The Hongkong and Shanghai Banking Corporation Limited

New Zealand Banking Group

Disclosure Statement

30 June 2021

HSBC

Disclosure Statement
For the six months ended 30 June 2021

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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:
188 Quay Street
Auckland
New Zealand

New Zealand Banking Group

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

Overseas Banking Group

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

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

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

Dealings with Responsible Person

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

Board of Directors of HBAP

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

^ **Peter Tung Shun Wong**, GBS, JP (Chairman)
Bachelor of Arts; Master of Business Administration and Master of Science, Indiana University
Company Director

^ **David Gordon Eldon,** GBS, CBE, JP (Deputy Chairman)
Honorary Doctor of Business Administration, City University of Hong Kong
Company Director

*** 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

General Disclosures *(continued)*

Board of Directors of HBAP (*continued*)

Sonia Chi Man Cheng
Bachelor of Arts degree with a field of concentration in Applied Mathematics from Harvard University
Chief Executive Officer, Rosewood Hotel Group

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 and Managing Director, 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

^ **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 Group Co-Managing Director of CK Hutchison Holdings Limited

David Yi Chien Liao
Bachelor of Arts (Hons) major in Japanese and Economics, University of London
Co-Chief Executive Officer, HBAP

Surendranath Ravi Rosha
Bachelor of Commerce, Sydenham College of Commerce & Economics, Bombay University; and Master of Business Administration, Indian Institute of Management, Ahmedabad
Co-Chief Executive Officer, HBAP

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

Country of Residence

With the exception of those denoted with an *, all directors reside in Hong Kong. Graham John Bradley resides in Australia, and Tan Sri (Sir) Francis Sock Ping Yeoh resides in Malaysia.

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

General Disclosures *(continued)*

Change in Board of Directors for HBAP

Laura May Lung Cha, Jennifer Xinzhe Li, Zia Mody and Bin Hwee Quek (née Chua) stepped down as independent non-executive Directors of HBAP with effect from 7 June 2021. Accordingly, Laura Cha and Zia Mody also ceased to be Chairman and Deputy Chairman of HBAP respectively.

Peter Tung Shun Wong retired as Chief Executive and Deputy Chairman of HBAP and as an HSBC employee. He remains a Director of HBAP and is re-designated a non-executive Director and appointed non-executive Chairman with effect from 7 June 2021.

David Gordon Eldon was appointed as non-executive Director and Deputy Chairman of HBAP with effect from 4 June 2021 and 7 June 2021 respectively.

David Yi Chien Liao and Surendranath Ravi Rosha were appointed as executive Directors of HBAP and as co-CEOs with effect from 7 June 2021.

Other than described above, there have been no further changes in the composition of the Board of Directors since 31 December 2020.

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 (stable outlook)	Aa3 (negative outlook)	9 June 2021
Standard & Poor's Corporation	AA- (stable outlook)	Not changed	-
Fitch IBCA Inc.	AA- (negative outlook)	AA- (stable outlook)	1 April 2020

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 March 2021.

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

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

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

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

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

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

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

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

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

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

   For the purposes of this condition of registration, –

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

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

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

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

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

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

Conditions of Registration *(continued)*

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

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

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

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

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

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

8. That, for a loan-to-valuation measurement period ending on or before 30 September 2021, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 70%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

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

10. That, for a loan-to-valuation measurement period, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of non-property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non-property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

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

In these conditions of registration, –

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

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

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

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

Conditions of Registration *(continued)*

In conditions of registration 8 to 11,-

“loan-to-valuation ratio”, “non property-investment residential mortgage loan”, “property-investment residential mortgage loan”, “qualifying new mortgage lending amount in respect of property-investment residential mortgage loans”, “qualifying new mortgage lending amount in respect of non-property-investment residential mortgage loans”, and “residential mortgage loan” have the same meaning as in the Reserve Bank of New Zealand document entitled “Framework for Restrictions on High-LVR Residential Mortgage Lending” (BS19) dated January 2019, and where the version the Reserve Bank of New Zealand document “Capital Adequacy Framework (Standardised Approach)” (BS2A) referred to in BS19 for the purpose of defining these terms is that dated November 2015.

“loan-to-valuation measurement period” means—
(a) the six calendar month period ending on the last day of August 2021; and
(b) thereafter a period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on the last day of September 2021.

Changes to Conditions of Registration since the 31 December 2020 Disclosure Statement

The Conditions of Registration were amended on 1 March 2021 to add conditions 8 to 11 which reintroduce restrictions on loan-to-value ratios applying to new residential mortgage lending.

