The Hongkong and Shanghai Banking Corporation Limited

New Zealand Banking Group

Disclosure Statement

30 June 2011

HSBC

The world's local bank

Disclosure Statement
For the Six Months Ended 30 June 2011

Contents	Page

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 special purpose entities. 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 subsidiary 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 HBAP's website, www.hsbc.com.hk under About HSBC, Financial Information, Financial 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 HKD100,000, to each depositor and that this Section has no geographic limitation. Save as aforesaid, the Directors believe that no other material legislative or regulatory restrictions exist which subordinate the claims of any class of the Branch's unsecured creditors on the global assets of HBAP to those of any other class of unsecured creditors of HBAP, in a winding up of HBAP.

Guarantee Arrangements for Registered Bank

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

Government Guarantee

The Branch does not have a guarantee under the New Zealand retail deposit guarantee scheme 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 effect 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.

Auditors

New Zealand Banking Group
KPMG
KPMG Centre
18 Viaduct Harbour Avenue
Auckland
New Zealand

Overseas Banking Group
KPMG
8th 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 (No 2) 2011.

Noel Gerard McNamara
Chief Executive Officer New Zealand Branch. Joined the HSBC Group in 1995 and resides in New Zealand.

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
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

Dr William Fung Kwok Lun, SBS, OBE (Non-Executive Deputy Chairman)
BSE, Princeton University, 1970 and MBA, Harvard Graduate School of Business, 1972
Honorary Doctorate of Business Administration, Hong Kong University of Science & Technology, 1999
Executive Deputy Chairman, Li & Fung Limited

Laura Cha May Lung, GBS (Non-Executive Deputy Chairman)
B.A., 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*)

Peter Wong Tung Shun (Chief Executive)
Bachelor of Arts, Indiana University, 1974; Master of Business Administration, Indiana University, 1976
Master of Science, Indiana University, 1978
Executive Director, Hong Kong and Mainland China, The Hongkong and Shanghai Banking Corporation Ltd

Dr Raymond Ch'ien Kuo Fung, GBS, CBE
B.A., Rockford College, 1973; Master of Arts and Doctor of Philosophy (Economics), University of Pennsylvania, 1976 and 1978
Chairman, CDC Corporation and Chairman, China.com Inc.

*** Naina Lal Kidwai**
Bachelor of Arts degree (Honours Course) in Economics, Delhi University, examined in 1977, certificate awarded 4 March 1978; Masters in Business Administration, Harvard University, 1982
Group General Manager and Country Head, HSBC India

Margaret Leung Ko May Yee
Bachelor of Social Sciences, University of Hong Kong, 1975
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, Cheung Kong (Holdings) Limited

Dr Lo Ka Shui, GBS
B.Sc. (Hons) Biophysics, McGill University, 1970; M.D. Cornell University, 1974; Residency, American Board of Internal Medicine, University of Michigan, 1976; and Fellowship, American Board of Cardiology, University of Michigan, 1979
Chairman and Managing Director, Great Eagle Holdings Limited

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

Christopher Dale Pratt
M A Modern History, Oxford University, 1978
Chairman, John Swire & Sons (H.K.) Limited

***Andreas Sohmen-Pao**
First Class Honors Degree in Oriental Studies, Oxford University, 1994; Master in Business Administration with distinction, Harvard University Graduate School of Business, 1997; Master of Arts, Oxford University, 2000
Chief Executive Officer, BW Maritime Pte Ltd

Thomas Brian Stevenson, SBS
Bachelor of Laws, Glasgow University, Scotland, 1965; Master of Laws, University of Hong Kong, 2001; Member, Institute of Chartered Accountants of Scotland, 1968; Fellow, Hong Kong Institute of Certified Public Accountants; and Member, Certified Public Accountants of Singapore.
Chartered Accountant

Paul Anthony Thurston
Bachelor of Arts, Economics and Business Studies, University of Sheffield, 1975; Associate Member, Chartered Institute of Bankers, 1979; and Fellow, Ifs School of Finance, 2009
Group Managing Director and Chief Executive, Retail Banking and Wealth Management, HSBC Holdings plc

Dr Patrick Wang Shui Chung
B.Sc. and M.Sc., in Electrical Engineering, Purdue University, Indiana USA, 1972.
Honorary Doctorate of Engineering, Purdue University in Indiana, USA, 2004.
Chairman and Chief Executive Officer, Johnson Electric Holdings Ltd

General Disclosures *(continued)*

Board of Directors of HBAP (*continued*)

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

Country of Residence
With the exception of those denoted with an *, all directors reside in Hong Kong. Zia Mody and Naina Lal Kidwai reside in India, and Andreas Sohmen-Pao resides in Singapore.

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

Change in Board of Directors for HBAP

The composition of the Board of Directors has changed since 31 December 2010.

Mr David Wei Zhe resigned as a non-executive director of HBAP with effect from 22 February 2011. Mr Paul Anthony Thurston was appointed as a director of HBAP with effect from 27 April 2011.

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
Moody’s Investor Service Inc.	Aa1 (stable outlook)
Standard & Poor’s Corporation	AA (stable outlook)
Fitch IBCA Inc.	AA (stable outlook)

Conditions of Registration

The Hongkong and Shanghai Banking Corporation Limited
New Zealand Branch
Conditions of Registration as from 26 November 2007

The registration of the New Zealand Branch of The Hongkong and Shanghai Banking Corporation Limited ('the Registered Bank') 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, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993;

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

   (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disapplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;

   (ii) In measuring the size of the banking group's insurance business:

      (a) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:

      - the total consolidated assets of the group headed by that entity;

      - or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;

      (b) otherwise, the size of each insurance business conducted by any entity within the banking group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;

      (c) the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the banking group. All amounts in parts (a) and (b) shall relate to on balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;

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

3. That the business of the Registered Bank does not constitute a predominant proportion of the business of The Hongkong and Shanghai Banking Corporation Limited.

