

The Hongkong and Shanghai Banking Corporation Limited
New Zealand Banking Group

Disclosure Statement

30 June 2017

HSBC 

Disclosure Statement

For the Six Months Ended 30 June 2017

Contents	Page
General Disclosures	2
Conditions of Registration	6
Interim Financial Statements	10
Notes to and forming part of the Interim Financial Statements	15
Directors' and New Zealand Chief Executive Officer's Statements	32
Independent Auditor's Review Report	33

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 1010
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 Interim 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 and associated companies.

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/investor-relations.

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.

Government Guarantee

No obligations of HBAP that relate to the Branch are guaranteed under a government guarantee 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
PricewaterhouseCoopers Tower
188 Quay Street
Auckland 1010
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, Christopher David Gosse Russell, 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, Christopher David Gosse Russell is a Responsible Person under the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

Christopher David Gosse Russell

Chief Executive Officer New Zealand Branch. Joined the HSBC Group in 2005 and resides in New Zealand. He has a Master of Business Administration from the University of South Australia.

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
Wellesley Street
Auckland 1141
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:

***Stuart Thomson Gulliver** (Chairman)

Masters Degree in Jurisprudence, Worcester College, Oxford University, 1980
Executive Director and Group Chief Executive, HSBC Holdings plc

Peter Wong Tung Shun (Deputy Chairman and Chief Executive)

Bachelor of Arts, Indiana University, 1974; Master of Business Administration, Indiana University, 1976
Master of Science, Indiana University, 1979

#Laura May Lung Cha, GBS (Deputy Chairman)

Bachelor of Arts, University of Wisconsin-Madison, 1972; Juris Doctor, University of Santa Clara Law School, 1982; and admitted to practice in the State of California and in Federal Courts, 1983
Company Director

General Disclosures *(continued)*

Board of Directors of HBAP *(continued)*

**** Zia Mody** (Deputy Chairman)

Bachelor of Arts (Law), Cambridge University, 1978; Master of Laws, Harvard University, 1979
Partner, AZB & Partners

**** Graham John Bradley**

Bachelor of Arts, LLB (Hons I) from Sydney University, 1971
LLM, Harvard University, 1973
Company Director

Dr Christopher Wai Chee Cheng, GBS, OBE

Bachelor of Business Administration, University of Notre Dame, 1969; Master of Business Administration, Columbia University, 1979; Doctorate in Social Sciences honoris causa, The University of Hong Kong, 2011
Chairman, Wing Tai Properties Limited

Dr Raymond Kuo Fung Ch'ien, GBS, CBE

Bachelor of Arts, Rockford College, 1973; Master of Arts and Doctor of Philosophy (Economics), University of Pennsylvania, 1976 and 1978
Independent Non-executive Chairman, Hang Seng Bank Limited

Irene Yun-lien Lee

Bachelor of Arts (Distinction) in History of Art from Smith College, Northampton, Massachusetts, USA, 1974
Member of Honourable Society of Gray's Inn, UK, 1977
Barrister-at-Law in England and Wales, 1977
Chairman, Hysan Development Company Limited

**** Jennifer Xinzhe Li**

Bachelor of Arts, Tsinghua University, Beijing, China, 1990
Master of Business Administration, The University of British Columbia, Vancouver, Canada, 1994
Chief Financial Officer, Baidu, Inc.

^ Victor Tzar Kuoi Li

B.Sc. and M.Sc., Stanford University, 1986
Managing Director and Deputy Chairman of Cheung Kong Property Holdings Limited, and
Group Co-Managing Director and Deputy Chairman of CK Hutchison Holdings Limited

John Robert Slosar

Bachelor degree in Economics from Columbia University, 1978
Bachelor degree in Economics, subsequently M.A. from University of Cambridge, 1980
Chairman, John Swire & Sons (H.K.) Limited

Kevin Anthony Westley

Bachelor of Arts, University of London, 1970;
Chartered Accountant, Institute of Chartered Accountants in England and Wales, 1973
Company Director

Marjorie Mun Tak Yang, GBS

B.Sc. in Mathematics, Massachusetts Institute of Technology, 1974; and Master of Business Administration, Harvard Business School, 1976
Chairman, Esquel Holdings Inc.

General Disclosures *(continued)*

Board of Directors of HBAP *(continued)*

**** Tan Sri Dr Francis Sock Ping Yeoh, CBE**

Bachelor of Science (Hons.) in Civil Engineering, University of Kingston, UK, 1978; Honorary Doctorate of Engineering from University of Kingston, 2004

Managing Director, 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. Stuart Thomson Gulliver resides in the United Kingdom, Zia Mody resides in India, Graham John Bradley resides in Australia, Tan Sri Dr Francis Sock Ping Yeoh resides in Malaysia and Jennifer Xinzhe Li resides in China.

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

Change in Board of Directors for HBAP

Dr Rosanna Yick-Ming Wong retired as an independent non-executive Director of HBAP on 24 April 2017.

Rose Wai Mun Lee retired as an independent non-executive Director of HBAP on 1 July 2017.

There have been no other changes in the composition of the Board of Directors since 31 December 2016.

Directors' Policy on Conflicts of Interests

Regulation 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.”

Directors' Interests in Contracts

No transactions, arrangements or contracts that were significant in relation to HBAP's business and in which a Director or his or her connected entities had, directly or indirectly, a material interest were entered into by or subsisted with the HBAP's holding companies, its subsidiaries or any fellow subsidiaries during the year.