FINANCIAL STATEMENTS CONTENTS

STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2021

		Banking Group Unaudited 6 months ended	
Dollars in Thousands	Note	**30.06.21**	30.06.20
Interest income		**50,295**	72,673
Interest expense		**(16,560)**	(36,131)
Net interest income		**33,735**	36,542
Net trading income	3	**4,311**	5,029
Other net operating income	4	**21,701**	19,007
Net operating income before expected credit losses and other credit impairment charges		**59,747**	60,578
Change in expected credit losses and other credit impairment charges	8	**2,923**	(14,195)
Net operating income		**62,670**	46,383
Operating expenses		**(35,529)**	(34,699)
Operating profit before tax		**27,141**	11,684
Income tax expense		**(7,603)**	(3,317)
Profit after tax attributable to the owners of the Banking Group		**19,538**	8,367
Other comprehensive income / (expense)			
Items that may be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income:			
Fair value gains/(losses) through other comprehensive income		**(10,625)**	9,555
Income taxes		**2,967**	(2,608)
Other comprehensive income/(expense) for the period		**(7,658)**	6,947
Total comprehensive income for the period attributable to the owners of the Banking Group		**11,880**	15,314

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 2021

	Banking Group **Unaudited** **6 months ended**	
Dollars in Thousands	**30.06.21**	30.06.20
Head Office Account *		
At beginning of the period	**22,335**	21,130
Repatriation to Head Office	**-**	-
Profit after tax	**19,538**	8,367
At end of the period	**41,873**	29,497
Financial assets at Fair Value through Other Comprehensive Income Reserve		
At beginning of the period	**6,830**	1,234
Fair value changes taken to equity	**(7,476)**	9,406
Transferred to the profit and loss	**(3,149)**	149
Tax on movements and transfers	**2,967**	(2,608)
At end of the period	**(828)**	8,181
Share-based Payment Reserve		
At beginning of the period	**1,971**	1,658
Transferred to the profit or loss	**-**	-
Movement in share-based payment arrangements	**2**	(59)
At end of the period	**1,973**	1,599
Equity at end of the period	**43,018**	39,277

* 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 2021

			Banking Group	
Dollars in Thousands	Note	**Unaudited 30.06.21**	Unaudited 30.06.20	Audited 31.12.20
ASSETS				
Cash and demand balances with central bank		**1,107,205**	1,166,386	1,423,970
Advances to banks		**94,545**	15,646	3,928
Financial investments		**239,586**	622,492	528,528
Derivative financial instruments		**42,785**	35,150	74,733
Advances to customers	5	**4,213,562**	4,051,638	4,093,974
Amounts due from related parties	15	**729,087**	1,435,177	894,455
Other assets		**17,481**	14,883	16,325
Property, plant and equipment		**31,062**	4,009	28,443
Current tax asset		**3,753**	-	1,345
Deferred tax asset		**-**	4,238	1,084
Goodwill and intangible assets		**18,128**	17,750	18,744
Total Assets		**6,497,194**	7,367,369	7,085,529
LIABILITIES				
Deposits by banks		**292,016**	370,403	373,960
Derivative financial instruments		**42,741**	35,987	75,123
Customer deposits	12	**4,284,546**	4,277,032	4,450,882
Debt securities		**600,000**	924,988	900,000
Amounts due to related parties	15	**1,187,144**	1,688,653	1,202,873
Other liabilities		**47,479**	29,610	51,555
Current tax liability		**-**	1,419	-
Deferred tax liability		**250**	-	-
Total Liabilities		**6,454,176**	7,328,092	7,054,393
Net Assets		**43,018**	39,277	31,136
EQUITY				
Head Office Account		**41,873**	29,497	22,335
Other Reserves		**(828)**	8,181	6,830
Share-based Payment Reserve		**1,973**	1,599	1,971
Total Equity		**43,018**	39,277	31,136

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 2021

	Banking Group Unaudited 6 months ended	
Dollars in Thousands	**30.06.21**	30.06.20
Cash flows from / (to) operating activities		
Interest received	**55,017**	79,969
Fees and commissions	**18,133**	18,569
Realised trading gain	**4,122**	4,407
Interest paid	**(28,282)**	(35,069)
Operating expenses	**(36,582)**	(32,647)
Taxation paid	**(5,711)**	(9,040)
Net cash flows from operating activities before changes in operating assets and liabilities	**6,697**	26,189
Changes in operating assets and liabilities arising from cash flow movements		
Cash was provided net from / applied net (to):		
Advances to customers	**(116,824)**	594,549
Amounts due from related parties	**165,380**	(802,991)
Other assets	**(4,508)**	(2,750)
Other liabilities	**(304)**	(15,212)
Debt securities issued / (repaid)	**(300,000)**	393
Deposits by banks	**(81,951)**	22,533
Customer deposits	**(166,336)**	738,731
Amounts due to related parties	**(3,498)**	8,798
Net change in operating assets and liabilities	**(508,041)**	544,051
Net cash flows from / (to) operating activities	**(501,344)**	570,240
Cash flows from / (to) investing activities		
Financial investments purchased	**(59,419)**	(198,792)
Financial investments sold	**220,944**	-
Financial investments matured	**118,000**	137,500
Acquisition of property, plant and equipment	**(4,184)**	(106)
Net cash flows to investing activities	**275,341**	(61,398)
Cash flows to financing activities		
Repatriation to head office	**-**	-
Principal payments on lease liabilities	**(200)**	(892)
Net cash flows to financing activities	**(200)**	(892)
Net (decrease) / increase in cash and cash equivalents	**(226,203)**	507,950
Effect of exchange rate fluctuations on cash held	**51**	(321)
Cash and cash equivalents at beginning of the period	**1,427,892**	774,301
Cash and cash equivalents at end of the period	**1,201,740**	1,281,930

