other assets	16	**19,538**	16,325
Current tax asset		**3,485**	1,345
Property, plant and equipment		**29,461**	28,443
Deferred tax asset	19	**741**	1,084
Goodwill and intangible assets	20	**17,512**	18,744
Total Assets		**7,540,127**	7,085,529
LIABILITIES			
Deposits by banks		**302,440**	373,960
Derivative financial instruments	22	**16,618**	75,123
Customer deposits	13	**4,978,259**	4,450,882
Debt securities	14	**600,000**	900,000
Amounts due to related parties	21	**1,569,435**	1,202,873
Other liabilities	17	**60,018**	51,555
Total Liabilities		**7,526,770**	7,054,393
Net Assets		**13,357**	31,136
EQUITY			
Head Office account		**16,902**	22,335
Financial assets at Fair Value through Other Comprehensive Income Reserve		**(5,572)**	6,830
Share-based payment reserve	29	**2,027**	1,971
Total Equity		**13,357**	31,136

The accompanying notes form part of and should be read in conjunction with these financial statements.

Burcu Senel
28 March 2022
For and on behalf of the Directors of The Hongkong and Shanghai Banking Corporation Limited by their attorney.

It is confirmed that the said powers of attorney appointing Burcu Senel are still in force and have not been revoked.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Banking Group	
	12 months ended	
Dollars in Thousands	**31.12.21**	31.12.20
Cash flows (to) / from operating activities		
Interest received	**109,358**	137,358
Fees and commissions	**38,081**	37,566
Realised trading gains	**9,536**	8,827
Interest paid	**(43,151)**	(65,222)
Operating expenses	**(65,774)**	(69,468)
Taxation paid	**(11,429)**	(16,076)
Net cash flows from operating activities before changes in operating assets and liabilities	**36,621**	32,985
Changes in operating assets and liabilities arising from cash flow movements		
Cash was provided net from / applied net (to):		
Advances to customers	**(296,959)**	561,237
Amounts due from related parties	**225,031**	(262,181)
Other assets	**(4,490)**	(1,338)
Other liabilities	**6,558**	(2,238)
Change in debt securities in issue	**(300,000)**	(24,607)
Deposits by banks	**(71,523)**	26,240
Customer deposits	**527,376**	912,581
Amounts due to related parties	**377,657**	(474,121)
Net change in operating assets and liabilities	**463,650**	735,573
Net cash flows (to) / from operating activities	**500,271**	768,558
Cash flows (to) / from investing activities		
Financial investments purchased	**(277,035)**	(264,648)
Financial investments sold	**220,944**	15,961
Financial investments matured	**125,000**	176,860
Proceeds from sale of fixed assets	**-**	162
Acquisition of property, plant and equipment	**(4,682)**	(11,422)
Acquisition of intangible assets	**-**	(2,566)
Net cash flows (to) / from investing activities	**64,227**	(85,653)
Cash flows to financing activities		
Repatriation to head office	**(41,867)**	(27,473)
Principal payments on lease liabilities	**(757)**	(1,738)
Net cash flows (to) / from financing activities	**(42,624)**	(29,211)
Net (decrease) / increase in cash and cash equivalents	**521,874**	653,694
Effect of exchange rate fluctuations on cash and cash equivalents	**(80)**	(103)
Cash and cash equivalents at beginning of year	**1,427,892**	774,301
Cash and cash equivalents at end of year	**1,949,686**	1,427,892

The accompanying notes form part of and should be read in conjunction with these financial statements.

STATEMENT OF CASH FLOWS *(continued)*
FOR THE YEAR ENDED 31 DECEMBER 2021

	Banking Group	
	12 months ended	
Dollars in Thousands	**31.12.21**	31.12.20
Analysis of cash and cash equivalents		
Cash and demand balances with central banks	**1,926,921**	1,423,970
Items in the course of collection from other banks[1]	**1**	3
Gross advances to banks – demand	**2,791**	3,925
Treasury Bills with initial maturity less than 3 months[2]	**19,982**	-
Less: items in the course of transmission to other banks[1]	**(9)**	(6)
	1,949,686	1,427,892

[1] Items in the course of collection from / transmission to other banks are presented on the balance sheet within Advances to banks and Deposits by banks respectively.
[2] *Treasury Bills are presented on the Balance Sheet within Financial Investments*

Reconciliation of profit after tax to net cash flows from operating activities		
Profit after tax	**36,434**	28,678
Adjustments to reconcile profit after tax to net cash flow from operating activities:		
Change in interest accruals	**(7,694)**	481
Change in fair value of derivatives	**(224)**	(592)
Depreciation of property, plant and equipment	**3,664**	2,895
Amortisation of intangible asset	**1,231**	707
Amortisation of premium and discounts	**5,171**	2,988
Change in deferred income and accrued expense	**1,443**	1,148
Change in expected credit loss	**(3,073)**	1,569
Change in current and deferred taxation	**3,017**	(4,889)
(Gain)/ loss of disposal of available-for-sale equity securities	**(3,348)**	-
Adjust operating cash flows not included in profit after tax:		
Net change in operating assets and liabilities	**463,650**	735,573
Net cash flows (to) / from operating activities	**500,271**	768,558

The accompanying notes form part of and should be read in conjunction with these financial statements.

Notes to and forming part of the Financial Statements

1. Statement of significant accounting policies

GENERAL ACCOUNTING POLICIES

Reporting entity

These financial statements are for The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group ("Banking Group").

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

Intra-group balances are eliminated in preparing the Banking Group's financial statements (if any). The following entities have been aggregated to form the Banking Group:

The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch

HSBC Nominees (New Zealand) Limited
This New Zealand incorporated entity is the Branch's nominee company which provides custodian services. HSBC Nominees (New Zealand) Limited is wholly owned by HBAP. Income and expenses of the custodian services business are included in the Branch's financial statements.

Basis of reporting

These financial statements are general purpose financial statements prepared in accordance with the requirements of the Financial Markets Conduct Act 2013, the Reserve Bank of New Zealand Act 1989 and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

These financial statements comply with Generally Accepted Accounting Practice in New Zealand, applicable New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other authoritative pronouncements of the External Reporting Board ("XRB"), as appropriate for for-profit entities. These financial statements also comply with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

Measurement base

These financial statements are based on the general principles of historical cost accounting, as modified by applying fair value accounting to financial assets at fair value through other comprehensive income, financial assets and financial liabilities at fair value through profit or loss and all financial derivative contracts. They are prepared on a going concern basis and the accrual basis of accounting has been adopted. The presentation currency and functional currency is New Zealand dollars. All amounts are rounded to thousands of New Zealand dollars and all references to "$" are to New Zealand dollars unless otherwise stated.

Comparative figures

These financial statements include comparative information as required by NZ IAS 1 and the Order.

Future accounting developments

The Banking Group has considered all standards issued but not yet effective and determined that they will have no material impact on the financial statements.

The Reserve Bank of New Zealand ("RBNZ") is reviewing their policy in respect of branches of registered overseas banks. The objective of the review is to create a simple, coherent and transparent policy framework for branches that fosters a sound and efficient financial system. A consultation paper was issued on the 20 October 2021 with submissions provided on 2 March 2022. A second consultation is expected to be issued in 2022 setting out RBNZ's proposed approach to branches.

Interbank Offered Rate ("IBOR") reform

Amendments to NZ IFRSs issued in September 2020 (Interest Rate Benchmark Reform Phase 2) represents the second phase of the project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of reform.

Under these amendments, changes made to financial instruments measured at other than fair value through profit or loss that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be

Notes to and forming part of the Financial Statements *(continued)*

1. Statement of significant accounting policies *(continued)*

Interbank Offered Rate ("IBOR") reform *(continued)*

updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

These amendments apply from 1 January 2021 with early adoption permitted. The Banking Group has adopted the amendments from 1 January 2020.

Changes in accounting policies

There were no changes in accounting policy during 2021. Except for the changes in critical accounting estimates in respect of impairment of amortised cost and FVOCI financial assets discussed below, there have been no changes in methods of computation.

Authorisation of financial statements

These financial statements were authorised for issue on 28 March 2022 by Burcu Senel on behalf of the directors of The Hongkong and Shanghai Banking Corporation Limited.

PRINCIPAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING JUDGEMENTS

The accounting policies that are deemed critical to our results and financial position, in terms of the materiality of the items to which the policies are applied and the high degree of judgement involved, including the use of assumptions and estimation, are discussed below.

The results of the Banking Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the aggregated financial statements.

In the opinion of management, all normal and recurring adjustments considered necessary for the fair presentation of the Banking Group's financial performance, financial position and cash flows have been made.

Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. Interest income on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Non-interest income and expenses

The Banking Group generates fee income from services provided at a fixed price over time, such as account services, or when delivering a specific transaction at a point in time such as broking services and import/export services. Fees are generated at a fixed price. Fee income is generally earned from short term contracts with payment terms that do not include a significant financing component.

The Banking Group acts as principal in the majority of contracts with customers, with the exception of broking services. For most brokerage trades the Banking Group acts as agent in the transaction and recognises broking income net of fees payable to other parties in the arrangement.

The Banking Group recognises fees earned on transaction-based arrangements at a point in time when it has fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement. Where the Banking Group offers a package of services that contain multiple non-distinct performance obligations, such as those in account service packages, the promised services are treated as a single performance obligation.

Notes to and forming part of the Financial Statements *(continued)*

1. Statement of significant accounting policies *(continued)*

Employee benefits

Short-term benefits

Short-term benefits for services received from employees are recognised as an expense during the accounting period in which employee service is rendered. Any difference between the expense recognised and cash payments made is recognised as a liability or prepayment as appropriate. The expense recognised should be undiscounted.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense as the employees render service.

Share-based payments

The Banking Group enters into equity-settled share-based payment arrangements with its employees as compensation for services provided by employees. Equity-settled share-based payment arrangements entitle employees to receive equity instruments of HSBC Holdings plc. The cost of equity-settled share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted and recognised as an expense on a straight-line basis over the vesting period. The fair value of equity instruments that are made available immediately, with no vesting period attached to the award, are expensed immediately.

HSBC Holdings plc is the grantor of its equity instruments for all share awards across the Group and recharges the Banking Group the market value on vesting date. The Banking Group uses the share-based payment reserve to record the corresponding amount relating to shares granted to employees of the Banking Group and represents an effective capital contribution or payment.

Fair value is determined by using market prices or appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted. Vesting conditions are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On a cumulative basis, no expense is recognised for equity instruments that do not vest because of a failure to satisfy service conditions.

Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans and advances, are initially measured at fair value and subsequently measured at amortised cost less allowances for credit losses. Most financial liabilities are initially measured at fair value and subsequently measured at amortised cost. The carrying value of these financial instruments at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income, unless the loan becomes impaired.

Financial assets measured at fair value through other comprehensive income (“FVOCI”)

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling financial assets and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise the Banking Groups debt securities held for liquidity management purposes. They are recognised on the trade date when the Banking Group enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the profit or loss as ‘Other net operating income’. Financial assets measured at FVOCI are included in the impairment calculations and impairment is recognised in the profit or loss.

Notes to and forming part of the Financial Statements *(continued)*

1. Statement of significant accounting policies *(continued)*

Financial assets measured at fair value through other comprehensive income ("FVOCI") (continued)

Critical accounting judgement

Valuation of financial instruments

The best evidence of fair value is a quoted price in an actively traded principal market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. Where a financial instrument has a quoted price in an active market, the fair value of the total holding of the financial instrument is calculated as the product of the number of units and quoted price. The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell. Valuation techniques may incorporate assumptions about factors that other market participants would use in their valuations, including:

- the likelihood and expected timing of future cash flows on the instrument. Judgement may be required to assess the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. Judgement is required to assess what a market participant would regard as the appropriate spread of the rate for an instrument over the appropriate risk-free rate;
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

A range of valuation techniques is employed, dependent on the instrument type and available market data. Most valuation techniques are based upon discounted cash flow analyses, in which expected future cash flows are calculated and discounted to present value using a discounting curve. Prior to considering credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest rate swap. 'Projection' utilises market forward curves, if available. In option models, the probability of different potential future outcomes must be considered. In addition, the value of some products are dependent on more than one market factor, and in these cases it will typically be necessary to consider how movements in one market factor may affect the other market factors. The model inputs necessary to perform such calculations include interest rate yield curves, exchange rates, volatilities, correlations, prepayment and default rates.

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5% of the instrument's valuation is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

Equity securities measured at fair value with fair value movements presented in OCI

The equity securities for which fair value movements are shown in other comprehensive income ("OCI") are business facilitation and other similar investments where the Banking Group holds the investments other than to generate a capital return. Gains or losses on the derecognition of these equity securities are not transferred to profit or loss. Dividend income is recognised in profit or loss.

Notes to and forming part of the Financial Statements *(continued)*

1. Statement of significant accounting policies *(continued)*

Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives are recognised initially, and are subsequently remeasured, at fair value, with changes in fair value recorded in the income statement. Fair values of derivatives are obtained either from quoted market prices or by using valuation techniques. Gains and losses from changes in the fair value of derivatives, including the contractual interest, that do not qualify for hedge accounting are reported in 'Net trading income'.

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 for accounting purposes if the offsetting criteria presented in the Offsetting policy ('Financial Instruments – right to offset') are met.

Financial instruments – Right to offset

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Impairment of amortised cost and FVOCI financial assets

Expected credit losses ("ECL") are recognised for advances to banks and customers, other financial assets held at amortised cost, debt instruments measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) ("12-month ECL"). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ("POCI") are treated differently as set out below.

Credit-impaired (stage 3)

The Banking Group determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; or
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit a longer period. Therefore the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit impaired. Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. Collection procedures may continue after write-off.

Notes to and forming part of the Financial Statements *(continued)*

1. Statement of significant accounting policies *(continued)*

Impairment of amortised cost and FVOCI financial assets *(continued)*

Renegotiation

Loans are identified as renegotiated and classified as credit-impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be POCI and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Loan modifications that are not credit-impaired

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that the Banking Group’s rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default which encompasses a wide range of information including the obligor’s customer risk rating, macroeconomic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average probability of default (“PD”) for the remaining term estimated at origination with the equivalent estimation at reporting date (or where the origination PD has doubled in the case of origination credit risk rating (“CRR”) is less than ‘satisfactory’). The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

For loans originated prior to the implementation of NZ IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle (“TTC”) PDs and TTC migration probabilities, consistent with the instrument’s underlying modelling approach and the CRR at origination.

Notes to and forming part of the Financial Statements *(continued)*

1. Statement of significant accounting policies *(continued)*

Impairment of amortised cost and FVOCI financial assets *(continued)*

Significant increase in credit risk (stage 2) *(continued)*

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from delinquency levels. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by product. Within each portfolio, the stage 2 accounts are defined as accounts where there has been any delinquency pre-90 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

Unimpaired and without significant increase in credit risk - (stage 1)

ECL resulting from default events that are possible within the next 12 months (“12-month ECL”) are recognised for financial instruments that remain in stage 1.

Purchased or originated credit-impaired (“POCI”)

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower’s financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition. The Banking Group does not have any POCI financial assets.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, the Banking Group calculates ECL using three main components, a probability of default (“PD”), a loss given default (“LGD”) and the exposure at default (“EAD”).

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

Notes to and forming part of the Financial Statements *(continued)*

1. Statement of significant accounting policies *(continued)*

Impairment of amortised cost and FVOCI financial assets *(continued)*

Measurement of ECL *(continued)*

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

The Banking Group leverages the Basel II IRB framework issued by the Basel Committee on Banking Supervision where possible, with recalibration to meet the differing NZ IFRS 9 requirements as follows:

Model	Basel II IRB framework	NZ IFRS 9
PD	• Through the cycle (represents long-run average PD throughout a full economic cycle) • The definition of default includes a backstop of 90+ days past due	• Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) • Default backstop of 90+ days past due for all portfolios
EAD	• Cannot be lower than current balance	• Amortisation captured for term products
LGD	• Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn) • Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data • Discounted using cost of capital • All collection costs included	• Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral) • No floors • Discounted using the original effective interest rate of the loan • Only costs associated with obtaining/selling collateral included
Other		• Discounted back from point of default to balance sheet date

While 12-month PDs are recalibrated from Basel models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow methodology. The expected future cash flows are based on the wholesale credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under three different scenarios are probability-weighted by reference to the three economic scenarios applied more generally and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Banking Group is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Banking Group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Banking Group remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised within other liabilities.

Notes to and forming part of the Financial Statements *(continued)*

1. Statement of significant accounting policies *(continued)*

Impairment of amortised cost and FVOCI financial assets *(continued)*

Forward-looking economic inputs

The Banking Group will in general apply multiple forward-looking global economic scenarios determined by Group with reference to external forecast distributors representative of our view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected loss in most economic environments.

Critical accounting judgements

Impairment of amortised cost and FVOCI financial assets

The application of NZ IFRS 9 creates critical accounting estimates and judgements related to impairment of financial assets. In determining ECL management is required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions.

Judgement has been applied in:

- Defining what is considered to be a significant increase in credit risk
- Determining the lifetime and point of initial recognition of revolving facilities
- Selecting and calibrating the PD, LGD and EAD models which support these calculations including making reasonable and supportable judgements about how models react to current and future economic conditions
- Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss
- Making management adjustments to account for late breaking events, model and data limitations and deficiencies, and expert credit judgements

These determinations are reviewed regularly in light of differences between loss estimates and actual loss experience, but given that NZ IFRS 9 requirements adopted in 2018, there have been limited opportunities to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions remain subject to review and refinement.

Model redevelopment

The HBAP Model Risk Management team, in conjunction with local management, continues to review NZ IFRS 9 model performance at a country level on an annual basis to assess whether or not the models in place can deliver reliable outputs. Where model redevelopment is required to improve the reliability to outputs, the models are independently validated by the HBAP Model Risk Management team and the impact on ECL is described in the 'Asset quality – expected credit loss' note.

Measurement uncertainty and sensitivity of ECL estimates

The recognition and measurement of ECL involves the use of significant judgement and estimation. We form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses and probability-weight the results to determine an unbiased ECL estimate. Management judgemental adjustments are used to address late-breaking events, data and model limitations, and expert credit judgements.