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.	Aa2 (negative outlook)	Aa2 (stable outlook)	17 March 2016
Standard & Poor's Corporation	AA- (stable outlook)	Not changed	-
Fitch IBCA Inc.	AA- (stable outlook)	Not changed	-

Conditions of Registration

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

These conditions of registration apply on and after 1 October 2016.

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, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 60%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
9. That, for a loan-to-valuation measurement period, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 10% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period
10. 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.

Conditions of Registration *(continued)*

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.

In conditions of registration 8 to 10,—

“loan-to-valuation ratio”, “non property-investment residential mortgage loans”, property-investment residential mortgage loans”, “qualifying new mortgage lending amount in respect of property-investment residential mortgage loans”, “qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans”, and “residential mortgage loan” have the same meaning as in the Reserve Bank of New Zealand document entitled “Framework for Restrictions on High-LVR Residential Mortgage Lending ” (BS19) dated October 2016, and where the version of 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 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 March 2017.

Changes to Conditions of Registration since the 31 March 2017 Disclosure Statement

There were no changes in the conditions of registration between 31 March 2017 and 30 June 2017.

Contents

	Page
Statement of Comprehensive Income.....	10
Statement of Changes in Equity	11
Statement of Financial Position.....	12
Statement of Cash Flows.....	13
1. Statement of Accounting Policies	15
2. Net trading income.....	17
3. Other net operating income	17
4. Loan impairment charges	17
5. Advances to customers.....	17
6. Asset quality.....	18
7. Additional mortgage information.....	19
8. Concentrations of credit and funding risk	19
9. Related party balances.....	21
10. Customer deposits	21
11. Additional financial disclosures on the statement of financial position	21
12. Segment reporting.....	22
13. Fair value of financial instruments.....	23
14. Interest rate risk – repricing schedule.....	26
15. Liquidity risk management.....	26
16. Market risk exposures	29
17. Contingent liabilities and other commitments.....	29
18. Other fiduciary activities	29
19. Insurance and non-financial activities.....	30
20. Subsequent events	30
21. Profitability, size and asset quality of HBAP Group.....	30
22. Capital adequacy ratios of HBAP Group	31
Directors’ and New Zealand Chief Executive Officer’s Statements	32

STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2017

		<i>Banking Group</i>	
		Unaudited 6 months ended	
<i>Dollars in Thousands</i>	Note	30.06.17	30.06.16
Interest income		78,421	91,774
Interest expense		(35,862)	(50,996)
Net interest income		42,559	40,778
Net trading income	2	2,347	6,168
Other net operating income	3	18,133	16,774
Net operating income before loan impairment charges		63,039	63,720
Loan impairment (charges) / releases	4	435	1,339
Net operating income		63,474	65,059
Operating expenses		(29,594)	(32,396)
Operating profit before tax		33,880	32,663
Income tax expense		(9,516)	(9,166)
Profit after tax		24,364	23,497
Other comprehensive income / (expense)			
Items that may be reclassified subsequently to profit or loss:			
Gains / (losses) on cashflow hedges		-	(1,864)
Income taxes on cashflow hedges		-	522
Gains / (losses) on available-for-sale financial assets		709	701
Income taxes on available-for-sale financial assets		(143)	(196)
Other comprehensive income / (expense) for the period		566	(837)
Total comprehensive income for the period		24,930	22,660

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

STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2017

	<i>Banking Group</i>	
	Unaudited	
	6 months ended	
<i>Dollars in Thousands</i>	30.06.17	30.06.16
<i>Head Office Account *</i>		
At beginning of period	22,811	53,793
Repatriation to Head Office	(22,810)	(53,792)
Profit after tax	24,364	23,497
At end of period	24,365	23,498
<i>Cashflow Hedging Reserve</i>		
At beginning of period	-	(1,595)
Fair value changes taken to equity	-	(3,012)
Transferred to the income statement	-	1,148
Tax on movements and transfers	-	522
At end of period	-	(2,937)
<i>Available-for-Sale Reserve</i>		
At beginning of period	623	521
Fair value changes taken to equity	986	2,750
Transferred to the income statement	(277)	(2,049)
Tax on movements and transfers	(143)	(196)
At end of period	1,189	1,026
<i>Share-based Payment Reserve</i>		
At beginning of period	1,639	1,636
Transferred to the income statement	69	84
Movement in respect of share-based payment arrangements	(75)	(84)
At end of period	1,633	1,636
Equity at end of period	27,187	23,223
Represented by:		
Profit after tax	24,364	23,497
Other comprehensive income / (expense)	566	(837)
Total comprehensive income for the period	24,930	22,660
Repatriation to Head Office	(22,810)	(53,792)
Movement in share-based payment reserve	(6)	-
Equity at beginning of period	25,073	54,355
	27,187	23,223

* 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 interim financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