Conditions of Registration *(continued)*

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

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

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

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

6. That The Hongkong and Shanghai Banking Corporation Limited complies with the following minimum capital adequacy requirements, as required by the Banking Ordinance of Hong Kong:

   - Tier one capital of The Hongkong and Shanghai Banking Corporation Limited is not less than 4 percent of risk weighted exposures; and

   - Capital of The Hongkong and Shanghai Banking Corporation Limited is not less than 8 percent of risk weighted exposures.

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.

For the purposes of these conditions of registration, the term “Banking Group” means the New Zealand operations of The Hongkong and Shanghai Banking Corporation Limited and all New Zealand incorporated subsidiaries of The Hongkong and Shanghai Banking Corporation Limited.

Changes to Conditions of Registration as from 1 July 2011 and 30 September 2011

Changes have been made to the Conditions of Registration above and will apply on and after 1 July 2011. The purpose of the changes is to add definitions to the terminology used in the existing Conditions of Registration by making reference to the applicable financial reporting standards.

Prior to the signing of the Disclosure Statement, further changes have been made to the Conditions of Registration which will apply on and after 30 September 2011. The changes relate to an additional definition of “generally accepted accounting practice” and minor changes to the condition limiting insurance business and to the condition limiting non-financial activities.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2011

		Unaudited Six months ended	
Dollars in Thousands	Note	**30.06.11**	30.06.10
Interest income		**101,490**	107,597
Interest expense		**(58,450)**	(63,207)
Net interest income		**43,040**	44,390
Net trading income		**6,082**	6,619
Other net operating income	2	**17,522**	20,922
Operating income		**66,644**	71,931
Operating expenses		**(31,831)**	(27,698)
Operating profit before provisions and tax		**34,813**	44,233
Provisions for loan impairment	7	**(1,379)**	(4,240)
Operating profit before tax		**33,434**	39,993
Income tax expense		**(9,429)**	(12,611)
Profit after tax		**24,005**	27,382
Other comprehensive income			
Cashflow hedges		**1,056**	(3,605)
Income tax expense on cashflow hedge		**(640)**	1,095
Available-for-sale financial assets		**57**	233
Income tax expense on available-for-sale financial assets		**(5)**	(69)
Other comprehensive income for the period		**468**	(2,346)
Total comprehensive income for the period		**24,473**	25,036

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 2011

	Unaudited Six months ended	Unaudited Six months ended
Dollars in Thousands	**30.06.11**	30.06.10
Head Office Account *		
At beginning of period	**28,184**	24,607
Repatriation to Head Office	**(28,184)**	(24,607)
Profit after tax	**24,005**	27,382
At end of period	**24,005**	27,382
Cashflow Hedging Reserve		
At beginning of period	**(1,909)**	1,076
Movement in the fair value of derivatives	**1,132**	(2,845)
Amortisation of previously terminated swaps to profit or loss	**(76)**	(760)
Tax on movements and transfers	**(640)**	1,095
At end of period	**(1,493)**	(1,434)
Available for Sale Reserve		
At beginning of period	**36**	(263)
Movement in the fair value of debt and equity securities	**17**	198
Tax on movements and transfers	**(5)**	(69)
Transfers to profit or loss on disposal of equity securities	**40**	35
At end of period	**88**	(99)
Other Reserve		
At beginning of period	**1,598**	1,261
Amortisation of share options granted	**215**	175
Movement in respect of share-based payment arrangements	**(46)**	(1)
At end of period	**1,767**	1,435
Equity at end of period	**24,367**	27,284
Represented by:		
Profit after tax	**24,005**	27,382
Other comprehensive income	**468**	(2,346)
Total comprehensive income for the period	**24,473**	25,036
Repatriation to Head Office	**(28,184)**	(24,607)
Movement in other reserve	**169**	174
Equity at beginning of period	**27,909**	26,681
	24,367	27,284

* The Head Office account is interest free, repayable at the discretion of the Branch and subordinate 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 2011

Dollars in Thousands	Note	**Unaudited 30.06.11**	Unaudited 30.06.10	Audited 31.12.10
ASSETS				
Cash and demand balances with central banks		**479,245**	695,296	783,962
Advances to banks		**5,156**	650	1,235
Debt and equity securities		**523,144**	538,743	665,404
Derivative financial instruments	3	**202,605**	162,169	182,921
Advances to customers		**3,301,659**	3,233,139	3,126,984
Amounts due from related parties	3	**127,975**	360,475	212,951
Other assets		**14,601**	17,911	17,208
Current taxation		**-**	-	1,380
Deferred taxation		**6,652**	4,639	6,425
Intangible assets		**22,362**	19,747	20,173
Fixed assets		**1,922**	1,931	2,256
Total Assets		**4,685,321**	5,034,700	5,020,899
LIABILITIES				
Deposits by banks		**144,777**	171,560	164,321
Derivative financial instruments	3	**208,138**	168,863	215,519
Customer deposits		**2,741,798**	2,737,938	2,427,178
Debt securities		**631,788**	770,870	719,269
Amounts due to related parties	3	**899,232**	1,125,670	1,431,776
Other liabilities		**32,299**	30,795	34,927
Current taxation		**2,922**	1,720	-
Total Liabilities		**4,660,954**	5,007,416	4,992,990
Net Assets		**24,367**	27,284	27,909
EQUITY				
Head Office Account		**24,005**	27,382	28,184
Cashflow Hedging Reserve		**(1,493)**	(1,434)	(1,909)
Available for Sale Reserve		**88**	(99)	36
Other Reserve		**1,767**	1,435	1,598
Total Equity		**24,367**	27,284	27,909