Methodology

Four economic scenarios have been used to capture the exceptional nature of the current economic environment and to articulate management's view of the range of potential outcomes. Scenarios produced to calculate ECL are aligned to internal risk measures at the Group level. Three of these scenarios are drawn from consensus forecasts and distributional estimates. The Central scenario is deemed the 'most likely' outcome, and usually attracts the largest probability weighting, while the outer scenarios represent the tails of the distribution which are less likely to occur. The Central scenario is created using the average of a panel of external forecasters. Consensus Upside and

Notes to and forming part of the Financial Statements *(continued)*

1. Statement of significant accounting policies *(continued)*

Impairment of amortised cost and FVOCI financial assets *(continued)*

Critical accounting judgements *(continued)*

Measurement uncertainty and sensitivity of ECL estimates *(continued)*

Methodology (continued)

Downside scenarios are created with reference to distributions for select markets that capture forecasters' views of the entire range of outcomes. In the later years of the scenarios, projections revert to long-term consensus trend expectations. In the consensus outer scenarios, reversion to trend expectations is done mechanically with reference to historically observed quarterly changes in the values of macroeconomic variables.

In 2020, management added a fourth more severe scenario to ensure risks associated with the pandemic were appropriately captured. In 2021, we adjusted our methodology so that the use of four scenarios, including two downside scenarios is our standard approach. The fourth scenario, Downside 2, is designed to represent Managements view of severe downside risks. This is a narrative driven scenario that explores more extreme economic outcomes than those captured by the consensus scenarios. In this scenario, variables do not, by design, revert to long-term trend expectations. They may instead explore alternative states of equilibrium, where economic activity moves permanently away from past trend.

Description of consensus economic scenarios

The economic assumptions presented in this section have been formed by the Banking Group with reference to external forecasts specifically for the purpose of calculating ECL.

Global economic growth experienced a recovery in 2021, following an unprecedented contraction in 2020. Restrictions to mobility and travel have eased in most other countries, aided by the successful roll-out of vaccination programmes. Vaccinations have shown their effectiveness in lowering hospitalisations and deaths enabling economies to re-open. The emergence of new variants that potentially reduce the efficacy of vaccines remains a risk. In New Zealand, a range of restrictions were in place throughout the year and our external borders have remained largely closed for travel.

Economic forecasts are subject to a high degree of uncertainty in the current environment. Risks to the economic outlook are dominated by the progression of the pandemic, vaccine roll-out and the public response. Limitations of forecasts and economic models require a greater reliance on management judgement in addressing both the error inherent in economic forecasts and in assessing associated ECL outcomes. The scenarios used to calculate ECL are described below.

The consensus Central scenario
The Banking Group’s Central scenario features a continued recovery in economic growth in 2022 as activity returns to the levels reached prior to the outbreak of Covid-19 and unemployment remains below historic averages. Our Central scenario assumes that the stringent restrictions on activity, imposed in 2020 and 2021 are not repeated. The new viral strain, that emerged globally late in 2021 - Omicron - has only a limited impact on the recovery. Consumer spending and business investment, supported by elevated levels of private sector savings, are expected to drive the economic recovery as fiscal and monetary policy support recedes.

The speed of economic recovery in the Central scenario reflect the progression of the Covid-19 outbreak, roll-out of the vaccination programme, and the scale of support measures. GDP is expected to grow by 5.4% in 2022 in the Central scenario and the average rate of GDP growth is 3.2% over the five-year forecast period (December 2020: 5.6% and 3.3%). This exceeds the average growth rate over the five-year period prior to the onset of the pandemic.

In addition to GDP growth, our Central scenario incorporates expectations that unemployment remains low, Covid related fiscal spending recedes and inflation remains elevated compared to pre-pandemic levels.

The consensus Upside scenario
Compared to the Central scenario, the consensus Upside features a faster recovery in economic activity over the first two years of the scenario before converging to long-run trends. The scenario is consistent with a number of key upside risk themes. These include an orderly and rapid global abatement of Covid-19 via containment and ongoing vaccine efficacy; de-escalation of global political tension and continued support from fiscal and monetary policy.

Notes to and forming part of the Financial Statements *(continued)*

1. Statement of significant accounting policies *(continued)*

Impairment of amortised cost and FVOCI financial assets *(continued)*

Critical accounting judgements *(continued)*

Measurement uncertainty and sensitivity of ECL estimates *(continued)*

Downside scenarios
The progress of the pandemic and the ongoing public policy response continues to be a key source of risk. Downside scenarios assume that new strains of the virus result in an acceleration in infection rates and increased pressure on public health services, necessitating restrictions on activity. The re-imposition of such restrictions could be assumed to have damaging effect on consumer and business confidence.

Government fiscal programmes in 2020 and 2021 were supported by accommodative action taken by central banks, including the Reserve Bank of New Zealand. These measures have provided households and firms with significant support. An inability or unwillingness to continue with such support or the untimely withdrawal of support present a downside risk to growth.

While Covid-19 and related risks dominate the economic outlook, geopolitical risks also present a threat, including long-term differences between the US and China which could affect sentiment and restrict global economic activity.

The consensus Downside scenario
In the consensus Downside scenario, economic recovery is considerably weaker compared to the Central Scenario. GDP growth is lower, unemployment rates rise moderately and asset and commodity prices fall before gradually recovering towards their long-run trends. The scenario is consistent with the key downside risks articulated above.

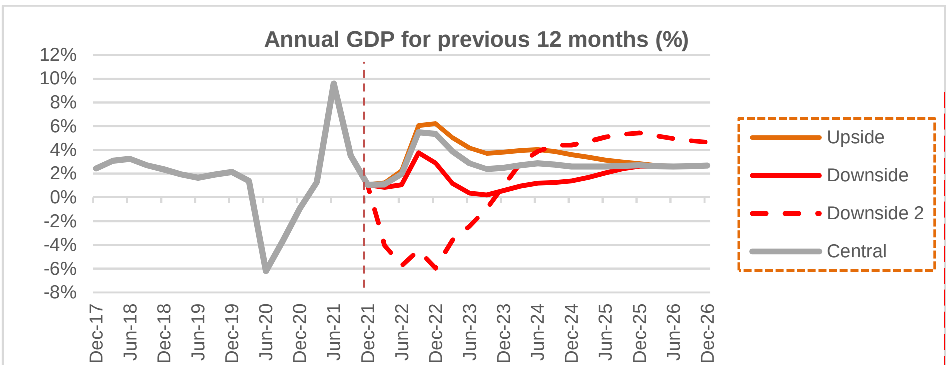
The Downside 2 scenario
The Downside 2 scenario features a deep global recession, with flow-on impacts to New Zealand, has been created to reflect management's view of severe risks. In this scenario, new Covid variants emerge that cause infections to rise sharply in 2022, resulting in setbacks to vaccine programmes and the rapid imposition of travel restrictions and lockdowns across some countries. The scenario also assumes governments and central banks are unable to significantly increase fiscal and monetary support, which results in abrupt corrections in labour and asset markets.

All scenarios have been first created with forecasts available in November and subsequently updated in December. There were no significant changes in forecasts in that period.

The weight the Banking Group has chosen to give each scenario reflects management's view of the higher degree of uncertainty that currently prevails.

The following tables describe key macroeconomic variables used in the various scenarios.

Central Scenario	**GDP growth % (annual)**	**House price growth % (annual)**	**Unemployment %**
December 2022	5.4%	4.2%	4.5%
1Q23 - 4Q26: average	2.6%	2.9%	4.7%



Notes to and forming part of the Financial Statements *(continued)*

1. Statement of significant accounting policies *(continued)*

Impairment of amortised cost and FVOCI financial assets *(continued)*

Critical accounting judgements *(continued)*

Measurement uncertainty and sensitivity of ECL estimates *(continued)*

Outer Scenarios	**Best period**		**Worst period**	
	Annual change	Year ended	Annual change	Year ended
GDP growth %	6.2%	Dec-22	-6.0%	Dec-22
House price growth %	9.2%	Mar-22	-13.5%	Dec-22
		As at		As at
Unemployment rate%	4.2%	Sep-22	7.5%	Sep-23

The calculation of ECL under NZ IFRS 9 involves significant judgements, assumptions and estimates. Despite a general improvement in economic conditions during 2021, the level of estimation uncertainty and judgement remains high as a result of the economic effects of the Covid-19 pandemic, including significant judgements relating to:

- the selection and weighting of economic scenarios, given rapidly changing economic conditions, uncertainty as to the effect of government and central bank support measures designed to alleviate adverse economic impacts, and a wider distribution of economic forecasts. The key judgements are the length of time over which the economic effects of the pandemic will occur and the speed and shape of recovery. The main factors include the effectiveness of pandemic containment measures, the pace of roll-out and effectiveness of vaccines, and the emergence of new variants of the virus, plus a range of geopolitical uncertainties, which together represent a very high degree of estimation uncertainty, particularly in assessing downside scenarios;
- estimating the economic effects of those scenarios on ECL, where there is no observable historical trend that can be reflected in the models that will accurately represent the effects of the economic changes of the severity and speed brought about by the Covid-19 outbreak. Modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions, and there is significant uncertainty in the estimation of parameters such as collateral values and loss severity; and

How economic scenarios are reflected in ECL

The Group has developed and implemented a globally consistent methodology for incorporating forecasts of economic conditions into ECL estimates. For wholesale customers we incorporate forward economic guidance into the estimation of the term structure of PD and LGD. For PDs, we consider the correlation of forward economic guidance to default rates. For LGD calculations we consider the correlation of forward economic guidance to collateral values and realisation rates for a particular industry. PDs and LGDs are estimated for the entire term structure of each instrument.

For retail customers the impact of economic scenarios on PD is modelled at a portfolio level. Historic relationships between observed default rates and macro-economic variables are integrated into NZ IFRS 9 ECL estimates by using economic response models. The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of underlying asset or assets. The impact on LGD is modelled for mortgage portfolios by forecasting future loan-to-value (“LTV”) profiles for the remaining maturity of the asset by using national level forecasts of the house price index and applying the corresponding LGD expectation.

These models are based largely on historic observations and correlations with default rates. During 2021, management judgemental adjustments have been necessary to ensure that an appropriate amount of ECL impairment is recognised. The approaches to these judgements are described below.

Notes to and forming part of the Financial Statements *(continued)*

1. Statement of significant accounting policies *(continued)*

Impairment of amortised cost and FVOCI financial assets *(continued)*

Critical accounting judgements *(continued)*

Measurement uncertainty and sensitivity of ECL estimates *(continued)*

Model adjustments

In the context of NZ IFRS 9, model adjustments are short-term increases or decreases to the ECL at either a customer or portfolio level to account for late breaking events, model deficiencies and expert credit judgement applied following management review and challenge. The Banking Group has internal governance in place to regularly monitor model adjustments and where possible to reduce the reliance on these through model recalibration or redevelopment, as appropriate. During 2021, the composition of modelled ECL and management judgemental adjustments changed significantly, reflecting the path of pandemic containment efforts and government support measures, and this is expected to continue until stable GDP growth resumes.

Model adjustments for wholesale ECL results were primarily to dampen the impact of extreme but short term movements in macroeconomic variables (the result of lockdowns and subsequent reopening of the economy) by overlaying the results of a more representative period. The expected credit loss on corporate exposures in our wholesale portfolio were adjusted down by $2.7 million to reflect this (31 December 2020: wholesale ECL adjusted up by $0.4 million for geopolitical and sector specific reviews; retail ECL adjusted up by $0.7 million for uncertainty on loans subject to relief programmes).

Economic scenarios sensitivity analysis of ECL estimates

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process by recalculating the ECL under each scenario described above for selected portfolios, applying a 100% weighting to each scenario in turn. The weighting is reflected in both the determination of a significant increase in credit risk and the measurement of the resulting ECL.

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes. The impact of defaults that might occur in future under different economic scenarios is captured by recalculating ECL for loans in stages 1 and 2 at the balance sheet date. The population of stage 3 loans (in default) at the balance sheet date is unchanged in these sensitivity calculations. Stage 3 ECL would only be sensitive to changes in forecasts of future economic conditions if the LGD of a particular portfolio was sensitive to these changes. There is a particularly high degree of estimation uncertainty in numbers representing tail risk scenarios when assigned a 100% weighting.

The sensitivity analysis below includes ECL on all assets exposed to credit risk and incorporates model adjustments as appropriate.

Sensitivity: Total ECL ($000)	Central	Upside	Downside	Downside 2	Reported
31 December 2021	2,221	1,975	3,136	8,071	2,580
31 December 2020	6,129	5,575	7,085	10,016	6,411

The sensitivity values have decreased since the start of the year reflecting the improving economic forecasts in all scenarios, however there is increased variability of outcomes between scenarios. The inclusion of a permanent Downside 2 scenario has also contributed to the re-weighting of scenarios used to determine the reported result.

Sensitivity weightings %	Dec 21	Dec 20
Upside	10	10
Central	75	70
Downside	10	15
Downside 2	5	5

Notes to and forming part of the Financial Statements *(continued)*

1. Statement of significant accounting policies *(continued)*

Impairment of amortised cost and FVOCI financial assets *(continued)*

Critical accounting judgements *(continued)*

Measurement uncertainty and sensitivity of ECL estimates *(continued)*

Customer relief programmes

In response to the Covid-19 pandemic, the Government encouraged banks to offer a range of support measures to customers impacted by the pandemic. The Banking Group offered a relief programme for retail mortgage customers, with either a 6-month deferral of principal and interest payments, or up to 12 months of interest only payments available on application. This programme concluded in the first half of 2021, with no loans receiving relief under this programme as at 31 December 2021 (31 December 2020: $23million).

Where customers took the opportunity to defer payments, this represents a modification under NZ IFRS 9. There was no material loss to the Banking Group from these modifications because the Banking Group continued to earn interest during the deferral period.

Property, plant and equipment

Leasehold improvements are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis to write off the assets over the unexpired term of the lease.

Equipment, fixtures and fittings are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on the straight-line basis to write off the assets over their estimated useful lives, which are generally between 3 and 5 years. Where material parts of an asset have different useful lives, they are accounted for as separate assets.

Foreign currencies

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any foreign exchange component of a gain or loss on a non-monetary item is recognised either in other comprehensive income or in the profit or loss depending on where the gain or loss on the underlying non-monetary item is recognised.

Intangible assets

Goodwill

Goodwill represents the difference between the cost of an acquisition and the fair value of the net identifiable assets acquired. Acquisition expenses such as professional fees and legal fees directly attributable to an acquisition are expensed. If the amount of the identifiable assets and liabilities acquired is greater than the cost, the difference is recognised immediately in the profit or loss.

Goodwill is stated at cost less any accumulated impairment losses.

Goodwill is allocated to cash-generating units ("CGU") for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. Impairment testing is performed at least annually, or whenever there is an indication of impairment, by comparing the recoverable amount with its carrying amount. The carrying amount of a CGU is based on its assets and liabilities, including attributable goodwill. The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use.

Notes to and forming part of the Financial Statements *(continued)*

1. Statement of significant accounting policies *(continued)*

Intangible assets *(continued)*

Goodwill (continued)

Value in use is the present value of the expected future CGU cash flows. If the recoverable amount is less than the carrying value, an impairment loss is charged to the profit or loss. Goodwill is carried on the balance sheet at cost less accumulated impairment losses.

Critical accounting judgement

Goodwill impairment

The review of goodwill for impairment reflects management's best estimate of the future cash flows of the cash-generating units ("CGUs") and the rates used to discount these cash flows, both of which are subject to uncertain factors. The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Management conducted an impairment test as at 31 December 2021 ensure that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.

The table below outlines changes in management judgement used in the impairment test compared to the most recent annual test performed.

Assumption	31 December 2021	31 December 2020
Forecast period	Five year operating plan approved by HBAP senior management.	One year operating plan approved by HBAP senior management and further four years approved by Banking Group management.
Terminal growth rate	2.1% being average of New Zealand GDP growth 2001 – 2020.	2.1% being average of New Zealand GDP growth 2000 - 2019
Discount rate	Varies for each business unit; 11.7 – 13.9% pre-tax.	Varies for each business unit; 13.9 – 15.0% pre-tax.
Result	No impairment recorded as recoverable value exceeds carrying value.	No impairment recorded as recoverable value exceeds carrying value.

Other intangible assets

Intangible assets include internally generated computer software and customer relationships purchased. Intangible assets that have an indefinite useful life or are not yet ready for use are tested at least annually for impairment or at each reporting date where there is an indicator of impairment.

Intangible assets that have a finite useful life are stated at cost less amortisation and accumulated impairment losses and are amortised on a straight line basis over their useful lives as follows:

- Software – 5 years.

Intangible assets are subject to impairment review at each reporting date to determine if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

Notes to and forming part of the Financial Statements *(continued)*

1. Statement of significant accounting policies *(continued)*

Provisions, contingent liabilities and guarantees

Provisions for liabilities and charges are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation which has arisen as a result of past events and for which a reliable estimate can be made.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security and contingent liabilities related to legal proceedings or regulatory matters are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or the present value of the fee receivable.

Critical accounting judgement

Provisions and contingent liabilities

The recognition and measurement of provisions and contingent liabilities requires the Banking Group to make a number of judgements, assumptions and estimates. This includes whether a present obligation exists, the probability of an outflow of resources embodying economic benefits will be required to settle the obligation and the estimate of the amount of those outflows.

Provisions currently include amounts recognised in respect of regulatory and customer remediation as a result of internal reviews of the Banking Group's practices against industry developments and current legislation. A number of different assumptions, estimates and judgements have been applied in measuring a reliable estimate of the provision as at 31 December 2021. The provision recognised is not material to the Banking Group's financial performance or position, however it is possible the final amount payable could be materially different to the provision if the assumptions and judgements used in estimating the provision are different to the actual outcome.

Statement of cash flows

The Statement of Cash Flows has been prepared using the direct approach modified by the netting of certain items as appropriate to provide more meaningful disclosure in compliance with the standards.

Cash and cash equivalents reflect the balance of cash and liquid assets used in the day-to-day cash management of the Banking Group, which are unconditionally convertible into cash within no more than two working days. For the purpose of the statement of cash flows, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Taxation

Income tax on the profit or loss for the period comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or equity, in which case it is recognised in the same statement as the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The group provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

The taxation standard NZ IAS 12 has been applied when transacting business combinations. The standard requires certain tax-effect accounting entries to be passed on acquisition date where there is a difference between the tax cost base and accounting carrying value. A taxable temporary difference arises which results in a deferred tax liability.