<i>Dollars in Thousands</i>	Note	<i>Banking Group</i>		
		Unaudited 30.06.17	Unaudited 30.06.16	Audited 31.12.16
ASSETS				
Cash and demand balances with central bank		509,313	751,391	597,763
Advances to banks		10,087	6,248	8,504
Debt and equity securities		345,711	527,048	486,972
Derivative financial instruments		99,765	266,141	161,666
Advances to customers	5	3,952,305	3,451,347	3,446,783
Amounts due from related parties	9	275,296	352,571	345,903
Other assets		20,909	16,178	21,725
Property, plant and equipment		1,494	1,101	1,681
Deferred tax asset		-	1,641	-
Goodwill and intangible assets		14,598	15,542	15,024
Total Assets		5,229,478	5,389,208	5,086,021
LIABILITIES				
Deposits by banks		243,284	208,549	232,174
Derivative financial instruments		101,127	272,703	164,101
Customer deposits	10	2,845,283	3,132,853	3,118,202
Debt securities		209,915	420,215	331,267
Amounts due to related parties	9	1,767,124	1,296,013	1,173,161
Other liabilities		33,788	34,847	39,233
Current tax liabilities		436	805	2,726
Deferred tax liability		1,334	-	84
Total Liabilities		5,202,291	5,365,985	5,060,948
Net Assets		27,187	23,223	25,073
EQUITY				
Head Office Account		24,365	23,498	22,811
Cashflow Hedging Reserve		-	(2,937)	-
Available-for-Sale Reserve		1,189	1,026	623
Share-based Payment Reserve		1,633	1,636	1,639
Total Equity		27,187	23,223	25,073

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

STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2017

	<i>Banking Group</i>	
	Unaudited 6 months ended	
<i>Dollars in Thousands</i>	30.06.17	30.06.16
<i>Cash flows from / (to) operating activities</i>		
Interest received	80,313	92,210
Fees and commissions	18,208	16,620
Realised trading gain	1,034	8,569
Interest paid	(37,388)	(51,589)
Operating expenses	(39,116)	(25,028)
Taxation paid	(10,711)	(17,124)
Net cash flows from operating activities before changes in operating assets and liabilities	12,340	23,658
Changes in operating assets and liabilities arising from cash flow movements		
Cash was provided net from / applied net (to):		
Advances to customers	(505,334)	137,875
Amounts due from related parties	70,638	502,131
Other assets	1,870	1,229
Other liabilities	(605)	2,376
Debt securities issued	(121,649)	(427,468)
Deposits by banks	6,730	22,496
Customer deposits	(272,919)	(119,241)
Amounts due to related parties	600,892	393,442
Net change in operating assets and liabilities	(220,377)	512,840
Net cash flows (to) / from operating activities	(208,037)	536,498
<i>Cash flows from / (to) investing activities</i>		
Debt securities purchased	-	(409,309)
Debt securities sold	25,001	-
Debt securities matured	114,721	331,000
Acquisition of property, plant and equipment	(85)	(285)
Net cash flows from / (to) investing activities	139,637	(78,594)
<i>Cash flows to financing activities</i>		
Repatriation to head office	(22,810)	(53,792)
Net cash flows to financing activities	(22,810)	(53,792)
Net (decrease) / increase in cash and cash equivalents	(91,210)	404,112
Effect of exchange rate fluctuations on cash held	(38)	(1)
Cash and cash equivalents at beginning of period	605,403	352,949
Cash and cash equivalents at end of period	514,155	757,060

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

STATEMENT OF CASH FLOWS *(continued)*
FOR THE SIX MONTHS ENDED 30 JUNE 2017

	<i>Banking Group</i>	
	Unaudited 6 months ended	
<i>Dollars in Thousands</i>	30.06.17	30.06.16
<i>Analysis of cash and cash equivalents</i>		
Cash and demand balances with central bank	509,313	751,391
Items in the course of collection from other banks	5	1
Advances to banks – demand	10,082	6,247
Less: items in the course of transmission to other banks	(5,245)	(579)
	514,155	757,060

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

Notes to and forming part of the Interim Financial Statements

1. Statement of Accounting Policies

GENERAL ACCOUNTING POLICIES

Reporting Entity

These interim financial statements are for the New Zealand Banking Group (“Banking Group”).

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.

HSBC Investments New Zealand Limited

This New Zealand incorporated entity provided fund management services to customers and commenced trading operations in June 2008. HSBC Investments New Zealand Limited (HINZ) was wholly owned by HSBC Asia Pacific Holdings (UK) Limited which is wholly owned by HBAP. The unit trusts for which the Company has acted as Manager were closed on 31 October 2014. As a result, the Company ceased trading and was liquidated on 17 February 2016. This has had no impact on the Banking Group’s financial statements.

Non-controlled Structured Entities

A structured entity (“SE”) is consolidated when the Banking Group is exposed, or has rights, to variable returns from its involvement with the SE and has the power to affect those returns.

The Banking Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities to earn income in the form of interest and fees.

Transactions eliminated on consolidation

Intra-group balances are eliminated in preparing the Banking Group’s interim financial statements.

Basis of Reporting

These interim financial statements are prepared and presented in accordance with the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (“the Order”) and the Reserve Bank of New Zealand Act 1989. These interim financial statements have also been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, as appropriate for profit-oriented entities, and are presented in accordance with NZ IAS 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 interim financial statements are based on the general principles of historical cost accounting, as modified by applying fair value accounting to available-for-sale financial assets, 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. All amounts are expressed in New Zealand currency. The presentation currency and functional currency, and all references to “\$” is to New Zealand dollars unless otherwise stated.

Notes to and forming part of the Interim Financial Statements

1. Statement of Accounting Policies *(continued)*

Particular Accounting Policies

The same accounting policies and methods of computation have been followed in these interim financial statements as were applied in the presentation of the Disclosure Statement for the year ended 31 December 2016.

Comparative Figures

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

On 1 January 2017, the Banking Group changed reporting segments following a management decision to realign certain functions. Further information on this change is available in Note 12: Segment Reporting.

Comparative information in Note 12 has been re-presented to conform to current year presentation.

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 or any material business risk to which the Banking Group is exposed during the six months ended 30 June 2017.