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 2011

Dollars in Thousands	**Unaudited Six months ended 30.06.11**	Unaudited Six months ended 30.06.10 (Restated)
Cash flows from / (to) operating activities		
Interest received	**93,114**	98,470
Fees and commissions	**17,258**	20,842
Realised trading gain / (loss)	**(7,512)**	20,871
Interest paid	**(50,565)**	(58,566)
Operating expenses	**(34,179)**	(30,632)
Taxation paid	**(5,999)**	(19,654)
Net cash flows from / (to) operating activities before changes in operating assets and liabilities	**12,117**	31,331
Changes in operating assets and liabilities arising from cash flow movements		
Cash was provided net from / applied net (to):		
Debt and equity securities purchased	**150,238**	6,778
Advances to customers	**(139,867)**	64,279
Amounts due from related parties	**80,258**	(188,364)
Other assets	**2,253**	(1,314)
Other liabilities	**(2,790)**	1,089
Debt securities issued (Certificates of deposit)	**(295,266)**	(17,071)
Debt securities issued (Medium term notes)	**200,000**	-
Deposits by banks	**5,607**	(2)
Customer deposits	**63,049**	(62,599)
Amounts due to related parties	**(284,515)**	285,877
Net change in operating assets and liabilities	**(221,033)**	88,673
Net cash flows from / (to) operating activities	**(208,916)**	120,004
Cash flows from / (to) investing activities		
Proceeds from sale of fixed assets	**-**	3
Acquisition of fixed assets	**(95)**	(293)
Acquisition of intangible assets	**(2,614)**	-
Net cash flows from / (to) investing activities	**(2,709)**	(290)
Cash flows from / (to) financing activities		
Repatriation to head office	**(28,184)**	(24,607)
Net cash flows from / (to) financing activities	**(28,184)**	(24,607)
Net increase / (decrease) in cash and cash equivalents	**(239,809)**	95,107
Effect of exchange rate fluctuations on cash held	**(12,245)**	(12,298)
Cash and cash equivalents at beginning of period	**(669,389)**	(620,619)
Cash and cash equivalents at end of period	**(921,443)**	(537,810)

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 2011

Dollars in Thousands	**Unaudited Six months ended 30.06.11**	Unaudited Six months ended 30.06.10 (Restated)
Analysis of cash and cash equivalents		
Cash and demand balances with central banks	**479,245**	695,296
Advances to banks – demand	**5,156**	650
Advances to customers – demand	**130,918**	116,047
Balance due from related parties – demand	**7,668**	16,791
Balance due to related parties – demand	**(47,579)**	(58,081)
Deposits by banks – demand	**(123,185)**	(160,914)
Deposits by customers - demand	**(1,373,666)**	(1,147,599)
	(921,443)	(537,810)
Reconciliation of profit after tax to net cash flows from operating activities		
Profit after tax	**24,005**	27,382
Adjustments to reconcile profit after tax to net cash flow from operating activities:		
Change in interest accruals and deferred income	**(449)**	(7,531)
Change in mark to market accruals	**(13,898)**	14,137
Depreciation	**429**	427
Amortisation of intangible asset	**425**	424
Amortisation of premium and discounts	**(42)**	3,045
Change in deferred income and accrued expense	**(3,417)**	(3,958)
Amortisation of share options granted	**215**	174
Impairment charge / (release) on loans and advances	**1,379**	4,240
(Gain) / loss on disposal of available-for-sale equity securities	**40**	35
(Gain) / loss on disposal of fixed assets	**-**	(1)
Current / deferred taxation	**3,430**	(7,043)
Adjust operating cash flows not included in profit after tax:		
Net change in operating assets and liabilities	**(221,033)**	88,673
Net cash flows from operating activities	**(208,916)**	120,004

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 considered for aggregation to form the Banking Group:

The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch

HSBC Nominees (New Zealand) Limited
This 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 entity provides fund management services to customers and commenced trading operations in June 2008. HSBC Investments New Zealand Limited is wholly owned by HSBC Asia Pacific Holdings (UK) Limited which is wholly owned by HBAP.

Due to the immaterial nature of the investments and results of both HSBC Nominees (New Zealand) Limited and HSBC Investments New Zealand Limited for the six months ended 30 June 2011, management has decided to exclude both subsidiaries from the financial statements of the Banking Group. The companies are both incorporated in New Zealand.

HSBC Cash Fund
The HSBC Cash Fund is a unit trust set up in June 2008 following the introduction by the New Zealand Inland Revenue of the Portfolio Investment Entity ("PIE") regime. The HSBC Cash Fund is managed by HSBC Investments New Zealand Limited with an independent trustee (New Zealand Guardian Trust) responsible for ensuring that the HSBC Cash Fund is administered in accordance with the trust deed. All funds received into the HSBC Cash Fund are placed with the Branch and are included in the Branch's financial results as Customer Deposits.