Notes to and forming part of the Financial Statements *(continued)*

2. Risk management

OUR APPROACH TO RISK

Our risk appetite

We recognise the importance of a strong culture, which refers to our shared attitudes, values and standards that shape behaviours related to risk awareness, risk taking and risk management. All our people are responsible for the management of risk, with the ultimate accountability residing with the Board.

We seek to build our business for the long term by balancing social, environmental and economic considerations in the decisions we make. Our strategic priorities are underpinned by our endeavour to operate in a sustainable way. This helps us to carry out our social responsibility and manage the risk profile of the business. We are committed to managing and mitigating climate-related risks, both physical and transition, and continue to incorporate consideration of these into how we manage and oversee risks internally and with our customers.

The following principles guide the Group's overarching appetite for risk and determine how our businesses and risks are managed.

Financial position
- We aim to maintain a strong capital position, defined by regulatory and internal capital ratios.
- We carry out liquidity and funding management for each operating entity, on a stand-alone basis.

Operating model
- We seek to generate returns in line with a conservative risk appetite and strong risk management capability.
- We aim to deliver sustainable earnings and consistent returns for shareholders.

Business practice
- We have zero tolerance for any of our people knowingly engaging in any business, activity or association where foreseeable reputational risk or damage has not been considered and/or mitigated.
- We have no appetite for deliberately or knowingly causing detriment to consumers, or incurring a breach of the letter or spirit of regulatory requirements.
- We have no appetite for inappropriate market conduct by any member of staff or by any group business.

Enterprise-wide application
Our risk appetite encapsulates the consideration of financial and non-financial risks. We define financial risk as the risk of a financial loss as a result of business activities. We actively take these types of risks to maximise shareholder value and profits. Non-financial risk is the risk to achieving our strategy or objectives as the result of failed internal processes, people and systems or from external events.

Our risk appetite is expressed in both quantitative and qualitative terms and applied at the global business level and to material operating entities. It continues to evolve and expand its scope as part of our regular review process.

Management reviews and approves the Banking Group's risk appetite annually to make sure it remains fit for purpose. The Banking Group's risk appetite is considered, developed and enhanced through:
- an alignment with our strategy, purpose, values and customer needs;
- trends highlighted in other group risk reports;
- communication with risk stewards on the developing risk landscape;
- strength of our liquidity and balance sheet;
- compliance with applicable laws and regulations;
- effectiveness of the applicable control environment to mitigate risk, informed by risk ratings from risk control assessments;
- functionality, capacity and resilience of available systems to manage risk; and
- the level of available staff with the required competencies to manage risks.

We formally articulate our risk appetite through our risk appetite statement ('RAS'), which is approved at the New Zealand Risk Management Meeting ('RMM'). Setting out our risk appetite ensures that we agree a suitable level of risk for our strategy. In this way, risk appetite informs our financial planning process and helps senior management to allocate capital to business activities, services and products.

Notes to and forming part of the Financial Statements *(continued)*

2. Risk management

The RAS consists of qualitative statements and quantitative metrics, covering financial and non-financial risks. It is applied to the development of business line strategies, strategic and business planning, and remuneration. Performance against the RAS is reported to the New Zealand Risk Management Meeting alongside key risk indicators to support targeted insight and discussion on breaches of risk appetite and associated mitigating actions. This reporting allows risks to be promptly identified and mitigated, and informs risk-adjusted remuneration to drive a strong risk culture.

Risk management policies

We recognise that the primary role of risk management is to protect our customers, business, colleagues, shareholders and the communities that we serve, while ensuring we are able to support our strategy and provide sustainable growth. This is supported through our three lines of defence model described below.

The implementation of our business strategy, which include a globally managed transformation programme, remains a key focus. As we implement change initiatives, we actively manage the execution risks. We also perform periodic risk assessments, including against strategies to help ensure retention of key personnel for our continued safe operation.

We aim to use a comprehensive risk management approach across the organisation and across all risk types, underpinned by the HSBC Group's culture and values. This outlines key principles, policies and practices that we employ in managing material risks, both financial and non-financial.

The framework fosters continual monitoring, promotes risk awareness and encourages a sound operational and strategic decision making and escalation process. It also supports a consistent approach to identifying, assessing, managing and reporting the risks we accept and incur in our activities, with clear accountabilities. We continue to actively review and develop our risk management framework and enhance our approach to managing risk, through our activities with regard to: people and capabilities; governance; reporting and management information; credit risk management models; and data.

Our risk culture
Our executive risk governance structure is responsible for the enterprise-wide management of all risks, including key policies and frameworks for the management of risk within the Banking Group. The fostering of a strong risk culture is a key responsibility of our senior executives.

We use clear and consistent employee communications on risk to convey strategic messages and set the tone from senior management and the Board. We also deploy mandatory training on risk and compliance topics to embed skills and understanding in order to strengthen our risk culture and reinforce the attitude to risk in the behaviour expected of employees, as described in our risk policies.

Our responsibilities
All our people are responsible for identifying and managing risk within the scope of their role as part of the three lines of defence model.

To create a robust control environment to manage risks, we use an activity-based three lines of defence model. This model delineates management accountabilities and responsibilities for risk management and the control environment.

The model underpins our approach to risk management by clarifying responsibility and encouraging collaboration, as well as enabling efficient coordination of risk and control activities. The three lines of defence are summarised below:

- The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them in line with risk appetite, and ensuring that the right controls and assessments are in place to mitigate them.
- The second line of defence challenges the first line of defence on effective risk management, and provides advice and guidance in relation to the risk.
- The third line of defence is our Global Internal Audit function, which provides independent assurance that our risk management approach and processes are designed and operating effectively.

2. Risk management *(continued)*

CREDIT RISK

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. Credit risk arises principally from direct lending, trade finance and leasing business, but also from other products, such as guarantees.

Credit risk management

There were no material changes to the policies and practices for the management of credit risk in 2021. Due to the unique market conditions in the COVID-19 outbreak, we continued to apply operational practices adopted during 2020 to provide short-term support to customers under the current policy framework.

We continue to assess the impact of economic developments in key markets on specific customers, customer segments or portfolios. As credit conditions change, we take mitigating action, including the revision of risk appetites or limits and tenors, as appropriate. In addition, we continue to evaluate the terms under which we provide credit facilities within the context of individual customer requirements, the quality of the relationship, local regulatory requirements, market practices and our local market position.

Credit approval authorities are delegated by the Group Board to the Group Chief Executive together with the authority to sub-delegate them.

The Credit Risk sub-function in Global Risk is responsible for the key policies and processes for managing credit risk, which include formulating Group credit policies and risk rating frameworks, guiding the Group's appetite for credit risk exposures, undertaking independent reviews and objective assessment of credit risk, and monitoring performance and management of portfolios.

The principal objectives of our credit risk management are:

- to maintain across the HSBC Group a strong culture of responsible lending, and robust risk policies and control frameworks;
- to both partner and challenge our businesses in defining implementing and continually re-evaluating our risk appetite under actual and scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their costs and their mitigation.

Key risk management processes

Expected credit loss provisioning process

The expected credit loss ("ECL") provisioning process comprises three main areas: modelling and data, implementation; and governance.

Modelling and data
The Group has established modelling and data processes which are subject to internal model risk governance including independent review of significant model developments.

Implementation
The Group's centralised impairment engine performs the expected credit loss calculation using data, which is subject to a number of validation checks and enhancements, from a variety of client, finance and risk systems. Where possible, these checks and processes are performed in a globally consistent and centralised manner.

Governance
The Banking Group has established a forum with representatives from Credit Risk, and Finance in order to review and approve the impairment results.

Notes to and forming part of the Financial Statements *(continued)*

2. Risk management *(continued)*

Credit risk *(continued)*

Key risk management processes *(continued)*

Credit concentration

Concentrations of credit risk arise when there are single material counterparty exposures or when there are a number of counterparties or exposures that have comparable economic characteristics, or such counterparties are engaged in similar activities or operate in the same geographical areas or industry sectors so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. The Group's credit risk limits to counterparties in the financial and sovereign sectors are managed centrally to optimise the use of credit availability and to avoid excessive risk concentration. The Banking Group remains responsible for its own credit exposures. We use a number of controls and measures to minimise undue concentration of exposure in our portfolios across industries and products. These include where required portfolio and counterparty limits, enhanced approval and review controls.

Credit quality

Our risk rating system facilitates the internal ratings-based approach under the Basel framework adopted by the Group. Our credit quality classifications encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses, and the external ratings attributed by external agencies to debt securities.

Wholesale Lending

Wholesale lending use a customer risk rating (“CRR”) 10-grade scale summarising a more granular 23-grade scale of obligor probability of default (“PD”). All corporate customers are rated using the 10-grade or 23-grade scale, depending on the degree of sophistication of the Basel approach adopted for the exposure.

Each CRR band is associated with an external rating grade by reference to long-run default rates for that grade, represented by the average of issuer-weighted historical default rates. This mapping between internal and external ratings is indicative and may vary over time.

Retail Lending

Retail lending credit quality is based on a 12-month point-in-time (‘PIT’) probability-weighted probability of default.

Right to offset

The Banking Group does have legal right of off-set in some instances under certain conditions. All balances have been disclosed gross with the conditions giving rise to the legal right of off-set not being present.

CLIMATE-RELATED RISK

Climate change can have an impact across the Group’s risk taxonomy through both transition and physical channels. Transition risk can rise from the move to a low-carbon economy, such as through policy, regulatory and technology changes. Physical risk can arise through increasing severity and/or frequency of severe weather or other climatic events, such as rising seas levels and flooding. These have the potential to cause both idiosyncratic and systematic risks, resulting in potential financial and non-financial impacts for the Group. Financial impacts could materialise if transition and physical risks impact the ability of our customers to repay their loans. Non-financial impacts could materialise if our own assets and operations are impacted by extreme weather or chronic changes in weather patterns, or as a result of business decisions to achieve our climate ambition.

How climate change is impacting our customers

Climate change could impact our customers in two main ways. Firstly, customer business models may fail to align to a low-carbon economy, which could mean, for example, that new climate-related regulation may have a material impact on their business. Secondly, extreme weather events or chronic changes in weather patterns may damage our customers’ assets leaving them unable to operate their business or live in their home.

2. Risk management *(continued)*

Climate related risk *(continued)*

One of the most valuable ways we can help our customers navigate the transition challenges and to become more resilient to the physical impacts of climate change is through financing and investment. To do this effectively, we must understand the risks they are facing.

The table below summarises the key categories of transition, physical risk, with examples of how our customers might be affected financially by climate change and the shift to a low-carbon economy.

Climate Risk	Main causes of financial impact on customers	
Transition	Policy and legal	Mandates on, and regulation of, existing products and services Litigation from parties who have suffered from the effects of climate change
	Technology	Replacement of existing products with lower emission options
	End-demand (market)	Changing consumer behaviour
	Reputational	Increased scrutiny following a change in stakeholder perceptions of climate-related action or inaction
Physical	Acute	Increased frequency and severity of weather events
	Chronic	Changes in precipitation patterns Rising temperatures

Integrating climate risk into risk management

Our approach to climate risk management is aligned to our Group-wide risk management framework and three line of defence model, which sets out how we identify, assess and manage our risks.

Climate Risk Appetite

Our climate risk appetite metrics aim to support the oversight and management of the financial and non-financial risks from climate change, meet regulatory expectations and support the business to deliver or climate ambition in a safe and sustainable way. Our measures are focused on the oversight and management of our key climate risks – wholesale credit risk, retail credit risk, reputational risk, resilience risk and regulatory compliance risk. Our future ambition for our climate risk appetite is to:

- Adapt the RAS metrics to incorporate forward looking transition plans and net zero commitments;
- Expand non-financial risk metrics to consider other financial and non-financial risks; and.
- Use enhanced scenario analysis capabilities.

Climate Risk Policies, Processes and Controls

We have also integrated climate risk into the supporting policies, processes and controls for our key climate risks. For example, we have updated our policy on product management and developed the first version of a climate risk scoring tool for our corporate portfolios. In addition, the Group has published and started to implement a new Thermal Coal Phase-out Policy.

Wholesale Credit Risk

The Group has identified 6 key sectors where our wholesale credit customers have the highest climate risk based on their carbon emissions. These are oil & gas, building and construction, automotive, power and utilities and metals and mining. Within New Zealand we have additionally included the dairy and meat processing sectors due to local significance.

We continue to engage with our largest customers in high-risk sectors with the addition of four more sectors which are agriculture, manufacturing, real estate and transportation. The customer questionnaires help us asses and improve our understanding of the impact of climate change on our customers' business models and any related transition strategies. It also helps us to identify potential business opportunities to support the transition.

Retail credit risk

We manage retail credit risk under a framework of controls that enable the identification and assessment of credit risk, from individual credit facilities through to the total portfolio, across Wealth and Personal Banking ('WPB'). Understanding the impact of climate risk relies heavily upon the availability of quality data, as well as on the evolution of climate risk modelling expertise. We have begun to process assess appropriate thresholds for determining high physical risk locations and this work will continue in 2022.

Notes to and forming part of the Financial Statements *(continued)*

2. Risk management *(continued)*

MARKET RISK

Market risk is the risk that movements in market factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices, will reduce our income or the value of our portfolios. Market risk arises on financial instruments which are measured at fair value and those which are measured at amortised cost. The objective of market risk management is to control market risk exposures to achieve an optimal return while maintaining risk at acceptable levels.

The Banking Group monitors market risk separately for trading portfolios and non-trading portfolios and use similar management policies and measurement techniques. Our objective is to manage and control market risk exposures while maintaining a market profile consistent with our risk appetite. The Banking Group does not have significant traded risk exposure.

Market risk is managed and controlled through limits approved by the Banking Group's Risk Management Meeting ('RMM"). These limits are allocated across business lines principally Global Markets. The Banking Group risk limits are determined for each portfolio and are set by product and risk type with market liquidity being a principal factor in determining the level of limits set. Limits are set using a combination of risk measurement techniques, including position limits, sensitivity limits, as well as value at risk limits at a portfolio level.

The Banking Group is required to assess the market risks which arise on each product in its business and to transfer these risks to either its local Global Markets unit for management, or to separate books managed under the supervision of the Asset Liability Committee "ALCO". The aim is to ensure that all market risks are consolidated within operations which have the necessary skills, tools, management and governance to manage such risks professionally.

Market risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost, as a result of interest rate changes. Analysis of this risk is complicated by having to make assumptions on optionality in certain product areas, for example, mortgage prepayments and from behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand, for example, current accounts.

Value at Risk ("VaR")

Value at risk ('VaR') is a technique for estimating potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VaR is integrated into market risk management and calculated for all trading positions regardless of how we capitalise them.

In addition, we calculate VaR for non-trading portfolios to have a complete picture of risk. Where we do not calculate VaR explicitly, we use alternative tools as summarised in the 'Stress testing' section below.

Our models are predominantly based on historical simulation that incorporates the following features:

- historical market rates and prices, which are calculated with reference to foreign exchange rates, commodity prices, interest rates, equity prices and the associated volatilities;
- potential market movements utilised for VaR, which are calculated with reference to data from the past two years; and
- VaR measures, which are calculated to a 99% confidence level and use a one-day holding period.

The models also incorporate the effect of option features on the underlying exposures. The nature of the VaR models means that an increase in observed market volatility will lead to an increase in VaR without any changes in the underlying positions.

2. Risk management *(continued)*

Market risk *(continued)*

VaR model limitations

Although a valuable guide to risk, VaR should always be viewed in the context of its limitations. For example:

- Use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those that are extreme in nature.
- The use of a one-day holding period for risk management purposes of trading and non-trading books assumes that this short period is sufficient to hedge or liquidate all positions.
- The use of a 99% confidence level does not take into account losses that might occur beyond this level of confidence.
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

Stress testing

Stress testing is an important procedure that is integrated into our market risk management framework to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such abnormal scenarios, losses can be much greater than those predicted by VAR modelling. The risk appetite around potential stress losses is set and monitored against referral limits.

The Group carries out stress testing at a regional level in HBAP and at a global level in Group using data from internal systems, with relevant results provided to the management of the Banking Group. A standard set of scenarios is utilised consistently across all sites within the Group.

The Banking Group does not hold any significant open trading positions. Under current scenarios the potential adverse profit impact from market risk is immaterial. This is consistent with the comparable period.

Currency risk

The Banking Group's foreign currency exposures comprise those which arise from foreign exchange dealing within Global Markets and currency exposures originated by other banking business. The latter are transferred to Global Markets where they are managed together with exposures which result from dealing within limits approved by HBAP Executive Committee. These exposures are managed on a daily basis.

Foreign currency risk exposure is disclosed in Note 27. A sensitivity analysis is not presented as the sensitivity range is immaterial due to the Banking Group FX exposure being materially hedged.

Interest rate risk

Interest rate risk in the banking book is the risk of an adverse impact to earnings or capital due to changes in market interest rates. It is generated by our non-traded assets and liabilities, specifically loans, deposits and financial instruments that are not held for trading intent or that are held in order to hedge positions held with trading intent.

This risk is monitored and controlled by the Asset Liability Capital Management (“ALCM”) function. This includes reviewing and challenging the business prior to the release of new products and in respect of proposed behavioural assumptions used for hedging activities. The ALCM function is also responsible for maintaining and updating the transfer pricing framework, and managing the balance sheet in conjunction with Balance Sheet Management (“BSM”). Interest rate risk in the banking book is transferred to and managed by BSM, and also monitored by Wholesale Market Risk, Product Control and ALCM functions with reference to established risk.

BSM manages the banking book interest rate positions transferred to it within the market risk limits approved by RMM. Risk acts as a second line of defence. The global businesses can only transfer non-trading assets and liabilities to BSM provided BSM can economically hedge the risk it receives.

2. Risk management *(continued)*

Market risk *(continued)*

Interest rate risk *(continued)*

Any interest rate risk that BSM cannot economically hedge is not transferred and will remain within the global business where the risks originate.

Within the Group a number of measures are used to monitor and control interest rate risk in the banking book, including non-traded VaR, net interest income sensitivity and economic value of equity ('EVE'). An interest rate sensitivity analysis is not presented as the sensitivity range is immaterial to the Banking Group.

LIQUIDITY AND FUNDING RISK

Liquidity risk is the risk that the Banking Group does not have sufficient financial resources to meet its obligations as they fall due. This risk arises from mismatches in the timing of cash flows. Funding risk is the risk the Banking Group cannot raise funding or can only do so at excessive cost.