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 2021

	Banking Group **Unaudited 6 months ended**	
Dollars in Thousands	**30.06.21**	30.06.20
Analysis of cash and cash equivalents		
Cash and demand balances with central banks	**1,107,205**	1,166,386
Items in the course of collection from other banks[1]	**6**	19
Gross advances to banks – demand	**94,541**	15,697
Treasury bills with initial maturity less than 3 months[2]	**-**	99,983
Less: items in the course of transmission to other banks[1]	**(12)**	(155)
	1,201,740	1,281,930

[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 25 August 2021.

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 2020 Disclosure Statement.

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

1. Statement of accounting policies (continued)

Critical accounting estimates and judgements

Impairment of amortised cost and FVOCI financial assets

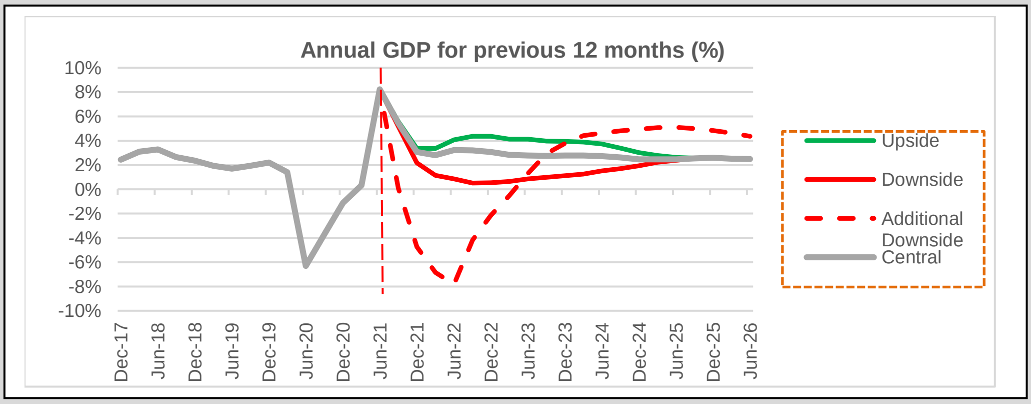
Measurement uncertainty and sensitivity of ECL estimates

The calculation of expected credit loss ('ECL') under NZ IFRS 9 involves significant judgements, assumptions and estimates. 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. Our methodology in relation to the adoption and generation of economic scenarios is described on pages 24 to 29 of the December 2020 Disclosure Statement under 'Critical accounting estimates and judgements'. The level of estimation uncertainty and judgement remains high as a result of the economic effects of the Covid-19 pandemic. The residential mortgage model used to calculate retail ECL was recalibrated in the first half of 2021 to make improvements to model inputs used. There have been no significant changes to managements processes or methodology during the first half of 2021.

There remains a high degree of uncertainty around how current economic conditions will evolve and management estimates reflect a degree of caution. In assessing the economic uncertainty and assigning probabilities to scenarios, management has considered both global trends and New Zealand specific factors in the progression of Covid-19 recovery. These include the expected reach and efficacy of vaccine roll-outs, the possible emergence of Covid-19 variants, the effectiveness of government support programmes, and connectivity with other countries. Management has been guided by the actual responses and the economic experiences of other countries in the past year.

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

Central Scenario	GDP growth % (annual)	House price growth % (annual)	Unemployment %
June 2022	3.2%	4.4%	5.4%
3Q22 – 2Q26: average	2.6%	3.3%	5.2%



Outer Scenarios	Best period		Worst period	
	Annual change	Year ended	Annual change	Year ended
GDP growth %	5.6%	Sep-21	-7.8%	Jun-22
House price growth %	7.8%	Dec-25	-17.7%	Jun-22
		As at		As at
Unemployment rate%	5.1%	Dec-21	8.2%	Mar-23

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

1. Statement of accounting policies (continued)

Critical accounting estimates and judgements (continued)

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, including recalculating the ECL under each scenario and applying a 100% weighting to each scenario in turn. The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes.

Sensitivity: Total ECL ($000)	**Central**	**Upside**	**Downside**	**Additional downside**	**Reported**
30 June 2021	3,021	2,812	3,877	10,301	3,495
31 December 2020	6,129	5,575	7,085	10,016	6,411

The sensitivity weightings are applied to each scenario to determine the total reported ECL. Management has considered the uncertainty discussed above and determined that current scenario weightings should remain consistent with those applied at 31 December 2020.

Sensitivity weightings %	**Jun 21**	**Dec 20**
Upside	10	10
Central	70	70
Downside	15	15
Additional downside	5	5

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. Post model adjustments of $1.1 million relating to geopolitical risk in the wholesale portfolio and Covid-19 relief programmes in the retail portfolio that were in place at 31 December 2020 have been removed during the first half as risks captured by the post-model adjustments have dissipated in management's view.

