The Hongkong and Shanghai Banking Corporation Limited

New Zealand Banking Group

Disclosure Statement

30 June 2020

HSBC

Disclosure Statement
For the six months ended 30 June 2020

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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:
1 Queen 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 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 Holding Company

The ultimate 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") 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

There are no 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.

Auditor

New Zealand Banking Group
PricewaterhouseCoopers
PwC 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 Interim Chief Executive Officer, Robert Anthony Roughan, 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, Robert Anthony Roughan is a Responsible Person under the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

Robert Anthony Roughan
Interim Chief Executive Officer New Zealand Branch. Joined the HSBC group in 2016 and resides in New Zealand. He has a Bachelor of Commerce degree from the University College Dublin in Ireland.

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:

Laura May Lung Cha, GBM (Chairman)
Bachelor of Arts, University of Wisconsin-Madison; Juris Doctor, University of Santa Clara Law School;
and admitted to practice in the State of California and in Federal Courts
Company Director

Peter Tung Shun Wong (Deputy Chairman and Chief Executive)
Bachelor of Arts, Master of Business Administration and Master of Science, Indiana University

* **Zia Mody** (Deputy Chairman)
Bachelor of Arts (Law), Cambridge University; and Master of Laws, Harvard University
Partner, AZB & Partners

General Disclosures *(continued)*

Board of Directors of HBAP (*continued*)

* **Graham John Bradley**
Bachelor of Arts and Bachelor of Laws (Hons I), Sydney University; and Master of Laws, Harvard University
Company Director

Dr Christopher Wai Chee Cheng, GBS, OBE
Bachelor of Business Administration, University of Notre Dame; Master of Business Administration, Columbia University; Doctorate in Social Sciences honoris causa, The University of Hong Kong; and Honorary Degree of Doctor of Business Administration, The Hong Kong Polytechnic University
Chairman, Wing Tai Properties Limited

Dr Raymond Kuo Fung Ch'ien, GBS, CBE
Bachelor of Arts, Rockford College; and Master of Arts and Doctor of Philosophy (Economics), University of Pennsylvania
Independent Non-executive Chairman, Hang Seng Bank Limited

Yiu Kwan Choi
Higher Certificate in Accountancy, The Hong Kong Polytechnic University
Fellow Member of The Hong Kong Institute of Bankers
Company Director

Beau Khoon Chen Kuok
Bachelor of Economics, Monash University, Australia
Chairman, Kerry Group Limited

Irene Yun-lien Lee
Bachelor of Arts (Distinction) in History of Art, Smith College, Northampton, Massachusetts, USA; Member of Honourable Society of Gray's Inn, UK; and Barrister-at-Law in England and Wales
Chairman, Hysan Development Company Limited

* **Jennifer Xinzhe Li**
Bachelor of Arts, Tsinghua University, Beijing, China; and Master of Business Administration, University of British Columbia, Vancouver, Canada
General Managing Partner, Changcheng Investment Partners

^ **Victor Tzar Kuoi Li**
Bachelor of Science degree in Civil Engineering and Master of Science degree in Civil Engineering, Stanford University; and Honorary Degree, Doctor of Laws, honoris causa (LL.D.), University of Western Ontario
Chairman and Managing Director of CK Asset Holdings Limited; and
Chairman and a Group Co-Managing Director of CK Hutchison Holdings Limited

* **Bin Hwee Quek (née Chua)**, PBM, BBM, JP
Bachelor of Accountancy (Hons), The University of Singapore; and Chartered Accountant, Institute of Singapore Chartered Accountants
Company Director

Kevin Anthony Westley, BBS
Bachelor of Arts (Hons), University of London (LSE); and Fellow, Institute of Chartered Accountants in England and Wales
Company Director

* **Tan Sri (Sir) Francis Sock Ping Yeoh**, KBE, CBE
Bachelor of Science (Hons) in Civil Engineering and Honorary Doctorate of Engineering, University of Kingston
Executive Chairman, YTL Corporation Berhad

independent non-executive Director
^ non-executive Director

General Disclosures *(continued)*

Board of Directors of HBAP (*continued*)

Country of Residence

With the exception of those denoted with an *, all directors reside in Hong Kong. Zia Mody resides in India, Graham John Bradley resides in Australia, Tan Sri (Sir) Francis Sock Ping Yeoh resides in Malaysia, Jennifer Xinzhe Li resides in China, and Bin Hwee Quek (née Chua) resides in Singapore.

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

Louisa Wai Wan Cheang stepped down as an executive Director of HBAP with effect from 10 August 2020.

Beau Khoon Chen Kuok was appointed as an independent non-executive Director of HBAP with effect from 10 August 2020.

Other than described above, there have been no changes in the composition of the Board of Directors since 31 December 2019.

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.

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."

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 (negative outlook)	Aa3 (stable outlook)	17 December 2019
Standard & Poor's Corporation	AA- (stable outlook)	Not changed	-
Fitch IBCA Inc.	AA- (negative outlook)	AA- (stable outlook)	1 April 2020

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 May 2020.

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.

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.

Changes to Conditions of Registration since the 31 December 2019 Disclosure Statement

The Conditions of Registration were amended on 1 May 2020 to remove the restrictions on high loan-to-value ratio residential mortgage lending.

FINANCIAL STATEMENTS CONTENTS

STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Banking Group **Unaudited 6 months ended**	
Dollars in Thousands	Note	**30.06.20**	30.06.19
Interest income		**72,673**	90,810
Interest expense		**(36,131)**	(52,416)
Net interest income		**36,542**	38,394
Net trading income	3	**5,029**	3,884
Other net operating income	4	**19,007**	17,764
Net operating income before credit impairment charges		**60,578**	60,042
Change in expected credit loss	8	**(14,195)**	1,949
Net operating income		**46,383**	61,991
Operating expenses		**(34,699)**	(35,478)
Operating profit before tax		**11,684**	26,513
Income tax expense		**(3,317)**	(7,479)
Profit after tax attributable to the owners of the Banking Group		**8,367**	19,034
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 through other comprehensive income		**9,555**	2,877
Income taxes		**(2,608)**	(805)
Other comprehensive income for the period		**6,947**	2,072
Total comprehensive income for the period attributable to the owners of the Banking Group		**15,314**	21,106

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

STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Banking Group **Unaudited** **6 months ended**	
Dollars in Thousands	**30.06.20**	30.06.19
Head Office Account *		
At beginning of the period	**21,130**	23,099
Repatriation to Head Office	**-**	-
Profit after tax	**8,367**	19,034
At end of the period	**29,497**	42,133
Financial assets at Fair Value through Other Comprehensive Income Reserve		
At beginning of the period	**1,234**	1,086
Fair value changes taken to equity	**9,406**	3,104
Transferred to the income statement	**149**	(227)
Tax on movements and transfers	**(2,608)**	(805)
At end of the period	**8,181**	3,158
Share-based Payment Reserve		
At beginning of the period	**1,658**	1,656
Transferred to the profit or loss	**-**	-
Movement in share-based payment arrangements	**(59)**	(3)
At end of the period	**1,599**	1,653
Equity at end of the period	**39,277**	46,944