The objective of the Group's liquidity and funding management framework is to ensure that all foreseeable funding commitments can be met when due, and that access to the wholesale markets is co-ordinated and cost-effective. To this end, the Banking Group maintains a diversified funding base comprising core retail and corporate customer deposits and institutional balances. This is augmented with wholesale funding and portfolios of highly liquid assets diversified by currency and maturity which are held to enable the Banking Group to respond quickly and smoothly to unforeseen liquidity requirements.

The Group requires its operating entities to maintain a strong liquidity base to support the risks inherent in our business, meeting regulatory requirements at all times.

Policies and procedures

Management of liquidity and funding is primarily undertaken locally in HBAP's operating entities in compliance with the Group's risk management framework. Limits and metrics are managed locally but are subject to robust global review and challenge to ensure consistency of approach and application of the Group's policies and procedures. These limits vary according to the depth and liquidity of the market in which the entities operate. It is the Group's policy that liquidity and funding risk is managed at an operating entity level to make sure that obligations can be met in the jurisdictions where they fall due, generally without reliance on other parts of the Group. Operating entities are required to meet internal minimum requirements and any applicable regulatory requirements at all times

The primary responsibility for managing liquidity and funding within the Group's framework and risk appetite resides with the Banking Group ALCO.

The Banking Group's principal liquidity and funding risk management procedures and policies, which follow policies established by the Group, include the following:

- projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet liquidity and funding ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of term funding;
- maintaining debt financing plans;
- monitoring of depositor concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises, while minimising adverse long-term implications for the business.

2. Risk Management *(continued)*

Liquidity and funding risk *(continued)*

Liquidity and funding risk management framework

The Banking Group uses the liquidity coverage ratio ("LCR") and net stable funding ratio ("NSFR") regulatory framework as a foundation, but adds extra metrics, limits and overlays to address the risks that we consider are not adequately reflected by the regulatory framework.

During 2021, an internal liquidity metric ("ILM") was introduced to supplement the LCR and NSFR metrics.

An appropriate funding and liquidity profile is managed through a wide set of measures:

- minimum LCR requirement;
- minimum NSFR requirement;
- an internal liquidity metric;
- legal entity depositor concentration limit;
- three-month and 12-month cumulative rolling term contractual maturity limits covering deposits from banks, deposits from non-bank financial institutions and securities issued;
- annual internal liquidity adequacy assessment process ("ILAAP") by principal operating entity;
- minimum LCR requirement by currency;
- intra-day liquidity;
- the application of liquidity funds transfer pricing; and
- forward-looking funding assessments.

Liquidity coverage ratio
(Unaudited)

The LCR aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ("HQLA") to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLA consist of cash or assets that can be converted into cash at little or no loss of value in markets.

As at 31 December 2021, the Banking Group was above minimum internal risk limits with regards to this metric.

Net stable funding ratio
(Unaudited)

We are required to maintain sufficient stable funding. The Net Stable Funding Ratio ('NSFR') measures stable funding relative to required stable funding, and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

As at 31 December 2021, the Banking Group was above minimum internal risk limits with regards to this metric.

Internal Liquidity Metric
(Unaudited)

The ILM provides an internal view of daily liquidity risk considering site-specific idiosyncrasies and the ability to recover through the crisis continuum based on site-specific management actions. Key features of this metric includes a 90-day stress period, HSBC specific behavioural assumptions, localised liquid asset monetisation assumptions and management actions.

As at 31 December, the Banking Group was above minimum internal risk limits with regards to this metric.

Depositor concentration and term funding maturity concentration
(Unaudited)

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within each deposit segment.

The validity of these assumptions is challenged if the underlying depositors do not represent a large enough portfolio so that a depositor concentration exists. Deposit concentration is measured and monitored at a legal entity basis.

2. Risk management *(continued)*

Liquidity and funding risk *(continued)*

Depositor concentration and term funding maturity concentration *(continued)*

Operating entities are also exposed to term re-financing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period.

As at 31 December 2021, the Banking Group was above minimum internal risk limits with regards to this metric.

RESILIENCE RISK

Resilience risk is the risk that we are unable to provide critical services to our customers, affiliates and counterparties, as a result of sustained and significant operational disruption. Resilience risk arises from failures or inadequacies in processes, people, systems or external events.

The Operational and Resilience Risk target operating model provides a globally consistent view across resilience risks, strengthening our risk management oversight while operating effectively as part of a simplified non-financial risk structure. We view resilience risk across seven risk types related to: third parties and supply-chain; information, technology and cyber security; payments and manual processing; physical security; business interruption and contingency risk; buildings unavailability; and workplace safety.

Key risk management processes

Operational Resilience is our ability to anticipate, prevent, adapt, respond to, recover and learn from internal or external disruption, protecting customers, the markets we operate in and their economic stability. Resilience is determined by assessing whether we are able to continue to provide our most important services, within an agreed level. We accept that we will not be able to prevent all disruption, but we prioritise investment to continually improve the response and recovery strategies for our most important business services.

Review of Banking Group's Risk Management systems

No formal reviews of the Banking Group's risk management systems were undertaken by external parties during the year ended 31 December 2021.

COMPLIANCE RISK

Regulatory compliance risk

Regulatory compliance risk is the risk that we fail to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice, and incur fines and penalties and suffer damage to our business as a consequence.

Regulatory compliance risk arises from the risks associated with breaching our duty to our customers and other counterparties, inappropriate market conduct and breaching other regulatory requirements.

Regulatory compliance risk management

Key developments in 2021
The key developments in the policies and practices for the management of regulatory compliance risk in 2021, included changes to our wider approach to the governance and ongoing work to continue to raise standards related to the conduct of our business, as described below.

Conduct Approach
In 2021 HSBC Group refreshed its Conduct Approach, to complement the Group's purpose and values. Good conduct is about collectively taking responsibility and individually being accountable for our actions. The Conduct Approach sets five outcomes to be achieved for customers and markets, and applies across all risk disciplines, operational processes and technologies. Roll out and implementation of the refreshed Conduct Approach will continue in 2022.

2. Risk management *(continued)*

COMPLIANCE RISK (*continued)*

Regulatory compliance risk management *(continued)*

Key risk management processes
The Regulatory Conduct capability is responsible for setting global policies, standards and risk appetite to guide the management of regulatory compliance. It also devises clear frameworks and support processes to protect against regulatory compliance risks. The capability provides oversight, review and challenge to the Chief Compliance Officer to help them identify, assess and mitigate regulatory compliance risks, where required. The Banking Group's regulatory compliance risk policies are regularly reviewed. Global policies and procedures require the prompt identification and escalation of any actual or potential regulatory breach. Relevant reportable events are escalated to risk management committees as appropriate.

Conduct of business
In 2021, we continued to promote and encourage good conduct through our people's behaviour and decision making in order to deliver fair outcomes for our customers, and to maintain financial market integrity. During 2021:
- We continued to champion a strong conduct and customer-focused culture. We continued to support our customers in financial difficulties, have maintained services and supported colleagues through lockdowns and challenging conditions.
- We have also continued our focus on culture and behaviours, adapting our controls and risk management processes to reflect significant levels of remote working throughout the year.

Financial crime risk

Financial crime risk is the risk of knowingly or unknowingly helping parties to commit or to further illegal activity through the Banking Group, including money laundering, fraud, bribery and corruption, tax evasion, sanctions breaches, and terrorist and proliferation financing. Financial crime risk arises from day-to-day banking operations.

Financial crime risk management

Key developments in 2021

In 2021, we continued to strengthen our fight against financial crime and to enhance our financial crime risk management capability. We consistently review the effectiveness of our financial crime risk management framework, which includes consideration of geopolitical and wider economic factors. The sanctions regulatory environment remained changeable and uncertain during the course of 2021 due to the ongoing geopolitical tensions between the US and China, and the increasing divergence in sanctions policies between the US and the EU on Iran and Russia. We comply with all applicable sanctions regulations in the jurisdictions in which HSBC Group operates, and continue to monitor the geopolitical landscape for ongoing developments. We also continued to progress several key financial crime risk management initiatives, including:

- We continued to strengthen our anti-fraud capabilities, focusing on threats posed by new and existing technologies, and have delivered a comprehensive fraud training programme across the Bank.
- HSBC Group continued to invest in the use of artificial intelligence ('AI') and advanced analytics techniques to manage financial crime risk, and published principles for the ethical use of Big Data and AI.
- We continued to work on strengthening our ability to combat money laundering and terrorist financing. In particular, we focused on the use of technology to enhance our risk management processes while minimising the impact to the customer. HSBC Group also continued to develop its approach of intelligence led financial crime risk management, in part, through enhancements to our automated transaction monitoring systems.

Governance and structure

Since HSBC Group established a global framework of financial crime risk management committees in 2018, we have continued to strengthen and review the effectiveness of our governance framework to manage financial crime risk. As a reflection of the growing maturity and effectiveness of our financial crime risk management, the financial crime risk management meeting was integrated with the Risk Management Meeting in May 2021.

2. Risk management *(continued)*

COMPLIANCE RISK *(continued)*

Financial crime risk management *(continued)*

Key risk management processes

We continued to deliver a programme to further enhance the policies and controls around identifying and managing the risks of bribery and corruption across our business. Recognising that the fight against financial crime is a constant challenge, we maintained our investment in operational controls and new technology to deter and detect criminal activity in the banking system. We continued to simplify our governance and policy frameworks, and our management information reporting process which demonstrates the effectiveness of our financial crime controls. We remain committed to enhancing our risk assessment capabilities and to delivering more proactive risk management, including HSBC Groups ongoing investment in the next generation of capabilities to fight financial crime by applying advanced analytics and AI.

We are committed to working in partnership with the wider industry and the public sector in managing financial crime risk, protecting the integrity of the financial system, and helping to protect the communities we serve. HSBC Group is a strong advocate of public-private partnerships and participate in a number of information-sharing initiatives around the world.

HSBC Group has been an advocate for a more effective international framework for managing financial crime risk, whether through engaging directly with intergovernmental bodies such as Financial Action Task Force, the global money laundering and terrorist watchdog, or via our key role in industry groups such as the Wolfsberg Group and the Institute of International Finance.

INTERNAL AUDIT

Internal audit is an integral part of the control environment of the Group. It provides management and, through the Audit Committee, the Board with an independent and objective review of the business activities and support functions of the Group. The Banking Group does not have a separate Audit Committee or internal audit function.

The Group's internal audit department has authority of access to all operations, records, property and staff at each location. All employees are required to co-operate fully with and provide full and complete information to the Group's internal auditors in the performance of their assigned duties.

Though some audit cycles are predetermined by regulatory or similar stipulations, in general, audits throughout the Group are carried out on a frequency determined primarily by the risk grading allocated to the business unit at the time of the previous audit, with units considered to represent greater risks being audited at more frequent intervals. There are no regulatory stipulations governing the internal audit cycles of the Banking Group.

Access to parental disclosures on risk management processes and capital adequacy requirements

The most recent publicly available disclosures on risk management processes and capital adequacy requirements of HBAP Group and HSBC Holdings plc ("Group") can be found at HSBC Holdings plc's website, www.hsbc.com.

Notes to and forming part of the Financial Statements *(continued)*

	Banking Group	
Dollars in Thousands	**12 months 31.12.21**	12 months 31.12.20
3. Operating income		
(a) Net interest income		
Interest income		
Advances to banks	**5,015**	3,786
Financial instruments[1]	**4,642**	7,974
Advances to customers	**92,365**	112,049
Related parties – HBAP	**192**	3,569
Related parties – other	**196**	125
Other	**48**	339
	102,458	127,842
Interest expense		
Deposits by banks	**(24)**	(253)
Customer deposits	**(16,817)**	(27,158)
Debt securities	**(8,467)**	(13,146)
Related parties – HBAP	**(8,097)**	(18,011)
Related parties – other	**(35)**	(47)
Lease liability	**(284)**	(211)
Other	**(6)**	(349)
	(33,730)	(59,175)
(b) Net trading income[2]		
Foreign exchange gains /(losses)	**8,937**	8,934
Gains /(losses) on revaluation of derivatives	**400**	290
Credit valuation adjustments on derivatives	**5**	(53)
Debit valuation adjustments on derivatives	**(4)**	(4)
Gain /(loss) on hedging instrument in fair value hedge	**167**	1,033
(Loss) /gain on hedged item in fair value hedge	**(199)**	(1,047)
	9,306	9,153
(c) Other net operating income		
Fee and commission income		
Lending and credit facility fees	**17,395**	19,467
Custody and clearing fees	**6,879**	6,732
Other fees and commissions from:		
– Third parties	**11,518**	9,986
– Related parties - HBAP	**4,003**	2,881
– Related parties - other	**1,869**	1,668
	41,664	40,734
Fee and commission expense		
Brokerage expense	**(2,548)**	(2,640)
Other fees and commissions to:		
– Third parties	**(627)**	(683)
– Related parties - HBAP	**(531)**	(533)
– Related parties - other	**-**	(50)
	(3,706)	(3,906)
Other income		
Third parties	**151**	46
Related parties - other	**305**	381
(Loss) /gain on disposal of property, plant and equipment	**-**	(163)
(Loss) /gain arising from derecognition of financial instrument	**3,348**	-
	41,762	37,092

1 Interest income from Financial Instruments consists solely of financial assets measured at fair value through other comprehensive income.

2 Trading income consists solely of income and expenses derived from assets and liabilities held at fair value through profit or loss.

All other items of income and expense are derived solely from financial assets and liabilities measured at amortised cost.

Notes to and forming part of the Financial Statements *(continued)*

	Banking Group	
Dollars in Thousands	**12 months 31.12.21**	12 months 31.12.20
4. Operating expenses		
Rental expense		
Equipment	**64**	79
	64	79
Depreciation and amortisation		
Right of use assets	**1,890**	2,535
Leasehold improvements	**1,263**	73
Equipment, fixtures and fittings	**510**	287
Intangibles	**1,232**	707
	4,895	3,602
Staff costs		
Salaries & other staff expenses	**31,491**	31,913
Defined contribution pension costs	**2,307**	2,327
Share based payments	**21**	298
Other	**1,154**	1,394
	34,973	35,932
Other		
Related party management and technical fees – HBAP	**14,638**	20,816
Related party management and technical fees – other	**6,707**	3,875
Donations	**101**	91
Other operating expenses	**10,612**	9,082
	32,058	33,864
	71,990	73,477

5. Auditor's remuneration

Fees paid to the auditor of the Banking Group for the audit and review of financial statements related to the 2021 financial year amounted to $712 thousand (2020 financial year: $743 thousand). Comparative figures have been updated to reflect additional audit fees agreed after the previous years financial statements were approved. There were no other services provided by the auditor, including any network firms, for the Banking Group in the 2021 financial year (2020 financial year: nil). These amounts above exclude goods and services tax.

Notes to and forming part of the Financial Statements *(continued)*

	Banking Group	
Dollars in Thousands	**31.12.21**	31.12.20
6. Advances to customers		
Overdrafts	**55,763**	59,761
Residential mortgages	**1,906,322**	1,904,430
Term lending	**2,072,438**	1,958,392
Corporate credit card advances	**802**	123
Trade finance receivables	**359,922**	176,553
Total gross advances to customers	**4,395,247**	4,099,259
Expected credit loss allowance	**(2,058)**	(5,285)
Total net advances to customers	**4,393,189**	4,093,974

7. Additional mortgage information

Residential mortgages by loan-to-value ratio (LVR)

Dollars in Thousands	Banking Group			
	Principal Amount			
LVR Range	**Does not exceed 80%**	**Exceeds 80% and not 90%**	**Exceeds 90%**	**Total**
31 December 2021 (Unaudited)				
Value of exposures on balance sheet	**1,879,451**	**26,043**	**828**	**1,906,322**
Value of exposures off balance sheet	**184,631**	**139**	**-**	**184,770**
Total value of exposures	**2,064,082**	**26,182**	**828**	**2,091,092**

If the LVR of a residential mortgage is unknown, the residential mortgage is classified as “exceeds 90%”.

	Banking Group	
Dollars in Thousands	**31.12.21**	31.12.20
8. Asset quality – gross exposure		
Gross exposure of past due but not individually impaired advances to customers		
Less than 30 days	**19,477**	24,506
At least 30 days but less than 60 days	**-**	203
At least 60 days but less than 90 days	**2**	146
At least 90 days	**-**	335
Total past due but not individually impaired	**19,479**	25,190

	Banking Group			
	31.12.21		31.12.20	
Percentage of total gross Advances to customers	**Stage 1 & 2**	**Stage 3**	Stage 1 & 2	Stage 3
Fully collateralised	**56%**	**98%**	58%	92%
Partially collateralised	**6%**	**2%**	7%	8%
Not collateralised	**38%**	**-**	35%	-

The collateral measured in the above tables consists of fixed first charges on real estate, and charges over cash and marketable financial instruments. The values in the tables represent the expected market value on an open market basis. No adjustment has been made to the collateral for any expected costs of recovery. Marketable securities are measured at their fair value.

Other types of collateral such as unsupported guarantees and floating charges over the assets of a customer’s business are not measured in the above tables. While such mitigants have value, often providing rights in insolvency, their assignable value is not sufficiently certain and they are therefore assigned no value for disclosure purposes.

Collateral is generally not held over advances to banks, or over amounts due from related parties.

Notes to and forming part of the Financial Statements *(continued)*

8. Asset quality – gross exposure *(continued)*

The following disclosure provides a reconciliation by stage of the Banking Group's gross exposure/nominal amount and allowances for loans and advances to banks and customers, including loan commitments and financial guarantees. Movements are calculated on a quarterly basis and therefore fully capture stage movements between quarters. If movements were calculated on a year-to-date basis they would only reflect the opening and closing position of the financial instrument.

The transfers of financial instruments represent the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL.

Changes in 'New financial assets originated or purchased', 'assets derecognised (including final repayments)' and 'net further lending/repayment' represent the impact from volume movements within the Banking Group's lending portfolio.

Overlay and underlay adjustments to the stage allocation of gross exposures, where necessary to reflect the judgements described in Note 1, are reflected in the below movement tables through increases or decreases in 'Transfer from Stage 1 to 2'. The amount of 'Net further lending / repayment' in each stage was also adjusted to reflect the exposure changes.