Customer relief programmes

In response to the Covid-19 pandemic, the Government encouraged banks to offer a range of support measures to customers impacted by the pandemic. The Banking Group offered a relief programme for retail mortgage customers, with either a 6-month deferral of principal and interest payments, or up to 12 months of interest only payments available on application. This programme concluded in the first half of 2021, with no loans receiving relief under this programme as at 30 June 2021.

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.

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 2021.

		Banking Group Unaudited 6 months ended	
Dollars in Thousands		**30.06.21**	30.06.20
3.	**Net trading income**		
	Foreign exchange gains / (losses)	**4,244**	4,876
	Gains / (losses) on revaluation of derivatives	**121**	233
	Credit valuation adjustments on derivatives	**(19)**	(53)
	Debit valuation adjustments on derivatives	**(3)**	(6)
	Gain / (loss) on hedging instrument in fair value hedge	**167**	127
	Gain / (loss) on hedged item in fair value hedge	**(199)**	(148)
		4,311	5,029

		Banking Group Unaudited 6 months ended	
Dollars in Thousands		**30.06.21**	30.06.20
4.	**Other net operating income**		
	Fee and commission income	**20,218**	20,755
	Fee and commission expense	**(1,959)**	(1,948)
	Gains less losses from financial instruments	**3,348**	-
	Other income	**94**	200
		21,701	19,007

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

	Banking Group		
	Unaudited	Unaudited	Audited
Dollars in Thousands	**30.06.21**	30.06.20	31.12.20
5. Advances to customers			
Overdrafts	**58,241**	53,217	59,761
Residential mortgages	**1,960,338**	1,938,417	1,904,430
Term lending	**2,015,134**	2,007,062	1,958,392
Corporate credit card advances	**440**	-	123
Money market advances	**7,700**	-	-
Trade finance receivables	**174,639**	67,585	176,553
Total gross advances to customers	**4,216,492**	4,066,281	4,099,259
Expected credit loss allowance	**(2,930)**	(14,643)	(5,285)
Total net advances to customers	**4,213,562**	4,051,638	4,093,974

6. Additional mortgage information

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

	Banking Group Principal Amount			
LVR Range *Dollars in Thousands*	**Does not exceed 80%**	**Exceeds 80% and not 90%**	**Exceeds 90%**	**Total**
30 June 2021 (Unaudited)				
Value of exposures on balance sheet	**1,926,653**	**32,502**	**1,183**	**1,960,338**
Value of exposures off balance sheet	**190,780**	**496**	**-**	**191,276**
Total value of exposures	**2,117,433**	**32,998**	**1,183**	**2,151,614**

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

	Banking Group
	Unaudited
Dollars in Thousands	**30.06.21**
7. Asset quality – gross exposure	
Gross exposure of past due but not individually impaired advances to customers	
Less than 30 days	**15,250**
At least 30 days but less than 60 days	**104**
At least 60 days but less than 90 days	**108**
At least 90 days	**-**
Total past due but not individually impaired	**15,462**

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.

Post model 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 ‘Net further lending / repayment’.

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 2021 Unaudited			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3[1]**	**Total**
Total wholesale exposures				
As at 1 January 2021	**3,987,444**	**162,713**	**960**	**4,151,117**
Transfer of financial instruments:				
Transfer from Stage 1 to 2	**(34,888)**	**34,888**	**-**	**-**
Transfer from Stage 2 to 1	**45,067**	**(45,067)**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Transfer from Stage 3	**-**	**-**	**-**	**-**
Net further lending/repayment	**(264,715)**	**86,298**	**-**	**(178,417)**
Asset derecognised (including final repayments)	**(73,402)**	**(13,536)**	**-**	**(86,938)**
New financial assets originated or purchased	**561,262**	**-**	**-**	**561,262**
As at 30 June 2021 – Total wholesale credit exposure	**4,220,768**	**225,296**	**960**	**4,447,024**

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 2021 Unaudited			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3[1]**	**Total**
Total retail exposures				
As at 1 January 2021	**2,062,220**	**39,784**	**19,536**	**2,121,540**
Transfer of financial instruments:				
Transfer from Stage 1 to 2	**(30,384)**	**30,384**	**-**	**-**
Transfer from Stage 2 to 1	**31,030**	**(31,030)**	**-**	**-**
Transfer to Stage 3	**(3,348)**	**(654)**	**4,002**	**-**
Transfer from Stage 3	**51**	**-**	**(51)**	**-**
Net further lending/repayment	**(17,293)**	**(15,811)**	**(514)**	**(33,618)**
Asset derecognised (including final repayments)	**(234,596)**	**(969)**	**(2,219)**	**(237,784)**
New financial assets originated or purchased	**315,736**	**-**	**-**	**315,736**
As at 30 June 2021 – Total retail credit exposure	**2,123,416**	**21,704**	**20,754**	**2,165,874**

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

Total gross exposures increased $340 million during the six months to 30 June 2021, primarily driven by new loan origination in our wholesale portfolio totalling $561 million offset by $265 million of net repayments and derecognition. Retail exposure was broadly flat with new lending matched by repayments. There were no significant movements between stages in the first half of the year.