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

	Banking Group	
	Unaudited	
	6 months ended	
<i>Dollars in Thousands</i>	30.06.17	30.06.16

2. Net trading income

Foreign exchange (loss) / gain	(338)	5,168
Revaluation of derivatives	2,190	1,291
Credit valuation adjustments on derivatives	4,498	(710)
Debit valuation adjustments on derivatives	(3,866)	1,420
Loss on termination of hedging instrument in cash flow hedge	-	(974)
Gain/ (loss) on hedging instrument in fair value hedge	(599)	(2,076)
Gain/ (loss) on hedged item on fair value hedge	462	2,049
	<u>2,347</u>	<u>6,168</u>

3. Other net operating income

Fee and commission income	19,470	19,054
Fee and commission expense	(1,337)	(2,277)
Gains/ (losses) on disposal of equipment, fixtures and fittings	-	(3)
	<u>18,133</u>	<u>16,774</u>

4. Loan impairment charges

Individually assessed impairment (charges) / releases		
New charges	-	-
Releases	275	-
Recoveries	1	-
	<u>276</u>	<u>-</u>
Collectively assessed impairment (charge) / release	159	1,339
	<u>435</u>	<u>1,339</u>

	Banking Group		
	Unaudited	Unaudited	Audited
<i>Dollars in Thousands</i>	30.06.17	30.06.16	31.12.16

5. Advances to customers

Overdrafts	114,899	119,502	93,464
Mortgages	1,490,835	1,258,094	1,320,910
Term lending	2,179,159	1,962,892	1,865,011
Non-eligible bills	154,695	113,365	159,815
Money market loans	14,700	-	10,000
	<u>3,954,288</u>	<u>3,453,853</u>	<u>3,449,200</u>
Total gross advances to customers	3,954,288	3,453,853	3,449,200
Provisions for loan impairment	(1,983)	(2,506)	(2,417)
Total net advances to customers	<u>3,952,305</u>	<u>3,451,347</u>	<u>3,446,783</u>

Notes to and forming part of the Interim Financial Statements *(continued)***6. Asset quality**

<i>Dollars in Thousands</i>	<i>Banking Group</i>		
	Unaudited 30.06.17	Unaudited 30.06.16	Audited 31.12.16
In the current and prior periods, there is only one class of impaired financial assets, being advances to customers.			
Neither past due nor impaired			
Carrying amount	3,917,529	3,404,154	3,405,221
Past due but not impaired			
Less than 30 days	32,911	44,307	40,212
At least 30 days but less than 60 days	802	815	707
At least 60 days but less than 90 days	245	1,015	227
At least 90 days or more	-	-	-
Carrying amount	33,958	46,137	41,146
Gross individually impaired assets¹			
Balance at the beginning of the period	2,833	3,503	3,503
Transfers from performing	1,415	412	2,099
Transfers to performing	(1,208)	-	-
Write-offs	-	-	-
Repayment	(239)	(353)	(2,769)
Balance at the end of the period	2,801	3,562	2,833
Total gross loans and advances	3,954,288	3,453,853	3,449,200
Individual provision for loan impairment			
Balance at the beginning of the period	1,148	865	865
New and additional provisions charged to profit or loss	-	-	298
Provisions released during the period to profit or loss	(275)	-	(15)
Write-offs	-	-	-
Discount unwind ²	-	-	-
Balance at the end of the period	873	865	1,148
Collective provision for loan impairment			
Balance at the beginning of the period	1,269	2,980	2,980
Charges / (releases) during the year to profit or loss	(159)	(1,339)	(1,711)
Balance at the end of the period	1,110	1,641	1,269
Total provisions for loan impairment	1,983	2,506	2,417
Net loans and advances to customers	3,952,305	3,451,347	3,446,783

¹ Gross individually impaired assets is the pre-allowance balance of individually impaired assets. The actual impairment is reflected within the individual provision for loan impairment as doubtful debts of the gross individually impaired assets.

² The impairment loss on an impaired asset is calculated as the difference between the asset's carrying amount and the estimated future cash flows discounted to its present value using the original effective interest rate for the asset. This discount unwinds as interest income over the period the asset is held.

There are no assets under administration as at 30 June 2017 (June 2016: nil; December 2016: nil). The aggregate amount as at 30 June 2017 of any undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired, before deducting allowances for credit impairment loss where applicable, is \$10 thousand (June 2016: \$13 thousand; December 2016: \$24 thousand).

Notes to and forming part of the Interim Financial Statements (continued)**7. Additional mortgage information****Residential mortgages by loan-to-valuation ratio**

LVR Range	Banking Group			
	Unaudited			
	Principal Amount			
	Does not exceed 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
<i>Dollars in Thousands</i>				
30 June 2017				
Value of exposures on balance sheet	1,478,832	9,888	2,115	1,490,835
Value of exposures off balance sheet	163,780	457	158	164,395
Total value of exposures	1,642,612	10,345	2,273	1,655,230

As at 30 June 2017, LVR ratios and exposure values are reported using the total loan exposure including both drawn balances and all available commitments. Previously, LVR ratios were calculated on the basis of drawn exposure only, and off-balance sheet exposures excluded balances where the Banking Group is able to withdraw the credit offered at any time without notice.

8. Concentrations of credit and funding 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 credit impairment. The credit risk exposure does not take into account the fair value of any collateral, in the event of other parties failing to perform their obligations under financial instruments.

