

The Hongkong and Shanghai Banking Corporation Limited

New Zealand Banking Group

Disclosure Statement

30 June 2012

HSBC 

Disclosure Statement For the Six Months Ended 30 June 2012

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General Disclosures

Registered Bank

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

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

New Zealand Branch

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

New Zealand Head Office:

1 Queen Street
Auckland
New Zealand

New Zealand Banking Group

The New Zealand Banking Group (“Banking Group”) is the New Zealand operations of HBAP and all New Zealand incorporated subsidiaries of HBAP 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 Banking Group’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

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 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.

Auditor

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 2012.

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
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 (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 (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 Limited

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

Non-Executive Chairman of MTR Corporation Limited and Independent Non-executive Chairman of Hang Seng Bank Limited

*** 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

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, Cheung Kong (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

Peter James Holland Riley

BA Hons in Geography from University College, Durham University; ACA (Qualified 1985), FCPA

Group Finance Director of Jardine Matheson Holdings Ltd.

***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

General Disclosures *(continued)*

Board of Directors of HBAP *(continued)*

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 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

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

Chairman, Esquel Holdings Inc.

* Tan Sri Dr Francis Yeoh Sock Ping, CBE

Honorary Doctorate of Engineering from University of Kingston, 2004

Fellow of the Institute of Civil Engineers in London, 2008

Managing Director of YTL Corporation Berhad

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, Andreas Sohlen-Pao resides in Singapore and Tan Sri Dr Francis Yeoh Sock Ping resides in Malaysia.

Communications addressed to the Directors may be sent to:

c/o The Hongkong and Shanghai Banking Corporation Limited

GPO Box 64

Hong Kong

Change in Board of Directors for HBAP

The composition of the Board of Directors has changed since 31 December 2011.

Mr Peter James Holland Riley and Ms Rose Wai Mun Lee were appointed as non-executive directors of HBAP with effect from 1 January 2012 and 21 May 2012 respectively. Ms Margaret Leung Ko May Yee and Dr Ka Shui Lo resigned as non-executive directors of HBAP with effect from 12 May 2012 and 21 May 2012 respectively. Tan Sri Dr Francis Yeoh Sock Ping was appointed as non-executive director of HBAP with effect from 1 July 2012.

Credit Rating

HBAP has the following long term debt ratings for non-HK\$ long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars:

	Current Rating	Previous Rating (if changed in the previous two years)	Date of Change
Moody's Investor Service Inc.	Aa2 (stable outlook)	Aa1 (stable outlook)	25 June 2012
Standard & Poor's Corporation	AA- (stable outlook)	AA (stable outlook)	29 November 2011
Fitch IBCA Inc.	AA (negative outlook)	AA (stable outlook)	2 March 2012

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 30 September 2011.

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 practices; 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.

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 administered by the Hong Kong Monetary Authority:
 - (a) tier one capital of The Hongkong and Shanghai Banking Corporation Limited is not less than 4 percent of risk weighted exposures; and
 - (b) 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.

In these conditions of registration, –

“banking group” means the New Zealand business of the registered bank and its subsidiaries as required to be reporting 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” 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” has the same meaning as in section 2 of the Financial Reporting Act 1993:

“liabilities of the registered bank in New Zealand” means the liabilities of the registered bank as required to be reported in the financial statements under section 8(2) of the Financial Reporting Act 1993.

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STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2012

		<i>Banking Group</i>	
		Unaudited Six months ended	
<i>Dollars in Thousands</i>	Note	30.06.12	30.06.11
Interest income		104,272	101,490
Interest expense		(59,288)	(58,450)
Net interest income		44,984	43,040
Net trading income		5,695	6,082
Other net operating income	2	16,466	17,522
Operating income		67,145	66,644
Operating expenses		(28,542)	(31,831)
Operating profit before provisions and tax		38,603	34,813
Provisions for loan impairment	6	(875)	(1,379)
Operating profit before tax		37,728	33,434
Income tax expense		(10,632)	(9,429)
Profit after tax		27,096	24,005
Other comprehensive income			
Cashflow hedges		902	1,056
Income tax expense on cashflow hedge		(261)	(640)
Available-for-sale financial assets		(225)	57
Income tax expense on available-for-sale financial assets		70	(5)
Other comprehensive income for the period		486	468
Total comprehensive income for the period		27,582	24,473