* 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 30 JUNE 2020

		Banking Group		
		Unaudited	Unaudited	Audited
Dollars in Thousands	Note	**30.06.20**	30.06.19	31.12.19
ASSETS				
Cash and demand balances with central bank		**1,166,386**	726,428	675,760
Advances to banks		**15,646**	30,285	10,702
Financial investments		**622,492**	470,295	541,559
Derivative financial instruments		**35,150**	27,443	83,323
Advances to customers	5	**4,051,638**	4,260,343	4,657,004
Amounts due from related parties	15	**1,435,177**	698,249	632,251
Other assets		**14,883**	22,630	21,723
Property, plant and equipment		**4,009**	3,761	2,778
Deferred tax asset		**4,238**	678	674
Goodwill and intangible assets		**17,750**	15,991	15,857
Total Assets		**7,367,369**	6,256,103	6,641,631
LIABILITIES				
Deposits by banks		**370,403**	349,756	347,859
Derivative financial instruments		**35,987**	29,345	85,453
Customer deposits	12	**4,277,032**	3,477,844	3,538,301
Debt securities		**924,988**	619,897	924,917
Amounts due to related parties	15	**1,688,653**	1,688,040	1,676,580
Other liabilities		**29,610**	44,052	43,528
Current tax liabilities		**1,419**	225	971
Total Liabilities		**7,328,092**	6,209,159	6,617,609
Net Assets		**39,277**	46,944	24,022
EQUITY				
Head Office Account		**29,497**	42,133	21,130
Other Reserves		**8,181**	3,158	1,234
Share-based Payment Reserve		**1,599**	1,653	1,658
Total Equity		**39,277**	46,944	24,022

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

STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Banking Group Unaudited 6 months ended	
Dollars in Thousands	**30.06.20**	30.06.19
Cash flows from / (to) operating activities		
Interest received	**79,969**	87,095
Fees and commissions	**18,569**	17,197
Realised trading gain	**4,407**	4,801
Interest paid	**(35,069)**	(47,658)
Operating expenses	**(32,647)**	(28,671)
Taxation paid	**(9,040)**	(12,863)
Net cash flows from operating activities before changes in operating assets and liabilities	**26,189**	19,901
Changes in operating assets and liabilities arising from cash flow movements		
Cash was provided net from / applied net (to):		
Advances to customers	**594,549**	(134,160)
Amounts due from related parties	**(802,991)**	157,565
Other assets	**(2,750)**	5,809
Other liabilities	**(15,212)**	(4,321)
Debt securities issued / (repaid)	**393**	(70,135)
Deposits by banks	**22,533**	120,886
Customer deposits	**738,731**	418,943
Amounts due to related parties	**8,798**	(245,431)
Net change in operating assets and liabilities	**544,051**	249,156
Net cash flows from / (to) operating activities	**570,240**	269,057
Cash flows from / (to) investing activities		
Financial investments purchased	**(198,792)**	(100,806)
Financial investments sold	**-**	-
Financial investments matured	**137,500**	156,000
Acquisition of property, plant and equipment	**(106)**	(1)
Acquisition of intangible assets	**-**	(1,597)
Net cash flows to investing activities	**(61,398)**	53,596
Cash flows to financing activities		
Repatriation to head office	**-**	-
Principal payments on lease liabilities	**(892)**	(900)
Net cash flows to financing activities	**(892)**	(900)
Net (decrease) / increase in cash and cash equivalents	**507,950**	321,753
Effect of exchange rate fluctuations on cash held	**(321)**	(19)
Cash and cash equivalents at beginning of the period	**774,301**	536,083
Cash and cash equivalents at end of the period	**1,281,930**	857,817

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

STATEMENT OF CASH FLOWS *(continued)*
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Banking Group Unaudited 6 months ended	
Dollars in Thousands	**30.06.20**	30.06.19
Analysis of cash and cash equivalents		
Cash and demand balances with central banks	**1,166,386**	726,428
Items in the course of collection from other banks[1]	**19**	35
Gross advances to banks – demand	**15,697**	30,250
Treasury bills with initial maturity less than 3 months[2]	**99,983**	101,943
Less: items in the course of transmission to other banks[1]	**(155)**	(839)
	1,281,930	857,817

[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.

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 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 periods 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 interim financial statements have also been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, as appropriate for for-profit entities, and are presented in accordance with New Zealand equivalent to International Accounting Standard 34 Interim Financial Reporting ("NZ IAS 34"). These interim financial statements are condensed financial statements in accordance with NZ IAS 34 and do not include all the disclosures required for full annual financial statements. These financial statements comply with International Accounting Standard 34 Interim Financial Reporting 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 "$" is to New Zealand dollars unless otherwise stated.

Comparative figures

These financial statements include comparative information as required by NZ IAS 34 and the Order.

Authorisation of financial statements

These financial statements were authorised for issue by the directors of The Hongkong and Shanghai Banking Corporation Limited on 8 September 2020.

Changes in accounting policies

The accounting policies applied by the Banking Group for these interim financial statements are consistent with those described in Note 1 of the 31 December 2019 Disclosure Statement. Except for the changes in critical accounting estimates noted below, there have been no changes in methods of computation.

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

1. Statement of accounting policies (continued)

Changes in critical accounting estimates

Impairment of amortised cost and FVOCI financial assets

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.

Methodology

Our methodology in relation to the adoption and generation of economic scenarios is described on pages 26 and 27 of the December 2019 Disclosure Statement. There have been no significant changes during the first half of 2020.

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. The emergent nature of the Covid-19 virus outbreak at the start of 2020 meant that our view of the distribution of risks, as disclosed in the December 2019 Disclosure Statement, did not, on a forward-looking basis, consider the impact of the virus. Our consensus Central scenario at the 2019 year-end projected moderate growth over a five-year horizon, with strong prospects for employment and a gradual increase in interest. The onset of the virus has led to a fundamental reassessment of our central forecast and the distribution of risks.

Economic forecasts are subject to a high degree of uncertainty in the current environment. 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 main factors that affect uncertainty are:
- epidemiological concerns, including a possible resurgence of the virus later in 2020 and in 2021;
- the extent new or continued restrictions in individual countries affect global growth due to deep cross-border trade and financial linkages;
- the ability of governments and central banks to continue to limit the economic damage through support measures;
- the potential for other geopolitical and macroeconomic risks to affect growth and economic stability as the world recovers from Covid-19-related restrictions.

This volatility in data, and in forecasts is reflected in management's choice of scenarios, in probability weights and in their assessment of ECL outcomes.

The scenarios used to calculate ECL in the financial statements are described below.

The consensus Central scenario
The Banking Group's Central scenario features a 'V-shaped' shock to economic activity as characterised by a deep, initial contraction in GDP, followed by a sharp recovery. This 'V-shape' in activity reflects the unique nature of this downturn and is driven by restrictions on mobility and activity imposed by governments to reduce the spread of the virus. The Central scenario further assumes that the stringent restrictions on activity employed in the first half of 2020 will not be repeated, allowing economic activity to rebound. Minimal long-term damage to economic prospects is expected, allowing economic growth to return to their trend rates.

