

**The Hongkong and Shanghai Banking Corporation Limited**  
**New Zealand Banking Group**

**Disclosure Statement**

**30 September 2015**

**HSBC** 

# Disclosure Statement

## For the Nine Months Ended 30 September 2015

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	30

## General Disclosures

---

### Registered Bank

---

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

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

### New Zealand Branch

---

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

#### New Zealand Head Office:

1 Queen Street  
Auckland  
New Zealand

### New Zealand Banking Group

---

The New Zealand Banking Group (“Banking Group”) is the New Zealand operations of HBAP and all New Zealand incorporated subsidiaries of HBAP and controlled structured entities (if any). The entities that have been considered for aggregation to form the Banking Group are detailed in the 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 can be found at HSBC Holdings plc’s website, [www.hsbc.com/investor-relations/financial-and-regulatory-reports](http://www.hsbc.com/investor-relations/financial-and-regulatory-reports).

### Ranking of Local Creditors in a Winding-up

---

Under Section 265(1) (db) of the Companies Ordinance of the Hong Kong SAR 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 on deposits placed in Hong Kong, regardless of the geographic location of the depositors. 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.

### Pending Proceedings and Arbitration

---

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

### Auditor

---

**New Zealand Banking Group**  
PricewaterhouseCoopers  
PricewaterhouseCoopers Tower  
188 Quay Street  
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, Noel Gerard McNamara, 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, Noel Gerard McNamara is a Responsible Person under the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended).

#### **Noel Gerard McNamara**

Chief Executive Officer New Zealand Branch, joined the HSBC Group in 1995 and resides in New Zealand. He has a Post Graduate Diploma in International Management from the Institute of Management Adelaide 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, 1978

#### **# Laura Cha May Lung**, 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)

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

**\*\* Graham John Bradley**

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

**# Dr Christopher Cheng Wai Chee**, 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 Ch'ien Kuo Fung**, GBS, CBE

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

**# Irene Lee Yun-lien**

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

**Rose Lee Wai Mun**

Bachelor of Business Administration, University of Hawaii, 1977  
Vice-Chairman and Chief Executive, Hang Seng Bank Limited

**^ Victor Li Tzar Kuoi**

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

**# Peter James Holland Riley**

Bachelor of Arts Hons in Geography from University College, Durham University, 1982; ACA, The Institute of Chartered Accountants in England and Wales (Qualified 1985); and  
FCPA, The Hong Kong Society of Accountants, 2003  
Group Finance Director, Jardine Matheson 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

**# Dr Rosanna Wong Yick-Ming**, DBE

B.Soc.Sc, University of Hong Kong 1975; MSW, University of Toronto 1979; M.Sc. in Social Policy and Planning, London School of Economics and Political Science, University of London 1983; Diploma in Executive Management, Chinese University of Hong Kong 1985; M.A. and Doctor Degree in Sociology, University of California, Davis 1993 and 1997 Executive Director, The Hong Kong Federation of Youth Groups

**# Marjorie Yang Mun Tak**, 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 Yeoh Sock Ping, 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

**\*\* Xinzhe Li Jennifer**

Master of Business Administration, The University of British Columbia, Vancouver, Canada, 1994

Bachelor of Arts, Tsinghua University, Beijing, China, 1990

Chief Financial Officer, Baidu, Inc.

# independent non-executive Director

^ non-executive Director

**Country of Residence**

With the exception of those denoted with an \*, all directors reside in Hong Kong. Zia Mody resides in India, Graham John Bradley resides in Australia, Tan Sri Dr Francis Yeoh Sock Ping resides in Malaysia and Xinzhe Li Jennifer 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

**Change in Board of Directors for HBAP**

Kevin Anthony Westley retired as an independent non-executive Director of HBAP on 12 May 2015.

Nadia Lal Kidwai resigned as an executive Director of HBAP on 31 October 2015.

The composition of the Board of Directors has seen no other change since 31 December 2014.

**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:

	<b>Current Rating</b>	<b>Previous Rating (if changed in the previous two years)</b>	<b>Date of Change</b>
Moody's Investor Service Inc.	Aa2 (stable outlook)	Not changed	-
Standard & Poor's Corporation	AA- (stable outlook)	Not changed	-
Fitch Ratings 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 November 2014.