HSBC Term Fund
The HSBC Term Fund is a unit trust, first set up in April 2009, following the introduction by the New Zealand Inland Revenue of the Portfolio Investment Entity ("PIE") regime. The HSBC Term Fund is managed by HSBC Investments New Zealand Limited with an independent trustee (New Zealand Guardian Trust) responsible for ensuring that the HSBC Term Fund is administered in accordance with the trust deed. All funds received into the HSBC Term Fund are placed with the Branch and are included in the Branch's financial results as Customer Deposits.

Non-Banking Group Entities

The following New Zealand incorporated entities do not form part of the Banking Group as defined in the Conditions of Registration. They are ultimately wholly owned by HSBC Holdings plc and HBAP is not their parent entity.

HSBC International Trustee (New Zealand) Limited and ***HSBC International Trustee Limited, New Zealand Branch*** provide trustee services to an international client base. HSBC International Trustee (New Zealand) Limited is a wholly owned subsidiary of Bermuda Asia Pacific Holdings Limited, incorporated in the Cook Islands. HSBC International Trustee Limited is a body corporate incorporated in British Virgin Islands.

Non-controlled Special Purpose Entities

The following New Zealand incorporated entities do not form part of the Banking Group as defined in the Conditions of Registration. The Banking Group does not control the Special Purpose Entities.

HSBC Global Unit Trusts
The HSBC Global Unit Trusts were set up in August 2009 to support the local launch of HSBC Group Investment Funds under the Portfolio Investment Entity ("PIE") structure and branded locally as HSBC Investments New Zealand Limited Global Unit Trusts.

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

1. Statement of Accounting Policies *(continued)*

Non-controlled Special Purpose Entities (continued)

HSBC Global Unit Trusts (continued)

The HSBC Global Unit Trusts are managed by HSBC Investments New Zealand Limited with an independent trustee (New Zealand Guardian Trust) responsible for ensuring that the HSBC Global Unit Trusts are administered in accordance with the trust deed. Funds received into the HSBC Global Unit Trusts are primarily invested in shares of a sub-fund of HSBC Global Investment Funds, an investment company incorporated in the Grand Duchy of Luxembourg. HSBC Investment Funds (Luxembourg) S.A., the manager of the Sub-funds is part of HSBC Global Asset Management. There are currently four funds offered; HSBC China Fund, HSBC BRIC Fund, HSBC India Fund and HSBC Asia ex Japan Fund.

HSBC World Selection Funds

The HSBC World Selection Funds were established on 18 January 2010 to support the local launch of HSBC Portfolios under the Portfolio Investment Entity ("PIE") structure.

The HSBC World Selection Funds are managed by HSBC Investments New Zealand Limited with an independent trustee (New Zealand Guardian Trust) responsible for ensuring that the HSBC World Selection Funds are administered in accordance with the trust deed. Funds received into the HSBC World Selection Funds are invested primarily in shares of a sub-fund of HSBC Portfolios, an investment company incorporated in the Grand Duchy of Luxembourg. HSBC Investment Funds (Luxembourg) S.A. is the manager of the HSBC Portfolios and HSBC Global Asset Management (UK) Limited is the investment adviser. Both the manager and investment adviser are part of HSBC Global Asset Management. There are currently three funds offered; HSBC World Selection – Foundation Fund, HSBC World Selection – Frontier Fund, and HSBC World Selection – Horizon Fund.

Basis of consolidation

Special purpose entities

The Banking Group has established the following special purpose entities ('SPEs'): the HSBC Cash Fund, the HSBC Term Fund, the HSBC Global Unit Trusts and the HSBC World Selection Funds.

The Banking Group does not have any direct or indirect unit holding in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Banking Group and the SPE's risks and rewards, the Banking Group concludes that it controls the SPE. The SPEs controlled by the Banking Group are established under terms that impose strict limitations on the decision making powers of the SPEs' management and operates in a predetermined way such that virtually all rights, obligations and aspects of their activities are controlled through these terms.

Transactions eliminated on consolidation

Intra-group balances are eliminated in preparing the Banking Group's 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 (No 2) 2011, the Reserve Bank of New Zealand Act 1989 and NZ IAS 34 Interim Financial Reporting and do not include all the disclosures required for full annual financial statements. These interim financial statements are condensed financial statements in accordance with NZ IAS 34 Interim Financial Reporting.

Measurement Base

These interim financial statements are based on the general principles of historical cost accounting, as modified by the revaluation of certain assets and liabilities. The going concern concept 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 *(continued)*

1. Statement of Accounting Policies *(continued)*

Particular Accounting Policies

These interim financial statements have been prepared in accordance with NZ IAS 34 and should be read in conjunction with the General Disclosure Statement for the year ended 31 December 2010. The same accounting policies have been followed in these interim financial statements as were applied in the presentation of the General Disclosure Statement for the year ended 31 December 2010.

Changes in Accounting Policies

The accounting policies have not changed and are the same as those applied by the Banking Group in the General Disclosure Statement for the year ended 31 December 2010.

Comparative Figures

These interim financial statements include comparative information as required by NZ IAS 34 and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order (No 2) 2011.

In the comparative period, the amortisation of premium and discounts of debt securities was presented in interest received and interest paid in the Statement of Cash Flows. For the current period ended 30 June 2011, it is presented as a non-cash item and reclassified as changes in operating assets and liabilities. The classification of amounts due to related parties and medium term notes has been changed from financing activities to operating activities in the Statement of Cash Flows, to more accurately reflect the nature of the transactions. Comparative figures have been restated accordingly and there was no impact on the net movement in cash and cash equivalents. There have been no other changes to the comparative figures.