	Banking Group
	Unaudited
<i>Dollars in Thousands</i>	
On-balance sheet credit exposures	
Cash and demand balances with central bank	509,313
Advances to banks	10,087
Debt and equity securities	345,711
Derivative financial instruments	99,765
Advances to customers	3,952,305
Amounts due from related parties	275,296
Other assets	20,909
	5,213,386
Off-balance sheet credit exposures	2,617,383
Total credit exposures	7,830,769

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

Individual	1,710,774
Commercial and industrial	2,141,410
Commercial real estate and construction	831,912
Banks and financial institutions	1,390,681
Agriculture, forestry and mining	135,383
Transport	145,413
Energy	531,565
Government	270,118
Other	673,513
	7,830,769

Notes to and forming part of the Interim Financial Statements *(continued)***8. Concentrations of credit and funding risk** *(continued)*

	<i>Banking Group</i>
<i>Dollars in Thousands</i>	Unaudited 30.06.17
Concentrations of credit risk by geographical area	
New Zealand	6,752,035
Hong Kong	277,486
Australia	257,552
China	136,734
Great Britain	88,361
United States	136,895
Other Overseas	181,706
	<u>7,830,769</u>
Concentration of Credit Exposures to Individual counterparties	
The Banking Group has no credit exposures equal to or in excess of 10% of HBAP Group's equity, during the current reporting period and the previous corresponding periods. These exposures are based on actual credit exposures and do not include exposures to counterparties if they are booked outside of New Zealand.	
Concentrations of funding	
Concentrations of funding by product	
Deposits by banks	243,284
Customer deposits	2,845,283
Debt securities	209,915
Amounts due to related parties	1,767,124
	<u>5,065,606</u>
Concentrations of funding by industry	
Agriculture, forestry, fishing and mining	56,260
Manufacturing	145,219
Wholesale and retail trade	119,768
Accommodation and restaurants	64,184
Banking and finance	2,443,934
Property and business services	257,256
Individual	1,776,406
Other	202,579
	<u>5,065,606</u>
Concentrations of funding by geographical area	
New Zealand	1,982,665
China	285,687
Great Britain	184,157
Hong Kong	1,933,396
Japan	112,261
Singapore	72,991
Taiwan	57,980
United States	155,031
Other Overseas	281,438
	<u>5,065,606</u>

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

<i>Dollars in Thousands</i>	<i>Banking Group</i>		
	Unaudited 30.06.17	Unaudited 30.06.16	Audited 31.12.16

9. 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 Branch, 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	275,296	352,571	345,903
Derivative financial instruments – assets	56,425	114,973	44,720
Total related party assets	331,721	467,544	390,623
Liabilities			
Amounts due to related parties	1,767,124	1,296,013	1,173,161
Derivative financial instruments – liabilities	62,650	151,110	119,681
Total related party liabilities	1,829,774	1,447,123	1,292,842

<i>Dollars in Thousands</i>	<i>Banking Group</i>		
	Unaudited 30.06.17	Unaudited 30.06.16	Audited 31.12.16

10. Customer deposits

Current accounts	1,785,295	1,874,117	1,961,281
Savings and deposit accounts	1,052,492	1,208,723	1,148,129
Other deposit accounts	7,496	50,013	8,792
Total customer deposits at amortised cost	2,845,283	3,132,853	3,118,202

11. Additional financial disclosures on the statement of financial position

Total interest earning and discount bearing assets	5,092,122	5,085,212	4,866,790
Total interest and discount bearing liabilities	4,843,870	4,826,048	4,632,795
Total liabilities net of amounts due to related parties	3,372,517	3,918,862	3,768,106
Advances to banks pledged as collateral for liabilities in respect of credit support annex obligation to derivative counterparties	-	-	-

Notes to and forming part of the Interim Financial Statements *(continued)***12. 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. Business segments also pay and receive interest to and from Balance Sheet Management. All transactions are undertaken on an arm's length basis.

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.

On 1 January 2017 the Banking Group established a new segment, 'Corporate Centre' to hold the Group's Balance Sheet Management activities, unallocated central costs and other items previously classified as reconciling items. This aligns with information presented to the Executive Committee from that date. Comparative information has been re-presented.

Business Segments

The Banking Group comprises the following main business segments:

- *Retail Banking and Wealth Management (RBWM)*
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 Balance Sheet Management, the results of our financing operations and central support costs with associated recoveries.

Banking Group Unaudited 6 months ended 30.06.17					
<i>Dollars in Thousands</i>	RBWM	CMB	GBM	Corporate Centre	Consolidated
Net interest income	16,658	17,121	3,379	5,401	42,559
Net trading income	777	1,393	207	(30)	2,347
Other net operating income	439	12,281	4,701	712	18,133
Operating income	17,874	30,795	8,287	6,083	63,039
Loan impairment (charges) / release	276	159	-	-	435
Operating expense	(11,313)	(13,695)	(4,188)	(398)	(29,594)
Operating profit before tax	6,837	17,259	4,099	5,685	33,880
Advances to customers	1,519,786	2,432,519	-	-	3,952,305
Customer deposits	1,839,357	807,348	198,578	-	2,845,283

Notes to and forming part of the Interim Financial Statements *(continued)***12. Segment reporting** *(continued)*