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		
	1 January 2013 to 31 December 2013	1 January 2014 to 31 December 2014	On and after 1 January 2015
Common Equity Tier 1 capital	3.5 %	4 %	4.5 %
Tier 1 capital	4.5 %	5.5 %	6 %
Total capital	8 %	8 %	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 amounts must not for residential properties with a loan-to-valuation ratio of more than 80%, exceed 10% of the total of the qualifying new mortgage lending amounts arising in the loan-to-valuation measurement period.
9. 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.
10. That the business of the registered bank in New Zealand must not permit a borrower to grant a charge in favour of another person over a residential property used as security for a residential mortgage loan unless the sum of the lending secured by the charge and the loan value for the residential mortgage loan would not exceed 80% of the property value of the residential property when the lending secured by the charge is drawn down.
11. That the business of the registered bank in New Zealand must not provide a residential mortgage loan if the residential property to be mortgaged to the registered bank as security for the residential mortgage loan is subject to a charge in favour of another person unless the total amount of credit secured by the residential property would not exceed 80% of the property value when the residential mortgage loan is drawn down.
12. That the business of the registered bank in New Zealand must not—
- (a) act as broker or arrange a residential mortgage loan for the business of the registered bank outside New Zealand or for an associated person of the registered bank outside New Zealand; or
- (b) facilitate the drawdown of a residential mortgage loan the registered bank originated as part of its business outside New Zealand or by an associated person of the registered bank outside New Zealand without notifying the Reserve Bank of this activity in the manner and form specified by the Reserve Bank.

## Conditions of Registration *(continued)*

In these conditions of registration, –

“banking group” —

- (a) 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 (unless paragraph (b) applies); or
- (b) if the Financial Reporting Act 1993 applies to the registered bank, 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 9(2) of the Financial Reporting Act 1993:

“business of the registered bank in New Zealand” —

- (a) 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 (unless paragraph (b) applies); or
- (b) if the Financial Reporting Act 1993 applies to the registered bank, means the New Zealand business of the registered bank as required to be reported in financial statements under section 8(2) of the Financial Reporting Act 1993:

“generally accepted accounting practice” —

- (a) has the same meaning as in section 8 of the Financial Reporting Act 2013 (unless paragraph (b) applies); or
- (b) means generally accepted accounting practice within the meaning of section 3 of the Financial Reporting Act 1993 if the registered bank is required to prepare financial statements in accordance with that practice:

“liabilities of the registered bank in New Zealand” —

- (a) 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 (unless paragraph (b) applies); or
- (b) if the Financial Reporting Act 1993 applies to the registered bank, means the liabilities of the registered bank as required to be reported in financial statements under section 8(2) of the Financial Reporting Act 1993.

In conditions of registration 8 to 12,—

“loan-to-valuation ratio”, “loan value”, “property value”, “qualifying new mortgage lending amount” 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 2014.

“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 2014.

### **Changes to Conditions of Registration since the 31 December 2014 Disclosure Statement**

Effective 1 November 2015, the Conditions of Registration have been amended such that conditions 8 to 12 have been removed. These have been replaced with conditions 1 to 4 applicable to overseas incorporated registered banks as published in Appendix 1 of the “Framework for Restrictions on High-LVR Residential Mortgage Lending” (BS19) issued by the Reserve Bank of New Zealand in November 2015.

## Contents

	<b>Page</b>
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.....	16
3. Other net operating income.....	16
4. Release / (provisions) for loan impairment.....	16
5. Related party balances.....	17
6. Advances to customers.....	17
7. Additional mortgage information.....	17
8. Customer deposits.....	18
9. Additional financial disclosures on the statement of financial position.....	18
10. Segment reporting.....	19
11. Asset quality.....	20
12. Fair value of financial instruments.....	21
13. Concentration of credit exposures to individual counterparties.....	26
14. Liquidity risk management.....	26
15. Market risk exposures.....	26
16. Contingent liabilities and other commitments.....	27
17. Insurance and non-financial activities.....	27
18. Subsequent events.....	27
19. Profitability, size and asset quality of HBAP Group.....	28
20. Capital adequacy ratios.....	29
Directors' and New Zealand Chief Executive Officer's Statements.....	30

## STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

		<i>Banking Group</i>	
		<b>Unaudited 9 months ended</b>	
<i>Dollars in Thousands</i>	Note	<b>30.09.15</b>	30.09.14
Interest income		<b>171,703</b>	149,891
Interest expense		<b>(105,239)</b>	(83,359)
<b>Net interest income</b>		<b>66,464</b>	66,532
Net trading income	2	<b>15,152</b>	7,007
Other net operating income	3	<b>23,370</b>	25,860
<b>Operating income</b>		<b>104,986</b>	99,399
Operating expenses		<b>(49,082)</b>	(44,620)
<b>Operating profit before provisions and tax</b>		<b>55,904</b>	54,779
Release / (provisions) for loan impairment	4	<b>8,446</b>	16,074
<b>Operating profit before tax</b>		<b>64,350</b>	70,853
Income tax expense		<b>(17,916)</b>	(19,914)
<b>Profit after tax</b>		<b>46,434</b>	50,939
<b>Other comprehensive income / (expense)</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Gains / (losses) on cashflow hedges		<b>(3,781)</b>	(1,515)
Income taxes on cashflow hedges		<b>1,059</b>	424
Gains / (losses) on available-for-sale financial assets		<b>702</b>	393
Income taxes on available-for-sale financial assets		<b>(196)</b>	(110)
<b>Other comprehensive income / (expense) for the period</b>		<b>(2,216)</b>	(808)
<b>Total comprehensive income for the period</b>		<b>44,218</b>	50,131

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

## STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

	<i>Banking Group</i>	
	Unaudited 9 months ended	
<i>Dollars in Thousands</i>	30.09.15	30.09.14
<b>Head Office Account *</b>		
At beginning of period	41,739	(3,691)
Repatriation to Head Office	(41,739)	-
Profit after tax	46,434	50,939
At end of period	<u>46,434</u>	<u>47,248</u>
<b>Cashflow Hedging Reserve</b>		
At beginning of period	103	2,327
Movement in the fair value of derivatives	(3,781)	(1,515)
Tax on movements and transfers	1,059	424
At end of period	<u>(2,619)</u>	<u>1,236</u>
<b>Available for Sale Reserve</b>		
At beginning of period	485	42
Movement in the fair value of debt and equity securities	702	393
Tax on movements and transfers	(196)	(110)
At end of period	<u>991</u>	<u>325</u>
<b>Share-based Payment Reserve</b>		
At beginning of period	1,622	1,623
Amortisation of share options granted in share-based payment reserve	222	21
Movement in share-based payment arrangements	(208)	-
At end of period	<u>1,636</u>	<u>1,644</u>
<b>Equity at end of period</b>	<u>46,442</u>	<u>50,453</u>
<b>Represented by:</b>		
Profit after tax	46,434	50,939
Other comprehensive income / (expense)	(2,216)	(808)
<b>Total comprehensive income for the period</b>	<u>44,218</u>	<u>50,131</u>
Repatriation to Head Office	(41,739)	-
Movement in share-based payment reserve	14	21
Equity at beginning of period	<u>43,949</u>	<u>301</u>
	<u>46,442</u>	<u>50,453</u>

\* 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 SEPTEMBER 2015

<i>Dollars in Thousands</i>	Note	<i>Banking Group</i>		
		Unaudited 30.09.15	Unaudited 30.09.14	Audited 31.12.14
<b>ASSETS</b>				
Cash and demand balances with central banks		749,840	659,983	411,548
Advances to banks		27,243	17,078	14,871
Debt and equity securities		529,395	523,409	494,580
Derivative financial instruments		412,358	206,328	196,182
Advances to customers	6	3,604,491	3,288,292	3,774,940
Amounts due from related parties	5	842,584	490,944	367,519
Other assets		21,761	24,466	22,921
Fixed assets		1,018	1,006	972
Deferred tax asset		6,115	6,600	7,086
Intangible assets		16,793	18,538	18,101
<b>Total Assets</b>		<b>6,211,598</b>	<b>5,236,644</b>	<b>5,308,720</b>
<b>LIABILITIES</b>				
Deposits by banks		274,301	443,360	182,194
Derivative financial instruments		410,009	195,571	186,914
Customer deposits	8	3,477,224	3,011,463	3,180,934
Debt securities		909,474	676,118	739,746
Amounts due to related parties	5	1,040,255	813,604	925,126
Other liabilities		53,664	45,099	42,710
Current tax liabilities		229	976	7,147
<b>Total Liabilities</b>		<b>6,165,156</b>	<b>5,186,191</b>	<b>5,264,771</b>
<b>Net Assets</b>		<b>46,442</b>	<b>50,453</b>	<b>43,949</b>
<b>EQUITY</b>				
Head Office Account		46,434	47,248	41,739
Cashflow Hedging Reserve		(2,619)	1,236	103
Available for Sale Reserve		991	325	485
Share-based Payment Reserve		1,636	1,644	1,622
<b>Total Equity</b>		<b>46,442</b>	<b>50,453</b>	<b>43,949</b>