GDP fell sharply in the first half of 2020 but is expected to recover through the second half of the year resulting in an average annual decrease of 4.8% in 2020, and average annual growth of 3.4% over the next 5 years. This is higher than the 5-year growth projection as at 31 December 2019 of 2.6%, and reflects the growth of the post-Covid-19 returning to past trends.

The unique circumstances surrounding the current fall in economic activity make it difficult to compare current prospects for economic activity with previous recessions. However, we note that the depth of the contraction in economic activity and the subsequent recovery are both expected to be sharper than experienced during the last global downturn of 2008-09.

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

1. Statement of accounting policies (continued)

Changes in critical accounting estimates (continued)

Impairment of amortised cost and FVOCI financial assets (continued)

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

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. Despite this feature, 2020 continues to be a year of contraction in GDP growth and several quarters elapse before global activity reaches the level attained at the end of 2019, just prior to the onset of the virus.

The consensus Downside scenario
Real GDP growth is more restrained in the second half of 2020 in the Downside scenario with private consumption and exports remaining negative before gradually recovering towards its long-run trend. Compared to the central scenario, this recovery is considerably weaker.

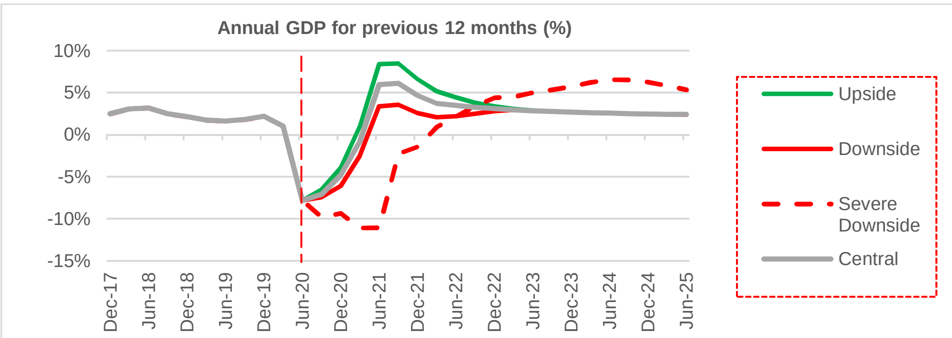
The alternative Severe Downside scenario
A 'U shape' scenario has been created to reflect management's view of extreme risks. This scenario assumes that a number of the Banking Group's risks crystallise simultaneously and result in an extreme severe and long-lived recession.

All scenarios have been first created with forecasts available in May and subsequently updated in June. There were no significant changes in forecasts in that period. Risks considered in each scenario include the abatement or renewal of Covid-19, changes in tensions between the US and China, changes in continuing support from fiscal and monetary policy, and oil price movements.

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 describes key macroeconomic variables used in the various scenarios.

Central Scenario	**GDP growth %**	**Private consumption growth %**	**House price growth %**	**Exports of goods and services growth %**
Annual growth rate 2020	-4.8%	-6.1%	-6.5%	-6.0%
Annual growth rate 2021	4.7%	3.0%	1.7%	8.5%
1Q22 - 2Q25: annualised average	2.3%	1.6%	1.7%	2.2%
3Q20 - 2Q22: worst quarterly change	-2.2%	-0.3%	0.3%	0.0%



Outer Scenarios	**Best annual period**		**Worst annual period**	
	Change	Year ended	Change	Year ended
GDP growth %	8.5%	Sep-21	-11.1%	Mar-21
Private consumption growth %	7.0%	Sep-21	-10.2%	Jun-21
House price growth %	9.5%	Jun-21	-17.1%	Jun-21
Exports of goods and services growth %	10.5%	Dec-21	-13.3%	Jun-21

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

1. Statement of accounting policies (continued)

Changes in critical accounting estimates (continued)

Impairment of amortised cost and FVOCI financial assets (continued)

Measurement uncertainty and sensitivity of ECL estimates (continued)

Critical accounting estimates and judgements

The calculation of ECL under NZ IFRS 9 involves significant judgements, assumptions and estimates, as set out in the December 2019 Disclosure Statement under 'Critical accounting estimates and judgements'. The level of estimation uncertainty and judgement has increased since 31 December 2019 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 widening in the distribution of economic forecasts. The key judgement is whether the economic effects of the pandemic are more likely to be temporary or prolonged, and the shape of recovery;
- estimating the economic effects of those scenarios on ECL, where 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
- the identification of customers experiencing significant increases in credit risk and credit impairment, particularly where those customers have accepted payment deferrals and other reliefs designed to address short-term liquidity issues, or have extended those deferrals, given limitations in the available credit information on these customers. The use of segmentation techniques for indicators of significant increases in credit risk involves significant estimation uncertainty.

How economic scenarios are reflected in ECL

The methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and retail loans and portfolios is set out in the December 2019 Disclosure Statement. These models are based largely on historical observations and correlations with default rates.

The severe projections at 30 June 2020 of macroeconomic variables are outside the historical observations on which ECL models have been built and calibrated to operate. Moreover, the complexities of governmental support programmes and regulatory guidance on treatment of customer impacts (such as forbearance and payment holidays) and the unpredictable pathways of the pandemic have never been modelled. Consequently, our impairment models have generated output that appears overly conservative when compared with other economic and credit metrics. Post-model adjustments are required to ensure that an appropriate amount of ECL impairment is recognised.

These data and model limitations have been addressed in the short term using in-model and post-model adjustments. This includes refining model inputs and outputs and using post-model adjustments based on management judgement and higher level quantitative analysis for impacts that are difficult to model. To ensure a consistent framework, HSBC Group Credit Risk identified the model segments where results were overly conservative based on historical benchmarks and defined the worst economic inputs where the model output is considered reliable. Re-running the models with these capped economic limits established boundary conditions used by credit experts as a starting point for further overlays based on our own structured judgement and granular analysis. For the wholesale portfolio excluding Banks and Sovereigns, this analysis produced a 'Credit Experts Best Estimate' ('CEBE') to act as a benchmark against the modelled outcomes, and inform post-model adjustments.

The Banking Group's credit experts have allocated our exposures in each sector into four baskets, representing low to high resilience/vulnerability to the Covid-19 economic environment. The Banking Group's credit experts made best estimates for Credit Risk Rating (CRR) migration at June 30 for each sector under the central ("V" shaped) scenario. This assessed what portion of the corporate loan portfolio should remain at the same or better CRR, what portion should be downgraded, and the size of the downgrade. Under the severe downside ("U" shaped) scenario the migration is assumed to be one CRR grade worse. The Banking Group compared the CEBE portfolio migration and ECL results to the CRR migration and ECL outputs from the existing wholesale ECL Models. The CEBE results, and other qualitative factors (such as recent default experience) were used to guide Overlay/Underlay recommendations for June 30 2020 ECLs for each sector. The Banking Group's senior management reviewed and approved the final ECL recommendation, including the quantum of adjustment to the model.