Risk Management

There has been no material change during the six months ended 30 June 2011 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)*

Dollars in Thousands	**Unaudited 30.06.11**

2. Other Net Operating Income

Fee and commission income	**19,603**
Fee and commission expense	**(2,041)**
Loss on disposal of available-for-sale equity securities	**(40)**
	17,522

3. 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	**127,975**
Derivative financial instruments – assets	**45,881**
Total related party assets	**173,856**
Liabilities	
Amounts due to related parties	**899,232**
Derivative financial instruments – liabilities	**60,570**
Total related party liabilities	**959,802**

4. Total Liabilities Net of Amounts Due to Related Parties — **3,701,152**

5. Interest Earning Assets and Interest Bearing Liabilities

Total interest earning and discount bearing assets	**4,432,967**
Total interest and discount bearing liabilities	**4,193,795**

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

6. 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 capital and 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) (formerly Personal Financial Services (PFS))*
  Includes loans, deposits and other transactions with retail customers.

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

- *Global Banking and Markets (GBM)*
  Manages the relationships with large corporate and 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 retained profits.

	Unaudited 6 months ended 30.06.11					
Dollars in Thousands	**RBWM**	**CMB**	**GBM**	**Total Reportable Segments**	**Reconciling items**	**Consolidated**
Operating income	**14,896**	**36,793**	**10,918**	**62,607**	**4,037**	**66,644**
Operating profit / (loss) before tax	**2,736**	**22,818**	**4,542**	**30,096**	**3,338**	**33,434**

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

Dollars in Thousands	**Unaudited 30.06.11**
7. Asset Quality	
Past due but not impaired	
Less than 30 days	**54,249**
At least 30 days but less than 60 days	**2,380**
At least 60 days but less than 90 days	**235**
At least 90 days or more	**-**
Carrying amount	**56,864**

In the current period there is only one class of impaired financial assets, being advances to customers.

Gross individually impaired assets	
Balance at the beginning of the period	**71,781**
Exchange adjustment	**(234)**
Transfers from performing	**2,861**
Transfers to performing	**(353)**
Write-offs	**(771)**
Repayment	**(6,629)**
Balance at the end of the period	**66,655**
Specific provision for loan impairment	
Balance at the beginning of the period	**18,412**
New and additional provisions charged to profit or loss	**2,724**
Provisions released during the period to profit or loss	**(977)**
Write-offs	**(771)**
Discount unwind [1]	**(1,517)**
Exchange adjustment	**(234)**
Balance at the end of the period	**17,637**
Collective provision for loan impairment	
Balance at the beginning of the period	**1,775**
Additional provision charged to profit or loss	**380**
Provisions released during the period to profit or loss	**(300)**
Balance at the end of the period	**1,855**
Total provisions for loan impairment	**19,492**
Profit or loss charge / (credit)	
Provisions for impairment against advances	**3,104**
Provisions release no longer required	**(1,277)**
Recoveries of amounts written off in previous period	**(448)**
	1,379

[1] 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 restructured assets, real estate assets, other assets acquired through the enforcement of security or assets under administration.

The aggregate amount as at 30 June 2011 of any undrawn balances on lending commitments to counterparties for whom drawn balances fall within the above mentioned class of assets, before deducting allowances for credit impairment loss where applicable, is nil.

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

8. Risk Weighted Exposures

Risk weighted exposures are derived in accordance with the Reserve Bank of New Zealand's Capital Adequacy Framework as required by the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order (No 2) 2011.

Contingent liabilities and commitments are credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The contract amount represents the amount at risk should the contract be fully drawn upon and the client default. The credit equivalent amounts are determined in accordance with the original exposure method under the Reserve Bank of New Zealand's risk weighted capital adequacy guidelines.

Off - balance sheet financial instruments arise from futures, forward, swap and option transactions undertaken by the Banking Group in the foreign exchange and interest rate markets. Contractual amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Total risk weighted exposure – 30 June 2011 (Unaudited)

On-balance sheet	*Principal Amount*	*Risk Weight*	*Risk Weighted Exposure*
	$m	**%**	**$m**
Cash and short-term claims on government	**572.5**	**0.0**	**-**
Claims on banks	**869.5**	**20.0**	**173.9**
Residential mortgages	**991.5**	**50.0**	**495.8**
Other assets	**2,049.3**	**100.0**	**2,049.3**
Non-risk weighted assets	**202.6**	**-**	**-**
Total assets	**4,685.4**		**2,719.0**

Off-balance sheet	*Contract amount*	*Credit equivalent amount*	*Average Counterparty Risk weight*	*Risk Weighted Exposure*
	$m	**$m**	**%**	**$m**
Direct credit substitutes	**51.5**	**51.5**	**41.9**	**21.6**
Transaction related contingent items	**96.7**	**48.4**	**91.9**	**44.5**
Trade related contingent items	**113.2**	**22.6**	**33.2**	**7.5**
Commitments, maturity one year or more	**258.6**	**129.3**	**84.5**	**109.3**
Commitments, maturity up to one year	**1,221.2**	**-**	**-**	**-**
Market related contracts				
Foreign exchange contracts:				
Forwards				
- *Trading*	**5,328.0**	**150.6**	**30.9**	**46.5**
Currency Options				
- *Trading*	**1,936.4**	**81.0**	**32.7**	**26.5**
Cross Currency Swaps				
- *Trading*	**1,516.4**	**142.9**	**32.3**	**46.2**
Interest rate contracts:				
Swaps				
- *Trading*	**2,260.4**	**89.2**	**29.8**	**26.6**
- *Other than trading*	**477.0**	**8.0**	**20.0**	**1.6**
Interest rate options				
- *Trading*	**153.0**	**5.0**	**20.0**	**1.0**
Total off-balance sheet exposures	**13,412.4**	**728.5**		**331.3**
Total risk weighted credit exposures				**3,050.3**