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 2012

<i>Dollars in Thousands</i>	<i>Banking Group</i>	
	Unaudited	
	Six months ended	
	30.06.12	30.06.11
Head Office Account *		
At beginning of period	15,392	28,184
Repatriation to Head Office	(28,424)	(28,184)
Profit after tax	27,096	24,005
At end of period	14,064	24,005
Cashflow Hedging Reserve		
At beginning of period	(247)	(1,909)
Movement in the fair value of derivatives	1,004	1,132
Amortisation of previously terminated swaps to profit or loss	(102)	(76)
Tax on movements and transfers	(261)	(640)
At end of period	394	(1,493)
Available for Sale Reserve		
At beginning of period	33	36
Movement in the fair value of debt and equity securities	(246)	17
Tax on movements and transfers	70	(5)
Transfers to profit or loss on disposal of equity securities	21	40
At end of period	(122)	88
Other Reserve		
At beginning of period	1,967	1,598
Amortisation of share options granted	343	215
Movement in respect of share-based payment arrangements	(641)	(46)
At end of period	1,669	1,767
Equity at end of period	16,005	24,367
Represented by:		
Profit after tax	27,096	24,005
Other comprehensive income	486	468
Total comprehensive income for the period	27,582	24,473
Repatriation to Head Office	(28,424)	(28,184)
Movement in other reserve	(298)	169
Equity at beginning of period	17,145	27,909
	16,005	24,367

* 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 2012

<i>Dollars in Thousands</i>	Note	<i>Banking Group</i>		
		Unaudited 30.06.12	Unaudited 30.06.11	Audited 31.12.11
ASSETS				
Cash and demand balances with central banks		665,415	479,245	543,467
Advances to banks	4	42,691	5,156	14,337
Debt and equity securities		523,922	523,144	552,292
Derivative financial instruments	3	235,280	202,605	189,207
Advances to customers		3,420,255	3,301,659	3,431,183
Amounts due from related parties	3	177,476	127,975	153,681
Other assets		18,073	14,601	16,688
Deferred taxation		13,558	6,652	14,014
Intangible assets		22,274	22,362	22,539
Fixed assets		2,069	1,922	2,298
Total Assets		5,121,013	4,685,321	4,939,706
LIABILITIES				
Deposits by banks		203,779	144,777	153,240
Derivative financial instruments	3	234,519	208,138	186,451
Customer deposits		3,167,495	2,741,798	3,091,785
Debt securities		558,152	631,788	634,805
Amounts due to related parties	3	910,076	899,232	812,760
Other liabilities		28,520	32,299	34,920
Current taxation		2,467	2,922	8,600
Total Liabilities		5,105,008	4,660,954	4,922,561
Net Assets		16,005	24,367	17,145
EQUITY				
Head Office Account		14,064	24,005	15,392
Cashflow Hedging Reserve		394	(1,493)	(247)
Available for Sale Reserve		(122)	88	33
Other Reserve		1,669	1,767	1,967
Total Equity		16,005	24,367	17,145

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 2012

	<i>Banking Group</i>	
	Unaudited	
	Six months ended	
	30.06.12	30.06.11 (Restated)
<i>Dollars in Thousands</i>		
<i>Cash flows from / (to) operating activities</i>		
Interest received	98,257	91,598
Fees and commissions	16,126	17,258
Realised trading loss	(9,046)	(7,512)
Interest paid	(57,786)	(50,565)
Operating expenses	(36,824)	(34,179)
Taxation paid	(16,500)	(5,999)
Net cash flows from / (to) operating activities before changes in operating assets and liabilities	(5,773)	10,601
Changes in operating assets and liabilities arising from cash flow movements		
Cash was provided net from / applied net (to):		
Debt and equity securities purchased	30,104	150,238
Advances to customers	24,357	(138,351)
Amounts due from related parties	14,141	80,258
Other assets	1,130	2,253
Other liabilities	(2,353)	(2,790)
Debt securities issued (Certificates of deposit)	(81,932)	(295,266)
Debt securities issued (Medium term notes)	-	200,000
Deposits by banks	(23,158)	5,607
Customer deposits	8,901	63,049
Amounts due to related parties	17,889	(284,515)
Net change in operating assets and liabilities	(10,921)	(219,517)
Net cash flows to operating activities	(16,694)	(208,916)
<i>Cash flows to investing activities</i>		
Acquisition of fixed assets	(269)	(95)
Acquisition of intangible assets	(549)	(2,614)
Net cash flows to investing activities	(818)	(2,709)
<i>Cash flows to financing activities</i>		
Repatriation to head office	(28,424)	(28,184)
Net cash flows to financing activities	(28,424)	(28,184)
Net decrease in cash and cash equivalents	(45,936)	(239,809)
Effect of exchange rate fluctuations on cash held	17,810	(12,245)
Cash and cash equivalents at beginning of period	(969,380)	(669,389)
Cash and cash equivalents at end of period	(997,506)	(921,443)