In the short term, the focus is on refining model inputs and outputs in a consistent and explainable manner, using post-model adjustments. Wider-ranging model changes will take time to develop and need more real data on which models can be trained. Models will be recalibrated over time once the full impacts of the pandemic are observed but that will not occur in 2020. Therefore, we anticipate significant in-model and post-model adjustments for the foreseeable future.

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

1. Statement of accounting policies (continued)

Changes in critical accounting estimates (continued)

Impairment of amortised cost and FVOCI financial assets (continued)

Measurement uncertainty and sensitivity of ECL estimates (continued)

Post-model adjustments

In the context of NZ IFRS 9, post-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 post-model adjustments and where possible to reduce the reliance on these through model recalibration or redevelopment, as appropriate. Depending on the path of the pandemic and the shape of the economic recovery, we anticipate the composition of modelled ECLs and post-model adjustments may be revised significantly over 2020, particularly when the economy resumes positive GDP growth and the uncertainty over long-term unemployment abates.

Post-model adjustments have been made where modelled rating migration and ECL outputs based on historical relationships produced results that were overly conservative, which is often the case when using economic inputs that are well outside the range of historical experience. The expected credit loss on corporate exposures in our Wholesale portfolio were adjusted down by $79 million to reflect the outcome of the CEBE review of wholesale corporate exposures. Retail portfolio ECL was decreased by net $0.5 million as the impact of modelled results including economic forecasts significantly beyond those observed during model development was offset by changes to staging for customers on relief programmes identified as having suffered a significant increase in credit risk.

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 post-model adjustments as appropriate.

Sensitivity: Total ECL ($000)	**Central**	**Upside**	**Downside**	**Severe downside**	**Reported**
30 June 2020	16,014	10,646	24,026	64,228	19,089
31 December 2019	4,862	4,287	5,852	-	4,904

The sensitivity values have increased since the start of the year reflecting the deteriorating economic forecasts in all scenarios and the increased variability outcomes between scenarios. The creation of an additional severe downside scenario has also contributed to the re-weighting of scenarios used to determine the reported result.

Sensitivity weightings %	**Jun 20**	**Dec 19**
Upside	10	10
Central	70	80
Downside	15	10
Severe downside	5	-

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

1. Statement of accounting policies (continued)

Changes in critical accounting estimates (continued)

Impairment of amortised cost and FVOCI financial assets (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 has 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. Customers who had not been more than 30 days in arrears during the 6 months prior to application remain classified as Stage 1 following their application, unless other circumstances indicate a significant increase in credit risk has occurred. Loans that are already past due at the time of application are considered to be impaired. At 30 June 2020, residential mortgages with a carrying value of $140 million were being managed within this programme.

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.

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 30 June 2020 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	30 June 2020 basis	31 December 2019 basis
Forecast period	Three and a half year forecast approved by Banking Group management.	One year operating plan approved by HBAP senior management and one year estimated by Banking Group management.
Terminal growth rate	2% mid-point of RBNZ inflation target.	2.4% based on 5 year forecast New Zealand GDP growth by New Zealand Treasury.
Discount rate	9.8% pre tax	9.8% pre tax
Result	No impairment recorded as carrying value exceeds recoverable value.	No impairment recorded as carrying value exceeds recoverable value.

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

2. Risk management

There were no material changes to the Banking Group's policies for managing risks in relation to credit, currency, interest rates, equity, liquidity, operational or any other material business risk to which the Banking Group is exposed during the six months ended 30 June 2020.

The impact of Covid-19 on our customers and our operations in first half of 2020, alongside the management of other key risks, has required an increase in active risk management. We have supplemented our existing approach to risk management with additional tools and practices including a heightened focus on Management Information, including Early Warning Indicators, prudent management of our risk appetite, and ensuring a regular flow of information to our Executive Committee and other key stakeholders, to mitigate and manage the risks from these specific areas.

In the first half of 2020, we continued to enhance our risk management in the following areas:

- We simplified our approach and articulation of risk management, through the combination of the Enterprise Risk Management Framework and the Operational Risk Management Framework to create a single simplified HSBC Risk Management framework.
- We continued to focus on simplifying our approach to non-financial risk management. We drove more effective oversight and better end-to-end identification and management of non-financial risks.
- We continued to focus on enhancing our risk management capabilities and the effectiveness of our financial crime controls. The application of both advanced analytics and artificial intelligence remains a key element of our next generation of tools to fight financial crime, and our investment in these areas is ongoing.
- We continued to promote and encourage good conduct through our people's behaviour and decision making to deliver fair outcomes for customers and preserve market integrity.
- We enhanced liquidity monitoring for both the Banking Group and clients to understand committed facility drawdown ensuring sufficient buffers to meet client requirements.

	Banking Group	
	Unaudited	
	6 months ended	
Dollars in Thousands	**30.06.20**	30.06.19
3. Net trading income		
Foreign exchange gains / (losses)	**4,876**	4,606
Gains / (losses) on revaluation of derivatives	**233**	(677)
Credit valuation adjustments on derivatives	**(53)**	-
Debit valuation adjustments on derivatives	**(6)**	(11)
Gain / (loss) on hedging instrument in fair value hedge	**127**	(261)
Gain / (loss) on hedged item in fair value hedge	**(148)**	227
	5,029	3,884

	Banking Group	
	Unaudited	
	6 months ended	
Dollars in Thousands	**30.06.20**	30.06.19
4. Other net operating income		
Fee and commission income	**20,755**	19,079
Fee and commission expense	**(1,948)**	(1,687)
Other income	**200**	372
	19,007	17,764

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

			Banking Group	
		Unaudited	Unaudited	Audited
Dollars in Thousands		**30.06.20**	30.06.19	31.12.19
5.	**Advances to customers**			
	Overdrafts	**53,217**	85,596	40,253
	Residential mortgages	**1,938,417**	1,939,595	2,019,910
	Term lending	**2,007,062**	2,128,673	2,518,903
	Trade finance receivables	**67,585**	110,081	81,578
	Total gross advances to customers	**4,066,281**	4,263,945	4,660,644
	Expected credit loss allowance	**(14,643)**	(3,602)	(3,640)
	Total net advances to customers	**4,051,638**	4,260,343	4,657,004

6. Additional mortgage information

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

		Banking Group **Principal Amount**		
LVR Range	**Does not exceed**	**Exceeds 80% and**	**Exceeds**	
Dollars in Thousands	**80%**	**not 90%**	**90%**	**Total**
30 June 2020 (Unaudited)				
Value of exposures on balance sheet	**1,895,745**	**41,199**	**1,473**	**1,938,417**
Value of exposures off balance sheet	**211,582**	**826**	**-**	**212,408**
Total value of exposures	**2,107,327**	**42,025**	**1,473**	**2,150,825**

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

	Banking Group
	Unaudited
Dollars in Thousands	**30.06.20**
7. Asset quality – gross exposure	
Gross exposure of past due but not individually impaired advances to customers	
Less than 30 days	**76,853**
At least 30 days but less than 60 days	**1**
At least 60 days but less than 90 days	**2,199**
At least 90 days	**-**
Total past due but not individually impaired	**79,053**

Movement in gross exposures

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.