Residential mortgages by loan-to-valuation ratio as at 30 June 2011 (Unaudited)

	Principal Amount			
	Does not exceed 80%	**Exceeds 80% and not 90%**	**Exceeds 90%**	**Total**
	$m	**$m**	**$m**	**$m**
Value of exposures on balance sheet	**971.0**	**16.6**	**3.9**	**991.5**
Value of exposures off balance sheet	**34.1**	**0.6**	**0.1**	**34.8**
Total value of exposures	**1,005.1**	**17.2**	**4.0**	**1,026.3**

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

9. 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.

Dollars in Thousands	**Unaudited 30.06.11**
On-balance sheet credit exposures	
Cash and demand balances with central banks	**479,245**
Advances to banks	**5,156**
Debt and equity securities	**523,144**
Advances to customers	**3,301,659**
Amounts due from related parties	**127,975**
Other assets	**14,341**
	4,451,520
Off-balance sheet credit exposures and derivatives	**1,943,858**
Total credit exposures	**6,395,378**

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	**1,128,796**
Commercial and industrial	**2,221,393**
Commercial real estate and construction	**748,729**
Banks and financial institutions	**1,525,875**
Agriculture – Forestry and mining	**275,806**
Other	**494,779**
	6,395,378

Concentrations of credit risk by geographical area

New Zealand	**5,733,486**
Hong Kong	**133,283**
Other Overseas	**528,609**
	6,395,378

Concentration of Credit Exposures to Individual counterparties

The Banking Group has no credit exposures including exposures to any OECD Government, equal to or in excess of 10% of HBAP Group’s equity, during the current reporting period and the previous corresponding period. These exposures do not include exposures to counterparties if they are booked outside of New Zealand.

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

9. Concentrations of Credit and Funding Risk *(continued)*

Dollars in Thousands	Unaudited 30.06.11
Concentrations of funding	
Concentrations of funding by product	
Deposits by banks	**144,777**
Customer deposits	**2,741,798**
Debt securities	**631,788**
Amounts due to related parties	**899,232**
	4,417,595
Concentrations of funding by industry	
Agriculture, forestry, fishing and mining	**41,471**
Manufacturing	**205,423**
Electricity, gas and water	**558**
Wholesale and retail trade	**95,058**
Accommodation and restaurants	**19,591**
Banking and finance	**1,995,984**
Property and business services	**215,995**
Local authorities	**42,407**
Individual	**1,737,425**
Other	**63,683**
	4,417,595
Concentrations of funding by geographical area	
New Zealand	**2,439,976**
Australia	**47,084**
China	**281,106**
Great Britain	**157,436**
Hong Kong	**849,850**
Malaysia	**41,212**
Singapore	**39,440**
Taiwan	**62,461**
Other Overseas	**499,030**
	4,417,595

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

10. Interest Rate Risk – Repricing Schedule

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

Dollars in Millions	*Up to 3 months*	*Over 3 months and up to 6 months*	*Over 6 months and up to 1 year*	*Over 1 year and up to 2 years*	*Over 2 years*	*Total interest bearing*	*Non interest bearing*	*Total*
30 June 2011 (Unaudited)								
Assets								
Cash and demand balances with central banks	**477**	**-**	**-**	**-**	**-**	**477**	**2**	**479**
Advances to banks	**5**	**-**	**-**	**-**	**-**	**5**	**-**	**5**
Debt and equity securities	**468**	**55**	**-**	**-**	**-**	**523**	**-**	**523**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**203**	**203**
Advances to customers	**2,094**	**991**	**62**	**80**	**75**	**3,302**	**-**	**3,302**
Amounts due from related parties	**116**	**-**	**10**	**-**	**-**	**126**	**2**	**128**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**14**	**14**
Deferred taxation	**-**	**-**	**-**	**-**	**-**	**-**	**7**	**7**
Intangible assets	**-**	**-**	**-**	**-**	**-**	**-**	**22**	**22**
Fixed assets	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**2**
Total assets	**3,160**	**1,046**	**72**	**80**	**75**	**4,433**	**252**	**4,685**
Liabilities								
Deposits by banks	**131**	**12**	**2**	**-**	**-**	**145**	**-**	**145**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**208**	**208**
Customer deposits	**2,086**	**347**	**220**	**22**	**48**	**2,723**	**19**	**2,742**
Debt securities	**432**	**-**	**-**	**-**	**200**	**632**	**-**	**632**
Amounts due to related parties	**614**	**-**	**-**	**-**	**80**	**694**	**205**	**899**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**32**	**32**
Current taxation	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**3**
Total liabilities	**3,263**	**359**	**222**	**22**	**328**	**4,194**	**467**	**4,661**
Net balance of derivative financial instruments	**(68)**	**(7)**	**(15)**	**90**	**-**	**-**	**-**	**-**

11. 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, registered certificates of deposits issued by other banks, and overnight deposits held with related parties. The Banking Group holds the following liquid assets in order to manage its liquidity risk:

Dollars in Thousands	**Unaudited 30.06.11**
Demand balances with the central bank	**477,565**
Available-for-sale debt securities and treasury bills	**523,088**
Amount due from related parties	**-**
	1,000,653

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

11. 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.