The Banking Group has no assets under administration as at 30 June 2021. The aggregate amount as at 30 June 2021 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 $70 thousand.

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 total ECL decreased $2.9 million in the first half of 2021. This decrease is mainly reflecting improved economic conditions and the removal of management adjustments due to Covid-19 uncertainty. The residential mortgage model used to calculate retail ECL was recalibrated in the first half of 2021 to make improvements to the model inputs used. Both of these resulted in changes in risk parameters (model inputs)' and contributed to $2.1 million decrease in retail ECL and $0.8 million decrease in wholesale ECL.

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

	6 months ended 30 June 2021 Unaudited			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3[1]**	**Total**
Expected credit loss allowance				
As at 1 January 2021	**(1,943)**	**(545)**	**(765)**	**(3,253)**
Transfer of financial instruments:				
Transfer from Stage 1 to 2	**64**	**(64)**	**-**	**-**
Transfer from Stage 2 to 1	**(18)**	**18**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Transfer from Stage 3	**-**	**-**	**-**	**-**
Net re-measurement of ECL arising from transfer of stage	**-**	**(187)**	**-**	**(187)**
Net new lending and changes to risk parameters (model inputs)	**970**	**58**	**(22)**	**1,006**
Asset derecognised (including final repayments)	**9**	**9**	**-**	**18**
New financial assets originated or purchased	**(67)**	**-**	**-**	**(67)**
As at 30 June 2021 – total expected credit loss	**(985)**	**(711)**	**(787)**	**(2,483)**
ECL on loans and advances to banks and customers including loan commitments and financial guarantees - profit or loss charge/(release) for the period	**(958)**	**166**	**22**	**(770)**
Other movements	**(6)**	**-**	**-**	**(6)**
Total ECL profit or loss charge / (release) for the period	**(964)**	**166**	**22**	**(776)**

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

	6 months ended 30 June 2021 Unaudited			
Dollars in Thousands	**Stage 1**	**Stage 2**	**Stage 3[1]**	**Total**
Expected credit loss allowance				
As at 1 January 2021	**(219)**	**(751)**	**(2,146)**	**(3,116)**
Transfer of financial instruments:				
Transfer from Stage 1 to 2	**11**	**(11)**	**-**	**-**
Transfer from Stage 2 to 1	**(85)**	**85**	**-**	**-**
Transfer to Stage 3	**1**	**-**	**(1)**	**-**
Transfer from Stage 3	**-**	**-**	**-**	**-**
Net re-measurement of ECL arising from transfer of stage	**39**	**(4)**	**-**	**35**
Net new lending and changes to risk parameters (model inputs)	**18**	**613**	**1,440**	**2,071**
Asset derecognised (including final repayments)	**74**	**9**	**4**	**87**
New financial assets originated or purchased	**(76)**	**-**	**-**	**(76)**
As at 30 June 2021 – total expected credit loss	**(237)**	**(59)**	**(703)**	**(999)**
ECL on loans and advances to banks and customers including loan commitments and financial guarantees - profit or loss charge/(release) for the period	**18**	**(692)**	**(1,443)**	**(2,117)**
Other movements	**-**	**-**	**-**	**-**
Total ECL profit or loss charge / (release) for the period	**18**	**(692)**	**(1,443)**	**(2,117)**

[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 and other credit impairment charges

	Banking Group Unaudited 6 months ended	
Dollars in Thousands	**30.06.21**	30.06.20
Loans and advances to customers		
- New allowances net of allowance releases	**(2,359)**	11,073
- Recoveries of amounts previously written off	**-**	-
	(2,359)	11,073
Loan commitments and guarantees	**(534)**	2,875
Other financial assets	**(30)**	247
Change in expected credit loss and other credit impairment charges	**(2,923)**	14,195

9. Asset quality – financial Instruments by stage allocation

Dollars in Thousands	**6 months ended 30 June 2021 Unaudited**		
	Gross	Allowance for ECL	Net
Advances to customers at amortised cost			
- Stage 1	**4,050,628**	**(912)**	**4,049,716**
- Stage 2	**144,901**	**(528)**	**144,373**
- Stage 3	**20,963**	**(1,490)**	**19,473**
Advances to banks at amortised cost			
- Stage 1	**94,547**	**(2)**	**94,545**
- Stage 2	**-**	**-**	**-**
- Stage 3	**-**	**-**	**-**
Loan and other credit-related commitments			
- Stage 1	**2,171,687**	**(280)**	**2,171,407**
- Stage 2	**85,672**	**(133)**	**85,539**
- Stage 3	**751**	**-**	**751**
Financial guarantees and similar contracts			
- Stage 1	**27,322**	**(28)**	**27,294**
- Stage 2	**16,427**	**(109)**	**16,318**
- Stage 3	**-**	**-**	**-**
At 30 June 2021	**6,612,898**	**(3,482)**	**6,609,416**