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

7. 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

	6 months ended 30 June 2020 Unaudited			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3[1]**	**Total**
Total wholesale exposures				
As at 1 January 2020	**4,472,304**	**83,855**	**2,729**	**4,558,888**
Transfer of financial instruments:				
Transfer from Stage 1 to 2	**(1,131,122)**	**1,131,122**	**-**	**-**
Transfer from Stage 2 to 1	**7,811**	**(7,811)**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Transfer from Stage 3	**-**	**-**	**-**	**-**
Net further lending/repayment	**(111,280)**	**(370,076)**	**21**	**(481,335)**
Asset derecognised (including final repayments)	**(225,362)**	**(13,120)**	**-**	**(238,482)**
New financial assets originated or purchased	**102,906**	**-**	**-**	**102,906**
Assets written off	**-**	**-**	**-**	**-**
As at 30 June 2020 – Total wholesale credit exposure	**3,115,257**	**823,970**	**2,750**	**3,941,977**

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

	6 months ended 30 June 2020 Unaudited			
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	**(94,807)**	**94,807**	**-**	**-**
Transfer from Stage 2 to 1	**23,618**	**(23,618)**	**-**	**-**
Transfer to Stage 3	**(1,606)**	**(2,343)**	**3,949**	**-**
Transfer from Stage 3	**844**	**283**	**(1,127)**	**-**
Net further lending/repayment	**(106,572)**	**11,827**	**(123)**	**(94,868)**
Asset derecognised (including final repayments)	**(162,552)**	**(869)**	**(1,801)**	**(165,222)**
New financial assets originated or purchased	**167,987**	**-**	**-**	**167,987**
Assets written off	**-**	**-**	**-**	**-**
As at 30 June 2020 – Total retail credit exposure	**2,056,558**	**105,093**	**14,848**	**2,176,499**

[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 $709 million during the six months to 30 June 2020, primarily driven by net repayments and assets derecognised totalling $720 million in our wholesale portfolio. Changes in our credit expectations following the outbreak of the Covid-19 pandemic resulted in a number of customers and industry sectors being considered to have a significant increase in credit risk ('SICR'). Loans with a carrying value of $1.1 billion in our wholesale portfolio, and $95 million in our retail portfolio, were transferred to 'Stage 2' These incurred significantly increased loss allowances, disclosed in Note 8, that are measured at an amount equal to lifetime expected credit losses.

As a result of the CEBE adjustment process (described in Note 1) $1.3 billion of the wholesale gross exposure amount in the ECL Model was adjusted from Stage 2 to Stage 1 on the same basis as CEBE underlay for determining the presence of SICR. There is a degree of uncertainty with the amounts of gross loans reflected in Stage 2. This uncertainty is also present in the process of determining the adjustments to ECL associated with a SICR. While the provision for ECL as a proportion of gross carrying amount on stage 2 has decreased since 31 December 2019, the exposures referred to in determining the CEBE underlay are still performing. Some exposures have or may experience a degree of credit deterioration, we do not expect that all the exposures used to calculate the underlay will result in a loss. The treatment of these loans will continue to be dynamic as more data points become available to improve the calibration of the ECL model and understand the credit risk implications from the Covid-19 pandemic.

The Banking Group has no assets under administration as at 30 June 2020. The aggregate amount as at 30 June 2020 of any undrawn balances on lending commitments to both retail and wholesale counterparties for whom drawn balances are classified as individually impaired, before deducting allowances for credit impairment loss where applicable, is $35 thousand.

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

8. 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 consistent with Note 7.

The net re-measurement 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 re-measurement 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 increased $13.9 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 wholesale exposures which increased $7.6 million.

Overlay and underlay 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

	6 months ended 30 June 2020 Unaudited			
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	**854**	**(854)**	**-**	**-**
Transfer from Stage 2 to 1	**(102)**	**102**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Transfer from Stage 3	**-**	**-**	**-**	**-**
Net re-measurement of ECL arising from transfer of stage	**78**	**(2,448)**	**-**	**(2,370)**
Net new lending and changes to risk parameters (model inputs)	**(5,173)**	**(1,759)**	**(652)**	**(7,584)**
Asset derecognised (including final repayments)	**41**	**6**	**-**	**47**
New financial assets originated or purchased	**(274)**	**-**	**-**	**(274)**
As at 30 June 2020 – total expected credit loss	**(6,781)**	**(5,672)**	**(1,083)**	**(13,536)**
ECL on loans and advances to banks and customers including loan commitments and financial guarantees - profit or loss charge/(release) for the period	**4,576**	**4,953**	**652**	**10,181**
Other movements	**6**	**-**	**-**	**6**
Total ECL profit or loss charge / (release) for the period	**4,582**	**4,953**	**652**	**10,187**

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

	6 months ended 30 June 2020 Unaudited			
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	**2**	**(2)**	**-**	**-**
Transfer from Stage 2 to 1	**(84)**	**84**	**-**	**-**
Transfer to Stage 3	**-**	**469**	**(469)**	**-**
Transfer from Stage 3	**(218)**	**-**	**218**	**-**
Net re-measurement of ECL arising from transfer of stage	**260**	**(386)**	**0**	**(126)**
Net new lending and changes to risk parameters (model inputs)	**(726)**	**(1,119)**	**(1,763)**	**(3,608)**
Asset derecognised (including final repayments)	**7**	**3**	**4**	**14**
New financial assets originated or purchased	**(41)**	**-**	**-**	**(41)**
As at 30 June 2020 – total expected credit loss	**(892)**	**(1,055)**	**(3,345)**	**(5,292)**
ECL on loans and advances to banks and customers including loan commitments and financial guarantees - profit or loss charge/(release) for the period	**800**	**951**	**2,010**	**3,761**
Other movements	**-**	**-**	**-**	**-**
Total ECL profit or loss charge / (release) for the period	**800**	**951**	**2,010**	**3,761**

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

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

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

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

Change in expected credit loss

	Banking Group Unaudited 6 months ended	
Dollars in Thousands	**30.06.20**	30.06.19
Loans and advances to customers		
- New allowances net of allowance releases	**11,073**	878
- Recoveries of amounts previously written off	**-**	-
	11,073	878
Loan commitments and guarantees	**2,875**	1,029
Other financial assets	**247**	42
Change in expected credit loss	**14,195**	1,949

9. Asset quality – financial Instruments by stage allocation

	6 months ended 30 June 2020 Unaudited		
Dollars in Thousands	Gross	Allowance for ECL	Net
Advances to customers at amortised cost			
- Stage 1	**3,505,822**	**(7,446)**	**3,498,376**
- Stage 2	**543,256**	**(2,804)**	**540,452**
- Stage 3	**17,203**	**(4,393)**	**12,810**
Advances to banks at amortised cost[1]			
- Stage 1	**15,668**	**(62)**	**15,606**
- Stage 2	**29**	**(8)**	**21**
- Stage 3	**-**	**-**	**-**
Loan and other credit-related commitments			
- Stage 1	**1,609,998**	**(133)**	**1,609,865**
- Stage 2	**375,028**	**(3,098)**	**371,930**
- Stage 3	**395**	**(35)**	**360**
Financial guarantees and similar contracts			
- Stage 1	**40,327**	**(32)**	**40,295**
- Stage 2	**10,750**	**(817)**	**9,933**
- Stage 3	**-**	**-**	**-**
At 30 June 2020	**6,118,476**	**(18,828)**	**6,099,648**

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. 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.