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 2012

	<i>Banking Group</i>	
	Unaudited Six months ended	
<i>Dollars in Thousands</i>	30.06.12	30.06.11 (Restated)
<i>Analysis of cash and cash equivalents</i>		
Cash and demand balances with central banks	665,415	479,245
Advances to banks – demand	42,691	5,156
Advances to customers – demand	169,535	130,918
Balance due from related parties – demand	54,755	7,668
Balance due to related parties – demand	(158,987)	(47,579)
Deposits by banks – demand	(193,080)	(123,185)
Deposits by customers - demand	(1,577,835)	(1,373,666)
	<u>(997,506)</u>	<u>(921,443)</u>

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

Notes to and forming part of the Interim Financial Statements

1. Statement of Accounting Policies

GENERAL ACCOUNTING POLICIES

Reporting Entity

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

The following entities have been aggregated to form the Banking Group:

The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch

HSBC Nominees (New Zealand) Limited

This New Zealand incorporated entity is the Branch’s nominee company which provides custodian services. HSBC Nominees (New Zealand) Limited is wholly owned by HBAP. Income and expenses of the custodian services business are included in the Branch’s financial statements.

HSBC Investments New Zealand Limited

This New Zealand incorporated entity 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.

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 Banking Group’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 Banking Group’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 2012, 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. They are prepared on a going concern basis. 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 Disclosure Statement for the year ended 31 December 2011. The same accounting policies have been followed in these interim financial statements as were applied in the presentation of the Disclosure Statement for the year ended 31 December 2011.

Changes in Accounting Policies

The accounting policies have not changed and are the same as those applied by the Banking Group in the Disclosure Statement for the year ended 31 December 2011.

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 2012.

In the comparative period, the discount unwinding on impaired loans and advances was presented in interest received. For the current period ended 30 June 2012, it is presented as a non-cash item and reclassified as changes in operating assets and liabilities. 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 material changes to the comparative figures.

Risk Management

On 1 June 2012, the Branch reduced the committed loan facility from HBAP to USD 0.7 billion (December 2011: USD 0.9 billion). Up to USD 0.15 billion is on call, up to USD 0.35 billion may be drawn with 7 days notice, with a further USD 0.2 billion drawn with 30 days notice. The committed loan facility amount may change from time to time depending on the local balance sheet structure.

There has been no other material change during the six months ended 30 June 2012 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>	<i>Banking Group</i>	
	Unaudited 30.06.12	

2. Other net operating income

Fee and commission income	20,776
Fee and commission expense	(4,288)
Loss on disposal of available-for-sale equity securities	(21)
Loss on disposal of fixed assets	(1)
	<u>16,466</u>

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	177,476
Derivative financial instruments – assets	89,332
Total related party assets	<u>266,808</u>

Liabilities

Amounts due to related parties	910,076
Derivative financial instruments – liabilities	13,684
Total related party liabilities	<u>923,760</u>

4. Additional financial disclosures on the statement of financial position

Total interest earning and discount bearing assets	4,788,625
Total interest and discount bearing liabilities	4,619,109
Total liabilities net of amounts due to related parties	4,181,248
Advances to banks pledged as collateral for liabilities in respect of credit support annex obligation to derivative counterparties	8,100

Notes to and forming part of the Interim Financial Statements *(continued)***5. 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 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 income from the investment of retained profits.