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

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 30.06.21**
On-balance sheet credit exposures	
Cash and demand balances with central bank	**1,107,205**
Advances to banks	**94,545**
Financial investments	**239,586**
Derivative financial instruments	**42,785**
Advances to customers	**4,213,562**
Amounts due from related parties	**729,087**
Other assets	**16,876**
	6,443,646
Off-balance sheet credit exposures	**3,267,225**
Total credit exposures	**9,710,871**

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	**2,892,216**
Individual	**2,199,439**
Commercial and industrial	**1,607,700**
Commercial real estate and construction	**841,101**
Wholesale and retail trade	**771,716**
Electricity, telecommunication, sanitation and other utilities	**644,865**
Transport	**243,405**
Agriculture, Forestry and mining	**162,001**
Government	**145,088**
Other	**203,340**
	9,710,871

Concentrations of credit risk by geographical area

New Zealand	**8,169,325**
Hong Kong	**723,753**
United States	**123,365**
Australia	**251,509**
China	**203,359**
Other overseas	**239,560**
	9,710,871

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

11. Concentrations of funding risk

Dollars in Thousands	**Banking Group Unaudited 30.06.21**
Concentrations of funding by product	
Deposits by banks	**292,016**
Customer deposits	**4,284,546**
Debt securities	**600,000**
Amounts due to related parties	**1,187,144**
	6,363,706
Concentrations of funding by industry	
Banks and financial institutions	**2,575,487**
Individual	**1,802,451**
Commercial and industrial	**943,707**
Wholesale and retail trade	**320,510**
Commercial real estate and construction	**239,821**
Government	**101,054**
Transport	**90,938**
Agriculture, Forestry and mining	**54,477**
Other	**235,261**
	6,363,706
Concentrations of funding by geographical area	
New Zealand	**3,736,040**
Hong Kong	**1,359,675**
United States	**145,101**
Great Britain	**260,104**
China	**179,080**
Singapore	**137,403**
Australia	**141,197**
Other overseas	**405,106**
	6,363,706

12. Customer deposits

		Banking Group	
Dollars in Thousands	**Unaudited 30.06.21**	Unaudited 30.06.20	Audited 31.12.20
Current accounts	**2,720,669**	2,620,892	2,538,527
Savings and deposit accounts	**1,563,877**	1,656,140	1,912,355
Total customer deposits at amortised cost	**4,284,546**	4,277,032	4,450,882

13. Additional financial disclosures on the balance sheet

		Banking Group	
Dollars in Thousands	**Unaudited 30.06.21**	Unaudited 30.06.20	Audited 31.12.20
Total interest earning and discount bearing assets	**6,383,985**	7,291,340	6,944,855
Total interest and discount bearing liabilities	**6,167,322**	7,039,130	6,734,108
Total liabilities net of amounts due to related parties	**5,227,759**	5,630,029	5,841,157

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.

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.

- *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 30.06.21**				
Dollars in Thousands	**WPB**	**CMB**	**GBM**	**Corporate Centre**	**Consolidated**
Net interest income / (loss)	**17,631**	**14,819**	**3,434**	**(2,149)**	**33,735**
Net trading income / (loss)	**675**	**1,843**	**2,284**	**(491)**	**4,311**
Net fee and commission income	**(23)**	**12,846**	**3,787**	**1,649**	**18,259**
Other income	**201**	**1,499**	**1,741**	**1**	**3,442**
Net operating income / (loss) before change in expected credit losses and other credit impairment charges	**18,484**	**31,007**	**11,246**	**(990)**	**59,747**
Change in expected credit losses and other credit impairment charges	**2,058**	**670**	**195**	**-**	**2,923**
Net operating income	**20,542**	**31,677**	**11,441**	**(990)**	**62,670**
Operating expense	**(14,459)**	**(16,158)**	**(4,888)**	**(24)**	**(35,529)**
Operating profit before tax	**6,083**	**15,519**	**6,553**	**(1,014)**	**27,141**
Advances to customers	**1,976,449**	**2,160,613**	**76,500**	**-**	**4,213,562**
Customer deposits	**1,845,627**	**1,886,013**	**552,906**	**-**	**4,284,546**

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

14. Segment reporting *(continued)*

	Banking Group Unaudited 6 months ended 30.06.20				
Dollars in Thousands	WPB	CMB	GBM	Corporate Centre	Consolidated
Net interest income	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 / (loss)	52	13,681	3,235	1,839	18,807
Other income	-	200	-	-	200
Net operating income / (loss) before change in expected credit losses and other credit impairment charges	17,893	32,856	10,509	(680)	60,578
Change in expected credit losses and other credit impairment charges	(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

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

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

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.