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

## STATEMENT OF CASH FLOWS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

	<i>Banking Group</i>	
	<b>Unaudited 9 months ended</b>	
<i>Dollars in Thousands</i>	<b>30.09.15</b>	<b>30.09.14</b>
<b><i>Cash flows from / (to) operating activities</i></b>		
Interest received	174,681	140,062
Fees and commissions	23,312	25,535
Realised trading gain	9,801	19,318
Interest paid	(94,603)	(72,844)
Operating expenses	(50,176)	(46,651)
Taxation paid	(23,001)	(15,501)
<b>Net cash flows from / (to) operating activities before changes in operating assets and liabilities</b>	<b>40,014</b>	<b>49,919</b>
Changes in operating assets and liabilities arising from cash flow movements		
Cash was provided net from / applied net (to):		
Advances to customers	182,334	106,349
Amounts due from related parties	(475,050)	(182,086)
Other assets	(4,234)	(2,257)
Other liabilities	10,065	7,432
Debt securities issued	159,250	(124,868)
Deposits by banks	92,468	285,208
Customer deposits	296,290	(124,487)
Amounts due to related parties	118,632	6,955
<b>Net change in operating assets and liabilities</b>	<b>379,755</b>	<b>(27,754)</b>
Net cash flows from / (to) operating activities	<b>419,769</b>	<b>22,165</b>
<b><i>Cash flows from / (to) investing activities</i></b>		
Debt securities purchased	(535,709)	(433,104)
Debt securities matured	505,676	309,500
Acquisition of fixed assets	(609)	(118)
Net cash flows from / (to) investing activities	<b>(30,642)</b>	<b>(123,722)</b>
<b><i>Cash flows from / (to) financing activities</i></b>		
Repatriation to head office	(41,739)	-
Net cash flows from / (to) financing activities	<b>(41,739)</b>	<b>-</b>
Net increase / (decrease) in cash and cash equivalents	<b>347,388</b>	<b>(101,557)</b>
Effect of exchange rate fluctuations on cash held	3,637	(321)
Cash and cash equivalents at beginning of period	425,367	778,122
Cash and cash equivalents at end of period	<b>776,392</b>	<b>676,244</b>

## STATEMENT OF CASH FLOWS *(continued)* FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015

	<i>Banking Group</i>	
	<b>Unaudited 9 months ended</b>	
<i>Dollars in Thousands</i>	<b>30.09.15</b>	30.09.14
<i>Analysis of cash and cash equivalents</i>		
Cash and demand balances with central banks	<b>749,840</b>	659,983
Items in the course of collection from other banks	<b>22</b>	13
Advances to banks – demand	<b>27,221</b>	17,065
Less: items in the course of transmission to other banks	<b>(691)</b>	(817)
	<b>776,392</b>	676,244

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

The Banking Group's cash and cash equivalents are defined as follows:

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

The Banking Group's application of this accounting policy has amended the definition of items included as cash and cash equivalents for disclosure purposes in the current period. This has provided an improved alignment with the accounting policy and balances held to meet short-term cash commitments. Comparative data has been restated on the same basis. As a result the cash and cash equivalents total balance as at 31 December 2013 has been restated to \$778,122,000 from (\$980,300,000), 30 September 2014 has been restated to \$676,244,000 from (\$1,294,390,000), and 31 December 2014 has been restated to \$425,367,000 from (\$1,453,665,000).

The following cash flows have been adjusted as a result of the restatement of cash and cash equivalents: Changes in operating assets and liabilities arising from cash flow movements, effect of exchange rate fluctuations on cash held, and realised trading gain / (loss).

There has been no change to the statement of comprehensive income or the statement of financial position.

## 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”). Intra-group balances are eliminated in preparing the Banking Group’s interim 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.

##### *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) is 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 no longer continues as a going concern. The individual accounts of HINZ have not been prepared on a going concern basis to reflect the discontinuation of operations. This has had no impact on the Banking Group 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 “\$” are to New Zealand dollars unless otherwise stated.

##### 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 2014 with the exception of cash and cash equivalents detailed below under comparative figures.

##### Comparative Figures

These interim financial statements include comparative information as required by NZ IAS 34 and the Order. The application of the Banking Group’s cash and cash equivalents policy was reviewed during the period and cash and equivalents were restated to better align with the accounting policy. The details are disclosed in the Statement of Cash Flows. There have been no other material changes to the comparative figures.

##### Risk Management

There has been no material change during the nine months ended 30 September 2015 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.