<i>Banking Group</i>						
Unaudited six months ended 30.06.12						
<i>Dollars in Thousands</i>	RBWM	CMB	GBM	Total Reportable Segments	Reconciling items	Consolidated
Operating income	14,735	38,148	10,411	63,294	3,851	67,145
Operating profit before tax	3,526	24,695	4,230	32,451	5,277	37,728

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

<i>Dollars in Thousands</i>	Banking Group Unaudited 30.06.12
6. Asset quality	
Past due but not impaired	
Less than 30 days	45,578
At least 30 days but less than 60 days	1,629
At least 60 days but less than 90 days	349
At least 90 days or more	-
Carrying amount	<u>47,556</u>
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	75,325
Exchange adjustment	(111)
Transfers from performing	7,076
Transfers to performing	(126)
Write-offs	(722)
Repayment	(4,752)
Balance at the end of the period	<u>76,690</u>
Specific provision for loan impairment	
Balance at the beginning of the period	41,261
New and additional provisions charged to profit or loss	35
Provisions released during the period to profit or loss	(180)
Write-offs	(722)
Discount unwind ¹	(810)
Exchange adjustment	(111)
Balance at the end of the period	<u>39,473</u>
Collective provision for loan impairment	
Balance at the beginning of the period	1,690
Additional provision charged to profit or loss	1,513
Provisions released during the period to profit or loss	(223)
Balance at the end of the period	<u>2,980</u>
Total provisions for loan impairment	<u>42,453</u>
Profit or loss charge / (credit)	
Specific provisions for impairment against advances	35
Collective provisions for impairment against advances	1,513
Total provisions for impairment against advances	<u>1,548</u>
Specific provisions released	(180)
Collective provisions released	(223)
Total provisions released no longer required	(403)
Net increase in provisions for impairment against advances	1,145
Recoveries of amounts written off in previous period	(270)
	<u>875</u>

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 real estate assets, other assets acquired through the enforcement of security or assets under administration. The aggregate amount as at 30 June 2012 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)**7. Additional mortgage information****Residential mortgages by loan-to-valuation ratio**

	<i>Banking Group</i>			
	Principal Amount			Total \$m
	Does not exceed 80% \$m	Exceeds 80% and not 90% \$m	Exceeds 90% \$m	
30 June 2012 (Unaudited)				
Value of exposures on balance sheet	892.6	21.9	29.3	943.8
Value of exposures off balance sheet	32.4	0.0	0.0	32.4
Total value of exposures	925.0	21.9	29.3	976.2

8. Concentrations of credit and funding risk

The maximum credit risk of on-balance sheet financial assets is best represented by the carrying amount of the assets, net of any provision for credit impairment. The credit risk exposure does not take into account the fair value of any collateral, in the event of other parties failing to perform their obligations under financial instruments.

	<i>Banking Group</i>
	Unaudited 30.06.12
<i>Dollars in Thousands</i>	
On-balance sheet credit exposures	
Cash and demand balances with central banks	665,415
Advances to banks	42,691
Debt and equity securities	523,922
Advances to customers	3,420,255
Amounts due from related parties	177,476
Other assets	17,892
	4,847,651
Off-balance sheet credit exposures and derivatives	2,010,175
Total credit exposures	6,857,826

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

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:

	<i>Banking Group</i>
<i>Dollars in Thousands</i>	Unaudited
	30.06.12
Concentrations of credit risk by industry	
Individual	1,094,380
Commercial and industrial	2,523,876
Commercial real estate and construction	588,708
Banks and financial institutions	1,855,638
Agriculture, forestry and mining	275,805
Other	519,419
	<u>6,857,826</u>
Concentrations of credit risk by geographical area	
New Zealand	5,962,734
Hong Kong	132,375
Other Overseas	762,717
	<u>6,857,826</u>

Concentration of Credit Exposures to Individual counterparties

The Banking Group has no credit exposures equal to or in excess of 10% of HBAP Group's equity, during the current reporting period and the previous corresponding 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)***8. Concentrations of credit and funding risk** *(continued)*