Dollars in Thousands	***Banking Group*** **Unaudited 30.06.20**
On-balance sheet credit exposures	
Cash and demand balances with central bank	**1,166,386**
Advances to banks	**15,646**
Financial investments	**622,492**
Derivative financial instruments	**35,150**
Advances to customers	**4,051,638**
Amounts due from related parties	**1,435,177**
Other assets	**14,277**
	7,340,766
Off-balance sheet credit exposures	**2,950,850**
Total credit exposures	**10,291,616**

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. The following analysis of financial assets by industry sector is based on categories and definitions used by the Hong Kong Monetary Authority:

Concentrations of credit risk by industry

Banks and financial institutions	**3,612,196**
Individual	**2,171,672**
Commercial and industrial	**1,443,530**
Commercial real estate and construction	**903,790**
Electricity, telecommunication and other utilities	**701,870**
Wholesale and retail trade	**613,662**
Government	**306,110**
Transport	**271,574**
Agriculture, forestry and mining	**90,894**
Other	**176,318**
	10,291,616

Concentrations of credit risk by geographical area

New Zealand	**7,952,297**
Hong Kong	**1,463,137**
United States	**260,035**
Australia	**147,722**
China	**109,720**
Other overseas	**358,705**
	10,291,616

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

Dollars in Thousands	**Banking Group Unaudited 30.06.20**
11. Concentrations of funding risk	
Concentrations of funding by product	
Deposits by banks	**370,403**
Customer deposits	**4,277,032**
Debt securities	**924,988**
Amounts due to related parties	**1,688,653**
	7,261,076
Concentrations of funding by industry	
Banks and financial institutions	**3,357,263**
Individual	**1,927,723**
Commercial and industrial	**1,192,896**
Wholesale and retail trade	**237,480**
Commercial real estate and construction	**123,289**
Agriculture, forestry and mining	**64,152**
Transport	**51,836**
Government	**51,205**
Other	**255,232**
	7,261,076
Concentrations of funding by geographical area	
New Zealand	**3,934,202**
Hong Kong	**1,888,440**
United States	**312,720**
Great Britain	**245,865**
China	**224,015**
Singapore	**164,992**
Australia	**108,633**
Other overseas	**382,209**
	7,261,076

		Banking Group	
Dollars in Thousands	**Unaudited 30.06.20**	Unaudited 30.06.19	Audited 31.12.19
12. Customer deposits			
Current accounts	**2,620,892**	1,814,650	2,054,957
Savings and deposit accounts	**1,656,140**	1,661,545	1,483,344
Other deposit accounts	**-**	1,649	-
Total customer deposits at amortised cost	**4,277,032**	3,477,844	3,538,301

		Banking Group	
Dollars in Thousands	**Unaudited 30.06.20**	Unaudited 30.06.19	Audited 31.12.19
13. Additional financial disclosures on the balance sheet			
Total interest earning and discount bearing assets	**7,291,340**	6,189,203	6,517,276
Total interest and discount bearing liabilities	**7,039,130**	5,908,797	6,284,347
Total liabilities net of amounts due to related parties	**5,630,029**	4,516,853	4,937,820
Advances to banks pledged as collateral for liabilities in respect of credit support annex obligations to derivative counterparties	**-**	-	-

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

14. 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, formed of 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 **Unaudited 6 months ended 30.06.20**				
Dollars in Thousands	**WPB**	**CMB**	**GBM**	**Corporate Centre**	**Consolidated**
Net interest income / (loss)	**16,956**	**16,670**	**4,454**	**(1,538)**	**36,542**
Net trading income / (loss)	**885**	**2,305**	**2,820**	**(981)**	**5,029**
Net fee and commission income	**52**	**13,681**	**3,235**	**1,839**	**18,807**
Other income	**-**	**200**	**-**	**-**	**200**
Net operating income / (loss) before loan impairment charges	**17,893**	**32,856**	**10,509**	**(680)**	**60,578**
Change in expected credit loss	**(3,216)**	**(10,672)**	**(307)**	**-**	**(14,195)**
Net operating income	**14,677**	**22,184**	**10,202**	**(680)**	**46,383**
Operating expense	**(14,374)**	**(16,019)**	**(4,041)**	**(265)**	**(34,699)**
Operating profit before tax	**303**	**6,165**	**6,161**	**(945)**	**11,684**
Advances to customers	**1,964,553**	**2,087,085**	**-**	**-**	**4,051,638**
Customer deposits	**1,966,939**	**1,932,289**	**377,804**	**-**	**4,277,032**

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

14. Segment reporting *(continued)*

			Banking Group Unaudited 6 months ended 30.06.19		
Dollars in Thousands	WPB	CMB	GBM	Corporate Centre[1]	Consolidated
Net interest income	16,038	17,008	4,692	656	38,394
Net trading income / (loss)	681	2,285	2,878	(1,960)	3,884
Net fee and commission income / (loss)	(8)	12,577	3,374	1,449	17,392
Other income	-	372	-	-	372
Net operating income before loan impairment charges	16,711	32,242	10,944	145	60,042
Change in expected credit loss	38	1,910	1	-	1,949
Net operating income	16,749	34,152	10,945	145	61,991
Operating expense	(14,201)	(16,177)	(4,926)	(174)	(35,478)
Operating profit before tax	2,548	17,975	6,019	(29)	26,513
Advances to customers	1,973,061	2,287,282	-	-	4,260,343
Customer deposits	1,848,864	1,395,548	233,432	-	3,477,844

			Banking Group Unaudited 12 months ended 31.12.19		
Dollars in Thousands	WPB	CMB	GBM	Corporate Centre[1]	Consolidated
Net interest income / (loss)	33,818	36,423	10,352	(993)	79,600
Net trading income / (loss)	1,397	4,280	5,428	(2,373)	8,732
Net fee and commission income	329	27,980	7,180	854	36,343
Other income	1	506	-	-	507
Net operating income / (loss) before loan impairment charges	35,545	69,189	22,960	(2,512)	125,182
Change in expected credit loss	(328)	2,826	(4)	-	2,494
Net operating income / (loss)	35,217	72,015	22,956	(2,512)	127,676
Operating expense	(28,688)	(30,790)	(8,420)	(3,774)	(71,672)
Operating profit before tax	6,529	41,225	14,536	(6,286)	56,004
Advances to customers	2,051,346	2,605,658	-	-	4,657,004
Customer deposits	1,918,842	1,377,981	241,478	-	3,538,301

[1] Effective from the second quarter of 2020, the segment reporting has been changed to reflect the re-allocation of Balance Sheet Management from Corporate Centre to all other business segments. Comparatives have been re-presented to conform to the current year's presentation.