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

<i>Dollars in Thousands</i>	<b>Banking Group</b>	
	<b>Unaudited</b>	
	<b>9 months ended</b>	
	<b>30.09.15</b>	<b>30.09.14</b>

**2. Net trading income**

Foreign exchange gains	<b>8,446</b>	8,254
Revaluation of derivatives	<b>2,631</b>	95
Credit valuation adjustments on derivatives	<b>1,651</b>	307
Debit valuation adjustments on derivatives	<b>2,243</b>	(1,659)
Gain/(loss) on hedging instrument in fair value hedge	<b>(4,935)</b>	(1,044)
Gain/(loss) on hedged item on fair value hedge	<b>5,116</b>	1,054
	<b>15,152</b>	7,007

**3. Other net operating income****Fee and commission income**

Lending and credit facility fee receivable	<b>13,638</b>	13,586
Custody and clearing fees receivable	<b>3,537</b>	2,910
Other fees and commissions receivable	<b>11,917</b>	12,642
	<b>29,092</b>	29,138

**Fee and commission expense**

Brokerage expense	<b>(1,487)</b>	(1,233)
Other fees and commissions payable	<b>(4,028)</b>	(2,045)
	<b>(5,515)</b>	(3,278)

**Other income**

Loss on disposal of equipment, fixtures and fittings	<b>(207)</b>	-
	<b>(207)</b>	-
	<b>23,370</b>	25,860

**4. Release / (provisions) for loan impairment**

<i>Dollars in Thousands</i>	<b>Banking Group</b>		
	<b>Unaudited</b>	<b>Audited</b>	<b>Audited</b>
	<b>9 months ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>30.09.15</b>	<b>30.09.14</b>	<b>31.12.14</b>
<b>Profit or loss credit / (charge)</b>			
Individual provisions for impairment against advances	<b>(201)</b>	(85)	(506)
Collective provisions for impairment against advances	<b>(4,501)</b>	(3,300)	(3,325)
Total provisions for impairment against advances	<b>(4,702)</b>	(3,385)	(3,831)
Individual provisions released	<b>9,660</b>	14,454	14,471
Collective provisions released	<b>1,956</b>	4,115	6,482
Total provisions released no longer required	<b>11,616</b>	18,569	20,953
Net decrease / (increase) in provisions for impairment against advances	<b>6,914</b>	15,184	17,122
Recoveries of amounts written off in previous period	<b>1,532</b>	890	924
	<b>8,446</b>	16,074	18,046

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

<i>Dollars in Thousands</i>	<i>Banking Group</i>		
	<b>Unaudited 30.09.15</b>	Unaudited 30.09.14	Audited 31.12.14

**5. 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	<b>842,584</b>	490,944	367,519
Derivative financial instruments – assets	<b>90,213</b>	65,874	80,457
<b>Total related party assets</b>	<b>932,797</b>	556,818	447,976

**Liabilities**

Amounts due to related parties	<b>1,040,255</b>	813,604	925,126
Derivative financial instruments – liabilities	<b>321,501</b>	147,621	114,424
<b>Total related party liabilities</b>	<b>1,361,756</b>	961,225	1,039,550

**6. Advances to customers**

Overdrafts	<b>128,841</b>	74,198	109,789
Mortgages	<b>1,116,296</b>	1,042,173	1,040,636
Term lending	<b>2,217,347</b>	1,991,708	2,457,797
Non-eligible bills	<b>138,814</b>	161,616	162,072
Money market loans	<b>20,000</b>	47,500	30,600
Total gross advances to customers	<b>3,621,298</b>	3,317,195	3,800,894
Provisions for loan impairment	<b>(16,807)</b>	(28,903)	(25,954)
<b>Total net advances to customers</b>	<b>3,604,491</b>	3,288,292	3,774,940

**7. Additional mortgage information****Residential mortgages by loan-to-valuation ratio**

<i>Dollars in millions</i>	<i>Banking Group</i>			
	<b>Principal Amount</b>			<b>Total \$m</b>
<b>LVR Range</b>	<b>Does not exceed 80% \$m</b>	<b>Exceeds 80% and not 90% \$m</b>	<b>Exceeds 90% \$m</b>	
<b>30 September 2015 (Unaudited)</b>				
Value of exposures on balance sheet	<b>1,105.2</b>	<b>8.1</b>	<b>3.0</b>	<b>1,116.3</b>
Value of exposures off balance sheet	<b>24.1</b>	-	-	<b>24.1</b>
<b>Total value of exposures</b>	<b>1,129.3</b>	<b>8.1</b>	<b>3.0</b>	<b>1,140.4</b>