Wholesale – Gross exposures / nominal amount of advances to banks and customers, including loan commitments and financial guarantees by expected credit loss allowance stage

	12 months ended 31 December 2021			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3[1]**	**Total**
Total wholesale exposures				
As at 1 January 2021	**3,987,444**	**162,713**	**960**	**4,151,117**
Transfer of financial instruments:				
Transfer from Stage 1 to 2	**(789,172)**	**789,172**	**-**	**-**
Transfer from Stage 2 to 1	**703,214**	**(703,214)**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Transfer from Stage 3	**-**	**-**	**-**	**-**
Net further lending/repayment	**(250,932)**	**(13,857)**	**24**	**(264,765)**
Asset derecognised (including final repayments)	**(699,273)**	**(15,970)**	**(216)**	**(715,459)**
New financial assets originated or purchased	**1,250,563**	**-**	**-**	**1,250,563**
Asset written off	**-**	**-**	**(768)**	**(768)**
As at 31 December 2021 – Total wholesale credit Exposure	**4,201,844**	**218,844**	**-**	**4,420,688**

Retail – Gross exposures / nominal amount of advances to customers, including loan commitments and financial guarantees by expected credit loss allowance stage

	12 months ended 31 December 2021			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3[1]**	**Total**
Total retail exposures				
As at 1 January 2021	**2,062,220**	**39,784**	**19,536**	**2,121,540**
Transfer of financial instruments:				
Transfer from Stage 1 to 2	**(36,906)**	**36,906**	**-**	**-**
Transfer from Stage 2 to 1	**49,201**	**(49,201)**	**-**	**-**
Transfer to Stage 3	**(7,727)**	**(1,848)**	**9,575**	**-**
Transfer from Stage 3	**51**	**1,026**	**(1,077)**	**-**
Net further lending/repayment	**(93,815)**	**(13,243)**	**(2,497)**	**(109,555)**
Asset derecognised (including final repayments)	**(425,339)**	**(1,545)**	**(9,528)**	**(436,412)**
New financial assets originated or purchased	**524,993**	**-**	**-**	**524,993**
As at 31 December 2021 – Total retail credit exposure	**2,072,678**	**11,879**	**16,009**	**2,100,566**

[1] Wholesale exposures are assessed as credit impaired on an individual basis while retail exposures are assessed as credit impaired on a collective basis.

Total gross exposures increased $249 million during the year to 31 December 2021. This was primarily driven by a net increase of new financial assets originated or purchased, assets derecognised and net further lending/repayments from wholesale customers of $270 million. New financial assets originated, net of assets derecognised and final repayments was $535 million for wholesale exposure and $89 million for retail exposure.

There are no assets under administration as at 31 December 2021 (31 December 2020: nil). The aggregate amount as at 31 December 2021 of any undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired, before deducting allowances for credit impairment loss where applicable, is nil (December 2020: $70 thousand).

Notes to and forming part of the Financial Statements *(continued)*

8. Asset quality – gross exposure *(continued)*

Wholesale – Gross exposures / nominal amount of advances to banks and customers, including loan commitments and financial guarantees by expected credit loss allowance stage

	12 months ended 31 December 2020			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3[1]**	**Total**
Total wholesale exposures				
As at 1 January 2020	4,421,836	83,855	2,729	4,508,420
Transfer of financial instruments:				
Transfer from Stage 1 to 2	(1,253,294)	1,253,294	-	-
Transfer from Stage 2 to 1	1,048,001	(1,048,001)	-	-
Transfer to Stage 3	-	-	-	-
Transfer from Stage 3	-	-	-	-
Net further lending/repayment	(327,726)	(42,878)	(1,769)	(372,373)
Asset derecognised (including final repayments)	(336,879)	(83,557)	-	(420,436)
New financial assets originated or purchased	435,506	-	-	435,506
As at 31 December 2020 – Total wholesale credit Exposure	3,987,444	162,713	960	4,151,117

Retail – Gross exposures / nominal amount of advances to customers, including loan commitments and financial guarantees by expected credit loss allowance stage

	12 months ended 31 December 2020			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3[1]**	**Total**
Total retail exposures				
As at 1 January 2020	2,229,646	25,006	13,950	2,268,602
Transfer of financial instruments:				
Transfer from Stage 1 to 2	(48,822)	48,822	-	-
Transfer from Stage 2 to 1	41,312	(41,312)	-	-
Transfer to Stage 3	(6,426)	(4,572)	10,998	-
Transfer from Stage 3	1,138	1,619	(2,757)	-
Net further lending/repayment	(168,254)	15,064	(730)	(153,920)
Asset derecognised (including final repayments)	(327,562)	(4,843)	(1,925)	(334,330)
New financial assets originated or purchased	341,188	-	-	341,188
As at 31 December 2020 – Total retail credit exposure	2,062,220	39,784	19,536	2,121,540

[1] Wholesale exposures are assessed as credit impaired on an individual basis while retail exposures are assessed as credit impaired on a collective basis.

Total gross exposures decreased $555 million during the year to 31 December 2020. This was primarily driven by net further repayments from wholesale customers of $372 million. New financial assets originated, net of assets derecognised and final repayments was $15 million for wholesale exposure and $7 million for retail exposure.

There are no assets under administration as at 31 December 2020 (31 December 2019: nil). The aggregate amount as at 31 December 2020 of any undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired, before deducting allowances for credit impairment loss where applicable, is $70 thousand (December 2019: $183 thousand).

Notes to and forming part of the Financial Statements *(continued)*

9. Asset quality – expected credit loss

The following disclosure provides a reconciliation by stage of the Banking Group's expected credit loss for loans and advances to banks and customers, including loan commitments and financial guarantees. The basis of disclosure is the same as discussed in Note 8.

The net remeasurement of ECL arising from stage transfers represents the increase or decrease due to these transfers, for example, moving from a 12-month (stage 1) to a lifetime (stage 2) ECL measurement basis. Net remeasurement excludes the underlying customer risk rating /probability of default movements of the financial instruments transferring stage. This is captured, along with other credit quality movements in the 'net new lending and changes to risk parameters (model inputs)' line item. Changes in 'New financial assets originated or purchased', 'assets derecognised (including final repayments)' and 'net new lending and changes to risk parameters (model inputs)' represent the impact from volume movements within the Banking Group's lending portfolio.

The ECL decreased by $3.8 million due to changes in risk parameters (model inputs) including loss given default assumptions from the redeveloped mortgage model and the resolution of one wholesale stage 3 exposure. The remainder was due to improved economic conditions and reduced post model adjustments. This decrease is mainly reported in 'Changes in risk parameters (model inputs)', particularly in retail exposures which decreased by $2 million.

Model adjustments to the total ECL and stage allocation of ECL, where necessary to reflect the judgements described in Note 1, are reflected in the below movement tables through increases or decreases in 'Transfer from Stage 1 to 2' and 'Net new lending and changes to risk parameters (model inputs)'.

Wholesale - Expected credit loss on advances to banks and customers, including loan commitments and financial guarantees

	12 months ended 31 December 2021			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3**[1]	**Total**
Expected credit loss allowance				
As at 1 January 2021	**(1,943)**	**(545)**	**(765)**	**(3,253)**
Transfer of financial instruments:				
Transfer from Stage 1 to 2	**561**	**(561)**	**-**	**-**
Transfer from Stage 2 to 1	**(869)**	**869**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Transfer from Stage 3	**-**	**-**	**-**	**-**
Net re-measurement of ECL arising from transfer of stage	**739**	**(690)**	**-**	**49**
Net new lending and changes to risk parameters (model inputs)	**720**	**158**	**(22)**	**856**
Asset derecognised (including final repayments)	**59**	**19**	**787**	**865**
New financial assets originated or purchased	**(308)**	**-**	**-**	**(308)**
As at 31 December 2021 – total expected credit loss	**(1,041)**	**(750)**	**-**	**(1,791)**
ECL on wholesale loans and advances to banks and customers including loan commitments and financial guarantees - profit or loss charge/(release) for the period	**(902)**	**205**	**(1,533)**	**(2,230)**
Write-Off / (Recoveries)	**-**	**-**	**768**	**768**
ECL on other financial assets profit or loss charge / (release)	**-**	**-**	**-**	**-**
Other movements	**(34)**	**-**	**-**	**(34)**
Total ECL profit or loss charge / (release) for the year	**(936)**	**205**	**(765)**	**(1,496)**

Notes to and forming part of the Financial Statements *(continued)*

9. Asset quality – expected credit loss *(continued)*

Retail - Expected credit loss on advances to customers, including loan commitments and financial guarantees

	12 months ended 31 December 2021			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3[1]**	**Total**
Expected credit loss allowance				
As at 1 January 2021	**(219)**	**(751)**	**(2,146)**	**(3,116)**
Transfer of financial instruments:				
Transfer from Stage 1 to 2	13	(13)	-	-
Transfer from Stage 2 to 1	(140)	140	-	-
Transfer to Stage 3	4	2	(6)	-
Transfer from Stage 3	-	(47)	47	-
Net re-measurement of ECL arising from transfer of stage	63	(7)	(1)	55
Net new lending and changes to risk parameters (model inputs)	75	578	1,410	2,063
Asset derecognised (including final repayments)	210	39	123	372
New financial assets originated or purchased	(144)	-	-	(144)
As at 31 December 2021 – total expected credit loss	**(138)**	**(59)**	**(573)**	**(770)**
ECL on retail loans and advances to customers including loan commitments and financial guarantees - profit or loss charge/(release) for the period	(81)	(692)	(1,573)	(2,346)
Write-Off / (Recoveries)	-	-	-	-
ECL on other financial assets profit or loss charge / (release)	-	-	-	-
Other movements	-	-	-	-
Total ECL profit or loss charge / (release) for the year	**(81)**	**(692)**	**(1,573)**	**(2,346)**

The movement in expected credit losses for other assets are excluded from the tables above as they are not material.

[1] The wholesale Stage 3 ECL reflects the allowance on assets assessed as credit impaired on an individual basis and the retail Stage 3 ECL reflects the allowance for assets that are credit impaired on a collective basis.

Notes to and forming part of the Financial Statements *(continued)*

9. Asset quality – expected credit loss *(continued)*

The ECL increased $1.5 million due to changes in credit expectations following the Covid-19 pandemic. This increase is mainly reported in 'Changes in risk parameters (model inputs)', particularly in retail exposures which increased $1.9 million.

Model adjustments to the total ECL and stage allocation of ECL, where necessary to reflect the judgements described in Note 1, are reflected in the below movement tables through increases or decreases in 'Transfer from Stage 1 to 2' and 'Net new lending and changes to risk parameters (model inputs)'.

Wholesale - Expected credit loss on advances to banks and customers, including loan commitments and financial guarantees

	12 months ended 31 December 2020			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3[1]**	**Total**
Expected credit loss allowance				
As at 1 January 2020	(2,205)	(719)	(431)	(3,355)
Transfer of financial instruments:				
Transfer from Stage 1 to 2	873	(873)	-	-
Transfer from Stage 2 to 1	(3,112)	3,112	-	-
Transfer to Stage 3	-	-	-	-
Transfer from Stage 3	-	-	-	-
Net re-measurement of ECL arising from transfer of stage	3,835	(2,471)	-	1,364
Net new lending and changes to risk parameters (model inputs)	(952)	383	(334)	(903)
Asset derecognised (including final repayments)	45	23	-	68
New financial assets originated or purchased	(427)	-	-	(427)
As at 31 December 2020 – total expected credit loss	(1,943)	(545)	(765)	(3,253)
ECL on wholesale loans and advances to banks and customers including loan commitments and financial guarantees - profit or loss charge/(release) for the period	(262)	(174)	334	(102)
Write-Off / (Recoveries)	-	-	-	-
ECL on other financial assets profit or loss charge / (release)	-	-	-	-
Other movements	58	-	-	58
Total ECL profit or loss charge / (release) for the year	(204)	(174)	334	(44)

Retail - Expected credit loss on advances to customers, including loan commitments and financial guarantees

	12 months ended 31 December 2020			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3[1]**	**Total**
Expected credit loss allowance				
As at 1 January 2020	(92)	(104)	(1,335)	(1,531)
Transfer of financial instruments:				
Transfer from Stage 1 to 2	18	(18)	-	-
Transfer from Stage 2 to 1	(442)	442	-	-
Transfer to Stage 3	2	469	(471)	-
Transfer from Stage 3	(218)	-	218	-
Net re-measurement of ECL arising from transfer of stage	965	(682)	-	283
Net new lending and changes to risk parameters (model inputs)	(415)	(933)	(562)	(1,910)
Asset derecognised (including final repayments)	131	75	4	210
New financial assets originated or purchased	(168)	-	-	(168)
As at 31 December 2020 – total expected credit loss	(219)	(751)	(2,146)	(3,116)
ECL on retail loans and advances to customers including loan commitments and financial guarantees - profit or loss charge/(release) for the period	127	647	811	1,585
Write-Off / (Recoveries)	-	-	-	-
ECL on other financial assets profit or loss charge / (release)	-	-	-	-
Other movements	-	-	-	-
Total ECL profit or loss charge / (release) for the year	127	647	811	1,585

The movement in expected credit losses for other assets are excluded from the tables above as they are not material.

[1] The wholesale Stage 3 ECL reflects the allowance on assets assessed as credit impaired on an individual basis and the retail Stage 3 ECL reflects the allowance for assets that are credit impaired on a collective basis.

Notes to and forming part of the Financial Statements *(continued)*

9. Asset quality – expected credit loss *(continued)*

Dollars in Thousands	Banking Group **31.12.21**	31.12.20
Change in Expected Credit Losses		
Advances to customers		
- New allowances net of allowance releases	**(3,235)**	(1,681)
- Recoveries of amounts previously written off	**-**	-
- Amounts written off	**768**	-
	(2,467)	(1,681)
Loan commitments and guarantees	**(583)**	140
Other financial assets	**(24)**	(28)
Change in Expected Credit Loss	**(3,074)**	(1,569)

10. Asset quality – financial instruments by stage allocation

Credit quality classification

	Financial Investments	Wholesale Lending		Retail Lending	
	External credit rating	Internal credit rating	12 month probability of default %	Internal credit rating	12 month probability weighted PD %
Quality classification					
Strong	A- and above	CRR1 to CRR2	0 - 0.169	Band 1 and 2	0.000 - 0.500
Good	BBB+ to BBB-	CRR3	0.170 - 0.740	Band 3	0.501 - 1.500
Satisfactory	BB+ to B and unrated	CRR4 to CRR5	0.741 - 4.914	Band 4 and 5	1.501 - 20.000
Sub-standard	B- to C	CRR6 to CRR8	4.915 – 99.999	Band 6	20.001 - 99.999
Impaired	Default	CRR9 to CRR10	100	Band 7	100.00

Distribution of financial instruments to which the impairment requirements in NZ IFRS 9 are applied, by credit quality and stage allocation

Dollars in Thousands	12 months ended 31 December 2021							
	Strong	Good	Satisfactory	Sub-standard	Credit Impaired	Total	Allowance for ECL	Net
Advances to customers at AC								
- stage 1	**3,231,602**	**653,201**	**398,611**	**297**	**-**	**4,283,711**	**(966)**	**4,282,745**
- stage 2	**-**	**22,187**	**73,791**	**-**	**-**	**95,978**	**(519)**	**95,459**
- stage 3	**-**	**-**	**-**	**-**	**15,558**	**15,558**	**(573)**	**14,985**
Advances to banks at AC[1]								
- stage 1	**2,792**	**-**	**-**	**-**	**-**	**2,792**	**-**	**2,792**
- stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loan and other credit-related commitments								
- stage 1	**1,460,494**	**298,539**	**200,759**	**-**	**-**	**1,959,792**	**(176)**	**1,959,616**
- stage 2	**35,520**	**42,084**	**39,349**	**50**	**-**	**117,003**	**(257)**	**116,746**
- stage 3	**-**	**-**	**-**	**-**	**451**	**451**	**-**	**451**
Financial guarantees and similar contracts								
- stage 1	**11,452**	**13,220**	**3,555**	**-**	**-**	**28,227**	**(37)**	**28,190**
- stage 2	**80**	**2,932**	**14,285**	**445**	**-**	**17,742**	**(33)**	**17,709**
- stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
At 31 Dec 2021	**4,741,940**	**1,032,163**	**730,350**	**792**	**16,009**	**6,521,254**	**(2,561)**	**6,518,693**

Balances related to Cash with central banks, Amounts due from related parties and Other assets do not have a material ECL balance.

1. Advances to banks at Amortised Cost excludes 'Items in the course of collection from other banks'.

Notes to and forming part of the Financial Statements *(continued)*

10. Asset quality – financial instruments by stage allocation *(continued)*

Distribution of financial instruments to which the impairment requirements in NZ IFRS 9 are applied, by credit quality and stage allocation

	12 months ended 31 December 2020							
Dollars in Thousands	Strong	Good	Satisfactory	Sub-standard	Credit Impaired	Total	Allowance for ECL	Net
Advances to customers at AC								
- stage 1	3,039,179	630,672	288,725	-	-	3,958,576	(1,552)	3,957,024
- stage 2	-	78,594	42,017	-	-	120,611	(822)	119,789
- stage 3	-	-	-	-	20,072	20,072	(2,911)	17,161
Advances to banks at AC[1]								
- stage 1	3,898	-	-	-	-	3,898	(1)	3,897
- stage 2	31	-	-	-	-	31	-	31
- stage 3	-	-	-	-	-	-	-	-
Loan and other credit-related commitments								
- stage 1	1,287,985	533,503	244,975	-	-	2,066,463	(560)	2,065,903
- stage 2	10,413	47,644	4,273	50	-	62,380	(373)	62,007
- stage 3	-	-	-	-	424	424	-	424
Financial guarantees and similar contracts								
- stage 1	4,785	7,328	8,614	-	-	20,727	(49)	20,678
- stage 2	-	130	19,245	100	-	19,475	(101)	19,374
- stage 3	-	-	-	-	-	-	-	-
At 31 Dec 2020	4,346,291	1,297,871	607,849	150	20,496	6,272,657	(6,369)	6,266,288

Balances related to Cash with central banks, Amounts due from related parties and Other assets do not have a material ECL balance.

1. Advances to banks at Amortised Cost excludes ‘Items in the course of collection from other banks’.

Notes to and forming part of the Financial Statements *(continued)*

11. Concentrations of credit risk

Maximum exposure to credit risk

The maximum credit risk of on-balance sheet financial assets is best represented by the carrying amount of the assets, net of any provision for expected credit loss. The credit risk exposure does not take into account the fair value of any collateral, in the event of other parties failing to perform their obligations under financial instruments.