<i>Banking Group</i> Unaudited 6 months ended 30.06.16					
<i>Dollars in Thousands</i>	RBWM	CMB	GBM	Corporate Centre	Consolidated
Net interest income	15,331	20,939	474	4,034	40,778
Net trading income	879	1,703	4,447	(861)	6,168
Other net operating income	(361)	12,984	3,715	436	16,774
Operating income	15,849	35,626	8,636	3,609	63,720
Loan impairment (charges) / release	(30)	1,369	-	-	1,339
Operating expense	(11,121)	(15,114)	(4,457)	(1,704)	(32,396)
Operating profit before tax	4,698	21,881	4,179	1,905	32,663
Advances to customers	1,285,384	2,165,963	-	-	3,451,347
Customer deposits	1,998,419	913,193	221,241	-	3,132,853

<i>Banking Group</i> Unaudited 12 months ended 31.12.16					
<i>Dollars in Thousands</i>	RBWM	CMB	GBM	Corporate Centre	Consolidated
Net interest income	30,713	38,533	2,445	9,268	80,959
Net trading income	1,708	3,351	6,058	(2,565)	8,552
Other net operating income	(207)	25,711	8,262	888	34,654
Operating income	32,214	67,595	16,765	7,591	124,165
Loan impairment (charges) / release	(406)	1,835	-	-	1,429
Operating expense	(21,373)	(28,723)	(8,830)	(2,279)	(61,205)
Operating profit before tax	10,435	40,707	7,935	5,312	64,389
Advances to customers	1,353,099	2,093,684	-	-	3,446,783
Customer deposits	1,959,849	919,724	238,629	-	3,118,202

13. 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 best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

Notes to and forming part of the Interim Financial Statements *(continued)***13. Fair value of financial instruments** *(continued)*

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid / offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the instrument requires additional work during the valuation process.

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

<i>Banking Group</i>				
<i>Dollars in Thousands</i>	Unaudited 30.06.17	Unaudited 30.06.17	Unaudited 30.06.17	Unaudited 30.06.17
	Level 1	Level 2	Level 3	TOTAL
ASSETS				
Debt and equity securities	345,689	-	22	345,711
Derivatives financial instruments	-	99,765	-	99,765
LIABILITIES				
Derivatives financial instruments	-	101,127	-	101,127

<i>Banking Group</i>				
<i>Dollars in Thousands</i>	Unaudited 30.06.16	Unaudited 30.06.16	Unaudited 30.06.16	Unaudited 30.06.16
	Level 1	Level 2	Level 3	TOTAL
ASSETS				
Debt and equity securities	402,061	124,965	22	527,048
Derivatives financial instruments	-	266,141	-	266,141
LIABILITIES				
Derivatives financial instruments	-	272,703	-	272,703

<i>Banking Group</i>				
<i>Dollars in Thousands</i>	Audited 31.12.16	Audited 31.12.16	Audited 31.12.16	Audited 31.12.16
	Level 1	Level 2	Level 3	TOTAL
ASSETS				
Debt and equity securities	361,951	124,999	22	486,972
Derivatives financial instruments	-	161,666	-	161,666
LIABILITIES				
Derivatives financial instruments	-	164,101	-	164,101

There have been no transfers between levels 1 and 2 in the period to 30 June 2017 (June 2016: none; December 2016: 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.

Notes to and forming part of the Interim Financial Statements *(continued)***13. Fair value of financial instruments** *(continued)**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.

Debt securities

For available-for-sale 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 cashflows up to the next repricing date with reference to current rates at which similar loans and advances would be made to other borrowers with a similar credit rating and the same maturities. The fair values of advances to customers, advances to banks, and amounts due from related parties with maturities less than six months are approximated to be the carrying value.

Deposits, 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 observable market-corroborated 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.

<i>Dollars in Thousands</i>	Banking Group					
	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited
	30.06.17	30.06.17	30.06.16	30.06.16	31.12.16	31.12.16
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
ASSETS						
Advances to customers	3,952,305	3,947,924	3,451,347	3,458,767	3,446,783	3,447,448
LIABILITIES						
Customer deposits	2,845,283	2,846,377	3,132,853	3,135,626	3,118,202	3,119,818
Debt securities issued	209,915	210,481	420,215	424,482	331,267	331,381
Amounts due to related parties	1,767,124	1,770,608	1,296,013	1,302,190	1,173,161	1,174,254

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

Notes to and forming part of the Interim Financial Statements (continued)**14. 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.

<i>Dollars in Millions</i>	Banking Group							<i>Total</i>
	<i>Up to 3 months</i>	<i>Over 3 months and up to 6 months</i>	<i>Over 6 months and up to 1 year</i>	<i>Over 1 year and up to 2 years</i>	<i>Over 2 years</i>	<i>Total interest bearing</i>	<i>Non interest bearing</i>	
30 June 2017 (Unaudited)								
Assets								
Cash and demand balances with central bank	509	-	-	-	-	509	-	509
Advances to banks	10	-	-	-	-	10	-	10
Debt and equity securities	104	-	27	131	84	346	-	346
Derivative financial instruments	-	-	-	-	-	-	100	100
Advances to customers	2,796	205	177	592	182	3,952	-	3,952
Amounts due from related parties	275	-	-	-	-	275	-	275
Other assets	-	-	-	-	-	-	21	21
<i>Total financial assets</i>	3,693	205	204	723	266	5,092	121	5,213
Liabilities								
Deposits by banks	238	-	-	-	-	238	5	243
Derivative financial instruments	-	-	-	-	-	-	101	101
Customer deposits	2,379	251	167	13	19	2,829	16	2,845
Debt securities	-	10	-	200	-	210	-	210
Amounts due to related parties	1,567	-	-	-	-	1,567	200	1,767
Other liabilities	-	-	-	-	-	-	34	34
<i>Total financial liabilities</i>	4,185	261	167	213	19	4,844	356	5,200
Off-balance sheet financial instruments								
Net notional interest rate contracts	166	(15)	-	(26)	(125)	-	-	-