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

<i>Dollars in Thousands</i>	<i>Banking Group</i>		
	<b>Unaudited 30.09.15</b>	Unaudited 30.09.14	Audited 31.12.14
<b>8. Customer deposits</b>			
Current accounts	<b>2,043,204</b>	1,634,094	1,855,438
Savings and deposit accounts	<b>1,201,909</b>	1,308,688	1,265,336
Other deposit accounts	<b>232,111</b>	68,681	60,160
<b>Total customer deposits at amortised cost</b>	<b>3,477,224</b>	3,011,463	3,180,934
<b>9. Additional financial disclosures on the statement of financial position</b>			
Total interest earning and discount bearing assets	<b>5,752,115</b>	4,974,974	5,059,148
Total interest and discount bearing liabilities	<b>5,476,962</b>	4,717,822	4,798,172
Total liabilities net of amounts due to related parties	<b>4,803,400</b>	4,224,966	4,225,221
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)***10. Segment reporting**

Segment information is presented in respect of the Banking Group's business segments based on the Banking Group's management and internal reporting structure.

Business segments pay and receive interest to and from Global Banking and Markets on an arm's length basis to reflect the allocation of funding costs.

The Banking Group operates primarily in New Zealand. Geographical information on revenues from external customers is not available and the cost to develop it would be excessive.

**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 treasury and investment banking operations.

Reconciling items include income from the investment of interest free funding from HBAP provided to support thin capitalisation ratios and income from the investment of retained profits.

<i>Banking Group</i>						
Unaudited 9 months ended 30.09.15						
<i>Dollars in Thousands</i>	RBWM	CMB	GBM	Total Reportable Segments	Reconciling items	Consolidated
Operating income	24,190	53,257	21,614	99,061	5,925	104,986
Release / (provisions) for loan impairment	(77)	8,523	-	8,446	-	8,446
Operating profit before tax	7,086	39,006	12,627	58,719	5,631	64,350
Advances to customers	1,150,739	2,453,572	180	3,604,491	-	3,604,491
Customer deposits	2,178,292	837,010	461,922	3,477,224	-	3,477,224

<i>Banking Group</i>						
Unaudited 9 months ended 30.09.14						
<i>Dollars in Thousands</i>	RBWM	CMB	GBM	Total Reportable Segments	Reconciling items	Consolidated
Operating income	25,200	55,212	14,277	94,689	4,710	99,399
Release / (provisions) for loan impairment	901	15,173	-	16,074	-	16,074
Operating profit before tax	9,893	49,846	6,427	66,166	4,687	70,853
Advances to customers	1,084,418	2,163,874	40,000	3,288,292	-	3,288,292
Customer deposits	2,014,336	921,099	76,028	3,011,463	-	3,011,463

**Notes to and forming part of the Interim Financial Statements** *(continued)***11. Asset quality**

<i>Dollars in Thousands</i>	<i>Banking Group</i>		
	<b>Unaudited 30.09.15</b>	Unaudited 30.09.14	Audited 31.12.14
In the current and prior periods, there is only one class of impaired financial assets, being advances to customers.			
<b>Gross advances that are at least 90 days past due but not impaired</b>	-	-	-
<b>Gross individually impaired assets <sup>1</sup></b>	<b>25,664</b>	79,534	121,913
<b>Individual provision for loan impairment</b>			
Balance at the beginning of the period	<b>20,720</b>	40,317	40,317
New and additional provisions charged to profit or loss	<b>201</b>	85	506
Provisions released during the period to profit or loss	<b>(9,660)</b>	(14,454)	(14,471)
Write-offs	<b>(1)</b>	(5)	(6)
Discount unwind <sup>2</sup>	<b>(2,232)</b>	(4,616)	(5,626)
Balance at the end of the period	<b>9,028</b>	21,327	20,720
<b>Collective provision for loan impairment</b>			
Balance at the beginning of the period	<b>5,234</b>	8,391	8,391
Additional provision charged to profit or loss	<b>4,501</b>	3,300	3,325
Provisions released during the period to profit or loss	<b>(1,956)</b>	(4,115)	(6,482)
Balance at the end of the period	<b>7,779</b>	7,576	5,234
Total provisions for loan impairment	<b>16,807</b>	28,903	25,954

<sup>1</sup> 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.

<sup>2</sup> 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.

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

### 12. 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.

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.