		Banking Group	
Dollars in Thousands	**Unaudited 30.06.21**	Unaudited 30.06.20	Audited 31.12.20
Assets			
Amounts due from related parties	**729,087**	1,435,177	894,455
Derivative financial instruments – assets	**3,492**	25,827	64,322
Total related party assets	**732,579**	1,461,004	958,777
Liabilities			
Amounts due to related parties	**1,187,144**	1,688,653	1,202,873
Derivative financial instruments – liabilities	**39,273**	9,409	10,364
Total related party liabilities	**1,226,417**	1,698,062	1,213,237

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 **30.06.21 Unaudited**		
Dollars in Thousands	**Level 1**	**Level 2**	**Level 3**	**TOTAL**
ASSETS				
Financial investments	**184,238**	**55,326**	**22**	**239,586**
Derivative financial instruments	**-**	**42,785**	**-**	**42,785**
LIABILITIES				
Derivative financial instruments	**-**	**42,741**	**-**	**42,741**

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

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

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

		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

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

There have been no transfers from level 1 to level 2 in the period to 30 June 2021 (June 2020: nil; December 2020: nil). 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 30.06.21	**Unaudited 30.06.21**	Unaudited 30.06.20	Unaudited 30.06.20	Audited 31.12.20	Audited 31.12.20
Dollars in Thousands	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value	Carrying Value	Fair Value
ASSETS						
Advances to customers	**4,213,562**	**4,210,280**	4,051,638	4,052,452	4,093,974	4,094,005
LIABILITIES						
Customer deposits	**4,284,546**	**4,285,095**	4,277,032	4,278,545	4,450,882	4,452,256
Debt securities issued	**600,000**	**602,635**	924,988	928,917	900,000	906,466
Amounts due to related parties	**1,187,144**	**1,183,493**	1,688,653	1,696,558	1,202,873	1,207,284

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 2021 (Unaudited)								
Financial Assets								
Cash and demand balances with central bank	**1,107**	**-**	**-**	**-**	**-**	**1,107**	**-**	**1,107**
Advances to banks	**95**	**-**	**-**	**-**	**-**	**95**	**-**	**95**
Financial investments	**-**	**2**	**71**	**27**	**140**	**240**	**-**	**240**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**43**	**43**
Advances to customers	**2,551**	**407**	**482**	**580**	**194**	**4,214**	**-**	**4,214**
Amounts due from related parties	**729**	**-**	**-**	**-**	**-**	**729**	**-**	**729**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**17**	**17**
Total financial assets	**4,482**	**409**	**553**	**607**	**334**	**6,385**	**60**	**6,445**
Financial Liabilities								
Deposits by banks	**292**	**-**	**-**	**-**	**-**	**292**	**-**	**292**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**43**	**43**
Customer deposits	**3,814**	**318**	**109**	**16**	**10**	**4,267**	**18**	**4,285**
Debt securities	**500**	**-**	**-**	**-**	**100**	**600**	**-**	**600**
Amounts due to related parties	**965**	**-**	**-**	**-**	**25**	**990**	**197**	**1,187**
Other liabilities	**-**	**1**	**1**	**2**	**15**	**19**	**28**	**47**
Total financial liabilities	**5,571**	**319**	**110**	**18**	**150**	**6,168**	**286**	**6,454**
Off-balance sheet financial instruments								
Net notional interest rate contracts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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 30.06.21**
Demand balances with the central bank	**1,107,205**
Financial investments	**239,564**
	1,346,769

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*	*Up to 1 month*	*Over 1 month and up to 3 months*	*Over 3 months and up to 12 months*	*Over 1 year and up to 5 years*	*Over 5 years*	*No specific maturity*	*Total*
30 June 2021 *(Unaudited)*								
Financial Liabilities								
Deposits by banks	**292**	**-**	**-**	**-**	**-**	**-**	**-**	**292**
Customer deposits	**2,790**	**540**	**501**	**428**	**26**	**3**	**-**	**4,288**
Debt securities	**-**	**-**	**2**	**305**	**304**	**-**	**-**	**611**
Amounts due to related parties	**386**	**-**	**1**	**4**	**807**	**-**	**-**	**1,198**
Other liabilities	**4**	**8**	**5**	**11**	**10**	**10**	**-**	**48**
Total non-derivative financial liabilities	**3,472**	**548**	**509**	**748**	**1,147**	**13**	**-**	**6,437**
Derivative financial instruments – held for trading purposes	**-**	**17**	**14**	**12**	**-**	**-**	**-**	**43**
Total undiscounted derivatives	**-**	**17**	**14**	**12**	**-**	**-**	**-**	**43**
Undrawn loan commitments	**716**	**-**	**1,466**	**-**	**-**	**-**	**-**	**2,182**

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 2021 (Unaudited)		
Interest rate risk	**100.88**	**8.07**
Foreign currency risk	**0.25**	**0.02**
Equity risk	**-**	**-**
Peak exposure period 1 January 2021 to 30 June 2021 (Unaudited)		
Interest rate risk	**131.63**	**10.53**
Foreign currency risk	**0.50**	**0.04**
Equity risk	**-**	**-**

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

20. Contingent liabilities and other commitments

	Banking Group		
	Unaudited	Unaudited	Audited
Dollars in Thousands	**30.06.21**	30.06.20	31.12.20
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	**50,180**	59,755	48,356
Transaction related contingent items	**743,480**	667,355	694,349
Trade related contingent items	**292,104**	131,819	286,976
Commitments, maturity one year or more	**1,465,960**	1,454,491	1,402,272
Commitments, maturity up to one year	**715,501**	637,430	645,395
	3,267,225	2,950,850	3,077,348
Capital commitments			
Contracted expenditure	**297**	10,768	5,339

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, HBAP group uses both the current exposure method and an internal models approach to calculate its default risk exposures. For market risk, the HBAP Group uses an internal models approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures, and equity exposures. The HBAP Group also uses an internal models approach to calculate its market risk in respect of specific risk for interest rate exposures and equity exposures. The HBAP Group uses the standardised (market risk) approach for calculating other market risk positions, as well as trading book securitisation exposures, and the standardised (operational risk) approach to calculate its operational risk.