15. 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, treasury bills, 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:

<i>Dollars in Thousands</i>	Banking Group		
	Unaudited 30.06.17	Unaudited 30.06.16	Audited 31.12.16
Demand balances with the central bank	509,313	751,391	597,763
Available-for-sale debt securities	345,689	427,101	486,950
	855,002	1,178,492	1,084,713

Notes to and forming part of the Interim Financial Statements *(continued)***15. Liquidity risk management** *(continued)***Maturity Analysis**

The table below analyses the Banking Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

<i>Dollars in Millions</i>	Banking Group							<i>Total</i>
	<i>On Demand</i>	<i>0-1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>No specific maturity</i>	
30 June 2017 (Unaudited)								
Assets								
Cash and demand balances with central bank	509	-	-	-	-	-	-	509
Advances to banks	10	-	-	-	-	-	-	10
Debt and equity securities	-	-	104	84	158	-	-	346
Advances to customers	241	92	221	381	1,645	1,372	-	3,952
Amounts due from related parties	44	231	-	-	-	-	-	275
Other assets	-	14	7	-	-	-	-	21
Intangible assets	-	-	-	-	-	-	15	15
Property, plant and equipment	-	-	-	-	-	-	1	1
Total	804	337	332	465	1,803	1,372	16	5,129
Derivative financial instruments – inflow	-	11	141	30	54	63	-	299
Derivative financial instruments – (outflow)	-	-	(112)	-	(24)	(63)	-	(199)
Derivative financial instruments - assets	-	11	29	30	30	-	-	100
Liabilities								
Deposits by banks	243	-	-	-	-	-	-	243
Customer deposits	1,785	268	340	411	39	2	-	2,845
Debt securities	-	-	-	10	200	-	-	210
Amounts due to related parties	308	7	50	-	1,402	-	-	1,767
Other liabilities	-	13	15	4	2	-	-	34
Current taxation	-	-	-	-	-	-	1	1
Deferred taxation	-	-	-	-	-	-	1	1
Total	2,336	288	405	425	1,643	2	2	5,101
Derivative financial instruments – (inflow)	-	-	(112)	-	(24)	(63)	-	(199)
Derivative financial instruments – outflow	-	11	141	30	55	63	-	300
Derivative financial instruments – liabilities	-	11	29	30	31	-	-	101
Net assets	(1,532)	49	(73)	40	159	1,370	14	27

Notes to and forming part of the Interim Financial Statements (continued)**15. Liquidity risk management** (continued)**Maturity Analysis – undiscounted cashflows basis**

The table below analyses the Banking Group's financial assets and 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 Statement of Financial Position.

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

<i>Dollars in Millions</i>	Banking Group							<i>Total</i>
	<i>On Demand</i>	<i>0-1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>No specific maturity</i>	
30 June 2017 (Unaudited)								
Financial Assets								
Cash and demand balances with central banks	509	-	-	-	-	-	-	509
Advances to banks	10	-	-	-	-	-	-	10
Debt and equity securities	-	-	109	92	171	-	-	372
Advances to customers	241	102	239	458	1,912	2,058	-	5,010
Amounts due from related parties	44	231	-	-	-	-	-	275
Other assets	-	14	7	-	-	-	-	21
Total non-derivative financial assets	804	347	355	550	2,083	2,058	-	6,197
Derivative financial instruments – held for trading purposes	100	-	-	-	-	-	-	100
Derivative financial instruments – held for hedging purposes (net settled)	-	-	-	-	-	-	-	-
Inflow / (outflow)	-	-	-	-	-	-	-	-
Total undiscounted financial assets	904	347	355	550	2,083	2,058	-	6,297
Financial Liabilities								
Deposits by banks	243	-	-	-	-	-	-	243
Customer deposits	1,785	271	344	422	43	2	-	2,867
Debt securities	-	-	1	14	203	-	-	218
Amounts due to related parties	308	8	52	10	1,410	-	-	1,788
Other liabilities	-	13	15	4	2	-	-	34
Total non-derivative financial liabilities	2,336	292	412	450	1,658	2	-	5,150
Derivative financial instruments – held for trading purposes	91	-	-	-	-	-	-	91
Derivative financial instruments – held for hedging purposes (net settled)	-	-	-	-	-	-	-	-
(Inflow) / outflow	-	-	-	1	9	-	-	10
Total undiscounted financial liabilities	2,427	292	412	451	1,667	2	-	5,251
Undrawn loan commitments	568	-	1,510	-	-	-	-	2,078

Notes to and forming part of the Interim Financial Statements *(continued)***16. Market risk exposures**

Aggregate market risk exposures are derived in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) as stated in clauses 2 to 4 of Schedule 9 to the Order.

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.

<i>Dollars in Millions</i>	<i>Banking Group</i>	
	<i>Implied risk weighted exposure</i>	<i>Notional capital charge</i>
<i>End-of-period exposure at 30 June 2017 (Unaudited)</i>		
Interest rate risk	98.13	7.85
Foreign currency risk	0.25	0.02
Equity risk	-	-
<i>Peak end-of-day exposure period 1 January 2017 to 30 June 2017 (Unaudited)</i>		
Interest rate risk	130.50	10.44
Foreign currency risk	1.25	0.10
Equity risk	-	-

17. Contingent liabilities and other commitments**Contingent liabilities**

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.