**Notes to and forming part of the Interim Financial Statements** *(continued)***12. Fair value of financial instruments** *(continued)*

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 30.09.15 Level 1	Unaudited 30.09.15 Level 2	Unaudited 30.09.15 Level 3	Unaudited 30.09.15 TOTAL
<b>ASSETS</b>				
Debt and equity securities	298,506	230,867	22	529,395
Derivatives financial instruments	-	412,358	-	412,358
<b>LIABILITIES</b>				
Derivatives financial instruments	-	410,009	-	410,009

<i>Banking Group</i>				
<i>Dollars in Thousands</i>	Unaudited 30.09.14 Level 1	Unaudited 30.09.14 Level 2	Unaudited 30.09.14 Level 3	Unaudited 30.09.14 TOTAL
<b>ASSETS</b>				
Debt and equity securities	308,936	214,451	22	523,409
Derivatives financial instruments	-	206,328	-	206,328
<b>LIABILITIES</b>				
Derivatives financial instruments	-	195,571	-	195,571

<i>Banking Group</i>				
<i>Dollars in Thousands</i>	Audited 31.12.14 Level 1	Audited 31.12.14 Level 2	Audited 31.12.14 Level 3	Audited 31.12.14 TOTAL
<b>ASSETS</b>				
Debt and equity securities	356,621	137,937	22	494,580
Derivatives financial instruments	-	196,182	-	196,182
<b>LIABILITIES</b>				
Derivatives financial instruments	-	186,914	-	186,914

There have been no transfers between levels 1 and 2 in the period to 30 September 2015 (September 2014: none; December 2014: none). Any transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

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

### 12. Fair value of financial instruments *(continued)*

#### Methodologies

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

##### *Cash and demand balances with central banks*

For cash and short - term funds the carrying amount is equivalent to the fair value.

##### *Debt securities issued*

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

##### *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.

**Notes to and forming part of the Interim Financial Statements** *(continued)***12. Fair value of financial instruments** *(continued)*

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>	<i>Banking Group</i>		<i>Banking Group</i>	
	<b>Unaudited 30.09.15 Carrying Value</b>	<b>Unaudited 30.09.15 Fair Value</b>	Unaudited 30.09.14 Carrying Value	Unaudited 30.09.14 Fair Value
<b>ASSETS</b>				
Advances to customers	<b>3,604,491</b>	<b>3,624,437</b>	3,288,292	3,295,355
Total financial assets not carried at fair value	<b>3,604,491</b>	<b>3,624,437</b>	3,288,292	3,295,355
Total financial assets not measured at fair value whose carrying value approximates fair value	<b>1,640,988</b>	<b>1,640,988</b>	1,192,321	1,192,321
Total financial assets measured at fair value	<b>941,753</b>	<b>941,753</b>	729,737	729,737
<b>Total financial assets</b>	<b>6,187,232</b>	<b>6,207,178</b>	<b>5,210,350</b>	<b>5,217,413</b>
Total non-financial assets	24,366		26,294	
<b>Total assets</b>	<b>6,211,598</b>		<b>5,236,644</b>	
<b>LIABILITIES</b>				
Customer deposits	<b>3,477,224</b>	<b>3,480,877</b>	3,011,463	3,013,410
Debt securities	<b>909,474</b>	<b>909,490</b>	676,118	676,103
Amounts due to related parties	<b>1,040,255</b>	<b>1,040,895</b>	813,604	813,825
Total financial liabilities not carried at fair value	<b>5,426,953</b>	<b>5,431,262</b>	4,501,185	4,503,338
Total financial liabilities not measured at fair value whose carrying value approximates fair value	<b>315,806</b>	<b>315,806</b>	478,504	478,504
Total financial liabilities measured at fair value	<b>410,009</b>	<b>410,009</b>	195,571	195,571
<b>Total financial liabilities</b>	<b>6,152,768</b>	<b>6,157,077</b>	<b>5,175,260</b>	<b>5,177,413</b>
Total non-financial liabilities	12,388		10,931	
<b>Total liabilities</b>	<b>6,165,156</b>		<b>5,186,191</b>	

**Notes to and forming part of the Interim Financial Statements** *(continued)***12. Fair value of financial instruments** *(continued)*