	<i>Banking Group</i>
<i>Dollars in Thousands</i>	Unaudited 30.06.12
Concentrations of funding	
Concentrations of funding by product	
Deposits by banks	203,779
Customer deposits	3,167,495
Debt securities	558,152
Amounts due to related parties	910,076
	<u>4,839,502</u>
Concentrations of funding by industry	
Agriculture, forestry, fishing and mining	46,845
Manufacturing	169,567
Electricity, gas and water	395
Wholesale and retail trade	163,431
Accommodation and restaurants	14,632
Banking and finance	2,210,399
Property and business services	323,044
Local authorities	16,958
Individual	1,811,842
Other	82,389
	<u>4,839,502</u>
Concentrations of funding by geographical area	
New Zealand	2,425,623
Australia	87,129
China	312,554
Great Britain	167,631
Hong Kong	962,980
Malaysia	42,448
Singapore	78,405
Taiwan	63,378
Other Overseas	699,354
	<u>4,839,502</u>

Notes to and forming part of the Interim Financial Statements (continued)**9. 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.

<i>Dollars in Millions</i>	Banking Group							<i>Total</i>
	<i>Up to 3 months</i>	<i>Over 3 months and up to 6 months</i>	<i>Over 6 months and up to 1 year</i>	<i>Over 1 year and up to 2 years</i>	<i>Over 2 years</i>	<i>Total interest bearing</i>	<i>Non interest bearing</i>	
30 June 2012 (Unaudited)								
Assets								
Cash and demand balances with central banks	664	-	-	-	-	664	1	665
Advances to banks	43	-	-	-	-	43	-	43
Debt and equity securities	156	-	304	11	53	524	-	524
Derivative financial instruments	-	-	-	-	-	-	235	235
Advances to customers	2,390	778	145	84	23	3,420	-	3,420
Amounts due from related parties	130	4	4	-	-	138	39	177
Other assets	-	-	-	-	-	-	19	19
Deferred taxation	-	-	-	-	-	-	14	14
Intangible assets	-	-	-	-	-	-	22	22
Fixed assets	-	-	-	-	-	-	2	2
Total assets	3,383	782	453	95	76	4,789	332	5,121
Liabilities								
Deposits by banks	199	3	1	-	-	203	1	204
Derivative financial instruments	-	-	-	-	-	-	235	235
Customer deposits	2,438	375	270	24	41	3,148	19	3,167
Debt securities	558	-	-	-	-	558	-	558
Amounts due to related parties	630	-	80	-	-	710	200	910
Other liabilities	-	-	-	-	-	-	29	29
Current taxation	-	-	-	-	-	-	2	2
Total liabilities	3,825	378	351	24	41	4,619	486	5,105
Net balance of derivative financial instruments	(55)	320	(210)	(15)	(40)	-	-	-

10. 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, 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:

<i>Dollars in Thousands</i>	Banking Group
	Unaudited 30.06.12
Demand balances with the central bank	664,241
Available-for-sale debt securities and treasury bills	523,890
	1,188,131

Notes to and forming part of the Interim Financial Statements *(continued)***10. Liquidity risk management** *(continued)***Maturity Analysis**

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

<i>Dollars in Millions</i>	Banking Group							<i>Total</i>
	<i>On Demand</i>	<i>0-1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>No specific maturity</i>	
30 June 2012 (Unaudited)								
Assets								
Cash and demand balances with central banks	665	-	-	-	-	-	-	665
Advances to banks	43	-	-	-	-	-	-	43
Debt and equity securities	-	100	40	304	80	-	-	524
Advances to customers	170	132	203	676	1,370	869	-	3,420
Amounts due from related parties	55	62	52	8	-	-	-	177
Other assets	2	17	-	-	-	-	-	19
Deferred taxation	-	-	-	-	-	-	14	14
Intangible assets	-	-	-	1	6	1	14	22
Fixed assets	-	-	-	-	-	-	2	2
Total	935	311	295	989	1,456	870	30	4,886
Derivative financial instruments – inflow	-	22	7	2,081	1,198	548	-	3,856
Derivative financial instruments – (outflow)	-	-	-	(1,941)	(1,137)	(543)	-	(3,621)
Derivative financial instruments - assets	-	22	7	140	61	5	-	235
Liabilities								
Deposits by banks	193	6	2	3	-	-	-	204
Customer deposits	1,578	415	459	629	66	20	-	3,167
Debt securities	-	135	223	-	200	-	-	558
Amounts due to related parties	353	106	50	200	201	-	-	910
Other liabilities	1	24	4	-	-	-	-	29
Current taxation	-	-	-	2	-	-	-	2
Total	2,125	686	738	834	467	20	-	4,870
Derivative financial instruments – (inflow)	-	-	-	(1,941)	(1,137)	(543)	-	(3,621)
Derivative financial instruments – outflow	-	25	3	2,083	1,198	547	-	3,856
Derivative financial instruments – liabilities	-	25	3	142	61	4	-	235
Net assets	(1,190)	(378)	(439)	153	989	851	30	16