	Banking Group	
Dollars in Thousands	**31.12.21**	31.12.20
On-balance sheet credit exposures		
Cash and demand balances with central banks	**1,926,921**	1,423,970
Advances to banks	**2,792**	3,928
Financial investments	**460,317**	528,528
Derivative financial instruments	**16,734**	74,733
Advances to customers	**4,393,189**	4,093,974
Amounts due from related parties	**669,437**	894,455
Other assets	**19,190**	15,489
	7,488,580	7,035,077
Off-balance sheet credit exposures	**3,061,795**	3,077,348
Total credit exposures	**10,550,375**	10,112,425

Concentrations of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Concentrations of credit risk by industry

Individual	**2,111,002**	2,127,119
Banks and financial institutions	**3,494,993**	3,475,813
Commercial and industrial	**1,884,780**	1,491,832
Commercial real estate and construction	**854,229**	730,251
Electricity, telecommunication and other utilities	**571,542**	691,728
Wholesale and retail trade	**608,279**	687,840
Agriculture, forestry and mining	**248,796**	131,557
Transport	**244,947**	264,702
Government	**292,025**	283,699
Other	**239,782**	227,884
	10,550,375	10,112,425

Concentrations of credit risk by geographical area

New Zealand	**9,092,391**	8,150,877
Hong Kong	**672,789**	957,858
China	**197,251**	234,205
Australia	**168,660**	198,047
United States	**150,080**	273,607
United Kingdom	**36,643**	65,238
Other Overseas	**232,561**	232,593
	10,550,375	10,112,425

Notes to and forming part of the Financial Statements *(continued)*

12. Concentrations of funding risk

	Banking Group	
Dollars in Thousands	**31.12.21**	31.12.20
Concentrations of funding by product		
Deposits by banks	**302,440**	373,960
Customer deposits	**4,978,259**	4,450,882
Debt securities	**600,000**	900,000
Amounts due to related parties	**1,569,435**	1,202,873
	7,450,134	6,927,715
Concentrations of funding by industry		
Individual	**2,065,813**	1,829,027
Banks and financial institutions	**3,201,901**	2,983,576
Commercial and industrial	**798,472**	844,383
Commercial real estate and construction	**219,390**	157,848
Wholesale and retail trade	**394,243**	386,401
Agriculture, forestry and mining	**82,751**	119,558
Transport	**159,675**	126,710
Electricity, telecommunication and other utilities	**19,169**	67,648
Government	**280,585**	181,608
Other	**228,135**	230,956
	7,450,134	6,927,715
Concentrations of funding by geographical area		
New Zealand	**4,460,522**	4,105,037
Hong Kong	**1,757,344**	1,336,269
China	**190,182**	191,080
United Kingdom	**240,887**	329,833
United States	**127,233**	323,908
Other Overseas	**673,966**	641,588
	7,450,134	6,927,715

Notes to and forming part of the Financial Statements *(continued)*

	Banking Group	
Dollars in Thousands	**31.12.21**	31.12.20
13. Customer deposits		
Current accounts	**2,740,708**	2,538,527
Savings and deposit accounts	**2,237,551**	1,912,355
Total customer deposits at amortised cost	**4,978,259**	4,450,882
14. Debt securities		
Certificates of deposit issued	**-**	-
Medium term notes issued	**600,000**	900,000
	600,000	900,000

There are no debt securities on demand (31 December 2020: nil)

15. Additional financial disclosures on the balance sheet		
Total interest earning and discount bearing assets	**7,452,657**	6,944,855
Total interest and discount bearing liabilities	**7,250,963**	6,734,108
Total liabilities net of amounts due to related parties	**5,949,233**	5,841,157
16. Other assets		
Accrued interest receivable – third party	**7,370**	8,648
Acceptances and endorsements	**8,754**	3,275
Other	**3,414**	4,402
	19,538	16,325
17. Other liabilities		
Accrued interest payable	**6,927**	6,869
Accruals and deferred income	**14,410**	10,842
Acceptances and endorsements	**8,754**	3,276
Lease liabilities	**17,831**	18,806
Other	**12,096**	11,762
	60,018	51,555

Accruals as at 31 December 2021 include $7.5 million for employee entitlements (December 2020: $6.3 million).

Notes to and forming part of the Financial Statements *(continued)*

18. Segment reporting

The Banking Group's operating segments are organised into three business segments representing the products and services offered to customers and a Corporate Centre. The Executive Committee, which includes senior management of each business unit, acts as the Banking Group's chief operating decision-maker and assesses the Banking Group's performance on this basis.

The Banking Group's operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expenses. Allocations include the cost of certain support services and functions to the extent they can be meaningfully attributed. Costs which cannot be allocated to business segments are included in Corporate Centre.

During the first half of 2020, the Banking Group reallocated the reporting of Balance Sheet Management from Corporate Centre to all other business segments. The allocation is based on the risk weighted assets and commercial surplus of each business segment. Business segments pay and receive interest to and from Balance Sheet Management. All transactions are undertaken on an arm's length basis. Comparative data has been restated to ensure the comparability of the information.

The Banking Group operates primarily in New Zealand and predominately all revenues from and assets held with external customers are generated or held in New Zealand. The Banking Group does not rely on any single major customer for its revenue base.

Business Segments

The Banking Group comprises the following main business segments:

- *Wealth and Personal Banking (WPB)*
  Includes loans, deposits and other transactions with retail customers.
  Prior to the second quarter of 2020, this segment was called Retail Banking and Wealth Management.

- *Commercial Banking (CMB)*
  Manages the relationships with corporate customers providing loans, deposits and other transactions including trade finance and payment cash management.

- *Global Banking and Markets (GBM)*
  Manages the relationships with institutional customers and undertakes the Banking Group's investment banking operations.

- *Corporate Centre*
  Includes central and Group support costs with associated recoveries that cannot be meaningfully attributed.

	Banking Group **12 months ended 31.12.21**				
Dollars in Thousands	**WPB**	**CMB**	**GBM**	**Corporate Centre**	**Aggregated**
Net interest income	**33,742**	**31,885**	**7,340**	**(4,239)**	**68,728**
Net trading income/ (loss)	**1,356**	**3,897**	**4,825**	**(772)**	**9,306**
Net fee and commission income	**(49)**	**26,582**	**7,340**	**4,085**	**37,958**
Other income	**201**	**1,564**	**1,741**	**298**	**3,804**
Net operating income before loan impairment charges	**35,250**	**63,928**	**21,246**	**(628)**	**119,796**
Change in expected credit loss	**2,286**	**630**	**158**	**-**	**3,074**
Net operating income	**37,536**	**64,558**	**21,404**	**(628)**	**122,870**
Operating expense	**(30,012)**	**(32,405)**	**(8,799)**	**(774)**	**(71,990)**
Operating profit before tax	**7,524**	**32,153**	**12,605**	**(1,402)**	**50,880**
Advances to customers	**1,919,113**	**2,474,076**	**-**	**-**	**4,393,189**
Customer deposits	**1,860,212**	**2,300,739**	**817,308**	**-**	**4,978,259**

Notes to and forming part of the Financial Statements *(continued)*

18. Segment reporting *(continued)*

			Banking Group **12 months ended 31.12.20**		
Dollars in Thousands	**WPB**	**CMB**	**GBM**	**Corporate Centre**	**Aggregated**
Net interest income	34,031	30,565	7,772	(3,701)	68,667
Net trading income/ (loss)	1,517	3,983	4,907	(1,254)	9,153
Net fee and commission income	(144)	26,832	6,427	3,713	36,828
Other income	-	418	7	(161)	264
Net operating income before loan impairment charges	35,404	61,798	19,113	(1,403)	114,912
Change in expected credit loss	(1,499)	141	(211)	-	(1,569)
Net operating income	33,905	61,939	18,902	(1,403)	113,343
Operating expense	(30,396)	(33,892)	(8,879)	(310)	(73,477)
Operating profit before tax	3,509	28,047	10,023	(1,713)	39,866
Advances to customers	1,921,054	2,096,420	76,500	-	4,093,974
Customer deposits	1,875,919	1,914,423	660,540	-	4,450,882

Notes to and forming part of the Financial Statements *(continued)*

Dollars in Thousands	***Banking Group*** 12 months 31.12.21	12 months 31.12.20
19. Taxation		
Current tax expense		
Current tax expense	**14,103**	11,596
	14,103	11,596
Deferred tax expense		
Origination and reversal of temporary differences	**343**	(408)
	343	(408)
Total income tax expense included in profit after tax	**14,446**	11,188
Reconciliation of effective tax rate		
Operating profit before tax	**50,880**	39,866
Income tax using the domestic corporation tax rate (28%)	**14,246**	11,163
Non-deductible expenses	**23**	25
Under/(Over) provision from prior years	**176**	-
	14,446	11,188

Dollars in Thousands		***Banking Group***	
Recognised deferred tax assets and liabilities	Balance at 1 January	Credit / (charge) to profit or loss	Balance at 31 December
2021			
Accelerated capital allowances	**1,515**	**12**	**1,527**
Provision for loan impairment	**1,798**	**(1,076)**	**722**
Other provisions	**401**	**543**	**944**
Income deferred for accounting purposes	**418**	**(182)**	**236**
Net right of use assets and liabilities	**547**	**360**	**907**
Tax deductible premium	**(3,595)**	**-**	**(3,595)**
Net deferred tax asset / (liability)	**1,084**	**(343)**	**741**
2020			
Accelerated capital allowances	**2,065**	**(550)**	**1,515**
Provision for loan impairment	**1,372**	**424**	**1,798**
Other provisions	**567**	**(166)**	**401**
Income deferred for accounting purposes	**265**	**153**	**418**
Net right of use assets and liabilities	**-**	**547**	**547**
Tax deductible premium	**(3,595)**	**-**	**(3,595)**
Net deferred tax asset / (liability)	**674**	**408**	**1,084**

Notes to and forming part of the Financial Statements *(continued)*

Dollars in Thousands — ***Banking Group***

20. Goodwill and intangible assets

2021	Goodwill	Customer relationships purchased	Software	Total
Cost				
At 1 January	**15,744**	**8,798**	**11,218**	**35,760**
Additions	**-**	**-**	**-**	**-**
At 31 December	**15,744**	**8,798**	**11,218**	**35,760**
Accumulated amortisation and impairment				
At 1 January	**(2,043)**	**(8,798)**	**(6,175)**	**(17,016)**
Amortisation charge for the year	**-**	**-**	**(1,232)**	**(1,232)**
At 31 December	**(2,043)**	**(8,798)**	**(7,407)**	**(18,248)**
Net carrying value	**13,701**	**-**	**3,811**	**17,512**

2020	Goodwill	Customer relationships purchased	Software	Total
Cost				
At 1 January	15,744	8,798	7,624	32,166
Additions	-	-	3,594	3,594
At 31 December	15,744	8,798	11,218	35,760
Accumulated amortisation and impairment				
At 1 January	(2,043)	(8,798)	(5,468)	(16,309)
Amortisation charge for the year	-	-	(707)	(707)
At 31 December	(2,043)	(8,798)	(6,175)	(17,016)
Net carrying value	13,701	-	5,043	18,744

Goodwill

The Banking Group's goodwill arises from the acquisition of a portfolio of loans and deposits within our Wealth and Personal Banking business and from the acquisition of custody and clearing business within our Global Banking and Markets business.

Goodwill is assessed at each reporting date for indicators of impairment as it is not amortised. Impairment is assessed on the basis of the cash-generating unit ("CGU") as defined in NZ IAS 36.

The recoverable amount of the CGU is determined based on value-in-use ("VIU") calculations. These calculations use discounted cash flow projections based on profit forecasts approved by management as part of the rolling operating plan process. The rolling operating plan covers a detailed one-year time frame, approved by HBAP senior management. Profit forecasts greater than one year are approved by the Banking Group management based on their assessment of sustainable growth.

Key assumptions underlying the valuation relate to management's assessment of key business drivers, including balance sheet growth, net interest margins, fee generation, bad debts, operating expenses and terminal value within WPB and customer transaction volumes, share market turnover and value, fee structures, operating expenses and terminal value within custody and clearing. Management utilises local market data as well as Group expertise and experience to validate key assumptions.

Terminal value is calculated using a stable growth model and is sensitive to changes in assumptions used. The key variables used to calculate terminal value are the cash flow expectations at the end of the forecast period, the pre-tax discount rate of each business segment and an annual sustainable growth rate of 2.1% which is average historic GDP growth rate for New Zealand from 2001 to 2020 (2020: 2.1%).

Notes to and forming part of the Financial Statements *(continued)*

20. Goodwill and intangible assets *(continued)*

Goodwill (continued)

a) Goodwill arising from the acquisition of loan and deposit portfolio

The applicable CGU is considered to be the whole WPB business. The carrying amount that relates to this CGU at 31 December 2021 is $12.8 million (December 2020: $12.8 million).

The discounted cash flow model has used a five year profit projection, a discount rate (pre-tax) of 13.9% (December 2020: 13.9% pre-tax), growth rates for revenues of 4.4% and expenses of -0.1% in the next five years supported by December 2021 actual results and approved budgets (December 2020: one year growth rates for revenue of 4.8% and expenses of -0.7%).

Sensitivities of key assumptions in calculating VIU

At 31 December 2021, goodwill in WPB was sensitive to reasonably possible adverse changes in key assumptions supporting the recoverable amount. In making an estimate of reasonably possible changes to assumptions, management considers the available evidence in respect of each input to the model, such as the external range of discount rates observable, historical performance against forecast and risks attaching to the key assumptions underlying cash flow projections. A reasonable change in one or more of these assumptions could result in an impairment. The following changes in individual assumptions would result in nil headroom: net operating income decrease of 13.8%; expense increase of 18.8%; discount rate increase of 860 basis points; terminal growth rate reduction of 1700 basis points.

b) Goodwill arising from the acquisition of custody and clearing business in New Zealand

The applicable CGU is considered to be the custody and clearing business unit within the GBM business. The carrying value that relates to this CGU at 31 December 2021 is $0.9 million (December 2020: $0.9 million).

The discounted cash flow model has used a five year profit projection, a discount rate (pre-tax) of 11.7% (December 2020: 15.0%) growth rate for revenues of -0.1% and expenses of -0.1% in the next five years supported by December 2020 actual results and approved budgets (December 2020: five year growth rates for revenue of -1.4% and expenses of -13.0%).

Other Intangible Assets

Other intangible assets primarily represent purchased software, internally generated computer software and customer relationships arising from the Banking Group’s acquisition of the custody and clearing business.

Software is amortised on a straight line basis over 5 years, within operating expenses.

These intangible assets are assessed at each reporting date for indications of impairment.

Notes to and forming part of the Financial Statements *(continued)*

21. Related party transactions

Related party transactions are unsecured and entered into in the normal course of business. During the year there have been dealings between the Banking Group, HBAP and its subsidiaries and associated companies and other members of the ultimate holding company. Dealings include activities such as funding, accepting deposits, derivative transactions together with management and technical fees.

The balances for derivative financial instruments with related parties have been disclosed in Note 22. Transactions with related parties during the year have been disclosed in Notes 3 and 4.

Key management personnel are those who, directly or indirectly, have the authority for planning, directing or controlling the activities of the Banking Group. Key management personnel for the Banking Group represent the members of the New Zealand Executive Committee who are employees of the Banking Group.

Advances to key management personnel are offered in the ordinary course of business on normal commercial terms and conditions, no more favourable than those given to other employees or customers. Advances are on terms of repayment that range between fixed and variable, all of which have been made in accordance with the Banking Group's lending policies.

	Banking Group	
Dollars in Thousands	**31.12.21**	31.12.20
Key management compensation		
(a) Salaries and other short-term benefits	**3,683**	3,832
(b) Post-employment benefits	**187**	247
(c) Share-based payments expenses recognised	**110**	116
	3,980	4,195
Advances to key management		
(d) Advances to key management personnel	**3,571**	1,355

(e) Shares, options and other incentive plans

HSBC Restricted Share Award Scheme

	2021	2020
Number of awards awarded	**21,914**	10,423

The total fair value of the shares awarded under the restricted share award scheme as at 31 December 2021 is $175 thousand when converted into NZ dollars (December 2020: $117 thousand).

The vesting period of the restricted share awards is staggered over three years.

The fair value of the shares granted under the HSBC Restricted Share Award Scheme is £4.17 (December 2020: £5.64).

Notes to and forming part of the Financial Statements *(continued)*

	Banking Group	
Dollars in Thousands	**31.12.21**	31.12.20
21. Related party transactions *(continued)*		
Amounts due from related parties		
On demand	**30,018**	35,289
Other short term	**639,419**	859,166
	669,437	894,455
The Hongkong and Shanghai Banking Corporation Limited (HBAP):		
HBAP Hong Kong	**627,786**	849,406
HBAP Japan	**12,134**	12,700
HBAP Australia	**6,647**	7,653
HBAP Other	**53**	109
Other:		
HUSI North America	**20,006**	20,298
HSBC Canada	**1,512**	62
HSBC Bank plc UK Ops	**644**	2,873
Other	**655**	1,354
	669,437	894,455
Amounts due to related parties		
On demand	**465,515**	452,873
Other short term	**-**	-
Long term	**1,103,920**	750,000
	1,569,435	1,202,873
The Hongkong and Shanghai Banking Corporation Limited (HBAP):		
HBAP Hong Kong	**1,331,917**	966,291
HBAP Singapore	**125,037**	51,019
HBAP Australia	**4,049**	3,605
HBAP India	**3,653**	1,431
HBAP Japan	**269**	2,678
HBAP Other	**1,409**	1,503
Other:		
HSBC Bank Plc UK Ops	**52,942**	119,743
HUSI North America	**7,120**	10,206
HSBC Bank (China) Company Limited	**13,948**	12,428
HSBC Bank Plc	**1,790**	6,005
HSBC Trinkaus & Burkhardt AG	**6,554**	2,780
HSBC Bank Canada	**5,201**	6,694
Other	**15,546**	18,490
	1,569,435	1,202,873

Interest Free Funding

The Banking Group has received an interest free loan from HBAP of $194 million (December 2020: $194 million) to support the thin capitalisation ratio imposed under New Zealand tax law. This loan has no repayment terms and is recorded within amounts due to related parties.

Repatriation of capital to HBAP

The Banking Group repatriated profits of $41.9 million (December 2020: $27.5 million) to HBAP during the year.