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

	Banking Group		
Dollars in Thousands	**Unaudited 30.06.20**	Unaudited 30.06.19	Audited 31.12.19

15. Related party balances

Related party transactions are unsecured and entered into in the normal course of business. During the period 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.

There has been no significant change in the nature or volume of related party transactions during the period.

Assets			
Amounts due from related parties	**1,435,177**	698,249	632,251
Derivative financial instruments – assets	**25,827**	24,761	81,791
Total related party assets	**1,461,004**	723,010	714,042
Liabilities			
Amounts due to related parties	**1,688,653**	1,688,040	1,676,580
Derivative financial instruments – liabilities	**9,409**	4,266	3,209
Total related party liabilities	**1,698,062**	1,692,306	1,679,789

16. 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 30.06.20 Unaudited			
Dollars in Thousands	**Level 1**	**Level 2**	**Level 3**	**TOTAL**
ASSETS				
Financial investments	**576,990**	**45,480**	**22**	**622,492**
Derivative financial instruments	**-**	**35,150**	**-**	**35,150**
LIABILITIES				
Derivative financial instruments	**-**	**35,987**	**-**	**35,987**

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

16. Fair value of financial instruments

Determination of fair value of financial instruments carried at fair value *(continued)*

		Banking Group 30.06.19 Unaudited		
Dollars in Thousands	Level 1	Level 2	Level 3	TOTAL
ASSETS				
Financial investments	444,330	25,943	22	470,295
Derivative financial instruments	-	27,443	-	27,443
LIABILITIES				
Derivative financial instruments	-	29,345	-	29,345

		Banking Group 31.12.19 Audited		
Dollars in Thousands	Level 1	Level 2	Level 3	TOTAL
ASSETS				
Financial investments	508,062	33,475	22	541,559
Derivative financial instruments	-	83,323	-	83,323
LIABILITIES				
Derivative financial instruments	-	85,453	-	85,453

There have been no transfers between levels 1 and 2 in the period to 30 June 2020 (June 2019: none; December 2019: none). Any transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

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 securities that are quoted in active markets, fair values are determined by reference to the current quoted bid/offer price. Where quoted market 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.

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

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

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.

Fair value of financial instruments not carried at fair value

The following tables summarise the carrying values and fair values of financial assets and financial liabilities not measured at fair value in the Banking Group at the end of the current and comparative periods.

	Banking Group					
	Unaudited 30.06.20	**Unaudited 30.06.20**	Unaudited 30.06.19	Unaudited 30.06.19	Audited 31.12.19	Audited 31.12.19
Dollars in Thousands	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
ASSETS						
Advances to customers	**4,051,638**	**4,052,452**	4,260,343	4,256,992	4,657,004	4,656,037
LIABILITIES						
Customer deposits	**4,277,032**	**4,278,545**	3,477,844	3,479,413	3,538,301	3,540,003
Debt securities issued	**924,988**	**928,917**	619,897	621,662	924,917	925,083
Amounts due to related parties[1]	**1,688,653**	**1,696,558**	1,688,040	1,693,054	1,676,580	1,679,912

[1]Comparative fair values of amounts due to related parties were revised to reflect fair value assessment calculations consistent with the current period (June 2019: no change, December 2019: $6.7 million increase). There was no change in carrying values.

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 bank, advances to banks, amounts due from related parties, deposits by banks, other assets and other liabilities.

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

17. 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*
30 June 2020 (Unaudited)								
Financial Assets								
Cash and demand balances with central bank	**1,166**	**-**	**-**	**-**	**-**	**1,166**	**-**	**1,166**
Advances to banks	**16**	**-**	**-**	**-**	**-**	**16**	**-**	**16**
Financial investments	**139**	**-**	**129**	**74**	**280**	**622**	**-**	**622**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**35**	**35**
Advances to customers	**2,400**	**225**	**704**	**592**	**131**	**4,052**	**-**	**4,052**
Amounts due from related parties	**1,412**	**23**	**-**	**-**	**-**	**1,435**	**-**	**1,435**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**15**	**15**
Total financial assets	**5,133**	**248**	**833**	**666**	**411**	**7,291**	**50**	**7,341**
Financial Liabilities								
Deposits by banks	**370**	**-**	**-**	**-**	**-**	**370**	**-**	**370**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**36**	**36**
Customer deposits	**3,779**	**334**	**127**	**11**	**16**	**4,267**	**10**	**4,277**
Debt securities	**825**	**-**	**-**	**-**	**100**	**925**	**-**	**925**
Amounts due to related parties	**1,137**	**57**	**257**	**-**	**25**	**1,476**	**212**	**1,688**
Other liabilities	**-**	**1**	**-**	**-**	**1**	**2**	**28**	**30**
Total financial liabilities	**6,111**	**392**	**384**	**11**	**142**	**7,040**	**286**	**7,326**
Off-balance sheet financial instruments								
Net notional interest rate contracts	**75**	**-**	**(75)**	**-**	**-**	**-**	**-**	**-**

18. 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:

Dollars in Thousands	***Banking Group*** **Unaudited 30.06.20**
Demand balances with the central bank	**1,166,386**
Financial investments	**622,470**
	1,788,856

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

18. 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*
30 June 2020 *(Unaudited)*								
Financial Liabilities								
Deposits by banks	**370**	**-**	**-**	**-**	**-**	**-**	**-**	**370**
Customer deposits	**2,628**	**511**	**649**	**464**	**29**	**3**	**-**	**4,284**
Debt securities	**-**	**-**	**27**	**307**	**609**	**-**	**-**	**943**
Amounts due to related parties	**573**	**-**	**150**	**201**	**779**	**-**	**-**	**1,703**
Other liabilities	**7**	**4**	**3**	**9**	**6**	**1**	**-**	**30**
Total non-derivative financial liabilities	**3,578**	**515**	**829**	**981**	**1,423**	**4**	**-**	**7,330**
Derivative financial instruments – held for trading purposes	**35**	**-**	**-**	**-**	**-**	**-**	**-**	**35**
Derivative financial instruments – held for hedging purposes (net settled) (Inflow) / outflow	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**1**
Total undiscounted derivatives	**35**	**-**	**-**	**-**	**1**	**-**	**-**	**36**
Undrawn loan commitments	**637**	**-**	**1,455**	**-**	**-**	**-**	**-**	**2,092**

19. Market risk exposures

Aggregate market risk exposures are derived in accordance with the Reserve Bank of New Zealand document, *Capital Adequacy Framework (Standardised Approach) (BS2A)* 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 half year accounting period 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 30 June 2020 (Unaudited)		
Interest rate risk	**109.88**	**8.79**
Foreign currency risk	**0.25**	**0.02**
Equity risk	**-**	**-**
Peak exposure period 1 January 2020 to 30 June 2020 (Unaudited)		
Interest rate risk	**134.00**	**10.72**
Foreign currency risk	**0.63**	**0.05**
Equity risk	**-**	**-**

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

	Banking Group		
	Unaudited	Unaudited	Audited
Dollars in Thousands	**30.06.20**	30.06.19	31.12.19

20. 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	**59,755**	184,005	133,589
Transaction related contingent items	**667,355**	351,389	576,624
Trade related contingent items	**131,819**	114,233	164,686
Commitments, maturity one year or more	**1,454,491**	1,432,008	1,420,943
Commitments, maturity up to one year	**637,430**	551,486	638,359
	2,950,850	2,633,121	2,934,201
Capital commitments			
Contracted expenditure	**10,768**	463	1,683

21. Insurance and non-financial business

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.