Notes to and forming part of the Interim Financial Statements (continued)**10. Liquidity risk management** (continued)**Maturity Analysis – undiscounted cashflows basis**

The table below analyses the Banking Group's financial assets and liabilities into relevant maturity groupings based on their remaining contractual maturities. The amounts in the table below represent all cash flows relating to principal and future interest payments on an undiscounted basis. Therefore they may differ to the carrying amounts on the Statement of Financial Position.

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

<i>Dollars in Millions</i>	Banking Group							<i>Total</i>
	<i>On Demand</i>	<i>0-1 month</i>	<i>1-3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>No specific maturity</i>	
30 June 2012 (Unaudited)								
Financial Assets								
Cash and demand balances with central banks	665	-	-	-	-	-	-	665
Advances to banks	43	-	-	-	-	-	-	43
Debt and equity securities	-	100	40	322	87	-	-	549
Advances to customers	170	145	228	770	1,654	1,593	-	4,560
Amounts due from related parties	55	62	52	8	-	-	-	177
Other assets	2	17	-	-	-	-	-	19
Total non-derivative financial assets	935	324	320	1,100	1,741	1,593	-	6,013
Derivative financial instruments – inflow	-	23	9	2,086	1,203	548	-	3,869
Derivative financial instruments – (outflow)	-	-	(2)	(1,947)	(1,143)	(543)	-	(3,635)
Derivative financial instruments - assets	-	23	7	139	60	5	-	234
Financial Liabilities								
Deposits by banks	193	6	2	3	-	-	-	204
Customer deposits	1,578	417	464	650	80	20	-	3,209
Debt securities	-	136	225	6	222	-	-	589
Amounts due to related parties	353	108	53	210	204	-	-	928
Other liabilities	1	24	3	-	-	-	-	28
Total non-derivative financial liabilities	2,125	691	747	869	506	20	-	4,958
Derivative financial instruments – (inflow)	-	-	(1)	(1,944)	(1,137)	(542)	-	(3,624)
Derivative financial instruments – outflow	-	26	3	2,085	1,198	547	-	3,859
Derivative financial instruments – liabilities	-	26	2	141	61	5	-	235
<i>Net financial assets</i>	(1,190)	(370)	(422)	229	1,234	1,573	-	1,054
<i>Undrawn loan commitments</i>	583	-	836	-	-	-	-	1,419

Notes to and forming part of the Interim Financial Statements (continued)**11. Market risk exposures**

Aggregate market risk exposures are derived in accordance with the Capital Adequacy Framework (Standardised Approach) (BS2A) as stated in clauses 4 of the Ninth Schedule to the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2012.

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>Exposure at 30 June 2012 (Unaudited)</i>		
Interest rate risk	23.9	1.9
Foreign currency risk	0.0	0.0
Equity risk	-	-
<i>Peak exposure period 1 January 2012 to 30 June 2012 (Unaudited)</i>		
Interest rate risk	50.8	4.1
Foreign currency risk	2.3	0.2
Equity risk	-	-

12. Contingent liabilities and other commitments**Contingent liabilities**

Contingent liabilities and commitments are credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The amounts below represent the amount at risk should contracts be fully drawn upon and clients default.

<i>Dollars in Thousands</i>	<i>Banking Group</i>	
		Unaudited 30.06.12
Direct credit substitutes		25,862
Transaction related contingent items		172,770
Trade related contingent items		157,109
Commitments, maturity one year or more		755,121
Commitments, maturity up to one year		664,033
		<u>1,774,895</u>
Capital commitments		
Contracted expenditure		-

13. Insurance and non-financial activities

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

14. Subsequent event

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

Notes to and forming part of the Interim Financial Statements (continued)**15. Profitability, size and asset quality of HBAP Group**