<i>Dollars in Thousands</i>	<i>Banking Group</i>	
	Audited 31.12.14 Carrying Value	Audited 31.12.14 Fair Value
<b>ASSETS</b>		
Advances to customers	3,774,940	3,782,726
Total financial assets not carried at fair value	3,774,940	3,782,726
Total financial assets not measured at fair value whose carrying value approximates fair value	816,612	816,612
Total financial assets measured at fair value	690,762	690,762
<b>Total financial assets</b>	<b>5,282,314</b>	<b>5,290,100</b>
Total non-financial assets	26,406	
<b>Total assets</b>	<b>5,308,720</b>	
<b>LIABILITIES</b>		
Customer deposits	3,180,934	3,182,901
Debt securities	739,746	739,735
Amounts due to related parties	925,126	925,438
Total financial liabilities not carried at fair value	4,845,806	4,848,074
Total financial liabilities not measured at fair value whose carrying value approximates fair value	219,445	219,445
Total financial liabilities measured at fair value	186,914	186,914
<b>Total financial liabilities</b>	<b>5,252,165</b>	<b>5,254,433</b>
Total non-financial liabilities	12,606	
<b>Total liabilities</b>	<b>5,264,771</b>	

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

**14. 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>	<i>Banking Group</i>		
	<b>Unaudited 30.09.15</b>	Unaudited 30.09.14	Audited 31.12.14
Demand balances with the central bank	<b>749,684</b>	659,648	411,148
Available-for-sale debt securities and treasury bills	<b>529,373</b>	523,387	494,558
	<b><u>1,279,057</u></b>	<u>1,183,035</u>	<u>905,706</u>

**15. 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 September 2015 (Unaudited)</i>		
Interest rate risk	<b>88.50</b>	<b>7.08</b>
Foreign currency risk	<b>0.13</b>	<b>0.01</b>
Equity risk	-	-
<i>Peak end-of-day exposure period 1 July 2015 to 30 September 2015 (Unaudited)</i>		
Interest rate risk	<b>121.25</b>	<b>9.70</b>
Foreign currency risk	<b>0.38</b>	<b>0.03</b>
Equity risk	-	-

**Notes to and forming part of the Interim Financial Statements** *(continued)***16. 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>	<b>Banking Group</b>		
	<b>Unaudited 30.09.15</b>	Unaudited 30.09.14	Audited 31.12.14
Direct credit substitutes	<b>62,954</b>	48,963	55,509
Transaction related contingent items	<b>242,236</b>	208,352	191,202
Trade related contingent items	<b>92,238</b>	114,032	145,726
Commitments, maturity one year or more	<b>1,231,456</b>	1,152,565	1,039,495
Commitments, maturity up to one year	<b>607,919</b>	577,066	702,536
	<b>2,236,803</b>	2,100,978	2,134,468
<b>Capital commitments</b>			
Contracted expenditure	<b>63</b>	58	-

Capital commitments relate to the purchase of equipment.

**17. Insurance and non-financial activities**

The Banking Group does not conduct any insurance business or non-financial activities in New Zealand.

**18. Subsequent events**

On 30 October 2015, \$30,846 thousand was repatriated from the Branch to Head Office.

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

**Notes to and forming part of the Interim Financial Statements** *(continued)***19. Profitability, size and asset quality of HBAP Group**

<i>Dollars in HK\$ millions</i>	<b>Unaudited 6 months ended 30.06.15</b>	Unaudited 6 months ended 30.06.14	Audited 12 months ended 31.12.14
<b>Profitability</b>			
Net profit after tax	<b>59,902</b>	49,904	92,177
Net profit after tax over the previous year as a percentage of average total assets	<b>1.5%</b>	1.4%	1.4%
<b>Size</b>			
Total assets	<b>7,167,665</b>	6,765,663	6,876,746
Percentage increase in total assets over the previous 12 month period	<b>5.9%</b>	13.1%	6.8%
<b>Asset quality</b>			
Individually impaired assets	<b>15,323</b>	12,991	14,515
Individual impairment provision against advances to customers	<b>(6,590)</b>	(5,051)	(6,299)
Collective impairment provision against advances to customers	<b>(4,247)</b>	(4,542)	(4,221)
Individually impaired assets / total assets	<b>0.2%</b>	0.2%	0.2%
Individual impairment provision / individually impaired assets	<b>43.0%</b>	38.9%	43.4%

**Notes to and forming part of the Interim Financial Statements** *(continued)***20. 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 2015.

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:

	<b>Unaudited 30.06.15</b>	Unaudited 30.06.14	Unaudited 31.12.14
<b>Basel III Capital Ratios</b>			
Common Equity Tier 1 (CET1) capital	<b>14.3%</b>	13.5%	14.4%
Tier 1 capital	<b>15.3%</b>	13.5%	14.4%
Total capital	<b>17.4%</b>	15.2%	15.7%

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 nine months ended 30 September 2015.

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, Noel Gerard McNamara, and also in his capacity as Chief Executive Officer:



**Noel Gerard McNamara**  
*Chief Executive Officer*  
*New Zealand Branch*

23 November 2015

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