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

	Unaudited	Unaudited	Unaudited
	30.06.20	30.06.19	31.12.19
Basel III Capital Ratios			
Common Equity Tier 1 (CET1) capital	**16.7%**	16.6%	17.2%
Tier 1 capital	**18.3%**	18.2%	18.8%
Total capital	**20.3%**	20.3%	21.0%

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

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

23. Profitability, size and asset quality of HBAP Group

Dollars in HK$ millions	**Unaudited 6 months ended 30.06.20**	Unaudited 6 months ended 30.06.19	Audited 12 months ended 31.12.19
Profitability			
Net profit after tax	**44,272**	60,601	115,040
Net profit after tax over the previous 12 month period as a percentage of average total assets	**1.1%**[1]	1.4%[1]	1.4%[1]
Size			
Total assets	**9,097,338**	8,672,793	8,661,714
Percentage increase in total assets over the previous 12 month period	**4.9%**	5.3%	4.8%
Asset quality			
HKFRS 9 Stage 3 and purchased or originated credit impaired ('POCI') asset gross carrying value[3]	**27,940**	14,500	18,097
HKFRS 9 Stage 3 and POCI ECL[2, 4]	**(15,176)**	(5,230)	(9,383)
HKFRS 9 Stage 1 and 2 ECL[2]	**(13,908)**	(3,747)	(9,003)
HKFRS 9 Stage 3 gross carrying value[3] / Total assets	**0.3%**	0.2%	0.2%
HKFRS 9 Stage 3 and POCI ECL[2, 4] / Stage 3 and POCI gross carrying value[3]	**54.3%**	36.1%	51.8%

[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'.

24. Subsequent events

In a previous financial period, the Banking Group signed an agreement to lease new head office premises at 188 Quay Street, Auckland. This lease was not recorded on the balance sheet under NZ IFRS 16 at 30 June 2020 as the leased premises were not available for use by the Banking Group due to previous tenants occupying the leased premises. Subsequent to 30 June 2020, the previous tenants vacated the leased premises and the leased premises became available for use for the Banking Group and the leased premises would be recognised on the balance sheet. The impact of this is an increase of approximately $16 million to Property, plant and equipment and Other liabilities equally, with no impact on net assets.

The ECL at 30 June 2020 was estimated based on a range of forecast economic conditions as at that date. Beginning on 12 August 2020 the New Zealand Government re-introduced restrictions on personal movement and trading conditions for some businesses in response to a discovery of new community transmission of Covid-19. Forward economic guidance used in preparing the 30 June 2020 ECL included consideration of further outbreaks, with potential impact identified in our ECL sensitivity analysis in Note 1. The actual impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under NZ IFRS 9 in subsequent reporting periods.

There were no other events subsequent to the balance sheet date that would materially affect the financial statements.

Directors' and New Zealand Interim Chief Executive Officer's Statements

Each Director and the New Zealand Interim 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 Interim 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 with all Conditions of Registration that applied;

over the six months ended 30 June 2020.

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 to 4) by their attorney, Robert Anthony Roughan, and also in his capacity as Interim Chief Executive Officer:

Robert Anthony Roughan
Interim Chief Executive Officer
New Zealand Branch

8 September 2020

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

Independent auditor's review report

To the Directors of The Hongkong and Shanghai Banking Corporation Limited

Report on the Disclosure Statement

We have reviewed pages 9 to 35 of the Disclosure Statement for the six months ended 30 June 2020 (the "Disclosure Statement") of The Hongkong and Shanghai Banking Corporation Limited (the "Branch"), which includes the financial statements of The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group ("Banking Group") required by Clause 26 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information required by Schedules 5, 7, 9, 12 and 14 of the Order. The Banking Group comprises the New Zealand operations of The Hongkong and Shanghai Banking Corporation Limited.

The financial statements comprise the balance sheet as at 30 June 2020, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the six months then ended, and the notes to the financial statements that include a statement of accounting policies and other explanatory information.

The supplementary information is included within the notes to the financial statements.

Directors' responsibility for the Disclosure Statement

The Directors of The Hongkong and Shanghai Banking Corporation Limited (the "Directors") are responsible, on behalf of The Hongkong and Shanghai Banking Corporation Limited, for the preparation and fair presentation of the Disclosure Statement, which includes financial statements prepared in accordance with Clause 26 of the Order and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible, on behalf of The Hongkong and Shanghai Banking Corporation Limited, for the preparation and fair presentation of supplementary information in the Disclosure Statement which complies with Schedules 3, 5, 7, 9, 12 and 14 of the Order.

Our responsibility

Our responsibility is to express the following conclusions on the financial statements and supplementary information presented by the Directors based on our review:

- the financial statements (excluding the supplementary information): whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the financial statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* (NZ IAS 34) and International Accounting Standard 34: *Interim Financial Reporting* (IAS 34);
- the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy): whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 12 and 14 of the Order; and
- the supplementary information relating to credit and market risk exposures and capital adequacy: whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410: *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). As the auditor of the Banking Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs 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 International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on the financial statements and supplementary information.

We are independent of the Banking Group. Other than in our capacity as auditors we have no relationship with, or interests in, the Banking Group. In addition, 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.

Conclusion

We have examined the financial statements and supplementary information and based on our review, nothing has come to our attention that causes us to believe that:

a) the financial statements (excluding the supplementary information) have not been prepared, in all material respects, in accordance with NZ IAS 34 and IAS 34;

b) the supplementary information that is required to be disclosed under Schedules 5, 7, 12 and 14 of the Order, does not fairly state the matters to which it relates in accordance with those Schedules; and

c) the supplementary information relating to credit and market risk exposures and capital adequacy that is required to be disclosed under Schedule 9 of the Order is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

Who we report to

This report is made solely to the Directors, as a body. Our review work has been undertaken so that we might state those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than The Hongkong and Shanghai Banking Corporation Limited and the Directors, as a body, for our review procedures, for this report, or for the conclusions we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants Auckland
8 September 2020

HSBC