Notes to and forming part of the Financial Statements *(continued)*

22. Derivative financial instruments

	Banking Group					
Dollars in Thousands	**31.12.21**			31.12.20		
	Contract amount	Assets	Liabilities	Contract amount	Assets	Liabilities
Related Party						
Trading derivatives						
Exchange rate contracts[1]	**580,798**	**8,597**	**8,102**	2,113,226	64,322	10,364
Interest rate contracts	**-**	**-**	**-**	-	-	-
Total derivatives with related parties		**8,597**	**8,102**		64,322	10,364
Related party breakdown						
HBAP Group		**8,597**	**8,102**		64,322	10,349
HSBC Bank plc		**-**	**-**		-	15
		8,597	**8,102**		64,322	10,364
Other						
Trading derivatives						
Exchange rate contracts[1]	**526,335**	**8,137**	**8,516**	1,943,497	10,411	64,266
Interest rate contracts	**-**	**-**	**-**	-	-	-
		8,137	**8,516**		10,411	64,266
Hedging derivatives						
Fair value hedging derivatives	**-**	**-**	**-**	75,000	-	493
		-	**-**		-	493
Total derivatives with other parties		**8,137**	**8,516**		10,411	64,759
Total derivative financial instruments		**16,734**	**16,618**		74,733	75,123

[1] *Cross-currency interest rate swaps are included as exchange rate contracts*

Notes to and forming part of the Financial Statements *(continued)*

23. Fair value of financial instruments

Determination of fair value of financial instruments carried at fair value

Fair values are determined according to the following hierarchy:

Level 1 – quoted market price
Financial instruments with quoted prices for identical instruments in active markets.

Level 2 – valuation technique using observable inputs
Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 – valuation technique with significant unobservable inputs
Financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

The table below provides an analysis of the various bases described above which have been deployed for valuing financial assets and financial liabilities measured at fair value.

		***Banking Group* 31.12.21**		
Dollars in Thousands	**Level 1**	**Level 2**	**Level 3**	**TOTAL**
ASSETS				
Financial investments	**405,183**	**55,112**	**22**	**460,317**
Derivatives financial instruments	**-**	**16,734**	**-**	**16,734**
LIABILITIES				
Derivatives financial instruments	**-**	**16,618**	**-**	**16,618**

		Banking Group 31.12.20		
Dollars in Thousands	Level 1	Level 2	Level 3	TOTAL
ASSETS				
Financial investments	472,978	55,528	22	528,528
Derivatives financial instruments	-	74,733	-	74,733
LIABILITIES				
Derivatives financial instruments	-	75,123	-	75,123

There have been no transfers between levels 1 and 2 in the year to 31 December 2021 (December 2020: Nil). Any transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

23. Fair value of financial instruments *(continued)*

Methodologies

The methodologies and assumptions used when determining fair value depend on the terms and risk characteristics of the various instruments and include the following:

Cash and demand balances with central banks
For cash and short - term funds the carrying amount is equivalent to the fair value.

Debt securities issued
Fair value for certificates of deposit and medium term notes issued with maturities less than six months is approximated to be the carrying value. For certificates of deposit and medium term notes issued with a maturity greater than six months but less than a year, fair value is determined by using discounted cash flow methods using the interest rates applicable to financial instruments of similar maturity. Inputs applied in getting the fair value of debt securities between 6 and 12 months are observable market-corroborated inputs which include interest rates and forward curves observable at commonly reported intervals, and credit spreads. Debt securities greater than 12 months are fair valued using market-corroborated swap rates.

Financial investments
For hold to collect and sell securities that are quoted in active markets, fair values are determined by reference to the current quoted bid/offer price. Where quoted prices are not available, fair value is determined with reference to quoted prices for similar instruments in active markets, or through the use of a valuation model where inputs are observable.

Advances to customers, advances to banks, and amounts due from related parties
Fair values of advances to customers, advances to banks, and amounts due from related parties with maturities of six months or longer have been estimated by discounting cash flows up to the next repricing date with reference to current rates at which similar loans and advances would be made to other borrowers with a similar credit rating and the same maturities. The fair values of advances to customers, advances to banks, and amounts due from related parties with maturities less than six months are approximated to be the carrying value.

Deposits by banks, customer deposits, other accounts and amounts due to related parties
The fair values of deposits and other liabilities with maturities of less than six months are approximated to be the carrying amount. For liabilities with maturities of six months or longer, fair values have been based on quoted market prices, where such prices exist. Otherwise, fair values have been estimated by reference to rates currently offered by the Banking Group for similar liabilities of similar maturities.

Derivative financial instruments
The fair values of exchange rate and interest rate contracts were obtained from quoted market prices or discounted cash flow models. Inputs applied in getting the fair value of derivative financial instruments are market observable inputs which include interest rates and forward curves observable at commonly reported intervals where required.

Other assets and other liabilities
For other assets and other liabilities, the carrying amount is considered to be the fair value.

Notes to and forming part of the Financial Statements *(continued)*

23. Fair value of financial instruments *(continued)*

Fair Value of financial instruments not carried at fair value

The table below provides an analysis of the various bases described in the 'Methodologies' section below, which have been deployed for summarising financial assets and financial liabilities fair value which are not carried at fair value where the fair value is different to its carrying value.

	***Banking Group* 31.12.21**				
	Fair Value				**Carrying value**
Dollars in Thousands	**Level 1**	**Level 2**	**Level 3**	**Total**	
ASSETS					
Advances to customers	**-**	**-**	**4,368,170**	**4,368,170**	**4,395,248**
LIABILITIES					
Customer deposits	**-**	**4,979,775**	**-**	**4,979,775**	**4,978,259**
Debt securities	**-**	**597,993**	**-**	**597,993**	**600,000**
Amounts due to related parties	**-**	**1,566,853**	**-**	**1,566,853**	**1,569,435**

	***Banking Group* 31.12.20**				
	Fair Value				**Carrying value**
Dollars in Thousands	**Level 1**	**Level 2**	**Level 3**	**Total**	
ASSETS					
Advances to customers	-	-	4,094,005	4,094,005	4,093,974
LIABILITIES					
Customer deposits	-	4,452,256	-	4,452,256	4,450,882
Debt securities	-	906,466	-	906,466	900,000
Amounts due to related parties	-	1,207,284	-	1,207,284	1,202,873

Other financial instruments not carried at fair value are typically short-term in nature and reprice to the current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value. This includes cash and demand balances with central banks, advances to banks and deposits by banks, other assets and other liabilities, and amounts due from related parties.

Notes to and forming part of the Financial Statements *(continued)*

24. Interest rate risk – repricing schedule

The table below analyses the Banking Group's financial assets and financial liabilities into relevant maturity groupings based on the earlier of residual contractual maturity or next interest repricing date.

				Banking Group				
Dollars in Millions	*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 interest bearing*	*Non interest bearing*	*Total*
31 December 2021								
Financial Assets								
Cash and demand balances with central banks	**1,927**	**-**	**-**	**-**	**-**	**1,927**	**-**	**1,927**
Advances to banks	**3**	**-**	**-**	**-**	**-**	**3**	**-**	**3**
Financial investments	**86**	**105**	**-**	**116**	**153**	**460**	**-**	**460**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**17**	**17**
Advances to customers	**2,747**	**279**	**729**	**269**	**369**	**4,393**	**-**	**4,393**
Amounts due from related parties	**669**	**-**	**-**	**-**	**-**	**669**	**-**	**669**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**20**	**20**
Total financial assets	**5,432**	**384**	**729**	**385**	**522**	**7,452**	**37**	**7,489**
Financial Liabilities								
Deposits by banks	**301**	**-**	**-**	**-**	**-**	**301**	**1**	**302**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**17**	**17**
Customer deposits	**4,472**	**313**	**152**	**13**	**10**	**4,960**	**18**	**4,978**
Debt securities	**500**	**-**	**-**	**-**	**100**	**600**	**-**	**600**
Amounts due to related parties	**1,346**	**-**	**-**	**25**	**-**	**1,371**	**198**	**1,569**
Other liabilities	**-**	**-**	**2**	**2**	**14**	**18**	**42**	**60**
Total financial liabilities	**6,619**	**313**	**154**	**40**	**124**	**7,250**	**276**	**7,526**
Off-balance sheet financial instruments								
Net notional interest rate contracts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
31 December 2020								
Financial Assets								
Cash and demand balances with central banks	1,424	-	-	-	-	1,424	-	1,424
Advances to banks	4	-	-	-	-	4	-	4
Financial investments	73	45	2	72	337	529	-	529
Derivative financial instruments	-	-	-	-	-	-	75	75
Advances to customers	2,413	542	678	348	113	4,094	-	4,094
Amounts due from related parties	894	-	-	-	-	894	-	894
Other assets	-	-	-	-	-	-	16	16
Total financial assets	4,808	587	680	420	450	6,945	91	7,036
Financial Liabilities								
Deposits by banks	374	-	-	-	-	374	-	374
Derivative financial instruments	-	-	-	-	-	-	75	75
Customer deposits	3,854	405	144	16	13	4,432	19	4,451
Debt securities	800	-	-	-	100	900	-	900
Amounts due to related parties	801	182	-	-	26	1,009	194	1,203
Other liabilities	-	-	1	2	16	19	33	52
Total financial liabilities	5,829	587	145	18	155	6,734	321	7,055
Off-balance sheet financial instruments								
Net notional interest rate contracts	10	(10)	-	-	-	-	-	-

Notes to and forming part of the Financial Statements *(continued)*

25. Liquidity risk management

Liquidity risk is the risk that the Banking Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Liquid assets are assets which are readily convertible to cash to meet the Banking Group's liquidity requirement. Liquid assets consist of demand balances with the central bank, government and local government bonds, and registered certificates of deposits issued by other banks. The Banking Group holds the following liquid assets in order to manage its liquidity risk:

	Banking Group	
Dollars in Thousands	**31.12.21**	**31.12.20**
Cash and demand balances with central banks	**1,926,921**	1,423,970
Financial Investments	**460,295**	528,506
	2,387,216	1,952,476

Maturity Analysis - Balance sheet expected settlement

The table below analyses the Banking Group's assets and liabilities by the amount expected to be recovered or settled before, and after twelve months from the reporting period. Customer Deposits are presented on a contractual basis, however as part of our normal banking operations, the Banking Group expects a large proportion of these balances to be retained.

The Banking Group does not manage its liquidity risk on the basis of information below.

	Banking Group		
Dollars in Millions	*Under 12 months*	*Over 12 months*	*Total*
31 December 2021			
Assets			
Cash and demand balances with central banks	**1,927**	**-**	**1,927**
Advances to banks	**3**	**-**	**3**
Financial investments	**191**	**269**	**460**
Derivative financial instruments	**17**	**-**	**17**
Advances to customers	**1,476**	**2,917**	**4,393**
Amounts due from related parties	**669**	**-**	**669**
Other assets	**15**	**5**	**20**
Property, plant and equipment	**-**	**29**	**29**
Deferred tax asset	**-**	**1**	**1**
Current tax assets	**3**	**-**	**3**
Goodwill and Intangible assets	**-**	**18**	**18**
Total	**4,301**	**3,239**	**7,540**
Liabilities			
Deposits by banks	**302**	**-**	**302**
Derivative financial instruments	**17**	**-**	**17**
Customer deposits	**4,952**	**26**	**4,978**
Debt securities	**200**	**400**	**600**
Amounts due to related parties	**766**	**804**	**1,570**
Other liabilities	**42**	**18**	**60**
Total	**6,279**	**1,248**	**7,527**
Net assets	**(1,978)**	**1,991**	**13**

Notes to and forming part of the Financial Statements *(continued)*

25. Liquidity risk management *(continued)*

Maturity Analysis - Balance sheet expected settlement *(continued)*

	Banking Group		
Dollars in Millions	*Under 12 months*	*Over 12 months*	*Total*
31 December 2020			
Assets			
Cash and demand balances with central banks	1,424	-	1,424
Advances to banks	4	-	4
Financial investments	120	409	529
Derivative financial instruments	75	-	75
Advances to customers	1,054	3,040	4,094
Amounts due from related parties	895	-	895
Other assets	10	6	16
Property, plant and equipment	-	28	28
Deferred tax asset	-	1	1
Goodwill and Intangible assets	1	-	1
Total	-	19	19
	3,583	3,503	7,086
Liabilities			
Deposits by banks			
Derivative financial instruments	374	-	374
Customer deposits	75	-	75
Debt securities	4,419	32	4,451
Amounts due to related parties	600	300	900
Other liabilities	441	762	1,203
Current tax liabilities	31	21	52
Total	5,940	1,115	7,055
Net assets	(2,357)	2,388	31

Notes to and forming part of the Financial Statements *(continued)*

25. Liquidity risk management *(continued)*

Maturity Analysis – undiscounted cash flows basis

The table below analyses the Banking Group's financial liabilities into relevant maturity groupings based on their remaining contractual maturities. The amounts in the table below represent all cash flows relating to principal and future interest payments on an undiscounted basis. Therefore, they may differ to the carrying amounts on the Balance Sheet.

The Banking Group does not manage its liquidity risk on the basis of information below.

				Banking Group				
Dollars in Millions	*On Demand*	*0-1 month*	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*No specific maturity*	*Total*
31 December 2021								
Financial Liabilities								
Deposits by banks	**302**	**-**	**-**	**-**	**-**	**-**	**-**	**302**
Customer deposits	**2,742**	**654**	**1,093**	**467**	**24**	**3**	**-**	**4,983**
Debt securities	**-**	**-**	**2**	**205**	**410**	**-**	**-**	**617**
Amounts due to related parties	**465**	**1**	**2**	**308**	**810**	**2**	**-**	**1,588**
Other liabilities	**4**	**7**	**21**	**10**	**10**	**8**	**-**	**60**
Total non-derivative financial liabilities	**3,513**	**662**	**1,118**	**990**	**1,254**	**13**	**-**	**7,550**
Derivative financial instruments – held for trading purposes	**-**	**7**	**8**	**2**	**-**	**-**	**-**	**17**
Derivative financial instruments – held for hedging purposes (net settled) (Inflow) / outflow	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total undiscounted derivatives	**-**	**7**	**8**	**2**	**-**	**-**	**-**	**17**
Undrawn loan commitments	**753**	**-**	**1,521**	**-**	**-**	**-**	**-**	**2,274**
31 December 2020								
Financial Liabilities								
Deposits by banks	374	-	-	-	-	-	-	374
Customer deposits	2,573	557	741	551	31	3	-	4,456
Debt securities	-	-	302	305	306	-	-	913
Amounts due to related parties	441	1	2	8	767	-	-	1,219
Other liabilities	3	5	14	7	12	11	-	52
Total non-derivative financial liabilities	3,391	563	1,059	871	1,116	14	-	7,014
Derivative financial instruments – held for trading purposes	-	21	44	10	-	-	-	75
Derivative financial instruments – held for hedging purposes (net settled) (Inflow) / outflow	-	-	-	-	-	-	-	-
Total undiscounted derivatives	-	21	44	10	-	-	-	75
Undrawn loan commitments	682	-	1,651	-	-	-	-	2,333

Notes to and forming part of the Financial Statements *(continued)*

26. Offsetting financial asset and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously ("the offset criteria"). The Banking Group has no financial instruments that meet the offset criteria at 31 December 2020 (2020: nil).

Derivative agreements included in the amounts subject to enforceable netting arrangements but not offset in the balance sheet relate to transactions where:

- the counterparty has an offsetting exposure with the Banking Group and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and

- cash and non-cash collateral received/pledged in respect of the transactions described above.

		Amounts subject to enforceable netting arrangements but not offset in the balance sheet		
Dollars in Millions	**Gross amounts presented in the balance sheet**	**Related financial instruments**	**Cash collateral received**	**Net amount**
31 December 2021				
Derivative financial assets	**16**	**(5)**	**-**	**11**
Financial assets	**16**	**(5)**	**-**	**11**
Derivative financial liabilities	**16**	**(5)**	**-**	**11**
Financial liabilities	**16**	**(5)**	**-**	**11**
31 December 2020				
Derivative financial assets	75	(3)	-	72
Financial assets	75	(3)	-	72
Derivative financial liabilities	75	(3)	-	72
Financial liabilities	75	(3)	-	72

27. Foreign currency risk exposure

The net open position in each foreign currency, detailed in the table below, represents the on-balance sheet assets and liabilities in that foreign currency. The amounts are stated in New Zealand dollar equivalents translated using the spot exchange rates as at the end of the reporting period.

	Banking Group	
Dollars in Millions	**Audited 31.12.21**	Audited 31.12.20
Receivable / (payable)		
USD	**(0.3)**	(0.3)
AED	**0.1**	0.1
Other (net)	**0.2**	0.2
	-	-

Notes to and forming part of the Financial Statements *(continued)*

28. Market risk exposures

Aggregate market risk exposures are derived in accordance with the Reserve Bank of New Zealand document, *BPR140: Market Risk* and is calculated on a six monthly basis.

The period end exposure is the exposure as at the end of the period reported. The peak exposure is the peak end-of-day market risk exposure over the six months up to 31 December 2021 at the close of each business day. The peak is calculated separately for each category of exposure and may not have occurred at the same time.

	Banking Group	
Dollars in Millions	*Implied risk weighted exposure*	*Notional capital charge*
Exposure at 31 December 2021 (Unaudited)		
Interest rate risk	**134.63**	**10.77**
Foreign currency risk	**0.25**	**0.02**
Equity risk	**-**	**-**
Peak exposure period 1 July 2021 to 31 December 2021 (Unaudited)		
Interest rate risk	**145.00**	**11.60**
Foreign currency risk	**0.25**	**0.02**
Equity risk	**-**	**-**

29. Share awards

The Branch participated in the following share compensation plans operated by the Group for the acquisition of HSBC Holdings plc shares. The awards were granted at nil consideration. No awards have been granted to substantial shareholders, suppliers of goods and services, or in excess of the individual limit of each share plan.

a) *HSBC Holdings Group International Employee Share Purchase Plan*

The HSBC Holdings Group International Employee Share Purchase Plan ('Share Match') invites eligible employees to enter into savings contracts with funds used to acquire shares. The Scheme commenced on 1 September 2015. Eligible employees use saved funds to acquire shares each quarter. Employees are awarded matching shares proportional to their purchased shares. Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum of two years and nine months.