<i>Dollars in Thousands</i>	<i>Banking Group</i>		
	Unaudited 30.06.17	Unaudited 30.06.16	Audited 31.12.16
Direct credit substitutes	136,976	60,468	56,550
Transaction related contingent items	305,814	272,378	288,453
Trade related contingent items	96,591	126,404	303,619
Commitments, maturity one year or more	1,435,379	1,062,793	1,136,423
Commitments, maturity up to one year	642,623	763,899	664,970
	2,617,383	2,285,942	2,450,015
Capital commitments			
Contracted expenditure	-	186	-

Capital commitments for 30 June 2016 relate to the purchase of equipment.

18. Other fiduciary activities

The Branch acts as Security Trustee for itself and other lenders in connection with facilities made available to one borrower.

Notes to and forming part of the Interim Financial Statements *(continued)***19. Insurance and non-financial activities**

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.

20. Subsequent events

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

21. Profitability, size and asset quality of HBAP Group

<i>Dollars in HK\$ millions</i>	Unaudited 6 months ended 30.06.17	Unaudited 6 months ended 30.06.16	Audited 12 months ended 31.12.16
Profitability			
Net profit after tax	47,175	43,245	84,795
Net profit after tax over the previous 12 month period as a percentage of average total assets	1.2%¹	1.1% ¹	1.2% ¹
Size			
Total assets	7,674,515	7,404,171	7,548,952
Percentage increase in total assets over the previous 12 month period	3.7%	3.3%	8.6%
Asset quality			
Individually impaired assets	Not Available²	19,781	17,539
Individual impairment provision against advances to customers	(9,397)	(7,862)	(8,059)
Collective impairment provision against advances to customers	(5,162)	(4,868)	(4,633)
Individually impaired assets / total assets	Not Available²	0.3%	0.2%
Individual impairment provision / individually impaired assets	Not Available²	39.7%	45.9%

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 At the date of signing this Disclosure Statement, the amount of HBAP Group individually impaired assets as at 30 June 2017 was not publicly available.

Notes to and forming part of the Interim Financial Statements *(continued)***22. Capital adequacy ratios of HBAP Group**

HBAP Group is subject to the capital requirements as specified by the Hong Kong Monetary Authority (HKMA).

HBAP Group uses the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures and the internal ratings-based (securitisation) approach to determine credit risk for its banking book securitisation exposures. For market risk, HBAP Group uses an internal models approach to calculate its general market risk for the risk categories of interest rate exposures, foreign exchange (including gold) exposures and equity exposures. 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. 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 requirements of HKMA are at least equal to those specified under the Basel framework (“Basel III”). HBAP Group exceeds the minimum capital ratio requirements as specified by the HKMA as at 30 June 2017.

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/investor-relations/financial-and-regulatory-reports>.

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

	Unaudited 30.06.17	Unaudited 30.06.16	Unaudited 31.12.16
Basel III Capital Ratios			
Common Equity Tier 1 (CET1) capital	15.2%	16.1%	16.0%
Tier 1 capital	16.3%	17.3%	17.2%
Total capital	18.4%	19.2%	19.0%

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

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 with all Conditions of Registration that applied;

over the six months ended 30 June 2017.

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 5) by their attorney, Christopher David Gosse Russell, and also in his capacity as Chief Executive Officer:



Christopher David Gosse Russell
Chief Executive Officer
New Zealand Branch

29 August 2017

It is confirmed that the said powers of attorney appointing Christopher David Gosse Russell 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 financial statements

We have reviewed pages 10 to 31 of the half year Disclosure Statement of The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group (the "Banking Group"), which consists of the financial statements 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, 10, 12 and 14 of the Order. The financial statements comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended, and notes to the financial statements which include a statement of accounting policies. The Banking Group comprises the New Zealand operations of The Hongkong and Shanghai Banking Corporation Limited.

Directors' responsibility for the financial statements

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

In addition, the Directors are responsible for the preparation and fair presentation of supplementary information in the half year Disclosure Statement which complies with Schedules 3, 5, 7, 9, 10, 12 and 14 of the Order.

Our responsibility

Our responsibility is to express a conclusion on the financial statements and the supplementary information, disclosed in accordance with Clause 26 and Schedules 5, 7, 9, 10, 12 and 14 of the Order, presented by the Directors, based on our review.

Our responsibility is to express a conclusion on 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* and International Accounting Standard 34: *Interim Financial Reporting*.

Our responsibility is to express a conclusion on 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, 10, 12 and 14 of the Order.

Our responsibility is to express a conclusion on the supplementary information relating to credit and market risk exposures and capital adequacy in order to report to you 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:

- (a) prepared in accordance with Capital Adequacy Framework (Standardised Approach) (BS2A); and
- (b) 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 these financial statements.

We are independent of the Banking Group. Our firm carries out other services for the Banking Group in the areas of taxation and immigration advisory services. 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

Based on our review, nothing has come to our attention that causes us to believe that:

- (a) the financial statements on pages 10 to 31 (excluding the supplementary information) have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting*;
- (b) the supplementary information prescribed by Schedules 5, 7, 10, 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 prescribed by Schedule 9 of the Order, is not, in all material respects:
 - (i) prepared in accordance with Capital Adequacy Framework (Standardised Approach) (BS2A); and
 - (ii) 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 to the Directors 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 Directors, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

Chartered Accountants
29 August 2017

Auckland

HSBC 