Dollars in Millions	*On Demand*	*0-1 month*	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*No specific maturity*	*Total*
30 June 2011 (Unaudited)								
Assets								
Cash and demand balances with central banks	**479**	**-**	**-**	**-**	**-**	**-**	**-**	**479**
Advances to banks	**5**	**-**	**-**	**-**	**-**	**-**	**-**	**5**
Debt and equity securities	**-**	**364**	**104**	**55**	**-**	**-**	**-**	**523**
Advances to customers	**131**	**84**	**488**	**516**	**1,150**	**933**	**-**	**3,302**
Amounts due from related parties	**8**	**83**	**27**	**10**	**-**	**-**	**-**	**128**
Other assets	**1**	**13**	**-**	**-**	**-**	**-**	**-**	**14**
Deferred taxation	**-**	**-**	**-**	**-**	**-**	**-**	**7**	**7**
Intangible assets	**-**	**-**	**-**	**1**	**6**	**1**	**14**	**22**
Fixed assets	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**2**
Total	**624**	**544**	**619**	**582**	**1,156**	**934**	**23**	**4,482**
Derivative financial instruments – inflow	**1**	**18**	**39**	**278**	**1,405**	**3**	**-**	**1,744**
Derivative financial instruments – (outflow)	**-**	**-**	**-**	**(242)**	**(1,299)**	**-**	**-**	**(1,541)**
Derivative financial instruments - assets	**1**	**18**	**39**	**36**	**106**	**3**	**-**	**203**
Liabilities								
Deposits by banks	**123**	**3**	**4**	**15**	**-**	**-**	**-**	**145**
Customer deposits	**1,374**	**372**	**357**	**567**	**51**	**21**	**-**	**2,742**
Debt securities	**-**	**117**	**315**	**-**	**200**	**-**	**-**	**632**
Amounts due to related parties	**241**	**27**	**50**	**100**	**481**	**-**	**-**	**899**
Other liabilities	**-**	**31**	**1**	**-**	**-**	**-**	**-**	**32**
Current taxation	**-**	**-**	**-**	**3**	**-**	**-**	**-**	**3**
Total	**1,738**	**550**	**727**	**685**	**732**	**21**	**-**	**4,453**
Derivative financial instruments – (inflow)	**-**	**-**	**-**	**(242)**	**(1,299)**	**-**	**-**	**(1,541)**
Derivative financial instruments – outflow	**1**	**22**	**39**	**281**	**1,403**	**3**	**-**	**1,749**
Derivative financial instruments – liabilities	**1**	**22**	**39**	**39**	**104**	**3**	**-**	**208**
Net assets	**(1,114)**	**(10)**	**(108)**	**(106)**	**426**	**913**	**23**	**24**

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

11. Liquidity Risk Management *(continued)*

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.

Dollars in Millions	*On Demand*	*0-1 month*	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 years*	*No specific maturity*	*Total*
30 June 2011 (Unaudited)								
Financial Assets								
Cash and demand balances with central banks	**479**	**-**	**-**	**-**	**-**	**-**	**-**	**479**
Advances to banks	**5**	**-**	**-**	**-**	**-**	**-**	**-**	**5**
Debt and equity securities	**-**	**364**	**104**	**55**	**-**	**-**	**-**	**523**
Advances to customers	**131**	**97**	**513**	**608**	**1,448**	**4,339**	**-**	**7,136**
Amounts due from related parties	**8**	**83**	**27**	**10**	**-**	**-**	**-**	**128**
Other assets	**1**	**13**	**-**	**-**	**-**	**-**	**-**	**14**
Total non-derivative financial assets	**624**	**557**	**644**	**673**	**1,448**	**4,339**	**-**	**8,285**
Derivative financial instruments – inflow	**1**	**18**	**39**	**278**	**1,405**	**3**	**-**	**1,744**
Derivative financial instruments – (outflow)	**-**	**-**	**-**	**(242)**	**(1,299)**	**-**	**-**	**(1,541)**
Derivative financial instruments - assets	**1**	**18**	**39**	**36**	**106**	**3**	**-**	**203**
Financial Liabilities								
Deposits by banks	**123**	**3**	**4**	**15**	**-**	**-**	**-**	**145**
Customer deposits	**1,374**	**373**	**360**	**594**	**63**	**22**	**-**	**2,786**
Debt securities	**-**	**117**	**317**	**-**	**200**	**-**	**-**	**634**
Amounts due to related parties	**241**	**27**	**50**	**100**	**481**	**-**	**-**	**899**
Other liabilities	**-**	**27**	**1**	**-**	**-**	**-**	**-**	**28**
Total non-derivative financial liabilities	**1,738**	**547**	**732**	**709**	**744**	**22**	**-**	**4,492**
Derivative financial instruments – (inflow)	**-**	**-**	**-**	**(242)**	**(1,299)**	**-**	**-**	**(1,541)**
Derivative financial instruments – outflow	**1**	**22**	**39**	**281**	**1,403**	**3**	**-**	**1,749**
Derivative financial instruments – liabilities	**1**	**22**	**39**	**39**	**104**	**3**	**-**	**208**
Net financial assets	**(1,114)**	**6**	**(88)**	**(39)**	**706**	**4,317**	**-**	**3,788**
Undrawn loan commitments	**565**	**-**	**915**	**-**	**-**	**-**	**-**	**1,480**

12. Market Risk Exposures

Aggregate market risk exposures are derived in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) as stated in clauses 4 to 6 of the Ninth Schedule to the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order (No 2) 2011.