<i>Dollars in HK\$ millions</i>	Unaudited Six months ended 30.06.12	Audited Year ended 31.12.11
Profitability		
Net profit after tax	48,564	73,904
Net profit after tax over the previous 12 month period, as a percentage of average total assets	1.5%	1.4%
Size		
Total assets	5,762,459	5,607,480
Percentage increase in total assets over the previous 12 months period	4.8%	11.3%
Asset quality		
Individually impaired assets *	Not available*	12,371
Individual impairment provision against advances to customers	(7,137)	(6,894)
Collective impairment provision against advances to customers	(4,381)	(4,407)
Individually impaired assets / total assets *	Not available*	0.2%
Individual impairment provision / individually impaired assets *	Not available*	55.7%

* At the date of signing this disclosure statement, the amount for individually impaired assets of HBAP Group as at 30 June 2012 was not publicly available.

16. 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 uses an internal models approach to calculate its general market risk, specific risk for the interest rate risk category and market risk relating to equity options. 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 (commonly known as "Basel II") and are not publicly available. HBAP Group exceeds the minimum capital ratio requirements as specified by the HKMA as at 31 December 2011.

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

	Unaudited 31.12.11
Capital Ratios	
Core capital ratio	12.4%
Capital adequacy ratio	14.6%

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 2012;
- 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 2012.

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

30 August 2012

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



Independent auditor's review report

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

We have reviewed pages 9 to 27 of the interim financial statements of The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group (the 'Banking Group') prepared and disclosed in accordance with the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2012 (the 'Order') and the supplementary information prescribed in Schedules 5, 7, 9, 10, 12 and 14 of the Order. The interim financial statements, and supplementary information, provide information about the past financial performance and cash flows of the Banking Group and its financial position as at 30 June 2012.

Directors' responsibilities

The Directors of The Hongkong and Shanghai Banking Corporation Limited are responsible for the preparation and presentation of the Disclosure Statement, which includes interim financial statements prepared in accordance with Clause 26 of the Order and which give a true and fair view of the financial position of the Banking Group as at 30 June 2012 and its financial performance and cash flows for the six months ended on that date. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of the Disclosure Statement that is free from material misstatement, whether due to fraud or error.

They are also responsible for the preparation of supplementary information in the Disclosure Statement which fairly states the matters to which it relates in accordance with Schedules 3, 5, 7, 9, 10, 12 and 14 of the Order.

Reviewers' responsibilities

We are responsible for reviewing the interim financial statements and the supplementary information, disclosed in accordance with Clause 26 and Schedules 5, 7, 9, 10, 12 and 14 of the Order and presented to us by the directors.

We are responsible for reviewing the interim financial statements (excluding the supplementary information) in order to report to you whether, in our opinion on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the interim financial statements have not been prepared, in all material respects, in accordance with NZ IAS 34 and do not present a true and fair view of the financial position of the Banking Group as at 30 June 2012 and its financial performance and cash flows for the six months ended on that date.

We are responsible for reviewing the supplementary information (excluding the supplementary information prescribed in Schedule 9 of the Order relating to credit and market risk exposures and capital adequacy) in order to report to you whether, in our opinion on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 10, 12 and 14 of the Order.

We are responsible for reviewing the supplementary information relating to credit and market risk exposures and capital adequacy in order to state whether, on the basis of the procedures described below, anything has come to our attention that would cause us to believe that the information disclosed in accordance with Schedule 9 is not, in all material respects, prepared in accordance with the Capital Adequacy Framework (Basel I Approach) (BS2) and Capital



Adequacy Framework (Standardised Approach) (BS2A); and disclosed in accordance with Schedule 9 of the Order.

Basis of opinion

We have performed our review in accordance with the review engagement standard RS-1 Statement of Review Engagement Standards issued by the External Reporting Board. A review is limited primarily to enquiries of Banking Group personnel and analytical review procedures applied to the 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 9 to 27 (excluding the supplementary information) have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting and do not present a true and fair view of the financial position of the Banking Group as at 30 June 2012 and its financial performance and cash flows for the six months ended on that date;
- the supplementary information prescribed by Schedules 5, 7, 10, 12 and 14 of the Order does not fairly state the matters to which it relates in accordance with those schedules; and
- the supplementary information relating to credit and market risk exposures and capital adequacy prescribed by Schedule 9 of the Order is not, in all material respects, 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 30 August 2012 and our opinion is expressed as at that date.

Auckland

HSBC 