The capital adequacy disclosure made by the HBAP Group can be found in the Annual Report and Accounts at this website, http://www.hsbc.com. HBAP Group exceeded the minimum capital adequacy requirements as specified by the HKMA as at 30 June 2021.

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

	Unaudited	Unaudited	Unaudited
	30.06.21	30.06.20	31.12.20
Basel III Capital Ratios			
Common Equity Tier 1 (CET1) capital	**15.7%**	16.7%	17.2%
Tier 1 capital	**17.2%**	18.3%	18.8%
Total capital	**19.1%**	20.3%	20.8%

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

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

23. Profitability, size and asset quality of HBAP Group

Dollars in HK$ millions	**Unaudited 6 months ended 30.06.21**	Unaudited 6 months ended 30.06.20	Audited 12 months ended 31.12.20
Profitability			
Net profit after tax	**42,639**	44,272	75,691
Net profit after tax over the previous 12 month period as a percentage of average total assets	**0.8%**[1]	1.1%[1]	0.8%[1]
Size			
Total assets	**9,764,021**	9,097,338	9,416,403
Percentage increase in total assets over the previous 12 month period	**7.3%**	4.9%	8.7%
Asset quality			
HKFRS 9 Stage 3 and purchased or originated credit impaired ('POCI') asset gross carrying value[3]	**41,291**	27,940	37,120
HKFRS 9 Stage 3 and POCI ECL[2, 4]	**(19,909)**	(15,176)	(18,143)
HKFRS 9 Stage 1 and 2 ECL[2]	**(10,430)**	(13,908)	(12,430)
HKFRS 9 Stage 3 gross carrying value[3] / Total assets	**0.4%**	0.3%	0.4%
HKFRS 9 Stage 3 and POCI ECL[2, 4] / Stage 3 and POCI gross carrying value[3]	**48.2%**	54.3%	48.9%

[1] Average total assets for HBAP Group is not publicly available. This calculation uses a two-point average of total assets as at the end of the reported period and the comparative period ended 12 months earlier.

[2] ECL on advances to banks and customers including loan commitments and financial guarantees, and other financial assets. The Banking Group considers this balance to be the best representation of 'total collective credit impairment allowance'.

[3] Gross carrying value of advances to banks and customers, including nominal value of loan commitments and financial guarantees and other financial assets. The Banking Group considers this balance to be the best representation of 'total individually impaired assets'.

[4] The Banking Group considers this balance to be the best representation of 'total individual credit impairment allowance'.

24. Subsequent events

The ECL at 30 June 2021 was estimated based on a range of forecast economic conditions as at that date. Beginning on 18 August 2021 the New Zealand Government re-introduced restrictions on personal movement and trading conditions for most businesses in response to a discovery of new community transmission of Covid-19. Forward economic guidance used in preparing the 30 June 2021 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 Chief Executive Officer's Statements

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

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

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

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

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

over the six months ended 30 June 2021.

This Disclosure Statement has been signed for and on behalf of the Directors of The Hongkong and Shanghai Banking Corporation Limited (as listed on pages 3 to 4) by their attorney, Burcu Senel, and also in her capacity as Chief Executive Officer:

Burcu Senel
Chief Executive Officer
New Zealand Branch

25 August 2021

It is confirmed that the said powers of attorney appointing Burcu Senel 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

Our conclusions

We have reviewed pages 10 to 33 of the Disclosure Statement for the six months ended 30 June 2021 (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 2021, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended on that date, and significant accounting policies and other explanatory information.

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

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 the accompanying:

a) financial statements (excluding the supplementary information) have not been prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34);

b) 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) 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.

Basis for conclusions

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibility is further described in the *Auditor’s responsibility for the review of the financial statements and supplementary information* section of our report.

We are independent of the Banking Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. Other than in our capacity as the auditor 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.

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 the supplementary information in the Disclosure Statement which complies with Schedules 3, 5, 7, 9, 12 and 14 of the Order.

Auditor's responsibility for the review of the financial statements and supplementary information

Our responsibility is to express the following conclusions on the financial statements and supplementary information based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that:

- the financial statements (excluding the supplementary information), taken as a whole, have not been prepared in all material respects, in accordance with IAS 34 and NZ IAS 34;
- the supplementary information (excluding the supplementary information relating to credit and market risk exposures and capital adequacy), taken as a whole, 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, taken as a whole, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

A review in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on the financial statements and the supplementary information.

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.

The engagement partner on the review resulting in this independent auditor's review report is Samuel Shuttleworth.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
25 August 2021

Auckland

HSBC