Dollars in Millions	*Implied risk weighted Exposure*	*Notional capital charge*
Exposure at 30 June 2011 (Unaudited)		
Interest rate risk	**31.1**	**2.49**
Foreign currency risk	**0.4**	**0.03**
Equity risk	**-**	**-**
Peak exposure period 1 January 2011 to 30 June 2011 (Unaudited)		
Interest rate risk	**67.6**	**5.41**
Foreign currency risk	**3.0**	**0.24**
Equity risk	**-**	**-**

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

12. Profitability, Size and Asset Quality of HBAP Group

Dollars in HK$ millions	**Unaudited Period ended 30.06.11**
Profitability	
Net profit after tax	**37,337**
Net profit after tax over the previous 12 month period, as a percentage of average total assets	**1.4%**
Size	
Total assets	**5,497,059**
Percentage increase in total assets over the 12 months ending on 30 June 2011	**18.6%**
Asset Quality	
Individually impaired assets	**13,107**
Individual impairment provision against advances to customers	**7,063**
Collective impairment provision against advances to customers	**4,515**
Individually impaired assets / total assets	**0.2%**
Individual impairment provision / impaired assets	**53.9%**

13. Capital Adequacy Ratios

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 (IRBA) 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 securitisation exposures. For market risk, HBAP Group used an internal models approach to calculate its general market risk and market risk relating to equity options. HBAP Group uses an internal models approach to calculate its market risk in respect of specific risk for the interest rate risk category. HBAP Group uses the standardised (market risk) approach for calculating other market risk positions 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 and are not publicly available. HBAP Group meets, and exceeds, the minimum capital ratio requirements as specified by the HKMA as at 30 June 2011 and 31 December 2010.

HBAP Group reported the following capital adequacy ratios:

	Unaudited 30.06.11	Unaudited 31.12.10
Basel II IRBA Approach		
Core capital ratio	11.7%	11.7%
Capital adequacy ratio	14.5%	14.7%

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

14. Insurance and non-financial activities

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

15. Subsequent Event

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

Directors' and New Zealand Chief Executive Officer's Statements

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

- The Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order (No 2) 2011;
- 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 2011.

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

28 September 2011

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

Independent auditors' review report

To the Shareholder of The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch

We have reviewed the accompanying interim financial statements and supplementary information of The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group (the 'Banking Group') on pages 8 to 25. The interim financial statements comprise the statement of financial position of the Banking Group as at 30 June 2011, the statement of comprehensive income, changes in equity and cash flows of the Banking Group for the six months then ended, and a summary of significant accounting policies and other explanatory information. The supplementary information comprises the information that is required to be disclosed under the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order (No 2) 2011 (the "Order").

Directors' responsibilities

The directors are responsible for the preparation of interim financial statements in accordance with Clause 26 of the Order and NZ IAS 34 Interim Financial Reporting and which give a true and fair view of the financial position of the Banking Group as at 30 June 2011 and the results of its operations and cash flows for the six months ended on that date. The directors are also responsible for such internal controls as they determine necessary to enable the preparation of Banking Group interim financial statements that are free from material misstatement whether due to fraud or error.

The directors are responsible for the preparation and fair presentation of supplementary information, in accordance with Schedules 3, 5, 7, 9, 10, 12 and 14 of the Order, and which is prepared in accordance with the guidelines (if any) issued pursuant to Section 78(3) of the Reserve Bank of New Zealand Act 1989 and any conditions of registration.

The directors are also responsible for the preparation of supplementary information relating to credit and market risk exposures and capital adequacy, in accordance with Schedule 9 of the Order, and which is prepared in accordance with Capital Adequacy Framework (Basel I Approach) (BS2) and Capital Adequacy Framework (Standardised Approach) (BS2A) and disclosed in accordance with Schedule 9.

Reviewers' responsibilities

It is our responsibility to express an independent opinion on the interim financial statements and supplementary information presented by the directors and report our opinion to you.

Basis of opinion

We have performed our review in accordance with the review engagement standard and guidelines issued by the New Zealand Institute of Chartered Accountants. A review is limited primarily to enquiries of Banking Group personnel and analytical review procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Our firm has also provided other services to the Banking Group in relation to taxation and general accounting services. Partners and employees of our firm may also deal with the Banking Group on normal terms within the ordinary course of trading activities of the business of the Banking Group. There are, however, certain restrictions on dealings which the partners and employees of our firm can have with the Banking Group. These matters have not impaired our independence as auditors of the Banking Group. The firm has no other relationships with, or interest in, the Banking Group.

Review opinion

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

- the interim financial statements on pages 8 to 25 (excluding the supplementary information) have not been prepared, in all material respects, in accordance with NZ IAS 34: Interim Financial Reporting;

- the supplementary information that is required to be disclosed under 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

- the supplementary information relating to credit and market risk exposures and capital adequacy that is required to be disclosed under Schedule 9 of the Order is not, in all material respects, prepared in accordance with Capital Adequacy Framework (Basel I Approach) (BS2) and Capital Adequacy Framework (Standardised Approach) (BS2A) and disclosed in accordance with Schedule 9 of the Order.

Our review was completed on 28 September 2011 and our opinion is expressed as at that date.

KPMG

Auckland