	31.12.21 ***Number of shares***	31.12.20 *Number of shares*
Shares at beginning of the year	**11,278**	7,389
New shares granted during the year	**6,430**	7,030
Shares released during the year	**(4,227)**	(2,917)
Shares forfeited during the year	**(1,027)**	(211)
Shares cancelled during the year	**(464)**	(13)
Shares transferred in during the year	**434**	-
Shares transferred out during the year	**-**	-
Shares outstanding at the end of the year	**12,424**	11,278

Notes to and forming part of the Financial Statements *(continued)*

29. Share awards *(continued)*

b) *HSBC Restricted Share Award Scheme*

Awards of Restricted Shares may be made to other senior executives. These awards are typically made to certain employees as part of the Group's bonus deferral policy. Awards of Restricted Shares define the number of shares to which the employee will become entitled, generally between one and three years from the date of the award, and normally subject to the individual remaining in employment.

	31.12.21 ***Number of shares***	31.12.20 *Number of shares*
Shares at beginning of the year	**21,681**	23,462
New shares granted during the year	**21,914**	10,423
Additional shares arising from scrip dividends	**192**	347
Shares released during the year	**(22,612)**	(11,866)
Shares forfeited during the year	**338**	(685)
Shares transferred in during the year	**-**	-
Shares transferred out during the year	**(16,767)**	-
Shares outstanding at the end of the year	**4,746**	21,681

Calculation of fair values

The fair value of services received in return for share awards granted are measured by referring to the fair value of share awards granted.

Fair values of share awards, measured at the date of grant of the award, is calculated using a Black-Scholes model.

The fair value of share award is based on the share price at the date of the grant. The fair value of share award is inherently subjective and uncertain due to the assumptions made and the limitations of the model used.

The fair value of the shares awarded under the HSBC Restricted Share Award Scheme is the market value of the shares at the date of award.

	Banking Group	
Dollars in Thousands	**31.12.21**	31.12.20
30. Lease commitments		
Future rentals in respect of operating leases are:		
Within one year	**2,513**	1,272
Between one year and two years	**2,306**	2,589
Between two years and five years	**6,918**	6,840
Over five years	**8,898**	10,811
	20,635	21,512

The lease assets comprise of premises where the Banking Group is a lessee. The total cash outflow in respect of leases during the year was $1.2 million for the year ended 31 December 2021 (December 2020: $1.8 million).

Notes to and forming part of the Financial Statements *(continued)*

	Banking Group	
Dollars in Thousands	**31.12.21**	31.12.20

31. Contingent liabilities and other commitments

Contingent liabilities and commitments

Contingent liabilities and commitments are credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The amounts below represent the amount at risk should contracts be fully drawn upon and clients default.

Direct credit substitutes	**62,072**	48,356
Transaction related contingent items	**725,491**	694,349
Trade related contingent items	**405,456**	286,976
Commitments, maturity one year or more	**1,182,133**	1,402,272
Commitments, maturity up to one year	**686,643**	645,395
	3,061,795	3,077,348

Capital commitments		
Contracted expenditure	**-**	5,339

32. Custodial services

The financial statements of the Banking Group include income in respect of custodial services provided to customers. It is HBAP who contracts with the customers. The securities are held in the name of the HBAP's nominee company, HSBC Nominees (New Zealand) Limited. As at 31 December 2021, securities held by the nominee company on behalf of the Branch's customers are not recognised on from the nominee company and the Banking Group's Balance Sheet. The value of securities held by the nominee company at 31 December 2021 was $85,342 million (2020: $76,650 million).

HSBC Nominees (New Zealand) Limited is subject to the standard risks incurred by custodial operations. HSBC Holdings plc holds Banker's Blanket Bond insurance that provides cover for it, and its subsidiary companies in respect of loss of cash and other assets (incurred accidentally or by reason of fraud). Such Banker's Blanket Bond insurance is maintained with limits of cover which vary from time to time but which are considered prudent and in accordance with international levels and insurance market capacity. In addition, securities custody operations are specifically covered by a wrap-around Papers of Value Cover.

The Banking Group has established governance and legal structures to ensure that difficulties arising from custodial activities would not impact adversely on the Banking Group. The legal structures are detailed within the Statement of significant accounting policies and as noted above.

33. Insurance, securitisation, funds management and other fiduciary activities

The Banking Group is not involved in the origination, marketing or servicing of securitisation schemes.

The Banking Group does not conduct any insurance business or non-financial activities in New Zealand. HBAP does not carry on any insurance business or non-financial activities in New Zealand that is outside its Banking Group.

The Banking Group does not market or distribute insurance products.

The Banking Group is not involved in the establishment, marketing, or sponsorship of trust, funds management, or other fiduciary activities.

Notes to and forming part of the Financial Statements *(continued)*

34. Structured entities

Structured entities

The Banking Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities to earn income in the form of interest and fees. The Banking Group's arrangements that involve structured entities are authorised centrally prior to being established to ensure appropriate purpose and governance. The Banking Group has interests in an unconsolidated securitisation vehicle providing funding through the subscription of notes issued by the structured entity. The primary source of debt service and security is derived from the underlying assets of the structured entity. All lending is subject to the Banking Group's credit approval process. The structured entity arrangement ended during 2021 and therefore the total assets of the unconsolidated structured entity at reporting date was nil (December 2020: $668 million). The total assets and commitments of the Banking Group in the unconsolidated structured entity at reporting date was nil (December 2020: $77 million and nil). This reflects the maximum exposure to loss in relation to those interests regardless of the probability of the loss being incurred. This is stated gross of the effects of any collateral arrangements entered into to mitigate the Banking Groups exposure to loss. On balance sheet amounts are included in 'advances to customers'.

The Banking Group has no provisions for amounts held in structured entities, nor does the Banking Group provide or anticipate providing in the future any non-contractual financial support.

35. Subsequent events

On 24 February 2022, significant military conflict between Russia and Ukraine began. In response to this, a number of countries, including New Zealand, have introduced various economic and travel sanctions on Russia and parties associated with the Russian government, and they have responded in a similar manner. These sanctions, together with the impact on traditional transport routes, have disrupted global trade and financial markets in the weeks following their implementation. As this conflict commenced after the balance date, the Banking Group does not believe it constitutes an "adjusting event after the reporting date", as defined in accordance with NZ IAS 10 Events after the Reporting Period. The impact on the financial statements of the Banking Group, including on the estimate of ECL under NZ IFRS 9, will be considered in subsequent reporting periods.

No other events after balance date require disclosure in the financial statements.

36. Capital adequacy ratios of HBAP Group

The approaches used in calculating the HBAP Group's regulatory capital and risk weighted assets are in accordance with the Hong Kong Monetary Authority ("HKMA") Banking (Capital) Rules. The HBAP Group uses the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures. For securitisation exposures, the HBAP Group uses the securitisation internal ratings-based approach, securitisation external ratings-based approach, securitisation standardised approach or securitisation fall-back approach to determine credit risk for its banking book securitisation exposures. For counterparty credit risk, the group uses both the current exposure method and an internal models approach to calculate its default risk exposures. For market risk, the HBAP Group uses an internal models approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures, and equity exposures. The HBAP Group also uses an internal models approach to calculate its market risk in respect of specific risk for interest rate exposures and equity exposures. The HBAP Group uses the standardised (market risk) approach for calculating other market risk positions, as well as trading book securitisation exposures, and the standardised (operational risk) approach to calculate its operational risk.

The capital adequacy disclosure made by the HBAP Group can be found in the Annual Report and Accounts at this website, http://www.hsbc.com. HBAP Group exceeded the minimum capital adequacy requirements as specified by the HKMA as at 31 December 2021.

HBAP Group reported the following capital adequacy ratios under Basel III, which were the most recent publicly available information:

	Unaudited 31.12.21	Unaudited 31.12.20
Basel III Capital Ratios		
Common Equity Tier 1 (CET1) capital	**15.4%**	17.2%
Tier 1 capital	**16.8%**	18.8%
Total capital	**18.7%**	20.8%

The capital ratios for HBAP, as a stand-alone entity, are not publicly available.

Notes to and forming part of the Financial Statements *(continued)*

37. Profitability, size and asset quality of HBAP Group

Dollars in HK$ millions	**Audited 12 months ended 31.12.21**	Audited 12 months ended 31.12.20
Profitability		
Net profit after tax	**72,548**	75,691
Net profit after tax over the previous 12 month period, as a percentage of average total assets	**0.8%**[1]	0.8%[1]
Size		
Total assets	**9,903,393**	9,416,403
Percentage increase in total assets over the previous 12 months period	**5.2%**	8.7%
Asset quality		
HKFRS 9 Stage 3 and POCI gross carrying value[3]	**43,491**	37,120
HKFRS 9 Stage 3 and POCI ECL[2, 4]	**(20,046)**	(18,143))
HKFRS 9 Stage 1 and 2 ECL[2]	**(13,273)**	(12,430))
HKFRS 9 Stage 3 gross carrying value[3] / Total assets	**0.4%**	0.4%
HKFRS 9 Stage 3 and POCI ECL[2,4] / Stage 3 and POCI gross carrying value[3]	**46.1%**	48.9%

1 Average total assets for HBAP Group is not publicly available. This calculation uses a two-point average of total assets as at the end of the reported period and the comparative period ended 12 months earlier.
2 ECL on advances to banks and customers including loan commitments and financial guarantees, and other financial assets. The Banking Group considers this balance to be the best representation of ‘total collective credit impairment allowance’.
3 Gross carrying value of advances to banks and customers, including nominal value of loan commitments and financial guarantees and other financial assets. The Banking Group considers this balance to be the best representation of ‘total individually impaired assets’.
4 The Banking Group considers this balance to be the best representation of ‘total individual credit impairment allowance’.

Directors' and New Zealand Chief Executive Officer's Statements

Each Director and the New Zealand Chief Executive Officer believes, after due enquiry by them, that:

- the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended);
- the Disclosure Statement is not false or misleading;

as at the date on which the Disclosure Statement is signed; and

each Director and the New Zealand Chief Executive Officer believes, after due enquiry by them, that:

- the Branch had systems in place to monitor and control adequately the material risks of the Banking Group including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, and other business risks, and that those systems were being properly applied; and
- the Registered Bank has complied in all material respects with each conditions of registration that applied;

over the year ended 31 December 2021.

This Disclosure Statement has been signed for and on behalf of the Directors of The Hongkong and Shanghai Banking Corporation Limited (as listed on pages 3 and 6) by their attorney, Burcu Senel, and also in her capacity as Chief Executive Officer:

Burcu Senel
Chief Executive Officer
New Zealand Branch

28 March 2022

It is confirmed that the said powers of attorney appointing Burcu Senel are still in force and have not been revoked.

Independent auditor's report

To the Directors of The Hongkong and Shanghai Banking Corporation Limited

This report is for the aggregated New Zealand operations of The Hongkong and Shanghai Banking Corporation Limited (the 'Banking Group').

This report includes our:

- audit opinion on the financial statements prepared in accordance with Clause 25 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the 'Order'), New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS');
- audit opinion on the supplementary information prepared in accordance with Schedules 4, 7, 11 and 13 of the Order;
- audit opinion on other legal and regulatory requirements in accordance with Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order; and
- review conclusion on the supplementary information relating to credit and market risk exposures and capital adequacy prepared in accordance with Schedule 9 of the Order.

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

We have audited the Banking Group's financial statements required by Clause 25 of the Order and the supplementary information required by Schedules 4, 7, 11 and 13 of the Order which comprises:

- the balance sheet as at 31 December 2021;
- 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;
- the notes to the financial statements, which include significant accounting policies and other explanatory information; and
- the supplementary information required by Schedules 4, 7, 11 and 13 of the Order.

Our opinion

In our opinion:

- the Banking Group's accompanying financial statements (excluding the supplementary information disclosed in accordance with Schedules 4, 7, 9, 11 and 13 of the Order and included within Notes 2, 7, 8, 9, 15, 24, 25, 28, 32, 33, 36 and 37):
  i. comply with generally accepted accounting practice in New Zealand;
  ii. comply with NZ IFRS and IFRS; and
  iii. give a true and fair view of the financial position of the Banking Group as at 31 December 2021, and its financial performance and cash flows for the year then ended.
- the supplementary information disclosed in accordance with Schedules 4, 7, 11 and 13 of the Order and included within Notes 2, 8, 9, 15, 24, 25, 32, 33 and 37:
  i. has been prepared, in all material respects, in accordance with the guidelines issued under section 78(3) of the Reserve Bank of New Zealand Act 1989 or any conditions of registration;
  ii. is in accordance with the books and records of the Banking Group; and
  iii. fairly states, in all material respects, the matters to which it relates in accordance with those Schedules.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (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 supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy)* section of our report.

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

Independence

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (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.

Other than in our capacity as auditor we have no relationship with, or interests in, the Banking Group. Certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. These matters have not impaired our independence as auditor of the Banking Group.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Expected credit losses - Impairment of advances to customers and credit commitments As disclosed in notes 1 and 9 of the financial statements, the Banking Group's expected credit loss (ECL) on advances to customers is $2.6 million as at 31 December 2021. The determination of the ECL allowances requires the use of complex credit risk methodologies that are applied in models using the Banking Group's historic experience of the correlations between defaults and losses, borrower 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 ECL allowances. Specifically, these included forward-looking economic scenarios, changes to model assumptions and management model adjustments to modelled outcomes. The progression of the Covid-19 pandemic and other current macroeconomic conditions impact the inherent risk and estimation uncertainty involved in determining the ECL allowances. Management model adjustments to ECL allowances therefore continue to be made. This included judgemental adjustments to the ECL allowances for the wholesale portfolio.	Our testing of significant assumptions and data used to determine the ECL allowances included testing the effectiveness of controls in place over the methodologies and their application. Specifically, these included controls over: ● Model development, validation and monitoring; ● Approval of economic scenarios; ● Approval of the probability weightings assigned to economic scenarios; ● Assigning customer risk ratings; and ● Approval of management model adjustments. Our audit procedures to assess compliance of the ECL methodologies with the requirements of NZ IFRS 9 included: ● Engaging our professionals with experience in ECL modelling to assess the appropriateness of changes to models during the year; and ● Assessing the appropriateness of methodologies and related models that did not change during the year. We further performed the following to assess the significant assumptions and data: ● We challenged the appropriateness of the significant assumptions; ● We involved our economic experts in assessing the reasonableness of certain economic scenarios; ● We tested a sample of customer risk ratings assigned to wholesale exposures; and ● We tested a sample of inputs of critical data into source systems and the flow and transformation of data between source systems to the impairment calculation engine. For material management model adjustments, we challenged the appropriateness of these and assessed the ECL determined. We further considered whether the judgements made in selecting the significant assumptions and determining the management model adjustments would give rise to indicators of possible management bias. We assessed the adequacy of the disclosures in relation to ECL allowances made in the financial statements in the context of the applicable financial reporting framework.

Our audit approach

Overview

The overall Banking Group materiality is $2.35 million, which represents approximately 5% of a weighted average operating profit before tax for the years ended 31 December 2019, 31 December 2020 and 31 December 2021.

We chose operating profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Banking Group is most commonly measured by users and is a generally accepted benchmark. We chose to use a weighted average of the last three years because, in our view, it provides a more stable measure of the Banking Group's performance.

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

As reported above, we have one key audit matter, being:

- Expected credit losses - Impairment of advances to customers and credit commitments.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. 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 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.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Banking Group materiality for the financial statements 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 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 as a whole, taking into account the structure of the Banking Group, the accounting processes and controls, and the industry in which the Banking Group operates.

Certain operational processes which are critical to financial reporting for the Banking Group are undertaken outside of New Zealand. We worked with PwC network firms engaged in the HSBC Holdings plc group audit to understand and examine processes, test controls and perform other substantive audit procedures that supported material balances, classes of transactions and disclosures within the Banking Group's financial statements. This enabled us to evaluate the effectiveness of those processes and consider the implications for the remainder of our audit work.

Other information

The Directors of The Hongkong and Shanghai Banking Corporation Limited (the 'Directors') are responsible for the other information included in the Disclosure Statement. The other information comprises the information required to be included in the Disclosure Statement in accordance with Schedule 2 of the Order and is included on pages 2 to 10, 12 and 80.

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

In connection with our audit of the financial statements and the supplementary information, our responsibility is to read the other information identified above 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 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.

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

The Directors are responsible, on behalf of The Hongkong and Shanghai Banking Corporation Limited, for the preparation of the financial statements in accordance with Clause 25 of the Order, NZ IFRS and IFRS and that give a true and fair view of the matters to which they relate. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible for the preparation and fair presentation of supplementary information in the Disclosure Statement which complies with Schedules 2, 4, 7, 11 and 13 of the Order.

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements and the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 7, 28 and 36) disclosed in accordance with Clause 25 and Schedules 4, 7, 11 and 13 of the Order, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:
https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor’s report.

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

We also report in accordance with the requirements of Clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the financial statements and supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 7, 28 and 36) for the year ended 31 December 2021:

i. we have obtained all the information and explanations that we have required; and

ii. in our opinion, proper accounting records have been kept by the Banking Group as far as appears from an examination of those records.

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

We have examined the supplementary information relating to credit and market risk exposures and capital adequacy required by Schedule 9 of the Order as disclosed in Notes 7, 28 and 36 of the financial statements of the Banking Group for the year ended 31 December 2021.

Our conclusion

Based on our review, nothing has come to our attention that causes us to believe that the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 7, 28 and 36, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

This conclusion is to be read in the context of what we say in the remainder of this report.

Basis for our conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibilities under this standard are further described in the *Auditor’s responsibilities for the review of the supplementary information relating to credit and market risk exposures and capital adequacy* section of our report.

Responsibilities of the Directors for the supplementary information relating to credit and market risk exposures and capital adequacy

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

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

Our responsibility is to express a conclusion on the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 7, 28 and 36 based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the supplementary information relating to credit and market risk exposures and capital adequacy, taken as a whole, is not, in all material respects disclosed in accordance with Schedule 9 of the Order.

A review of the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 7, 28 and 36 in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with ISAs (NZ) and ISAs and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly we do not express an audit opinion on the supplementary information relating to credit and market risk exposures and capital adequacy disclosed in Notes 7, 28 and 36.

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 Hongkong and Shanghai Banking Corporation Limited and the Directors, as a body, for our work, for this report or for the opinions and conclusions we have formed.

The engagement partner on the engagement resulting in this independent auditor's report is Christopher Ussher.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
28 March 2022

Auckland

HSBC